

Company: Topaz Energy and Marine
Conference Title: 9M 2016 Financial Results Investor Call
Speakers: René Kofod-Olsen, CEO and Jay Daga, CFO
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Operator: Good day and welcome to the Topaz Energy and Marine Nine Month 2016 Financial Results Investor Call. This conference is being recorded. The hosts of today's conference are René Kofod-Olsen, CEO and Jay Daga, CFO. At this time, I would like to turn the conference over to René Kofod-Olsen, CEO. Please go ahead, sir.

René Kofod-Olsen: Thank you so much, thank you everybody, for calling into our quarterly call which is basically after the nine-month trading results. We will quickly go through the presentation that has been uploaded to the web page and then we will open for Q&A, which is probably what most of you will be waiting for.

In terms of the highlights, I will start on page number three. We have had a decline in our top line of about 20%. We have had of course a decline in our utilization on our core fleet. Noteworthy is that our EBITDA margin has gone slightly up, which means that our cost containment programs are really on the dot. We have been very successful in taking out cost disproportional to the revenue decline and we will continue to do that.

In terms of our operational stability, we have had a quite strong record for the ships that are on contract. We have also managed to build out the backlog here in the UAE with a contract with Dubai Petroleum and generally, our core projects are on schedule. We are building the vessels for the Tengiz

Chevron program, all the 20 ships are now being built on three different shipyards commandeered by Vard of Norway. So that project is on schedule, actually slightly ahead. If I go now onto page number four and go specifically into the numbers, I will hand it over to Jay Daga.

Jay Daga: On page number four, the three numbers which I want to draw your attention to was EBITDA, EBITDA margin and cash flow from operations. While you can see that our revenue's down by 21% but the entire revenue decline is not reflected in the EBITDA and that is predominantly because of the cost containment drive that has been enforced over the last 12 months. In terms of the cash flow from operations, we have been very diligent in collecting our revenue from our clients and optimizing our working capital and that is reflected in the cash flow from operations, which is slightly ahead this year as compared to the previous period.

On page number five, and page number six, they reflect the same trend which is the revenue is down quarter on quarter and over the last four quarters, we are continuously facing the pressure from the utilization and the rate. That has resulted into the current quarter, or the last two quarters, at that PAT negative level. However, this is highly compromised because of the rate and occupancy.

Page number seven and if you look at the Caspian is going strong which is our home market. MENA is where we do find occupancy down by almost 30 basis points. In Africa, compared to the previous period, while we see a slight improvement, but all this is affected by the almost \$800 average per day late reduction and that is all adding to the revenue decline.

Page number eight, the capital structure sitting with healthy cash balance of \$70 million and that gives us the resilience to tide over the current down cycle. The debt from shareholders is under discussion for refinancing. While our gross and the net leverage has gone down, but this is predominantly because of the lower EBITDA.

Covenants, the covenants have decent headroom, we managed to get our covenants reset for this year. And that is where we see the tangible net worth has been reset at \$400 million and debt to EBITDA has been reset 4.5 times. While our covenant has not improved as initially planned, but we are in a good, comfortable position for the covenant for the rest of the year.

In terms of liquidity, \$70 million worth of cash balance in hand. And out of the \$100 million committed line, due to covenant headroom limitations, we can draw up to \$40 million, so that reflects good liquid to liquidity position at this time today.

René Kofod-Olsen: Thank you, Jay. In terms of our safety, this is basically our license to be in this industry. We have not dropped our guard, in terms of the safety performance, and we are continuously training our people and living up to the high operational standards that we set coming into this crisis. That is very, very important for us, in terms of regaining our business strength.

On page number 12, we do generally play to win, we do generally play to be in this industry going forward. We have secured about \$1.6 billion of backlog over this trading period in 2016. So coming out of this year, we have actually increased our backlog tremendously. We are working with some of the toughest clients in the industry, we are now approved by both

Chevron and BP globally which gives us access to bid for all their business, wherever they would basically decide to go in.

