Dear reader,

The 2016 A.P. Moller - Maersk Sustainability Report comes at a time of change for us and the industries in which we operate. Among low economic growth rates, increasing pressures on the concept of free trade and changes in energy consumption, we have responded with a whole new strategy for A.P. Moller - Maersk and its businesses. In the future, A.P. Moller - Maersk will focus on global transport and logistics. Our overall strategy is to create a stronger, more integrated container logistics, and ports business. This is the intention that our oil and oil related businesses will be separated from A.P. Moller - Maersk A/S. The new strategy and underlying structure will allow us to focus on growth and enhancing synergies within transport and logistics, while ensuring the agility of our oil-related businesses in the pursuit of individual strategic solutions for future development.

Unlocking sustainable growth

Our commitment to sustainable and responsible business will not change, and we remain committed to the United Nations Global Compact.

We will continue to unlock growth for societies and our business through new and better ways of organizing trade, providing access to global markets for still more people in the world. Global trade delivers economic benefits to the large majority of people, and solutions need to be found to ensure that these benefits extend to all people. As a business built around global trade, we will continue to provide data and research on trade and its societal impacts, not to mention on-the-ground projects to test new models for enabling trade. I am pleased to see that the pilot projects we launched three years ago are now ready to be implemented on a larger scale with the participation and ownership of a wide group of stakeholders.

A high-level working group established by then UN Secretary General Ban Ki-Moon, with the participation of A.P. Moller - Maersk, describes sustainable transport as being essential for economic and social development. Maersk Line demonstrates that it is possible to decouple business growth and CO2 emissions. However, it is becoming increasingly difficult for individual companies to sustain progress without the backing of broad industry commitments and regulations. Based on our experience, we strongly advocate for increased global regulation of CO2 emissions in the shipping industry. We were happy to see that the Paris agreement on Climate Change also led to renewed momentum in the International Maritime Organization (IMO), resulting in a roadmap for long term CO2 reductions. We will work to help ensure the right level of ambition is defined by 2018.

Changing an industry

Our decision to invest in upgrading the ship recycling industry was a source of concern as well as pride in 2016. We came under fire from critical stakeholders who believe we are stepping away from our commitment to responsible ship recycling. To the contrary we are actively stepping up our commitment to responsible ship recycling by cooperating with selected, certified yards in Alang, India.

Significant and independently certified progress, in terms of both labour and environmental conditions, was made at the Shree Ram yard, where two of our vessels are currently being dismantled. More yards are signing up to invest in similar improvements, and we remain convinced that our activities are the beginning of the end for the present model in the ship recycling industry, which currently sees a vast majority of global tonnage being recycled at unregulated beach facilities.

Safety will always be our first priority

Although our company is undergoing far-reaching change, the safety of our employees is and always will be our very first priority. Nothing comes before safety. It is therefore deeply regrettable that two of our colleagues lost their lives while working at Maersk-owned port and storage facilities in 2016. I express my sincere regret and my sympathies go to the families and friends of our colleagues lost their lives while working at Maersk-owned port and storage facilities in 2016. I express my sincere regret and my sympathies go to the families and friends of our colleagues who suffered this loss. Such incidents are simply not acceptable. We will continue our quest to find ways to prevent fatal accidents and will not be satisfied until fatalities are eradicated from our operations.

Søren Skou
CEO of A.P. Moller - Maersk A/S
OUR BUSINESS

In 2016, the Board of Directors took a decision to reorganise A.P. Moller - Maersk in two divisions: Transport & Logistics and Energy. The integrated Transport & Logistics division has multiple brands and is a global leader in shipping and ports. The Energy division has four oil and oil-related businesses, which will continue to be managed and operated as individual entities. Indicators of performance and examples of where some of our material sustainability issues can occur across our businesses and value chains are depicted below.

RESOURCES

<table>
<thead>
<tr>
<th>A.P. MOLLER - MAERSK</th>
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<tbody>
<tr>
<td>Invested capital</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
<tr>
<td>Employees</td>
</tr>
<tr>
<td>Conflict zones</td>
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<tr>
<td>Labour standards</td>
</tr>
<tr>
<td>Land acquisition</td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>1,000 MWh</td>
</tr>
<tr>
<td>Fuel oil</td>
</tr>
<tr>
<td>1,000 tonnes</td>
</tr>
<tr>
<td>Security services</td>
</tr>
<tr>
<td>Ballast water</td>
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</tbody>
</table>

TRANSPORT & LOGISTICS

The Transport & Logistics division consists of Maersk Line, APM Terminals, Damco, Svitzer and Maersk Container Industry. The mission of these businesses is to enable and facilitate global supply chains and provide opportunities for our customers to trade globally.

ENERGY

The Energy division consists of Maersk Oil, Maersk Drilling, Maersk Supply Service and Maersk Tankers. Our Energy businesses support and provide global oil and gas production as well as offshore marine services.

OUTCOMES

| Revenue             | USD 35.5bn |
| Result              | USD -1.9bn |
| Underlying result   | USD 0.7bn  |

Facilitation payment reduction 59% across our businesses p. 36–37
Employee engagement survey 76% favourable
Fatalities 2 p. 22–23
Oil spills 1 p. 42–43

2016 CASH OUTFLOW DISTRIBUTION

- Public sector (faxes) 3% p. 30–33
- Shareholders (dividends) 3%
- Repayment of borrowings 4%
- Investments (net) 10%
- Employees (salaries) 14%
- Suppliers 66% p. 38–39

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UN High-level Advisory Group on Sustainable Transport

PARTNERSHIPS

- LEAD Caring for Climate
- cleanargo
- MACN
- World Economic Forum
- Trident Alliance
- Global Alliance
- EIT
- IPICCA
STRATEGY AND GOVERNANCE IN A TIME OF TRANSITION

With the changes to A.P. Moller - Maersk’s strategy and organisational structure, our sustainability strategy and governance structures will need to be updated. The foundational structures remain the same.

The new A.P. Moller - Maersk structure and strategy has made its mark on all concerns of the company as organisational structures, strategic priorities and governance frameworks are being aligned with the new reality of the company.

One immediate consequence for Maersk’s sustainability work is that a review and update to our sustainability strategy will be initiated in 2017. In the interim, some adaptations of the 2014–2018 strategy are being aligned with the new structures and will be initiated in 2017.

In 2016, sustainability governance and performance management tools will undergo a revision as well. However, the existing structures and tools remained in place throughout 2016.

In the business environment for energy, the sector to which the education focus was strategically tied, it was determined that the programme was put on hold in 2016. The business case for our education activities no longer existed, and the programme was put on hold.

In 2016, the Sustainability Council’s work included the approval of an addition to A.P. Moller - Maersk’s ship recycling policy related to the recycling of ships sold off prior to end of life. Discussions of governance and organisational requirements on sustainability in the businesses; and the approval of a position on CO2 emissions from shipping.

The Commit governance framework

A.P. Moller - Maersk’s governance system, Commit, aims to provide clarity and guide employees on how we work and achieve our main objectives. These key mandatory elements in the framework are:

Core Values

- Core Values embody the essence of our core company culture and provide guidance on our behavior to ensure that we make ethically sound decisions.

Policies

- Policies provide guidance on what we stand for. They govern how we act and engage with our customers, colleagues, suppliers and society at large.

Rules

- Rules are internal regulations or decision-making processes for areas that are relevant from governance and risk management perspectives. Management ownership is clearly assigned for each element, and assurance on policies, rules and values is carried out on an annual basis.

Sustainability governance 2016

<table>
<thead>
<tr>
<th>Management Board</th>
<th>Commit framework</th>
<th>Sustainability Council</th>
<th>Sustainability department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme owners in functional areas</td>
<td></td>
<td></td>
<td>Business sustainability</td>
</tr>
</tbody>
</table>

Governance of issues in 2016 – an overview

<table>
<thead>
<tr>
<th>Issues governed through the Commit Framework</th>
<th>Guidance framework</th>
<th>Issue owner / department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety</td>
<td>Rule on HSE Management Systems</td>
<td>Health and Safety Committee</td>
</tr>
<tr>
<td>Responsible tax</td>
<td>Rule on Tax Compliance and Tax Principles (currently under review)</td>
<td>Tax</td>
</tr>
<tr>
<td>Anti-corruption</td>
<td>Rule on Anti-Corruption</td>
<td>Legal</td>
</tr>
<tr>
<td>Responsible procurement</td>
<td>Rule on Responsible Procurement</td>
<td>Procurement</td>
</tr>
<tr>
<td>Labour standards</td>
<td>Rule on Global Labour Relations</td>
<td>Human Resources</td>
</tr>
<tr>
<td>Issues governed by the Sustainability Council</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Air emissions</td>
<td>Provision in SLG</td>
<td>Maersk Maritime Technology</td>
</tr>
<tr>
<td>Ballast water</td>
<td>Provision on Ballast Water</td>
<td>Maersk Maritime Technology</td>
</tr>
<tr>
<td>Ship recycling</td>
<td>Responsible Ship Recycling Standard</td>
<td>Sustainability</td>
</tr>
<tr>
<td>Climate change/CO2 emissions</td>
<td>Climate Change Position</td>
<td>Sustainability</td>
</tr>
<tr>
<td>Enabling trade</td>
<td>Sustainability Strategy</td>
<td>Sustainability</td>
</tr>
<tr>
<td>Human rights</td>
<td>Human Rights Action Plan</td>
<td>Sustainability</td>
</tr>
<tr>
<td>Issues governed by the HR Board</td>
<td>Diversity &amp; Inclusion Strategy</td>
<td>Human Resources</td>
</tr>
</tbody>
</table>

Sustainability issues related to the UN Global Compact commitments are governed and managed through the Commit governance framework, see sidebar on page 4. Other issues that have been added to the governance framework are primarily managed through positioning and advocacy, and are governed by the Sustainability Council or the Human Resources Board. The table below provides an overview of governance and issue owners. More information on our policies, rules and values can be found at www.maersk.com/sustainability.

Tools for oversight

In 2016, the established tools for oversight and supervision remained in effect.

- A sustainability dashboard is reviewed by the Sustainability Council on a semi-annual basis and provides an overview of progress and performance on key indicators related to strategic priorities and progress on sustainability integration in the businesses.
- The sustainability department conducts CEO reviews to gauge the businesses’ progress and performance on sustainability, and to facilitate forward-looking dialogue with the CEOs on sustainability priorities. Each business is reviewed every second year.
- The outcome of the reviews is reported to the Sustainability Council and the Management Board.
A new way to assess our material sustainability issues allows us to better understand each issue and take actions to adequately respond to the challenges presented.

Understanding which issues are material to our business and our stakeholders is integral to how we work with sustainability at A.P. Moller - Maersk. We conducted our first materiality assessment in 2013, and have since updated and published the materiality matrix on an annual basis. Our strategy was to create a richer environment for materiality that expands our understanding of the issues involved and our criteria for prioritisation, as well as provide guidance on how to manage a particular issue.

The matrix tended to provide us with a slightly blurred picture of what and why issues were material to us, as different dimensions of an issue were compiled in a single expression of importance.

As a result, we set out to improve the way we conduct our materiality assessment. Our aim is to create a richer environment for materiality. Understanding which issues are material to our business involves the systematic consideration of the three dimensions of materiality.

