

Company: Topaz Energy and Marine

Conference Title: Financial Results for the Nine Months to the 30th September 2014

Presenter: René Kofod-Olsen

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Operator: Good day and welcome to the Topaz Energy and Marine Financial Results for the Nine Months to the 30th September 2014. 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. Thank you very much. Welcome, everybody, to this Q3 quarterly results update. We will as usual go through a very brief presentation that has been uploaded as well and then we will turn into a Q&A session in about ten minutes I believe.

So starting on page number 3, we have had a solid Q3 delivered on our main expectations. Revenue is slightly up, EBITDA is solidly up from same period last year. Our margins are, considering the pressure, high – just under 50% – and we are turning over a lot of cash flows from our operations. So all in all, a positive result that management is content with.

In terms of the comparison between last year same quarter, we are up in all the main metrics, predominantly on EBITDA, which is of course, in a very capex-heavy business like ours, the main cash flow indicator for us as a company. The main reason is the addition of new vessels. The series of five vessels have come into West Africa and have all been working better than business case.

In terms of the trends, quarter on quarter we are as well content with where we are compared to our business case for the company. We continue to have very solid margins and growth within the expectations quarter-on-quarter. We have had some headwinds in West Africa due

to the Ebola situation in Nigeria specifically and in the Caspian region there has been a four to five months' delay between two major contract projects in Azerbaijan.

In terms of utilisation, as I just mentioned on West Africa and Caspian specifically, there is a lower utilisation compared to last year, largely due to those two situations, which was isolated to the third quarter, and then we have had some dockings of vessels. Day rates averaged across the fleet, and specifically seen from the contracting of the new PSVs in West Africa, has gone up and actually slightly better than expected. We have, due to our acquisitions of new PSVs, lowered the average age of our fleet down to 6.7, which is under half of the going industry average.

In terms of page number 7, in terms of our business update and our execution on our strategy that we set in 2012, we have further enhanced our capital structure with accepting a \$75 million private placement from Standard Chartered Private Equity Bank. The money has been transferred into the balance sheet and are sitting there for future deployment. We are, furthermore, considering after the strengthening of the credit of the company, we are considering to refi a substantial amount of our debt from 2011/12 and we believe that we can have an aggressive cut of our cost of capital on that part of our business. The project is expected to be launched early January and we already had very, very strong contention to be part of that term sheet from both very esteemed local banks and international banks.

In terms of our expansion in our core markets, we have seen a series of PSVs joining our fleet. In West Africa we have three of the final series being delivered in the quarter four of the year, and that puts an end to the eight boats that we bought. We currently now have two boats that are being delivered from the shipyard in Abu Dhabi and that is the only new build fleet that we have going into 2015.

In terms of our operations, we still have above market utilisation at almost 90% and we are investing in further IT infrastructure to ensure that also going into a tougher period, we are even better when it comes to operational excellence.

In terms of our capital structure and debt mix on page number 8, we have had a large capital expenditure year to date of \$227 million and we are well within the targets for our leverage at the current time. We do expect that by year end next year, we will be closer to 3.5 so the strengthening of our balance sheet will definitely deliver on that target.

On page number 9, in terms of our covenants we are well within the headrooms that we have set both in terms of our covenants and generally our own internal targets of having a very, very strong balance sheet going forward, and this of course also assists us in the project on the refinancing that we have already mentioned also in the Renaissance Q3 update.

Page number 10, we are always very proud of our safety record. This is an element that we are spending a lot of time and money to ensure we keep up. We have a zero fatal accident rate and a zero lost time incident in the last 12 months, actually the last 24 months I can add. We are looking at partnering up with one of the most reputed training companies in the world and doing even more simulator training for our complex anchor handling and subsea vessels.

In terms of the market outlook, we do foresee a softening of the market in general on the back of the current oil price. But we do not foresee any landslide change. There is still a high single-digit investment from the oil majors in capex and on the subsea side it's actually low double-digit expected going forward. We are, as we have reported many times before, exposed to the development and the production parts of the industry and very, very limited to the exploration part of the industry. We expect that the capex focus that we are now seeing from many oil majors will continue in the future and therefore our model of having a very, very high utilisation and high operational excellence will deliver very well service to those oil majors where it's all about cost controls from their side and what better way to get that than having a high utilisation

from your service provider and very fuel-efficient vessels, which is of course given from our very young fleet, is speaking very well to a situation where capex and cost control will be imminent for the oil majors. We do foresee a lot of continued business in the markets that we are in. The world is currently every year depleting some 3 to 4 million barrels of oil so before any new exploration is taking place, they still have to find those 3-4 million barrels of oil. So we believe that all the fundamentals for continuous expansion in this industry is absolutely there.

