Renaissance

# Chairman's Report 2016

## OVERVIEW

On behalf of the Board of Directors, I present the audited accounts for Renaissance Services SAOG, for the financial period ending 31 December 2016.

I want to focus on four subjects:

**Impairment:** The impact of impairment on our 2015 and 2016 results.

**Stability:** The underlying financial strength of the business to steer the company safely through 2017 meeting all our financial obligations.

**Relationships:** The sustaining strength of our relationships with all stakeholders.

**Future:** The company's USD 1.6 billion contract backlog and two major projects driving growth with positive impact from 2018.

This will explain the losses of 2015 and 2016. It will describe the prudent path we are taking through 2017; and it will confirm the prospect of why we look forward to a positive future.

## FINANCIAL PERFORMANCE

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **Continuing Operations (before one-off charges)** | | | | |
| Revenue | **206.5** | 237.0 | **536.4** | 615.6 |
| EBITDA | **70.3** | 81.5 | **182.6** | 211.7 |
| Operating profit | **36.1** | 49.4 | **93.8** | 128.3 |
| **Net Profit/(loss) after tax from continuing operations (before one-off charges)** | **(0.5)** | 11.3 | **(1.3)** | 29.4 |
| One-Off charges *(Note 1)* | **(37.5)** | (35.2) | **(97.4)** | (91.4) |
| **Net loss after tax from continuing operations** | **(38.0)** | (23.9) | **(98.7)** | (62.1) |
| **Discontinued operations** | | | | |
| Loss from discontinued operations *(Note 2)* | **(1.2)** | (6.1) | **(3.1)** | (15.8) |
| **Net loss after tax for the year** | **(39.2)** | (30.0) | **(101.8)** | (77.9) |
| **Net loss for the year after minority interest** | **(42.1)** | (34.8) | **(109.4)** | (90.4) |

**Note 1 – Details of one-off charges are as follows:**

The following one-off charges for 2016 relate to Topaz.

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Provision for impairment of vessels (net of tax adjustment) | **(36.5)** | (27.3) | **(94.8)** | (70.9) |
| Increase in derivative liability | **(1.0)** | (4.7) | **(2.6)** | (12.2) |
| Unamortised arrangement fees write-off | **-** | (3.2) | **-** | (8.3) |
| **Total** | **(37.5)** | (35.2) | **(97.4)** | (91.4) |

**Note 2 - Loss from discontinued / discontinuing operations is as follows:**

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Marine Engineering Division | **(1.0)** | (3.2) | **(2.6)** | (8.3) |
| RS Angola | **-** | (2.9) | **-** | (7.5) |
| National Hospitality Institute | **(0.2)** | - | **(0.5)** | - |
| **Total** | **(1.2)** | (6.1) | **(3.1)** | (15.8) |

TOPAZ ENERGY AND MARINE

*The global Offshore Support Vessel (OSV) Company*

### TOPAZ (BEFORE ONE-OFFS)

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Revenue | **108.7** | 139.5 | **282.3** | 362.3 |
| Operating profit | **27.2** | 39.9 | **70.6** | 103.6 |
| Net profit/(loss) after tax | **(2.8)** | 8.0 | **(7.3)** | 20.8 |
| Net loss after minority interest | **(11.4)** | (0.6) | **(29.7)** | (1.6) |

Topaz is directly exposed to the ongoing oil price crisis that has adversely affected the entire OSV industry. But the company is sustained by long-term stable contracts, which have been further extended; and has won major new contracts that ensure a significant upturn in performance from 2018.

النهضة Renaissance

*Our Services Business: Integrated Facilities Management (IFM); Soft FM; Hard FM; and Accommodation Solutions.*

### RENAISSANCE

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Revenue | **97.8** | 97.6 | **254.0** | 253.5 |
| Operating profit | **9.1** | 9.4 | **23.6** | 24.4 |
| Net profit after tax | **6.0** | 5.4 | **15.6** | 14.0 |
| Net profit after minority interest | **6.1** | 5.4 | **15.8** | 14.0 |

Our services business has maintained top line and improved bottom line. The company's strategy is to diversify the range of its services, sectors and geography. While this reduces exposure to the oil & gas industry, the sector remains the dominant player in our portfolio. So this business is also not immune to the oil price crisis and the significant increase in recent years of cost of doing business in our dominant home market of Oman. The company is focused on growth and efficiency to mitigate and out-pace further cost impacts to come.

## IMPAIRMENT

Oil, like all commodities, is cyclical. Any boom or bust cycle in oil price directly impacts the offshore support vessel (OSV) industry. The current oil price crisis that started with steep decline in 2014 has stabilised in recent weeks following production cutback agreement between OPEC and non-OPEC producers. While a current oil price above USD 50 offers some respite, it cannot change the negative impact on OSV fleet owners and operators over the last two years. While Topaz has fared better than its peers, it has not been immune.

