

Maersk Supply Service A/S
Esplanaden 50
1263 Copenhagen K
Central Business Registration No
31414377

Annual report 2017

The Annual General Meeting adopted the annual report on 25.05.2018

Chairman of the General Meeting

Name: Ida Marie Schydt

Contents

	<u>Page</u>
Entity details	1
Statement by Management on the annual report	2
Independent auditor's report	3
Management commentary	6
Income statement for 2017	10
Balance sheet at 31.12.2017	11
Statement of changes in equity for 2017	13
Notes	14
Accounting policies	22

Entity details

Entity

Maersk Supply Service A/S
Esplanaden 50
1263 Copenhagen K

Central Business Registration No: 31414377

Founded: 29.04.2008

Registered in: Copenhagen

Financial year: 01.01.2017 - 31.12.2017

Board of Directors

Claus Michael Valentin Hemmingsen, Chairman
Graham Stuart Talbot
Christian Kledal
Mads Winther

Executive Board

Steen Strøm Karstensen

Entity auditors

PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Maersk Supply Service A/S for the financial year 01.01.2017 - 31.12.2017.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 25.05.2018

Executive Board

Steen Strøm Karstensen

Board of Directors

Claus Michael Valentin
Hemmingsen
Chairman

Graham Stuart Talbot

Christian Kledal

Mads Winther

Independent auditor's report

To the shareholders of Maersk Supply Service 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 Supply Service 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

Independent auditor's report

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.

Independent auditor's report

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, 25.05.2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Gert Fisker Tomczyk
State Authorised Public Accountant
mne9777

Martin Lunden
State Authorised Public Accountant
mne32209

Management commentary

	2017	2016	2015	2014	2013
	USD'm	USD'm	USD'm	USD'm	USD'm
Financial highlights					
Key figures					
Revenue	113	230	421	584	494
Gross profit/loss	44	45	419	268	262
Operating profit/loss	(104)	(1,112)	301	150	158
Net financials	(205)	(6)	(7)	(33)	24
Profit/loss for the year	(316)	(1,114)	292	393	133
Total assets	1,083	960	1,992	1,979	1,867
Investments in vessels, plant and equipment	(439)	(118)	(185)	(156)	(211)
Equity	(1)	312	1,283	1,053	738
Ratios					
Gross margin (%)	38.6	19.6	99.5	45.9	53.0
Profit margin (%)	(15.6)	(472.3)	71.5	25.7	32.0
Return on equity (%)	(202.9)	(139.6)	25.0	43.9	20.5
Equity ratio (%)	(0.1)	32.6	64.4	53.2	39.5
Return on assets (%)	0.1	(168.7)	15.1	7.6	8.5

Ratios	Calculation formula	Ratios
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Profit margin (%)	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.
Return on assets (%)	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$	Profitability ratio measuring net income from total assets.

Management commentary

Primary activities

Maersk Supply Service A/S is a 100% owned subsidiary of A.P. Møller - Mærsk A/S providing global services to the offshore industry including anchor handling, towage of drilling rigs and platforms, as well as supply vessel operation.

As of 31 December 2017, the Company's fleet comprises 24 vessels.

Development in activities and finances

The Income Statement of the Company for 2017 shows a loss of USD -316 million (2016: loss of USD 1,114 million) and at 31 December 2017 the balance sheet of the Company shows an equity of USD -1 million (2016 USD 313 million). The result for 2016 included impairment write downs and provision for loss making CAPEX contracts amounting to USD 1,052 million and the result of 2017 include impairment write downs on vessels and investments in subsidiaries of USD 297 million. The result (adjusted for impairment write down) for 2017 of USD -19 million was higher than the result (adjusted for impairment write down) for 2016 of USD -62 million primarily due to sales gains on vessels.

Investments

The Company has newbuilding contracts for seven vessels (four anchor handling tug supply vessels and three subsea support vessels). The contracts were entered into in 2014 and the vessels will be delivered during 2018 and 2019.

Outlook

The markets we operate in are under severe pressure with activities at historical low levels. Consequently, we expect a somewhat lower result (adjusted for impairment write down) in 2018 compared to 2017.

