

Director report

For the Half Year Ended 30th June 2021

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 half year ended 30th June 2021 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, however, there is significant improvement from the corresponding period.

Review of operations and financial performance:

Production:

Group:

The Group, as a whole, have produced 1.561 Million Tons of Clinker and 2.065 Million Tons of Cement during the period against 1.745 Million Tons of Clinker and 1.885 Million Tons of Cement during corresponding period respectively. The overall production of Clinker is lower by 11% and Cement is higher by 10%.

The cement production by group is highest in the history mainly due to the high production in all three plants including recently acquired subsidiary company Sohar Cement Factory LLC.

Parent Company:

The Parent Company in its Salalah plant produced 0.853 Million Tons of Clinker and 1.094 Million Tons of Cement during first six month of the current year against 1.048 Million Tons of Clinker and 0.876 Million Tons of Cement during the corresponding period of previous year. Overall, there is a decrease of production of Clinker by 19% and Cement production is higher by 25% as compared to Q2 last year.

Subsidiary companies:

At Pioneer Cement, a subsidiary company, plant in UAE, the productions of Clinker and Cement stood at 0.708 Million Tons and 0.309 Million Tons respectively first six month of the current year, against 0.697 Million Tons of Clinker and 0.437 Tons during the corresponding period of previous year. Clinker productions is higher by 1.61% and Cement is lower by 29.49% as compared to the corresponding period of previous year. This is due to the impact of COVID 19 pandemic and stiff competition in UAE.

At Sohar Cement Factory LLC, the productions of Cement stood at 0.662 Million Tons against 0.571 Million Tons during the corresponding period of previous year which is higher by 17%. The higher production of cement is mainly due to more efficient sales.

Sales:

Group:

The Group, as a whole, have sold 2.023 Million Tons of Cement during the first six month of the current year 2021 against 1.860 Million Tons of Cement during the corresponding period of previous year. Overall, there is an increase of cement sale by 9%. Further, the Group have sold 0.179 Million Tons of Clinker against 0.415 Million Tons in the corresponding period.

The higher sales of cement are mainly due to the addition of new countries and customers.

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 1.100 Million Tons of Cement (including 0.039 through Subsidiaries) and 0.228 Million Tons of clinker during the first six month of the current year 2021 against 1.766 Million Tons of Cement (including 0.444 through Subsidiaries) and 0.416 Million Tons of clinker during the corresponding period of previous year, a decrease of cement sales by 16.8% and clinker reduced by 55%.

Subsidiary companies:

At Pioneer Cement, a subsidiary company, plant in UAE, has sold 0.314 Million Tons of Cement and 0.468 Million Tons of clinker against 0.440 Million Tons of cement and 0.342 Million tons of clinker in during the corresponding period of previous year, a decrease by 29% in cement and an increase in clinker by 37%. Clinker was mainly sold to Sohar Cement Factory LLC.

At Sohar Cement Factory LLC, the sale of Cement stood at 0.662 Million Tons clinker during the first six month of the current year against 0.558 Million Tons during the corresponding period of previous year. The higher sales of cement are mainly due to more efficient sales.

RCC Trading DMCC is involved in trading activities of sale of cement and clinker have sold 0.291 Million Tons of Cement and 0.090 Million Tons of clinker during Q1 of the current year. The operations of this company is ceased with effect from 1 April 2021 as the purpose of establishing trading arm is achieved as new markets were added which are now managed by Parent company.

Lafarge Maldives Cement Pvt. Ltd, a new acquired subsidiary company in Maldives where the Parent Company has acquired 75% shareholding, renamed as Raysut Maldives Cement Pvt. Ltd. It has made a Cement Sales of 0.032 Million MT during the first six month of the current year 2021.

The major markets for the Parent company are domestic, Yemen, Zanzibar, Comoros, Madagascar, Indian Ocean and East African Markets, for Sohar Cement Factory it is northern Oman and for Pioneer, the main

markets are UAE and Oman. Raysut Maldives Cement Pvt. Ltd. has added new market of Maldives in the group's geographical coverage in line with the Group Strategic Plan.

Revenue and profit:

Group:

During the period, the Group earned a Revenue of RO 45.028 Million against RO 44.824 Million in the first six of the current year. An increased in sales is due to improvement in north of Oman from recently acquired company Sohar Cement Factory LLC.

The Loss before Tax of the Group stood at RO 3.178 Million as against loss of RO 11.192 Million in first six month of the corresponding period. The Group operating loss for the period is RO 2.85 Million in the first six of the current year against a loss of RO 8.41 Million. The improved performance is due to the following reasons:

- Group Sales revenue during first six month of the year 2021 slightly increased.
- Ever high cement production in the history of RCC.
- Significant reduction in Idle time by forward chartering
- New markets and customers allowed RCC (Salalah) to improve cement sales and gross profit significantly.
- Influenced Ministry of Energy and Mineral to roll back the Gas price hike.
- Improvement in profit of RCC (Salalah), PCIL and Sohar.
- Overall Cement Sales of the Group is higher by 0.5% compared to the corresponding period.

The Loss after Tax for the Group is RO 3.187 Million against a loss of RO 10.877 Million during first six month of the corresponding 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 25.859 Million during the year against RO 30.543 Million during the last year, a decrease by 15%. This is mainly due to the sales to parent customers through Sohar Cement Factory in first six months of the year 2020 whereas in during 2021 Parent Customers in North have been transferred cement from Sohar Cement Factory directly.

The Loss after tax of the Parent Company has stood at RO 3.583 Million against a loss of RO 10.601 Million during first six month of the corresponding period.

Subsidiary companies:

During the year, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 11.561 Million as compared to RO 10.649 Million achieved in the first six months of the corresponding period, an increase by 8.56 %.

Pioneer Cement has made a profit of RO 0.239 Million against a Loss of RO 0.717 Million during first six months of the corresponding period, an increase by 133%.

Sohar Cement Factory LLC has made a revenue of RO 12.217 Million and profit of RO 0.988 Million during during first six months of the current year against revenue of RO 10.335 Million and made a profit of RO 0.739 Million during corresponding period.

Raysea Navigation, a subsidiary company which provide with shipping services, since during current period the vessel (M.V. Raysut I) was sold out and therefore, there were no commercial operations.

RCC Trading DMCC, a subsidiary company in UAE which is engaged in the trading activity has earned a revenue of RO 10.274 Million and incurred a loss of RO 0.916 Million against revenue of RO 14.602 Million and a loss of RO 0.305 Million for first six months of last year.

Raysut Maldives Cement Pvt. Ltd., a new acquired subsidiary company in Maldives has earned a revenue of RO 1.257 Million and made a profit of RO 0.061 Million for first six months of the year 2021.

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

Gas Price

Management is thankful to Ministry of Energy and Mineral for rolling back the gas price and charging us now at the rate of earlier agreement in 2021. We are awaiting the same treatment for the year 2020 gas prices for the smooth operations of company.

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.

Expansions:

The Parent Company is building a Cement Grinding Unit in Duqm with a production capacity of seven hundred and fifty thousand tons of cement per annum and related financing arrangements are made with local bank. The estimated project cost is about USD 30 million.

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