



## DIRECTOR'S REPORT FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2018

### Dear Shareholders,

On behalf of the Board of Directors, I have the pleasure in presenting the annual report of your company along with the audited financial statements for the year ended 31st December 2018.

Despite uncertain global economic circumstances and cyclone catastrophe, the year 2018 has ended on a positive note with both the Container terminal and the General Cargo terminal showing a consistent performance over the previous years.

### Company Performance

The company suffered its first of kind natural calamity on 25th of May 2018 when Cyclone Mekunu made its landfall on Arabian Peninsula. Joint Typhoon Warning Center estimated peak wind loads up to 185 km/hour which were equivalent to category (3) Cyclone. Over a period of four days Cyclone Mekunu battered the region recording an astounding 615 mm of rainfall equivalent to five times the annual rainfall recorded for the entire Sultanate of Oman.

The Port was on lockdown from 24th to 28th May 2018 for General Cargo Traffic and until 2nd June 2018 for Container Traffic. The unprecedented wave heights, ferocious wind speeds and incessant rainfall brought wide spread devastation to Port's Infra and superstructure bringing Port operations to complete halt.

With an aim to get back to operations at the earliest, no efforts were spared by the management in restoration works. Limping back to essential aid operations from 6th day onwards and partial commercial operations from the 10th day onwards, Port of Salalah had unique challenges ahead, from sunken shows, to sedimentation deposits in basin, to cracks in quay cranes, to water in critical plant and equipment, the list of damages from the aftermath of Cyclone Mekunu continues to be unearthed until reporting date.

The road to recovery continues to be long drawn affair for Port of Salalah team who have been working tirelessly with insurance agencies, contractors, consultants, vendors and other service providers for claims settlement and recovery works.

The Port recently concluded its first ever maintenance dredging works to restore harbors designed depths affected from sedimentation deposits from overflowing waves. Investigative works continues to take place on superstructure and critical breaker infrastructure, the latter now led by the Government of Oman who are undertaking the assessment of southern breaker which suffered significant damages from Cyclone Mekunu. The Port has petitioned the Government of Oman for its support in recovery works and also requesting the Government to initiate the much needed flood protection system to protect the Port from neighboring wadis.

### Operational Overview

This year the container terminal handled 3.385 mt TEUs, compared to 3.946 mt TEUs in 2016, a drop of 14% in TEU terms. Company has retained all our major customers while a major customer continues to offer consistent support.

The Port of Salalah General Cargo had handled 16.201 million tons during 2018, a growth of 19% over 2017 despite a year of challenges due to cyclone. The revenue out of general cargo volumes handled at Berth 31 have been included in the container terminal financials, as in the previous year, due to the conversion of the berth into a container terminal facility.

The Company's top priority is ensuring the safety of its employees, contractors and customers, and to this end, the company continues to invest in technology and infrastructure to minimize the risk. The Company continues to focus improvements through various initiatives to maintain operations of a world-class terminal.

### Financial Overview

The consolidated revenues are recorded at RO 56.330 million during the financial year ended 31 December, 2018 as compared to RO 57.028 million in the corresponding period last year. The other income includes on account payment of RO 14.807 million received from Insurers towards cyclone related property damages and business interruption, subject to final settlement. The management is of the opinion that the total claim amount will be higher than the on-account payments. The claim assessment and settlement process with insurers will continue into 2019 and the progress will be reported periodically.

Consolidated EBITDA was recorded at RO 16.076 million for Year 2018 at an EBITDA margin of 29%, as compared to RO 16.057 million (at margin 27%) during same period last year.

Consolidated Net Profit was recorded at RO 5.303 million for Year 2018, as compared to RO 5.211 during same period last year. Total expenses include cyclone related costs amounting to OMR 10.212 million. Costs that would be incurred to deal with damaged assets would be accounted in the period in which these would be incurred. In addition to the cyclone related costs that have been charged to Profit & Loss Account, the Port has incurred / committed to a capital expenditure of OMR 7.95 million upto December 31, 2018 to replace damaged assets, as per a claim filed with insurance which is awaiting their final assessment. The Port is in receipt of cargo claims from customers. These are being defended with the assistance from legal advisors and have been notified to insurers.

