Topaz Energy and Marine

Financial results for the six months ended 30 June 2017

Half Year Revenue of US $116 million; Robust EBITDA margin of 50%

Dubai, UAE, Thursday 17th August 2017: Topaz Energy and Marine ("Topaz"), a leading offshore support vessel company, today announces its results for the six months ended 30 June 2017 ("the period").

	Three Months Ended			Six Months Ended		
	June 2017	June 2016	% change	June 2017	June 2016	% change
Consolidated Revenue (US$ m)	57.4	71.8	-20.1%	115.6	149.5	-22.7%
EBITDA (US$ m)	26.4	36.9	-28.5%	57.6	76.6	-24.8%
EBITDA Margin (%)	46.0%	51.4%	-5.4ppt	49.8%	51.2%	-1.4ppt
Net Profit (US$ m)	(10.0)	(0.7)	NM	(13.4)	0.8	NM
Net Profit Margin (%)	(17.5%)	(0.9%)	-16.6ppt	-11.6%	0.5%	-12.1ppt
Core Vessel Utilization	62.6%	70.8%	-8.2ppt	62.4%	72.8%	-10.4ppt

Business Highlights

- Boost to long term utilization with $100 million Dragon Oil 5-year contract won for 6 vessels in Turkmenistan
- Overall core fleet utilization at 62%, while we continue to demonstrate resilience in Azerbaijan with utilization at 95%.
- Robust EBITDA margin of 50%, despite utilization and rate pressure in Africa and MENA.
- Resolute focus on cost control across the organization has resulted in savings of US$14m for H1 2017 compared to the same period last year.
- Fully compliant with financial covenants: reset successfully during the period enabling Topaz to borrow to fund its growth strategy.
- Credit Ratings by S&P and Moody's reaffirmed and remain stable.
- Safety continues to be Topaz's top priority. No Lost Time Incidents (LTIs) during the past 18 months and fatalities remain at zero.

René Kofod-Olsen, Chief Executive Officer, Topaz Energy and Marine said, "Topaz continues to deliver value for its investors and shareholders despite the ongoing challenges of the sector. Our focus remains on driving cost efficiencies across the business whilst continuing to make the investments that mean Topaz is able to offer a differentiated proposition to its customers. We are beginning to see some signs of recovery in the market and we expect 2018 to offer better opportunities for growth.

"We successfully completed the issuance of US$375 million 9.125% Senior Notes during the first half, which was achieved against the backdrop of both a volatile economic environment and what remains a challenging market for the offshore services sector. The positive reception from investors was testament to the robustness of our business model and long-term growth strategy. The refinancing further strengthens our long-term, sustainable capital structure, equipping Topaz for its next phase of growth.

"We also won a new $100 million contract with Dragon Oil, the upstream oil and gas subsidiary of Emirates National Oil Company (ENOC) whose principal asset is the Cheleken Contract Area, in the eastern section of the Caspian Sea, offshore Turkmenistan. Under the terms of the contract, Topaz will supply Dragon Oil Turkmenistan with six vessels, comprising five anchor-handlers and one Emergency Recovery and Response Vessel. The contract has already commenced with vessel mobilization and operation ramp-up under way. The contract is scheduled for a five-year term with a two-year option and brings Topaz's market leading revenue backlog above $1.5 billion.

"Revenue for the six months ended 30 June 2017 is at US$115.6m which is down 23% compared with the same period last year. EBITDA is at US$57.6m, down 25% compared with the same period last year. Our EBITDA margin remains stable at 50% on the back of our persistent efforts to optimize our cost base and reshape the organization to better perform in a volatile and unpredictable market. Our operating costs reduced by US$14m and stand at US$77.9m for the quarter.

"Core fleet utilization for the period was 62%, reflecting the pricing challenges of the spot market during the period. However, in Azerbaijan, our most significant operation in the Caspian, where we have solid contract coverage utilization was 95%, reflecting the strength of our business in the region. In the MENA and Africa regions, which are far more spot market driven, compared to our longer-term contracts of the Caspian, we have continued to face severe pressure on rates and utilization, with lower overall core fleet utilization of 51% and 26% respectively. The outlook in both regions remains very challenging. However, we have witnessed a slight uptick in MENA tendering activities and as a result, reactivated three vessels from the MENA fleet and redeployed one vessel from Africa fleet to MENA. We continue to have six vessels from the MENA fleet and one vessel from the Africa fleet in layup. We will leverage our strong presence in the region to continue to pursue and win contracts. MENA and Africa remain long-term strategic markets for Topaz."

