

Risk management 2023

RISK MANAGEMENT

Navigating risks

Risk management at A.P. Moller - Maersk is focused to support the strategic and operational objectives in the medium term and ensure the longevity of the company in the longer term. A.P. Moller - Maersk's Enterprise Risk Management framework enables a consistent approach to identification, assessment, mitigation and monitoring of key risks.

Identifying A.P. Moller - Maersk's key risks

The enterprise risk management (ERM) framework ensures that all A.P. Moller - Maersk businesses and functions identify risks that could affect their business objectives and operations. Risk identification is based on a combination of facilitated risk reporting from business areas and functions along with interviews with individual executives to gather their holistic view of the risks to the company's business objectives.

The risks identified are then consolidated into an enterprise-wide risk landscape and validated for relevance and significance by the Risk & Compliance Committee. After final consolidation, the risk landscape is reviewed by the Executive Leadership Team, which determines the key risks for the company. These risks are then discussed and validated by the Audit Committee and the Board of Directors.

Managing A.P. Moller - Maersk's key risks

The key risks are assigned to an executive owner who is accountable for the management of the risk, including confirmation that adequate controls are in place and that the necessary action plans are implemented to bring or keep the key risk within risk appetite. To provide adequate oversight, key risk developments and mitigation progress are monitored and reported on throughout the year based on agreed metrics. Quarterly in-depth reviews of the status of the key risks and their mitigation are conducted in various oversight fora such as the Risk & Compliance Committee. In addition, the Audit Committee conducts deep dive sessions with executive risk owners throughout the year on selected key risks. Figure 1 presents an overview of A.P. Moller - Maersk's ERM governance structure.

Changes to the key risks

Figure 2 shows the 2024 key risks to A.P. Moller - Maersk's business objectives. In 2024, some of the 2023 risks have changed slightly in terms of emphasis. This applies to the Ocean price level where last year's risk of a drop in freight rates has largely materialised, and the risk is now that current (or lower) rate levels extend for a period longer than expected.

The 2023 risk called Technology roadmap and Process standardisation has been split into two separate risks in 2024, Technology roadmap and Process excellence, to create stronger focus on and ownership of the mitigating action.

Given the easing of the supply chain constraints and the lowering of inflation related to COVID-19 a few 2023 key risks, including Customer service level and Rising costs have moved out of the key risks list in 2024.

One new risk has entered the key risks list, Lack of growth pace in logistics, emphasising further the risks associated with the ongoing transformation.

ERM roadmap

A.P. Moller - Maersk continues to develop and improve the ERM process. The areas in focus include further operationalisation of the ERM framework to ensure consistent and uniform performance of the ERM process across the company, implementation of a shared risk appetite framework, launch of a framework for management of project risks and implementation of a digital ERM system to support collation of comprehensive risk data and real-time monitoring of key risk metrics.

Figure 1 Overview of governance structure



Figure 2

- Risk continuing from 2023
- New risk

Key risks to the 2024-2028 business plan

A.P. Moller - Maersk categorises risks into four different areas to provide the appropriate level of governance and oversight to effectively manage these risks.

Strategic

Risks associated with current and future business plans and strategies

- 1 **Ocean price level**
Financial loss from lower freight rates
- 2 **Geopolitical tension**
Escalation of geopolitical tensions and political uncertainty impacting future supply chain.
- 4 **Technology roadmap**
Failure or serious delay in execution of technology roadmap
- 6 **Process excellence**
Failure or serious delay in the standardisation of core end-to-end processes
- 7 **Decarbonisation**
Failure to generate business value from decarbonisation

Operational

Risks associated with business activities and operations, procedures, people and systems

- 3 **Lack of growth pace**
Failure or serious delay in achieving the targeted growth in Logistics
- 5 **Cyberattack**
External or internal attack resulting in service unavailability or data breach
- 8 **Mergers and acquisitions integration**
Failure to integrate a major acquisition
- 10 **Organisational capabilities**
Inability to retain and attract the right workforce for key critical capabilities

