Year in Review

A discussion with our Group Chairman and Chief Executive Officer

Q How would you summarise DP World's performance in 2016?

A 2016 was a challenging year for global trade but we once again reported volume growth and outperformed market growth, which reinstated the resilient nature of our well diversified portfolio. Financially, we benefited from our acquisitions of Jebel Ali Free Zone in UAE and Prince Rupert in Canada in 2015 and our disciplined capital allocation to show healthy increases in revenues and earnings, which grew 4.9 % and 27.6% respectively on a reported basis and 1.3% and 6.2% on a like-for-like basis after adjustments. For the first time, our earnings of $1,127 million surpassed the $1 billion mark and our return on capital employed further improved to 9.5% from 7.9% in 2015.

Q The year was one of shock and uncertainty around the world. How did this affect the macro-environment in which you operate?

A There were certainly some surprising developments in the world of politics, but as global trade enablers we have to take these challenges and find solutions. The challenges came from declining global trade and weaker growth – with some exceptions of countries like India – in the emerging markets, which are important for us as 75% of our portfolio is geared towards these economies. The US dollar continued to strengthen, while other major currencies such as the euro and British pound further weakened, which diminishes the purchasing power of importing nations with depreciating currencies as global trade is US dollar denominated. On the plus side, commodity prices stabilised, notably the price of crude oil, which is vital for our region. And new trade agreements such as the World Trade Organization's Trade Facilitation Agreement were reached. Political developments might have caused some uncertainty, but so far they have not had lasting negative effects on the global economy or financial markets. Stock markets around the world are trading near all-time highs for example, which is an important factor for business confidence and for trade.

Q What were trends in cargo and throughput in 2016?

A Our volumes remained high, delivering 63.7 million TEU (twenty-foot equivalent units) of gross volumes across our global portfolio in 2016, growing faster than the market thanks to our strategy of geographical diversification. We continued to focus on faster growing emerging or frontier markets, where around 75% of our terminals are located.

The portfolio mix was constant at around 70% origin and destination ("O&D") cargo, which is a great strength of DP World as it allows us to benefit from "sticky" cargoes and the higher prices they command.

For more information on our financial performance during 2016, see pages 28 and 29

This has an obvious benefit for our revenue, which typically grows ahead of our volume growth. The aim is to continue to attractive earnings growth and shareholder value over the long term.

Q Can you describe the performance of Economic Zones World in its first full year under DP World ownership?

A It was an excellent acquisition for us. Not only did it help to increase overall revenue growth, but it also improved the quality of our earnings and significantly enhanced our margins. This contribution is more fully described in the Chief Financial Officer's Review on pages 28 to 29.

In terms of growth, the Jebel Ali Free Zone continued to prosper, with new companies joining to bring the total to more than 7,000. We added a substantial amount of new office and industrial space, and increased the number of available on-site residential accommodation. The capacity is there for further future growth especially leading up to the EXPO 2020 and we look forward to the Free Zone continuing to provide significant strategic and financial benefit to DP World.

Q What are the advantages of having a dedicated industrial and logistics facility linked to a terminal port, like at Jebel Ali?

A We believe it makes the whole offering much more attractive to customers. Having a dedicated industrial and logistics facility on the port's doorstep means that customers do not have to haul cargo hundreds of kilometres once it is unloaded. Cargoes that require processing can be handled within hours of arriving at Jebel Ali. The port is at the centre of a sophisticated transport network, with excellent land, air and sea connections. Al Maktoum International Airport is already adding enormously to its logistical attractions, and this will only increase as the airport expands to eventually become the biggest in the world.

Q Much attention has been focused on the Hyperloop as a new transport system for passengers. What about its potential for cargo?

A We see the Hyperloop as a game changer in the business of transport logistics, and have begun studies to look at the applications of Hyperloop technology in Jebel Ali. The benefits from the fast movement of goods are obvious. Valuable dockside space would be freed up, and customers would have a dedicated container facility just minutes away from the ship. There's plenty of space for a new inland container depot, and a Hyperloop connection would make sound logistical and financial sense, allowing us to increase capacity and volumes in the port and enhancing revenue and profits. Everybody is getting excited about the potential for a 15-minute trip between Dubai and Abu Dhabi, but we are just as excited about the potential of Hyperloop for our container port business.

