Titan energy services

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Managing Director's Address to Shareholders

www.titanenergyservices.com.au
ASX ticker: TTN

Thank-you Shaun and good afternoon everyone.

Today I will start with a brief overview of the company performance during FY14, followed by discussing the current trading position and our outlook for FY15.

FY14 results

Firstly, the 2014 highlights:

- Sales grew 34% on the prior year, up to $97.4m;
- Earnings before interest and tax (EBIT) increased to $18.5m, from $14.5m in FY13;
- Cashflow was robust with $17.0m generated from operations, up 82% (FY13 - $9.3m);
- Growth was achieved in all business units;
- A new water and waste logistics business was launched; and
- We achieved a substantial improvement in safety performance.

These results, while below our original expectations, still represented a solid performance enabling the company to declare a final dividend declared of 4.0 cents per share, bringing total dividends for the period to 7.5 cents per share – a payout ratio of 31% of net profit after tax (NPAT).

Titan's 2014 financial achievements are summarised on screen.

Operational review

Titan commenced FY14 with strategies aimed at delivering further growth on the strong platform established and I'm happy to report our businesses delivered on those strategies to drive Titan's overall growth.

Oilfield Services

Atlas Drilling recorded strong utilisation and delivered record revenue and profit in FY14. In addition, we acquired Rig 3, which was previously leased, and deployed a new rig 4 aimed at providing cost-effective solutions to clients. The management team also focused on optimising the business, which led to improved margins.

Looking forward, with Atlas directly leveraged to the number of wells being drilled in the industry, the recent and short term easing of activity will make conditions more challenging for this business. As foreshadowed in our trading update last month, the contracted position for Atlas remains lower than in previous years and our earnings forecasts are, therefore, more measured at this point in time.

Atlas recently won a new short-term drilling contract and early indications are that performance is going as expected. We are also in discussions with a number of other producers about up-coming exploration and production packages and therefore remain positive about this business's future potential. Obtaining back to back contracts will be important.

Also contributing to the successful year for this division was our Hofco business.

In FY14 we set about making the business more sales focussed with

- investment in sales personnel
- a new General Manger - Mark Leal, and
- an expanded product line all contributing to the strong results.

EBIT margins reduced as a result of these investments, which were geared towards creating a stronger foundation for the future. Also, the introduction of Drill Pipe was initially tested via external sub-hire, which led to reduced margins in the short-term.

To cater for customer demand, we have now acquired two strings of Drill Pipe, which will lead to increased margins on future hire.

While the current easing in drilling activity is also affecting Hofco, performance to date is exceeding the same period last year and with several new opportunities identified in new markets we remain confident of meeting our expectations for this business.

Accommodation Services

FY14 was a strong performance for this division with both RCH and Nektar continuing to grow. Nektar achieved record EBIT results and RCH grew room capacity by almost 70%.. This time last year we outlined several strategies which were targeted to deliver growth and I'm pleased to say we have executed on these:

- Exploring geographic and industry expansion – new opportunities have been identified in both NT and South Australia and products are in place to showcase to clients
- Targeting growth in permanent camp opportunities – Nektar secured two permanent camp management and catering contracts during the year
- Enhancing our business development team – dedicated resources are being put in place for each of the business units to enhance our opportunities pipeline

The organic start-up of our BASE water and waste logistics business further developed our service offering.

FY15 Operations

Now turning to 2015.

In our recent market update, we announced that two important RCH contracts including water, waste and catering have not been renewed. One 212 room camp contract was terminated early and a 183 room camp was expected to be taken over by another client, however this did not eventuate. Separately, two significant contract tender decisions for RCH, which were expected in October 2014, have been deferred into the second half.

Oilfield Services

Turning to our Oilfield Services pillar. Rig 3 has successfully commenced its project in South Australia and Rig 2 continues its current contract. As first gas is shipped over the next 3 to 6 months, we expect an uptake in number of wells drilled, with gas producers needing to ensure gas volumes are sufficient to fill boats and generate returns for these 20 plus year projects.

We are also buoyed by the recent Santos announcement of a potential 6,100 wells north of Emerald and improvement in sentiment in NSW toward a CSG industry in that State.

Hofco is trading well and is pursuing opportunities in PNG, Singapore and Indonesia. Last week it won a tender to supply tools for a PNG drilling project over three months. While our core Australia market is key, we are encouraged by the recent success of overseas sales missions.

Accommodation Services

As mentioned earlier, our rooms and catering business has been impacted by a confluence of factors in the first half. We have responded by integrating our sales capability and will soon have that structure in place.

Over the past few weeks, we have seen an increase in tender activity with a number of solid opportunities that we hope to convert in the next few weeks with start dates soon to follow. We are in advanced discussions to manage three permanent camps on a management fee basis.

Operational Efficiencies

Over the past few months, we have also looked at our field and head office organisation structure and operational costs. Changes have been made in the field in proportion to the current business volumes and we have also right sized our office organisational structure. While we will continue to review the business for efficiencies, approximately $1m in savings is targeted to be saved this financial year.

Safety

As noted by our Chairman, safety is a priority, and our work with a leading safety consultant has led to a shift in our safety culture that will ultimately lead to a safer workplace for our staff, customers, suppliers and the community.

To that end, I am pleased with the outcome achieved to date with no lost time injuries in the last 18 months and a TRIFR down to 11.4 at 30 June 2014, and 8.8 currently which is considered by many to be industry leading.

However, the journey is only part completed as we strive to achieve a sustainable world class safety record and most importantly our zero harm goal.

FY15 Outlook

Looking at FY15, it is fair to say we are experiencing some volatility. This was outlined in a recent market announcement.

Our business has historically been forecast on a small proportion of contracted business. At the beginning of each financial year, typically no more than 20% of our forecasted annual revenue is contracted.

While activity is softer than initially expected at the beginning of the year, we see a high dollar value pipeline of opportunities and are actively targeting these opportunities through the enhanced sales capability we have created.

The changes we are experiencing have the potential to further impact bottom-line results and lead to a loss during the first half, which is traditionally a weaker trading period for our company.

Looking forward, the second half has been historically stronger and some first half earnings have also been pushed back this year as a result of delayed contracts. A strong second half is based on:

- Conversion of our sales pipeline
- Traction of our new integrated sales team
- Further geographical, business sector and client diversification, and
- Reduction of organisation costs

The change in the industry will present some challenges for our business this year, however we also expect some opportunities with major projects consolidating suppliers and looking for multi-disciplined, integrated solutions – something Titan is well positioned to provide.

I will now hand back to Shaun Scott to go through the Resolutions.

ENDS

For investor or media inquiries:

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About Titan

Titan Energy Services Limited (ASX: TTN) provides diversified energy and infrastructure services to the oil and gas, mining, pipeline, rail, road and infrastructure sectors.

Through its operating businesses Atlas Drilling, Hofco Oilfield Services, Resources Camp Hire (RCH), BASE Transport & Logistics and Nektar Remote Hospitality, Titan provides expertise in CSG drilling, drilling equipment hire, camp hire and camp management, water and waste transport and catering services.

Titan operates four drilling rigs, is a leading provider of oilfield down-hole tool rental in Australia and overseas, operates and rents remote self-contained camps, provides water and waste logistics services, manages camp catering and camp management contracts.