

MILAHA

**Moderator: Gautam Bellur & Sami Shtayyeh
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Operator: Good afternoon, this is (Bobby Sakra) from QNB Financial Services. We are pleased to be hosting Milaha's Third Quarter 2014 conference call. From Milaha today, we have Gautam Bellur who is the Senior VP of Corporate Development and Communications, and Sami Shtayyeh, who is the VP of Financial Planning and Analysis. So I will turn the call over now to Gautam. Please go ahead.

Gautam Bellur: Thanks, (Bobby). And thanks everyone for joining in the call today. Those of you who've been with us know the standard format, our agenda is similar to our previous calls, I'm going to make a few opening remarks on Milaha's year to date performance and then turn it over to Sami to discuss the financials in more detail.

After which I'll provide a brief outlook on the upcoming months for each of our segments. And following that we'll try to open to questions that you may have.

So overall we're obviously very pleased with the turn around of the third quarter. As you will recall we had a disappointing first half of the year by our recent standards. Net profit year on year was down 10 percent in the first half and revenues were essentially flat. And three months later we've managed to grow our net almost six percent year on year with a revenue increase of over 30 percent year on year so that's a quite a bit of a turnaround. A lot of but not all of that credit goes to significantly improved market conditions specifically increases in trade volumes on the back of a ramp up in infrastructure and other

project related activity in Qatar boosted our ports and container feeder businesses. In addition the equities market which declined significantly in June and you'd seen the numbers, reversed, completely reversed itself in July and has been strong on average ever since. This has improved the Milaha capital segment which had previously been the largest driver of our year on year decline. The gas and pet cam segment which consist of Qatar Shipping continued to show huge improvements over the last year, the VLGC market has come down from its record high earlier in the year but is still far above what we've seen recently. And (Natilat) where we have a 30 percent stake has grown its bottom line as well so overall you know quite a number of positive factors playing into the third quarter performance.

Milaha Offshore improved somewhat in the third quarter from a hugely disappointing first half, however the overall weakness in the offshore market globally continues to impact utilization and therefore profitability.

With that I'll turn it over to Sami to discuss the year to date financials in more detail.

Sami Shtayyeh: Thanks, Gautam. As usual I'll first go over the published consolidated financial results for year to date September and then get into a bit more detail on the individual segments.

Overall operating revenues for year to date September 2014 were 1.973 billion compared to 1.745 billion in 2013 for an increase of 13.1 percent. Operating profit for year to date September 2014 was 542 million compared to 569 million in 2013, for a decrease of 4.8 percent. And net profit for year to date September 2014 was 821 million compared to 778 million for an increase of 5.5 percent.

I'll now get into the segment results highlighting the key variances versus 2013 and explaining them. So starting off with maritime and logistics, overall revenue was up seven percent year over year with our two largest units driving most of that really, for services revenue increased substantially due to a 16 percent increase in TE.U. traffic in Doha compared to 2013. Our container shipping unit also signed up taking revenues, particularly with

export volumes coming back from a very weak first half. Those of you that have been following us will remember that really the first half we saw weak export volumes due to plant shut downs in the export city of (Missandei), the industrial city. So Q3 we saw somewhat of a rebound of that.

Our bulk shipping unit had higher revenues due to chartering out of more vessels that new chartered in but you'll similarly see the expenses go up because of that as well. On the expense side, the two main areas that increased were salaries and wages, and that was related to the increased volumes at the port. Along with supplies and expenses tied to our bulk shipping, chartering in activates which I mentioned in revenue as well as higher port related charges in our container shipping unit.

Lastly on the maritime and logistics segment, of the non-operating side of things, we saw a 10 million real unfavorable swing versus 2013, and that was due to the fact that in 2013 we took gains in assets we sold, under utilized assets that we sold last year which we did not sell obviously this year.