Q You make a point of saying that capacity targets must be flexible to take account of demand. Can you elaborate on this?

A In the ports business, time and space are equivalent to money, and it makes no sense for capacity to be under-utilised. We only want to add capacity when there is a demand for it. So, in the softer economic conditions we witnessed in 2016, we have decided to postpone some of the planned capacity additions for Terminals 3 and 4 at Jebel Ali port. We expect to deliver the 1.5 million capacity addition to Terminal 3 in 2017. It is all about employing capital sensibly and keeping the flexibility to adjust capacity growth depending on market conditions.

Q Last year the UAE committed itself to supporting the innovative strategies required to face the challenges of the 'fourth industrial revolution'. How will DP World play its part in this initiative?

A We are proud to play our part in this national strategy, which was unveiled in Dubai at the World Economic Forum Future Councils meeting last year. Innovation has always been at the heart of the DP World business, in the form of technological applications in security, safety, loading and unloading, customs inspections and cargo tracking. In many ways, our business is at the sharp end of the Fourth Industrial Revolution. People will always want physical goods, but the process by which these are shipped and delivered will change dramatically. We want to play a leading role in determining how these future trends develop.

Q Where are the key geographical and sectoral opportunities in 2017?

A Latin America remains an interesting proposition and opportunity for expansion, with a rising middle class demanding higher living standards and economic growth. Africa is still comparatively low down on the development curve, but with some of the fastest growth rates in the world but low containerisation and some wonderful opportunities. Russia, where we have our joint venture, is also a focus. There are great opportunities to improve efficiency there and it looks like the economic trends are on an up curve.

For more information on our key performance indicators and progress in 2016, see pages 18 to 21

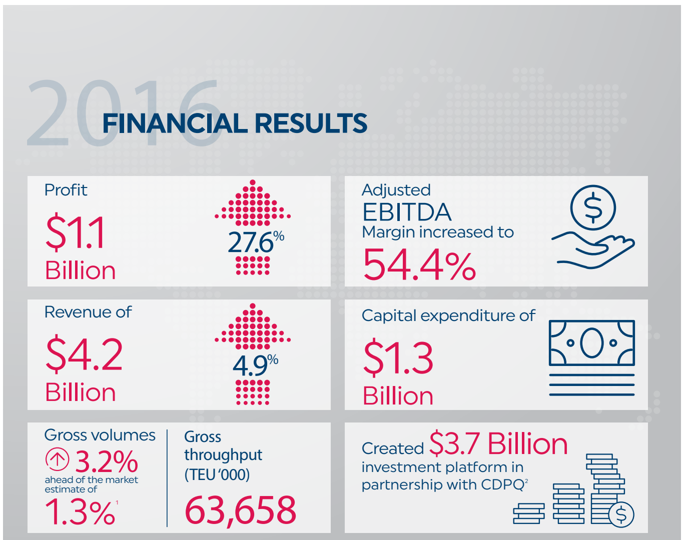
Sectorally, of course we will continue to play to our key area of expertise, maritime container ports. But we see great opportunities in inland ports, like the ones in Rwanda and Kazakhstan. We need to broaden our understanding of what a port is. Inland transport and logistics hubs and industrial zones with added complementary or related services will be very important for future growth in world trade.

Q Sustainability and safety feature prominently in DP World's mission statement. What are the key challenges for the future?

A Through the "Our World, Our Future" programme, we are placing sustainability at the heart of everything we do. By industry standards, it is an ambitious programme, but we believe it is the correct, indeed the essential, approach to modern business practice. We will continue to apply sustainable best practice in all our operations; it makes sense both ethically and in terms of our long term corporate and financial goals.

Good words are not enough in this field, however, so we have also put in place a matrix for measuring and reporting on our progress. We disclose progress to the Dow Jones Sustainability Index and the CDP, a global not-for-profit organisation that measures the environmental impact of corporate policies.

In 2016 we excelled in the CDP ratings of performance in action to tackle climate change, and in governance and strategy, risk and opportunity management, and emissions management, achieving significantly higher results than the rest of the industry and the region.



[1] Drewry full year market estimate of 1.3%.
[2] Caisse de dépôt et placement du Québec (CDPQ) is one of North America's largest pension fund managers.