Port of Salalah | ميناء صلالة

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DIRECTOR'S REPORT FOR THE HALF YEAR ENDED 30th JUNE 2018

Dear Shareholders,

On behalf of the Board of Directors, I have the pleasure in presenting the unaudited consolidated financial results of your company for the period ended 30th June 2018 (H1 2018).

Cyclone Mekunnu
Cyclone Mekunnu (Category 3 made a landfall on the Omani coast near the city of Salalah on 25th May, 2018. The torrential rainfall and tidal surge due to Cyclone in the Dhofar region have resulted in significant parts of the terminal being submerged under approximately 2 meters of water along with other wind & storm damage. The flood water had accumulated silt and debris which was then deposited over the terminal, particularly affecting the maintenance workshops, storerooms and also the fleet of terminal tractors, RTG cranes.

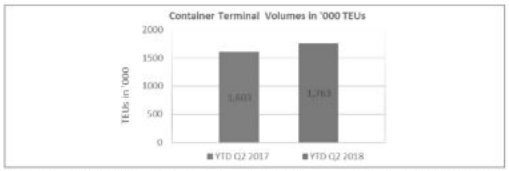
Many other areas of the terminal were severely affected by the floodwater including damages to breakwater and power plant being submerged in water. Several unauthorized dhows that used the port as shelter were sunk, in addition silt from Wadis deposited in the basin resulted in loss of depth. A few buildings and employee housing facilities were badly damaged.

Despite taking reasonable precautionary measures to safeguard people and property, Cyclone Mekunu caused significant damages and destruction to property, equipment and infrastructure at Port of Salalah (PoS). During precautionary measures and due to the Cyclone impact port operations were stopped/ disrupted for CT from 24th May to 3rd June 2018 and GCT from 24th to 29th May 2018. Although, operations have been partially restored but due to the unavailability of CT berth 1 & 3 and GCT berth 30 & 31 coupled with loss of harbour draft and low equipment availability are hindering our operational capabilities to reach at pre-cyclone levels. PoS management along with internal and external technical experts put together a recovery plan and enable to restore partial operations. However, there are critical areas / components that require further investigation to determine the quantum of damages suffered. A detailed assessment of the damage is under progress, in addition, loss adjustors from insurance company too are assessing the damages. Adequate disclosures shall be made when loss assessments are completed.

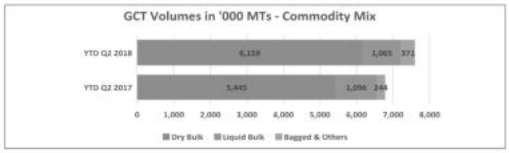
The Port is adequately insured for property and business interruption (BI). As the insurance claim assessment process is ongoing no Claims receivable have been factored in the provisional results.

Operational Overview
During H1, 2018 Port of Salalah has witnessed positive volume growth at the Container Terminal (CT) and General Cargo Terminal (GCT) volumes compared to the corresponding period last year, though there has been significant drop in volumes post cyclone.

The CT has handled 1.763 million TEUs (Twenty-foot Equivalent Units) during H1 2018, which is a 10% increase against the same period last year, due to strong support from one of our major customers despite very challenging business environment.



The GCT has handled 7.595 million tons of general cargo during H1 2018, an increase of 12% as compared to H1 2017. The major commodities handled are namely limestone, gypsum, methanol and cement, which are exported from Salalah to nearby markets, and continue to drive the general cargo business.



Financial Overview
H1-2018 performance until the time of Cyclone was better than H1-2017, however, due to the Cyclone the Port Operations was severely impacted and overall H1-2018 results are subdued.

Consolidated net profit was recorded at OMR 767K as compared to OMR 303k corresponding period last year.

Consolidated EBITDA was recorded at OMR 5.736 million for H1 2018 at an EBITDA margin of 21%, as compared to OMR 6.091 million (at margin 24%) during same period last year.

Revenues of GCT have increased by 17% compared to the same period last year whereas the CT revenue has increased 4% as compared to corresponding period last year. The 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.

Direct operating costs, have increased by 13% compared to the corresponding period last year mainly due to annual salary increases and associated costs, increased power cost, improvements in systems and repair and maintenance of ageing equipment.

Administration and General costs have increased by 14% as compared to the same period last year mainly due to salaries increase, office maintenance and rents and provision for insurance excess payable for damages caused due to cyclone as identified so far.

Financing costs were 50% lower as compared to same period last year on account of repayment of debts.

RO, 000

Year 2018	Particulars	1st Jan 2018 to 30th June 2018	1st Jan 2017 to 30th June 2017
	Volume		
3,946	Container Terminal (TEUs'000)	**1,763**	1,603
13,587	General Cargo Terminal (Tons'000)	**7,595**	6,785
57,028	**Revenue (RO'000)**	**27,634**	25,820
	Profitability (RO'000)		
7,881	Net Profit before tax	**1,119**	2,093
5,211	Net Profit/ (Loss) after tax	**767**	303
	Ratios		
9.13%	Net profit / (Loss) (%)	**2.77%**	1.17%
0.029	Earnings per share (RO)	**0.004**	0.002
0.311	Book value per share (RO)	**0.301**	0.283

Employee Development
Port of Salalah is steadfast in developing and enhancing employees' productivity as people are the primary asset of the company. Various safety, technical, management and administration trainings are imparted to the staff.

Safety continues to be maintained as a top priority to ensure that employees continue to perform and deliver their tasks safely.

Corporate Social Responsibility (CSR)
Company support charitable initiatives which impact large segments of communities. During H1 2018 the company is constantly committed to local initiatives with a significant focus on education, Community development, environment, safety and health.

Future Outlook
The escalating trade war between the US and its closest traditional trading partners coupled with its current international policy decisions in US will impact global GDP growth and thus seaborne trade globally.