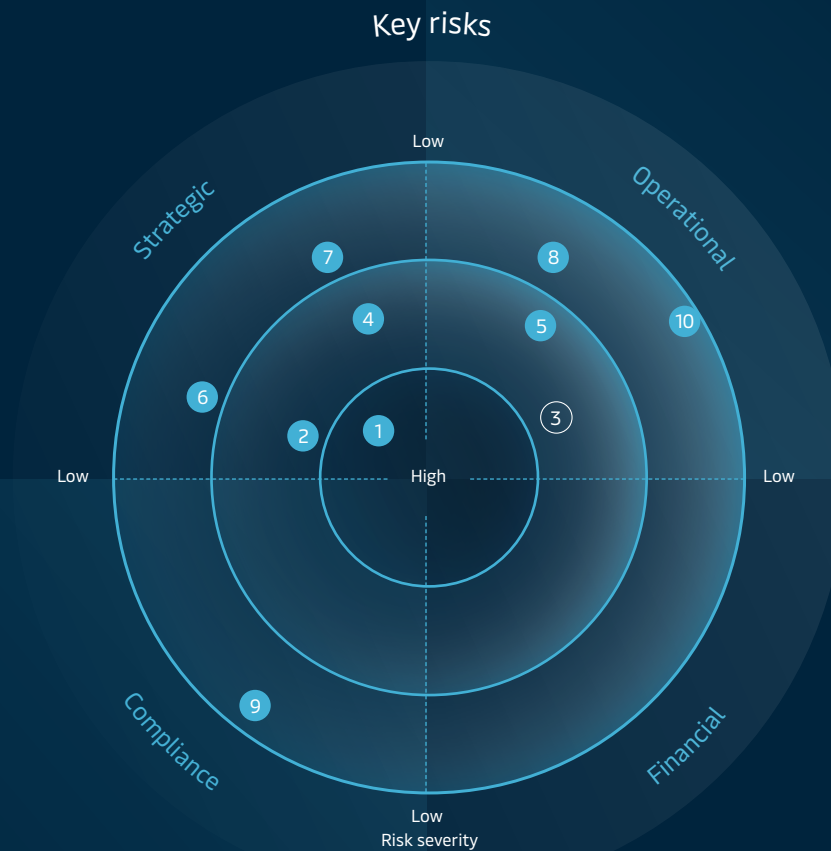
Compliance

Risks associated with non-compliance with rules and/or policies

- 9 **Legal and regulatory compliance**
Being hit by a large compliance case

Financial

Risks associated with potential financial losses and/or insolvency



	1	2	3 NEW RISK	4	5
	<p>Ocean price level</p> <p>Risk owner... Chief Product Officer – Ocean Year-on-year risk movement... Increasing Risk category... Strategic</p>	<p>Geopolitical tension</p> <p>Risk owner... Chief Corporate Affairs Officer Year-on-year risk movement... Increasing Risk category... Strategic</p>	<p>Lack of growth pace</p> <p>Risk owner... Chief Product Officer – L&S Year-on-year risk movement... New risk Risk category... Operational</p>	<p>Technology roadmap</p> <p>Risk owner... Chief Technology and IS Officer Year-on-year risk movement... Stable Risk category... Strategic</p>	<p>Cyberattack</p> <p>Risk owner... Chief Technology and IS Officer Year-on-year risk movement... Stable Risk category... Operational</p>
What is this risk	<p>Due to a major increase in effective capacity, rates and profitability are expected to drop further in the coming years until they eventually rebound. From the market side, the risk is that industry EBIT margins remain negative for longer than expected.</p>	<p>Escalation of geopolitical tension may have a strong and immediate impact on the future supply chain, through disruptions in supply, demand and logistics infrastructure and, eventually, fragmentation of supply chains. This is particularly the case where tension mounts to military conflict and/or trade sanctions being applied.</p>	<p>To fully deliver the objectives of the integrator strategy in a timely manner, including achievement of financial targets and stable results, A.P.Moller - Maersk must secure profitable growth in the logistics business according to plan.</p>	<p>A serious delay or failure to execute the technology roadmap will have a material negative impact on A.P.Moller - Maersk's growth vision as an end-to-end integrator of global container logistics.</p>	<p>As A.P.Moller - Maersk becomes increasingly digitalised, more devices and control systems are connected online resulting in a wider technology surface. This, compounded with ever-increasing external threat capabilities, puts more pressure on systems to be cyber threat resilient. A cyberattack could lead to severe operational disruption and/or data breaches.</p>
How we manage it	<p>A.P.Moller - Maersk has limited levers to impact the overall demand for container shipping and the level of rates. With the continuing development of differentiated value propositions, agile adaption of network, rigorous focus on volume performance management and cost discipline and a long-term contracts portfolio, the company will all else equal continue to reduce the exposure.</p>	<p>A.P.Moller - Maersk monitors geopolitical developments and takes adaptive steps as required, including reducing exposure to critical suppliers, evaluating alternative procurement options, implementing tail heavy payment profiles, creating external communication plans and advancing business continuity planning.