THE CURRENT STATE AND OUTLOOK FOR CONTAINER TRADE IN THE ASIA PACIFIC REGION

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Our topics

1 State of our industry

2 The impact to our customers

3 The road ahead

MAERSK LINE

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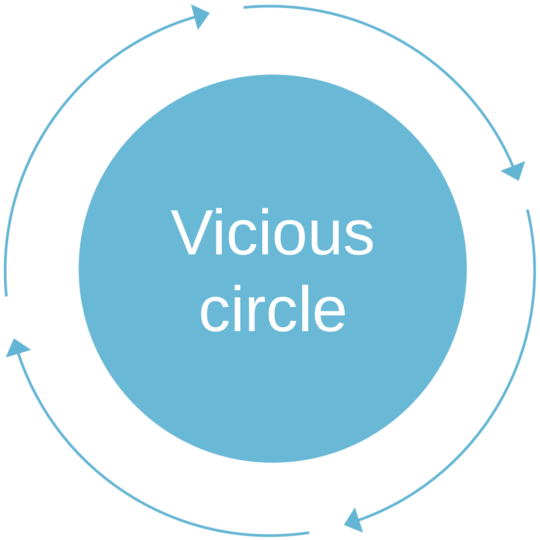
Our industry is caught in a vicious circle

Declining and volatile rates…

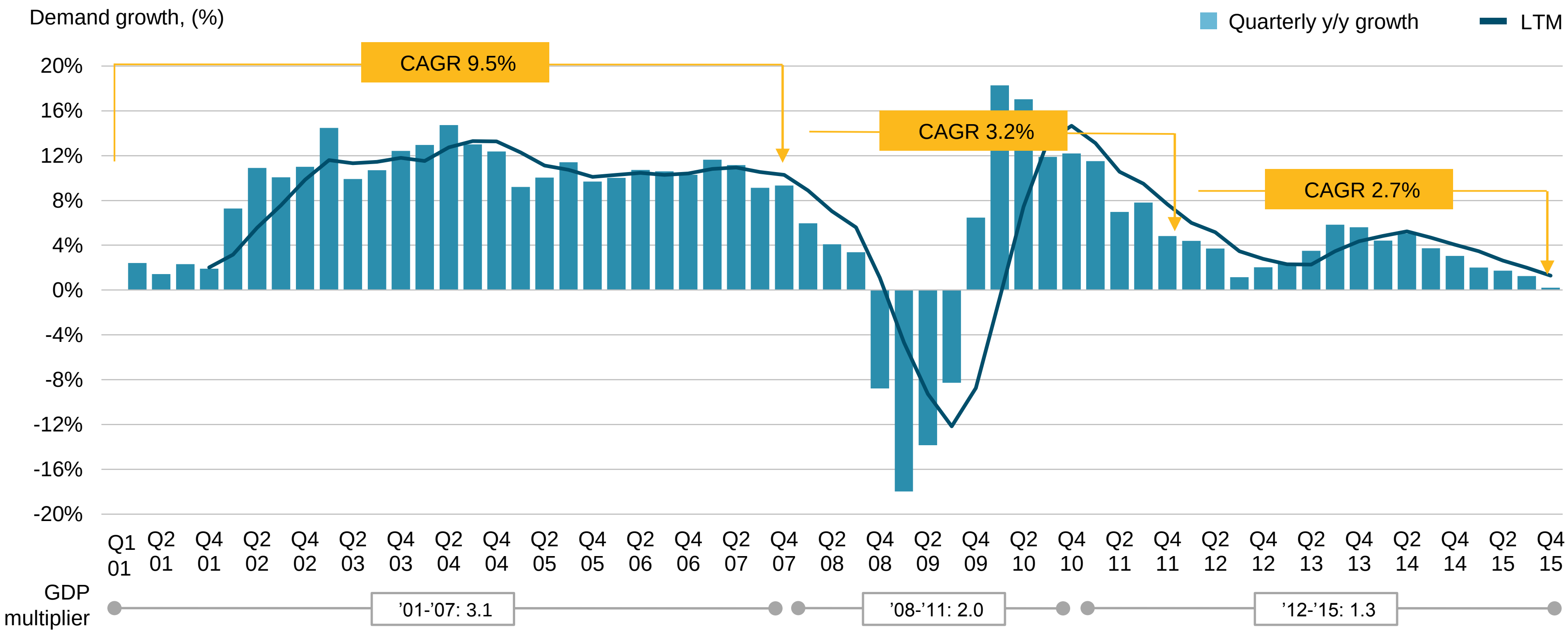


