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 produce, fill and distribute PepsiCo range of soft drinks and Aquafina water as well as trading in new edge beverages, Frito Lays range of snacks, Quaker range of Oat products, Eurocake and EDITA bakery products, Froneri ice cream range (Nestle, Mondelez) of products and Dairy and Chilled range (Balade, Barada) of products, Frozen food products (K&Ns) throughout the Sultanate of Oman. Further, it also produces and distributes juices under its own brand name “Topfruit”.

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 & its largest distribution centre in Al-Ansab with 10 depots situated across the country at Falaj Al Sham, Al Wafi, Ibri, Nizwa, Sohar, Salalah, Bukha, Hima, Musannah and Mudheibi that cater to the customers spread across the Sultanate of Oman.

During the year, ORC maintained highest Global standard of food safety for consumer through preventive and treat assessment tool certification including FSSC 22000 V4.1 and ISO 22000:2005 of Food Safety Management Systems (FSMS).

The company has acquired Atlas Bottling Corporation (ABC), bottling operation of Pepsico in Algeria, the largest population country of Africa along with exclusive bottling and distribution right for the market effective September 01, 2021.The company has one manufacturing facility in Algiers along with four manufacturing lines and there are two distribution centres.

The ABC company maintains highest level of quality and have Global standard of food safety for consumer through preventive and treat assessment tool certification including ISO 22000:2018 & ISO 9001:2018, AIB certification and FSMS.

Overall Review

The ORC Parent Company achieved a net profit after tax of RO 4,478,972 on a turnover of RO 69,476,554 during the year 2023 against a net profit after tax of RO 7,778,837 on a turnover of RO 76,863,585 in 2022, registering a decrease in the net profit after tax by 42.4% and decrease in turnover by 9.6%.

At the ORC Group consolidated, the group achieved a net profit after tax of RO 6,317,580 (comprehensive income of RO 6.8m) on a turnover of RO 96,742,923 during the year 2023 against a net profit after tax of RO 7,697,574 (comprehensive income of RO 7.89m) on a turnover of RO 95,004,170 in 2022, registering a decrease in the net profit after tax by 17.9% and increase in turnover by 1.8%.

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

In the year 2023, Oman’s economy continued its journey towards economic stability, predominantly underpinned by the advantageous trajectory of oil prices, coupled with unwavering momentum of strategic reforms. Inflation has been within acceptable levels whereas the current and fiscal accounts have delivered surpluses further endorsing the prudent fiscal policies adopted by the government.

The consumer-packaged goods market in Oman remains subdued mainly due to the earlier imposition of excise tax decree on all sugary products related drinks coupled with the increasing stiff competition especially on Snacks. The business witnessed significant drop in our revenue and profits in the last quarter of the financial year due to prevailing geo-political situation in the middle east. 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 prices of key commodity items like aluminum, sugar, pet resin etc has increased significantly along with the global supply chain blockade resulting increased cost of transportation. In addition to the impact, negative impact from the growing pressures of revised fees and charges, labour market and wages bill.

In addition to the prevailing geo-political situation, the changing dynamics of employment environment in the Sultanate of Oman that include, inter alia, restricted employment of expatriates, shortage of skilled Omani workforce, the absence of a hire & fire ease policy 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. The adoption of excise tax on selected products including carbonated soft drink and energy drinks which are the key revenue driver of the company, have impacted the growth and resulted contracting revenue. The subsidy cancellation on fuel, electricity, and water along with the raise in public charges and direct/indirect taxes are adding pressure on the manufacturing and distribution operation.

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 of packaged goods combined with growing health-conscious consumers offer a promising proposition for the food categories in which ORC operates particularly in the salty & sweet snacks segments and chilled & frozen categories. 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 optimization measures, despite the challenges of increased prices of certain key input materials compared to previous year, due to the prevailing job market conditions.

The company continues to tread carefully in its "business expansion and product diversification" journey to cater to different consumer segments to meet the occasion-based consumption needs and diverse consumer tastes.

Opportunities and threats

The company is a significant player 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 appears to be facing tough competition from dairy products, juices and other beverages. The earlier adoption of excise tax followed by value added tax on full range of sugary products including Juices, other beverages, and snacks etc has strengthen the threat on overall portfolio range of beverage product which are the key revenue driver of the company. With such in regulation and tax regime, the company have introduced new no added sugar juice range to enhance Company's position in Juice beverage market. The change in consumer preference and rise of health consciousness, the company has swiftly expanded its range of "Good for you" and "Better for you" propositions. While the company enjoys leadership position in the CSD market, it faces stiff competition from many players in the water, juice, snacks and ice cream segments. The company expects to widen its consumer base and strengthen its revenue base with the expansion of the food & beverages product portfolio as we continue to work and explore variety of products for our esteemed consumers.

The company operating environment foster performance-based management culture in the Organisation, the Company is continuing to attract, develop & retain the best available local talent and with reasonable staff turnover mainly amongst local employees. On the other hand, the wages bill continued to raise on account of the changing job market dynamics that include minimum salary increments for local workforce, increased overtime costs and impact of extended leave of absence along the authorised public holidays amongst local workforce that is resulting in deployment of temporary local workforce at higher daily wages.

Volatile international prices of commodities, which are key input raw materials to the Company's products, may impact the current and future profitability. The market has witnessed significant price increases in commodity markets during the year. The company is closely monitoring the raw material prices and endeavours to minimize their adverse impact through proactive analysis and decision making. Further, the Company is also watchful of the emerging geo-political situation and ongoing changes in the regional economic, specific to GCC.

