Final Transcript

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Contents

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EFG Hermes

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SICO

Vishal Shah

Doha Bank

Jawad Mian

Q Invest

Presentation

Operator

Thank you for standing by and welcome to the Milaha Q1 2012 Company Results conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press *1 on your telephone. I must advise you this conference is being recorded today and today is Wednesday 9th May 2012. I would like to introduce your speakers today; firstly, Mr Keith Whitney, Head of Sales at QNB Financial Services, and from Milaha Management, Mohammed Tayyem, Senior Vice President of Finance and Investments, AK Ghosh, Vice President of Finance, and Sami Shtayyeh, Vice President of Financial Planning and Analysis. I'd like to hand the conference over to your first speaker for today, Mr Keith Whitney. Please go ahead, sir.

Keith Whitney

Hi, good afternoon everybody, welcome to the Milaha Q1 2012 Earnings Company Results conference call. We're very happy to everybody on the line today. In terms of breaking down the agenda, we will do it similarly like we've done on the previous call. Mohammed Tayyem will come on and do an introduction. We will then cover financial results for Q1 2012 and then we will go ahead and open up the call for Q&A. With that, I will go ahead and turn the call over to Mohammed Tayyem.

Mohammed Tayyem

Thank you, Keith. I would like to welcome everyone who is joining us on the call today. This is of course the Q1 Earnings Announcement call. Keith already explained the agenda, so I'm just going to straight pass it onto my colleague Sami Shtayyeh to walk you through the numbers. Thank you.

Sami Shtayyeh

Thanks Mohammed. I'm going through our financial results for the first quarter ending March 31st 2012; first off, a review of the overall numbers. Operating revenues for 2012 were 640 million compared to 626 million in 2011 or an increase of just over 2%. Operating profits for 2012 was 227 million compared with 209 million in 2011 or an increase of 9%, and our net profit for 2012 was 283 million compared with 263 million or an increase of 8%.

I'll get into the major variances year-over-year on a consolidated P&L, but before that I want to just bring to your attention the new reporting and org structure of the company. We've discussed the pillar structure for quite some time now and this is really the first time we're reporting our business accordingly, as part of our multi-year transformation process. The new structure aligns our businesses more appropriately and hopefully will provide the investor community with better information.

Now, onto the P&L and I will start with the revenue. We showed an increase of 14 million in revenue year-over-year; really, there's a lot of moving parts within this number, but I will highlight the key areas. Investments had a large increase of approximately 90 million and that more than offset the big drops in our trading pillar of approximately 32 million, our offshore pillar of approximately 24 million, and our Gas and Petrochem pillar of approximately 21 million.

On the expense side, salaries, wages and benefits went up by 22 million, and this increase really came from across all pillars, which covered additional port employees, vessel crews, key corporate hires, as well as those of you that are in the region notice there was a 60% Emiri Decree issued late last year for Qatari employees. On the operating supplies and expenses category, we had a drop of approximately 31 million, which was really mainly attributable to our trading pillar, which I just described a few minutes ago as having a large drop in revenues, so we had the drop the revenues, we also had a big drop in operating supplies and expenses.

Onto our rent expense, we had a drop of 5 million and really this was due to an accounting correction. You shouldn't expect it to recur; in general, our rent shouldn't fluctuate by that much. Depreciation and amortisation increased by 4 million, and this was driven by additional assets that we capitalised year-over-year, particularly new vessels in our offshore pillar. Other operating expenses increased by 5 million. This was really a result of us changing the way we accrue for certain expenses midway through 2011, as part of the transformation process we're going through. We did a much better job at accruing for expenses such as [order] remuneration, social contributions, employee bonuses etcetera. Barring anything unforeseen, you can expect the variance from this category to go down in coming quarters.

On the non-operating side of things, our finance income we're down slightly, but so did our finance costs. Our share of results from our subsidiary grew by 3 million, which came from an associate company within our gas and petro pillar, and we took an impairment on available-for-sale investments to the tune of just under 4 million.

Really, that brings us to the net income, which again grew from 263 million in Q1 2011 to 283 million Q 2012.

