



شركة ريسوت للأسمنت (ش.م.ع.ع.)

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



DIRECTORS' REPORT AND MANAGEMENT DISCUSSION

The Directors hereby present their 38th Annual Report together with the Audited financial statements for the year ended on 31 December 2018.

Statement of Main Business: The parent Company is in the business of manufacturing and selling of cement and clinker. It sells directly and through its terminals in Sohar, Muscat and Duqm and also through its associated company in Yemen. The parent Company produces most of the varieties of cement like OPC, SRC, OILWELL and Pozzolana cement. OPC constitutes the bulk of the cement sale. The parent Company has an integrated plant at Salalah. It has few subsidiaries companies of which three 100% subsidiaries, namely Pioneer Cement Industries LLC in RAK, UAE, Raysea Navigation SA, Raybulk Navigation Inc and a 51% subsidiary Raysut Burwaqoo Cement Company LLC.

Pioneer is an integrated cement plant producing and selling cement in UAE and in export market. Raysea and Raybulk are the two shipping companies dealing with distribution of cement to terminals. It has one associated company Mukulla Raysut Trading and Investment Company in Yemen with 49% ownership and is dealing with sale of cement produced by the parent Company.

Expansion Opportunities and Risks: The Company always is on the path of expansion or modifications so as to remain active in its operations with higher productivity.

Parent Company, is exploring all possible options to restrain other cost so as to tide over the situation, as far as possible.

FINANCIAL RESULTS

The construction sector growth is mostly driven by public spending, and the region as a whole is under pressure from global situation as well as oil price variation.

There have been severe competitions across the markets coupled with socio political disturbances in Yemen. Unabated supply of cement from UAE due to surplus capacity and price decline there, has caused dent on price and volume sales in the Northern markets in Oman in particular.

During the year the group performance is detailed below:

| Revenue | 2018 | 2017 |
|---------------------------------------|---------------|--------------|
| | RO in Million | |
| Parent Company RCC | 62.12 | 49.89 |
| Pioneer Cement Company Industries LLC | 31.54 | 23.17 |
| Raysea Navigation SA | 0.29 | 1.13 |
| Raybulk Navigation Inc. | 0.54 | 1.92 |
| Inter- company sales | (3.51) | (4.24) |
| Total consolidated revenue | 90.98 | 71.87 |

Increase in revenue: 26.58%

| Sales Volume Cement and Clinker: | 2018 | 2017 |
|---------------------------------------|--------------|-------------|
| | Million Tons | |
| Parent Company RCC | 2.26 | 1.83 |
| Pioneer Cement Company Industries LLC | 1.21 | 1.16 |
| Inter- company sales | (0.14) | (0.06) |
| Consolidated Sales | 3.33 | 2.93 |

Profit:

Gross Profit for the group stood at RO 15.62 Million (LY: RO 16.03 Million), a decrease by 2.56%.

Operating Profit for the group stood at RO 2.70 Million (LY: RO 6.72 Million), a decrease by 59.82%.

PBT during the year stood at RO 1.04 Million (LY: RO 8.03 Million) a decrease by 87.05%.

PAT stood at RO 0.34 Million (LY: RO 5.81 Million) a decrease by 94.09%.

The Highlights of Financial Results during last five years:

| | RO' Million | | | | |
|-----------------------------|---------------|---------------|--------------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Sales | 90.98 | 71.87 | 92.59 | 94.68 | 94.29 |
| Operating Profit | 6.64 | 6.72 | 22.90 | 26.43 | 30.47 |
| Cash Profit | 8.21 | 13.57 | 27.66 | 28.66 | 33.34 |
| PBT | 1.04 | 8.03 | 22.90 | 25.05 | 30.39 |
| PAT | 0.34 | 5.81 | 20.71 | 20.95 | 27.43 |
| Equity & Reserve | 146.11 | 151.64 | 158.8 | 148.01 | 142.06 |
| Loans | 27.26 | 22.44 | 28.31 | 35.06 | 44.50 |
| Cash EPS RO | 0.041 | 0.068 | 0.138 | 0.143 | 0.167 |
| EPS RO | 0.018 | 0.029 | 0.104 | 0.105 | 0.137 |
| Dividend % | 12.5% | 29% | 65% | 50% | 75% |
| Production MT '000 | | | | | |
| Clinker | 3,398 | 2,967 | 3,308 | 3,555 | 3,290 |
| Cement | 3,326 | 2,913 | 3,759 | 3,813 | 3,762 |
| Sales MT '000 | | | | | |
| Cement | 3,332 | 2,937 | 3,711 | 3,814 | 3,778 |
| Clinker | 1,021 | 15 | - | 4 | 36 |

