

Company: Topaz Energy and Marine
Conference Title: H1 2015 Results
Presenter: René Kofod-Olsen
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Operator: Good afternoon and welcome to Topaz Energy and Marine's Financial Results for the First Half of 2015. Today's conference is being recorded. At this time I would like to turn the conference over to Mr René Kofod-Olsen, CEO. Please go ahead.

René Kofod-Olsen: Thank you very much. Thank you, everybody who has dialled in for our first half results and also our second quarter results specifically. By this time the presentation has, as usual, been uploaded on our webpage and we will seek to go through the presentation with a little bit more speed than usual to open up for even more questions and answers session as we always do after the session.

So on page number 3, nothing has really changed in the way that we execute our strategy in the company. Of course everything has changed from an oil and gas industry environment and we have had now a double-dip during July and the oil price is now close to \$50. We have reacted on that on many different fronts. First and foremost, we are pleased that we foresaw a correction coming at the end of the last year. We for sure didn't see the oil crisis but we saw probably some cost correction and we took the foot off the accelerator. That means that we don't have any capex in the system of any mentioning; we have an anchor handling coming fourth quarter next year. So we do not have any fleet additions that are coming in and planned, so our cash position is very well defended. We took money in from the reputable Standard Chartered Private Equity Bank last year as well; that money

was never levered up. So we are staying very conservative to our strategy of always having a robust capital structure together with a robust commercial strategy.

So if we go to page number 4 and I invite my CFO Jay Daga to take you briefly through that.

Jay Daga: Yes, on page number 4, the notable thing to see here is that we have a \$10 million decline in revenue but that decline is predominantly attributed to two of our subsea vessels. One vessel was under the regular dry docking and upgrade for a good 40 days and the second vessel was off-hire from the North Sea. Subsequently, we moved that vessel to MENA fleet and in the second half of the year, it has been deployed. As you know that in our business, the revenue loss completely trickles down to EBITDA so exactly the same amount of revenue is being reflected in the shortfall of EBITDA.

Other than that, I'm reasonably confident that our good contract backlog and strong market position in our core market has held us in good stead even in this current crisis. We have taken proactive measures to optimise our overheads over this period. There is a significant reduction in the overheads in the first half as well as we would see the same trends continuing in the second half. Apart from the overheads, we also are very, very focused on reducing our operating cost, both is relevant to the direct cost of running the vessels. That includes repairs/maintenance, that includes crew cost and that includes all-round operational excellence to optimise our vessel uptime and at the same time, reducing the cost of operations.

Other than that, on page number 5, which is business update, I give back to René to expand on it.

René Kofod-Olsen: So we have in the period been growing our business positively with the fleet we have in the Caspian. That has been extraordinarily stable and we are close to 100% utilisation up there, in all the markets we operate in up there. In MENA we have grown by moving vessels into the Middle East and profitably deploying them in the second half as a response to the spot market pressure in Africa. We have, as we have reported before, a setup now both in Nigeria and Angola, and we have won business in Angola. We are now bidding on a multitude of tenders for long-term business in Angola and we are relatively confident that our vessels will find deployment with year-length contracts during the second half of this year as per our strategy, even though that is the area where we have seen the biggest pressure because it's part of the Atlantic Basin and a lot of tonnage have migrated from North Sea and Asia into this basin. Our platform supply vessels have been a very renowned asset in the markets down there.

We are always focused on optimising our capital structure. We have reported and also concluded a \$550 million loan facility where \$350 million were refinancing of debt, you can say prematurely, but we took advantage of our credit strength and our ability to raise that capital and did it at exactly the right time. So we have shaved off cost of borrowing and we have had an opportunity for both a revolver and an unsecured drawdown. So we have \$200 million of unutilised drawdown structures.

We are seeing generally a very high utilisation, besides in West Africa, which is not because of operational countdown but because of market pressures. We have, however, seen during second half – sorry, second quarter – that that has improved slightly.

