Risk Management Strategy 2024

danaos

Risk Management Framework

Our framework provides a structured approach to identify, evaluate, mitigate, and monitor risks that could impact company goals. It ensures proactive risk management to support our business objectives.

Risk Identification:
We engage all levels of stakeholders in identifying potential risks, drawing on historical data, expert consultation, and STEEPLE analysis to assess external and internal factors. This includes special attention to emerging risks, with ongoing environmental scans and industry insights to prepare for new challenges.

Risk Classification & Analysis:
Risks are categorized (e.g., Operational, Financial, Compliance), and linked to relevant business goals for targeted analysis. Using a five-point scale for likelihood and impact, we evaluate inherent and residual risk. Emerging risks receive qualitative assessment, informed by scenario analysis and expert judgment.

Risk Evaluation:
We prioritize risks on a matrix that visualizes their likelihood and impact. Each is classified as "Acceptable," "Manageable," "Severe," or "Critical," to align resources appropriately with the company's risk appetite, ensuring severe risks are addressed promptly.

Mitigating Actions:
Mitigation strategies are tailored to significant risks, with clear success metrics and objectives. Responsibilities are assigned to Risk Owners, who track KPIs to ensure each mitigation plan's effectiveness and alignment with business objectives.

Monitoring & Review:
Continuous monitoring and annual reviews keep our risk management dynamic and responsive. Risk Owners report on mitigation progress, with ad-hoc reviews conducted for significant changes, ensuring agility in addressing evolving risks.

Risk Management Governance

Effective risk management governance is crucial for ensuring an organization-wide commitment to identifying, assessing, and mitigating risks. This governance framework clarifies roles and responsibilities at every level, from the Board of Directors to individual departments, establishing a unified and accountable approach to managing risks. By assigning specific responsibilities, it enables each team to actively contribute to safeguarding the company's objectives and promoting a culture of risk awareness.

Through transparent communication, oversight, and continuous risk education, this governance structure strengthens resilience and adaptability. It empowers the organization to respond effectively to both immediate risks and emerging threats, ensuring a proactive, coordinated response that supports sustained success and stability.

Board of Directors

- Sets Organization's Risk Appetite
- Oversights the Risk Management Process

Executive Officers

- Risk Identification & Assessment
- Controls and Mitigation Actions Plans
- Risk and KPI Owners Assignment
- Risk Management Process Review
- Risk Strategy Review & Update
- Setting the tone at the top

Departmental Directors & Managers

- Risk Analysis
- Mitigation Activities & Departmental Coordination
- Risk Responsibilities Assignment
- Metrics and KPIs Monitoring
- Reporting to Executive Officers

Internal Audit Department

- Independent Evaluations
- Advisory Feedback & Best Practices
- Methodological Insights
- Ensuring Compliance with standards and regulatory requirements

Departments & Functions

- Risk Identification & Management at Operating Level
- Ensuring Compliance
- Reporting and Communication

Risks of Focus 2024

Based on our assessments, the following risks are prioritized for 2024

Cybersecurity

Our reliance on technology exposes us to cybersecurity risks, including data breaches, unauthorized access, and system failures. Such incidents can disrupt operations, compromise sensitive data, damage our reputation, and lead to legal or regulatory consequences.

Digital Transformation Challenges

Complexities in digital transformation —such as skill gaps, resistance to change, and technological challenges— can reduce operational efficiency, weaken our competitive edge, and cause missed business opportunities.

Rapid Technological Changes

Intense competition in areas like digitization, automation, and data analytics challenges us to adopt advancements rapidly to maintain efficiency, drive innovation, and meet both charterers and stakeholders' expectations.

Climate Change Threats

Climate-related risks, including extreme weather, rising sea levels, and temperature shifts, threaten asset stability, disrupt operations, damage infrastructure, and increase repair costs, leading to potential delays and financial strain across all areas of our business.

