Maersk Group Q2 2016 report

12 August 2016 - Conference call 9.30am CET

webcast available at www.maersk.com

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Forward-looking Statements

This presentation contains forward-looking statements. Such statements are subject to risks and uncertainties as various factors, many of which are beyond A.P. Møller - Mærsk A/S' control, may cause actual development and results to differ materially from the expectations contained in the presentation.

Comparative figures
Unless otherwise stated, all comparisons refer to y/y changes.

Strategy update - Group

Strategic review

The Group is performing well relative to the industries in which it operates. Seven out of eight business units were top-quartile performers in their industries in FY 2015, representing around 97% of the Group's invested capital.

The Group has achieved its strong operational performance through focused efforts to reduce cost, improve utilisation, operational uptime and production efficiency.

Currently, however, the Group is challenged by market headwinds in form of low growth and excess capacity in most of its industries, which has led to declining prices and revenue.

Recognizing the Group's low growth and returns the Board of Directors has during Q2 initiated a process to develop and consider the strategic and structural options for the Maersk Group to further increase agility and synergies.

The purpose of this review is to ensure that the Group remains strong, profitable and financially viable and that the Group develops new growth opportunities.

Progress will be communicated before end of Q3 2016. The scheduled Capital Markets Day (22nd September) will be postponed until further notice.

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Strategy update - Group

Current strategy

During the ongoing strategic review the Group strategy remains unchanged as previously communicated with a strategic direction of

- targeting profitable growth through
    - business optimization and cost efficiency
    - strong customer focus
    - value-enhancing acquisitions
- maintain top-quartile performance in all business units
- grow our businesses and thereby achieve our ambition of a ROIC above 10% over the cycle. The Group reiterates that in a low interest environment its businesses can make investment decisions that on a standalone basis do not fully comply with the 10% ROIC target

The Group continues to focus on ensuring a strong capital structure and a high operating cash flow conversion with an ambition to increase the nominal dividend per share over time, supported by underlying earnings growth.

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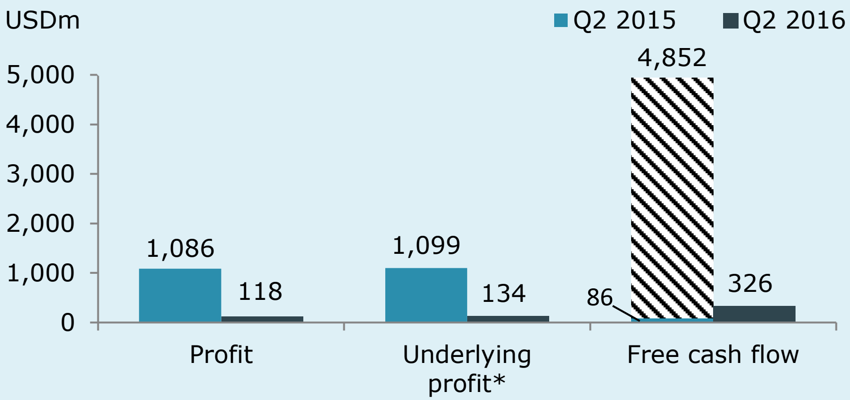
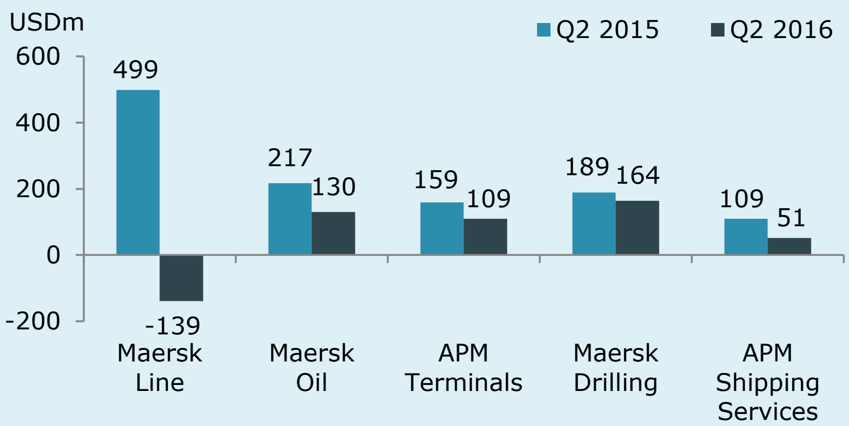
Group financial highlights

Group Financial Highlights*



*Free cash flow in Q2 2015 include the sale of shares in Danske Bank of USD 4.8bn.

