

A.P. MØLLER - MÆRSK A/S

SUSTAINABILITY REPORT 2016



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About the report

This report covers activities in the 2016 calendar year. Our approach to reporting is to focus on material issues and activities, in line with stakeholder concerns and relevance in terms of context, completeness and balance. We strive for optimal accuracy, timeliness, clarity and reliability in the way we communicate.

This report also represents our statutory statement on social responsibility & underrepresented gender in accordance with sections §99a & b of the Danish Financial Statements Act.

A.P. Moller - Maersk's Sustainability accounting principles can be downloaded here: www.maersk.com/sustainability-report-2016-accounting-principles

Previous years' data and our UN Global Compact Communications on Progress table is also available online. Please visit <http://www.maersk.com/en/the-maersk-group/sustainability/reports>



FOREWORD BY THE CEO

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 strategic aim is to create a stronger, more integrated container, logistics, and ports business. It is the intention that our oil and oil-related businesses will be separated from A.P. Møller - Mærsk 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 organising 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 gridlock 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 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 A.P. MOLLER - MAERSK

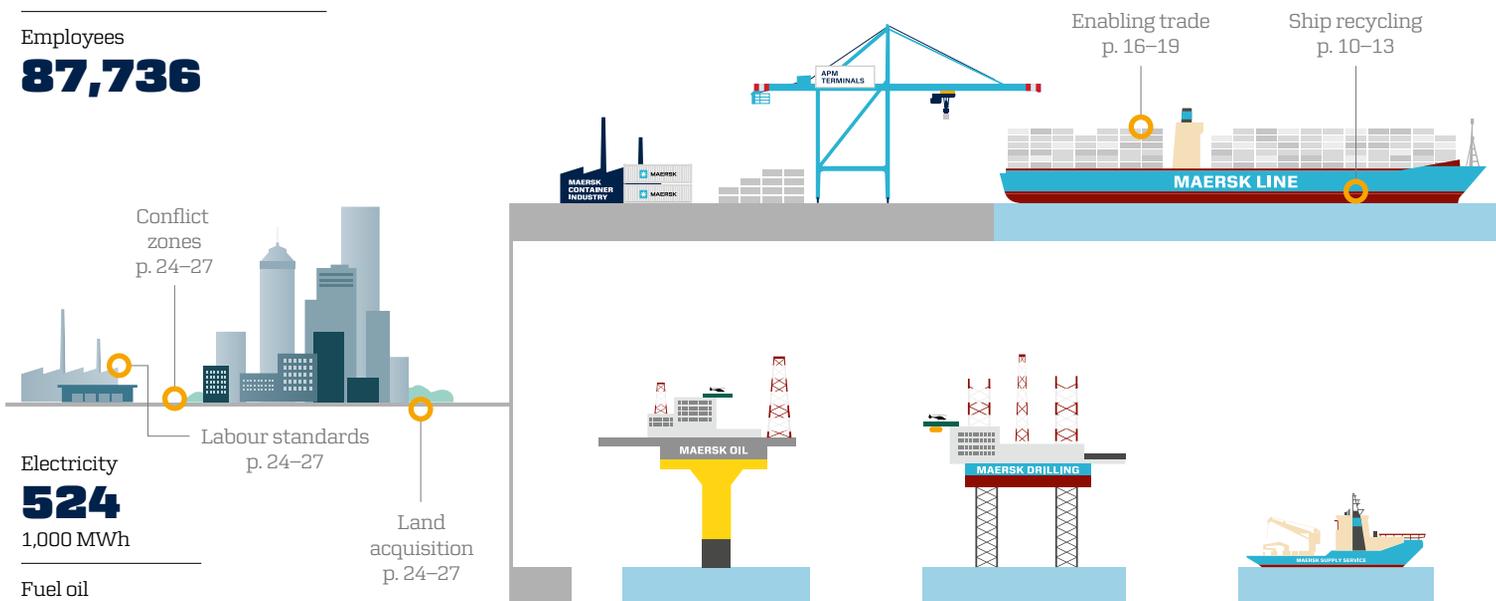
Invested capital
USD 42.8bn

Total assets
USD 61.1bn

Employees
87,736

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.

PARTNERSHIPS



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

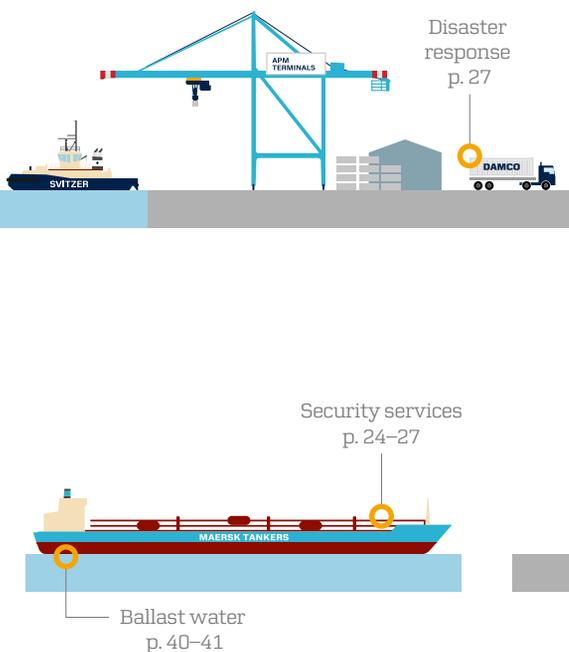
Fatalities
2
p. 22–23

GHG emissions
36,169
1,000 tonnes CO₂ eq.
p. 14–15

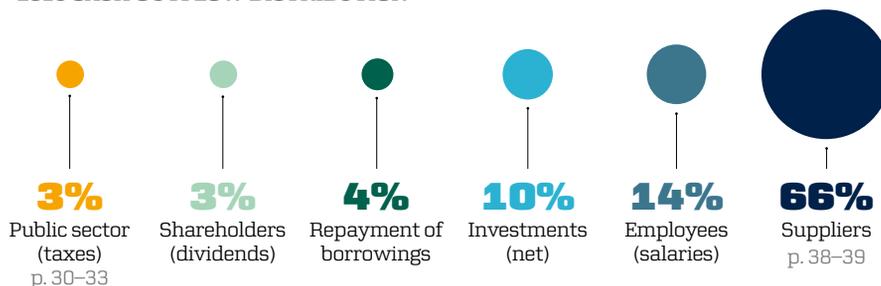
Relative CO₂ reduction
25%
CO₂ eq. 2010 baseline
p. 14–15

SO_x emissions
513
1,000 tonnes
p. 40–41

Oil spills
1
p. 42–43



2016 CASH OUTFLOW DISTRIBUTION



UN High-level Advisory Group
on Sustainable Transport



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 corners 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 Sustainability Strategy have taken effect.

This strategy focuses on unlocking growth for business and society, by leveraging our capabilities to deliver impact and drive change within energy efficiency, trade and education.

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

In the area of enabling trade, the work on our pilot projects has progressed faster than originally expected. See pages 16–19. We are already on the

threshold of mainstreaming and developing all of the projects to scale.

Sustainability decision-making

Following the re-organisation of A.P. Moller - Maersk 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.

A.P. Moller - Maersk's main governance and supervisory body on sustainability is the Sustainability Council, which operates on behalf of the Management Board. The Council is chaired by a Management Board member and has members representing the main businesses within the Transport & Logistics and Energy divisions.

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

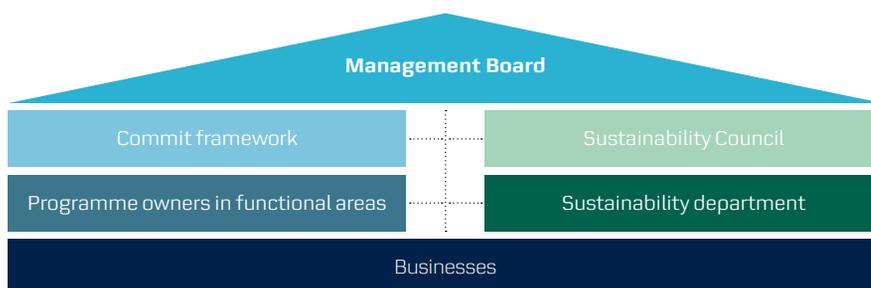
A.P. Moller - Maersk's governance system, Commit, aims to provide clarity and guide employees on how we work and achieve our main objectives. The key mandatory elements in the framework are:

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

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 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



Sustainability issues related to 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 corporate agenda more recently, or that are primarily managed through positioning and advocacy, 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 and positions 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 sustainability 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 dialogues 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



Governance of issues in 2016 – an overview

Issues	Guidance framework	Issue owner / department
Issues governed through the Commit Framework		
Safety	Rule on HSE Management Systems	Health and Safety Committee
Responsible tax	Rule on Tax Compliance and Tax Principles (currently under revision)	Tax
Anti-corruption	Rule on Anti-Corruption	Legal
Responsible procurement	Rule on Responsible Procurement	Procurement
Labour standards	Rule on Global Labour Relations	Human Resources
Issues governed by the Sustainability Council		
Air emissions	Position on SO _x	Maersk Maritime Technology
Ballast water	Position on Ballast Water	Maersk Maritime Technology
Ship recycling	Responsible Ship Recycling Standard	Sustainability
Climate change/CO ₂ emissions	Climate Change Position	Sustainability
Enabling trade	Sustainability Strategy	Sustainability
Human rights	Human Rights Action Plan	Sustainability
Issues governed by the HR Board		
Diversity & inclusion	Diversity & Inclusion Strategy	Human Resources

MATERIALITY BEYOND THE MATRIX

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 2012, and have since updated and published the materiality matrix on an annual basis. Our strategy and activities have evolved since then, but we have found in recent years that the insight provided by the materiality matrix has become somewhat static, not fully reflecting nor guiding our approach to managing material issues.

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 that expands our understanding of the issues involved and our criteria for prioritisation, as well as provides 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.