Top material issues in 2016 across the three dimensions of materiality

![The three dimensions of materiality](image)

**Responsibility**

Where we have a responsibility to prevent or mitigate risks to society in the form of a significant potential negative impact on people, society or the environment.

**Risk**

Where sustainability issues pose a significant financial or reputational risk to our business objectives.

**Shared value**

Where we, through our business, have the capacity to foresee and scale solutions to significant systemic challenges to the benefit of society and, at the same time, deliver a positive return for the business.

**ISSUES:**

- Injuries and fatalities
- Labour rights in indirect hiring and subcontracted workers
- Diversity & inclusion
- Tax practices & transparency
- Transport and other services to/from conflict zones
- Land acquisition and resettlement by A.P. Moller - Maersk
- Subcontracted workers
- Injuries and fatalities
- Major non-compliance with corporate governance regulations
- Supplier non-compliance with Third Party Code of Conduct
- Unseen playing field in the enforcement of global SLI regulations
- Investment in ballast water systems in an unclear regulatory environment

**Inputs / considerations**

- UN Guiding Principles on Business and human rights
- Input from stakeholders
- UN Sustainable Development Goals
- External research

**Assessment criteria**

- Does society expect us to contribute to managing the issue?
- Is A.P. Moller - Maersk able to deliver market solutions at scale through our existing businesses?
- Can we drive collective action to change within the industry?

**RESPONSIBILITY**

- Sustainability strategy
- Business strategy
- Input from stakeholders
- External research

**SHARED VALUE**

- A new way to assess our material sustainability issues allows us to better understand each issue and take actions to adequately respond to the challenges presented.

With the new approach, we are moving away from a matrix and towards a model that will provide us with better information about why and how an issue is material to us and, consequently, how we can best manage it.

**Material issues 2016**

Sustainability issues can be material as a responsibility, risk, or shared value. The definition we apply to each can be seen in the figure on page 6.

The overview of material issues includes only the top prioritised issues within each dimension. Other issues, such as education and waste management, were part of the assessment process but are not included in the overview as they did not come out as high priority issues. Compared to 2015, other issues were rephrased, as is the case with what was previously defined as process safety. When applying the criteria for each of the three dimensions, this area was seen to constitute a risk specifically linked to major accidents and oil spills. Finally, new issues emerged as being material, for example enabling trade, disaster response and the use of armed security services.

All sustainability issues will have elements of several or all three dimensions. However, the identification of a dominant dimension allows for greater impact in the way we manage issues.

We manage shared value opportunities by engaging in partnerships and multi-stakeholder alliances with a view to bringing about change on a broader scale. At the same time, we will take actions in our own business to explore the opportunities for change and development. We manage risks through mitigation processes that will reduce the risk to society and to our business. This is most commonly achieved through strong internal processes and training activities. We manage responsibility issues by limiting their negative impacts and ensuring performance improvements.

**Materiality and the SDGs**

The United Nations Sustainable Development Goals (SDGs) have been applied in our materiality assessment this year as an expression of the expectations of the global stakeholder community.

Corresponding to our current strategic sustainability priorities, we see the greatest potential for positive impact at scale through our business on Goals number 8: decent work and economic growth, 9: industry, innovation and infrastructure, and 13: climate action. When engaging in global value chains and energy production, our business touches on all 17 SDGs, either directly or indirectly. Many of the goals and targets cover issues that are already core to our sustainability efforts, including anti-corruption, labour rights, responsible procurement, diversity & inclusion, safety and environment. In each of the following chapters, we mark the relationship between the topic at hand and the SDGs.

Our full analysis, comparing our current business and sustainability priorities with the 17 Goals and 169 targets, can be viewed online at www.maersk.com/sustainability.
Some global sustainability challenges are particularly related to our business operations, and at the same time in need of collective and collaborative solutions. By taking action in our own business and establishing partnerships and other alliances, our ambition is to create new opportunities for progress on systemic challenges.

Issues approached as shared value opportunities share three characteristics:
1. There is a global need for responding to the challenge presented
2. A.P. Moller - Maersk is able to deliver market-based solutions to the challenge and scale through our business
3. We are able to take the lead in driving collective action for change at a systemic level across industries and for a broader coalition of stakeholders

This is the case for the following three issues: Ship recycling, reducing CO2 emissions in shipping, and enabling trade.
More than three quarters of all vessels reaching end of life are dismantled on three beaches in Southeast Asia. This has been the case for more than 30 years, despite obvious negative impacts on the environment, workers’ conditions and rights, and the local community. A.P. Moller - Maersk has embarked on a process to change this situation, starting in Alang, India.

Ten kilometers of beach with the highest tidal difference in the area has brought old supercarriers, car ferries, container ships and ocean liners to the beaches, from which the first ship-breaking yard opened in 1983. High tides carry them onto the beaches and hundreds of manual labourers dismantle the ships, as yard owners resell the steel cut out of the vessels.

The combination of surplus capacity in the container segment and weak freight rates since 2015 have lowered re-negotiation rates for ship owners. The result is clear: In 2016, 87% of the world’s ships were dismantled on these beaches, despite most major shipping companies having policies on the responsible recycling of their own vessels. Most company policies do not, however, cover vessels sold off just before end of life, and it is highly likely that these vessels end up on one of these beaches. Neither the industry, global society, the shipyard owners nor the governments concerned have succeeded in changing this situation. There is no global regulation and neither shipowners nor shipyards have been able to regulate themselves due to competitive pressures.

Creating a third option
Historically, responsible shipowners have had two options for the recycling of their vessels. Vessels could be sold to yards in, for example, China and Turkey for responsible recycling, which was typically done for a small number of vessels. Alternatively, ships could be sold off some time before they reached end of life. This would remove shipowners from the decision of whether or not to take advantage of the very large difference in recycling prices between the yards in China and Turkey and the yards on the beaches. We have realised that limiting our responsibility to our own vessels is not enough, and in 2016, we added a new requirement to our policy and standard on responsible ship recycling concerning the sale of vessels. The purpose of the amendment is to eliminate, in nearly all cases, the financial incentive to recycle irresponsibly. See the requirements in the sidebar to the right.

Related Sustainable Development Goals

Main achievements 2016

- 100% of workers in Shree Ram received safety training.
- 3 yards approved according to the A.P. Moller - Maersk responsible ship recycling standard and ready to receive vessels.

Our ambitions

- To ensure the financially attractive and responsible recycling of our own vessels, as well as to play a proactive role in upgrading standards for all yards in the Alang area with a view to develop the entire shipbreaking industry.
- The first two A.P. Moller - Maersk vessels are recycling our own vessels and not selling the recycling price, as the industry is going to do.

Why this matters to society

In spite of known and severe health and environmental dangers, vessels are still being sold to the beaches, despite the IMO’s Hong Kong Convention and related guidelines. The result is clear: In 2016, 87% of the world’s ships were dismantled on these beaches, despite most major shipping companies having policies on the responsible recycling of their own vessels. Most company policies do not, however, cover vessels sold off just before end of life, and it is highly likely that these vessels end up on one of these beaches. Neither the industry, global society, the shipyard owners nor the governments concerned have succeeded in changing this situation. There is no global regulation and neither shipowners nor shipyards have been able to regulate themselves due to competitive pressures.

Why this matters to A.P. Moller - Maersk

A.P. Moller - Maersk has embarked on a process to change this situation, starting in Alang, India. The purpose of our amendment is to eliminate, in nearly all cases, the financial incentive to recycle irresponsibly. See the requirements in the sidebar to the right.

Mending a gap: new requirements when selling vessels

With the addition of a new requirement in September 2016, A.P. Moller - Maersk’s ship recycling policy intends to remove the financial incentive for buyers to recycle vessels irresponsibly. These options are defined in the policy and applicable to any sale of an A.P. Moller - Maersk vessel:

- If the value of the ship is less than 25% above the highest recycling price, we will not sell the ship, but instead offer it for responsible recycling in accordance with our policy.
- If the value is more than 25–40% above the highest recycling price, we require that the new owner operates the vessel for at least two years after the sale, or recycle it in accordance with our standards.
- If the value is more than 40% above the highest recycling price, we require that the new owner operates the vessel for at least two years after the sale, or recycle it in accordance with our standards.

Making progress

At the end of 2016, two A.P. Moller - Maersk vessels had been sent to yards in India for responsible recycling, in accordance with our standard. We are supervising the responsible recycling of these vessels. Our supervisors work at the yards as part of our upgrading of practices, processes and facilities in accordance with our standard.

The purpose of the amendment is to eliminate, in nearly all cases, the financial incentive to recycle irresponsibly. See the requirements in the sidebar to the right.

Relevant Sustainable Development Goals

- SDG 1 (No poverty)
- SDG 8 (Decent work and economic growth)
- SDG 9 (Industry, innovation and infrastructure)
- SDG 11 (Sustainable cities and communities)
- SDG 12 (Responsible consumption and production)
- SDG 13 (Climate action)
- SDG 16 (Peace and justice, strong institutions)
- SDG 17 (Partnerships for the goals)

Why this matters to A.P. Moller - Maersk

A.P. Moller - Maersk has embarked on a process to change this situation, starting in Alang, India. The purpose of our amendment is to eliminate, in nearly all cases, the financial incentive to recycle irresponsibly. See the requirements in the sidebar to the right.

Our progress

The first two A.P. Moller - Maersk vessels are recycling our own vessels and not selling the recycling price, as the industry is going to do.

All workers have contracts, they are trained in safety, and paid minimum wage plus benefits, as well as overtime.

Significantly upgraded housing for all employees. All blocks are cut to fall under 25m for easy and safe evacuation.

Next steps

Upgrade more yards in India to meet A.P. Moller - Maersk’s responsible recycling requirements.

Ensure greater international transparency on all ship-breaking facilities and practices.

Initiate actions for the improvement of the greater Alang area.
undertaking research to understand these impacts whether on beaches or in certified yards in China and only on price, but also on standards. Shree Ram and Y.S. Investments in Alang. This tender awarded contracts for the recycling of four ships to • Housing for all of the shipyard’s employees has been constructed and significantly upgraded as part of a tender issued in December 2016, we awarded contracts for the recycling of four ships to Shree Ram and Y.S. Investments in Alang. This tender was the first time we saw ship recyclers compete not only on price, but also on standards. The environmental impacts of ship recycling, whether on beaches or in certified yards in China and Turkey, are an underdeveloped area. We are currently undertaking research to understand these impacts in different types of yards. We will use the results to guide our decisions in the future. Engaging other shipowners We are encouraged by the speed at which change is occurring on the ground in the Shree Ram yard in Alang. Yet we also understand that reaching the ultimate aim, which is to transform the entire ship breaking industry, will be a lengthy process. In order to reach that goal, other shipowners need to engage and provide commercial incentives for more yards to upgrade. Throughout the year, we engaged with shipowners, especially from Japan and Europe, an effort we will increase in 2017. Engaging in yards on beaches is a challenge for shipowners in general, as it is connected with considerable reputational risk. This is due in part to the firm belief of some stakeholders that the dismantling of ships at yards located on beaches can never become responsible. Moreover, many shipowners have been met with strong criticism when using the beach facilities in the past. Beginning community engagement Our commitment and engagement in the Alang area goes further than the yards we use. There are still unacceptable shortcomings in the surrounding infrastructure. One of the most pressing problems is healthcare and access to proper treatment in the case of accidents. We are in dialogue with the Indian Red Cross Society, who run a clinic in the area, on ways to collaborate on improving conditions. We will continue and increase our efforts in this area in 2017. There’s a better safety culture here, there is drinking water, there is housing, there is electricity, all of which is for free for the workers and there is personal protection equipment beyond just overalls and a helmet. This is all provided by the yard and it is the combination of all these things that makes me want to work at Shree Ram.” — Worker at Shree Ram for the past year

M. D. Arif

There are still unacceptable shortcomings in the surrounding area. In order to transform the entire ship breaking industry, all shipowners need to engage and provide commercial incentives for more yards to upgrade. Throughout the year, we engaged with shipowners, especially from Japan and Europe, an effort we will increase in 2017.

