Maersk Group Q3 2016 report

2 November 2016 - Conference call 9.30am CET

webcast available at www.maersk.com

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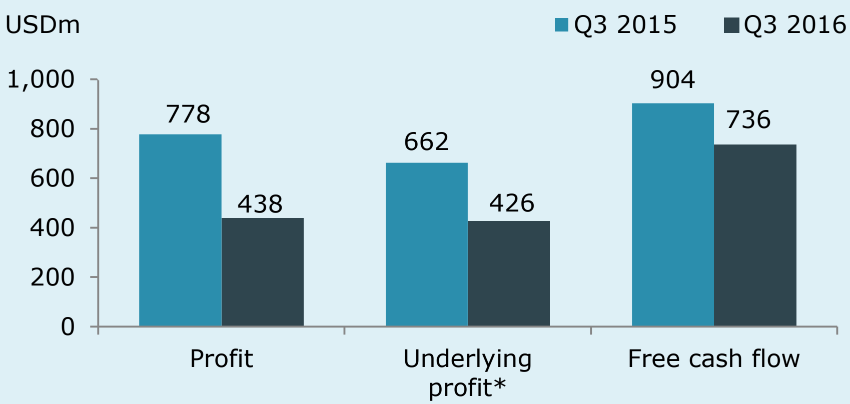
Forward-looking Statements

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.

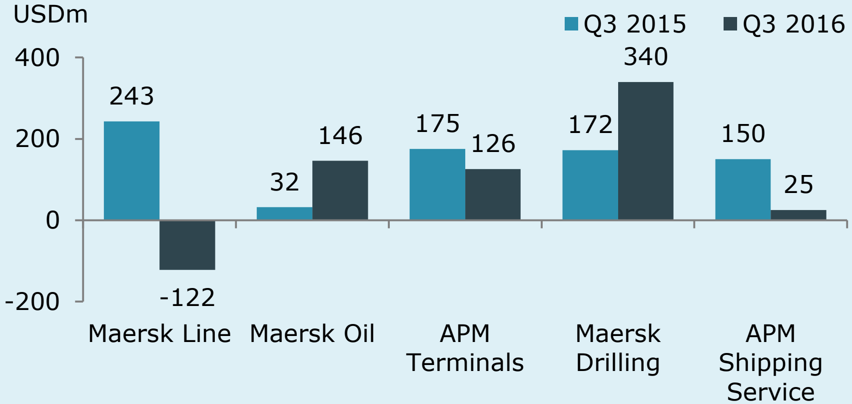
Comparative figures
Unless otherwise stated, all comparisons refer to y/y changes.

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 Q3 2016

- Group profit decreased 44% to USD 438m (USD 778m) negatively impacted by significantly lower container freight rates. Group ROIC was 4.9% (7.6%)
- Underlying profit decreased to USD 426m (USD 662m), with increased profits in Maersk Oil and Maersk Drilling, offset by a loss in Maersk Line
- Free cash flow was USD 736m (USD 904m) with positive free cash flow generation in all five business units
  - Cash flow from operating activities decreased to USD 1.7bn (USD 2.2bn) negatively impacted by the low profit, partly offset by the termination fee from Maersk Valiant
  - Net cash flow used for capital expenditure was USD 935m (USD 1.3bn) mainly related to the development of the Culzean and Johan Sverdrup oil fields
- Net interest bearing debt decreased to USD 11.4bn (USD 11.7bn end-Q2) mainly driven by free cash flow
- The strong financial position is maintained with an equity ratio of 55% and a liquidity reserve of USD 11.8bn
- The Group has divested its 1.6% remaining share in Danske Bank A/S corresponding to 16m shares at DKK 200 per share
- The new strategic direction for the Group along with the new Group structure and management team was announced on the 22nd September. Further strategic updates will be given at the Capital Markets Day on the 13th December.