Top material issues in 2016 across the three dimensions of materiality

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.

ISSUES:

- Injuries and fatalities
- Labour rights in indirect hiring and of subcontracted workers
- Diversity & inclusion
- Tax practices & transparency
- Transport and other services to/from conflict zones
- Land acquisition and resettlement by linked third parties
- Disaster response
- Armed security services



Shared value

Where we, through our business, have the capacity to pursue 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:

- Disposal of vessels and rigs for recycling
- Reduction of CO₂ emissions
- Enabling trade

Risk

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

ISSUES:

- Major accident / Oil spill / Chemical spill
- Major non-compliance with corruption regulations
- Supplier non-compliance with Third Party Code of Conduct
- Uneven playing field in the enforcement of global SO_x regulations
- Investment in ballast water systems in an unclear regulatory environment

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 reframed, 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.

Continuous stakeholder engagement

Issue owners at A.P. Moller - Maersk continuously engage with relevant external stakeholders. Engagement occurs as part of daily work and in dedicated fora, of which A.P. Moller - Maersk or its businesses are members.

In addition to our ongoing engagement, in 2016, we invited representatives from six external stakeholder groups to our headquarters in Copenhagen for a roundtable discussion. On the agenda were six topics selected by us, as well as an open forum for additional stakeholder concerns.

The topics discussed were biodiversity, waste and marine litter, the transport sector and goods shipped, value chain responsibility and due diligence, responsible lobbying, and the positive and negative impacts of trade.

The participants included the UNEP World Conservation Monitoring Centre, WWF Denmark, IBIS-Oxfam, International Centre for Trade and Sustainable Development China, Action Aid Denmark, and Transparency International.

The outcome of the roundtable helped to inform our thinking and materiality assessment of the issues in question, and will inform part of the work to update our strategy in 2017.

Materiality input & assessment criteria

To accommodate our ambition and understanding of the three dimensions of materiality, we have developed a new process. We will further refine and develop this approach in the coming years.

	RESPONSIBILITY	SHARED VALUE	RISK
Inputs / considerations	<ul style="list-style-type: none"> UN Guiding Principles on Business and Human Rights Input from stakeholders UN Sustainable Development Goals External research 	<ul style="list-style-type: none"> Sustainability strategy Business strategy Input from stakeholders External research 	<ul style="list-style-type: none"> Risk assessment Input from stakeholders External research
Assessment criteria	<p>Does society expect us to contribute to managing the issue?</p> <p>Do our values require us to take action?</p> <p>Does A.P. Moller - Maersk have significant impact on an issue?</p>	<p>Is there a major societal need/challenge?</p> <p>Is A.P. Moller - Maersk able to deliver market solutions at scale through our existing business?</p> <p>Can we drive collective action for change within the industry?</p>	<p>Does it have a social or environmental impact?</p> <p>Does the issue present a significant financial or reputational risk to A.P. Moller - Maersk's ability to reach its business objectives?</p>



SHARED VALUE

– solving systemic challenges

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/or a broader coalition of stakeholders

This is the case for the following three issues: Ship recycling, reducing CO₂ emissions in shipping, and enabling trade.





BREAKING THE SHIP RECYCLING STALEMATE

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 supertankers, car ferries, container ships and ocean liners to Alang since the first ship-breaking yard opened here 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.

Controversies over working conditions, workers' living conditions, and the impact on the environment have been tied to Alang's yards. Yet, nearly half of the world's ship recycling takes place here.

We are committed to recycling our vessels in a responsible way when they reach end of life, ensuring workers' safety and rights as well as minimising the environmental impact. Our stakeholders expect this and it is in line with our values. We have a clear responsibility to respect human rights.

The UN's Hong Kong Convention, which was negotiated in the International Maritime Organization (IMO), sets global minimum standards for safety and environment. Seven years after it was adopted in 2009, it has still not been ratified by enough countries to come into force. Although the convention does not cover social issues and leaves ample room for interpretation, it is still important that the convention is ratified as an established minimum to work from.

A.P. Moller - Maersk also established a policy for the responsible recycling of ships in 2009, stating that we will only dismantle our vessels and rigs at yards that comply with a strict interpretation of the Hong Kong Convention and who are able and willing to upgrade to our standard within a short timeframe. Between 2009–2015 we recycled 40–50 vessels, the vast majority at facilities in Turkey and China.

On the beaches, nothing changes

The combination of surplus capacity in the container shipping market together with global demand for recycled steel will result in more vessels being sent for recycling in the coming years. This is true for A.P. Moller - Maersk and for ship owners across the globe.

Today, the majority of the world's vessels are sent for recycling where the highest possible price for the steel can be obtained. This is in shipyards on the beaches of India, Bangladesh and Pakistan, where low

Main achievements 2016

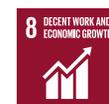
100%

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.

Related Sustainable Development Goals



standards in terms of environmental and workers' conditions mean lower costs. This enables these yards to offer better prices for the vessels than those offered by competing shipyards with higher standards.

The result is clear: In 2016, 87% of the world's ships were dismantled on these beaches, despite most large 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 shipyards nor the countries 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 sent 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.

What remains is the lack of progress in ship recycling practices, policies, and standards. This is the stalemate that A.P. Moller - Maersk decided that we will try to break. In 2015, we began exploring the creation of a third option to be added to the current practices: responsibly dismantling vessels in yards on a beach. Our investigations found that some yards in Alang had begun to upgrade their facilities to comply with the Hong Kong Convention.

How we work

From 2016, we have begun working with yards that have made these investments. However, our standard and effort goes beyond this. When we engage with a yard in Alang, we want to guarantee that the yard is not only equipped to work responsibly, but will actually implement the means and practices necessary to comply with A.P. Moller - Maersk's Responsible Ship Recycling Standard (RSRS). The RSRS implies:

- going beyond the Hong Kong Convention in relation to social and anti-corruption issues
- relying on a strict interpretation of the Hong Kong Convention in relation to health, safety and environmental issues
- Monitoring compliance by having people on the ground at the yard with a contractual right to stop the work if necessary

Making progress

At the end of 2016, two A.P. Moller - Maersk vessels had been sent to the Shree Ram yard in Alang. We are supervising the responsible recycling of these vessels. Our supervisors working at the yards assist in upgrading practices, processes and facilities in accordance with our standard. →

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 minimise the financial incentive for buyers to recycle our vessels irresponsibly. Three 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 off** the ship, but instead recycle it ourselves in accordance with our policy
- If the value is between **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 recycles it in accordance with our standards
- If the value is more than **40%** above the highest recycling price, there are no restrictions on the sale of the vessel, as there is **no financial incentive** for the buyer to recycle at that point in time



Why this matters to society

In spite of known and serious environmental and social challenges, such as underpayment of salaries, unsafe working conditions and serious environmental pollution, 87% of the total gross tonnage scrapped is sold to non-certified facilities in ship recycling yards on beaches in India, Pakistan and Bangladesh.



Why this matters to A.P. Moller - Maersk

We have a responsibility to ensure that the recycling of our vessels is done in a responsible way. It is also in our strategic interest that all vessels in the industry are being scrapped responsibly so that the existing advantage of low standard scrapping is eliminated from the market.



Our ambitions

To ensure the financially attractive and responsible recycling of our own vessels, and to play a proactive role in upgrading standards for all yards in the Alang area with a view to develop the entire shipbreaking industry.



Our progress

The first two A.P. Moller - Maersk vessels are undergoing responsible ship recycling in Alang, India.

All workers have contracts, are trained in safety, and paid minimum wage plus 200% overtime.

Significantly upgraded housing for all employees.

All blocks are cut to fall inside the vessel (except the bow and stern).



Next steps

Upgrade more yards in India to meet A.P. Moller - Maersk's standard.

Ensure greater international transparency on shipbreaking policies and practices.

Initiate actions for the improvement of the greater Alang area.

Since sending vessels to the Shree Ram yard in Alang for the first time in May 2016, we have seen significant progress in several areas:

- 70% of the workers have received intensive training and instructions from the LR Group in the UK and India and other qualified training organisations. The remaining 30% of the workers, who perform less dangerous tasks, have also received training targeted at their tasks
- As opposed to practices used elsewhere in the area, the class-approved ship recycling plan and dismantling sequence for the yard means that the entire vessel, except the bow and stern, is dismantled on a surface where there is no contact between ship parts and sand or water
- Appropriate personal protective equipment is available and required
- All workers are paid the minimum wage plus 200% in overtime payment and they have a contract – neither of which is the practice of the industry in the area
- 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 understudied 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 is 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.”

M. D. Arif
— Worker at Shree Ram
for the past year

Watchdog criticism of our actions

A.P. Moller - Maersk’s decision to engage with yards on the beach in Alang has been criticised by some NGOs from the time of its announcement.

