A.P. Møller - Mærsk A/S

Risk management 2016

MAERSK

RISK MANAGEMENT

An established Enterprise Risk Management (ERM) framework is implemented and embedded in A.P. Moller - Maersk. It encompasses identifying events or circumstances affecting the achievement of A.P. Moller - Maersk objectives and strategic goals. Further it presents a framework for assessing the risks in terms of likelihood and impact, determining response plans and monitoring progress.

GOVERNANCE AND PROCESS

To obtain the full depiction of the exposure landscape, multiple types of risks are considered i.e. financial, strategic, operational and compliance risks. In order to support a consistent, robust and focused approach to risk management; the risks are divided into three main categories comprising A.P. Moller - Maersk's risk universe, namely the near term Known Risks, the long-term Emerging Risks and the industry and geography related Portfolio Risks.

The three categories are identified through a combination of risk reporting, cross functional interviews with senior stakeholders, internal analyses and external expert input. Risk reporting transpires from all businesses in A.P. Moller - Maersk and primarily addresses the operational elements of the exposure. Meanwhile, the interviews incorporate a wide range of overarching views on risks with the potential of jeopardising the business objectives. Internal analyses, in turn, provide in-depth knowledge of selected risks and facilitate A.P. Moller - Maersk's wide overview and prioritisation. External expertise is sought in assessing emerging risks and establishing the flag posts for relevant mega trends.

The main findings are reviewed by the Management Board as well as the Board of Directors, and serve as input to the annual strategy and capital allocation processes. Specific risks are regularly revisited to ensure adequacy and effectiveness of the risk responses. The Audit Committee annually reviews the process for adequacy and potential improvements.

THE RISK MANAGEMENT SYSTEM

The global and multi industrial nature of A.P. Moller - Maersk makes it subject to a number of risks. These include exposure stemming from changes to regulatory and operational conditions in certain regions, potential accidents putting employees or assets at risk, fluctuations in currencies, volatility in freight rates and oil prices.

Several mechanisms are in place to mitigate the gross risks and limit A.P. Moller - Maersk's exposure, such as elaborate health, safety and environmental management systems, governance frameworks, hedging of exchange rate exposures, financial policies and insurance activities. Following these embedded efforts to mitigate and limit the gross risk exposure of A.P. Moller - Maersk, the most significant residual risks are consolidated and reported to the Management Board and the Board of Directors for assessment of the need for further mitigating actions and decision on corresponding resource allocation. In an effort to reduce the exposure even further, the key residual risks are subsequently addressed through designated senior management ownership allocation for each risk and elaboration of additional actions. Twice a year, the action plans are reviewed for progress and effectiveness.

KNOWN RISKS

Known Risks are considered actual risks to business objectives within the planning period of five years. Some of the residual risks in focus for the short to medium-term are:

Strategic review and restructuring. Over the course of 2016, A.P. Moller - Maersk embarked on a wide ranging strategic review, restructuring and change management processes. A number of inherent transition risks stem from such initiatives. The continued imbalances in key markets add to the complexity, as well as new management teams across most of the businesses and not least, the prospect of a potential significant acquisition completion during 2017 with associated integration efforts required. Some of the risks revolve around internal organisational changes, such as ensuring focus on continued commercial and operational excellence in the businesses at a time where attention is directed more inward than usual.

Meanwhile, it is imperative to maintain a robust governance structure to preserve integrity, protect the business and ensure continued compliance with external regulatory requirements during the transition. From an external perspective, the announced long-term strategic intent of focusing A.P. Moller - Maersk's portfolio on transport and logistics, while harbouring many opportunities, also increases the concentration risk. Focusing on the transport and logistics businesses raises A.P. Moller - Maersk's relative exposure to the developments in global trade and the underlying drivers.

Last, but not least, as with any strategy, there is an execution risk. In the context of the announced strategy, success rests on the ability to achieve the intended synergies and deliver on the expressed aspirations in the digital space and growth through acquisitions. The above risks are managed through a structured process and significant management attention and oversight.

A prolonged period of low freight rates and oil prices. The subdued freight rates remain a challenge as overcapacity, and the resulting supply-demand gap, erodes value despite reasonably healthy volume growth. The sluggish global economic growth and rising near shoring and protectionist trends also continue to weigh on the outlook for container rates. These risks are addressed by optimisation of the network, increased utilisation of assets through alliances and a focused effort to contribute to consolidation in the industry.

The low oil prices naturally have a direct effect on the activity levels and results in the energy related businesses. Furthermore, in oil dependent economies we have seen the decline in commodity prices deteriorating the financial and fiscal structures, while threatening legal, political and social stability, resulting from heavy reliance on oil and gas revenues. This, in turn, has the potential for adverse effects on several of the businesses located in, or exposed to, these regions.

For all the businesses, we continue to focus on being a cost leader in their industries, and to simplify the organisations. In the energy businesses this has yielded significantly lower break even oil prices, allowing for commercial viability even in the currently difficult market conditions.

Being an operator of large assets, **a major accident or oil spill** remains an inherent risk in A.P. Moller - Maersk's operations, particularly in the oil and gas, offshore and tanker businesses. Production and transportation of oil and natural gas, as well as the operation of large container vessels, are subject to risks such as technical or operational failures and natural disasters. An accident could pose a risk to the employees as well as potentially to the marine environment, wildlife and local communities. Additionally it could result in large scale impacts on assets, income streams, liquidity position and reputation and put the license to operate at risk. A.P. Moller - Maersk is proactively building and supporting incident free operations to mitigate this risk.

