

Topaz Energy and Marine

Financial results for the quarter ended 31 March 2017

Topaz announces Revenue of US \$58 million; Robust EBITDA margin of 53.6%

Dubai, UAE, Wednesday 24th May 2017: Topaz Energy and Marine, a leading offshore support vessel company, today announces its results for the three months ended 31 March 2017 ("the period").

	Three Months Ended		
	Q1 2017	Q1 2016	% change
Consolidated Revenue (US\$ m)	58.2	77.7	-25.1%
EBITDA (US\$ m)	31.2	39.7	-21.4%
EBITDA Margin (%)	53.6%	51.1%	+2.5ppt
Net Profit/(Loss) (US\$ m)	(3.3)	2.0	NM
Net Profit/(Loss) Margin (%)	(5.7%)	2.6%	-8.3ppt
RONA	4.0%	5.5%	-1.5ppt
Core Vessel Utilization	58.0%	75.0%	-17ppt

Business Highlights

- As anticipated, the first quarter was very challenging, yet we have delivered stable results amidst the continuing headwinds impacting our industry.
- Enhanced focus on cost control across the organization has resulted in savings of US\$9m for the quarter compared to the same period last year.
- Robust EBITDA margin of 53.6% despite constant challenges in Africa and MENA.
- Overall core fleet utilization at 58%, while we continue to demonstrate resilience in Azerbaijan with utilization at 88%.
- Fully compliant with financial covenants.
- Safety continues to be our top priority and fatalities remain at zero.

René Kofod-Olsen, Chief Executive Officer, Topaz Energy and Marine said, "When taking into consideration the unprecedented challenges facing our industry which have resulted in a collapse in demand that has impacted charter rates and ultimately affected the profitability of offshore vessel providers, our Q1 2017 results can be regarded as stable.

"Revenue for the quarter is at US\$58.2m which is down 25% compared with the same period last year. EBITDA is at US\$31.2m, down 21% compared with the same period last year. Our EBITDA margin has improved to almost 54% on the back of our persistent efforts to optimize our cost base and reshape the organization to better perform in a volatile and unpredictable market. Our operating costs reduced by US\$9m and stand at US\$38.5m for the quarter.

"Core fleet utilization for the quarter was 58%, which reflects the challenges in the spot market. In Azerbaijan where we have solid contract coverage, utilization was 88%, which is a testament to our strength in the region and a result of our solid operational performance. In the MENA and Africa regions we have continued to face severe pressure on rates and utilization in the spot market, with lower overall core fleet utilization of 50% and 33% respectively. The outlook in both regions remains very challenging. However, we have witnessed a slight uptick in MENA tendering activities and as a result reactivated two vessels which were in warm layup. We continue to have eight vessels from the MENA fleet and two vessels from the Africa fleet in layup. We will leverage our strong presence in the region to continue to pursue and win contracts. MENA and Africa remain long-term strategic markets for Topaz.

"Our contract backlog now stands at USD 1.5bn, double the amount of same period last year, and is a testament to our client engagement and track record. Major contracts included in the backlog are the Tengiz (TCO) contract worth in excess of US\$550m commencing in 2018 and an on-going long-term BP contract for 14 vessels. The Tengiz contract is a successful example of the execution of our strategy to expand Topaz' presence along our clients' value chain

"Although we remain fully compliant with all our financial covenants as of the reporting date, we have preemptively obtained approvals to reset the financial covenants on the senior secured facility (maturing 2022) from our long-term banking partners, enabling us to enhance our liquidity and headroom for the future.

"The outlook for the OSV market remains challenging. Although a rebound in oil prices will eventually boost demand, current significant over-capacity is resulting in rate pressures. 2017 is set to be a very difficult year for the industry but we are seeing green shoots in some markets and anticipate further recovery in the later part of the year. With our strong track record and client relationships, as reflected in our global vendor status from BP, Chevron, Exxon and Saipem, Topaz is well positioned to benefit from this recovery."

