Analysis of Noble Group Q4 2014 Call

Summary: On the basis of select commentary by Noble Group management and the associated deceptive behavior identified below, we have concluded it is highly likely that one or more of the allegations made in the Iceberg report are true. The area of greatest concern appears to be Noble's write-down of Yancoal, and the accounting assumptions on which the write-down is based.

> **In our view**, these assumptions are sufficiently conservative to ensure there is **little** downside risk from further deterioration in market conditions. The suggestion that we should use a spot price that has an 8% free float and trades A$10,000 a day as a fair representation of the market value **is, at best, naive.**

Analysis: The CEO's qualified statements, coupled with the attack on the non-attributed suggestion, indicate that Noble has some degree of uncertainty about the level of risk associated with further deteriorating market conditions.

> **<Q - Conrad Werner>**: Hi, there. It's Conrad calling from Macquarie. Just a couple of quick questions, please. The issue that you had with Territory Resources, which impacted the operating income from supply chains in Metals, are there any other risks like that still sitting there on the balance sheet, if you like, whether in Metals or in Energy? I mean you mentioned in Yancoal that you didn't see much incremental further write-down risk, but are there any more issues like Territory in there?
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> And then, could you just split the fourth quarter loss from associates into how much came from Agri and how much came from Yancoal? Thank you.
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> **<A - Yusuf Alireza>**: **Thank you, Conrad, for your question**. **So Territory is, just to clarify, is an iron ore mine in Australia. We put it on care and maintenance because of the price falls. As you know, we're an asset light firm, but that doesn't mean we don't have any assets on our balance sheet. We've gone through as part of our year-end process and reviewed in great detail the operating assets that we have on our balance sheet and have [ph] felt (35:45) we have impaired them as we did in previous quarters.**
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> So looking at what we have, looking at the amount of exposures that we have in associates, at this point, we don't see any other issues on any of the other exposures that we have.

Analysis: Mr. Alireza begins his response with overly polite behavior, thanking the analyst and using his name. This is a form of manipulation behavior, in which a person uses politeness and familiarity to ingratiate himself with his audience. He follows this with overly specific statements about Territory, along with a reminder that Noble is an asset-light entity. This is noteworthy in that deceptive people often become overly specific in conveying detail as a persuasive strategy—they provide details about inconsequential issues as a means of giving the appearance of cooperation and openness. He then offers a non-specific denial about reviewing the balance sheet, in which he fails to specifically deny that Yancoal has no other issues. In addition, he completely ignores, for the moment, the question about differentiating the losses in the quarter for both Agri and Yancoal. Collectively, his deceptive behavior is strongly indicative of a level of concern that is higher than what has been disclosed regarding additional problems with Yancoal.

> In terms of the breakdown between Yancoal and Noble Agri, Robert, do you have those details? **<A - Robert van der Zalm>**: Noble Agri was on the balance sheet at roughly $1.4-ish billion. **<A - Yusuf Alireza>**: I think the question is in terms of the losses on associates.
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> **<A - Robert van der Zalm>**: Losses on associates, in the year, NAL, the Noble Agri, the quarterly impact – the impact on the associate line was **just a quarterly impact about $94-ish million** and the Yancoal impact was **roughly $60 million** loss, [ph] it was all (36:47).

Analysis: Mr. Van der Zalm initially provides information that was not requested. After further prompting from Mr. Alireza, he provides only approximate figures regarding the losses. His behavior reflects concern about providing any significant detail regarding the question that was posed.

> **<Q - Yuriy Humber>**: Hi, good evening. I wanted to ask about the write-down on Yancoal. You mentioned that you have an annual process to evaluate all the write-downs. Would you be able to specify exactly when you look to have the write-downs and maybe give a little bit of more details on what kind of coal price assumptions you used for the Yancoal write-down and maybe an outlook for the coal prices with that? And was any of the write-down – was it in any way sort of connected with recent questions raised about the Yancoal valuation by Iceberg? Thank you.
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> **<A - Yusuf Alireza>**: Sure. So just to clarify, we review all of our associates/other assets investments on our balance sheet, on a quarterly basis, but obviously, have a more detailed review on an annual basis. **In terms of your last question, there is nothing in terms of our results that was impacted in any way by any anonymous report that was released.**
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> In terms of when the decision was made to write-down Yancoal, we've been going through the process of reviewing our balance sheet and all of our assets with E&Y for the last month, month-and-a-half since the year-end. We presented those results to the Audit Committee over the last

few days and finalized them with the board today.

In terms of the assumptions that have gone into it, there's obviously a number of assumptions that impact that cash flow model, the cash flow model that externally created, internally verified by our control functions and verified by E&Y. Those assumptions are around production, around cost, around fuel inputs, around coal prices, around FX, so there's a number of variables that go into that.

As I said earlier, I think we have been conservative in terms of the variables we've used and then that cash flow model comes out with a range of value. And we have impaired Yancoal down below the bottom end of that range, right below the bottom end of that range.

