



شركة ريسوت للأسمنت (ش.م.ع.ع.)

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



Director report

For the nine months period ended 30 September 2018

Dear Shareholders,

It gives me pleasure to present the Financial Statements for the nine months period ended 30 September 2018 of the Company.

Review of operations and financial performance:

Production:

Group: The Group as a whole have produced 2,464,473 Tons of Clinker and 2,560,024 Tons of Cement during the period against 2,360,251 Tons of Clinker and 2,172,971 Tons of Cement during the same period of last year respectively. The overall production of Clinker is higher by 4.41% and Cement by 17.81%.

Parent Company: The Parent Company in its Salalah plant produced 1,476,408 Tons of Clinker and 1,625,165 Tons of Cement during the period against 1,410,114 Tons of Clinker and 1,318,452 Tons of Cement in the same period of last year. Overall there is an increase in Clinker production by 4.70% and Cement by 23.26% as compared to corresponding period.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, the production of Clinker and Cement stood at 988,065 Tons and 934,859 Tons respectively during the period, against 950,137 Tons of Clinker and 854,519 Tons Cement respectively in the same period of last year. Clinker production is higher by 4% and Cement production by 9.40% as compared to corresponding period.

Sales:

Group: The Group as a whole has sold 2,562,094 Tons of Cement during the period against 2,203,388 Tons of Cement in the same period of last year. Overall there is an increase by 16.28% 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 506,400 Tons of dead stock of clinker during the period.

Parent Company: The Parent Company has sold 1,737,488 Tons of Cement during the period against 1,395,648 Tons of Cement in the same period of last year, an increase of 24.49%. Further, there is a sale of 165,761 MT of clinker of which 125,800 MT was in export market.. The major markets for the Parent company are domestic, Yemen and East African markets.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, has sold 934,606 Tons of Cement against 845,401 Tons in the same period of last year, an increase by 10.55%. Further, there is a sale of clinker of 340,639 Tons.

For Pioneer, the main markets are UAE and Oman.

Revenue and profit:

Group: During the period, the Group has earned a Revenue of RO 64.03 Million against RO 54.71 Million in the same period of last year, an increase by 17.04%, 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 2.89 Million as against RO 8.88 Million in the same period of last year, a decrease by 67.45%. The Group operating profit has decreased to RO 4.22 Million in the current period from RO 7.92 Million in the same period of last year i.e. a decrease by 46.72% due to following reasons:

Lower price realization per ton of cement, (15% drop in Parent company and 6 % drop in Pioneer) 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.

Higher shipping costs to terminals resulting from higher sales at the terminals.

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 selling commission paid on new markets developed, Professional expenses and employees related expenses.

Increased 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 arising out of own vessels inability to cope up increase volume.

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

The Profit after Tax for the Group has decreased to RO 1.99 Million from RO 6.58 Million, a decrease of 69.76% 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 a Sales Revenue of RO 43.87 Million during the period against RO 38.50 Million during the same period of last year, an increase by 13.95%, by change in pricing strategy and exploring new markets.

Profit Before Tax of the Parent Company stood at RO 3.22 Million for the period against RO 9.53 Million earned during the same period of last year, a decrease by 66.21%.

The Profit after tax of the Parent Company has stood at RO 2.67 Million against RO 7.22 Million, decrease by 63.02% during the period.

An insurance claim of RO 1.3 Million has been lodged for various Mekunu Cyclone related claims.

Subsidiary company: During the period, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 22.33 Million as compared to RO 16.97 Million achieved in same period of the last year, an increase by 31.59%.

Pioneer Cement has earned a profit of RO 1.27 Million against RO 2.41 Million earned during the same period of last year, a decrease by 47.30%.

Other subsidiary and associated companies: Raybulk Navigation and Raysea Navigation, two of the subsidiaries which provide with shipping services, have made a profit of RO 2.45 Million and a loss of RO 0.38 Million against a loss of RO 0.17 Million and a loss of RO 0.12 Million in the same period of last year respectively.

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

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.

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

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