

Q4 2018

Extract from 2018 Annual Report

Page 147-151 and page 14



A.P. Møller - Mærsk A/S

Highlights Q4 2018

For the continuing operations, A.P. Moller - Maersk reported a revenue of USD 10.2bn, equal to growth of 21% (9% adjusted for Hamburg Süd) compared to Q4 2017. EBITDA was USD 1.1bn (USD 844m), positively impacted by the inclusion of Hamburg Süd and growth in gateway terminals, partly offset by integration and restructuring costs in Ocean and restructuring cost in Logistics & Services, as well as cost increases in gateway terminals. Cash flow from operating activities was USD 1.4bn (USD 1.1bn), equal to a cash conversion of 121% (116%) and gross CAPEX was reduced by 37% to USD 587m.

Ocean

Revenue increased by 22% to USD 7.3bn (USD 6.0bn), driven by 12% increase in volumes to 3,353k FFE (3,007k FFE), primarily related to the inclusion of Hamburg Süd from 1 December 2017. The average freight rate increased by 9.3% to 1,913 USD/FFE (1,750 USD/FFE).

The volumes excluding Hamburg Süd decreased by 1.1%, driven by a backhaul volume reduction of 3.5%, while headhaul volumes were on par.

The decline was below the estimated market growth of around 4% due to strong Q4 2017 volumes following the cyber-attack in Q3 2017 along with a focus on improving margins in the second half of 2018, demonstrated by the freight rate development and uplift in EBITDA.

The increase in the average freight rate of 9.3% was driven by East-West trades, which increased 15%, partly supported by the pre-tariff rush seen on the transpacific trades from China to the US. North-South freight rates grew by 6.4%, while the Intra-regional trades increased by 14%. The inclusion of Hamburg Süd affected the average freight rates positively due to Hamburg Süd's different trade mix compared to Maersk Line, especially on the Intra-regional trades. The increase was also partly due to the impact of the emergency bunker surcharge. Excluding Hamburg Süd, the average freight rate increased by 7.0%. The average freight rate decreased by 0.8% compared to Q3 2018, driven by the usual seasonal fluctuations in freight rates.

Other revenue amounted to USD 938m (USD 734m), mainly driven by higher demurrage and detention.

Unit cost at fixed bunker price at 1,776 USD/FFE decreased 1.8% compared to Q3 2018. The decline was partly driven by the usual seasonality in unit costs, partly due to year-end rebates. Compared to Q4 2017, unit cost at fixed bunker increased 1.9% without adjusting for rate of exchange and development in Hamburg Süd portfolio mix effects. The increase was mainly driven by the decline in

→ Highlights Q4

USD million	2018	Revenue 2017	2018	EBITDA 2017	2018	CAPEX ¹ 2017
Ocean	7,283	5,989	927	617	332	692
Logistics & Services	1,557	1,527	-1	33	16	25
Terminals & Towage	1,082	948	213	191	242	212
Manufacturing & Others	650	460	22	65	4	7
Unallocated activities, eliminations, etc.	-390	-484	-45	-62	-7	2
A.P. Moller - Maersk consolidated – continuing operations	10,182	8,440	1,116	844	587	938

¹ See definition on page 156.

volumes excluding Hamburg Süd, and further driven by a focus on margin improvement. Schedule reliability was below the level from Q4 2017, but on a par with last quarter. Utilisation slightly declined versus Q3, but improved compared to last year. Additionally, average nominal capacity of 4,038k TEU was in line with the 4m TEU ambition.

Total unit cost at 2,001 USD/FFE (1,878 USD/FFE) was 6.5% higher than in Q4 2017. The increase was negatively impacted by a 35% increase in the average bunker price. The total bunker cost was USD 1.3bn (USD 1.0bn), of which the bunker price drove an increase of USD 347m (103 USD/FFE), while the remainder was from higher consumption due to the inclusion of Hamburg Süd. The total consumption was, however, positively impacted by a 9.5% improvement in bunker efficiency of 849 kg/FFE (939 kg/FFE).