Particular risks

There is no significant dependency on particular customers or suppliers. The Company has no significant credit risks.

The main risks to Maersk Supply Service's performance relate to development in global demand for offshore support vessels and the corresponding development in day rates.

Impairment indicators in Maersk Supply Service are lower day rates on new contracts, forecasted utilization on vessels without firm contracts and a decline in fair market values of vessels.

The fair market value estimates for vessels are highly uncertain as the second-hand market for offshore vessels is in a state of distress with only very few benchmark transactions for both modern and older vessels involving willing buyers / willing sellers.

The value in use calculations for the individual cash generating units are sensitive to the day rates expected to apply when contracts expire and to the risks of idle periods in the forecasts. In addition, the discount rate, growth rate and EBITDA margin in the terminal period are critical variables. The day rates in the short to medium term are expected to remain low. In line with analysts in the market, management expects a gradual move towards more economically sustainable rates in the long-term. Due to the uncertain prospects for

Management commentary

Foreign exchange risks:

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

Safety

Maersk Supply Service A/S improved the safety performance throughout 2017 with a total of 7 recordable injuries, whereof 1 resulted in a Lost Time Incident (LTI) compared to 14 recordable injuries in 2016 whereof 6 resulted in a LTI. Despite a very good performance there will be a continuous focus on the required safety mindset and a continuous strive towards zero incidents.

To cater for the increased complexity and risk level in our operations Maersk Supply Service A/S initiated in 2017 a comprehensive upgrade of our Safety Procedures, Risk Management Process and Emergency Response set-up. This work will continue throughout 2018.

Environmental performance

Maersk Supply Service A/S had 20 spills (15 contained and 5 overboard) in 2017 which exceeds the total number of spills in 2016 with 1. However, the volume of the spills has decreased by 2/3 from 2256 liters in 2016 to 753 liters in 2017. A spill prevention campaign was launched in October 2017 to address the human factor and to address technical spills there is an increased focus on hose management.

Initiatives to reduce CO₂ emissions resulted in a 12% decrease per vessel in 2017 compared to 2016 numbers. The target of reducing CO₂ emissions by 30% originates from our 2010 baseline number of 12,683 t per vessel resulting in an end target of 8,878 t per vessel. With a 2017 result of 7,243 t per vessel we have achieved a substantial reduction in CO₂ emissions which we strive to continuously improve.

Statutory report on corporate social responsibility and share of underrepresented gender cf. section 99a and 99b of the Danish Financial Statements Act

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

http://files.shareholder.com/downloads/ABEA-3GG91Y/6161613778x0x972428/F5554324-60AA-455A-A40B-084AB5A4B979/APMM_Sustainability_Report_2017_A3_180221_final.pdf

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 25% of the shareholder-appointed Board members.

As of 31 December 2017, there are no women on the Board, however, the ambition is to reach the target of 25% female representation on the Board by 31 December 2018.

Management commentary

As part of the Maersk Group, Maersk Supply Service A/S adheres to the group policy which was adopted at the Board Meeting in A.P. Møller - Mærsk A/S on 21 February 2013 with the aim to increase the share of the under-represented gender on the company's management levels (link to policy: <https://www.maersk.com/-/media/business/sustainability/pdf/programme.ashx>). In accordance with this policy, Maersk Supply Service A/S has taken steps to look into how the company can attract qualified women to relevant management positions and this is a focus area when identifying candidates for key positions.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty apart from the above mentioned relating to impairment write downs which are based on a number of assumptions and estimates.

Unusual circumstances affecting recognition and measurement

The financial position at 31 December 2017 of the Company and the results of the activities of the Company for the financial year for 2017 have not been affected by any unusual events apart from the impact from the impairment write downs as described above and by the rapid decline in activity.

