

Company: Topaz Energy & Marine

Conference Title: Financial Results for the Quarter ended 31 March 2014

Presenter: René Kofod-Olsen

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Operator: 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 & Marine.

René Kofod-Olsen: Thank you Sarah. Thank you to everybody for calling in at this quarterly update to our results. I have here with me Pernille Fabricius who is our Chief Financial Officer; and Robert Desai, our Chief Communications Officer. So we will just quickly run through the numbers and then we're going to open for the Q&A with the audience.

On that note I think it is relevant to start on page number 3 on the slides that we have uploaded and give to Pernille to share on the financial highlights.

Pernille Fabricius: Yes, so this slide basically shows quarter on quarter development ending with the first quarter 2014. This quarter shows profitable organic growth. Looking at the revenue, that is slightly down due to a temporary impact of dry docks of two vessels, but turning to the EBITDA that remains strong when comparing to prior quarters regardless due to two vessels which have been moved from bare-boat to ownership by Topaz eliminating bare-boating charges and adding depreciation, better utilisation and an increase in day rates as well. That also positively impacts the profit after tax and the profit after tax margin.

Turning to page 4, comparing Q1 2014 with Q1 2013 we have seen strong growth on revenues that are up 7% and EBITDA up 22%. The growth stems primarily from the new vessels that are adding to the fleet and compared to last year continued strong utilisation, vessel day rates positively impacted as well and saving on bare-boat costs which were

described just before. In addition to that cash flow from operations has increased due to a high focus on collection of debtors over the course after Q1 2013. Consolidated interest expenses are up and that is due to the fact that Topaz has additional debt for the acquisition of vessels and in addition to that has a higher rate of interest because of the bond rates, but that is absolutely in line with expectations.

If we then turn to the Q1 performance on selected KPIs you can see that the utilisation of the core fleet continues to be strong. The average day rate of core fleet has basically increased by 4% so that is also up as I just described; and the backlog remains very strong at 1.2 billion. The number of vessels which is a net-off in development, sale of non-core vessels and add of core vessels now sits at 95 vessels and the average vessel age is 6.7 years so that is even down from last year. If we look at the capital structure, the capital structure is exactly as expected. We have reduced the cash and cash equivalents following the use of the rest of the bond proceeds and use of the cash for the acquisition of the vessels. The total external debt now sits at \$661 million so that is up compared to last year for the acquisition of vessels. Shareholder loans were brought down last year to \$134 million and that leaves us with a gross leverage of 4.7 times net of 4.5 and eliminating shareholder loans 3.8 times with the aim for the year end to go at a net leverage below 4.

Over to René.

René Kofod-Olsen: Thank you very much Pernille. So on page number 7 one of the backdrops of our high utilisation is obviously that we have a very high focus on our safety environment and we are still at an expected zero from our lost time incidence and this is an area where we continue to spend a lot of money both in terms of hard cash investments in people and in assets in terms of keeping the safety record very, very high.

On the last page of the deck, on page number 8 we continue to invest in the OSV core business of our fleet. We believe that those investments are substantiated by continued good

fundamentals in the industry we are in and in the markets that we have decided to play in. We see good capex inflow from the oil majors and we share a very good relationship with all those players in the markets that we are in. We have effectively deployed the five new vessels we bought in China at the end of last year in West Africa. The latest one, the Topaz Seema that we took delivery of is now awaiting a contract but we have just taken delivery of it, so that has been a very successful acquisition of a five vessel fleet.

In terms of the short outlook, we have seen the project in Azerbaijan finishing on time or slightly ahead perhaps and we are seeing a little delay in the massive Shah Deniz-2 project that will start in 2-4 months and the amount of vessels has gone off-hire prematurely but they will all come off-hire again as the new project kicks off again. I reiterate that the Shah Deniz project of which we will be a prime supplier of OSV vessels is a \$50 billion investment by BP and their partners in Azerbaijan.

So you can say a soft outlook for Q2 but we stay absolutely confident in the full year results of Topaz. On that note I think we have covered our short and crisp presentation deck and it would be great to have a Q&A at this moment in time. Thank you very much. Back to you Sarah.

Operator: Please go ahead Miss Gloria Lam from Waha Capital, please ask your question.

Gloria Lam: Just a question on dividend, because on your cash flow statement there is a line of dividend payments of around 20 million in Q1. I just wondered, was the dividend policy or the payment restriction on dividend as per the bond covenant and what's the company plans going forward?

Pernille Fabricius: We have a covenant on dividend payment which says that we can pay half of the profit after tax out and we have basically kept that covenant in line also with what has been decided on the board meeting in Topaz for the payment to the shareholder and we have paid out 20 million in the first quarter.

Gloria Lam: Is it a quarterly payment and the company will pay it every quarter?

Pernille Fabricius: After the year of '13 we had a board meeting and we basically decided what is to be paid out and we looked at the covenants and we decided to pay this amount, 20 million.

René Kofod-Olsen: So this is for the 2013 annual result as Pernille is explaining and this is a one-off payment. We don't have any mandatory dividend policy. This is decided on a year on year basis.

Pernille Fabricius: We also don't pay on account. We pay only on an annual basis.

Gloria Lam: I see, got it. My second question is related to the vessels. Is there the latest valuation of all marine vessels based on third party appraisers?

René Kofod-Olsen: Could you please ask that question again Gloria?

Gloria Lam: Sure, sure. So what is the latest valuation of all the vessels based on a third party appraiser because I think when Topaz first came to the market in the roadshow there was a third party appraisal figure.

