

MAERSK TANKERS A/S

(Central Business Registration no: 28 67 35 90)

Annual Report 2017
(11th Accounting Year)

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

Copenhagen, 14 May 2018

Chairman of the meeting

Nicolai Eigtveds Gade 28, 1402 København K

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Company information

Maersk Tankers A/S
Nicolai Elgtveds Gade 28, 4th floor
1402 Copenhagen K
Denmark

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

Board of directors

Robert M. Uggla (Chairman)
Paul Jonathan Reed (Deputy chairman)
Maria Pejter
Martin Larsen

Executive Management

Christian M. Ingerslev
Henrik Kvist-Jacobsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup
Denmark

General meeting

14 May 2018

Amounts in USD million

Financial highlights

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| <i>Revenue</i> | 275 | 451 | 623 | 655 | 775 |
| <i>Profit/loss before depreciation and impairment losses</i> | (79) | 47 | 153 | 29 | (26) |
| <i>Financial items, net</i> | 7 | (23) | (6) | 86 | (37) |
| <i>Profit/loss for the year - continuing operations</i> | (72) | 35 | 171 | 210 | (403) |
| <i>Profit/loss for the year</i> | (479) | 35 | 171 | 210 | (403) |
| <i>Total assets</i> | 726 | 1,752 | 1,587 | 1,610 | 2,189 |
| <i>Equity</i> | 546 | 1,023 | 990 | 1,414 | 1,209 |
| <i>Investments in tangible fixed assets</i> | 3 | 15 | 130 | 133 | 125 |
| <i>Profit margin</i> | -29.4% | 10.4% | 24.5% | 4.4% | -3.3% |
| <i>Equity ratio</i> | 75.5% | 58.5% | 62.4% | 87.8% | 55.2% |
| <i>Return on equity</i> | -10.3% | 3.5% | 14.2% | 16.0% | -28.6% |

2017 figures are impacted by the contribution of the vessel owning activities to a subsidiary. Comparison figures are not adjusted

Management's review

Maersk Tankers A/S is a 100% owned subsidiary of APMH Invest A/S. The business objectives of Maersk Tankers A/S and subsidiaries (hereafter: "Maersk Tankers") is to manage shipping, chartering and other transportation business.

Restructuring of Maersk Tankers

In October 2017 APMH Invest A/S (a subsidiary of A.P. Møller Holding A/S) acquired all shares in Maersk Tankers from A.P. Møller – Mærsk A/S.

In connection with the acquisition, it was announced that Maersk Tankers will transfer all its vessel owning activities to its new subsidiary Maersk Product Tankers A/S.

As per 14 December 2017, the board of Maersk Tankers decided to contribute all assets and liabilities related to vessel owning activities to Maersk Product Tankers A/S through a contribution in kind.

The vessel owning activities comprised of 27 vessels, as well as all shares in Maersk Tankers Singapore Pte. Ltd. and Maersk Tankers UK limited.

The result from the contributed activities prior to the acquisition date have been presented as discontinued operations in the income statement.

Activities for the year

The result for the year is a loss of USD 479 million (2016: USD 35 million profit) after loss in discontinued operations of USD 407 million (2016: USD 0). The result was negatively impacted by challenging market conditions and declining market rates in all segments.

Risks

Maersk Tankers income is mainly in USD, whereas expenditure is spread across currencies. 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, with the majority of its business with related parties. Maersk Tankers has no significant credit risks.

In relation to the leased vessels, Maersk Tankers is partially exposed to fluctuations in global freight.

Corporate social responsibility

Maersk Tankers places a high priority on the health, safety and security of its employees and assets as well as of those contributing to the company's operations. This is done by having thorough risk management systems and policies in place and embedding a safety culture. The objective is to provide a workplace with zero work-related injuries.

The company is committed to conducting its operations in an environmentally responsible way with the aim of continuously reducing emissions, achieving zero spills and incidents, and to continuously find solutions for improvement.

Read more in the sustainability report that is within the requirements of the Danish Financial Statements Act §99a.

<http://maersktankers-cdn.azureedge.net/-/media/about-us/documents/mt-sustainability-update-2017.ashx?rev=176f36b1c33f4ed39403852d517e415a>

Management's review

Diversity

Maersk Tankers board has one woman among 4 members.

