

Company: Topaz Energy and Marine
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Speakers: René Kofod-Olsen, CEO and Jay Daga, CFO
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Operator: Good day and welcome to the Topaz Energy and Marine Financial Results Investor Call. Today's conference is being recorded.

At this time, I'd like to turn the call over to your host today, Mr. Rene Kofod-Olsen. Please go ahead sir.

Rene Kofod-Olsen: Thank you Sarah. Welcome everybody, especially welcome to all the new investors from the recent refinanced bond. I have together with me Jay Daga, our CFO, who will be hosting the call with me today.

This time we have included quite some slides of strategic content as well, for many of the new investors, so I will go through that, then we will go through the financial highlights and hand over to our Q&A.

So if I start on page number 4, we recently issued our new US\$375 million senior secured - unsecured notes successfully during the month of July. We guided the market towards a very big contract expected win in Turkmenistan and I was very pleased when we recently announced that now we actually had won it. We had also won all the vessels that we had hoped for, so we will be deploying six vessels right now to Turkmenistan on this contract for ENOC/Dragon Oil. So that is very, very positive.

In terms of the Tengizchevroil contract, we are now taking delivery of three vessels ahead of schedule and that means that two vessels will already commence their deployment in October of 2017. And then full throttle on all 20 ships is still expected to be, as ice subsides from the rivers during April 2018. Our cost containment drives are continuing unscheduled. We have removed some US\$14 million this year and we continue to embrace the digital revolution in the company.

So in terms of page number 5, for those of you who don't know the company as well, we really have six distinguished strategic wheel spokes. The Caspian Basin is clearly the company's biggest and home market. We have just again underlined that by the strategic win in Turkmenistan, adding another US\$100 million to our backlog which today stands at just over one and a half billion dollars. We are now very active in all the main markets in the Caspian Sea.

We have positioned ourselves very well for the Marine Logistics value by Topaz Solutions where the first contract we won there being the Tengizchevroil contract against formidable partners like Chevron and Exxon. And so that's a business that we expect to expand even more in the future.

As you will see later, we still have a very, very strong safety record even in this cost-containment mode, and we also have a very strong utilisation when our ships are contracted.

Today we have refinanced our two major financial streams last in 2015 we took a seven-year money secured debt and now we have recently just refinanced with another five years of funds, meaning that the balance sheet is in a long-term position right now. So that puts us in a very, very good place.

I want to jump to page number 12 and hand it over to Jay Daga, who will take us through the financial highlights.

Jay Daga: Thanks Rene. Before I get into the financial slides, I just wanted to add a couple of detail points. With the US\$100 million Dragon Oil contract, our contract backlog has exceeded US\$1.5 billion, so as on of 30 June it stands at US\$1.526 which is an all-time high for us.

With respect to the marine logistics - the TCO contract, with an early start in October, we will see our revenue stream coming this year but, more importantly, let's not dissipate the good start of this contract and next year around we are very likely to see the full impact of this contract. And with this backdrop, let me commence the financial highlights.

The first half of the year as we guided the market is not as strong as the previous year and there are a few key factors that have resulted in the decline. Azerbaijan is holding very, very strong and with the win of the BP contract last February, we have a runway for the next seven years that is approximately US\$100 million worth of revenue plus, every year. So that's secured for the next foreseeable future.

But the key reason for the revenue decline was our business in Kazakhstan, where post-completion of the Kashagan 1 Project - some of our barges went off-work and while they are specialised barges - and they will stay standing by for Kashagan 2 - but it will have a temporary impact for the next 12 to 18 months, or maybe a bit longer based on when the Kashagan 2 takes off. So that's one of the reasons why we have almost US\$10 million worth of lower revenue between these two periods.

And other than that, there is the fact that MENA fleet deployment was much lower in the first half of this year as compared to the previous year. And Africa was also significantly lower. Now the positive to take away from this is that the second half is expected to be very strong because the Dragon Oil contract takes a couple of our MENA boats that move into Caspian, and that completely takes away the surplus capacity so we will still be moving some more tonnage to meet the spot requirement in the Caspian - so that's positive views.

In Africa, we have signed a contract with a client. We are waiting for the work order to commence (work) - that's already a positive - and we expect that to commence any moment, subject to completion of the formalities. Plus, the maintenance work has also commenced in Africa so

we will see that utilisation of our African fleet at the optimum level within the third or fourth quarters, so that's positive news.

And more importantly, the new stream of income from TCO, which was not there in the previous year, is going to mitigate some of the down-time between the two periods.

EBITDA numbers are significantly better. While we lost almost 22% of revenue, which is almost US\$30 million dollars, the impact to EBITDA is not at the same proportion and that is reflective of the cost savings between the two periods - reducing some of the impact. And I do believe that the current set of data is the lowest possible in our history because of the fact that this represents the contract, what we have in hand and with addition of the new work, both spot as well as term charter.

We are also seeing some heavy momentum with our commercial activity. Some of the subsea vessels are also going to see some short-term work and that is going to bridge the short fall in the revenue and EBITDA for the first half of the year.