Financial Review

US$ Millions

REVENUE	Three Months Ended		Six Months Ended		
	June 2017	June 2016	June 2017	June 2016	Variance
Caspian	42.0	53.8	87.5	104.9	-6.7%
MENA	13.2	15.4	24.2	35.7	-47.0%
Africa	1.4	2.6	3.1	8.9	-65.2%
Corporate / adj	0.8	-	0.8	-	+100.0%
Total	**57.4**	**71.8**	**115.6**	**149.5**	**-22.7%**

Revenue for the period was **$115.6** million, a decrease of **22.7%** against corresponding revenue of **$149.5** million in H1 2016. This decrease is mainly due to (i) off-hire of barges and tugs in Kazakhstan of **$10.1** million, (ii) loss of revenue of **$8.6** million due to increasing market pressure on rates and utilization in the MENA and Africa regions, (iii) loss of revenue of **$6.1** million due to vessels laid up in MENA, (iv) off-hire/standby rate on two subsea vessels of **$5.6** million and (v) lower mobilization revenue of **$1.2** million. However, this decrease is partly offset by a new vessel deployed on a long-term contract of $**0.9** million.

US$ Millions

	Three Months Ended		Six Months Ended		
	June 2017	June 2016	June 2017	June 2016	Variance
Crew cost	12.5	13.9	23.2	30.4	-23.7%
Technical maintenance	4.0	5.1	7.3	9.5	-23.1%
Depreciation / Dry-dock	17.0	18.0	33.7	35.9	-6.1%
Mobilization charges	0.8	1.8	1.0	3.0	-66.0%
Others	6.3	5.5	12.7	13.0	-2.3%
Total	**40.6**	**44.3**	**77.9**	**91.8**	**-15.1%**

Topaz decreased direct costs by **$14** million in H1 2017, or **-15.1%** year on year, to reach **$77.9** million, compared to **$91.8** million in H1 2016.

We continue to achieve savings through a relentless focus on operating costs. We have optimized crew costs in line with the market rates and continue to rigorously monitor our costs. Additional savings have been achieved through vessel lay-ups. Savings on maintenance have been achieved by negotiations with our core suppliers and were further supported by framework agreements. The decrease in depreciation/dry-dock is mainly due to the impairment charge reducing the depreciation amount.

Other savings consist of items such as insurance and staff costs which have been cut as a result of a strategic cost efficiency program while ensuring no compromise on the coverage or standards.

EBITDA	Three Months Ended		Six Months Ended		
	June 2017	June 2016	June 2017	June 2016	Variance
Caspian	27.3	36.2	58.5	70.1	-16.5%
MENA	2.5	3.0	5.3	10.1	-47.5%
Africa	(2.3)	(0.7)	(3.9)	1.0	NM
Corporate / adj	(1.1)	(1.6)	(2.3)	(4.6)	-50.0%
Total	**26.4**	**36.9**	**57.6**	**76.6**	**-24.8%**

EBITDA decreased by **$19** million, or **25.1%**, to **$57.6** million during the period compared to **$76.6** million in H1 2016. This decrease mainly relates to (i) EBITDA loss of **$9.4** million due to barges and tugs being off-hired in Kazakhstan, (ii) EBITDA loss of **$8.1** million due to lower utilization and rates of vessels in the MENA and Africa region and (iii) EBITDA loss of **$5.4** million on two subsea vessels. However, the decrease in EBITDA has been offset by the savings in overheads of **$3.7** million and EBITDA contribution of **$0.6** million by a new vessel deployed MENA.

Administrative Expenses:

Administrative expenses decreased by **$3.7** million, or **21.1%**, to **$13.8** million during the period compared to **$17.5** million during the same period last year. The decrease in administrative expenses is due to lower staff cost and various efficiency initiatives implemented across operational offices.

Finance costs:

Finance costs decreased by **$1.2** million, or **4%**, to **$28.8** million during the period compared to **$30** million during the same period last year.

Income tax expense:

Income tax expense decreased by **$1.7** million, or **18%**, to **$7.7** million during the period compared to **$9.4** million in Q1 2016.

Cash flow

The cash generation as a percentage of EBITDA for the six months ended June 2017 was 107% (June 2016: 121%).