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.

In reference to the Danish Financial Statement Act §99b Maersk Tankers did not have equal share with regards to gender in other management levels. In 2017 the company continued with its policy to promote diversity and gender equality through a focused effort starting from the recruitment process, where recruiters are tasked with having at least one woman on the shortlist where possible. Recruitment is focused on reaching out to eligible female candidates to come and work for the company. The company promotes flexible working hours including a policy on returning to work in the case of maternity leaves.

Maersk Tankers A/S is an equal opportunity employer and does not differentiate in employment basis gender, race, color, religious beliefs, sexual orientation, marital status, disability, age or other non-merit factors.

With the current focus and policies in place, the company expects to improve gender composition in other management levels in the coming years.

Expectations for 2018

The result from the continued business is expected to be somewhat above the result in 2017.

Events after balance sheet date

On 5 April 2018, the board of Maersk Tankers decided to transfer all shares in Maersk Product Tankers A/S to APMH Invest A/S (USD 500.6 million), whereof 95% of the shares were transferred through a declared extraordinary dividend.

On 23 April it was decided through an EGM to reduce the share capital of Maersk Tankers A/S by USD 32.7 million, the capital reduction is expected to be finally approved four weeks after.

No other events have occurred after 31 December 2017 which may significantly affect the financial year 2017.

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 2017 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 2017 as well as the results of the Company's operations for financial year 1 January to 31 December the 2017.

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.

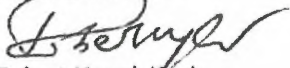

Copenhagen, 14 May 2018

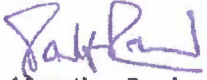

Executive Management


Christian Michael Ingerslev
CEO


Henrik Kvist-Jacobsen
CFO

Board of Directors


Robert Mærsk Uggla
Chairman

Maria Aagaard Pejter


Paul Jonathan Reed
Deputy chairman

Martin Nørkjær Larsen

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 2017, and of the results of the Company's operations for the financial year 1 January - 31 December 2017 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 2017, which comprise income statement, balance sheet, 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, 14 May 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31


Gert Fisker Tomczyk

State Authorised Public Accountant

mne9777


Henrik Ødegaard

State Authorised Public Accountant

mne31489

Amounts in USD '000

| <i>Note</i> | Income statement | <u>2017</u> | <u>2016</u> |
|-------------|--|------------------|---------------|
| 1 | Revenue | 274,714 | 451,017 |
| 2 | External costs | (353,554) | (404,009) |
| | Profit/loss before depreciation and impairment losses | <u>(78,839)</u> | <u>47,008</u> |
| 8,9 | Depreciation and impairment losses | (1,143) | (38,000) |
| | Result on sale of non-current assets, net | (427) | 6,879 |
| | Profit/loss before financial items | <u>(80,409)</u> | <u>15,887</u> |
| 10 | Impairment/reversal of affiliated and associated companies | 0 | 40,500 |
| 3 | Financial income | 14,551 | 10,565 |
| 4 | Financial expenses | (7,148) | (33,098) |
| | Profit/loss before tax | <u>(73,006)</u> | <u>33,854</u> |
| 6 | Tax on profit for the year | 687 | 1,449 |
| | Profit/loss for the year - continuing operations | <u>(72,319)</u> | <u>35,303</u> |
| 6 | Discontinued operations | (406,918) | 0 |
| 7 | Profit/loss for the year | <u>(479,237)</u> | <u>35,303</u> |

Amounts in USD '000

| <i>Note</i> | <i>Assets</i> | <u>2017</u> | <u>2016</u> |
|-------------|---------------------------------------|----------------|------------------|
| | IT software | 5,998 | 4,920 |
| 8 | Total intangible assets | <u>5,998</u> | <u>4,920</u> |
| | Vessels etc. | 0 | 358,922 |
| 9 | Total tangible fixed assets | <u>0</u> | <u>358,922</u> |
| | Investment in affiliated companies | 526,156 | 1,177,067 |
| | Investment in associated companies | 639 | 639 |
| 10 | Total fixed asset investments | <u>526,795</u> | <u>1,177,706</u> |
| | Total non-current assets | <u>532,794</u> | <u>1,541,548</u> |
| | Inventories | 5,564 | 7,761 |
| | Trade receivables | 45,028 | 42,319 |
| | Receivables from affiliated companies | 27,158 | 102,264 |
| | Tax receivables | 2,416 | 2,717 |
| | Other receivables | 16,982 | 9,256 |
| | Prepayments | 14,934 | 7,831 |
| | Total receivables | <u>106,518</u> | <u>164,387</u> |
| 11 | Cash and bank balances | <u>81,456</u> | <u>38,201</u> |
| | Total current assets | <u>193,538</u> | <u>210,349</u> |
| | TOTAL ASSETS | <u>726,332</u> | <u>1,751,897</u> |

