

**Company:** Topaz Energy and Marine

**Conference Title:** Nine Month Results 2013

**Presenters:** René Kofod-Olsen (CEO) and Pernille Fabricius (CFO)

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**Operator:** Good day and welcome to the Topaz Energy and Marine Nine Month Results 2013 Conference Call. This call is being recorded. Ladies and gentlemen, if we are all ready to begin I will now pass the call over to our host Mr. René Kofod-Olsen, Chief Executive Officer of Topaz Energy and Marine. Please go ahead sir.

**René Kofod-Olsen:** Thank you very much Rhonda. Welcome ladies and gentlemen and thanks for participating in this inaugural quarterly update for the third quarter. Most of you we met on the very, very recent roadshow so you will be familiar with the business of course from that aspect. With me today I have the pleasure of introducing Pernille Fabricius who is our new CFO. She has started and she will be walking you through the numbers in a few minutes. I would also like to thank our investors for the very keen response to the roadshow, through Project North Star. As you will all know we got off to a very high subscription of interest and we believe that we priced it within our expectations and also of both the investors' expectations, so we really look forward to this journey with all of you.

On that note I will hand you over to Pernille who will go through the financial highlights.

**Pernille Fabricius:** Yes, so starting on page 3, this page illustrates the quarter on quarter development in revenue and EBITDA. As can be derived from the slide revenue has shown a continuous increase quarter on quarter since Q3 2012. Looking at the margins these have fluctuated above 40% with a small dip in margin in Q3, so the quarter we are talking about now, due to mainly a provision taken for accounts receivable in Nigeria.

If we then turn to page 4 of the deck, this page illustrates the third quarter specific performance. As can be derived from the slide revenue has grown year on year mainly due to acquisitions of new vessels which have been deployed and also due to increased utilisation rate for the fleet as a whole.

If we move to the EBITDA you can see that has increased to 14% whereas the EBITDA margin has dropped three percentage points due to mainly the before-mentioned provisions for doubtful debtors. In addition this year we have two vessels generating very low margins.

The intent is to acquire these from the owner after which point this business will be generating margins in line with the rest of the fleet.

Turning to the cash flow, cash flow from operations before interest and tax increased to 40 million in Q3 '13 against the 35.6 for Q3 '12 representing a cash conversion of 97% this year versus 98% in the same quarter last year. Taking the tax and interest into account, the cash levels are as indicated on this slide.

Interest expenses have developed as shown here. The bank debt has increased 25 million and those proceeds have been used to reduced the shareholder loans with the same 25 million which has resulted in increased interest rates to banks to 7.1 million and shareholder loans at 2.8 million. Also note the geographical split of the revenue year on year with the 60.1 million sitting at the Caspian, 25.1 million sitting in MENA and 13.6 million sitting in Global.

Moving on to the next slide this is the year to date third quarter same split as the slide before. Here you can see that revenue has increased 27% due to the before-mentioned explanations. EBITDA is also up and as explained the margin has dropped in this year to date with 2.4 percentage points. Cash flow from operations again before interest and tax which you don't see in this slide increased from 89.3 million in '12 to 106.8 million in '13 and that means a conversion rate of 87%. Interest expenses developed to 20.3 million on the bank interest and to 9.2 million on the interest on shareholder loans. The geographical split between Caspian, Middle East and Global was again 169.8 million for Caspian, 71.8 million for MENA and 42.6 million for Global.

With these words I will hand over to René.

René Kofod-Olsen: Thank you very much Pernille. So on slide number 6 in terms of our operational performance we have seen a continuous very high utilisation of our fleet both in terms of our core assets with the OSV vessels but also in our other assets which is our barges and crew boats. The latter portion is from a significant contract that we landed in the Russian part of the Caspian, the Filanovsky field for the Italian operator. The core OSV vessels have seen a period to period increase of 5% which is both in the core Azerbaijan fleet and in the Middle Eastern fleet. Some of the larger vessels in our global fleet have as well seen 100% utilisation this year.