</p>	<p>A.P.Moller - Maersk focuses mitigation efforts on the growth side on strengthening the customer value proposition of the integrator strategy and lowering the customer churn-rate. On the profitability side, the focus is on review and optimisation of the asset utilisation within the Air and Warehousing segments together with timely implementation of planned process standardisation and automation.</p>	<p>A.P.Moller - Maersk focuses on maturing and strengthening a multi-location talent sourcing and retention strategy within the technology organisation to ensure having the right skilled people to modernise and integrate the platforms. The company monitors progress and ensures adequate governance and prioritisation and cross-functional collaboration.</p>	<p>A.P.Moller - Maersk continues to execute its cyber security programme, strengthen business continuity plans and enhance its cyber threat resilience. Over the recent years, the company has enhanced capabilities to control impact through appropriate preparedness and response procedures.</p>
Target tolerance	<p>A.P.Moller - Maersk assumes margins will continue to be under pressure in the short to medium term. In addition, the geopolitical environment and the development in the economic situation in Europe and the US makes the industry very volatile, emphasising the necessity for a strong balance sheet.</p>	<p>A.P.Moller - Maersk aims to have alternative procurement supply-options in place and to be able to adjust network and capacity in the ocean, terminals and logistics space to accommodate potential disruptions and changes in customer needs.</p>	<p>A.P.Moller - Maersk targets large and profitable growth in volumes across its warehousing, inland and air segments through acquisitions as well as through organic growth and stable financial performance across the business portfolio.</p>	<p>In 2024, A.P.Moller - Maersk targets significant progress in the implementation of best-in-class technology platforms to support end-to-end supply chain solutions and underpin customer convenience and satisfaction.</p>	<p>A.P.Moller - Maersk aims to avoid a material cyberattack through increased threat intelligence and response capabilities, and builds digital resilience with business segments, third parties and wider supply chains.</p>
Potential scenario	<p>The current situation of low freight rates due to increased capacity combined with low demand continues for a longer period than expected.</p>	<p>Military conflicts or comprehensive and long-lasting naval blockades leading to obstruction of major network routes and potential wide sanctions inhibiting trade in major markets affected.</p>	<p>The implementation of the integrator strategy lags due to delays in achieving profitable growth in logistics as planned, and the company remains exposed to the financial volatility of the Ocean segment.</p>	<p>Unsuccessful implementation of digitised supply chain solutions causes loss of digital competitive advantage and customer dissatisfaction and impacts the company's reputation and financial performance.</p>	<p>Direct or indirect attack(s) on A.P.Moller - Maersk's or its business partners' network due to digitisation, threat sophistication or inherent vulnerabilities from, e.g. new M&A environments cause severe business disruption and/or data breaches leading to financial losses and loss of customer trust.</p>

