

Company: Topaz Energy & Marine

Conference Title: Financial Results for the Year ended 31 December 2013

Presenter: René Kofod-Olsen

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Operator: Ladies and gentlemen, if we are now ready to begin I will now pass the call over to our host today, Mr. René Kofod-Olsen, Chief Executive Officer of Topaz Energy and Marine. Please go ahead sir.

René Kofod-Olsen: Thank you very much Holly. Thank you very much ladies and gentlemen for calling in and good afternoon. We will go through the financial results for the 12 months that ended 31st December 2013. After that we will hand you over to questions for the Chief Financial Officer Pernille who has joined us today, Robert Desai and myself.

The period has been quite strong. We have shown good, profitable growth over all the activities, we have seen revenue up by 22% and EBITDA of 17%. We have had a very, very strong safety performance with zero LTIs, zero fatalities which is really the macro point that we measure that on.

We have had a very, very stable utilisation of our fleet at almost 95% and we have seen a very, very positive addition of seven vessels into the fleet during the course of 2013 and some of them spanning into 2014.

In terms of the strategy that some of you heard when you were on the road last year we continue to see a good supporting industry fundamentals. We drive through the strategy of having a modern, versatile and high spec fleet throughout our market. We have continued to nurture the relationships with our leading partners latest by signing a contract in Nigeria with one of the leading oil majors of the world. The position in the Caspian region continues to be very robust. We started our business in the Filanovsky field in Russia which was the newest addition to our already established position in Azerbaijan and Kazakhstan.

The contract backlog has risen to just under \$1.2 billion over the next 10 years which is at current trading revenues three times our revenue, so that continued to be very solid also into the current year. The safety record as I mentioned earlier is a backdrop to our high utilisation as well. We have seen the same trend starting this year but throughout 2013 that was very, very strong and one of the best I would say actually in the industry. We have added Pernille Fabricius as our new Chief Financial Officer and have maintained the rest of the management team throughout the business.

As we see our stable strategy for growth we have acquired a number of interesting platform supply vessels in 2013 and we will continue the vessel by vessel acquisition strategy that we have. We will continue selling some of the older assets that we are having in our fleet and certainly the 5% of our balance sheet which is what we have labelled non-core assets. All those will be divested as we go along also into 2014. We have had quite a solid expansion into West Africa and at the same time we have divested from our non-profit making business in Brazil, so those are our clear strategies of being in the markets where we can return the profit that we would expect from being in these markets.

We have had very, very good funding from our shareholders continuously and we also delivered on all our strategies in terms of the capital expansion in 2013 and I guess the pinnacle point was the formidable bond process we delivered during the third and fourth quarter. We will continue to stay very, very focused on the OSV part of our business, the mid to high range vessels, that will continue in the future as we see it and then of course we will invest a lot in our operational excellence as we did throughout 2013 where we cut off \$7 million of costs that we basically spent in 2012 that we didn't spend in 2013. We expect operational efficiencies to continue in the future as well.

The capital structure on page number 5, we mention that we have raised our bond. That has subsequently delivered positively and we expect that in the future as well. We target to constantly look at how to reduce our net leverage of the business when the new assets during

2014 will have the earnings contributing to our P&L. As you will all understand buying an asset and deploying an asset normally has a time gap on our P&L.

We have grown our Caspian fleet in 2013, the latest being Caspian Voyager that was acquired as part of the bond process and it's going to be delivered when the ice recedes. In the Caspian we expect the contract start on 1st June. The deployment of the vessel through the channel has gone very, very well.

In West Africa as I mentioned initially we have signed a contract and operating now two platform supply boats for one of the key oil majors IOCs in that area and we are seeing a high demand for our services in Nigeria but also from Congo and Angola. We have two more of the PSVs joining us in the end of this month and have also been bidding both on projects in the Middle East and in West Africa with a very high demand ratio.

On page number 6 I am particularly pleased to share with all the bond investors that we have delivered 100% on the expectations when we went on the road last year, latest being the acquisition of the Caspian Endeavour and the Caspian Challenger. They have both been acquired on the prevailing market rates and were the latest additions as per the fleet expansion plan presented throughout the roadshow last year and that basically meant that we have successfully deployed all the funds that were given to us as per the plan.

Now I'll hand over slide number 7 and onwards to Pernille Fabricius, the Chief Financial Officer.

Pernille Fabricius: Looking at the financials, quarter on quarter development shows continuous and stable growth. Specifically on Q4 I want to draw your attention to the 7% and the 8% increase in revenue and EBITDA respectively against the same period last year. We believe that speaks to a very successful expansion of the business with improving margins. The minor reduction in revenue and EBITDA versus Q3 2013 is due to four elements: one large vessel being in planned dry dock for 30 days; one large vessel mobilising from Europe to West Africa, a few vessels that have a bit of downtime due to technical maintenance, non-

core tonnage in Kazakhstan off-hire with spot works. Part of this is impacted by higher finance costs and an increase in contract expenses.

