



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



## Director report For the year ended 31 December 2018

Dear Shareholders,

It gives me pleasure to welcome you all to the 38<sup>th</sup> Annual General Meeting of the Company.

The audited Financial Statements including the consolidated financial statements for the year ended 31 December 2018 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 3.398 Million Tons of Clinker and 3.326 Million Tons of Cement during the year against 2.967 Million Tons of Clinker and 2.913 Million Tons of Cement during last year respectively. The overall production of Clinker is higher by 14.53% and Cement by 14.18%.

**Parent Company:** The Parent Company in its Salalah plant produced 2.051 Million Tons of Clinker and 2.110 Million Tons of Cement during the year against 1.677 Million Tons of Clinker and 1.739 Million Tons of Cement in the last year. Overall there is an increase in Clinker production by 22.30% and Cement by 21.33% as compared to last year.

**Subsidiary company:** At Pioneer Cement, a subsidiary company, plant in UAE, the production of Clinker and Cement stood at 1.347 Million Tons and 1.216 Million Tons respectively during the year, against 1.290 Million Tons of Clinker and 1.174 Million Tons Cement respectively in the last year. Clinker production is higher by 4.42% and Cement by 3.58% as compared to last year.

#### Sales:

**Group:** The Group as a whole has sold 3.332 Million Tons of Cement during the year against 2.922 Million Tons of Cement in the last year. Overall there is an increase by 14.03% in sales of cement. Increase in volume is attributable partly to change in product mix and partly to the change in pricing policy.

Further, the Group has disposed-off 1.021 Million Tons of dead stock of clinker during the year.

**Parent Company:** The Parent Company has sold 2.263 Million Tons of Cement during the year against 1.819 Million Tons of Cement in the last year, an increase of 24.41%. Further, there is a sale of 0.430 Million Tons of clinker of which 0.378 Million Tons was in export market. The major markets for the Parent company are domestic, Yemen, Qatar and East African markets.

**Subsidiary company:** At Pioneer Cement, a subsidiary company, plant in UAE, has sold 1.215 Million Tons of Cement against 1.163 Million Tons in the last year, an increase by 4.47%. Further, there is a sale of clinker of 0.591 Million Tons during current year.

For Pioneer, the main markets are UAE, Bangladesh and Oman.

#### **Revenue and profit:**

**Group:** During the year, the Group has earned a Revenue of RO 90.98 Million against RO 71.87 Million in the last year, an increase by 26.58%, the main reason is the increased volume of sales due to the partly change in product mix and partly change in pricing policy.

The Profit Before Tax of the Group stood at RO 1.04 Million as against RO 8.03 Million in the last year, a decrease by 87.05% due to following reasons:

Lower price realization per ton of cement, (13.4% drop in Parent company and 7.6% drop in Pioneer) although the volume of sale quantity increased during the year.

Higher raw materials costs mainly due to change in mix design and higher consumption of packing materials mainly due to higher bagged cement sales and increase in procurement price of packing material.

Increased in shipping costs to terminals is due to hiring of additional vessels for increased sales volume of cement at terminal to fill the gap of demand, since own vessels inability to cope up increase volume.

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

Increased General and administrative expenses contributed by selling commission paid on new markets developed, travel and employees related expenses.

Higher selling and distribution expenses are due to the hiring of additional vessels for increased export of cement and clinker to fill the gap of demand, since own vessels inability to cope up increase volume.

Increase in finance cost is due to lower interest income resulting from lower cash reserves and higher interest on term loan and additional term loan obtained during the year in UAE.

Reduction in fair market value of securities held by Parent Company.

The Profit after Tax for the Group has decreased to RO 0.34 Million from RO 5.81 Million, a decrease by 94.09% during the year.

**Parent Company:** In spite of severe price competition from the UAE suppliers, and the volatility in the export market, the Parent Company could achieve a Sales Revenue of RO 62.12 Million during the year against RO 49.89 Million during the last year, an increase by 24.51%, by change in pricing strategy and exploring new markets.

Profit Before Tax of the Parent Company stood at RO 4.32 Million for the year against RO 8.41 Million earned during the last year, a decrease by 48.63%.

The Profit after tax of the Parent Company has stood at RO 3.65 Million against RO 6.27 Million, decrease by 41.78% during the year.

**Subsidiary company:** During the year, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 31.55 Million as compared to RO 23.17 Million achieved in the last year, an increase by 36.17%.

Pioneer Cement has earned a profit of RO 1.24 Million against RO 2.29 Million earned during the same year of last year, decrease by 45.85%.

**Other subsidiary and associated companies:** Raybulk Navigation and Raysea Navigation, two of the subsidiaries which provide with shipping services, have earned a revenue of RO 0.54 Million and RO 0.28 Million against a revenue of RO 1.92 Million and RO 1.13 Million in the last year respectively.

Raybulk Navigation and Raysea Navigation, have made a profit of RO 0.086 Million and a loss of RO 0.96 Million against a profit of RO 0.02 Million and a loss of RO 0.24 Million in the last year respectively.

During the current year, the ship Raysut 2, was grounded during the Mekunu Cyclone which hit Salalah shore on 25 May 2018. Insurance claim for Constructive Total Loss was lodged for RO 2.88 Million and total amount has been received.

The consolidated profit earned from associated company is RO 9 thousand after adjustment of prior year losses against profit of RO 0.295 Million in the last year.

**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	2017	2016	2015	2014	2013
Dividend on paid up capital	29%	65%	50%	75%	75%

In view of good performance by 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. 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 has signed a letter of intent with shareholders of the Sohar Cement Factory LLC, a limited liability company, registered in the Sultanate of Oman, with respect to the purchase of all the shares from its shareholders. The parties are currently discussing the terms of the proposed acquisition.

Performance improvement at Salalah and capacity expansion at Duqm together with east Africa is being considered. Further, establishment of cement plant in Georgia is being explored.

### **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 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:**

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**