So in terms of the outlook, we are contemplating investing further in our subsea division and are launching a project with a couple of vessels for replacement in the larger boats. They will likely be ordered during the next two to three weeks and will be from reputed shipyards in Europe for delivery end of 2016. This is specifically for the subsea field where we are having between 50% and 60% utilisation – sorry, EBITDA margins – and very, very high utilisation.

So yes, so in terms of our general investment, we have mentioned that as well many times to our constituency, we have \$100 million base case for investments going forward every single year. That entails vessel additions and capex spend for maintaining our boats. There might be years where the five-year survey will be higher for some of the vessels so it will be more than \$100 million but the base case is \$100 million that we will continue investing in our business. But as I said going into this call, we don't have any further imminent plan of new building programmes at the current stage of the company and I think that is the right way of looking at it and potentially bracing ourselves going into a period where we need to have our conservative eyes on and be watchful for shifts in market dynamics.

I think at this point in time I would like to end the presentation – it is uploaded on our webpage – and then hand it over for a Q&A. I have here Jay Daga and Robert Desai next to me and we will be welcoming any questions that may arise.

Operator: Thank you, sir. If you would like to ask a question at this time, please press the star or asterisk key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

As a reminder, to ask a question please press *1. We will now take our first question from Ketan Pastakia of Nomura.

Kiti Pantakhava: Good afternoon, gentlemen. Congratulations on the good results. My name is actually Kiti Pantakhava from Nomura and I have a few questions. First I would like to clarify on capex, you said that you expect to have \$100 million of investments from now on. Does that include 2015? My second question, you mentioned refinancing of bank loans taken in 2011/2012. When you say "refinancing", do you mean a syndicated facility or you mean public markets like for example new bonds you would be issuing next year? And the last one is on utilisation rate. If you look at the 3Q '14 disclosure, you show a utilisation rate of 89% versus 95.6% last year but you sound very confident in terms of your business prospects. So what level of utilisation rates for your fleet do you expect to see say in 2015? Thank you.

René Kofod-Olsen: Okay, thank you very much for those questions. So the first question is about the \$100 million base case. Yes, that covers 2015. When I say "investment", that includes capex. We are investing in our vessels, maintenance capex. So we are of course investing in dry-docking on our boats and upgrades. Those boats who currently have DP1, to give you an example, some of them will be upgraded to DP2 to make them even more marketable and then you have the normal cycle of dry-dockings.

In terms of financing, then it's a syndicated bank facility. It is not a capital markets facility as we view it today. It will be a mixture of refi-ing the debt that we took, the \$350 million debt, and then adding another \$100 million of unsecured debt. So we still keep our very good headroom in all our main covenants basically, and firepower for opportunities going forward.

In terms of utilisation, as I mentioned, we only went sub-90 based on the Ebola situation in Nigeria and that installed some quarantine measures, and then because of the in-between projects in Azerbaijan specifically between the CA project and the Shah Deniz 2 projects. It is not a sustainable low utilisation and those vessels that were in the period not operating are currently operating. So we do expect in the 90s again looking forward. That being said, we are ensuring that the model of having medium- to long-term contracts is a key focus for us. We want to have the sustainability in our cash flow going forward as well, so wherever we can get a medium- to long-term charter even at a lower charter, we will go for that.

Currently, our contract backlog is \$940 million, just under a billion dollars for the next eight years, and that is for all intents and purposes a very strong position to be in.

Kiti Pantskhava: Just one more follow-up if I may. Just back to capex, \$100 million, does that cover acquisition of new vessels or it's just maintenance capex, the dry-docking, etc.?

René Kofod-Olsen: It covers acquisition of new vessels but that so far has not been decided.

Kiti Pantskhava: Okay, thank you.

Operator: As a reminder, if you would like to ask a question at this time, please press *1 on your telephone keypad. We will now take our next question from Deepa Abraham of Old Mutual.

