# Maersk Group Q1 2016 report

4 May 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



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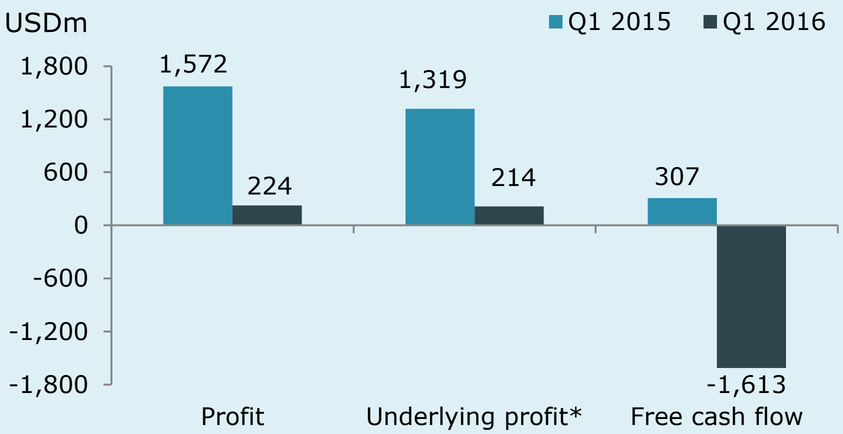
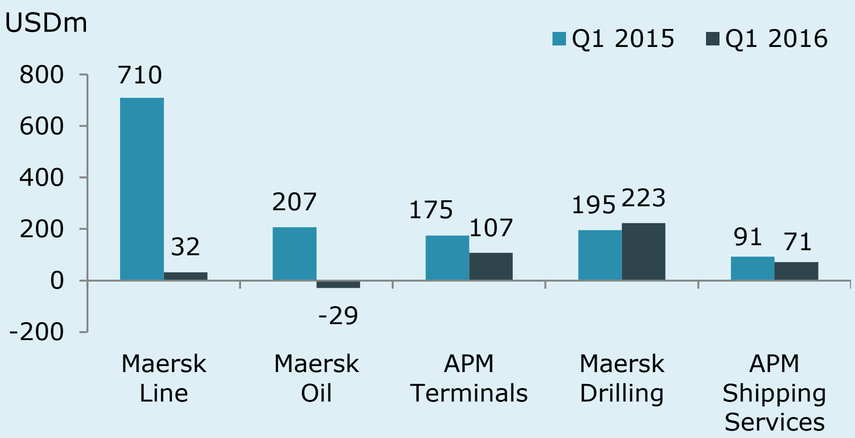
# Group financial highlights

## Group Financial Highlights




## 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 Q1 2016

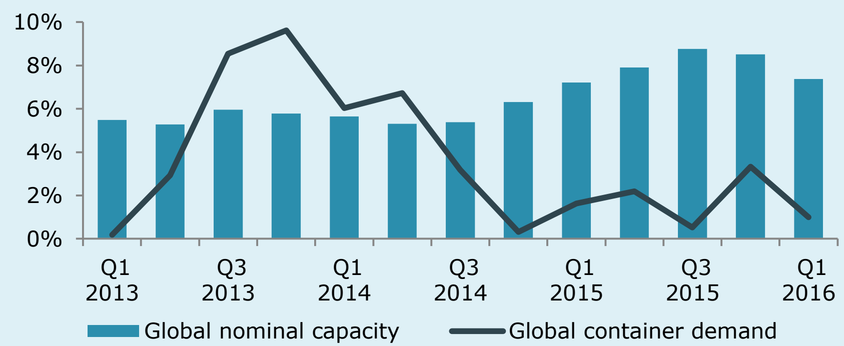
- Group profit decreased 86% to USD 224m (USD 1.6bn) negatively impacted by significantly lower container freight rates and oil price. Group ROIC was 2.9% (13.8%)
- Underlying profit decreased to USD 214m (USD 1.3bn), predominantly driven by lower profit in Maersk Line, Maersk Oil and APM Terminals
- Free cash flow was negative USD 1.6bn (positive USD 307m)
  - Cash flow from operating activities decreased to USD 250m (USD 2.0bn) due to lower profit and a dispute settlement in Maersk Oil
  - Net cash flow used for capital expenditure was USD 1.9bn (USD 1.6bn) primarily driven by the Grup Maritim TCB acquisition in APM Terminals and Maersk Oil's acquisition of exploration licences from Africa Oil
- Net interest bearing debt increased to USD 10.7bn (USD 7.8bn end-2015) mainly driven by the Grup Maritim TCB acquisition with an enterprise value of USD 1.2bn, Africa Oil acquisition of USD 0.4bn, and share buy-back of USD 0.5bn
- The Group maintains its strong financial position with an equity ratio of 56% and a liquidity reserve of USD 11.9bn
- The Group completed its share buy-back program of approximately USD 1bn in Q1 2016, and paid an ordinary dividend of DKK 300 per share in April.