On to offshore, the storyline here is that ES results were much lower than last year but our third quarters results alone were greater than the entire first half, we still have a long way to go and got to mention this as well but the results are finally turning the corner for this segment. Overall revenue is down nine percent with most of that from our main revenue generating unit which is diving operations. We saw vessel utilization drop and this was a result of three main things, essentially extended dry docking, equipment breakdown and off contracts vessels. Much of that is now been rectified with our infamous diving vessels, SHADDAD, finally earning revenue. In fact September was the first month that it started earning revenue so even Q3 although it was higher than the first half of the year we only saw revenue from that diving vessel beginning in the month of September, it wasn't even a full month of September that was earned revenue from it.

On the cost side of things, we had higher operating expenses including depreciation, and operating supplies and expenses, and those were really mainly tied to the new vessels that we took possession of.

Moving on to gas and petro chem. Overall revenue increased by 67 million, driven by increased greats in our seven wholly owned vessels as well as additional revenue from our port marina operations. The port marina operations we now have all 19 boats that are tied to a 20 year contract with Qatar Petroleum so you know from this point forward we should start seeing some decent earnings out of that unit.

On the expense side, cost increase mainly related to those new harbor boats, the big thing is really on the non-operating income and expense section on the PNL where we saw an 82 million increase from our joint venture and associates with 44 million of that from our 30 percent share of (Nakilat), and 36 million from our Gulf LPG joint venture.

Our trading segments saw a large increase in revenue in the amount of 89 million with associated cost of good sold in the amount of 82 million. Increases came from higher equipment sales, from increased infrastructure projects, as well as higher bunker sales.

Last but not least, our capital segment saw an increase of 37 million in revenue and this was tied to realized and unrealized profits in our trading portfolio in the amount of 41 million, 18 million entire dividends versus last year. Six million higher from our (that's our quarry) subsidiary. With all of that partially being offset by 29 million in available for sale investments that we sold in 2013. And that essentially sums up our operations and brings us to an overall net income of 821 million and with that I'll turn it over to Gautam who will go over our outlook.

Gautam Bellur: Thanks, Sami. First off, we think the third quarter momentum will carry us through the rest of the year barring any major you know declines in the equities market which is always an X factor, but from an operational perspective we think the fourth quarter will be strong as we've seen and that momentum will continue. However we only have two months left in the year now, now that's were in November so we'll provide an outlook more broadly for the coming months. And so let me grow the outlook or segment by segment basis.

In the maritime and logistics segment, we're going to expect a, we expect a more sustained ramp up in volumes that we've seen in the third quarter due to the increased project activity as well as a steadily growing population. Naturally it has a positive impact on revenues for the largest units, the container feeder unit as well the port services unit. We also expect a stronger upcoming year for the shipyards unit which face some weakness in 2014 with you know there's a renewed focus on core ship prepare business in that unit and we expect a stronger year going forward.

And the other units that we have which while small are also going to be growing largely on the back of the you know the improved market conditions in Qatar, so certainly expect to grow in line with the market. On the offshore side, as Sami mentioned the deployment of the new vessel that, the diving vessels, HADDAD, in Q3, towards the end of Q3 we'll provide a boost to both top and bottom line in the diving services for the rest of the year and into 2015.

The contract is a five year contract for that vessel. In addition we expect to take delivery at this point expect date delivery of proximately eight new vessels in Q4 and throughout 2015, subject to some potential delays in the delivery. These are largely (PSPs) and anchor handling supply vessel so (AHTS'). We've had, Sami also mentioned we've had decline in utilization in 2014 and so a big focus of our efforts is targeting higher improved utilization along with rationalization of some of the older vessels in the fleet which aren't you know are taking down the overall utilization numbers.

And as we said before and we'll say it again, we are, the offshore side, we strongly believe in that sector and we are putting our money where our mouth is, we're continuing to explore opportunities for expansion outside, core markets through partnerships and acquisitions within and outside the region.

On to gas and pet chem. we expect the rest of 2014 to continue to be strong overall with a positive outlook for the early part of 2015 as well. The VLGC rates are which plan to our Gulf LPG associate unit, expected to remain strong the rest of the year, with potentially some weakness in next year as a new builds, as a new building (order book) becomes available for delivery. The

jointly owned (LNG) carriers as we've always said there's limited fluctuation expected to the long term nature of contracts.

