



Final Transcript



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Corporate Participants

Muhammad Tayyem

Milaha Senior VP Finance & Investments

Sami Shtayyeh

Milaha Vice President of Financial Planning & Analysis

Keith Whitney

Milaha

Presentation

Operator

Thank you for standing by and welcome to the Milaha Q2 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 that this conference is being recorded today on Wednesday, the 8th August, 2012. I would now like to hand the conference over to your first speaker today, Keith Whitney. Please go ahead, sir.

Keith Whitney

Hi, good afternoon, and welcome to the H1 2012 Milaha Conference Call. I'd like to extend a big welcome to the Milaha Management Team, Muhammad Tayyem, who will be our first speaker. He's the senior vice president of finance and investments. Also I'd like to welcome A.K. Ghosh, who is the vice president of finance for Milaha and, lastly, I'd like to welcome Sami Shtayyeh, who is the vice president of financial planning and analysis who will also be on the call with us this afternoon.

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I'd like to extend a big thanks to the Milaha Management Team for their commitment to these calls. You know, I think it's very important to get visibility into a company at any time, but particularly when a company is going through a process of change and restructuring. So, I know the management team has been very, very visible, open in terms of corporate access, whether it's a face-to-face meeting or via conference call anywhere in the world as well as their commitment to hosting these meetings on a quarterly basis. So, a big thank you from all of us in terms of your support.

An agenda today, we'll break it down similar to what we've done in the past. We'll have Muhammad Tayyem come on and give a summary of the company. Sami will come on and just review the H1 2012 financials. Muhammad will come back on and give us an outlook for the way forward for the remainder of the year. And then we'll go ahead and open it up for Q&A.

In terms of notes, I think we already mentioned that there'll be a replay for two weeks available shortly after the call today. And in terms of the Milaha corporate presentation, there is one available on the website at qatarnav.com or please feel free to reach out to me or the Milaha Management Team to get a physical copy... a soft copy of the presentation.

So, I look forward to a great call today and with that I will turn it over to Muhammad Tayyem.

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

Thank you, Keith, for the big presentation. I would like to welcome everyone on the call and thank you for being present here today. This is our Q2 earning call. We plan to give you a quick overview on the numbers – Sami will do that in a minute – and then we'll give you a quick outlook for the remaining of the year.

We just want to say that we are still working on the progress of continuing with our restructuring plans and implementing our strategy. And as Keith said, we would like to continue to be as transparent as possible and doable at our end.

Sami, over to you.

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Sami Shtayyeh – *VP Financial Planning & Analysis – Milaha*

Thanks, Muhammad. I'm going to go through our financials for the first half ending June 30th, 2012. First off, a review of the overall numbers. Operating revenues for 2012 were 1.164 billion Riyals compared to 1.159 billion in 2011, for an increase of just under 1%. Operating profit for 2012 was 320 million compared to 300 million in 2011 for an increase of 6.6%. And net profit for 2012 was 441 million compared to 418 million for an increase of 5.5%.

If you noticed this quarter we provided financials by business pillar. We've compared those against last year, which is really the first time we've done this. This is part of our transformation process. And this should give you a much better idea of how particular business units are doing versus others.

Now on the key highlights of the P&L and I'll start with the top... up at the top with revenues. So, overall revenue had a slight increase year over year of just about 5 million Riyals. Within this slight increase, however, there are a lot of moving parts. I'm going to briefly highlight the key ones and I want to make a note that the numbers I'm going to be discussing are excluding any intercompany sales.

So, investments had a large increase of approximately 84 million, which was driven mainly by the sale of one fund in the first quarter of this year along with better occupancy rates in our real estate portfolio. Maritime and logistics increased by 67 million Riyals and that was really the result of increased volumes in our port operations as well as we received some additional revenue streams from the port contract that we signed last year. In addition, our container feeder service saw some increased volumes, which also drove revenues.

Those two areas, really capital as well as maritime and investments... sorry, maritime and logistics offset some drops in our business units, mainly the trading unit was down 40 million. And that drop was largely due to reduced bunker and heavy equipment sales. The offshore unit went down 23 million and it was mainly due to some mobilisation income that we received last year that did not recur this year. And, lastly, our gas and petro-chem unit revenue decreased by 13 million mainly due to drops in charter rates.

