Connecting Markets: The Suez View

MAERSK

AUGUST 2015 EGYPT

The Asia-Europe trade is changing and growing

The Suez Canal is the shortest shipping route between Europe and Asia. In 2014, approximately 20% of global container volumes transited the Suez Canal. For Maersk Line the Suez Canal is a strategically important infrastructure and stakeholder. With approximately 1,400 transits per year, Maersk Line is the largest container vessel customer for the Suez. In fact, the Suez Canal is Maersk Line's single biggest supplier.

The Asia – Europe service network is dependent on an effective and competitive Suez Canal. Therefore, we welcome the expansion, which confirms the Suez Canal Authority's commitment to accommodate growth in trade and vessel sizes.

Global trade is not growing as fast as we have been accustomed to during the past decades. And in the aftermath of the financial and economic crisis, we see less trade generated from global economic growth. China is a good example hereof, where domestic demand is to some degree replacing foreign demand as the main economic driver.

While trade is not growing as fast as previously and the Asia – Europe trade growth has stagnated, there will be trade growth overall. And volumes will increase.

In the short-term

Westbound volumes (i.e. from Asia into Europe) are currently declining (negative growth). This is a direct effect of the weak Russian economy as well as European retail inventories depleting following last year's strong build-up. We expect both of these negative effects to gradually fade in second half of

2015. Otherwise, the European economy is doing relatively well, especially Spain, UK and North Europe (not the least Germany). Some Southern European countries such as Greece and Italy are struggling.

In 2015, weak Chinese demand will continue to dampen Eastbound volumes.

Eastbound volumes (i.e. from Europe into Asia) have been declining (negative growth) during the last 6-12 months. Chinese imports of raw materials remain frail not just from Europe, but also globally. The reason is first and foremost depletion of inventories, but the Chinese housing market is also weak (e.g. marble out of Turkey has fallen 10 to 20%). In 2015, weak Chinese demand will continue to dampen Eastbound volumes. In 2016, Chinese inventories of raw materials are assumed to reach critical low levels, which should lead to a needed lift in Chinese imports.

Longer-term trends

Westbound volumes are expected to grow less than before the crisis, also as contributions from of-shoring and containerisation are lower than previously. European imports from Asia will continue to mainly consist of consumer goods (machinery, textile, plastics,etc).

Westbound volumes are expected to grow less than before crisis.

Eastbound volumes are expected to grow slightly faster than Westbound volumes as the Asian economies grow faster than European economies. This will lead to a slow and gradual improvement of the East/West balance of container volumes. The composition of Eastbound volumes is expected to change. We will see more and more consumer and high value goods from Europe, as among others. Chinese middle class grows in size (marble, paper, agriculture, forestry,etc.).

