النهضة
Renaissance

Chairman's Report 2017

OVERVIEW

On behalf of the Board of Directors, I present the audited accounts for Renaissance Services SAOG, for the financial period ending 31 December 2017.

Whilst maintaining our dual operations of global offshore support vessels (OSV) in TOPAZ; and integrated facilities management in RENAISSANCE; the sharp decline in oil price of mid-2014 led to three consecutive years of unprecedented challenge and performance pressure on our company. The negative effect has impacted across the entire oil industry; with the OSV sector amongst the worst affected.

Against this back-drop, we advised our stakeholders to expect further performance and potential further impairment pressure in 2017. At the same time, we outlined our strategies for steering safely through 2017 and ensuring the security of the company's future:

Generating positive cash-flow and conserving cash to ensure the continuing financial stability of the business and the ability to meet all our financial obligations

Sustaining the strength of our relationships with all stakeholders, notably investors and the financial community

Ensuring the successful mobilisation and build-up of our two current major growth projects: The Tengizchevoil (TCO) project in TOPAZ; and the Renaissance Village Duqm project in our RENAISSANCE services and facilities management business

All this has come to pass in navigating the company safely through the minefield of industry and market challenges of 2017.

This now provides us with a platform for to start re-building the recent years lost value in 2018 and delivering sustainable value and new growth in the years ahead.

FINANCIAL PERFORMANCE

	Rial Million		USD Million	
	2017	2016	**2017**	2016
Continuing Operations (before one-off charges)				
Revenue	**194.6**	206.5	**505.5**	536.4
EBITDA	**60.0**	70.3	**155.8**	182.6
Operating profit	**24.9**	36.1	**64.7**	93.8
Net loss after tax from continuing operations (before one-off charges)	**(10.7)**	(0.5)	**(27.8)**	(1.3)
One-Off charges	**(36.0)**	(37.5)	**(93.5)**	(97.4)
Net loss after tax from continuing operations	**(46.7)**	(38.0)	**(121.3)**	(98.7)
Discontinued operations				
Loss from discontinued operations	**(0.1)**	(1.2)	**(0.3)**	(3.1)
Net loss after tax for the year	**(46.8)**	(39.2)	**(121.6)**	(101.8)
Net loss for the year after minority interest	**(44.5)**	(42.1)	**(115.6)**	(109.4)

The major negative impact on performance comes from one-off items of Rials 36 million (USD 93.5million); of which the largest impacts are non-cash impairment of vessels in the Topaz fleet (Rials 24.2 million) and refinancing costs for the Topaz bond (Rials 7.3 million)

IMPAIRMENT

As we have explained in previous years, the oil price crisis has wiped billions of dollars in value off the global OSV fleet; About a third of the global fleet is laid up and much of this tonnage will never return to the industry. Topaz is not in that situation, but for the third year running we had to make a material impairment. Following a one-off charge of Rials 27.3 million (USD 70.9 million) in 2015; a one-off charge of Rials 36.5 million (USD 94.8 million) in 2016; we have made a third one-off charge of Rials 24.2 million (USD 62.9 million) in 2017. While we recognise the loss of value, impairment is not a cash loss and EBITDA achievement of Rials 60 million (USD 156 million) has generated sufficient cash-flows for the Group to meet all financial and operational commitments.

Any further impairment depends on actual fleet valuation and current revenue generation capacity for each vessel at the end of each year. So, whilst we can never rule out the need for any further impairment, we believe that improving market conditions in 2018 will constructively effect future fleet valuation.

RE-FINANCING OF NEW SENIOR NOTES

In July 2017, in spite of volatile market conditions, Topaz successfully completed the issue of new bonds of USD 375 million, maturing in 2022. The proceeds were used to redeem Topaz's previous bonds and to pay the fees of the transaction.

The positive reception from investors in international markets is testament to the robust Topaz business model and long-term growth strategy. The one-off costs for the re-issue of the Senior Notes is Rials 7.3 million (USD 19.0 million). This refinancing further strengthens Topaz's long-term, sustainable capital structure.

In connection with the issue of the new bond, Topaz had its credit rating re-affirmed by both Standard & Poors and Moody's – quite an achievement in the current market, where most companies in the sector are being notched significantly downwards.

The success of the re-issue justified the opinions of our independent advisor and the Investment Banks; who advised that was the optimum time to go to the market.