In our fully owned product tanker earnings, expected to finish strongly the rest of the year as rates have actually firmed up. And our gas carriers, our gas which we actually use for (ammonia), our (ammonia) carriers are expected to also continue relatively strongly somewhere to Q3 except there's an impact of one of the vessels being dried out for most of September and so we will see a drop in earnings in last month from the gas carriers.

Sami also mentioned harbor vessels, the 19 vessel order that we have now taken fully delivery and are now in service. So the full impact will be felt from these vessels going forward as well.

Trading, our trading units again the story is similar, we expect to maintain the momentum, very strong momentum for the rest of 2014 and into 2015 with a sales of trucks and heavy equipment continuing to grow. There's a strong pipeline of infrastructure of projects being targeted that require heavy equipment. And so we believe you know that's tied into, there's a cutter approach story.

Are we still on the line? No? Yes, sorry, I think we dropped the line for a second. On the capital side, last but not the least on the outlook for our capital and the listen equity portfolio performance obviously governed by a market performance, the cutter exchange performance and the volatility there. The energy crisis and the move in energy prices recently will naturally have some impact on equity markets. However I think it's ,we think it's important you know the cutter budget is obviously tied to a lower oil price than current levels.

With that we'll start to open questions from the group on the calls. (Julie)?

Operator: Thank you. As a reminder, if you wish to ask a question please press star, one on you telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key.

Once again ladies and gentlemen, if you wish to ask a question it is star, one on your telephone and wait for your name to be announced, that is star, one.

There are no questions at this time. Please continue.

Male: I pressed star, one.

Operator: You do have one question. Your first question comes from the line of (Ramse Sedani). Please ask your question.

(Ramse Sedani): Hello?

Gautam Buller: Yes, go ahead.

(Ramse Sedani): Hi, gentlemen. Thank you for hosting the call. First I want to know about the, are the export volume back to normal levels from a side?

Sami Shtayyeh: Hi, (Ramse). It's Sami. I wouldn't call it back to normal level but year to date we're actually still down about two percent, we were down much more at the half year so we are seeing some of the rebound that we expected. So that definitely helped our Q3 earnings but I would not say it's back to normal, but all indications are there, it's supposed to just not get back to normal but there should actually be an increase in trying to make up some of lost rounds.

(Ramse Sedani): OK. So you are seeing further improvement in Q4?

Sami Shtayyeh: Hopefully ,yes.

(Ramse Sedani): OK. And then just on the offshore level, if you can tell us that the utilization rates on average and how much has it dropped from Q3, from Q2 to Q3?

Sami Shtayyeh: So sorry – (Bobby), are you on the phone? We are getting the background noise, we're getting the background noise there.

Operator: Yes, I'm on the phone.

Sami Shtayyeh: Yes, we're getting the background noise so...

(Ramse Sedani): People trying to dial star, one for whatever reason.

Sami Shtayyeh: Sorry, (Ramse). So you were talking about the utilization figures. What I can give you is I'll give them to you by segments within the offshore business. So in general construction and maintenance has been averaging around let's say by 80 percent so we started off July fairly weak, we ended up September pretty strong but on average it's about 80 percent utilization for the construction and maintenance vessels.

Diving on average, obviously September because we took possession of SHADDAD and we started earning revenue in September. End of September it's actually in the 90s, below 93 percent for diving operations. July and August were lower, August was as low as 58, July was 74.

And then the last is really development and commercial segments which really have got very high utilization figures. You're talking high 80s.

(Ramse Sedani): OK.

Sami Shtayyeh: So really the core is to try and get the diving back up to the levels that we currently saw in September because before that, that where we were impacted in terms of the financials, the previous (eight months).

(Ramse Sedani): Is it across the board or is it coming more from Saudi, or Qatar or is it specific vessel that cause that drop in July?

Sami Shtayyeh: I think there's two parts, you know, internally as a company we face some issues because of that vessel but you know Gautam mentioned in his opening remarks that overall is that the general offshore market you know is...