In terms of the way we look at the market then, it's clear that the oil market went into some kind of a stabilisation during May/June at mid-\$60s level. That didn't hold and we are now significantly lower. So it is clear that the oil and gas market in general are going through a big distressed situation. I think everybody who opens newspapers and reads literature on that cannot be in doubt of that. I believe in the long-term fundamentals of the oil and gas industry. I believe we all have to get used to a new norm. I think we all have to get used to earning money on lower margins but I think that will potentially, from a long-term perspective, be good for the industry, but for now it is a very distressed situation.

There is a short-term challenge, it's also very negative for our company, but we believe that we are slightly better placed based on our long-term contracting model that really comes to serve us today. We have had that model all along and a very robust backlog of approximately a billion dollars currently that will serve us very well. We have today not been prematurely terminated from any contract, which we are very pleased in the confidence that the oil majors are putting on us. In terms of the long-term fundamentals we, as I mentioned, believe in the industry. With the growth of the world and especially the economies that do not have oil in their own backyard, there is a big need for oil and therefore there will be a bounce back of the demand of oil but clearly the price of oil will follow the supply curve. And therefore we will get used to earning money at a lower oil price, to adapt to this market, for we are very strongly supportive of the general oil and gas market and the long-term perspective. We will use this opportunity in the market to take advantage of any distressed opportunity there will be but it will never be away from our core strategy of long-term contract in the development and production sectors of the industry.

Jay Daga: On page number 7 for the second quarter performance, it is better than the first quarter but we are \$6 million lower in terms of revenue vis-à-vis the last year, and that's exactly reflecting in the EBITDA shortfall. Now again, I want to repeat the same theme that the two areas which we have stressed is the West Africa where we haven't achieved a target level of occupancy, and the couple of subsea vessels which have now been fixed on a mid-term contract, short- to mid-term contract, in MENA. We have moved some of the assets from these regions back to our home base in the Middle East.

In terms of finance costs, there is this spike in the finance costs because we have to take the hit of unamortised costs on our existing debt that were refinanced in the month of May. So that \$8 million was non-cash charge so it doesn't affect our cash flows or our cost of borrowing, but we would achieve that same benefit over the period of the new debt, as the new debt is coming at a margin which is significantly lower than the refinanced debt.

On page number 8, there's the trend of our growth over the last four quarters. Now we have hovered around an EBITDA margin of sub-50% although in Q1 and Q2 due to revenue shortfall in West Africa and subsea, we see a decline. But overall in our home market, we continue to hold our EBITDA margin, although there is a pressure on the rate of spot rates going down than what it was last year, and some of the long-term contracts are being negotiated at a rate, which is lower than the expiring rates.

On page number 9, this is our occupancy. If you look at it in the Caspian, there is a significant improvement in our utilisation. It has gained 5 points over the last half – last year last half. But we are suffering in Africa where while in first quarter we had lower – we had managed to claw back some of this occupancy but we're still

watching that market and that is less than finding short- to mid-term work and having an established structure in Angola and Nigeria, we are hopeful to achieve higher utilisation as we move ahead in future.

Page number 10, this is our capital structure. We still are in a good place. We hold a sufficient amount of cash to see us through in turbulent time in future. Our capital debt structure is fine and after refinancing, we have managed to improve our liquidity over the future period. Subsequent, in this next slide, if you can see how we have managed to reduce our debt repayment profile as compared to a total debt stable in '15 of \$57 million, we have brought it down to \$50 million, and this has been achieved by increasing the tenor of the debt; at the same having a debt repayment profile that is going up to 2022 and this is again, at that point, there's a bullet payment. So this smoothens our cash flow and it gives us the investable capacity as we proceed in the future.

Liquidity position is strong. As René said in the beginning that on this refinancing we have upsized our debt requirement by another \$200 million, which has not been drawn down. So there is a committed revolver of five years of \$100 million over and above the \$40 million what we had existing, so we have \$140 million worth of revolver and an undrawn, unsecured long-term debt of \$100 million that's also not been utilised. So we have a sizeable amount of availability of cash flows which we can use should there be an opportunity or should there be a requirement in the business.

Covenants – covenants are showing good headrooms. Again, these are renegotiated covenants therefore our creditors and banks, they realise that in these times especially, Topaz being a growth company, we would need that headroom because our EBITDA follows the investment. We have a good EBITDA to debt

service coverage ratio and that's clearly an outcome of the debt repayment profile, which is expanding beyond for the next five years.