# Maersk Line – profitable despite record low rates

| (USD million) | Q1 2016 | Q1 2015 | Change | FY 2015 |
|---|---|---|---|---|
| Revenue | 4,974 | 6,254 | -20% | 23,729 |
| EBITDA | 486 | 1,202 | -60% | 3,324 |
| Underlying profit | 32 | 710 | -95% | 1,287 |
| **Reported profit** | **37** | **714** | **-95%** | **1,303** |
| Operating cash flow | 42 | 971 | -96% | 3,271 |
| Volume (FFE '000) | 2,361 | 2,207 | 7.0% | 9,522 |
| Rate (USD/FFE) | 1,857 | 2,493 | -26% | 2,209 |
| Bunker (USD/tonne) | 178 | 358 | -50% | 315 |
| ROIC (%) | 0.7 | 14.3 | -13.6pp | 6.5 |

**Global nominal capacity and demand growth**

Growth y/y, (%)




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

## Maersk Line highlights Q1 2016

- Maersk Line's underlying profit decreased to USD 32m (USD 710m) and ROIC was 0.7% (14.3%) due to considerably lower freight rates
- Volume increased 7.0% to 2.4m FFE, while global container demand is estimated to have grown around 1%. The global container fleet grew by more than 7%
- Maersk Line's capacity grew by 2.2% y/y and 1.0% q/q to 3.0m TEU
- Managing capacity in line with the low demand growth in the industry remains a focus area. Initiatives taken in H2 2015 has resulted in improved utilisation in Q1 2016 compared to Q1 2015 and Q4 2015
- Rates declined 26% and reached record low levels, with lower rates across all trades, especially Maersk Line's key European trades as well as Latin American and North American trades
- EBIT-margin gap to peers is estimated to be around 5% in Q4 2015
- Maersk Line delivered a positive free cash flow of USD 73m in Q1 2016.



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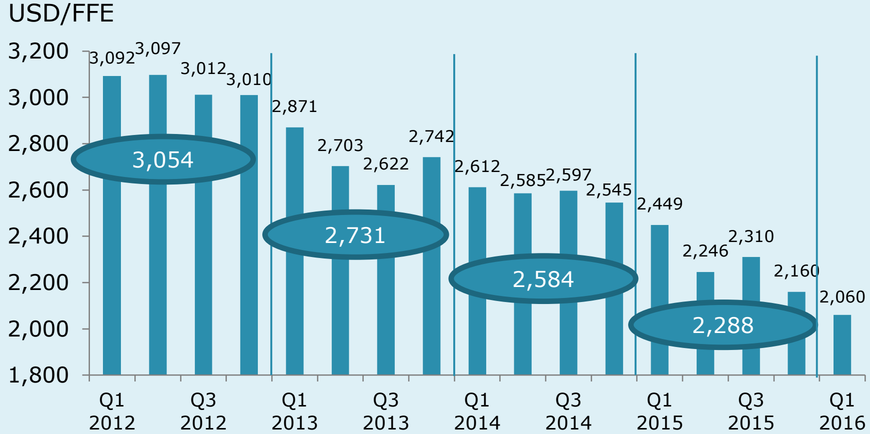
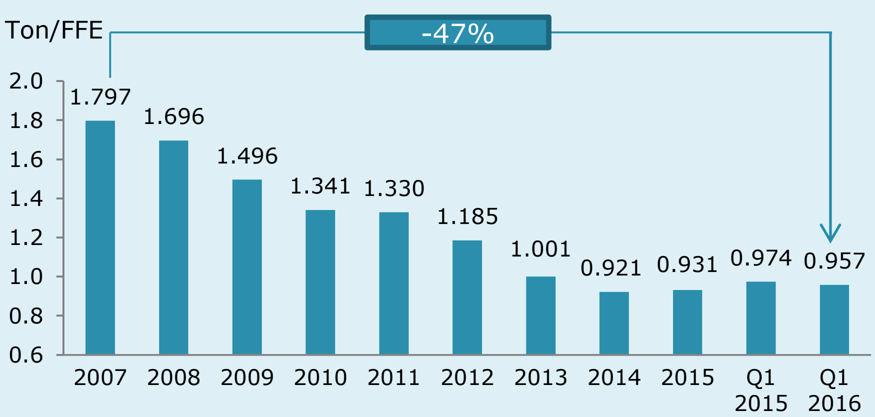
# Maersk Line – further unit cost reduction