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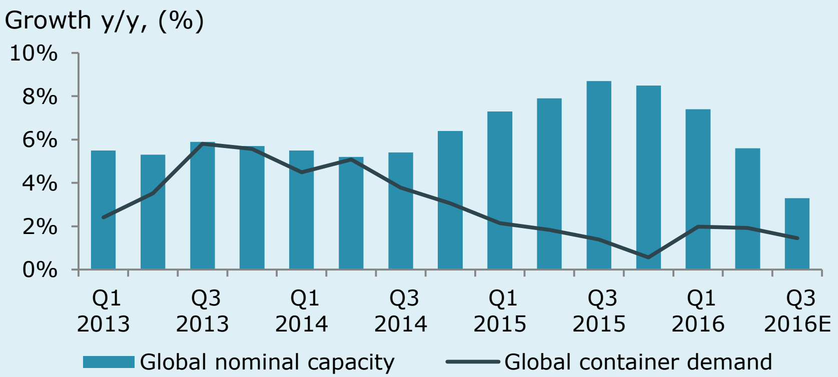
Maersk Line – still impacted by low freight rates

(USD million)	Q3 2016	Q3 2015	Change	FY 2015
Revenue	5,359	6,018	-11%	23,729
EBITDA	325	765	-58%	3,324
Underlying profit	-122	243	NA	1,287
Reported profit	**-116**	**264**	**NA**	**1,303**
Operating cash flow	368	694	-47%	3,271
Volume (FFE '000)	2,698	2,427	11%	9,522
Rate (USD/FFE)	1,811	2,163	-16%	2,209
Bunker (USD/tonne)	244	324	-25%	315
ROIC (%)	-2.3	5.2	-7.5pp	6.5

Global nominal capacity and demand growth



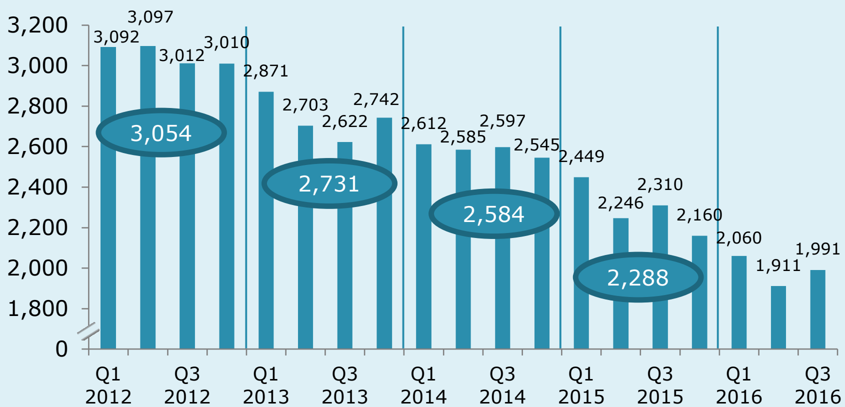
Note: Global nominal capacity is deliveries minus scrappings. Source: Alphaliner, Maersk Line

Maersk Line highlights Q3 2016

- Maersk Line reported an underlying loss of USD 122m (profit of USD 243m) and a ROIC of -2.3% (5.2%) due to significantly lower freight rates
- Volume increased 11% to 2.7m FFE mainly driven by increased demand due to the situation with Hanjin and significant increase in backhaul volumes. Global container demand is estimated to have grown by 1-2%, while the global container fleet grew around 3%
- Maersk Line's capacity grew by 3.8% to 3.1m TEU. Chartered capacity grew by 6.4% to accommodate increased volume while owned capacity grew by 2.1%. Total capacity remained unchanged from Q2 2016
- Average freight rates declined 16% and deteriorated across all trades with North America, West Central Asia and Africa declining most, and with Oceania and European trades also notably lower. Average container rates for Maersk Line improved q/q by 5.5% for the first time since Q3 2014
- Despite increasing bunker prices, Maersk Line managed to keep unit costs below USD 2,000
- Free cash flow was positive USD 192m (USD 159m)
- EBIT-margin gap to peers is estimated to be around 8% in Q2 2016.

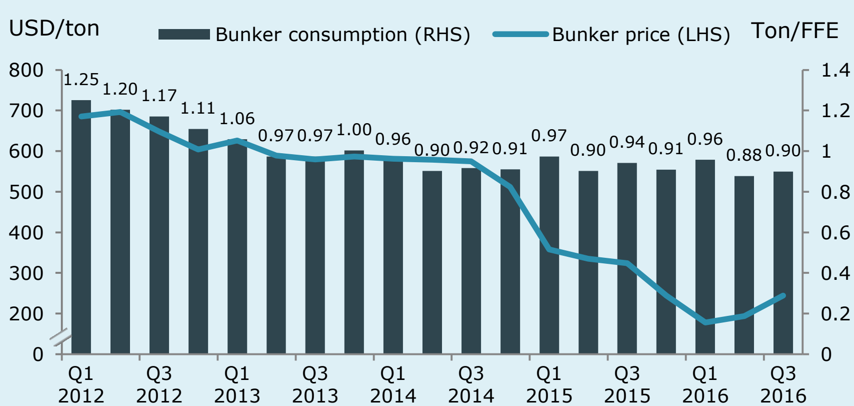
Maersk Line – unit costs remain below 2,000 USD/FFE