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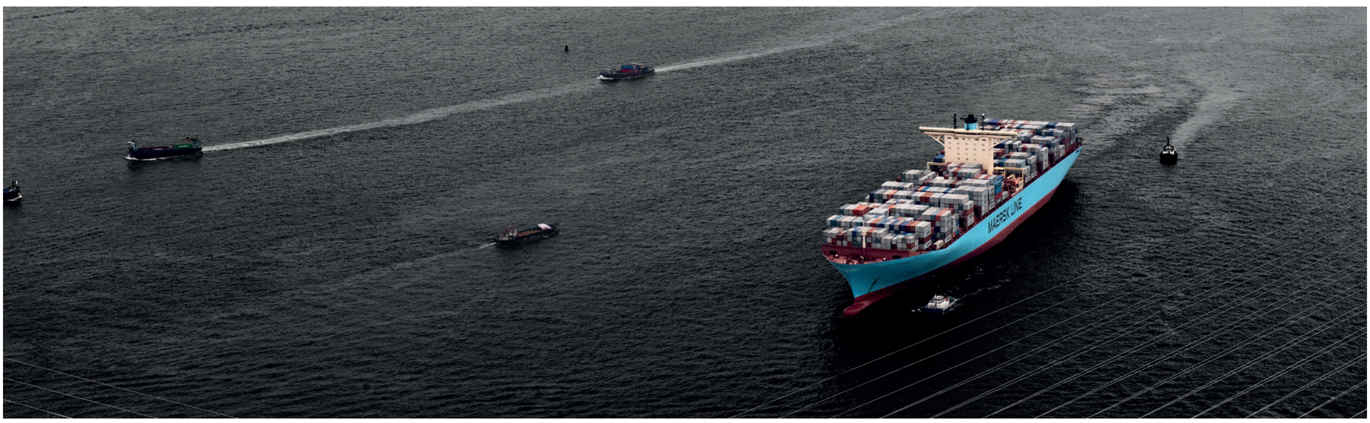
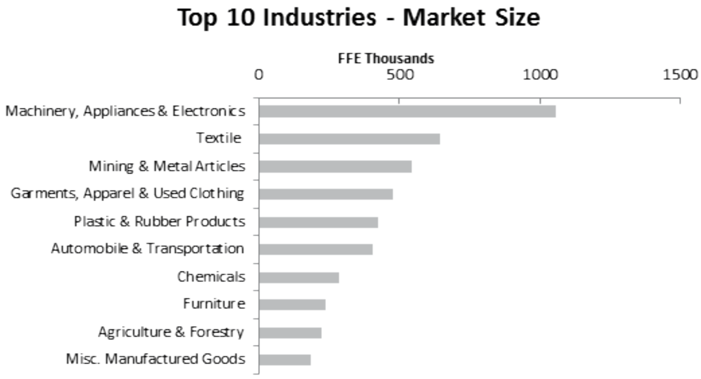
There are risks concerning how the Chinese economy will manage the transition from an export and investment driven economy to a domestic demand/consumption driven economy.

Main scenarios rely on a soft landing but a hard landing scenario of much less growth cannot be rulet out.

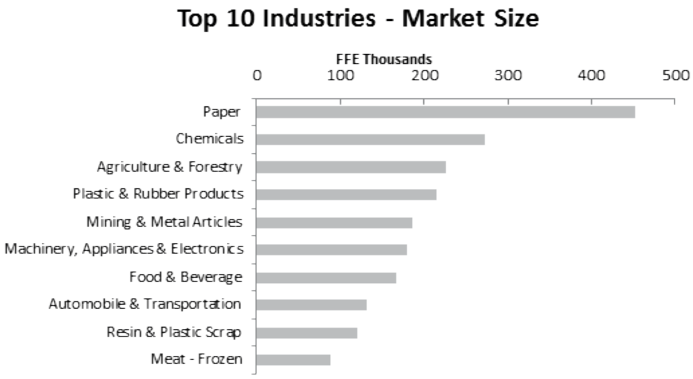
"Egypt is an important market for the whole Maersk Group. As a key entry point between Europe and Asia, Egypt has all through the 20th and 21st century acted as the bridge between the two continents thereby enabling trade and growth," says Claus V Hemmingsen, Group Representative, Maersk Drilling CEO



