



شركة ريسوت للأسمنت (ش.م.ع.ع.)

Raysut Cement Company (S.A.O.G.)



Directors' Report

It gives me pleasure to welcome you all to the 34th Annual General Meeting of the Company.

The Audited Statement of Accounts including the Consolidated Accounts for the year ended on 31st December, 2014 along with the Auditors' Report is presented for your perusal.

Performance:

The year 2014 remained challenging. However the Company has met with challenges effectively for the group as a whole by optimizing sales in varied markets and derived enhanced sales revenue and retaining the profitability for the group.

Production:

The total production for the group as a whole stood at 3.762 Million tons of Cement (LY: 3.709 Million Tons) and 3.290 Million Tons of Clinker (LY: 3.381 Million Tons). The volume of productions increased by 1.4% for Cement and declined by 2.7% for clinker.

During the year production at Salalah plant stood at 2.374 Million Tons of Cement and 2.089 Million Tons of Clinker against 2,373 Million tons of cement and 2.163 Million Tons of clinker in the previous period.

Pioneer plant produced 1.388 Million Tons of Cement and 1.201 Million Tons of Clinker against 1.336 Million Tons of cement and 1.218 Million Tons of clinker in the previous year.

Sales & Revenue:

The group as a whole has sold 3.814 Million Tons (LY: 3.781 Million Tons) of Cement and Clinker (excluding inter company transactions), an increase of 0.9%. While group sale of Clinker has decreased to 0.036 Million Tons (LY: 0.053 Million Tons) the sale of cement increased to 3.778 M tons (LY 3.728 M Tons) an increase of 1.3%. The group sale of Cement excludes inter company sale of 0.043 Million Tons (LY: 0.065 Million Tons) of Cement

In spite of competition in the north of Oman as well as in export markets, the parent Company could sale 2.431 Million tons of cement and 0.036 Million Tons of clinker against 2.451 Million Tons of Cement and 0.053 Million tons of Clinker in the previous year.

The subsidiary company Pioneer had to face severe competitions in the domestic market and still could sale 1.390 Million Tons of Cement during the year against 1.342

Million Tons of Cement in the previous year. There were no clinker sales either during the year or in the previous year from Pioneer.

In view of severe competitions in the UAE, North of Oman and export markets, the Company's drives have been to optimize volume and price to derive the highest revenue and profitability.

The Consolidated turnover for the group stood at RO 94.29 Million against RO93.29 Million in the previous year, an increase of 1.1%. This includes turnover in subsidiaries like Pioneer Cement, UAE at RO28.16 (LY: RO27.19), Raysea Navigation SA at RO1.34 Million (LY: RO 1.38 Million), and Raybulk Corporation at RO1.97 Million (LY: RO.1.39 Million) less inter-corporate sales adjustments for RO4.17 Millions (LY: RO 4.01Millions). The revenue marginally declined to RO 66.99 Million (LY: RO 67.34 Million) for the parent Company.

Raysea and Raybulk, the two 100% subsidiaries, have provided valuable shipping and distribution services to the Company; and Pioneer a 100% subsidiary and integrated Cement Plant in UAE, have sold Cement in UAE as well as in Oman.

The major markets for the parent are domestic, Yemen and East African markets, and that for Pioneer there are UAE and Oman markets. In southern Oman and southern Yemen markets the parent Company is the major player.

Profit:

During the year the PBT for the group stood at RO 30.39 M against RO 30.62 M in the previous year, a decline of 0.8%

The decrease in PBT in the group as a whole is marginal in spite of severe competitions faced by the Company in all the markets. By optimizing volume at more profitable market the onslaught of competition could be minimized to a large extent. UAE market is severely competitive with more available cement than the market can absorb. This resulted in a large volume of off loading in Oman market by the UAE suppliers making downward movements of prices Yemen market has faced socio-political problems though we could retain the volume there. Other export markets also were under competition. The down fall in oil prices impacted the market prices of securities badly leading to lowering of market valuation of securities invested in.

For parent Company the PBT has declined by 4.5% to RO 24.30 Millions (LY: RO 25.45 Millions). Pioneer, and Raybulk the two 100% subsidiaries contributed to a profit of RO4.89 Million (LY 4.64 Million), RO0.87 Million (LY RO 0.28 Million) respectively, while Raysea another 100% subsidiary suffered a minor loss of RO 0.02 Million (Last year a profit of RO0.01 M). The consolidated profit earned from joint ventures and associates amounted to RO1.46 Million (LY1.27 Million). During the year the dividend is received by parent Company amounts to RO 1.25 Million (LY1.16 Million). The dividend from our joint venture in Yemen constituted the major portion at RO 1.11 Million (LY RO1.04 Million) out of the total dividend mentioned above.

The Profit after Tax for the Group has decreased marginally at RO 27.43 Million (LY RO 27.53), a decrease of 0.4%, during the year. For the parent Company PAT stood at to RO 21.33 Million (LY 22.35 Millions).

Led by global economic situation, there has been a severe impact in the cement industry in the whole region involving price, volume, and profitability, which is lingering still. On top of this, the competitions from UAE suppliers remain unabated. However the focused

sales drive in southern market and Yemen and other export markets have enabled higher price realization and to overcome the hurdles of current economic realities.

Dividend Policy:

The Company has been following a dividend policy based on performance achieved, market as well as investors' expectations and need for transfer to reserve to take care of various internal requirements and future developments.

