

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Statement of Main Business:

The parent Company is in the business of manufacturing and selling cement and clinker. It sells directly and through its terminals in Sohar and Muscat and also through its associate in Yemen. The parent Company produces most of the varieties of cement like OPC, SRC, OILWELL and Pozzolana cement. The parent Company has an integrated plant at Salalah. It has three 100% subsidiaries, namely Pioneer Cement Industries LLC in RAK, UAE, Raysea Navigation SA and Raybulk Navigation Inc.

Pioneer is an integrated cement plant producing and selling cement in UAE and in export market. Raysea and Raybulk are the two shipping companies dealing with distribution of cement to terminals. The parent Company has two other associates. Oman Portuguese Cement Product LLC with 50% ownership is dealing with ready mix concrete and other cement products. Mukulla Raysut Trading and Investment Company in Yemen with 49% ownership and is dealing with sale of cement produced by the parent Company.

Expansion Opportunities and Risks:

The Company always is on the path of expansion or modifications so as to remain active in its operations with higher productivity. During the year the parent Company and Pioneer have gone for additional automated packing plants and silo capacities. Parent Company is constructing a new terminal in Duqm to ease continuous supplies for development in the area. Parent Company also has installed on shore wheel loader to facilitate unloading of cement to its terminals in the North.

The government has increased the cost of gas by doubling it from \$1.5 per MMBTU to \$3 per MMBTU, Gas being a significant input in the production of cement, it would be having cost impact. Also the restriction by the Government on load tonnage movements, would add on to the cost. Parent Company, is exploring all possible options to restrain other cost so as to tide over the situation, as far as possible.

Current downside movement of oil prices has its impact in general in the economy. However the government is on the path of larger public investments to encourage the diversifications of industries,

FINANCIAL RESULTS:

The construction sector though growing mostly driven by public spending, the region as a whole is under pressure from global situation as well as recent oil price decline.

There have been severe competitions across the markets coupled with socio political disturbances in Yemen. Unabated supply of cement from UAE due to surplus capacity

and price decline there, has caused dent on price and volume sales in the Northern markets in Oman in particular.. However the group as whole has done well in this very challenging year by optimizing volume sales to markets to reap maximum advantages.

During the year the group performance is detailed below:

	2014	2013
	RO Million	
Revenue:		
Parent Company RCC	66.99	67.34
Pioneer Cement	28.16	27.19
Raysea Navigation SA	1.34	1.38
Raybulk Navigation Inc	1.97	1.39
Inter- corporate sales	-4.17	- 4.01
Consolidated Total	<u>94.29</u>	<u>93.29</u>

Increase in revenue: 1.1%

Sales Volume Cement and Clinker:	Million Tons:	
Parent Company RCC	2.46	2.50
Pioneer	1.39	1.34
Inter company sales	-0.04	-0.06
Consolidated Sales	<u>3.81</u>	<u>3.78</u>

Increase in Volume Sales: 0.9%

Profit:

Operating Profit Margin for the group stood at RO 30.51 Million (LY: RO 30.54 Million), a marginal decrease of 0.1%

EBITDA Margin decreased by 0.8% %

PBT during the year stood at RO 30.39 Million (LY: RO 30.62 Million).

PAT stood at RO 27.43 Million (LY: RO 27.53 Million) a decrease by 0.4%.

The Group mostly retained its profit level in spite of the year being very challenging from competitions and other reasons.

The Highlights of Financial Results during last five years:

RO' Million

	2014	2013	2012	2011	2010
Sales	94.29	93.29	92.80	83.81	64.98
Operating Profit	30.50	30.54	28.55	20.37	22.68
Cash Profit	33.34	33.00	31.42	21.82	24.67
PBT	30.39	30.62	27.00	17.04	23.53
PAT	27.43	27.53	24.50	14.95	20.72
Equity & Reserve	142.06	129.64	117.11	102.41	107.46
Loans	44.50	58.00	62.00	65.29	68.50
Cash EPS RO	0.167	0.165	0.157	0.109	0.123
EPS RO	0.137	0.138	0.123	0.075	0.104
Dividend %	75%	75%	75%	50%	100%
Production MT '000					
Clinker	3,290	3,381	3,539	3,389	2,205
Cement	3,762	3,709	3,778	3,105	2,084
Sales MT '000					
Cement	3,778	3,728	3,757	3,208	2,078
Clinker	36	53	65	591	416

CEMENT DEMAND PROFILE:

During the year the demand for cement went up in Oman due to several ongoing and new initiatives undertaken by the Government. But the excess capacity led UAE producers continued supplies at substantially lower prices making the situation very competitive for domestic producers. The higher level construction activities in southern and central region, has salvaged the situation largely. In export segment the volume is retained in Yemen in spite of the difficulties there. Export to East African countries and others could be made at a gain.