Events after the balance sheet date

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income statement for 2017

	Notes	2017 USD'000	2016 USD'000
Revenue	3	113,151	230,019
Other operating income		33,654	(12,604)
Other external expenses		<u>(103,093)</u>	<u>(172,321)</u>
Gross profit/loss		43,712	45,094
Staff costs	4	(9,542)	0
Depreciation, amortisation and impairment losses	5	<u>(137,936)</u>	<u>(1,156,748)</u>
Operating profit/loss		(103,766)	(1,111,654)
Other financial income	6	32,239	13,985
Impairment of financial assets	7	(194,154)	0
Other financial expenses	8	<u>(42,949)</u>	<u>(20,108)</u>
Profit/loss before tax		(308,630)	(1,117,777)
Tax on profit/loss for the year	9	<u>(7,818)</u>	<u>4,141</u>
Profit/loss for the year	10	<u>(316,448)</u>	<u>(1,113,636)</u>

Balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 USD'000</u>	<u>2016 USD'000</u>
Software		4,161	5,443
Intangible assets	11	<u>4,161</u>	<u>5,443</u>
Plant and machinery		196	196
Vessels		477,542	451,624
Prepayment for vessels		69,431	107,675
Vessels, plant and equipment	12	<u>547,169</u>	<u>559,495</u>
Investments in subsidiaries		353,157	252,134
Fixed asset investments	13	<u>353,157</u>	<u>252,134</u>
Fixed assets		<u>904,487</u>	<u>817,072</u>
Raw materials and consumables		3,406	5,023
Manufactured goods and goods for resale		1,150	2,536
Inventories		<u>4,556</u>	<u>7,559</u>
Trade receivables		15,420	35,182
Receivables from group enterprises		120,159	70,892
Other receivables		31,597	24,614
Income tax receivable		5,348	4,979
Receivables		<u>172,524</u>	<u>135,667</u>
Cash		<u>1,133</u>	<u>43</u>
Current assets		<u>178,213</u>	<u>143,269</u>
Assets		<u>1,082,700</u>	<u>960,341</u>

Balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 USD'000</u>	<u>2016 USD'000</u>
Share capital	14	100,000	100,000
Hedges		3,016	500
Retained earnings		<u>(104,053)</u>	<u>212,395</u>
Equity		<u>(1,037)</u>	<u>312,895</u>
Other provisions	15	<u>174,543</u>	<u>251,139</u>
Provisions		<u>174,543</u>	<u>251,139</u>
Debt to other credit institutions		122,581	156,974
Payables to group enterprises		<u>30,939</u>	<u>44,460</u>
Non-current liabilities other than provisions	16	<u>153,520</u>	<u>201,434</u>
Current portion of long-term liabilities other than provisions	16	37,266	42,649
Trade payables		16,956	14,155
Payables to group enterprises		696,533	135,998
Income tax payable		3,710	361
Other payables		<u>1,209</u>	<u>1,710</u>
Current liabilities other than provisions		<u>755,674</u>	<u>194,873</u>
Liabilities other than provisions		<u>909,194</u>	<u>396,307</u>
Equity and liabilities		<u>1,082,700</u>	<u>960,341</u>
Going concern	1		
Special items	2		
Financial instruments	17		
Contingent liabilities	18		
Mortgages and securities	19		
Related parties with controlling interest	20		
Transactions with related parties	21		
Group relations	22		
Events after the balance sheet date	23		

Statement of changes in equity for 2017

	Share capital USD'000	Hedges USD'000	Retained earnings USD'000	Total USD'000
Equity beginning of year	100,000	500	212,395	312,895
Fair value adjustments of hedging instruments, end of year	0	3,216	0	3,216
Tax on movement	0	(700)	0	(700)
Profit/loss for the year	0	0	(316,448)	(316,448)
Equity end of year	100,000	3,016	(104,053)	(1,037)

Notes

1. Going concern

In connection with the board of directors and the management's assessment of the assumption of going concern which forms the basis of the preparation of the Financial Statements of Mærsk Supply Service A/S for 2017 A.P. Møller - Mærsk A/S, being the parent company, have informed that they in line with prior practice have the intention to support Mærsk Supply Service A/S to the extent necessary to finance the Company's operating activities and to settle its financial obligations as they fall due until the date of publishing of the financial statements for 2018.

