DRIVING PERFORMANCE MANAGEMENT IN MAERSK

Jesper Krüger, Head of Group Performance & Analysis
Conference - Beyond Budgeting: From Command & Control to Empower & Adapt
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Jesper Krüger

- Head of Group Performance & Analysis since 2013

- Chief Portfolio Manager – Global Equities – AUM 150 bn $ - 2010-2013

- Chief Portfolio Manager – Global Equities – AUM 125 bn $ - 1998-2010
A.P. Moller - Maersk Group at a glance

- Founded in 1904
- Headquarters in Copenhagen
- Represented in over 130 countries, employing around 89,000 people
- Market capitalization of around USD 42.8bn end of 2014
- Underlying profit for 2014 was USD 4.5bn a 33% increase from 2013

Facilitating global containerized trade
Maersk Line carries around 14% of all seaborne containers and, together with APM Terminals and DAMCO, provides infrastructure for global trade

Supporting the global demand for energy
The Group is involved with production of oil and gas and other related activities including drilling, offshore, service, towage, and transportation of crude oil and products
Our long-term journey and ambition

Where we came from

- Growth was the priority for most businesses
- Cost efficiency not high priority
- Earnings followed shipping markets
- Maersk Line dominated the group
- Maersk Oil as cash provider
- Portfolio broad and performance uneven
- Strongest presence in mature markets

Where we are now

- Focus on value and market proposition
- Focus on Business Unit positioning
- Focus on business opportunities and value creation
- Continued cost and efficiency pressure
- Business units are stand alone businesses
- Increasing share of profits from less volatile businesses
- Disciplined and increasingly transparent capital allocation
- Increasing presence in growth markets

Where we are going

- Premium conglomerate
- Value creating portfolio management
- World class BU performance
- Ambitious and inspiring home for our businesses
Conglomerate restructuring successfully completed

2009-14: Divestments worth ~USD 11bn
Proceeds reinvested in core businesses or used to reduce high debt level

2015: Splitting out of Danske Bank
Shareholders offered shares or cash
Building value through the cycle

Enabled by an organization that can drive profitable growth and innovation for the future, safeguarded by our values

- Portfolio optimization
- Focused and disciplined capital allocation
- Top quartile performance in all our Business Units
Market competitiveness is key...

<table>
<thead>
<tr>
<th>Maersk Line</th>
<th>Maersk Oil</th>
<th>APM Terminals</th>
<th>Maersk Drilling</th>
<th>APM Shipping Services</th>
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</thead>
<tbody>
<tr>
<td>Fleet expansion to defend market leading position</td>
<td>Mature key projects</td>
<td>Container and multiport (adjacent) expansion</td>
<td>Capitalize on large &amp; new fleet</td>
<td>Deliver on recent Maersk Supply Service investments</td>
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<tr>
<td>Strengthen our advantage</td>
<td>Acquisitions and opportunistic investments</td>
<td>Break new ground with leading investments</td>
<td>Opportunistic investments e.g. higher specification</td>
<td>Opportunistic investments e.g. competitive fleet renewal</td>
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What does it take…

**Premium conglomerate**

- World class BU performance and customer delivery
- Value creating portfolio management
- Ambitious and inspiring home for our businesses
- Living our values, preparing for the next 100 years

... to be recognized as Premium Conglomerate in the financial markets

- Consistent Delivery
- Trust in the use of capital
- Share the value creation
## Becoming a Premium Conglomerate

<table>
<thead>
<tr>
<th>Focus points</th>
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<tr>
<td><strong>Profitable growth focus</strong></td>
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<tr>
<td>• Emphasize profitable growth as part of our journey</td>
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<tr>
<td>• Define our intrinsic skill set to add value as a conglomerate</td>
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<td><strong>Consistent delivery</strong></td>
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<td>• Step-up credible delivery of plans and investments</td>
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<td>• Adapt performance management to reflect future ambitions</td>
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<td><strong>Allocation of capital</strong></td>
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<td>• Continue re-allocation of capital across portfolio</td>
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<td>• Improve ranking and screening of individual projects</td>
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<tr>
<td><strong>Share the value creation</strong></td>
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<td>• Transparent communication and commitment towards market on our future ambitions</td>
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Strategy and Performance Management processes

- One integrated process, but with clearly defined areas of responsibility ensuring that each sub-process is the best possible.