On page number 13, margins are slightly lower in Q2, however, the overall margin for the first half is still in excess of 50% so there has been some decline in the second quarter as compared to first quarter but we have still been maintaining our high margin run rate of around 50%.

Page number 14, this does not tell a new story because while quarter-on-quarter the revenue numbers are down - and this is predominately because of market headwind - so while the term charter and the contracting work are stable sources of income for us, the spot business has gone down a bit and we expect it to either plateau but move forward in quarter three and four on the back of the new awards.

Page number 17, I want to draw your attention to the Caspian Azerbaijan fleet, which is in excess of 95% utilisation. Now, in terms of value, they

have the maximum value for us, therefore, this 95% utilisation on our most valuable fleet, is the measure which is relevant here. And in Africa we have only seven vessels. Out of seven vessels <inaudible> we expect utilisation to go significantly up.

Average day rate is only 8% lower while the market decline on day rate for work fees is in excess of 20 to 30%, but our rate is only 8% down. That is because of the long contracts which we have negotiated with our clients at a rate that is lower than the expiry rate but still significantly better than the market ongoing rate.

I want to remind everyone that we have escalation clauses kicking in from 2018 onwards so the rate is expected to improve when these contractual escalation clauses are effective.

On the Financial Covenants, we have decent headroom on our leveraged issues, decent headroom on our free liquidity, and we are mindful and watchful of our financial position. One of the key reasons for the bond refi was to ensure that we take proactive measures and ensure that our balance sheet is in a position where we can tide over the current business cycle with comfort.

Other than that, we still have good cash balance as of 30 of June in the balance sheets and with the RCF completely undrawn. I will now hand over to Rene for concluding comments.

Rene Kofod-Olsen: Thank you very much Jay. I just want to add that in this very CAPEX constrained environment in the oil and gas industry, where everybody has been looking at their CAPEX deployment - and of course we have all been in cost-(containment) mode - I am exceedingly pleased that we still have an impeccable safety record. We have no LTIs, no fatalities and we have one of the best operational track records in the industry, which means a lot in terms of not being a counterparty risk for our clients.

On that note, I want to hand it over to our Q&A. Thank you Sarah.

Operator: Thank you sir. Ladies and gentlemen, if you'd like to ask a question at this time, please press star 1 on your telephone keypad. If you find your question has been answered, you may remove yourself from the queue by pressing star 2. Once again, please press star 1 to ask a question.

We'll now go to our first question today from Sergio Calci, from JP Morgan, please go ahead.

Sergio Calci: Yes, thanks a lot. Just a couple of quick questions. The Dragon Oil contract US\$100 million backlog, is this essentially evenly spread out across the years in terms of revenue impact?

Rene Kofod-Olsen: Yes, thank you Sergio. Yes, it is indeed. This is proportionally spread over the years of the six ships.

Sergio Calci: Got it, okay. And if you can also give us an update on the number of vessels you have warm-stacked right now? What's the quantum per day?

Rene Kofod-Olsen: Yes, we see - I think you are presented as Sergio, but it's of course Jafar I recognise the voice. Yes, we have seven ships now stacked.

Sergio Calci: Sorry, what is the number again?

Rene Kofod-Olsen: Seven.

Sergio Calci: Seven, okay got it. And what's the approximate cost - the daily cost, or the weekly cost of warm-stacking these vessels, per vessel?

Rene Kofod-Olsen: We have supervision defined in MENA, and the one ship we have in Turkey. We typically spend about US\$1500 a day for these ships. That's how we model it. We have opted for not just closing the doors and putting them away until better times. We are keeping track of them. We start the

engines and we do all these things. We feel that that is a very good, sort of, opportunity cost of capital to ensure that when the vessels come back, we don't have to deploy a huge amount of CAPEX.

So typically, we would expect these ships to be re-deployable within a couple of weeks. And depending on how much overhaul the generators and so on would need, anywhere between 50 and US\$100,000. So immaterial in the greater scheme of things.

Sergio Calci: Got it, okay. And lastly on the TCO contract, just to be clear, do you expect the impact of the full 20 vessels starting from next year, from January?

Rene Kofod-Olsen: No, see this environment is a river system where it ices over. So typically, you are not able to navigate from mid-November to mid-March, depending on how strong the winter is. If you are watching Game of Thrones, you would think that winter is the whole year, but of course, that's hopefully not the case here.

So we are modelling with all 20 vessels being fully operational as winter subsides next year. But because we are ahead of schedule on our part of the project, the TCO partners have decided to take the two vessels that are already available and sail them through the river systems empty to have a little bit more operational experience, which is fantastic.

So you should expect that from April next year, all 20 vessels will be fully deployed. And depending on when the ice subsides, they may be deployed a little earlier than that.

Sergio Calci: Got it, and in terms of the delivery of the vessels from Vard, is that going as scheduled?

Rene Kofod-Olsen: No, we are ahead of schedule as I mentioned. We have already taken delivery of three ships. And the reason is that we have kept a very,

very tight management together with Vard and so that's why two ships would already generate a cash flow this year. That was never expected but because we are ahead of schedule they've opted for that, which is exceedingly positive for us.