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 Q3 2016

- Cost leadership remains a key strategic priority for Maersk Line and despite increasing bunker costs, unit cost remained below 2,000 USD/FFE in Q3 2016
- Total cost[1] decreased by 3.5% (USD 202m) against a volume increase of 11% compared to Q3 2015
- Unit cost improved by 14% y/y (319 USD/FFE) but increased 4.2% q/q (80 USD/FFE) to 1,991 USD/FFE, mainly due to increased bunker costs
- Total bunker cost decreased by 20%. Bunker price declined by 25% and had an impact of 72 USD/FFE on unit cost. Bunker efficiency improved by 4.5% to 900kg/FFE (942 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 progressed as planned in Q3 2016.

[1] EBIT cost

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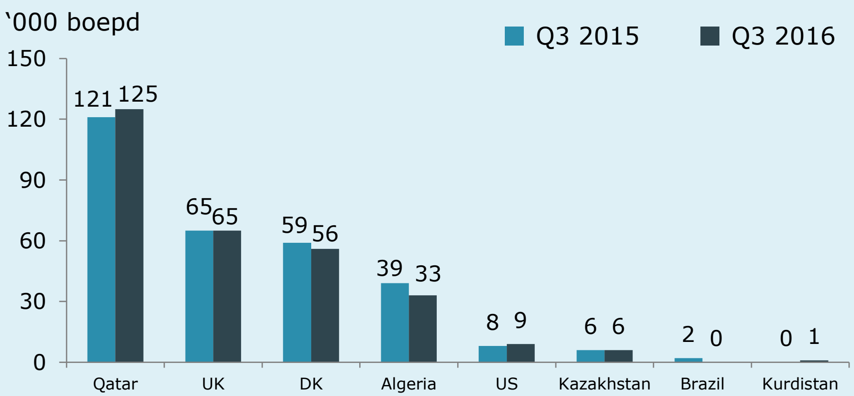
Maersk Oil – adjusting to lower oil price environment

(USD million)	Q3 2016	Q3 2015	Change	FY 2015
Revenue	1,226	1,321	-7.2%	5,639
Exploration costs	57	82	-30%	423
EBITDA	701	641	9.4%	2,748
Underlying profit	146	32	356%	435
Reported profit	**145**	**32**	353%	**-2,146**
Operating cash flow	478	548	-13%	1,768
Prod. (boepd '000)	295	300	-1.7%	312
Brent (USD per barrel)	46	50	-8.0%	52
ROIC (%)	13.5	2.1	11.4pp	-38.6

