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Renaissance Services SAOG

Chairman's Statement Q3 2014

On behalf of the Board of Directors, I present the unaudited accounts for Renaissance Services SAOG for the nine-month period ending 30 September 2014.

Progress on all fronts this year shows that our *One Group – Two Companies* strategy is working. We are confident this strategy shall deliver exceptional shareholder value. Our one group – Renaissance Services SAOG, is focused on two core businesses: Topaz – a global OSV (Offshore Support Vessel) shipping company; and Contract Services Group (CSG) – an international IFM (Integrated Facilities Management) company.

These two companies are independent in governance, management and reporting structures. Investors and other stakeholders have a transparent view and understanding of each enterprise in its own right, and each company is managed, measured and understood in the context of its industry and peer group. It is our ultimate intention to separate the two businesses in a manner that delivers maximum reward and value to Renaissance shareholders.

Financial performance

	Rial Million		**USD Million**	
	Q3 2014	**Q3 2013**	**Q3 2014**	**Q3 2013**
Continuing Operations				
Revenue	182.2	181.4	473.2	471.2
EBITDA	65.1	56.3	169.1	146.2
Operating profit	43.8	35.9	113.8	93.2
Net Profit after tax from continuing operations	**15.4**	**13.7**	**40.0**	**35.6**
Discontinued operations				
Profit/(Loss) from discontinued operations	1.7	3.5	4.4	9.1
Net profit	**17.1**	**17.2**	**44.4**	**44.7**

Note:
1. *Q3 2014 is after one-off receivable provision of RO 1 million. Q3 2013 EBITDA and Operating profit include one-off receivables provision of Rial 4.3 million and net gain of Rial 0.6 million from sale of vessels. Q3 2013 EBITDA is also after gain on other investments of Rial 0.7 million.*

Strong Operating Profit growth of 22% illustrates improving operating performance and the positive impact of investments made in 2013. Further investments of Rials 88 million have been made in the 9-months of this year: Rials 76 million is for new vessels and vessel capability upgrades in Topaz, which shall have positive impact in 2015; and Rials 12 million is for Permanent Accommodation for Contractors (PAC) development at Duqm and expansion at Qarn Alam in Contract Services, which shall have positive impact from mid-2016.

However, because overall net profit is flat, this needs to be understood in the context of the important corporate actions that have been taken to strengthen the capital structure of Topaz.

Topaz

	Rial Million		USD Million	
	Q3 2014	Q3 2013	Q3 2014	Q3 2013
Revenue	111.2	110.0	288.8	285.7
Operating profit	37.5	30.8	97.4	80.0

Note:-
Q3 2013 Revenue includes Rial 2.5 million and Operating profit includes net gain of Rial 0.6 million from sale of vessels. Q3 2013 Operating profit is also after one-off receivables provision of Rial 1.2 million (Q3 2014 Rial 1 million).

The Topaz Strategy is working. The most important factor for success in the OSV industry is a strong capital and debt structure that is built to create sustainable value. This is exactly what Topaz has put in place. To appreciate this, allow me to revisit all the major initiatives we have taken, and what they mean for future shareholder value.

In Q4 2013, Topaz issued a $350 million non-amortizing 5 year bond. The non-amortized nature of the bond frees up significant cash surplus availability in Topaz for new growth investments. Such bonds typically have a higher cost compared with conventional debt but do not require annual principal repayments. The resulting surplus cashflow, once deployed, will add materially to revenue, EBITDA, operating and net profit, and the results far outstrip the additional coupon cost of the bond over its tenure. The improvement becomes remarkably visible from the third year onwards and this explains the lack of movement between the higher operating profit and the muted PAT in this initial year. Other important benefits of the bond are that it improves the balance sheet profile, which in turn leads to materially lower conventional bank financing cost; and that it has given the Topaz brand an excellent reputation in the Western markets. Most bond holders are also likely investors when the company goes to IPO.

Interestingly, the Topaz bond is trading significantly higher than its issue price – a clear signal that the bond holders appreciate the rigour and standards applied by the company and that the management are performing at or above their expectations. The bond terms allow the company to ‘tap in’ for more money and although there is no intention to do so at this time the impact would be that new money could be had at a significantly lower coupon rate (c. -20%). This also serves as an indicative reference to a future bond refinancing, subject to performance and market conditions.

