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Titan Energy Services results for the half year ending 31 December 2014

The Group reports a first half net loss after tax of $21.3 million (EBIT loss of $22.4 million) including impairment charges of $16.7 million, Hofco retention payment of $2.2 million and restructuring and investment review costs of $1.3 million, resulting in an underlying EBIT loss of $2.1 million.

The period to 31 December 2014 has been a challenging time for the Group with reduced revenue across all business units as a result of the sharp fall in oil and gas sector activity, particularly impacting Atlas Drilling and our Accommodation Services business units (Resources Camp Hire - RCH, Nektar Remote Hospitality - Nektar and Base Transport and Logistics – Base). Hofco Oilfield Services continues to trade well even during subdued market conditions with the impact of previously announced initiatives strengthening the business.

Results Summary

Results ($m unless otherwise stated)	**HY** **Dec 14**	**HY** **Dec 13**	**Change**
Revenue	35.1	45.2	(22%)
EBIT*	(22.4)*	8.0	(380%)
EBIT Margin	(63.8%)	17.7%	
NPAT	(21.3)	5.0	(526%)
Dividend (cents/share)	0.0	3.5	(100%)
Basic EPS (cents/share)	(41.4)	10.1	(510%)

***** Statutory EBIT includes impairment charges, Hofco retention payment, and restructuring and investment review costs totalling $20.2m, resulting in an underlying EBIT loss of $2.1m. Titan's most recent earning's guidance (9 January 2015) was an expected underlying EBIT loss for the half year of approximately $4.0m, excluding asset impairment charges and the Hofco retention payment.

Balance Sheet and Cashflow

The Group continues to control cashflow closely during the current subdued activity levels. The cash position has been strengthened by the completion of an equity capital raise and renegotiated camp lease arrangements shortly after reporting date. Cash on hand at 31 December 2014, prior to completion of the equity capital raising, was $2.7m (30 June 2014: $4.3m), gearing at reporting date was 22% (30 June 2014: 12%).

Cashflow from operations resulted in a small outflow of $0.5m compared with an inflow of $7.9m in the PCP.

Dividend

As trading conditions remain challenging and cashflow is being managed conservatively, no dividend has been proposed for the six months to 31 December 2014.

Operational Review

Key Activities

The Group successfully completed an equity capital raising on 2 February 2015, raising $4.26 million and welcoming new substantial shareholder Ausdrill International Pty Ltd to the register. The equity capital raising was part of a number of initiatives undertaken by the Directors and Management during the period. Other initiatives included the restructuring of camp lease arrangements with the de-hiring of ~60% of existing leased temporary accommodation camps (equivalent to ~500 rooms), payment deferrals (subject to 10% p.a. interest charges), extended credit terms and new security arrangements with key suppliers. The Company also renegotiated arrangements with its senior lender GE Capital, with amendments made to various covenants.

The Group has restructured its operations with staff and cost reductions across all business units to reflect current trading levels.

The establishment of the Accommodation Services business unit, combining of the Resources Camp Hire (RCH), Nektar Remote Hospitality (Nektar) and Base Transport and Logistics (Base), has resulted in a more efficient and effective business unit providing turnkey solutions to clients across a number of industry sectors.

Safety

The Group continues to make very good progress in its safety initiatives and recorded a 12 month rolling Total Recordable Injury Frequency Rate (TRIFR) at 31 December 2014 of 4.6 (30 June 2014: 11.4). This is an outstanding result and demonstrates the continued focus of the business on its core safety philosophies through staff engagement at all levels.

Operations

<u>Oilfield Services</u>

During this reporting period there was a significant drop in the level of demand for drilling services across the oil and gas sector. As a result, utilisation of Atlas' rigs reduced to 61% on a rolling 12- month basis, compared to 83% at 31 December 2013.

Atlas completed its most significant contracts for Rigs 1 and 2 during the first half having provided services to one of the major CSG-LNG projects for almost two years. The business secured a new contract for Rig 3 that commenced in October 2014 consisting of a 3-well exploration program in the Arckaringa Basin, South Australia – its first operation in this location. This contract is progressing well and has extended beyond original expectations. We continue to hold discussions with potential clients for future opportunities with Rig 3 to follow on from its current contract.

Rigs 1, 2 and 4 are currently stacked and are being actively marketed to clients.

Pleasingly, Hofco performed relatively well during these difficult conditions. Although it observed reduced demand for some of its equipment, this was partially offset by diversifying the business into new rental sectors. This was highlighted by contracts won in the period to provide equipment to new clients in Papua New Guinea and additional maintenance services for an existing client domestically. The pipeline of new opportunities remains strong for Hofco and therefore we expect solid results for the full year.

<u>Accommodation Services</u>

Since the last financial report the Accommodation Services businesses (RCH, Nektar and Base) have been formally restructured into a single operating unit. Management has been working to consolidate operations, rationalise costs and implement the previously announced changes to align and focus business development efforts.

RCH was impacted most significantly by the industry downturn with both utilisation and room rates declining sharply during this period. The Group has restructured its temporary accommodation camp lease arrangements to counteract this, leading to a reduction in capacity of ~500 rooms and annualised cost savings of ~$2.9m. Room capacity is now 557, down from 1,138 at 30 June 2014. RCH remains focused on sales efforts to maximise utilisation in the second half, although challenges remain with sector activity subdued and pressure on daily room rates in the short-term.

Nektar and Base were both impacted by the RCH performance as significant amounts of their revenue are underpinned by temporary camp accommodation contracts. Nektar's contracts to service two permanent camps in the Surat Basin performed well, albeit with lower average occupancy as other contractors using the camps downsized. The permanent contracts remain in place and are expected to continue through most of the second half.

The ramp up of Base has been more challenging than anticipated given wider market conditions. The business will focus on supporting the turnkey solution offered to clients by Accommodation Services.

Outlook

The long term strategy for the Company continues to be underpinned by the 20+ year Queensland CSG-LNG project commitments as well as pipeline, infrastructure, rail, road and mining opportunities.

Management is focused on taking advantage of all potential opportunities with diversification into new industry sectors and identifying new prospects in other geographical areas in Australia and overseas.

Recently announced initiatives coupled with a successful equity raise and amended senior debt facility arrangements position the business to respond to improved demand and meet the changing industry needs for turnkey solutions. It is expected that there will be increased opportunities during 2015 as first gas is shipped from Queensland CSG-LNG projects.

ENDS

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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 Oil Field Services (Atlas Drilling and Hofco Oilfield Services) and Accommodation Services (Resources Camp Hire – RCH; Nektar Remote Hospitality and BASE Transport & Logistics). Titan provides expertise in CSG drilling, drilling equipment, camp hire and camp management, catering services and water and waste services.