

Company: Topaz Energy and Marine
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Presenter: René Kofod-Olsen
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Operator: Good afternoon and welcome to the Topaz Energy and Marine's Financial Results for the Nine Months to September 30th 2015. Today's conference is being recorded. At this time I would like to turn the conference over to Mr René Kofod-Olsen, CEO. Please go ahead, sir.

René Kofod-Olsen: Thank you very much. Welcome, everybody, to the quarterly update from Topaz. I am supported by my usual team here, Jay Daga, Geoff Taylor, Robert, and Ealbra, our HR director. We are going through very briefly the presentation that has been uploaded.

On page number 3, you will see our consistent key credit strengths and we don't have to mention them but we will of course go through all the questioning when we get through the presentation and you can revert to those in your Q&A.

On page number 4, I want to highlight that our key Caspian and MENA regions have continued to perform strongly. Overall, we are about 5% down quarter-on-quarter in terms of revenue; we're about 10% quarter-on-quarter down in terms of EBITDA. We are of course impacted generally by the very, very steep crisis we have in the oil and gas sectors that has continued through the whole year and we continue to see a tremendous pressure on our global markets but our key markets of Caspian and MENA has been keeping up relatively better to our smaller markets in West Africa in general. The net profits have been equally impacted but also by a one-off cash charge associated with Project Aurora that I believe we described was

in its finishing touches during the last quarterly call. We have launched a very large cost reduction programme in line with the crises that are unfolding and has been unfolding. We have cut costs throughout the organisation and we have also had a relatively large redundancy in terms of our overheads. We are setting the whole ecosystem to operate in a \$50 oil price environment to ensure that we will also keep being sustainable in the future in the regions that we are operating in. We are at the same time ensuring that cash leakage is well contained, so we are generating a lot of cash out of our EBITDA. Jay will come back to that. And we are protecting that as best possible with the sustained crisis in mind. During the period, we have as well contracted two subsea ships, taking full advantage of the crisis that we are in, in terms of the asset value that we can procure at. They are part of our already defined rebuilding strategy in our subsea fleet and they will come out during the end of 2017 to replace a couple of our aging subsea fleets. So it is not an expansion. It is a replacement strategy totally in line with our long-term strategy of playing also in the subsea segment. Our safety record continued to be strong as well.

I will now hand over to Jay Daga on page number 5.

Jay Daga: On the page number 5, we are displaying this quarter number three performance that is 5% higher than the corresponding quarter for the previous year, and the same increase in the revenues also reflecting in the increase in the EBITDA. There has been some hiccup in West Africa which took away almost \$2.5 million revenue as compared to the previous year but that got adequately compensated by our strong market in Caspian. In respect of the finance cost, our finance cost is slightly higher because of the refinancing and additional debt taken in the books in the current quarter. In respect of the revenue split, we continue to see a very significant portion of revenue emanating from Caspian which is in excess

of +60%, followed by MENA which is 28% and Africa, which is still a marginal business, reflecting approximately 9% of the total revenue.

Page number 6 reflects the quarter-on-quarter build-up of our performance and as you could see, between from quarter number one '15 and quarter number 3 that we have a gradual recovery. The revenue has increased around 5% quarter-on-quarter. This is also reflecting in the same proportion in EBITDA where the increase in the revenue directly filtering down to the increase in the EBITDA. The PAT for quarter number two was impacted by a one-off charge; however, in Q3 there is no one-off charge so that we are going back to the normal level of PAT. However, we might see a contraction of the revenue number for Q4 when some of our assets not in Caspian go on layup rates.

On page number 7, it's reflective of our high utilisation. As you can see, that while we have had an increase in our Caspian core asset utilisation by 4 percentage points, and it is compensated by African core where the decline has been more than 20 points. However, the point which I want to make here is that we have only 9 vessels in Africa and therefore in terms of the total revenue contribution, this amount is not as material as the increase in the revenue coming out of the Caspian. Total number of assets is 99, which was the same as last year. This includes under construction 3 vessels, out of which one will be delivered in this year and the rest would be delivered in 2016 and 2017.