On the other hand, stagnant consumer prices at multiple customer channels, raising trade margins pressure 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 consumers and economy.

The Company has well-defined marketing strategy, working in coordination with “PepsiCo” and its other partners, 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 in careful co-ordination with other key principals.

As regards new investments into the business, the Company is in the advanced stages of implementation of an updated and improved Sales Force Automation system (SFA) to improve operational & marketing efficiencies, as part of the objective to have. Further, the Company has also invested in strengthening its production capabilities during the current year to meet the performance & efficiency objectives. The Company invests significantly & regularly on the upkeep of current production lines, warehousing compliant to the Oman regulations, company’s distribution capabilities and marketing equipment, with the focus on improving operational efficiencies as well as increased customer reach.

Further, ORC has been following its established “green initiatives” to efficiently manage 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 is pro-actively carrying out the development of its Omani workforce to enable them to grow in the organization by sponsoring high potential employees to pursue their higher education. 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 reaping the benefits of these measures in staff development & welfare, streamlining the human capital policies and practices in the declining staff turnover.

The Oman Refreshment Company group will focus on the Algerian Investment strategy as a key growth pillar for medium to long term perspective. While in short term perspective, the management has focus to turnaround the new business through better strategy, improved action and investment in productivity.

Financial and operational performance

The economic challenges emerged from earlier excise tax implementation in October 2020, implementation of value added tax in April 2021; ORC group continued its successful performance journey in 2023 with the help of innovative and intensified marketing strategies, and focus to re-gain the declining export business against the stiff market conditions such as the highly price-sensitive consumers, changing consumption habits, highly competitive Juice, Water and Snacks product segments, the group Overall sales revenue has a growth at 1.8%.

On the other hand, the rising operating costs especially the unpredictability in the volatile costs of input materials and employment coupled with the business losses in the last quarter of the year due to prevailing geo-political situations has impacted the net profitability of the business. This has led to have a decline in net profit during 2023 vs 2022 at ORC Group level.

Environmental, Social, and Governance (ESG) Performance

It has been ORC group best endeavour towards the cause of environmental preservations, social and governance, and has achieved that by adopting world best practices within the community and market we operate. ORC parent company has invested and used the best technology and process to save water usages & recycle the used water and reduce plastic usages.

In the same spirit to reduce energy consumption and to offset its carbon dioxide print by generating energy from green sources, the company has completed its project on solar energy to generate 2,460 kWp in its manufacturing location in Muscat. Eventually, it will roll over this project to other company facilities across the country.

Performance of various products

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

Product category	2023	2022	Variance (%)
Carbonated Soft Drinks	14,875	16,508	-9.9%
Water	3,129	2,907	7.6%
Juices	2,949	2,426	21.6%
Other Beverages	301	260	15.8%
Food	2,072	2,204	-6.0%
Chilled and Frozen	378	254	48.8%
ORC domestic	**23,704**	**24,560**	**-3.5%**
Export	1,722	4,441	-61.2%
ORC	**25,426**	**29,000**	**-12.3%**

N.B.: The above is excluding Arabian Vending LLC & Atlas Bottling Corporation sales.

ORC Parent Financial highlights

	2023 RO	2022 RO	2021 RO	2020 RO	2019 RO
Revenue	69,476,554	76,863,585	69,290,408	63,441,144	63,169,098
Gross profit	22,200,000	27,322,217	26,276,327	26,796,019	25,361,421
Profit before taxation	5,267,900	9,149,245	11,324,724	10,246,070	9,927,787
Taxation	(788,928)	(1,370,408)	(1,714,953)	(1,565,153)	(1,465,220)
Net profit after taxation	4,478,972	7,778,837	9,609,771	8,680,917	8,462,567
Cash Dividend *	2,000,000	3,000,000	3,000,000	2,500,000	2,500,000

*Proposed dividend for 2023 is subject to shareholders' approval at the ensuing AGM

ORC Group Consolidated Financial highlights.

	2023 RO	2022 RO	2021 RO	2020 RO	2019 RO
Revenue	96,742,923	95,004,170	73,686,228	63,962,261	63,765,515
Gross profit	29,482,705	30,661,074	26,505,347	26,975,935	25,582,660
Profit before taxation	7,322,763	8,988,730	8,865,291	10,152,901	9,935,665
Taxation	(1,005,183)	(1,291,156)	(1,795,680)	(1,567,703)	(1,479,619)
Net profit after taxation	6,317,580	7,697,574	7,069,611	8,585,198	8,456,046
Comprehensive Income	6,801,037	7,890,026	6,831,948	8,585,198	8,456,046
Cash Dividend *	2,000,000	3,000,000	3,000,000	2,500,000	2,500,000

*Proposed dividend for 2023 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, varying product range and strategies for wider consumer reach. The Algerian venture which has proven to be a successful move will continue to evolve as a strong pillar of our business, promising continued prosperity, and avenues for future growth. 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.

We are cognizant of the prevailing geo-political tensions in the region and its far-reaching implications on our business. These circumstances have tested our resilience and adaptability in these challenging times. It is essential to emphasize our unwavering commitment to navigate these challenging times with strategic foresight and proactive actions. While we are actively exploring alternative markets & products to diversify our portfolio; In parallel, we have intensified our focus on operational efficiency and cost control measures to preserve our financial health. These efforts will ensure that we emerge out from this temporary phase stronger and more resilient to continue to deliver long-term value to our esteemed shareholders.

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