

Company: Topaz Energy & Marine
Conference Title: Q2 & H1 2014 Results
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: Hello everybody. Thanks for calling in for our quarterly and H1 results. As usual it's a pleasure to have that many people on the call. We will go through the numbers in the presentation that has been uploaded and start basically on page number 3 where Jay Daga, our Deputy CFO will take us through the crisp outlook on our numbers.

Jay Daga: Hello ladies and gentlemen. Let me run you through the financial performance of the company for the past six months. We have had a steady half year so far. We have as compared to the previous year the revenues are a bit up on the back of the new asset which has been added so there has been a little bit of churn of our asset quality to add some new tonnage and reduce some of the old tonnages. EBITDA has increased by almost 5 percentage points which is going to be sustainable, a bit up for the next few quarters which is a very positive sign. The cash flow from operations has also increased. We have carried out a lot of initiatives to optimise our cost base which started last year so it has started showing the positive results in terms of higher EBITDA percentage and higher EBITDA real numbers. The cost of financing has increased as anticipated on the back of the high yield bond which was raised. The money has all been profitably deployed so there's a bit of a lag between the EBITDA and the cost of the funding, so we shall see the full impact of all the investment carried out from the proceeds of the debt in the coming next six months.

On page number 4 we have Q2 performance basically carved out from the half year, the revenue of the second half to second quarter of 2014 is showing a bit of a decline. Now that decline is for two factors, one is that the previous year there was an increase of sale proceeds of an asset which has to be adjusted from the numbers; and also there were a couple of vessels which were on repair and maintenance, so they have a planned revenue reduction. As such there is no risk in terms of these vessels going back to charter and we achieving our target number for the rest of the year.

EBITDA is following the same trend as we spoke about in the half year numbers, so the EBITDA for the period is 5% ahead of the last year's number and the interest cost again in line with the half year number, so we anticipate that the coming quarters and thereafter the numbers would improve on the back of the assets which were not in service for Q2 going back to service in Q3 and Q4.

The quarterly trend, again a consistent trend if we eliminate the one-off items or the aberrations here and there, we continue to clock in approximately between \$95-100 million revenue per quarter and EBITDA margin would be sustainable 40-50% in the past few quarters. The past number is affected by the increase in the finance costs – again that will catch up with the higher EBITDA numbers in Q3 and Q4, so we have a consistent business and on the back of the order book and the contract covers we have, we do not anticipate any downside or any blip in the performance as we proceed in the subsequent period.

Core fleet utilisation, 90% as per the plan on page number 6. This rate is again consistent with what we have declared in the last few quarters. The number of vessels have increased because of the new tonnage getting added in the fleet. By the end of the year there will be an initial couple of vessels getting added in the fleet so we anticipate to go up 99 vessels as we speak in Q3 and the new tonnage is affecting our average age which is now showing a decline from 7.5 to just below 7 as of 30th June 2014.

René Kofod-Olsen: Thank you Jay. So on page number 7 just for everybody to follow, we have recently announced a further optimisation of our capital structure. We have accepted a private equity minority investment from Standard Chartered Private Equity Bank of 9.8%, the equivalent of \$75 million of equity coming into the company. Those funds will remain in Topaz and with a mixture of deleveraging our balance sheet and funding our growth aspirations as has been laid out in our 2012 strategy. We have as Jay mentioned been adding four new vessels to the fleet. During this year we will add one more now in the third quarter and have just committed to the last three in the series all as per the plan of keeping a young and very marketable fleet in the same growth markets that we have explained again in our 2012 updated strategy.

Going on to the next page, I believe that I have sufficiently covered this page. We are obviously very humbled by the interest that has been shown in the company and certainly to have a formidable private equity company like Standard Chartered Bank in our company, they will hold one board seat in the Board of Directors of the company.

Jay Daga: On page number 9 on the capital structure, as you could see we have the total external debt of \$700 million which is again as per the plan after taking into account the bond which was raised in the last two years, end of the year, so that's \$300 million which is invested into new assets. The shareholders' loan, again it continues with the same place what it was last year but there is amortisation as per the terms coming at the end of the year. The gross leverage is higher at this point in time if you look at it on the basis of the last 12 month numbers, but as we start generating EBITDA out of the money which has been already invested into defined assets and into the contract, we expected the leverage to slowly go down in the coming quarters and of course that also reflects in the net leverage as of the period end 30th June 2014.