Maersk Oil's entitlement share of production



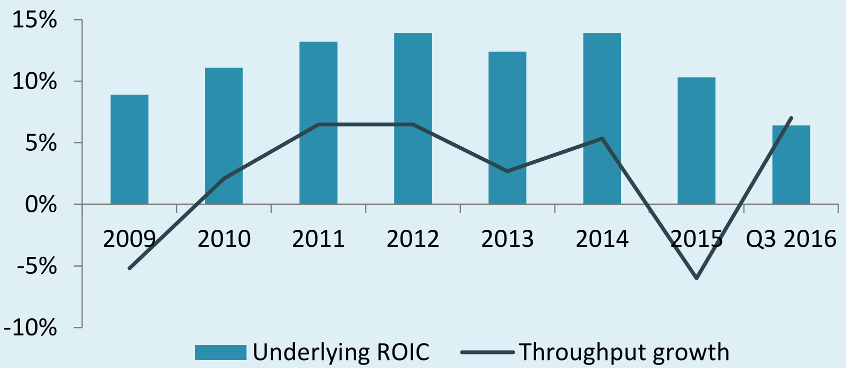
Maersk Oil highlights Q3 2016

- Underlying profit increased to USD 146m (USD 32m) positively impacted by higher operational efficiency and lower costs
- ROIC increased to 13.5% (2.1%)
- Entitlement production decreased 1.7% to 295,000 boepd (300,000 boepd) with the usual planned maintenance shut downs throughout the portfolio
- Operating expenses excluding exploration costs was reduced by 21% compared to Q3 2015 to USD 468m (USD 594m). Maersk Oil targets total cost savings of 25-30% by the end of 2016 compared to the 2014 baseline
- Exploration costs decreased by 30% to USD 57m (USD 82m)
- Break-even level reduced to below USD 40 per barrel for full year 2016 vs previously USD 40-45 per barrel
- Free cash flow improved to USD 125m (USD 33m). Cash flow for capital expenditures was mainly related to Culzean and Johan Sverdrup developments
- Break-even oil price for Johan Sverdrup expected to be below USD 25 per barrel
- Maersk Oil continues to adjust the business and organisation to the low oil price environment, Qatar exit in 2017, and to the long term growth plans.

APM Terminals – increasing volumes

(USD million)	Q3 2016	Q3 2015	Change	FY 2015
Revenue	1,062	1,046	1.5%	4,240
EBITDA	199	220	-9.5%	845
Share of profit:				
- Associated companies	29	24	21%	85
- Joint ventures	28	40	-30%	114
Underlying profit	126	175	-28%	626
Reported profit	**131**	**175**	**-25%**	**654**
Operating cash flow	259	224	15%	874
Throughput (TEU m)	9.5	8.9	7.0%	36.0
ROIC (%)	6.6	11.6	-5.0pp	10.9

Volume growth and underlying ROIC development*



*Excluding net impact from divestments and impairments

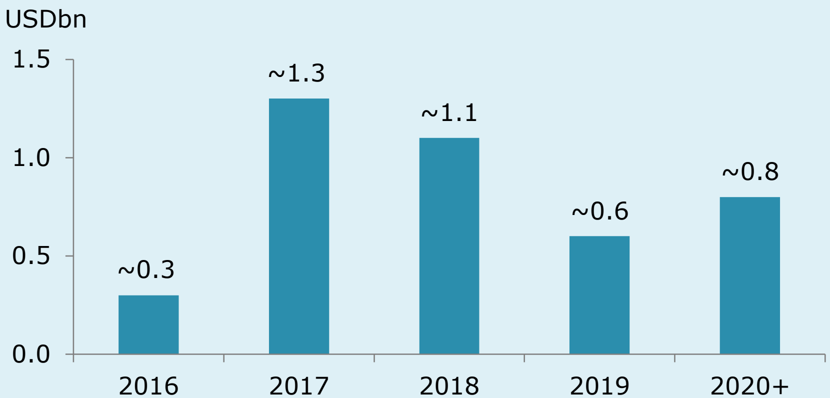
APM Terminals highlights Q3 2016

- APM Terminals delivered an underlying profit of USD 126m (USD 175m) and a ROIC of 6.6% (11.6%)
- Throughput increased 7.0% mainly due to the acquisition of Grup Maritim TCB, while the global market grew 2.6%. Like for like throughput increased 1.5% mainly driven by increased volumes in Salalah, Oman and Rotterdam, the Netherlands
- Profit remains under pressure in commercially challenged terminals in Latin America, North-West Europe and Africa as a consequence of liner network changes and continued weak underlying market conditions
- Terminals in the oil related countries are experiencing diverging performance. Nigeria showed small positive improvements, Russia saw stabilisation while imports into Angola continues to be severely impacted by the remaining low oil price
- Operating businesses generated a ROIC of 9.5% (13.8%) while projects under implementation reported a ROIC of negative 1.0% (-11.8%) resulting from start-up costs
- APM Terminals continued the cost saving initiatives in all controlled entities, and staff redundancies have reached approximately 1,000 by end-Q3
- Integration of Grup Maritim TCB is still progressing as planned with a positive result in Q3.