Turning to Q4 2013 performance versus last year shows growth on all lines and a high cash conversion from operations. Interest expenses are up mainly due to increased debt levels but also due to the fact that the bond carries higher interest compared to the senior term loans that the company had in 2012. What I specifically want to draw your attention to is the high cash flow from operations which is close to 100% of EBITDA.

Turning to the full year as René alluded to we consider this to be a very successful year with a satisfactory operational performance where capital has been successfully deployed on modern core assets at or above threshold returns. Utilisation has been high and stable and safety performance nearly perfect with also a very positive financial impact. The period has seen a strong and very profitable growth across the group activities with revenue up 22% and EBITDA up 17%. The growth is primarily attributable to the additional vessels that have joined the fleet plus the aforementioned items. Focus has also been on maintenance of a high cost control and this has resulted in significant cost savings which benefit 2013 plus also coming in.

Also in the year 2013 a number of new contracts have been won resulting in a backlog as mentioned by René of 1.16 billion. If we look at the P&L line by line this then means also that the EBITDA has grown to 163 million, up from 139 million last year. The EBITDA margin is well above 40% at 43.4%. Profit after tax is 44.8 million and margin sits at almost 12%. Cash flow from operations sits at 111 million, adjusted for interest and tax it is close to the EBITDA with actually 100% cash conversion for the full year. As you can see the interest expenses have gone up with the explanations as were given before on additional debt and higher interest levels.

If we look at the capital structure this has been impacted by the bond that was raised in the year. Cash and cash equivalents at year end are close to 170 million. That has been brought down subsequently by investing in the vessels that René described, so that has been reduced

by 130 million. The total external debt is at year end 670 million and shareholder loans have been brought down to 134 million. That means that our gross leverage is 4.9 times and net leverage is below four times at 3.9.

Moving to the covenants we are glad to confirm that we had comfortable headroom on our covenants. Not wanting to take you through all of this which is quite self-explanatory, but let me reassure you that the EBITDA to net interest is being handled and is also sitting at a level comfortable to us.

Moving on to the revenue and specifying that out on geographies, you can see that in all geographies we have a higher level of contracts already covered both the firm and with the additional options amounting to a total of 82% of the annual charter hire.

René Kofod-Olsen: Thank you Pernille. I alluded to the safety performance and we have had no fatalities or LTIs in the period that we are here describing which in itself is a strong achievement. We have more than 3 million man hours for the year throughout our vast geographical span. We continue to measure this very, very strongly and have as one of our key parameters to always deliver safe operations for our employees and our customers.

We believe strongly in the market outlook on the subsequent page, there continued to be a solid investment in capex from the main IOCs and NOCs in the market where we operate and we see a continued demand of the newer and versatile vessels that we operate. We operate one of the youngest fleets of the industry just above seven years and with the new additions of vessels also for this year we expect to maintain that level of fleet age. We see that a number of vessels are going back into the American side of the Gulf under the Jones Act, BP latest have been opening up for investments and that will give opportunity for the non-Jones Acts in that area where we are seeing demand from the IOCs and NOCs as well. There will be a continued very, very high focus as also read in the press about cost containment and we are already now running at 95% utilisation and a very young and modern fleet which puts us at the forefront with those discussions on the oil majors of actually running a cost contained

operation, so we will continue to invest in this business and we have a fundamental support from our owners to continue to invest in the markets where we operate in the future.

On that note I believe that has taken us through the 15 slides that we have prepared for you and I will now hand it back to the moderator Holly to open up for any questions that would be from the audience.

Operator: 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. Once again please press *1 if you have a question.

We will now take our first question today from Mark Conway. Please go ahead.

Mark Conway: Hello, thank you very much for the presentation. Could I just ask given the political situation to talk a bit more about Russia and the operations there and how instability in the region could affect you please?

René Kofod-Olsen: Yes, thank you for that question. We do not have any impact from that unfortunate situation. We operate in the Caspian part of Russia and have not had any operational impact. Today the fleet in Russia because of ice is on a seasonality stop, so when the ice recedes again here in April/May operations will continue over there. We are obviously discussing with our clients and we are discussing with the logistical providers through the channels should there be any reason for a change in the current modus operandi but we have had no reason for believing that will change.

Mark Conway: And could I just follow up and say that if there's an escalation of problems there and it did end up affecting that part of your business in Russia, could we get a percentage of how much that accounts by way of revenue and EBITDA?

René Kofod-Olsen: That's absolutely miniscule. We have 13 of our non-core assets operating in the Filanovsky field under a sub-contract with Saipem, so that will have absolutely no macro impact on our numbers.

Mark Conway: Thank you very much.

Operator: Thank you. Our next question today comes from Harry Richards of Jupiter. Please go ahead.

