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Renaissance Services SAOG

**Chairman's Report**

On behalf of the Board of Directors, I present the audited accounts for Renaissance Services SAOG for the financial year ended 31 December 2013.

In 2013 we have put in place a separate governance structure for Topaz; secured Topaz financial independence through a bond placement on international capital markets; turned around non-performing assets; invested for growth in new vessels for Topaz; prepared the business case and design for developing a new permanent accommodation asset in Duqm for Renaissance Contract Services; divested the oil and gas engineering business and National Training Institute, both acquired by blue chip FTSE companies; deployed new leadership and developed a turnaround and exit strategy for the marine engineering business; while winning new contracts and business opportunities for growth in all continuing businesses. These are the outcomes of the actions I outlined in the 2012 report, saying "2013 shall be a year of consolidation". That consolidation has entailed ring-fencing all foreseeable issues and making comprehensive provisions. That period of consolidation is over. We are now able to concentrate maximum focus on our two core businesses.

In 2014, the company is structured for sustainable, profitable growth for the years ahead. This provides us with the platform to continue to deliver outstanding service to our customers and enduring value for our shareholders.

**Dividend**

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

**Changes to interim management accounts**

Two things have changed:

First, in the days since announcement of the interim management accounts, a client has cancelled a contract order in the Marine Engineering Business. The client has written to the company in a non-contentious manner, with a view to the parties reaching an amicable settlement. In such cases, it is our policy to make full conservative provisions on potential outcomes. Management and independent legal counsel are confident that the company's position is sound.

Second, we continue our strategy to focus on two core businesses: Topaz - the offshore support vessel (OSV) fleet company; and Renaissance Contract Services Group (CSG) – the integrated facilities management and contract services business. This requires us to continue with our policy to support, nurture and invest in our other continuing businesses; while pursuing a strategy to divest these companies at some point in the future if and when the time is right. We shall only do so with the right buyer for the benefit of the business, our customers, our business partners and our employees. In view of our divestment successes in 2013, and various initiatives under way in 2014, we are classifying all other businesses as discontinuing.

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The effect of these developments is reflected in the final audited accounts of the company. The final accounts differ from the interim management accounts due to the Board recommending the re-classifying of discontinuing businesses; and an additional provision of Rials 3.3 million (USD 8.6 million), as prudent assurance that all foreseeable outcomes of all historical issues are ring-fenced and fully provided.

**Financial performance**

The 2013 financial performance reflects the outcomes of our consolidation initiatives.

| | **Rial Million** | | **USD Million** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| **Continuing Operations** | | | | |
| Revenue | **239.3** | 221.1 | **621.6** | 574.3 |
| EBITDA | **73.2** | 71.5 | **190.1** | 185.7 |
| Operating profit | **48.3** | 46.3 | **125.5** | 120.3 |
| **Net Profit after tax from continuing operations** | **15.6** | 18.0 | **40.5** | 46.8 |
| **Discontinued operations** | | | **-** | - |
| Profit/(Loss) from discontinued operations | **3.2** | (14.9) | **8.3** | (38.7) |
| **Net profit for the year** | **18.8** | 3.1 | **48.8** | 8.1 |

*Note:*
1. *2013 EBITDA and Operating profit are after one-off receivables provision of Rial 5.3 million. EBITDA is also after net loss on other investments of Rial 0.9 million.*

We have taken an aggressive and prudent view on making substantial provisions for long-term receivables, while still working to recover these debts, in which case we shall reverse any excess provisions.

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

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| One-off receivables provisions | **(5.3)** | (0.6) | **(13.8)** | (1.6) |
| Provision for impairment of a vessel | **-** | (0.9) | **-** | (2.3) |
| Net income related to a divested subsidiary | **-** | 1.1 | **-** | 2.9 |
| Net loss on other investments | **(0.9)** | - | **(2.3)** | - |
| **Total** | **(6.2)** | (0.4) | **(16.1)** | (1.0) |

Profit/(Loss) from discontinued operations is as follows:

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Oil & Gas Engineering – Divested | | | | |
| Profit/ (loss) for the period | **1.0** | (12.6) | **2.6** | (32.7) |
| Gain from divestment | **3.7** | - | **9.6** | - |
| Education & Training (National Training Institute LLC) – Divested | | | | |
| Profit for the period | **1.0** | 1.1 | **2.6** | 2.9 |
| Gain from divestment | **3.8** | - | **9.9** | - |
| Other discontinuing businesses | **(6.3)** | (3.4) | **(16.4)** | (8.9) |
| **Total** | **3.2** | (14.9) | **8.3** | (38.7) |

**Governance Structure for Topaz**

As a public company, Renaissance has in place the requisite Board, Committees, Internal Audit and other appropriate functions and processes to ensure good governance. We are committed to transparency, responsibility and accountability.