Maersk Drilling – continuing to take out cost

(USD million)	Q3 2016	Q3 2015	Change	FY 2015
Revenue	733	646	13%	2,517
EBITDA	501	369	36%	1,396
Underlying profit	340	172	98%	732
Reported profit	**340**	**184**	**85%**	**751**
Operating cash flow	630	382	65%	1,283
Fleet (excl. newbuilds)	23	22	1	22
Contracted days	1,564	1,834	-15%	7,086
ROIC (%)	17.2	9.0	8.2pp	9.3

Revenue backlog end-Q3 2016



Maersk Drilling highlights Q3 2016

- Maersk Drilling reported an underlying profit of USD 340m (USD 172m) positively impacted by termination fees, high operational uptime and cost savings that were partly offset by more idle days. ROIC was 17.2% (9.0%)
- Underlying profit was positively impacted by USD 210m in Q3 from early termination of Maersk Valiant. This leads Maersk Drilling financially neutral to the original contract. The net impact for the full year 2016 will be around USD 150m due to revenue moved from 2017 to 2016
- Cost has been reduced by 11% compared to Q3 2015 and by more than 18% since the launch of the cost reduction program in Q4 2014
- Average operational uptime was 99% (97%) for the jack-up rigs and 98% (98%) for the floating rigs
- Forward contract coverage was 68% for the remainder of 2016, 55% for 2017 and 45% for 2018. Revenue backlog was USD 4.1bn (USD 5.8bn) by end-Q3 2016
- Higher cash flow from operating activities of USD 630m (USD 382m) was due to termination fee from Maersk Valiant and lower net working capital
- At end-Q3 2016, eight rigs were idle and off contract while one rig was preparing for a new contract to commence early Q4. All rigs currently idle are warm stacked.

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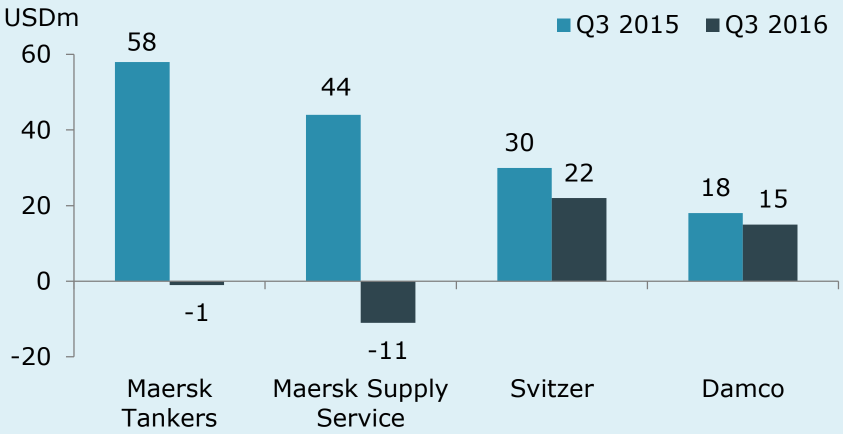
APM Shipping Services – weakening market conditions

(USD million)	Q3 2016	Q3 2015	Change	FY 2015
Revenue	1,091	1,307	-17%	5,080
EBITDA	123	251	-51%	809
Underlying profit	25	150	-83%	404
Reported profit	**25**	**154**	**-84%**	**446**
Operating cash flow	153	255	-40%	806
ROIC (%)	2.1	13.1	-11.0pp	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 Q3

APM Shipping Services reported an underlying profit of USD 25m (USD 150m) and a ROIC of 2.1% (13.1%)

Maersk Tankers delivered a loss due to deteriorated market conditions causing rates to decline across all segments, only partly offset by improved commercial performance and further cost savings

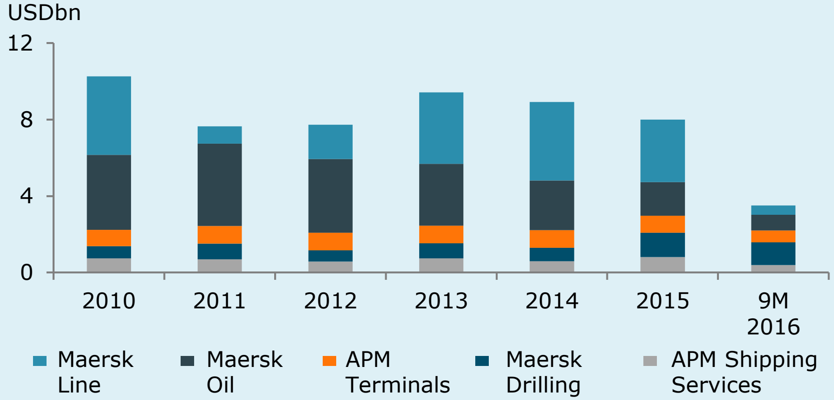
Maersk Supply Service remains significantly impacted by the tough market conditions and will, in response to this, reduce its fleet by up to 20 vessels over the next 18 months. By the end of Q3 Maersk Supply Service had 13 vessels in lay-up. A total of 325 offshore employees was made redundant in September and 43 onshore employees in October

