

النهضة للخدمات ش.م.ع. Renaissance Services SAOG

Chairman's Statement 2014

On behalf of the Board of Directors, I present the audited accounts for Renaissance Services SAOG for the financial year ended 31 December 2014.

Financial performance

The 2014 financial performance reflects growth in the operating businesses; and positive reduction and containment of one-off impacts, which had tempered results in 2013.

	Rial Million		USD Million	
	2014	2013	2014	2013
Continuing Operations				
Revenue	252.1	239.3	654.8	621.6
EBITDA	91.2	73.2	236.9	190.1
Operating profit	61.9	48.3	160.8	125.5
Net Profit after tax from continuing operations	24.1	15.6	62.6	40.5
Discontinued operations			-	-
Profit from discontinued operations	1.3	3.2	3.4	8.3
Net profit for the year	25.4	18.8	66.0	48.8

Revenue has increased by 5.3% compared with last year. Net profit after tax from continuing operations is up by 54.4%. The EBITDA result highlights the strong cash flows in the business.

Net Profit after tax from continuing operations is after the following:

	Rial Million		USD Million	
	2014	2013	2014	2013
One-off receivables provisions and write-off	(1.9)	(5.9)	(4.9)	(15.3)
Provision for impairment of vessels	(1.5)	-	(3.9)	-
Net loss on other investments	-	(0.9)	-	(2.3)
Net gain on sale of vessels	3.0	0.6	7.8	1.6
Write back of tax provision	2.5	-	6.5	-
Total	2.1	(6.2)	5.5	(16.1)



Balance Sheet

In the current year the Company's Auditors PwC have suggested changes to the accounting of the Mandatory Convertible Bonds (MCB). The Company has adopted these changes in accounting that require us to accrue the cumulative benefits due to the MCB holders against the retained earnings of the company. The one-third of MCBs due for conversion in the next 12 months are shown under current liabilities. There is no cash flow impact to the Company. Upon conversion the entire amount of MCBs shown under the liability will move to the Shareholders funds. The Company may choose to buy back MCBs subject to necessary approvals and arrangement of an appropriate alternative financial instrument.

The Company has also accounted a derivative liability of Rial 7.6 million relating to the new shares issued in Topaz to Standard Chartered Bank (SCPE). The derivative liability shall increase or decrease based on the movement in the valuation of Topaz, and over a longer period this derivative liability is expected to reduce to nil.

The MCB's or its successor instrument, The SCPE equity infusion, The Topaz \$350M Bond, and ongoing refinancing have strengthened the Group's balance sheet materially to give it the ability to weather a turbulent environment, or to seize opportunities as they occur – the intent being to never waste a good crisis, but always after considering safety first.

Dividend

The Board is recommending a dividend of 10% for shareholder approval at the Annual General Meeting (AGM).

Investment for growth

In 2014 the company made capital investments of Rial 122.6 million (US\$ 318.4 million) in new assets for future growth. Rial 103.4 million (US\$ 268.6 million) of this is in Topaz for further modernization and expansion of the company's Offshore Support Vessel (OSV) fleet. The balance Rial 19.2 million (US\$49.9 million) is in the Renaissance contract services business, expanding the company's capacity of Permanent Accommodation for Contractors (PAC) facilities in Oman.



Topaz

The global Offshore Support Vessel (OSV) company

	Rial Million		USD Million	
	2014	2013	2014	2013
Revenue	155.8	145.5	404.7	377.9
Operating profit	53.2	41.4	138.2	107.5

Notes:-

1. 2014 Operating profit is after one-off receivables provisions and write-off of Rial 1.9 million, provision for impairment of a vessel Rial 1.5 million and gain on sale of vessels RO 3.0 million.
2. 2013 Operating profit includes net gain on sale of vessels Rial 0.6 million and one-off receivables provisions and write-off of Rial 2.4 million.

In 2014, Topaz crossed the important milestone of achieving EBITDA > US\$ 200 million.