Gautam Bellur: Yes, it's globally, I mean it looks – there is a slowdown in the offshore market globally and we are feeling some of the impact of that, particularly when you look at vessels that are you know there's no – one way to put it is rather more standard vessels that are a dime a dozen, right? So you will see utilization and rates affected for those kinds of vessels, it's not so much on the more specialized side of things so specialized vessels like diving vessels. So our problem was not so much the standard vessels which you know if you look at

a lot of the peer group companies they would have had an impact from those more standard vessels like (PSPs) and the (XPS') and so on.

Our impact from the first half and into July and August was really from the diving segment because of the non deployment of SHADDAD so you're paying all the costs and very well the operating costs or a chunk of it without necessarily earning revenue on it because we took delivery of the vessel in March or April this year. So finally once it starts earning revenue we're back to see utilization numbers up in the 90s where they should be, that has a positive impact but to Sami's point, the overall market is weaker but you know we feel we're doing quite well in those segments that are truly affected by global market crisis.

Sami Shtayyeh: Yes, (Ramse), let me just add one thing to what Gautam said, so diving like I said in September were as high in the low 90s. Q2, April was down to 30s, May and June was up in high 40s so big difference between, you know between being in the low 90s and averaging to 40. So actually our, you know that's a good news.

Gautam Bellur: Sure. And finally just on the port marina operations. You have all 19 boats now operating. Can you shed some light on the contribution that will come from the 19 boats. Yes, the 19 boats is on a, the 20 year with Qatar petroleum, it's a 1.9 billion Riyal contract. The margins, you're talking in the 20s.

(Ramse Sedani): OK.

Gautam Bellur: Obviously as the contract goes on, you know there are provisions there for escalation but you know if the cost happened to creep up faster than any of...

Sami Shtayyeh: The escalation has become ..

Gautam Bellur: We could start getting pinched there on the margins.

(Ramse Sedani): OK. By how much do you think this would be material or?

Gautam Bellur: No, I mean I think in the, for the coming several years we should be in pretty good shape and particularly next year where we'll have a full effect of this.

(Ramse Sedani): Sure.

Sami Shtayyeh: This should be a pretty – this is a...

Gautam Bellur: You know because of the 20 year contract I have no idea what inflation is going to do in 10 years, 15 years or you know it's hard to predict even you know the coming two or three years but when you start going out you know that far out in advance you know there's just some levels of uncertainty.

(Ramse Sedani): Sure. Of course. Finally, just so now that we have SHADDAD and is operational we should then see the 70 or 60 percent utilization rate in the diving division, right?

Sami Shtayyeh: In short, no. You know it's a business where, that's what it is by the way, the utilization given that there aren't that many vessels operating in that segment in, within our offshore business, impact of a breakdown or the impact of whatever, a mechanical failure or a dry docking, right? There is an impact on it directly and you'll see so if you've got five vessels and you're in a 100 percent utilization taking one out gives you 80 percent utilization for that month, right, or for those few days or whatever it is. So there is some volatility in that but in principle you're right, we should be not seeing the 70s.

(Ramse Sedani): So for now you don't have any scheduled maintenance or dry docking?

Sami Shtayyeh: I don't know the answer to that.

Gautam Bellur: We can follow up on that.

(Ramse Sedani): Sure. OK. All right. Thank you very much.

Operator: Thank you. once again ladies and gentlemen, if you wish to ask a question it is star, one on your telephone.

(Bobby Sakra): Hi, this is (Bobby). Can you hear me?

Gautam Bellur: Yes, (Bobby).

Sami Shtayyeh: Go ahead, (Bobby).

(Bobby Sakra): Hi, I'm just going to jump in as you guys wait for the questions. First question, I believe the new port, the port services contract is coming up for bid. Can you give us an update on what's happening there? And then secondly thank you for the outlook but if you could just help us put some broad numbers on broad by segment for next year, that would be very helpful. Thanks.