Operational Continuity

External threats, such as natural disasters, pandemics, cyberattacks, and supply chain disruptions, can result in downtime, financial losses, reputational damage, and challenges in meeting charterers' and stakeholders' expectations.

Inflationary Pressures

Rising labor and material costs affect operating expenses and profitability. Fluctuating input prices can disrupt cost structures, reduce profit margins, and decrease our competitiveness in the market.

Executive & Key Personnel Competitiveness

Inadequate executive performance or the inability to retain key personnel can lead to operational inefficiencies and strategic misalignment, negatively affecting the company's financial performance and competitive position.

Emerging Risks 2024

Emerging risks or risk areas requiring closing monitoring for 2024

New Environmental Regulatory Frameworks

New environmental regulatory frameworks present an emerging risk for our company, as we face increasing pressure to comply with stricter global standards. The evolving nature of these regulations, which may vary across regions and jurisdictions, creates uncertainty and challenges in adapting to new compliance requirements. This can lead to increased operational costs, potential fines, and disruptions, as we must quickly adjust to changing rules while ensuring our commitment to environmental sustainability.

Crew Shortage

Geopolitical tensions and rising protectionism pose an emerging risk of crew shortages and difficulties in securing qualified personnel for our operations. Restrictive immigration policies, trade barriers, and regional conflicts can limit our access to skilled seafarers from key labor markets. Additionally, crew repatriation and deployment may be delayed or restricted due to diplomatic disputes. This uncertainty threatens our operational efficiency and raises costs, as we may need to source crew from alternative regions while maintaining compliance with local regulations.

Transitioning to Lower Emissions Technology

Transitioning to lower emissions technology presents a significant emerging risk for our company, driven by decarbonization goals and uncertainties surrounding viable solutions. The lack of clarity around which alternative fuels or technologies—such as hydrogen, ammonia, or biofuels—will be most efficient adds complexity to our decision-making. Additionally, the high costs associated with investing in and retrofitting vessels with new technologies place a financial strain on us, making the transition to a cleaner future both uncertain and costly.

Advanced Terrorism, Piracy & Warfare

Advanced terrorism, piracy, and warfare present significant emerging risks to our company, particularly in high-risk regions where militant groups use sophisticated weaponry, such as anti-ship missiles and aerial drones. These evolving threats demand enhanced security measures and equipment. Rerouting our vessels to avoid dangerous zones adds operational, environmental, and financial complexities, including higher fuel costs and logistical challenges in crew changes and technician deployments. These factors increase the operational difficulties and overall risk profile for our activities in and around high-tension areas.