RENAISSANCE LIQUIDITY

We have continued to enjoy the support of our Bankers in Oman. The company has pre-paid borrowings even in these challenging times. Banks have appreciated the company's proactive cash-flow management.

TOPAZ
ENERGY AND MARINE

The global Offshore Support Vessel (OSV) Company

TOPAZ (Before One-Offs)

	Rial Million		USD Million	
	2017	2016	**2017**	2016
Revenue	**94.2**	108.7	**244.8**	282.3
Operating profit	**18.4**	27.2	**47.8**	70.6
Net loss after tax	**(10.2)**	(2.8)	**(26.5)**	(7.3)
Net loss after minority interest	**(14.3)**	(11.4)	**(37.2)**	(29.7)

The underlying strengths of our OSV subsidiary Topaz that has steered us through this period, with best-in-industry performance, in spite of the negative impact of asset impairment across the global OSV fleet; from which the Topaz fleet is naturally not immune.

Topaz's market outlook is more positive going into 2018, when comparing with 2017, although difficult industry conditions are expected to endure during 2018 for the core fleet. We do, however, anticipate a positive trend in the utilization of vessels and a further improvement in our ability to build contract cover. We have re-activated seven vessels from warm layup during 2017, conserving and building on Topaz's industry-leading backlog of USD1.5 billion.

During the year, Topaz secured a number of contract awards in all its markets with the bulk of the awards coming from the Caspian – where the Company holds a market leading position - notably in Turkmenistan with a USD 100 million contract awarded by Dragon Oil.

The USD 550 million Tengizchevoil project (TCO) in Kazakhstan is progressing well with Topaz's scope ahead of schedule. Two vessels have commenced operations earlier than plan. The overall construction of the module carrying vessels (MCVs) continues with remaining deliveries scheduled in the first half of 2018. The full benefit of the TCO contract should be seen from the second half of 2018 and should positively impact Company performance for the year. The TCO contract is just one example of Topaz's successful strategy to develop innovative solutions for clients that ensure market-beating, safer, faster, cheaper performance.

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Our Services Business: Integrated Facilities Management (IFM); Soft FM; Hard FM; and Turnkey Accommodation Solutions under the Renaissance Village brand.

RENAISSANCE (Before One-Offs)

	Rial Million		USD Million	
	2017	2016	**2017**	2016
Revenue	**100.4**	97.8	**260.7**	254.0
Operating profit	**6.5**	9.1	**16.9**	23.6
* Net profit after tax	**2.8**	6.0	**7.4**	15.6
Net profit after minority interest	**4.6**	6.1	**12.0**	15.8

** Net profit after tax for 2017 is after Rial 3.5 million loss in Renaissance Village Duqm (2016 loss: Rial 0.1 million)*

Our services business has maintained top line in 2017. However, bottom line is impacted by the Rials 3.5 million (USD 9.1 million) loss in the first 11-months operation of our flagship project Renaissance Village Duqm. There is also a one-off impairment of goodwill of Rials 0.9 million (USD 2.4 million) in our UAE investment.

Performance in our Renaissance Villages in the PDO oilfields has been positive and stable, with average occupancy for the year of 87%. Occupancy in the Renaissance Village Duqm is key to success and growth this year. In 2017 (Feb-Dec) occupancy averaged 11%. At the start of 2018 we have reached 20%. P&L break-even is 47%. The start-up of the Duqm Refinery EPC contracts and sub-contracts are crucial to our forecasts, which currently estimate average occupancy for 2018 at 53%; and > 90% in 2019 and 2020.

Whilst the company's strategy is to diversify the range of its services, sectors and geography and balance our exposure to the oil & gas industry, which remains the dominant activity in our portfolio. So, Renaissance has also not been immune to the oil price crisis and the significant increase in cost of doing business in our dominant home market of Oman.

We have achieved modest success in our diversification programmes, with entry into services in the utility sector and strengthening our Hard FM capabilities. While Renaissance Village Duqm shall be the primary engine for growth in this year, we also anticipate improved performance in UAE and some new contract and diversification breakthroughs.