Gives incentive to invest in larger vessels…

Leading to strong vessel ordering…

Which leads to overcapacity…

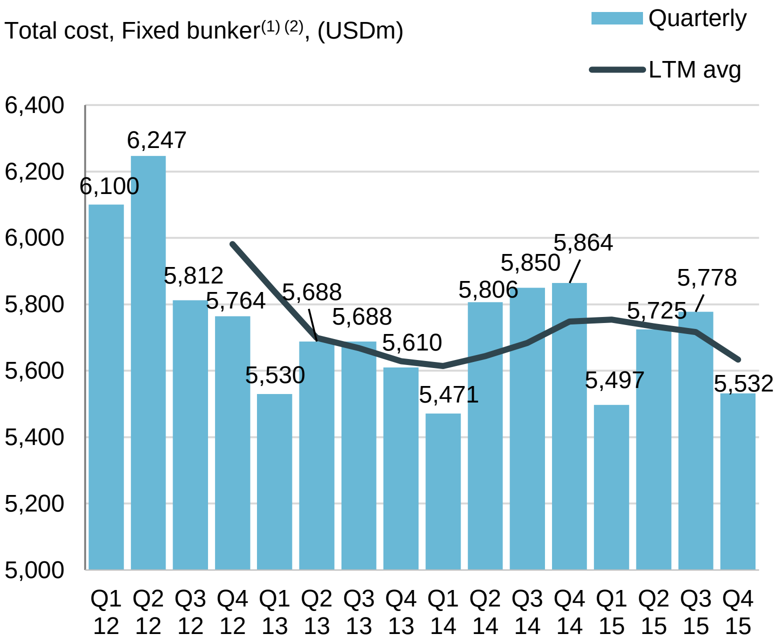
Industry demand growth at its lowest since the financial crisis …



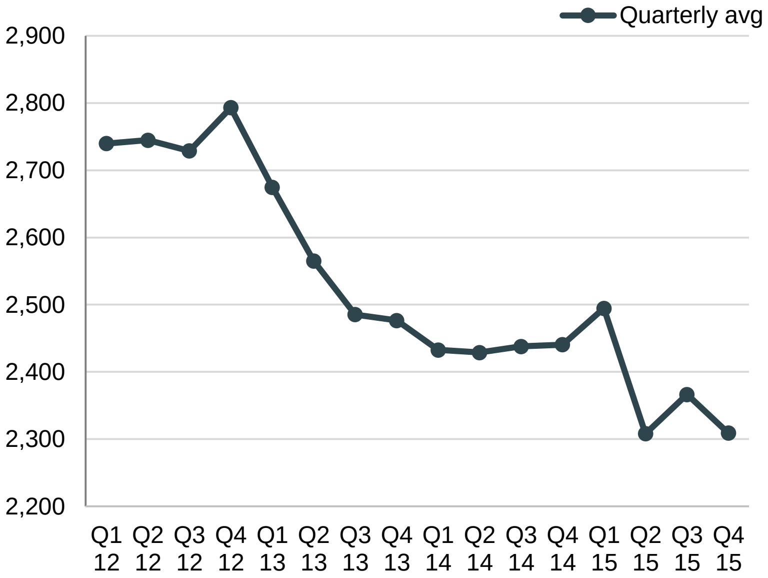
Note: LTM based on last 4 quarters
Source: Maersk Line

…which challenges our ability to keep down unit costs

Total cost, Fixed bunker[1] [2], (USDm)



Total Unit Cost, Fixed Bunker[1] , (USD/FFE)