Deepa Abraham: Hi. Can you explain the difference between gross and net leverage as calculated on slide 8 and your covenant calculation? So your Q3, you're showing a 3.7 under the covenant calculation.

Jay Daga: Yes.

Deepa Abraham: And on the previous slide – sorry.

Jay Daga: In our bank debt covenant calculation as per page 8, the parent company debts are not considered, since these are subordinated to the bank debt. But on a GAAP basis, that's what is showing on page number 8.

Deepa Abraham: So this is just senior secured debt, 3.7?

Jay Daga: External debt other than the parent company debt.

Deepa Abraham: Other than parent company debt, okay. And you are pretty, the headroom is quite thin on the interest coverage ratio. Do you think it's going to significantly improve by the year end?

Jay Daga: Of course because as you know, our business is we invest money first and then we start getting the EBITDA, but that is...

Deepa Abraham: Yes, but you also have more expenses coming up.

Jay Daga: No, the \$100 million has not been committed, as René has said. No, this is our plan that we keep renewing our fleet with a benchmark of \$100 million.

Deepa Abraham: Okay.

Jay Daga: But actually that would not be at the detriment of any risk to the covenants.

Deepa Abraham: Okay, and any of these covenants, how does it look over the next 4-5 quarters, any tightening?

Jay Daga: No, no, we're expecting sufficient headroom in our covenants.

Deepa Abraham: Is it likely to be at 4.5 for leverage and 3 for interest coverage going forward for the next year at least?

Jay Daga: As I said that we're expecting improvement in our covenant and therefore it is only an upward journey from here. Remember that last year we spent more than \$300 million in our new capex and that is what...

Deepa Abraham: No, my question was from the other side. Do the banks have tightening covenants going forward?

Jay Daga: No, no, no, they don't have.

Deepa Abraham: Okay, cool. Thank you. If I have questions, who is the best person to contact on an ongoing basis?

Jay Daga: There is...

Deepa Abraham: Routed through Mr. Desai?

Jay Daga: That's right.

Deepa Abraham: Okay, thank you.

Operator: We will now take our next question from Sundar Sundar of Gulf Badr.

Sundar Sundar: Hi, thanks for the call. A couple of questions from my end. One is on the West African operation. I believe you have deployed around five new vessels. How do you see the outlook for the market and do you see, what kind of outlook you are seeing and what kind of contracts, these are long-term in nature? Can you explain on the West African operations? And the second question is on the MENA region because I believe the MENA region is where you operate in more of the spot markets, I think, I believe the spot markets might have, the rates might have suffered a bit I think. What is your outlook on this MENA market? And also I can see the lower utilisation in this MENA market. Can you explain on this also? Thank you.

René Kofod-Olsen: Thank you so much, Sundar, for the question. West Africa, we are actually quite bullish. There is a lot of development and production going on both in Nigeria, Cameroon, Congo, Angola range where we are operating. So we actually have a quite solid outlook on that. We are still getting rates that are largely satisfactory and on the four boats that you mentioned, they are all delivering close to 20% IRR if not above. So way above our hurdle business case for investing. So that we are comfortable with our position in West Africa.

In terms of the Middle East region, we are actually fully utilised. So I don't think we have shared any utilisation statistic that shows that we have low utilisation in the Middle East. So we actually now are looking at how could we potentially deploy more business in the Middle East from our global fleet. We are seeing good traction in Qatar, Saudi and in the UAE. Yes, there is a strong competition but we are used to that so we are positive also on that market but we need to be on our toes.

Sundar Sundar: Can you see or can you tell me what is your West African, it's more of a long-term nature, these contracts, in the West African operations?

René Kofod-Olsen: So we have a mixture, Sundar. What typically happens when you deploy assets is that they, the assets gain traction. Our PSVs are currently replacing larger PSVs, in line with what we discussed earlier that there is a pressure on capex. So we have managed to buy some very, very good boats and therefore we see this very high utilisation on the vessels in West Africa. So we have our strategy of going for medium- to long-term contracts. We are getting registered both in Nigeria and Angola under the cabotage rules there and that will allow us to bid for even longer contracts. Today we have been unable to bid for longer contracts because we have been very thorough in terms of setting up partnerships both in Nigeria and Angola. So we are now getting licensed so we are able to bid for the three- to five-year contracts as well. And the minute we have that, we will go for longer contracts. Today we have short- to medium-term contracts only.