On the expense side, salaries, wages and benefits went up by 23 million and this increase really came from across the pillars, but the largest increase came from the maritime and logistics unit. As I discussed earlier, they had a large increase in revenue and likewise their salaries went up. Operating supplies and expenses dropped by 38 million. The maritime and logistics unit again

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had additional expenses here tied to the increase in revenues, however more than offsetting that increase, there was a large drop from the trading pillar which was tied to the lower bunker and heavy equipment sales that I mentioned when I was discussing the revenue category.

Really salary, wages and benefits along with operating supplies and expenses are the two big expense categories with considerable variances. The remaining ones, revenue was pretty much flat, depreciation dropped slightly, down by 7 million, and other operating expenses increased by about 6 million. On the non-operating side of things, our finance income went down by 3 million, our offshore unit showed a gain of 4.2 million on the sale of an old vessel. In addition we took an impairment on some available for sale investments to the tune of just under 5 million. And that brings us to the net income, which again grew from 418 to 441 million ending June 30th, 2012.

And with that, I'm now going to turn it back over to Muhammad, who's going to go over our outlook for the rest of the year.

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

Thank you, Sami. Maritime and logistics, this pillar is... the micro-outlook for the pillar is really dependent on the timing and speed of the infrastructure development in the country and the expansion of the industrial exports (unclear). Some delayed projects [of course] will drive increased volumes, but perhaps not until 2013 with volumes showing upward trend plus increased operational efficiency being targeted at [Doha port]. A cautiously optimistic outlook for shipping agencies activities depending on volume recovery.

On the offshore, expected to perform better in half two of 2012 and beyond as one time issues have been resolved. Macro outlook is improving slightly quarter to quarter, however, not expected to reach 2007 levels for a while. However, competition is increasing.

The Milaha gas and pet-chem supply and demand imbalances are still acute and recovery will be relatively slow. Tanker and product carrier rate trends are not encouraging in the short-term. LPG and ammonia carriers' rates are starting to balance.

That's basically the outlook for the various pillars.

That concludes the outlook and now we open the room for the Q&A.

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Questions and Answers

Operator

Thank you. If you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your quest, please press the hash key. We have no questions at this time. Once again, to ask a question, please press *1 on your telephone keypad.

Your first question comes from Abdullah Amin from Q&B Financial Services. Please ask your question.

Abdullah Amin – Q&B Financial Services

Hi, Muhammad, thanks for the conference call. I would like to know that the operating margin and net margin of different segments, what do you suppose going forward what will be the next net and operating margins for different segments like maritime, logistics, petro-chem and other segments?

Sami Shtayyeh – VP Financial Planning & Analysis – Milaha

Sorry, so your question, what was the best operating margin or what will be? I didn't quite understand the question.

Abdullah Amin – Q&B Financial Services

What will be the... going forward if I want to as an analyst, if I want to look at the operating margins for different segments of your firm, what will be, like, a guidance for these margins, like operating margin, net margin for maritime, logistics, offshore, gas and petro-chem trading and maybe even capital if you have any idea on capital?

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Sami Shtayyeh – *VP Financial Planning & Analysis – Milaha*

Yes, what I can tell you is that the operating margins for maritime and logistics, it went from 18% last year to 22% this year. Offshore dropped from 40 to 26. Capital went up from (overtalking)...

Abdullah Amin – *Q&B Financial Services*

I would like to know what will be the margins in your view going forward.

Sami Shtayyeh – *VP Financial Planning & Analysis – Milaha*

Yes, really to understand the margins, that would mean we would be giving basically a revenue outlook, which we haven't done and I don't think we feel comfortable doing that at this point. There are a lot of moving factors and a lot of things could shift the numbers around. So, I guess the best guidance you have is the latest information we have along with the comments that we made on this call.

Muhammad Tayyem – *Senior VP Finance & Investments – Milaha*

I think maybe just to add something to help you in generally understanding the business. On the maritime and logistics pillar, the margins are based on volumes and based on how much capacity you ramp up. When you anticipate there will be increasing business activity and volumes, you will ramp up capacity, so there will be additional costs incurred and then we will see the benefits of those later and it will be transformed or translated into the margins. And this is what happened this year versus last year in the maritime and logistics. Again, that will also depend on what is our view on the following and years and when do we ramp up the capacity and when the volumes will also mature.

