2018
Risk management

A.P. Møller - Mærsk A/S

MAERSK

Risk management

Transforming A.P. Moller - 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 the business activities are managed effectively 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 environment. Several initiatives have been launched to further strengthen the risk management process e.g. by improving board and management oversight and by driving accountability for the management of key risks.

The Board of Directors is responsible for overseeing risk management. The Board of Directors determines the framework for managing 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.

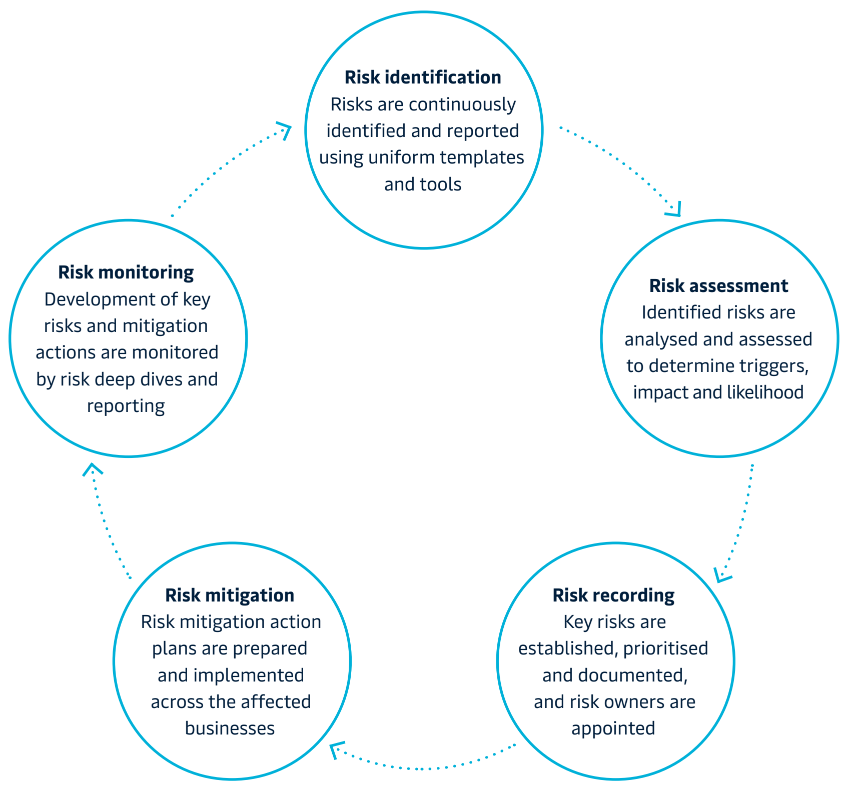
Risk management process

Each year, the Executive Board establishes the key risks to the business plan. In preparation for the discussions in the Executive Board, a comprehensive risk assessment takes place. The Executive Board appoints a risk owner (an Executive Board 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 have been finalised, the risk owner presents and discusses such plans with the Executive Board and the Audit Committee in designated deep dive risk 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 Board. 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 the second half of 2018, and identified nine key risks that may have a significant impact on the business plan, including on earnings, financial position, and the achievement of other strategic objectives.

A.P. Moller - Maersk risk management process



Key risk analysis for 2019

The key risks to realising the 2019-2023 business plan and the mitigation activities deployed are described in the following.

Business transformation

The risk is that the transformation of A.P. Moller - Maersk into a growth company supported by a digital business model with an integrated end-to-end (E2E) product offering does not materialise as envisaged due to a lack of business agility to anticipate and respond to the external developments and internal challenges.

To support and coordinate the business transformation in the next coming years several teams and new processes across the organisation have been established to drive the transformation.

