

Chairman's Report 2019



Accommodation unit at Renaissance Village Bahja



Tribute

We mourn the loss of the Father of the Nation, HM Sultan Qaboos bin Said. His legacy and his memory shall live in the hearts of the Omani people forever.

The torch has passed to HM Sultan Haitham bin Tarik and a new era has begun. His Majesty takes over at a time of immense global and regional challenges. In HM Sultan Haitham, we know we have a new leader to guide and deliver this nation on the next stage of its incredible journey. I speak from my heart when I say, each one of us in the Renaissance family pledge our allegiance and unstinting support for his success and the onward progress of Oman. May God bless and protect him for us all.

On behalf of the Board of Directors, I present the audited accounts for Renaissance Services SAOG, for the financial year ending 31 December 2019.

Overview

The successful sale of Topaz to DP World established Renaissance as a single focus business in Services Solutions. This creates a cash-generating powerhouse to fund projects for growth and return value to shareholders every year.

With the proceeds of the Topaz divestment we have de-leveraged the balance sheet, repurchased the company's Perpetual Notes, and de-risked financial obligations. We reduced the company's capital to re-establish the ability to pay shareholder dividends.

We have turned our sole attention to the growth and potential of our Services business:

We are expanding workforce accommodation facilities at Renaissance Village Duqm to meet increased sustainable demand. We are competing for new opportunities for permanent accommodation facilities in the PDO Manazil initiative.

We are creating a funnel of new projects to co-invest with strategic and financial partners, including in opportunities presented by new Public Private Partnership (PPP) legislation.

We have diversified our services solutions to include waste management with a new JV: Renaissance Sager Environmental Solutions LLC.

We are a partner of choice for international companies looking to bring competitive, innovative, technological and green services solutions to this market.

Renaissance is set on a path of profitable growth and value creation.

Financial Performance Consolidated

Continuing Operations	Rial Million		USD Million	
	2019	2018	2019	2018
Revenue	106.7	99.7	277.1	259.0
EBITDA	22.4	19.8	58.2	51.4
Operating profit	13.0	9.2	33.8	23.9
Net profit after tax from continuing operations (before one-off reversal of excess tax provisions in 2018)	7.4	2.8	19.2	7.3
Reversal of excess tax provisions	-	1.7	-	4.4
Net profit after tax from continuing operations	7.4	4.5	19.2	11.7
Profit from discontinued operations (Note 1 and 2)	12.5	6.5	32.5	16.9
Net profit after tax and discontinued operations	19.9	11.0	51.7	28.6
Net profit after minority interest	12.7	6.8	33.0	17.7

Sale of Topaz

On 29 July 2019, shareholders approved a final binding offer from DP World amounting to Rial 415 million (US\$ 1.079 Billion) enterprise value for acquiring 100% shares in its subsidiary Topaz Energy and Marine Limited, Bermuda (Topaz).

In addition to the net proceeds from the sale, Renaissance also received its outstanding shareholder loan of Rials 30.2 Million (US\$ 78.6 Million).

This marked Renaissance's exit from the Offshore Support Vessel (OSV) and Marine Logistics business. Under Renaissance stewardship Topaz grew from a fleet of 12 aged vessels to a market leadership position in its operating segment, with a modern fleet of 110 vessels serving the blue-chip giants of the oil & gas industry.

We have no doubt Topaz shall prosper under the new ownership of DP World with its capital depth and global reach; and we wish them fair winds and calm seas on their journey to greater success.

Perpetual Notes

The company repurchased 100% of its dual currency Step-Up Subordinated Perpetual Notes ('P Notes') of USD 125.5 million (Rial 48.3 million) before the first call date in July 2020. We thank all our P Note investors for their support.

Capital Restructure

Divestment of Topaz realized a capital gain of Rial 6 million at the consolidated level; but recorded a capital loss of Rial 48.5 million at parent company level. This loss is due to accounting policies which require that the parent company's investment in Topaz is carried at cost, which is significantly higher than the carrying value of Topaz at the consolidated level. The Capital Restructure clears these accumulated losses, reducing Share Capital from Rials 36.7 million to Rials 23.6 million. With this change, the company is once again eligible to pay dividends.