Risk Management Plan 2024

Risk Category	Risks	Exposure	Mitigation
Financial	▪ Global Economic Conditions ▪ Demand Fluctuations ▪ Financial Market Disruptions ▪ Inflationary Pressures ▪ Charterer Credit Risk ▪ Debt Compliance	Economic volatility impacts the company's financial performance due to fluctuations in global GDP, industrial production, inflation, and exchange rates. Demand for transportation services may fluctuate with these economic shifts, directly affecting revenue and charter rates. Financial market disruptions, such as a sudden tightening of credit markets, could restrict capital access and increase borrowing costs, limiting growth opportunities. Inflationary pressures lead to higher operating costs, reduced profit margins, and decreased competitiveness. Additionally, charterers' delayed payments or defaults expose the company to credit risk, affecting cash flow and financial stability.	**Financial Resilience**: ▪ Diversify funding sources. ▪ Build strong relationships with financial partners. ▪ Implement risk management strategies to mitigate interest rate and currency risks. **Operational Flexibility**: ▪ Adopt flexible and adaptable fleet management strategies. ▪ Perform regular market analysis. ▪ Diversify the charterer base. **Strategic Planning**: ▪ Monitor economic and geopolitical trends to identify risks and opportunities. ▪ Engage with stakeholders to face regulatory challenges more effectively. ▪ Optimize procurement and adjust pricing to counter inflation.
Operational	▪ Fleet Management & Optimization ▪ Vessel Insurability ▪ Security Threats ▪ Health & Safety ▪ Operational Continuity	Operational risks arise from challenges in managing the fleet efficiently, securing adequate insurance coverage, and addressing security threats. Inefficient fleet management can increase operating costs, lead to regulatory non-compliance, and affect overall performance. Vessel insurability issues can limit access to adequate insurance, exposing the company to significant financial risks in case of incidents. Security threats, such as piracy and terrorism, pose a risk to crew safety and cargo integrity, potentially leading to legal liabilities and reputational damage. Health and safety risks may result in injuries or compliance breaches, while external events (e.g., natural disasters or cyberattacks) can disrupt operational continuity.	**Operational and Commercial Stability**: ▪ Conduct thorough charterer assessments. ▪ Monitor insurance coverage through policy adequacy examination. **Operational Efficiency**: ▪ Implement proactive maintenance and renewal strategies. ▪ Ensure regulatory compliance. **Security & Continuity**: ▪ Strengthen security measures. ▪ Promote health and safety culture. ▪ Develop business continuity plans to face disruptions.
Strategic	▪ Market Competition ▪ Management Expertise ▪ Talent Retention ▪ Change Management	Strategic risks include increased competition, the loss of key personnel, inadequate management capabilities, and ineffective change management. Failing to adapt to industry changes or innovate can erode competitive advantage, especially in a highly competitive market. Dependence on key executives can disrupt operations if they leave unexpectedly. Ineffective change management processes may lead to employee resistance, lower productivity, and reduced morale.	**Charterer and Market Relationships**: ▪ Strengthen relationships with charterers. ▪ Conduct market analysis and surveys. ▪ Engage in industry networking. **Management and Leadership**: ▪ Invest in workforce development. ▪ Set clear performance objectives. ▪ Implement talent retention strategies. **Change Management**: ▪ Establish structured processes, focusing on communication and employee support. ▪ Facilitate smooth transitions.

Risk Management Plan 2024

Risk Category	Risks	Exposure	Mitigation
Technology	▪ Cybersecurity Threats ▪ Digital Transformation Challenges ▪ Rapid Technological Changes ▪ Transitioning to Lower Emissions Technology	Reliance on technology exposes the company to cybersecurity threats, including data breaches and system failures, which could disrupt operations and damage reputation. Digital transformation challenges, such as skill gaps or resistance to new technology, may impede efficiency and innovation. Rapid technological changes require continuous adaptation to stay competitive, while the transition to lower emissions technology involves high costs and uncertainties around the best solutions.	**Cybersecurity**: ▪ Implement advanced security practices and conduct assessments. ▪ Promote employee awareness through training. ▪ Maintain cyder incident response plans. **Digital Transformation**: ▪ Align digital initiatives with objectives. ▪ Invest in modern technologies. ▪ Offer continuous training for technology adoption. **Technology and Innovation**: ▪ Develop technology strategies that optimize operations. ▪ Invest in energy-efficient, climate-resilient technologies to minimize environmental impact.
Compliance & Legal	• Regulatory Compliance • New Environmental Regulatory Frameworks • Taxation Changes • Legal Obligations	Non-compliance with regulations can lead to penalties, reputational damage, and operational restrictions. New environmental regulations may require significant adjustments and investments to align with stricter standards. Changes in tax regulations across jurisdictions increase liabilities and compliance complexity. Legal obligations across multiple regions further complicate operations and require adherence to various standards.	**Compliance Management** ▪ Monitor updates on laws and regulations. ▪ Implement compliance programs. ▪ Consult experts for professional advice. **Environmental Stewardship** ▪ Comply to environmental standards through frameworks and training. ▪ Make use of software tools to track emissions and climate risks. ▪ Analyze different GHG Emissions Scenarios to develop proactive climate strategies. ▪ Monitor environmental impacts and involve stakeholders. **Tax Compliance** ▪ Ensure accurate filings that correspond on current tax laws. ▪ Enhance employee understanding of compliance requirements. **Legal Compliance** ▪ Ensure adherence to all legal obligations. ▪ Maintain open communication with regulatory authorities.
Geopolitical	• Trade Protectionism • Compliance with Sanctions • Advanced Terrorism, Piracy and Warfare	Geopolitical risks, such as trade protectionism and sanctions, disrupt global trade patterns and market access, potentially leading to penalties for non-compliance. Security threats in high-risk areas impact safety and increase operational costs due to enhanced security requirements.	**Trade and Risk Management** ▪ Diversify markets: Reduce dependency on specific regions. ▪ Assess risks: Prepare through scenario planning. ▪ Engage in advocacy: Influence policies trough trade unions and maintain market access. **Regulatory Adherence** ▪ Implement compliance programs: Adhere to trade regulations. ▪ Conduct due diligence: Ensure partners comply with regulations. **Insurance and Risk Transfer** ▪ Review coverage regularly: Address geopolitical risks adequately.