**Timeline for A.P. Moller - Maersk**

**March 2015**

A.P. Moller - Maersk’s first visit to Alang

**February 2016**

A.P. Moller - Maersk begins engagement with yards in Alang, India 2015-2016

**March 2016**

Improvement plan, incl. clearly documented that their facilities meet the Hong Kong Convention for Responsible Ship Recycling (RCSR), with additional demands made particularly in the areas of labour & human rights, anti-corruption and sub-contractors’ conditions.

**May-June 2016**

Maersk and Maersk George land on plot number 79

**November 2016**

A.P. Moller - Maersk issues a tender in which five ship recycling facilities in India and China were invited to participate. All ship recycling facilities in Alang, India and Jiangyin, China were invited to participate. All ship recycling facilities in Alang, India and Jiangyin, China were invited to participate.

**December 2016**

Four ship recycling facilities in Alang receive certification by Class NK documenting that their standards meet the Hong Kong Convention on Safe and Environmentally Sound Recycling of Ships, with additional demands made particularly in the areas of labour & human rights, anti-corruption and sub-contractors’ conditions.

**March 2017**

Commercial negotiations with the four ship recycling facilities have been reached, Shree Ram plot number 79 is selected of 429 elements, 79 gaps are found. An improvement plan is submitted to rectify findings.

**May-June 2017**

Maersk and Maersk George land on plot number 79

**December 2017**

A.P. Moller - Maersk’s responsible ship recycling standard incorporates the Hong Kong Convention on Safe and Environmentally Sound Recycling of Ships, with additional demands made particularly in the areas of labour & human rights, anti-corruption and sub-contractors’ conditions.

**2017**

A.P. Moller - Maersk ships arrive at yard

**2018**

Mid and major gaps closed during operations with Maersk oversight

**2019**

Gap analysis

**2020**

A.P. Moller - Maersk’s responsible ship recycling standard is complete and Maersk is able to recycle at all yards in accordance with the Hong Kong Convention.
ADVOCATING CO2 REGULATION IN SHIPPING

A.P. Moller - Maersk is a key actor in global container shipping and leads the industry in CO2 reductions. We advocate for global regulation and targets for the reduction of the shipping industry’s CO2 emissions.

Reducing the CO2 emissions from transport and logistics is a challenge facing governments and corporations across the world. In spite of current progress in using energy from renewable sources, the lion’s share of global activity is still powered by fossil fuels. In the same vein, our business activities consume or produce these fuels. International shipping accounts for over 2% of all CO2 emissions globally.

A.P. Moller - Maersk takes responsibility for reducing emissions from our activities. CO2 efficiency is a shared priority for all our businesses. Our target of 60% per container moved by 2020, compared to 2007. In 2016, reductions in CO2 emissions per TEU per km levelled off. The accumulated reduction since 2007 is 42%, and our target for 2020 remains unchanged.

The leveling off of relative CO2 performance this year is the result of several factors, such as low fuel prices and changes in market conditions, which have led to slight increases in the average sailing speed, as well as smaller vessels entering the fleet.

Decoupling under pressure

While we continue to improve our CO2 performance, the improvement rates are diminishing and the decoupling of growth in volumes transported and CO2 emitted is under pressure. We continue to invest in innovations in ship design, new and more efficient vessels, tools for managing shipping networks as well as collaborating with customers to understand and reduce the carbon impact of their transport and logistics activities. However, while the efficiencies achieved through these efforts are adequate for progressing towards our targets, we are reaching the limits of what we can achieve on our own.

The need for global regulation

It is A.P. Moller - Maersk’s position that the shipping sector now needs global regulation and standards more than ever, as it is becoming increasingly challenging for individual companies to continue to drive significant improvements in CO2 efficiency on their own.

As such, we were disappointed to see that shipping was not included in the Paris Agreement on Climate Change in 2015. However, in 2016 it became evident that the Paris agreement created new momentum for the negotiations in the International Maritime Organisation (IMO) on this issue. In October 2018, a road map for addressing emissions from shipping in the long term was agreed to by IMO members. A.P. Moller - Maersk welcomes this result.

The next important milestone is to ensure that the preliminary strategy for reductions projected to be finalised in 2018 is ambitious and with real content. We would like to see it include a long term CO2 reduction trajectory for shipping that establishes a peak year for emissions as well as outlines a universe of measures to be applied. We will engage proactively throughout 2017 and 2018 on this matter.

Sharing commitments with customers

Carbon Pacts are multiannual sustainability partnerships where Maersk Line commits to a CO2 target specifically tailored to the business of the individual customer. In 2016, Maersk Line established its first Carbon Pact in Asia, when an agreement was signed with Huawei Technologies, establishing a commitment to reduce Huawei’s CO2 emissions per container transported with Maersk Line by 18% from 2016 to 2020.

We see the partnership as a strengthening of our relationship with Huawei, a practical tool to bring sustainability elements into purchasing decisions, and an opportunity to move the sustainability agenda forward in China. As part of theCarbon Pacts, both companies also pledge to jointly drive transparency and establish aligned sustainability reporting metrics, ultimately promoting integration of these metrics into commercial decision-making processes.

Currenty, Maersk Line has established partnerships with 12 customers.

Why this matters to society

More severe weather events, higher death rates among humans, higher extinction rates for animals, more acid oceanic and higher sea levels are the consequences of rising temperatures due to climate change.

Why this matters to A.P. Moller - Maersk

The effects of climate change will impact energy consumption and global trade patterns. Furthermore, mitigating CO2 emissions from shipping will dramatically change the way ships are designed and operate in the long term.

Our ambitions

Relative CO2 reduction target of 30% in 2007, increased to 50% by 2020 for A.P. Moller - Maersk.

Our progress

Relative CO2 reduction of 42% for Maersk Line since 2007.

Next steps


Learning from each other: Energy efficiency at Maersk Drilling

For oil service businesses such as Maersk Drilling, differentiation has become much more important in recent years. Inspired by the shipping industry, Maersk Drilling is applying technologies and knowledge that will cut fuel costs for clients.

In 2016, Maersk Drilling completed a two-year energy efficiency pilot project. By installing fuel flow and energy meters and software used in shipping, adapted to a drilling rig, it was possible to optimise the use of auxiliary engines, pumps, power generators, lighting and machinery.

During the pilot, fuel consumption was reduced by 14.2%, which translates into significant annual savings for the client, as well as reductions in CO2 and other emissions. During 2016, the approach and equipment were implemented on six more rigs, and Maersk Drilling has set up incentive sharing partnerships with clients. Fuel cost is linked to the client’s list of costs related to drilling.

Maersk Drilling is also testing slow steaming for transporting rigs as well as participating in a research project using flywheel technology for energy storage as part of efforts to lower energy consumption and CO2 emissions.

Caring for Climate
INCLUSIVE GROWTH THROUGH TRADE

Why this matters to society

Growing businesses that trade will provide an estimated growth potential of USD 1 trillion, creating development opportunities for countries and people.

Why this matters to A.P. Moller - Maersk

With more than 75% of A.P. Moller - Maersk’s commercial activities related to global trade, supporting its development and growth is essential to us.

Our ambitions

We will enable trade through building partnerships outside our own sector to alleviate trade barriers, allowing us to promote opportunities for growth beyond those provided by our everyday business.

Our progress

All of the four pilot projects are moving towards implementation at scale. See table on page 17.

Next steps

Overview of enabling trade pilot projects

Related Sustainable Development Goals

A.P. Moller - Maersk’s greatest potential to deliver societal benefits through our business lies in our deep connection with international trade. Putting our knowledge to use enhances opportunities for people, countries and regions across the globe, and for our future business.

In an era where the basic concept of globalisation is being challenged, it follows that some stakeholder groups also question whether integration in global trade positively affects the quality of life in communities around the world. We are strongly convinced that it does. Conclusive evidence from the World Bank shows that expanding trade is integral to growth, which can create more opportunities for a country and its people. Supported by adequate policies and public investments, these benefits can reach all members of a society.

Carrying 15% of goods transported by sea, operating ports in a wide variety of countries and regions across the globe, A.P. Moller - Maersk’s greatest potential lies in our deep connection with international trade. Putting our knowledge to use enhances opportunities for people, for our future business.

Our sustainability strategy defines the route to delivering societal benefits through our business, our reach allows us to test new ideas for removing barriers to trade integration and efficiency. Ideas that can also generate innovative business solutions. In 2013, we placed the challenge of enabling trade at the core of A.P. Moller - Maersk’s strategy for sustainability. Increased participation in global trade creates economic growth and job opportunities locally. People around the world can improve their lives, skills levels, prospects and living standards as a consequence. Since the launch of our strategy and subsequent sub-phase projects in enabling trade, partnerships, advocacy and innovation have moved the projects along faster than initially expected. We are already beginning to scale up the ideas tested.

Progress on projects

Our sustainability strategy defines the route to enabling trade as initiating pilot projects that...

Overview of enabling trade pilot projects

<table>
<thead>
<tr>
<th>Objectives and partner(s)</th>
<th>TRANSIT AND LOGISTICS INFORMATION PIPELINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of a digital transport and logistics information tool that reduces the challenges in communication and documentation related to shipping, in collaboration with TradeMark East Africa.</td>
<td>Progress 2016</td>
</tr>
<tr>
<td>Large-scale testing is under way in Kenya, and new international partners have been brought on board.</td>
<td>Significant increase in time to market and reduced costs of trade with potential for increased export revenue for local firms.</td>
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</tbody>
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<table>
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<tr>
<th>Objectives and partner(s)</th>
<th>CONNECT AMERICAS</th>
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<tbody>
<tr>
<td>Empowering small and medium-sized enterprises (SMEs) in the Americas to trade through a digital platform for information sharing and training on trade regulation, processes and opportunities.</td>
<td>Potential impact</td>
</tr>
<tr>
<td>Platform is supported by the Inter-American Development Bank, where partners with A.P. Moller - Maersk, together with Google, Mahala D. B., and Visa.</td>
<td>Higher economic growth distributed to more people.</td>
</tr>
</tbody>
</table>

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<tr>
<th>Objectives and partner(s)</th>
<th>FROMTU – ONE-STOP SHOP MAKING TRADE SIMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop the digital B2B trading platform, Fromtu, that connects African sellers with global and intra-African buyers, allowing them to trade in a simple and transparent manner.</td>
<td>Potential impact</td>
</tr>
<tr>
<td>Fromtu will provide African producers with the tools to grow and traders with the tools to facilitate trade, in East Africa.</td>
<td>Higher economic growth distributed to more people through increased participation of SMEs in cross-border trade in the Americas.</td>
</tr>
</tbody>
</table>

A.P. Moller - Maersk

References

explore ways to alleviate barriers to trade, always in partnership with local or regional partners. The table provides an overview of progress and status for the four initial pilot projects. These projects are now being scaled up through our business operations. In terms of sustainability, our focus is currently on advocacy and research on breaking down barriers to trade by removing hidden costs.