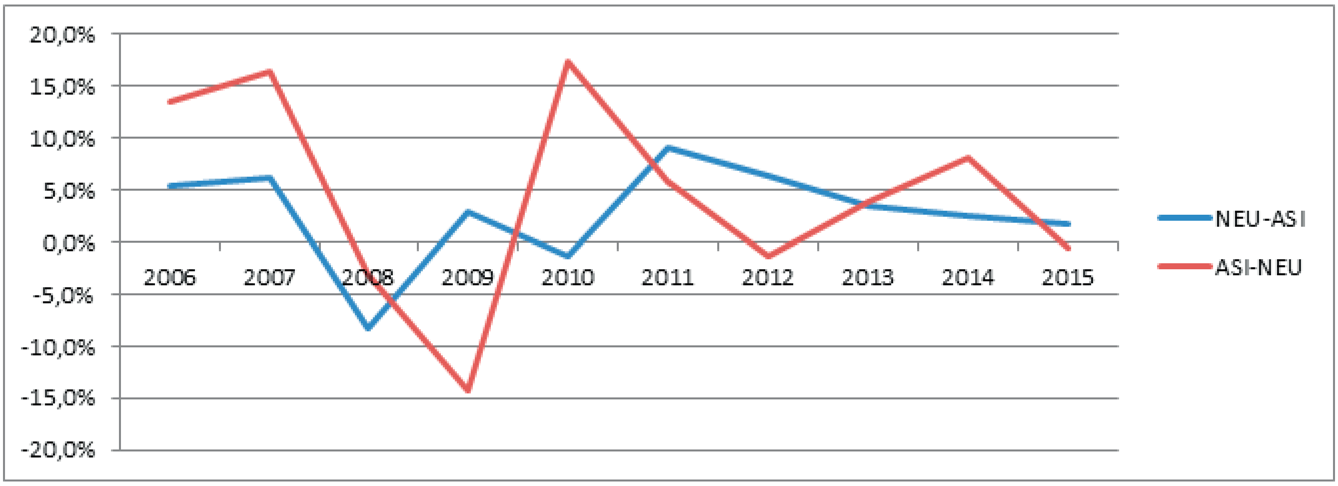
Asia to North Europe



North Europe to Asia



Asia – Europe market growth



ASI: Asia
NEU: North Europe

The Mediterranean and Egyptian Container Terminals

The 17 busiest container ports along the Mediterranean Sea, each with at least one million TEUs handled annually, saw a combined volume of 42.3 million TEUs in 2014, representing an annual growth rate of 6%, outperforming the global container traffic growth rate.

Port Said, Egypt, is the third-busiest container port in the Mediterranean region, with 4.1 million TEUs handled in 2014. The Mediterranean's two busiest container ports, Algeciras and Valencia, with throughputs of 4.5 and 4.4 million TEUs respectively, are located on the Western Mediterranean, leaving Port Said, and Egypt the distinction of being the busiest container port in the Eastern Med. Egypt's second-busiest container port, Alexandria, handled 1.6 million TEUs in 2014.

> **The 17 busiest container ports along the Mediterranean Sea, saw an annual growth rate of 6%, outperforming the global container traffic growth rate.**

APM Terminals is the largest terminal operating company in Mediterranean Region, with 8.1 million TEUs handled in 2014 (weighted by equity share). The APM Terminals Global Terminal Network includes APM Terminals Algeciras, the busiest container terminal in the Mediterranean, with a throughput of 3.5 million TEUs in 2014; a 90% share of APM Terminals Tangier (1.6 million TEUs); a 33% share of Gioia Tauro MedCenter Container Terminal, in Italy (3 million TEUs); and 42% of Fos Seayard Container Terminal, in France (451,000 TEUs). APM Terminals Vado, on Italy's Ligurian Coast, is scheduled to open in 2017, with an annual throughput capacity of 800,000 TEUs and the ability to accommodate vessels of up to 18,000 TEU capacity. APM Terminals Izmir, on Turkey's Aegean Coast, will open in early 2016 with a capacity of 1.5 million TEUs, and the ability to accommodate Ultra-Large Container Ships as well.

The Egyptian local market varies within the range of two million TEUs annually, with a growth rate of 9% in 2014 following several years of instability. Egyptian local container volume had been growing at a 5% annual rate previously. The Turkish Mediterranean Port of Mersin handled 1.5 million TEUs in 2014, reflecting an 8% growth rate for the year. The Port of Iskenderun, Turkey, brought new capacity of 1.5 million TEUs when it became operational in mid-2014. Current container throughput in the Eastern Mediterranean is approximately 7.4 million TEUs, with a port/terminal utilization ratio of 62%. Egyptian ports compete in the Eastern Mediterranean; upper Turkey, with a market of 3.4 million TEUs and a utilization rate of 73%; lower Turkey and the upper eastern Mediterranean, with volume of 2.1 million TEUs and a utilization rate of 84%; and the Central Mediterranean, with throughput of 6 million TEUs, and a utilization rate of 86%.

APM Terminals is continuing to invest in Egypt, and the Mediterranean region to meet the needs of its customers as new growth and local national infrastructure improvements continue. In March, the Suez Canal Container Terminal (SCCT), in which APM Terminals holds a 55% share, signed an agreement with ZPMC, for the manufacture of four of the world's most advanced new cranes, for delivery in July 2016. This will increase the number of Shore to ship cranes to 24. The new cranes, representing an investment of $ 42, million will have a 72 meter reach, and a height of 52 meters, with the ability to handle the world's largest vessels now entering the global fleet.