In respect of our covenants again you could see that we have sufficient headroom in all our coverage structure and again these covenants are on the basis of the last 12 month numbers, so on the basis of pro forma basis we will only see that we get bigger headroom on at least the two key covenants which is net interest as bearing debt to EBITDA and EBITDA to interest.

René Kofod-Olsen: On page number 11 we always have an update on our safety track record and we're obviously very pleased with continuously not only improving on our fleet in terms of the growth but also keeping a very, very high, top of the industry safety record. That's one of the elements of this company that is always the highest on the agenda.

Moving into the next page and the market outlook, we generally in the markets wherein we operate have a positive forecast on our opportunities in those markets. Across the board we see a number of oil majors investing in offshore assets that will all need anywhere between 3-5 OSVs that are within the segments that we operate. On some of the subsea segments, the bigger vessels we see an equivalent increase of interest as the installations move more deep sea and there is a demand for reputable operators with strong track records and even a demand to go further into more affiliated services on-board those vessels like ROE and so on, so generally we see a good trend in the market for the assets that we are deploying and investing in and are quite positive on the general outlook.

So that brings me into the final page on page number 13. We see generally leading up to what I mentioned on the market, we see generally a very high 90% utilisation at this moment in time of our fleet. We are even having opportunities that we have to decline in some markets simply because we don't have the assets available which is a good place to be and by the way necessary to keep on a high 90+ utilisation. We continue to invest in modernising our fleet. We are just under seven years on an average against a 15 year industry average level. We see good traction in specifically West Africa. We see good traction in some of the subsea vessels we are in and certainly also here in the Middle East, notwithstanding the Caspian

where some important projects are coming up both in Azerbaijan, Russia and in Turkmenistan, so generally we are positive to the market outlook of the industry and we continue our investment strategy as we have hitherto been describing.

So that ends the presentation for today and as usual I will now bring it back to the operator and we can have a solid Q&A. Thank you.

Operator: Thank you 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 and wait for your name to be announced. If you wish to cancel your request please press *1. Once again please press *1 if you have a question.

We will now take our first question from Gloria Lam of Waha Capital. Please go ahead.

Gloria Lam: Hi gentlemen, thank you very much for the presentation. Just a couple of questions on both the operations side and regarding the new equity investment from Standard Chartered. On the operations side first, in the presentation it says there are five boats in between contracts. I noticed debt of these five vessels, are they placed on your contracts now or what's the status?

René Kofod-Olsen: Gloria, just to ensure that I understand your question, are you talking about the new PSVs or are you talking about the vessels in Caspian that are in between contracts?

Gloria Lam: The vessels in Caspian.

René Kofod-Olsen: That is what we described in the last conference call that we did expect a slower Q2 basically because there was an important project called the COP Project that ended on time or a little earlier and we have the very important Shah Deniz 2 project started in Azerbaijan a little later than anticipated where they will need these vessels in the marine spread. So we did anticipate that there would be a temporary gap in earnings from those

vessels but they have been more or less deployed in that period to alternative contracts, but that was exactly as we expected.

Gloria Lam: I see. If I try to do the projections, the five vessels continue to generate revenue from Q3 onwards?

Jay Daga: Yes, they would be on a similar basis as the average of the entire period of six months.

Gloria Lam: Ok, got it. Then in terms of the new capital coming from Standard Chartered, so do you expect after this new equity injection to the company, do you expect any new capex or any new expansion plan?

René Kofod-Olsen: Thank you for that question. We always have a base case model of \$100 million of assets to the fleet on an annual basis and that base case will continue. As we have said early on always, we always are on the lookout of more strategic options. We are not an aggressive company in terms of either mergers or acquisitions but we always look at where any such would make sense, so we continue the base case Gloria of about \$100 million as target for vessel additions and that is exactly the strategy also behind accepting this minority investment. We do not have this investment picked to any specific special project beyond our strategic plan that we are executing today.

Gloria Lam: Got it. In your presentation it mentions that the net debt to EBITDA target by end of 2015 is 3.5. Could you also share with us your target on EBITDA interest coverage if possible?

Jay Daga: The EBITDA interest coverage at the end of 2015?

