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Renaissance Services SAOG

Chairman's Report 2012

On behalf of the Board of Directors, I present the audited accounts for Renaissance Services SAOG for the twelve-month period ended 31 December 2012.

From 2001-2010 Renaissance delivered year-on-year record growth and profit. A decade of success delivered shareholder value. 2011 was an exception. The company faced difficult challenges, which affected performance. These challenges arose from a series of decisions taken in 2010: a number of under-performing investments in the Marine business; an unprofitable entry into the Brazil market; under-bid major contract gains in the Engineering businesses; and ill-judged legal and contractual challenges concerning earlier engineering contracts and other matters. The reality of these matters came to light in 2011; whilst the full cost impact has emerged over time.

We re-organized the company to restore stability and growth. In the remainder of 2011 and throughout 2012 the company has reversed the setbacks; although consequences from 2010/11 remained to impact 2012 performance.

We go into 2013 stronger for the experience and re-positioned for sustainable growth in core businesses.

Financial strength

The Board is focused on the security and strength of the balance sheet, and the assurance of liquidity to meet obligations and grow core businesses. We completed the first of two Rial 125 million (USD 325 million) phases of refinancing in 2012. We plan to complete phase two this year. We placed the first Rial 29.65 million (USD 77.0 million) of a Rial 43.16 (USD 112.2 million) Mandatory Convertible Bond (MCB) Issue. We shall place the balance Rial 13.51 million (USD 35.1 million) in 2013 when we are ready to deploy funds as equity for growth investments. We have made progress with an initiative to place a large portion of these treasury bonds with a major international financial institution. Our core businesses are brimming with potential and we shall consider additional capital needs as the growth drive unfolds.

Corporate structure

We started the financial and legal restructure of the group in 2011, and completed the task in 2012: separating the Marine and Engineering businesses into independent units. We have taken action to eradicate the losses in the Engineering businesses and confine the heavy impact of those losses to 2011 and 2012. We appointed new high-calibre leadership for Topaz. Through all these actions, the problems of 2011 and their legacy consequences in 2012 are behind us.

In early 2013 we will further strengthen the oversight structure of the group. Already, we have in place high international standards of governance, transparency, disclosure and compliance. We want to enhance this in terms of focus and industry relevance for our core businesses. In particular, we want to implement improvements in risk management, investment approval, human resources management and succession planning.

We look to the future with increased confidence and optimism.

Financial Performance

	2012		2011	
	Rial Million	**USD Million**	**Rial Million**	**USD Million**
Continuing Operations				
Revenue	257.3	668.3	244.4	634.8
EBITDA	70.6	183.4	58.3	151.4
Operating Profit	44.1	114.5	44.2	114.8
Net Profit after tax from continuing operations	15.6	40.5	10.3	26.8
Discontinued operations				
Loss from discontinued operation	(12.5)	(32.4)	(8.0)	(20.8)
Net profit for the year	3.1	8.1	2.3	6.0
Note: Discontinued operation refers to the Oil & Gas Engineering Operations of the Company. This is at an advanced stage of divestment. The increase in losses in discontinued operation is due to higher provisions made for known contingencies.				

In the fourth quarter (Q4) we made additional provisions in the loss-making Engineering businesses for known contingencies. Our intention is to ensure, as a desired minimum outcome, a break-even impact from these businesses in 2013. We may expect some losses in the Oil & Gas Engineering business up to the point of divestment. We shall offset these losses against gain from the transaction. We may expect losses in the ship-building operations until later in the year as new-won project implementation escalates to a profitable scale. These losses shall be partially offset by solid profits in the ship repair business, which is part of the same business unit.

Topaz Marine (TM)

	Rial Million		USD Million	
	2012	**2011**	**2012**	**2011**
Revenue	119.0	112.5	309.1	292.2
Operating profit	33.6	36.2	87.3	94.0

In reporting 2012 performance we have continued to use the distinction of Topaz Marine (TM) and Topaz Engineering (TE). This will change in 2013, when continuing Engineering businesses are re-branded. Topaz shall be a business with a single focus to be a global shipping company that is an Offshore Support Vessel (OSV) specialist for the global Oil & Gas industry.

