



شركة ريسوت للأسمنت (ش.م.ع.ع.)

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



Director report For the quarter ended 31 March 2018

Dear Shareholders,

It gives me pleasure to present the Financial Statements for the period first quarter ended 31 March, 2018 of the Company.

Review of operations and financial performance:

Production:

Group: The Group as a whole have produced 815,365 Tons of Clinker and 875,272 Tons of Cement during the period against 817,222 Tons of Clinker and 742,414 Tons of Cement during the same period of last year respectively. The overall production of Clinker went down by 0.23% and Cement higher by 17.89%.

Higher cement production is mainly due to higher sales compared to same period of last year.

Parent Company: The Parent Company in its Salalah plant produced 456,975 Tons of Clinker and 527,692 Tons of Cement during the period against 489,185 Tons of Clinker and 474,987 Tons of Cement in the same period of last year. Overall there is a decrease of Clinker production by 6.58% and Cement higher by 11.10% as compared to corresponding period.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, the productions of Clinker and Cement stood at 358,390 Tons and 347,580 Tons respectively during the period, against 328,037 Tons of Clinker and 267,427 Tons Cement respectively in the same period of last year. Clinker productions is higher by 9.25% and Cement production by 29.97% as compared to corresponding period.

Sales:

Group: The Group as a whole has sold 952,507 Tons of Cement during the period against 764,203 Tons of Cement in the same period of last year. Overall there is an increase by 24.64%. This include a clinker sale around 65,965 Tons. Increase in volume is attributable to the change in pricing policy.

Parent Company: The Parent Company has sold 609,616 Tons of Cement and 64,964 Tons of clinker during the period against 522,309 Tons of Cement in the same period of last year, an increase of 29.15%.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, has sold 349,175 Tons of Cement against 252,322 Tons in the same period of last year, an increase by 38.38%. Further, there is a sale of clinker around 1,000 Tons.

The major markets for the Parent company are domestic, Yemen and East African markets, and for Pioneer, the main markets are UAE and Oman.

Revenue and profit:

Group: During the period, the Group has earned a Revenue of RO 20.962 Million against RO 19.426 Million in the same period of last year, an increase by 7.88%.

This is because of higher volume of sales, both in local and export markets because of change in pricing policy.

The Profit Before Tax of the Group stood at RO 1.087 Million as against RO 4.557 Million in the same period of last year, a decrease by 76.16%. The Group operating profit has decreased to RO 1.206 Million in the current period from RO 4.438 Million in the same period of last year i.e. a decrease by 72.83% due to following reasons:

Lower sales realization although the volume of sale quantity increased during the period.

Higher consumption of Packing materials mainly due to higher packed sales and increase in procurement price of packing material.

Increase in other factory overheads due to maintenance activities carried out during current period and hire of services from third parties.

Increased General and administrative expenses contributed by Provision for doubtful debts, Professional expenses and employees related expenses.

Increased selling and distribution expenses due to the hiring of additional vessels for increased export of cement and clinker to fill the gap of demand arising out of own vessels inability to cope up increase volume.

Reduction in fair market value of securities.

The Profit after Tax for the Group has decreased to RO 0.450 Million from RO 3.094 Million, a decrease of 85.45% during the period.

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 15.740 Million during the period against RO 14.535 Million during the same period of last year, an increase by 8.25%.

Profit Before Tax of the Parent Company stood at RO 4.493 Million for the period against RO 4.050 Million earned during the same period of last year, an increase by 10.94%. This is mainly due to receipt of dividend from subsidiary company.

The Profit after tax of the Parent Company has stood at RO 3.839 Million against RO 2.635 Million, a increase of 45.70% during the period.

Subsidiary company: During the year, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 6.650 Million as compared to RO 5.130 Million achieved in same period of the last year, an increase by 29.63%.

Pioneer Cement has earned a profit of RO 0.645 Million against RO 0.802 Million earned during the same period of last year, a decrease by 19.38%. 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 0.294 Million and RO 0.112 Million against RO 0.484 Million and RO 0.364 Million respectively.

Raybulk Navigation incurred a loss of RO 0.093 Million against loss of RO 0.123 Million and Raysea Navigation incurred a loss RO 0.261 Million against profit of RO 0.070 Million in the same period of last year.

Capital Structure Change: During the period 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 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:

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.

Establishment of cement plant in Georgia is being explored. Further, capacity expansion like port of Sohar and Duqm together with east Africa is looked into.

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.

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 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