We believe in this being a cyclical downturn, not a secular or structural downturn. For us, we want to ensure that we are one of the last men strong standing. Although there is a lot of stress right now and certainly we are not making the money that we would like to, we still believe that our operational performance outweighs the rest of the market. So we are quite humbled to that effect.

We believe in the future and we are certainly navigating through these turbulent waters as good as we can and we are resetting the company to operate in an oil environment with depressed oil prices as we see today, which can then only be a benefit from a competitive advantage perspective, coming out of this cyclical downturn. On that note, I will turn it over to Q&A.

Operator: Thank you. If you would like to ask a question, please press *1 on your telephone keypad. Please ensure the mute button on your telephone is switched off to allow your signal to reach our equipment. If you find your question has been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will take our first question from Kia Williams from Emirates NBD.

Kia Williams: Hi, thank you very much for the conference call. I was just wondering if you could give us an updated idea of when we should expect the first revenues to start being recognized for the BP Azerbaijan and also for the Tengizchevroil project, please?

René Kofod-Olsen: Thank you so much for that question. The revenue for the BP contract in Azerbaijan is basically already in these numbers. We secured a

long contract for 14 ships, all of them facing the OPEX side of BP's life in Azerbaijan, meaning the production facilities. So that revenue is already recognized in this, but what we have done is actually secured a backlog of about \$800 million from that contract - five years plus two years. The Tengiz contract will be kicking in, end of first quarter 2018 for a three-year firm contract with options, of course.

Kia Williams: Okay, thank you. Could you also just – a follow-up question, what kind of strain do these projects put, if any, on your balance sheet for the next couple of years?

Jay Daga: I beg your pardon, what kind of?

Kia Williams: I guess, do you have to fund any of these projects on your own balance sheet by using your own balance sheet, I guess, to build these contracts, or are these funded?

René Kofod-Olsen: No, so the contract in Azerbaijan was 14 of our vessels. That was going to be [inaudible]-wise over the next year couple of years coming off contract. We then decided to suggest BP to consolidate all of their production-facing assets into one contract. So, all that was current ships in our balance sheet. The Tengiz fleet, where we have to build 20 and we own 17, all these ships will be built with [inaudible] through in our balance sheet, meaning the contract is made with a pre-funding arrangement. So no, they will not be in our balance sheet.

Kia Williams: Okay and then sorry, just one last question from my side, could you give us an idea on the dollar EBITDA from Azerbaijan? Sorry, the total amount of EBITDA generated from Azerbaijan at the moment.

Jay Daga: It is approximately 70% of our EBITDA.

Kia Williams: Okay, all right, thank you very much.

René Kofod-Olsen: Welcome.

Operator: We now take the next question from Brian Farrell from Pioneer Investments.

Brian Farrell: Good afternoon, gentlemen. First of all, good resilient performance. Just a number of questions, the first one relates to the current trading activity in the MENA and African region. Is there any sign yet that that has bottomed? I mean, how is it performing maybe during Q4? What is the outlook for that business going into 2017? It seems that it has gotten worse as the year has progressed. I'm just wondering if there is any sign of a bottom in that business.

Then a number of other easier questions, I guess. Any plans on the dividend payment for 2016, traditionally been around 20 or 24 million or so, just what are the current thoughts on that. Good progress has been made on working capital during the course of the year, I just wanted to get a sense can that be maintained to the year end?

If you could update us on the debt amortization, as of September. I see you have been paying off some of the debt during the course of this year. Just to get a sense of how much is due or amortizing into Q4, into 2017 as well. Thank you.

René Kofod-Olsen: Okay. Thank you, Brian. And I also sense a compliment, I will take those when I get them. I will answer the first two parts of your question and then Jay will go for the working capital and that. I do believe we are in the bottom territory and the way that vessels have been laid up across the

world and the way that rates have plummeted, and utilization ditto. It can't really get much worse. We are already now at operating equilibrium between what it costs to operate the ship, and therefore, the day rate we can achieve for it. So I do believe that we are in a bottom territory.

