



OMAN REFRESHMENT COMPANY SAOG

Management Discussion and Analysis Report – 2015



Business activities of the Company

Oman Refreshment Company SAOG ("ORC/the Company") is engaged in the business of filling and distribution of soft drinks, water, juices and trading in consumer packaged goods. It holds the franchise rights to fill and distribute PepsiCo range of soft drinks and Aquafina water as well as trading in non-carbonated beverages and Frito Lays range of snacks throughout the Sultanate of Oman. Further, it also produces and distributes juices under its own brand name "Top Fruit".

The Company was established in 1975 as a joint stock company initially with small production and bottling facilities which were expanded from time to time as part of the business growth strategies to meet the growing market demand.

The company has purpose fit production & bottling plant as well as central warehousing facilities in Al Ghubrah, Muscat and 9 depots situated at Al Wafi, Ibri, Nizwa, Sohar, Salalah, Bukha, Buraimi, Musannah and Mudheibi that cater to the customers spread across the Sultanate of Oman.

The Company has 941 employees as at the current year end who are totally aligned with the Company's business objective of delighting all stakeholders of the Company.

Overall Review

The company achieved a net profit after tax of RO 9,600,145 on a turnover of RO 77,063,509 during the year 2015 against a net profit after tax of RO 10,055,858 on a turnover of RO 72,862,307 in 2014, registering a 4.50% marginal decline in the net profit after tax while the turnover increased by 5.80%.

During the year, ORC maintained ISO 22000:2005 quality certification for Food Safety Management Systems (FSMS).

Forward-looking Statements

This report contains opinions and forward looking statements, which may be identified by their use of words like "plans", "expects", "will", "anticipates", "believes", "intends", "projects", "estimates" or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company's strategy for growth, product development, market position, expenditures, and financial results, are forward-looking statements.

Shareholders and readers are cautioned on the data and information external to the Company, that though they are based on sources believed to be reliable; no representation is made on their accuracy or comprehensiveness. Further, though utmost care has been taken to ensure that the opinions expressed by the management herein contain their perceptions on most of the important trends having a material impact on the Company's operations, no representation is made that the following presents an exhaustive coverage on and of all issues related to the same.



Further, the following discussion reflects the perceptions on major issues as on date and the opinions expressed herein are subject to change. The Company undertakes no obligation to publicly update or revise any of the opinions or forward-looking statements expressed in this report, consequent to new information, future events, or otherwise.

Operating Environment

Aided by the non-oil and gas sector growth support, the economy of Sultanate of Oman registered very encouraging growth rate in 2015 compared to 2014, despite the challenges posed by the volatile international oil prices and the impact of other regional developments. The Government of Sultanate of Oman's impetus on creation of new jobs through continued spending on various infrastructure, tourism projects and oil & gas sector activities have helped sustain the economic momentum in 2015. Execution of major tourism projects, both in the Government and private sectors, are helping in the Government drive to promote inbound tourism. Growing trends of urbanisation, raising household income levels & consumerism and growing contribution of non-oil sector of the Omani economy have continued to spur the nation's economic growth in 2015. Despite the challenging international oil prices, commitment to complete the new and ongoing projects has been reiterated by the Government.

The changing dynamics of employment environment in the Sultanate of Oman that include, inter alia, restricted employment of expatriates, shortage of skilled Omani workforce, high absenteeism rate and swift movement of the skilled Omani manpower from private sector to Government jobs are creating additional pressures on finding replacement of suitably qualified workforce besides the soaring recruitment & wage costs.

Since its inception, the Company has been playing a key role in the soft drinks & beverages business segment in Oman and has continued to be a leading player in this market. Besides the PepsiCo range of soft drinks, the Company's country wide distribution network had launched many other products in the "Beverages & Juices" sector over the years. The company's products, backed by its well established customer relationships, enjoy loyal consumer patronage. The beverages market in Oman continues to grow with the growth of local population as well as the influx of expatriate manpower into the country to meet the requirements of growing economy and the diversity of market demand. On the food market, the rising demand for products with high quality and diversity combined with growing health conscious consumers offers a promising proposition for the food categories in which ORC operates particularly the potato (Lays) and non-potato (Doritos & Cheetos) snacks segments. The company is in the final stages of launching new food & beverage products to add to its growing portfolio to cater to different consumer segments, to meet the occasion based consumption needs and diverse consumer tastes.

Opportunities and threats

The company is a leader in the Omani beverages market and a prominent player in the snacks business segment. Besides the growing threat of competition within the Carbonated Soft Drinks (CSD) market for the company's products, the CSD market as a whole appears to be facing tough competition from dairy products, juices and other beverages. While the company enjoys



leadership position in the CSD market, it faces stiff competition from many players in the water, juice and snacks segments. Furthermore, water shortage in the country during 2015 has impacted the Company business as well to certain extent, making it an expensive affair to procure and ensure water availability for continuous production requirements. The company expects to widen its consumer base and strengthen its revenue base with the planned expansion of the food & beverages product portfolio.

In order to adapt to the changing job market needs and to attract & retain the best local talent, the Company has successfully implemented the new Human Resources policies and procedures including upgraded pay structure that were benchmarked to the leading industry practices, and instilled performance based management culture in the Organisation. Through this long term strategic initiative, the Company has successfully managed to stem the growing staff turnover mainly amongst local employees. It resulted in rising wages bill which is also on account of the changing job market dynamics that include reduced work week, increased overtime pay and impact of extended leave of absence along the authorised public holidays amongst local workforce that results in deployment of temporary local workforce at higher daily wages.

Volatility in the prices of commodities in international markets, which are key input raw materials to the Company's products, may impact the current and future profitability. The Company keeps a close watch and attempts to mitigate this cost impact by entering into forward contracts on certain key raw and packing materials.

