The Chairman's Report

Once again, a warm welcome.

Taken as a whole, 2005 was a good year for the Company - with a sound development in most of our business areas.

The Group result was 20.2 billion kroner, and if the result is adjusted for the effect of acquired undertakings and discontinuing operating activities, it was 24.3 billion kroner or approx. 3 billion up on the comparable figure for 2004. Thus, the result was also 1.3 billion better than our expectations in the interim report of August last year.

Before I go over the annual result in further detail, I would like to highlight a few of the main points from the past year.

The Group **strategies** have been analysed and assessed, and, among other things, this has led to increased focus on our activities within shipping and energy.

Container shipping is the most significant activity in the Group. Here the clear objective is to maintain and develop the leading position we are holding today. The container trade is an attractive business area - supported by the growth in world trade, and we are confident that the increased globalisation will entail a continued high growth in the demand for container transport.

The supply of container vessels is also rising. It is characteristic of shipping that from time to time the supply of tonnage rises above the anticipated demand resulting in falling rates - sometimes even rather markedly. This is inevitable - and it is important to keep this in mind when we make an investment. It is necessary to think far ahead and to have the necessary financial strength to resist the frequent fluctuations.

Talking about globalisation, it may be appropriate to make a comment on the domestic debate. So far, Denmark has done quite well in the globalisation, and our flexible labour marked is certainly a significant contributing factor. But also because we in Denmark have been willing to readjust. Jobs have disappeared, but new ones have come up, and we are pleased to see that unemployment is at a low level.

It is therefore disappointing when we see protectionist tendencies among leading European nations - and the EU as such - which reflect the lack of will to – or downright fear of – the necessary readjustments. Disappointing - also to the Company, because our business is highly dependent on the development in international trade.

As a significant and natural step in our strategy for the container business, A.P. Moller – Maersk last year bought the Anglo/Dutch carrier Royal P&O Nedlloyd. This was the first time, the Group acquired a major listed company. We are satisfied with the course of the acquisition process, which was friendly and in concert with PONL's management and shareholders.

It is also gratifying to see that so far we have reached our objectives with the acquisition:

- we have maintained customers to the anticipated extent
- we obtain synergies up to and even above expectations
- integration expenses are kept within budget, and
- we have combined the organisations everywhere and established a common line network under the name of Maersk Line

All in all a very big task which has required very skilled efforts by everybody involved. With our acquisition of P&O Nedlloyd, Maersk Line has significantly strengthened its market position, and with the anticipated considerable synergies, the return on the heavy investment seems to become satisfactory. We have now reached a size where we operate approx. 20% of the world's container vessel tonnage, equal to approx. 525 ships, of which about 200 are owned by us.

After the acquisition and establishment of the opening balance, we have adjusted depreciation on the acquired activities to our shorter depreciation profile. This means that we will have higher depreciation in the first years - lower later on, but, taken as a whole, it will be neutral over an extended period. However, this has no effect on the fact that so far operating activities have progressed as anticipated and have generated a nice positive cash flow.

Also on the **terminal side**, development has continued with the start up of 9 new terminal projects in 2005. For instance, Yangshan in China and Tangiers in Morocco. Today we are committed in more than 40 ports. And more are on the drawing board as we see continued heavy demand for terminal capacity in many areas of the world. Our strategy in this field has a double aim:

- Firstly, it supports the investments around the activities of Maersk Line. Approximately one fourth of the Maersk Line expenses is on the terminal side, and in having our own terminals we both have a higher influence on this central cost element, and we also have the control of the operating activities.
- Secondly the investments in themselves provide a reasonable long-term return.

The terminals already established present good results, but the many new projects have the effect that the overall terminal activity does not yet make any marked contribution on the bottom line. However, we see the terminal activity as a weighty contribution to the Group's long-term generation of value.

A.P. Moller - Maersk is and wishes to be a significant player in the **Tankers and Offshore** markets. In Tankers, we experience generally good markets which are expected to remain so for yet some time. Over the past few years we have expanded our market position and at the end of the year we had 54 own ships, approximately 30 ships on charter and 39 ships on order at attractive prices

Maersk Contractors also had a busy year with the contracting of four advanced jack-up rigs and two deep-sea semi-submersible rigs for delivery 2007-09 – an aggregate contracting in the range of 9-10 billion kroner, and prospects in this market look promising.

For **Maersk Supply Services** the market gained momentum, albeit still at a relatively low level.