Expansion of Renaissance Village Duqm

An expansion project is under way at Renaissance Village Duqm, the employee accommodation facility in the Special Economic Zone at Duqm (SEZAD), to increase the capacity from the current 18,655 beds up to 24,895. This expansion is targeted to be operational in Q2.

The current Rial 19.3million (US\$ 50M) phase of the planned expansion will see capacity increase by up to 6,240 beds, with additional central facilities. Four further expansion phases, adding 12,780 beds, shall follow as demand increases.

Total committed investment of the project to date is Rial 100 million, with a further investment of Rial 30 million (US\$ 78M) anticipated for the four further phases of expansion. Approval for each phase shall be given subject to clarity of visible occupancy.



Central Stores Fleet



Renaissance Village Duqm General View (Entrance)



Renaissance Village Duqm Laundry

Growth potential for Renaissance Villages with PDO Manazil Initiative

PDO, like many other leading companies and institutions, recognize safety, quality sleep, nutritious food, good connections with home, on-site medical services and recreation as key principles and basic needs for worker welfare. Good safe accommodation also provides employment opportunities for women and attracts professional and skilled Omanis to work in remote or harsh environments.

New permanent accommodation is required for over 18,000 people in 12 locations and 3 smaller satellite locations. The tender process shall take up the full year, with award decisions in Q1 of 2021.

The Manazil initiative is 100% aligned with the essence of the Renaissance Village brand, and, while taking nothing for granted in a free and fair competitive field, we expect to be a serious contender in this opportunity.

Meanwhile our existing Permanent Accommodation for Contractors (PAC) achieved 93% occupancy in 2019; and all 5 of our facilities remain an integral part of PDO's long-term accommodation strategy.

Services

Renaissance delivers a modern and relevant range of Services Solutions, in Integrated Facilities Management (IFM), Soft FM, Hard FM and Accommodation Solutions.

The company self-performs the majority of the 'pure services' component of Facilities Management and related Contract Services, such as catering or maintenance. Services provided in client-owned facilities requires minimum investment in plant and equipment. Although competition is fierce in cyclical tendering, Renaissance enjoys success through its contract services subsidiary Tawoos Industrial Services Company (TISCO), or its property maintenance subsidiary ProTek; especially where clients are looking for quality service at efficient and affordable cost.

Where Renaissance is the IFM contractor, this self-perform capability works well for clients, as we do not layer on margins-on-margins through lower-tier outsourcing.

Wherever there is a need to attract international knowledge, skill and experience, we regard ourselves as an ideal local partner. We invest in shared risk and reward, and with our nationwide logistic reach and Omani In-Country Value (ICV) credentials, we de-risk new market entry. As we grow, we continue to seek active partnerships that bring innovation, technology, sustainability and efficiency into the Oman market.

Projects and Strategic Partnerships

Renaissance is well-placed to drive growth through investment in projects that enable the economic diversification and social development of Oman; or enable us to export our expertise in the region.

Our business model is simple: Renaissance develops the project design solution, outsources the construction, and then provides the long-term IFM operations, ensuring standards and efficiency. But we open the investment opportunity in the project property to like-minded co-investors: Sovereign wealth funds, pension funds, private equity, financial institutions, local community investors and others. We select projects based on our ability to add value through our IFM capabilities. This opens up our potential beyond accommodation solutions. We are actively considering diverse projects in aviation, oil & gas, military, education, health and free zones amongst others.

As the government seeks more private sector participation in the economy, encouraging Domestic and Foreign Direct Investment in Public Private Partnerships (PPP), Renaissance has the unique ability to provide end to end services that

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER 2019

	2019 RO '000	2018 RO '000
Non-current assets		
Property, plant and equipment	129,530	636,513
Intangible assets	2,150	29,583
Other non-current asset	-	2,165
	131,680	668,262
Current assets	76,777	120,842
Current liabilities	48,149	163,197
Non-current liabilities		
Term loans	75,199	357,630
Non current payables and advances	10,227	84,145
	85,426	441,775
Net assets	74,882	184,132
Equity		
Share capital	23,641	36,727
Share premium	26,936	26,936
Treasury shares	(6,853)	(6,853)
Retained earnings and other reserves	14,781	(4,789)
	58,505	52,021
Perpetual Notes	-	46,799
Non controlling interest	16,377	85,312
Total equity	74,882	184,132

