

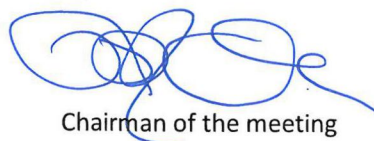
MAERSK TANKERS A/S

(Central Business Registration no: 28 67 35 90)

Annual Report 2016
(10th Accounting Year)

The Annual Report was presented and adopted at the Annual General Meeting.

Copenhagen, 10 May 2017



Chairman of the meeting

Esplanaden 50, 1263 København K

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Company information

Maersk Tankers A/S
Esplanaden 50
1263 København K
Denmark

Registration no.: 28 67 35 90
Founded: 7 December 2006
Domicile: Copenhagen
Financial year: 1 January - 31 December

Board of directors

Claus Hemmingsen (Chairman)
Christian Kledal
Graham Stuart Talbot

Management

Christian Ingerslev

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup
Denmark

General meeting

10 May 2017

Amounts in USD million

Financial highlights

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<i>Revenue</i>	451	623	655	775	1,020
<i>Profit before depreciation and impairment losses</i>	47	153	29	(26)	20
<i>Financial items, net</i>	(23)	(6)	86	(37)	(62)
<i>Profit/loss for the year</i>	35	171	210	(403)	(544)
<i>Total assets</i>	1,752	1,587	1,610	2,189	2,623
<i>Equity</i>	1,023	990	1,414	1,209	1,612
<i>Investments in tangible fixed assets</i>	15	130	133	125	16
<i>Profit margin</i>	10.4%	24.5%	4.4%	-3.3%	1.9%
<i>Equity ratio</i>	58.5%	62.4%	87.8%	55.2%	61.5%
<i>Return on equity</i>	3.5%	14.2%	16.0%	-28.6%	-56.9%

Management's review

Maersk Tankers A/S is a 100% owned subsidiary of A.P. Møller - Mærsk A/S. Maersk Tankers A/S and subsidiaries' (hereafter: "Maersk Tankers") objective is to manage shipping, chartering and other transportation business.

Activities for the year

Profit for the year was USD 35 million (2015: USD 171 million) after net reversal of impairments of USD 41 million (2015: USD 91 million). The result is at a satisfactory level.

The result was positively affected by an overall improved earnings across most segments, cost saving initiatives, reversal of impairments on affiliated companies.

Investments and divestments

To renew the product fleet, Maersk Tankers have in 2014 and 2015 ordered a total of 19 new build MR vessels. Two of the vessels were delivered in 2015 and six vessels were delivered in 2016 and the remaining vessels will be delivered in 2017 and 2018.

Events after balance sheet date

No events have occurred after 31 December 2016 which may significantly affect the financial year 2016.

Expectations for 2016

Excluding impairment losses and reversals of provisions the 2017 result for Maersk Tankers is expected to be in line with 2016.

Risks

Maersk Tankers income is mainly in USD, whereas expenditure is spread across several currencies. Due to net earnings in USD, this currency is also the Maersk Tankers primary financing currency. Based on a specific assessment, Maersk Tankers uses financial instruments to reduce the impact of exchange rate fluctuations.

Maersk Tankers has a certain concentration of customers but no significant dependency on particular customers or suppliers. Maersk Tankers has no significant credit risks.

Management's review

Health, safety and environment

We place a high priority on the health, safety and security of our employees and assets as well as on the wellbeing of all those contributing to or affected by our operations. We promote the health, safety and security of all our employees through managing risks and changes with prudence and promoting a strong safety culture. It is the objective of Maersk Tankers to provide a safe workplace with zero work-related injuries. We promote good occupational health and a healthy lifestyle for all our employees.

We are committed to the protection and conservation of the environment and we aim to continuously reduce emissions, optimise our operations, have zero spills, zero incidents, avoid harm to the environment, and to find innovative and timely solutions for improvement.