Gautam Bellur: Let me take the first question, (Bobby). The new port project is currently in the bidding stage, there are a number of, as we understand a number of companies that have submitted bids for it including ourselves, naturally, the bids went in, in July or early August, and the original timeframe called for a decision by the end of this year, we don't know if that's still going to be the timeframe or if leak into next year, or when exactly the decision will be made. But we expect the decision relatively shortly on that over the next few months. On the world projections on the outlook, let me put it this way, we don't like to do guidance on a business by business basis on actual growth, suffice to say and (Bobby) being from QMB, you'll have as good of view on trade volume growth and market growth as we do on the particularly for the maritime and logistics business which is really driven by the, by trade volume growth, it's a relatively fixed cost business where a lot of the upside on the volumes drops to the bottom line.

So you tell me if I will budget it if you tell us what the numbers for maritime and logistics is going to be. The offshore side is really a function of you know and we were talking utilization and rates and utilization for the most part, along with you know what we're getting in terms of the new vessels that are being delivered. As Sami said, we've been averaging our utilization has been up in the 80s for the big large chunk of our vessels, the diving is now back up in the 90s in September you know commercial maybe a little bit below that, they are not commercial but the construction and maintenance vessels a little bit below that. We've got eight, maybe eight and we're hearing different stories in terms of vessel delivery delays and so on but we're projecting about

eight vessels now for the next 14 months or so to be derived. It's hard to predict utilization not all of them are on contract already so you know or not all of them have a contract already so we're working towards that, we'll be able to provide a little more guidance on utilization in the coming months as these vessels are being delivered.

And then that's about it, I mean the gas and pet chem. business is really more steady state business, as you know it's long term cash flows, limited fluctuation, and the fluctuation that we're seeing are coming largely from the main part of our fluctuations are from the gas and the fully own gas and product tankers as well as our harbor marine operations, or not sorry, not the harbor marine operations, the LPG and (VLGCL), or (VLGCs) that we have. We're expecting a fairly strong year going into next year but we're expecting weakness now. That's market is extremely volatile, we can find you what the rates on (VLGC) is going to be in April would be great but we don't, right? We don't know what it's going to look like. The ammonia carriers and the product tankers are doing reasonably well, I think the third quarter numbers are a fair indication of where we expect those for the next year to be honest.

I know that didn't answer your question (Bobby), but I can give you a better answer appropriate than you can...

(Bobby Sakra): That's OK. Just have a couple of more questions, maybe on question. In Milaha Capital is there any move toward expanding outside of (Qatari Q) companies into the region, maybe Saudi et cetera? And then anything happening on the acquisition front? Any updates there?

Gautam Bellur: You're talking about on the investments?

(Bobby Sakra): Yes.

Gautam Bellur: Or the first question was about the equity – no there is no plan to go outside of Qatar. As you know a large percentage of our portfolio on the financial portfolio is available for sale, it's not the trading portfolio. The and the part that impacts the PNL which is the trading portfolio is at the end of last year was about 580 million. I don't know what it was mid-year Sami but it's not a huge chunk of it so yes, there's volatility and you know but it's tied into the

Qatar market and we have no plans of going outside Qatar, at this point. And the to your other question on (MNA), look we're as I mentioned the offshore is the one that we're really focusing in terms of (MNA) at this point in time. Not that we aren't looking at (MNA) maturities in other phases but we do believe that this is the right time to start thinking about acquisitions in the offshore space. As I mentioned the markets are, the global markets are relatively weak and we're seeing that reflected in valuations across the board, and frankly we think it's a good time for us to think about acquisitions when the prices are where they are given our balance sheet. There's a lot of value to be had in the offshore market and for the coming years. That's where the focus is, we are looking at other segments as well on the (MNA) side but nothing really concrete that we can share at this point. We'll update as we go along.

(Bobby Sakra): OK. Great. Thank you.

Operator: Thank you. Once again ladies and gentlemen, if you wish to ask a question it is star, one on your telephone. That is star, one.

There are no further questions at this time. Please continue.

Gautam Bellur: That's it from our side. Thank you all for joining us and thanks to (Q and BFS) for hosting.

Male: Thank you guys. Thanks.

Male: Yes, thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may all disconnect.

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