Amounts in USD '000

| Note | Equity & liabilities | 2017 | 2016 |
|------|--|----------------|------------------|
| 12 | Share capital | 51,401 | 51,401 |
| | Retained earnings | 494,800 | 972,073 |
| | Total equity | 546,201 | 1,023,474 |
| | Deferred tax liability | 168 | 168 |
| 13 | Provisions | 15,762 | 4,744 |
| | Total non-current liabilities | 15,930 | 4,912 |
| | Bank and other credit institutions, etc. | 328 | 327 |
| | Trade payables | 44,096 | 35,273 |
| | Payables to affiliated companies | 86,566 | 661,074 |
| | Deferred income | 2,475 | 3,856 |
| | Tax payables | 0 | 722 |
| | Value of hedging contracts, etc. | 1,818 | 2,275 |
| | Other payables | 28,918 | 19,983 |
| | Total current liabilities | 164,201 | 723,510 |
| | Total liabilities | 180,131 | 728,423 |
| | TOTAL EQUITY & LIABILITIES | 726,332 | 1,751,897 |
| 14 | Contingent liabilities | | |
| 15 | Related parties | | |
| 16 | Accounting policies | | |

Amounts in USD '000

| <i>Note</i> | Statement of changes in Equity | Share capital | Retained earnings etc. | Total equity |
|-------------|---------------------------------------|----------------------|-------------------------------|---------------------|
| | Equity 1 January 2016 | 51,401 | 938,141 | 989,542 |
| | Profit/loss for the year | | 35,303 | 35,303 |
| | Cash flow hedge | | (1,370) | (1,370) |
| | Equity 31 December 2016 | 51,401 | 972,073 | 1,023,474 |
| | Profit/loss for the year | | (479,237) | (479,237) |
| | Cash flow hedge | | 1,964 | 1,964 |
| | Equity 31 December 2017 | 51,401 | 494,800 | 546,201 |

Amounts in USD '000

Note**1 Revenue - Geographical segments**

| | <u>2017</u> | <u>2016</u> |
|-------------------------|----------------|----------------|
| Europe | 108,579 | 205,128 |
| North and South America | 40,271 | 66,035 |
| Other | 125,865 | 179,854 |
| | <u>274,714</u> | <u>451,017</u> |

2 External cost

In the accounting year, an average of 163 persons (2016: 152 persons) were employed by the Company. The total staff cost for 2017:

| | <u>2017</u> | <u>2016</u> |
|----------|---------------|---------------|
| Salaries | 26,880 | 21,682 |
| Pensions | 1,888 | 1,710 |
| Other | 2,865 | 2,468 |
| | <u>31,633</u> | <u>25,860</u> |

With reference to the Danish Financial Statement Act 98b section 3, as the executive management only consisted of one member during 2017, the remuneration has not been disclosed. No remuneration has been paid to the board of directors in 2017.

3 Financial income

| | <u>2017</u> | <u>2016</u> |
|------------------------|---------------|---------------|
| Dividend received | 0 | 2,800 |
| Other financial income | 14,551 | 7,765 |
| | <u>14,551</u> | <u>10,565</u> |

4 Financial expenses

| | | |
|---|----------------|-----------------|
| Interest expenses from affiliated companies | 0 | (23,799) |
| Interest expenses from others | (300) | 0 |
| Other financial expenses | (6,847) | (9,299) |
| | <u>(7,148)</u> | <u>(33,098)</u> |

5 Discontinued operations

| | | |
|--|------------------|---------------|
| Revenue | 190,141 | 196,672 |
| External Costs | (122,043) | (147,349) |
| Deprecation, amortisation and impairment losses, net | (76,897) | (35,945) |
| Impairment of affiliated companies | (366,733) | 36,000 |
| Profit/loss before financial items | <u>(375,532)</u> | <u>49,379</u> |
| Financial expenses from affiliated companies | (30,222) | (23,657) |
| Tax | (1,163) | 1,384 |
| Profit/loss for the year | <u>(406,918)</u> | <u>27,106</u> |

Maersk Tankers transferred all its vessel owning activities to its new subsidiary Maersk Product Tankers A/S.