Notes: 1. Cost with fixed bunker price at USD 400/Ton. 2. MLB Cost adjusted for Gain/loss, restructuring, associated companies at fixed bunker price and including VSA income.
Source: Maersk Line

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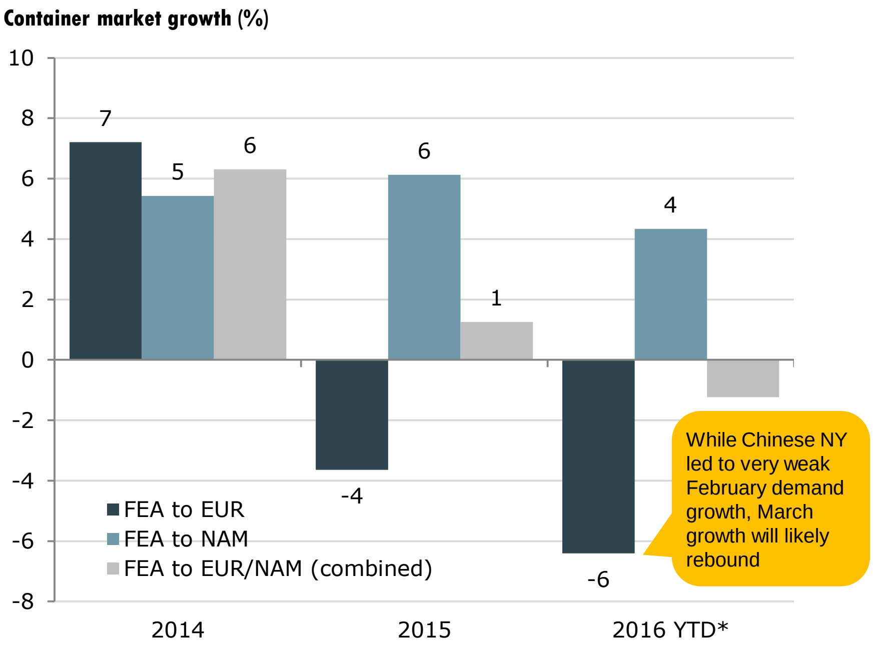
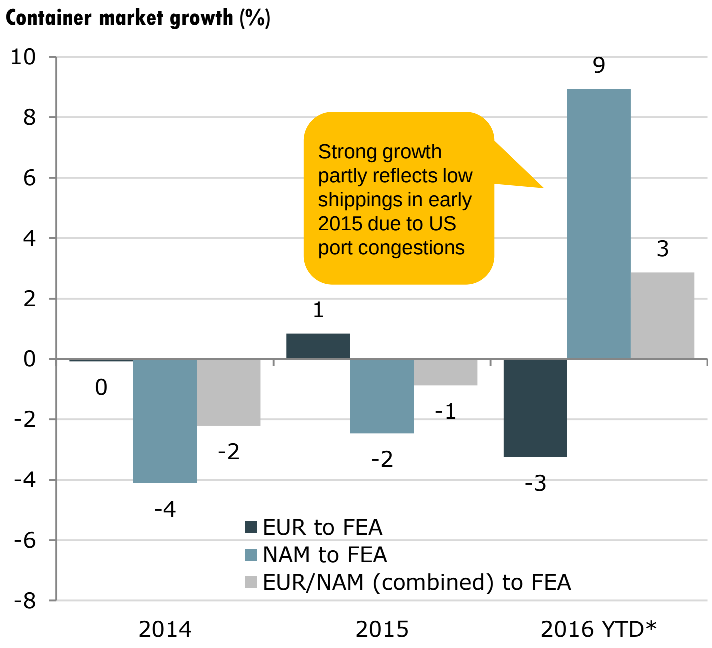
Asia Pacific container exports were mixed in early 2016, largely affected by Chinese NY, while imports from US rose

Asia Pacific exports to USA stayed strong reflecting the solid US economy while exports to EUR continued to fall



2014-15 Asia Pacific imports fell due to lower Chinese demand, but imports from USA rebounded early 2016