OUTLOOK

The company has weathered three very difficult years and we have come through 2017 achieving our stated priority to ensure the company remains financially secure. Market conditions remain tough as we enter 2018, but we envisage ever-improving performance quarter on quarter, ensuring we return to our profitable ways. We see 2018 as the year in which the Group stabilizes. Growth shall be fueled by success in the TCO contract for TOPAZ and anticipated occupancy build-up in Renaissance Village Duqm for RENAISSANCE.

In these past 3 years as the offshore industry convulsed through unpredictable and unprecedented stress, TOPAZ turned down a variety of M&A approaches in the face of a falling market with no visibility of the turning point. The company stayed with its policy to avoid importing any further risk and instead focused on cost, efficiency, backlog build up, cash, and strengthening its management team. Today as the market turns, the company is eyeing the landscape from a position of relative strength to its peers to seek the best value accretion opportunities for its shareholders.

Our ambitions for the RENAISSANCE services business are also centered on a significant breakthrough from the flat performance with no net growth through the oil price crisis period.

Most market commentators predict a more stable period in oil price. What is important for our businesses is that both have adapted to a lower long-term oil price environment. Both should be more resilient to future negative fluctuations in oil price. Both offer solutions to major IOC, NOC and other non-oil clients that enable achievement of higher standards at lower costs.

TRIBUTE

On behalf of the board of directors, I would like to express our sincere gratitude to His Majesty Sultan Qaboos bin Said for his leadership and support to create a business environment that enables our company to thrive and prosper in our home market, and compete with the very best in markets abroad.

Samir. J Fancy
Chairman

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS ON 31 DECEMBER 2017

	2017 **RO '000**	2016 RO '000
Non-current assets		
Property, plant and equipment	**612,020**	602,440
Intangible assets	**30,868**	35,185
Other non-current assets	**4,990**	5,405
	647,878	643,030
Current assets	**134,620**	113,371
Current liabilities	**114,819**	97,150
Equity settled mandatory convertible bonds - current portion	**-**	11,994
Advance from a customer*	**19,139**	-
Net current assets	**662**	4,226
Non-current liabilities		
Term loans	**366,564**	355,548
Non current payables and advances	**19,399**	26,121
Advance from a customer*	**79,735**	43,097
	465,698	424,766
Net assets	**182,842**	222,491
Equity		
Share capital	**36,727**	29,878
Share premium	**26,936**	22,302
Treasury shares	**(6,853)**	(5,163)
Retained earnings and reserves	**(7,731)**	37,954
	49,079	84,971
Perpetual Notes	**46,799**	46,799
Non controlling interest	**86,964**	90,721
Total equity	**182,842**	222,491

* A subsidiary of Renaissance Services SAOG, Topaz received premobilisation funding of Rial 98.9 million from a customer, Tengizchevroil (TCO) towards the Offshore Marine Module Transport Contract. Premobilisation funds have been used to fund capital expenditure for building vessels for the contract. This advance will be adjusted from the amount to be billed to the customer for provision of transportation services. An advance of RO 19.1 million (2016: Nil) is expected to be adjusted within one year and accordingly classified under current liabilities. The remaining balance of RO 79.8 million (2016: Rial 43.1 million) is classified under non-current liabilities.

AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 **RO '000**	2016 RO '000
Continuing Operations		
Revenue	**194,624**	206,468
Operating expenses	**(135,296)**	(136,458)
Depreciation	**(34,462)**	(33,940)
Profit from operations	**24,866**	36,070
Net finance costs	**(28,467)**	(28,075)
Refinancing costs of Senior Notes	**(7,333)**	-
Fair value change in derivative liability	**(563)**	(1,023)
Impairment of vessels	**(25,077)**	(38,308)
Impairment of goodwill	**(3,931)**	-
Loss before tax	**(40,505)**	(31,336)
Taxation	**(6,250)**	(6,661)
Loss for the year from continuing operations	**(46,755)**	(37,997)
Discontinued Operations		
Loss for the year from discontinued operation	**(81)**	(1,217)
Loss for the year	**(46,836)**	(39,214)
Net profit/(loss) attributable to:-		
Shareholders' of the Parent Company	**(44,485)**	(42,073)
Non controlling interest	**(2,351)**	2,859
	(46,836)	(39,214)

Note:
1) These audited financial results are subject to approval by Shareholders at the Annual General Meeting proposed to be held on 28th March 2018
2) The audited financial statements are available on Muscat Securities Market website and the company's website.

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