Like other private oil companies, **Mærsk Olie og Gas** has the need to increase its oil reserves to maintain or increase its production. This is an important strategic challenge. Therefore it was good news when at the end of 2005 Mærsk Olie og Gas was able to enter into an agreement with the Qatar oil ministry on an enlargement project. Over a few years we will more than double our production in Qatar. This will require considerable, new investments in the range of 30 billion kroner. But the return is sensible.

Another significant step was the acquisition of the Kerr-McGee activities in the British sector of the North Sea. We acquired owner shares in 10 new fields, five of which are now operated by Mærsk Olie og Gas. At the same time we obtained access to a number of interesting exploration possibilities. Acquiring oil fields such as these is necessary in order for us to reach our objective of gradually increasing production and reserves. In parallel we are still looking for new reserves by way of explorations in a number of countries.

After taking over the activities of Kerr-McGee we have made a new assessment of the fields. This has meant both positive and negative adjustments of our assessment. The net effect was negative, and it is found correct make a write-down of 1.9 billion kroner - after tax.

Assessing oil fields is not one of the exact sciences. It is a matter of circumstances that are not directly accessible - such as the extent and extraction rate of the oil reserves. And it is still believed that over time the investment in the Kerr-McGee activities will provide an acceptable return, just as it has created a good foundation for the continued development of our oil business.

Irrespective of the strategic focus I mentioned at the beginning, it is our wish to own or hold shares in businesses which constitute a good supplement to our rather more volatile business areas - shipping and energy. Our ownership shares in **Dansk Supermarked** and Danske Bank should be seen in the light of this – both undertakings have good, stable earnings and competent managements.

We also continued to dispose of a few activities as a result of our wish to focus the activities of the Group. Further disposals were made in the **industrial companies**, just as the passenger activities in Maersk Air were disposed of.

Shareholders have had the opportunity to study the **financial report**, and here I just wish to emphasize financial highlights for the A.P. Moller - Maersk Group.

For the first time, the financial report is presented in accordance with the International Financial Reporting Standards (IFRS) which is accounted for in the printed version of the annual report. As a consequence hereof, the report is somewhat more extensive.

Revenue was 209 billion kroner – a considerable increase on last year's 160 billion kroner. Acquired enterprises have contributed 18 billion kroner to the increase.

Profit before depreciation, amortisation and impairment losses, etc. – the so-called EBITDA – also rose substantially from 40.6 billion kroner to 50 billion kroner.

Depreciation, amortisation and impairment losses, etc. of 17.8 billion kroner are 5.0 billion higher than in 2004. A significant part of this increase is due to the acquired enterprises including impairment loss of 3.2 billion kroner before tax on oil interests in Great Britain.

The integration of the Maersk and P&O Nedlloyd fleets in 2006 has caused us to initiate a more extensive analysis of the depreciation periods we apply. In general, we have shorter periods of depreciation than what we see in other shipping companies.

Gains on sale of ships, rigs, etc. were 1.7 billion kroner as against 1.5 billion kroner in 2004.

The share of results in associated enterprises of 3 billion kroner mainly relates to our 20% share of Danske Bank which as from 1 January 2005 has been an associated company.

Profit before integration expenses and financial items was 36.9 billion kroner as against 29.7 billion kroner in 2004.

Integration expenses on acquisition were 1.8 billion kroner.

Profit before financial items was then 35.1 billion kroner. Financial items amounted to a net expenditure of 2.1 billion kroner as against a net income of 0.7 billion in 2004.

In 2004, a positive value adjustment - primarily regarding shares in Danske Bank - of 5.0 billion kroner was included as a separate item. In 2005, there were no similar items.

Profit before tax was 33 billion kroner.

Tax of 13.2 billion kroner was deducted – an increase of as much as 44% on 2004 – mainly relating to the oil activities.

Net result including discontinued operations was 20.2 billion kroner as against 28.3 billion in 2004.

In the A.P. Moller - Maersk Group fees and other remuneration to the managing owner totalling 72 million kroner were paid in 2005 - this figure was 67 million kroner in 2004 - and directors' fees totalling 14 million kroner were paid. This is inclusive of the statutory fee of 36,000 kroner and additional fee of 639,000 kroner per director in A.P. Møller - Mærsk A/S plus separate fees for other assignments and committee work.

Cash flow from operating activities amounted to 33.3 billion kroner – an increase of approximately 4 billion kroner compared to the previous year Cash flow from operating activities is also expected to rise in the coming years.

Investments during the year amounted to 61.8 billion kroner. This includes acquisitions of undertakings (in particular P&O Nedlloyd and the Kerr-McGee fields) of 33 billion kroner. On the basis of contracts already concluded and further plans, we expect a continued high level of investment.