René Kofod-Olsen: In terms of safety, we are still running a very good safety performance. It has, however, been somewhat hurt by a small collision we experienced in the Kashagan field in Kazakhstan. This is very unfortunate but we are working with the oil major that was responsible for the asset that was unlit in the sea.

Our outlook, as I mentioned earlier, we remain profitable. We have taken a one-off unamortised hit on our P&L, otherwise we would have reported profitable numbers, which we are, under the circumstances, satisfied with. We have a lot of cost drives in the making, both for shore and offshore as I mentioned, to adapt to the new norm. And you should expect us to continue being prudent in terms of the investments we do and I reiterate, we do not have any planned fleet investments at this moment in time. So we are preserving our firepower. We are preserving our cash and we are focusing on optimisation of both our cost position but also our operational uptime.

With that note, I will hand it back to the moderator and we can start the Q&A session.

Operator: Thank you, Mr Kofod-Olsen. We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press *2 button. Once again, please press *1 if you have a question. We'll take the first question from Zafar Nazim from JPMorgan.

Zafar Nazim: Thank you. Thanks for the call. René, I was wondering if you can talk a little bit about your Caspian Sea business? We can see that you've managed that

business pretty well, utilisation is still 98% for the core fleet over there. How comfortable and confident are you about maintaining the contracts, the pricing and utilisation of this fleet in the back half of the year and going into next year?

René Kofod-Olsen: Thank you, Zafar. We remain very confident on our position in the Caspian. We are very close to the oil majors and BP in Azerbaijan is of course one of our main customers. It is actually our biggest customer. We have very close relationships with them but of course from a contractual point of view. So we started already last year discussing long-term contract renegotiation with them, you can call it prematurely, but basically aligned with our model. That serves us well in the current situation where the oil price is forcing all IOCs and NOCs to go back on the negotiation table, because they can. So we have had three rounds of negotiations with BP up there and there has been very positive pressure indeed, but they are of course very satisfied with our operational record – 98% speaks for itself. And so I fundamentally believe that there is willingness on both sides to sign an even longer future contract if value from our side meets the demand from their side. So I am very confident. I'm also very confident on our Kashagan contract. We should have had some barges laid off already during the second quarter. That didn't happen simply because they needed the tonnage and the operational efficiency that we can deliver compared to many of the other local, smaller players is incomparable. We are as well seeing a quite big increase in Turkmenistan where you both have Petronas and Dragon Oil operating, and our vessels have been very successfully contracted over there.

So where I'm sitting right now, I'm quite bullish on Caspian because of the position that we have but we are also very humble to our position and therefore we have

had quite solid discussions with our counterparts in all the three markets that we're operating in to ensure that we are not overplaying our cards.

Zafar Nazim: So is it fair to assume that in your existing contracts, we should not expect any changes in the terms during the tenor of the contract; that's not happening?

René Kofod-Olsen: Yes.

Zafar Nazim: Great, and just in terms of numbers if I look at your EBITDA trend, 1Q was down roughly 8% year over year, 2Q is down roughly 15%. How should we think about the EBITDA progression in the remainder of this year? Should we expect larger declines in the back half of the year? You have some pretty tough – Q3 and Q4 last year were pretty strong quarters. So just wondering how the year will play out?

Jay Daga: I think Zafar, our EBITDA decline is purely because of a few of our vessels not finding profitable deployment. So naturally we are very, very focused on finding work for them and if those vessels find our desired level of occupancy then you will see a spike in EBITDA percentages. So while, as René said, we are in a good place in our core home market in Caspian and in Middle East but West Africa and subsea vessels where we find the rates are under pressure and while we can do as much as the market can allow us on the opex, we are very, very focused on finding deployment for some of these tonnages. So it is very, very – if I just give you for this year, we are only short of 5% of our revenue to be contracted and those 5% of the revenue and that again on a competitive basis. So if you manage to contract our target better than 5% then we would be in a good place for the rest of the year.