Source: Piers and CTS

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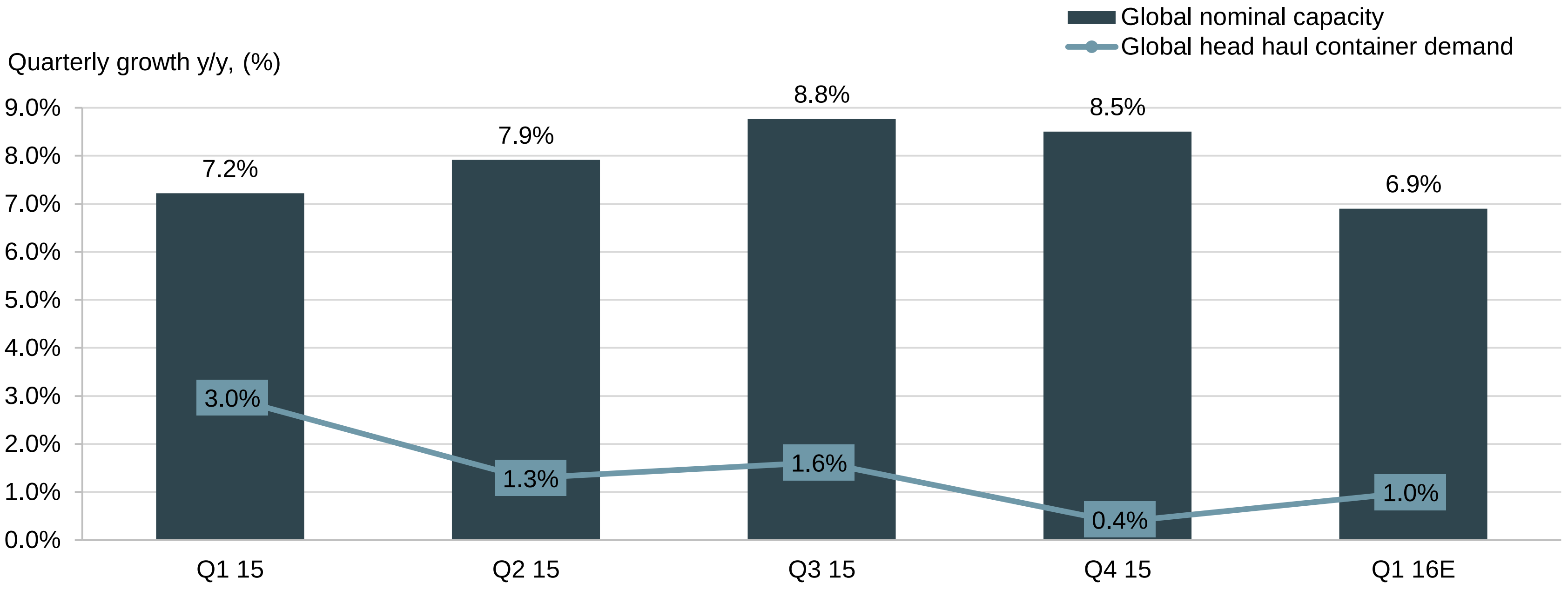
The supply-demand gap has continued to widen …



Note: Global nominal capacity is deliveries minus scrapping's, but excluding idling and slow steaming. Head haul demand includes 62.5% of intra volumes, which makes the growth rates different from “pure” HH demand growth