If I then have to add to that, we are seeing a slight increase in tender activity. That may be false hope, because it doesn't necessarily mean that the tenders or the projects will actually come to fruition. Certainly, in Africa we are seeing a huge amount of tender activity, which could suggest that more CAPEX is ready to come back into the oil industry.

I, last time, spoke about the massive underinvestment over the last three years from our clients. Obviously, that has persisted in '16 and will by and large, persist in the beginning of '17 as well, as they haven't made any plans for it. I just don't think it's sustainable and I believe that this is not a structural problem that the industry is going through, it's a cycle. We will be coming out of the cycle over the next foreseeable future. That may even be in the second half of '17, but certainly I see '18 as a necessary change.

In terms of dividend, there is no plans for paying dividends.

Jay Daga: Brian, hi. Working capital, as you know, we have been very diligent in optimizing our working capital. I do not believe that we would have more optimization out of what working capital we carry. However, we are not letting anything go without being given due attention. We would see the same tight regime of working capital management over the next foreseeable quarters.

In respect of the debt, next year, 2017, our total debt payment commitment is \$37 million. But that is principal and includes a payment of bilateral debt

of 30 and payment of \$5 million on sub-debt. In respect of the debt payment for the last quarter this year, we have made debt payment of \$17 million.

Brian Farrell: Okay, yeah, that's very helpful, thank you for that. I guess it is too early to start thinking about guidance for 2017? I can't recall if you gave guidance on prior years or not.

René Kofod-Olsen: No, we are always very prudent, Brian, in terms of not giving guidance and I think that has served us well in the past. We are not importing risk, you are seeing us just focusing on operating our ships and ensuring that we get as much deployment as we can. So that's the best guidance I can give you.

We do believe that we are at the bottom, we do believe there is light at the end of the tunnel, but whether the tunnel comes in the second half of '17, or into '18, we will have to see. But we are definitely expecting to live to fight not only another day, but many other days.

Brian Farrell: Okay, good stuff, thanks very much indeed.

Operator: We will now take the next question from Uli Gerhard from Insight Investment.

Uli Gerhard: Good afternoon. Yes, please. Going back to the question from the previous chap with regards to you said we're bouncing at the bottom. Do you think rates have bottomed out? Do you think enough [inaudible] has been laid up? And then coming from there, for you looking at potentially adding more contracts or looking for growth, what makes you decide new build versus

actually picking up vessels from some of your distressed competitor, or actually, how do you see consolidation happening in the industry?

René Kofod-Olsen: Okay, thank you for those questions. The first question is, yes, I do believe we are at a bottom simply because the rates are now so close, or even under what it actually will cost you to put the vessel on contract. We are not in an easy territory, this is not a commodity business. So therefore it is a highly-skilled craft to sail these ships. That's why you are seeing so many ships laid up because owners are running a risk whenever they are putting a vessel out and they actually can't sustain the returns. You are seeing about 1200 ships laid up today, which have assisted the supply a lot. Now coming into this crisis, you would have had around 25 to 30% of the world's fleet that was already ready for retirement. Because the demand was there, these ships were not retired. You could find a ship of 20-25 years old that would still make a good return. Those ships should ideally be retired and should never come back again. That is a very important point to remember when demand starts picking up. In terms of the rate, I do believe that we are seeing the bottom, in terms of the vessels, number of vessels laid up, I do believe we are more or less at the level where we should be. I think a lot of the ships will never come back into commercialization so to speak.

In terms of your question on asset acquisition, no, I think the right answer is really buying assets that are already there, to not add to the supply conundrum and consolidation has to happen. I think the market was waiting for the banks to sort of – also and bondholders - to sort of kick start this. I think that is basically what you are seeing now. There are too many

companies, it is defragmented, so there would be a lot of positiveness coming out of a consolidation in the market, so that is definitely what we expect.

Uli Gerhard: Okay, thank you.

Operator: As a reminder, to ask a question please press *1. We'll now take our next question from Sergio Calci from JP Morgan.

