

2nd Quarter Report 2013

30th July 2013

State Trading Organization PLC

Evolving with you



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2nd Quarter Milestones

Annual General Meeting 2012

STO Annual General Meeting was held on 16 May 2013 at Traders Hotel.

More details on page 12.

STO Hulhumeedhoo Pharmacy opened

STO Hulhumeedhoo Pharmacy was officially opened on 08 May 2013, by His

Excellency President Dr. Mohamed Waheed Hassan Manik.

STORC Kick off trip

This years STORC started off with a Club kick-off trip at Feydhoo Finolhu on 05

April 2013. More than 600 staff participated in this event.

Formation of EIS Department

A new department was formed on 16 April 2013 by the name of Enterprise Information Systems. The main objective of forming this department is to provide better services to staff and customers through effective Enterprise Systems management. The department is responsible for finding, developing, enhancing, and managing systems that are required for the various business transactions of the company.



Business Developments

Project	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%	Current Status	Project Start date	E. Project End
1 Radisson Blu - Hulhumale'											M&E works mobilization ongoing by Genysys Engineers Con. Ltd. Architectural Works Awarded to Genysys Engineers Co. Ltd. and Interior Fit Out Works Awarded to Kanok Furniture & Decoration Co. Ltd. On 09th June 2013.	June 2007 (initially started) 14th October 2011 (structural Works)	Dec-14
2 Proposed 10 storey Building at Umar Shopping Arcade											Awarding Process Ongoing.	2009	NA
3 Construction of Wharfs at Thilafushi											Tender Evaluation Ongoing.	Dec-09	NA
4 Relocation of Rice Godown from S.Gan to S.Hithadhoo											Project On Hold (Due to Unavailability of sand for Backfilling)	Jun-11	NA
5 Home improvement Interior renovation											Contract signed with the M.S.Carpentry. Construction works to commence in July 2013.	NA	May-13
6 Relocation of South DC to S. Hithadhoo											Project Consultant awarded to Axen Partners. BOQ drawings ongoing.	NA	NA

Promotions and Events

Throughout this quarter, 33 promotional events were held to promote STO's major 9 brands.

The main objective of these promotions and events was to promote and provide quality products at affordable rates to the customers, across the nation.

Some of the Promotions and Events include;

1. STO Marketing team visits the Atolls
2. STO Ramazaan Bazaar
3. Gift Your Loved Ones with Philips
4. Celebrate Mothers Day with Philips
5. Philips Yo! Roadha Promotion
6. Philips Like, Share & Win
7. Special Promotion for Philips TV
8. Philips 3 on 3 Street Festival
9. Clean House Campaign
10. Hitachi Mega Promotion
11. Hitachi Rice Cooker Demo
12. Special Offer for Hitachi Beauty Products
13. Promoting Hitachi Products on Facebook
14. Maxell Advertising
15. Hitachi Roadshows
16. Hitachi AC Promotion
17. "Heyyaa" Makita Promotion
18. Nippon Momento Launching
19. Assigned an ambassador for Devondale
20. Ramazaan Special Offer
21. Children's Day
22. Super Promotion
23. Kruger Promotions at Male, Villingili and Hulhumale'

The company appreciates and thank the customers for their continuous support towards STO's products, promotions and events.

Sponsors

Similar to previous quarters, Philips, Hitachi and Kruger have provided sponsors for various events, across the Country. Al Mudhish has sponsored 6 events while Devondale sponsored 4 events. Similarly, Nippon and Super sponsored 3 events While Makita sponsored 1 event.