## Unit cost including VSA income




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

## Bunker consumption per FFE*




*Does not account for changes in short/ long-haul volume mix

## Maersk Line highlights Q1 2016

- Cost leadership remains an essential pillar of the Maersk Line strategy and the cost initiatives announced in Q4 2015 progressed as planned during Q1 2016
- Total cost decreased by 10% (USD 560m) against a volume increase of 7.0% compared to Q1 2015
- Unit cost improved by 16% y/y (389 USD/FFE) and by 4.6% q/q (100 USD/FFE) to 2,060 USD/FFE
- Total bunker cost decreased by 48%. Bunker price declined by 50% and had an impact of 175 USD/FFE on unit cost. Bunker efficiency improved by 1.8% to 957 kg/FFE (974 kg/FFE)
- Unit costs improved when excluding bunker price and FX impact mainly due to higher utilisation, lower time charter rates and other operational cost savings.



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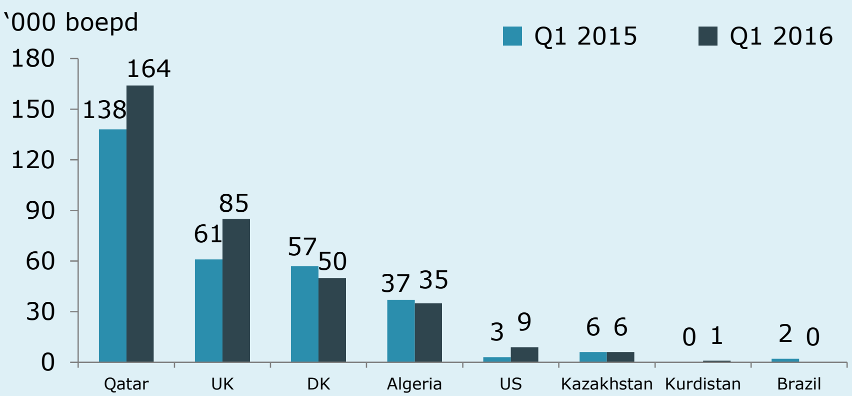
# Maersk Oil – lower break-even level achieved

| (USD million) | Q1 2016 | Q1 2015 | Change | FY 2015 |
|---|---|---|---|---|
| Revenue | 1,032 | 1,433 | -28% | 5,639 |
| Exploration costs | 57 | 162 | -65% | 423 |
| EBITDA | 421 | 590 | -29% | 2,748 |
| Underlying profit | -29 | 207 | N/A | 435 |
| **Reported profit** | **-29** | **208** | N/A | **-2,146** |
| Operating cash flow | -172 | 105 | N/A | 1,768 |
| Prod. (boepd '000) | 350 | 304 | 15% | 312 |
| Brent (USD per barrel) | 34 | 54 | -37% | 52 |
| ROIC (%) | -3.0 | 14.8 | -17.8pp | -38.6 |