Based on this, the financial statements of Maersk Supply Service A/S are based on the assumption of going concern.

2. Special items

Special items include significant impairment on vessels of USD 103 million (net) and impairment on investments in subsidiaries of USD 194 million.

The fair market value estimates for vessels are highly uncertain as the second-hand market for offshore vessels is in a state of distress with only very few benchmark transactions for both modern and older vessels involving willing buyers / willing sellers.

The value in use calculations for the individual cash generating units are sensitive to the day rates expected to apply when contracts expire and to the risks of idle periods in the forecasts. In addition, the discount rate, growth rate and EBITDA margin in the terminal period are critical variables. The day rates in the short to medium term are expected to remain low. In line with analysts in the market, management expects a gradual move towards more economically sustainable rates in the long-term. Due to the uncertain prospects for vessels without contracts, further impairment write downs may be recognized in the coming years, if the market decline continues for a longer period.

	2017	2016
	USD'000	USD'000
3. Revenue		
Revenue by geographical market		
South America	37,244	110,191
Africa	6,098	17,798
Europe	39,771	83,528
North America	24,645	0
Asia and Pacific	5,393	18,502
	113,151	230,019
Revenue by activity		
Exports	113,151	230,019
	113,151	230,019

Notes

	2017	2016
	USD'000	USD'000
4. Staff costs		
Wages and salaries	8,159	0
Pension costs	1,116	0
Other social security costs	192	0
Other staff costs	75	0
	9,542	0
Average number of employees	687	902

The Company has until November had no direct employed persons, as all employees working the Company's activities have been employed by Rederiet A.P. Møller A/S or other affiliates.

The total payroll costs was USD 57 million (2016: USD 84 million).

From 1 November 2017 all persons engaged in the Company's activities have been employed directly by Maersk Supply Service A/S.

Pursuant 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.

5. Depreciation, amortisation and impairment losses

Amortisation of intangible assets	1,282	3,727
Impairment losses on intangible assets	0	10,955
Depreciation of vessels, plant and equipment	34,185	101,174
Impairment losses on vessels, plant and equipment	102,469	1,040,892
	137,936	1,156,748

6. Other financial income

Financial income arising from group enterprises	293	510
Exchange rate adjustments	31,945	11,268
Other financial income	1	2,207
	32,239	13,985

Notes

7. Impairment of financial assets

Impairment of financial assets comprises write down on investments in subsidiaries.

	2017	2016
	USD'000	USD'000
8. Other financial expenses		
Financial expenses from group enterprises	15,414	1,859
Exchange rate adjustments	24,181	17,456
Other financial expenses	3,354	793
	42,949	20,108

9. Tax on profit/loss for the year

Tax on current year taxable income	8,000	1,462
Adjustment concerning previous years	(182)	(5,603)
	7,818	(4,141)

10. Proposed distribution of profit/loss

Retained earnings	(316,448)	(1,113,636)
	(316,448)	(1,113,636)

11. Intangible assets

	Software
	USD'000
Cost beginning of year	22,310
Cost end of year	22,310
Amortisation and impairment losses beginning of year	(16,867)
Amortisation for the year	(1,282)
Amortisation and impairment losses end of year	(18,149)
Carrying amount end of year	4,161

Notes

	Plant and machinery USD'000	Vessels USD'000	Prepayments for vessels USD'000
12. Vessels, plant and equipment			
Cost beginning of year	1,965	1,771,257	291,024
Transfers	0	360,588	(360,588)
Additions	0	1,659	439,916
Disposals	0	(388,784)	(103)
Cost end of year	1,965	1,744,720	370,249
Depreciation and impairment losses beginning of the year	(1,769)	(1,324,264)	(183,349)
Impairment losses for the year	0	15,000	(117,469)
Depreciation for the year	0	(34,185)	0
Reversal regarding disposals	0	76,271	0
Depreciation and impairment losses end of the year	(1,769)	(1,267,178)	(300,818)
Carrying amount end of year	196	477,542	69,431

The impairment relates to write-down on the net book value of the vessels driven by the declining market and reduced activity.

