A.P. MOLLER – MAERSK'S TRADE REPORT

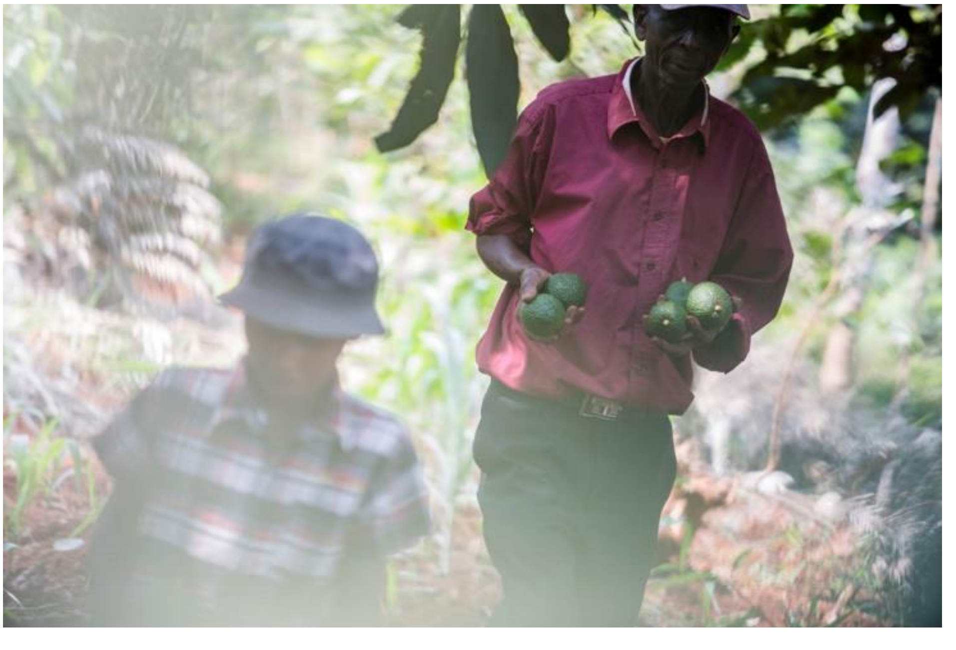
HEALTHY CORRIDOR COMPETITION, TENTATIVE SIGNS OF RECOVERY AMID POLICY UNCERTAINTY

Q1 2017 **EAST AFRICA**

MAERSK

EAST TRADE TRADE REPORT HIGHLIGHTS

- Overall, East Africa containerised trade volumes experienced 1% growth in the first quarter of 2017 compared to the first quarter of 2016; albeit with a disparity between corridors.
- The Northern Corridor grew by 1% from the fourth quarter of 2016 to the first quarter of 2017, whereas Central Corridor contracted by 12%.
- Drought conditions in Kenya, political instabilities in various regions, and the interest rate capping on the bank lending rate in Kenya are some of the factors impacting trade on the Northern Corridor.
- Government regulations, duty on some major import commodities, as well as political instability in Democratic Republic of Congo continues to impact overall trade on the Central Corridor.



Indicators of global trade growth in early 2017 suggest stronger trade performance compared to 2016. Despite the policy uncertainty observed in some of the strongest economies of the world, the World Trade Organization (WTO) is forecasting that global trade will expand by 2.4% in 2017.

In the East Africa region, aggregate trade levels have improved slightly since 2016, resulting in overall year-on-year growth of 1%.

There continues to be a noticeable disparity in performance between the two core trade corridors of East Africa. Container trade in the Northern Corridor (Mombasa gateway), which serves Kenya, Uganda, South Sudan and parts of Rwanda, expanded by 1%; whereas the Central Corridor (Dar es Salaam gateway) serving Tanzania, parts of Rwanda, Burundi, Zambia, Malawi and DRC, saw a contraction of 12%.

"While conditions in the East Africa region have continued to be challenging due to political instability, ongoing macro-economic headwinds and drought conditions affecting certain countries, we're seeing healthy competition between the two corridors, both jostling for position in terms of some of the 'swing' countries that could export or import cargo through either corridor, specifically Rwanda, Burundi and Uganda," states Steve Felder, Managing Director at Maersk Line Eastern Africa.

THE NORTHERN CORRIDOR

The Northern Corridor serves Kenya, Uganda, South Sudan and parts of Rwanda.

Compared to the same period in 2016, the Northern Corridor import market experienced growth of 6% in the first quarter versus the first quarter of 2016. This is however a decline of 1% from the last quarter of 2016.

"In Kenya, liquidity is still very tight, caused by last year's interest rate capping on the bank lending rate. For the next quarter we expect to see a slowdown in the import market as we approach the Kenyan elections on 8 August. Based on a natural cycle that we see in every election period, the market drops by around 20% as importers seek to remain liquid, as opposed to having their cash tied up in inventory," Felder explains.

On the other hand, exports have declined 10% in the first quarter of 2017 compared with the same period last year. The sluggish start of the year can be attributed to "the drought that's taken hold of Kenya and Uganda, which severely impacted the agro-economy and exports of agro-based products, which are the main exports through the Northern Corridor," says Felder.

"In Kenya, which represents around two-thirds of containerised demand in the corridor, tea – the biggest containerized export by volume – saw a market reduction of 20-25% during the first quarter. There was also a reduction in soda ash volume – an input material for the manufacturing of glass – given the changes in market demand; as well as fish exports from Lake Victoria due to over-fishing."

In Uganda, there is still some sluggishness accompanied by very static private sector activity; while the South Sudan situation has yet to improve, characterised by political instability and a shortage of foreign currency, resulting in many infrastructure projects coming to an untimely standstill.

