



شركة ريسوت للأسمنت (ش.م.ع.ع)
Raysut Cement Company (S.A.O.G)

Director report

For the first quarter period ended 31 March 2020

Dear Shareholders,

On behalf of Board of Directors of the Raysut Cement Group of Companies, it gives me pleasure, albeit in these difficult and uncertain times, to present the Financial Statements for the first quarter period ended 31 March, 2020 of the Company and an overview of the performance of the Company.

The prevailing COVID-19 Pandemic has created an unprecedented situation throughout the globe. All mankind, business both at domestic and international levels, are passing through a critical phase, your company is no exception to it hence has suffered significantly. RCC first quarter revenue was maintained however profitability took a severe hit.

Review of operations and financial performance:

Production:

Group:

The Group as a whole have produced 845,270 Tons of Clinker and 1,074,522 Tons of Cement during the period against 838,967 Tons of Clinker and 843,217 Tons of Cement during the same period of last year respectively. The overall production of Clinker is higher by 0.75% and Cement by 27.43% in term of absolute numbers.

The higher production of cement is mainly due to the additional production from one of the newly acquired subsidiary company Sohar Cement Factory LLC which was acquired on 19 May 2019. However, excluding the Sohar Cement Factory production, there is a reduction in cement production which is mainly related to COVID 19 pandemic impact during the period.

Parent Company:

The Parent Company in its Salalah plant produced 501,383 Tons of Clinker and 500,057 Tons of Cement during the period against 544,102 Tons of Clinker and 558,282 Tons of Cement in the same period of last year. Overall there is a decrease of Clinker production by 7.85% and Cement by 10.43% as compared to corresponding period. This is due to the impact of COVID 19 pandemic.

Subsidiary companies:

At Pioneer Cement, a subsidiary company, plant in UAE, the productions of Clinker and Cement stood at 343,887 Tons and 284,297 Tons respectively during the period, against 294,865 Tons of Clinker and 284,935 Tons Cement respectively in the same period of last year. Clinker productions is higher by 16.63% and Cement production marginally lower by 0.22% as compared to corresponding period.

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At Sohar Cement Factory LCC, newly acquired subsidiary company, the productions of Cement stood at 290,168 Tons during the period, which is lower than the installed capacity of the plant due to the impact of COVID 19 pandemic during the period.

Sales:

Group:

The Group as a whole has sold 1,027,097 Tons of Cement during the period against 851,625 Tons of Cement in the same period of last year. Overall there is an increase by 20.60% in cement sales. Further, the Group has sold 265,570 Tons of Clinker against 356,022 Tons in the same period of last year, it does not include internal consumption of 136,093 Tons of Clinker at Sohar Cement Factory.

The higher sales of cement is mainly due to the additional sales from one of the newly acquired subsidiary company Sohar Cement Factory LLC. However, excluding the Sohar Cement Factory sales, there is a reduction in cement sales which is mainly related to COVID 19 pandemic impact during the period and continuous decline in demand of cement in Dhofar region.

This is a significant achievement considering major business in the region are only operating at 20% to 30%.

Parent Company:

The Parent Company has sold 668,993 Tons of Cement and 265,570 Tons of clinker during the period against 601,982 Tons and 228,577 Tons of cement and clinker in the same period of last year, an increase of cement by 11.13% and clinker by 16.18%.

Subsidiary companies:

At Pioneer Cement, a subsidiary company, plant in UAE, has sold 285,695 Tons of Cement and 136,093 Tons of clinker against 288,341 Tons of cement and 127,442 tons of clinker in the same period of last year, a decrease by 0.92% in cement and an increase in clinker by 6.79% during the period. Clinker was sold to Sohar Cement Factory LLC.

At Sohar Cement Factory LLC, the sale of Cement stood at 291,270 Tons during the period and RCC Trading DMCC has sold clinker 241,799 Tons and cement 133,901 Tons during the period.

The major markets for the Parent company are domestic, Yemen and East African, for Sohar Cement Factory it is norther Oman and for Pioneer, the main markets are UAE and Oman. RCC Trading DMCC has added many new markets such as Zanzibar, Comoros, Madagascar in the group's geographical coverage in line with the Group Strategic Plan.

**Revenue and profit:****Group:**

During the period, the Group has earned a Revenue of RO 25.240 Million against RO 23.088 Million in the same period of last year, an increase by 9.36%. An increased in sales is due to sales from newly acquired company Sohar Cement Factory LLC.

The Loss Before Tax of the Group stood at RO 4.237 Million as against profit of RO 0.248 Million in the same period of last year. The Group operating loss for the period is RO 2.596 Million in the current period against a profit of RO 0.734 Million in the same period of last year mainly due to the following reasons:

- Lower sales realization per ton of Cement sold (lower by 7% for RCC and by 11% for Pioneer).
- Higher gas costs mainly due to increase in gas price from January 1, 2020;
- Increase in fixed selling and distribution cost is due to the underutilization of hired ships due to COVID 19.
- Increase in finance cost due to higher amounts of term loan and utilization of additional working capital facilities
- Reduction in fair market value of securities and
- Mobilisation constraint due to COVID 19 pandemic.

The Loss after Tax for the Group is RO 4.010 Million against a profit of RO 0.243 Million during the period.

Parent Company:

In spite of severe price competition from the UAE suppliers, and the volatility in the export market, the Parent Company could achieve an overall Sales revenue of RO 18.320 Million during the period against RO 16.376 Million during the same period of last year, an increase by 11.87%.

Loss before Tax of the Parent Company stood at RO 4.326 Million for the period against a profit of RO 0.286 Million during the same period of last year.

The Loss after tax of the Parent Company has stood at RO 4.048 Million against a profit of RO 0.281 Million during the period.

Subsidiary companies:

During the current period, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 6.440 Million as compared to RO 7.483 Million achieved in same period of the last year, a decrease by 13.94%.

Pioneer Cement has made a profit of RO 0.109 Million against a loss of RO 0.057 Million earned during the same period of last year.

Sohar Cement Factory LLC has earned a revenue of RO 5.330 Million and profit of RO 0.207 Million during the period.



Raysea Navigation, a subsidiary company which provide with shipping services, has earned revenue of RO 0.460 Million against a revenue of RO 0.363 Million and made a profit of RO 0.140 against a profit of RO 0.035 Million in the same period of last year.

RCC Trading DMCC, a newly formed a subsidiary company in UAE which is engaged in the trading activity has earned a revenue of RO 7.510 Million and incurred a loss of RO 0.310 Million.

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, exploring export market for optimum utilization of available resources would be the major area of attention. With those internal and external 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 for 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.

Due to COVID 19, Cement prices realization has further deteriorated and at almost all time low in UAE and same is applicable to Pioneer Cement. It may lead to impairment of Goodwill recognized at the time of acquisition during the year 2011. Management is working on best possible solution to limit the impact on company Income Statement.

Expansions:

The Parent Company is in the process to establish a Cement Grinding Unit in Duqm with a production capacity of seven hundred and fifty thousand tons of cement per annum. The estimated project cost is about USD 30 million.

Further, the Parent Company has acquired 75% shareholding in LH Maldives Ltd (from Cementia AG of Zurich) which owns 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.

Company has contributed RO 500,000 to the Ministry of Health Fund for supporting the fight against COVID-19.

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