The table below sets out a breakdown of cash flow for the three months ended 30 June 2017:

US$ Millions

CASH FLOW	Three Months Ended		Six Months Ended		
	June 2017	June 2016	June 2017	June 2016	Variance
EBITDA	**26.4**	**36.9**	**57.6**	**76.6**	**(19.0)**
Changes in working capital	1.1	3.0	3.8	16.2	12.4
Cash generated from Operations	**27.5**	**39.9**	**61.4**	**92.8**	**31.4**
Cash conversion	104%	108%	107%	121%	
Income tax paid	(3.1)	(5.8)	(6.6)	(10.9)	4.3
Interest paid	(22.1)	(24.0)	(28.2)	(28.1)	(0.1)
Net Cash generated from operating activities	**2.3**	**10.1**	**26.6**	**53.8**	**27.2**
Net Cash generated from Tengiz	7.0	-	16.0	-	16.0
Cash used in investing activities	(9.9)	(12.3)	(16.0)	(27.7)	11.7
Cash provided by financing activities	(7.5)	(7.5)	(17.0)	(16.0)	(1.0)
Increase/(decrease) in cash and cash equivalents	**(8.1)**	**(9.7)**	**9.6**	**10.1**	**(0.5)**

Investing activities include payment of **$5.6** million towards expansion capex and **$10.1** million towards maintenance capex. Investing activities also include a capex payment of **$68.6** million, being the milestone payment to Vard under the new build contract which was fully funded by an advance payment received from the client. Financing activities include bilateral debt repayment of **$15** million, **$2** million repayment of parent company debt and **$28.8** million of interest payments.

Unutilized Banking Lines includes a Revolving Credit Facility of US$100m expiring in April 2020. We have successfully reset our covenant in June 2017 thereby providing us enough headroom to draw down on our unutilised banking lines.

Financing

Facility	Maturity	Interest Rate	Repayment	Outstanding as at 30 Jun 17 US$'000
Conventional and Islamic facility	7 years	3 month LIBOR + 2.75%	Quarterly with bullet repayment	285,709
Senior Notes	5 years	8.625%	Bullet	346,195
Total Topaz Loans				**631,904**

*Recorded as per International Financial Reporting Standards (IFRS) in US$.

Bank Covenants

The senior secured borrowing arrangements include undertakings to comply with certain financial covenants. As at 30 June 2017, Topaz has complied with all financial covenants.

The following table sets out the Financial Covenants as at 30 June 2017:

Financial Covenant	Threshold	As at Jun 2017
Net Interest-Bearing Debt to EBITDA	**< 5.25**	**4.62x**
Headroom		*12%*
Tangible Net Worth	**> $300M**	**414M**
Headroom		*38%*
Free liquidity (in millions)	**> $30M**	**149M**
Headroom		*397%*
EBITDA to DSCR	**> 1.2**	**1.44x**
Headroom		*20%*

Capitalization

The following table sets out Topaz's consolidated cash, total indebtedness, shareholders' funds, total capitalization and net debt at the end of the last five quarters.

In US$ million

	Jun-17	Mar-17	Dec-16	Sep-16	Jun-16	Change Jun'17 v Jun'16
Cash & Cash Equivalents	**49**	**57**	**39**	**70**	**65**	**-16**
Floating Rate Senior secured loans	286	292	300	307	314	-28
Other loans / Senior Notes[1]	346	346	345	344	344	2
Subordinated Shareholding Funding	78	78	81	91	103	-25
Total debt	**710**	**716**	**726**	**742**	**761**	**-51**
Total Equity	449	459	463	570	575	-126
Total Capitalization	**1,159**	**1,175**	**1,189**	**1,312**	**1,336**	**-177**
Net debt	661	659	687	672	696	-35
Total debt / LTM EBITDA	5.6	5.3	5	4.48	4.48	-
Net debt / LTM EBITDA	5.2	4.8	4.7	4.09	4.09	-

[1] Recorded as per International Financial Reporting Standards (IFRS)

About Topaz Energy and Marine

Topaz Energy and Marine is a leading international offshore support vessel company providing logistics support and marine solutions to the global energy industry with primary focus on the Caspian Sea, the Middle East, West Africa and Subsea operations in the North Sea and the Pacific. Headquartered in Dubai, Topaz Energy and Marine operates an existing fleet of 97 offshore support vessels with an average age of approximately 9 years. Topaz Energy and Marine is a subsidiary of Renaissance, a publicly traded company listed on the Muscat Securities Market in Oman. In addition, Standard Chartered Private Equity holds a minority position in the company.

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