



شركة ريسوت للأسمنت (ش.م.ع.ع.)

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



Director report For the year ended 31 December 2017

Dear Shareholders,

It gives me pleasure to welcome you all to the 37th Annual General Meeting of the Company.

The audited financial statements including the consolidated financial statements for the year ended 31 December 2017 along with the Auditor's report is presented for your perusal.

Review of operations and financial performance:

Production:

Group: The Group as a whole has produced 2.967 Million Tons of Clinker and 2.913 Million Tons of Cement during the year against 3.308 Million Tons of Clinker and 3.759 Million Tons of Cement during the last year respectively. The overall production of Clinker went down by 10% and Cement by 22%.

Parent Company: The Parent Company in its Salalah plant produced 1.677 Million Tons of Clinker and 1.739 Million Tons of Cement during the year against 1.984 Million Tons of Clinker and 2.359 Million Tons of Cement in the last year. Overall there is a decrease of Clinker production by 16% and Cement by 26% as compared to last year.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, the productions of Clinker and Cement stood at 1.290 Million Tons and 1.174 Million Tons respectively during the year, against 1.324 Million Tons of Clinker and 1.400 Million Tons Cement respectively in the last year. Clinker productions decreased by 3% and Cement production by 16% as compared to last year.

Sales:

Group: The Group as a whole has sold 2.937 Million Tons of Cement during the year against 3.711 Million Tons of Cement in the last year. Overall there is a decrease by 21%.

Parent Company: The Parent Company has sold 1.819 Million Tons of Cement during the year against 2.374 Million Tons of Cement in the same year of last year, a decrease of 23% and clinker 0.015 Million of Tones.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, has sold 1.163 Million Tons of Cement against 1.400 Million Tons in the same year of last year, a decrease by 17%.

Revenue and profit:Group: During the year, the Group has earned a Revenue of RO 71.87 Million against RO 92.59 Million in the last year, a decrease of 22%.

This is because of lower volume of sales, both in local and export markets. The reason for decrease in local market is competition and in export markets mainly in Yemen is due to socio disturbance which resulted loss of volume in some areas.

The Profit Before Tax of the Group stood at RO 8.03 Million as against RO 22.90 Million in last year, a decrease of 65%. The Group operating profit has decreased to RO 6.72 Million in the current year from RO 22.41 Million in last year i.e. a decrease by 70%.

Declining market (by 21%), lower price realization, lower production, higher costs resulting from higher energy cost, raw material cost and maintenance cost have impacted group bottom line.

Energy costs are significantly affected by increase in power tariff to RO 0.027 from RO 0.016/KWH increase of 69%, by RO 1.698 million followed by 3% increase in gas price that is about RO 0.272 million in costs for parent company. Similarly for Pioneer the international coal prices have increased to USD 82 from USD 70/MT that impacted costs by 0.914 million. Further, a provision for impairment is made against Limestone mine located in UAE and Georgia RO 415K and RO 463K.

Higher raw materials costs by RO 0.270 million is mainly due to external hiring for Limestone and shale stone drilling and transportation costs due to the distant LS quarry. Maintenance cost is higher by RO 412K due to major maintenance activities carried out during current year for line 3.

Furthermore, the market value of securities decreased by RO 0.373 Million compared to the last year which is compensated by the profit from sale of one of an associated company Oman Portuguese Cement Products LLC.

The Profit after Tax for the Group has decreased to RO 5.81 Million from RO 20.71 Million, a decrease of 72% during the year.

This is because of the reasons mentioned above and changes in income tax law wherein the tax rates have been revised to 15% from 12% in current year that increased deferred tax liability by RO 0.794 million and placed total tax liability to RO 2.213 million from RO 2.186 million in spite of lower profits.

Parent Company: Severe price competition from the UAE suppliers, and the volatility in the export market, the Parent Company could achieve a Sales Revenue of RO 49.89 Million during the year against RO 65.80 Million during the last year, a decrease by 24%.

Profit Before Tax of the Parent Company stood at RO 8.41 Million for the year against RO 18.81 Million earned during the last year, a decrease by 55%. This is mainly due to the reasons mentioned above.

The Profit after tax of the Parent Company has stood at RO 6.27 Million against RO 16.64 Million, a decrease of 62% during the year.

Subsidiary company: During the year, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 23.17 Million as compared to RO 27.98 Million achieved in the last year, a decrease by 17%.

Pioneer Cement has earned a profit of RO 2.29 Million against RO 4.71 Million earned during the last year, a decrease by 51.4%. This is because of reasons mentioned above.

Other subsidiary and associated companies: Raybulk Navigation and Raysea Navigation, two of the subsidiaries which provide with shipping services, have earned revenue of RO 1.92 Million and RO 1.13 Million against RO 1.69 Million and RO 0.55 Million respectively.

Profit after tax earned by Raybulk Navigation is RO 0.02 Million against profit of RO 0.17 Million and Raysea Navigation incurred a loss RO 0.24 Million against loss of RO 0.92 Million in the last year.

The consolidated profit earned from associated companies amounted to RO 0.295 Million against RO 0.159 Million in last year. Further, the group has made a profit of RO 1.112 Million on account of sale of one an associated company Oman Portuguese Cement Products LLC during the third quarter of the year.

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

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	2016	2015	2014	2013	2012
Dividend on paid up capital	65%	50%	75%	75%	50%

The Board of Directors is proposing to the shareholders in AGM that the dividend of 29% per share be paid on 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.

Future Outlook

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.

The management continuous to focus on the dynamic and competitive market for cement. The continued emphasis on operational excellence is an important factor to the continuous success of the company. The company has a strong management and a strong operational performance and will continue to strive on a strategy that focuses on the creation of long term value to all the stakeholders while ensuring sustainability in the operations.

Expansions:

The Parent company project for new packing plant is expected to be completed in the first quarter of 2018.

Raysut Cement Company SAOG along with Oman Cement Company SAOG has registered a new company named Al Wusta Cement Company LLC. The new company has been allotted 500,000 Sq. Mtr of land for setting-up of a new cement plant in Duqm by Special Economic Zone Authority of Duqm

(SEZAD). Al Wusta Cement Company LLC has signed a usufruct agreement with SEZAD in this regard. The project will be proceeded with subject to outcome of final feasibility report.

Investments:

The Company has been placing the surplus funds in Fixed Deposits from time to time out of the surplus generated both from Parent Company and its subsidiary in UAE, in order to take as much as possible advantage from these deposits.

The Group has sold one of the associated companies, Oman Portuguese Cement Products LLC during the third quarter of the year.

Employees:

The Company is always on the lookout 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. Group of employees were sent on training to various institutes both within and outside the country, apart from holding large number of in house training program.

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.

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.

Internal Control:

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

Acknowledgement:

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 you for your support and confidence in us. I would also like to thank our associates, dealers, customers, the management team and all our employees for their loyalty, integrity contributions, commitment and continued support to the overall success of the Company.

Ahmed bin Yousuf bin Alawi Al Ibrahim
Chairman of the Board of Directors