Diversity

The Board has a target for the diversity of the Company's shareholder-appointed board members with respect to the under-represented gender.

The Board believes that its members should be elected on the basis of their combined qualifications and at the same time recognizes the advantages of a board comprising a wide range of backgrounds such as global experience, style, culture and gender.

On the basis of this ambition the Board has defined a target to increase the share of the under-represented gender on the Board to account for at least 33% of the shareholder-appointed Board members.

As of 31 December 2016 the target has not been reached.

Corporate Social Responsibility

Reference is made to the parent company A.P. Møller - Mærsk A/S' separate sustainability report on the website:

<http://www.maersk.com/en/the-maersk-group/sustainability/publications>

Management's statement

The Board of Directors and Management have today discussed and approved the Annual Report for the financial year 1 January - 31 December 2016 for Maersk Tankers A/S.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position as of 31 December 2016 as well as the results of the Company's operations for financial year 1 January to 31 December the 2016.

Furthermore, in our opinion the Management's review contains a fair review of the development in the Company's operations and financial matters, the results of the Company's activities and financial position taken as a whole.

We recommend the Annual Report for adoption at the Annual General Meeting.

Copenhagen, 10 May 2017

Management



Christian Ingerslev

Board of Directors



Claus Hemmingsen
Chairman

Chairman



Graham Stuart Talbot



Christian Kledal

Independent Auditor's Report

To the Shareholders of Maersk Tankers A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Maersk Tankers A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of cash flows, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

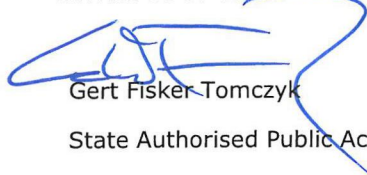
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 10 May 2017

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31



Gert Fisker Tomczyk
State Authorised Public Accountant



Henrik Ødegaard
State Authorised Public Accountant

Amounts in USD '000

<i>Note</i>	Income statement	<u>2016</u>	<u>2015</u>
1	Revenue	451,017	622,908
2	External costs	(404,009)	(470,260)
	Profit/loss before depreciation and impairment losses	<u>47,008</u>	<u>152,648</u>
6,7	Depreciation and impairment losses	(38,000)	(49,762)
	Result on sale of non-current assets, net	6,879	(16,506)
	Profit/loss before financial items	<u>15,887</u>	<u>86,380</u>
8	Impairment/reversal of affiliated and associated companies	40,500	91,000
3	Financial income	10,565	23,097
4	Financial expenses	(33,098)	(29,481)
	Profit/loss before tax	<u>33,854</u>	<u>170,996</u>
5	Tax on profit for the year	1,449	121
	Profit/loss for the year	<u>35,303</u>	<u>171,117</u>
	Proposal for distribution of the profit for the year		
	Retained earnings	35,303	171,117
	Total Distribution	<u>35,303</u>	<u>171,117</u>

Amounts in USD '000

<i>Note</i>	Assets	2016	2015
	IT software	4,920	2,400
6	Total intangible assets	4,920	2,400
	Vessels etc.	358,922	420,571
7	Total tangible fixed assets	358,922	420,571
	Investment in affiliated companies	1,177,067	900,574
	Investment in associated companies	639	639
8	Total fixed asset investments	1,177,706	901,213
	Total non-current assets	1,541,548	1,324,184
	Total inventories	7,761	8,582
	Trade receivables	42,319	55,935
	Receivables from affiliated companies	102,264	133,521
	Tax receivables	2,717	0
	Other receivables	9,256	11,084
	Prepayments	7,831	9,367
	Total receivables	164,386	209,907
9	Cash and bank balances	38,201	44,222
	Total current assets	210,349	262,711
	TOTAL ASSETS	1,751,897	1,586,895