Sundar Sundar: Fair enough, and last thing on the seven vessels getting added on this year, what kind of contribution do you think because you have already seen the numbers getting better off. How do you see these vessels, now I think the three vessels which are coming in Q4, how do you see the impact overall for the business? Do you see kind of further the day rate more, because we have already seen the newer vessels getting better day rates? How do you see the outlook for the market with the new vessels coming in for the...?

René Kofod-Olsen: Yes, so the three final vessels in the series of vessels from China will only have a cash flow impact next year, so that's hence the answer from Jay to your colleague from Old Mutual just before that the EBITDA to interest is obviously lower. That cash flow will come from those vessels next year and we've already paid for them, so. In terms of the rates and those boats, yes, we bought them because we had a fundamental belief that this series of vessels was at an attractive capex for us and would fit well into our portfolio of vessels and that has shown to be a right strategy. We don't contemplate buying any more of them now and so we think that they will be able to work with our long-term strategy in West Africa where we do have a long-term strategy and they are also fully deployable in the Middle East, and they are perfect fit vessels between Saudi/Qatar to Nigeria/Angola range.

Sundar Sundar: Fair enough. Thanks, René, for this.

Operator: Thank you. We will now take our next question from Gloria Lam of Waha Capital.

Gloria Lam: Hi gentlemen, thank you very much for the presentation. Sorry, I dialled in late so some of my questions may have been discussed earlier. So first of all, for the [news] about the \$550 million bank debt that the company intends to raise, 380 is for debt repayment and the remaining is for potential M&A. So could you just give more colour about if there is any M&A planned in the company mind or that you guys are reviewing?

Jay Daga: Gloria, yes, thank you very much for this. No, we have no ongoing dialogue with any company for M&A but at the same time, we are looking at the market conditions and the liquidity in the market. And as per our financial plan, we want to line up the availability of these funds and that's the \$75 million what we got from Standard Chartered Bank was again in anticipation of growing the company either through fleet acquisition or organic growth or any consolidation. But at this point in time, we want to have the facility in our hands for any opportunity in the near future.

Gloria Lam: Got that, but in terms of the format of the \$550 million, is it a term loan? If yes, what's the tenor or just is it part of a committed credit line that the company can draw over time?

Jay Daga: Yes, it would be part of a committed line but all the details are being worked on as we speak, so we haven't really zeroed out what would be the structure. But more or less ballpark, the idea is to get the current debt book refied for a longer tenor and have sufficient headroom in our cap structure to allow for any possible expansion.

René Kofod-Olsen: So we have appointed Rothschild to be our advisor for this and we expect our term sheet to come out early January and again, this is another tool in our toolbox that we set out in our long financial plan in 2012 to continuously drive towards a better capital structure and in this case it would be to actually lower cost of capital.

Gloria Lam: Got it, got it, I understand. And my second question is related to the contract backlog that René mentioned earlier, the \$940 million. How much of them is the fixed contract and how much of them are the extension options?

René Kofod-Olsen: Yes, so next year, Gloria, we have about 50% that is firm and 20% options, so already now we go into it with about 70% cover. Our options in the industry are generally taken and so you can say that that trend is also moving and rolling forward. We are now negotiating some term contracts to even longer contracts and so we expect actually over the next couple of quarters that we would see the contract backlog increase very positively.

Gloria Lam: Got it, got it. Cool, thank you very much.

René Kofod-Olsen: Thank you, Gloria.

Operator: As a reminder, if you would like to ask a question at this time please press *1 on your telephone keypad. There are no more questions – oh sorry, we have one question just come in from Kia Williams of Emirates NBD. Please go ahead.

Kia Williams: Hi, thank you very much for the call and congratulations on your good results. I'd just like to find out a little bit more about your contracts and the nature of your contracts. I know you discussed the West African contracts but could you give an idea of what percentage or an indication of what percentage of your contracts are long-term in nature versus short-term in nature? And also given the average day rate increase of about 10% for the quarter, could you just tell us where that's coming from and sort of where you see things panning out in the next sort of 6-12 months?