Bonds and conventional bank borrowings typically run for 5 – 8 years. In a company where the asset life is 30 years, it is in the normal course of business to refinance regularly. The main reason stems from a fundamental appreciation of the business model. While it is very important to drive efficiency, this will provide only a few percentage points increase in operating profit and is finite. It improves the quality of the profit but the quantum - real and exponential growth - only comes from continuous investment in the expansion of the Topaz fleet. Therefore, refinancing the bond and conventional debt is going to be a norm to continuously release equity for future investment and fuel growth.

After the bond issue, a key part of our strategic capital market plan was attracting institutional funds for a minority equity stake in the business. After detailed engagement with major PE investors and SWF’s, Topaz chose Standard Chartered Private Equity (SCPE) who invested $75m in Topaz for a 9.8% stake in the company at a valuation of c. $700m. The transaction reached financial close recently. SCPE had an appetite for a larger investment and a non-binding arrangement is in place for a further $100m for growth equity if desired. The stringent due diligence conducted by SCPE provides another endorsement of Topaz governance and management, following on from the robust 2013 due diligence in UK and USA capital markets for the bond.

The terms of the SCPE investment includes the right, but not the obligation, for the company to buy back the 9.8% share with a minimum 12% annualized gain for SCPE after 3 years, if not preceded by a liquidity event. All Topaz new investments are generating returns well in excess of 12%; so the minimum target is well within the visibility and potential of the company. Should Topaz not wish to buy back the shares SCPE can sell the shares to a third party. Topaz will have to make good the difference in valuation should the third party sale be less than SCPE's rolled up value of their investment.

The presence of SCPE on the Topaz Board ensures further independent vigilance and material experience when Topaz decides to list independently through IPO on a major international market or through any other mechanism. This is in addition to their brand reputation and global networks, which are now available to Topaz.

In anticipation of a successful conclusion to the many corporate actions underway, Topaz hired Boston Consulting Group (BCG) to validate the Company's 2020 vision. This exercise was recently concluded and considers geographical expansion, potential M&A, IPO, new product offerings, and provides recommendations for execution. Most importantly, BCG confirms that the operational strategy is sound, delivering outstanding service to our blue chip IOC customers: this includes continuous improvement initiatives in world-class safety performance, crew capability, vessel capability, local content, operational and commercial excellence.

What has become clear is that the building blocks for the future are in place. There is a war chest for expansion that is building up, and execution of the validated plans are underway. One of the first steps will be to take advantage of our enhanced capital and debt structure to refinance existing conventional borrowings and raise new money. This will result in materially lower interest rates and better terms and tenure whilst writing off residual non-amortized fees from earlier rounds of financing.

When looking to value, the best measurement in this industry is the enterprise value for which EBITDA is a key number.

Contract Services Group (CSG)

	Rial Million		**USD Million**	
	Q3 2014	**Q3 2013**	**Q3 2014**	**Q3 2013**
Revenue	71.0	72.0	184.4	187.0
Operating profit	8.5	7.2	22.1	18.7

Note:-
1. *Q3 2013 Operating profit is after one-off receivables provision of Rial 3.1 million.*

We are also pressing ahead with our strategy for the Contract Services Group (CSG), where we are confident of doubling the company's size in the Oman market over the next two to three years; while also expanding our geographic footprint abroad.

As explained in our earlier statements, 2014 was always going to be a muted year for CSG performance compared with 2013. This is due to absorbing the higher cost impacts in our home market of Oman as well as discontinued operations in Afghanistan; the former PDO Estate Services contract merging into a single IFM contract operated by others; and the loss of the SQU Student Catering contract in 2013. These impacts cannot be mitigated overnight but, during 2014, we have already had some significant gains in the healthcare and other sectors.

In the cyclical tendering process, the company has won contracts with total values amounting to Rials 49.28 million (US$ 128 million). These contracts represent annualized revenue of Rials 17.09 million (US$ 44 million), of which Rials 8.21 million (US$ 21 million) per annum is new business.

Our investment projects in Duqm PAC and Qarn Alam PAC expansion are progressing on time and in cost. These projects alone underpin visibility of CSG potential to double the scale of the business in Oman, where it holds a clear market leadership position with 65% of the PAC market and over 40% of the contract services market.

The 17,000-bed Duqm PAC project is the company's single largest investment to date, at Rials 75 million ($195 million) for the current phase under construction. Duqm is at the centre of the government's infrastructure investment programme to diversify the economy. Situated on the Indian Ocean rim, it shall be a strategic logistics hub by sea, road, rail and air. The Duqm PAC delivers high standards of workforce accommodation at very competitive costs; so shall be a key enabler for major projects such as Duqm Refinery to press ahead, while supporting the growth industries around the world-class Port and Dry Dock facilities. And Renaissance is uniquely placed in this market to make such an investment, backed by three core competencies: Build-own-operate experience and capability, comprehensive services provision, and skilled turnkey integrated facilities management.