Zafar Nazim: And West Africa –

René Kofod-Olsen: That – Zafar, I think we have taken affirmative action on cost and we are actually both having shore and offshore redundancies and changes in line with what is happening around us. So that will also have a positive effect.

Zafar Nazim: And how much did the West Africa and the subsea business contribute in terms of EBITDA last year?

Jay Daga: I don't have those numbers handy with me but I can pass it on later.

Zafar Nazim: No worry, and just one last question on your credit facilities, one of your facilities is available for drawing only until April of next year. So can you enlighten us with what you plan to do with this facility? Do you expect this to expire or you have something in mind?

René Kofod-Olsen: As I mentioned, this is a good firepower to have. We are not going to put further risk into the company because we have those lines. They are convenient to have. We will use them if an opportunity matches our strategy but we are not going to change our risk profile because of that. We may go back to the banks, who we enjoy a great relationship with, and ask for an extension but we may also just let it run out.

Zafar Nazim: Okay, thank you.

Operator: We will now take the next question from Martin Nybye from Jyske Bank. Please go ahead.

Martin Nybye: Yes, hi, two questions, one on the interest cost. In the cash flow statement, your interest payment in Q2 was \$23.2million but in Q1 it was only \$3.5 million. Could you please elaborate a little bit on the difference there and what's the run rate going forward against the new financing? And second question, could you give

us some kind of rating distribution for your customers or at least how many are investment grade and how many are high yield? Thanks.

René Kofod-Olsen: Okay. Let me give you – let me answer your last question first. Basically all our customers are investment grade, and I don't have the latest update so I would say our guidance is 80-85%. You know, 50% is coming from BP, they are investment grade, and Total is and Saudi ARAMCO is our number two or number three, Qatar Petroleum, Maersk Oil. So you do have – Saipem is a big customer for us, Technip. So you do of course have some smaller operators. In Turkmenistan is one of them, but that is a very, very little part of our business and we do not have a material receivable risk. Actually, to put more context into it, we in first quarter said no to a quite interesting contract for Afren in Nigeria and when you look at our utilisation rates for West Africa in the first quarter, you would say but surely it would have been interesting to have those two vessels locked up with Afren. But we simply found the counterparty risk too high and we said no thank you. I think today where we are sitting, we are quite pleased after they went into liquidation that we did not have three or four months' worth of receivables for them. So that is how you should expect us to think about our business and I believe we are in a good place to actually take those sometimes maybe arrogant decisions.

Jay Daga: And in respect of your first question, if you look, our half yearly interest for this year was \$38 million and the same amount for the previous was \$29 million. As explained, we took a \$8 million as unamortised costs for the refinance facility so that's a one-off spike that you have come into our Q2 number.

Martin Nybye: Yes, but if you look at the press release not the presentation, the interest payment six months 2015 is 26.7 and this is stated, and the three months, it's

\$23.2million. So that gives \$3.5 million in Q1. So I mean I couldn't realign it with the numbers you had in your slides.

Jay Daga: You're looking at the cash flow statement, are you?

Martin Nybye: Yes.

Jay Daga: Okay. We can give you a detail of how this amount has come. Because this \$8 million was –

Martin Nybye: Yes, but so the run rate is, is what sort of per semi-annual going forward? What should we expect for second half of 2015?

Jay Daga: \$20 million?

René Kofod-Olsen: Yes.

Jay Daga: Yes, \$15-\$16 million, yes. We will be paying same \$15 million...

René Kofod-Olsen: For the second half.

Jay Daga: For the second half.

Martin Nybye: Fifteen?

Jay Daga: Sorry, are you asking how much interest you're going to pay for the second half of the year?

Martin Nybye: Yes, you're going to pay.

Jay Daga: Yes, this is approximately the same, \$24 million.

Martin Nybye: Okay.

Jay Daga: Yes.

Martin Nybye: But yes, let...I still don't understand.

Jay Daga: I will send it to –

Martin Nybye: I still don't understand why you only paid \$3.5 million in Q1.

Jay Daga: Okay. Okay, is it okay if I give you offline and give you the details?

Martin Nybye: Yes, that's fine.

Jay Daga: All right, thanks noted.