	Investmentg in subsidiaries USD'000
13. Fixed asset investments	
Cost beginning of year	252,134
Additions	295,177
Cost end of year	547,311
Impairment losses for the year	(194,154)
Impairment losses end of year	(194,154)
Carrying amount end of year	353,157

Notes

	<u>Registered in</u>	<u>Corpo- rate form</u>	<u>Equity inte- rest %</u>	<u>Equity USD'000</u>	<u>Profit/loss USD'000</u>
Investments in subsidiaries comprise:					
Maersk Supply Service International A/S**	Denmark	A/S	100.0	282,406	(193,412)
Maersk Supply Service West Africa A/S**	Denmark	A/S	100.0	95,789	23,199
Maersk Supply Service Nigeria A/S**	Denmark	A/S	100.0	(2,499)	(12,713)
Maersk Supply Service Brazil Holdings A/S**	Denmark	A/S	100.0	(27,426)	(38,592)
Maersk Supply Service Integrated Solutions A/S**	Denmark	A/S	100.0	(951)	(1,023)
Maersk Supply Service Canada Ltd.*	Canada	Ltd.	100.0	(52)	(133)
Maersk Supply Service UK Limited*	United Kingdom	Limited	100.0	96,165	(13,600)
Maersk Supply Service Subsea UK Limited*	United Kingdom	Limited	100.0	79,122	(2,878)
Maersk Supply Service France SAS*	France	SAS	100.0	97	(42)
Maersk Supply Service Singapore Ltd.*	Singapore	Ltd.	100.0	0	0
Maersk Crewing Australia Pty Ltd.*	Australia	Ltd.	100.0	177	(99)
Maersk Supply Service (Angola) S.A.*	Angola	S.A.	49.0	(255)	(205)
Maersk Supply Service Apoio Maritimo Ltda.*	Brazil	Ltda.	100.0	(20,674)	(39,090)

Notes

Maersk Supply Service Congo SA*	Congo	SA	100.0	(2,066)	(853)
------------------------------------	-------	----	-------	---------	-------

* Annual Report 2016 (if not presented in USD it has been converted from local currency to USD, share capital and equity has been calculated using the exchange rates as of 31 December 2016, and the profit is calculated using the average exchange rate for 2016).

** Annual Report 2017 (if not presented in USD it has been converted from local currency to USD, share capital and equity has been calculated using the exchange rates as of 31 December 2017, and the profit is calculated using the average exchange rate for 2017).

14. Share capital

The share capital consists of 507,531 shares of a nominal value of DKK 1,000, equal to USD '000 million. No shares carry any special rights.

15. Other provisions

Other provisions comprising litigations, provisions to onerous new-building contracts etc., including disputes on taxes and duties. Other provisions of USD 1.0 million (2016: USD 9.9 million) are expected to mature within one year and the remaining within 2-5 years. Provisions are recognised based on specific estimates and amounts may vary, as these are uncertain.

Other provisions includes USD 160 million (2016: USD 220 million) in provision regarding loss making CAPEX contracts. Provisions of USD 124 million matures within 1 year, whereas the remaining provisions of USD 36 million matures after 1 year.

	Instalments within 12 months 2017 USD'000	Instalments within 12 months 2016 USD'000	Instalments beyond 12 months 2017 USD'000	Outstanding after 5 years USD'000
16. Liabilities other than provisions				
Debt to other credit institutions	37,266	42,649	122,581	8,367
Payables to group enterprises	0	0	30,939	0
	37,266	42,649	153,520	8,367

Notes

17. Financial instruments

Forward exchange contracts:

The forward exchange contracts have been concluded to hedge future purchases of vessels in NOK. The fair value of the forward exchange contracts amounts to a gain of USD 10 million (2016: loss of USD 89 million) at the balance sheet date. The expected purchases of vessels have been hedged corresponding to an amount of USD 275 million (2016: USD 525 million). The maturity of the hedging instruments coincides, as closely as possible with the expected payments dates in NOK.

Interest swap:

The company has to a limited extent entered into interest swap agreements.