And page number 8 reflects our capital structure. We continue to show a good trend of delevering the company. The overall gross leverage ratio is down from 4.5 to 4.1 and the net leverage is down from 4.2 to 3.9. We have maintained a similar debt structure this year post refinancing, we have managed to achieve a much

more stable cash flow on our debt repayment, and the debt repayment now moves from 2017 to 2022. That gives us a very strong, stable position to conserve cash.

Page number 9, this is the undrawn credit lines what we enjoy from our banks. The total facility as of today includes \$140 million worth of undrawn revolver, cash in hand of \$50 million and undrawn unsecured debt of \$100 million. So while in one side we're focusing very strongly on conserving cash and deferring the nonessential capex and relentlessly focusing on the working capital, on the other hand, we are still protecting our firepower in terms of banking lines that is available for us for capital.

Page number 10, again this has the financial covenants which are bound by under our facility. It shows a good headroom with net EBITDA of 4.75 times against 3.32, tangible net worth of \$624 million as against a requirement of \$500 million. So we are, while at one side we have a stress on our EBITDA as compared to the previous year, however we managed to achieve a better covenant package on the refinancing and that is reflecting in better headroom.

René Kofod-Olsen: As we have said previously, we are always very focused on safety.

We were very pleased to win the Safety and Quality Award by Seatrade recently during their annual awards show for the Middle East, Africa and Indian subcontinent. If you want to win an award as a shipping company, that is the award you want to win. We have incurred two LTIs in the third quarter 2015 and it is of course something that we are taking very seriously and we're always trying to improve to be best in class in the industry.

In our general business update on page number 12, we are seeing a lot of commercial traction in the markets that we're operating in across all of them, but of course we are, as I mentioned initially, in a very deep and protracted crisis in

the oil and gas industry – probably best described as something closer to what happened in the Eighties. We are seeing a lot of tender activity and we are quite confident of keeping up high utilisation. We believe in our West African partnerships and the setup that we have established down there, we have described it previously. We are seeing a lot of stress on those assets but we are confident that the assets that we will keep in West Africa will find profitable deployment over the next quarters. We are moving a couple of smaller ships into the Middle East where they have found profitable deployment. We do not have any scheduled vessels in fleet expansions in 2015 and we have one anchor handler coming in at the end of 2016.

We successfully refinanced earlier this year \$350 million of our balance sheet and therefore have reduced a lot of potential stress on our cash outflows over the next many years. We have very high utilisation in the Caspian and in Middle East, we have gone and done very aggressive cost reductions and we will continue that throughout 2016. We continue our investments in our vessels. We have seen a higher-than-usual capex deployment this year in dry docking and upgrades. That will not be the same programme in 2016, therefore we will have less cash outflow for that period. The trading conditions continue to be very challenging. Q4 is expected to be with the same trend as the previous quarters but we have found a stable trading condition over the quarters that we have shown. But we are addressing our company to be operating profitably in a \$50 environment also for 2016.

At this point I would like to stop the presentation and hand over to a Q&A.

Operator: Thank you. 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 *2. We have our first question. Zafar Nazim from JP Morgan, your line is open, please go ahead.

Zafar Nazim: Thank you very much for the call. I had a few questions. First, René, I was wondering if you can give us an update on your negotiations with BP and I guess your counterparties in Azerbaijan and the Caspian Sea region about renegotiating your contracts for the core fleet over there, what kind of price reduction should we expect and what type of a contract are we talking about?

René Kofod-Olsen: Yes, thank you for that question. I cannot give you an absolute answer to that question basically because the discussions are ongoing, but I can say that the principal alignment of thought has been reached between our client and us, and now of course it is about a commercial conclusion. But from where I sit, it's positive both for BP and us.

Zafar Nazim: Right, but in terms of order of magnitude, are we talking about a single-digit reduction in price or double-digit? Any guidance you can provide?

René Kofod-Olsen: High single-digits.

Zafar Nazim: Okay. So I guess, I mean if you're looking at the rate variance year to date was 6%, so for the next year, I guess a 10% type number reduction is probably a good number to use, would that be fair?