Amounts in USD '000

Note	Liabilities	<u>2016</u>	<u>2015</u>
	Share capital	51,401	51,401
	Retained earnings	972,073	938,141
10	Total equity	<u>1,023,474</u>	<u>989,542</u>
11	Other provisions	4,744	5,968
	Total provisions	<u>4,744</u>	<u>5,968</u>
	Deferred tax liability	168	0
	Total non-current liabilities	<u>168</u>	<u>0</u>
	Bank and other credit institutions, etc.	327	169
	Trade payables	35,273	56,245
	Payables to affiliated companies	661,074	504,771
	Deferred income	3,856	5,699
	Tax payables	722	269
	Value of hedging contracts, etc.	2,275	1,390
	Other payables	19,983	22,842
	Total current liabilities	<u>723,510</u>	<u>591,385</u>
	Total liabilities	<u>723,679</u>	<u>591,385</u>
	TOTAL LIABILITIES	<u>1,751,897</u>	<u>1,586,895</u>
13	Other financial obligations		
14	Related parties		
15	Accounting policies		

Amounts in USD '000

Note	Statement of changes in Equity	Share capital	Proposed dividend	Retained earnings etc.	Total equity
	Equity 1 January 2015	51,401	600,000	762,499	1,413,900
	Profit/loss for the year			171,117	171,117
	Paid dividends		(600,000)		(600,000)
	Cash flow hedge			4,525	4,525
	Equity 31 December 2015	51,401	0	938,141	989,542
	2016				
	Profit/loss for the year			35,303	35,303
	Cash flow hedge			(1,370)	(1,370)
	Equity 31 December 2016	51,401	0	972,073	1,023,474

Amounts in USD '000

Note	Cash flow	<u>2016</u>	<u>2015</u>
	Profit before financial items	15,887	86,380
6,7	Depreciation, amortisation & impairment, net	38,000	49,762
	Gain on sale of non-current assets, etc., net	(6,879)	16,506
12	Change in working capital	(12,824)	20,097
11	Change in provisions	(1,224)	(33,285)
	Other non-cash items	(516)	280
	Cash flow from opera. act. bef. fin. items and tax	<u>32,444</u>	<u>139,740</u>
3	Dividend received	2,800	771
	Financial income received	225	155
	Financial expenses paid	(29,267)	(17,668)
	Taxes paid	(647)	(2,423)
	Cash flow from operating activities	<u>5,554</u>	<u>120,574</u>
	Purchase of intangible assets and property, plant and equipment	(18,838)	(132,163)
	Sale of intangible assets and property, plant and equipment	42,923	147,692
	Other financial investments	(236,679)	22,306
	Cash flow from investing activities	<u>(212,594)</u>	<u>37,835</u>
	Proceeds from borrowings, affiliated companies	201,019	439,582
10	Dividends paid to shareholders	0	(600,000)
	Cash flow used for financing activities	<u>201,019</u>	<u>(160,418)</u>
	Net cash flow for the year	(6,021)	(2,009)
	Cash and bank balances 1 January	44,222	46,231
	Cash and bank balances 31 December	<u>38,201</u>	<u>44,222</u>

Amounts in USD '000

Note

1 Revenue - Geographical segments

Distribution of revenue is based on the destination, split into three principal regions; Europe, North and South America and Other Regions.

Revenue	2016	2015
Europe	205,128	274,198
North and South America	66,035	112,662
Other Regions 1)	179,854	236,048
	451,017	622,908

1) Other regions primarily include Africa, Asia and the Middle East.

2 External cost

The Company has no directly employed persons, as all the employees working with the Company's activities are employed by Rederiet A.P. Møller A/S or other affiliates. In the accounting year, an average of 1,039 persons (2015: 1,104 persons) were engaged in the Company's activities.

The total payroll cost was USD 65 million (2015: USD 71 million).

Persuant to section 98(b)(3) of the Danish Financial Statements Act, remuneration to Management has not been disclosed.

No emoluments have been paid to the Board of Directors.