Port moves per hour in hub terminals of 83.7 was 11% higher than in Q4 2017, and a 1.1% improvement since Q3. Operational synergies between the hub terminals and Maersk Liner Business drove the improvements along with efficiency initiatives materialising. Salalah and Maasvlakte II improved the most since Q4 2017.

EBITDA ended at USD 927m, which is an increase of 50% compared to Q4 2017. The EBITDA margin was 12.7% (10.3%), and improved 0.1 percentage point compared to Q3 2018. Profitability increased compared to the same period last year, despite an increase of the unit cost at fixed bunker,

partly on the back of the margin focus in Q3 and Q4 2018.

Hamburg Süd contributed with volumes of 586k FFE and a pro forma EBITDA of USD 204m versus 148m in Q3 2018. Integration costs amounted to USD 22m in Q4 2018.

Logistics & Services

Revenue increased by USD 30m to USD 1.6bn (USD 1.5bn), mainly supported by higher volumes in intermodal and higher revenue from inland activities. Gross profit was USD 266m (USD 262m), or a gross profit margin of 17.1% (17.1%), positively impacted by growth in supply chain management, warehousing and distribution, partly offset by the timing of higher maintenance costs of USD 20m in Star Air. EBITDA was negative USD 1m (positive USD 33m), mainly due to restructuring costs of USD 20m in Damco, with an EBIT conversion ratio of negative 5.9% (positive 9.2%). Adjusted for the restructuring costs, the EBITDA margin would have been 1.2% and the EBIT conversion 1.5%, which is still highly unsatisfactory.

Supply chain management revenue totalled USD 211m (USD 212m), while gross profit increased to USD 88m (USD 81m), supported by volume growth of 7.3% to 18,434 kcbm (17,178 kcbm), positively impacted by new customer wins as well as an increase in margins to 4.8 USD/cbm (4.7 USD/cbm).

Inland activities revenue increased to USD 150m (USD 139m), mainly driven by higher volumes in Latin America and Europe. Gross profit remained unchanged at USD 65m (USD 65m).

Ocean freight forwarding revenue improved to USD 185m (USD 163m), and volumes increased 2.1% to 166k TEU (163k TEU). The increase in gross profit to USD 30m (USD 29m) was due to the improved volumes and margins, supported by prioritisation of higher margin business and the higher market prices due to preloading on China-US goods ahead of expected tariffs. Margins improved by 3.3% to 181 USD/TEU (175 USD/TEU).

Airfreight forwarding revenue decreased to USD 168m (USD 225m), with reduced volumes of 25% to 45k tonnes (60k tonnes), primarily from customer deselection but also from an overall slow-down of the airfreight market and exposure to China in the retail and lifestyle segments. Despite the decrease in revenue, gross profit remained flat at USD 18m (USD 17m), driven by margin increases to 396 USD/tonne (285 USD/tonne), due to the continuous focus on higher margin business.

Intermodal revenue increased by 4.9% to USD 644m (USD 614m) from higher volume and growth on high revenue corridors in Africa and India. The volumes increased by 3.8% to 935K FFE (900K FFE), mainly in the West Central Asia, Africa and Europe regions, partly offset by decreases in China. Gross profit increased to USD 13m (USD 5m), mainly due to focused growth in profitable markets in Africa and India.

EBIT conversion of negative 5.9% (positive 9.2%) was mainly impacted by restructuring costs of USD 20m related to the merger of the commercial organisations in Logistics & Services and Ocean.

Terminals & Towage

Revenue increased by USD 134m to USD 1.1bn (USD 948m) and EBITDA to USD 214m (USD 191m).