The vessel owning activities comprised of 27 vessels, as well as all shares in Maersk Tankers Singapore Pte. Ltd. and Maersk Tankers UK limited.

The result from the contributed activities prior to the acquisition date have been presented as discontinued operations in the income statement.

Amounts in USD '000

Note

| | | | |
|----------|--|------------------|--------------------|
| 6 | Tax on profit for the year | 2017 | 2016 |
| | Current income tax | 2,696 | 1,606 |
| | Prior years adjustments | (2,009) | (157) |
| | | <u>687</u> | <u>1,449</u> |
| 7 | Proposed distribution of the profit for the year | 2017 | 2016 |
| | Retained earnings | (479,237) | 35,303 |
| | Total | <u>(479,237)</u> | <u>35,303</u> |
| | <i>Extraordinary dividend declared in 2018 of USD 475.6 million.</i> | | |
| 8 | Intangible assets | | 2017 |
| | | | <u>It software</u> |
| | Cost as of January 1 | | 5,994 |
| | Addition during the year | | 1,728 |
| | Cost as of December 31 | | <u>7,722</u> |
| | Amortisation and impairment losses as of January 1 | | (1,075) |
| | Amortisation and impairment for the year | | (649) |
| | Amortisation and impairment losses as of December 31 | | <u>(1,724)</u> |
| | Carrying amount as of December 31 | | <u>5,998</u> |
| 9 | Tangible fixed assets | | 2017 |
| | | | <u>Vessels</u> |
| | Cost as of January 1 | | 670,808 |
| | Addition during the year | | 2,543 |
| | Disposal during the year | | (26,060) |
| | Contributed to subsidiary | | (647,292) |
| | Cost as of December 31 | | <u>0</u> |
| | Depreciation and impairment losses as of January 1 | | (311,886) |
| | Depreciation and impairment for the year | | (62,196) |
| | Disposal during the year | | 17,533 |
| | Contributed to subsidiary | | 356,549 |
| | Depreciation and impairment losses as of December 31 | | <u>0</u> |
| | Carrying amount as of December 31 | | <u>0</u> |

Amounts in USD '000

Note

| | | |
|-----------|--|--------------------|
| 10 | Investments in subsidiaries | 2017 |
| | Cost as of January 1 | 1,630,877 |
| | Additions during the year | 518,780 |
| | Disposals | (85) |
| | Contributed to subsidiary | <u>(1,506,816)</u> |
| | Cost as of December 31 | 642,755 |
| | Impairments as of January 1 | 453,810 |
| | Impairment of the year | 366,733 |
| | Contributed to subsidiary | <u>(703,944)</u> |
| | Impairments as of December 31 | 116,599 |
| | Carrying amount as of December 31 | 526,156 |