René Kofod-Olsen: I will not be able to give you any absolute guidance. I would however say, Zafar, that the trading conditions are very, very difficult. We have taken a lot of proactive haircuts earlier this year in our renegotiation, whether it be in Caspian and here, and we think that that was the right strategy to take. I think it has proven today it was the right strategy to take. I don't expect us to take similar haircuts next year but it's clear that the vessels that we are trading in our spot markets will

be very challenged. But I do believe that in the markets we are in, which is predominantly in the production side of things, things are moving on and the vessels we have are responding very positively to the tenders, both spot but also the term contracts that are out there. What you also have to remember is that we are cutting a significant amount of cost, both directly but also as the whole ecosystem gets in line with the new norm. So everybody will have to adjust their costs, including our offshore colleagues, and so the cost will also come down. So the pressure on margins will not be to the tune that you describe here in terms of absolute margins, I predict.

Zafar Nazim: All right. And in the Caspian Sea side, I guess, in exchange for some price reduction, what kind of contract duration are you aiming for?

René Kofod-Olsen: You mean in terms of how long the contracts are going to last?

Zafar Nazim: That's right.

René Kofod-Olsen: Well, what I can give you of guidance is that generally in Caspian we are normally looking at three, five to seven years. So the longer ones are probably closer to five or seven years, so that is the norm but I cannot tell you how we are going to land this again in absolute terms.

Zafar Nazim: Okay, got it and I guess when you talk about the spot market, we're probably talking about primarily what, Africa? So I see that the utilisation in Africa has plummeted and you mentioned that there was some healthy tendering activity in the MENA region in the third quarter. Should we expect some additional deployment of African four vessels into the MENA fleet in the fourth quarter or the first quarter of next year?

René Kofod-Olsen: We are unfortunately not the only operator in Middle East so we are moving vessels in, Zafar, that we feel is sustainable with our customers. But you are right that five out of seven of our ships in West Africa currently, the PSVs, are operating in spot. There is a high tender activity in Africa and also in MENA but also elsewhere, that are starting to pick up where these vessels could be relevant. And so we are bidding them in to those kind of works, but we are not moving five spot vessels from West Africa into a pure open spot market here and then cannibalising our own part of the market. That would not be prudent, we believe, and we hope other operators will have the same strategy.

Zafar Nazim: Right, and the fourth quarter last year was unusually strong. I think you posted an EBITDA of \$60 million. So should we expect a similar trend going from Q3 to Q4 or how should we, I guess, come up with a near-term number for...?

René Kofod-Olsen: No, we sold an asset in the fourth quarter last year and generally we had very good trading positions on our PSVs in Africa, which is also why I tell you that we believe in the long-term prospects of that market. So you should not expect the same trading conditions, especially because of the situation we are in now. But what I said earlier was that I think we have platformed in our stability quarter-on-quarter if you look over the last three to four quarters, and I think that is a positive. That is a positive trend when you consider the global market that we're operating in.

Zafar Nazim: All right, thank you very much.

René Kofod-Olsen: Thank you, Zafar.

Operator: Thank you. If you wish to ask a question, please press *1 on your telephone keypad. If you could please limit your questions to two just to give everybody a

chance for Q&A. We will now take our next question from John Stipanovich from Goldman Sachs. Your line is open, please go ahead.

John Stipanovich: Hi, thank you. So my question has been partly answered on the BP contract but just to clarify, I know the terms or the duration has not been set yet but as I understood in the past, the preference was to push it to the absolute longest term that you could and that was part of the negotiation in terms of price. I mean is that still your preference? And then also can you just update us then what – once this contract is signed, what the contract's maturity profile kind of looks like generally for the company and in terms of what other big contracts would be coming up soon?

René Kofod-Olsen: Yes, thank you. So let me start by repeating our commercial strategy is always to go for term contracts over spot. That we have done for many years and we continue doing so. Many other operators probably wish they had done so long ago, today, with all the idling vessels around the world. So we have our commercial strategy and our clients' understanding that knows that we will trade off some revenue for longevity of contracts. And the same thing goes with the negotiations with BP in Caspian. So they have been very constructive on both sides and we believe that as I mentioned, that they will be concluded positively very, very soon. So in terms of the longevity, that is also why that we are advocating for five to seven year contracts and we are in agreement with our client on that as well.