The global OSV fleet numbers about 3,500 vessels, and today about 1,300 of those vessels are laid up and out of work. This is because oil and gas producers have cut back sharply on capex for exploration and construction, while the industry adjusts to a new price range per barrel. Topaz has a fleet of 100 vessels, and today 11 of those are out of work, while many others are competing for short-term contracts in a very difficult spot market. While this is better than the OSV industry as a whole, it nevertheless has a direct negative impact on revenue and profit.

Topaz is able to mitigate the impact due to its largely young fleet, focused primarily in longer-term contracts in the production cycle of the oil industry. But vessels on shorter-term contracts and under-utilised assets are affected.

The crisis has wiped billions of dollars in value of the global OSV fleet; and some of the older tonnage may never return to the industry. Topaz is not in that situation, but for the second 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, we have taken a further one-off charge of Rials 36.5 million (USD 94.8 million) in 2016.

While we do not take these charges lightly, we draw some solace from being in a far better position than most industry peers. While the loss of value hurts, it is not a cash loss and Topaz EBITDA achievement of USD 145 million underwrites the strength and allows the company to meet all of its financial commitments throughout the prolonged crisis.

This particular bust cycle in oil price has had unprecedented negative impact on the industry – more so than even past price cycles. This is because when the oil price ranged from USD 100-147 a barrel, the industry embarked on major expansion and development of previously uneconomic oilfields. Readjustment has been painful.

We expect 2017 to be another challenging year. As oil price stabilises, we expect vessel utilisation to improve paving the way for improvement in rates. So while we feel further major impairment in 2017 unlikely, we cannot rule out any impact at this stage. But we have reason for cautious optimism while markets reprice oil for the future. The underlying reality is that oil supplies shall have to meet increasing demand at the right price over the years ahead.

## STABILITY

The company has been sustained throughout this crisis by a solid foundation of stability: A strong balance sheet; sustainable healthy cash flows; long-term financing arrangements matched with our long-term asset profile; Rials 30 million cash in the balance sheet; fully funded capex programmes; and well managed low counter-party risk.

Central to this financial stability has been the actions taken in anticipation of strong headwinds arising from declining oil prices. The company has in place long-term financial arrangements aligned with our cash flows, our requirements and our obligations. This includes long-term facilities at competitive rates.

All our capex obligations are fully funded, either through equity and loans in place, or through inherent contract terms. This includes the entire capex requirement as we invest for growth in the TCO Project for Topaz and the Renaissance Village Duqm.

While getting paid is a rising concern in the market place, we have been able to sustain the collection of our receivables through the quality and stability of our client-base.

During the year, the company has successfully concluded its negotiations with Standard Chartered Private Equity regarding 9.8% shares held by them in Topaz. The new structure reduces the guaranteed IRR from existing 12% to 8% and extends the deadline within which the liquidity event may occur from 3 to 5/6 years, in return for granting an additional 3.7% equity position in Topaz. This outcome reflects the solid partnership and collaboration between the shareholders allowing the group to tide over the business cycle and protect value in the company.

## RELATIONSHIPS

The company is also sustained by the strength of its relationships with all key stakeholders: our clients and customers; our shareholders and bondholders; our bankers and other financial institutions; our professional advisors – legal, auditing, commercial, industry; government, official agencies and institutions; suppliers and service providers; the communities in which we serve; and, of course, our own people.

Our relationships remain as strong as ever, because all of these people recognise and understand the value of our company and our two principal businesses. They understand the temporary nature of the industry crisis; they recognise the stability and strength with which we are meeting all our contractual, legal and financial obligations; and they see the same bright future that lies ahead.

On behalf of the Board of Directors I would like to record our appreciation for all these relationships and their confidence and belief in our company.

## FUTURE

We have been sailing under dark skies for these last two years; but we have always had a clear eye on a bright future. This is not based on unfounded optimism; but rather on the relevance and potential of the businesses and markets in which we operate – backed up by a contract backlog of USD 1.6 billion. We also have two major flagship projects in place where the full benefits shall start to flow in 2018.

As reported earlier this year, Topaz has secured a contract to supply and operate vessels for the Tengizchevroil (TCO) project. The total TCO contract is worth in excess of USD 550 million to Topaz over a minimum contract period of three years commencing in Q2 2018.

This important contract win has opened many opportunities for Topaz with formidable customers such as Chevron and ExxonMobil, and has opened up strategic paths for achieving the company strategy of a more diversified marine platform over the longer term.