Gateway terminals revenue increased by 17% to USD 921m (USD 784m), and EBITDA increased by 21% to USD 171m (USD 142m). Volume in moves grew by 15%, and gross capital expenditure (CAPEX) was reduced to USD 236m (USD 266m). Terminals under construction progressed according to plan, and Moin, Costa Rica, had its first vessel call in Q4 2018, while the divestment of the shareholding in Izmir, Turkey, announced during Q3 was completed.

Volume growth of 15% (like-for-like growth of 15%) was driven by closer collaboration with Ocean, with volumes growing 19% (like-for-like growth of 18%), while external customers grew volumes by 13% (like-for-like growth of 14%). On an equity-weighted basis, volumes grew by 13%. Revenue per move increased by 4.5% to USD 263 (USD 252). The increase was driven by increased volumes from North and Latin America with higher average rates, as well as increased storage revenues offsetting the negative rate of exchange impacts, mainly in Latin America.

Cost per move increased by 5.8% for Q4 to USD 225 (USD 213), mainly driven by higher volumes in higher cost terminals as well as by one-offs in North and Latin America, despite the increase in utilisation and favourable rate of exchange effects.

Towage revenue stable at USD 166m (USD 166m), mainly impacted by volume increases in harbour towage in the Americas and Australia and improved revenue per tug job in the Americas. However, this was offset by a negative currency impact from the Asia, Middle East and Africa regions, and price pressure and volume decrease in Europe. Revenue growth adjusted for currency development was 3.4%. Harbour towage activities measured in tug jobs increased by 5.7% compared to Q4 2017.

Overall, revenue per tug job for harbour towage was at a slightly lower level measured in USD, mainly impacted by negative currency development from activities in AUD, GBP and EUR. In Europe, intense competition from consolidation amongst towage providers and an oversupply of tugs led to lower prices in local currencies, and in Australia, the entry of a new competitor has increased the price pressure in the region.

In terminal towage, annualised EBITDA per tug dropped compared to Q4 2017, which was primarily driven by a negative currency impact. Apart from this, new contracts have started in Australia, Bangladesh and Costa Rica in 2018, and the idle fleet has been reduced, partly offsetting the decrease in EBITDA per tug.

EBITDA was USD 43m (USD 49m), mainly impacted by negative currency impact and higher maintenance and repair costs compared to Q3 2017, while revenue remained stable.

Manufacturing & Others

Revenue increased by USD 190m to USD 650m (USD 460m) with an EBITDA of USD 22m (USD 66m).

Maersk Container Industry reported revenue of USD 215m (USD 247m), with a decrease of 35% in dry containers due to a combination of lower volumes and lower sales prices as well as a cessation in the production of dry containers for the last three weeks of December. Revenue in reefer containers and services decreased by 0.7% due to a two-week production stop in October.

EBITDA of USD 9m (USD 12m) was negatively impacted by the profitability on dry containers that continued to be under severe pressure. The EBITDA margin ended at 4.2% (4.7%), with margins on dry containers decreasing significantly, whereas reefer containers and services showed a slight increase.

For other businesses, revenue ended at USD 436m (USD 214m), impacted by a higher level of oil/bunker trading with third parties as well as the inclusion of bulk activities acquired as part of the Hamburg Süd transaction. EBITDA was USD 13m (USD 54m). •

Discontinued operations

Maersk Drilling reported a revenue of USD 336m (USD 370m), while EBITDA was USD 139m (USD 147m), negatively impacted by lower day rates due to expiring legacy contracts, partly offset by the cessation of depreciation following classification as discontinued operations.

Maersk Drilling reported solid cash conversion from an operational cash flow of USD 138m (USD 234m), and limited maintenance CAPEX.

The strong operational performance across the fleet resulted in an average operational uptime of 98% (98%) for the jack-up rigs and 96% (98%) for the deepwater rigs.

Maersk Supply Service reported a decrease in revenue to USD 57m (USD 60m), reflecting lower rates resulting in an EBITDA of negative USD 4m (positive USD 6m), which was also negatively impacted by increased project costs.