CEMENT DEMAND PROFILE

During the year, the demand for cement improved in Oman due to increased construction activities in Al Wusta region. However excess capacity led UAE producers continued supplies at substantially lower prices making the situation very competitive for domestic producers. In export-market our efforts with a changed price strategy to establish our brand of cement is reflecting positively with higher sales. In the years to come we expect to firm up our prices with an established customer base.

PRODUCTION

The productions of Cement and Clinker stood at as below:

| | Cement (in '000MT) | | Clinker (in '000 MT) | |
|---------------------|--------------------|--------------|----------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Parent Company | 2,110 | 1,739 | 2,051 | 1,677 |
| Pioneer Cement | 1,216 | 1,174 | 1,347 | 1,290 |
| Consolidated | 3,326 | 2,913 | 3,398 | 2,967 |

MARKETING:

The parent company continued facing the competition in the northern markets from the supplies from UAE at low prices. Due to socio political disturbances in Yemen, the parent Company's sales is almost same what it was in last year and other export market witnessed a growth of 89% as compared to last year. In UAE there were excess capacity led competitions and Pioneer continued sales there at competitive prices. On the whole, the period ahead is challenging for the Company and the management is hoping to improve its market presence with fierce marketing strategy, pursuing the opportunities for newer markets and a change in pricing policy in export markets.

The parent Company's domestic sale of cement volume stood at 1.4 Million Tons (LY: 1.15 Million Tons). The Domestic sale includes 0.14 Million Tons (LY: 0.06 Million Tons) of cement imported from Pioneer. Export sale of cement stood at 1.02 Million Tons (LY: 0.67 Million Tons).

The revenue from domestic segment for parent Company amounted to RO 36.25 Million (LY RO 32.82 Million). Export segment turned out revenue of RO 25.87 Million (LY RO 17.07 Million).

Pioneer a subsidiary sold 1.215 Million (LY 1.163 Million) Tons of Cement out of which export market in Oman constituted 0.77 Million Tons (LY 0.93 Million Tons). The revenue generated by Pioneer amounted to RO 31.54 Million (LY 23.17).

The Credit Management has always remained a focused area for the Company to continue with healthy credit practices.

RESERVE AND SURPLUS

The Reserve and Surplus has decreased during the year by 4.69% to RO 112.57 Million (LY RO 118.11 Million) arising out of lower profit earned by the Group.

LOAN FUNDS:

At the end of the year 2018, both the parent Company and the Group have the outstanding term loan of RO 27.26 Million (LY RO 22.44 Million).

CASH FLOW

The Company has managed the cash flow effectively throughout the year and parked the available funds beyond immediate requirements, in call and time deposits. During the year time deposits worth of RO 4.7 Million (LY RO 5 Million) were parked by the parent Company and RO nil Million (LY 3.37 Million) by Pioneer, a subsidiary. Parent company also had amounts in call deposit which is part of Cash and Cash Equivalent in the Financials Statement.

NET ASSETS PER SHARE

The net assets per share for the Group stood at RO 0.731 (LY RO 0.758)

DIVIDEND

In view of moderate performance by the Company in the background severe price war and competitive market, The Board of Directors is proposing to the shareholders in AGM that the dividend per share be at the rate of 12.5% of the paid up capital for 2018.

CORPORATE GOVERNANCE

A separate section on Corporate Governance practices, as followed by the Company, as well as the Certificate from the Auditors confirming the compliance by the Company, are forming part of this Report.

ACKNOWLEDGEMENTS

We take this opportunity to express our deep sense of gratitude to His Majesty and his Government for their continued guidance and support.

We thank our shareholders for their continued faith and support in what this Company stands for. We also are thankful to our customers, suppliers, financial institutions and various other stake holders of the company for their overwhelming support in achieving the objectives of the company. Our dedicated employees need special mention for the higher levels of achievements on a continual basis.

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