John Stipanovich: Thanks, and on what the contract profile looks like now?

René Kofod-Olsen: So you mean in terms of what contract is up next in that area?

John Stipanovich: Yes, just trying to think about the way the business looks now or what it will look once you've signed the new contract.

René Kofod-Olsen: Then there will be no significant contracts up for renewal over the next five to seven years in that jurisdiction, beyond new business that would come – and I predict that new business that would come will probably be a vessel, if it is possible, built up there which we of course will participate in. But time will tell. But there is a lot of business coming out from both that client but also from Total that is over and above this business.

John Stipanovich: And in terms of timing, you said soon. Is that before year end to get the contract signed?

René Kofod-Olsen: Well, as I mentioned as politically correct as I could, I think preliminary negotiations and maybe also secondary negotiations have concluded and now, you know, this is many vessels and it goes through a lot of hierarchy. So it has been a very positive discussion, so we expect it also to soon be positively concluded, but this is a big and reputed client and we await their conclusion.

John Stipanovich: Thank you.

Operator: As a reminder, to ask a question please press *1 on your telephone keypad. We now have our next question from Kia Williams from Emirates NBD. Your line is open, please go ahead.

Kia Williams: Hi, thank you very much for the call. I was wondering if you could give us a little bit of colour given your solid liquidity position, has your attitude or your approach to acquiring assets changed and are you looking at anything specific at the moment to use that cash for?

Jay Daga: As you know that we have \$200 million worth of undrawn line to acquire assets. At the same time, we are looking at every possible source of funding that will give us better tenor or better pricing. So the two new assets which we are

acquiring, we are exploring the possibility of export credit-backed funding and that could be like for a ten-year tenor at a significantly lower rate.

René Kofod-Olsen: Well, we are taking a very prudent approach to investments, as you would expect from us. We have always been very disciplined in terms of our asset purchases and the two subsea vessels that Jay is describing is exactly that. So we have no expansion plans for now but we think that should there be any possibility going forward that would fit our strategy and profile well, we will of course take advantage of the distressed trading conditions that some companies are in at the moment.

Kia Williams: Thank you.

Operator: We will take our next question from Zafar Nazim from JP Morgan. Your line is open, please go ahead.

Zafar Nazim: Thank you. Just a couple of follow-up questions. One, can you remind us the Caspian Sea, the negotiations that are going on for the Caspian Sea region with BP, how many vessels does this cover? How many core vessels are we talking about?

René Kofod-Olsen: Fifteen.

Zafar Nazim: Okay, and the subsea vessels that you placed an order for the two new vessels, you mentioned that you got a good deal given market conditions. Can you give us an idea about what kind of a discount versus I guess normal market conditions did you achieve here?

René Kofod-Olsen: 40%.

Zafar Nazim: Right, and just one last question, the \$10 million in savings, when should we start expecting – when should we start seeing these savings, the numbers?

René Kofod-Olsen: Yes, so this – sorry, this is annualised savings and they are probably on the conservative side, so we believe that we will deliver more. But they are, as I mentioned, annualised so cost savings are a dynamic feature of any crisis. The minute you give a – you know, oil companies will ask you to make a cost reduction but the minute you make a cost reduction, you actually make a profit reduction. Before you can take cost out equivalently, it takes you a while. So we have taken cost out as we go along and as the ecosystem gets used to a new norm, and therefore it is not a one-off cost reduction; it is an annualised cost reduction that we are looking at and so this you will see coming into our business as we move on.

Zafar Nazim: And is there like a one-off charge associated with this reduction?

René Kofod-Olsen: No. We do not have any one-off charges that are associated with this of any material mentioning.

Zafar Nazim: Right, thank you very much.

René Kofod-Olsen: Thank you, Zafar.

Operator: We shall now take our next question from Sundar Sundar from Gulf Baader.
Your line is open, please go ahead.