Cash flow used for capital expenditure decreased to USD 82m (USD 206m), due to the payment of one (two) newbuildings during Q4.

Amounts in USD million

Quarterly summary

	2018				2017			
Income statement	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	10,182	10,077	9,507	9,253	8,440	7,714	7,690	7,101
Profit before depreciation, amortisation and impairment losses, etc. (EBITDA)	1,116	1,138	883	669	844	977	1,073	638
Depreciation, amortisation and impairment losses, net	873	781	903	768	709	782	889	635
Gain on sale of non-current assets, etc., net	56	45	10	33	77	8	54	15
Share of profit/loss in joint ventures	-	41	39	37	27	-202	14	30
Share of profit/loss in associated companies	-80	-78	17	26	34	20	25	22
Profit/loss before financial items (EBIT)	219	365	46	-3	273	21	277	70
Financial items, net	-127	-71	-71	-120	-137	-112	-234	-133
Profit/loss before tax	92	294	-25	-123	136	-91	43	-63
Tax	126	103	60	97	104	21	33	61
Profit/loss for the year – continuing operations	-34	191	-85	-220	32	-112	10	-124
Profit/loss for the year – discontinued operations ¹	107	169	111	2,982	354	-1,427	-274	377
Profit/loss for the year	73	360	26	2,762	386	-1,539	-264	253
A.P. Møller – Mærsk A/S' share	59	347	18	2,745	374	-1,555	-269	245
Underlying result	120	251	88	-239	36	254	205	-139
Balance sheet								
Total assets	56,636	61,787	61,200	61,639	63,227	60,260	61,310	60,428
Total equity	33,392	34,116	33,588	34,313	31,425	30,954	32,349	32,316
Invested capital	43,219	46,542	47,924	47,819	46,297	43,346	44,202	44,507
Net interest-bearing debt	8,741	12,416	14,290	13,395	14,799	12,552	11,852	12,212
Cash flow statement								
Cash flow from operating activities	1,354	1,085	353	433	983	744	941	445
Gross capital expenditure, excl. acquisitions and divestments (gross CAPEX)	-587	-401	-708	-1,180	-938	-1,092	-892	-677
Net cash flow from discontinued operations	1,200	32	-119	2,308	1,082	149	203	-183
Financial ratios ²								
Revenue growth	21%	31%	24%	30%	19%	11%	15%	9%
Revenue growth excl. Hamburg Süd	9%	11%	4%	9%	12%	11%	15%	9%
EBITDA margin	11%	11%	9%	7%	10%	13%	14%	9%
Cash conversion	121%	95%	40%	65%	116%	76%	88%	70%
Return on invested capital after tax – continuing operations (ROIC)	1.0%	3.2%	-0.1%	-0.6%	2.9%	0.0%	3.1%	0.2%
Stock market ratios								
Share price (B share), end of year, DKK	8,184	9,020	7,948	9,344	10,840	11,960	13,090	11,570
Share price (B share), end of year, USD	1,255	1,401	1,243	1,556	1,746	1,899	2,008	1,662