Underlying profit by activity*



*Underlying profit is equal to the profit or loss for the period excluding net impact from divestments and impairments

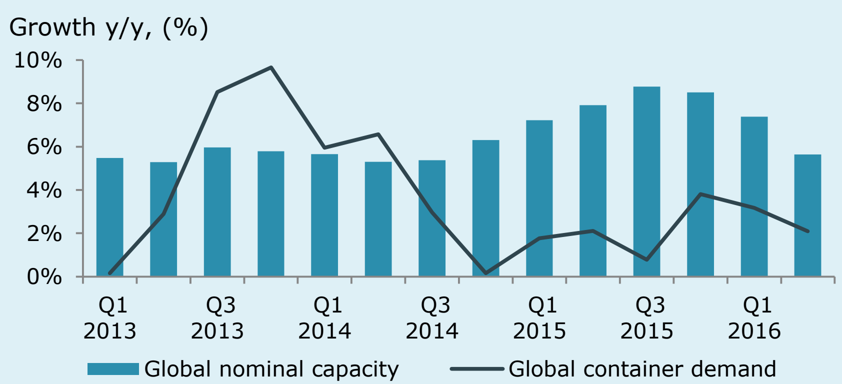
Group highlights Q2 2016

- Group profit decreased 89% to USD 118m (USD 1.1bn) negatively impacted by significantly lower container freight rates and oil price. Group ROIC was 2.0% (10.2%)
- Underlying profit decreased to USD 134m (USD 1.1bn), predominantly driven by a loss in Maersk Line
- The Group continues to execute on reducing cost and delivering high operational performance across its business units. Maersk Line realised unit cost below 2,000 USD/FFE and Maersk Oil continues to operate with a break-even price level in the range of USD 40-45 per barrel
- Free cash flow was USD 326m (USD 4.9bn)
  - Cash flow from operating activities decreased to USD 940m (USD 1.8bn) materially impacted by the low profit
  - Net cash flow used for capital expenditure was USD 614m (USD 1.7bn excluding the sale of shares in Danske Bank of USD 4.8bn) mainly driven by the acquisition of the jack-up rig Maersk Highlander and development of the Culzean oil field
- Net interest bearing debt increased to USD 11.7bn (USD 10.7bn end-Q1 2016) mainly driven by dividend payment of USD 1.0bn
- The Group maintains its strong financial position with an equity ratio of 55% and a liquidity reserve of USD 11.5bn.

Maersk Line – loss making at all-time low rates

(USD million)	Q2 2016	Q2 2015	Change	FY 2015
Revenue	5,061	6,263	-19%	23,729
EBITDA	365	998	-63%	3,324
Underlying profit	-139	499	NA	1,287
Reported profit	**-151**	**507**	**NA**	**1,303**
Operating cash flow	89	873	-90%	3,271
Volume (FFE '000)	2,655	2,484	6.9%	9,522
Rate (USD/FFE)	1,716	2,261	-24%	2,209
Bunker (USD/tonne)	194	335	-42%	315
ROIC (%)	-3.0	10.1	-13.1pp	6.5

Global nominal capacity and demand growth



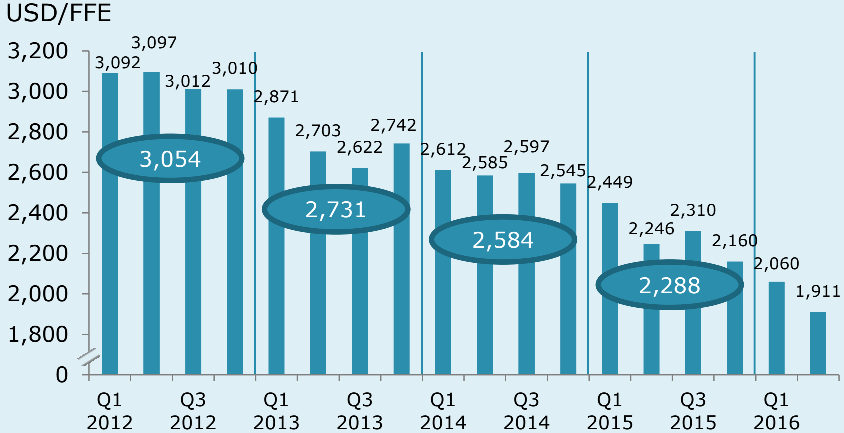
Note: Global nominal capacity is deliveries minus scrappings. Source: Alphaliner, CTS

Maersk Line highlights Q2 2016

- Maersk Line reported an underlying loss of USD 139m (profit of USD 499m) and a ROIC of -3.0% (10.1%) due to significantly lower freight rates
- Volume increased 6.9% to 2.7m FFE, while global container demand is estimated to have grown around 2%. The global container fleet grew around 6%
- Maersk Line's capacity grew by 2.2% to 3.1m TEU. Chartered capacity grew by 5.1% to accommodate increased volume while owned capacity grew by 0.2%
- Freight rates declined 24% and deteriorated across all trades with North America and West Central Asia declining most, and Africa, Oceania and European trades also notably lower than Q2 2015
- EBIT-margin gap to peers is estimated to be around 8% in Q1 2016 and around the 5% when adjusting for impairments
- Free cash flow was negative USD 20m (USD 12m)
  - Cash flow from operating activities was USD 89m (USD 873m) impacted by reduced profit and worsening net working capital
  - Cash flow used for capital expenditures declined to USD 109m (USD 861m) mainly as a result of lower vessel investments and divestments.

