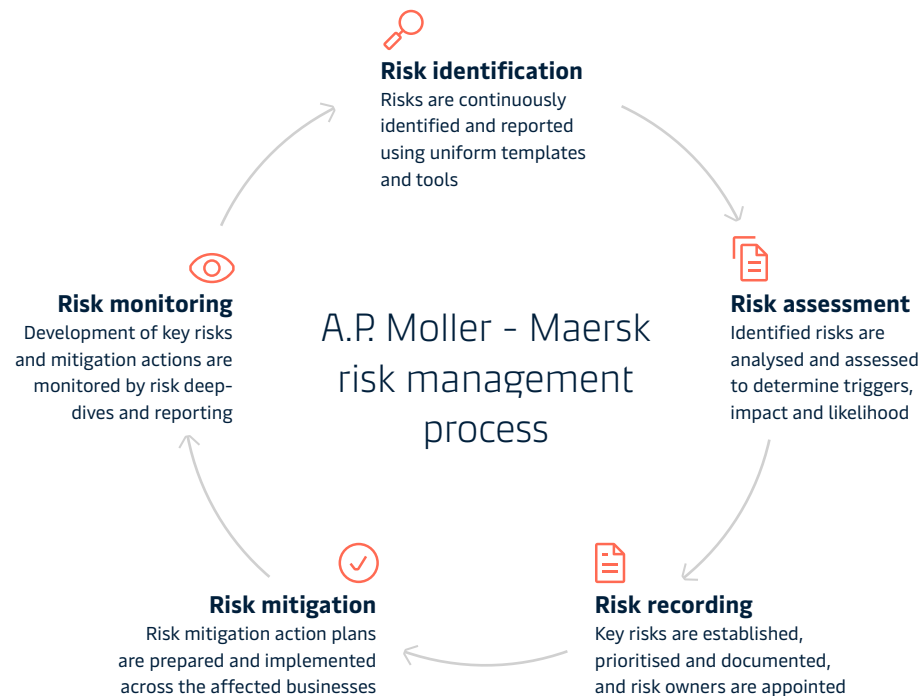


Risk management 2019

Risk management

Risk management at Maersk is strategically **focused and designed to contribute to the achievement of the company's business objectives** in the medium term and to ensure the longevity of the company in the longer term.

Transforming Maersk to become the global integrator of container logistics is a complex process, which carries multiple risks. It is essential that risks associated with the transformation and risks inherent to our business activities are managed well to keep the potential financial and reputational impact of such risks within acceptable levels.



Effective risk management is key to growing sustainably in an increasingly volatile and uncertain business. The Board of Directors is responsible for overseeing risk management. The Board of Directors determines the framework for management of risks, including risk appetite. The Audit Committee monitors the execution of the risk management processes and the management of key risks. The Executive Board is responsible for overseeing day-to-day risk management.

Risk management process

Each year, the Executive Leadership Team decides the key risks to the business plan. In preparation for the discussion in the Executive Leadership Team a comprehensive risk assessment takes place.

The Executive Leadership Team appoints a risk owner (an Executive Leadership Team member) for each key risk to oversee the management of the risk, including the preparation and execution of mitigation action plans. Once the plans for the management of the risks are finalised, the risk owner presents and discusses such plans with the Executive Leadership Team and the Audit Committee in designated risk deep-dive sessions.

The risk management function monitors the status of each key risk, including the progress and effect of the mitigation action plans, and summarises the status in quarterly reports to the Executive Leadership Team. Where the progress of mitigating actions is falling behind schedule, or where mitigating actions are not achieving the effect they were designed to have, the report will highlight this, so that corrective action can be taken.

The latest risk assessment was carried out in H2 2019. It identified 10 key risks that may have a significant impact on the business plan, including

on earnings, financial position and achievement of other strategic objectives. It also identified key emerging risks that look beyond the business planning period and are threats to the business value drivers

The Coronavirus (COVID-19)

The outbreak of the COVID-19 in China introduces additional challenges and risks to Maersk's operations. Maersk has already undertaken specific measures to ensure the health and safety of its employees globally. In addition to human risk, the outbreak of the virus also poses an economic risk to Maersk's operations and its trade volumes.

Fear of the virus and the efforts to prevent its spread will see an increasing pressure on the supply-demand balance. It is expected that the COVID-19 could dampen 2020 volumes, due to the extension of the Chinese New Year holidays and emergency measures to curb the spread of the virus. It is still early days to measure the overall impact, however, the weekly container vessel calls at key Chinese ports were significantly down compared last year during the last weeks of January and the first weeks of February. Freight rates are expected to decrease due to dropping demand for containerised goods transport. Also, the outbreak has led to delays in opening of Chinese shipping yards following the Chinese New Year holidays, which has delayed yard works planned, including some planned installations of scrubbers on Maersk vessels.