As part of the improved transparency we're striving for, I'll now get into the pillar results. First off, you know, this is the first quarter where we're reporting in our new org structure and quite frankly it was quite a challenge to do so. There's a lot of accounting and statutory requirements to consider and account for, and this is the reason why we didn't report comparatives versus 2011. It's simply just too difficult and costly given the time constraints. Having said that, there are other ways of looking at the figures that are not precisely audited and it gives Management an idea of comparatives versus 2011. That's kind of what I got into previously on the call and it's also what I'm going to use for describing the performance of the pillars individually.

If you refer to the presentation on our website that was posted earlier today, you can see a slide that shows the different business components of each pillar. The subsequent page to that gives you an idea of the performance versus 2011 and I'm going to start with Maritime and Logistics.

The overall business unit performed slightly better than last year and it was driven by strong growth in our Port Services unit. That growth was mainly attributable to additional revenue streams from the Qatar Port Management Company contract as well as growth in container volumes. For those of you who might recall, we signed a new contract with QPMC in the first quarter of last year – late in the first quarter of last year – and that's the contract I'm referring to. Our container shipping unit also performed slightly better, which again was driven by higher volumes, as well as a fuel surcharge programme that was implemented.

On our Logistics and Bulk Shipping units, unfortunately they each performed considerably worst. Our Land Transport division and Logistics was hurt by strong competition and lower prices. Bulk Shipping had a one-time revenue item last year that lifted their figures up in 2011. In addition to that, lower market prices this year further added pressure on that unit. Other units within Maritime and Logistics were essentially flat.

For Milaha Offshore, it really performed significantly worse than last year. Q1 2011 showed a non-recurring high mobilisation revenue tied to a new contract and that didn't occur this year. We also had what I will describe as teething pains with our new Saudi Arabia setup. As with any setup, there are initial cash outlays and expenses that will gradually go down with time. Additionally, we had delayed contracts with clients due to new vessel delays from shipyards, off hires, penalties, unexpected repairs to the mix, all combined into a perfect storm for this otherwise well-performing unit.

Our Gas and Petrochem unit similarly performed significantly worse than last year. From a commercial standpoint, LPG market rates declined dramatically this past quarter. We also had two product tankers that completed their time charters in mid-2011 with older hire rates; current market rates are much lower. In addition, we made a prior period accounting adjustment related to drydocking costs totalling approximately 15.5 million, which again is something that you can expect won't recur going forward.

Milaha Trading's performance is slightly down from last year. We did see improved margins in our heavy equipment trading agency, because in 2011 we sold some aged inventory at reduced prices, but our Bunker Sales unit posted reduced sales.

Onto the Capital pillar, as we said historically we view this unit as a competitive advantage. It helps diversify away from our core maritime operations and, as I mentioned on the revenue when I was describing the revenue, they performed much better than last year and that was really as a result of two things. First of all, we liquidated a fund that was managed by a third party to be managed internally; secondly, we saw increased dividend growth from our equity portfolio, and to a lesser extent, really, our Real Estate arm, which is also part of the Capital pillar, also did better, which was due to additional leasing out of vacant space.

That really summarises the performance of the pillars and the consolidated company results and with that I will now turn it over to Mohammed who will go over the outlook.

Mohammed Tayyem

Thank you, Sami. Just to give you a quick view on the outlook for the rest of 2012, for the Maritime and Logistics, again this is a business that's predominantly impacted by the economic activity and growth locally. We are expecting more expansion, more projects, and increased volumes. Some of that may materialise; however, last quarter this year or first quarter next year.

Port volumes are showing an upward trend after two years of decline plus increased operational efficiency being targeted at Doha Port. The Qatari export container volumes expected to increase moderately. Milaha is also looking at opportunities to expand its feeder network. Logistics activities are being expanded regionally and we also have a cautiously optimistic outlook for the shipping agencies, which would also depend on the volume recovery. Basically, in a nutshell, a lot of import volumes will impact the performance of this pillar.

Milaha Offshore, the good news is that what happened in the Q1, as Sami explained to you, is expected to recover in Q2 and I think a lot of the issues that happened in the first quarter have been overcome and resolved. As for Gas and Petrochem, we are going to still be facing issues related to the supply and demand, the imbalances are expected to continue for some time and that will also impact the rates, the charter rates, which is expected to stay a little bit depressed for 2012. LPG and Ammonia carrier rates are starting to balance.