The core criticisms raised in 2016 were:

- 1 When engaging with shipyards in Alang, we were allowing and paying for practices that were dangerous to people and harmful to the environment. Some of the practices critics claimed to have revealed were resolved by the improvement plans agreed between A.P. Moller - Maersk and Shree Ram. Please read the full text in this chapter for our response to these allegations
- 2 On two occasions, vessels and rigs previously owned by A.P. Moller - Maersk businesses were dismantled on the beaches of Bangladesh. This was the case for:
 - The North Sea Producer, a floating production, storage and offloading unit formerly owned by A.P. Moller - Maersk FPSOs and since owned and operated by a joint venture, of which Maersk owned 50%. The ship was sold for redeployment and

transferred to a buyer in April 2016. The contract stipulated that if redeployment was not possible, the unit was to be dismantled responsibly. Yet, in August 2016, we were made aware of the fact that the North Sea Producer had been sent to a recycling yard in Bangladesh. We are extremely disappointed with the outcome of this process, and have therefore terminated all commercial relations with the buyer

- The contract on 14 chartered container ships known as Starflotte was terminated ahead of time. An agreement was negotiated with the owners of the 14 vessels regarding the termination of the contract and recycling of the ships in return for compensation. The termination of the agreement indirectly incentivised the owners to recycle at sub-standard yards in 2013. We recognise that in this case we regrettably did not live up to the intention of our recycling policy. To avoid this going forward, we have added a new requirement to our ship recycling policy to minimise the financial incentive for buyers to recycle our vessels irresponsibly. See sidebar on page 11



Timeline for A.P. Moller - Maersk in Alang, India 2015–2016

MARCH 2015

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

FEBRUARY 2016

The internal Responsible Ship Recycling Standard (RSRS), which goes beyond the standards set by the Hong Kong convention, is published

Independent audits of the four ship recycling facilities are carried out

A press release is issued regarding the intention to send vessels to Alang for recycling. The only way to make a difference for the industry is by engaging with vessels on the ground

SEPTEMBER 2016

Three additional facilities undergo successful audits by ClassNK in accordance with the Hong Kong Convention

DECEMBER 2016

The number of gaps at the Shree Ram is down to eleven, ahead of schedule
Contracts for the recycling of eight ships are awarded to Shree Ram and Y.S.
Investments in Alang, India and Jiangyin Xiagang Changjiang Ship Recycling in China

Another 18 facilities have begun talks with ClassNK to upgrade their yards

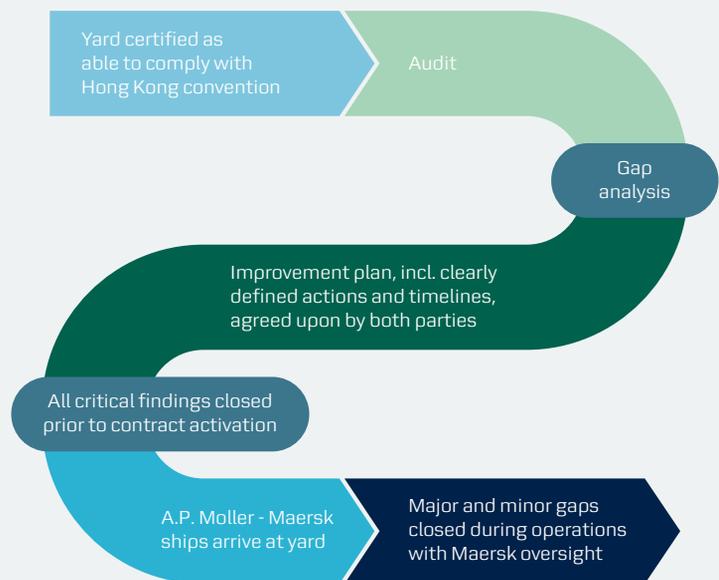
- DECEMBER 2015**
Four ship recycling facilities in Alang receive certification by Class NK documenting that their standards meet the Hong Kong convention
- MARCH 2016**
Commercial negotiations with the four ship recycling facilities have been entered. Shree Ram plot number 78 is selected
Of 229 elements, 79 gaps are found. An improvement plan is outlined to rectify findings
- MAY-JUNE 2016**
Maersk Wyoming and Maersk Georgia land on plot number 78
- 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 recyclers agreed to the A.P. Moller - Maersk Responsible Ship Recycling Standard (RSRS) as a prerequisite to enter the tender

The A.P. Moller - Maersk standard for responsible recycling

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.

For a yard to receive business from A.P. Moller - Maersk, it must comply with the Hong Kong Convention as certified by an authoritative third party organisation from the onset. An audit of the facility is subsequently conducted including a gap analysis leading to an improvement plan with clearly defined actions and timelines. After the improvement plan is agreed upon, Maersk ships can be recycled at the yard. All critical requirements must be closed prior to activating the contract, whereas major and minor gaps can be closed during operations. This is in line with standard practice in responsible procurement programmes.

Finally, our practice means that we do not rely solely on statements of compliance and audits, but are represented at the yard to monitor activities directly throughout the dismantling process.



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 producing 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 for relative CO₂ reductions is 30% by 2020 across all businesses. The relative reduction for 2016 was 25%, compared to the 2010 baseline.

84% of our total CO₂ emissions derive from Maersk Line's activities. We are a leading player in the ocean shipping industry and we invest the majority of our efforts in impacting CO₂ reductions in this area. Maersk Line has a reduction target of

60% per container moved by 2020, compared to 2007. In 2016, reductions in CO₂ emissions per TEU per km leveled 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 price 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 volume 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

Related Sustainable Development Goals



Why this matters to society

More severe weather events, higher death rates among humans, higher extinction rates for animals, more acidic oceans 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 operated in the long term.



Our ambitions

Relative CO₂ reduction target of **30%** in 2020 compared to 2010 for A.P. Moller - Maersk.

60% reduction in CO₂ per container moved by 2020 compared to 2007 for Maersk Line.



Our progress

25% relative CO₂ reduction for A.P. Moller - Maersk since 2010.

42% relative CO₂ reduction for Maersk Line since 2007.



Next steps

Review activities and future plans in light of the new company structure and new sustainability strategy.

Sustain public engagement in the area of global regulation of CO₂ emissions from shipping.

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 subject. In October 2016, 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.

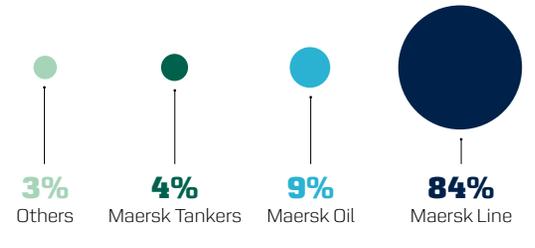
The next important milestone is to ensure that the preliminary strategy for reductions projected to be finalised in 2018 is ambitious and with real content. We would like to see it include a long term CO₂ reduction trajectory for shipping that establishes a peak year for emissions as well as outlines 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 multi-annual sustainability partnerships where Maersk Line commits to a CO₂ target specifically tailored to the business of the

Share of total CO₂ eq. emissions

Maersk Line's CO₂ emissions constitute the vast majority of A.P. Moller - Maersk's total emissions.



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 the Carbon 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. Currently, Maersk Line has established partnerships with 12 customers.

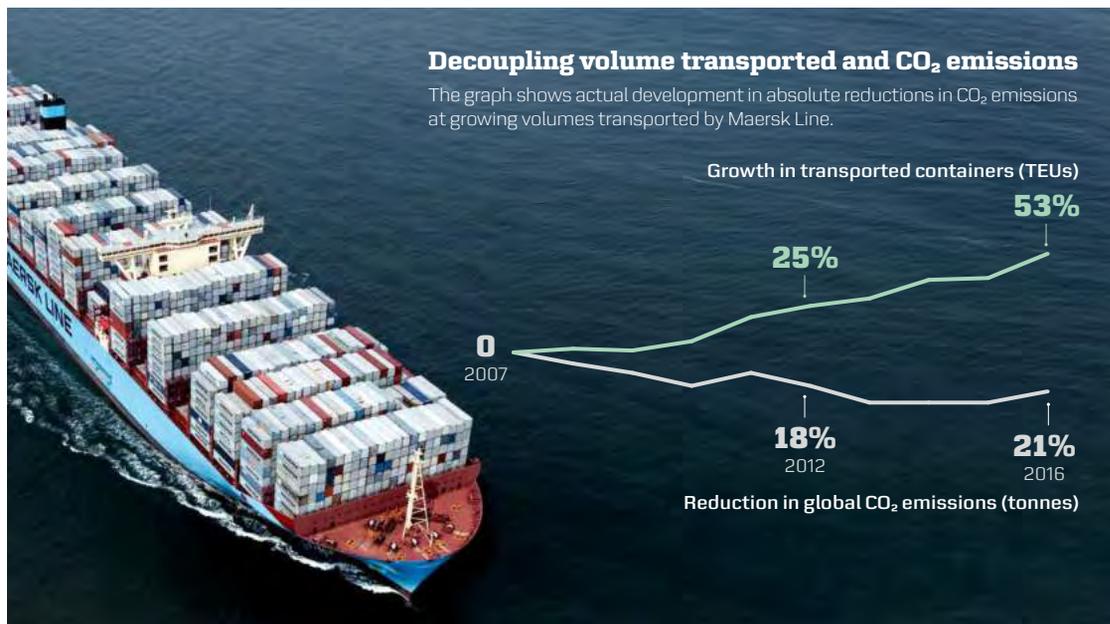
Learning from each other: Energy efficiency at Maersk Drilling

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 metres 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 work practices.

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 sixth on the clients' 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.



Partners



Caring for Climate





INCLUSIVE GROWTH THROUGH TRADE

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

providing global logistics services to companies large and small, we have first-hand knowledge of the challenges developing economies face when integrating into the global economy through trade. In the area of trade, our name carries weight and 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 pilot 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 →

Related Sustainable Development Goals



Why this matters to society

Alleviating barriers to trade will provide an estimated growth potential of USD one trillion¹, 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 that 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

Review of activities and future plans in light of the new company structure and new sustainability strategy.

