

Topaz Energy and Marine

Financial results for the nine months ended 30 Sep 2016

Performance continues to be impacted by poor market conditions

Dubai, UAE, Thursday 17 Nov 2016: Topaz Energy and Marine, a leading offshore support vessel company, today announces its results for the nine months ended 30 Sep 2016 ("the period").

	Three Months Ended			Nine Months Ended		
	Sep 2016	Sep 2015	% change	Sep 2016	Sep 2015	% change
Consolidated Revenue (US\$ m)	66.6	98.8	-32.6%	216.1	274.2	-21.2%
EBITDA (US\$ m)	34.4	48.7	-29.4%	111.0	129.5	-14.3%
EBITDA Margin (%)	51.7%	49.2%	+2.5ppt	51.4%	47.2%	+4.2ppt
Net Profit (US\$ m)	(5.0)	9.0	NM	(4.2)	5.9	NM
Net Profit Margin (%)	(7.5%)	9.1%	-16.6ppt	(1.9%)	2.1%	-4.1ppt
RONA	-	-	-	4.6%	6.2%	-1.6ppt
Core Vessel Utilization	-	-	-	70.3%	86.5%	-16.2ppt

Business Highlights

- Revenue decreased 21% to reach US\$ 216.1 million for the nine month period ended 30 September 2016, on account of increasing market pressure on rates and utilization in Africa and MENA.
- We have maintained a robust EBITDA margin of 51.4%, an increase of 4.2 percentage points as compared to the nine months ended September 2015, highlighting the progress of our programme of cost reduction.
- Cost efficiencies continue while maintaining high standards of operational safety. The company has successfully generated savings of 18.8% in total costs, or US\$ 31.3 million, as compared to the same period last year.
- In May, Topaz announced winning a landmark contract with Tengizchevroil in Kazakhstan to build, supply and operate 15 vessels. The vessels, built by Vard Norway, will commence work in Q2 2018 for a minimum of three years. Subsequent to the original award, two additional vessel options and a related vessel management contract have been awarded. The total contract value is now in excess of US\$550 million.
- H1 saw the announcement of a major contract extension with BP Azerbaijan for the supply of 14 OSVs for a five-year period plus two one-year options. This contract will contribute approximately 35% of the group's annual revenue.
- The above two major contract awards have increased the group's revenue backlog to an industry leading US\$1.6bn and adds significantly to Topaz's earnings visibility and credit strength.

- The Caspian region has shown excellent resilience with utilization of 94% of our core fleet.
- A weak market and increased competition for spot work have brought our utilization rate in the MENA region below 60% for the nine month period, compared to the average 85% achieved in previous years. However, the company still performs above the regional average of 50%.
- In Africa, markets have further deteriorated due to continued delays in tenders. However, utilization of 45% is above the regional benchmark of 31% for West Africa.
- Fully compliant with banking covenants.
- Consistent safety record; fatalities remain at zero.

René Kofod-Olsen, Chief Executive Officer, Topaz Energy and Marine said, "Amidst extremely challenging market conditions, Topaz has delivered stable results for the nine month period ended 30 September 2016. Our cost efficiency programme and strategic position in the Caspian region have helped sustain a robust EBITDA delivery of US\$ 111 million at a stable margin.

"Our revenues for the nine month period stand at US\$ 216.1 million, down 21.2% compared to the same period last year. The decrease in revenues can be attributed to the OSV sector challenges, primarily driven by day rate reductions on long term contracts and direct loss of revenue due to increasing market pressures on utilization and rates. Our total utilization is however above regional benchmarks, which is a testament to our strong operating model.

"We are currently evaluating further optimization of our operating model and cost position, without jeopardizing our safety and operating standards. Direct costs are now 19% lower than last year and we are closely managing our cash position.

"As the OSV sector challenges continues relentlessly, market recovery remains unpredictable. Charter rates have fallen sharply despite the oil price recently leveling off in the 45-50 \$/bbl range. Recent production cut initiatives between OPEC members is the only positive development.