1: Strategy Formulation
- Understand stakeholders needs
- Analyse market dynamics
- Define strategic objectives and measures

2: Strategy Execution
- Communicate strategy and plan
- Align objectives and measures across BU’s
- Allocate resources

3: Performance Analysis & Measurement
- Track progress along KPI's
- Forecast performance
- Analyse alternative scenarios

4: Continuous optimization
- Review performance
- Refine strategy and strategy plans
- Identify action plans
APMM management process until 2010

**Process**

Strategy and Capital allocation (5 years reported on BU level)

Budget (12 months + 4 years) reported per legal entity and approved at BU level by the board

Target setting based on budget and external benchmarking

Full Year estimate reported quarterly

Business review meetings based on actuals and full year estimate

Investment process with limited structure

**Shortcomings**

Budget with conflicting purposes

- Ambitious target setting

- Realistic forecasting

Slow adaptation of changed market conditions

Resource demanding forecasting process (detailed bottom up)

Inconsistent visibility fixed to current fiscal year FYE

Not sufficient structure when making investments decisions
APMM management process design criteria

- **Visibility**
  - Forward looking

- **Agility**
  - Early identification and correction

- **Control**
  - Balance scorecard driven

- **Simplicity**
  - Removal of unnecessary details
Performance Management – What is a good forecast/a good process?

ROCE 2011-2014:
- Best in Class (Top 20%)
- Average (middle 50%)
- Laggard (Bottom 30%)

% of Respondents (n=1095)

- Ability to communicate forecasts within an organisation
  - Best: 75%
  - Average: 70%
  - Laggard: 68%

- Ability to meet realistic forecasts
  - Best: 65%
  - Average: 62%
  - Laggard: 48%

- Ability to reforecast as market conditions change
  - Best: 79%
  - Average: 68%
  - Laggard: 58%

- Ability to work with several different scenarios
  - Best: 65%
  - Average: 50%
  - Laggard: 38%

- Ability to incorporate corrective actions when assumptions change
  - Best: 55%
  - Average: 40%
  - Laggard: 26%

Source: UBS, Feb 2014

Must Have

Increase Business Value
Separate processes for each purpose - in a continuous rolling cycle

**Quarterly Rolling Forecast**
- Business Unit level
- 5 Quarter financials on Approx. 35 input accounts (P/L, B/S, CF) + 3-7 BU KPI’s
- Review forecasted performance against historical performance on rolling basis (Last4 Next4)
- Trend analysis of KPI’s
- Actions and corrections

**Strategy and Capital allocation**
- 5 year strategy and financial forecast on same level as Rolling Forecast
- Focus on portfolio composition and cash flows/investments
- Board approved investment indication
- Dynamic allocation of capital to projects
- Long term targets

**Target setting**
- Short term (1 year)
- 2 Financial KPIs; 1 relative and 1 absolute
- 3-4 Business Unit specific linked to strategy (financial or non-financial)
- Ambitious Targets set based on external benchmarking
- Identical to bonus targets in people performance management
Investment process of the Group

Structured investment process with financial flexibility

- **Strategic review** - setting the Group’s long term strategic ambitions
- **Capital allocation** - optimising allocation of capital across the Group
- **Investment process** - managing investment proposals, decisions and governance
- **Investment follow-up** - capturing lessons learned for future reference

- **Non-approved**
- **Approved – not committed externally**
- **Approved and committed externally**

From 5 year capital allocation plan

Financial flexibility

Illustration
Creating a pressure cooker for performance

APMM Success criteria

#1: Value creating over the cycle

#2: Top quartile performance in any given period
Our businesses deliver top quartile returns

Return BELOW WACC in FY 2014

Industry Top quartile performance in FY 2014

MAERSK TANKERS
MAERSK DRILLING
SVITZER*

NOT Top quartile performance in FY 2014

DAMCO

Return ABOVE WACC in FY 2014

APM TERMINALS Lifting Global Trade
MAERSK LINE
MAERSK OIL
MAERSK SUPPLY SERVICE
Realized Benefits

- Simplicity – forecast on BU
- Improved performance discussions (30/70%)
- Better Targets
- Increased visibility
- Clear direct link from Strategy to actions
- Dynamic capital allocation based on performance
- Better and Faster decision making
- Increase autonomy and ownership
Thank you for listening, any Questions?