

Topaz Energy and Marine

Financial results for the six months ended 30 June 2016

Stable EBITDA and robust EBITDA margin despite challenging market

Dubai, UAE, Thursday, 25 Aug 2016: Topaz Energy and Marine, a leading offshore support vessel company, today announces its results for the six months ended 30 June 2016 ("the period").

	Three Months Ended			Six Months Ended		
	June 2016	June 2015	% change	June 2016	June 2015	% change
Consolidated Revenue (US\$ m)	71.8	90.1	-20.3%	149.5	175.4	-14.8%
EBITDA (US\$ m)	36.9	41.3	-10.7%	76.6	80.8	-5.2%
EBITDA Margin (%)	51.4%	45.8%	+5.6ppt	51.2%	46.1%	+5.1ppt
Net Profit (US\$ m)	(0.7)	(4.1)	+82.9%	0.8	(3.1)	+125.8%
Net Profit Margin (%)	(0.9%)	(4.5%)	+3.6ppt	0.5%	(1.8%)	+2.3ppt
RONA	-	-	-	5.1%	5.8%	-0.7ppt
Core Vessel Utilization	-	-	-	72.8%	85.1%	-12.3ppt

Business Highlights

- TCO contract worth more than US\$350 million signed in May. The deal is to construct, supply and operate 15 vessels for a minimum period of three years to Chevron operated TCO in Kazakhstan.
- The TCO award and the major BP contract signed in Q1 bring the company's order backlog up by 23% to US\$1.6bn.
- A further TCO related contract award is expected in the third quarter worth an additional US\$150 million.
- Stable EBITDA and robust EBITDA margin of 51.2% despite rate pressure in Africa and Mena.
- Strong performance in the Caspian with Azerbaijan fleet utilization of 94%.
- Rigorous cost containment drive achieving desired results with direct costs 15.3% lower versus the same period last year; cash preservation program continues.
- Four vessels mobilized to Caspian from Mena to pursue better opportunities.
- Seven vessels in lay-up (5 in Mena and 2 in Africa) to reduce operating costs.
- Fully compliant with banking covenants.
- Consistent safety record; fatalities remain at zero.

René Kofod-Olsen, Chief Executive Officer, Topaz Energy and Marine said, "We have delivered a solid performance for the six months to 30 June 2016. Although our revenue has softened against the six months of 2015, our EBITDA has remained robust and we have improved our EBITDA margin to just over 51%.

"Our Caspian and Azerbaijan fleets continued to deliver, with a utilization rate of 94% in Azerbaijan. Our Mena and Africa regions have had a challenging six months as the Mena market moves increasingly to spot rate contracts and our clients reduce or delay investment in the West Africa offshore market. We expect the Caspian and Azerbaijan fleets to deliver a solid performance for the remainder of the year, where we generate the majority of our EBITDA.

"One of Topaz's most significant contracts was secured during the period: our US\$350 million contract with the Tengizchevroil (TCO) joint venture in Kazakhstan to construct, supply and operate 15 vessels for a minimum period of three years. The contract requires innovative vessels able to navigate shallow river systems and we have engaged Vard to construct these vessels on our behalf. We will deploy the vessels in Q2 2018. This landmark contract in addition to the 14 vessel BP contract award during Q1 bring our order backlog to US\$1.6 billion, an increase of approximately 23% against the same period last year. Our ability to secure such significant and long-term contracts with world leaders in oil and gas underlines the competitiveness and operational reliability of our business. These are both agreements based on medium to long term engagements, which enhance our earnings visibility and our credit strength.

"As market demands change, we are responding dynamically by optimizing our vessel allocation and our cost structure. Our versatile fleet means that we have been able to redeploy vessels from lower utilization regions to regions where we can put assets to work for clients. We have mobilized four of our vessels from Mena to Russia to pursue long-term work. Our strategic cost efficiency program has successfully contributed to the improvement in our EBITDA margin which is now at just over 51% compared to our historic average of mid to high 40s. Direct costs are now 15% lower than last year and we are closely managing our cash position.

"We expect the trading conditions for the rest of the year to continue being highly challenging. However, our major contract wins during the period demonstrate our continued ability to secure long-term work with reputable clients, capturing increasing value from this soft OSV market."

Financial Review

REVENUE	Three Months Ended		Six Months Ended		
	June 2016	June 2015	June 2016	June 2015	Variance
Caspian	53.8	57.1	104.9	111.9	(7.0)
MENA	15.4	27.2	35.7	52.5	(16.8)
Africa	2.6	5.8	8.9	11.0	(2.1)
Total	71.8	90.1	149.5	175.4	(25.9)

Note: The above table has been prepared considering recent vessel movements between regions and accordingly the figures of the last quarter have been re-classified for like-to-like comparison.