Sundar Sundar: Yes, good evening, René, thanks for the call. I have a couple of questions for the team. One is the general outlook of the OSV market, has the offshore vessel market bottomed out or how do you see this market in 2015? And for the company, how do you see the midterm margin panning out because there are several long-term contracts going for renegotiation and if you look at the historical trend that we've based our margin typically 45-50% level, do you see these levels are maintained or how do you see the EBITDA margin going forward?

René Kofod-Olsen: Okay, thank you, Sundar. The first question is the crystal ball question and of course thank you for asking me that, to have confidence that I can predict the market. No, I do not think it has bottomed out. I think, as I think I mentioned earlier, the trading conditions will continue to be very, very difficult also in 2016 and we are preparing the company accordingly. However, you are, I believe, in an unsustainable level of oil price so new projects will not be profitable for the NOCs and IOCs at these levels and therefore eventually, simply from a cash flow protection from those companies, we will have to settle that this is a new norm and then projects will come back. But we may be in 2017 for that. Many people are saying, well, the world has been in a \$20 oil price before and why shouldn't it be that again? Even a very big bank has predicted that. True, but what people are forgetting is that ten years ago there was much more land oil than you have today. So it is not marked to reality. Today, most land oil are rapidly depleting and new oil is offshore or fracking. Fracking is still very expensive relatively to offshore, and offshore is then again both nearshore, medium-depth and of course very deep. So there will be a rebound. The length of the current crisis will describe the aggressiveness of the rebound. So if this continues throughout '16 and potentially even parts of '17, you will see a very aggressive rebound simply because the world is depleting so much oil. So the reserves that has been in previous crises has also been closer to 10 million barrels of buffer to the current 1 million barrels of buffer than the world has. So that is again an uncharted territory. So I believe very firmly in the oil and gas industry. I also believe very firmly in our position in the industry but I am realistic enough to say that we expect 2016 to be tough and we are addressing accordingly.

In terms of EBITDA margins, I was alluding to the fact that cost reductions is, in my vocabulary, profit reductions that we are giving to our customers. So it takes a longer time to claw back cost and get that out of the ecosystem. But as you will see in our EBITDA margins, we have actually been quite good at clawing it back so in the first quarter, you will see a dip to 46% and then you will see gradually it comes up again to the current 49%. That shows you the trend, and we are actually quite agile in terms of taking cost out once the ecosystem gets accustomed to a new norm. So I expect our EBITDA margins to be in the same level going forward as it is currently.

Sundar Sundar: So thanks, and one more small follow-up, I think, because the parent company has mentioned some impairment charges. Do you see anything, because the parent company now seems to have mentioned some of the impairment charges in the Chairman's report of Q3? Is it something you are anticipating in the OSV segment? Because we believe, I think, they clearly mentioned whatever the value of the assets that have come off and some of the assets are not utilised. Do you think that impact will last in Q4?

René Kofod-Olsen: I definitely think that any management team and board would be non-diligent if they wouldn't look at their balance sheet marked to the current market, but that has to be done with a realistic mindset. I do expect that we will also do the same, and any large company will have assets in their balance sheet that are challenged in any crisis and so do we. And so we will be very realistic when it comes to impairments and we will take, we will definitely look at that together with our auditor but also our Board of Directors. So the longwinded answer is yes, we will definitely look at that because I think that is the right professional and disciplined way of looking at your balance sheet. It will, however, be a non-cash

impact to the company so from that perspective, there will not be really any trading impact on us and we will not have any covenant challenge for that.

Sundar Sundar: Fine, fair enough. Thank you, René.

René Kofod-Olsen: Thank you, Sundar.

Operator: We will now take our next question from Christian Schuetz from PIMCO.
Your line is open, sir, please go ahead.

Christian Schuetz: Yes, thanks so much for taking the question. One more broader question to begin with. When you speak about resetting the company for a \$50 oil world, is that more of a generic phrase or is that actually linked to projects that you work with that are profitable in that, in this price environment? That's the first one. The second one more on next year's expectations, where do you think your cash flow profile stands in 2016 given your reduced capex plans?