Svitzer's profitability continues to be impacted by start-up and integration costs in Americas, and a general slowdown in the market coupled with over capacity, despite improved productivity and cost savings

Damco's profit decreased slightly driven by lower freight rates and freight forwarding margins, despite cost savings, improved processes and operational efficiencies.

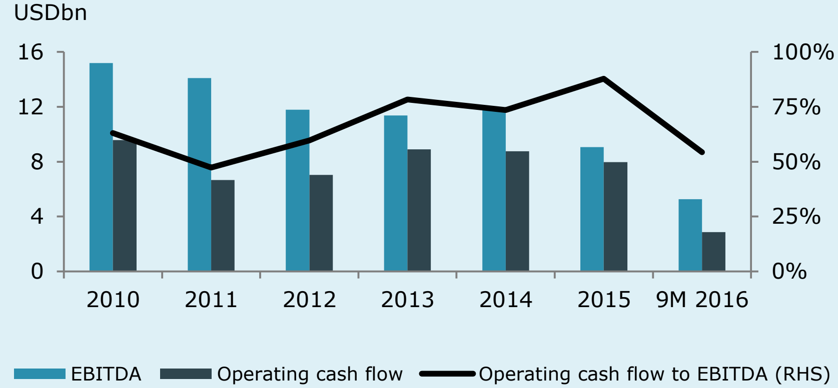
Stable operating cash flow generation

Historically stable operating cash flow*
Generating a stable operating cash flow over time

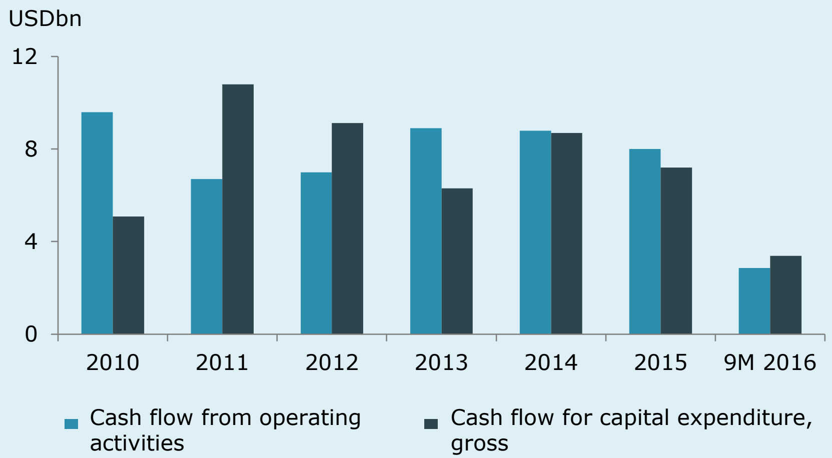


*Cash flow from operating activities excluding other businesses, unallocated, eliminations etc.

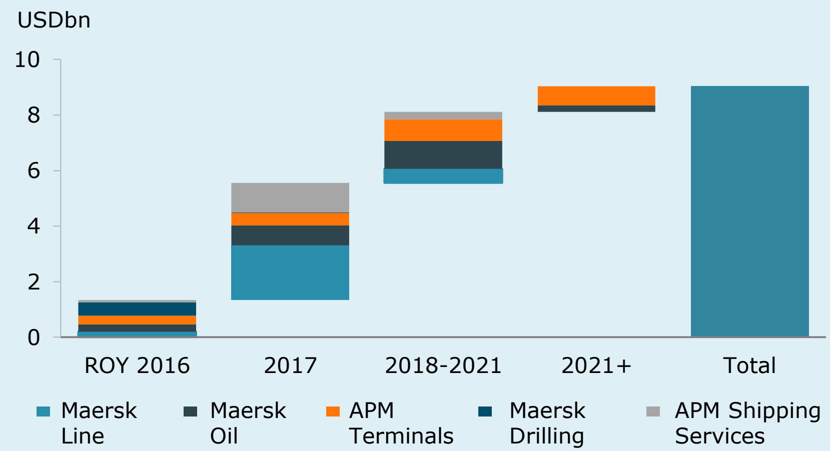
Historically solid cash conversion
Solid conversion of EBITDA to operating cash flow