Harry Richards: Hi René, congratulations on the results. My question was actually already just answered, thank you.

René Kofod-Olsen: Thank you Harry. Thanks for calling in.

Operator: Ok, we'll move to our next question from Gloria Lam of Waha Capital. Please go ahead.

Gloria Lam: Hi, thank you very much for the presentation. I have a couple of questions. This may have been covered at an earlier part of the call because it took me a while to dial in, so first of all I want to know more about the company dividend policy? I know there are covenants that protect the bond investors but can you talk more about the dividend?

René Kofod-Olsen: Yes, so the dividend covenant we have is that 50% of the profits can be distributed to shareholders from a nominal perspective.

Gloria Lam: Is the company going to pay dividends this year?

Pernille Fabricius: Yes, we're going to keep our covenants and pay the dividends.

Gloria Lam: I guess for the past month, the first two months or first three months in 2014, the companies have received quite a number of new vessels. Can you tell us more about the current cash position of the company?

Pernille Fabricius: Yes, so as I alluded to in my slide on our cash or capital structure, we had a year end cash and cash equivalents of 169 and as you can see on page 10 we basically write that we have spent 130 million of that, so that's the adjustment that you have to make to the cash flow including our cash flow from operations adding up.

Gloria Lam: Ok, and in terms of EBITDA and also capex for 2014, would it be possible to give us some guidance?

Pernille Fabricius: We are not in the business of actually disclosing our budget for '14 but what we can tell you is that we are planning to continue of course to grow profitably in 2014 in line with our earlier promises.

René Kofod-Olsen: I think what I can add from the roadshow also because we've already distributed that is that we have an EBITDA bridge where we deliver an expected \$191 million based on those investments and from a 12 month perspective. What I can tell you to Pernille's point is that we are well within that expectation.

Gloria Lam: Got that. Thank you very much, that's all my questions.

René Kofod-Olsen: Thank you.

Operator: Thank you. As a reminder ladies and gentlemen if you do wish to ask a question it's *1 on your telephone keypad now. Our next question today comes from Nadine Windsor of Nomura. Please go ahead.

Nadine Windsor: Good afternoon René, Pernille, Robert, thank you very much for that call. I just had a quick question whether you had any update to give us around the shareholding loans?

Pernille Fabricius: So the shareholding loans, we have of course reduced as you can see and again in slide 10 to 134. Those shareholder loans we have maintained into 2014 so there's not a lot in addition to update on that really.

Nadine Windsor: So what's the next step really? No change on that for 2014. What about 2015 and later on?

Pernille Fabricius: Well of course we are continuously monitoring our capital structure absolutely and seeing how to optimise that and in connection with that we might definitely bring it down,

but as it is at this minute we are still carrying the parent loan and keeping our obligations on that.

Nadine Windsor: So can we see it as a sign that you're not coming back to the market this year?

René Kofod-Olsen: I think we would rather Nadine, thanks for your persistence, we would not speculate on that. I think we have added a great element from the bonds in our toolbox and the team are constantly looking at the capital structure to optimise it for the best of everybody including our investors, so we would not exclude enhancing that toolbox in the future if it is for the benefit of all stakeholders. We see these capital additions as a journey so that would be part of our toolbox.

Nadine Windsor: Thank you René, very helpful. Thanks.

Operator: Thank you. Our next question today comes from Kay Williams of Emirates NBD. Please go ahead.

Kay Williams: Hi everyone, thank you for the call. Sorry to hop on this Russian issue but could just explain to me, these 13 assets that you've got positioned there, you mentioned that they're non-core assets. Could you just explain to me a little bit further about those and also the positioning of these relative to other vessels of your fleet, so where the rest of them are positioned?

René Kofod-Olsen: For sure. These are non-core assets, so they are basically barges and crew boats and they are an insignificant part of our balance sheet although they are good for the client we have up in Filanovsky, they are part of our strategic divestment programme that will happen over the next years and the reason for not divesting them immediately has been that we still have obligations to clients and we will keep all those obligations and then divest them when we have an opportunity, but again they are a very insignificant part of our balance sheet and they are a very insignificant part of our P&L in that part of the Caspian.

Kay Williams: Ok, great. Thank you.

Operator: Thank you. For any further questions today please press *1 on your telephone keypad now. As there are no further questions today I would now like to hand the call back to Mr. Kofod-Olsen for any closing or additional remarks. Any further questions can be sent to Robert Desai, Head of IR for Topaz whose contact details can be found on the IR section of the Topaz webpage.

René Kofod-Olsen: Yes, thank you Holly. So ladies and gentlemen, thank you everybody for joining the call. It's a pleasure also to hear some of the repeat investors on these calls. We will have a transcript of this, Robert will make available on our webpage just immediately after this call, so thank you again. You know where to find us also in terms of questions that you might have, Robert's details are certainly on our webpage so until next time thank you very much for calling in.

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