That's for a quick look on our outlook on the core business and I think now we will just open up for questions and answers.

Questions and Answers

Redwan Ahmed – *EFG Hermes*

Hi guys, good afternoon, thanks for taking this call, just a couple of questions actually. Firstly, is it possible to give us an idea of what the one-off gain was on the capital side in terms of liquidating this fund, so I just want to understand on a year-on-year basis in terms of how that performed. Also, I don't know if it's possible, but if you were to take out all your one-offs slightly in the Offshore segment, Maritime segment, what would be a normalised kind of quarterly operating profit excluding the Capital arm; what would be your kind of...is there any way of doing that? Say, look, if we never had all these one-offs exclude the Capital, what would be our normal operating profit for this kind of business?

Mohammed Tayyem

Okay, let's start with the capital question; this is basically a realised capital gain on one of the investments we had. Basically, this was an investment in an equities fund, which we have moved to be managing in-house and that triggered a capital gain on the initial investment of the fund I think that amounted to plus 70 million.

As for the Offshore, I think we cannot give you a – I think it's safe to say that...or, Sami, why don't you answer that?

Sami Shtayyeh

Hi Ahmed, as for your question regarding getting a normalised view of the numbers, really we're not in a position to answer that right now over the phone. Get in touch with us and we'll see if we can do that for you.

Redwan Ahmed – *EFG Hermes*

Sure and, Sami, I know you said that you don't have the audited accounts for individual divisions, but the numbers you mentioned is it possible to provide us analysts with the unaudited numbers, so just for us we have an idea in terms of how the [unclear] performance was for each division. Is that possible to do?

Sami Shtayyeh

Yes, Ahmed, I tried to explain this while I was talking. We can kind of look at it from a Management perspective; however, we're very hesitant to release those numbers to the public, because they have not been audited, they have not reviewed; there's a lot of moving parts and trying to get a true apples to apples comparison with the way we're reporting the numbers today, just to give you an example, you know we have over 10,000 items in our fixed asset register. For the 2012 numbers we had to map each of those to the new reporting structure. We had to move the depreciation associated with that. We had to look at the [loans and] which pillar. I mean the list goes on, so really it was a big exercise. We did not have the bandwidth and it would have been costly for the company to do that.

Redwan Ahmed – *EFG Hermes*

Okay.

Mohammed Tayyem

I think what we're trying to do is we're trying to do more and more information every time we have a reporting event, but we are trying to do that also in a measured way and based on the capacities and the systems that we have, so not for each time we didn't, the next time we report we'll report with more information, and not necessarily you're going to have all the comparatives you're looking for, but we are trying to really step forward into our reporting process to the shareholders and analysts.

Redwan Ahmed – *EFG Hermes*

Okay and just a follow-on question just about the whole business. I know you had a strategic review almost a year-and-a-half, two years ago, and you've got a new strategy and you're focusing on particular segments, but for example, this Trading division, travel and tourism, trading agency, why are you still involved in this type of business, I mean why don't you just streamline or close or dispose of some of these smaller non-corporation rather than continuing this in Milaha?

Mohammed Tayyem

I think this is not really onto...I mean the first quarter earnings announcement is not going to address that, but we are continuously revising our portfolio of holdings or companies that under the Group's structure. I think if we feel that there are some major events that will happen to the way our portfolio companies are structured, any monetising events or events that we want to create for the shareholders, I think we will try and discuss or going to announce that publicly to the shareholders at the right time, but currently we're still...there is not such a thing happening at this stage.

Redwan Ahmed – *EFG Hermes*

Sure. Sorry and one final question, just on the rights issue, is there an update on the rights issue in terms of timing when you expect that to close?

Mohammed Tayyem

On the rights issue, is there anything specific you would like to ask?

Redwan Ahmed – *EFG Hermes*

Oh no, just in terms of the timing, when do you expect that to close and also in terms of...you talked about acquisitions, I don't know if you have anything in mind or anything – last time you said some of the things were imminent; I don't know if they're more imminent now, just on the outlook for M&A really and following the rights issue.

