



Conference Title: Topaz Energy and Marine Financial Results Investor Call

Date: Tuesday, 21 November 2017

Conference Time: 7:00 AM CT

Operator: Good day, and welcome to the Topaz Energy and Marine Financial Results Investor Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. René Kofod-Olsen. Please go ahead, sir.

René Kofod-Olsen: Thank you very much. Welcome everybody on the call and thank you for taking the time to call in as usual. This call is covering the first nine months results of Topaz and as usual we will just go through very rapidly the performance as per the presentation that has been uploaded. I start on page number three. With me I have my colleague Jay Daga as usual, the CFO of the company.

Page number three, we see better trading conditions moving forward. We fundamentally believe that the offshore oil and gas market has bottomed out and we see tender activity increasing positively. It's not going to be a snap recovery, but it is going to be a moderate recovery going forward and we can of course also see that in our building backlog. So, this is positive, although moderately positive we would say.

On page number four, in terms of the business update, we announced last time that we had won the important Dragon Oil contract; we are now mobilizing for that contract. And our backlog is still standing at a staggering \$1.5 billion. We also announced a contract in Azerbaijan for Total and we are working very tirelessly on some important contracts in Nigeria. In the meantime, we have actually put vessels on spot for these clients in recent months. But that is all after 30 December. So that all shows that not only are we seeing higher tender activities, but we are also starting to see better business activities.



We have continued the cost-centric organisation model, which works, and we have taken another \$16 million off, or 18% if you look quarter '16 to quarter '17. So that's another very positive move. And then the very, very important diversification project Tengiz, we have mobilised two ships very, very recently, which is six months ahead of schedule. We are the only component of this \$37 billion project that is actually ahead of schedule, which is very positive for our company. This marks our beginning into the more diversified value proposition that we are delivering to our clients. And of course, as Jay will mention to you in a minute, we have a very strong focus on cash management and liquidity, which is of course now, the third year of this downturn, a very important part of running the company.

Page number five is depicting our \$1.5 billion backlog, which is basically \$1 billion over the next three years as you can see on the bottom part, or more than five times current annual expected revenue. So, a very, very positive trend that underpins our credit strength.

On page number six, I will turn it over to Jay.

Jay Daga: Thank you René. On page number six of the numbers, you can see in spite of the current market we continue to deliver stable EBITDA and continue to improve our quarter-on-quarter trend for EBITDA and cash conversion. And you see that Caspian continued to be our stronghold where we generate a significant portion of our revenue and EBITDA.

Page number seven, the quarterly trend. As you can see that, as compared to quarter number two, we have delivered better performance. And this doesn't include the recently-won Dragon Oil contract and other opportunities that start kicking in in quarter four. So, I am very positive about a stable turn out for the rest of the year.

On page number eight, you see that the Caspian and specifically Azerbaijan continues to deliver

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more than 93% utilization and has generated a significant amount of our revenue. The rates are marginally down as compared to the same period last year, which is reflective of the current market trend.

On page number nine, you will see we are compliant of all our covenants and continue to maintain high liquidity.

Page number 10 reflects the cash balance which we hold and also the availability of banking lines to support the liquidity for the company.

René Kofod-Olsen: Thank you, Jay. Very importantly, the licenses – as are always reported to be in the offshore oil and gas industry – is our safety performance, and despite having taken a staggering amount of money out of our operating cost, we still keep one of the best safety performances of the industry. We are now 21 months LTI-free, and very significantly we have a complete recordable incident-free Q3, which is of course a very, very important element of us running our business. Bearing in mind that we have 20 ships being built on three different ship yards and about 97 ships in operation, so that is actually a very, very solid performance and also an indication, not only on safety, but on our operating procedures are really intact despite the heavy cost depression that we have taken out.

So, on that note, I want to swing it back to the moderator and open up for Q&A.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. We'll pause for a moment to allow everyone an opportunity to signal for questions.

Zafar Nazim: Thanks, this is Zafar Nazim. Thanks for the call, René and Jay. I had a question on the

TCO contract: if you can just update us or remind us of the quarterly revenue build-up between the fourth quarter of this year and the fourth quarter of next year?

Jay Daga: Sorry Zafar, are you saying fourth quarter of '17 and...?

Zafar Nazim: From fourth quarter of '17 going through to the fourth quarter of 2018, how does the TCO contract revenue build up?

Jay Daga: Unfortunately I can't give you forward-looking statements about the contract. But the contract is on track and in fact it is ahead of schedule. As you can imagine, this is a 20-vessel contract and the vessels are getting delivered as we speak. Until today, seven of them have been delivered – by end of the year we would have seven vessels delivered and the remainder of 13 vessels would come online from January till middle of the year.

What is positive about the whole thing is that two of these delivered vessels have gone on full charter rate six months ahead of the schedule. So that's reflective of this contract going ahead full steam. The remainder of the assets are as planned on standby layup rate, and they would go on charter near the time when we would start seeing cargo movement. So, this will be a gradual ramp-up from now until – and I think as per the current expectation, the full ramp-up would happen from third quarter 2018.

Zafar Nazim: So Jay, what's the full charter rate and what's the standard standby or layup rate?

Jay Daga: The layup rate is around covering the cost, giving us a decent amount of cover for our overheads. As you can imagine, when the vessels start getting delivered, we still have to ramp up our organisation. So, the rate has been built – the standby rate doesn't allow for recovery of that pre-mobilisation advance because as per the contract the pre-mobilisation advance only comes into play when the vessels are actually in operation. So, the layup rate is sufficient

enough to cover for keeping this vessel on good order.