Operator: As a reminder, if you would like to ask a question, please press *1. We will now take a follow-up question from Zafar Nazim of JPMorgan.

Zafar Nazim: Thank you. René, I was wondering if you would have any idea about the cash lifting costs or the production costs at the ACG project that BP is operating in Azerbaijan?

René Kofod-Olsen: Well, I have an idea about most things but I'm trying to avoid being a specialist on oil prices and cost of oil extraction. I believe historically that it has been low but again, there is a sharing agreement between SOCAR and BP that is not necessarily public. So the true cost of it, I cannot tell you, Zafar, but I believe that it is reasonable.

Zafar Nazim: Okay, thank you.

René Kofod-Olsen: You're welcome.

Operator: We will now take the next question from Anand Jha from Copal Amba.

Anand Jha: Good evening, René and Jay. Thanks for taking my question. I have three small questions. So from the call, I understand that you have a contract backlog of around \$1 billion. So would it be possible for you to share the exact backlog size? Second question would be would it be possible for you to tell me what would be the average duration of the contracts and the backlog and what would be the average size? And the third question would be, in third quarter this year so far, what kind

of day rates and utilisation have you been realising? Is it possible to comment on that? Thank you.

René Kofod-Olsen: So I think we have at this point in time about \$850 million of backlog. We are spending over a multitude of years. It is increasing as we add contracts to – the signed contracts, and there's a lot of contracts that are being negotiated today.

In terms of the length of these contracts, it depends on market to market. In the Middle East, we have just signed four anchor handlers up with Saudi ARAMCO for five years and we are negotiating a further two for the same terms. We have signed up a number of vessels recently for more than a year here in the UAE and one also in Qatar. So we are seeing a good expansion of the business in the medium- to long-term contracts. In Caspian we have some contracts that comes out within the next 6-8 months. They are part of this renegotiation we are doing, and then we have the long contracts that go beyond 2020. So we are seeking as well to sign longer contracts in West Africa. As I reported, then we have the setup now to go for long contracts, we will benefit from that in Angola.

In terms of the day rate, we are about 5% down on a blended rate, so I think mark-to-market that is quite an achievement. You'll remember that we have never had average day rates that had been comparable to the North Sea spot operators or the Gulf of Mexico spot operators but I guess we could make money on the average \$16,000 a day and therefore we are quite pleased to have maintained that with only a 5% slide. That speaks well to our model.

Anand Jha: Thanks, and then just a quick follow-up. So among the \$850 million of contract backlog, how many would have a duration of less than a year? Can you share that number? A percentage, rough percentage would do.

Jay Daga: I think if you look at it, some of our long-term contracts, they come for expiration over the next 12 months and then naturally they would get rolled over or be negotiated. And as you know, our core market is Caspian and Middle East. In the Caspian there is – the vessels which are currently being operated, they would have a long life. But again, we believe that in this current crisis time there would be a reset of the pricing level but they eventually will find a long-term work. Now again, it is very, very difficult to quantify what expires within this year and what expires the next year. At the same time, it is very reasonable to assume that we would have approximately 40% of our revenue for next year already contracted and as we further go right, the amount gets reduced. And it's a blended rate. Many of our vessels which were deployed in Caspian in 2010-11, which were many of them, are now due for renewal and that's what René said in his presentation that we are in a very advanced stage of renegotiating – not renegotiating but discussing the extension of some of these contracts which are coming for renewal by end of this year as well as some of the contracts which have got a long life, but we're trying to put a package together to have this tied up for a very, very long time.

Anand Jha: Thanks, Jay.

Operator: We will take the next question from Deepa Abraham from Old Mutual.

Deepa Abraham: Hi, thanks for taking my question. I know that your leverage covenant starts to tighten going forward perhaps to 4.6 in December. What is the profile of your other covenants and how comfortable are you?

Jay Daga: I think we have covered that in our slide if you look at it.

Deepa Abraham: Ah, sorry if I missed that.

Jay Daga: If you look at our page number 10 of our presentation, that gives you a fair bit of indication on the headroom what we have.

Deepa Abraham: Sure. If I remember correctly, your covenants start to tighten from 2015 Q4.