¹ "Payoff from the World Trade Agenda 2013", Peterson Institute for International Economics, 2013



Overview of enabling trade pilot projects

TRANSPORT AND LOGISTICS INFORMATION PIPELINE	
<p>Objective and partner(s) 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.</p>	<p>Future plans Development of the tool ready for distribution and implementation at scale. Promotion of the tool as a global documentation standard.</p>
<p>Progress 2016 The project left the pilot phase, and a scalable IT-solution is being prepared in collaboration with IBM. Large-scale testing is under way in Kenya, and new international partners have been brought on board.</p>	<p>Potential impact Significant decrease in time to market and reduced costs of trade with potential for increased export revenue for local firms</p>

CONNECT-AMERICAS	
<p>Objective and partner(s) Empowering small/medium-sized enterprises (SMEs) in the Americas to trade through a digital platform for information sharing and training on trade regulation, processes and opportunities. The platform is owned by the Inter-American Development Bank who partnered with A.P. Moller - Maersk and with Google, Alibaba, DHL and Visa.</p>	<p>Future plans Deep integration of the platform with Maersk Sealand (the Maersk Line intra-Americas shipping line) customer network. This will bring in more users and expand the reach and impact of the platform, while at the same time supporting and delivering added value to Sealand customers.</p>
<p>Progress 2016 An online training programme and a cost estimator will be rolled out in Colombia and Mexico in early 2017.</p>	<p>Potential impact Higher economic growth distributed to more people through increased participation of SMEs in cross-border trade in the Americas.</p>

BITUNG – FROM OUT-PORT TO MODEL PORT	
<p>Objective and partner(s) Collaboration with the Government of Indonesia to realise the economic potential of Bitung and develop the area into a model port for possible replication. Focus on reducing supply chain obstacles using tuna and coconut as test commodities.</p>	<p>Future plans Continue dialogue with the Indonesian government on initiatives to regenerate fishing activities in the Bitung area. Trading in more commodities and higher-value products to increase job creation.</p>
<p>Progress 2016 The partnership succeeded in its efforts to reduce barriers to trade by making the processing of trade documentation available locally, negotiating for new fishing licenses, introducing new processing technologies that increase the value and export opportunities for coconuts, construction of a new container yard at the Bitung port and launch of new shipping service by Maersk Line partner Multiline.</p>	<p>Potential impact Creation of jobs and new avenues of income to enable growth in Eastern Indonesia, which suffers from decade-long under-development. There has been a 30% increase in trade from Bitung in 2016.</p>

FROMTU – ONE-STOP SHOP MAKING TRADE SIMPLE	
<p>Objective and partner(s) 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. A.P. Moller - Maersk leads and is the main investor in this project, working with the Inter-American Development Bank and USAid, which provided initial research funding.</p>	<p>Future plans Continue development and finalise platform with launch planned for 2017 in selected markets, beginning in East Africa.</p>
<p>Progress 2016 The project progressed through user and market research and technical development of the platform. At the same time, the organisational setup took form and dialogues with potential partners were initiated.</p>	<p>Potential impact Fromtu will provide African producers and traders with the tools to grow their networks, businesses and knowledge – especially within the SME segment. The platform will simplify the trading journey for buyers and sellers, thereby contributing to global development and prosperity by breaking trade barriers.</p>

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 authorities².

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 benefit³. Earlier studies have

projected a potential 1 trillion USD addition to gross domestic product globally⁴.

A.P. Moller - Maersk is on the steering committee of the WTO Global Alliance for Trade Facilitation (the Alliance), established in 2015. It combines public development funds with corporate expertise in trade to implement trade facilitation reform and further 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 on 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 field ripe 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

Partners



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 Organization, 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 with 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 years⁵.

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 and knowledge transfer, expansion of markets, supporting peace and stability – and

downsides, such as job losses in the home countries of the companies that move production offshore, and potential adverse impacts on labour rights and environmental issues. What is becoming more apparent is that globalisation and free trade does not benefit everyone equally, and some people not at all.

Government initiatives needed

"Whether the sum total of benefits and downsides of trade is positive depends not solely on trade itself. Sustainable development also requires education, infrastructure and more," said Wallace S. Cheng.

This sentiment is echoed by Chad P. Bown, a trade expert at the Peterson Institute for International Economics in Washington, who in an interview with the New York Times concluded that while we need to have trade agreements, "...we do need to be cognisant that there are going to be losers, and we need to have policies to help them."

It is A.P. Moller - Maersk's understanding that globalisation can only begin to work for everyone if national governments and international fora take this challenge upon themselves.

Wallace S. Cheng also commented on the role that A.P. Moller - Maersk can play:

"You can show the nuances of trade impacts. You can use your business activities to ensure diffusion of 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."

"You can show the nuances of trade impacts. You can use your business activities to ensure diffusion of 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

² The agreement has not been ratified by the required number of countries, and has thus not entered into force.

³ OECD Trade Facilitation Indicators, 2015

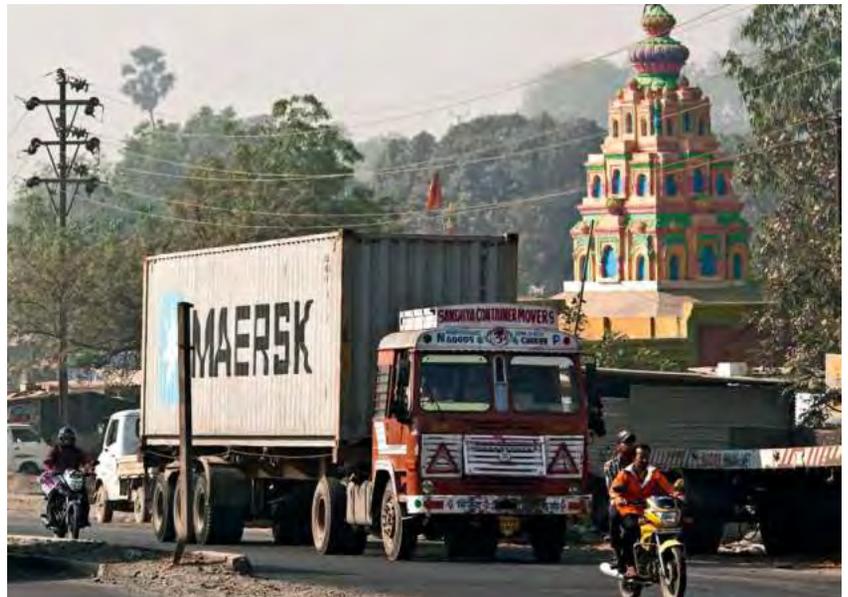
⁴ "Payoff from the World Trade Agenda 2013", Peterson Institute for International Economics, 2013

⁵ Harvard Business Review, October 2016

“Businesses and entrepreneurs in many developing and emerging economies are being constrained from the global marketplace due to costly and inefficient border processes. Governments must consider trade facilitation reforms as a strategic priority to make trade work for all.”

Philippe Isler
— Director of the Global Alliance
for Trade Facilitation

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 minimise spoilage.



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 in reducing 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.



The technical background study was conducted by QBis Consulting

RESPONSIBILITY

– managing our potential impacts on society

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.







OUR COMMITMENT TO PERSONAL SAFETY

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 associated with 90% of fatal injuries that occur in terminal operations. These are: transportation (the movement of containers or cargo within the terminal yard); suspended loads and lifting; stored energy

(electricity); working at heights; and control of contractors who enter the terminal.

Safety performance across our businesses

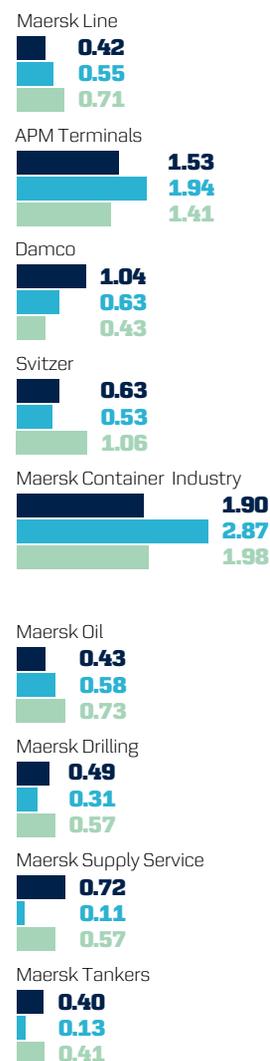
The 2016 data on lost-time injury frequency (LTIf) indicates that some of our businesses improved their safety performance, while others showed increases in frequency. There are two reasons for the latter. At Damco, increased safety awareness has led to increased reporting of incidents. For other businesses, LTIf has increased as a result of a decrease in exposure hours, combined with fluctuations in already low numbers of lost-time injuries (LTIs). LTIf is calculated as a function of LTIs relative to exposure hours.

Maersk Line achieved an LTIf reduction of 24% through dedicated focus on leadership and engagement. Maersk Container Industry saw a substantial turnaround in safety performance. 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 LTIf trend through initiatives such as the roll-out of the Front-Line Leadership Program and Control of Work. APM Terminals reduced LTIf 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, process and facility lay-out. In addition, more than 100,000 truck

Safety performance

Lost-time injury frequency per business
 ■ 2016 ■ 2015 ■ 2014



Fatalities 2016

Business	Location	Description	Employed by
APM Terminals	Mexico City, Mexico	Security guard died as a result of fall through hatch on security tower	Contractor
APM Terminals	Onne, Nigeria	Electrician died as a result of electrocution when connecting cables	APM Terminals

drivers per year receive safety awareness training. Good progress was made towards APM Terminals' aspirations to have all truck drivers entering the company's facilities 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 quiz for Svitzer; 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, operating in zones 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 security 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 Line experienced three hijacking attempts off the coast of Nigeria in 2016, all of which were averted. Safmarine Kuramo was attacked on the 5th of February, Maersk Cotonou on the 19th 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.

How we follow up on a fatality

When the security guard fell from a security tower at Cuautitlán, an inland services facility in Mexico in April 2016, review procedures were set in motion.

In keeping with APM Terminals' fatality protocol, the site was locked off and a specialist from the corporate safety function joined local management and safety staff to lead the investigation. This and further investigation by the Health and Safety Committee showed that the identification of all hazards was not complete, and that the facility's safety system did not cover all non-core activities. Also, the security guard was employed by a contractor with whom there was no formal contractual agreement, and no induction or job training had been performed.

Both towers on the site were locked off immediately, and corrective measures were put in place: Among these were: initiatives ensuring that safe systems of work are in place for non-core tasks; verification of safe systems of work from contractors prior to the commencement of work; improved follow up on near-miss incidents; improvements in training and safety induction; and improvement contractual elements. A learning pack and corrective actions were shared across the globe. Such actions are mandatory and must be implemented by all other facilities. A follow-up review was carried out six months after the incident to verify that all remedial/corrective actions have been implemented at the site.