René Kofod-Olsen: Yes, so the first question is a loud no. We have no part of producing oil. So therefore for us the oil price is really irrelevant but it becomes very relevant when it has an impact on our trading conditions. But we have no up and down link to the oil price, only the impact it will have on all industry surrounding the oil price. So when I'm saying a \$50 environment, that is to set a conservative target for the company that we should be able to run cash-positive in a \$50 environment. I could also use the term "in a crisis environment" but I have now decided to use the \$50 environment because that seems to be what many people expect today is at least for now the environment you should expect, Christian.

Jay Daga: And in respect of cash flow, Christian, we would continue to have the same stability of the cash flow as you have seen in the past. Our capital expenditure programs are very, very diligent. We have deferred all nonessential capex and in

any case, as per our plan, the maintenance capex for 2016 was significantly lower than 2015. So we would see some headroom in our cash flow structure in 2016 on the back of a lower capex plan for next year.

Christian Schuetz: Thanks so much. So the first, the answer to the first question is very good. Just on the maintenance number for '16, do you communicate a figure for that?

Jay Daga: As we have said always in the past that our average capex over a longer period, maintenance capex over the longer period of the tenor is approximately \$20 million and this year we have spent more than \$20 million so intuitively in the next year would be a significant dip from our average maintenance capex programme.

Christian Schuetz: Thank you.

Operator: We will now take our next question. Charles Lorthioir from Northlight, your line is open, sir. Please go ahead.

Charles-Henri Lorthioir: Great, thank you very much. I've got two questions. The first one is in terms of contracts up for renewal, can you just remind me, remind us, in 2016 what is the percentage of contracts up for renewal? And in which region do you have most of these renewals? And then my second question is regarding the vessel delivery, if you can just remind us what is the cost of the vessels up for delivery in Q4 as well as the cost of the vessels for delivery in '16 and '17. Thank you very much.

René Kofod-Olsen: Thank you for the question. I can't give you any direct guidance on how many contracts because it's scattered over the regions but we have about 60% revenue cover for 2016 so much more than 50% of our fleet is covered.

In terms of your second question, can you substantiate – it's in terms of the subsea vessels you ask for or the anchor handlers and the subsea vessels?

Charles-Henri Lorthioir: Well, I guess if you can give us the breakdown. I'm just interested to understand how much cash do you need to spend to take delivery of these vessels in Q4 and for '16 and '17. So if you can break down that, if you can break that amount down between the different vessels, that would be very helpful.

René Kofod-Olsen: Yes, absolutely. In Q4 it's zero. There is no cash outflow for capex. Next year, we have an anchor handler in Q4. Next year, there's about \$23 million that has to be paid and is fully committed for, and then in the end of 2017, we have the delivery of the two subsea vessels. There is a marginal payment of that during next year when we conclude the financing of them but all that is already built into the cash flow numbers that Jay has presented.

Charles-Henri Lorthioir: And so what would be the cost of the two subsea vessels in Q4 '17?

Jay Daga: The new asset is acquired at a cost of \$112 million and end of Q2 2017 we would probably pay \$100 million, which is approximately 85%.

Charles-Henri Lorthioir: Okay, great and so just to come back to the question regarding the contracts up for renewal, so in 2016 you've got 60% of your contracts already extended or covered. For the rest, can you give us a sense in terms of the regions where you have most of the retendering taking place?

René Kofod-Olsen: Middle East and Africa.

Charles-Henri Lorthioir: Great, thank you very much for your help.

René Kofod-Olsen: You're welcome.

Operator: We will now take our next question. Alex Ayoub from Waha, your line is open, please go ahead.

Alex Ayoub: Thank you. I just had two questions, the first one is more macro. I mean you're mentioning that it's a very challenging environment, even almost distressed; nevertheless you were able to get EBITDA margins of 50%. And just wanted to understand how that EBITDA margin compares with your peers and if you are in a distressed market, why wouldn't your peers decrease the prices further to get more utilisation, especially given the EBITDA margins are still so healthy? And the second question relates to what has been driving the increase in utilisation quarter-on-quarter this quarter both in MENA and in Africa. Thank you.