Revenue for the period of **\$149.5** million decreased by **14.8%** against corresponding revenue of **\$175.4** million in the same period last year. This lower revenue is mainly due to (i) off-hire of five barges in Kazakhstan of **\$4.2** million, (ii) offhire of one subsea vessel due to breakdown of **\$4.3** million, (iii) two laid-up vessels in Africa due to lower demand of **\$2.4** million (iv) day rate reduction on BP long term contract of **\$5.6** million, (v) loss of revenue of **\$19.5** million due to increasing market pressure on rates and utilization in the Mena and Africa regions. However, this decrease is partly offset by (a) better utilization of one subsea vessel of **\$3.3** million, (b) better utilization of one vessel working in Africa of **\$2.9** million and (c) better utilization of barges in North Caspian of **\$3.9** million.

Geographical segments - Revenue

Caspian:

During the period, revenue decreased by **\$7.0** million, or **6.3%**, to **\$104.9** million compared to **\$111.9** million in the same period last year. This lower revenue is primarily attributed to the (i) off-hire of five barges in Kazakhstan of **\$4.2** million, (ii) day rate reduction on BP long term contract of **\$5.6** million and (iii) one-off mobilization revenue of **\$1.9** million on two vessels in Caspian considered in the same period last year. However, this decrease is partly offset by better utilization of barges in North Caspian on account of an extended winter season resulting in an increase of **\$3.9** million.

Mena:

During the period, revenue decreased by **\$16.8** million, or **32%**, to **\$35.7** million compared to **\$52.5** million in the same period last year. This decline is primarily attributed to the lower utilization of one subsea vessel due to breakdown resulting in revenue loss of **\$4.3** million and the loss of revenue of **\$15.8** million due to lower utilization on account of rate pressure as the market shifts towards spot contracts. However, this decrease was slightly offset by better utilization of one subsea vessel contributing an additional **\$3.3** million.

Africa:

During the period, revenue has decreased by **\$2.1** million, or **19.1%**, to **\$8.9** million compared to **\$11.0** million in the same period last year. This decrease is primarily due to

two vessels which are under layup to reduce costs resulting in revenue loss of **\$2.4** million and lower utilization of one vessel due to contract expiry resulting revenue loss of **\$3.7** million. However, this decrease is slightly offset by the better utilization of two vessels resulting in higher revenue of **\$4.0** million as compared to last year.

DIRECT COSTS	Three Months Ended		Six Months Ended		
	June 2016	June 2015	June 2016	June 2015	Variance
Crew cost	13.9	19.9	30.4	39.8	9.4
Technical maintenance	5.1	5.2	9.5	10.1	0.6
Depreciation / Dry-dock	18.0	17.0	35.9	33.7	(2.2)
Mobilisation charges	1.8	3.7	3.0	7.2	4.2
Others	5.5	8.8	13.0	17.6	4.6
Total	44.3	54.6	91.8	108.4	16.6

Direct costs for the period have decreased by **\$16.6** million, or **15.3%**, to **\$91.8** million, compared to **\$108.4** million in the same period last year.

The savings have been achieved in all cost heads but more specifically in crew cost, vessel cost after lay-up and vessel mobilization cost.

The increase in depreciation/dry-docks is mainly due to the increase in the number of vessels and the amortization of dry-dock costs of an unusually high number of dockings undertaken in 2015.

Other savings are mainly due to the strategic cost efficiency program resulting in savings in procurement, fuel, insurance, and other operating costs as compared to last year.

EBITDA	Three Months Ended		Six Months Ended		
	June 2016	June 2015	June 2016	June 2015	Variance
Caspian	36.2	36.1	70.1	67.3	2.8
MENA	3.0	10.1	10.1	20.3	(10.2)
Africa	(0.7)	0.5	1.0	(0.6)	1.6
Corporate / adj	(1.6)	(5.4)	(4.6)	(6.2)	1.6
Total	36.9	41.3	76.6	80.8	(4.2)

Note: The above table has been prepared considering recent vessel movements between regions and accordingly the figures of the last quarter have been re-classified for like-to-like comparison.

EBITDA has decreased by **\$4.2** million, or **5.2%**, to **\$76.6** million during the period compared to **\$80.8** million in the same period last year. This decrease mainly relates to: (a) EBITDA loss of **\$4.1** million on five barges being off-hire in Kazakhstan, (b) EBITDA loss of **\$4.4** million due to breakdown of one subsea vessel and (c) impact of drop in day rates under BP long term contract resulting lower revenue by **\$5.6** million and (d) EBITDA loss of **\$14.6** million due to lower utilization of vessels in Mena and two laid-up vessels in Africa region. However, this decrease in EBITDA has been largely offset by the savings in operating costs of **\$21.4** million and better utilization of one Subsea vessel contributing **\$3.1** million.

Geographical segments - EBITDA

Caspian:

EBITDA increased by **\$2.8** million during the period compared to the same period last year mainly due to the savings of **\$6.1** million in operating cost, **\$2.5** million net savings in mobilization cost and better utilization of vessels in Kazakhstan due to an extended winter season contributing EBITDA of **\$3.9** million. However, savings in cost was partly offset by an EBITDA loss of **\$4.1** million on the five Com barges in Kazakhstan and the impact of a drop in day rates under a BP long term contract resulting in lower revenue by **\$5.6** million.