Now, we still have room in the M&L capacity that we have today, so there could be room for margins to improve, but that's subject to volumes actually materialising during that period. Offshore margins were certainly quite good. They dropped because of the first quarter, but I think if you read the (unclear) margins, that may be an indication on the margins on the offshore

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industry. That's also subject to the specific industry issues related to charter rates, demand and the supply related to the offshore.

On the gas, that's really driven now by the charter rates in the market. If the charter rates... (unclear) pet-chem, if the charter rates in the market, of course with exception to LNG... the rest is really dependent on freight rates and charter rates. If charter rates improve, you will see a significant improvement in the margins because you're paying the costs of operating the ships in (unclear) to the prevailing rates on the market. So, if the rates improve, obviously the margins will improve significantly in that pillar.

The trading... this is a trading business, as you can imagine, and I don't think it's going to be easy to just give you a flat out guidance here because that would depend on the activity (inaudible). On capital, I don't think the typical margins are relevant because of the nature of the underlying assets.

Abdullah Amin – Q&B Financial Services

Thanks. Can you give me more detail... slightly more detail on how... what's the outlook for charter rates and what do you see for the next two quarters with respect to charter rates? Are they going up or are they going... facing a supply glut right now because of excess capacity in the region?

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

Which pillar are we talking about here?

Abdullah Amin – Q&B Financial Services

Gas and petro-chem right now. You said charter rates besides LNG would be... would move in line with what charter rates are doing in the market right now. So, can we have a view on how do you see going forward the charter rates will be in Q3 and Q4?

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Muhammad Tayyem – *Senior VP Finance & Investments – Milaha*

That's a very difficult forecast to give because I think that's the dilemma of most of the shipping companies these days. Look, the gas first quarter wasn't that great. Second quarter was much better. The [S&D] suggests that the gas rates are in a strong position. On the... on the rates for the product tankers, it's mixed depending on the size of the ship, the voyage geography. I think you mentioned something about regional; I don't think regional has anything to do with these... with these businesses, regional rates. This is... regional is not... this pillar is not influenced by regional rates. It's an ocean transportation business, so it's basically operating worldwide.

Abdullah Amin – *Q&B Financial Services*

Thank you. And one last question, is there any update on the [rates] issue by the firm?

Muhammad Tayyem – *Senior VP Finance & Investments – Milaha*

We still hold our position, the one that we last communicated, which the board announced, that we'll be considering this towards the end of the year.

Abdullah Amin – *Q&B Financial Services*

Thank you. Thank you for all that information.

Muhammad Tayyem – *Senior VP Finance & Investments – Milaha*

My pleasure.

Operator

Once again, to ask a question, please press *1 on your telephone keypad. Your next question comes from Essa Buheji of Swicorp. Please ask your question.

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Essa Buheji – Swicorp

Hi, good afternoon. I have a couple of questions, actually. The first one is on the [rates] issue. I know the issue of price has been set earlier. Is there a possibility that it could be revised? What's the likelihood for that to happen given the share price performance?

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

Again, we... the [rate] issue is something that we will be addressing towards the end of the year. Markets are volatile, we have planned... or the board has approved the pricing on the basis of a certain criteria that we'll follow in determining the best [price]. Any change in the price would require the (sound slip) another AGM meeting, an extraordinary (sound slip), so any of that can happen. I'm sure all the shareholders will be notified with ample time to act.

Essa Buheji – Swicorp

Okay, and when is the next AGM?

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

When is what? I'm sorry.

Essa Buheji – Swicorp

The next meeting.

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

For the annual general assembly, you mean, or for the extraordinary?

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Essa Buheji – Swicorp

For setting the price.

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

We're not planning any extraordinary (unclear). We're not... at the moment we're not considering changing the price. I still stand by what we announced in our... as per our last board meeting, that we are looking at the [same] price towards the end of the year (inaudible) at the end of the year.

Essa Buheji – Swicorp

Okay, thank you. Another question regarding the investments, I mean, you mentioned you pulled out from one fund however also you invested in the first half around 200 million in investment securities. So, what's the view on the investment portfolio? What's the rationale for pulling out from the fund and whether you'll do it more aggressively in the future?

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

Basically, this is... instead of investing through a fund, we are doing the investments directly at the moment in addition to the rest of the other investments that we hold. So, this was one fund that we had or a fund that we had an investment in, we've liquidated that position and then we've re-invested the position in the local market.