Sergio Calci: Got it. Thanks for that Rene.

Rene Kofod-Olsen: Ok, thank you.

Jay Daga: Thanks.

Operator: Thank you, we'll now move to our next question which comes from Kia Williams of Emirates NBD, please go ahead.

Kia Williams: Hi gentlemen, thank you very much for the conference call, as usual. I just had a couple of questions. If you could address the decline that we've seen in the margins. Obviously until this quarter, margins have held up quite well, but we've seen a decline in margins and so if you could just give a few more details on that and how that ties to putting some of these vessels back to work, but probably at a much lower day rate. That's the first question.

Jay Daga: Yes, Kia. For a business like ours, you got to look at a longer period because if you lose the revenue for one day than it straight away impacts our EBITDA numbers. So when we budget for our vessels, we look at a 12-month window and we budget them at a rate of let's say, depending upon the utilisation, depending upon the contract cover and the spot business, anything between 70% and 85% on the contracted business over the contract period.

So therefore within the short quarter-on-quarter sometimes the EBITDA deviations could lead to a different conclusion. But, our average over the longer period has been in and around 50% of the margins. And of course, sometimes you get additional other income through catering and things

like provision of additional services which are high-margin accretive because there's no cost but a revenue stream comes in.

Kia Williams: And we can expect sort of those margins to return to the above 50% levels for the second half of the year, I would imagine.

Jay Daga: I think there's no above or below; if you look at it on an average we have been clocking a margin between 48% and 51%, so it will remain. In fact I expect the margin to be better on the back of the explanation which I gave you during my presentation - we have vessels now that will go on charter and when they go on charter, the plus side is that our cost containment drive has been very helpful to push the margin up on a normal basis and now that we see the EBITDA, the revenue coming through, my expectation is that the margin would be similar or stronger.

Kia Williams: Okay, and then those seven vessels that are currently in lay-up, what kind of discussions are you having around those? Are you in discussions with possible clients to put those back to work?

Rene Kofod-Olsen: So we have a commercial funnel that is certainly increasing and so we are seeing that we are past the trough as an industry. And so we are moving out of these crises. It's not going to be a hockey stick but we're certainly going in through more deployment of CAPEX both for maintenance, development and exploration from the oil majors. And so as such, we are looking at remobilising the vessels as we get contracts.

So for instance, the wins with ENOC and Dragon Oil are clearly assisting that. And as Jay was mentioning, we are contemplating using a couple of ships to replace some of now the contracted vessels in the Caspian. And so, we also have been awarded a contract in Africa and when we get the work order that will potentially take most of our PSVs away from that area.

We are definitely seeing better times. We always guided towards the difficult first half, better second half, and '18 is going to be also (excluding

Tengiz) definitely better for the entire industry and we hope to benefit from that as well.

Jay Daga: Yes, last time we had ten vessels on a warm lay-up and now we have seven, so we have reactivated three. And the trend is the same thing that no, as we see more and more traction in the marketplace, then we would activate one or two so that we always have tonnage that is ready for trading and not to waste two, three, four weeks for reactivating because the spot market doesn't wait for that kind of mobilisation period. So we are mindful of and proactive about when to reactive the ship and not to miss opportunities.

Kia Williams: And just a couple more questions. I just want to be clear on this Dragon Oil contract. So there's six vessels, and that you've already commenced and the vessels mobilisation of operation ramp up, I understand that these are six existing vessels. Is there any CAPEX attached to this project that you will need to do?

Rene Kofod-Olsen: They're all existing vessels which is fantastic Kia. It's 5 anchor handlers and one emergency response vessel. The emergency response vessel is a vessel we built just before the crisis which had a very good life in the Mediterranean assisting the relief of migrants for one year. It came out of that contract, I believe, six months ago and we were hopeful that this Dragon Oil will be concluded because she was perfect for that market.

And then it is six anchor handlers - sorry, five anchor handlers that have been working well in the Caspian previously but also in the Middle East. But because of the lack of long contracts, many of them have been on spot. So we are taking basically five of our mid-ranged anchor handlers out of trading for the next five, potentially, seven years and in fact, that couldn't be better for the company.

Kia Williams: Okay. And then thank you for that. Just a last question on my side. If you could address the Financial Covenants. Obviously, you have a lot of

headroom on the free liquidity covenant now but the interest bearing debts to EBITDA is obviously only 12%. When do you start, if you had to, renegotiating these, given that your EBITDA is sort of declining and you have, obviously its a small increment, but an incremental debt, added to that because of the bond deal for the next quarter. Is this something that you are in discussions with or you feel like you need to be in discussions with your lenders in regards to these contracts - these covenants?

Jay Daga: Kia I think you are right that, you know, the covenant of 12% headroom is not the most acceptable level of covenant, but at the same time, we believe that the EBITDA numbers are at the trough. So having said that, as you know, we have a very supportive group of shareholders and a supportive group of lenders.