René Kofod-Olsen: Yes, so the first question, the rolling average is about 35% of the market in general so it is of course distressed, but we have a lot of progress on our core markets in Caspian and Middle East and we have historically had that. We have also always been very focused on our contracting model. So we came into this, to this crisis, with probably the biggest backlog in terms of contracts of any OSV operator. We have built the backlog. We have a very close relationship with our long-term customers in those two key markets and they understand our contracting model. Therefore we are also very tuned in on our costs and that has allowed us to keep a very stable EBITDA margin and a very high EBITDA margin. So that is in a nutshell. At the same time, we did foresee a correction last year, as our plan is normally predicting a base case of \$100 million of investment per year, capex investments, and we saw movements during the fourth quarter last year and we halted our additional vessels. And of course, when the crisis unfolded very, very rapidly late December/early January, we came into this distressed environment without any capex committed, and therefore we have probably been setting the

company up to be in a better position than many others. The most hit companies of the industry are those that were predominantly exposed to the spot market, and they have in the very, very good days of the industry been making margins that was way above us. But we still had very basic margins and very stable margins. We did not go and throw our self into a big spot exposure, and that is of course assisting us in this situation, Alex.

In terms of utilisation, we are very focused on our operational excellence. We have done a lot of initiatives during this crisis to enhance that and therefore we are keeping +90% in Caspian, close to 90% in the Middle East, and for those vessels operating in Africa, we are as well above 90%. Of course what is bringing that down is the vessels that are not operating but the vessels that are operating are having a very high utilisation. So operational excellence has always been a part of our DNA no matter where we go in. I believe that's why we actually have a good utilisation and the customers are pleased with that and that has maybe assisted us in some of the haircuts we have taken. You can see in our revenue contraction that we are, of course, taking haircuts but I still believe that those haircuts are sort of controlled compared to many other spot places of the world.

Alex Ayoub: Sure, and sorry, could you touch upon, for example, the outlook in Middle East? I mean, we know there is a lot of supply coming from East Asia or Asia in general toward Middle East. Can you touch upon how much pressure you see there, especially in terms of contracting renewal, in terms of pricing?

René Kofod-Olsen: I think we will see a lot of pressure and that's also why I'm saying that the trading conditions will not necessarily improve. But I also think that people should understand what they are going into. I mean, it is very easy to move ships into perceived better markets but you need to have clients that are willing to take

those ships. No matter what market you are going into, you need to know your customers and you need to know the trading conditions. I'm not sure all the companies that you mention here that are coming into these regions are acutely aware of how Saudi Aramco would like to operate, how Maersk Oil would like to operate, ADNOC would like to operate, Dubai Petroleum would like to operate. And so you know, I would be wary to move into another market that I haven't studied very, very carefully and so it would be my hope for them that they have studied this market very carefully and they are acutely aware of the trading conditions that are prevailing in the Middle East, which are by no stretch of the imagination easy and nor should they be. They are complex and very mature customers that we work for.

Alex Ayoub: Thank you very much. I have two other questions but maybe I'll leave the line open for questions from my other colleagues and then step back if...

René Kofod-Olsen: Yes, thank you, Alex.

Alex Ayoub: Or I can ask the two questions now, whichever way you prefer. Thank you.

René Kofod-Olsen: Just ask the questions.

Alex Ayoub: Thanks. So the two others were one in relation to your fleet, how much is allocated toward exploration activities and new projects as opposed to production activities and existing operations? And the second one was in relation to the dividend policy.

René Kofod-Olsen: I will do this very quickly. We have our contracting strategy, as I mentioned, and that will intuitively entail that we are exposed to the production part. So we are part of the opex budgets of the oil majors and that is longer contracts and lower revenue. So that is the contracting model. We are very little

exposed to exploration and if we are in exploration, it is because it's backup one of the big five – the BPs or Totals. Otherwise it is production and development, 90% of our business.

Alex Ayoub: Thanks, and sorry, the other one was in relation to your dividend policy. I don't know if you touched upon that already.

René Kofod-Olsen: No, we don't have any mandatory dividend policy. It is discretionary dividend policy and historically there has been years where we have felt we could pay dividends and there has also been years where we felt that it would not be correct to pay dividend. So that would be our policy.

Alex Ayoub: Are you planning to pay any dividend next year, for this year?