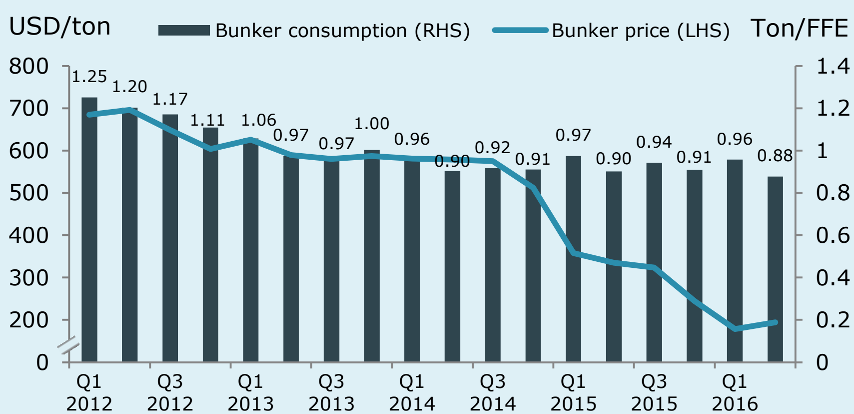
Maersk Line – record low unit cost achieved

Unit cost including VSA income



Definition: EBIT cost excl. gain/loss, restructuring cost, associated companies share and incl. VSA income.

Bunker consumption and price



Maersk Line highlights Q2 2016

- Cost leadership remains a key strategic priority and in Q2 Maersk Line posted record low unit cost
- Total cost decreased by 10% (USD 549m) against a volume increase of 6.9% compared to Q2 2015
- Unit cost improved by 15% y/y (335 USD/FFE) and by 7.2% q/q (149 USD/FFE) to 1,911 USD/FFE, reporting record low levels and for the first time below 2,000 USD/FFE
- Total bunker cost decreased by 40%. Bunker price declined by 42% and had an impact of 124 USD/FFE on unit cost. Bunker efficiency improved by 2.8% to 877 kg/FFE (902 kg/FFE)
- Unit costs improved when excluding bunker price and FX impact mainly due to higher utilisation, lower time charter rates, and reduced SG&A costs
- The cost initiatives announced in Q4 2015 are progressing as planned, including efforts to further reduce cost through standardisation, automation and digitalisation of processes. Maersk Line is on track to deliver the benefits by the end of 2017.

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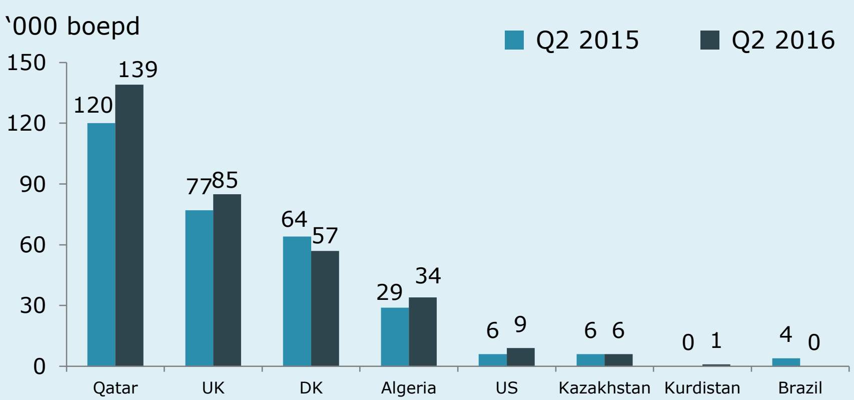
Maersk Oil – reducing operating expenses further

(USD million)	Q2 2016	Q2 2015	Change	FY 2015
Revenue	1,278	1,583	-19%	5,639
Exploration costs	47	109	-57%	423
EBITDA	755	849	-11%	2,748
Underlying profit	130	217	-40%	435
Reported profit	**131**	**137**	-4.4%	**-2,146**
Operating cash flow	514	611	-16%	1,768
Prod. (boepd '000)	331	306	8.2%	312
Brent (USD per barrel)	46	62	-26%	52
ROIC (%)	12.1	9.2	2.9pp	-38.6