**Maersk Oil's entitlement share of production**




## Maersk Oil highlights Q1 2016

- Underlying profit decreased to USD -29m (USD 207m) mainly due to 37% lower oil price, partly offset by increased production and lower exploration costs. ROIC was -3.0% (14.8%)
- Entitlement production increased 15% to 350,000 boepd (304,000 boepd) primarily driven by good production efficiency in UK, higher entitlement share in Qatar, and ramp up of Golden Eagle (UK) and Jack (US)
- Operating expenses excluding exploration costs reduced by 21% compared to Q1 2015
- Exploration costs decreased by 65% to USD 57m and is now expected to be below last year in 2016
- Primarily as a result of cost reductions and lower exploration level, break-even oil price has been reduced to a range of USD 40–45
- Operating cash flow turned negative in the quarter, negatively impacted by a dispute settlement
- Gas production from Tyra East and Tyra West will cease in October 2018, if an economically viable solution for continued operations is not identified during 2016
- Maersk Oil completed the acquisition of 25% share in three onshore exploration licenses in Kenya and a 25% and 15% share in two licenses in Ethiopia
- Divestment of Polvo field in Brazil was completed.



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# Reserves and resources


| (million boe) | End 2015 | End 2014 |
|---|---|---|
| Proved reserves (1P) | 408 | 327 |
| Probable reserves ($2P_{increment}$) | 241 | 183 |
| Proved and Probable reserves (2P) | 649 | 510 |
| Contingent resources (2C) | 492 | 801 |
| **Reserves & resources (2P + 2C)** | **1,141** | **1,311** |

## 2015 Highlights

- 1P Reserves Replacement Ratio (RRR) increased to 171% with 114m boe entitlement production in 2015 (RRR 2014: 30%)
- Significant 2P reserves additions, mainly from Johan Sverdrup and Culzean, of close to 300m boe
- 2P + 2C reserves and resources decreased 13% due to production and revision of projects mainly caused by lower oil price
- No Qatar reserves or resources included post 2017.



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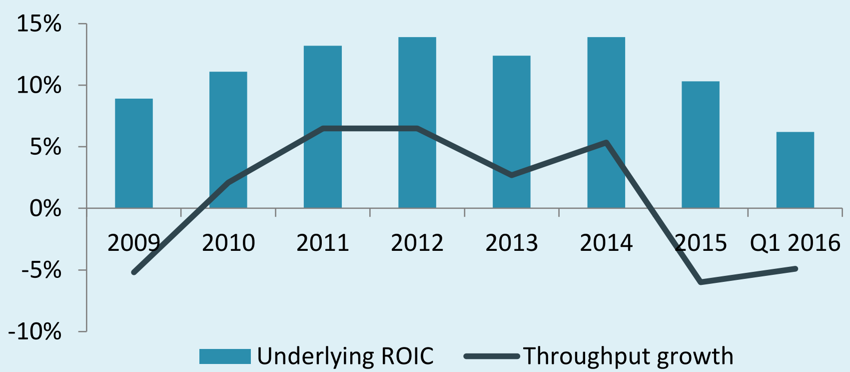
# APM Terminals – challenging key markets

| (USD million) | Q1 2016 | Q1 2015 | Change | FY 2015 |
|---|---|---|---|---|
| Revenue | 962 | 1,136 | -15% | 4,240 |
| EBITDA | 164 | 220 | -25% | 845 |
| Share of profit: | | | | |
| - Associated companies | 25 | 20 | 25% | 85 |
| - Joint ventures | 18 | 39 | -54% | 114 |
| Underlying profit | 107 | 175 | -39% | 626 |
| **Reported profit** | **108** | **190** | **-43%** | **654** |
| Operating cash flow | 198 | 271 | -27% | 874 |
| Throughput (TEU m) | 8.7 | 9.1 | -4.9% | 36.0 |
| ROIC (%) | 6.2 | 12.9 | -6.7pp | 10.9 |