Zafer Nazim: Thank you this is Zafer Nazim from JPM. Sorry I missed the first part of the call, so apologies if I ask something which has already been discussed. Just I guess, just pushing on a couple of, some of the questions that were just asked in terms of bottoming out of the numbers or the performance we've seen out there. If we look at your EBITDA numbers for the last five quarters has dropped gradually from \$49 million in Q3 '15, all the way to 34 now.

Is this where you think - is this the bottom for you? Or do you think there is some further downside in terms of numbers specifically, for your EBITDA going forward? Also I guess an extension of this question is just your Caspian Sea business has also seen some decline quarter over quarter in the third quarter. Should we expect there to be a further decline in the Caspian Sea business EBITDA going into, let's say, the fourth quarter and next year?

René Kofod-Olsen: Thank you Zafer for those questions. I think you can make the calculation that if I say this is the bottom territory, then we also expect that this should be the bottom territory of our earnings. At least we are doing whatever we can with the tools that we have, not being helped from outside, to ensure those earnings. As you can see, we have been relentlessly focusing on driving out cost.

As I have said over the last couple of years, we need to set our company to the new standards and therefore we are very much prepared, from a cost perspective, to coming back and having an upwards trajectory. I think our earning potential would just be so much higher having reset our company so aggressively, as we basically have.

In terms of Caspian, what has been a drag is the barges in Kazakhstan. The Kashagan oil field came on stream and so a number of the barges that we had working there went off hire. We do expect them to get back on hire again when they start their next campaign, probably towards the end of 2017. So we do expect those to be deployed, but for right now we are seeing utilization downside on those non-core assets, if you will. But our core assets are actually working, basically at a 94% utilization.

Zafer Nazim: Got it. And Jay, just on the debt side, there is some mention of doing something, or refinancing the subordinated facility that you have from your shareholder. I think you made one amortization payment to the shareholder in the most recent quarter. Can you just talk about what you plan to do with the rest of the balance?

Jay Daga: We are in discussion about refinancing the debt and it is most likely going to be refinanced at similar terms, but stretching the maturing to next five years. We will declare - once the refinancing is done, then we will declare the terms of refinancing.

Speaker: Do you expect to make any additional amortization payment on the shareholder loan?

Jay Daga: That will all depend upon how the restructuring is taking place. But it is likely that there may be, like, one token payment so that amortization over the five years is effectively done without any additional cost.

René Kofod-Olsen: But it would likely not be a material amount.

Jay Daga: Yeah, it will not be.

Zafer Nazim: And on the CAPEX side, excluding the TCO CAPEX, which is pre-funded by your client, what is the - I guess, the only maintenance CAPEX for the company, what is your maintenance CAPEX run rate?

Jay Daga: 20. Same as the last. We're not expecting any material maintenance CAPEX other than 20. Should a project that comes into play that will deploy our [inaudible] requiring some marginal CAPEX, surely we will do, but otherwise it is pretty much the standard CAPEX.

Zafer Nazim: Okay, got it. And sorry, this may have been discussed earlier on your comments, but you talked about making adjustments to the operating model as one more thing you are focusing on. What exactly are we talking about over here?

René Kofod-Olsen: We have basically, we have taken out almost \$40 million of cost over the last 24 months. For us, I think it is very important to continue looking at how efficient are we actually as an operation. Some of you that have followed the company for more years, know that I've talked about digital revolution and ensuring we are very, very optimized in terms of our IT capabilities. We have implemented a number of IT systems to support the way we operate.

We feel that we are now mature to go to an even more lean organization where some of the core functions will be done from a shared environment. That we are rolling out now, and we believe we can actually take another 10% off our overhead cost, if not more. That operating model, we actually think that is how you should operate an offshore support vessel company in the future. We want to have more decision-making on board the ships, that actually belong to the ships. We think with a 21st century IT capability implemented, that is very doable.

Zafer Nazim: And the 10% additional saving overheads, what does that translate into, in terms of dollars?

René Kofod-Olsen: A couple of million, if not a little bit more.