René Kofod-Olsen: That will be a discussion with our board and shareholders, so the only thing I can say is that as Jay mentioned earlier, we are very, very focused on cash leakage and that will also be the main headline of the discussion with our stakeholders.

Alex Ayoub: Thank you very much.

René Kofod-Olsen: Thank you.

Operator: We will now take our next question from Zafar Nazim from JP Morgan. Your line is open, please go ahead.

Zafar Nazim: Thank you, just very quickly one follow-up. Jay, you mentioned in the prepared remarks that there will be a \$2.5 million impact from the non-Caspian Sea fleet in the fourth quarter. I couldn't quite follow that comment, if you can just clarify what you were referring to.

Jay Daga: There's no – what I was saying is as a seasonality of our business, the fourth quarter is generally slower because many of our assets go into the layup mode as

compared to the operating mode, and in some of those contracts we have two rates. One rate is the operating rate and the second is the layup rate. So the Q4 would have, would be impacted, as a planned deduction onto the shift from the operating rate to layup rates.

Zafar Nazim: And you estimate that impact to be \$2.5 million? That's the impact on the EBITDA or the top line?

Jay Daga: I think there's a series of assets that are impacted by this and I think though, I do not have the numbers handy with me but it will not be materially, it will be in line with the previous years.

Zafar Nazim: Got it. Thank you.

Operator: As a reminder, to ask a question, please press *1 on your telephone keypad. We will now take our next question from Christian Schuetz from PIMCO. Your line is open.

Christian Schuetz: Yes, thanks very much, just one follow-up question on your broader view of the market. When you think about the environment staying as is, how much of the market you competing with is over capacity and how much of competing vessels are actually not in a position to present a cost structure for the producers that the producer is able to operate in this environment? I'm trying to get a sense of the slack in the market, if you will, from your perspective.

René Kofod-Olsen: Yes, Christian, that's a great question but I'll have to basically go market by market and I don't think we have the time for that. But there is clearly, in any situation where the big oil companies, by and large, are slashing all their projects, there will be immediately an overcapacity of vessels and oil rigs, and this is what you can see the empirical evidence of in the current market. Now when has

there been a permanent overcapacity – that’s the big question – and how many of the order book will be cancelled and never be built, whether it be OSVs or whether it be rigs? I think a lot. So when everything balances back, the market will have to find their own feet to stand on, but this crisis is not about a disruptive industry or a disruptive asset that has hit the oil industry. All the fundamentals remain. The oil will in the future have to come predominantly from offshore and there is only the current ways of doing them. A lot of optimisation will then have come in this crisis for sure but all the fundamentals remain.

So I think there was a lot of the order book coming into this crisis that was a perceived order book or theoretic order book based on vessels taking additional orders – options over and above the vessels that they built. For instance, we have bought two subsea ships now but we also have an option of two more. Some analysts will say that is four ships in the OSV industry. Some analysts will say that that is only two ships and they only count for when they come in. So all that has to be rooted out in the statistics and I think a lot of vessels has actually now been rooted out because they were never going to be built. I don’t believe that there’s going to be a big overcapacity when things start to ramp up again but it depends on how fast things start to ramp up. A lot of operators have been prudent in their own market and laid up ships. We have laid up a couple of ships – warm layup, not cold layup – but most people in the North Sea, as you will read in industry press, have laid up ships cold in Norway and in Scotland. That assists in the short term the market there but of course the ship will come back into the market once the projects will unfold again. It’s a long answer but that is the best answer I can give you, I believe.

Christian Schuetz: No, thanks, that help a great deal and just one more technical – is there a price at which you're looking in buying back bonds in the market or have you ruled that out?

René Kofod-Olsen: We don't speculate in bond price. I think that will be unhelpful for us to start doing that. But we are following it with our financial advisors.

Christian Schuetz: Thanks very much.

Operator: As a reminder, to ask a question, please press *1 on your telephone keypad. We'll pause for a moment to allow everyone to signal.

There are no further questions at this time. I would like to hand the call back to Mr. Kofod-Olsen.

René Kofod-Olsen: Yes, thank you, everybody, for calling in and for all your great questions. We look forward to speaking to you again after Christmas. Thank you.

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