Source: Maersk Line

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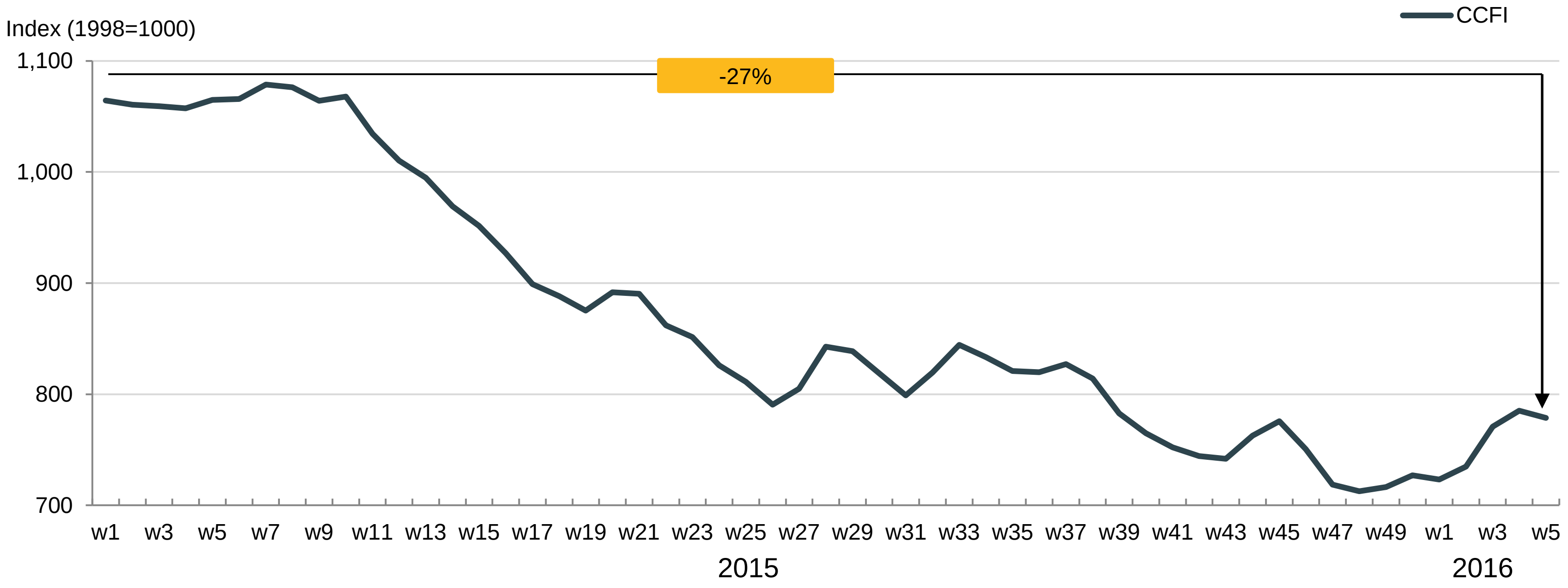
… and so has freight rates



Source: China Container Freight Index

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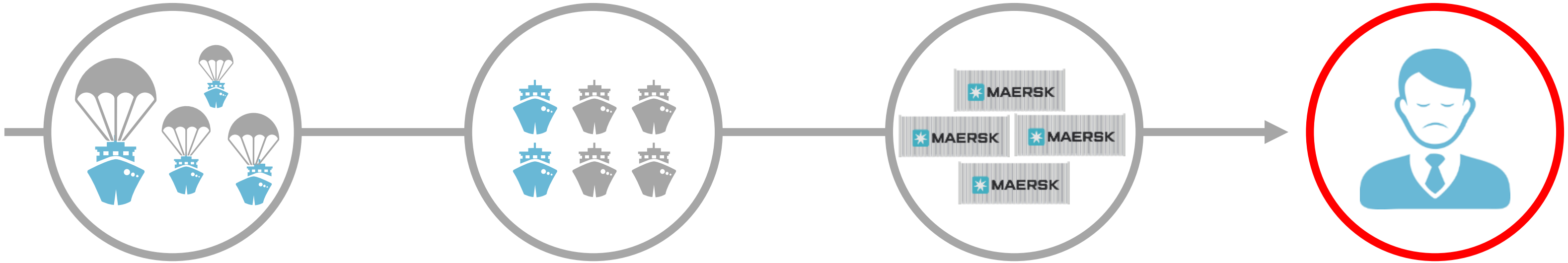
Customers are asking for stability – and excess deployed capacity leads to major supply chain disruptions …