Zafer Nazim: Okay, got it. Okay, thank you very much.

René Kofod-Olsen: Thank you.

Operator: We will now take the next question from Harry Richards from Jupiter.

Harry Richards: Hi, guys, thanks for the call, just a quick couple of questions from me. Just on the RTF, I see that the ability to draw on that has been reduced once again from last quarter. Are you in any discussions with the banks about amending that restriction on that RTF, or is it just covenants that you have already done, that will be amended?

The second question is, on secondary market [inaudible] transactions. There's been quite clearly a lot of the market is trading at a fraction of replacement and there are a few private individuals, offshore specialists that are setting up specialist vehicles to target opportunities given the distress.

Can you just comment on what you are seeing in terms of secondary market transactions and dynamics in that space?

Jay Daga: Hi, there. We still have got hundred million dollars' worth of committed lines – it's the headroom on our covenants, that is what is the limiting factor. As soon as we see an uptick in our EBITDA margin, actually we can – we will have it in hand down the line. As you know, we have been sitting on this RTF for last two years, 18 months or so, and we haven't drawn down. So that's our worst case to deal with any liquidity situation. But as you can see, we have \$70 million worth of cash. I think we are in a good place. Naturally, should be find any stress in our cash flow planning, we would be in dialogue with our lending institutions to have covenants reset or waived for some time before we starting send back into the business.

René Kofod-Olsen: Thank you, Jay. Harry, in terms of your question on secondary market, I think it is linked to consolidation. I believe that there is capital that are waiting to get into the offshore support vessel industry, or the OFS industry, at large. I think there are a lot of interesting assets to be picked up. It has to be for the faint-hearted right now and that believes that this is surely a cyclical downturn and not structural, so that they can hold the assets until you get utilization and rates up.

I do believe that there is a lot of interest in value to be captured right now and I think that can only assist the consolidation. I welcome those developments and I think it will only assist us coming out of this that consolidation is happening.

Harry Richards: Can I just take a quick follow-up on that point, you are not seeing that starting just yet? It's just people still looking at it, sitting on the sidelines at the moment?

René Kofod-Olsen: If I have to be brutally honest then yes, but I must say, we are seeing a higher interest and I think people may be starting to jump down from the fence. People who understand energy and who are acutely aware this is a cyclical downturn. What goes down, eventually you have to go up again. We are actually starting to see those moves. I think the next six-nine months could be very busy for the oil and gas industry at large in terms of M&A.

Harry Richards: Great, thank you very much.

René Kofod-Olsen: Thank you.

Jay Daga: Thanks Harry.

Operator: We will now take the next question from Alex Ayoub from Waha Capital. Please go ahead.

Alex Ayoub: Thank you and congratulations for the resilient numbers on the EBITDA side. I have three questions, the first one is on the CAPEX. How much CAPEX are you expecting next year? I think you have, like, two deep sea vessels to be delivered, which if I recall correctly leads to quite a significant CAPEX in 2017.

Second one was, in relation to Q3, is Q3 generally stronger than the other quarters or weaker? Just want to kind of get a feel for how the other quarters will be next year. Finally - these are the two main questions, thanks.

René Kofod-Olsen: Thank you for the question, Alex. We are in final discussions to move the two subsea replacement ships were supposed to come in at the end of 2017. We will likely move them into '18. It is the same supplier who are building the transport ships for the Tengiz oil field, so we are very advanced in terms of agreeing to that. In terms of -

Alex Ayoub: Can you cancel these contracts? Sorry to interrupt. Could you cancel these contracts?

René Kofod-Olsen: No, we would not be interested in cancelling those contracts, those ships have been built at a very, very strong value. They are fantastic vessels and we have had a lot of interest in them actually, already. We have a couple of aging subsea ships that has to be replaced eventually, so we would actually not be interested in cancelling them.

Alex Ayoub: Okay.

René Kofod-Olsen: In terms of your second question on quarter on quarter, it is very difficult to predict. What keeps me up at night is probably the unpredictability of the market. So giving you a trend and saying, typically Q3 is stronger or weaker than Q2, or Q1, that trend is a little bit outside scope right now. It would be unwise to model that from your side or from our side.