POTENTIAL DRIVERS FOR KENYAN GROWTH

Kenya has the potential to be one of Africa´s great success stories from its growing population, a dynamic private sector and its pivotal role in East Africa. Addressing challenges of poverty, investment, and productivity will be a major step to achieve a rapid, sustained growth rate. There are some positive signals, such as encouraging developments in the budget in the form of import duty reductions in order to stimulate local beneficiation and value-adding manufacturing.

According to Felder, "an important factor, impacting largely in a positive way, are import duty changes from the most recent budget. For example, the reduction in corporate tax for vehicle assembly companies, duty exemptions on goods exported to Special Economic Zones (SEZ) and imports by enterprises licensed under the SEZ Act are to be exempted from import declaration fees."

THE CENTRAL CORRIDOR

The containerised market in the Central Corridor represents a very different picture to that in the Northern Corridor, having contracted in both directions, says Felder.

"Compared to the same period last year, imports decreased by 2%, while exports decreased by 5%, representing a total year-on-year contraction of 3% in the first quarter.

"In the domestic Tanzanian market, there have been a number of duty increases on various products, such as cement, paper, sugar and furniture; which reduces buying power and ultimately the levels of demand for those products. Part of this is to stimulate local industry, such as sugar production, but there is also a definite drive for increased tax collection in the country."

While the export ban of locally extracted mineral sands out of Tanzania has also had an impact on the mineral industries from DRC, Zambia and Rwanda; the Rwandan market appears to present a generally positive outlook.

Regarding the rest of the corridor, Felder says that political uncertainty and conflict continue to be a challenge. "In Zambia, although the currency has somewhat improved, it still remains relatively weak in comparison to a couple of years ago.

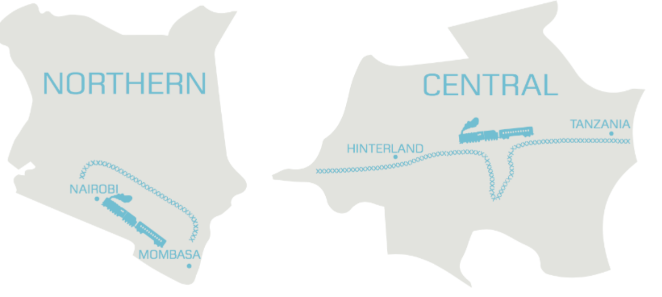
The Central Corridor serves Tanzania, Burundi, Zambia, Malawi, DRC and parts of Rwanda

The situation in Burundi continues to persist, whereby the country is in the middle of a major conflict with a lot of uncertainty, similar to the political uncertainty being experienced in DRC, with the indefinite postponement of elections that were set to take place late last year."

VITAL INFRASTRUCTURE DEVELOPMENT

Investment in infrastructure leads to growth. Inefficient ports and poor roads act as bottlenecks hindering trade. Good infrastructure reduces distance to market, lowers total-cost-of-trade, and raises economic productivity and competitiveness. The current progress on some key infrastructure development projects in the region will definitely contribute to realising these benefits:

Key infrastructure development projects - driving market growth (Standard Gauge Railway)



- With about 18 months having passed since phase 1 of the second container terminal in Mombasa became operational, some much needed capacity (around 50%) has been added to the port. The Kenyan port authorities are now intending to relocate some mobile harbour cranes to the new terminal in order to increase its capacity and enable it to accommodate two vessels concurrently. As a result of this unlocking of capacity, a period of relatively efficient operations is seen at the port and no congestion, which certainly improves the trade velocity for customers.

- The construction of the Standard Gauge Railway linking Mombasa and Nairobi is largely completed, and pilot services have been launched. This railway will have a direct link into the port of Mombasa and straight into the newly constructed inland container depots in Nairobi. By virtue of this project, a substantial percentage of imports are expected to – over time - move from road to rail, which will potentially reduce road congestion and create a more environmentally friendly footprint in the country. This should hopefully also reduce costs for importers, and ultimately for consumers.

- There is also another Standard Gauge Railway in Tanzania, for which construction has just started. The concept of this development is very similar to that in Mombasa, and will ultimately link Tanzania to a number of Hinterland countries.

OUTLOOK

In spite of myriad challenges in the region, there is still a generally positive outlook, strong investor interest, and much potential yet to be realized.

Looking forward, the development along the Northern Corridor will very much depend on the Kenyan elections, and the extent to which they are peaceful.

Nevertheless, a short-term reduction in the import market is expected, followed by a quick recovery after the elections. Furthermore, if the interest rate cap decision is reviewed, that will increase liquidity in the market boosting trading and buying power.

Minimal fundamental change is expected in the Central Corridor for the rest of the year, however the most recent budget is encouraging, especially the decision to revoke the introduction of VAT on transit services. In the long term, "We hope to see developments in mineral exports, and we are also excited about the Rwandan market which is a buoyant economy and certainly seems to be taking a strong position in terms of becoming a key trading hub over time," asserts Felder.

About A.P. Moller-Maersk:

A.P. Moller-Maersk is an integrated transport & logistics company with multiple brands and is a global leader in container shipping and ports. Including a stand-alone Energy division, A.P. Moller - Maersk employs roughly 88.000 employees across operations in 130 countries.

About Maersk Line

Maersk Line is the world's largest container shipping company, known for reliable, flexible and eco-efficient services. We provide ocean transportation in all parts of the world. We serve our customers through 306 offices in 114 countries.

We employ 7,600 seafarers and 21,600 land-based employees and operate 639 container vessels. We market our services through the Maersk Line, Safmarine, SeaLand (Intra-Americas), MCC Transport (Intra-Asia) and Seago Line (Intra-Europe) brands.

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