Maersk Oil's entitlement share of production



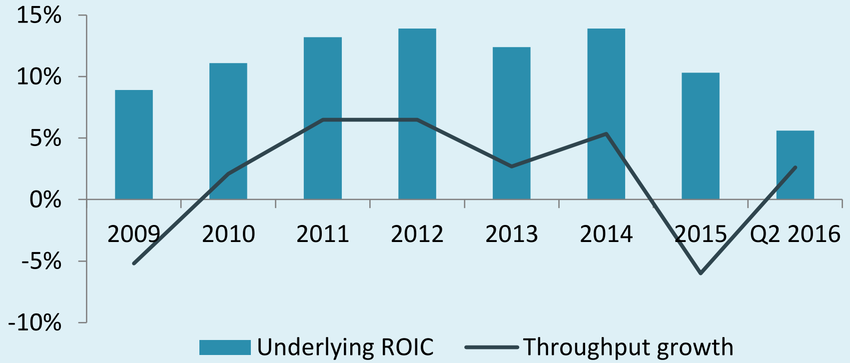
Maersk Oil highlights Q2 2016

- Underlying profit decreased to USD 130m (USD 217m) mainly due to 26% lower oil price, partly offset by increased production and reduced costs
- ROIC increased to 12.1% (9.2%)
- Entitlement production increased 8.2% to 331,000 boepd (306,000 boepd) primarily driven by higher entitlement share in Qatar and increased efficiency in the UK, partly offset by a natural decline and maintenance shut downs in Denmark
- Operating expenses excluding exploration costs was reduced by 25% compared to Q2 2015 to USD 475m (USD 632m). Total cost savings by the end-2016 are now expected to be 25-30% compared to end-2014
- Exploration costs decreased by 57% to USD 47m (USD 109m)
- Break-even level unchanged at around USD 40-45 per barrel for full year 2016
- Qatar Petroleum announced that Maersk Oil was not selected to participate in the joint venture operating the Al Shaheen field from July 2017
  - The financial impact of not continuing production in Qatar is limited as a new contract would have been on less attractive terms compared to the existing terms
  - The tender result will not lead to any impairments or reduce Maersk Oil's reserves and resource base which was disclosed in the Q1 2016 interim report.

APM Terminals – ROIC remains under pressure

(USD million)	Q2 2016	Q2 2015	Change	FY 2015
Revenue	1,064	1,033	3.0%	4,240
EBITDA	187	206	-9.2%	845
Share of profit:				
- Associated companies	25	22	14%	85
- Joint ventures	22	32	-31%	114
Underlying profit	109	159	-31%	626
Reported profit	**112**	**161**	**-30%**	**654**
Operating cash flow	163	176	-7.4%	874
Throughput (TEU m)	9.4	9.2	2.6%	36.0
ROIC (%)	5.8	10.9	-5.1pp	10.9

Volume growth and underlying ROIC development*



*Excluding net impact from divestments and impairments

APM Terminals highlights Q2 2016

- APM Terminals delivered an underlying profit of USD 109m (USD 159m) and a ROIC of 5.8% (10.9%)
- Throughput increased 2.6% mainly due to the acquisition of Grup TCB, while global market grew 2.3%. Like for like throughput increased 0.2%
- Terminals in oil dependent markets faced declining volumes and commercially challenged terminals in Latin America, North-West Europe and Egypt have not regained business to compensate earlier lost services
- APM Terminals is responding by accelerating ongoing cost saving initiatives in all controlled entities and head offices
- Operating businesses generated a ROIC of 8.8% (12.5%) while projects under implementation had a ROIC of negative 2.1% (negative 6.3%) resulting from start-up costs
- Integration of Grup Maritim TCB is progressing as planned and contributed with a small result in Q2
- The enlarged portfolio including the projects under implementation may create opportunities for consolidation and potentially divestments.

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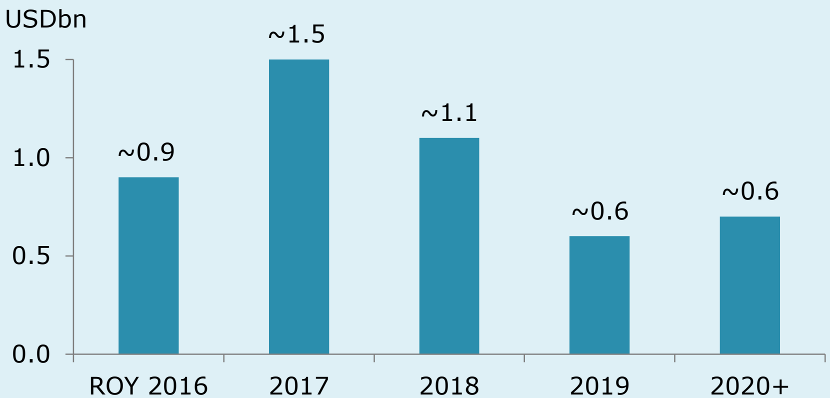
Maersk Drilling - solid operational performance