Self-funded capital expenditures
Investments primarily funded by cash flow from operating activities



Limited capital commitments
High flexibility in the future capital commitments



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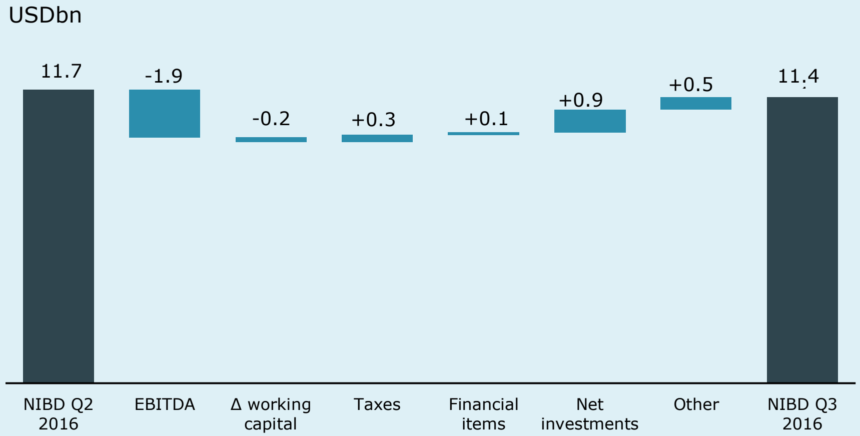
A strong financial position