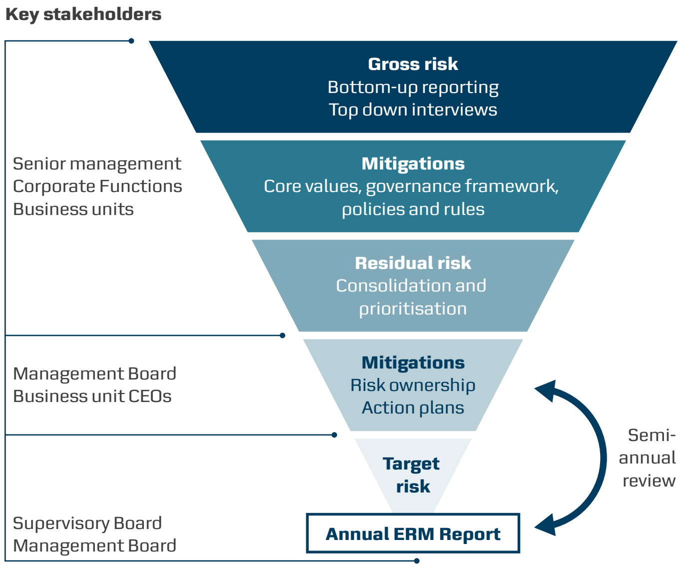
A.P. Moller - Maersk is exposed to **cyber security threats** that could materially affect operations and the financial condition. Cyber-attacks targeting systems or production facilities could result in severe business disruptions and significant losses, as A.P. Moller - Maersk is involved in complex and wide-ranging global services and engaged in increased digitisation of its businesses, making it highly dependent on well-functioning IT systems. The risk is managed through close monitoring and enhancements of cyber resilience and focus on business continuity management in the event that IT systems, despite their efforts, are affected.

EMERGING RISKS

Emerging Risks stem from larger trends, with the potential of impacting the long-term strategy over 5-10 years. Given the longevity of the assets and the long-term ambition of A.P. Moller - Maersk, we look beyond the planning horizon in assessing the risk landscape to ensure the strategy reflects and encompasses long-term uncertainty. Considering the relevant time frame for Emerging Risk, mega trends act as guiding principles and shape the thinking. As part of this effort, A.P. Moller - Maersk is particularly monitoring developments in the sphere of geopolitics and technological progress. Both dimensions pose a number of opportunities in potentially intensifying global trade flows through trade agreements and economic growth, or harvesting efficiency gains stemming from technological development.

Adversely, the trends can develop into threats should they for instance materialise in reversion of globalised supply chains driven by geopolitical tensions, increased automation and rising protectionist measures undermining the long-term outlook for global trade. An intensification of conflicts in regions where A.P. Moller - Maersk operate more stationary assets or accelerated shift away from fossil fuels, also pose long term

Enterprise Risk Management Governance Structure and Process



risks to the businesses, in particular in the terminals and energy industries. A.P. Moller - Maersk monitors and proactively seeks to deepen its understanding of these risks, and to take account of them in its strategy.

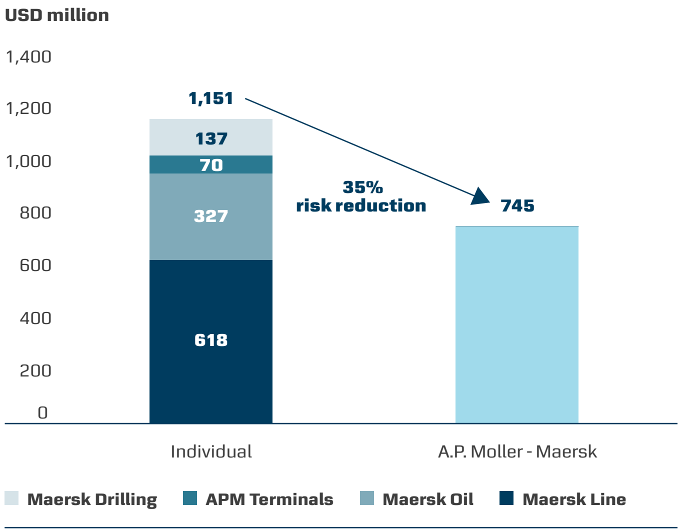
PORTFOLIO RISKS

Portfolio Risks reflect the exposure associated with A.P. Moller - Maersk's composition of businesses and choices of geographic presence. A.P. Moller - Maersk's portfolio consideration and active management were underpinned by the 2016 strategic review and communicated intent of focusing A.P. Moller - Maersk's future strategy on transport and logistics. Historic evidence implies that the future narrowing of the portfolio will on the one hand reduce the risk exposure as the energy related risks will be reduced, but on the other hand the more uniform portfolio will naturally impede the previous diversification effect and increase relative volatility. From a liquidity point of view, the financing costs could also be affected, should the change in business portfolio composition result in any credit rating deterioration.

The existing structure continues to offer a volatility reduction of 35% compared to aggregated fluctuations of the individual business units. From a geographic risk point of view, the portfolio on average remains in the relatively low risk category due to a high level of asset and income spread across geographies.

Impact of diversification

(Underlying result volatility)



Based on the underlying result Q1 2007 – Q4 2016.