

A.P. MOLLER HOLDING A/S  
ANNUAL REPORT 2020  
LETTER FROM THE CEO



A·P·MØLLER

# LETTER FROM THE CEO



ROBERT M. UGGLA  
CEO

2020 has been a tumultuous and difficult year. While the Group has so far weathered the storm, coming out stronger financially, the pandemic has hit our colleagues, our business partners and our local communities hard. Lives and livelihoods have been lost due to the virus.

For our shipping and energy related activities it has been one of the most volatile years in our Group's long history, with some truly extraordinary rate developments experienced across several segments. The year also became an inflection point and catalyst for some of the broader global mega themes, not least acceleration of the digital economy, a more complex global supply chain, as well as the green energy transition, underpinning several of our Group's recent portfolio shifts and investments.

As a Group, in 2020, we recorded a consolidated revenue of DKK 277.0bn (USD 42.3bn), EBITDA of DKK 57.4bn (USD 8.8bn), and equity of DKK 249.2bn (USD 41.2bn). A.P. Møller Holding, the Group's parent company, remains debt free with a cash inflow of DKK 4.4bn (USD 0.7bn). The net asset value of

A.P. Møller Holding's portfolio grew 21.5% driven by A.P. Møller - Maersk, which enjoyed historically high freight rates and strong momentum across its activities, and by the positive development of our privately held holdings, with Maersk Drilling and Danske Bank having adverse impact on the portfolio value.

## WEATHERING THE STORM

At the time of writing the CEO letter for our 2019 annual report, we were looking into what, at the time, felt like an abyss of adversity and uncertainty. By mid March, global trade was in reverse and the capital markets were in a free fall, with growing concerns that the pandemic would turn into a serious credit crisis. The difficult situation was exacerbated by having many colleagues working remotely.

The author and historian Yuval Noah Harari recently wrote about the criticality of supply chains, by referring to the saying that any civilisation is just three meals away from barbarism. To feed our societies, it is not enough to produce the food, you will also have to transport it, often thousands of kilometers.

Our Group's portfolio companies have demonstrated remarkable team efforts and resilience during the pandemic. Colleagues at sea, in ports, in warehouses, in factories and in many other locations have been in the eye of the storm. They have contributed to keeping the world's wheels turning by providing essential services to society. Our portfolio companies have also provided other forms of support to our local communities. Notably, A.P. Møller Holding, in collaboration with the A.P. Møller Foundation and A.P. Møller - Maersk, initiated the Maersk Bridge, to source, procure and transport critical personal protective equipment (PPE) to healthcare workers.

Some of the greatest challenges during the pandemic have been related to our seafarers' work conditions. Over the last year, seafarers have had to take far longer shifts onboard, due to travel restrictions, closed borders and the constant change of local regulations and requirements. Seafarers around the world have been held up on vessels for many months, resulting in physical and mental exhaustion.

In addition, seafarers have been hard hit by some governments' inability to provide support to the merchant fleet, when it has been involved in rescue operations at sea, e.g. the crew of Maersk Etienne was isolated with 27 migrants for more than a month in the Mediterranean Sea. As a Group, we are concerned about these developments, noting the critical role seafarers and shipping companies play to safeguard the delivery of critical goods, including food, energies and medical equipment, to our communities around the world.

#### INVESTING IN THE FUTURE: CIRCULARITY

When A.P. Moller Holding instigated the restructuring of A.P. Moller - Maersk in 2016, the objective was twofold: Firstly, to provide support as owners to the restructuring and transformation of the Maersk activities, which is well underway. Secondly, to acquire and develop new activities. In the last two years, A.P. Moller Holding has built a talented team of investment professionals, who have worked relentlessly during 2020 to pursue our Group's portfolio renewal, including committing approximately DKK 8bn of equity to acquire the Faerch Group.

Our investment strategy is a function of the A.P. Moller Foundation's charter of acquiring and developing 'nyttig virksomhed' (companies having a positive impact on society) in a few identified verticals, underpinned by certain themes. In this respect, we have for some time reviewed opportunities to invest in the circular economy.

The invention of the steam engine kick-started the industrial revolution, which transformed our ability of mass production, based on the perceived infinite access to materials and energy. This 'linear economy' of take-make-waste, i.e. take resources from the ground to make products later ending up as waste, has reached its limit from an environmental point of view. As a result, we expect societies and consumers to increasingly demand from producers that they use materials offering true circularity, i.e. material being used and re-used for the same purpose, in an endless number of manufacturing cycles.