In 2013 Topaz established a new Board and Committees for Topaz, which are functioning whilst being formalized. The Renaissance Chairman, two Renaissance Directors and the Renaissance CEO are members of the Topaz Board, alongside the executive directors Topaz CEO and CFO. Renaissance Directors are members of a Topaz Audit Committee, and a Renaissance Director and the Renaissance CEO are members of a Topaz Compensation & Remuneration Committee. The Renaissance CFO attends the Topaz Board and Topaz Audit Committee meetings as the Owner's Representative.

It is our intention that the Topaz Board will appoint independent Non-Executive Directors with relevant industry, market or professional expertise. These appointments shall be made in the course of this year. We have already made the first appointment of an independent Director on the Topaz Board, who is also an independent Chairman of the Topaz Audit Committee and a member of the Topaz Compensation & Remuneration Committee.

The reason for this important initiative is straightforward: We want to establish absolute focus on each business and on good governance. In addition, we have stated our intention to consider listing Topaz on a major capital market, such as London Stock Exchange. So an IPO, in the foreseeable future, is one option under consideration as a means to achieve value recognition in a substantial market with access to significant resources of capital for a capital-intensive business model.

We appointed a new Topaz CEO in 2012 and he has completed the formation of his full management team with the appointment of a new Topaz CFO. So Topaz has the strength and breadth of leadership to operate as an independent company within the group, accountable to the Topaz Board. This means Topaz is now able to operate in the image of an independent public company; whilst still retaining the coverage, protection and support of ultimate fiduciary oversight from the Renaissance Board.

The new structure is progressing well.

**Topaz Financial Independence**

In the third quarter (Q3) of 2013, we reported that Topaz Marine had successfully priced its inaugural bond offering of USD 350 million Senior Notes due in 2018. Demand exceeded USD 2.5 billion. The funds raised are being used primarily to fund capital expenditure and increase cash on the balance sheet. In this process Topaz was successfully rated by S&P and Moodys. This is an endorsement that Topaz has the financial disciplines demanded by international best practice.

The significance of the success of this initiative is that it establishes Topaz financial independence, no longer dependent on direct finance injection from the parent company for growth. This means that the cash generation from the Renaissance Contract Services Business may now be primarily retained for investment for growth of that business, as we see ever-increasing opportunity arising.

The due diligence process and investor scrutiny applied for the Topaz bond initiative in international capital markets of Europe, the Middle East and the USA, further emphasizing the company's credentials of governance and management. It is a strong endorsement of Topaz becoming IPO-ready for any capital market.

It is clear that these international markets appreciate the Topaz Business model; the management team; key credit strengths such as stable and healthy operating margins, a > USD 1 billion contract backlog; a healthy balance of the sustainability of long-term contracts and the flexibility of short-term contracts; and an excellent operational and safety track-record with blue chip international oil & gas clients.

**One Group – Two Companies**

We have called these initiatives our 'One Group – Two Companies' strategy. The one group is Renaissance Services SAOG. But we shall operate and grow our two flagship businesses in two distinct ways: Topaz as an IPO-ready independent public company, managed through our roles on the subsidiary Board and its Committees; Renaissance Contract Services Group (CSG), as the major wholly-owned operating company of Renaissance Services SAOG.

**Topaz**

*The international Marine fleet Offshore Support Vessel (OSV) business*

| | **Rial Million** | | **USD Million** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Revenue | 145.5 | 119.0 | 377.9 | 309.1 |
| Operating profit | 41.4 | 33.6 | 107.5 | 87.3 |

*Note:-*

1. *2013 Operating profit includes net gain of Rial 570K from sale of vessels and one-off receivables provision of Rial 1.8 million.*
2. *2012 Operating profit is after one-off receivables provision of Rial 0.6 million and provision for impairment of a vessel Rial 0.9 million.*

Topaz achieved a remarkable safety record for 2013 with zero Lost Time Incidents (LTI). We congratulate every member of the Topaz team for this outstanding result.

Topaz delivered improving financial performance in every key measure: Revenue has risen > 22% above 2012 performance; and operating profit > 23%.

This improving performance includes new growth, but also turnaround of a number of non-performing assets, including an exit from unprofitable contracts in Brazil. This does not mean that we shall not re-enter the Brazil market, but for the moment we are responding to growing opportunity and demand in our core home markets of the Arabian Gulf and the Caspian Sea, while developing a growing presence off the oil-producing coast of West Africa.

The company has invested USD 280 million in core assets. The benefits of these investments shall be seen as growth in 2014.