René Kofod-Olsen: Yes, good question. So instead of coming with a broad reply on the contract cover, I think regionally is the best way of doing it. In Caspian they are between 3 to 7 years. In the Middle East they are probably between 1 year to 3 and 4 years, and in West Africa we can definitely get longer contracts. As I mentioned earlier to one of your colleagues, we have not had the necessary licenses in the two main jurisdictions, so Nigeria/Angola – we do have that now. And so we will go for longer contracts there as well. Our model in being exposed to development and production speaks well to longer contracts and in a situation where we all need to brace ourselves for tighter controls and capex containment perhaps from at least some of the oil majors, then you should, we should have a great position to go for medium- to longer-term contracts when we discuss with our customers. So today our average contract term I think on a general basis is just under 4 years, but they are split in the regions that I just mentioned.

Kia Williams: Okay, and once those contracts become due, you would then renegotiate contracts using the average day rates at that moment, is that correct?

René Kofod-Olsen: Yes, I mean – yes indeed. I would even contemplate that if we are able to trade in a potential two-year contract at the same day rate as to a five-year contract at a slight discount, I would take that any day. So that is really our model. We want to have a sustained level of business also going forward and we don't want to ride the spot or the term business depending on where the wind blows. We have shown a very stable trajectory in terms of how we contract and we have a going modus operandi that if we can have a longer contract even at a slight discount, this is the strategy that we have deployed.

Kia Williams: Okay, and then growth from the – or the 10% growth in your average day rate, could you just give an indication of is that a specific region that grows more than another region and where you think that's going to pan out in the next 6-12 months?

René Kofod-Olsen: No, we think that the general average day rates would probably be flat and in some regions they would definitely be going down, but where we are in the Caspian, it's a contained market with its own dynamics and longer contracts. So there we see just a normal trend. In West Africa I think and the Middle East, we are seeing a normalised situation. We are not really exposed to the very buoyant North Sea or the Gulf of Mexico in a large scale. So in the markets that we are exposed in, we do not see a huge pressure coming but we keep a watchful eye and we stay conservative in the way we will deploy assets.

Kia Williams: Okay, great and sorry, if you could just allow me one last question, what level of oil price could result in lower, significantly lower capex spending by these oil companies and then start significantly affecting your business opportunities?

René Kofod-Olsen: So without too much sarcasm, if I could give you the 100% answer to that, I would be an oil oracle and I am not. But sarcasm away, it's a very good question and it's something that we actually spent quite some time on understanding. So in a nutshell, we see that the world

is losing 3-4 million barrels of oil a year through depletion. So before even you start growing your economies throughout the world, you have to find 3-4 million equivalent barrels of oil either through alternative energy or actually finding the oil. So there will continuously be capex spend throughout the world and now you can say, depending on then the political pressure which is really what drives the price, then there would be periods where the oil price would be depressed – like now – and then there would be periods where of course it will increase. But is it really a supply dynamic or is it a demand dynamic? We believe it's a supply dynamic. So you really need to find that oil. So we go for the long contract where we can ride out even a lower oil price without any specific pressure. It's true that in a very high triple-digit oil price in the North Sea for instance, if we would deploy assets there at the prices that we command, we would look like amateurs. But in an oil price where it is today or even lower, we actually look fairly good with the average day rate that we are getting. So we are content with that situation.

So from a hurdle rate perspective, then it depends on the jurisdictions that you are in whether it is sub-50 or sub-40 but it is probably something like that. If I would come with a guess, I would probably believe that a sustained oil price level is between \$80 and \$90 a barrel.

Kia Williams: Okay, thank you very much.

Operator: As a final reminder, if you would like to ask a question in today's call please press the star or asterisk key followed by the digit 1 on your telephone. We have a follow-up question from Ketan Pastakia of Nomura.

Kiti Pantskhava: Hello again, Kiti Pantskhava from Nomura. I have a follow-up question. In the Caspian region, your contracts are priced in local currencies or in US dollars? And if they are in local currencies, is there any adjustment for the exchange rate?

René Kofod-Olsen: They are all in US dollar.

Kiti Pantskhava: Thank you.

Operator: As there are no further questions at this time, I would like to turn the call back to the speakers for any additional or closing remarks.

René Kofod-Olsen: Just thank you very much again for the audience questions. It's always great to have these conversations and as one of your colleagues asked earlier, you know where to find us. Robert Desai is there and we have all the information on our internet. Thank you very much for dialling in today.

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