Maersk Line A/S
Esplanaden 50, DK-1263 Copenhagen K
CVR-nr. 32 34 57 94

Annual report 2018

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 29 May 2019.

Anne Pindborg

Anne Pindborg - chairman

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MANAGEMENT'S REVIEW

COMPANY DETAILS

Name	Maersk Line A/S
Address	Esplanaden 50, 1263 Copenhagen K., Denmark
CVR no.	32 34 57 94
Established	4 December 2013
Registered office	Copenhagen
Financial year	1 January – 31 December
Website	www.maerskline.com
Board of Directors	Jim Hagemann Snabe, Chairman Søren Toft Søren Skou Caroline Sundorph Pontoppidan
Executive Board	Søren Skou, CEO
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44, 2900 Hellerup, Denmark
Annual General Meeting	Annual general meeting will be held on 29 May 2019

FINANCIAL HIGHLIGHTS AND KEY FIGURES

USD million	2018	2017	2016	2015*	2014
Key figures**					
Revenue	24,688	21,707	18,849	19,729	0
Profit before depreciation and impairment	1,599	1,871	688	1,891	0
Profit before financial items	-88	458	-693	692	0
Profit for the year	**-450**	**162**	**92**	**770**	**0**
Non-current assets	24,403	25,024	19,566	19,287	0
Current assets	4,381	4,842	3,824	3,100	0
Total assets	**28,784**	**29,866**	**23,390**	**22,387**	**0**
Share capital	82	82	82	82	0
Equity	**5,402**	**5,919**	**5,675**	**5,603**	**0**
Provisions	418	336	382	432	0
Non-current liabilities other than provisions	14,271	15,940	10,046	9,954	0
Current liabilities other than provisions	8,693	7,671	7,287	6,398	0
Cash flows from operating activities	1,272	1,993	1,325	2,367	0
Net cash flows from investing activities	-517	-5,794	-575	-3,849	0
Of which property, plant and equipment	*-948*	*-1,461*	*-575*	*-1,709*	*0*
Cash flows from financing activities	-727	3,726	-682	1,512	0
Total cash flows	**28**	**-76**	**68**	**30**	**0**
Financial ratios***					
Operating margin	0%	2%	-4%	4%	0
Solvency ratio	19%	20%	24%	25%	0
Return on equity	-8%	3%	2%	15%	0
Average number of employees	1	1	1	0	0

*As of 1 February 2015, Maersk Line activities of A.P. Møller - Mærsk A/S, including related subsidiaries, were contributed to Maersk Line A/S. Financial year 2015 consists of 11 months of activity and is therefore not fully comparable to the following financial years. Prior to 2015, the company had no activity.

**Presented key figures related to Maersk Line A/S legal entity and are not consolidated figures.

***Definitions of financial ratios are presented in note 19 to the financial statements of this annual report.

MAERSK LINE A/S' MAIN ACTIVITIES

Maersk Line A/S' and its subsidiaries' primary activities are to perform shipping, chartering, trade and service, other transport business and industrial activities at home and abroad, investment in fixed assets and financing, as well as other related activities. The Maersk Line group is the world's largest container shipping company, operating 710 vessels and known for reliable, flexible and eco-efficient services.

Maersk Line's services are marketed through the Maersk Line, Hamburg Süd, Aliança, Safmarine, SeaLand and MCC Transport brands. Maersk Line is part of A.P. Moller - Maersk, an integrated transport & logistics company with multiple brands that is a global leader in container shipping and ports.

FINANCIAL REVIEW

Maersk Line A/S (parent company non-consolidated) generated revenue of USD 24,688 million and made a loss of USD 450 million in 2018. Despite a growth in revenue compared to 2017, driven by an increase in volumes, the year was challenged mainly by increase in bunker prices compared to 2017.