3 Financial income	2016	2015
Dividend received	2,800	771
Other financial income	7,765	22,326
	10,565	23,097
4 Financial expenses		
Interest expenses to affiliated companies	(23,799)	(18,334)
Other financial expenses	(9,299)	(11,147)
	(33,098)	(29,481)
5 Tax on profit for the year		
Current tax	1,449	121
	1,449	121

Amounts in USD '000

Note

6 Intangible assets	2016
	<u>It software</u>
Cost as of January 1	3,208
Addition during the year	<u>2,786</u>
Cost as of December 31	<u>5,994</u>
Amortisation and impairment losses as of January 1	(808)
Amortisation and impairment for the year	<u>(266)</u>
Amortisation and impairment losses as of December 31	<u>(1,075)</u>
Carrying amount as of December 31	<u>4,920</u>
7 Tangible fixed assets	2016
	<u>Vessels</u>
Cost as of January 1	743,142
Addition during the year	15,022
Disposal during the year	<u>(81,999)</u>
Cost as of December 31	<u>676,165</u>
Depreciation and impairment losses as of January 1	(322,571)
Depreciation and impairment for the year	(37,733)
Disposal during the year	<u>43,062</u>
Depreciation and impairment losses as of December 31	<u>(317,243)</u>
Carrying amount as of December 31	<u>358,922</u>

Tangible fixed assets includes assets under construction net USD 2.4 million, (2015: USD 0.9 million).

Amounts in USD '000

Note

8 Investments in subsidiaries

	2016
Cost as of January 1	1,394,884
Additions during the year	250.000
Sale and repayments of investments	<u>(14,007)</u>
Cost as of December 31	<u>1,630,877</u>
Impairments as of January 1	494,310
Reversal of impairment for the year	<u>(40,500)</u>
Impairments as of December 31	<u>453,810</u>
Carrying amount as of December 31	<u>1,177,067</u>

Subsidiaries

<u>Name</u>	<u>Domicile</u>	<u>Capital</u>	<u>Equity</u>	<u>Profit/loss</u>	<u>Ownership interest</u>
Broström General Partner A/S	Denmark	90	131	-1	100%
Maersk Gas Carriers Pte. Ltd.	Singapore	0	0	0	100%
Maersk Tankers MR General Partner A/S	Denmark	90	131	1	100%
Maersk Handy Gas Pte. Ltd. 1)	Singapore	0	0	0	100%
O.P.S.A. Operadora Portuaria S.A. 3)	Venezuela	12	-2.454	0	100%
Maersk Tankers Singapore Pte. Ltd.	Singapore	1.420.000	1.161.712	37.987	100%
Maersk Tankers Holland B.V. 2)	Holland	827	4.903	-52.912	100%
Maersk Tankers France SAS 1)	France	322	6.050	22	100%
Bro A B.V. 1)	Holland	0	0	2.679	100%
Maersk Product Tankers A/S	Denmark	92	65	-3	100%
Handytankers K/S	Denmark	13	13	-1	100%
Broström AB 1)	Sweden	8	15	1	100%
Nova Tankers A/S 1)	Denmark	86	79	-3	100%
Maersk Tankers LR2 General Partners A/S	Denmark	75	69	-3	100%
Broström K/S	Denmark	12	8	-4	100%
Maersk Tankers MR K/S	Denmark	12	8	-2	100%
Maersk Tankers LR2 K/S	Denmark	12	8	-3	100%

Investments in associated companies

	2016
Cost as of January 1	<u>639</u>
Cost as of December 31	<u>639</u>

Associated companies

<u>Name</u>	<u>Domicile</u>	<u>Capital</u>	<u>Equity</u>	<u>Profit</u>	<u>Ownership interest</u>
Long Range 2 A/S	Denmark	57	65	3	50%
LR2 Management K/S	Denmark	18	955	(26)	50%

1) 2015-figures

2) 2014-figures

3) 2013-figures

Amounts in USD '000

Note

9 Cash and bank balances

USD 33 million of the total liquid funds are classified as restricted funds (2015: USD 44 million).