2020 Key risk analysis

The key risks to achieving Maersk's 2020-2024 business plan, the assessment of each risk, the mitigation strategies deployed, and the development in the risk landscape since 2019 are described in the following.



All positions are residual risk after mitigation.

1 Failure of Ocean strategy

Risk description

The Ocean business remains volatile and there is a need to de-commoditise it to stabilise earnings. De-commoditising the Ocean business is a prerequisite for generating the earnings required to fund the transformation of the company and delivering on the integrator strategy.

2020 Risk assessment

In order for the Ocean business to be stable it must be de-commoditised. In the current state of the container liner industry, most players are price takers almost entirely dependent on supply and demand. There is a need to differentiate Maersk's Ocean business by providing added value propositions to customers through development of different Ocean products.

Mitigation strategies

Maersk pursues a strategy of de-commoditisation of the Ocean business through Maersk Spot and other Ocean products in combination with modest volume growth and CAPEX discipline.

2 Failure to implement IMO 2020 strategy for mitigating cost impact

Risk description

The existing compliant fuels, and new fuels developed to comply with IMO 2020 regulation, cost more than HSFO bunkers, implying fuel cost increases in 2020. Alternative compliance methods, like scrubbers, will enable the use of high-sulphur fuels at a lower cost but requires additional CAPEX.

In the short term, the risk is that Maersk will not be able to recover the additional cost from its customers.

2020 Risk assessment

The impact of the risk will depend on the extent to which:

- a price spread exists between high sulphur-fuels and compliant fuels,
- competitors have more cost effective compliance strategies than Maersk,
- IMO 2020 enforcement may allow some competitors to avoid the higher fuel bill, and
- demand-supply balance makes recovery of the added cost difficult.

Compared to 2019, the risk has reduced as competitors seem to have prepared for compliance. There is a strong push for enforcement through levy of dissuasive fines and tendered contracts are being concluded with new bunker adjustment factor clauses.

Mitigation strategies

Maersk seeks to recover the added cost of low sulphur fuel from customers and has a strategy for mitigating the cost through a mix of various initiatives such as installation of scrubbers on selected vessels and increased fuel efficiency.

3 Losing cost discipline in Ocean as Maersk implements the integrator strategy

Risk description

Remaining competitive and generating the earnings required to fund the transformation and deliver on the integrator strategy requires strict focus on costs in Maersk's Ocean business. Maersk must not lose focus on cost leadership as it implements its integrator strategy.

2020 Risk assessment

Transforming into a global integrator of container logistics requires additional focus to build land-based products and become a customer led organisation. This might entail some dilemmas in the Ocean business, including in respect of cost excellence, as the product offering broadens and flexibility towards customers is required. Careful balancing will be needed.

Mitigation strategies

Maersk has reorganised the company to gather responsibility for Ocean and Logistics & Services, including for commercial and operational aspects under one leadership. This enables a balanced and holistic decision-making in respect of transforming and performing at the same time. Furthermore, a multi-year cost excellence programme including moving to zero-based budgeting has been introduced to ensure a dynamic adoption of the cost base in the transforming business.

4 Being hit by a major cyber-attack

Risk description

As Maersk becomes increasingly digitalised, more devices and control systems are connected online resulting in a wider surface across the Information Technology (IT) and Operational Technology (OT) infrastructure that could be compromised.

Should a successful cyber-attack materialise, the services that allow the organisation to continue to operate could be compromised resulting in operational disruption. Further, a cyber-attack could cause a data breach where sensitive, protected or confidential data held by Maersk is leaked or stolen.

2020 Risk assessment

Following the cyber-attack in 2017, several measures to improve cyber security have been implemented with an enhanced security posture as a result. A cyber-attack causing operational disruption could still happen due to e.g. new malware outbreak not specifically targeted at Maersk, a targeted attack on one or more brands within Maersk, a disgruntled employee or malicious third-party contractor, or an accidental employee action.

Mitigation strategies

Improving and strengthening cyber security is a strategic priority for Maersk and this includes execution of a comprehensive cyber security plan, a three-level assurance model to maintain oversight and obtain confidence that the communicated level of cyber capability is reflective of reality, implementation of business continuity plans, and purchase of cyber risk insurance.

Full implementation of the cyber security plan is expected to be completed by the end of 2020.

