

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 2020.

Business Environment

Omani economy has been significantly impacted in 2020 by COVID-19 global pandemic situation compared to the previous year, this has been coupled the volatile international oil prices and other regional & global economic challenges.

The consumer-packaged goods market in Oman remains subdued mainly due to recent adaptation of new excise tax decree on all sugary products related drinks coupled with operational environment posed several challenges such as affordability of all type of drinks along with the increasing stiff competition Snacks product segment 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 8,585,198 on a total turnover of RO 63,962,261 for the year 2020 compared to net profit after tax of RO 8,456,046 on a turnover of RO 63,765,515 in 2019. The overall revenue has slightly increased by 0.3% despite the overall economical situation. The management, in partnership with the principal (Pepsi co) has introduced new line of products such as Sport Drink (Gatorade) and Lipton Ice Tea (PET), in addition to *No Added Sugar* juice product range, as well as cereals and frozen vegetables. The company continued its efforts 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, due to the prevailing job market conditions..

During the year 2020, the Gross Profit margins (GM) has increased to 42.2% (40.1% in 2019) and Profit After Tax have increased marginally to 13.4% in 2020 (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, company has contributed to various corporate social responsibility activities by an amount totaling 108,000 Omani Rials, out of which 100,000 Omani Rial was contributed to the COVID-19 prevention efforts.

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 2020, 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 2020.

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 sugary products in addition to the new regulations for VAT implementation in April'21 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.

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 take this opportunity to extend our sincere appreciation to His Majesty Sultan Haitham Bin Tariq and his Government for their wise leadership, guidance and direction which continue to motivate and inspire us towards greater participation in the development and service of Oman. We pray to the Almighty Allah to bestow His Majesty with the best of health and bless him with long life to lead the Sultanate of Oman on the path of prosperity.



Buti Obaid Al Mulla
Chairman

