

Chairman's Report

Dear Shareholders,

On behalf of the Board of Directors of Oman Refreshment Company SAOG, I am pleased to present to you the annual report and audited financial statements for the year ended 31st December 2014.

Business Environment

Omani economy posted encouraging growth in 2014 with the continued spending on various infrastructure, tourism projects and oil & gas sector activities by the Government of Sultanate of Oman, despite the regional & global economic challenges.

While the food & beverages market in Oman continued to grow with the growth of local population and resident manpower required for the growing economy, the operational environment posed challenges such as the stiff competition in Soft drinks, Juice, Water and Snacks product segments in a highly price sensitive local market. On the other hand, stagnant consumer price at multiple customer channels has added to the existing challenges of the business environment. Also, the operating margins were severely tested by the growing pressures of labour market and wages bill.

Financial Highlights

The company has achieved a net profit after tax of RO 10,055,858 on a total turnover of RO 72,862,307 for the year 2014 compared to net profit after tax of RO 10,357,114 on a turnover of RO 69,012,866 in 2013. The overall revenue has increased by 5.60% on account of the company's efforts to improve sales volumes and sales realization through innovative & intensive marketing efforts. This together with the successes achieved in sourcing key input materials at competitive prices compared to previous year as well as the efficiencies resulting out of various cost control & costs optimisation measures, despite the challenges of rising costs of employment & staff turnover due to the prevailing job market conditions, have contributed to overall growth in the top line as well as sustaining certain level of bottom line.

The Gross Profit margins rose from 39.5% in 2013 to 40.30% during 2014. Profit After Tax (PAT) ratio has marginally declined from 15% in 2013 to 13.80% in 2014.

There were no changes in the past year or expected in the next year to the overall financing structure of the company other than financing of certain capital expenditure projects through long term borrowings for efficient working capital management.

Further, as part of its corporate social responsibility activities during 2014, the Company has provided green sports facilities to Ministry of Education schools across the Sultanate of Oman and committed to support public parks of Muscat Municipality with playground facilities, besides being an active supporter of the official tourism promotion festivals i.e. Muscat Festival and Khareef Festival in Salalah. The company has further committed to provide green sports facilities to the Ministry of Education schools and support public parks of Muscat Municipality with playground facilities.

Internal Control System

The Board has reviewed the adequacy and effectiveness of the existing internal control system in the Company and found it to be satisfactory.

Dividend

The Company's dividend policy is to reward the shareholders by distributing an optimal amount of profits earned during the year. While considering the payout for the year, the Board of Directors

considers the need for retention due to new project/investment possibilities and additional working capital to be financed. The Company strives to maintain a balance between current payout and a sustainable, growing dividend rate.

In view of good performance of the Company during 2014, and after reviewing the company's liquidity requirements, future earnings and shareholders interest, the Board is pleased to recommend a cash dividend of 100% (being 100 Baizas for each paid up share) of the issued share capital for the year 2014.

Future Outlook

As part of improving business productivity and operational efficiencies, the company shall continue to invest suitably in operational facilities to meet the diversified consumer preferences, business systems and replacing aging assets. The Company is aware of the intense competition in a highly price sensitive local market and will remain focused to profitably maintain its market share. The company is optimistic about the future prospects with the product expansion & diversification plans and continued focus on achieving improved production efficiencies. However, the volatile prices of key input raw materials, packing materials, unstable job market & rising wage bill and stagnant consumer prices may impact profitability of the Company in the near future. The company is closely monitoring the raw material prices and endeavors to minimize their adverse impact through forward purchase commitments.

Nurturing Omani talent & Omanisation of workforce

In order to attract and retain the best local talent, the company has successfully rolled out the new organization structure, policies and procedures, including revision to the pay structure that is benchmarked to the leading industry practices. Though, this has had significant financial impact, the Board believes that through this elaborative exercise, the Company has now geared up to meet the needs of the dynamic job market and the challenging business environment.

As a responsible Omani corporate citizen, the Company is totally aligned with His Majesty Sultan Qaboos bin Said's vision to nurture Omani talent in the private sector. The company's HR strategy focusses on recruitment & continuous development of Omani staff to enable them move up higher in the organization and also consistently maintained its staff Omanisation target above the prescribed requirement. The Company sees such staff developmental spend not just as its contribution to the society but also as an investment in its future.

Appreciation

On behalf of the Board of Directors, I would like to express my sincere appreciation for the successful performance of the management and employees of the Company. I also take this opportunity to thank our consumers, customers, PepsiCo, other suppliers, bankers and Government authorities for their valuable support.

Further, on behalf of the Board of Directors & the management, I extend our sincere appreciation and gratitude to His Majesty Sultan Qaboos bin Said for his vision and support for private enterprise in the Sultanate of Oman, and pray to the almighty to shower his everlasting blessings on His Majesty for his good health and long life.

Buti Obaid Al Mulla
Chairman