Some of the sponsors given include;

1. Club Green Street– 2nd Division football team
2. United Victory– 2nd Division football team
3. Clique College futsal cup 2013
4. 1st Prize of Sun front Miracle Sale Promotion
5. Dhivehi Film “Dhilakani” sponsored by Hitachi Beauty Products
6. Main sponsor of Nippon Paint 44th Tennis Tournament
7. Dhivehi film “Ingili” sponsored by Philips
8. Maldives Thalassemia Society Dinner Night
9. Body Building Federation of Maldives—Mr. Maldives 2013
10. Olympians Music concert
11. Facebook STO page—gift for 3000th Liker
12. Futsal Cup 2013 organized by Goadhiyya
13. FAM Awards 2013
14. Lorenzo Sports Club at the 3 on 3 Basket Ball Street Challenge
15. BG Sports Club
16. Jamiyyathul Solah—Faruma Bodu Beru Group
17. Swimming Association—11th Inter-School Swimming Competition
18. Upper North Futsal Championship 2013
19. Red Production Documentary film “Let’s go green, Vattafaalhi”
20. Dhivehi Sifainge Club—Basketball team 2013



Human Resource

Staff

	Local	Foreign	Total
No. of staff at beginning of April 2013	1008	210	1218
No. of staff employed during April - June 2013	42	3	45
No. of staff resigned / terminated during April - June 2013	32	7	39
No. of staff at end of June 2013	1018	206	1224

In house trainings / Local short trainings:

- Team building training (S&M batch 2) – 44 staffs (3 days)
- International Business seminar – 01 staff (3 days)
- Seminar on legal issues with respect to employ-

ment law – 07 staffs (01 day)

- Team building training (Logistics) – 36 staffs (03 days)
- Corporate forecasting, budgeting & cost control training – 20 staffs (02 days)
- Training on project management participants – 11 staffs (03 days)
- Ship security officer training – 02 staffs (03 days)
- Port facility security officer – 03 staffs (3 days)
- Port facility designated security duties – 20 staffs (02 days)
- Office skills – 26 staffs (03 days)
- INCO terms, bills of lading, ocean freight claims handling - 22 staffs (03 staffs)
- Basic first aid training – 39 staffs (02 days)
- Debit collection training – 23 staffs (01 day)

STO Scholarships 2013 (Short and long term - Local)

- Advanced Certificate in Pharmacy (5 staffs and 15 non staffs) – 01 year
- ABE Level 06 Diploma in Business Management (01 staff) – 01 year
- Bachelor of Business Administration (Final Year) – Herriot Watt university (02 staffs) – 01 year

STO Scholarships 2013 (Short and long term – Overseas)

- B. Sc (Hons) in Information Technology, Malaysia (01 staff) – 2.5 years

Short term overseas courses

- Inventory planning and stock control – 03 staffs (02 days)
- Warehouse Management & Operation – 02 staffs (05 days)

- Excellent supervision & leadership skills for women in management – 06 staffs (02 days)
- Enhancing leadership with emotional intelligence – 02 staffs (04 days)
- PMP certificate workshop – 01 staff (08 days)
- Marketing & Business Development – 01 staff (05 days)

Executive Trainings

- Advance Sales Skills – 1 executive (05 days)
- PMP Certificate workshop – 1 executive (05 days)
- Excellent supervision & leadership skills for women in management – 1 executive (02 days)
- Marketing and Business Development – 1 executive (05 days)
- Successful planning & control – 3 executives (05 days)

Social Responsibility

My World Campaign

STO, as a partner of the United Nations Global Compact, participated in the global campaign “My World” to help make the world a better place. Through this UN Global Survey, participants can choose their priorities for a better world and the results will be shared with world leaders in setting the next global development agenda.

World Autism Day

STO helped in creating awareness about Autism by lighting the head office building in blue on World Autism Day, on 02 April 2013.

Reef Cleaning on Environment Day

STO has always been a promoter of the environment,

and hence, on the occasion of Environment Day, STO participated in the reef cleaning program on 05 May 2013 at the local market outer seawall area.

Dhiraagu Road Race—Support Prevent Child Abuse

STO showed its support towards prevention of child abuse by taking part in the Maldives Road Run: Run Against Child Abuse on 28 June 2013.

Children's Day Celebration

STO celebrated Children's Day at STO Supermart on 11 May 2013 by giving away gifts for children.



Health Trust Fund

STO promotes a healthy lifestyle and thus contributed towards development of the medical industry by donating to the Health Trust Fund under the Ministry of Health.

Kuda Kudhinge Hiyaa

STO continued funding of its commitment to the Kudakudhinge Hiyaa Orphanage by providing remuneration 'in kind' to one of the childcare staff for a period of one year from June 2012.