Thanks to the Duqm Special Economic Zone Authority (SEZAD), PDO and Renaissance, Oman is leading the way in how to look after blue collar workforces with great facilities, good food and quality social and health care; but still match or beat the cost of poorer temporary facilities that give workforce accommodation such bad press in some markets.

These are all internationally competitive capabilities that we are able to export. Our strategy to increase our international footprint with further geographic expansion is also pressing ahead with the opening of new offices for the UAE markets; and additional senior resources deployed to focus on business development in the GCC and Africa. We are already the largest offshore catering services provider on rigs in the Norwegian sector of the North Sea. We have a small but growing presence in Angola. We have competed successfully with major global players in winning and delivering large contracts safely and profitably in conflict zones. It is now time to capture the essence of our success in Oman and increase our scale of operations overseas.

Discontinued / Discontinuing operations

	Rial Million		USD Million	
	Q3 2014	Q3 2013	Q3 2014	Q3 2013
Oil & Gas Engineering – Divested in Q3 2013	-	4.7	-	12.2

Education & Training (National Training Institute LLC) – Divested in Q4 2013	-	0.8	-	2.1
Media and Communication – Divested in Q1 2014	1.8	0.2	4.7	0.5
Other discontinuing businesses	(0.1)	(2.2)	(0.3)	(5.7)
Total	**1.7**	**3.5**	**4.4**	**9.1**

2014 is the first full year under the new leadership team in the Marine Engineering Division (MED) businesses. They have achieved a successful and profitable turnaround of the Ship Repair business and significantly reduced losses in the Ship Building business, to the extent we expect little or no loss impact in MED this year. We are expecting an impairment of c. US$ 1 million on divestment of assets from a discontinued contract. But this should not obscure the visible positive recovery of the business in readiness for our JV initiative that provides the platform for our eventual exit from the business in a manner that is beneficial to our customers, our people, our partners and our shareholders.

Outlook

Our company operates in oil and gas based economies, with predominantly oil and gas sector clients. So it is appropriate that I should comment on the sharp decline in oil price and consider any potential impact on our business. Overall, we envisage continued stability in our major markets and growing opportunity for our enterprises and their sustainable service offerings.

We note the view of expert market analysts who suggest that, even in a scenario of weakening demand and sustained supply levels, the likely long-term sustainable floor price for oil is at current levels. This does not mean prices will not fall further in the immediate future, but it does suggest we shall not see a return of historical unstable lows.

At current oil prices the countries where we operate run a fiscal deficit or are close to break-even. This may result in paring back on project and infrastructure investment by governments and oil producers. However, we do not envisage a slowdown in projects of national importance such as the new deep-sea gas fields, Total’s Absheron and BP’s Shah Deniz II projects, in Azerbaijan; or BP’s Khazzan tight gas project and PDO’s Enhanced Oil Recovery (EOR) initiatives in Oman.

In Oman, we anticipate continued commitment to infrastructure projects that drive the diversification of the economy and enhance the country’s logistic potential; including Duqm, the pan-GCC railway project and the enhancement of roads, ports and airports.

Overall, we must remember how well our businesses performed even in the teeth of the world’s worst global recession. Our safe, modern OSV fleet stayed on the water throughout. This is, in part, because we operate primarily in the development and production phase of the oil cycle – the areas where 100% operation is required irrespective of production volume or fluctuating oil price. Topaz also has stable long-term contracts in the esoteric and sophisticated operating conditions of the Caspian Sea. CSG enjoys the same long-term contract benefit in its PACs; but it also has a business model that gains momentum when clients are looking to maintain or enhance quality of service, at level or reduced cost. Clients are looking increasingly to high-quality / effective-cost solutions from single interface turnkey service providers. And we have a proven record of delivering.

History is a collection of memories, both good and bad - value resides in the future.

Tribute

As an Omani public company we are proud to pay tribute and thanks to His Majesty Sultan Qaboos bin Said, as we approach the celebration of the 44th National Day of His Majesty's remarkable reign. We share in the genuine and spontaneous joy shown by Omanis, young and old alike, at His Majesty's recent broadcast. Each and every one of us in the Renaissance family wish him well for his return to good health and look forward to welcoming him home.

Samir. J Fancy
Chairman