Mohammed Tayyem

Our expansion plan is going to be organic and non-organic. It's not necessarily going to be M&A and we are very cautious and measured in how we approach our growth plans, and how we source/originate the assets or the targets that we are interested in and that we do in light of many issues and many factors that impact us including our strategy and how would that actually meet our strategy, and it is fit or not fit, and I can't tell you if we are acquiring a company tomorrow or buying a ship the day after. That also depends on market situations, our forecast of the market, but what I can tell you is that the intention to use the proceeds of the rights issue to fund our growth plans in the core businesses, and that's going to happen obviously in the coming period. I can't tell you if it's going to be next month or the month after; as I said, we're very measured, we're very cautious in how we do that, and we're going to do that only when we feel that there are the right opportunities to deploy the capital lend. We have been and will continue to be looking at all the options available to the company to expand its business. As for the timing, we're still waiting for approvals; once we have the approvals, we'll make a public announcement and we will make it to the newswires as well on when the rights issues are expected to happen. Once we get the approvals and we are in the final stages, we will announce that, so that's near future.

Aneel Kanwer – *SICO*

Hi Sami and Mohammed, congratulations on a good set of results and thank you very much for this improved disclosure and new reporting style. Just a couple of queries, the first one is with regards to the impairment in AFS. Can you please elaborate as to which portion of the investment portfolio is this coming from?

Mohammed Tayyem

This is coming from the private equity asset class, which is a very, very small asset class in our portfolio and these are very small compared to the entire portfolio for Milaha Capital which is in excess of about 3 billion, so the amounts are very, very small and these go back to really bringing mark-to-market very conservatively all the investments that we feel are needed to be mark-to-market.

Aneel Kanwer – *SICO*

Okay. Is there any sort of guidance you can provide us for the rest of the year with regards to impairments? Should we expect any further or...because this has been observed; even in 2011, there was an impairment, so what's a good guideline for them?

Mohammed Tayyem

We – I'm not sure how to answer your question, because that really depends on what happens to the underlying portfolio company, but as of the end of that quarter, we were not of a knowledge of any investment that needs to be impaired or will need additional impairment or provisioning.

Aneel Kanwer – *SICO*

Okay, thank you very much. Then in terms of your growth plans, I just wanted to be sure, when you say you will use your rights issue to invest further in your core business, will these be the Greenfield projects or will these be your existing businesses?

Mohammed Tayyem
When you say Greenfield, well, it's anything that has to do with the core businesses. The core businesses are Offshore, gas and Petrochem, Maritime and Logistics, and does that answer the question?

Aneel Kanwer – *SICO*
No, what I want to understand is that are you going to expand your existing businesses or are you going to invest in new projects, which may not lie in these four categories?

Mohammed Tayyem
It's highly unlikely that it will be outside these main categories and these are broad categories, by the way, so our core strategy is to expand our businesses in the core areas. That will come via new projects within those businesses, via acquisition of assets, via acquisitions of businesses; it could be anything, as long as it is part of those businesses.

Aneel Kanwer – *SICO*
Then the third question relates – I just want to have your input as to what you feel is the reason for underperformance of your stock.

Mohammed Tayyem
That is a tricky question. As a company we can only do a few things to make sure that we are helping to reflect the value and the share price in the market. We cannot control the share prices, we can improve our reporting, we can be transparent, we can have good governance and I think we have made a significant amount of progress on all these fronts. Why would the investors ascribe a certain value to the stock price? That is something that is beyond our control really. What we can do is we can try and explain what we have, the pipelines but we can't go into very specifics because that would impact or compromise the confidentiality of what we're trying to do, but a lot of it could be reactions of certain investors or those investors in the market. The market

situation is not – it is a market without very huge depth and it could move into any direction very easily without huge volumes. It has liquidity issues, there are so many reasons, some of it has to do with the market, some of it has to do with the perception about the Company.

What we can do is we can just do what we did and what we're trying to do and improve more and enhance more the communication with the investor community.

Vishal Shah – *Doha Bank*
Good afternoon to you. I have a couple of questions. First what I need is the Capex outlook. What is the Capex outlook plan by the Company and some kind of revenue driver for the Halul Offshore going forward? How is that going to trigger in the P&L.