(USD million)	Q2 2016	Q2 2015	Change	FY 2015
Revenue	566	624	-9.3%	2,517
EBITDA	330	361	-8.6%	1,396
Underlying profit	164	189	-13%	732
Reported profit	**164**	**218**	**-25%**	**751**
Operating cash flow	129	248	-48%	1,283
Fleet (operating units)	23	23	0	22
Contracted days	1,686	1,671	0.9%	7,086
ROIC (%)	8.3	10.6	-2.3pp	9.3

Revenue backlog end-Q2 2016



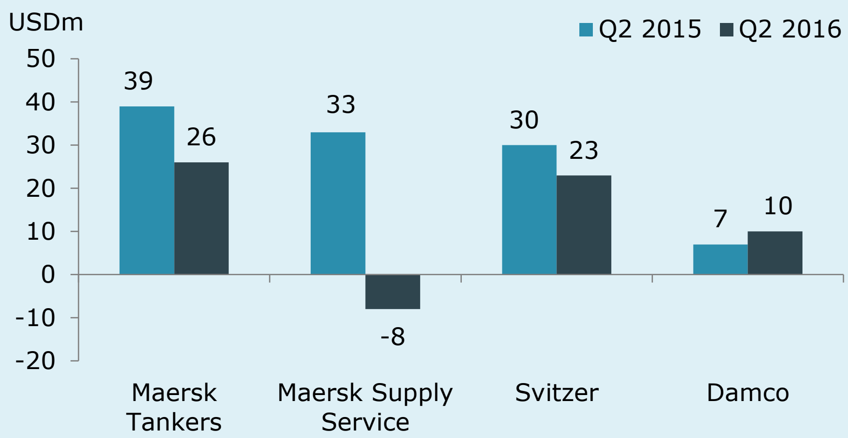
Maersk Drilling highlights Q2 2016

- Maersk Drilling reported an underlying profit of USD 164m (USD 189m) negatively impacted by more idle rigs. ROIC was 8.3% (10.6%)
- Cost has been reduced by 8% compared to Q2 2015 and by more than 15% since the launch of the cost reduction program in Q4 2014
- The average operational uptime was 98% (98%) for the jack-up rigs and 99% (96%) for the floating rigs
- Forward contract coverage was 73% for 2016, 56% for 2017 and 45% for 2018. Revenue backlog was USD 4.7bn (USD 5.3bn) by end-Q2 2016
- The lower cash flow from operating activities of USD 129m (USD 248m) was due to higher net working capital
- Maersk Drilling acquired a newbuild harsh environment jack-up rig, Maersk Highlander, for USD 190m backed by a five-year drilling contract with a revenue value of approximately USD 420m
- An early termination agreement for Maersk Valiant was signed with effect from mid-September 2016, leaving Maersk Drilling financially neutral to the original contract
- Five rigs were available by end-Q2 2016. Another five rigs (including Valiant) will come off contract during the remainder of 2016.

APM Shipping Services – deterioriating markets

(USD million)	Q2 2016	Q2 2015	Change	FY 2015
Revenue	1,109	1,234	-10%	5,080
EBITDA	157	214	-27%	809
Underlying profit	51	109	-53%	404
Reported profit	**-44**	**138**	**NA**	**446**
Operating cash flow	127	193	-34%	806
ROIC (%)	-3.6	11.8	-15.4pp	9.5

Underlying profit by activity*



*Underlying profit is equal to the profit or loss for the period excluding net impact from divestments and impairments

APM Shipping Services highlights Q2

APM Shipping Services reported an underlying profit of USD 51m (USD 109m) and a ROIC of -3.6% (11.8%)

Maersk Tankers was negatively affected by declining rates across all segments driven by increased vessel supply and flat demand for oil products, partly offset by improved commercial performance and cost savings

Maersk Supply Service remains significantly impacted by lower rates and utilisation. The company made a USD 97m impairment related to old vessels with limited trading opportunities, and focus on improving the cost base during 2016 continues with the aim at reaching double digit percentage reduction. By the end of Q2 Maersk Supply Service had 13 vessels in lay-up

Svitzer improved underlying profitability through productivity and cost saving initiatives, but experienced a high level of integration and start-up costs in Americas, in addition to a weak salvage market

Damco increased underlying profit mainly driven by cost saving initiatives, improved processes and operational efficiencies. Focus in 2016 will remain on generating profitable and sustainable growth through cost optimisation and customer service improvements.