Amounts in USD million

Quarterly summary

	2018				2017			
Business drivers and other data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Ocean								
Other revenue, including hubs	938	890	783	830	734	643	614	556
Loaded volumes (FFE in '000)	3,353	3,334	3,399	3,220	3,007	2,631	2,700	2,601
Loaded freight rate (USD per FFE)	1,913	1,929	1,840	1,832	1,750	1,829	1,863	1,713
Unit cost, fixed bunker (USD per FFE incl. VSA income)	1,776	1,809	1,783	1,895	1,744	1,788	1,732	1,745
Hub productivity (PMPH)	84	83	79	75	75	73	72	73
Bunker price, average (USD per tonne)	465	452	401	382	343	307	313	320
Bunker cost	1,325	1,318	1,205	1,194	970	809	780	782
Bunker consumption (tonnes in '000)	2,848	2,915	3,002	3,129	2,825	2,636	2,490	2,444
Average nominal fleet capacity (TEU in '000)	4,038	4,042	4,154	4,231	3,761	3,523	3,311	3,224
Fleet, owned (end of period)	355	353	346	346	339	285	282	284
Fleet, chartered (end of period)	355	370	396	430	442	383	364	355
Logistics & Services								
Gross profit	266	290	278	263	262	259	265	253
EBIT conversion (EBIT/Gross profit - %)	-5.9%	14.7%	8.4%	6.4%	9.2%	7.9%	27.5%	13.1%
Ocean volumes (TEU)	166,294	170,763	156,388	145,687	162,822	167,467	167,822	166,337
Supply chain management volumes ('000 cbm)	18,434	22,228	17,672	16,975	17,178	20,186	16,227	15,983
Airfreight volumes (tonnes)	45,068	46,057	44,218	40,159	60,396	50,672	50,138	45,002
Ocean revenue	186	165	148	147	163	167	170	166
Supply chain management revenue	211	256	194	206	212	221	170	175
Airfreight revenue	168	152	147	141	224	156	151	128
Inland haulage revenue	645	653	648	623	614	615	586	573
Inland activities revenue	150	147	154	144	139	136	148	166
Other services revenue	197	208	198	194	175	176	171	170
Terminals & Towage								
Terminal volumes – financially consolidated (moves in m)	3.1	2.8	2.8	2.7	2.7	3.4	1.7	2.4
Terminal revenue per move – financially consolidated (USD)	263	254	239	252	252	247	233	247
Terminal unit cost per move – financially consolidated (USD)	225	214	206	209	213	214	222	220
Result from joint ventures and associated companies	6	53	51	54	41	-185	32	34
Number of operational tug jobs ('000 harbour towage)	34	32	32	33	31	31	30	31
Annualised EBITDA per tug (terminal towage) (USD in '000)	636	958	956	747	729	805	1,026	635
Manufacturing & Others								
Maersk Container industry, share of external customers (%)	61%	77%	60%	30%	32%	11%	4%	28%

¹ Following the classification of Maersk Oil, Maersk Tankers, Maersk Drilling and Maersk Supply Service as discontinued operations in 2017, the businesses are presented separately on an aggregated level in the income statement, balance sheet and cash flow statements. In accordance with IFRS, the income statement and cash flow statement have both been restated in previous periods, while the balance sheet has not been restated in previous periods. The Maersk Tankers transaction was closed on 10 October 2017 and the Maersk Oil transaction on 8 March 2018.

² See definitions on page 156.

Guidance for 2019

A.P. Møller - Maersk expects earnings before interest, tax, depreciation and amortisation (EBITDA) of around USD 5.0bn when including the effects from IFRS 16, and around USD 4.0bn when excluding the effects from IFRS 16. From Q1 2019, guidance for EBITDA will be based on IFRS 16.

The organic volume growth in Ocean is expected to be in line with the estimated average market

growth of 1-3% for 2019. Guidance on gross capital expenditure (CAPEX) is around USD 2.2bn and a high cash conversion (cash flow from operations compared with EBITDA).

Maersk's guidance for 2019 is subject to considerable uncertainties due to the current risk of further restrictions on global trade and other factors impacting container freight rates, bunker prices and foreign rate of exchange. •

→ Sensitivities on guidance for 2019

The guidance of A.P. Møller - Maersk for 2019 depends on several factors. Based on the expected earnings level and all else being equal, the sensitivities for 2019 for four key assumptions are listed in the table below:

Factors	Change	Effect on EBITDA (next 12 months)
Container freight rate	+/- 100 USD/FFE	+/- USD 1.4bn
Container freight volume	+/- 100,000 FFE	+/- USD 0.1bn
Bunker price (net of expected BAF coverage)	+/- 100 USD/tonne	-/+ USD 0.6bn
Foreign rate of exchange (net of hedges)	+/- 10% change in USD	+/- USD 0.3bn