So we will proactively have engagements with both sides, both including our shareholders as well as the lenders. What you have to be mindful of is the fact that with the Dragon Oil contract coming in and the spot vessels available for longer periods of deployment and TCO commencing earlier and thereafter, it is only going to be more sustainable than the current levels.

So the stress or the headroom as what you see, is very momentary, very temporary. So as you would expect we are very, very mindful and watchful of our financial health and as we have very supportive shareholders and more importantly, you know that we have a very stable working capital cycle, we don't have much of a CAPEX, we managed to refi the bond to ensure that we do not have an imminent risk for any short term liquidity for our current maturity of the long-term debt. So yes, we are as attentive and as watchful as necessary and we would be engaging with our shareholders and the stakeholders to ensure that we have a comfortable headroom on the covenants.

Kia Williams: And there's no reason to believe that these stakeholders would not be comfortable renegotiating these covenants once again for you, right?

Jay Daga: I think you have to look at the company's credit on a holistic basis. Before, we didn't have the Dragon Oil contract. Now we have a Dragon Oil contract, giving us US\$10 million worth of additional EBITDA every year. Then we have the African boats, they were hardly deployed or very limited deployment in the first half. Now from October onwards there will be high deployment for those boats in Africa. And those boats are almost US\$150,000 EBITDA per month. So they are accretive to us.

The challenge for our business is not that we don't have the work, it's the delay in issuing work orders or things like that which have short-term dependencies upon the project schedule. But they're not long-term. And with TCO kicking in sooner, we would not only have the revenue from the two vessels that are deployed this year, but at the same time, they are an additional source of revenue in the same project when some of the assets will go on standby.

So there are lots of positives and a lot of plans that are going well. We are mindful of the fact that the sector, while commercial activities have increased rapidly over last three months and look very promising in the future, they would be those short-term ups and downs because of delays in the contract commencement date. Our stakeholders, including our shareholders, as always, have been very, very supportive. So we will do everything that is necessary to ensure that we remain within our defined credits.

Kia Williams: Okay, understood. Just one question on your EBITDA line. So we can expect for the second half, you call it, sort of, US\$10 million of EBITDA from the Dragon Oil contract. We can expect sort of half of that to be realised in the second half of this year, I would imagine. And sort of similar numbers that we've seen for the TCO contract in the second quarter be realised in the second half as well, which would help your EBITDA too, right?

Jay Daga: Dragon Oil contract in fact, will be seen next year mostly because, while it is a six vessel contract, one has started from the first of August and then another two will start in the later part of August. Then we moving vessels from outside the Caspian. Two vessels are in the mobilisation period today.

We would have a frontrunner for that but they would not be that EBITDA additive when the vessels are moving. So you would see that - and when I say US\$10 million of impact from Dragon Oil, that is full analysed impact, so we would see that impact commencing for sure from 2018 onwards.

Regarding the TCO contract - the first vessel is expected to go on charter from the first of October because it is currently on mobilisation to its intended place of use. The second vessel would again, be moving from Romania so that's going to be commencing first of November.

There are scheduling issues that are going to result in these vessels not giving the full quarterly revenue for the last quarter but, they are incremental to our first half number - let me put it this way. And therefore, we will have the full impact of these opportunities for sure in 2018 and beyond. But right now, they are in this transition phase.

Kia Williams: Okay, thank you.

Jay Daga: Thanks Kia.

Operator: Thank you. We will now move to our next question. Payal Rani of Waha Capital, please go ahead.

Payal Rani: Yes, hi, thank you so much for the call. I have couple of questions. My first one is on the Dragon contract. What's the margin on this contract? Should we assume something like 70% or more like 10%? That's my first question.

My other question is on the TCO contract. How much cash are you expecting to receive from TCO contract in the coming two quarters? And when should we expect to see some EBITDA from this contract? Thank you.

Jay Daga: Thanks for that. The Dragon Oil margins will be in the range of 50 and 60%. The benefit we will get from this contract is more than 95% utilisation. So our cost base remains the same but with a higher utilisation. And if you look at it on Caspian, our margins have been in excess of 60% so therefore I do not expect anything different from here. I know, it's just that initial mob period where we will incur some cost, but the revenue will come in when the vessel goes on charter.

So for the first few months you will not see the same impact for the EBITDA, having to write-off the mob cost. But naturally, you know, when they go full throttle from first of January, full impact, we will see the EBITDA number anything within more - in excess of our average EBITDA margins.

And it is for the TCO contract, as I said, in the TCO contract the two vessels commencing. One is expected to commence from October and one is expected to commence from September. And as we guided to our investors, these high EBITDA margin contracts, the EBITDA margins in excess of 70%. So while we have EBITDA margin in terms of the cash, the total project cash is expected to be US\$60 million after repayment of the 100% value of the ship. So that's significant. I do not expect material cash inflow in this year. It's because we would have only three or four vessel months of operation and four vessel months of operation which are not going to give us, in terms of cash, any material. Somewhat in terms of EBITDA, sure, you know, it's going to be in excess of a couple of million dollars or more in this period.