**Volume growth and underlying ROIC development***




*Excluding net impact from divestments and impairments

## APM Terminals highlights Q1 2016

- APM Terminals delivered an underlying profit of USD 107m (USD 175m) and a ROIC of 6.2% (12.9%)
- Throughput declined by 4.9% mainly due to divestments, while global market grew by 1.4%. Like for like throughput declined by 0.8%. Volumes in APM Terminals' West African businesses declined by around 8%
- EBITDA margin declined by 2.3%-point, impacted by:
  - Divestments: +0.4%-points
  - FX movements: +0.3%-points
  - Underlying business: -3.9%-point
  - IFRIC12 construction: +0.9%-point
- Share of profit from joint ventures and associated companies declined across a majority of entities
- APM Terminals accelerated its revenue improvement and cost savings initiatives in Q1 2016
- APM Terminals completed the acquisition for the first eight terminals of Grup Maritim TCB in early March. These are expected to add 2m TEU equity weighted throughput to the portfolio, but with initial negative impact on ROIC
- An agreement to develop a new transshipment terminal in Tangier with an annual capacity of 5m TEU was signed in the quarter. Total capex is expected to be around USD 0.9bn with APM Terminal's share being 80%. It will be the first automated terminal in Africa.

# Maersk Drilling - solid operational performance

| (USD million) | Q1 2016 | Q1 2015 | Change | FY 2015 |
|---|---|---|---|---|
| Revenue | 654 | 630 | 3.8% | 2,517 |
| EBITDA | 407 | 343 | 19% | 1,396 |
| Underlying profit | 223 | 195 | 14% | 732 |
| **Reported profit** | **222** | **168** | **32%** | **751** |
| Operating cash flow | 427 | 280 | 53% | 1,283 |
| Fleet (units) | 22 | 23 | -1 | 22 |
| Contracted days | 1,683 | 1,800 | -117 | 7,086 |
| ROIC (%) | 11.2 | 8.5 | 2.7pp | 9.3 |

**Revenue backlog end-Q1 2016**


## Maersk Drilling highlights Q1 2016

- Underlying profit increased 14% to USD 223m (USD 195m) positively impacted by USD 60m due to the termination of Mærsk Deliverer. ROIC was 11.2% (8.5%)
- Cost has been reduced by 12% since the launch of the cost reduction program in Q4 2014
- The average operational uptime was 96% (99%) for the jack-up rigs and 98% (94%) for the floating rigs
- Free cash flow increased mainly due to higher operating result, termination fee received, and fewer instalments paid for newbuild projects
- Forward contract coverage was 72% for 2016, 54% for 2017 and 43% for 2018. Revenue backlog was USD 4.7bn (USD 5.9bn) end-Q1 2016
- The contract for Mærsk Gallant was cancelled, but a new contract in direct continuation was signed. The cancellation and new contract are financially neutral
- Mærsk Deliverer received early contract termination, with Maersk Drilling receiving compensation for the remaining contract period. The cancellation is expected to be neutral for the full year financials
- Four rigs were not on contract by end-Q1 2016, however one will go on contracts later in 2016. Further six rigs will come off contracts in the remaining of 2016.



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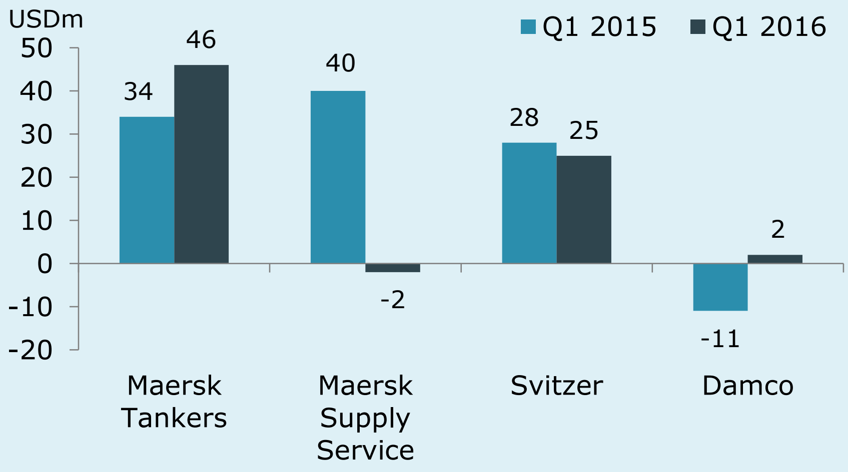
# APM Shipping Services – continued focus on cost

| (USD million) | Q1 2016 | Q1 2015 | Change | FY 2015 |
|---|---|---|---|---|
| Revenue | 1,114 | 1,319 | -16% | 5,080 |
| EBITDA | 171 | 198 | -14% | 809 |
| Underlying profit | 71 | 91 | -22% | 404 |
| **Reported profit** | **75** | **94** | **-20%** | **446** |
| Operating cash flow | 111 | 160 | -31% | 806 |
| ROIC (%) | 6.2 | 8.1 | -1.9pp | 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 Q1