"While we remain hopeful that the level of activity may gradually increase throughout 2017, we remain prudent and conservative in managing cash flows, operations and costs to ensure our sustainability and competitiveness in this difficult environment."

Financial Review

REVENUE	Three Months Ended		Nine Months Ended		
	Sep 2016	Sep 2015	Sep 2016	Sep 2015	Variance
Caspian	50.6	61.5	155.5	177.2	(21.7)
MENA	13.5	28.2	49.2	76.9	(27.7)
Africa	2.5	9.1	11.4	20.1	(8.7)
Total	66.6	98.8	216.1	274.2	(58.1)

Note: The above table has been prepared considering recent vessel movements between regions and accordingly the figures of the last quarter have been re-classified for like-to-like comparison.

Revenue for the period of **\$216.1** million decreased by **21.2%** against corresponding revenue of **\$274.2** million in the same period last year. This lower revenue is mainly due to (i) loss of revenue of **\$29.6** million due to increasing market pressure on rates and utilization in the Mena and Africa region (ii) off-hire of barges in Kazakhstan of **\$6.7** million, (iii) offhire of one subsea vessel of **\$7.9** million, (iv) two laid-up vessels in Africa due to lower demand of **\$2.8** million (v) day rate reduction on long term contracts of **\$9.4** million, (vi) sale value of **\$2.5** million relating to one vessel sold during the same period last year.

DIRECT COSTS	Three Months Ended		Nine Months Ended		
	Sep 2016	Sep 2015	Sep 2016	Sep 2015	Var
Crew cost	12.4	20.3	42.8	60.1	17.3
Technical maintenance	5.0	5.1	14.5	15.2	0.7
Depreciation / Dry-dock	19.2	18.4	55.1	52.2	(2.9)
Mobilisation charges	0.7	1.9	3.7	10.7	7.0
NBV asset sold	-	3.6	-	3.6	3.6
Others	6.6	9.2	19.5	25.1	5.6
Total	43.9	58.5	135.6	166.9	31.3

Direct costs for the period have decreased by **\$31.3** million, or **18.8%**, to **\$135.6** million, compared to **\$166.9** million in the same period last year.

The savings have been achieved in all the cost heads and we continue to relentlessly focus on optimizing our operating parameters.

The increase in depreciation/dry-docks is mainly due to the increase in the number of vessels and the amortization of dry-dock costs of an unusually high number of dockings undertaken in 2015.

Net Book Value (NBV) relates to one vessel in the Africa region, which was sold during the same period last year.

Other savings are mainly due to the strategic cost efficiency program resulting in savings in procurement, fuel and insurance as compared to last year.

EBITDA	Three Months Ended		Nine Months Ended		
	Sep 2016	Sep 2015	Sep 2016	Sep 2015	Var
Caspian	34.7	39.4	104.8	106.6	(1.8)
MENA	2.2	13.5	12.3	33.3	(21.0)
Africa	(1.0)	(1.1)	-	(1.0)	1.0
Corporate / adj	(1.5)	(3.1)	(6.1)	(9.4)	3.3
Total	34.4	48.7	111.0	129.5	(18.5)

Note: The above table has been prepared considering recent vessel movements between regions and accordingly the figures of the last quarter have been re-classified for like-to-like comparison.

EBITDA has decreased by **\$18.5** million, or **14.3%**, to **\$111.0** million during the period compared to **\$129.5** million in the same period last year. This decrease mainly relates to: (i) **\$16.4** million due to lower utilization of vessels in the Mena region (ii) **\$6.6** million on barges being off-hire in Kazakhstan, (iii) **\$7.3** million due to the breakdown of subsea vessel. However, this decrease in EBITDA has been partly offset by savings in overheads of **\$5.1** million and better utilization of barges and one subsea vessel contributing **\$4.7** million.

Administrative Expenses:

Administrative expenses decreased by **\$5.1** million, or **16.9%**, to **\$25.0** million during the period compared to **\$30.1** million during the same period last year. The decrease is mainly due to personnel cost optimisation and other cost efficiency initiatives.