* Emerging risks

Risk Management Plan 2024

Risk Category	Risks	Exposure	Mitigation
Sustainability	• Climate Change Threats • Ethical Conduct • Diversity and Inclusion • Supply Chain Compliance	Climate-related risks, including extreme weather events and rising sea levels, pose threats to infrastructure, supply chains, and operations. Ethical lapses and lack of diversity can impact reputation, innovation, and workforce morale. Non-compliance with supply chain standards could indirectly affect operations.	**Adopting to Climate Change** ▪ Incorporate climate-risk mitigation measures into the Business Continuity Plan and standardize processes to ensure organizational readiness against climate-related disruptions. ▪ Establish an ESG working group to regularly address climate-related risks and opportunities. **Ethical Culture** ▪ Promote a Code of Conduct through training and reporting mechanisms. ▪ Implement diversity policies and address risks in operations and the supply chain. ▪ Monitor compliance to ensure ongoing adherence and inclusivity. **Supply Chain Management** ▪ Require suppliers' adherence to standards. ▪ Engage stakeholders to promote best practices.

Statement on Continuous Improvement

At Danaos, we are committed to continuously enhancing our risk management practices to effectively address new challenges. By refining our risk management framework, integrating industry best practices, embracing innovation, and investing in the professional development of our team, we strengthen our ability to identify, assess, and mitigate risks effectively.

We foster a culture of learning and open communication, encouraging feedback and insights that help us implement improvements promptly. This approach bolsters our resilience and adaptability, enabling us to meet and exceed stakeholder expectations, maintain a competitive edge, and achieve sustainable growth while upholding high standards of corporate governance and responsibility.

Glossary Of Key Terms

- **Compliance Audit**: A review of an organization's adherence to regulatory guidelines and internal policies.
- **Cybersecurity**: The practice of protecting systems, networks, and programs from digital attacks.
- **Emerging Risks**: Newly developing or changing risks that could significantly impact the organization's ability to achieve its objectives.
- **Impact**: The potential consequences or effects that a risk event may have on the organization's objectives.
- **Key Performance Indicators (KPIs)**: Quantifiable measures used to evaluate the success of an organization in achieving its objectives.
- **Likelihood**: The probability that a risk event will occur.
- **Mitigation Strategies**: Actions taken to reduce the likelihood or impact of a risk.
- **Residual Risk**: The remaining level of risk after mitigation strategies have been applied.
- **Risk Appetite**: The amount and type of risk that an organization is willing to pursue or retain.
- **Risk Assessment Matrix**: A tool used to define the level of risk by considering the probability against the severity of consequences.
- **Risk Owner**: An individual responsible for managing specific risks and implementing mitigation strategies.
- **Scenario Analysis**: A process of analyzing possible future events by considering alternative outcomes.
- **STEEPLE Analysis**: A framework used to analyze external factors impacting an organization, covering Social, Technological, Economic, Environmental, Political, Legal, and Ethical aspects.