Gloria Lam: Yes, if there is an internal guidance that you can share with us?

Jay Daga: Unfortunately our internal guidance is very conservative and we will continue with the conservatism we have, so knowing that our EBITDA for this year will have self-sufficient headroom on the basis of the bond covenant here, so we would be conservatively managing our interest cover.

Gloria Lam: Then another question I have is in terms...can you also share with us the latest valuation of all the vessels?

Jay Daga: We haven't got the latest valuation done for the assets but the last revision was done at the end of June, only a couple of months old and they are consistent with what was the valuation earlier, so this is no major deviation from the previous valuation.

Gloria Lam: That is actually my last question. Did the company pay some annual dividend or just pay annual dividend?

René Kofod-Olsen: I believe we covered that also last time Gloria. We have an annual dividend and we paid our 2013 dividend in April I believe and again we only have discretionary dividend to our owners and that is on an annual basis if it's going to be allowed.

Gloria Lam: Got it, that's very clear. Thank you very much.

René Kofod-Olsen: Thank you Gloria.

Operator: As a reminder to ask a question at this time please press *1. We will now take our next question from Kia Edelstein of Emirates. Please go ahead.

Kia Edelstein: Hi everyone, thank you very much for the conference call. I was just wondering if you could answer this question for me, I'm sure you're tired of speaking about this already but just an update on your Russian operations and if you could give us any update since the last conference call if there is anything new given the situation there? That would be great, thanks.

René Kofod-Olsen: Thanks for that question. It is clearly a situation that we are following very, very closely with our colleagues in Russia and generally our colleagues in the Caspian. We have not been impacted by any of the current political sanctions with the small operation that we have in the Filanovsky field for Saipem. Should that change then we do not have a lot of balance sheet deployed in the Russian sector of the Caspian, so it will have an immaterial impact on us, but we will of course be saddened to have to redeploy those assets away from what we describe as a great opportunity now and for the future, but of course political sanctions will make it impossible for us or any other to operate in there, we will of course take that into consideration like we do with any other international sanction. In terms of the Russian-Ukraine considerations directly where you have the Volga-Don going through Ukraine into the Caspian, we deployed a vessel, the Caspian Voyager through the Volga-Don system during March and we had no impact on that vessel from any of the political turmoil that unfortunately is going on in that area, so this is something that should be deployed, more vessels either in or out of Caspian under the current situation we will take all necessary safety and security guidelines before doing so.

Jay Daga: Our counterparty there is Saipem so therefore we don't expect any risk on the receivables should any untoward situation arise.

Kia Edelstein: Ok, great. The vessels that are currently deployed there, can you tell us which type of vessels I guess? Are they sort of support vessels or are they...I guess just which types?

René Kofod-Olsen: They are what we have previously described as the non-core assets. That doesn't mean that we are not running them for the oil majors, but they are what we describe as non-core vessels. So they are crew boats, small tug boats and barges.

Kia Edelstein: Ok, that's great. Then just lastly your net debt to EBIT target was 3.5 times, I'm sorry, I didn't hear earlier on the other question – was that by 2015 or 2016?

Jay Daga: That would be by 2016.

Kia Edelstein: Great, alright. Thank you very much. That's my last question.

René Kofod-Olsen: Thank you.

Operator: We will now take our next question from Deepa Abraham of Old Mutual. Please go ahead.

Deepa Abraham: Hi. I had a question about your capex spend. Do you have any capex planned over and above the 100 million for the next 2-3 years?

René Kofod-Olsen: The base case is \$100 million for the business but clearly as we have always run the company when there is an opportunity that fits with a strategic plan of Topaz and moving forward without any deviations from that, we will clearly look at that, so the answer is yes but we do not have any specific target over and above the \$100 million as a base case whether it be single assets or acquisitional targets.

Deepa Abraham: I'm keeping in mind also your slightly higher leverage at the moment. Do you have a target leverage for 2013 and this year and is there a coverage in place which is tightening going forward?

René Kofod-Olsen: Absolutely. Thank you very much for that question. As Jay just described our target is to have a net debt leverage of 3.5. Now what you have to understand in our kind of business is that you mobilise cash before you actually receive earnings, so there will always be a time gap between investing in these vessels and then actually getting the earnings that is labelled for those specific assets, so now the leverage is unusually high simply because of the earlier this year deployment of cash linked to assets moving in from the PSV classes that we bought. That is not unusual but the target as Jay mentioned is definitely 3.5.