In terms of our average day rate they have been keeping very stable. There is a slight drop which is coming from the two large anchor handlers, Islay and Jura in Azerbaijan who have gone away from anchor handling mode in their contract. It is a very minor decrease in that

average day rate. The backlog remained high above \$1 billion. Numbers and vessels have reduced as part of our strategy. Vessels of an older nature have been divested and a couple of newer vessels have been introduced as part of the capex plan that we also presented during our very recent roadshow. We expect that the average vessel age will again in the near future go under seven years – now it stands at 7.3 which is again in full line with our strategy.

In Q3 we added two large PSVs, landed two large PSV contracts for BP in Azerbaijan. One has already been deployed now in November on contract and the other will start in April next year as the ice recedes. We have also as you can see on slide number 6 appointed Pernille Fabricius. We don't compare her to a vessel but we obviously find it a key development in the third quarter – again welcome to Pernille. Then we have successfully delivered on the strategy to divest from Brazil. During the period we have taken the two vessels Otter and Marten out. They have been going through a big refurbishment on a yard in the Ivory Coast and are now secured contracts in West Africa.

Pernille Fabricius: So onto our capital structure which you will find on page 7. What you see here is of course the capital structure before we received the bond proceeds. If we start by the free liquidity, that is the cash level excluding deposits for demobilisation costs, that amounted to 31.2 million. The total external debt was 467.9, it slightly increased due to borrowings related to acquisitions of new vessels. The gross leverage then sits at three times and including the cash levels at 2.8 times. The net debt levels after we have received the bond proceeds is still at 2.8 times today. The use of the bond proceeds will follow the plan described in connection with the issuance of the bond that René and team has also explained and the deployment is taking place in accordance with the plan and has already started.

René Kofod-Olsen: Thank you Pernille. Page number 8 talks about one of our cornerstones of the business namely our safety records. We maintain a fatal accident rate and a loss time incident rate of zero year to date which is obviously key to being in the oil and gas supply side of the business. We obviously expect and we have a core focus on maintaining that. We have seen a slight drop in the total recordable cash frequencies which is not necessarily a concern but it is something that is being taken very seriously as we want to deliver on the industry benchmark.

In terms of the outlook for the business we remain confident on the strategy. We remain very confident on our model. We want to continue operating a very, very modern fleet up to the highest standards and notably the highest safety standards of the industry. We see that as a cornerstone of maintaining a high contract backlog and repeat customers from the customers

that we serve which predominantly is the major oil companies of the world. The top ten of our customers are delivering 89% of our business and they are all top rated customers within our portfolio.

We continue to expand our fleet based on technologically advanced vessels, DP2 vessels, mid to high range PSVs and mid to high range anchor handlers. We constantly look at how to improve existing vessels. We have conversion strategies for some of the DP1 vessels to go into DP2 in showing that we will always have the most adequate vessels for our customers.

We are constantly discussing with our contracts to expand on the already deployed vessels. We have very light contract discussions now with a couple of big oil majors to extend the current contracts beyond the current termination of those which gives us confidence that the backlog also in 2014 and beyond will be as strong as we have seen today. As Pernille has explained we will continue to have a very, very high focus on deploying the capital that we have raised productively but also reducing the leverage down to below four which has been the target for 2015. On that note we remain confident in the results for the rest of the year and the plan for the near future as well.

On that note we will stop the presentation for now, hand you over to the moderator who will invite for a Q&A session with the management. I should say that in the room beyond Pernille Fabricius we have Rashmi More, our Head of Treasury; we have Roy Donaldson, our Chief Operating Officer; and obviously Robert Desai, our Head of Investor Relations joining me on the call should you have questions related to those people. Over to you Rhonda.

Operator: Thank you very much Mr. Kofod-Olsen. We will now begin the question and answer session. If you wish to ask a question please press \*1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request please press \*2. Once again press \*1 if you have a question. We will pause for just a moment to allow everyone to signal.

Once again as a reminder please press \*1 to ask a question

We will take our first question from Kia Edelstein of Emirates NBD. Please go ahead

Kia Edelstein: Hi guys, thank you very much for the conference call. Apologies if I'm asking a question that you've already touched on but could you give me a little bit more colour on the global revenue, it was down slightly for the three months to 13.6 instead of 15.6 in the three months the previous year. Could you just give me a little bit more colour on that and the reasons behind that?