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**Renaissance Contract Services Group (CSG)**

*The Integrated Facilities Management and Services business*

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Revenue | 94.5 | 102.7 | 245.5 | 266.8 |
| Operating profit | 9.7 | 16.5 | 25.2 | 42.9 |

*Note:-*

1. *2013 Operating profit is after one-off receivables provision of Rial 3.5 million.*
2. *2012 includes an amount of Rial 1.8 million representing the fair value of certain assets received from a customer of a divested subsidiary in settlement of amounts due from that customer.*

The contract services performance is below last year, but as I explained in my Q3 statement, this should not obscure the fact that continuing operations are growing profitably. The two main impacts on CSG performance are one-off exceptional provisioning for receivables and temporary absorption of higher employment costs in Oman.

The need to make substantial provisions against long-outstanding receivables arises from a client at the Permanent Accommodation for Contractors (PAC) operations in Oman's oilfields, and two clients from West Africa operations. Every effort is being made to recover these dues, and we shall reverse any excess provisions if we succeed.

The company has absorbed additional costs arising from the national objectives initiatives in Oman. There is a net additional impact of Rial 0.5 million over the final 6 months of 2013. In 2014 we anticipate an impact of a further Rial 0.4 million from the revised PASI contributions. These impacts will be absorbed in the re-tendering cycle.

This year's results are without the divested UAE operations and follow the end of short-term operations in Afghanistan, which drew to a close in September.

The CSG 2013 performance, seen in context of the company's ability to absorb the convergence of all these impacts, serve to illustrate the resilience of the CSG business model; and the strong underlying performance of continuing operations.

A major highlight of the year is the development of the business case for a 16,000-bed permanent accommodation asset for workforces in the Special Economic Zone in Duqm. The design is complete and tenders for civil and other works are under review. Construction shall commence in Q2. We shall be offering the opportunity to potential co-investors from amongst Omani Pension Funds and Local Community investors from the Duqm area and Al Wusta region. In the meantime the SEZAD board has confirmed the terms of exclusivity and occupancy support against the performance of our contract.

The revised structure brings renewed focus and support from the Renaissance Board, as we see significant opportunity ahead in the home market of Oman and abroad.

**Other businesses**

In 2013 we announced the divestment of the Oil & Gas Engineering Business (TOGL), which was acquired by Interserve plc of UK; and National Training Institute (NTI), which was acquired by Babcock plc of UK. We thank all our people from both those businesses for their work in building value under our stewardship. We believe both businesses shall grow and prosper under the new ownership. It is a matter of pride for us that international corporations of such renown have valued the quality of our people and our businesses.

The Marine Engineering Business is still in a turnaround phase, but we have appointed a new Managing Director with great experience of the industry and the region. The Ship Repair business has improving visibility looking into 2014. The Boat building business continues to work on contracts in hand. With a positive prognosis ahead for the business we are now able to consider existing options for a potential exit from the business in due course.

The company has an investment in an associate company, the Dubai Wire Group (DWG). We decided to divest 100% of our shares in DWG and signed an SPA with DWG founding shareholder. Sadly, our partner passed away suddenly before concluding the transfer of shares. Whilst the company shall continue to make efforts to recover the purchase price, we have decided to write off the entire carrying value of the DWG investment of Rials 1.6 million.

The Media and Communications business remains profitable, has a strong debt-free balance sheet, and is developing a major new profit centre with the UAE-based launch of the *Bloomberg Businessweek®* Middle East franchise. We have a process under way for potential divestment of the Media business with several interested parties.

National Hospitality Institute SAOG (NHI) returned to break even in 2013, while continuing to achieve independent recognition for the quality of its world-class training services for the hospitality and tourism industries. Through our representation on the Board of NHI, we are working with fellow Directors and investors to de-list the company, in preparation for potential re-investment in the business and our own potential divestment of our shareholding.

These businesses shall continue to book profit and loss in the accounts as discontinuing businesses. However, it is our view that the divestment outcomes shall have, at minimum, a neutral effect in 2014.

These initiatives enable us to ensure the future prosperity of our discontinuing businesses, while implementing our core focus strategy of ‘One Group – Two Companies’.

**Structured for growth**

Our new structure is delivering renewed focus and energy to the growth of our major enterprises. We do not give forward-looking statements, but it is reasonable for our stakeholders to analyse the investments made in 2013 and the performance of the core continuing businesses in order to expect growth in 2014.

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The initial cost of finance from the bond may mute growth in PAT for a period. There is a time-lag between deployment of funds and commencement of operations, whether investing in new vessels for Topaz or the Duqm PAC for CSG. However, it is reasonable for stakeholders to anticipate material growth in revenue, EBITDA and Operating Profit as 2014 performance develops.

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 foundation for our company to thrive and prosper as an international enterprise.

Samir J. Fancy
Chairman