Total assets for the Group increased from 182 billion kroner to 285 billion kroner and equity from 102 billion kroner to 123 billion kroner. So the equity ratio was 43.3% as against 56.3% in 2004. Still reflecting a solid balance sheet.

I shall now go on to comment on the individual business segments:

Container shipping includes Maersk Sealand, Safmarine, APM Terminals, Maersk Logistics and other container related onshore activities. P&O Nedlloyd is included in the accounts as from the acquisition on 12th August 2005. The result for P&O Nedlloyd was negative – after integration expenses and depreciation based on current A.P. Moller - Maersk policies with shorter depreciation period. Before these factors, the result of P&O Nedlloyd was positive and as anticipated.

In 2005, the underlying market conditions were good with increased volumes and rates and revenue increased to 129 billion kroner as against 95 billion in 2004. The year also saw increased expenses, particularly in

relation to fuel and chartered tonnage. The result – before the effect of P&O Nedlloyd – was 10.2 billion kroner which was above the 9.1 billion kroner of 2004.
For **Tankers, Offshore and other shipping**, revenue was 18.6 billion kroner as against 15.8 billion in the previous year, and the result for the segment was 3.8 billion kroner as against 3.2 billion in 2004.

Oil and gas activities had a revenue of 27.4 billion kroner – an increase of 36%.

The oil interests acquired in 2005 in the British sector of the North Sea from Kerr-McGee are included in the accounts as from 17 November 2005 with a negative operating result, influenced by the mentioned impairment loss of 1.9 billion kroner after tax.

The result for the oil activities was also positively influenced by a higher oil price.

After tax of 11.5 billion kroner – an increase of 3.8 billion kroner – net result in the oil and gas activities was 7.0 billion kroner – slightly above 2004 which was 6.8 billion.

Retail activities include our shares in Dansk Supermarked and F. Salling, and revenue here increased by 2 billion kroner to 25.3 billion kroner, and the result for 2005 was 1.1 billion kroner. This figure is down on 2004 which, however, was positively influenced by non-recurring income.

For **ship yards**, other industrial activities and our share in Danske Bank, the net result was 1.7 billion kroner. In 2004 there was a deficit of 300 million kroner.

The figures for 2005 include our share of the net result in Danske Bank of 2.6 billion kroner.

Without Danske Bank, this segment would have shown a substantial deficit.

This is mainly caused by the yards, particularly the Lindø Yard, which in 2005 had a very negative result and anticipates the same for 2006. Last year, I mentioned the problems of making the Lindø Yard profitable and securing its survival. Unfortunately, problems have not diminished, and the last call is imminent. It will require very great efforts indeed to change this trend.

The other industrial activities; Rosti and Mærsk Container Industri, also had negative results. The latter has not been able to operate a profitable production in Denmark in competition with China. In consequence of this the production of refrigerated containers in Tinglev will discontinue whilst management, research and development will be maintained here.

Expectations for 2006 are as stated in the annual report:

> With the USD exchange rate and oil prices at the level of this year's average till now, we expect a result in the order of 10-15% lower than the 2005 result of 20.2 billion kroner.

However, there are more uncertainties in relation to 2006: first of all, obviously, the development in the freight rates - not least for the container lines - and the development in oil prices.

To illustrate the sensitivity of the container freight rates I can inform you that in 2006 Maersk Line expects to carry around 7 million FFEs, i.e. forty foot equivalent containers. If the average rate falls or rises by USD 100 per FFE, equal to approx. 4%, this will, all things being equal, have an earnings impact of over 4 billion kroner in either a positive or a negative direction. Quite a considerable impact.

So much for the financial figures. However, in a company such as ours, it is not all figures. This is an organisation made of flesh and blood, and I would like to conclude my report by emphasizing two factors that have the greatest significance for the A.P. Moller - Maersk Group in the long term: Our employees and our values.

We are making considerable efforts on the one hand to recruit the best **employees**, which to a growing extent is done internationally, and on the other to provide the best possible education and training to the staff. We have implemented a number of advanced training programmes and we are currently optimising them further. This is necessary because of the goals we have set ourselves and - if you'll pardon the expression - the ships we have put to sea. Activities which, over time, will also require a strengthening of our staff in many areas.

Our **values** and strong culture have been crucial for the development of A.P. Moller – Maersk for more than 100 years. It is not merely a question of what we do, but also how we do it. The growth rate and the huge numbers of new employees worldwide have required an illustration of our values. In 15 years we have progressed from well over 35,000 employees to well over 110,000. The process was initiated by Mr. Mærsk Mc-Kinney Møller based on the convictions and principles which he - and before him his father Mr. A.P. Møller – has given the management of the Group, and which characterise the undertaking today.

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