René Kofod-Olsen: Thank you for that question. As we have mentioned we have pulled out of Brazil where the vessels have been off hire for the latter part of the third quarter and then we have had a couple of other assets, the Breeze and the Jura in Nigeria that has been off hire. That is the main reason for the slight downturn in the global revenues.

Kia Edelstein: Ok, great. Thank you. So it's just for Nigeria. Thank you very much.

Operator: Thank you. We will now move to Maryana Kushner of Nomura Asset Management. Please go ahead.

Maryana Kushner: Hi and I apologise, I joined the call a little bit late. There's a very slight sequential decline in EBITDA. What was it caused by?

Pernille Fabricius: As we mentioned in the call it is basically a provision for doubtful debts that we chose to take in the third quarter.

Maryana Kushner: How much was it?

Pernille Fabricius: It was 3.6 million.

Maryana Kushner: Which geography does that charge come from?

Pernille Fabricius: Nigeria.

Maryana Kushner: Nigeria, ok. Alright, then I noticed that your backlog is up slightly from June 30<sup>th</sup> but it is reasonable to expect that the break-out of it is roughly similar in terms of Caspian and Middle East and everything or was there a particular area where you probably improved your contract position?

René Kofod-Olsen: Yes, we have marginally improved our contract position and it's across the board for some of these contracts. We have not included the \$100 million from BP, so that actually comes on top of this and that contract was starting in the fourth quarter and the second vessel starts next year, so you will see that they actually come on top of that when we speak to you again in the fourth quarter. Then we have very live discussions with one of our key clients and again I think it's a fair point to say this is how we work with them. We have a four year contract with our client so that is expiring in four years. We are now already talking to them on expanding that with four more years actually taking it to 2021. This speaks very

well to our model and this is what we will continue to do, but specifically that was the answer to your question.

Maryana Kushner: Ok. Then for the new builds that you have in the pipeline, is there like more progress on securing contracts for those?

René Kofod-Olsen: Yes. So the two first ones are going in on contract in Nigeria for an oil major; and the three others, we now have two contracts to decide from that we are currently evaluating. That is only in January but we have two firm contracts that we are now considering.

Maryana Kushner: Ok. Where would they be? In which location?

René Kofod-Olsen: It is between West Africa, Nigeria and Saudi Arabia.

Maryana Kushner: Ok. So in overall your African position is going to increase, is that correct?

René Kofod-Olsen: Absolutely Maryana and fully in line with the strategy.

Maryana Kushner: Ok, and so what are the...I guess comparing to the current breakout of geographic revenue, would you say that if you increase...if you increased your exposure in Africa rather versus Caspian, would that be a slightly more competitive environment in perhaps dealing with occasional receivable write-offs and stuff like that? Is that fair to characterise that that way?

René Kofod-Olsen: No. I do understand your comparison, so the receivable provision that we took for Nigeria was for a contract that was entertained last year. As you recall our portfolio exposure is 95% development and production and 5% exploration and this was a marginal contract that was taken last year, pre-new strategy definition and so we took a prudent call in Q3 that we would provide for this doubtful debt basically, but what I will say is that we have a debt recognition in hand, so it is us being prudent in line with the way we run the company Maryana and I think therefore there is actually no comparison. The other contracts that we are entertaining in line with the strategy is for the main oil majors. I can share with you that this is Total in West Africa today we are renegotiating these contracts with and this is in production, so I understand your comparison but there is no comparison.

Maryana Kushner: Ok, thanks.

Operator: Thank you. As a reminder to ask a question please press \*1 on your telephone keypad. We will take the next question from Gloria Lam of Waha Capital. Please go ahead.

Gloria Lam: Hi. Thank you very much for the presentation. I have more questions related to the Nigerian receivables. Do you expect interest and a one-off event but do you expect more provisions on receivables over the next 12 months?

René Kofod-Olsen: No. We historically are not writing off receivables. If you look at our top 10 clients we are working with the most reputable customers in the industry, 89% again comes from all the big oil majors – BP, Total, E&I and so we are exposed to those. Again this receivable was a very specific old contract that was taken early last year that is now being prudently addressed. We do not have a culture of writing off receivables because of the nature of our business. We are more long term in the production and development of the business.