On the other hand, stagnant consumer prices at multiple customer channels are severely affecting the "market driven offset mechanism" to absorb the impact of rising input & labour costs. The Company works closely with the respective authorities and other market players to address this issue for the overall benefit of the Omani economy.

The Company has well-defined marketing strategy, working in coordination with "PepsiCo", aimed at diversifying its revenue base by re-inventing its core products and expanding its product portfolio to cater to the diverse consumer preferences and tastes.

As regards new investments into the business, the Company has continued expansion of its warehousing capacity at various business locations to improve operational & marketing efficiencies, as part of the objective to have purpose fit own premises for its interior distribution centres. Further, the Company has also expanded its production capacities during the current year by setting up an additional CSD production facility to meet the varying consumer preferences. The Company invests significantly & regularly on the upkeep of current production lines, company's distribution capabilities and marketing equipment, with the focus on improving operational efficiencies as well as increased customer reach. Through its subsidiary "Al Rawdah Integrated Trade & Investment Enterprises LLC", the Company is constantly exploring suitable new business growth opportunities.

Further, ORC has been following its established "green initiatives" to efficiently manage the both liquid and solid 'waste' generated during its production/bottling processes. Staff has been regularly trained in various Health, Safety and Environment (HSE) aspects with the focussed objective of strengthening HSE measures in the plant operations and various business locations that have shown tremendous benefits in safeguarding Company assets against



unforeseen events and accidents. These measures have also proven to be effective with the tangible results demonstrated by improved scores in the unannounced audits conducted by independent international and local organisations.

The Company has been an active corporate citizen and regularly supports various educational events, sports events and community activities and participates in the official tourism festivals, namely, Muscat Festival and Khareef Festival in Salalah. Further, as part of its corporate social responsibility activities in 2015, the Company has provided green football ground facilities to the specified Ministry of Education schools in the Sultanate of Oman. It has further committed in 2016 to support the Ministry of Education schools and public parks of Muscat Municipality by providing them with green sports facilities and playground equipment.

Furthermore, it has carried out numerous "learning and developmental" activities for its staff during 2015 and continues to invest in its human resources – both Omani and expatriate - by assessing & improving their professional & job skills in general and specifically to enhance the skills of individuals to ensure that they deliver the given responsibilities with efficiency and targeted productivity.

The Company is pro-actively carrying out the development of its Omani workforce to enable them move up higher in the organizational structure by sponsoring their higher education initiatives. The Company had consistently maintained its staff Omanisation percentage above the legal requirement and continues to encourage & employ local workforce at every available opportunity. The Company is already seeing the positive impact of these measures in staff development & welfare, streamlining the HRM policies and practices in the declining staff turnover.

Financial and operational performance

ORC continued on its successful performance journey in 2015 with the help of innovative and intensified marketing strategies against the toughening market conditions such as the highly price-sensitive consumers, changing consumption habits, highly competitive Juice, Water and Snacks product segments. Despite the volatile market conditions, the sales volume has grown at 5.92% and the revenue has grown at 5.77% during 2015 compared to 2014.

On the other hand, the rising operating costs especially the volatile costs of input materials and employment continued to impact the operating margins, which to some extent withstood the pressure on the back of reasonable sales volume growth and operational efficiencies. Further, the Company's selective and focussed investment strategy to improve operational efficiencies across the organisation, together with the successes achieved in sourcing key input materials at competitive prices compared to the previous year helped in achieving good net profit during 2015.

**Performance of various products**

The company operates in the Beverages & Juices segment as well as importing & distributing food stuff. Following is the contribution of various products to the company's turnover, in terms of number of cases in thousands:

Product category	2015	2014	Variance (%)
Carbonated Soft Drinks	20,864	19,867	5%
Water	3,773	3,507	8%
Juices	2,681	2,477	8%
Snacks	1,294	1,149	13%
New Edge Beverages	182	182	0%
Total	28,794	27,182	6%

Financial highlights

	2015 RO	2014 RO	2013 RO	2012 RO	2011 RO
Revenue	77,063,509	72,862,307	69,012,866	66,705,330	56,036,800
Gross profit	31,534,270	29,360,327	27,227,457	25,228,615	19,718,371
Profit before taxation	10,909,492	11,423,331	11,774,397	11,367,526	8,017,908
Taxation	(1,309,347)	(1,367,473)	(1,417,283)	(1,351,789)	(972,964)
Net profit after taxation	9,600,145	10,055,858	10,357,114	10,015,737	7,044,944
Cash Dividend	*5,000,000	5,000,000	5,000,000	5,000,000	3,500,000
Stock Dividend	-	-	-	-	-
Net Equity	39,150,749	34,550,604	29,494,746	24,137,632	17,621,895

*proposed dividend for 2015 is subject to shareholders' approval at the ensuing AGM.

Conclusion

The Company shall continue to expand & diversify its products to appeal to the varying consumer needs through innovative products and strategies for wider consumer reach. The Company's growth plans will be driven by the success of its efforts in capitalising on the growth and diversity of the market demand with quality delivery of its product portfolio while simultaneously focussing on efficiency improvement, costs optimisation and suitable development of human capital to meet the growing business needs.

Having stated about the internal preparedness of the Company, it is also imperative not to underestimate impact, on its business performance, of the regional and local economic



conditions and the various measures initiated by the Government authorities, such as fees & tax rate revision and pruning of subsidies, to mitigate the widening budget deficits on account of low oil prices. Though the near future presents an element of uncertainty in the general economic conditions of the region due to sliding oil prices, the company believes that it is well positioned in its business sector due to its cautious approach to selectively expand and introduce new products, while continuously driving internal efficiencies and improving market response time, on the back of its strong brand equity and established business relationships.