10 Equity**Share capital**

Share capital of nominally USD 51.4 million is divided into 51,401 shares of a nominal value of USD 1,000 each.

Changes in the Company's share capital:

Share capital as of January 1, 2010	89
Capital increases in 2011	10,050
Capital increases in 2012	41,262
Share capital as of December 31	51,401

11 Other provisions

Provisions as of January 1	5,968
Provisions for the year	2,179
Provisions used/reversed during the year	(3,403)
Other provisions as of December 31	4,744

Maturities for provisions are expected to be:

Within a year	4,744
Between one and five years	-
	4,744

12 Working capital in the cash flow statement

Change of working capital in cash flow	2016	2015
Change in inventories	821	7,121
Change in trade receivables	5,558	13,044
Change in other receivables	8,070	11,694
Change in trade payables	(30,502)	3,503
Change in other payables	(1,801)	(15,835)
Exchange gain/loss on working capital	5,030	570
Change in working capital	(12,824)	20,097

Note

13 Other financial obligations

Other obligations

The Company is subject to the tonnage tax scheme. Tax may become payable on the sale of vessels or on withdrawal from the tonnage tax scheme.

The Company is part of national joint taxation in Denmark with A.P. Møller Holding A/S, and is jointly liable with other Danish companies within the Maersk Group for corporate- and withholding tax to Denmark.

Maersk Tankers A/S is involved in a number of legal disputes. Which are subject to uncertainty.

Leasing obligation

Maersk Tankers A/S has entered into operating leasing obligations totaling USD 181 million (December 31 2015: USD 267 million) until 2028, hereof USD 128 million to related parties (December 31 2015: USD 188 million).

External guarantee

Maersk Tankers has entered into external guarantee under the American Oil Pollution Act totaling USD 392 million.

Maersk Tankers has issued a performance guarantee for securing the performance and obligation of Maersk Tankers Singapore towards Samsung Heavy Industries (Ningbo) Co. Ltd., at the end of 2016 the remaining obligation amounted to USD 271 million.

14 Related parties

Maersk Tankers A/S' related parties include:

Controlling interest

Maersk Tankers A/S is 100% owned by A.P. Møller - Mærsk A/S, Esplanaden 50, 1098 Copenhagen K, registration no. 22 75 62 14.

The Company is included in the consolidated accounts for A.P. Møller - Mærsk A/S and the ultimate shareholder A.P. Møller Holding A/S, registration no. 25 67 92 88.

Other related parties with significant interest

Companies affiliated and associated with the A.P. Møller Holding.

The Company's related parties include the members of the Board of Directors, Management and the key executives, as well as the related family members of these persons. Related parties also include companies in which the abovementioned persons have a significant interest.

Transactions with related parties

As part of its usual trading, the Company purchases and sells goods and services from/to companies in the A.P. Møller-Maersk.

*Note***15 Accounting policies**

The Annual Report 2016 of Maersk Tankers A/S has been prepared in accordance with the provisions of the Danish Financial Statements Act applicable to class-C (large) companies.

In accordance with provision 112 of the Danish Financial Statements Act, no consolidated accounts have been presented as Maersk Tankers A/S and its subsidiaries are included in the consolidated accounts of A.P. Møller - Mærsk A/S.

The accounting policies are unchanged compared to last year.

Recognition and measurement

Income is recognised in the income statement as earned. All expenses are recognised in the income statement. Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and when the value of the asset can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that the future economic benefits will flow out of the Company and when the measurement of the value of the liability is reliable. On initial recognition, assets and liabilities are recognised at cost. Subsequently, assets and liabilities are measured as described below for each item.

Foreign Currency Translation

USD is used as presentation currency and functional currency, as the majority of the Company's transactions are in USD. Transactions in currencies other than the functional currency are translated to the exchange rate on the date of the transaction. Monetary items in foreign currency not settled by the balance sheet date are translated to the exchange rate on the balance sheet date. Foreign exchange gains and losses are included in the income statement as financial income and expenses.