René Kofod-Olsen: Just after \$1.3 billion in March.

Gloria Lam: And in terms of capex plan for the rest of 2014, would it be possible to give us some guidance?

René Kofod-Olsen: We have previously given guidance Gloria to you that we have a base case model of investing \$100 million a year in our core assets and that we stay true to, then we might have periods where we are turning up that lever like last year where we invested \$240 million but our base case is that we invest \$100 million in core vessels per year, so that's the guidance I can give you.

Gloria Lam: Got it. Is this the cash balance as of end of Q1 is not too high and incumbent cash is just around 12 million or 13 million, does the company plan to raise some of the senior secure loans that are to be matured in 2014?

Pernille Fabricius: We monitor the cash very well and this level is in line with the outlook that we've had for '14. In terms of refinancing we do of course look at the balance sheet the whole time to ensure that the cost of debt is at the right level but we have no immediate plans to go for a refinance.

Gloria Lam: I see, got it. My last question is generally related to the sector as a whole because for some of your peers in maybe other regions they see a lower debt rate and utilisation rate. Would it be possible to give us some colour on the trend in the OSV universe?

René Kofod-Olsen: I think Gloria that would be to start speculating in how the market will go but what I can tell you is that we have for the last many years been keeping a very stable average day rate and high utilisation and we have no reason to believe that will not continue. We have generally a more conservative business case in terms of contracting. We are not deeply involved in the North Sea for instance which is a highly cyclical market where that can command very high day rates but also shoot down and traction in very low rates of course over long periods. We have been more stable markets and we go for the more stable returns, so if you look at it from quarter 2013 to quarter 2014, first quarter against first quarter, we have increased the average rate by about \$600 and kept the same high utilisation at about 93% in that quarter, so a very stable business and we foresee it that we will do that in the future as well. Now once in a while you will hit turbulent waters but they will be short periods. On average over the year we have shown a very stable trajectory.

Gloria Lam: Ok, got it. Thanks a lot for answering these questions, thank you.

René Kofod-Olsen: No, thanks for asking them.

Operator: Thank you. Again as a reminder if you would like to ask a question please press *1.
We will now take the next question from Agnese Aboltina of Arrowgrass Capital. Please go ahead.

Agnese Aboltina: Hi, good afternoon. Thank you very much for your presentation. I just had a question, a general question in terms of the situation in Russia and given your geographical exposure to the Caspian Sea whether you are anticipating any effects on your business?

René Kofod-Olsen: That's a great question. We have just taken the Caspian Voyager through the Volga-Don system which is part of Russia of course and very close to the Ukraine. We have had no disruption at all and we have seen no disruption in the Caspian Sea where we operate, nor in the Filanovsky field in Russia. We believe that this is a very isolated crisis, however tragic it is, to the Ukraine and we don't foresee any imminent or future impact on that for our business.

Agnese Aboltina: Thank you.

Operator: Thank you. Again as a reminder if you would like to ask a question please press *1.
We will now take the next question from Patrick Sheffield of Beach Point Capital. Please go ahead.

Patrick Sheffield: Good morning or afternoon I guess where you guys are. Do you guys have any revised guidance figures for EBITDA for the year?

Pernille Fabricius: So I think this is a question for me. The outlook that we have given previously, we still stand by. As René says we have seen a little bit of softness but we stand by that outlook.

Patrick Sheffield: Would you mind going through briefly again why the second quarter is supposed to be soft?

René Kofod-Olsen: This is happening once in a while. We are having a project that ended in Azerbaijan at the time or just a little bit ahead of schedule actually and we have a project where these vessels have been pegged to that starts a little bit later which is Shah Deniz-2 which I am sure you have seen in the international press, it's a \$50 billion project, so that will absorb more than the vessels we actually have in there available now, so we had those gaps occasionally and then we are fast-tracking, in April we fast-tracked a couple of dockings in West Africa simply because of their contracting cycle, so we took them in for docking in Nigeria now and that means that in the same period next year they will not go in for that docking. So that is a logistical challenge that we once in a while have, so that has hit us in April and the start of May but we expect to deliver our full year results and rest fully confident. You can say the gaps that we have been seeing in those particular months will align themselves as well for when the project in Azerbaijan starts because they will actually be on higher rates, so we rest confident.

Patrick Sheffield: Ok, but it's sort of a timing issue that you believe will be made up for?

René Kofod-Olsen: I mentioned to your colleague just before, you will always have to navigate turbulent waters when you're operating 100 vessels across four different places of the world, but we look at the year as a whole and those contract and utilisation fleets will even out. If you look at our EBITDA margins in the last five or six years, they have all been mid-40s to high-40s and for the core assets of our business with 95% of our balance sheet has really been above 90% utilisation, so that is the empirical evidence that this is absolutely seen before and we expect these blips. If you go back in our results from last year you will have seen the equivalent blip in January-February where we had a couple of MPSV not working or in between contracts and you will see how that then evened out in that period during the second quarter.

Patrick Sheffield: Ok, great. Would you mind just quickly reminding me what your full year EBITDA number was?

René Kofod-Olsen: I don't think I've mentioned that before so I am just...we rest confident – but thanks for trying – we rest confident in our results and we will deliver a solid number as we have said previously.

Patrick Sheffield: Great. Thanks very much.

René Kofod-Olsen: You're welcome.

Operator: 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: I merely have to say thank you for your questions and for listening in. We look forward to presenting the half year results to you next time we invite for a call. Thank you very much.