**Building knowledge to support trade facilitation**

In 2013, 160 members of the WTO finalised negotiations on a Trade Facilitation Agreement, focusing on processes to expedite the international transportation of goods and on collaboration between customs and other authorities. Fully implementing the Trade Facilitation Agreement would reduce worldwide trade costs by between 12.5 and 17.5%, with lower-income countries achieving the greatest benefit. Earlier studies have assessed the total trade and logistics costs, covering the ratification of the Trade Facilitation Agreement. A.P. Moller - Maersk's particular contribution to this partnership consists of studies based on a model developed by us for establishing the total transport and logistics costs. See the case on page 19 in a study conducted in India. The key concept introduced in this model is that hidden costs in trade can account for up to half of the total cost. At the same time, it is a fact that with potential for cost reductions.

In 2016, the Alliance carried out studies in Colombia, Vietnam, Kenya and Ghana, of which we were involved in the latter two. The studies have assessed the total trade and logistics costs, covering not only the direct costs related to transportation, but also the indirect costs such as spoilage and breakage costs and a range of potential costs related to delays. The analyses also provide ideas for possible interventions, enabling policy makers to act in areas that yield the most benefits, for example initiatives to reduce delays and maximise spoilage.

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**Globalisation is being challenged**

There is ample evidence that free trade and globalisation are under pressure and not delivering equal benefits for all people or societies. Public protests against new trade agreements, the rise of nationalist political parties in many countries, and the UK’s vote to withdraw from the European Union are all palpable signs of this pressure.

According to the World Trade Organisation, international trade in 2016 will grow at its slowest pace since 2007. In 2015, Global Trade Alert, an independent trade monitoring group, cited at least 644 discriminatory trade measures imposed by the G20 economies on the U.S. at the forefront. Imports among the world’s 20 largest economies have fallen as a share of their gross domestic product for four consecutive years.

**Two sides to the story**

At a stakeholder roundtable meeting conducted at A.P. Moller - Maersk headquarters in September 2016, trade and the increasingly contentious trade environment was on the agenda.

“The economic case for trade leaves no room for uncertainty, and yet trade and globalisation are coming under increasing pressure,” said Dr. Wallace S. Cheng, Managing Director of the International Center for Trade and Sustainable Development, China.

Trade has benefits – such as economic growth, technology, knowledge and management skills. To me, Maersk's continued participation in the global discussion on trade is crucial to showing the benefits of trade.”

Wallace S. Cheng

International Center for Trade and Sustainable Development, China

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**Reducing the hidden costs of transport and logistics in India**

Focusing on four export sectors, pharmaceuticals, textiles & garments, electronics, and auto components, A.P. Moller - Maersk completed a study in 2016 on the total transport and logistics costs in India. While there is often much debate about the direct costs of transportation and logistics, such as terminal rates, freight rates and inland transport costs, the most significant costs can be the indirect and hidden costs stemming from delays and inefficiencies.

Reducing these costs is a significant source of potential savings and improved competitiveness on the part of exporters and importers, adding to a country’s potential for economic growth and job creation.

The study found that the indirect and hidden costs of trade accruing from delays and unreliable transportation services amount to up to nearly half of total transport and logistics costs. Reducing the costs of trade by 10% has the potential to generate additional exports of up to 5-8%. This means that within each of the four sectors, making trade 10% more efficient could potentially generate between USD 0.2bn and up to USD 3.1bn in extra exports per sector creating new jobs and income within Indian society as a whole.

The outcome of the study is a documented understanding of the total cost of transport and logistics in India, as well as of how our activities contribute to these. The businesses in A.P. Moller - Maersk provide services that support our customers’ significant transport and logistics costs, particularly indirect costs. In 2016, we collaborated with the Confederation of Indian Industry on further research and engagement of government and industry leaders in India to prioritise and initiate possible interventions, with a view to reducing indirect costs in particular.
For many of our material sustainability issues, our response is primarily determined by a recognition of responsibility as an employer, a business partner or active participant in local and global communities. Three factors are in play when we define a responsibility:

1. Our Core Values call on us to act
2. There is a solid expectation from our external stakeholders that we engage
3. Human rights due diligence confirms that we are in fact either causing, contributing or linked to the issue

The issues included in this section are: The safety of our employees and efforts to prevent serious injuries and fatalities related to our activities, along with human and labour rights impacts through indirect hiring, transport to and from conflict zones, armed security services, and the resettlement of third parties related to our investments, as well as the issues of diversity and inclusion in our leadership. Finally, there is a special feature on tax practices and transparency.
Keeping our employees safe is the greatest responsibility we have as a business.

Across all of our businesses, we want a working environment in which safety is deeply embedded in our operations and business culture. Our goal is to prevent all fatalities and ensure that A.P. Moller - Maersk is a safe place to work.

Two fatalities in 2016

Two workers lost their lives as part of our business operations in 2016.

Fatal accidents are unacceptable to us. When fatal accidents occur, we work to uncover the root causes and implement preventive measures.

In addition to the operating business’ own investigation of a fatal accident, A.P. Moller - Maersk’s Health and Safety Committee reviews the accident and its analysis to ensure thoroughness and knowledge sharing among our businesses. In 2016, the Committee found that we can improve our performance by strengthening the safety element in onboarding new employees and contractors’ employees.

Fatalities most often occur in connection with APM Terminals’ activities. APM Terminals’ work to prevent fatalities is guided by a programme entitled “Fatal Five” that focuses on the five risk areas most often associated with fatalities (electricity; working at heights; and control of contractors who enter the terminal).

Safety performance across our businesses

The data on lost-time injury frequency (LTI) indicates that some of our businesses improved their safety performance, while others showed increases in frequency. There are two reasons for the latter. At Damco, increased safety awareness has led to increased reporting of incidents. For other businesses, LTI has increased as a result of a decrease in exposure hours, combined with fluctuations in already low numbers of lost-time injuries (LTIs). LTI is calculated as a function of LTIs relative to exposure hours.

Maersk Line achieved an LTI reduction of 24% through dedicated focus on leadership and engagement. Maersk Container Industry saw a significant fall in LTI in 2016. This is mainly a result of workers at the factory in Chile gaining more experience, coupled with intensive safety awareness efforts. Maersk Oil continues with a positive LTI trend through initiatives such as the roll-out of the Point-Line Leadership Program and Control of Work. APM Terminals reduced LTI by 21% through continued reduction of operational risk, and the “Fatal Five” programme delivering performance improvements in 2016.

In the case of APM Terminals, accidents involving third-party truck drivers on its sites continue to be a challenge. In response, APM Terminals has set up a global project that changes operational processes and facility lay out. In addition, more than 100,000 truck drivers per year receive safety awareness training. Good progress was made towards APM Terminals aspirations to have all truck drivers entering the company in the future who remain inside their trucks, and the work continues in 2017.

A shared experience

The Global Safety Day at A.P. Moller - Maersk coincides with the ILO designated World Day for Safety and Health at Work. In 2016, a global communication package including a message from the CEO prepared the organisation for work with the theme “Safe for you – safe for me.” This translated into various activities, including Maersk Line’s focus on cargo fires and preparedness; gamification of safety training through an online video and game for twitter; and locally adapted drills and risk identification activities, as well as personal recognition for safety leadership behaviour at APM Terminals.

Ensuring employees’ security

Political upheavals, operations in areas of conflict, natural disasters and modern day piracy – all of these pose a potential threat to the safety of our employees. This is why A.P. Moller - Maersk has systems in place to mitigate the effects of such threats.

Each of our locations around the world has developed a set of local safety plans and mandatory evacuation plans for countries in what are defined as risk areas. We did not have to evacuate offices in 2016. Travel related risks are managed through a system that tracks all employees during travel based on their ticket purchases, as we did for employees on business travel in Turkey during the attempted coup in July 2016.

A security incident reporting system was rolled out across A.P. Moller - Maersk businesses in the second half of 2016. Maersk Lineorganised these hijacking attempts off the coast of Nigeria in 2016, all of which were averted. Safmarine Kunamo was attacked on the 5th of February. Maersk Cotonou was on the 4th November and Maersk Calabar on the 21st of December.

A.P. Moller - Maersk contracted security services for passage through these waters in 2016, as the risk of piracy was perceived to have increased significantly.

We all have the responsibility.

If you see a risk, you act on it.

Related Sustainable Development Goal

Safety essentials

A.P. Moller - Maersk’s work on personal safety is based on three safety essentials, which form the basic principles of all safety programmes across our businesses. Based on these, each business designs its own safety programme with activities and messages directed at employees and relevant to the specifics of its operations and culture.

Why this matters to society

Our commitment to protect human rights obligates all employees, through conventions and legislation, to prevent work-related injuries and fatalities.

Our ambitions

Zero fatalities.

Next steps

Continuous positive improvements in safety performance across our organisation.

Focus on personal safety leadership.

Drive collaboration and sharing.

Why this matters to A.P. Moller - Maersk

Keeping our employees safe as they perform their work duties is an integral part of our Core Values.

Our progress

Two fatal accidents.

Improved injury frequency at some of our businesses.
Three ways A.P. Moller - Maersk may be involved with human rights impacts

Example: Impacts on seafarers’ safety and security

Example: Impacts through our supply chain

Example: Links to impacts through transportation services of certain types of cargo

Complying with The UK Modern Slavery Act

The UK Modern Slavery Act requires commercial organisations with a certain level of income to prepare a slavery and human trafficking statement every financial year.

Due diligence outcomes

A due diligence process executed throughout our value chain in 2015 has enabled us to focus on the most severe issues, and to prioritise these for further action. See due diligence graphic on page 26. This resulted in the identification of 34 issues, which were consolidated into the following areas:

• Assets under construction (including shipyards and construction sites)
• Asset disposal and decommissioning
• Use of armed security services in high risk settings
• Transport services to and from conflict settings
• Environmental practices near communities and fishing areas
• Health and safety

The list was validated with A.P. Moller - Maersk’s businesses, and due diligence graphic on page 26. This resulted in the identification of 34 issues, which were consolidated into the following areas:

• Health and safety
• Environmental practices near communities and fishing areas
• Transport services to and from conflict settings
• Use of armed security services in high risk settings
• Assets under construction (including shipyards and construction sites)

Why this matters to society

Respect for human rights contributes to an environment where people may live with freedom and dignity. This enables sustainable development and prosperity.

Related Sustainable Development Goal

Why this matters to A.P. Moller - Maersk

In line with our values, we want to ensure that we respect human rights in our operations as well as through our business relations.

Next steps

Strongest governance mechanisms for human rights.

Across these five issues, there is a concentration of potential impacts related to the supply chain for our assets and to the provision of transport services for certain types of cargo. In 2016, additional in-depth work on these issues resulted in the development of new risk management measures, standards and action plans with a view to mitigating potential impacts. We continue to carry out a due diligence process when new programmes are developed.