During year 2019 performance is expected to witness a partial effect of cyclone, as the safe operating capacity of Container terminal would be restored to the pre cyclone levels only after the ongoing inspection and required remediation works on the cyclone affected assets are complete likely in Q2 / Q3 2019. The timely receipt of insurance claims is required to meet the cyclone related costs.

The Port has repaid all the loans taken for the expansion of the Port during 2008/9 fully and as on December 31, 2018 the Port has become debt free.

During 2018, your company distributed 15% annual dividend pertaining to year 2017. Taking into account the proposed capital expenditure plans to meet the equipment life cycle management & improvement needs, emerging market conditions for international trade the Board of Directors are pleased to recommend the distribution of dividend of 15% on the paid-up equity share capital of the company. This equates to 15 baiza per share resulting in a total cash disbursement of RO 2.698 million.

### Dividend history for the last 5 years

	2013	2014	2015	2016	2017
Dividend%	25%	15%	20%	20%	15%
Cashoutflow (RO'000)	4,495	2,698	3,597	3,597	2,698

### Employee Development

Our people contribute to the success of the company. In order for the company to stay competitive it needs to remain at the cutting edge of the industry with continued education on procedures, technologies and best practices. The company continues to invest in training and development of its workers, with a focus on enhancing the Omanization and skills development of local talent.

### Corporate Social Responsibility (CSR)

Port of Salalah strongly believes in a CSR program that is aligned with the pillars of sustainability and volunteerism and it is fundamental to our business. The company has invested RO 72K in CSR initiatives during 2018 contributing to the local Dhofar region in which we operate as well as segments of communities requiring support. Impacting the local Dhofar region and benefiting the larger segments of communities requiring support are the guiding posts of the company's CSR program.

### Future Outlook

Growing concerns for the global economy, specifically with regards to downgrades in the EU and Chinese growth are expected to have a direct impact on demand for Ocean freight. International Monetary Fund has reduced global gross domestic product expansion for 2019 to 3.5%. This reduction in growth is expected to negatively impact the Ocean freight between China and the EU, which is the primary route near the Port of Salalah. Increasingly shipping lines will need to compete to win business and fill their vessels as overcapacity, unstable fuel rates, and global economic woes continue along with a spike in political instability which could worsen the overall economic outlook. As we proceed into 2019, we will need to do so cautiously and continue to monitor the situation. The Port of Salalah Container Terminal remains very reliant on Transshipment business primarily from existing customers. Maintaining and strengthening our strategic partnerships with our customers will remain top priority.

In the General Cargo Terminal, the outlook remains optimistic due to the unique position of Salalah being the largest single global exporter of Gypsum. Recently, the local exporters have taken steps to standardize the market and leverage their market leading position, which may result in a short term drop but long term improves the overall business as the market adjusts to the new realities.

Overall, the Port of Salalah enjoys some diversity in its portfolio of activities that mitigates catastrophic impact due to any single area. Historically, the Port of Salalah has weathered past times of economic uncertainty rather well and is expected to do so moving forward. The focus continues to strengthen relationships with existing customers to leverage more business, operational excellence, deploying new and innovative logistics solutions for our customers and ensure the sustainability of the business.

### 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 his continued support without which it would not have been possible to establish and maintain this world class port.

I also thank our customers, insurers, investors, Lenders and the members of the government we work together with daily.

Lastly, but certainly not least, I place on record our appreciation for the contributions made by our employees in achieving the level of performance in 2018. Our consistent growth was possible by their hard work, solidarity, cooperation and support.