Financial Review

US\$ Millions

REVENUE	Three Months Ended		
	March 2017	March 2016	Variance
Caspian	45.4	51.1	-11.2%
MENA	10.9	20.2	-46.0%
Africa	1.9	6.4	-70.3%
Total	58.2	77.7	-25.1%

Revenue for the period was **\$58.2** million, a decrease of **25.1%** against corresponding revenue of **\$77.7** million in Q1 2016. This decrease is mainly due to (i) anticipated off-hire of barges and tugs in Kazakhstan of **\$4.2** million, (ii) off-hire of two subsea vessels of **\$2.2** million, (iii) lower mobilization revenue of **\$0.9** million (iv) loss of revenue of **\$4.6** million due to vessels laid up in MENA (v) loss of revenue of **\$6.6** million due to increasing market pressure on rates and utilization in the MENA and Africa regions. However, this decrease is partly offset by (i) a new vessel deployed on a long-term contract of **\$0.9** million.

US\$ Millions

DIRECT COSTS	Three Months Ended		
	March 2017	March 2016	Variance
Crew cost	10.6	16.4	-35.4%
Technical maintenance	3.4	4.4	-22.7%
Depreciation/Dry-dock	16.8	17.9	-6.1%
Mobilisation charges	0.3	1.2	-75.0%
Others	7.4	7.6	-2.6%
Total	38.5	47.5	-18.9%

Through relentless focus on operating cost which have been optimized in line with markets, Topaz decreased direct costs by **\$9** million, or **18.9%** year on year, to reach **\$38.5** million, compared to **\$47.5** million in Q1 2016.

Savings on maintenance have been achieved by negotiations with our core suppliers and were further supported by framework agreements. The decrease in depreciation/dry-dock is mainly due to the impairment charge reducing the depreciation amount. Additional savings have been achieved through vessel lay-ups.

Other savings consist of items such as insurance, idle costs, fuel, and health and safety which have been cut as a result of a strategic cost efficiency program while ensuring no compromise on the coverage or standards.

EBITDA	Three Months Ended		
	March 2017	March 2016	Variance
Caspian	31.2	33.8	-7.7%
MENA	2.8	7.1	-60.6%
Africa	-1.6	1.7	-194.1%
Corporate/adj.	-1.2	-2.9	-58.6%
Total	31.2	39.7	-21.4%

EBITDA decreased by **\$8.5** million, or **21.4%**, to **\$31.2** million during the period compared to **\$39.7** million in Q1 2016. This decrease mainly relates to (i) EBITDA loss of **\$4.3** million due to barges and tugs being off-hired in Kazakhstan (as per plan), (ii) EBITDA loss of **\$1.8** million on two subsea vessels and (iii) EBITDA loss of **\$6.3** million due to lower utilization of vessels in the MENA and Africa region. However, the decrease in EBITDA has been offset by the savings in overheads of **\$2.1** million and EBITDA contribution of **\$0.6** million by a new vessel deployed MENA.

Administrative Expenses:

Administrative expenses decreased by **\$2.1** million, or **24.9%**, to **\$6.4** million during the period compared to **\$8.4** million in Q1 2016. The decrease in administrative expenses is due to lower staff cost and various efficiency initiatives implemented across operational offices.

Finance costs:

Finance costs decreased by **\$0.7** million, or **4.8%**, to **\$13.8** million during the period compared to **\$14.6** million in Q1 2016.

Income tax expense:

Income tax expense decreased by **\$1.3** million, or **25.9%**, to **\$3.7** million during the period compared to **\$5.0** million in Q1 2016.

Cash flow

The cash generation as a percentage of EBITDA for the quarter ended March 2017 was 108% (March 2016: 133%).