Payal Rani: Okay. And how much cash are you expecting to receive in Q3 and Q4 as an advanced payment?

Jay Daga: I think these are all linked to the milestones from the shipyard. So we could be expecting six vessels to be delivered in this year, so those six vessels whatever milestone payment accrues on different dates would be paid out. And as you know that our inflows and outflows are matched here. Other than the management fee we put on our vessel, that's our cash increment. Whereas all the money which we received for construction of the ship is purely passed through.

Over the last few periods these ships have been with a variation order which has been approved, each ship is one million dollars costlier than what it was and that's positive for us because while we still recover the entire ship value over the contract period, it increases in excess our asset quality and even enhances our revenue.

But as we guided to our other bond we still see better optimisation of our cost-base with the vessels coming early, giving us lead time to plan better. So the US\$60 million of the cash value of this project is expected to be maintained or probably improved as we get into a stronger execution mode.

Payal Rani: Got it, thank you so much.

Operator: Thank you. We'll now move to our next question from Sergio Calci from JP Morgan, please go ahead sir.

Sergio Calci: Hi, I think my question has been answered but just to be sure, the US\$100 million backlog addition on Dragon Oil, that's just for the five years initial period. Doesn't include the two-year option?

Jay Daga: It's for seven years (Jafar).

Sergio Calci: So the 100 is for seven years?

Jay Daga: That's correct.

Sergio Calci: Okay, got it. Thank you.

Jay Daga: And remember, these vessels would have some incremental revenue like catering and this and that. So no, seven years is a long period for a project as historically we have seen these things go. The contract is actually US\$107 million dollars.

Operator: Thank you, we'll now move to our next question from Sameer Kattiparambil, of EFG, please go ahead.

Sameer Kattiparambil: Hi, thanks gentlemen for the call. I have a couple of questions on your TCO contract. How are you going to depreciate these 17 vessels? Will it depreciate fully in four years or you would normally depreciate like any other vessels over 15 years' time? Also, do you have any minority shareholders in this TCO contract?

Then my last question is, the – what is the tax rate are you expecting for this TCO contract? Thank you.

Jay Daga: Thanks Sameer, very, very good question. You know, in respect of the depreciation, these are normal vessels. These are PSVs a bit more modified and they have very, very long lives. So we don't see any reason for us to deviate from our stated depreciation policy. It is a different matter that though commercially we negotiated with the client for recovery of the entire ship value over the contract period, but that's purely a commercial negotiation and that has nothing to do with the asset quality - in fact, these assets are superior to some of the existing tonnage which you will see outside in the open market there.

These are electric, they're DP2, they are Norwegian, they are built by one of the biggest and most prolific shipyards called Vard. And they have the world's best system. You can imagine that Chevron TCO is not going to

settle for anything inferior having invested 37 odd billion dollars on a project in these current times. And they are such an instrumental part of this project to delivery, because there's no other way where these 300 modules can be shipped from outside to the intended place of use.

So therefore, we have no reason whatsoever to believe that these ships would require any shorter depreciation life than what we would normally follow in our normal accounting policies.

And in respect to your question about taxation, of course, this is a very complex field and we have been guided by experts like PWC. And PWC is guiding us both from structuring as well as jurisdiction and things like that. So I think the majority of our income is expected to accrue in the UK because, you know, the counterparty for the TCO contract within our group is a UK entity. And that's a very, very efficient structure because we have quite an extensive tax stream work agreement including a double taxation treaty between Russia, UK, Kazakhstan. And also we believe that the tax impact of this is not going to be anything different, in fact, it would be more efficient because of the way it has been structured in consultation with PWC.

Rene Kofod-Olsen: And so the last question is in terms of minority. This is 100% owned business for Topaz, Sameer.

Sameer Kattiparambil: Oh, okay. Because I have a follow up question. Initially you told us that Blue Water Marine is involved in this contract, so I just want to understand, what is their role?

Rene Kofod-Olsen: Let me just clarify that completely. This is a very, very complex marine logistics undertaking. And so there are 300 plus modules that have to be transported and coordinated all the way from Korea up to the mouth of the river systems and through the river systems into north of Kazakhstan.

Our forte is not to do stowage plans for equipment on the high seas nor to necessarily do all the husbanding and so on, in the rivers. Blue Water Shipping is another pure logistics company that has been in the Caspian Sea for more than two decades just like us, and we know them, of course, very well. So we teamed up to bid for this in a consortium but with completely different value purposes and completely different P&L streams in terms of the commercial. So there are no equity relationships between Blue Water and Topaz. The only relationship is that we have is that we bid in a consortium with two different value propositions.

Sameer Kattiparambil: Okay, so there won't be any minority interest in this 550 million or, you know, what real profit you generate, right?

Rene Kofod-Olsen: No, this is 100% owned Topaz.

Sameer Kattiparambil: Okay perfect. Perfect Rene and Jay, thanks a lot for that.

Rene Kofod-Olsen: Thank you for the questions Sameer.