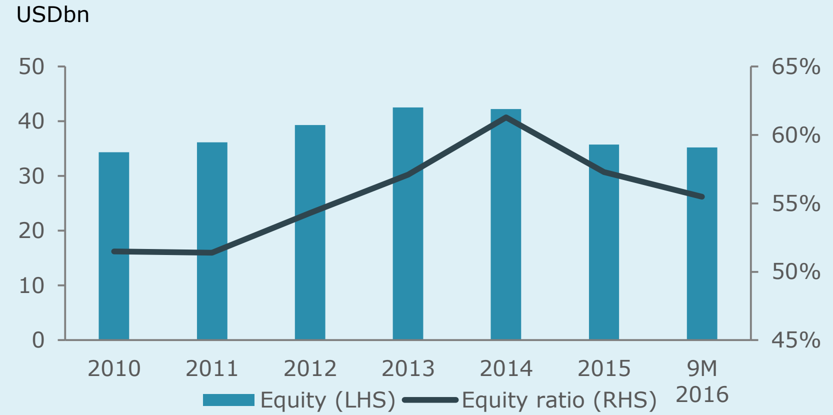
Well capitalised position

Net debt decreased USD 0.3bn in Q3 2016 to USD 11.4bn



Stable high equity ratio*

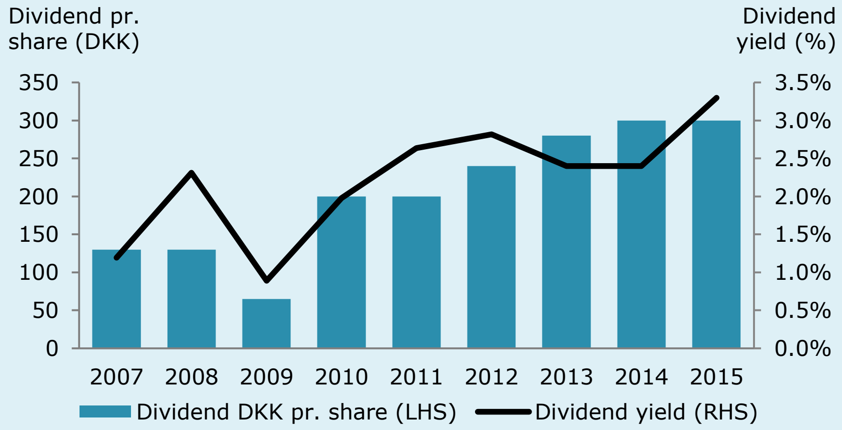
Equity ratio of 55.5% by end of Q3 2016



*Including effect from distribution of Danske Bank shares in 2015

Increased ordinary dividends*

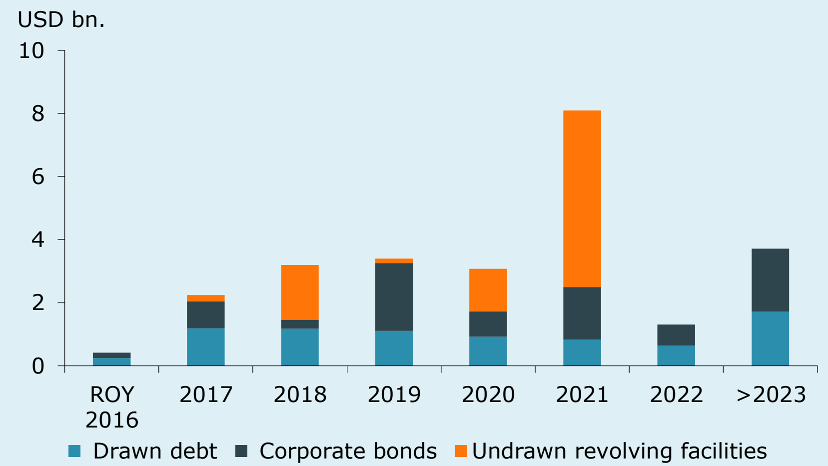
Ambition to increase dividend per share supported by underlying earnings growth



*Adjusted for bonus shares issue

Well-balanced debt structure

Funding in place with liquidity reserve of USD 11.8bn



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Consolidated financial information

Income statement (USD million)	Q3 2016	Q3 2015	Change	9M 2016	9M 2015	Change	FY 2015
Revenue	9,177	10,110	-9.2%	26,577	31,183	-15%	40,308
EBITDA	1,887	2,245	-16%	5,263	7,446	-29%	9,074
Depreciation, etc.	1,154	1,238	-6.8%	3,610	3,562	1.3%	7,944
Gain on sale of non-current assets, etc. net	9	118	-92%	131	461	-72%	478
EBIT	**805**	**1,204**	**-33%**	**1,951**	**4,566**	**-57%**	**1,870**
Financial costs, net	-74	-127	-42%	-349	-278	26%	-423
Profit before tax	731	1,077	-32%	1,602	4,288	-63%	1,447
Tax	293	299	-2.0%	822	852	-3.5%	522
Profit for the period	**438**	**778**	**-44%**	**780**	**3,436**	**-77%**	**925**
Underlying profit	426	662	-36%	774	3,080	-75%	3,071

Key figures (USD million)	Q3 2016	Q3 2015	Change	9M 2016	9M 2015	Change	FY 2015
Cash Flow from operating activities	1,671	2,194	-24%	2,861	5,921	-52%	7,969
Cash Flow used for capital expenditure	-935	-1,290	-28%	-3,412	142	NA	-1,408
Net interest bearing debt	11,390	7,941	43%	11,390	7,941	43%	7,770
Earnings per share (USD)	21	36	-42%	36	157	-77%	37
ROIC (%)	4.9	7.6	-2.7pp	3.3	10.5	-7.2pp	2.9
Dividend per share (DKK)							300

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Guidance for 2016

Changes in guidance are versus guidance given at Q2 2016. All figures in parenthesis refer to full year 2015.

In line with previous expectations **the Group** still expects a result significantly below last year (USD 3.1bn) and specifies an expected underlying result below USD 1.0bn. Gross cash flow used for capital expenditure is still expected to be around USD 6bn in 2016 (USD 7.1bn).

Maersk Line still expects an underlying result significantly below last year (USD 1.3bn) and specifies an expected negative underlying result for 2016. Maersk Line expects global demand for seaborne container transportation to increase by around 2% in line with previous expectation of 1-3%.

Maersk Oil still expects a positive underlying result. A break-even result is now expected to be reached with an oil price below USD 40 per barrel versus previously 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), and exploration costs significantly below last year (USD 423m).

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

Maersk Drilling now expects an underlying result in line with last year (USD 732m), with a break-even result expected in Q4, versus previously an underlying result below last year.

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 and weaker rates in Maersk Tankers.

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 0.08bn
Bunker price	+ / - 100 USD/tonne	- / + USD 0.1bn
Container freight rate	+ / - 100 USD/FFE	+ / - USD 0.3bn
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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