The dividends declared during last five years are tabled below:

Year	2013	2012	2011	2010	2009
Dividend on paid up Capital	75%	75%	50%	100%	100%

In view of good performance by the company even in a difficult environment, the Board of Directors is proposing to the shareholders in AGM that the dividend of 75% of the paid up capital.

Capital Structure Change: During the year under review no capital restructuring like increase or reduction in capital or issue of bond has happened. Nor there is any intention to do so in the next year as it stands at the moment. Company however is in the process of setting up a 51% subsidiary in Oman to deal with the proposed distribution base in Somalia. Company's current term loan which was so long under a stage wise fixed interest rate, would be subject to review.

Future Outlook

Oman is marching ahead with big ticket investments for industrial developments both in oil and non-oil sectors even though the high pressure on oil prices has its adverse impacts. Major investments in infrastructure in the five year plan ending on 2015, would provide significant impetus. Oman national railway project, 6 new airports in the coming years, new industrial port city project in Sohar, recent announcement of expenditure on commercial and residential developments would enhance the possibilities in Construction segment significantly. UAE also is on the path of developments in the coming years. It is hoped that the domestic markets in Oman in particular would be encouraging going forward. It is expected that Yemen market would improve with resurgence of demands once the current socio- political issues are overcome. This is likely to have a positive impact both on the parent Company and on its subsidiary in UAE for possible rise in domestic demand.

With number of construction projects on the card there would be a higher demand for construction materials including cement in Oman UAE and Yemen. While the demand for cement would grow in Oman, the offloading of cement at lower prices by UAE suppliers is likely to continue for some more time even though the prices and demand are likely to improve in UAE.

It is expected that both the Yemen market and certain markets in East Africa would provide larger scopes going forward, having improved the economic indicators from lower oil prices in those countries. The exports market has remained a possible growth option and Company would be exploring further avenues to expand its base with demand rising in certain economies.

As a measure of reducing subsidy the natural gas price has been doubled by the government at \$3 per MMBTU in place of \$1.5 MMBTU effective 1st January 2015. This has significant effect on the cost escalation in cement and its competitive edge. MSM has been intimated on the issue with impact. It would have been beneficial though to the Company if the measures were adopted in stages instead of at one go. Energy being the substantial element of cost, it would be having large impact and may prompt price escalation.

Restriction on load movements also has added to the cost of transportation which the Company has to deal with in the coming year.

Various cost reductions initiatives coupled with optimization of distribution of cement keeping market share and profitability in mind, would be the major area of attention in the coming years. With those internal initiatives the Company is hopeful to minimize the pressure to a great extent.

Expansions:The construction of Duqm terminal is underway now. It is hoped to complete within 2015. As a major cost reduction initiative the Company has imported on shore wheel loader enabling simple non-pneumatic vessel to carry our cement to North at a cheaper rate. This would provide more flexibility in the coming years. Additional automated packing plant is under erection in both at Salalah and Pioneer to provide larger and faster capability of packing cements in bags. There has been cooler upgrade in Pioneer and various productivity improvement measures taken in both the plants which would enable cost reduction and increase in productivity going forward. The company also is in the process of increasing the Silo capacity both in Salalah Plant and at Pioneer to add flexibility to higher productions.

Investments: The Company has been placing the surplus funds in Fixed Deposits from time to time out of the surplus generated both at parent Company and at the end of its subsidiary in UAE.

Employees

The Company is always on the look out for professionally qualified staff members in the management to enrich its base, and is striving for training and development of employees for a sustainable growth focused organization. During the year, the Company has provided extensive training both within the Company and externally. Group of employees were sent on interplant on the job training and also training to various institutes both within and outside the country, apart from holding large number of in house training program.

In order to reap the benefits of larger synergy amongst its constituents and to gear up for a highly competitive environment of tomorrow, the Company's initiative on restructuring group strategy has enabled more free flow of information and movement of people amongst the constituents entities. Also the company has added to its strength of local employees at various levels in tune with the needs of the hour.

Social Responsibility

The Company does recognize its social responsibility and all important need for environmental protection. Maintaining pollution free environment as per international standards and continuously endeavoring to its improvement has been the guiding principles of your Company. As a part of this initiative, the company has spent considerable amount of fund in initiating further actions to reduce pollution below the level of international standards by adopting latest technological developments.

The Company has become a centre for many Institutions of higher learning and Technical Colleges to train their students under the guidance of our executives with practical hands on experiences.

The Company has committed or spent during the year a large amount of financial support for various social causes. Donation to Public Prosecution, Khareef festival, Sultan Qaboos Hospital – Mental Health section, donation for School breakfast, donation for Dhofar University Students, donation for Autism Quality Center and for deceased employees' families are a few to mention about, apart from large number other donations on social developments or causes

Total donation paid or committed for the year amounts to RO. 034Million.

Internal Control: Internal control system is being regularly assessed by the Internal Audit Team as well as by the management.

Corporate Governance: The Company has been on compliance of Corporate Governance. The Report on Corporate Governance as well as the Management Discussions and Analysis Report detailing the areas of corporate governance and performance of the Company are indicative of the Company's determination to do so.

Acknowledgment

Before I conclude, on behalf of the Board of Directors and on my personal behalf, I take this opportunity to express our deep sense of gratitude to His Majesty and his Government for their unstinted support and guidance.

I would like to thank our shareholders, for the continued support and confidence in us. I would also like to thank our associates, dealers, customers, suppliers, the bankers, the management team and all our employees for their contribution and continued support.



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