brings life to construction & infrastructure in an organised and holistic manner. There is now two decades of experience wherein Renaissance has delivered and executed on numerous projects in PDO, in Iraq and Afghanistan for the US military, and now in Duqm. The size and scale over the period exceed 1 Billion \$'s of investment. On every occasion we have been in cost, on time, followed by successful project execution. This track record has materially changed the risk profile to financial institutions and for the first time we invited co-investors into our Duqm project the success of which speaks for itself: The Royal Court Affairs, Ministry of Defence Pension Fund, Bank Muscat and Al Khonji Group.

In mature markets, a company like Renaissance would focus on providing the long-term services, and financial investors such as bond holders and banks would finance the project infrastructure. We have had to go it alone off our own balance sheet as we demonstrate a proven track record to potential stakeholders. There is always an investment limit for a private company and so new project growth has been slow. We believe we are now reaching a tipping point where we have materially increased co-investment demand and potential bond investors interest. This, along with projects through legislation and other initiatives, suggest that project frequency, size and scale will change substantially in 2020 and through this decade. Although counterintuitive, the difficult economic scenarios in Oman and the region augurs well for the Renaissance business model.

Assisted by the Topaz divestment, current liquidity and free cash generation during the year create a capacity to invest Rial 100 million (US\$ 260M) from our own balance sheet, we can now potentially raise multiples of that figure through co-investors. Our annual high cash-generation may be supplemented by unlocking value alongside our co-investors with optimal and regular liquidity initiatives, such as IPOs, to perpetuate the model - Duqm and PDO villages being prime examples that can prove the thesis.

Dividend

The Board is recommending a dividend of 20 bz per share (20% of the paid-up capital) for shareholders' approval at the Annual General Meeting (AGM).

Outlook

We all recognize the economic headwinds facing the country following several years of ongoing oil price volatility. The government's focus on economic diversification and social development is the right policy to tackle these challenges for the long term. That is why initiatives such as those we see at Duqm, Khazaaen, Salalah, Sohar and others, are so important.

Renaissance delivers a modern and relevant range of Services Solutions, that is unique in this market. It is a complete service platform that is a rapidly growing business in these times of economic constraint. Economic reform will always mean increased business for Renaissance.

We believe the opportunities arising in decent workforce accommodation at affordable cost, along with numerous other opportunities, including those afforded by the new PPP legislation, place Renaissance in a prime position to provide solutions that contribute to the national programme, deliver outstanding outcomes for our clients and customers, and drive value and reward for our shareholders.

Now, more than ever, this is the time to invest in Oman.



Samir J. Fancy
Chairman

AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31st DECEMBER 2019

	2019 RO '000	2018 RO '000
Continuing Operations		
Revenue	106,705	99,672
Operating expenses	(84,340)	(79,864)
Depreciation and amortisation	(9,321)	(10,608)
Profit from operations	13,044	9,200
Net finance costs	(5,544)	(5,981)
Profit before tax	7,500	3,219
Tax	(94)	1,331
Profit for the year from continuing operations	7,406	4,550
Discontinued Operations		
Profit for the year from discontinued operation	12,501	6,473
Profit for the year	19,907	11,023
Net profit attributable to		
Shareholders' of the Parent Company	12,709	6,806
Non controlling interest	7,198	4,217
	19,907	11,023

Notes:-

- Renaissance had concluded the divestment of its major subsidiary Topaz Energy and Marine Limited on 18 September 2019 for an enterprise value of Rial 415 million. Profit from discontinued operations for the year ended 31st December 2019 represents the net result of divestment (including profit for the period) of Topaz till the date of divestment.
- Profit from discontinued operations for the year 2018 includes net profit of Topaz Rial 5.6 million and net profit of Renaissance Norway operation Rial 0.9 million. Renaissance Norway operation was divested in Q4 2018.
- Tax for the year 2018 includes reversal of excess tax provisions of Rial 1.7 million.
- These audited financial results are subject to approval by the Shareholders at the Annual General Meeting proposed to be held on 30th March 2020.
- The audited financial statements are available on Muscat Securities Market website and the Company's website.