APM Shipping Services reported an underlying profit of USD 71m (USD 91m) and a ROIC of 6.2% (8.1%)

**Maersk Tankers'** result was positively impacted by improved commercial performance and cost savings

**Maersk Supply Service** was impacted by lower rates and lower utilisation only partly offset by cost reductions. Focus on improving the cost base during 2016 continues with the aim at reaching double digit percentage reduction. By end-Q1 Maersk Supply Service had 12 vessels laid up

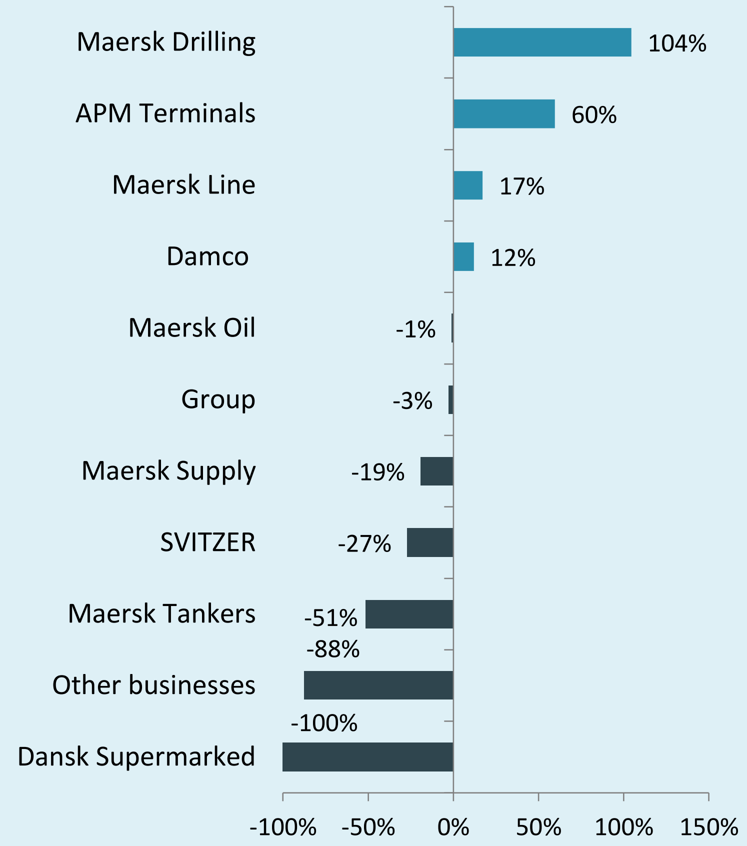
**Svitzer** reported an underlying profit slightly below last year. EBITDA margin improved through productivity and cost saving initiatives. Despite difficult market conditions, Svitzer increased market shares in Australia and Europe

**Damco** increased underlying profit mainly due to cost saving initiatives and growth in supply chain management activities.

# Invested capital and ROIC

| Business | Invested capital (USDm) | ROIC % Q1 2016 | ROIC % Q1 2015 | ROIC % FY 2015 |
|---|---|---|---|---|
| Group | 46,457 | 2.9% | 13.8% | 2.9% |
| Maersk Line | 20,157 | 0.7% | 14.3% | 6.5% |
| Maersk Oil | 4,334 | -3.0% | 14.8% | -38.6% |
| APM Terminals | 7,731 | 6.2% | 12.9% | 10.9% |
| Maersk Drilling | 7,792 | 11.2% | 8.5% | 9.3% |
| APM Shipping Services | 4,893 | 6.2% | 8.1% | 9.5% |
| *Maersk Tankers* | 1,647 | 11.5% | 9.0% | 9.9% |
| *Maersk Supply Service* | 1,820 | -0.4% | 8.8% | 8.5% |
| *Svitzer* | 1,202 | 9.4% | 11.0% | 10.9% |
| *Damco* | 224 | 3.0% | -11.2% | 7.1% |
| Other Businesses | 938 | -5.6% | 15.5% | 10.8% |