Subsidiaries

| Name | Domicile | Capital | Equity | Profit/loss | Ownership interest |
|--|-----------|---------|---------|-------------|--------------------|
| Broström General Partner A/S 2) | Denmark | 90 | 131 | -1 | 100% |
| Maersk Tankers MR General Partner A/S 2) | Denmark | 90 | 131 | 1 | 100% |
| O.P.S.A. Operadora Portuaria S.A. 4) | Venezuela | 12 | -2,454 | 0 | 100% |
| Maersk Tankers Holland B.V. 2) | Holland | 827 | 18,092 | -25 | 100% |
| Maersk Tankers France SAS 3) | France | 322 | 6,050 | 22 | 100% |
| Handytankers General Partner A/S 2) | Denmark | 92 | 65 | -3 | 100% |
| Handytankers K/S 2) | Denmark | 13 | 13 | -1 | 100% |
| Broström AB 3) | Sweden | 8 | 15 | 1 | 100% |
| Maersk Tankers LR2 General Partners A/S 2) | Denmark | 75 | 69 | -3 | 100% |
| Broström K/S 2) | Denmark | 12 | 8 | -4 | 100% |
| Maersk Tankers MR K/S 2) | Denmark | 12 | 8 | -2 | 100% |
| Maersk Tankers LR2 K/S 2) | Denmark | 12 | 8 | -3 | 100% |
| Maersk Tankers Romania SRL 1) | Romania | 5 | 0 | 0 | 100% |
| Maersk Tankers Afra KS 1) | Denmark | 12 | 0 | 0 | 100% |
| Maersk Tankers Afra General Partner AS 1) | Denmark | 72 | 0 | 0 | 100% |
| Maersk Tankers India Private Ltd. 1) | India | 0 | 0 | 0 | 100% |
| Maersk Tankers US Inc. 1) | US | 7,230 | 0 | 0 | 100% |
| Maersk Product Tankers A/S | Denmark | 1,590 | 500,656 | -489,924 | 100% |

Investments in associated companies

| | |
|-------------------------------|-------------|
| | 2017 |
| Cost as of January 1 | <u>639</u> |
| Cost as of December 31 | 639 |

Associated companies

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

- 1) Established in 2017
2) 2016-figures
3) 2015-figures
4) 2013-figures

Amounts in USD '000

Note

11 Cash and bank balances

USD 45 million of the total liquid funds are classified as restricted funds (2016: USD 33 million).

12 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.

There were no changes in the share capital during the last 5 years

13 Other provisions

| | <u>2017</u> |
|--|----------------|
| Provisions as of January 1 | 4,744 |
| Provisions for the year | 14,058 |
| Provisions contributed to subsidiaries | (980) |
| Provisions used/reversed during the year | <u>(2,060)</u> |
| Other provisions as of December 31 | <u>15,762</u> |

Maturities for provisions are expected to be:

| | |
|----------------------------|---------------|
| Within a year | 12,534 |
| Between one and five years | <u>3,227</u> |
| | <u>15,762</u> |

Provision relates to onerous contracts on chartered vessels, unsettled claims and legal disputes.

Note**14 Contingent liabilities**

Maersk Tankers A/S is involved in a number of commercial claims and disputes, which are subject to uncertainty. Through participation in a joint taxation scheme with A.P. Møller Holding A/S, the Danish Company is jointly liable for taxes payable etc. in Denmark.

Maersk Tankers A/S has entered into operating leasing obligations totaling USD 114 million (December 31 2016: USD 181 million) until 2021.

15 Related parties

Maersk Tankers A/S' related parties include:

Controlling interest

Maersk Tankers A/S is 100% owned by APMH Invest A/S, Esplanaden 50, 1263 Copenhagen K, registration no. 36 53 38 46.

Other related parties with significant interest

A.P. Møller Holding A/S, Copenhagen, Denmark has control over the Company and prepares consolidated financial statements. A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal is the ultimate owner. Other related parties include A.P. Møller-Mærsk A/S and Maersk Product Tankers A/S and APMH Invest A/S.

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 under direct or indirect ownership of A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til Almene Formaal.

*Note***16 Accounting policies**

The Annual Report for 2017 of Maersk Tankers 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 and its subsidiaries are included in the consolidated accounts of A.P. Møller Holding A/S.

In accordance with provision 86 (4) of the Danish Financial Statements Act, no cash flow statement has been presented as Maersk Tankers A/S is included in the consolidated cash flow statement of A. P. Møller Holding A/S.

In accordance with provision 96 (3) of the Danish Financial Statements Act, Audit fee has not been presented as Maersk Tankers A/S is included in the audit fee note in the consolidated accounts of A.P. Møller Holding 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.

*Note***16 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 include 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***16 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.

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****Discontinued operations**

Discontinued operations represent a separate major line of business disposed of or in preparation for sale. The results of discontinued operations are presented separately in the Income statement.

Assets and liabilities from discontinued operations and assets held for sale are measured at the lower of carrying amount immediately before classification as held for sale and fair value less cost to sell and impairment tests are performed immediately before classification as held for sale. Non-current assets held for sale are not depreciated.

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

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

Return on equity

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