Finance costs:

Finance costs decreased by **\$9.2** million, or **16.9%**, to **\$45.3** million during the period compared to **\$54.5** million during the same period last year. The reduction in finance cost is on account of last year's one-off, non-cash charge of **\$8.3** million relating to the unamortized costs on refinanced facilities.

Income tax expense:

Income tax expense decreased by **\$2.1** million, or **13%**, to **\$14** million during the period compared to **\$16.1** million during the same period last year. This decrease in tax is broadly in line with the drop in revenue.

Cash flow

The cash generation as a percentage of EBITDA for the nine months ended Sep 2016 was 120% (Sep 2015: 93%). The high cash conversion was attributable to the focus on debt collection from overdue debtors.

The following table sets out a breakdown of cash flow for the nine months ended 30 Sep 2016:

CASH FLOW	Three Months Ended		Nine Months Ended		
	Sep 2016	Sep 2015	Sep 2016	Sep 2015	Var
EBITDA	34.4	48.7	111.0	129.5	(18.5)
Changes in working capital	6.3	(9.4)	22.5	(9.4)	31.9
Cash generated from Operations	40.7	39.3	133.5	120.1	13.4
Cash conversion	118%	81%	120%	93%	
Income tax paid	(3.0)	(4.3)	(13.9)	(14.8)	0.9
Interest paid	(4.9)	(5.5)	(33.0)	(32.2)	(0.8)
Net Cash generated from operating activities	32.8	29.5	86.6	73.1	13.5
Cash used in investing activities	(8.5)	(14.1)	(36.2)	(46.3)	10.1
Cash provided by financing activities	(19.5)	(7.5)	(35.5)	(40.7)	5.2
Increase/(decrease) in cash and cash equivalents	4.8	7.9	14.9	(13.9)	28.8

Investing activities include payment of **\$19** million towards expansion capex and **\$17** million towards maintenance capex. Investing activities also include the capex payment of **\$55** million, being the first milestone payment to the Vard shipyard under the TCO new-build contract.

Financing activities include repayment towards refinancing of **\$22** million and **\$13** million towards parent company debt.

Unutilized Banking Lines includes the RCF of US\$100m expiring in April 2020. However, our ability to draw down is restricted due to limited covenant headroom.

Financing

In US\$ '000s	Maturity	Interest Rate	Repayment	Outstanding as at 30.9.16*
Conventional and Islamic facility	7 years	3 month LIBOR + 2.75%	Quarterly with bullet repayment	307,301
Senior Notes	5 years	8.625%	Bullet	344,264
Total Topaz Loans				651,565

*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 Sep 2016, Topaz has complied with all financial covenants.

The following table sets out the Financial Covenants as at 30 Sep 2016:

Financial Covenant	Threshold	As at Sep 2016
Net Interest Bearing Debt to EBITDA	< 4.50	3.73
Headroom		17%
Tangible Net Worth	> \$400M	540
Headroom		35%
Free liquidity (in millions)	> \$30M	110
Headroom		266%
EBITDA to DSCR	> 1.2	1.40
Headroom		17%

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

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Change Sep'15 v Sep'16
Cash & Cash Equivalents	50	55	75	65	70	20
Floating Rate Senior secured loans	336	329	322	314	307	(29)
Other loans / Senior Notes ¹	342	342	343	344	344	2
Subordinated Shareholding Funding	106	104	103	103	91	(15)
Total debt	784	775	768	761	742	(42)
Total Equity	653	574	576	575	570	(83)
Total Capitalization	1,437	1,349	1,344	1,336	1,312	(125)
Net debt	734	720	693	696	672	(62)
Total debt / LTM EBITDA	4.15	4.44	4.39	4.48	4.48	
Net debt / LTM EBITDA	3.88	4.13	3.96	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 offshore support vessel company providing marine solutions to the global energy industry with primary focus on the Caspian, Middle East, West Africa and Subsea operations in the North Sea and Gulf of Mexico. Headquartered in Dubai with 40 years of experience in the Middle East, Topaz operates a fleet of 100 offshore support vessels of an average age of 8 years. Topaz is a subsidiary of Renaissance Services SAOG, a publicly traded company on the Muscat Securities Market, Oman.

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