We incurred net mobilization and demobilization expenses of Rial 0.6 million (USD 1.6 million) in 2012, compared with net income of Rial 4.60 million (USD 12 million) in 2011.

Topaz delivers world-class standards of safety, quality and compliance, which are the hallmark of the Topaz OSV fleet brand. At the same time, Topaz delivers in-country value in the major markets and countries where it serves: International standards, with meaningful local content. This is what distinguishes the Topaz fleet from competitors. This is seen in the level of in-country assets, resources and investment in the company's Caspian operations, where Topaz has a strong market leadership position. We are building similar strategic presence in Saudi Arabia, Qatar and UAE. These initiatives shall be followed by a similar strengthening of our establishment in West Africa during 2013.

Work remains to be done turning around under-performing assets. A number of investments made in 2010 did not perform in line with the investment criteria presented to the Board. The new management team has developed a series of initiatives to improve performance in these investments. We have confidence that we shall see ever-improving performance in each quarter as these initiatives take effect.

Topaz owns a young, modern and relevant OSV fleet with the skills and capability sought by its clients, which are blue-chip International Oil Companies (IOC) and National Oil Companies (NOC). It has market leadership and growing presence in key geographies. Topaz is a global top-ten OSV fleet with the ability and potential to take on the best in the world.

Contract Services Group (CSG)

	Rial Million		USD Million	
	2012	**2011**	**2012**	**2011**
Revenue	102.7	100.8	266.8	261.8
Operating profit	16.5	13.6	42.9	35.3

CSG is good at winning business and keeping clients. It has an exemplary growth record with strong cash flow. It has a record of payment of dividend to the parent company. It leads the Oman contract services market, which is growing with plenty of opportunity. CSG has a proven record competing internationally and has geographically diverse businesses, both in short-term projects in Afghanistan and ongoing sustainable operations in Angola and Norway.

CSG has developed from a pure services provider, with a portfolio of professional capability in catering, operations & maintenance, cleaning, estate services and related support services. The company also has more than a decade of experience in building, owning and operating turnkey workforce accommodation solutions. The Permanent Accommodation for Contractors (PAC) contracts in Oman's oilfields showcase CSG capability as an Integrated Facilities Management (IFM) company. CSG is leveraging these proven competencies for the next phase of growth. CSG has learnt its skills in our home market of Oman and has proved itself as an Omani company of international standing that is able to compete and win against the best at home and abroad.

New regulations on minimum wages in Oman shall have an impact on CSG costs in the second half of 2013. The company does pay above average in its sector, but the upward movement in minimum wage has a knock on effect for more senior positions too. The estimated cost impact is Rial 1.2 million (USD 3.12 million) in 2013, which is Rial 2.4 million (USD 6.24 million) per annum. According to government records CSG is the 7th largest employer of Omanis in the private sector, so it is not unexpected that there would be a financial impact from the new legislation. However, CSG is serious about in-country value and is committed to employing local workforce above government set quotas. In the long term the company regards this as good for the business, and the unplanned increase in cost is viewed as a temporary setback.

Topaz Engineering (TE)

	Rial Million		USD Million	
Continuing Operations	**2012**	**2011**	**2012**	**2011**
Revenue	23.4	20.9	60.8	54.3
Operating loss	(3.8)	(1.5)	(9.9)	(3.9)
Discontinued operations				
Revenue	43.3	45.5	112.5	118.2
Operating loss	(11.6)	(7.0)	(30.1)	(18.2)

TE total operating losses are Rial 15.4 million (USD 40 million). This performance should not obscure the qualitative improvements in systems and processes, and improved on-time in-cost project delivery in profitable new projects won this year.

Topaz Oil & Gas Division (TOGD)

TOGD has made an operating loss of Rial 11.6 million (USD 30.2 million) in 2012. The largest part of this loss arises in one legacy oil & gas engineering contract that has impacted performance in 2011 and 2012. The contract is on schedule to finish in Q1 2013. The company has also settled a claim from a former contract that has been contained at Rial 1.54 million (USD 4 million). This closes out all negative legacy issues in the TOGD business.

Without the burden of these two issues the new management team at TOGD has turned around the business. Because of the positive underlying performance and potential of the business we have agreed terms for divesting the business to a major international engineering enterprise. We expect to announce the transaction in Q1 2013 and close out administration of the divestment in Q2 2013.