Excess deployed capacity

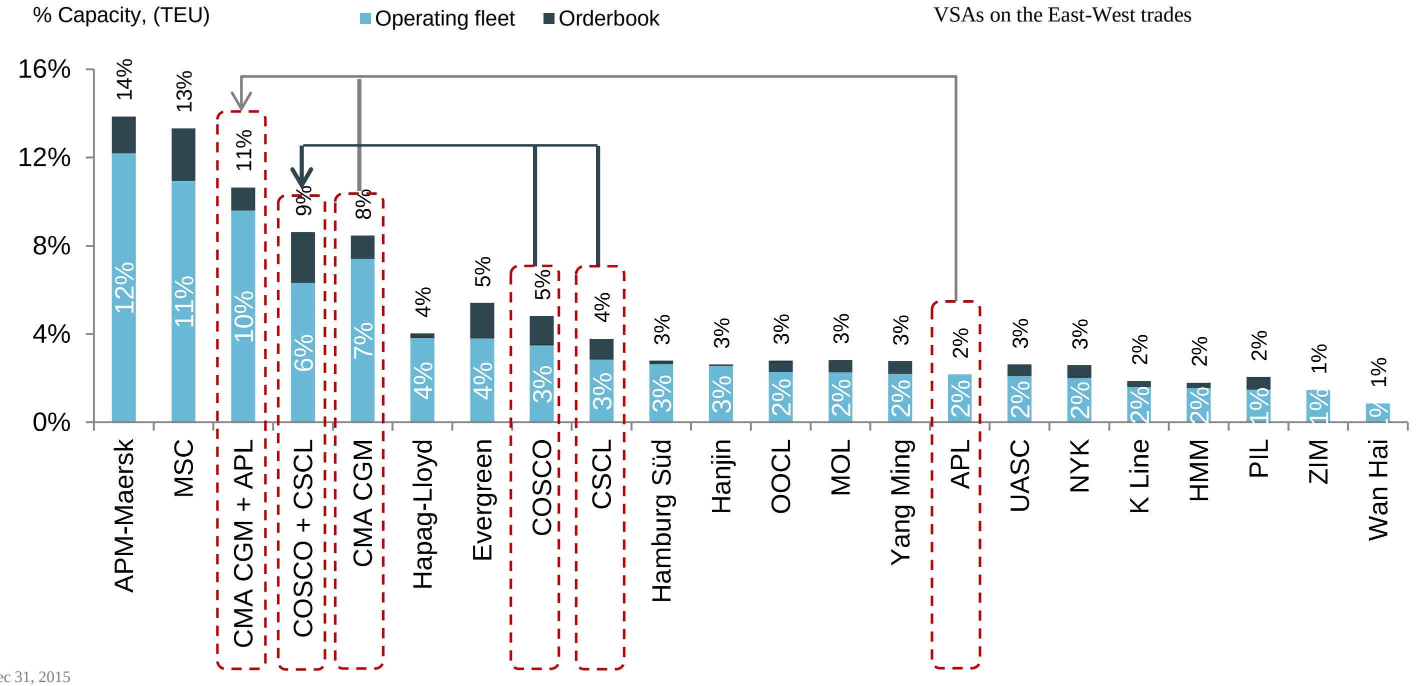
Low utilisation

Higher unit costs

Service disruptions

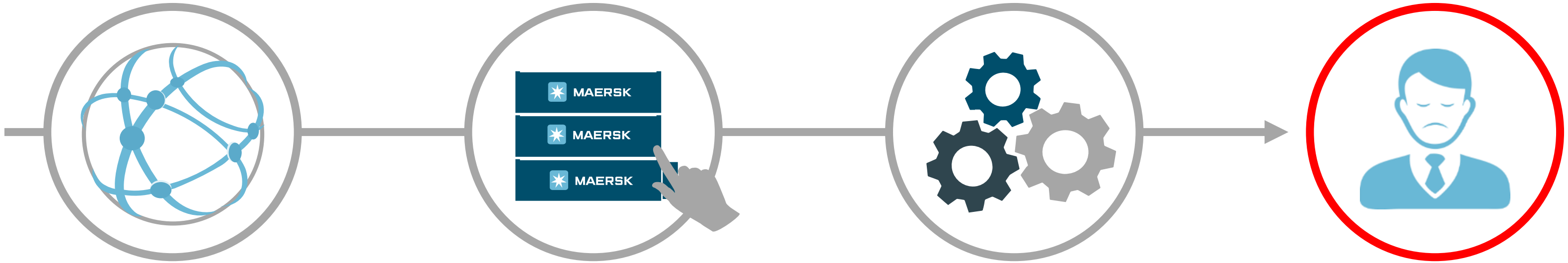
Consolidation is positive for the industry. Increase in mergers and co-operation (VSAs) between liner companies