Further, to improve child care at the Orphanage, STO had donated washing machines to facilitate tasks at the center; and also provided books for the development of their educational skills.

Maldives Autism Association

To provide assistance for children with autism, STO facilitated Maldives Autism Association by providing financial assistant to manage the association's activities.

Hulhumale' Cleaning Program

As an effort to promote a cleaner environment, STO contributed to the Hulhumale' Cleaning Program conducted by Housing Development Corporation, on the occasion of environment day.



Board Meetings

Board of Directors

The current composition of the Board of Directors is still not in constituent with the Articles of Association (AOA) of the Company or the Corporate Governance Code (CG Code) of CMDA. The current Board consists of only one Executive Director. The Company has raised several concerns on this issue, to the relevant authorities.

Major Board Decisions

Some of the major decisions made by the Board, during this quarter included;

- Decide on the 2012 dividend to offer at Annual General Meeting
- Discussion on the 2012 Board Evaluation result
- Endorsed Annual Report and Financials 2012
- Endorsed appointment of Chairman to the Board—Mr. Abdullah Faiz
- Appointed Managing Director—Mr. Shahid Ali
- Appointed new Board Committees
- Approved 2012 bonus plan

Board Meetings

A total of 8 meetings were held during the quarter.

Board Attendance

	Attendance	%	Type of Director
Abdulla Faiz	8/8	100%	Non-Executive / Independent
Shahid Ali	8/8	100%	Executive / Non-Independent
Ahmed Niyaz	8/8	100%	Non-Executive / Independent
Vizaad Ali	8/8	100%	Non-Executive / Independent
Amir Mansoor	7/8	88%	Non-Executive / Independent
Abdul Hadi Hussain Fulhu	7/8	88%	Non-Executive / Independent
Mohamed Farshath	8/8	100%	Non-Executive / Independent

Annual General Meeting 2012

The Company held its 2012 Annual General Meeting on 16 May 2013 at Traders Hotel. A total of 653 shareholders participated in this meeting where 595 members were represented by proxies.

The first item—2011 Annual General Meeting Minutes—was passed with 93.87% attendants votes.

The second item—2012 Annual Report— passed with 94.49% attendants votes.

The third item—2012 Annual Accounts and Financials—passed with 94.64% attendants votes.

The fourth item was to appoint and elect Board of Directors for 2012-2014.

According to the Articles of Association, 6 members are to be appointed by the Government. As such, the Directors appointed to the Board by the Government were;

1. Mr. Abdullah Faiz
2. Mr. Shahid Ali
3. Mr. Amir Mansoor
4. Mr. Ahmed Niyaz
5. Mr. Abdul Hadi Hussain, and
6. Ms. Vizaad Ali

The Shareholders then voted for their preferred Can-

didate for the election of a Director to represent public shareholders at the Board. Mr. Mohamed Farshath was elected to this post.

The fifth item—Announcement of Dividend 2012— The Board proposed to give MVR72.00 per share.

This item was passed with 83.15% votes.

The sixth item—Appointment of Auditors— PriceWaterHouseCoopers was elected the Auditors for 2013 with a fee of USD30,000.00.

The seventh item—Proposal to increase Board sitting fee from MVR500.00 per sitting to MVR2,000.00 per sitting—This item did not receive enough votes for passing.

The meeting adjourned after the Directors attended to the questions and queries of Shareholders.

Further to this, after the AGM and towards the end of the quarter, the Company identified discrepancies in acceptance of proxy forms to the meeting. The Board immediately took necessary actions to consult with the Lawyers and acted upon their guidance to hold an Extra Ordinary General Meeting and to resolve this issue.

Committee Meetings

Audit Committee Meetings

4 Audit Committee meetings were held this Quarter.

Major Committee Decisions

Some of the major decisions made by the Committee included;

- Reviewed Financials of 2012
- Attended whistleblower notifications received
- Made recommendations to the Board on appointment of External Auditors for 2013
- Reviewed progress on External Audit process

Committee Attendance

	Attendance	%
Abdul Hadi Hussain Fulhu	4/4	100%
Vizaad Ali	4/4	100%
Ahmed Niyaz	4/4	100%

Nomination & Remuneration Committee Meetings

There were 5 Nomination & Remuneration Committee meetings held this Quarter.