Operator: Thank you, and it appears we have no further questions at this time, so I'd like to turn the call back over to you for any additional closing remarks. My apologies, we've just received some follow up questions from Paul Griffith of Bluecrest Capital. Please go ahead, thank you.

Paul Griffith: Hello. You've talked a lot about EBITDA improving in the second half and then clearly into 2018 but it sounds like most of that EBITDA improvement is not going to happen until the fourth quarter, i.e. October, November, December. And with the new bond, I think your net debt - your proforma net debt will have gone up, so it sounds likely that you'll have higher net debt at the end of the third quarter, yet flattish EBITDA. So your net debt to EBITDA is likely to go up a bit further before it starts to decline. Which could eat away at that headroom a little bit. Is that a correct assumption?

Rene Kofod-Olsen: Yes, I think you have the right mathematics. We have guided towards a better third and fourth quarter and you are right, the fourth quarter is probably going to be better than the third. So mathematically you could see eating into some of the headroom, as I also believe Jay discussed with your colleague on the call, Kia, we still believe that we will have the necessary headroom. But as Jay was guiding towards, we stay very close to our ecosystem. Our shareholders have already been very, very strong, so we have no reason to believe that we are not going to manage that with the forward-looking book that we have as well.

For now, we have not engaged in any conversations and there are no plans for that. But you are right, mathematically that could be an erosion of some of that headroom, Paul.

Paul Griffith: Okay. And then you've talked about the TCO contract and the Dragon Oil contract. You also have a couple of subsea vessels coming online shortly is that correct?

Rene Kofod-Olsen: We do sort of, in mid next year. They are replacement ships for a couple of our ageing subsea vessels. We are in negotiations with a couple of the big construction companies. Actually, for the first vessel that we will take delivery of, mid next year, we are in very, very serious conversations with one of the world's biggest construction companies for a ten-year contract. So they have been really well received by the market and we actually very enthused by having them come out.

Paul Griffith: But no near-term EBITDA expectation from those then?

Rene Kofod-Olsen: No. We decided Paul, to not take delivery of them and put them into the spot market. We did have very good spot contract opportunities for the vessels but our business is based on longer contracts and a more conservative business model. So we decided to proactively agree with Vard that we would delay the delivery until we had a longer contract, a year plus. And in this case for the first vessel, it's a ten-year contract we are

negotiating. So, that's more aligned with our business model which is why we have pushed them into a place where we see a more mature returning of the market.

Paul Griffith: Right. And then lastly, at the end of the TCO contract, you'll own these 20 MCVs outright. But can you just talk about how specialised those are to the Caspian. I mean, they're - aren't they kind of, you know, purpose-built vessels for that region? So can they be deployed worldwide or do they have to stay in the Caspian post-that as well? Post-TCO.

Rene Kofod-Olsen: No, it's a very good question Paul. So let me just guide you on that precisely. We are building 20 vessels. We will manage 20 vessels, we will own 17. Three of them will be purpose built for Caspian and they will only operate in the Caspian. The 17 vessels that we own, and also subsequent the contract, they are going to roam the rivers.

The only purpose-built nature of the ships is that they can transport up to 2000 tons of cargo in three meters of water. The vessels are about 125 meters long. So wherever you have a river system in the world, they would be highly adaptable. As Jay was mentioning, they are built with all the latest technology. They're diesel-electric Caterpillar engines, they are DP2 system and they have a very modular-designed back deck. So while the expectation right now is that the proof of concept will be so positive that they will continue operating in the river systems where they have been deployed, but other than that, there's no reason why these vessels cannot work in a global environment.

And as a matter of fact, we have also gotten to design the double haul structure where you could actually put an ocean-going haul on them for a reasonable amount of CAPEX and then you have an ocean-going vessel with a huge amount of transport capability.

So we are actually very enthused by not only the design of these ships, but also the capabilities of them going forward. Remember also in these

two river systems alone, you have about 5000 - 6000 cargo runs a year. So 17 ships coming into that system is nothing. But what we can do is navigate the rivers about three times as fast or up to three to four times as fast than a tall kind of barge solution. Now that's a fantastic value proposition for an expanded market in the Caspian.

Paul Griffith: Okay, thank you.

Rene Kofod-Olsen: Thank you for your questions Paul.

Operator: Thank you. We now move to our next question from Mikhail Galkin of Goldman Sachs. Please go ahead.

Mikhail Galkin: Hi, thank you for this call. I wanted to follow up on the subsea vessels. Can you remind us please, the budget for those and the timing of the payments and what is the broader attitude towards CAPEX? Would you be building new ships next year and the year after apart from the TCO and these two subsea vessels? Any sort of CAPEX guidance would be highly appreciated. Thank you very much.

Rene Kofod-Olsen: Okay, thank you for those questions Mikhail. I will start by the final part of your question. We are using about US\$15 - US\$20 million of maintenance CAPEX a year for the entire fleet. And that's sort of the maintenance CAPEX for the current fleet. Beyond the two subsea vessels that I mentioned we ordered at a phenomenal price in '15. We have one anchor handler that has been deferred, that came from the crisis, pre-crisis situation. And that's basically it.