5 Failure to build a strong Logistics & Services business in the coming years

Risk description

A cornerstone in Maersk's strategy is to expand its product offering to the customers into land-based Logistics & Services products to further diversify the overall business and earnings. The risk is that Maersk fails to translate its Logistics & Services strategy into a profitable long-term business.

2020 Risk assessment

By consolidating its Logistics & Services activities, Maersk has a focused platform to offer customers products covering the end-to-end supply chain. Achieving profitable Logistics & Services growth calls for capable core business processes and digital platforms, strong capabilities in the frontline to sell the new products, and the ability to counter competing automated supply chain management platforms.

Mitigation strategies

The main mitigating strategies pursued are to build a global, competitive end-to-end product portfolio, integrate those products and services at a data, operational and strategic level to fit customer needs, and establish a global sales team with the knowledge necessary to sell the whole Maersk portfolio from a vertical perspective.

A new function is being established to assess, design and implement changes related to products, processes and master data throughout the business.

6 Being hit by a large compliance case

Risk description

It is imperative for Maersk to conduct its business in compliance with legislation and regulatory standards. The risk is that Maersk is hit by a major compliance case in respect of violations of anti-corruption laws and standards, competition/anti-trust regulations, or international sanctions imposed on countries, entities or individuals, resulting in enforcement action and/or commercial, reputational and other losses.

2020 Risk assessment

In respect of corruption Maersk operates in high-risk geographies and high-risk sectors (e.g. the terminals and freight forwarding sectors). Maersk is the largest container carrier and in an industry with many industry cooperation agreements. Maersk thereby naturally has the attention of competition authorities globally. There is an increasing number of jurisdictions with competition laws in place as well as a growing confidence by emerging countries to enforce their competition laws against foreign companies. International sanctions are becoming increasingly widespread and complex and require comprehensive and extensive measures to ensure compliance.

Mitigation strategies

Maersk has a robust compliance programme for anti-corruption, competition law and economic sanctions and export controls designed to fulfil the global requirements and many initiatives are in place to improve focus and emphasis on compliance awareness and training.

The compliance programme is built upon detailed risk assessment and based on that, Maersk has a comprehensive mitigation plan. Maersk has an adequate compliance function continuously strengthening the compliance programmes and the mitigating measures as well as advises the business in respect of measures to ensure compliance. Maersk also has a whistleblower hotline and other means of reporting as part of the compliance programme.

7 Failure to build the industry-leading technology platforms of the future

Risk description

It is a strategic priority for Maersk to digitalise its business model by building the industry leading technology platforms of the future that shall address customer needs in a connected world and enable the company's growth. Such platforms must be effectively implemented and operated in order for Maersk to remain competitive in delivering value to customers.

2020 Risk assessment

Whoever is in the front of adopting technological development will own the customer relationship. It is, therefore, important to secure a digitally based competitive advantage in Ocean and Logistics & Services. Freight forwarders, software companies, supply chain management platform companies, and other digital players are also advancing in this area. However, Maersk has the asset base and geographical footprint to effectively deliver fully integrated end-to-end supply chain solutions tailored to the customer's needs.

Mitigation strategies

Maersk is actively developing and investing in technology enabled business platforms. The platforms are already creating value for customers, and the development and investment continue to further improve the customer experience and integrate products in end-to-end supply chain solutions tailored to the customer's needs.

8 Failure to Implement end-to-end core processes in Ocean and Logistics & Services

Risk description

To support the integrator strategy, Maersk needs to build end-to-end business processes in Ocean and Logistics & Services and modernise its legacy IT landscape to support such processes.

2020 Risk assessment

The implementation of the integrator strategy depends on core business processes and IT landscapes that are fit for that purpose. In order to reap the benefits from technology, the end-to-end business processes need to be adequately designed, consistently performed and seamlessly supported by IT.

Mitigation strategies

Maersk has launched a programme for modernising its legacy IT-landscape to establish a platform and solution for performance of end-to-end business processes.

A new function has been established to assess, design and implement changes related to products, processes and master data.

9 Failure to sustainably complete the transformation of APM Terminals

Risk description

Successfully completing the transformation of APM Terminals is strategically important for Maersk. APM Terminals is important in terms of reaching a balance in Maersk's overall business by 2023 as Logistics & Services and contributes to funding Maersk's overall transformation.

2020 Risk assessment

Key elements of the risk are that the terminals business is exposed to fluctuations in the global economy and global trade, several concession agreements expire and are up for renewal in the coming years, automation of terminals may require negotiation with unions and politicians, and APM Terminals has a large presence in and dependence on Latin America and West Africa.