Mohammed Tayyem
Your first question was about the Capex for the Company.

Vishal Shah – *Doha Bank*
Capex outlook for the next two years.

Mohammed Tayyem
We are expecting to be investing in our growth plans across the business pillars. That also includes a little bit of activity on the real estate, through expansions and different areas. There will be a Capex expenditure in the core businesses. There will be as I said organic and non-organic growth and this is why we are doing the rights issue as well because we're expecting to be investing more in those businesses.

Vishal Shah – *Doha Bank*
Can you quantify for each of the segments of the business that you are planning to look at the Capex.

Mohammed Tayyem

I can't tell you specific Capex numbers for each business unit. As I said some of that may materialise in a form of capital expenditure on equipment or via acquisition of businesses, it could vary or new ventures. We're not sure that a guidance on Capex will be very helpful and accurate at this stage if it is communicated to the investor community.

I think your other question was on Halul. That is about the growth plans for Halul. Again Halul has been investing in vessels and we're expecting to continue to be investing in more vessels in the different area of the offshore industry. Halul's offshore space is a good space. We have very good market positioning. We have a very good reputation in the market. We're trying to expand our product offering. We're also trying to expand our geographical coverage. That obviously will need a capital expansion in that business, so yes we are expecting o grow that business via capital expansion.

Jawad Mian – *Q Invest*
Good afternoon gents. Could you please give the breakdown of your operating revenues from the Capital Division? You mentioned you have got 70 million in [unclear] but can you also tell us about the dividend and the complete breakdown.

Mohammed Tayyem
We're not disclosing that at the moment but we will take that into consideration for the future. One thing I can tell you is that we do have as I said a realised gain of 70+ million from the realised capital gain. That impacted our numbers.

The overall increase from quarter on quarter of last year is 90 million.

Jawad Mian – *Q Invest*
And the size of the listed equity portion up to AFS portfolio.

Mohammed Tayyem
Can you repeat the question please I didn't hear you well.

Jawad Mian – *Q Invest*

What is the current size of the listed equity portion of your AFS portfolio, the investment book?

Mohammed Tayyem

It is 3 billion.

Jawad Mian – *Q Invest*

Now hypothetically if you were to sell some of your stock in that book...

Mohammed Tayyem

Just I wanted to clarify one thing – the 3 billion is not just the domestic equity portfolio it includes anything that is in the Group that is classified as available for sale.

Was your question more specific towards the listed equities?

Jawad Mian – *Q Invest*

That is fine is fine. I just wanted to gather from how you would account for stuff, so let's say you sell a Riyal worth of equities at a gain, the gain you would record in the revenues of Capital Division correct?

Mohammed Tayyem

Yes.

Jawad Mian – *Q Invest*

And has there been some reduction in the listed equity side to core gains for your Capital Division?

Mohammed Tayyem

For some reason we can't hear you clearly. Can you please repeat the question and perhaps if you could sit a little bit closer to the mic.

Jawad Mian – *Q Invest*

From the 70 million that told us about which was as a result of the funds being called in-house. Has there been other opportunity where the investment team has sold equities and realised gains that have been contributed in revenue for the Capital Division?

Mohammed Tayyem

Whatever is not classified as available for sale, which is whatever is classified as held for trading, as you know there are unrealised and unrealised sale revenue components that would go into the P&L, unlike the available for sale? There also will be a dividend in the components of the Milaha Capital Income will be dividend income, realised gains from the available for sale and held for trading, unrealised and realised funding for trading and then the net rental income.

Jawad Mian – *Q Invest*

I understand that. I am just wondering if there are AFS realised gains apart from the 70 million that you have mentioned in that revenue.

Mohammed Tayyem

No, nothing material.

Jawad Mian – *Q Invest*

Okay secondly I just wanted to ask – is there any reason why to fund our expansion plans you have chosen the way of a rights issue as opposed to tapping the debt market or other means of financing.