Labour rights in focus

It is in our supply chain that risks concerning labour rights are predominantly present. We are committed to providing all employees with good and fair labour conditions in order to ensure their welfare and our customers

Subcontractors in Indonesia

A Damco warehouse in Indonesia hired third-party workers through a local contractor for between 2012–2015. A government investigation showed that the workers were not paid the minimum wage or provided with mandatory social security. In the end, Damco terminated the contract. With no admission of legal responsibility, Damco, out of respect for the workers in question and their families, negotiated monetary compensation with two labour unions representing PT TBS workers. A subsequent analysis pointed to a gap in due diligence and follow-up on third-party labour contracts. A programme to train relevant staff in responsible procurement due diligence and follow-up was initiated.

Per request, A.P. Moller - Maersk met with representatives of the Clean Clothes Campaign (CCC) in Denmark, who were interested in knowing what we are doing to prevent similar cases in the future. The experience was shared and a global NGO focusing on the garment industry, and suggested that we link to best practices from this sector for inspiration.

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A.P. Moller - Maersk

Related Sustainable Development Goal

Why this matters to society

Respect for human rights contributes to an environment where people may live with freedom and dignity. This enables sustainable development and prosperity.

Our ambitions

Ensure that we conduct our business in alignment with the UN Guiding Principles on Business and Human Rights.

Our progress

Progressed on action plans related to priority issues.

Next steps

Strongest governance mechanisms for human rights.
compliance with labour conventions and regulation. The labour conditions of workers hired through third parties and employees working for companies in our supply chains are among the human rights issues prioritised for further action.

A labour rights self-assessment was completed by the Global Labour Relations Council in 2016, which further confirmed the prioritisation of the issue. In 2017, we will be launching an awareness campaign across all our businesses for procurement and HR functions about third-party labour responsibilities. We will also be commencing training activities in the mandatory procedures for due diligence and follow-up in relation to the procurement of labour through third-party suppliers. These efforts will be addressed through our responsible procurement programme. See pages 38–39.

The ability of workers to organise and collectively bargain over their wages and working conditions is a fundamental human right. Sometimes, however, labour disputes turn into violent conflicts, and the impact on both workers, their communities and our business is considerable, and minimising the risk of labour disputes is important to A.P. Moller - Maersk. In 2016, we began a programme to ensure that the 42 terminals and 56 inland service centres fully owned by APM Terminals prepared a local vision and strategy for labour relations. Furthermore, labour relations were made part of APM Terminals’ operating plans for 2016, whereas training was conducted for staff involved in negotiating with unions on collective bargaining agreements in Maersk Supply Service and in APM Terminals’ operations in India.

Channels to voice concerns

Internal and external parties continue to have access to reporting human rights concerns related to our operations or our suppliers, contractors, or other business partners through A.P. Moller - Maersk’s whistle blower system. Subjects on which reports are accepted include actions harming people, their livelihood or property; child labour; human trafficking and forced labour.

What's in the box?

We acknowledge that there is a link between our transport and logistics businesses and the potential misuse or abuse of the transported goods. However, there are legal limitations to what actions we can take. The first being that we are prohibited from opening the containers. Increased control of cargo requires a collaborative approach and enhanced implementation of already existing conventions, as well as more regulation of goods and trade laws.

1. Is the cargo and transport regulated?
   - For instance, is the product transported regulated? Is the country sending or receiving the cargo under sanction? Could the cargo be misused and have negative impacts on human rights?

2. Should we transport cargo that might be detrimental to sustainable development?
   - With no established definitions of which products would be in this category, the box for possible action is for low risk.

3. Could the cargo be misused and have negative impacts on human rights?
   - Examples include electronic equipment, which might be used for unlawful surveillance, and fertilisers, which might be used as components in bombs.

Maersk Line does not have the necessary information to establish the intent of the sender or recipient to be able to determine potential impacts on human rights.

At stake

The safety and employment conditions of sub-contracted workers building vessels, rigs, and terminals can result in workers being injured, not paid a wage that is in compliance with local regulations or other type of human rights abuses. A gap in our governance of supplier relationships needs to be closed.

2016 activities & results

Subcontracted requirements have been embedded in an existing programme managed by the teams building and managing relationships with asset suppliers. Risk management measures have been activated, for example through contract clauses, and other agreements with suppliers granting us the right to audit sub-contractor conditions. Read more in chapter on responsible procurement on pages 38–39.

2016 activities & results

A number of initiatives have been activated, for example through contract clauses, and other agreements with suppliers granting us the right to audit sub-contractor conditions. Read more in chapter on responsible procurement on pages 38–39.

Transportation and services to/from conflict zones

At stake

Our global presence means we are vulnerable to being used for import and illicit transportation that may have a negative impact on human rights. We need to further assess options to strengthen the management of this issue.

2016 activities & results

Maersk Line assessed screening options within three high risk categories: transportation of arms, certain chemicals and opts. We found that cargo description alone does not suffice to identify those that are liable to be shipped to conflict zones, therefore we revised our approach to include more criteria for managing these relationships.

Economic displacement and resettlement

At stake

As part of A.P. Moller - Maersk’s business activities, we use our security services to protect the people involved in transport and storage of arms and other high risk and conflict settings. Deployment of security services serves as a protection, but may also have adverse impacts such as violence, coercion, or deterring people against third parties that were not executed properly. We need to build a shared approach and criteria for managing these relationships.

2016 activities & results

An A.P. Moller - Maersk Tankers vessel in the use and hiring of armed security services was developed in 2015, with implementation and governance design to take places in 2017.

ASSETS UNDER CONSTRUCTION

At stake

The safety and employment conditions of sub-contracted workers building vessels, rigs, and terminals can result in workers being injured, not paid a wage that is in compliance with local regulations or other type of human rights abuses. A gap in our governance of supplier relationships needs to be closed.

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Human rights priority issues: Closing the gaps

Humanitarian relief arriving in Haiti

Responding to disaster

On the 4th of October 2016, Hurricane Matthew struck Haiti. Over 140,000 households had been left homeless while more than 2.1 million people were in need of urgent humanitarian assistance, including access to quality water education, shelter, child protection, health and nutrition. A.P. Moller - Maersk contributed to the aid effort in Haiti, as part of the Logistics Emergency Team (LET). This is a cross-company partnership between A.P. Moller - Maersk, Agility and UPS that supports the Logistics Cluster led by the UN World Food Programme in providing global humanitarian relief efforts during natural disasters.

Our contribution consisted of the free shipping of 33 containers containing food, shelter kits, clothing, medical kits, and other relief items, as well as leading of forklifts, operators and other services so that local operations could run more efficiently.

Pictured: Humanitarian relief arriving in Haiti

Is the cargo and transport regulated?

- For instance, is the product transported regulated?
- Is the country sending or receiving the cargo under sanction?
- Is the cargo or transport regulated?
- Could the cargo be misused and have negative impacts on human rights?

Could the cargo be misused and have negative impacts on human rights?

- Examples include electronic equipment, which might be used for unlawful surveillance, and fertilisers, which might be used as components in bombs.

Maersk Line does not have the necessary information to establish the intent of the sender or recipient to be able to determine potential impacts on human rights.

Should we transport cargo that might be detrimental to sustainable development?

- With no established definitions of which products would be in this category, the box for possible action is for low risk.

- Should we transport cargo that might be detrimental to sustainable development?

- Where no established definitions of which products would be in this category, the box for possible action is for low risk.
**Removing Barriers to Inclusion**

Everybody working for A.P. Møller - Maersk must have the opportunity to reach his or her full potential, and we work to remove the unconscious obstacles that may prevent this.

A.P. Møller - Maersk is committed to inclusive practices in the way we employ, promote and treat our employees, out of respect for our Core Values and the human rights of our employees. There is also business value to be gained. If A.P. Møller - Maersk can act without bias, we have access to the widest possible talent pool, not only in terms of recruitment, but also in terms of our employees’ ideas and talent contributing to innovation and the development of our business.

Research shows that businesses perform better when they have diverse teams. For example, McKinsey has found that the most diverse companies in terms of gender or race and ethnicity are more likely to have higher financial returns compared to the middle levels of returns for companies in their country.

**Small steps forward**

While diversity encompasses much more than just gender and nationality, these are the two areas for which we have set targets.

In 2016, we closed in on our 2018 targets for the management levels, while the Board of Directors remained unchanged. Reaching the targets depends on the businesses’ decisions when hiring or promoting at management levels, which is why we encourage the businesses to set clear strategies on how they are going to achieve their targets. All but one of our businesses have set such targets and are establishing ways to reach them.

A core element in the strategy is awareness and strategies for circumvention of unconscious bias. Examples of bias are unconscious preferences for people similar to ourselves or only registering information that confirms our pre-conceived beliefs.

Research suggests that the best-in-class employment policies can only go so far in supporting inclusive work environments. We believe that driving change in our behaviour by understanding and interrupting bias in our people processes and decision-making is the key to truly leveraging the potential of diversity and inclusion.

**Training to reduce unconscious bias**

In 2016, we organised workshops for our human resources community that focused on unconscious bias awareness. Maersk Oil ran a specific program for its global leaders and their teams on unconscious bias awareness and tools to promote and be accountable for inclusion. Progress continues to be tracked through quarterly diversity dashboard and employee engagement survey responses.

**Why this matters to society**

Eabling all people to go as far as their talent and desire takes them is important for creating prosperous societies.

**Why this matters to A.P. Møller - Maersk**

Attracting and retaining talented people is highly important to our business, as is the chance for all employees to reach their full potential in support of the business.

**Our ambitions**

To support successful business performance we want to build a culture of inclusion where diversity of thought is valued and leveraged and all employees are able to reach their full potential.

**Our progress**

First steps taken in building awareness in managing unconscious bias. Global maternity and return to work policy launched in 2016. Progress made on targets for gender and nationality in leadership positions.

**Next steps**

Embed unconscious bias management capability into our organisation.

Global maternity and return to work policy launched

To increase the retention of women following childbirth or child adoption, A.P. Møller - Maersk implemented the Global Maternity Leave and Return to Work Programmes in April 2018, which improve benefits during and after maternity leave for employees globally.

Our long-term aspiration is to reach a global best practice maternity retention rate of 90%. For A.P. Møller - Maersk this rate was approximately 70% in 2014. Of the 70% leaving, 80% did so in the first 12 months after their return to work. The loss of knowledge and experience, as well as the cost of replacing these employees, hurts our business.

The new policy includes a global minimum of 18 weeks maternity leave on full pay for all employees. In addition, a phased return to work programme has been introduced for all our employees with a view to supporting their reintegration to work following the period of leave. Programme participants have the opportunity to work 20% less hours at full contractual pay for up to six months within the first year of childbirth or adoption.

Since the policy was announced, more than 500 women have gone on maternity leave, and we will monitor the progress and success of the policy throughout 2017. The new policy has improved the terms compared to the statutory minimum in at least 51 of the 130 countries in which we operate.

**New global maternity policy at work**

As a result of A.P. Møller - Maersk’s new global policy on maternity leave, Kalisha Brooks received 18 weeks of fully paid leave after she had her child in July. Working for Maersk Line in the USA, the terms provided before the new paid parental leave policy in the US would have offered her only six weeks of paid leave, plus an additional six weeks of unpaid statutory leave, which could have been supplemented by paid vacation time.