Oil market in Egypt and the region

The global economy is witnessing a general trend of a slow but steady recovery. Over the past five years, economic growth has returned to stable levels between two and three percent with strength in the US being partly offset by challenges in Europe, and an apparent soft landing in China.

Going forward, GDP growth is forecasted to stabilise above 3% with an expectation that lower oil prices may help to further stimulate economic growth and thereby reinforce oil demand. Over the same period, annual oil demand has increased by around one million barrels-per-day, which shows how GDP growth and oil demand are closely linked.

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The Middle East and North Africa region is again experiencing major and increasing security challenges. In addition, since mid-2014, Middle East has been adjusting to the oil price drop and recently it has been witnessing a decline in activity in the smaller regional producing countries.

However, the major regional producing countries have carried on with their projects and are currently in the process to expand further, which will be needed to maintain and increase production to cater for the global demand. Maersk Drilling contributes to this with their semi-submersible rig Maersk Discoverer, which is operating offshore Egypt on a long-term contract for BP.

With the fight for market share and the resultant drop in oil prices, MENA oil and gas market will be able to flourish due to the low capital per barrel costs rather than the more costly options of tight oil and deepwater. In addition, operators have used these events to cut their contractors costs as oilfield service companies compete to maintain activity, which has decreased their capital per barrel cost.

With the changes in global oil markets, there has been a dramatic drop in activity in Egypt in the first half of 2015 as operators have changed their strategies to cope with the changes in global markets.

EDC, in which the Maersk Drilling has a 50%-ownership share, is seeing demand picking up slightly in the second half of 2015 as operators are seeing the global oil market stabilises. With the new gas price deals and the significant investment agreements, including the BP $12 billion deal announced earlier this year in the International Investment Conference in Sharm El Sheikh and the deals that are currently being discussed amid the Prime Minister's visit to Italy, there should be a gradual growth in activity.

MAERSK LINE

About Maersk Line

- Maersk Line is the world's largest container shipping company.
- Maersk Line employs 7,100 seafarers and 25,500 land-based employees and operates 608 container vessels.
- Maersk Line serves customers through 374 offices in 116 countries.

Lifting Global Trade
APM TERMINALS

About APM Terminals

APM Terminals is lifting global trade with a Global Terminal Network of 20,600 professionals and 200 port and inland services operations in 58 countries around the globe. APM Terminals designs, builds and operates port and terminal facilities, as well as providing cargo Inland Services for cargo transportation between port facilities and inland locations, as well as other associated cargo handling functions. The world's shipping industry and the global logistics chain rely upon APM Terminals and the APM Terminals Global Terminal Network for efficient access to all global markets.

MAERSK DRILLING

About Maersk Drilling

Maersk Drilling's modern fleet counts 22 drilling rigs including drillships, deepwater semi-submersibles and high-end jack-up rigs. Further, Maersk Drilling has one ultra harsh environment jack-up rig under construction. Maersk Drilling employs an international staff of 4,500 people and generated a profit (NOPAT) of USD 478m in 2014.

EDC

About EDC

In 1976, EDC was formed as a joint stock between the Egyptian General Petroleum Corporation (EGPC) and the Maersk Group of Denmark. EGPC and Maersk have acted, since the company's inception, as equal partners in ownership. EGPC is Egypt's national petroleum corporation, overseeing exploration, production, refining, marketing and distribution of oil & gas within the country. In November 1976, EDC began operations by acquiring an onshore drilling rig and securing a contract for drilling in Egypt's Eastern Desert. EDC's objective at the time was to secure a leading position in the domestic drilling market. Today EDC has operations in Saudi Arabia, Libya, and Gabon.

MAERSK

About Maersk Group

The Maersk Group operates in some 130 countries with a workforce of over 89,000 employees. Maersk Group has five core businesses which include Maersk Line, APM Terminals, Maersk Oil, Maersk Drilling and APM Shipping Services. The last business area is comprised of Maersk Supply Service, Maersk Tankers, Damco and Svitzer.

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