Major Committee Decisions

Some of the major decisions made by the Committee included;

- Evaluate and interview the public shareholder Directorship candidates

Committee Attendance

*Mr. Farshath did not participate in the evaluation and interview process of the Directorship candidates.

	Attendance	%
Vizaad Ali	5/5	100%
Amir Mansoor	5/5	100%
Abdul Hadi Hussain Fulhu	4/5	100%
Mohamed Farshath	1/5*	20%

Corporate Governance & Compliance Committee

01 Corporate Governance & Compliance Committee meetings was held in this Quarter.

Major Committee Decisions

The meeting was held to review the Dividend Policy of the Company.

Committee Attendance

	Attendance	%
Mohamed Farshath	1/1	100%
Amir Mansoor	1/1	100%
Ahmed Niyaz	1/1	100%

Corporate Governance Compliance

Provisions			
Effective Board	1.1	Non -Complied	Although there are seven Directors sitting in the Board, the composition of the Board does not conform to the Company Articles of Association and CG Code, since there is still only one Executive Director.
Composition of Board	1.2	Non -Complied	A 21 day notice period was given to the shareholders to submit names for Directorship. The major shareholder was informed through letter.
Nomination/re-election of Directors	1.3	Complied	The NR Committee interviewed the Directorship interested candidates 2013/2014, for Board appointments and made recommendations to the Board. The information on qualifying candidates were announced for the perusal of Shareholders. A vote was taken to elect the Public Share representative Director to the Board. Mr. Mohamed Farshath / H.Two Hearts succeeded the election.
Separation of Chairman and MD	1.4	Complied	The Chairman and MD are separate persons in the Company. The Chairman is considered an independent director.
Roles of Chairman and MD	1.5	Complied	The roles of Chairman and MD are stated separately in their charter. The Charters were last reviewed and signed during 3rd quarter 2012.
Duties of the Board	1.6	Complied	Board Directors roles are separately stated in their charter. The Charter was last reviewed and signed during 3rd quarter 2012.
Training	1.7	Complied	1st Quarter—The Audit Committee members attended the 3 Day Seminar in Beginning Auditor Tools and Techniques organized by the Institute of Internal Auditors in Singapore. The Board also went through a refresher course on the most relevant laws and regulations by the lawyers of the Company. The Managing Director attended the “job of a Chief Executive” training programme in Singapore. No other trainings were conducted during 2nd quarter.
Committees	1.8	Complied	In compliance with the CG Code, STO Board has an Audit Committee and a Nomination and Remuneration Committee in place. In addition to this, the Company also has a Corporate Governance and Compliance Committee. The Nomination and Remuneration Committee act as one, since almost the same Directors sit in all Committees of the Board.



Provisions			
Remuneration policy	2.1	Complied	The Company has approved and acts upon a board approved remuneration policy for Directors and employees.
Evaluation of Board performance	2.2	Complied	Board evaluation for the year 2012 was carried out in the 1st quarter. The results were reviewed and discussed at the Board.
Board remuneration disclosure	2.3	Complied	A lump sum figure of Board and top management remuneration was disclosed in the Annual report.
Individual Board Member Remuneration Disclosure	2.4	Partially Complied	The individual remuneration of Board Members are disclosed in the 2012 Annual Report. However, due to the discrepancies of the remuneration in the current job market, the Board has decided not to disclose the individual remuneration of top management.
Management constitution	3.1	Complied	The management team constitutes of MD, executive directors, and the key managers of the company.
Roles and responsibilities of management	3.2	Complied	Job descriptions are placed at HR for every employee. The management team is given constant guidance by the Board on promoting high standards of CG. All executives and managers are required to submit their conflict of interest and disclosure statements to the MD.
Access to information	3.3	Complied	Board and its committees have authority to request information from the management that are deemed necessary for decisions made at meetings. They also have the authority to obtain at the company's expense, outside legal or any other professional advice on any matter deemed necessary for effective performance of their duties.
Internal Audit	4.1	Complied	The company's internal audit department reports directly to the Audit Committee and administratively to MD.
External Audit	4.2	Complied	Audit Committee made recommendations to the Board, on the appointment, re-appointment and removal of external auditors for 2013. The Committee also negotiated their remuneration for the year. The appointment of External Auditors was affirmed at the AGM. PriceWaterHouseCoopers were appointed the External Auditors for 2013, for a remuneration of USD30,000.00.
Internal Controls	4.3	Complied	The Board ensures that the management maintains a sound system of internal controls to safeguard the shareholders investments and company assets. Audit committee annually reviews several of these internal control measures enforced in the company. Information on Internal Controls are disclosed in the Annual Report.