Deepa Abraham: That's in two years' time, 2½ years' time. Do you have any covenant that tightens as time goes by on the senior secured?

René Kofod-Olsen: No. We are safely with headroom within all the covenants and we are running the company very conservatively with those covenants and we will continue doing so.

Deepa Abraham: Sure, at the moment. I'm trying to understand if going forward if this covenant tightens or does it stay at the 4.5 level for net interest to EBITDA?

Jay Daga: The covenant tightens in 2016 but we are very much within the range to the revised covenant.

Deepa Abraham: That's all I wanted to know, so it tightens in 2016?

Jay Daga: That's right.

Deepa Abraham: Thank you. That's all.

Operator: We will now take our next question from Mr. Krishna Chandramowlee of Vision Investment Services Oman. Please go ahead.

Krishna Chandramowlee: Thank you gentlemen for the presentation. I have only one simple question. I notice that your current run rate for the revenue is around \$100 million per quarter and with the four new vessels coming in, what will be your guidance? The second question will be: are there any plans to sell your old vessels in the coming year and then the next year? Thank you.

Jay Daga: Thank you very much for these questions. Yes, when we say our current run rate is \$100 million, it does say an average number which is a mix of a lot of things because these assets which are identified for going for dry dock are getting added at a different period of time. In the last six months we added almost four new vessels and in the next six months we have already had three vessels which are identified to be added in the fleet. The default, you can take that as we would continue to clock in approximately \$100 million worth of revenue on an average basis.

René Kofod-Olsen: In terms of your question on asset divestment then we always have a strategy to divest the assets before they come to their finished usual lifetime with us, so we do have candidates for strategic divestment but we don't have any aggressive plans for that bearing in mind the youth of our fleet.

Krishna Chandramowlee: So can we expect any divestment this year, in the next two quarters?

Jay Daga: There's always the opportunity for churning our fleet and that is consistent with our strategy, so assets which are either non-core or assets which are coming closer to in our book what is a useful life and which has got value which we think can be deployed and better opportunities, they will always been looked at carefully by the company.

Krishna Chandramowlee: Alright.

Operator: As a final reminder to ask a question please press *1. We'll now take our next question from Kanaga Sundar of Gulf Baader. Please go ahead.

Kanaga Sundar: Hi gentlemen, good evening everyone. I have a couple of questions from my side. How do you see these average day rates over the coming period? I think you have put in around \$15,000 for the first six months. How do you see the average day rate panning out for the rest of the year? That's question number one. The second one is on the EBITDA margins. Do you think these 50% levels of EBITDA margins which you have achieved in Q2 is sustainable? Any guidance on the margin side? Thank you.

René Kofod-Olsen: Ok, thank you for those questions. So we have kept a very stable average day rate of our fleet. Our model is to be a little exposed in spot, more exposed in medium to long term contract and that has allowed us to keep a solid average day rate hovering about the \$15,500-16,000 level. With the escalation of costs and general market conditions we do see a little increase in this linked to what I mentioned was a positive outlook on the markets that we were in. in terms of the EBITDA margin if you go historically on our company and

especially the Marine division, it's very stable between 45-50 over the last five or six years, so we definitely expect to maintain that trajectory, then you will have quarters where there will be peaks and where there will be valleys but when you look at the last 5-6 years it has been very, very stable at around 45%.

Kanaga Sundar: Ok. One more follow-up, I think now you've done this credit placement with Standard Chartered, do you think any more equity issuances or any more listing clients or something is coming up in the next six months to one year timeframe?

René Kofod-Olsen: So we had a lot of interest in our company and we didn't invite this investment in for a specific purpose as I mentioned earlier. We were obviously very humble with the interest and specifically from Standard Chartered where their banking side has been a dear partner to us for many years, so this was an opportunity that we found, it was very, very solid and matching our strategic outlook for the company. So we do not have any other projects raising equity for the foreseeable future, so that is a clear answer to that.

Kanaga Sundar: Thank you for that.

René Kofod-Olsen: You're very welcome.