Mena:

EBITDA decreased by **\$10.2** million during the period as compared to same period last year mainly due to offhire of one subsea vessel (breakdown) resulting in a loss of **\$4.4** million, loss of EBITDA of **\$8.9** million due to lower utilization on account of intensified competitive pressure with vessels under lay-up. However, this decrease is slightly offset by better utilization of one subsea vessel contributing EBITDA of **\$3.1** million.

Africa:

EBITDA increased by **\$1.6** million during the period compared to same period last year mainly due to cost savings as two vessels are under lay-up and other cost control measures.

Administrative Expenses:

Administrative expenses decreased by **\$2.6** million, or **12.9%**, to **\$20.1** million during the period compared to **\$17.5** million during the same period last year. The decrease is mainly due to savings in staff cost and other cost efficiency initiatives.

Finance costs:

Finance costs decreased by **\$8.3** million, or **21.7%**, to **\$30.0** million during the period compared to **\$38.3** million during the same period last year. The reduction in finance cost is on account of last year's one-off, non-cash charge of **\$8.3** million relating to the unamortized costs on refinanced facilities.

Income tax expense:

Income tax expense decreased by **\$1.8** million, or **16.1%**, to **\$9.4** million during the period compared to **\$11.2** million during the same period last year. This decrease in tax is broadly in line with the drop in revenue.

Cash flow

The cash generation as a percentage of EBITDA for the half year ended June 2016 was 121% (H1 2015: 100%). High cash conversion was attributable to the focus on debt collection from overdue debtors.

The following table sets out a breakdown of cash flow for the six months ended 30 June 2016:

CASH FLOW	Three Months Ended		Six Months Ended		
	June 2016	June 2015	June 2016	June 2015	Variance
EBITDA	36.9	41.3	76.6	80.8	(4.2)
Changes in working capital	3.0	(7.7)	16.2	-	16.2
Cash generated from Operations	39.9	33.6	92.8	80.8	12
Cash conversion	108%	81%	121%	100%	
Income tax paid	(5.8)	(4.7)	(10.9)	(10.5)	(0.4)
Interest paid	(24.0)	(23.2)	(28.1)	(26.7)	(1.4)
Net Cash generated from operating activities	10.1	5.7	53.8	43.6	10.2
Cash used in investing activities	(12.3)	(17.8)	(27.7)	(32.2)	4.5
Cash provided by financing activities	(7.5)	(25.7)	(16.0)	(33.2)	17.2
Increase/(decrease) in cash and cash equivalents	(9.7)	(37.8)	10.1	(21.8)	31.9

Investing activities include payment of \$16 million towards expansion capex and \$11 million towards maintenance capex. Investing activities also include the capex payment of US\$55 million, being the first milestone payment to Vard under the new build contract which was fully funded by advance payment received from the client of US\$57m.

Financing activities include repayment towards refinancing of \$15 million and \$1 million towards parent company debt.

Unutilized Banking Lines includes project Aurora RCF of US\$100m expiring in April 2020. However, our ability to draw down is restricted due to limited covenant headroom.

Financing

In US\$ '000s	Maturity	Interest Rate	Repayment	Outstanding as at 30.6.16*
Conventional and Islamic facility	7 years	3 month LIBOR + 2.75%	Quarterly with bullet repayment	314,489
Senior Notes	5 years	8.625%	Bullet	343,646
Total Topaz Loans				658,135

*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 30 June 2016, Topaz has complied with all financial covenants.

The following table sets out the Financial Covenants as at 30 June 2016:

Financial Covenant	Threshold	As at June 2016
Net Interest Bearing Debt to EBITDA	< 4.25	3.48
<i>Headroom</i>		18%
Tangible Net Worth	> \$500M	545
<i>Headroom</i>		9%
Free liquidity (in millions)	> \$30M	119
<i>Headroom</i>		298%
EBITDA to DSCR	> 1.2	1.50
<i>Headroom</i>		25%

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

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Change Jun'15 v Jun'16
Cash & Cash Equivalents	42	50	55	75	65	23
Floating Rate Senior secured loans	343	336	329	322	314	(29)
Other loans / Senior Notes ¹	341	342	342	343	344	3
Subordinated Shareholding Funding	106	106	104	103	103	(3)
Total debt	790	784	775	768	761	(29)
Total Equity	644	653	574	576	575	(69)
Total Capitalization	1,434	1,437	1,349	1,344	1,336	(98)
Net debt	748	734	720	693	696	(52)
Total debt / LTM EBITDA	4.08	4.15	4.44	4.39	4.48	
Net debt / LTM EBITDA	3.87	3.88	4.13	3.96	4.09	

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 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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