The new programme meant financial security throughout her maternity leave. While this was important, Kalisha Brooks emphasises a different aspect of the programme as being the main benefit for her: “Knowing that the business in general and my management in particular were committed to and supportive of my decision to stay at home for 18 weeks, assured me that I was a valued member of the team and put me at ease.”

**Flexibility is key to returning to work**

After 18 weeks of paid leave, Kalisha Brooks came back to work full-time. She decided not to make use of the new policy’s transitional parental leave, however, which gives primary caregivers additional paid leave of up to one day per week for 26 weeks, as outlined in A.P. Møller - Maersk’s paid parental leave policy.

“This was a great option, but I personally don’t feel as if I need a fixed agreement on reduced work hours. To me it is much more important to have flexibility around travelling and childcare appointments, and this is what my manager and I have agreed to focus on,” Kalisha Brooks says.

At 12 weeks, it seems difficult

Reflecting on the milestones of her maternity leave, Kalisha Brooks says: “I had only had 12 weeks leave and very little flexibility at work, I might have had to contemplate not going back to work. I learned from friends how difficult it can be to make it work.”

**Pictured:** Kalisha Brooks and her son
The tax laws and regulations that apply to multinational companies are increasingly complex. Interpretations of tax laws are changing rapidly over time, significantly increasing the risk of non-compliance. A.P. Moller - Maersk recognises this, and has responded by adding significant resources and centralising the tax organisation to ensure compliance with laws and regulations.

Tax transparency and disclosure has become a focal point for lawmakers and societal debate nationally and globally. A.P. Moller - Maersk is also addressing these requests, which have been put forward to multinational companies.

Growing expectations and regulation
The call for greater transparency has been translated into new regulations and expectations:

- Danish law now requires disclosure of tax payments on a country by country basis in the annual report of the company by tax authorities. Maersk Oil discloses such data for the 2016 financial year. See http://www.investor.maersk.com/financials.cfm
- Regulation based on the OECD’s Base Erosion and Profit Shifting (BEPS) project aims to ensure that income is taxed in the countries where value is created. We are prepared for this country-by-country reporting to tax authorities for all our businesses, which is mandatory for the 2016 financial year.
- In 2016, the EU Commission proposed a directive imposing a requirement on EU and non-EU multinational groups to publish a yearly report on the profit and tax charged in EU and tax haven countries.

How tax is managed by A.P. Moller - Maersk
The starting point for A.P. Moller - Maersk in managing tax is the legislation, both in the form of local tax laws and international tax regulations. The Board of Directors governs the handling of A.P. Moller - Maersk’s tax affairs. In this role, it is the highest approving authority of our tax principles, whereby we commit to comply with all applicable tax rules in the form of reporting, as well as paying taxes and disclosing tax charges.

Tax matters are monitored by the tax department at our corporate headquarters, which also manages country and regional tax centres in key locations.

How we engage in the corporate tax debate
A.P. Moller - Maersk shares its experiences and practices with politicians, NGOs and other stakeholders in order to contribute to a broad understanding of corporate tax issues.

Our businesses and how they are taxed

### MAERSK LINE
Maersk Line operates over 703 vessels and three million containers. It operates offices in approximately 132 countries. It has ship-owning companies outside Denmark, principally in Singapore, Hong Kong and the USA, which charter vessels to Maersk Line in Denmark.

Maersk Line is taxed where operations are carried out – centrally in shipping companies according to regular corporate tax regimes or indirectly through specific tonnage tax regimes. In some countries a special freight tax is levied. In addition, Maersk Line local agencies are taxed in accordance with local corporate tax rules.

Total tax charge (income) in 2016: USD 522m

### APM TERMINALS
A.P. Moller - Maersk’s terminal business consists of 72 operating port and terminal facilities and 140 inland services operations in 60 countries. The terminals are taxed in the countries in which they are located at the corporate tax rates applied there.

Total tax charge in 2016: USD 140m

### SVITZER
Svitzer has a fleet of 430 vessels operated by individual companies in the countries in which they operate. For the most part they are taxed under regular corporate income tax regimes. In some countries, the companies pay tonnage tax on their ocean-going activities.

Total tax charge in 2016: USD 65m

### DAMCO
DAMCO is a provider of global logistics solutions active in over 100 countries, where it has operating companies that are taxed under the regular corporate tax regime of the respective countries.

Total tax charge in 2016: USD 24m

### MAERSK CONTAINER INDUSTRY
Maersk Container Industry develops and manufactures refrigerated and dry container ships, and the Star Cool refrigeration machine. Maersk has 862 and engineering test facilities in Denmark, with production facilities in China and Chile. Corporate taxes are paid where MCI has operations.

Total tax charge (income) in 2016: USD 81m

### MAERSK OIL
Maersk Oil has production in Gulf the UK, Algeria, Denmark, Kazakhstan, and the USA and Iran Kustanain.

A special hydro carbon tax regime, or production sharing agreement, with a higher tax rate than normal corporate tax rates, is applied in all of these countries except Kazakhstan.

For example, in Denmark, the profits from the oil activity are taxed at a 26% corporate tax rate, with a hydrogen surcharge. Profits are taxed at total of around 64%. In the UK, the regular corporate tax is supplemented by a hydrogen surcharge of 12%, and in the US, the profits from the oil activity are subject to both corporate income tax and a royalty.

Total tax charge in 2016: USD 169m

### MAERSK DRILLING
Maersk Drilling operates 24 rigs.

A share-based company or branch is set up in the country where drilling takes place and is taxed locally on the income from drilling activities.

The share-based companies pay the owner (Maersk Drilling Denmark or Singapore) for rent of the rig. In Denmark, Maersk Drilling pays regular corporate tax. Singapore’s taxes are according to a regime similar to the tonnage tax regime applied in shipping. The rental payment on several of the rigs is also taxed in the countries where they are located.

Total tax charge in 2016: USD 63m

### MAERSK SUPPLY SERVICE
Maersk Supply Service is a worldwide owner and operator of supply ships. The taxation of the supply activities follows the local and national regulations in the countries of operation. In addition, the ship-owning companies are subject to tax similar to Maersk Line.

Total tax charge (income) in 2016: USD 24m

### MAERSK TANKERS
Maersk Tankers has shipping activities in Denmark and Singapore.

The taxation of Maersk Tankers is similar to that of Maersk Line, in that the businesses are subject to local freight taxes, as well as taxation on ship-owning activities.

Total tax charge in 2016: USD 18m

In Denmark, A.P. Moller - Maersk participates in “Tax Dialogue”, organised by the NGO Oxfam (BSI), together with other companies. A.P. Moller - Maersk also contributes to the work of the UN Committee of Experts on the international taxation of shipping.

- See the §99c table online at http://www.investor.maersk.com/financials.cfm
- The rental payment on several of the rigs is also taxed in the countries where they are located.

TAX UNDER THE MICROSCOPE
Public scrutiny and regulatory activities related to corporate tax are on the rise. A.P. Moller - Maersk has added significant resources and taken steps to meet the increased requirements.
1. Paying taxes where value is created

What is the issue?
Tax laws are predominantly a national matter. The cross-border element of allocating profits and taxes between countries within a multinational company is addressed through transfer pricing regulations. By complying with transfer pricing regulations, it is possible to ensure that a multinational’s profits and tax are distributed according to where value is created.

What does A.P. Moller - Maersk do?
A.P. Moller - Maersk agrees to the principle of paying tax where value is created and this is a key policy.

2. Tax havens

What is the issue?
Tax havens are a generally accepted term used to describe low-tax jurisdictions that offer low or no tax to foreign companies. Often, financial information in such countries is also protected from scrutiny by the local legislation.

What does A.P. Moller - Maersk do?
A.P. Moller - Maersk is actively present in 130 countries, including some countries with no or low taxation. It is A.P. Moller - Maersk’s policy to comply with the tax regulations in the countries in which we operate, regardless of the local corporate tax rate. We are prepared for country by country reporting to the relevant tax authorities.

3. Tax incentives

What is the issue?
Governments seeking to stimulate or attract foreign investment and growth in certain industries, provide relief from income taxation in different ways.

What does A.P. Moller - Maersk do?
A.P. Moller - Maersk states in its tax principles that we will make use of tax incentives where available, but we will only do this when they are within the intention of the law. A common incentive is the tax holiday, which is a full exemption from income tax for a limited period of time. Tax holidays are often put in place to provide profits from financial income being stuffed to subsidiaries where little or no operational activity takes place.

4. Double taxation

What is the issue?
Governments negotiate agreements on how to allocate taxation rights over the same income to avoid double taxation. The resulting tax treaties define how much the source and residence countries can tax a company’s cross-border income and profits.

What does A.P. Moller - Maersk do?
It is our policy to provide tax authorities with the information required to evaluate whether A.P. Moller - Maersk is entitled to treaty benefits. We are of the opinion that tax treaties provide certainty in the allocation of taxing rights as well as dispute resolution and we take steps to ensure that our companies are fully qualified recipients before claiming treaty benefits.

An example is related to the payment of dividends from Maersk Marine (SA) to Damco International A/S. According to the domestic rules, a withholding tax of 15% applies to the payment of dividends from a Moroccan company to a foreign company in addition to the local corporate tax of 30%. However, according to the Double Taxation Treaty between Morocco and Denmark, this rate is reduced to 10%. When the dividends are paid out, individual shareholders pay a dividends tax.

“Whether a capital importing country benefits from signing a bilateral tax treaty (BIT) depends on whether it realizes sufficient gains from increased foreign direct investment to offset any revenue losses. The primary benefit that developing countries seek from signing a BIT is increased investor confidence – an important policy objective – as a result of both increased certainty and lighter taxation. Against this, however, is the risk of reduced withholding tax rates countries that are primarily capital exporters face foreign revenue losses.”

— IMF Policy Paper: Spillovers in International Corporate Taxation, May 2014

**Four examples:**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total turnover in 2016 (USD)</th>
<th>Result before tax in 2016 (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>27,700m</td>
<td>-1,466m</td>
</tr>
<tr>
<td>Morocco</td>
<td>86m</td>
<td>12m</td>
</tr>
<tr>
<td>Ghana</td>
<td>330m</td>
<td>175m</td>
</tr>
<tr>
<td>Panama</td>
<td>201m</td>
<td>3m</td>
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</table>

**Total tax charge in 2016 (USD):**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total tax charge in 2016 (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>1m</td>
</tr>
<tr>
<td>Morocco</td>
<td>32m</td>
</tr>
<tr>
<td>Ghana</td>
<td>362</td>
</tr>
<tr>
<td>Panama</td>
<td>279</td>
</tr>
</tbody>
</table>

**Result before tax in 2016 (USD):**

<table>
<thead>
<tr>
<th>Country</th>
<th>Result before tax in 2016 (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>9,771</td>
</tr>
<tr>
<td>Morocco</td>
<td>833</td>
</tr>
<tr>
<td>Ghana</td>
<td>759</td>
</tr>
<tr>
<td>Panama</td>
<td>833</td>
</tr>
</tbody>
</table>

**FTE (Full-time equivalents) 2016:**

<table>
<thead>
<tr>
<th>Country</th>
<th>FTE (Full-time equivalents) 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>759</td>
</tr>
<tr>
<td>Morocco</td>
<td>833</td>
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<tr>
<td>Ghana</td>
<td>759</td>
</tr>
<tr>
<td>Panama</td>
<td>833</td>
</tr>
</tbody>
</table>

**Tax Feature**

The majority of the public debate on tax focuses on transparency in relation to multinational companies’ tax practices. To provide clarity, this section explains our practices on four of the most discussed tax topics: paying taxes where value is created, tax havens, tax incentives, and double taxation treaties.
In a sustainability context, risk takes on two meanings: the risk business activities pose to societies and the people that inhabit them, and the risk sustainability issues pose to our business objectives.

