

# LETTER FROM THE CEO



ROBERT M. UGGLA  
CEO

The A.P. Møller Group ended 2022 on a historic high note financially, with revenue of DKK 611bn (USD 86bn), EBITDA of DKK 266bn (USD 38bn), a net result of DKK 204bn (USD 29bn), and total assets of DKK 790bn (USD 113bn). A.P. Møller Holding, the parent company of the Group, remains debt free with a full year cash inflow of DKK 29bn (USD 4bn).

The Group navigated a volatile and changing environment in 2022, with a pandemic coming to an end, the beginning of a brutal war in Ukraine, increased geopolitical fragmentation, congested supply chains, disrupted energy markets, and rapidly rising inflation.

A.P. Møller Holding invests based on a strategy that is anchored in our purpose of 'nyttig virksomhed' and focused on four selected long-term themes:

- Global trade
- The energy transition
- Circularity, water & waste recovery
- Demographic & societal change

## CHANGING TRADE

2022 was an exceptional and unusual year for container shipping and logistics, representing a significant share of our Group's income.

The global trade and logistics industry topped USD 10 trillion in revenue in 2022. The container shipping industry reached an all-time high after two decades of low returns. Container shipping industry profits (EBIT) in 2022 totaled upwards of USD 120bn, compared to a cumulative profit of USD 16bn between 2010-19.

Covid-19 followed by the outbreak of war in Europe put unprecedented strain on all nodes of the supply chain. Congestion and delays continued to plague customers during the first half of 2022, albeit with many choke points easing during the latter part of the year. The depth and scope of supply chain challenges have been exceptional in many ways.

2022 also saw trade policies and geopolitical tension begin to impact supply chain planning in noticeable ways with several companies announcing plans to relocate production, and many companies considering how to add resilience to their supply chains. This is an acceleration of the general trend seen after the global financial crisis when supply chains started diversifying away from China. The share of US imports from China has dropped from around 50% prior to the financial crisis to 45% in 2019 and 42% in 2022. In turn, South East Asia and the Indian Subcontinent have gained market share.

The year also provided a stark reminder that shipping companies continue to operate in an extremely cyclical industry. Exceptionally strong consumer demand, particularly in the US, and unprecedented congestion across the global supply chains began to fade during 2022, giving way to a large inventory overhang correction. As a result, the global container volumes declined during the last quarter of the year, bringing the total number of containers transported back to 2017 levels. The situation was especially challenging in Europe where import volumes fell back to 2016 levels, in part because of the additional loss of Russian and Ukrainian volumes. As we entered 2023, the last few years' strong tailwind of the global container shipping markets had turned into headwinds with a bleak outlook for the period ahead.

At the same time, companies need to prepare for a paradigm shift as global supply chains will undergo a huge transition towards 2030. The change will be driven by a greater requirement for resilience due to geopolitical fragmentation, by the increased focus to develop net zero transportation solutions, and by the opportunity to benefit from technology to reduce waste in global supply chains. The rise of new trade networks is inevitable. As we head towards 2030, reshoring, diversification, and regionalisation will all play an important role in the value chains.

In this respect, A.P. Moller - Maersk's strategy to provide end-to-end logistics solutions remains highly relevant. It is remarkable to note that A.P. Moller - Maersk's net promoter score increased substantially during the year despite the many supply chain disruptions, a testament to the A.P. Moller - Maersk team's ability to work closely with customers to solve their challenges. The company is also repositioning itself from having been primarily an east-west carrier serving western markets with goods from Asia based factories, to becoming a major logistics provider in regions with new growth. The USD 3.4bn acquisition of LF Logistics significantly enhances the company's footprint of fulfilment centres and reach in the Asia region, which is expected to see its intra-regional trade grow by USD 1 trillion in the next ten years.

#### SOLVING ENERGY CHALLENGES

The war in Ukraine is having a profound impact on the energy markets, particularly in Europe, with energy security becoming the most pressing consideration for many nations. The changing flows of oil and petroleum products affected Maersk Tankers and related activities, which experienced a significant increase in demand for their transportation services with tanker shipping rates returning to fifteen year highs.

Maersk Drilling, which was spun out of A.P. Moller - Maersk to become a separate listed company in 2019, was merged with Noble during 2022. The transaction represents significant value for Maersk Drilling's shareholders and creates a leading offshore drilling operator with a significant international presence, including in the North Sea, with a strong operational record and modern assets. A.P. Moller Holding remains a shareholder post-

merger, recognising the favourable demand for oil related services and the importance these activities play for the energy transition.

Many of the Group's activities have, in the past few years, accelerated our portfolio's pivot towards net zero emissions. A.P. Moller - Maersk, which was the first shipping company to order large ships with propulsion systems designed for green fuels, has become an industry catalyst with other shipping companies now following suit. So far, A.P. Moller - Maersk has ordered 19 ships to the tune of USD 2.7bn designed for green methanol, with the aspiration to source 750,000 tonnes of green methanol by 2025 and reduce 2.3 million tonnes of GHGs (greenhouse gases). In this respect, A.P. Moller - Maersk also sharpened its environmental targets to become net zero by 2040. Maersk Supply Service, a company historically associated with the oil and gas industry, is now offering a range of services to the offshore wind industry and with a newbuilding programme to support the installation of next generation wind parks. The gravitation towards more energy efficient port infrastructure and green power solutions has also been a growing investment theme of other A.P. Moller - Maersk related entities such as APM Terminals and Svitzer, as well as the infrastructure fund manager A.P. Moller Capital.