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.



We all have the responsibility.

If you see a risk, you own it.



We all have the authority.

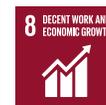
Stop any unsafe action or operation.



We all have an obligation.

Look out for each other.

Related Sustainable Development Goal



Why this matters to society

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



Why this matters to A.P. Moller - Maersk

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



Our ambitions

Zero fatalities.



Our progress

Two fatal accidents. Improvements in injury frequency at some of our businesses.



Next steps

Continue to drive improvements in safety performance across our organisation. Focus on personal safety leadership. Drive collaboration and sharing.

UNDERSTANDING HUMAN RIGHTS – IMPACTS AND ACTIONS

With global activities and a presence in 130 countries around the world, A.P. Moller - Maersk will inevitably be confronted with human rights issues. When do we have a responsibility to act?

Connection to human rights impacts

Our assessment of our responsibility for sustainability issues is based on the United Nations Guiding Principles on Business and Human Rights (UNGPs). These principles are recognised by A.P. Moller - Maersk, the private sector, NGOs and governments alike.

Through our own activities, and those of our business associates, we can either cause, contribute or be linked to potential adverse impact on one or more human rights. The nature of a given relationship helps define our responsibility to act.

For example, A.P. Moller - Maersk would have the potential to cause negative impact on human health, had we not had programmes in place to ensure the safety of our employees. Here, we have influence as well as a clear responsibility to act. At the other end of the scale, our global presence in shipping could potentially lead to us being linked to the adverse human rights impacts of goods transported by

us. In these cases, however, our ability to influence the impacts is limited and we have a different responsibility.

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 25. This resulted in the identification of 34 issues, which were consolidated into the following areas:

- Assets under construction (including ship yards 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

Complying with The UK Modern Slavery Act

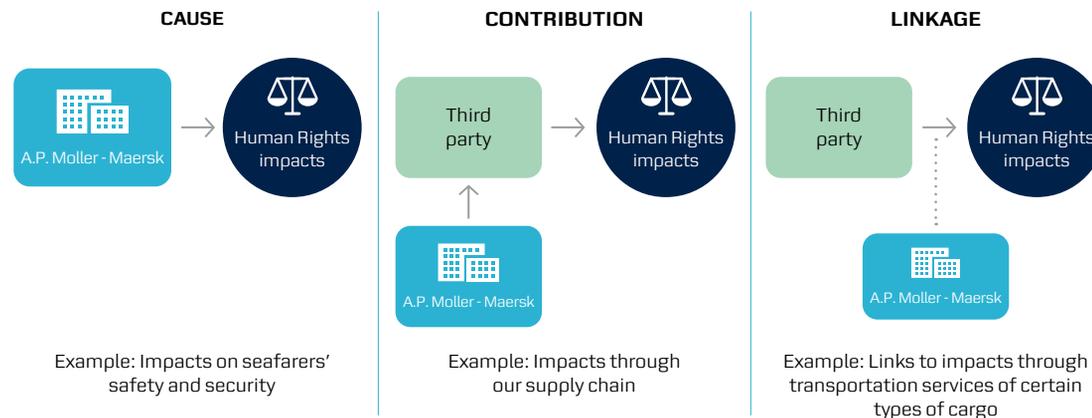
The UK Modern Slavery Act requires commercial organisations with a certain level of income to prepare a slavery and human trafficking statement every financial year.

17

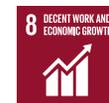
A.P. Moller - Maersk business entities were required to publish a statement describing our policies and procedures that mitigate the risk of slavery and human trafficking taking place in any of its supply chains and in any part of its own business.

See <http://www.maersk.com/en/the-maersk-group/sustainability/human-rights>

Three ways A.P. Moller - Maersk may be involved with human rights impacts

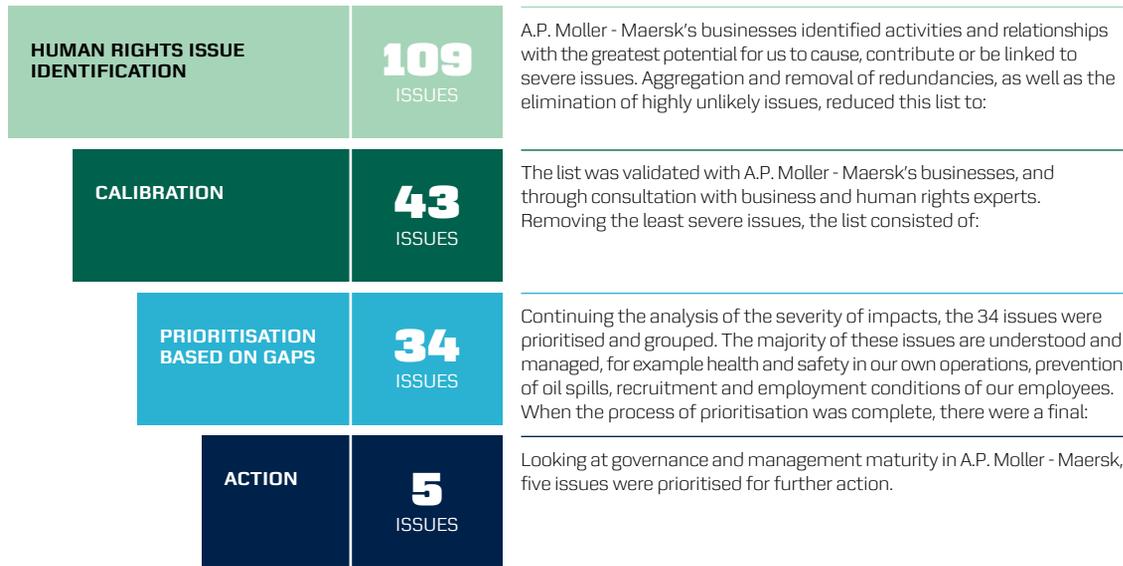


Related Sustainable Development Goal



Due diligence process

The due diligence process was carried out with support and input from the Danish Institute for Human Rights. The majority of the 109 issues identified are already being managed. The five action issues singled out for further action are issues that are complex and require stakeholder collaboration in order to mitigate the risk of negative impacts.



- Labour relations
- Displacement and resettlement in relation to investments in large infrastructure development
- Lobbying and government affairs

The majority of these issues are already understood and managed, for example health and safety in our own operations, management of oil spills, recruitment and employment conditions of our employees. Other issues are complex, and efforts and activities to mitigate the risk of negative impacts on human rights will require collaboration with business partners and other stakeholders. Five such issues were singled out for further action with a view to closing the gaps in their management. See overview on page 26.

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 →

Subcontractors in Indonesia

A Damco warehouse in Indonesia hired third-party workers through a local contractor between 2012–2016. A government investigation showed that the workers were not paid the minimum wage or provided with mandatory social security. In the end, Damco discontinued 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. CCC is a global NGO focusing on the garment industry, and suggested that we look to best practices from this sector for inspiration.



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.



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.



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 5 priority issues.



Next steps

Strengthen 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 chain are one of the five 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 work stoppages. 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 relations¹. Furthermore, labour relations were made part of APM Terminals' operating plans for 2016, whereby 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 properties, child labour, human trafficking and forced labour.

Human rights priority issues: Closing the gaps

ASSETS UNDER CONSTRUCTION	INDIRECT HIRING AND RECRUITMENT	TRANSPORTATION AND SERVICES TO/FROM CONFLICT ZONES	USE OF SECURITY SERVICES IN HIGH RISK SETTINGS	ECONOMIC DISPLACEMENT AND RESETTLEMENT
<p>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 types of human rights abuses. A gap in our governance of supplier relationships needs to be closed.</p> <p>2016 activities & results Subcontractor 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.</p>	<p>At stake Recruiting workers and crew through third parties (hiring and employment agencies, local agents or partners), can link A.P. Moller - Maersk to negative human rights impacts if the third party involved does not provide adequate conditions and terms for the workers, for example paying minimum wage, allowing for freedom of organisation or offering social services. A gap in the governance of these relationships needs to be closed.</p> <p>2016 activities & results A.P. Moller - Maersk's Global Labour Relations Programme has conducted further analysis of the issue and will be launching awareness campaigns and training in 2017. Our responsible procurement programme has also initiated training activities in this area. See section in this chapter on labour rights.</p>	<p>At stake Our global presence means we are vulnerable to being used for improper 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.</p> <p>2016 activities & results Maersk Line assessed screening options within three high-risk categories: the transportation of arms, certain chemicals and optics. We found that where cargo descriptions alone serve as identifiers are those that are already subject to regulatory controls. For other commodities, the level of information available to an ocean carrier is not sufficient to make a meaningful evaluation. Maersk Tankers is exploring its role and responsibilities in potential human rights impacts through the provision of transportation services.</p>	<p>At stake As part of A.P. Moller - Maersk's business activities, we may use security services to protect assets and people involved in transport and storage in high risk and conflict settings. Deployment of security services serves as a protection, but may also have adverse impacts on human rights such as violence, coercion or detaining people against their will, if not executed properly. We need to build a shared approach and criteria for managing these relationships.</p> <p>2016 activities & results An A.P. Moller - Maersk standard on the use and hiring of armed security services was developed in 2016, with implementation and governance design to take place in 2017.</p>	<p>At stake A.P. Moller - Maersk may be linked to adverse human rights impacts in connection with the development of port terminals or onshore oil activities, where land acquisitions and resettlement are necessary. These processes could lead to people being deprived of their property without access to a fair and public hearing. Processes to ensure that our activities do not have such negative impacts should be put in place.</p> <p>2016 activities & results Maersk Oil recently began involvement in operations onshore. As part of this change, an action plan on how to mitigate human rights risks related to land acquisition was prepared.</p>

¹ APM Terminals operates 72 terminals and 140 inland service centres. Only entities with full or majority ownership and of a certain size were in scope for this project.