IMO 2020

Currently, there are no compliant low-cost fuels that fulfil the global Sulphur regulation (IMO 2020) requirements coming into force from 2020. The existing compliant fuels, as well as new fuels being developed, are expected to cost substantially more than current High Sulphur Fuel Oil bunkers, implying substantial fuel cost increases in 2020. Installing scrubbers on vessels will enable today's lower cost fuels to be used, but will, on the other hand, require substantial capital expenditure. The risk is that the increased costs relating to the implementation of and compliance with the IMO 2020 requirements cannot be recovered from customers.

Multiple commercial and operational mitigating initiatives are being pursued.

Cyber security

As Maersk becomes increasingly digitalised, more devices and control systems are connected online, resulting in a bigger interface across the IT infrastructure that could be compromised. A successful cyber-attack within this wider attack surface could result in major operational disruption and/or data breaches leading to major financial loss.

It is a strategic priority to continue to improve cyber security through the cyber security plan that was launched after the cyber-attack in 2017.

Freight rates

The risk is that freight rates collapse because of global trade deceleration and a resulting structural decline in demand for containerised transportation. Also, that new export orders in the US, EU and China slow down because of e.g. lower GDP and trade wars.

While Maersk is relatively well positioned to deal with the risk, it remains highly exposed to freight rates until a more diversified and balanced business has been established through expansion of the non-ocean activities. Having limited leverage over the overall demand for container shipping the key factors to mitigate risk from development in freight rates are to diversify the activities into logistics and maintain industry cost leadership.

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Capital structure

One of the strategic priorities is to grow Logistics & Services organically and inorganically (i.e. through M&A activities). There is a risk that Maersk will not be able to do so due to a lack of available funds and increasing cost of capital.

Maersk remains committed to separating the energy businesses and maintaining an investment grade rating. That includes initiatives to stabilise and improve the level of earnings and effective capital discipline.

Technology transformation

Maersk's transformation implies having a vision to connect and simplify customers' supply chains. There is a risk that Maersk will not achieve its vision due to misalignment between the transformation strategy of the Technology organisation and Maersk's business transformation strategy.

Mitigation includes upskiling of the Technology organisation.

Business model disruption
The risk entails that Maersk loses the customer relation due to its inability to secure a digitally based competitive advantage in Liner operations and logistics; and/or value chain re-configuration in transport and logistics away from Liner-to-Beneficiary Cargo Owner contact.

Maersk is transforming its business model to become truly customer-centric and digital and through that create simplified E2E offerings, provide a superior delivery network and ensure seamless customer engagement.

New Maersk product
A.P. Moller - Maersk is creating one commercial organisation to grow Logistics & Services and expand its product offering to customers. The risk is that customers are not willing to buy more products from Maersk, or that Maersk is unable to sell more products to customers, resulting in a failure to grow the business as planned.

A.P. Moller - Maersk has established one integrated commercial team across Ocean and Logistics & Services.

Human Resources
A.P. Moller - Maersk might fail to successfully deliver on its transformation objectives due to the lack of functional capabilities and behaviours required to transform the businesses and to deliver on the new strategy. The risk is mainly related to logistics, digital and the creation of 'One Maersk'.

A.P. Moller - Maersk has intensified the investments in employee capability and engagement.

Follow-up on 2018 risks

During the year, the focus has been on successfully mitigating the risks associated with the Hamburg Süd integration, improving schedule reliability and the customer experience and protecting the quality of the Maersk balance sheet in times of transformation.

The integration of Hamburg Süd is progressing according to plan, and with synergies above expectations. The Net Promoter Score improvements are evidencing higher customer satisfaction, and the gross and net debt level have been reduced significantly, while A.P. Moller - Maersk remains an investment grade-rated company.

Business portfolio risks

The business portfolio is increasingly exposed to fluctuations in freight rates following the separation of the energy businesses and the addition of Hamburg Süd. The Ocean segment remains the biggest marginal earnings volatility contributor, and completing the separation of the energy businesses will increase the effect even further. It remains a strategic priority for Maersk to reduce its dependency on freight rates and to grow adjacent businesses to reduce earnings and cash flow volatility. •