The coal price assumptions are the same assumptions that we use in all of our businesses. And at this point, our coal price assumptions are below the consensus curves. **Obviously, I can't provide you the specifics in terms of those numbers, because that is basically the numbers that we use to manage our business.** But what I can say is they are below the consensus curves. **And the adjustment in valuation, not only was our external auditor, E&Y, comfortable with, but our Audit Committee and our board are very comfortable with.**

Thank you. Next question, please.

Analysis: The first area of concern is Mr. Alireza's non-specific denial as to whether the write-down was in any way connected with the Iceberg report. When addressing the issue of Noble's coal price assumptions, other than to say that those assumptions are below the consensus curves, he refuses to provide any specifics beyond a vague claim that these are the numbers used to manage their business. Finally, he punctuates his response by offering a quick "Thank you," and then immediately calls for the next question. His eagerness to move away from this issue reflects his desire to avoid any further inquiry into the issue. His behavior suggests concern about the Iceberg report, as well as likely discomfort relative to the assumptions Noble is using to justify the write-down on Yancoal.

<Q - Charles C. Spencer>: Okay, great. So you're saying that EY actually did look in detail at this report, reviewed it with the board, reviewed it internally there, and went ahead with their statement.

<A - Robert van der Zalm>: EY just followed their internal protocols and felt comfortable signing off on the accounts.

Analysis: This is clearly an overly specific response, which again is a persuasion behavior that's intended to give the appearance of cooperation and responsiveness by providing information, however the information provided is inconsequential detail Mr. Van der Zalm fails to state that E&Y reviewed the report. Instead, he simply says E&Y went through its normal protocols.

<Q - Charles C. Spencer>: Will you be coming out with a further sort of a detailed response to some of the points raised?

<A - Yusuf Alireza>: Well, **we have sent out** – listen, I don't – **and I have been given advice not to spend a lot of time talking about this thing**. But I think I – I guess I'm not good at sometimes following that advice.

On the one hand, we have a company that was set up 30 years ago by our Chairman, Richard Elman, with three people and $100,000 of capital, and has been built over those 30 years to the 76th largest company in the world in terms of revenue. It's a company that's been a public company for 20 years, and issued quarterly results for those 20 years, audited quarterly results for those 20 years, and has hundreds of stakeholders, credit intensive stakeholders, that review our balance sheet all the time.

And on the other hand, there is an anonymous, unknown blogger who set up a blog a month ago. I will say that, at this point, we believe strongly we know who it is, and it's a disgruntled junior ex-employee, that we fired about a year-and-a-half ago. We've provided that information to the regulators.

I don't plan on spending any management time on this or shareholder resources on it. Our job is to be focused on the business and deliver results. We'll let the regulators decide what they want to do with the information.

Analysis: Mr. Alireza begins his response with a false start, and then states, "I have been given advice not to spend a lot of time talking about this thing." This comment reflects his adoption of what is known as an "access control" or "avoidance" strategy. This approach is often taken in situations where individuals, entities, or both are attempting to conceal information, particularly acts of wrongdoing. In doing so, they often make statements that reveal an unintended message as to how they plan to accomplish the concealment. In this case, Mr. Alireza's plan was to cite advice he had been given to avoid spending a lot of time talking about the matter. Typically, we find that this approach is taken in crisis situations. Mr. Alireza subsequently provides a lengthy string of convincing statements, a form of persuasion behavior in which he is focused on convincing his audience of the reputable nature of his company rather than conveying information that speaks directly to the matter at hand. This is followed by an equally lengthy attack on the individual whom he claims is responsible for the negative commentary. Such an attack is a form of aggression behavior that is indicative of a person's feeling that he has been backed into a corner by the facts, and so has no recourse but to lash out in response.

<Q - Neil Hume>: Hi. I think you've sort of answered a lot of the questions we had. But just going back just to Iceberg very quickly, I mean what makes – I mean can you give us a bit more detail on what makes you think this report was written by an ex-employee?

And also, if I heard you correctly, I mean you're sort of saying that you're not going to take any legal action against him. You're just going to let the regulators deal with this report. Can you just explain why you've taken that decision as well?

<A - Yusuf Alireza>: **So we don't want to get into detail, for obvious reasons, from a**

regulatory perspective, in terms of why we believe we know who it is. But we have a high degree of confidence that we know who it is and we've provided that information to the regulators.

Listen, why are we not going to take action against this employee that we fired is because that's not we want to be focused on from the management team, and that's not what we want to do with shareholder equity and shareholder capital. Our focus is to deliver results. At the end of the day, our stakeholders will judge us not by an anonymous blogger, right, but by our results. And that's what we're going to focus on, our results. If he's broken any laws, then I think it's the regulators' responsibility to pursue that. It's just-

Analysis: Citing regulatory reasons, Mr. Alireza refuses to explain why Noble believes that an ex-employee wrote the Iceberg report. Rather than provide a substantive rationale for not taking legal action against the suspected author of the report, Mr. Alireza simply provides a series of convincing statements that are designed to convince investors that the allegations levied in the Iceberg report are attributable to a disgruntled ex-employee, and therefore have no merit.