These conditions likely to impact the Port of Salalah in various ways that needs to be closely monitored. Also noteworthy is the US withdrawal of multiparty agreement (P5+1) and reinstating of sanctions with Iran and Iranian entities globally. The Port of Salalah is now reviewing our current practices and dealings (albeit very limited) with Iranian entities and businesses to determine how to comply with the new US regulations.

In addition to the Iranian sanctions, the looming trade war is already showing signs of impacting the routing and capacity of Container Shipping Lines. Some shipping lines already planned to reduce capacity on the transpacific trades in anticipation of reduced volumes between China and the US. This may potentially have the unintended consequence of more demand on the Asia – N. Europe trade which could result in more volumes via the gulf region.

On the General Cargo Terminal (GCT) the bulk aggregates will likely be impacted. The US tariffs on Steel could mean a drop in demand in Limestone exports, but the re imposing of the Iranian sanctions seems to be driving an increase in demand on Omani gypsum exports. Traditionally, the Port of Salalah has fared well during times of global economic uncertainty, and while it is too premature to predict the full breadth of the impact, but for now the Port of Salalah seems to be well positioned with our current customers and business partners.

The terminal management team is targeting to recover, during the last quarter of the year, the volumes to compensate for the losses incurred by the Cyclone Mekunu.

Conclusion
On behalf of the Board of Directors and the Shareholders of the company, we 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.

We also thank our customers, investors, and partners at the Salalah Hub and Ministry of Transport and Communications, and members of the Government bodies we work together with.

We place on record our appreciation for the contributions of all our employees, who continue to perform with high distinction.

On behalf of the Board of Directors,

Ahmed Bin Nasser Al Mahrizi
Chairman, Board of Directors,
Salalah Port Services Co. SAOG
6th Aug, 2018

UN-AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

30-Jun-17 US $ '000	30-Jun-18 US $ '000		30-Jun-18 RO'000	30-Jun-17 RO'000
		ASSETS		
		Non Current Assets		
175,473	163,159	Property and equipment	62,753	67,490
421	381	Intangible assets	147	163
725	-	Available-for-sale investments	-	279
39,000	13,000	Term deposits	5,000	15,000
219,619	176,540		67,900	82,932
		Current Assets		
5,505	6,890	Inventories	2,650	2,117
27,693	25,040	Trade and other receivables	9,632	10,650
5,200	-	Short term deposits	-	2,000
13,631	53,081	Cash and cash equivalents	20,416	5,243
52,029	85,011		32,698	20,010
267,648	261,551	**TOTAL ASSETS**	100,598	102,942
		EQUITY		
46,758	46,758	Share capital	17,984	17,984
7,666	7,666	Share premium	2,949	2,949
15,584	15,584	Legal reserve	5,994	5,994
(705)	(99)	Hedging deficit	(38)	(271)
205	-	Fair value reserve	-	79
62,925	70,630	Retained earnings	27,165	24,204
132,433	140,539	Equity attributable to equity holders of the parent company	54,054	50,939
91	138	Non controlling interests	53	35
132,524	140,677	**TOTAL EQUITY**	54,106	50,974
		LIABILITIES		
		Non Current Liabilities		
11,607	-	Loans and borrowings	-	4,464
19,286	17,396	Deferred tax	6,691	7,418
7,153	7,704	Employees' end of service benefits	2,963	2,751
97	-	Derivative financial instruments	-	37
38,143	25,100		9,654	14,670
		Current Liabilities		
73,158	84,068	Trade and other payables	32,336	28,135
23,215	11,607	Loans and borrowings	4,464	8,929
608	99	Derivative financial instruments	38	234
96,981	95,774		36,838	37,298
135,124	120,874	**TOTAL LIABILITIES**	46,492	51,968
267,648	261,551	**TOTAL EQUITY AND LIABILITIES**	100,598	102,942
0.736	0.783	**Net assets per share (US $ / RO)**	0.301	0.283

UN-AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2018

30-Jun-17 US $ '000	30-Jun-18 US $ '000		30-Jun-18 RO'000	30-Jun-17 RO'000
67,133	71,882	Revenue	27,634	25,820
(45,796)	(49,406)	Direct operating costs	(19,003)	(17,612)
(7,211)	(9,547)	Other operating expenses	(3,672)	(2,773)
(9,355)	(10,196)	Administration and general expenses	(3,920)	(3,599)
-	(485)	Cyclone related expenses	(187)	
1,344	1,066	Other income	410	517
6,115	3,285	**Profit from operations**	1,262	2,353
(677)	(372)	Finance costs	(143)	(260)
5,438	2,913	**Profit for the period before tax**	1,119	2,093
(4,654)	(915)	Income tax	(352)	(1,790)
784	1,998	**Profit for the year**	767	303
		Other comprehensive income		
		Items that will be never reclassifed to profit or loss		
-	-	Revaluation of property, plant and equipment	-	-
-	-		-	-
		Items that are or may be reclassifed to profit or loss		
(47)	-	Fair value change of investments	-	(18)
588	-	Net movement in cash flow hedges	-	226
541	-		-	208
541	-	Other comprehensive income for the period, net of tax	-	208
1,325	1,998	**Total comprehensive income for the period, net of tax**	767	511
		Profit attributable to :		
783	1,996	Equity holders of the parent	766	302
1	2	Non-controlling interests	1	1
1,323	1,996	**Total comprehensive income attributable to:** Equity holders of the parent	766	510
1	2	Non-controlling interests	1	1
0.004	0.011	**Basic earnings per share (US $ / RO)**	0.004	0.002

The complete accounts of the company will be delivered or sent by mail to any shareholder who requests them, in either Arabic or English as requested, within seven days of receipt of the request.