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, enhanced implementation of already existing conventions, as well as more regulation of goods or tradelanes.

One example of collaboration is the United for Wildlife Transport Taskforce, of which Maersk Line is a member. In 2016, signatories from 40 airlines, shipping firms, port operators, customs agencies, intergovernmental organisations and conservation charities agreed to adopt a zero-tolerance policy against illegal wildlife trade. Mechanisms and systems for implementing this decision are under development.

1 Is the cargo and transport regulated?

For instance, is trade in the product transported regulated? Is the country sending or receiving the cargo under sanction? Is the sender or recipient on a recognised watchlist? If so, Maersk Line applies screening processes that enable us to control the cargo, as is the case with weapon shipments, for example.

2 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.

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

With no established definitions of which products would be in this category, the basis for possible action is far too weak.



Responding to disaster

On the 4th of October 2016, Hurricane Matthew struck Haiti. Over 140,000 were 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 toolkits, vehicles, mosquito nets, and other relief items, as well as lending of forklifts, operators and other services so that local operations could run more efficiently.



Pictured: Humanitarian relief arriving in Haiti

REMOVING BARRIERS TO INCLUSION

Everybody working for A.P. Moller - 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. Moller - 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. Moller - 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.¹

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 strategies is awareness and strategies for circumvention of unconscious bias. Examples of bias are an unconscious preference 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 72 global leaders and their executive teams on tools to promote and be accountable for inclusion. Progress continues to be tracked through quarterly diversity dashboards and employee engagement survey responses.

Related Sustainable Development Goals



Why this matters to society

Enabling 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. Moller - 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. Move from diversity to a focus on inclusion by building a culture where diversity of thought is valued and leveraged to build organizational success.

¹ "Why diversity matters", Vivian Hunt, Dennis Layton, and Sara Prince, McKinsey, 2015

Global maternity and return to work-policy launched

To increase the retention of women following childbirth or child adoption, A.P. Moller - Maersk implemented the Global Maternity Leave and Return to Work programmes in April 2016, 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. Moller - Maersk this rate was approximately 70% in 2014. Of the 30% 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 onshore 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. Moller - 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 U.S. 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 a full 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. Moller - Maersk's paid parental leave policy.

"It is 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 child 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: "Had I only had 12 weeks leave and very little flexibility at work, I might have had to contemplate not going back to work. I know from friends how difficult it can be to make it work."

Pictured: Kalisha Brooks and her son



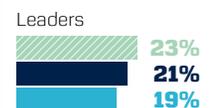
Targets and performance on diversity and inclusion

▨ Target 2019 ▨ Target 2018
 ■ 2016 ■ 2015

Representation of women in leadership positions



Representation of non-high income OECD nationalities in leadership positions



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.

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 unintentional 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 regulation, most prominently:

- Danish law now requires disclosure of tax payments on a country-by-country basis in the annual report of businesses in the extractive industries. Maersk Oil discloses such data for the 2016 financial year. See <http://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 rules for tax reporting, as well as for 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.

A.P. Moller - Maersk tax principles

Living up to our tax principles requires:

- Identifying applicable tax laws and regulations, ensuring compliance with local requirements and practices, and disclosure of all relevant facts
- Adopting a justifiable and defensible tax position where the tax regulations allow for different interpretations or choices
- Ensuring that a technical assessment is made and where appropriate, obtaining an external opinion for all major transactions where a tax position must be adopted. A.P. Moller - Maersk will only adopt a tax position if we are prepared to defend it in the appropriate tribunals or courts

Total tax charge

(USD million)	2014	2015	2016
Result before tax	5,311	1,447	-843
Total tax charge	2,972	522	1,054
Tax as percentage of profit before tax	56%	36%	n/a*

* Despite the consolidated negative result before tax, taxes are still payable in various countries as a result of local profits, ring fencing of oil profits, timing differences in adjustments and fixed tonnage-based taxes, which also limits the deduction of carry forward operational losses. Tax charge is the total profit and loss tax.

We follow and participate in the developments in international and national tax legislation by liaising with tax authorities, academics and advisors, e.g. via the International Fiscal Association, the Tax Commission of the International Chamber of Commerce and the EU Joint Transfer Pricing Forum. A.P. Moller - Maersk also contributes to the work of the UN Committee of Experts on the international taxation of shipping.

In Denmark, A.P. Moller - Maersk participates in "The Tax Dialogues", organised by the NGO Oxfam IBIS, together with other companies, ActionAid, investors and academics to develop a shared understanding on tax, transparency and responsibility. In 2016, this included participation in the Conference on Responsible Tax and Global Competition, attended by more than 100 participants at our headquarters.

Our businesses and how they are taxed



MAERSK LINE

Maersk Line owns or charters over 700 vessels and three million containers. It operates offices in approximately 112 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 shipowning companies according to regular corporate tax regimes or industry-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 20m

DAMCO

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

Total tax charge in 2016: USD 24m

APM TERMINALS

A.P. Moller - Maersk's terminal business consists of 72 operating port and terminal facilities and 140 Inland Services operations in 69 countries. The terminals are taxed on their activities in the countries in which they are located at the corporate tax rates applied there.

Total tax charge in 2016: USD 149m

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 6m

MAERSK CONTAINER INDUSTRY

Maersk Container Industry develops and manufactures refrigerated and dry containers, and the Star Cool refrigeration machine. MCI has R&D 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 8m

MAERSK OIL

Maersk Oil has production in Qatar, the UK, Algeria, Denmark, Kazakhstan, and the USA and Iraqi Kurdistan.

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 25% corporate tax rate, with a hydrocarbon surcharge. Profits are taxed at total of around 64%. In the UK, the regular corporate tax is supplemented by a hydrocarbon surcharge of 10%, 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 931m
– See the §99c table online at <http://investor.maersk.com/financials.cfm>

MAERSK TANKERS

Maersk Tankers has shipowning 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 2m

MAERSK DRILLING

Maersk Drilling owns and operates 24 rigs.

A shore-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 shore-based companies pay the rig owner (Maersk Drilling Denmark or Singapore) for rent of the rig. In Denmark, Maersk Drilling pays regular corporate tax. Singapore taxes rigs 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 3m

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 country of operation. In addition, the ship-owning companies are subject to tax similar to Maersk Line.

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

HOT TOPICS IN CORPORATE TAX

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.

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 also our policy.

In most countries, transfer pricing regulations require A.P. Moller - Maersk affiliates to document that the pricing of our operating entities' transactions with A.P. Moller - Maersk companies takes place on market terms. For example, we have obtained an agreement on how much a Maersk Line owned agency in China should charge Maersk Line in Denmark for services provided. Tax authorities in both Denmark and China met to mutually agree on the correct principles.

"The use of tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity undermines the fairness and integrity of tax systems. It is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises."

— The OECD website on the Base Erosion and Profit Shifting project

2. Tax havens

What is the issue?

Tax havens is 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 regulation 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.

Furthermore, the Danish tax rules require that financial income from so-called CFC companies (Controlled Foreign Companies) is taxed in Denmark. The Danish CFC rules have been put in place to prevent profits from financial income being shifted to subsidiaries where little or no operational activity takes place.

One example of A.P. Moller - Maersk being present in a country often named as a tax haven is Panama, where Maersk Line, Damco and APM Terminals (including inland services) have significant presence and activities. These companies have activities in the country, due to its position as a major shipping destination, centred around the Panama Canal.

"The overall effect of tax havens is to reduce potential revenues that can be used to fund vital public services, which often leads policy makers to rely instead on indirect taxes such as those on consumption of goods and services – both of which are likely to hurt people at the bottom of the distribution. Tax haven secrecy also undermines a range of other policies designed to support good governance for the wider benefit of societies."

— Oxfam in its 2016 report "Ending the Era of Tax Havens: Why the UK government must lead the way"

Four examples:

The map shows A.P. Moller - Maersk's key indicators and tax charges in relation to the countries used as examples of the hot topics in corporate tax, and for our headquarters in Denmark.



Total turnover in 2016 (USD)

Denmark	Morocco
27,700m	86m
Ghana	Panama
330m	39m

Result before tax in 2016 (USD)

Denmark	Morocco
-1,466m	12m
Ghana	Panama
175m	3m

FTE (Full-time equivalents) 2016

Denmark	Morocco
9,771	833
Ghana	Panama
759	362

Total tax charge in 2016 (USD)

Denmark	Morocco
907m	2m
Ghana	Panama
32m	1m

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 for large infrastructure investment, as a risk-sharing measure and to ensure infrastructure development as a platform for growth. The most recent example of a tax holiday negotiated by A.P. Moller - Maersk was in Ghana, where APM Terminals is conducting a major upgrade to the terminal in Tema.

At the end of a negotiated tax holiday, A.P. Moller - Maersk does not establish new corporate structures to artificially renew tax holidays.

"Empirical evidence finds that taxes matter for investment, although most likely less so in developing countries. Tax incentives' fiscal cost can be high, reducing opportunities for much-needed public spending on infrastructure, public services or social support, or requiring higher taxes on other activities. Transparency [on tax incentives] is necessary to facilitate accountability and reduce opportunities for rent seeking and corruption."

— THE IMF, OECD, UN AND WORLD BANK in research paper for the G20 Development working group, September 2015

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 Maroc 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 (BTT) depends on whether it realises sufficient gains from increased foreign direct investment to offset any revenue loss. The primary benefit that developing countries seek from signing a BTT is increased inward investment – an important policy objective – as a result of both increased certainty and lighter taxation. Against this, however, by committing to reduced withholding tax rates countries that are primarily capital importers forego revenue."

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

RISK

– mitigating potential threats to our ambitions

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 SO_x regulations, investment in ballast water systems in an unclear regulatory environment and major accidents related to spills.



11





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 whistle-blower 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.

Related Sustainable Development Goal



Why this matters to society

Social and economic development suffers when corruption is present. Societies cannot grow and prosper equitably when fair business is impeded.