In Q3 we took an important step in our capital market plan towards a potential intention to list Topaz independently at the appropriate time, and on the appropriate market. Standard Chartered Private Equity (SCPE) acquired a 9.8% stake in Topaz for an investment of US\$ 75 million. Renaissance Services SAOG retains ownership of the balance shares. Topaz has gained further world-class experience and expertise into its ownership and onto its board. The balance sheet is strengthened and financial capability to grow is enhanced.

The Topaz strategy received further endorsement after the company assigned Boston Consulting Group (BCG) the task to independently test and validate the Topaz 2020 Vision. We believe the BCG review was comprehensive and incisive, and both the Topaz Board and Renaissance Board feel confident and assured that the Topaz management team is steering the company on a path of growth and success.

This year we divested three aging vessels from our fleet. Six vessels, previously in the operating fleet on bareboat charter have joined the permanent fleet following acquisition. Five new vessels have also been acquired, these are: *Topaz Seema*, *Topaz Xara*, *Topaz Isra*, *Topaz Megan* and *Topaz Faye*. All valuable additions to our fleet and our service offering to our clients. We plan further strategic investment in the fleet in 2015, including expanding our subsea service capability.

We continue to nurture and grow our presence in our key core markets within the Caspian and the Arabian Gulf. These core markets are defined as countries where we have a critical mass of vessels, supported by in-country people, assets and infrastructure. Today these markets include Azerbaijan, Kazakhstan, Qatar, Saudi Arabia and UAE.



In the coming year, our target markets for building new core positions are the vibrant and promising markets of Angola, Nigeria and Turkmenistan. During 2014 we developed important partnerships in Angola and Nigeria and this cements our local credentials to move from reliance on short-term spot contracts into being eligible to compete for longer-term sustainable contract opportunities. In the Caspian, we were pleased to re-enter the Turkmenistan market with an important new contract and hope to build on this with further awards during the year.

That said, our strategic commitment to long-term presence and growth in West Africa, will give us some serious challenges in the first half of 2015 in the wake of the oil price crisis. We shall feel pressure on rates in the Caspian and MENA, but this is mitigated by the stability of our business model of established medium to long-term contracts and secured income streams. In West Africa, the short-term position is different. There is a squeeze on spot rates and some cancellations and temporary suspensions of tenders. The immediate consequence is the sudden loss of revenue, which flows directly to the bottom line. Instant effort to manage these consequences takes a little longer to take effect. We however remain resolute in our long-term strategies, particularly in West Africa.

Temporary setbacks in our short term contracts are counter-balanced by stability in our long-term contracts; a secured contract backlog > US\$ 1 billion; our predominant presence in the sustainable development and production cycle of the oilfields, as distinct from the more vulnerable exploration cycle; and the safety, relevance and efficiency of our modern fleet.

Renaissance

The international Contract Services, Accommodation Solutions, and Integrated Facilities Management (IFM) business

	Rial Million		USD Million	
	2014	2013	2014	2013
Revenue	96.2	94.5	249.9	245.5
Operating profit	11.9	9.7	30.9	25.2

Note:-

1. 2013 Operating profit is after one-off receivables provision of Rial 3.5 million.

Renaissance is growing its business successfully on three complementary fronts, whilst absorbing high local employment cost impacts over recent years in its major home market of Oman.

In Contract Services, the company won 85% of the Oman Ministry of Health Patient Catering, Cleaning and Laundry Services contracts in 34 hospitals located the length and breadth of the country. The contract value is Rial 37 million (US\$ 96.2 million) over three years. This success was the largest of several contracts gained or retained this year, worth an annualized revenue of Rial 17.09 million (US\$ 44.4 million). The net new contract gains, over and above retained contracts, are worth net additional annual revenue of Rial 8.21 million (US\$ 21.3 million).



The company's Accommodation Solutions footprint in Oman is also expanding through investment in two major Permanent Accommodation for Contractors (PAC) projects: The expansion of the company's existing PAC facility at Qarn Alam, one of five PAC facilities under contract for Petroleum Development Oman (PDO) in Oman's oilfields; and in the ongoing construction of the new flagship 16,000-bed Duqm PAC under contract for the Duqm Special Economic Zone Authority (SEZAD). This project continues, on-time and in-cost, with target completion mid-2016.