Definitely, we would have liked Q3 to be stronger, there are a couple of mitigating factors for the barges in Kazakhstan that went out. A subsea ship that broke down and we subsequently lost a contract. So those are things from the left field that we could have lived without. But I think it would be

unwise to, at this point in time, in this unprecedented downturn, to sit and make big trend analysis. It is just not possible. The only place where you can really do that -

Alex Ayoub: I hear that.

René Kofod-Olsen: No, but I want to add actually, Alex, that the only place that you can do that with a certain degree of certainty, is actually in the North Sea. The reason for that is the fourth quarter and the first quarter is typically in the winter season and it is very difficult to operate. There you can actually maintain the trend analysis even though the onshore is very high. But in the rest of the markets, right now, it is very difficult to make that trend mathematics.

Alex Ayoub: Perfect, so the weather doesn't have such a big impact on the Caspian Sea, which is a big bulk of your business?

René Kofod-Olsen: The only concern is in Kazakhstan where it ices over and we have Tulpar which is an offshore support ship there which is actually an icebreaker. The only other factor is that you can't bring ships in and out during the winter because the two channels are actually freezing over. So that is basically the weather factor in the Caspian.

But in Azerbaijan, where, as Jay mentioned earlier, where the lion's share of our business is, that doesn't have any weather impact. Of course, the down days on the platforms are increasing in the winter with the turbulent water. We are on a day rate, so we are unimpacted by that.

Alex Ayoub: Perfect. Sorry, if I may, a last question. You mentioned that you really believe this is a cyclical downturn rather than a structural change in the industry. What makes you believe that, if ultimately your prices remain around \$40, \$50 a barrel?

René Kofod-Olsen: Well, I don't think it will because as far as a sustainable price for the world, I think that there is a lot of hype. My conviction is that there is a lot of hype about renewables and definitely that is the way forward for the world. But today, when you look at the energy usage of the world in general, then you still have 30% of world energy in coal. That is not optimal. Probably the worst energy resource you can get. You can start by replacing that.

Then you have three very, very huge regions of oil need, being India, being China and being the African subcontinent. So it is fine that Europe is going towards a very big renewable situation, but yet they are still heavily dependent on fossil fuels. So I do not believe that there is a structural change in terms of the world's need for fossil fuel, whether it be in the chemical industry or in the more direct energy-needing transport industry. So that is just a fact.

Do I think that there is a structural change coming in three or four decades? Absolutely. That is when growth in the oil sector must be peaking out. But right now I do not believe - at least is no empirical evidence, that there is a structural change here. Therefore, if that is correct, then it is also correct that the last three years there has been a tremendous underinvestment in the oil industry. So putting those things into an equation, at one point in

time, that underinvestment will come and bite all of us in the butt. Not us, we will benefit from it.

Alex Ayoub: [Inaudible] it's positive. Perfect, thank you so much for the details, that is very clear. Thank you.

René Kofod-Olsen: Thank you.

Operator: As a reminder, if you would like to ask a question, please press *1. We will now take a follow-up question from Kia Williams from Emirates NBD, please go ahead.

Kia Williams: Hi, thank you. Just one last question from me, please. Regarding the refinance, I know you discussed it a little bit earlier, but what discussions are being had surrounding the refinancing of the 2018 [inaudible], if any? If you can just give us an idea of that?

Jay Daga: I think, again, this is early days for us to plan about 2018 refinancing. We would start looking at our options in 2017 and then take it from there.

Kia Williams: Okay.

Operator: As a final reminder, to ask a question, please press *1. As there are no further questions in the queue, I would like to hand the call back over to your hosts for any additional or closing remarks.

René Kofod-Olsen: Thank you so much for all the questions, it's always a great Q&A that we have. Thank you for your support of Topaz Energy and Marine and we look forward to speaking to you again in 2017. Merry Christmas and Happy New Year.

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