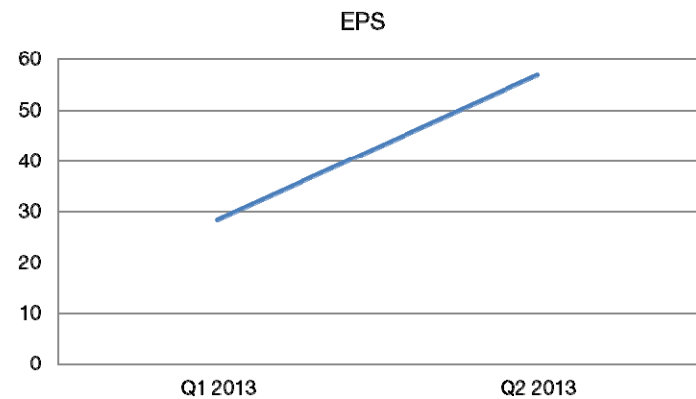
Provisions			
Company Secretary	5	Complied	The Company Secretary keeps an annual record of the company's compliance and liability to the CG code and other legal requirements. CS also maintains adequate registers of the Board, shareholders, minutes and Directors interests in the company.
Shareholders	6.1	Complied	The rights of the shareholders are periodically reminded through notices, annual reports, website and AGM.
Shareholder Communication	6.2	Complied	Pertinent information is disclosed on company matters, through company website, interviews, press releases, press conferences, quarterly reports, annual report and AGM's.
General Meetings	6.3	Complied	AGM's are held annually, to brief shareholders on company performance of previous year. AGM 2012 was held on 16th May 2013.
Voting Rights	6.4	Complied	Shareholders are brief on their voting rights from time to time. Shareholders are allowed to vote in their absence through proxy voting.
Disclosure	7.1	Complied	The Board ensures that the Annual Report of the Company is in compliance with the Articles of Association, Companies Act, Listing Rules, CG code and other regulations that the Company has to abide to.
Financial Statements	7.2	Complied	Financial Statement are prepared in accordance with the IFRS reporting standards. The balance sheet and P&L statements are reviewed and signed by the Chairman, MD, CFO and the public representative Director to certify true and fair accounts of the Company.
Non-financial Statements	7.3	Complied	Each year, remuneration, conflict of interest, HR, Share, Business Development and other activities of the Company is disclosed in the Annual Report and interim updates are disclosed through Quarterly Report.
Systems to raise concerns	8	Complied	The Board and Management ensures that an appropriate process is put in place to enable employees and management to raise their concerns. These means are regularly informed to the employees and disclosed in the annual report. As such, the Company has a Fraud Response and a Whistleblower Policy in effect.
Voluntary Provision: Investors and media relations	9	Complied	The company encourages media and investor relations by promoting good CG.
Quarterly report	9.4	Complied	STO publishes the Quarterly Report on website, since 2011.