Zafar Nazim: And just one more question, on capex. I mean, there's capex associated with the TCO contract; outside of that, what capex are you expecting for 2018?

Jay Daga: A similar number, Zafar. I think we have – as you know, we have hunkered down on all our capex, as well as the maintenance and the growth. There is no more commitment with respect to any of the growth capex. Maintenance capex would be in the range of \$20 million. And the three vessels that are under construction, we are in an advanced stage of dialogue with the ship yards to push the delivery to the later part of 2018. So, all the impact of capex commitment will only come in the later part of 2018. But we do not have any other capex commitment than what we said to you last time.

Zafar Nazim: And as far as these three vessels, what was the total cost again and how much were you paying yourself after getting financed?

Jay Daga: The three vessels are – the total amount is approximately \$135 million, which you can find in our offering memorandum. There's no change in any of the disclosed amount there and again, they would be delivered end of next year. So, almost all the payments are now due at delivery. We are negotiating delivery of these vessels by 2018 and 2019, so it's still not concluded.

Zafar Nazim: Okay. Thank you very much.

René Kofod-Olsen: Thank you, Zafar.

Operator: Once again, if you would like to ask a question, please press star one.

We'll now take our next question from Kia Williams from Emirates Bank. Please go ahead, your line is open.

Kia Williams: Hi René and Jay, thanks for the call. If you could please elaborate a little bit on your financial covenants? I mean, given that you have about 8% headroom on the interest-bearing debt to EBITDA covenant and that you have renegotiated those in the past, could you just give us an idea of whether this would be possible again and whether you think you're going to need to re-negotiate that covenant?

Jay Daga: Yeah Kia, you're right that the covenant is only 8% headroom and we are – this last nine months have been at the bottom end of our business cycle, as René explained. So, we are mindful of this covenant structure. At the current point in time, while this headroom is tight, we do not see any risk and actually, as you know, we have a supportive group of debt holders. So, we are looking at our long – midterm to long-term plan and would take appropriate action.

Kia Williams: Understood, thank you. And then could you just remind us on an annual basis – we don't need it on a quarterly basis, but annually, what the impact of TCO is expected to be on the revenues and the cash flows as well?

René Kofod-Olsen: Yeah Kia, thank you for your questions. The way you should think about it is, when you have a full year – and as Jay has mentioned, next year we will probably be full on as of mid-year – then the current rate is about \$550 million revenue for a year. And if you take about 70% EBITDA margin, then you're probably around the \$380 million of EBITDA. And if you then look at the capex of about 320, you will have a minimum cash income of some \$60 million–70 million. We do expect that actually to be higher, because many of the cost initiatives that we have taken over the three years will of course have a positive derivative effect on the TCO contract as well. So, we actually do expect today that we will have a bigger cash benefit from it.

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We're also aware that the TCO may wish or may be in need to extend the current 1,095-day term, which is positive of course for the company. So, we are in a very good place now and as we are ahead of schedule on this they are relying a lot on our company to deliver an even bigger part of the whole package for them. So, this is for sure a transformational project, Kia.

Kia Williams: Great, that's very helpful. Thank you.

Operator: We will now take our next question from Lenka Robbins from Nomura. Please go ahead, your line is open.

Lenka Robbins: Hi guys, thank you very much for the call. Two questions if I may. The first one is about daily rates; could you give us please a little bit of colour as to where we are, what is the trend, especially from the end of September? You see the rates bottoming out, what does it look like in regions?

And the second question, if I may, is about shareholder loan. The \$78 million outstanding then you have on balance sheet. What is the plan here? Will you be amortising this as of next year? Thank you.

René Kofod-Olsen: Thank you, Lenka, for your questions. On page number eight, we are just under \$16,000 average day rate for the fleet. This has been rather stable actually for the year. We, together with many industry pundits, believe that it has bottomed out. You will have seen a lot of companies going into restructuring, which also means that they have not been able to sustain the day rates that they have been giving to their clients. This is of course a bloodshed for parts of the industry, but it is an indication as well that it has bottomed out and that rates that have been accepted by those companies have not been economically viable. We have reported on that before, hence we had laid up some ships.

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We see day rates stable in the Caspian; we see stability now in the Middle East. Although the rates are low, they are still operationally profitable if you consider all the cost that has been taken out of the system. In Africa, we see same stability on day rates and therefore we are increasing utilisation, specifically in Nigeria, on rates that we have quoted some four or six months back.

So, we believe this is an indication that the market has bottomed out. The day rates that we are providing are sufficient for the ships that are currently available, but that may not necessarily be sufficient for operators to take a lot of ships out of layup. We should be positive for utilisation on the ships that are generally working and that is really what you need to drive rates up in the future; you need utilisation to go up to about 70% or 80% in a given corridor before you really start seeing day rates moving up. I believe that there are elements of this going to happen already in 2018. So therefore, we are a little bit more positive.

Your next question is about the shareholders loan. If you look at page number nine, we have stopped everything but the principle payments and our shareholders have always been very supportive of the company. So, we don't expect any changes to that.

Operator: Once again, if you would like to ask a question, please press star one on your telephone keypad. We'll pause for a moment to allow everyone an opportunity to signal.

It appears there are no further questions at this time. Mr. Kofod-Olsen, I'd like to turn the call back to you for any additional remarks.

René Kofod-Olsen: Well, I would like to thank everybody who called in and thank our constituency for supporting the company. And I look forward to another conversation in the new year. Thank you so much and season's greetings from Topaz.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.