Essa Buheji – Swicorp

Okay, so there's no plan to basically divest some of these portfolios?

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Muhammad Tayyem – *Senior VP Finance & Investments – Milaha*

At the moment there aren't plans to reduce the size of the reserve portfolio or increase them.
They are what they are.

Essa Buheji – *Swicorp*

Okay, thank you.

Operator

Once again, to ask a question, please press *1 on your telephone keypad. Your next question comes from Jawad Mian from Q Invest . Please ask your question.

Jawad Mian – *Q Invest*

Hello, [gents]. Can you just give us a breakdown of the capital division, like how much has come from real estate and how much has come from gains on the investment book?

Sami Shtayyeh – *VP Financial Planning & Analysis – Milaha*

On the P&L? Are you talking about on the P&L, the makeup of the capital pillar?

Jawad Mian – *Q Invest*

Yes, revenue (overtalking),you know, both.

Sami Shtayyeh – *VP Financial Planning & Analysis – Milaha*

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Yes, the revenue like I said when I held the call about 84 was driven by investments, 84 million. That's on the revenue side. So, if you look at the change in the revenue year on year, you're talking about 85, so the majority of it is definitely from the investments.

Jawad Mian – Q Invest

And that 84 is the difference from that fund selling or how much is the gain from that fund that you sold?

Sami Shtayyeh – VP Financial Planning & Analysis – Milaha

Mid-70s. I think it's 74, around that range, 74 or so.

Jawad Mian – Q Invest

Okay, so now, I mean, again, so of a total of 350 million in the first half in capital division, how much was real estate and how much was investment gains?

Sami Shtayyeh – VP Financial Planning & Analysis – Milaha

Okay, I'm sorry. I misunderstood your question. I was looking at the variance between year on year. So, your question is the makeup of the 351, which is the revenue, correct?

Jawad Mian – Q Invest

Exactly.

Sami Shtayyeh – VP Financial Planning & Analysis – Milaha

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Yes, okay, we'll have to get back to you on that one, Jawad. Can you... can you shoot an email to our investor relations? I don't have information readily available. So, just shoot an email to us. If you shoot it today, we'll respond to you no later than end of day tomorrow.

Jawad Mian – Q Invest

Thanks, Sami. I'll shoot it to you right away.

Sami Shtayyeh – VP Financial Planning & Analysis – Milaha

Okay, thank you.

Jawad Mian – Q Invest

Thanks.

Operator

We have no further questions at this time. Once again, to ask a question, please press *1 on your telephone keypad. We have another question from the line of Essa Buheji from Swicorp. Please ask your question.

Essa Buheji – Swicorp

Hi again. Regarding Halul offshore, what's the current utilisation rates for these vessels and how many vessels... new vessels to be deployed in the second half?

Muhammad Tayyem – Senior VP Finance & Investments – Milaha

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I think the current utilisation rate for Halul is very high. It's... the figure is not in front of me, but I think it's above 90% utilisation rate. And there are... the investment under construction I think no deliveries are expected in the second half. But there are vessels under construction with deliveries I think further... yes, I can't recall there are any deliveries in the second half of 2012. The uptick in deliveries (overtaking) quarter.

Essa Buheji – *Swicorp*

So, currently all the vessels are operational?

Muhammad Tayyem – *Senior VP Finance & Investments – Milaha*

Yes. The vessels are either on a time charter that's short-term, long-term or medium-term. Some of them are between jobs (unclear) is on dry dock, but the other... the utilisation rate is quite, quite decent.

Essa Buheji – *Swicorp*

Okay, thank you very much.

Operator

That's *1 to ask a question. We have no further questions. Please continue.

Keith Whitney

Okay, I think at this point, guys, thanks everybody for your participation on the call today. In terms of follow up, if you have follow up questions, please, you know, contact us via email, telephone, both ourselves and Milaha. And thanks, everybody, and have a terrific day.

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Muhammad Tayyem – *Senior VP Finance & Investments – Milaha*

Thank you. Thank you, everyone.

Sami Shtayyeh – *VP Financial Planning & Analysis – Milaha*

Thank you.

Operator

That does conclude our conference for today. For those of you wishing to review this conference, the replay facility can be accessed by dialling within the UK on 08452455205 or alternatively on country code +44 1452550000. The reservation number is 17141636. Thank you for participating. You may all disconnect.

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