In Q4 of 2014 we were delighted to secure the full equity raise required for the Rial 75 million (US\$ 195 million) Duqm PAC project. The total equity of Rial 30.2 million (US\$ 78.5 million) is subscribed 51.9% by Renaissance Services SAOG, as founder and developer, and 48.1% by our co-shareholders: Royal Court Affairs, Ministry of Defence Pension Fund, Al Khonji Development Group and Bank Muscat. We had targeted the equity raise thoughtfully with the aim of having Renaissance, as an Omani public company, in joint venture with a sovereign wealth fund, a major pension fund, a renowned local community investor and a formidable financial institution. We are delighted to welcome these prestigious new partners in Renaissance Duqm Holding SAOC.

We continue to grow and develop our capability as a turnkey provider of Integrated Facilities Management (IFM). The Wave, Muscat has become a flagship IFM project here in Muscat. Although our own PAC projects qualify as mini-townships in their own right The Wave is a real town and a fully integrated tourism project and residential complex. It showcases our capability and provides a platform for our related 24/7 home maintenance call-out services.

While continuing to grow in Oman we seek to spread market concentration risk by expanding our international presence. We have deployed new senior professional resources to grow our IFM and Contract Services businesses in UAE, the broader GCC and selected markets in Africa. Renaissance's Norwegian subsidiary, Norske Offshore Catering (NOC), is the market leader offshore catering services provider in the Norwegian Sector of the North Sea. We seek to replicate similar success in new markets.

Like Topaz, Renaissance is feeling pressure in its small but important market presence in West Africa, which is adversely affected by the oil price crisis. We are watching that situation closely. However, outside Africa, we are seeing stability and growth tempered by some margin and volume pressure.

The PACs are long-term stable contracts, although they may experience some occupancy decline. PAC occupancy in 2014 was 83%, but should have been higher but for a low 41% occupancy at Marmul PAC that also dented profitability and ROE in an otherwise successful PAC business.

The Renaissance businesses won't be completely immune from current market conditions, but they have a proven record of resilience at such times, so we anticipate continued progress and growth in 2015. Renaissance solutions drive down unit cost of production for oil & gas sector clients. That is a great service offering in any business cycle.



Discontinuing businesses

	Rial Million		USD Million	
	2014	2013	2014	2013
National Hospitality Institute SAOG	0.06	0.03	0.16	0.08
Marine Engineering Business	(0.6)	(6.5)	(1.5)	(16.9)
Total	(0.5)	(6.5)	(1.3)	(16.9)

The turnaround of the NHI business and the Ship Repair business means that we can now press ahead with finding good new owners for these fine enterprises. The ship building business has not turned to profit yet, but progress is visible. In all cases, our people are doing a fine job and we shall not let them down in securing their future.

In Q1 we completed the divestment of the Media and Communications businesses. We thank our people on the UMS team for their contribution to the Renaissance journey. We are delighted to see their continuing success under excellent new ownership with the Muscat Overseas Group.

Outlook

Let's be clear, our flagship Topaz business shall have a torrid time amidst difficult trading conditions, particularly during the first half of the year, and particularly in the West Africa arena. Pressure shall abate as the year progresses, and overall performance shall depend on the scale of new opportunities that arise alongside our strong order backlog. The Renaissance businesses shall not be immune, but we believe they are well-placed to grow in spite of the current oil price scenario.

Let's also be clear on the long term prospects for this company – the clarity and consistency of the path we have chosen for our businesses, lead us to adapt a corporate posture that is humble to, and wary of, current market forces; but resolute about, and confident in, the prospect of realizing our high ambitions for all our stakeholders.

Tribute

As an Omani public company we are proud to pay tribute and thanks to His Majesty Sultan Qaboos bin Said. 2015 shall mark the celebration of the milestone 45th year of His Majesty's remarkable reign. Each and every one of us in the Renaissance family wish His Majesty well for his return to good health and look forward to welcoming him home.


Samir J. Fancy
Chairman