Why this matters to A.P. Moller - Maersk

Failure to mitigate the risk of corruption brings both financial and reputational damages to A.P. Moller - Maersk.



Our ambitions

To always conduct our business in an upright manner and to eliminate facilitation payments within the foreseeable future.



Our progress

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

59% reduction in facilitation payments across our vessel-operating and logistics businesses, compared to 2015.



Next steps

Implementation of new e-learning in 2017.

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

Continued compliance assurance actions.

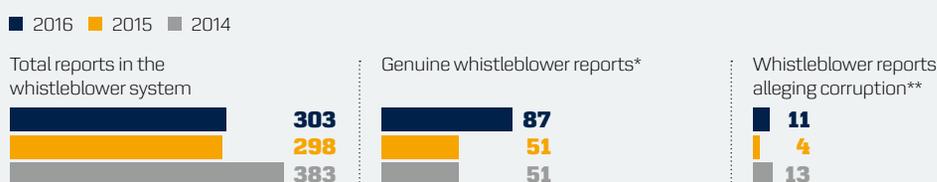
Whistleblower reports

A.P. Moller - Maersk's whistleblower system was upgraded in April 2016. At the same time, we updated the guidance materials for persons making reports, explaining which issues are intended for reporting and which are not. We reiterated that according to EU and Danish laws, the system may only process reports alleging violations of laws or key company policies. The roll-out was promoted globally on our intranet sites, and we encouraged our businesses to promote and explain the upgraded system.

These activities, together with increasing employee awareness of the importance of compliance issues

generally, have factored into an increase in the number of genuine reports and a drop in the number of non-genuine reports, which should be reported outside the system, such as business proposals and an employee's disagreements with a manager. Further, in 2016, two incidents generated 11 separate reports. Despite this, there has not been a significant increase in the ratio of substantiated cases overall.

All reports are investigated using A.P. Moller - Maersk's procedures, and appropriate remedial actions are taken, if substantiated.



* Non-genuine whistleblower reports are reports regarding issues that are not within the legal scope and purpose of the whistleblower system.

** Six reports are unsubstantiated, five are under investigation, none of which have been substantiated.

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 involving 24-hour 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.

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

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 SO_x regulations and investment in ballast water systems in an unclear regulatory environment.

The defining characteristic 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.

Performed 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 2015, we shifted our focus to supplier categories with a high risk of adverse impacts on humans and 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, we have found gaps in our suppliers' own operations. Even more common, however, are weaknesses in our suppliers' management of subcontractors,

whose commitment to anti-corruption, health and safety, labour and human rights and environmental management varies. For the audits covering environmental factors, most of the problems relate to the management of solid and hazardous waste.

Engaging with suppliers in high-risk categories

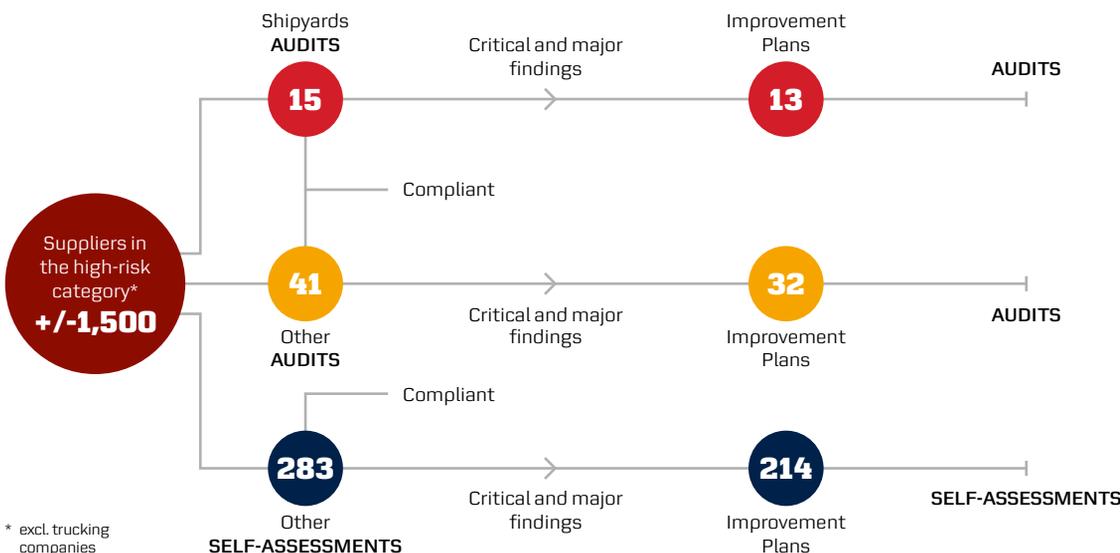
Our supplier base spans a large business network from small local enterprises to massive conglomerates with global reach. Out of a global population of 100,000 suppliers, we have contracts with approximately 20,000. Based on our list of high-risk categories, we engage with approximately 1,500 suppliers 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 canteen services
6. Docking and repairs
7. Warehousing and distribution
8. Promotional items
9. Logistics and transportation
10. Raw materials

Process and performance 2016



* In addition to this list defined by A.P. Moller - Maersk's responsible procurement programme, the individual businesses have lists adapted to their business needs

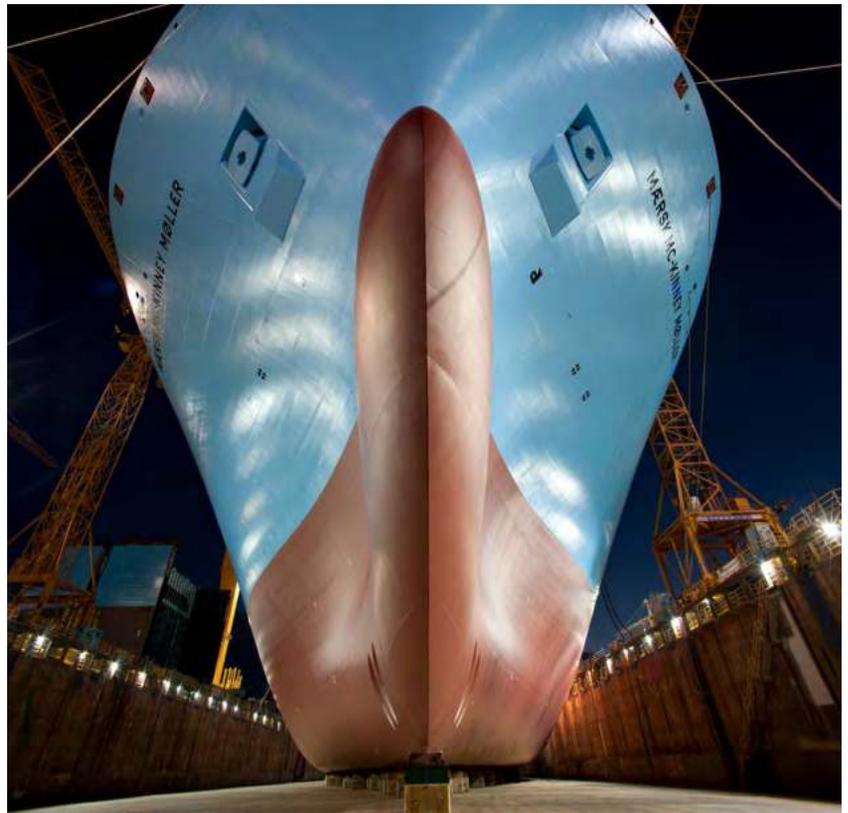
“Under the contract with Maersk Supply Service we have focused on safety, for example through the installation of signage and extension of the customer’s requirements to yard contractors. As an incentivising measure, Maersk Supply Service and COSCO together established a safety fund that rewards workers with high health and safety performance. In combination, this has led to the project we work on for Maersk Supply Service having the best safety record in the yard’s history.”

Cheng Gang (程刚)
 — Project Commercial Manager,
 COSCO (Dalian) Shipyard Co.,Ltd

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 ship yards 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.

Related Sustainable Development Goal



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 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.

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

31 training workshops for buyers and HR staff.



Next steps

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

Continue audits at suppliers.

Continue training own 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.

Ocean-going shipping's impact on air quality is a much researched and debated issue. Research has found that air pollution related to emissions from international shipping activities is responsible for premature deaths and increased health costs. Invasive species alter ecosystems when they are brought to alien marine environments as part of ocean-going ships' ballast water systems, which may also have societal impacts due to changes in local ecosystems.

Risks to our business and to society

A.P. Moller - Maersk complies with all applicable regulations related to emissions to air and ballast water. The primary financial risk to A.P. Moller - 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 SO_x 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. Moller - Maersk in excess of 300 million USD.

A.P. Moller - Maersk participates and invests in measures to limit the negative environmental

Related Sustainable Development Goal



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.



Why this matters to A.P. Moller - Maersk

We are in a highly competitive industry and must ensure that there is a level playing field in terms of compliance and enforcement of environmental regulation in order to do business.



Our ambitions

Advocate for strong enforcement measures for the global sulphur cap.



Our progress

Working groups on ballast water treatment and on SO_x established.



Next steps

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

For ballast water, we will take the necessary steps to comply with regulations.



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. Moller - 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. As members of the Trident Alliance, a coalition of 39 shipowners and operators that have worked to ensure the robust implementation of sulphur

regulations across the globe since 2014, we will contribute to this process as much as possible. We also support the Trident Alliance's stance that a level playing field for the industry is far away, but is nevertheless necessary if the 0.5% global sulphur cap is to have the intended positive impact on human health and the environment.

Nitrogen oxides (NO_x) are also emitted from fuel powered engines. Emission controlled areas in the Baltic Sea, the North Sea and the English Channel were approved by the IMO in 2016 and will take effect on the 1st of January 2021 for vessels constructed on or after that date. The emission controls for the North American area and the United States Caribbean Sea area already cover NO_x as well as SO_x. Enforcement of NO_x regulations does not present the same challenges as do those for SO_x, as compliance is mainly dependent on the installation of equipment.

