

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 2019.

Business Environment

Omani economy registered marginal growth in 2019 compared to the previous year with the help of growing contribution of non-oil and gas sector including implementation of selective tax and one-off revenue increase to the overall economy and the continued spending on various infrastructure, tourism projects and oil & gas sector activities by the Government of Sultanate of Oman, despite the volatile international oil prices and other regional & global economic challenges.

The consumer packaged goods market in Oman remain subdued mainly due to recent adaptation of new excise tax decree on selected products including carbonated drinks and energy drinks coupled with operational environment posed several challenges such as affordability of soft drinks and energy drinks along with the increasing stiff competition in - Juice and Snacks product segments in a highly price sensitive local market. On the other hand, stagnant consumer prices at multiple customer channels have added to the existing challenges of the business environment. Also, the operating margins were severely tested by the growing pressures of flat gross margins, revised fees and charges, labour market and wages bill.

Financial Highlights

The company has achieved a net profit after tax of RO 8,456,046 on a total turnover of RO 63,765,515 for the year 2019 compared to net profit after tax of RO 11,809,188 on a turnover of RO 76,024,055 in 2018. The overall revenue has decreased by 16.1% namely on account of excise tax implemented in the month of June of the year. The management in partnership with the principal (Pepsi co) has implemented new packs in the market aiming at reducing the price impact on the consumers and has been continuously improving efficiencies out of various cost control & costs optimisation measures, despite the challenges of increased prices of certain key input materials compared to previous year, rising costs of employment & staff turnover due to the prevailing job market conditions, which have contributed to sustaining certain level of bottom line.

The Gross Profit margins (GM) and Profit After Tax marginally declined from 41.5% in 2018 to 40.1% during 2019 and from 15.5% in 2018 to 13.3% in 2019 Respectively.

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 2019, the company has partnered with different CSR initiatives such as Beach cleaning event, support on Oman Science Festival through Ministry of Education (MOE), partnership and active contribution with Oman Football Association, support for events in Sultan Qaboos University (SQU) among others. The company has further committed to support the education and youth development initiatives of various ministries of the Government of sultanate of Oman.

Oman Refreshment Company (SAOG)

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شركة عُمان للمرطبات (ش.م.ع.ع)

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س.ت رقم ١٠٥٤٤٠٦ - السجل الصناعي رقم ٦٧٩



Internal Control System

The Board has regularly 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.

Based on company performance during 2019, and after reviewing the company's liquidity requirements, future earnings and shareholders interest, the Board is pleased to recommend a cash dividend of 50 Baizas for each share for the year 2019.

Future Outlook

As part of improving business productivity and operational efficiencies, the company shall continue to invest suitably in operational capabilities & facilities to meet the diversified consumer preferences, upgrading & modifying 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 sustain & profitably maintain its market share. The company is optimistic about the future prospects with the product expansion & diversification plans in the pipeline and continued focus on achieving improved operational efficiencies. However, the volatile prices of key input raw materials, packing materials, unstable job market & rising wage bill and stagnant consumer prices, besides growing fees & charges for various public services, proposed reduction in/removal of subsidies for certain utilities and recent adoption of new excise tax decree on selected products and other changing regulations may severely 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. Further, the Company is also watchful of the ongoing changes in the regional economic conditions due to volatile international oil prices which may also impact its business performance and consequently its investment strategies.

Nurturing Omani talent & Omanisation of workforce

Implementation of the new organization structure, policies and procedures, revision to the pay structure benchmarked to the leading industry practices that was aimed at attracting and retaining the best local talent, is already delivering the desired results in terms of attracting best available local talent, staff retention and moderate staff turnover. Though, these measures continue to have significant financial impact, the Board believes that 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 Sultanate of Oman strategic vision to nurture Omani talent in the private sector. The company's HR strategy focusses on recruitment of right staff & their continuous development, through on the job training and by providing focused learning opportunities commensurate with the responsibilities to enable them assume higher responsibilities in the organization. The Company consistently maintained its staff Omanisation target above the prescribed requirement.

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Appreciation

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

Further, on behalf of the Board of Directors & the management, I extend our profound grief on sad demise of His Majesty Late Sultan Qaboos bin Said. I look forward to His Majesty Sultan Haitham bin Tariq bin Taimour Al Said 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



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