The issues in this section address both, but are discussed from the perspective of risk to our business. We performed a risk assessment across all our businesses. Four issues are included in this category on the basis of their potentially high impact. These are corruption, supplier non-compliance with our Third Party Code of Conduct, an uneven playing field in the enforcement of global SOx regulations, investment in ballast water systems in an unclear regulatory environment and major accidents related to spills.
CONTINUING THE FIGHT AGAINST CORRUPTION

Operating in all corners of the world, the risk of corrupt practices is present in our businesses. We continue to strengthen our tools to mitigate this risk.

Non-compliance with corruption regulations is one of only a handful of sustainability risks deemed to have major financial impact on A.P. Moller - Maersk. The likelihood of a major non-compliance occurring is, however, low, due to the many controls in place to mitigate the risk, see sidebar.

Throughout 2016, we continued to strengthen our mitigation framework, with new compliance tools, systems and processes, such as tools for assessing anti-corruption and foreign trade controls risks, automated due diligence systems, best practice guidance for avoiding facilitation payments and an upgraded whistleblower system.

A.P. Moller - Maersk continues to cooperate with authorities on ongoing investigations in which there have been allegations of involvement.

Reduction in facilitation payments

Although the risk of large-scale corruption is low, our shipping businesses constantly liaise with port authorities, customs officials and other inspectors. These encounters can carry a high risk of demands for facilitation payments.

It is our ambition to achieve zero facilitation payments in the foreseeable future, and progress is well underway. All of our vessel operating and logistics businesses achieved significant reductions in facilitation payments compared to 2015. Maersk Tankers by 43%, Damco by 45%, Maersk Supply Service by 82%, and Maersk Line by 87%. For Maersk Line, this was driven by a new strategy aimed at reducing the support for vessels, and increased communications and knowledge-sharing between captains.

Collaborating for progress

A.P. Moller - Maersk works with the Business & Industry Advisory Committee to the OECD on the development of an OECD backed project on facilitation payment reduction in selected countries. We are also a founding member of the Maritime Anti-Corruption Network (MACN). Furthermore, Maersk businesses participate in a number of projects aimed at eliminating facilitation payments. For example, Maersk Line partnered with World Maritime University (WMU), supported by the IMO, in developing and running its first ever course on anti-corruption and business integrity, while also offering to mentor any student that starts an anti-corruption initiative.

Why this matters

Development Goal

Why this matters

Social and economic development suffers when corruption is present. Societies cannot grow and prosper equitably when fair development suffers when anti-corruption and foreign trade controls risks, automated due diligence systems, best practice guidance for avoiding facilitation payments and an upgraded whistleblower system. systems and processes, such as tools for assessing anti-corruption and foreign trade controls risks, automated due diligence systems, best practice guidance for avoiding facilitation payments and an upgraded whistleblower system. systems and processes, such as tools for assessing anti-corruption and foreign trade controls risks, automated due diligence systems, best practice guidance for avoiding facilitation payments and an upgraded whistleblower system. Risk | Anti-corruption

Related Sustainable Development Goal

Risk | Anti-corruption

Why this matters

Strengthening the society

Our progress

87% reduction in facilitation payments for Maersk Line, compared to 2015.

Next steps


Continued focus on facilitation payment reduction and integration of compliance into daily operations.

Continued compliance assurance actions.

Risk | Anti-corruption

Risk | Anti-corruption

Risk | Anti-corruption

Risk | Anti-corruption

Mitigating the risks

A.P. Moller - Maersk’s anti-corruption programme includes, among other things:

• Due diligence of new agents, joint venture partners, key suppliers, as well as mergers and acquisitions targets prior to signing of contract.

• Risk assessments before acquiring a company or entering a new country.

• Recording all facilitation payments made and working consistently towards eliminating them.

• Ensuring compliance with rules on travel, meals, lodging and entertainment.

• Continued global communication on compliance issues, progress and training.

• Management commitment on all levels.

Risk | Anti-corruption

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Quantifying sustainability risks to our business

A full analysis and overview of our sustainability risk landscape aids us in understanding how sustainability issues may impact our business. Issues identified through the risk analysis include major accidents related to spills, corruption, supplier non-compliance with our Third Party Code of Conduct, an uneven playing field in the enforcement of global IGAs regulations and investment in efficient water systems in an nuclear regulatory environment.

The defining characteristics of the issues included in this section of the report is that they pose not only a risk to society, but also a significant risk to A.P. Moller - Maersk’s business.

The prioritised risks are those that are assessed as having a high impact and high likelihood in the dedicated sustainability risk assessment carried out in 2016, with input from across the businesses. Performance using classic risk management tools and methodologies, the assessment resulted in a comprehensive risk register in alignment with the enterprise risk management system. The long-term ambition for the sustainability risk register is to also assess all risks for their reputational impact. In 2016, we developed and tested a scale to assess reputational risk in collaboration with the Reputation Institute. The pilot included an assessment of reputational risks in our supply chain, which we have incorporated into the materiality assessment in 2016. As the reputational scale is not fully developed, we have not yet applied it across all issues.

In 2017, we aim to further develop and integrate the reputational risk scale into our risk assessment of sustainability issues.
ENGAGING TO MITIGATE SUPPLIER RISKS

Our focus on high-risk categories in the supply chain helps us target our risk mitigation.

A.P. Moller - Maersk interacts with thousands of suppliers around the world. We mitigate the risks from these relationships through a responsible procurement programme based on our Third Party Code of Conduct, including due diligence requirements and contract clauses. The governance and implementation framework for these measures is in place and partially integrated across the businesses.

In 2016, we shifted our focus to supplier categories with a high risk of adverse impacts on humans on the environment, as well as those that are most likely to pose financial and reputational risks to our business (see sidebar).

The issues most often included in improvement plans for suppliers are human and labour rights. Through our responsible procurement programme, plans for suppliers are human and labour rights.

Through our responsible procurement programme, our supplier base spans a large business network from small local enterprises to massive conglomerates with global reach. Out of a global population of 100,000 suppliers, we have contracts with approximately 20,000. Based on our Risk Scorecards, we engage with approximately 1500 suppliers from this group through a combination of audits, self-assessments, and documentation reviews. Depending on the outcome of these assessments, we establish improvement plans in collaboration with the supplier in question.

Supplier categories with highest potential impact

The 10 categories with the highest risk of causing negative social or environmental impact were determined in 2015 as part of an assessment process across all our businesses. The categories are:

1. Assets under construction
2. Manning and crewing agencies
3. Security companies
4. Chemicals and paint
5. Cleaning and catering services
6. Docking and repairs
7. Warehousing and distribution
8. Promotional items
9. Logistics and transportation
10. Raw materials

Due to the shift to a high-risk focus, we are seeing more audits and assessments performed. Furthermore, more improvement plans were closed in 2016, compared to 2015, as a result of increased collaboration with suppliers. However, we are still experiencing some delays in closing the improvement plans, for two main reasons. First, some items in the plans relate to complex, systemic issues that we cannot expect our suppliers to solve on their own. A good example of this is keeping working hours within the norm set by legislation, where the limit corresponds poorly with the culture and wishes of the workers. Second, some improvements will take longer to implement than the duration of our contract with the supplier. For example, the implementation of a functioning system for working with subcontractors will often take longer than the timespan of our contracts.

Audits before contracts

Within the group of high-risk suppliers, the process for working with shipyards and suppliers of ship repairs differs from the others, as since 2015, a full audit and establishment of improvement plans are required prior to the signing of contracts.

Furthermore, our human rights due diligence process had pointed to the working conditions for migrant and subcontracted labour in shipyards and construction sites as an area where a more solid management approach needed to be established. See pages 24–27. Additional measures to improve and monitor conditions will be identified in 2017.

Why this matters to society

Purchasing decisions have the potential to create positive environmental, human and economic impacts or to maintain poor standards in the same areas.

Why this matters to A.P. Moller - Maersk

Operating as a responsible business partner contributes to mitigating the environmental and social risks in our supply chain as well as the financial and reputational risks, to protect our business.

Our ambitions

Ensure that we effectively mitigate the risk of incurring financial and reputational damages from our relationships with suppliers, as well as strengthening the resilience of our supply chain.

Our progress

Further implementation of the programme’s new focus on suppliers in high-risk categories.

50 audits performed by independent auditors or the Responsible Procurement team.

31 training workshops for buyers and HR staff.

Next steps

Continuous implementation of new programme focus on suppliers in high-risk categories.

Continuous audits at suppliers.

Continuous training of employees, such as category managers and auditors.
CALL FOR ENFORCEMENT OF ENVIRONMENTAL REGULATIONS

Increased regulation of the environmental impact of vessels is necessary, but uncertainty regarding technologies and enforcement regimes carries risks for shipowners and society.

Risks to our business and to society

A.P. Møller - Maersk complies with all applicable regulations related to emissions to air and ballast water. The primary financial risk to A.P. Møller - Maersk is not the regulation itself but ensuring a level playing field and enforcement measures. In the case of ballast water, the risk is investing in ballast water systems that may not be compliant with all future global regulations.

The challenge is that compliance comes at a substantial cost. Complying with the existing limits on SOx has added substantially to our fuel costs, and compliance with new global regulation will further add to this. Installing the necessary ballast water systems will cost A.P. Møller - Maersk in excess of 380 million USD.

A.P. Møller - Maersk participates and invests in measures to limit the negative environmental impacts of our activities. We work to ensure that the measures proposed hold the potential to achieve the desired improvements. This is important for our business and for people and the natural environment across the globe.

We support transparency and consequences associated with non-compliance, in order to incentivise all shipowners to comply and ensure a level playing field.

State of play for air emissions

A regional cap on the content of sulphur in fuel is already in place for current emission control areas, which include the Baltic Sea and the North Sea along with the English Channel, North American area and the United States Caribbean Sea area. As far as the available data shows, the number of cases of gross non-compliance inside these areas is very low across the industry.

The financial risk to A.P. Møller - Maersk is related to a global sulphur cap of 0.5%, which the IMO agreed in 2016 will become effective as of the 1st of January 2020. Ensuring the effectiveness of the global cap requires monitoring and enforcement on the open seas. We support this decision but remain concerned about the availability of enforcement mechanisms. This concern is also recognised by the IMO, whose members will begin to investigate options in early 2017.

Next steps

Actively advocate and contribute to the enforcement and compliance agenda for air emissions in the shipping and maritime community.

Why this matters to society

Air emissions related to ocean shipping have a substantial negative impact on human health. Invasive species can affect the natural environment negatively.

Our progress

Working groups on ballast water treatment and on SEJ established.

Our ambitions

Advocate for strong enforcement measures for the global sulphur cap.

Related Sustainable Development Goal

How to do business

Facts

The estimated cost of installing the necessary ballast water systems to comply with future regulations is in excess of USD 300m.