Mohammed Tayyem

Yes. It is a good question. Now to fund our growth plans we not necessarily are planning to rely 100% on equity investment. We have a target investment size of potential grow up size in mind and we will use equity and debt to fund our growth plans. It is not going to be exclusively equity, but we have to keep in mind and take into consideration that the debt markets, while they are happy to extend debt and leverage to the Milaha Group because of its solid financials and reputable name, the shipping finance is not as strong as it used to be a few years ago. The leverage levels expected to be raised in the market will have to be conservative. That fits in line with our overall conservative strategy in how we apply debt and leverage to fund our investments. It is not exclusively equity.

Jawad Mian – *Q Invest*
Can you give as an update on the share buyback programme, when is the timing of that, have you started?

Mohammed Tayyem
That only can start as per the regulations in the QFMA. Once the rights issue has been completed, and that will be announced of course once we have the final approval from the QFMA to start entering that.

Jawad Mian – *Q Invest*
Is there a time limit on the share buyback?

Mohammed Tayyem
Time limit on when it has to be implemented?

Jawad Mian – *Q Invest*
Yes once you get the approval.

Mohammed Tayyem
Once we get the approval it has to be done within six months as per the QFMA Regulations.

Redwan Ahmed – *EFG Hermes*
Hi sorry just another follow up question. Just particularly on the Offshore Division. In terms of the rate there what are you seeing in the market? Are they starting to firm up? We're hearing from international houses that the rates in the Middle East are slightly improving now, so is that a similar picture that you're seeing there. I just wanted to understand in the Offshore Division – you

signed a contract, the Qatar Petroleum for QR1.8 billion last year, you announced that. How does that work? Is it a fixed contract every year in terms of over how many years is that contract going to work and just quickly if you can tell us what is going on in Saudi Arabia, you set up an office there, I think you won some contracts there. How is that market? Is it very different from the home market and what are you trying to achieve there, so if you don't mind answering those that will be great.

Mohammed Tayyem
Let me start by the rates. I think the macro outlook is improving quarter on quarter for the offshore segment, but I don't think – it is not necessarily expected to go back to the 2010 levels. Having said that there are certain incidents for specific – for Halul where there are things we're on long term charter hire and they came off hire and they were rechartered at higher rates because the previous rates were lower.

As for the 1.8 billion – are you referring to the Qatar Shipping?

Redwan Ahmed – *EFG Hermes*
There is a Qatar Shipping one and there is also a Qatar Petroleum one right for Halul.

Mohammed Tayyem
Yes that is not for 1.8 billion; that is for less than that. Yes we signed the contract; we are operating under those contracts for Halul. There is one vessel that we are still also waiting for that will replace an existing vessel for one of those contracts. That has been slightly delayed. Having said that we do have a replacement vessel that has been and continues to be operating with QP.

There was a first part to your question. Saudi is in the same regional area, which means there are a lot of synergies for the Company to be extending its services to more customers in the region, because it is closer to – easy to mobilise repair and manage. Saudi obviously as you can imagine with all its offshore and expanding offshore activities needs solid reputable vendors to come in and operate with [unclear] and the other charterers or clients operating for offshore in Saudi. We believe that this is a very good strategic move. I think we have a strong advantage also to be in that market given our market positioning, add to that our reputation capabilities in certain areas of the offshore.

Aneel Kanwer – *SICO*

Hello I just want to have a quick overview of the number of vessels you operate, in terms of VLCC, petrochemicals and LPG or LNG. Will that be possible?

Mohammed Tayyem

The number of vessels we operate in all the segments we have.

Aneel Kanwer – *SICO*

Yes separately, segment-wise yes please.

Mohammed Tayyem

Operated or owned?

Aneel Kanwer – *SICO*

This is excluding the Naqilat so you can tell me the rest as a bulk figure no problem.

Mohammed Tayyem

We have 33 vessels under Halul. We have five more vessels for offshore but under the harbour assistance, under Qatar Shipping. We have five tankers, two LPG carriers, small size. We have under a JV four LPG carriers, VLCCs, and we have – we also have containerships. We have eight containerships on the feeder containerships; we have tugboats and barges I think 14 combined. We have one bulk carrier, a supramax bulk carrier. I hope I haven't missed anything but I think that is...if I am not mistaken, yes and we do have nine LNG carriers under joint ventures apart from Naqilat.

Operator

[No further questions]