On December 31 2016, the exchange rate was DKK/USD 705.50 (December 31 2015: DKK/USD 683.00).

Note

15 Accounting policies, continued

Revenue

Revenue is recognized as the service is rendered, by which incomplete voyages are recognized at the share related to the financial year.

External costs

External costs includes costs for staff, Daily Running Costs, costs for premises, costs for rental of vessels, administration etc.

Financial items

Financial income and expenses are recognized in the income statement at the amount relating to the financial year. Financial items include interest income and expense, gains and losses on transactions in foreign currency.

Tax on profit for the year

Tax on profit for the year includes the amount expected to be paid for the year plus adjustment concerning previous years, deferred tax and Danish Tonnage Tax.

Balance Sheet

Intangible fixed assets

Intangible fixed assets are measured at cost less of accumulated depreciation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets.

IT software is amortised over a useful life of 3-5 years.

Tangible fixed assets

Tangible fixed assets are measured at cost less of accumulated depreciation and impairment losses. Depreciation to estimated residual value is recognised in the income statement on a straight-line basis over the useful life, which for new vessels is typically 20 years.

Estimate of useful life and residual value is regularly reassessed. Impairment losses are recognised when the carrying amount of an asset exceeds the highest of estimated value in use and fair value less the cost of disposal.

Borrowing costs from specific as well as general borrowing directly related to assets with a long production period are attributed to cost during the period of production.

Expenses for drydocking of vessels are recognised when incurred in the carrying amount of vessels, etc. and depreciated over the period until next drydocking.

*Note***15 Accounting policies, continued****Investments in subsidiaries and associated companies**

Investments in subsidiaries and associated companies are recognized and measured at cost or at a lower fair value.

Inventories

Inventories are measured at cost according to the FIFO method. Write-down is made to a possibly lower net realisable value.

Receivables

Receivables are generally recognised at nominal value. Provisions for bad debts are made based on specific assessment, either individually or in groups.

Prepayments

Prepayments, listed as assets, are recognised on the basis of prepaid costs.

Derivatives

Derivatives are measured at fair value and included under the item "Value of hedging contracts, etc." (assets and liabilities).

Realised changes to the value of derivatives, used to hedge the value of recognised assets or liabilities, are included in the income statement together with the changes in the value of these assets and liabilities.

Unrealized changes to the value of derivatives, used to hedge future transactions, are recognised directly in equity until the hedged transactions are realised, at which time value changes are recognised in the income statement.

Changes to the value of derivatives that do not meet the requirements for being considered as hedging instruments are included in the income statement as financial income and expenses.

Provisions

Provisions are recognised when the Company has a current legal or constructive obligation. Provisions are recognised on the basis of specific estimates.

Advanced payments

Advanced payments, listed as liabilities, are recognised on the basis of received payments concerning subsequent income years.

Financial liabilities

Financial liabilities are initially recognised at the proceeds received and considering discounting when the time element is significant. Any premium or discount is amortised over the term of the liabilities.

Note

16 Accounting policies, continued**Cash flow statement**

The cash flow statement shows the Company's cash flows and cash and cash equivalents at the beginning and the end of the period.

Cash flow from operating activities is presented using the indirect method and includes all cash transactions other than cash flows arisen from investments and divestments, principal payments of loans, instalments on finance lease liabilities and equity transactions. Capitalisation of borrowing costs is considered as non-cash items, and the actual payments of those are included in cash flow from operations.

Cash and cash equivalents include restricted cash and cash equivalents.

Financial highlights

The ratios and figures shown in the statement of financial highlights are computed as follows:

Profit margin

$$\frac{\text{Profit before depreciation and impairment losses}}{\text{Revenue}}$$

Equity ratio

$$\frac{\text{Equity, closing}}{\text{Total liabilities, closing}}$$

Return on equity

$$\frac{\text{Profit/loss for the year}}{\text{Average equity}}$$