Gloria Lam: Great. Then another question in terms of EBITDA, so I have calculated the trading 12 months or last 12 months EBITDA as of the third quarter, I think if my calculation is right so I think the number is around \$168 million, but as long as I remember in the net roadshow for the bond issuance the pro forma 12 month EBITDA is around...the number I saw was around 192, so there is a difference of around 25 million. Can you explain that difference?

René Kofod-Olsen: Sure. What we presented was based on the expectation of capex in the roadshow, so there are two significant additions of the vessel Endeavour and the vessel Challenger that we have a buying option to exercise on an annual basis. We expect to exercise that and are in conclusive negotiations with the owner. That is how the pro forma adjusted EBITDA came to 192 that you are rightfully pointing out. The other number that you mentioned there is the expectation of the year, so that's the explanation.

Gloria Lam: I see. So when is the cash flow of those two vessels coming in fully on a 12 month basis then it would be around...so that's the difference, ok. Another question is related to...just now you said the target leverage is around four times. Is that net debt to EBITDA or total debt to EBITDA?

René Kofod-Olsen: I mentioned the target for 2015 is 3½.

Gloria Lam: Isn't it four times?

René Kofod-Olsen: For '14. The target for '15 is 3½.

Gloria Lam: Oh, '15 is 3½ but is that total debt to EBITDA or net debt to EBITDA?

René Kofod-Olsen: That's your net debt to EBITDA.

Gloria Lam: I see, got it. One final question related to cash conversion. Because the number has been quite high in the recent quarter, as I look at the historical numbers I think the cash conversion rate was slightly lower before. What was your expectation on the future cash conversion rate?

René Kofod-Olsen: We have historically been hovering around 80% which in itself is a strong conversion but we expect it to remain higher than the 80% going forward – currently it's at 88%.

Gloria Lam: I see. I think at the roadshow the cash conversion was compared from EBITDA instead of from process before cash, so the 88% you are referring to profit before tax or comparing to EBITDA?

René Kofod-Olsen: That's the EBITDA conversion.

Gloria Lam: Yes. Ok, that's all my questions. Thank you very much.

Operator: Thank you. We will take the next question from Nick Deleonardis of Harvard Management. Please go ahead.

Nick Deleonardis: Hi, just a couple of brief questions. On the two vessels that are going into the shop, how long will they be out of commission and what will the cost be?

René Kofod-Olsen: I didn't understand the first part of your question Nick, they are going into where?

Nick Deleonardis: Sorry, you pulled two out of Brazil and they are at the yard in Nigeria – is that correct?

René Kofod-Olsen: No. We had options to put them on contract for anchor handling in West Africa so they were in a very, very remote area of Brazil up in Fortaleza in the northern part of Brazil and by nature it's what we always do when we take vessels out of remote areas, we take them for a full refurbishment on our yard and we did that in the Ivory Coast in Abidjan

where they have a very good yard. They have just come out and they have been deployed now on contract in West Africa.

Nick Deleonardis: Great, understood. I misunderstood your comments earlier. On the EBITDA side in the global unit the provision that was taken, has that been added back in the number that I'm looking at for EBITDA or is that included in that number as a charge?

Pernille Fabricius: Can you explain your question again?

Nick Deleonardis: I'm just trying to understand whether or not you've already added back for the 3.6 provision or if that's included in that number?

Pernille Fabricius: The 3.6 is already taken out of that number.

Nick Deleonardis: Ok. That's it, thanks.

René Kofod-Olsen: Thanks Nick.

Operator: Thank you. As a final reminder to ask your question please press \*1 on your telephone keypad. We will pause for just a moment. As there are no further questions ladies and gentlemen at this point we will be handing the call back to Mr. Kofod-Olsen for his closing remarks. Any further questions can be sent to Robert Desai, Head of IR for Topaz whose contact details can be found in the IR section of the Topaz webpage.

René Kofod-Olsen: Thank you Rhonda. Just to say thanks ladies and gentlemen for calling in. Thanks for the questions and allowing us to elaborate further on the business. We will have the transcripts of the call and all that information on our webpage shortly after this meeting and I think it remains to say thank you again and look forward to speaking to you again next quarter. Goodbye.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.