Topaz Marine Engineering Division (TMED)

Within the Topaz Marine Engineering Division (TMED), the Topaz Ship Repair (TSR) business is profitable whilst Topaz Ship-building (TSB) continues to make losses. We have announced new contracts won by TSB to build a ferry for the Government of Sharjah, and 10 fast crew / pilot boats for Kuwait Oil Company (KOC). These contracts provide a platform for TSB to achieve profitability by late 2013. At the same time we are working on two independent initiatives involving potential JV and merger options for

TMED. If successful, these initiatives would consolidate the industry in the region and would assist TMED to achieve profitable scale and scalability with other first class strategic partners.

Other businesses

We have made it clear that we are committed to the positive development of our non-core businesses, while remaining open to divesting these businesses. These are excellent enterprises in their respective fields. They continue to deliver value as part of Renaissance. We shall only consider divestment opportunities that deliver value-recognition for Renaissance shareholders and offer future growth and value to the businesses and their stakeholders, especially employees and customers.

Education and Training Group (ETG)

National Training Institute LLC (NTI) continues to grow and prosper as Oman’s leading private sector training services provider. We are in the process of a potential divestment of NTI to a major international industry leader. The process is at an advanced stage and we expect to make a formal announcement in the near future. If successful, we believe this will be positive for Renaissance shareholders, for NTI, for the new owners and for Oman.

National Hospitality Institute SAOG (NHI) continues to deliver world class training. But in spite of high demand and opportunity to create Omani employment, the business struggles commercially due to a system over-reliant on inconsistent government-funded training. The NHI Board is considering de-listing the company in a manner that shall protect the small shareholder; and give NHI greater flexibility to maximize the undoubted potential of the business in the long-term.

Media Communications Group (MCG)

United Media Services LLC (UMS) continues to grow as it builds important and valuable brands in Oman and the region. The company secured a strategic alliance with Bloomberg that offers the opportunity to tap into the pan-Arabia advertising spend in the news and business magazine market over the coming years.

We are considering two separate expressions of interest that may lead to divestment of the business. If successful, we believe this will be positive for Renaissance shareholders, for UMS and the new owners.

Outlook

2013 shall be a year of consolidation: turning round under-performing assets and investing in growth. By Q2 we expect to see a positive trend of profitability that we anticipate shall strengthen through the year. We shall have a much clearer shape and identity of our structure with a primary focus on two core businesses: the OSV fleet (Topaz) and the IFM services group (Renaissance CSG).

The nature and quality of these businesses; the clients and markets that they serve; and the mix of long-term secure contracts and short-term opportunistic contracts, all bode well for the immediate and long-term future. There is uncertainty in the global economy for at least another year; but the prognosis is satisfactory for the oil & gas sectors of the Caspian, MENA and West Africa. Other markets offer new opportunity. We are tackling these opportunities with the benefit and humility of all the lessons arising from these past two challenging years.

The residue of consequences from 2010/11 proved tougher and more costly than we had anticipated. During the year we have concluded many positive actions and solutions to the legacy issues. Where final solutions are still pending, we have initiatives in place that are close to maturity.

The divestment and merger initiatives are progressing well. The potential buyers of these businesses are either large multi-national plc companies, or local groups of great substance. We believe this is a compliment to the underlying quality of the assets that we have nurtured and developed under our stewardship.

The two major businesses that will remain have proven pedigree and enormous potential. These will be our absolute focus - Focus gets results.

Appreciation

I would like to thank my fellow directors for their unswerving support and guidance. The board wishes to thank all our stakeholders. Without them our progress would be impossible, with them our future is secure – our shareholders, our business partners, our bankers, our professional advisors (accounting, legal and strategic), suppliers, contractors, and the countries and communities in which we serve. We reserve special thanks for our customers, our employees and our management. Thank you.

As an Omani public company we are proud to pay tribute and thanks to His Majesty Sultan Qaboos bin Said. The stability and growth of Oman’s economy and the pace of its social and economic development, provide a bedrock foundation for our company to thrive and prosper as an international enterprise.

Samir J. Fancy
Chairman