### On behalf of the Board of Directors,

**Ahmed Bin Nasser Al Mazhri**  
Chairman of Board of Directors,  
Salalah Port Services Co. SAOG

February 14, 2019

## AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	2017 US \$ '000	2018 US \$ '000	2018 RO'000	2017 RO'000
<b>ASSETS</b>				
Non Current Assets			64,656	68,571
Property and equipment	172,586	167,673	142	142
Intangible assets	430	369	-	5,000
Term deposits	19,300	-	-	-
	186,966	168,242	64,707	71,525
Current Assets			2,222	2,155
Inventories	8,863	5,259	7,649	10,450
Trade and other receivables	27,232	19,688	33,800	5,000
Short term deposits	13,900	33,800	13,941	11,628
Cash and cash equivalents	30,311	34,946	-	-
Total current assets	76,028	93,693	36,112	29,253
Non Current Asset held for Sale	-	1,222	508	-
	76,028	95,215	36,620	29,253
<b>TOTAL ASSETS</b>	261,994	263,457	101,327	100,778
<b>EQUITY</b>			17,984	17,984
Share capital	49,738	49,738	2,940	2,940
Share premium	7,666	7,666	5,994	5,994
Legal reserve	15,584	15,584	986	986
Reserve for dividend	75,891	82,435	-	-
Retained earnings	146,800	152,443	58,600	58,035
Equity attributable to equity holders of the parent company	94	131	58,031	58,000
Non-controlling interests	-	-	29	35
<b>TOTAL EQUITY</b>	146,804	152,574	58,660	58,035
<b>LIABILITIES</b>				
Non Current Liabilities			5,273	5,691
Deferred tax	17,307	16,210	3,022	2,872
Employees and of service benefits	1,488	7,864	5,256	5,863
Current Liabilities			33,342	38,213
Trade and other payables	68,119	86,689	33,342	38,213
Loans and borrowings	23,215	-	-	8,906
Derivative financial instruments	89	-	-	38
	91,423	86,689	33,342	35,160
<b>TOTAL LIABILITIES</b>	119,298	103,663	42,647	44,774
<b>TOTAL EQUITY AND LIABILITIES</b>	261,992	263,457	101,327	100,778
Net assets per share (US \$ / RO)	0,810	0,848	0,206	0,211

## AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	2017 US \$ '000	2018 US \$ '000	2018 RO'000	2017 RO'000
Revenue	148,278	146,457	66,330	67,028
Direct operating costs	(89,277)	(87,187)	(37,380)	(37,028)
Other operating expenses	(15,584)	(25,290)	(6,730)	(5,963)
Administration and general expenses	(20,255)	(21,325)	(8,767)	(8,201)
Other income	6,721	2,829	1,088	2,576
Impairment of Assets Available for Sale	(520)	-	-	(200)
Profit / (Loss) from operations	22,453	5,476	2,105	2,812
Cyclone related expenses	-	(26,951)	(10,212)	-
Insurance Compensation	6,701	38,501	14,909	2,576
Finance costs	(1,868)	(1,006)	(197)	(749)
Profit / (Loss) for the period before tax	20,486	16,420	6,314	7,661
Income tax	(6,941)	(2,829)	(1,011)	(2,870)
Profit / (Loss) for the year	13,545	13,791	5,303	5,211
<b>Other comprehensive income</b>				
Items that will be reclassified to profit or loss	-	-	-	-
Reclassification of property, plant and equipment	-	-	-	-
Items that are or may be reclassified to profit or loss	-	-	-	-
Fair value change of investments	(252)	-	-	(87)
Net movement in cash flow hedges	193	96	38	362
	94	96	38	362
<b>Other comprehensive income for the period, set of tax</b>	14,495	13,890	5,341	5,273
<b>Total comprehensive income for the period, set of tax</b>	13,540	13,781	5,299	5,210
Profit attributable to:				
Equity holders of the parent	4	37	14	1
Non-controlling interests	13,536	13,744	5,285	5,209
<b>Total comprehensive income attributable to:</b>				
Equity holders of the parent	14,491	13,781	5,327	5,272
Non-controlling interests	14,495	13,890	5,341	5,273
Basic earnings per share (US \$ / RO)	0,039	0,077	0,025	0,026