Mitigation strategies

In 2017, APM Terminals launched a transformation programme to become 'The best in class terminal operator' and ensure a strong foundation for future growth. Significant progress has been made on the transformation till date, and the programme continues into the coming years.

10 Lack of organisational capabilities to drive the strategy implementation

Risk description

The strategy to become a global integrator of container logistics requires new and different capabilities in terms of business knowledge, leadership and culture. Maersk needs to build the capabilities and culture required to transform its business and deliver on the integrator strategy, including the ambition to build a strong Logistics & Services business.

2020 Risk assessment

Comprehensive culture and upskilling programmes were launched in 2018 and good progress was made during 2019 to strengthen leadership capabilities and embedding the culture across the organisation. Still, the transformation could be hampered or delayed by ineffective capability uplift related to leadership, commercial upskilling and inability to insource skills or build new ones, especially for executing the Logistics & Services strategy.

Mitigation strategies

Actions were launched to upscale commercial skills and capabilities in cooperation with Maersk's Commercial Academy and through recruitments and acquisitions. New Maersk behaviours and an executive development programme have helped support culture and leadership. A plan is in place to further strengthen the Logistics & Services skills and equip the frontline with adequate capabilities to sell integrated and stand-alone Logistics & Services products.

Climate-related financial disclosure

This page provides an overview of our reporting in line with TCFD recommendations

The financial sector's increased focus on climate change has resulted in requests for companies to report publicly and comprehensively on climate change strategies and risk management. A reporting framework prepared by the industry-led Task Force on Climate-related Financial Disclosure (TCFD) currently determines best practice and reporting leadership. 2019 is the second year where Maersk voluntarily reports in accordance with the TCFD recommendations.

The framework requires reporting on both transition risks, understood as risks and opportunities from realigning the global economic system towards low-carbon or carbon neutral solutions, and the impacts on physical risks which are risks caused by changes in weather patterns.

Governance

Climate-related risks and opportunities are part of Maersk's quarterly Enterprise Risk Management system reporting to the Executive Leadership Team and the Board of Directors.

Furthermore, Maersk's transition work, including its CO₂ reduction target and efforts to decarbonise logistics, is governed by a task force headed by a member of the Executive Leadership Team and ultimately owned by the Executive Leadership Team.

Strategy

Maersk's strategy is to take leadership in decarbonising shipping. It is a high-profile low-CAPEX strategy, as it needs a full transition to new net-zero fuels. Especially the energy sector is needed to create these solutions, and therefore it is crucial to send a clear message to the actors that will develop the solutions that we as the end consumer are ready to collaborate to identify these fuels.

Furthermore, it is a key pillar of Maersk's strategy to involve its customers both as partners in R&D projects, but also to already now offer a differentiated net-zero ocean transportation product.

Finally, Maersk works proactively and in partnerships to make sure that the right policies will be in place to support the transition. More is described in the sustainability section on page 27 and in full in our Sustainability Report for 2019.

Risk management

To protect business value from the risks caused by the physical impacts of climate change, Maersk performed a hot spot analysis in 2018, estimating the effect of five climate hazards (heat stress, floods, cyclones, water stress and sea level rise) on ports, other fixed assets and strategic commodities within a 2020–2040 timeframe.

Building on this, we took steps in 2019 to perform an economic analysis and engage with stakeholders in the Pearl River Delta in China, which was established as a hot spot. Maersk will finalise this analysis and report on it in 2020.

This work will be instrumental in constantly evolving Maersk's approach to manage physical risk from climate change in a way that is adequate given the increased challenges Maersk will see in the future.

Maersk's proactive engagement with customers, investors and lenders in relation to framework conditions for shipping is also part of managing the risk of encountering first mover disadvantages. New net-zero fuels will likely be more expensive than the current fuels, so for Maersk's vision of commercially viable net-zero vessels to be ready in 2030, it is crucial to get the right framework conditions in place. This is something Maersk both monitors closely and works proactively to ensure.

Metrics and targets

Approximately two thirds of CO₂ emissions are related to Maersk's business from its own operations (scope 1) and roughly 97% of these come from powering its fleet. Indirect emissions that occur in the value chain (scope 3) account for approx. one third, while indirect emissions from the generation of purchased energy (scope 2) are negligible. Consequently, Maersk focuses and measures its efforts on decarbonising the sector in which its vessels are deployed.

Maersk's target is to have net-zero CO₂ emissions from its own operations by 2050. This will require a commercially viable vessel design to be on water in 2030. To decouple growth in volume from emissions, Maersk works towards a target of 60% reduction in CO₂ emissions by 2030, compared to 2008. Targets for managing the physical impacts of climate change are not available yet.