So we have no other committed CAPEX. We have no plans to commit to CAPEX. And so, it is something that we would look at if there are any contracts of interest and it matches the investment. But right now, there are no CAPEX plans beyond these vessels.

The true subsea vessels are funded by Norwegian Export Credit backed by HSBC on a ten-year borrowing at a phenomenal coupon. So there will be some milestone payments next year and those are paid at full.

Mikhail Galkin: And so the total amount for those two sub(sea) vessels, and you said there's this third one. What kind of monies are we talking about?

Rene Kofod-Olsen: Yes, depending on the equipment that our clients would eventually need on them, per vessel it would be between US\$55 and US\$60 million total final delivery of the ships per vessel delivered next year.

Mikhail Galkin: Okay, in terms of just thinking of cash flow. That leaves little room to reduce that before 2019, would you agree with that?

Jay Daga: You're right because we would be using an existing committed line from the bank to pay for the additional amount for these boats. So there would be little increase in the net debt situation for these vessels. But as Rene said we are in serious conversation with one of the largest clients in the construction and offshore construction sector to put these boats on charter for ten years. So those would be EBITDA accretive, so they would self-sustain. The financing facility on these boats is an export credit back guaranteed funding for ten-years, funded by HSBC.

So it nicely matches the EBITDA number for these boats with the servicing obligation on that new facility. So you're right in the way that you would see the de-leveraging start sooner because, we would have a high impact on EBITDA from next year onwards when our EBITDA numbers are going to be at least US\$100 million or more than our LTM numbers etc. If you look at it from that point of view, I think that the leverage ratio is going to be at 3 or about 3, by end of next year and that's a very strong position. And as you know our stated strategy in the previous bond, if you look at my comfort level in terms of leverage, on a long-term value of accretive cash and assets it's 3-1/2 to 4, which is a decent level, because these assets have got the cash payback of 7, 8 years. 3-1/2, 4 years is very

comfortable. So we aim to achieve our stated objective by sometime next year.

Mikhail Galkin: Thank you.

Jay Daga: Thank you Mikhail.

Operator: Thank you, we now move to our next question from Siddarth Nag of Istithmar Capital Partners. Please go ahead.

Siddarth Nag: Thanks for the time on the call on all the details. My first question is unfortunately, around the Tengiz project again. Our previous understanding - and this is - I'm referring to the question by Sameer on the depreciation. Our previous understanding was that this project - these vessels will go through an accelerated depreciation. I don't know where I gathered that from, but I would love for Jay to walk me through the accounting treatment or entries of this moving forward. Primarily because I believe there's an advanced payment from the client that sits as a liability for these ships. The understanding was that these assets or these vessels will be depreciated over the lifetime of the project, along with the payable itself. So accordingly, no P&L impact from these.

Now I understand they're going to be depreciated over the life of the vessels which is longer. So will that mean that the payable will be depreciated for a shorter time and hence, we might see profits recorded on that end? That's one.

Page 8 of the presentation says 325 million vessel build-out for build costs funded by TCO and repaid by Topaz. That's on the last quadrant or last rectangle fourth or fifth point. It says it's repaid by Topaz. Our understanding is that there's no repay again for these unless I'm mistaken. Let's tackle this point and then I go to the other questions, thank you.

Rene Kofod-Olsen: Okay, thank you so much for those questions and let me just clarify them. I think subsequently, if you want to have a more technical discussion, feel free to give a call to Jay. You're always most welcome to call us.

In terms of the depreciation, commercial negotiation and what we have guided towards is that we had negotiated that with our client and therefore from a commercial prospective, we did that over the period of the contract. And now I will fast-forward to your second question, I will come back to your first question.

Therefore, the US\$325 million that you look at here is going to be funded by milestone payments and then deducted in the day rate. It has already happened. So if you look at the macro numbers on that page, then it is US\$550 million of revenue in a 70% EBITDA margin territory, against US\$325 million of CAPEX. So you will have minimum US\$60 million of cash value just in the firm period. We actually believe it's going to be much more. But that is the conservative guidance we are going to give now. Now, that is what it means, so we're receiving a payment from the client and we are paying the shipyard. It goes through our balance sheet as per IFRS but Topaz has no CAPEX commitment.

Now I come back to your first question. So, when these vessels have been commercially fully depreciated in our negotiation, they are our equity, you know, it's our ships. And so they are fully unencumbered sitting in our balance sheet. What Jay guided towards earlier, is that these are ships that have a value for the next 25 years. So there's no reason for us not to be able to have a normal depreciation discussion with our auditor in our balance sheet. However, it was something that we have decided upon now, but this is of course the guidance that any CFO, I guess, would have a discussion with the auditor on.

Siddarth Nag: Okay. But Rene, I just want to confirm the last number. So you're saying the US\$60 million EBITDA is the total available EBITDA on this contract over the life of the project? Is that correct?