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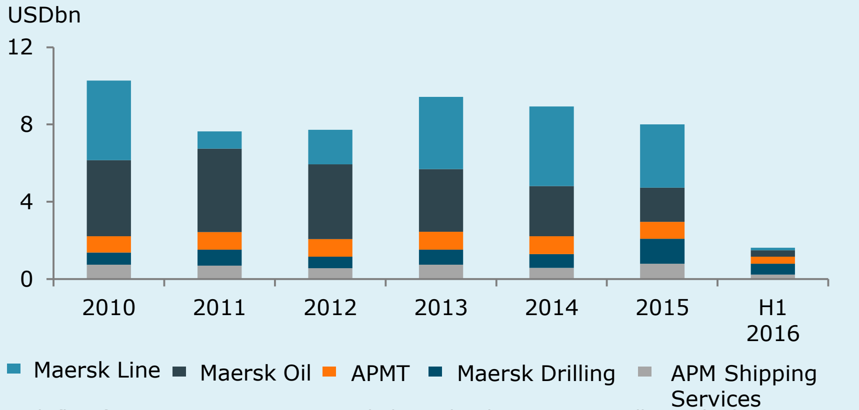
Stable operating cash flow generation

Historically stable operating cash flow*

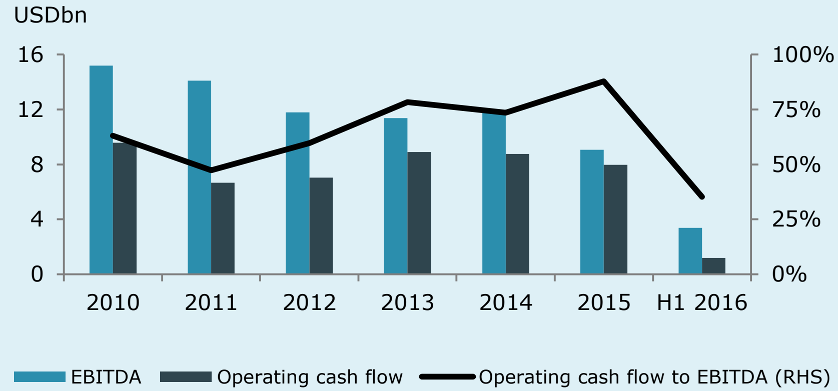
Generating a stable operating cash flow over time



*Cash flow from operating activities excluding other businesses, unallocated, eliminations etc.