The parent Company's domestic sale of cement volume reached at 1.44 Million Tons (LY: 1.46 Million Tons). The Domestic sale includes 0.043 Million Tons (LY: 0.065 Million Tons) of cement imported from Pioneer. Export sale of cement stood at 0.986 Million Tons (LY: 0.993 Million Tons) The Company also sold Clinker of 0.036 M Tons (LY 0.053 Million Tons)

The revenue from domestic segment for parent Company amounted to RO 41.22 Million (LY RO 40.73 Million). Export segment turned out revenue of RO 25.77 Million (LY RO 26.62 Million).

Pioneer a subsidiary sold 1.390 Million Tons of Cement out of which export market in Oman constituted 0.978 Million Tons (LY 0.887 Million Tons) .The revenue generated by Pioneer amounted to RO 28.16 Million.

The demand for cement would certainly go up going forward with the large number high value projects initiated by the government for infrastructure developments in 2015 and beyond.

PRODUCTION:

The productions of Cement and Clinker stood at as below:

	Cement		Clinker	
	2014	2013	2014	2013
Parent Company	2,374,160	2,372,740	2,089,408	2,163,407
Pioneer Cement	1,388,225	1,336,245	1,200,898	1,217,841
Consolidated	<u>3,762,385</u>	<u>3,708,985</u>	<u>3,290,306</u>	<u>3,381,248</u>

MARKETING:

The Parent company continued facing the competition in the northern markets from the supplies from UAE at low prices. In Yemen there are socio political disturbances. The parent Company, however, could retain the volume sales there compared with that in previous year. The other export markets also picked up during the period, with competition though. In UAE there were excess capacity led competitions and Pioneer continued sales there at competitive prices. The Company also is pursuing the opportunities for newer markets so as to bolster its overall sales. On the whole the period ahead may provide better opportunities for the Group.

The Credit Management has always remained a focused area for the Company to continue with healthy credit practices.

RESERVE AND SURPLUS:

The Reserve and Surplus has increased during the year by 12.9 % to RO108.6 Million (LY RO 96.2 Million) arising out of profit earned by the Group.

LOAN FUNDS:

At the end of the year 2014, both the parent Company and the Group have the outstanding term loan burden of RO 44.5 Million (LY RO 58 Million). During the year the Company also prepaid RO9.5 beyond the installment payment of RO4 Million.

CASH FLOW:

The Company has managed the cash flow effectively through out the period and parked the available funds beyond immediate requirements, in call and time deposits. During the period time deposits worth of RO 15 Million (LY RO 22.5 Million) were parked by the

parent Company and RO 6.31 Million (LY NIL) by Pioneer, a subsidiary. Parent company also had amounts in call deposit which is part of Cash and Cash Equivalent in the Financials Statement.

NET ASSETS PER SHARE:

The net assets per share for the group have increased during the year to RO 0.710 (LY RO 0.648)

DIVIDEND:

In view of good performance by the Parent Company, The Board of Directors is proposing to the shareholders in AGM that the dividend per share be at the rate of 75% of the paid up capital for 2014.

CORPORATE GOVERNANCE:

A separate section on Corporate Governance practices, as followed by the Parent Company, as well as the Certificate from the Auditors confirming the compliance by the Company, are forming part of this Report.

ACKNOWLEDGEMENTS:

We take this opportunity to express our deep sense of gratitude to His Majesty and his Government for their continued guidance and support.

We thank our shareholders for their continued faith and support in what this Company stands for. We also are thankful to our customers, suppliers, financial institutions and various other stake holders of the company for their overwhelming support in achieving the objectives of the company. Our dedicated employees need special mention for the higher levels of achievements on a continual basis.



Sh. Ahmed bin Alawi bin Abdulla Al Ibrahim
Chairman of the Board of Directors