	6	7	8	9	10
	Process excellence	Decarbonisation	Mergers and acquisitions integration	Legal and regulatory compliance	Organisational capabilities
	Risk owner..... Chief Strategy Officer Year-on-year risk movement Stable Risk category Strategic	Risk owner..... Chief Operating Officer Year-on-year risk movement Stable Risk category Strategic	Risk owner..... Chief Strategy Officer Year-on-year risk movement Decreased Risk category Operational	Risk owner.... Chief Corporate Affairs Officer Year-on-year risk movement Stable Risk category Compliance	Risk owner..... Chief People Officer Year-on-year risk movement Stable Risk category Operational
What is this risk	Serious delay or failure to standardise core end-to-end business processes will severely impact the scalability of A.P. Moller - Maersk's integrated solutions and its growth vision as an end-to-end integrator of global logistics.	Decarbonisation is a business necessity and a mission-critical factor. It is imperative for A.P. Moller - Maersk to decarbonise its end-to-end supply chain at a speed that meets the expectations of customers, investors and society, and in a way that generates business value for A.P. Moller - Maersk and its customers.	A key driver to Logistics & Services growth is the expansion of product and people capabilities through M&As. Some of the acquisitions are substantial, and if A.P. Moller - Maersk fails to integrate those, it may derail the execution of the integrator strategy.	The legal and regulatory landscape in which A.P. Moller - Maersk operates is complex, and the company could be subject to compliance cases in connection with violations of anti-corruption laws, anti-trust regulations, international sanctions and/or data privacy.	A.P. Moller - Maersk's strategy to become a global integrator of container logistics requires the right capabilities. Inability to retain and attract for key critical capabilities could impact the ambition to deliver a logistics-based, digitally transformed business model to support the integrator strategy.
How we manage it	A.P. Moller - Maersk continues to drive standardisation of processes with focus on process design and quality, assessing process maturity levels across the organisation and establishing the visibility of end-to-end process design progress. Process performance metrics are also being rolled out to measure the efficiencies achieved.	A.P. Moller - Maersk continues to progress its strategy by offering eco-delivery products to customers. The supply of green fuel is secured through partnerships with green methanol suppliers as well as the investment in the new methanol company C2X. A.P. Moller - Maersk is also fully supporting the GHG IMO regulation.	A.P. Moller - Maersk has a dedicated post-merger integration office equipped with experienced capabilities to assist the business in effectively managing M&A integrations. A project risk management framework is also being rolled out to ensure risks are identified and managed along the integration.	A.P. Moller - Maersk has global and regional subject-matter experts in each compliance area and a robust compliance programme designed to fulfil the global requirements. The company has implemented many initiatives to improve focus and emphasis on compliance training, awareness, processes and controls.	A.P. Moller - Maersk continues to strengthen global processes and people solutions for talent development, retention and attraction aligned to business and workforce requirements for key critical roles. Mitigation efforts will be focused on enhancing visibility of business and workforce requirements as well as on employee engagement through creation and implementation of specific actions based on biannual survey results.
Target tolerance	A.P. Moller - Maersk is constantly working to document, streamline and automate its core processes in terms of design and consistent implementation across the company.	A.P. Moller - Maersk targets achievement of a value-generating decarbonisation vision by innovating supply chain solutions and accelerating its decarbonisation initiatives to drive credibility towards the customers, investors and society.	A.P. Moller - Maersk aims to have adequate and experienced capabilities and effective processes to warrant that substantial M&As are integrated successfully both during and after the 'hyper care' period to realise the anticipated benefits as planned.	A.P. Moller - Maersk is committed to ensuring compliance with all applicable laws and regulations in all the countries where it operates.	A.P. Moller - Maersk targets to be an employer of choice, able to attract and retain qualified talent who are highly engaged and committed to the company's values, goals and objectives.
Potential scenario	Unsuccessful standardisation of the processes will not bring the required level of quality and conformance, thereby making A.P. Moller - Maersk's product delivery unreliable and difficult to scale and forfeiting associated productivity gains and cost savings.	A.P. Moller - Maersk fails to generate business value from decarbonisation by being too aggressive or linear in its efforts, as customers are unwilling to pay a premium for green products until there is greater cost parity between 'green' and 'black' solutions which is expected over time.	A failure to successfully integrate a major acquisition due to inadequate integration approach, lack of internal processes or capabilities, or cultural differences cause value destruction in the form of unrealised synergies.	A violation of compliance regulation causes severe reputational damage and substantial legal fines, damages and costs.	A.P. Moller - Maersk's strategy execution is hampered by lack of adequate organisational capabilities essential to match business needs and rapid shifts in external business, technology and regulatory environments.

ESG risks

In preparation for the EU Corporate Sustainability Reporting Directive (CSRD) reporting requirements, which will be mandatory from 2024, A.P. Moller - Maersk has in 2023 conducted a double materiality assessment. As part of this assessment, A.P. Moller - Maersk established the financial impact arising from the CSRD topics. The topics covered by the financial impact assessment for 2023 are climate change, pollution, working conditions, equal treatment, other work-related rights (forced labour, data privacy) and corruption and bribery. The quantified impact of each of the topics is established through scenario-based modelling. For the results of the double materiality assessment and specifically on climate related risks, Task Force on Climate-related Financial Disclosures (TCFD) → See Sustainability Report 2023.

Emerging risks

Emerging risks to the company's longer-term value drivers are identified through an externally facilitated workshop considering prevailing megatrends through the four lenses shown in Figure 3.

In 2024, the focus for emerging risks continues to be on understanding the impact of climate change on the business model and assets and on how the rapid advancements made in technology could affect the integrator value proposition.

1 Change in consumer behaviour

Growing environmental consciousness and regulatory intervention to achieve climate goals could lead to reduced consumption and lower economic activity in developed countries. Also, it could change consumer behaviour and impact the demand for goods in the lifestyle, retail and reefer segments. A.P. Moller - Maersk is exposed to changes in demand for long haul transportation of consumer goods, especially in the retail and lifestyle segments.

2 Rapid technology advancements

Given the rapid rise in engineering interconnectedness of data and technology, and mass AI availability (e.g. ChatGPT), customers may see an opportunity to replace their need for integrated logistics solutions by using readily available technology solutions that replicate through technology the benefits of an integrated offering.

Figure 3 Emerging risks in focus