During the last years, our Group has incubated, developed, and scaled new platforms, building on our companies' long-standing energy capabilities and record. ZeroNorth, founded by Maersk Tankers in 2020, now has 170+ employees, of which a majority are data and software engineers. With 3,000+ vessels on its platform, ZeroNorth has, in a short time, become one of the leading software solutions providers, driving fuel efficiencies and emission reductions in shipping. Innargi, founded by colleagues coming out of the divested Maersk Oil, provides geothermal based district heating solutions to secure green base load energy (13% of all emissions in Europe are derived from the heating of buildings). Innargi has secured an agreement in Aarhus to provide district heating totalling 110 MW and entered into dialogues and letters of intent for further project development across Europe. In February 2023, the company signed its

first letter of intent outside Denmark by announcing an agreement with Veolia to explore district heating in Poznań, Poland.

#### ACCELERATING OUR PORTFOLIO'S RENEWAL

Our recent years' principal investments in the energy transition theme include the industrial companies KK Wind Solutions and Nissens Cooling Solutions, both serving the wind industry. These companies experienced significant margin pressure in 2022 due to increased inflation, but the outlook remains very promising with a robust order book. For KK Wind Solutions, 2022 has been a groundbreaking year with the announcement of the acquisition of Vestas' converter & controls business. This transaction will not only more than double the size of KK Wind Solutions, but it also confirms our investment thesis that specialised tier one suppliers play a critical role in supporting the large wind OEMs to enable bigger and more cost-effective wind farms across the globe.

During 2022, we have continued our ambitious investment programme in Faerch, Europe's leading sustainable food packaging company, with more than 70% (pre Paccor) of their products containing recycled and circular PET (rPET). During the year, the company acquired Paccor more than doubling the current sales volumes and capacity. The transaction also provides the opportunity to transition a larger part of Paccor's non circular PP (polypropylene) production to Faerch's more sustainable packaging materials (rPET). In this respect, Faerch is also committed to expand the sourcing of recycled PET and to become the leader of closed loop production of packaging to the food industry.

Finally, in 2022, we also closed the acquisition of Unilabs, a European leader of diagnostics, carrying out more than 245 million tests per year and 5 million imaging examinations. Diagnostics plays a critical part in the pressing shift from volume-based to value-based healthcare – a more targeted and accurate treatment provides a better outcome for patients and lower costs for governments and insurance companies. The cost of testing represents only a small percentage of the overall healthcare spend, but the results determine the accuracy of any treatment and drive more than two thirds of healthcare spend. Hence, the efficiency and availability of precise diagnostics is a critical

component of the healthcare system. Shorter term, the diagnostics industry in Europe is facing margin pressure due to inflationary labour costs and there is a need for securing efficiencies through scale. However, we believe there is a growing long-term demand for diagnostics, also mindful that the propensity of testing likely increases with ageing demographics; and technology such as telemedicine-based radiology holds the opportunity to open up new markets.

#### DANSKE BANK TURNS A CORNER

Our Group has been a long-term shareholder in Danske Bank. In 2018, A.P. Moller Holding, together with ATP and PFA, called for an extraordinary general meeting to change the composition of the board to better address the bank's compliance challenges. Since then, most of Danske Bank's board and leadership team have been replaced, the banks' compliance programme has been overhauled and a new strategy has been set in motion. A.P. Moller Holding has also become an engaged shareholder with representation in the chairmanship of the bank. In December 2022, the bank announced that it had reached a coordinated and joint settlement with the DOJ, SEC, and SCU for, in total, DKK 15.3bn. The last years have been characterised by many challenges. As the year came to an end, Danske Bank delivered the best relative TSR performance of its Nordic banking peers. There is still a long way to go and the bank continues to trade with a discount. However, we believe that Danske Bank, under the valued leadership of Carsten Egeriis and his colleagues, has turned a corner with the opportunity to become a leading bank in the Nordics for customers and shareholders alike.

#### LIVING OUR PURPOSE

Our strong financial results in 2022 are a testimony to our Group's many leaders' and more than 125,000 employees' dedication and hard work. I am also very grateful for the stewardship of our Group's chairs and directors. At the end of 2022, Søren Skou stepped down as CEO of A.P. Moller - Maersk, after six years at the helm and more than 20 years in different CEO roles. His contributions to our Group have been significant. His successor, Vincent Clerc, is taking over at a challenging time for A.P. Moller - Maersk, but Vincent Clerc comes well prepared,

having been responsible for the company's integrated ocean and logistics activities over the last few years.

Financial results aside, what truly stands out when looking back at our Group's activities during 2022 is our many colleagues' support to the local communities, which we are an integral part of. Our colleagues in Unilabs have worked restlessly to provide immediate diagnostics solutions during the Covid-19 outbreaks. The societal value of their response is significant and many lives have been saved as a result. During the year, we have also seen remarkable efforts to support relief organisations with logistics solutions, not least evident in Ukraine, Turkey, and Syria, where A.P. Moller - Maersk is a critical partner to UNICEF and many other global humanitarian organisations in providing aid to millions of displaced people. These and many other efforts by our colleagues make our Group's purpose come alive.

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