Operator: We will now take our next question from Mohammed Elmi of Federated Investors. Please go ahead.

Mohammed Elmi: Yes, hello, good afternoon gentlemen, thank you for the call. A question regarding...there's been a slight dip in terms of the Caspian revenues. Could you kind of elaborate on that? Secondly would you potentially want to move more into the day rate environment as opposed to your long term chartering model that you described earlier?

René Kofod-Olsen: So thank you for that question. As Jay described during the presentation, we had an expected dip in the Caspian operation from basically project to project gap, so we have full deployment in the production cycle of Azerbaijan for those 20 boats and now these

four boats that are linked to project work, anchor handlers will expectedly go on the next project, so that we have not necessarily shaken our hand on that question.

Jay Daga: On a normalised basis because last year we had a sale of an asset in the first half, so if we adjust that sale of the asset and the resultant revenue for the previous period then we are online with the previous year.

René Kofod-Olsen: So in terms of your question on day rates, I assume you mean whether we want to go into the onshore market of spot and the answer is no, however we will always have a part of our fleet in the markets where we are in that will be allowed for spot and there are multiple reasons for that, mostly agility in between contracts, front runners and as replacement from when our vessels go into the docking cycles. But as a strategic change we will not start aggressively going into the spot market in those markets that are predominantly spot, so we will maintain part of the fleet on spot charters but we will always seek to optimise based on medium to long term charters.

Mohammed Elmi: So you're quite happy with respect to the model as it is?

René Kofod-Olsen: We are very content with the model.

Mohammed Elmi: Just one final question, this is regarding equity investment. Are you potentially soliciting more equity investment from other potential strategic partners or in the case of Standard Chartered is this just a one-off and a relationship that you basically got from your banking relationship with Standard?

René Kofod-Olsen: As I mentioned to your colleague just before, then we do not have any other projects of raising equity and I must say that there was obviously Chinese walls between Standard Chartered Bank and Standard Chartered Private Equity, so although we have a good relationship with the bank and as always have, then it is on Standard Chartered Private Equity Bank's own merits that we have selected them as an equity bank. We had a number of

choices that solicited us and you have to understand that we have not been out seeking equity but we have had a plan to solidify our balance sheet both in terms of the way we fund it and also in the way we raise equity and I think that has been absolutely clear in the group strategy from Renaissance, so private equity from Standard Chartered had come in on entirely their own merits and their own competitive terms which we are very pleased and as I mentioned very humbled about and this is in straight line with our strategy always to work with the top-end people of the industry we are in, whether be our clients or whether be our stakeholders from a financing point of view, banks and equity.

Mohammed Elmi: Thank you.

René Kofod-Olsen: You're welcome.

Operator: We will now take a follow-up question from Mr. Krishna Chandramowlee of Vision Investment Services Oman.

Krishna Chandramowlee: Sorry gentlemen, I have one follow-up question. Where do you see the revenue growth coming from in the near future, probably not in the near future, probably one year, two years down the line? Is it either going to be coming from the revised day rate or is it going to be coming from increased fleet size? If the second case holds good then what will be the funding source for buying new vessels? Thank you.

Jay Daga: Krishna, this is Jay here. To explain that we have in our plans \$100 million capex as we have put into all our austerity talks and that is self-funded because we tendered a sufficient amount of cash which will ensure that we constantly have a replacement of our fleet, number one; and if we look at our depreciation itself, it's \$60-70 million, so that creates the cash flow stream for replenishment of the asset. The second question is whether we're going to get our revenue uptick through a rate increase or through a new asset. It will be actually a mix of both of them because the more as we start disposing of some of the marginal assets and replacing it with high end assets then surely your average data will increase consequent

to that asset turnover, but at the same time the rate was always dependent on demand-supply and inflationary factors, so we're not expecting any transformational change in the rate per se but it will mostly be driven by the dynamics of the market and the geographical spread of our fleet.

Krishna Chandramowlee: Thank you.

Operator: There are no further questions in the phone queue at this time. Ladies and gentlemen, at this point we will be handing the call back to Mr. Kofod-Olsen for his closing remarks and 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: So thank you very much for all the solid questions as usual, it's great. We will come back to you with the Q3 analysis when that is good and ready and in the meantime you know where to find us and thanks for being part of our business. Have a good afternoon.

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