Further opportunity lurks as this highly fragmented industry consolidates. The Topaz OSV fleet is poised to be one of the strongest out of this crisis: modern, relevant, efficient, fit and ready to serve its clients. Where relevant to our strategy the right opportunities will be thoughtfully considered. Value abounds, but risk mitigation has to be the key to any inorganic action in this very difficult environment. The company remains vigilant to opportunity within these parameters.

On 1 February 2017 we and our partners opened the first phase of the Renaissance Village Duqm. The 16,000-bed facility for accommodating workforces in the SEZAD, shall be fully open in April 2017. Of course, during 2017 we expect a slower and gradual occupancy build-up. Whereas in 2018 we anticipate high occupancy as major Duqm projects get underway. Like the PAC Projects in Oman's oilfields, Renaissance Village Duqm is a world-class facility that allows SEZAD, Duqm and Oman to show the world how to look after workforces at high standards, but affordable competitive rates through the economies of scale. Renaissance Village facilities already generate sustainable annual revenues > USD 75 million, and as Duqm occupancy grows into 2018, we can expect the brand to at least double that.

## MR. YESHWANT C. DESAI

Mr. Yeshwant C. Desai has advised that he will retire at the end of his current term and will not offer himself for re-election at the Annual General Meeting (AGM).

He has been a Director of the Board of Renaissance since 2001 and is currently the Chairman of the Audit & Internal Controls Committee. He has also served as the Chairman of the Compensation Committee in the past.

On behalf of the Board and Management, I express our deepest appreciation for the exceptional efforts Mr. Desai extended to the company over the past 16 years, guiding the group's growth and mentoring its Board with his wisdom and experience.

## OUTLOOK

Of course, there shall be more challenging times in 2017 and it will be another difficult year. There is always a time lag between improving oil price and new investment in the industry. So we remain in our stable and resilient mode for this year. However we are already thinking and acting ahead of the curve of current reality. Our secured growth contracts and projects provide us a future to look forward to in 2018 and beyond.

## 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 2016

| | **2016 Rial '000** | 2015 Rial '000 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | **602,440** | 571,156 |
| Intangible assets | **35,185** | 32,828 |
| Other non-current assets | **5,405** | 4,447 |
| | **643,030** | 608,431 |
| **Current assets** | **113,371** | 111,779 |
| **Current liabilities** | **97,150** | 90,741 |
| Equity settled mandatory convertible bonds - current portion | **11,994** | 575 |
| **Net current assets** | **4,227** | 20,463 |
| **Non-current liabilities** | | |
| Term loans | **355,548** | 325,978 |
| Equity settled mandatory convertible bonds | **-** | 21,016 |
| Non-current payables and advances | **69,218** | 24,755 |
| | **424,766** | 371,749 |
| **Net assets** | **222,491** | 257,145 |
| **Equity** | | |
| Share capital | **29,878** | 29,065 |
| Share premium | **22,302** | 21,045 |
| Treasury shares | **(5,163)** | (3,445) |
| Retained earnings and reserves | **37,954** | 84,135 |
| | **84,971** | 130,800 |
| Perpetual Notes | **46,799** | 46,799 |
| Non-controlling interest | **90,721** | 79,546 |
| **Total equity** | **222,491** | 257,145 |

## AUDITED CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

| | **2016 Rial '000** | 2015 Rial '000 |
|---|---|---|
| **Continuing Operations** | | |
| **Revenue** | **206,468** | 237,011 |
| Operating expenses | **(136,458)** | (155,587) |
| Depreciation | **(33,940)** | (32,056) |
| **Profit from operations** | **36,070** | 49,368 |
| Net finance costs | **(28,075)** | (30,833) |
| Impairment of vessels | **(38,308)** | (27,308) |
| Fair value change in derivative liability | **(1,023)** | (4,707) |
| **Profit/(loss) before income tax** | **(31,336)** | (13,480) |
| Income tax | **(6,661)** | (10,439) |
| **Profit/(loss) for the year from continuing operations** | **(37,997)** | (23,919) |
| **Discontinued Operations** | | |
| Profit/(loss) for the year from discontinued operation | **(1,217)** | (6,108) |
| **Net profit/(loss) for the year** | **(39,214)** | (30,027) |
| **Net profit/(loss) attributable to:-** | | |
| Shareholders of the Parent Company | **(42,073)** | (34,833) |
| Non-controlling interest | **2,859** | 4,806 |
| | **(39,214)** | (30,027) |

**Note:**
1) These audited financial results are subject to approval by Shareholders at the Annual General Meeting proposed to be held on 30 March 2017.
2) The audited financial statements will be submitted to the Muscat Securities Market and will also be provided on the company's website, two weeks prior to the date of the Annual General Meeting.

**Renaissance Services SAOG**
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