Share Information

Share Information

	2nd Quarter 2013	1st Quarter 2013
Highest Trade Price	510	500
Lowest Trade Price	360	400
Last Trade Price	500	500
WATP	478.3	414.5
Market Capitalization	563.5	563.5
EPS	56.9	28.4
Dividend Yield	14%	15%
Price Earning Ratio	8.8	17.6



Financials

Income Statement (Unaudited)

Figures in MVR

	Year to Date	2nd Quarter 2013	1st Quarter 2013
Turnover	5,769,454,067	2,956,778,766	2,812,675,301
Cost of Sales	(5,148,135,228)	(2,626,334,718)	(2,521,800,510)
Gross Profit	621,318,839	330,444,048	290,874,791
Other Income	26,866,981	13,821,444	13,045,537
Operating Expenses	(481,116,523)	(192,441,195)	(144,337,664)
Operating Profit	311,406,961	151,824,297	159,582,664
Financial Income / (Expenses)	(215,197,935)	(87,662,578)	(127,535,357)
Net Profit before Tax	96,209,026	64,161,719	32,047,307



Balance Sheet (Unaudited)

Figures in MVR

	Year to Date	CUMILATIVE 2nd Quarter 2013	CUMILATIVE 1st Quarter 2013
ASSETS			
Non Current Assets	1,576,732,878	1,576,732,878	1,570,330,770
Current Assets	2,990,341,966	2,990,341,966	3,704,464,930
Total Assets	4,567,074,844	4,567,074,844	5,274,795,700
EQUITY & LIABILITIES			
Equity	1,105,863,411	1,105,863,411	1,126,220,692
Non Current Liabilities	657,342,546	657,342,546	704,884,763
Current Liabilities	2,803,868,886	2,803,868,886	3,443,690,245
TOTAL EQUITY & LIABILITIES	4,567,074,844	4,567,074,844	5,274,795,700



Cash Flow Statement (Unaudited)

Figures in MVR

	Year to date	Q1
Profit before tax	96,209,026	32,047,307
Adjustments for:		
Depreciation	31,190,554	15,110,620
Interest Income	(7,485,902)	(4,023,460)
Interest on Fixed Deposits	(1,577,189)	-
Interest Expense	111,693,548	55,897,785
Dividend Income	(45,825,946)	(1,529,900)
Provision for Bad Debts	87,000,000	30,000,000
Provision for Inventories	6,570,102	1,553,897
Changes in Working capital		
Inventories - (Increase) / decrease	44,207,629	98,681,280
Trade & Other receivables - (Increase) / Decrease	358,127,544	(72,813,370)
Trade & Other Payables - (Decrease) / Increase	86,833,623	709,685,382
Cash generated from Operations	766,942,988	864,609,540
Cash flow from operating activities		
Cash generated from Operations	766,942,988	864,609,540
Interest paid	(111,693,548)	(55,897,785)
Tax Paid	(3,814,645)	(12,922,079)
Net cash generated from/(Used in) operating activities	651,434,794	795,789,676
Cash flow from Investing activities		
Purchases of PPE	(69,024,429)	(105,974,737)
Investment in Shares	(1,568,800)	-
Interest Received	7,485,902	4,023,460
Interest on Fixed Deposits	1,577,189	-
Dividends received	45,825,946	1,529,900
Net Cash used in Investing activities	(15,704,191)	(100,421,377)
Cash flow from Financing activities		
Net Borrowings	(541,721,657)	(474,680,459)
Dividends paid to company share holders	(84,518,250)	-
Net cash (used in) / Generated from financing activities	(626,239,907)	(474,680,459)
Net Increase/(Decrease) in cash, cash equivalents and Bank overdrafts	9,490,696	220,687,840
Cash & Cash equivalents at beginning of the year	350,887,182	350,887,182
Cash & Cash equivalents at the end of the period.	360,377,878	571,575,022

Declaration

Company's Act Compliance

The Company has abided compliance to the Company's Act and its regulations throughout the quarter.

Listing Rules Compliance

The Company has abided compliance to listing rules and its requirements within the quarter.

CDOI Regulation Compliance

The Company has abided compliance to CDOI regulations and its requirements within the quarter.

Corporate Governance Compliance

Details of compliance to code is stated in page 15-17.

Fines

The Company was neither fined nor under any other penalty, in reference to the above mentioned regulations, during the past quarter.

Tax

The Company had paid required tax to MIRA within the allocated time.

MQRR Compliance

This report has been prepared in compliance with the Minimum Quarterly Reporting Requirements of CMDA.

State Trading Organization PLC

Male

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