A.P. Moller Holding would like to accelerate the investments and development of such circular system of waste. We see great

opportunities in changing the use of plastics from being a linear product to a circular product. Plastics have unique characteristics for a range of applications, such as preserving shelf life and durability of food products. These are critical characteristics to reduce food waste. However, plastic, if not recycled, becomes a problem for society, as it typically ends up in nature, landfills or incinerators. The Faerch Group, as the pan European leader of circular food packaging solutions, has demonstrated that it offers a compelling, sustainable solution, by developing food packaging products with a high degree of post-consumer recycled content. We look forward to working with Faerch Group's highly talented team to expand their technology and offerings into new product categories and markets.

#### ACCELERATING OUR ENERGY TRANSITION

Another macro theme pursued by A.P. Moller Holding and our portfolio companies is the green energy transition. The Group has pursued a number of encouraging initiatives and investments to reduce emissions and accelerate the use of green energy. For example, KK Wind Solutions has continued its successful expansion of power electronics with the acquisition of Gram & Juhl, a global leader in conditional monitoring of wind turbines.

Similarly, our shipping, logistics and offshore related activities have taken several steps to decarbonise their footprint, including initial steps to replace hydrocarbon-based fuels with green fuels, e.g. A.P. Moller - Maersk recently announced that it intends to operate the world's first carbon neutral liner vessel by 2023.

An exciting example of a 2020 initiative to reduce emissions is the start-up ZeroNorth, incubated by and spun off as an independent company from Maersk Tankers. ZeroNorth provides an AI based software solution to operators of tramp ships to help them with voyage optimisation, which reduces the vessels' emissions by minimising fuel consumption. The response from the industry has been overwhelming. At the time of writing this letter, 1,500 vessels have signed up to ZeroNorth's software as a service (SaaS), after a year in operation (85% of those vessels are controlled by third parties outside our Group).

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The ZeroNorth team aims to reduce the tramp shipping industry's emissions by close to 10 million metric tonnes annually within the next few years (this equals approximately 1/3 of Denmark's total annual emissions), although the potential may be vastly bigger, once greener fuels become available.

Ultimately, the success of the energy transition in shipping hinges on many stakeholders' ability to collaborate and find common solutions. Therefore, in June 2020, the A.P. Møller Foundation donated DKK 400m to set up the Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping to develop green fuel types and related technologies, attracting partners from across the shipping, equipment and energy industries, while also collaborating with academia and authorities. The Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping is an open source, non-profit, independent research center aiming to find practical and sustainable energy solutions that will benefit the entire shipping industry.

#### LOOKING AHEAD

The pandemic has also accelerated other changes that have been under way for some time. Apart from the energy transition, digital engagement is higher than ever. E-commerce penetration over the last six months has amounted to expectations for the next 10 years, which is having a profound impact on supply chains. Our portfolio companies' ability to embrace these digital opportunities is decisive for their long-term success. We are seeing a number of encouraging initiatives with significant long-term potential, such as A.P. Møller - Maersk's Twill, an online shipping service for small and medium-sized businesses, experiencing a 13 fold year-over-year growth in 2020.

Despite the protectionist political sentiment in some countries, we expect trade to continue to grow. The Regional Comprehensive Economic Partnership signed in 2020, covering around 30% of the global population and GDP, is estimated to increase trade by up to 10% amongst its members by 2030. However, we acknowledge that trade is also becoming increasingly complex, as evidenced by Brexit and the China-US trade conflict, further exacerbated by recent congestion of shipments and deficit of containers caused by the pandemic. In this challenging

environment, a company like A.P. Møller - Maersk, which combines a global network with strong local logistics offerings and customs solutions, is well positioned to provide vital support to companies holding an international supplier and customer base.

Some matters have not changed in our Group's well over 100 year old history. A core building block and success factor remains human capital and talent. We are highly encouraged to see the positive development of our portfolio companies' management teams as well as the hiring of several new Directors to our portfolio Boards. While our legal structure has evolved from being a conglomerate into a Group of independent and focused companies with a network of Boards and executive teams holding deep domain expertise, we all remain guided by the same Maersk values. As the Chairman of A.P. Møller Holding has expressed many times: 'The values are constant in a complex and changing world'.

I am highly impressed by what has been accomplished across our Group, on shore and at sea, during a very difficult 2020. As CEO, I extend my sincere thanks to all colleagues in A.P. Møller Holding and our Group's portfolio companies for the extraordinary team efforts and achievements.

I wish you and your families fair winds for the coming year.

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