Ballast water moving forward

As with all legislation, A.P. Moller - Maersk intends to comply with the Ballast Water Treatment Convention, which enters into force on the 8th of September 2017. We are currently monitoring the situation closely in order to ensure timely compliance. This means that all our vessels will be fitted with a ballast water treatment system when required by the rules and regulations.

Facts

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

300m



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 hydrocarbon release 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 case of less than adequate safety processes can have.

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.

Oil spills

In January 2016, strong winds in Izmit, Turkey, led to a tug being called to assist Maersk Ahram. While doing so, it accidentally rammed into the side of the vessel, compromising the hull and resulting in an oil spill of 12.7m³.

The oil was cleaned up by a local response team, no damage to natural sanctuaries was found and no legal implications were incurred.

This was the only hydrocarbon spill above 10m³ across all our businesses in 2016.

Towed vessels sunk

On the 22nd of December 2016, two towed Maersk Supply Service vessels, Maersk Searcher and Maersk Shipper, sank 60 miles off the coast of France. 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.

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, 330 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 3,650 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 Damco investigated possibilities for improved end-to-end control of dangerous goods, for example explosives, in the container shipping supply chain. The work focuses on setting standards, training and risk assessments.

Prevention of oil spills

Based on analyses of trends in the past three years' data, Maersk Line annually determines its priorities in oil spill prevention. In 2016, the focus was on replacing the traditional lubricants used in engines with biodegradable ones, which, if released, would be absorbed by 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 goal line of

80%

of all dockings in 2016, a target that was reached.

Related Sustainable Development Goal



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 – low likelihood incidents like fires, major spills and explosions. The risk of human fatalities and injuries goes 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 create an incident-free environment for both major spills and fatal accidents.



Our progress

1 oil spill >10m³ across all our businesses in 2016.

10 well control incidents.



Next steps

Finalise operational and functional process safety mapping.

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.

A limited assurance engagement undertaken in accordance with ISAE 3000 involves assessing the suitability in the circumstances of A.P. Møller - Mærsk A/S's use of stated accounting policies as the basis for the preparation of the consolidated sustainability data. Furthermore, it involves assessing the risks of material misstatement, whether due to fraud or error; responding to the assessed risks as necessary in the circumstances and evaluating the overall presentation of the consolidated sustainability data. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and included:

- Interviews with management at Group and Business Unit level responsible for the sustainability strategy, management and reporting
- An assessment of materiality and the selection of topics for the 2016 A.P. Møller - Mærsk A/S Sustainability Report and comparison to the results of a media search
- Review of reporting guidelines and the results of internal control procedures at Group level and in three major Business Units regarding the data to be consolidated in the 2016 Sustainability Report
- Analytical review of the data and trend explanations submitted by all business units for consolidation at Group level
- Evaluation of requested internal and external documentation to determine whether information in the 2016 Sustainability Report is supported by sufficient evidence

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

PERFORMANCE ON SOCIAL, ENVIRONMENTAL AND ECONOMIC INDICATORS



	A.P. Moller - Maersk			Maersk Line			APM Terminals			Damco			Svitzer		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Social performance															
Our employees															
Number of employees (FTEs)	87,736	88,355	89,207	31,858	32,750	32,622	22,615	21,171	20,639	11,292	11,087	11,313	2,870	2,847	2,723
Gender – female/total (% based on FTE)	25	25	23	34	35	36	11	10	10	48	52	38	6	6	6
Women in leadership (% based on FTE)	16	15	14	17	17	16	15	13	15	30	26	24	24	21	16
Fatalities (headcount)	2	7	11	0	0	1	2	4	10	0	1	0	0	1	0
Lost-time injury frequency (based on exposure hours)	n/a	n/a	n/a	0.42	0.55	0.71	1.53	1.94	1.41	1.04	0.63	0.43	0.63	0.53	1.06
Employee engagement – percentage favourable (% based on headcount)	76	76	73	76	76	75	79	78	74	75	77	68	77	74	72
Environmental performance															
Energy consumption															
Fuel oil (1,000 tonnes)	10,115	9,455	9,388	9,477	8,858	8,699	4	5	4	0	0	0	57	55	51
Gas fuels (1,000 tonnes)	617	683	651	1	2	4	1	3	1	1	1	4	0	0	0
Other fuels (1,000 tonnes)	289	192	189	8	8	8	200	114	116	3	3	3	0	0	0
Electricity (1,000 MWh)	524	808	794	54	60	63	231	481	468	37	38	38	10	9	10
Energy consumption (total, TJ)	454,853	428,874	423,796	387,290	362,405	355,129	8,249	6,189	6,165	300	319	481	2,473	2,373	2,211
Greenhouse gas (GHG) emissions (1,000 tonnes CO₂ eq)															
GHG emissions	36,169	33,459	32,808	30,461	27,973	27,332	662	576	574	32	35	44	200	193	181
Direct GHG emissions (scope 1 GHG Protocol)	35,917	33,044	32,406	30,429	27,935	27,294	573	358	366	11	11	22	196	189	176
Indirect GHG emissions (scope 2 GHG Protocol)	252	415	402	32	38	38	89	218	208	21	23	22	4	5	5
Other air emissions (1,000 tonnes)															
SO _x	513	482	500	489	458	466	0	0	2	0	0	0	0	1	1
NO _x	809	755	752	751	702	690	4	2	3	0	0	0	4	4	4
Other resource consumption															
Waste (1,000 tonnes)	226	479	461	125	317	338	24	70	34	5	5	5	1	3	3
Water (1,000 m ³)	2,384	4,025	3,730	308	321	345	739	2,249	2,051	237	250	215	36	40	46
Spills															
>10 m ³ (number of spills)	1	3	n/a	1	1	n/a	0	0	n/a	0	0	n/a	0	1	n/a
Economic performance (USD million)															
Revenue	35,464	40,308	47,569	20,715	23,729	27,351	4,176	4,240	4,455	2,507	2,740	3,164	642	669	812
Result	-1,897	925	5,195	-376	1,303	2,341	438	654	900	31	19	-293	91	120	-270
Underlying result	711	3,071	4,532	-384	1,287	2,199	433	626	849	31	15	-225	89	116	82
Tax	1,054	522	2,972	+20	128	163	149	106	234	24	21	52	6	6	20

■ Financial scope. Covered by the Group's Generally Accepted Accounting Policies and controlling guideline.

■ Operational scope. Covered by the Group's Generally Accepted Accounting Policies.

■ Described in the Group's Generally Accepted Accounting Policies, but data coming from other sources than the financial and operational scoped data.

Financial data is taken from the audited Annual Report of A.P. Moller - Maersk. The annual accounts and independent auditors' report can be found at <http://investor.maersk.com/financials.cfm>



Maersk Oil			Maersk Drilling			Maersk Supply Service			Maersk Tankers			Other businesses			Unallocated and eliminations		
2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
4,005	4,427	4,475	3,325	3,965	4,741	1,726	2,066	2,114	2,415	2,366	2,487	6,291	6,392	7,365	1,339	1,284	728
23	23	24	9	9	9	8	8	8	3	3	3	13	11	10	36	38	42
15	14	14	13	9	10	6	3	3	3	3	3	8	6	5	23	23	24
0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
0.43	0.58	0.73	0.49	0.31	0.57	0.72	0.11	0.57	0.40	0.13	0.41	1.84	n/a	n/a	n/a	n/a	n/a
67	71	73	79	80	81	68	77	73	77	77	73	n/a	n/a	n/a	n/a	n/a	n/a
57	65	72	23	17	14	32	54	33	457	392	501	7	8	13	1	1	1
610	674	639	0	0	0	0	0	0	0	0	0	3	3	3	1	0	0
77	65	59	0	0	0	0	0	0	0	0	0	1	2	3	0	0	0
123	112	119	2	2	3	1	1	1	0	0	0	64	102	90	2	3	2
34,745	37,483	36,156	974	731	620	1,354	2,300	1,422	18,707	16,112	20,450	716	916	1,109	45	45	53
3,088	3,064	2,798	79	59	50	109	185	114	1,458	1,260	1,588	76	110	123	4	4	4
3,025	3,006	2,737	78	58	49	109	185	114	1,458	1,259	1,588	36	40	57	2	3	3
63	58	61	1	1	1	0	0	0	0	0	0	40	71	66	2	1	1
2	2	4	0	0	0	0	1	1	22	19	26	0	1	0	0	0	0
8	9	10	2	1	1	2	4	3	36	31	40	2	2	1	0	0	0
15	21	42	1	2	0	3	4	1	17	12	11	33	45	27	2	0	0
474	466	327	14	14	16	56	54	18	176	218	259	334	407	447	10	6	6
0	0	n/a	0	1	n/a	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
4,808	5,639	8,737	2,297	2,517	2,102	386	613	778	877	1,058	1,175	915	1,185	1,480	-1,859	-2,082	-2,485
477	-2,146	-861	-694	751	478	-1,228	147	201	62	160	132	-117	316	408	-581	-399	2,159
497	435	1,035	743	732	471	-44	117	189	58	156	139	-	-	-	-	-	-
931	175	2,327	3	163	123	+24	10	18	2	1	+1	-	-	-	-	-	-

STAY UP-TO-DATE

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. Møller - 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

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Additional COP content can be found on our website: www.maersk.com/sustainability



Reporting

A.P. Møller - 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. Møller - 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 Annual Report is available in English at <http://investor.maersk.com/financials.cfm>.



The **A.P. Møller - Maersk Annual Magazine** provides an overview of the operations and performance of A.P. Møller - 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 as full an understanding of A.P. Møller - Maersk's performance, financial position and future prospects as that provided by the Annual Report. The

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



A.P. Møller - 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. Møller - 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.

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. Møller - Mærsk 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. Møller - 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. Møller - Maersk fulfills these (Maersk COP), as well as A.P. Møller - Maersk's sustainability accounting principles.

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

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