The table below sets out a breakdown of cash flow for the three months ended 31 March 2017:

CASH FLOW	Three Months Ended		
	March 2017	March 2016	Variance
EBITDA	31.2	39.7	(8.5)
Changes in working capital	2.7	13.2	(10.5)
Cash generated from Operations	33.9	52.9	(19)
Cash conversion	108%	133%	
Income tax paid	(3.5)	(5.1)	1.6
Interest paid	(6.1)	(4.1)	(2.0)
Net Cash generated from operating activities	24.3	43.7	(19.4)
Cash used in investing activities	(6.1)	(15.4)	24.3
Cash used in financing activities	(0.5)	(8.5)	(7.0)
Increase/(decrease) in cash and cash equivalents	17.7	19.8	(2.1)

Investing activities include payment of **\$2.9** million towards expansion capex and **\$3.2** million towards maintenance capex. Investing activities also include a capex payment of **\$50.3** million, being the milestone payment to Vard under the new build contract which was fully funded by an advance payment received from the client. Financing activities include bilateral debt repayment of **\$7.5** million, **\$2** million repayment of parent company debt, **\$6** million payment of interest payments and **\$15** million receipt of a milestone payment from a customer towards non-capex payment.

Unutilized Banking Lines includes a Revolving Credit Facility of US\$100m expiring in April 2020. Our discussions with senior secured lenders to reset financial covenants for improved short- and long-term flexibility have been successfully concluded, and our ability to draw on the RCF thereby increased.

Financing

Facility	Maturity	Interest Rate	Repayment	Outstanding as at 31 Mar 17 US\$'000
Conventional and Islamic facility	7 years	3 month LIBOR + 2.75%	Quarterly with bullet repayment	292,907
Senior Notes	5 years	8.625%	Bullet	345,545
Total Topaz Loans				638,452

*Recorded as per International Financial Reporting Standards (IFRS) in US\$.

Bank Covenants

The senior secured borrowing arrangements include undertakings to comply with certain financial covenants. As at 31 March 2017, Topaz has complied with all financial covenants.

The following table sets out the Financial Covenants as at 31 Mar 2017:

Financial Covenant	Threshold	As at Mar 2017
Net Interest-Bearing Debt to EBITDA	< 4.50	4.26x
<i>Headroom</i>		5%
Tangible Net Worth	> \$400M	423M
<i>Headroom</i>		6%
Free liquidity (in millions)	> \$30M	57M
<i>Headroom</i>		91%
EBITDA to DSCR	> 1.2	1.54x
<i>Headroom</i>		28%

Capitalization

The following table sets out Topaz's consolidated cash, total indebtedness, shareholders' funds, total capitalization and net debt at the end of the last five quarters.

In US\$ million

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Change Mar'17 v Mar'16
Cash & Cash Equivalents	75	65	70	39	57	(18)
Floating Rate Senior secured loans	322	314	307	300	292	(30)
Other loans / Senior Notes ¹	343	344	344	345	346	3
Subordinated Shareholding Funding	103	103	91	81	78	(25)
Total debt	768	761	742	726	716	(52)
Total Equity	576	575	570	463	459	(117)
Total Capitalization	1,344	1,336	1,312	1,189	1,175	(169)
Net debt	693	696	672	687	659	(34)
Total debt / LTM EBITDA	4.39	4.48	4.48	5.0	5.3	-
Net debt / LTM EBITDA	3.96	4.09	4.09	4.7	4.8	-

¹ Recorded as per International Financial Reporting Standards (IFRS)

About Topaz Energy and Marine

Topaz Energy and Marine is a leading offshore support vessel company providing marine solutions to the global energy industry with primary focus on the Caspian, Middle East, West Africa and Subsea operations in the North Sea and the Gulf of Mexico. Headquartered in Dubai with 40 years of experience in the Middle East, Topaz operates a fleet of 100 offshore support vessels of an average age of 8 years. Topaz is a subsidiary of Renaissance Services SAOG, a publicly traded company on the Muscat Securities Market, Oman.

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