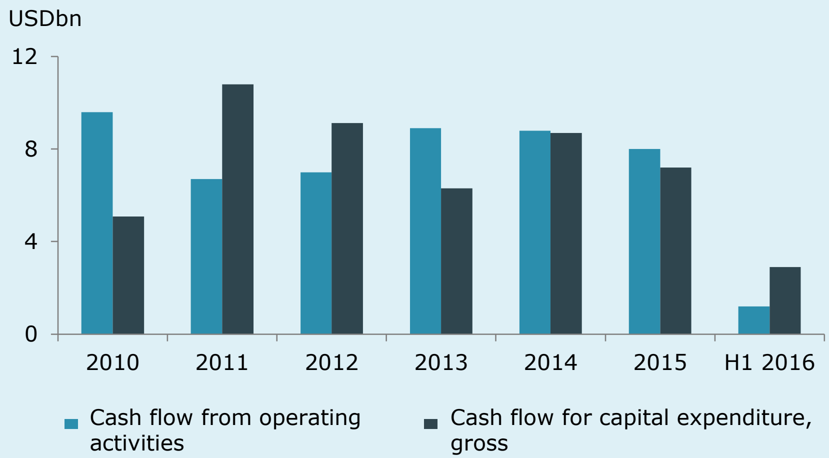
Historically solid cash conversion

Solid conversion of EBITDA to operating cash flow



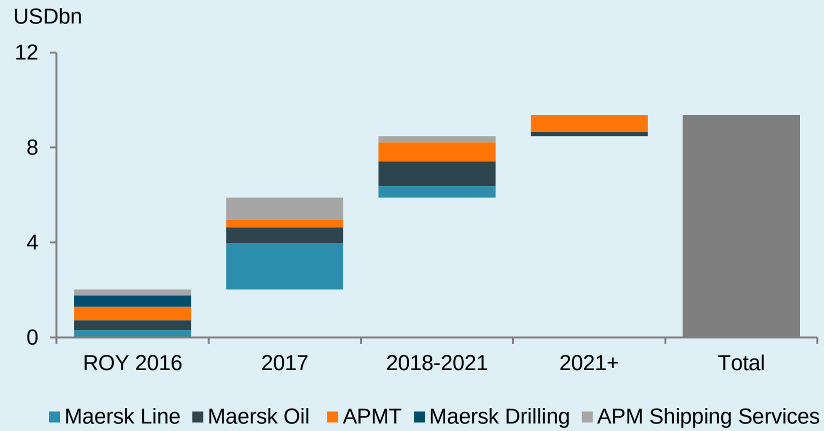
Self-funded capital expenditures

Investments primarily funded by cash flow from operating activities



Limited capital commitments

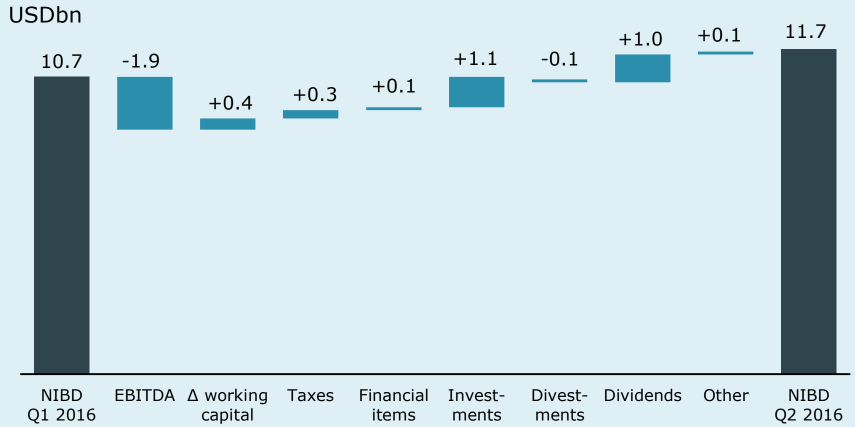
High flexibility in the future capital commitments