18. Contingent liabilities

The Company is subject to the Tonnage Tax scheme. The Company is not subject to deferred tax. However, tax may become payable on the sale of vessels or on withdrawal from the Tonnage Tax scheme.

The Entity participates in a Danish joint taxation arrangement where A.P. Møller Holding A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

There are uncertain tax positions relating to MSS A/S in various countries in which the Company operates. These involve significant amounts and are subject to considerable uncertainty.

There are no other contingent liabilities at 31 December 2017.

19. Mortgages and securities

Security:

Security in vessels at the amount of USD 160 million (2016: USD 200 million). The carrying amount of the vessels provided as security is USD 382 million (2016: 352 million).

Contractual obligations:

As of 31 December 2017, the company has outstanding commitments of USD 493 million related to vessels contracted (2016: USD 919 million).

There are no other securities at 31 December 2017.

20. Related parties with controlling interest

Controlling interest:

Majority shareholder: A.P. Møller – Mærsk A/S, Esplanaden 50, 1263 Copenhagen K, Denmark.

Notes

Other related parties:

Companies affiliated with A.P. Møller – Mærsk A/S and A.P. Møller Holding 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 above-mentioned persons have a significant interest.

21. Transactions with related parties

The vessel Maersk Winner was sold to Maersk Supply Service Subsea UK Ltd in March 2017 and Maersk Installer was sold to Maersk Supply Service Subsea UK Ltd in October 2017.

22. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group: A.P. Møller – Mærsk A/S, Esplanaden 50, 1263 Copenhagen K, Denmark.

The Company is also included in the consolidated financial statements for A.P. Møller Holding A/S, Esplanaden 50, 1263 Copenhagen K, Denmark.

23. Events after the balance sheet date

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large enterprises).

The accounting policies applied to these financial statements are consistent with those applied last year and the Annual Accounts are presented in American dollars (USD). The exchange rate of USD to DKK was 6.602 at 31 December 2017 (2016: 6.725).

Adjustments of comparative figures for 2016 has been made between payables to group enterprises and other payables without affecting equity and the income statement.

No consolidated annual accounts have been prepared, cf. section 112(1) of the Danish Financial Statements Act. The Annual Accounts of Maersk Supply Service A/S and its group enterprises are included in the consolidated annual accounts for A.P. Møller – Mærsk A/S, Denmark, CVR nr. 22 75 62 14.

Pursuant to section 96(3) of the Danish Financial Statements Act, the Company has chosen not to show the fee to the Company's auditors appointed at the Annual General Meeting.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Hedge accounting

Changes in fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair value of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results

Accounting policies

in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Changes in the fair values of financial instruments that are designated and qualify as hedges of net investments in independent foreign subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is recognised in the income statement.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Income statement

Revenue

Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for staff, daily running costs, administration etc.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

Accounting policies

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to vessels, plant and equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year.

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, payables and transactions in foreign currencies.

Impairment of financial assets

Impairment losses on financial assets comprise impairment losses on financial assets which are not measured at fair value on a current basis.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, payables and transactions in foreign currencies.

Tax on profit/loss for the year

The Company is included in the Tonnage Taxation Scheme. Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Company is jointly taxed with group enterprises. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance sheet

Software

Software is amortised on straight-line bases over the useful life.

Patents and licenses are measured at the lower of cost less accumulated amortisation and recoverable amount.

Vessels, plant and equipment

Vessels, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

Interest expenses on loans for the financing of the manufacture of vessels, plant and equipment are included in cost if they relate to the manufacturing period. All other finance costs are recognised in the income statement.

Accounting policies

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Vessels	20 years
Other	3-10 years

Estimated useful lives and residual values are reassessed annually.

Items of vessels, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Investments are written down to the lower of recoverable amount and carrying amount.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Income tax payable or receivable

Current tax payable or receivable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Cash

Cash comprises cash in hand and bank deposits.

Other provisions

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement for the enterprise has been prepared, as the relevant information is included in the consolidated annual accounts of A.P. Møller – Mærsk A/S.