Jay Daga: Yes, so therefore we still have a significant headroom because – in future periods.

Deepa Abraham: And how is your net worth calculated, your net worth covenant calculated?

Jay Daga: It's simple, you look at the total equity of the company.

Deepa Abraham: Okay, and the other question I had was about dividend policy. I know it's based on 50% of profits. Given the cautious approach you are taking to the business and to the cash flow, I'm hoping that that caution also extends to cash outflows even if to shareholders.

René Kofod-Olsen: Yes, thank you for that question. The 50% on dividend of profit is, it's a covenant; it's not a policy. So we have, we do not have a mandatory dividend policy and we have, as in the past, also shared a very good relationship with our shareholders. So they fully understand the situation the company goes in, they're very supportive, and we will definitely look at that with the same conservative eyes as we look at our whole business, and I think you have the historical evidence for that.

Deepa Abraham: That's it, thank you very much.

René Kofod-Olsen: You're welcome.

Operator: We will take the next question from Madiha Aslam from Standard Chartered Bank.

Madiha Aslam: Thank you for taking my question. I just needed to get a bit more clarity on your subsea and West Africa business. Given that you are facing the challenges that you mentioned, would we see any kind of redeployment of vessels to other regions by any chance or are you still just focused on looking at better rates within those regions itself for those vessels?

René Kofod-Olsen: Yes, good question. So I covered it a little bit in the presentation but I will try and give a little bit more colour now. We have three large subsea vessels, one in the Gulf of Mexico, one in Sweden or the Baltic waters, and one in the North Atlantic, so in the North Sea. The two former, Captain and Installer, have worked well. As Jay mentioned, the Captain went through an upgrade and five-year cycle dry docking during two months of the first quarter and therefore there was a very new gap. But when it was available to work, it went straight into a contract. Installer is on a long-term contract with a big customer in Scandinavia. So Commander didn't find profitable work in the North Sea and we moved it to the Middle East. We took it to our sister company's shipyard and upgraded it for accommodation and ever since, it has been working in the Gulf here. So we have a reason to believe that that will be profitably deployed for the foreseeable future. We have a very positive outlook on subsea, at least in the market wherein we play, which is the midrange IMR kind of work that fits well to the development and production phases of the subsea. We do not have large construction vessels and we will not go into that.

In terms of West Africa, it is a terrible bloodshed market. However, it was the right decision to go into West Africa. We have the right assets down there but we have moved an anchor handler to the Middle East where it has been working profitably, and as I mentioned, we have moved the Commander as well up to the Middle East

from the North Atlantic. But we believe West Africa will be a great region for us going forward and we're already seeing evidence of that from our setup in Angola. But there is no way around it – first half has been very tough in West Africa for everybody.

Madiha Aslam: Thank you. So do you have any kind of – obviously it is yet to be seen but do you have any kind of estimates by when you think the West Africa side would actually stabilise a bit or it's just a wait-and-watch?

René Kofod-Olsen: I believe that this is going to be a long time for the general oil and gas markets but as I mentioned, we have a good contract model and we are used to making long contracts. I think we can be a little bit more agile in some of our contracting with our customers simply because of our balance sheet strength and our backlog. So I think West Africa will continue to be difficult. But the difference for us is that we are taking the long road of setting up in Angola correctly, and it has taken us 12 months but that also means that we are fully approved, and we are fully approved under the new Angolanization rules and that gives us a great competitive advantage. We just won a contract with BP from two months ago for a one-year deal and as a newcomer into a market, I think it's great that you are able to beat some of the very, very large global players but certainly also large local players, and we are continuously winning business in Angola. That gives me confidence that even though the global markets will continue being difficult, in those places where we have a setup, we have a positive outlook.

Operator: Ladies and gentlemen, at this point I would like to hand the call back over to Mr. Kofod-Olsen. Please go ahead.

René Kofod-Olsen: Yes, so I thank everybody for calling in. I thank everybody for their questions. It is as usual a great discussion to have. We continue on relentlessly to

fight the turbulent waters of the industry. Thank you so much and I'll see you in some three months.

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