A strong financial position

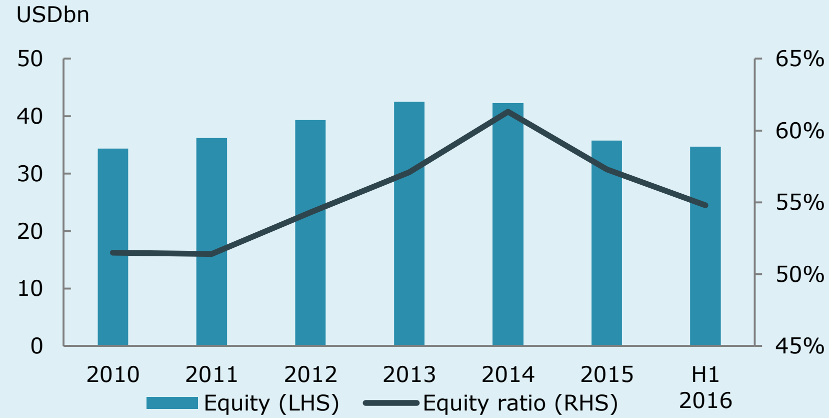
Well capitalised position

Net debt has increased USD 1.0bn in Q2 2016 to USD 11.7bn



Stable high equity ratio*

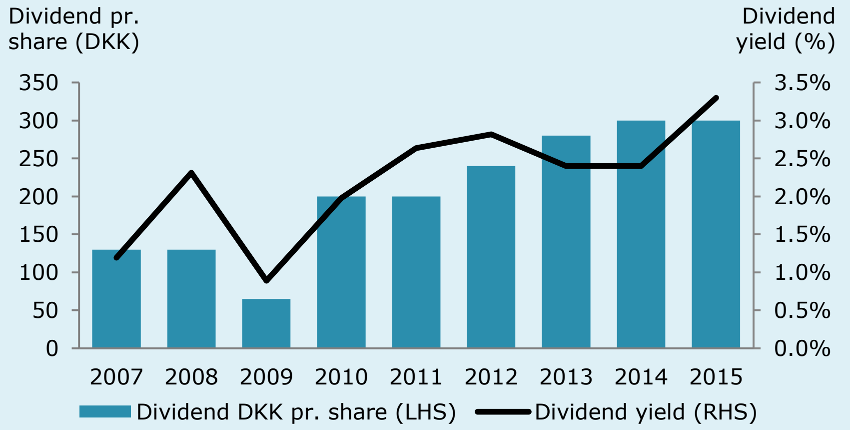
Equity ratio of 54.8% by end of H1 2016



*Including effect from distribution of Danske Bank shares in 2015

Increased ordinary dividends*

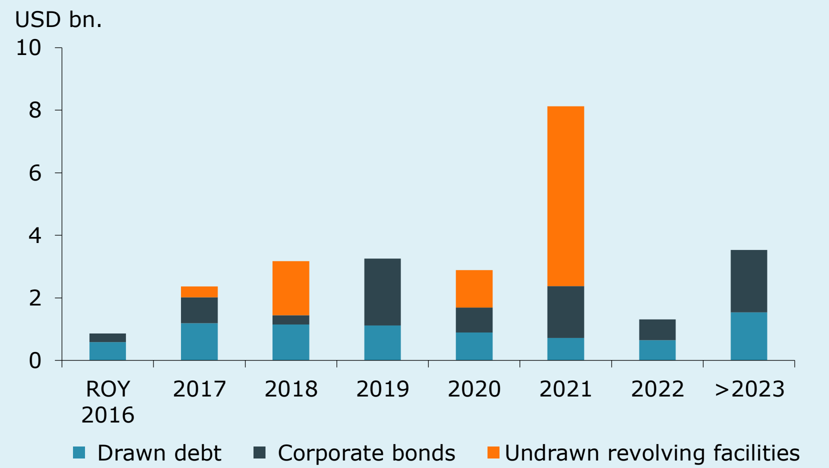
Ambition to increase dividend per share supported by underlying earnings growth



*Adjusted for bonus shares issue

Well-balanced debt structure

Funding in place with liquidity reserve of USD 11.5bn



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Consolidated financial information

Income statement (USD million)	Q2 2016	Q2 2015	Change	H1 2016	H1 2015	Change	FY 2015
Revenue	8,861	10,526	-16%	17,400	21,073	-17%	40,308
EBITDA	1,779	2,631	-32%	3,376	5,201	-35%	9,074
Depreciation, etc.	1,294	1,223	5.8%	2,456	2,324	5.7%	7,944
Gain on sale of non-current assets, etc. net	111	68	63%	122	343	-64%	478
EBIT	**656**	**1,539**	**-57%**	**1,146**	**3,362**	**-66%**	**1,870**
Financial costs, net	-154	-80	93%	-275	-151	82%	-423
Profit before tax	502	1,459	-66%	871	3,211	-73%	1,447
Tax	384	373	2.9%	529	553	-4.3%	522
Profit for the period	**118**	**1,086**	**-89%**	**342**	**2,658**	**-87%**	**925**
Underlying profit	134	1,099	-88%	348	2,418	-86%	3,071

Key figures (USD million)	Q2 2016	Q2 2015	Change	H1 2016	H1 2015	Change	FY 2015
Cash Flow from operating activities	940	1,777	-47%	1,190	3,727	-68%	7,969
Cash Flow used for capital expenditure	-614	3,075	NA	-2,477	1,432	NA	-1,408
Net interest bearing debt	11,706	8,835	32%	11,706	8,835	33%	7,770
Earnings per share (USD)	5	49	-90%	15	121	-88%	37
ROIC (%)	2.0	10.2	-8.2pp	2.4	12.0	-9.6pp	2.9
Dividend per share (DKK)							300

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Guidance for 2016

Changes in guidance are versus guidance given at Q1 2016. All figures in parenthesis refer to full year 2015.

The Group's expectation of an underlying result significantly below last year (USD 3.1bn) is unchanged. Gross cash flow used for capital expenditure is now expected to be around USD 6bn in 2016 (USD 7.1bn) from previously around USD 7bn.

Maersk Line reiterates the expectation of an underlying result significantly below last year (USD 1.3bn). Global demand for seaborne container transportation is still expected to increase by 1-3%. Maersk Line aims to grow at least with the market to defend its market leading position.

Maersk Oil now expects a positive underlying result versus previously a break-even result. A break-even result is still to be reached with an oil price in the range of USD 40-45 per barrel.

Maersk Oil maintains an expected entitlement production of 320,000 - 330,000 boepd (312,000 boepd). Exploration costs are now expected to be significantly below last year (USD 423m) versus previously to be below 2015.

APM Terminals now expects an underlying result significantly below 2015 (USD 626m) versus previously below the 2015 level, due to reduced demand expectations in oil producing emerging economies and network adjustments by customers.

Maersk Drilling now expects an underlying result below last year (USD 732m) up from significantly below last year, due to the positive impact from the termination fees.

APM Shipping Services reiterates the expectation of an underlying result significantly below the 2015 result (USD 404m) predominantly due to significantly lower rates and activity in Maersk Supply Service.

SENSITIVITY GUIDANCE

The Group's guidance for 2016 is subject to considerable uncertainty, not least due to developments in the global economy, the container freight rates and the oil price.

The Group's expected underlying result depends on a number of factors. Based on the expected earnings level and all other things being equal, the sensitivities for the rest of year 2016 for four key value drivers are listed in the table below.

Sensitivities for 2016

Factors	Change	Effect on the Group's underlying profit rest of year
Oil price for Maersk Oil	+ / - 10 USD/barrel	+ / - USD 0.16bn
Bunker price	+ / - 100 USD/tonne	- / + USD 0.1bn
Container freight rate	+ / - 100 USD/FFE	+ / - USD 0.5bn
Container freight volume	+ / - 100,000 FFE	+ / - USD 0.1bn

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Q&A

To ask a question please press **01**

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