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ENSURING A CULTURE OF PREVENTION

Solid processes and continuous training mitigate the risk of major accidents occurring as part of our operations. Our businesses have comprehensive programmes in place that focus on the prevention of accidents.

Some industrial accidents are so large and have such a wide impact that they become household names. The Macondo accident, commonly known under the name “Deepwater Horizon”, where a fire, 11 fatalities, many injuries and massive oil spills, occurred in 2010. The Macondo accident, commonly known under the name “Deepwater Horizon”, where a fire, 11 fatalities, many injuries and massive oil spills, occurred in 2010. The oil was cleaned up by a local response team, no damage to natural resources was found and no legal implications were recorded.

The risk of a major accident is one of the most significant in our sustainability risk register. If such an incident were to occur, it could be related to the nature and location of our operations at high sea, in harsh weather conditions and with heavy duty and often complicated equipment and processes involved in carrying out the work.

The loss of life and damage to the environment are by far the worst consequences of a major incident. Seen through the lens of risks to our businesses, the loss of our license to operate would be extremely damaging as it would make us commercially unattractive.

To mitigate this risk, we work to prevent incidents such as blowouts in wells, fires, explosions, ship or rig collisions. Each of our businesses has comprehensive and detailed programmes in place for managing these risks, including containment and recovery plans if an accident or spill occurs.

On the 22nd of December 2016, two towed Maersk Supply Service vessels, Maersk Explorer and Maersk Moller, sank 60 miles off the coast of Florida. The towed vessels were unmanned. Investigations were still ongoing at the time of this report’s publication. Key conclusions will be communicated upon completion of the incident investigation.

Oil spills
In January 2016, strong winds in the Gulf of Mexico led to an explosion, resulting in fire. 11 fatalities, many injuries and massive oil spills, still hovers over the offshore oil and gas industries. It reminds us of the massive impact on human life, the natural environment, as well as corporate reputations and financial performance that just one such incident under our name.

Risk | Process safety

Prevention of oil spills
Based on analyses of trends in the past three years’ data, Maersk Line annually determines its priorities for oil spill prevention. In 2016, the focus was on replacing the traditional lubricants used in engines with biodegradable ones, which, if released, would be biodegradable and/or the natural environment. The switch was to occur on ships that came into dock for maintenance. The target was set in late February, with a seal of 80% of all tonnage by 2018, a target that was reached.

Towed vessels sunk
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Safe processes in the oil-related businesses
Due to the nature of the work involved and intense customer demands for the management of such risks, A.P. Moller - Maersk’s businesses in the energy sector have historically focused on process safety risks.

In recent years, Maersk Oil has reinvigorated process safety work, to build a learning organisation that is better equipped to address root causes discovered through incident investigations. In 2016, a framework for setting clear expectations for 20 elements of process safety management was launched. Further to that, a large part of the focus was on training. Thousands received training in a newly established set of eight life-saving rules and controls for safety.

Furthermore, 300 frontline technicians were assessed, resulting in certified vocational qualifications, including an improved understanding of the processes and risks involved in their day-to-day tasks and processes.

At Maersk Drilling, there is a constant focus on well control, which relates to every aspect of operating at depths of up to 3650 metres, and drilling wells more than 12,000 metres deep. Incidents are typically related to gas, oil, water flowing back into the drilling system and/or well fluids being released into the environment. Significant efforts are put into risk analysis and prevention, training in advanced simulators as well as the monitoring of performance. In 2016, 10 well control incidents were managed. Seven out of the ten recorded incidents were related to actual influx from formations. All incidents were handled according to established well control procedures and none of the incidents were critical.

Maersk Tankers focuses on high severity incidents such as major oil spills with prevention measures embedded in the construction of vessels, procedures, equipment and training of crews. Drills are conducted throughout the year in collaboration with oil spill response providers, customers, terminals and other stakeholders, the results of which are reviewed to ensure continuous improvement. Other collaborative efforts consist of the development of a risk modelling project with industry peers, and a loss preventative project in collaboration with insurers to understand and reduce collisions and groundings, whereby the risk of suffering a major oil spill will be reduced.

Transport & logistics businesses prevent losses
In the shipping-related businesses, the prevention of high-severity incidents is focused on preventing loss of lives, cargo and physical assets.

Maersk Line focuses its work in three main areas: fires in containers, nautical incidents (collisions or grounding) as well as maintenance and mechanical failures. As part of the safety strategy for 2015–2017, Maersk Line established a nautical excellence programme dealing with equipment usage, procedures, incident follow-up, knowledge sharing, training as well as audits, drills and exercises.

During 2016, Maersk Line, APM Terminals and Maersk Tankers collectively had a zero record of major spills that were of interest to society.

Why this matters to society
Accidents resulting from process safety failure have serious impacts on human health and/or the environment.

Why this matters to A.P. Moller - Maersk
Process safety prevents high impact – irrecoverable incidents – fires, major spills and explosions. The risk of human fatalities and injuries grows against our most fundamental values. Moreover, great damage to both reputation and the bottom line is the likely result of any such incident under our name.

Our ambitions
We want to operate an incident-free environment for both major spills and fatal accidents.

Our progress
1. No oil spills >10m³ across all our businesses in 2016.
10. Well control incidents.
INDEPENDENT ASSURANCE REPORT

To the Stakeholders of A.P. Møller - Mærsk A/S

We have undertaken a limited assurance engagement on the A.P. Møller - Mærsk A/S Sustainability Report 2016. A multidisciplinary team including assurance practitioners, engineers and other experts have conducted this engagement.

Management’s responsibility

Management Board is responsible for preparation of the 2016 A.P. Møller - Mærsk A/S Sustainability Report in accordance with Group accounting policies, which can be found at www.maersk.com/sustainability-report-2016-accounting-principles. This responsibility includes design, implementation and maintenance of internal control relevant to the preparation of the sustainability data ensuring that data are free from material misstatement, whether due to fraud or error.

A.P. Møller - Mærsk A/S’s accounting policies for the Sustainability Report contain the Management Board’s reasoning for the selection of topics and indicators as well as defined reporting scope for each data type.

Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

PwC applies International Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on data and information in the 2016 A.P. Møller - Mærsk A/S Sustainability Report based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000, “Assurance Engagements other than Audits or Reviews of Historical Financial Information”. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the consolidated social and environmental statement is free from material misstatement.

Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us not to believe that the 2016 A.P. Møller - Mærsk A/S Sustainability Report is free of material misstatements and that Group data are prepared, in all material respects, in accordance with the stated accounting policies as stated on www.maersk.com/sustainability-report-2016-accounting-principles.

Copenhagen, 8 February 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Mogens Nørgaard Mogensen
State Authorised Public Accountant

Gert Fisker Tomczyk
State Authorised Public Accountant
### Shared Value

**08–19**

- **Performance in shipping**
- **Inclusivity**
- **Economic growth through trade**

**09–33**

- **Our business**
- **Environmental regulations**
- **Performance data**

**34–43**

- **Environmental footprint**
- **Performance data**

**44–46**

- **Risk**
- **Ensuring the high-quality supplies**
- **Call for enforcement of environmental regulations**
- **Maintaining a sustainable footprint**

### Performance on Social, Environmental and Economic Indicators

<table>
<thead>
<tr>
<th>Category</th>
<th>APM Terminals</th>
<th>Maersk Line</th>
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</thead>
<tbody>
<tr>
<td>Financial</td>
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<td>20,715</td>
</tr>
<tr>
<td>Environmental</td>
<td>76</td>
<td>32</td>
</tr>
<tr>
<td>Social</td>
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<td>4</td>
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**About the report**

This report provides key data in the electronic calendar year plus an approach to reporting, in line with material issues and activities, in line with stakeholders' concerns and relevant to the business context, completeness and balance. We strive for optimal and sustainable transformations clarity and reliability in the way we communicate. This report also includes a statutory statement on social responsibility and an environmental policy in accordance with Danish law. In addition, we comply with the Global Reporting Initiative (GRI) and the Financial Statements Act.

All financial statements were prepared in accordance with the Generally Accepted Accounting Principles (GAAP). The GARP report includes non-financial key performance indicators. Financial data includes a significant impact on the forecast and financial statements as progress is not available in the public domain. Please visit http://www.maritime.com/sharedvalue/sustainability-report/ for further information.

**Source:**

- Performance data is sourced from the 2016 financial statements for the APM Terminals Group and Maersk Line.
- All values for APM Terminals and Maersk Line are for 2016, 2015 and 2014, respectively.
- The latest financial data is sourced from the audited financial statements for APM Terminals and Maersk Line.
- The annual accounts and independent auditors' report can be found at http://investor.maersk.com/annual-report-2016-accounting-principles.
We value your feedback

We welcome any questions, comments or suggestions you might have to this report and our performance. Please send your feedback to:

A.P. Moller - Maersk
Esplanaden 50
1098 Copenhagen K
Denmark
Att: T&L Sustainability

You can also send an email to:
sustainability@maersk.com

www.maersk.com/sustainability

Reporting

A.P. Moller - Maersk has tailored its external financial reporting specifically towards the needs of our different stakeholders with two annual publications.

The **Annual Report** focuses on the detailed legally required information, whereas the **A.P. Moller - Maersk Annual Magazine** focuses on providing an overview of key developments throughout the year. The publications can be read individually or combined depending on our stakeholders’ interests.


The **A.P. Moller - Maersk Annual Magazine** provides an overview of the operations and performance of A.P. Moller - Maersk in a concise and easy-to-read format. The publication is not a substitute for the Annual Report and does not contain all the information needed to give an full understanding of A.P. Moller - Maersk’s performance, financial position and future prospects as that provided by the Annual Report. The A.P. Moller - Maersk Annual Magazine is available in hard copy and in English and Danish at http://investor.maersk.com/financials.cfm.

A.P. Moller - Maersk also produces **Interim Reports** for each of the first three quarters of the year.

**Presentations** tailored to the interests of investors and the financial markets are also uploaded every quarter.

A.P. Moller - Maersk hosts a **Capital Markets Day** on a regular basis, which can be followed through a live webcast and the speakers’ presentation slides can be accessed via links.

**A.P. Moller - Maersk Annual Magazine** is available in hard copy and in English and Danish at http://investor.maersk.com/financials.cfm.

The **Interim Reports**, presentations and webcasts can be found on our Investor Relations website: http://investor.maersk.com/

The Board of Directors of A.P. Moller - Maersk A/S continues to consider the “Recommendations for Good Corporate Governance” put forward by NASDAQ OMX Copenhagen.

Further annual good corporate governance information is available in the statutory annual corporate governance statement; cf. 107, item b, of the Danish Financial Statements Act covering the financial period 1 January to 31 December.

An independently assured **Sustainability Report** is published and covers all of A.P. Moller - Maersk’s material sustainability issues.

The Sustainability website http://www.maersk.com/sustainability provides additional information on the UN Global Compact requirements describing how A.P. Moller - Maersk fulfills these (Maersk COP), as well as A.P. Moller - Maersk’s sustainability accounting principles.

The report contains forward looking statements on expectations regarding the achievements and performance of A.P. Moller - Maersk A/S and A.P. Moller - Maersk. Such statements are subject to risks and uncertainties, as various factors, many of which are beyond A.P. Moller - Maersk A/S and A.P. Moller - Maersk’s control, may cause actual results and development to differ materially from the expectations contained herein.