

Director report

For the year ended 31 December 2019

Dear Shareholders,

It gives me pleasure to welcome you all to the 39th Annual General Meeting of the Company.

The audited Financial Statements including the consolidated financial statements for the year ended 31 December 2019 along with the Auditor's report presented for your perusal.

Review of operations and financial performance:

Production:

Group:

The Group as a whole have produced 3.453 Million Tons of Clinker and 3.523 Million Tons of Cement during the year against 3.398 Million Tons of Clinker and 3.326 Million Tons of Cement during last year respectively. The overall production of Clinker is higher by 1.62% and Cement by 5.92%.

Parent Company:

The Parent Company in its Salalah plant produced 2.062 Million Tons of Clinker and 1.926 Million Tons of Cement during the year against 2.051 Million Tons of Clinker and 2.110 Million Tons of Cement in the last year. Overall there is an increase in Clinker production by 0.54% and Cement production lower by 8.72% as compared to last year.

Subsidiary companies:

At Pioneer Cement, a subsidiary company, plant in UAE, the production of Clinker and Cement stood at 1.391 Million Tons and 1.039 Million Tons respectively during the year, against 1.347 Million Tons of Clinker and 1.216 Million Tons Cement respectively in the last year. Clinker production is higher by 3.27% and Cement lower by 14.56% as compared to last year.

At Sohar Cement Factory LCC, newly acquired subsidiary company, the productions of Cement stood at 0.558 Million Tons during the period from 20 May 2019 to 31 December 2019.

Sales:

Group:

The Group as a whole has sold 3.558 Million Tons of Cement during the year against 3.332 Million Tons of Cement in the last year. Overall there is an increase by 6.78% in sales of cement.

Further, the Group has sold 0.732 Million Tons of Clinker against 1.021 Million Tons in the last year, indicating a decrease of 28.31%.

**Parent Company:**

The Parent Company has sold 2.399 Tons of Cement and 0.524 Million Tons of clinker during the year against 2.263 Million Tons and 0.430 Million Tons of cement and clinker in the last year, an increase of cement sale by 6.01% and clinker by 21.86%. The major markets for the Parent company are domestic, Yemen, Qatar and East African markets.

Subsidiary companies:

At Pioneer Cement, a subsidiary company, plant in UAE, has sold 1.034 Million Tons of Cement against 1.215 Million Tons in the last year, a decrease of 14.90%. Further, there is a sale of clinker 0.632 Million Tons against 0.591 Million Tons in the last year, an increase by 6.94%.

At Sohar Cement Factory LCC, the sale of Cement stood at 0.583 Million Tons during the period from 20 May 2019 to 31 December 2019.

For Pioneer, the main markets are UAE, Bangladesh and Oman. At present, Sohar cement cater nearby domestic market which includes Sohar and Muscat, north of Oman.

Revenue and profit:**Group:**

During the year, the Group has earned a Revenue of RO 84.05 Million against RO 90.98 Million in the last year, a decrease by 7.62%, the changes in revenue is due to lower realisation.

The Profit Before Tax of the Group stood at RO 2.88 Million as against RO 1.04 Million in the last year, an increase by 176.92% due to profit contributed by Sohar Cement Factory LCC, a newly acquired subsidiary company. Further, there is positive impact of revision in useful life of assets, reversal of impairment of limestone mines of subsidiary company and profit on sale of assets.

The Profit after Tax for the Group has increased to RO 2.26 Million from RO 0.34 Million, an increase by 6.65 times during the year.

Parent Company:

In spite of severe price competition from the UAE suppliers, the volatility in the export market, the Parent Company could achieve a Sales Revenue of RO 60.33 Million during the year against RO 62.12 Million during the last year, a decrease by 2.88% mainly due to lower sales realization.

Profit Before Tax of the Parent Company stood at RO 0.81 Million for the year against RO 4.32 Million earned during the last year, a decrease by 5.33 times mainly due to impact of first time adoption of IFRS 9 and 16. Further, profit is impacted due to the impairment of investment in associate company.

The Profit after tax of the Parent Company has stood at RO 0.18 Million against RO 3.65 Million, a decrease by 20 times during the year due to reasons mentioned above.



Subsidiary companies:

During the year, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 27.66 Million as compared to RO 31.55 Million achieved in the last year, a decrease by 12.33%.

Pioneer Cement has earned a profit of RO 0.89 Million against RO 1.24 Million earned during the last year, a decrease by 28.22%.

Further, Sohar cement Factory LLC has earned a revenue of RO 10.18 Million and a made a profit of RO 0.72 Million during the post-acquisition period.

Other subsidiary and associated companies:

Raysea Navigation, a subsidiary company which provides shipping services, has earned a revenue of RO 1.43 Million against RO 0.28 Million. The current year profit includes RO 1.90 million due to waiver of loan by the parent Company.

RCC Trading DMCC, a newly formed a subsidiary company in UAE which is engaged in the trading activity has earned a revenue of RO 3.15 Million and made of profit of RO 0.08 Million.

Capital Structure Change: During the year under review, no capital restructuring like increase or reduction in capital or issue of bond has happened.

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	2018	2017	2016	2015	2014
Dividend on paid up capital	12.5%	29%	65%	50%	75%

Based on the performance of the company even in a difficult environment, the Board of Directors is proposing to the shareholders in AGM that the dividend of 12.5% per share be paid on the paid up capital.

**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. Also with our research and development activities to expand new types of cement to cater to European and Indian market and with those internal initiatives, the Company is hopeful to minimize the market pressure to a great extent.

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

Expansions:

The Parent Company is in the process to establish a Cement Grinding Unit in Duqm with a production capacity of one million ton of cement per annum. The estimated project cost is about USD 30 million.

Further, Parent company through its United Arab Emirates based subsidiary company Pioneer Cement Industries, is in the process of setting up an integrated cement plant with annual capacity of 1.2 M/T in Georgia, Eastern Europe at an estimated cost of USD 200 million. Pioneer Cement owns concession to limestone mines in Georgia that will provide the key raw materials to this project. Georgia provides Pioneer Cement an opportunity to diversify from the Middle East into a market with large infrastructure growth. The plant will be located near Tbilisi, adjacent to the limestone mines. The arrangements for the project are currently being finalized.

Further, the Parent Company is in discussions with Cementia AG of Zurich to acquire their 75% shareholding in LH Maldives Ltd, a cement terminal located at Thilafushi Island, Maldives.

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. The Company continues to sponsor employees 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 need for environmental protection. Maintaining pollution free environment as per international standards and continuously endeavoring to its improvement has been the guiding principles of Company.

The Company supports 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:

We express our deep sorrow and heartfelt condolence on passing away of His Majesty Sultan Qaboos Bin Said, whose leadership and vision brought substantial growth and success to Oman over the last five decades.

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