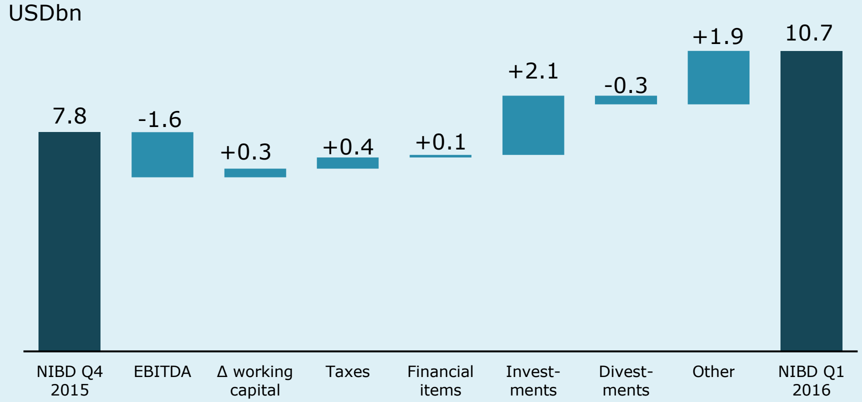
**Development in invested capital -5Y**



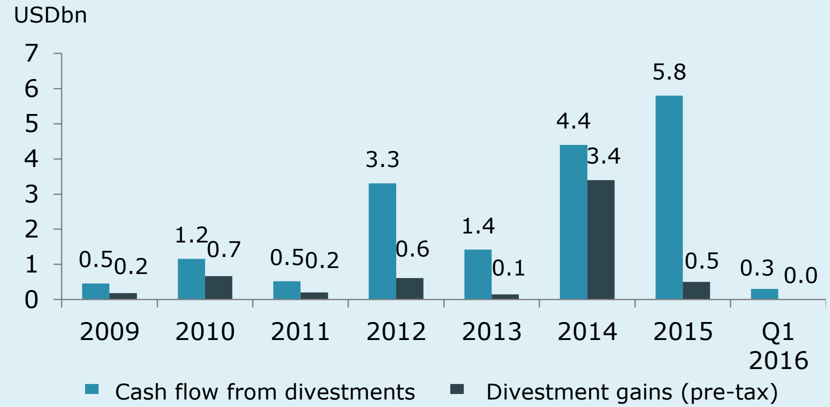

Note. Development since Q1 2011

# A strong financial framework

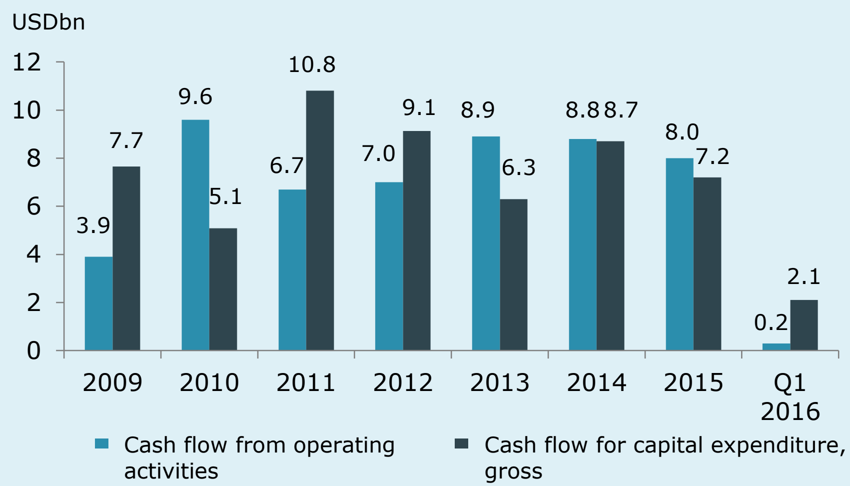
## Well capitalised position
Net debt has increased USD 2.9bn in Q1 2016