World fleet Dec 2015 (share of TEU, order book + operating fleet = 100%)



Note: Data as of Dec 31, 2015
Source: Alphaliner

VSAs lead to product improvement and significant efficiencies, however any potential short term supply chain instability also needs to be managed



Network integration

Terminal selection

Phase-in and phase-out

Supply chain instability

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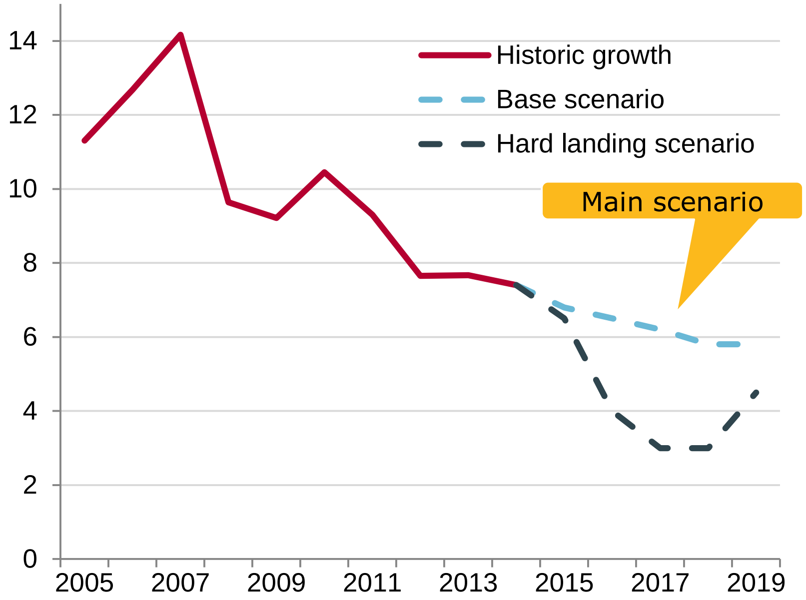
It appears that the Chinese economy is weakening, however, China should be able to avoid a hard landing

China GDP-growth (%)



Preconditions for the soft and hard landing scenarios

1 Economic policy/reforms are crucial:
- Careful fiscal policy, not too slow/fast
- Move to market-based financial system
- Reforms for state-owned enterprises

2 The ongoing adjustment in investments is fully anticipated and desirable

3 Successful transformation towards high-tech production and environmental footprint

1 Abrupt investment correction, resembling "Asian-Tigers" in the 90's

2 Government delays reaction for too long

3 If financial liberalization is done without due considerations it may create wrong incentives

We should be mindful of shaky fundamentals

1. **World economy growing moderately**
   - Growth ~2.5% in coming years

2. **Global economy hugely dependent on China**
   - US leads the recovery while major emerging countries lag
   - Increased discussion about China's economy
   - Soft landing in China relies on careful economic policy and reforms

3. **Chinese container trade is projected to grow only moderately**
   - Chinese container exports expected to grow in line with global GDP as outsourcing to China decreases
   - Chinese container imports expected to decline from shift away from China as "production hub" and less need for raw materials and industrial input

4. **Freight rates continue to deflate and industry profits are poor**

The role of Containerization in the World Economy
Containerization has brought markets together

- Containerization has helped emerging economies grow
- The container has enabled small businesses to gain global access, with lower risk
- Supply chain costs have reduced drastically over the last 15 – 20 years
- Lets realize the value that the shipping industry has brought to the world economy – and realize we need to take good care of it.

Thank you