Rene Kofod-Olsen: No, that's not what I'm saying. I am saying, US\$550 million of firm revenue over a 70% EBITDA margin. You then have US\$325 million of prefunded CAPEX that we have deducted in the day rate over the commercial depreciation that you talk about. That gives us at least US\$60 million of free cash. So you have US\$380 million or approximately of EBITDA, accounting EBITDA. That's why Jay was saying to your colleague on the call before that we expect to be around three turns levered by the end of next year.

Siddarth Nag: So the accounting EBITDA is 70% on the US\$550, but then the proceeds from these (if we forget about accounting entries) will not flow to the company. US\$325 million of this profit will be paid back to pay for the ships or for the pre-funded CAPEX. What is left, in terms of cash value, if I want to stay away from the accounting term of EBITDA, the cash value that remain to Topaz and the shareholders from this project is US\$60 million. Is that correct?

Rene Kofod-Olsen: It is minimum US\$60 million plus 17 vessels unencumbered.

Siddarth Nag: Okay, perfect. Great, perfect. Now it's understood.

Rene Kofod-Olsen: Well done. And the US\$60 million as I'm mentioning to you is based on the time of our negotiation, of course you have followed the company. We have just taken 27% of our operating cost out of this system. So that's why I'm saying I would state conservatively as we have always done on these calls. But it will be more than US\$60 million.

Siddarth Nag: Okay, noted, that is noted. Should I take the accounting entry question to Jay directly on a private call and move to my next question?

Rene Kofod-Olsen: I believe so because we're already 1-1/2 hour. If you would be so kind.

Siddarth Nag: Okay, I don't mind. I'll ask my last question then. The new debt, I want to understand the rationale of the US\$30 million in transaction fees paid. I read in the Renaissance financials that some of it is for a call premium. And then this current one, it says it's unsecured, while the previous one was secured. If you can tell us about the security change here and there.

Rene Kofod-Olsen: So if there is a technical question here that I have misunderstood, I will let Jay reply to that. We have two funding lines. We have a seven years senior secured debt against our ship and then we have the bond which has from day one been unsecured. We had US\$350 million of bonds taken in '13. We tendered that this year and we took a US\$375 million fund. The US\$25 million additional is to handle all costs, meaning the call premium, so for early calling the bonds, the cash cost that has been in connection with the transaction and so on and so forth. It is not new debt that has been taken. It is a one on one plus the cost of early terminating the first bond.

Siddarth Nag: Okay, I'll stop it here and then refer directly to you gentlemen another time. Thank you for taking the time.

Rene Kofod-Olsen: You're always welcome. Thanks for your good questions.

Operator: Thank you. We'll now move to our next question from Matias Vammalle of Argo Capital Management. Please go ahead.

Matias Vammalle: Hi guys, thank you very much for the call. Just to clarify, I'm sorry to take us a bit back in time, but we said two subsea vessels are expected for delivery in mid-2018 and one additional vessel. So the expected payments for US\$55 to US\$60 million per vessel is on one delivered and that's expected to be next year, mid-year. So we're talking about between

US\$150 and US\$180 million of CAPEX at some point next year possibly and most likely in the second half. Is that correct?

Jay Daga: Not really, because we have paid 20% on the milestone for these two subsea vessels already. So the payment of the 80% would be only on delivery. And again, that 80% is US\$84 million odd for delivery of both the vessels. And in proportion talk right now, half for each of them.

And the second thing is the anchor handler. That has also been pushed to next year and we are in negotiation with the supplier to either defer it for a longer period or do some kind of value swap. Whereby we might end up getting the assets that are easily commercial that can be straightaway put to use.

So in a roundabout way, our CAPEX pay-out for these two subsea vessels on delivery is US\$80 odd million dollars. And at least 70% of the value is backed by committed funding and export credit backed funding, so we will make a draw down on those loans for taking the delivery of the boats.

Matias Vammalle: Fair enough, okay and those are mid-2018 and there's no likelihood or is there a likelihood of extending or postponing that delivery further?

Rene Kofod-Olsen: We don't think we want to. See, postponing deliveries is a double-edged sword. And when you do that you are taking a commercial opportunity away. We have now given ourselves 12 months more to commercialise these on a longer contract. We could have taken delivery as I mentioned earlier and put them on the spot market but we opted not to because we like to run the company conservatively.

That of course took away some commercial opportunities from us. So now we are very busy concluding the commercial opportunities on these two ships and I am very enthused by the reaction we received from the market. So I see no risk in commercialising these ships, as we're sitting right now. So I don't want to delay them further, is my answer.

Matias Vammalle: Okay, great. Thank you very much.

Rene Kofod-Olsen: Thank you.

Operator: Thank you. There are no further questions at this time sir, so I would like to turn the call back over for you for any additional or closing remarks.
Thank you.

Rene Kofod-Olsen: Well I thank everybody for all their good questions. It was very, very good and constructive. Thank you for all the new investors having called in. And we look forward to speaking to all of you again next time. In the meantime, should there be any further questions that you would add then please do set up a call with the company. Thank you so much.

Operator: Thank you sir. This concludes today's conference call. Thank you for your participation ladies and gentlemen. You may now disconnect.