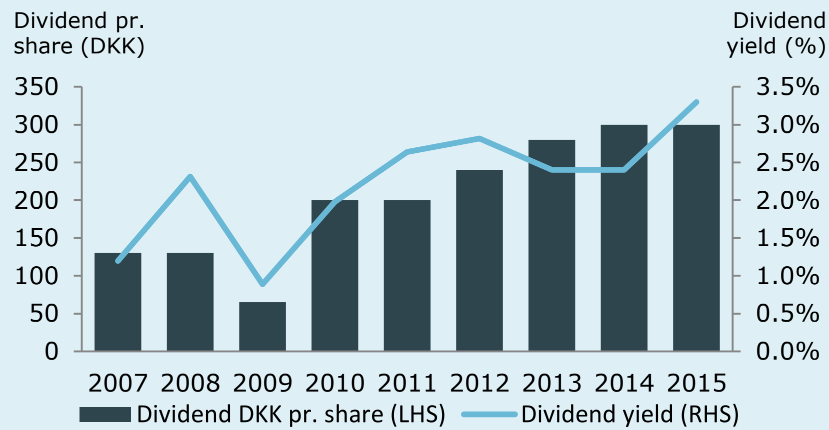

## Active portfolio management
Cash flow from divestments has been USD 17.4bn with divestment gains of USD 5.7bn pre-tax 2009 to Q1 2016




## Investment in growth
Investments primarily funded by cash flow from operating activities




## Increased ordinary dividends*
Ambition to increase dividend per share supported by underlying earnings growth




*Adjusted for bonus shares issue



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# Consolidated financial information

| Income statement (USD million) | Q1 2016 | Q1 2015 | Change | FY 2015 |
|---|---|---|---|---|
| Revenue | 8,539 | 10,547 | -19% | 40,308 |
| EBITDA | 1,597 | 2,570 | -38% | 9,074 |
| Depreciation, etc. | 1,162 | 1,101 | 5.5% | 7,944 |
| Gain on sale of non-current assets, etc. net | 11 | 275 | -96% | 478 |
| **EBIT** | **490** | **1,823** | **-73%** | **1,870** |
| Financial costs, net | -121 | -71 | 70% | -423 |
| Profit before tax | 369 | 1,752 | -79% | 1,447 |
| Tax | 145 | 180 | -19% | 522 |
| **Profit for the period** | **224** | **1,572** | **-86%** | **925** |
| Underlying profit | 214 | 1,319 | -84% | 3,071 |

| Key figures (USD million) | Q1 2016 | Q1 2015 | Change | FY 2015 |
|---|---|---|---|---|
| Cash Flow from operating activities | 250 | 1,950 | -87% | 7,969 |
| Cash Flow used for capital expenditure | -1,863 | -1,643 | 13% | -1,408 |
| Net interest bearing debt | 10,653 | 7,630 | 40% | 7,770 |
| Earnings per share (USD) | 10 | 72 | -86% | 37 |
| ROIC (%) | 2.9 | 13.8 | -10.9pp | 2.9 |
| Dividend per share (DKK) | | | | 300 |



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# Guidance for 2016

Changes in guidance are versus guidance given in the Annual Report 2015. 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 still expected to be around USD 7bn in 2016 (USD 7.1bn).

**Maersk Line** reiterates the expectation of an underlying result significantly below last year (USD 1.3bn) as a consequence of the significantly lower freight rates going into 2016. 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.

Following cost reductions, **Maersk Oil** now expects a break-even result to be reached with an oil price in the range of USD 40-45 per barrel versus previously with an oil price in the range of USD 45-55 per barrel. Previous guidance was a negative underlying result.

Maersk Oil's entitlement production is now expected to be 320,000 - 330,000 boepd (312,000 boepd) compared to previously around 315,000 boepd. Exploration costs are now expected to be below last year (USD 423m) versus previously to be in line with 2015.

**APM Terminals** now expects an underlying result below 2015 (USD 626m) versus previously around the 2015 level, due to reduced demand expectations in oil producing emerging economies.

**Maersk Drilling** reiterates the expectation of an underlying result significantly below last year (USD 732m) mainly due to lower dayrates and more idle days.

**APM Shipping Services** maintain 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 calendar 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 0.3bn / - USD 0.5bn |
| Bunker price | + / - 100 USD/tonne | - / + USD 0.2bn |
| Container freight rate | + / - 100 USD/FFE | + / - USD 0.8bn |
| 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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