The market

Full-year 2018 growth ended at 3.7%, which was significantly weaker than the 5.6% recorded in 2017. Meanwhile, supply growth remained high at the beginning of the year, reflecting the many new vessels entering the market as well as the low levels of idling and the scrapping of older vessels, which led to declining freight rates in the first two quarters of 2018. Market fundamentals stabilised in the second half of 2018, as effective supply growth tapered off and freight rates began to increase, and industry profits picked up in Q3 2018 from subdued levels in the first half of 2018. Profits were negatively impacted by the increase in bunker costs, and which were not fully compensated for by increase in freight rates.

East-West container trades grew by 2.6% in 2018, as subdued trade flows in the first part of 2018 were counterbalanced by a growth acceleration to 4.5% in Q4 2018 compared to Q4 2017. The strong Q4 growth was driven by **North American** imports from the Far East of 10.8%, largely reflecting the front-loading of Chinese goods transport to the US in October and November to avoid the anticipated tariff rate increase on 1 January 2019, which was subsequently delayed. For 2018, North American imports from the Far East grew by 6.0%. **European** import growth from Asia remained moderate at 2.8% in Q4, in line with momentum in the European macroeconomy, bringing total growth on this trade to 1.9% for 2018. Meanwhile, **Asian** imports from the US and Europe (East-West backhaul) declined in Q4 2018, largely because of the restrictions imposed by China on waste and scrap material imports, which kept volumes low for most of 2018, and led to a decrease of 1.7% for the full year of 2018. **North-South** container trades slowed to 2.3% growth in Q4, substantially lower than for the full year of 2018 with a growth of 3.9%. **Latin American** import growth had been strong in the first part of 2018, but a decline of 1.4% in Q4 was the main drag on North-South container trades. Growth of 3.4% for the full year reflected a closer alignment to domestic demand developments. Moreover, import growth in the **Middle East** and **Indian** subcontinent grew by only 1.7% in Q4, bringing total growth to 2.1% for 2018, while African imports grew 3.9% in Q4, and 5.8% for 2018. Finally, **intra-regional** trades posted solid growth of 5.5% in Q4, and 4.9% for the year.

The moderation in container demand growth in 2018 mirrors the slowdown in global macroeconomics and global export orders. The main risk to global container demand relates to a further cyclical slowing of the global economy. Emerging markets are particularly vulnerable to fluctuations in the US dollar and to economic developments in the US via their financial leverage. Moreover, a further escalation of the international trade tensions carries a significant risk to global trade. Finally, the outcome of the Brexit negotiations poses a risk to the UK's container trade.

Trade restrictions between the US and China sharply intensified in 2018, and the trade restrictive measures exposed nearly USD 440bn worth of traded goods in 2018, corresponding to around 2.6% of the global value of traded goods. During Q4 2018, the US administration decided to delay the increase of US tariffs on USD 200bn of Chinese import goods from 10% to 25% until March 2019, pending negotiations between the US and China. The negative effects on global trade from the trade restrictions remain to be seen, but the combined effect of all trade restrictions introduced during 2018 is estimated to reduce global container trade growth by 0.3-1.0% points per year in 2019-2020 if US tariffs are increased to 25% in March 2019, and by 0.2-0.5% points per year if tariffs instead remain at current levels.

The global container fleet stood at 22m TEU at the end of 2018, 5.8% higher than at the end of 2017. Deliveries amounted to 1,300k TEU (165 vessels) in 2018, with most deliveries occurring at the beginning of the year and only 184k TEU during Q4. Deliveries were dominated by vessels larger than 10k TEU. Hardly any vessels were scrapped in the first three quarters of 2018, but in Q4, 35 vessels were scrapped, bringing the total to 66 vessels in 2018, corresponding to 111k TEU. The low rate of scrapping in 2018 was linked to the small number of idled vessels, which in turn reflects the tight market for vessels below 7.5k TEU, which also supported time charter rates.

New vessel orders amounted to a decent 1,297k TEU in 2018 (215 vessels), probably reflecting the solid demand seen in recent years, and the very low amount of new orders in 2016 and 2017 of 292k TEU and 671k TEU, respectively. However, the level of new orders was very low in Q4 2018, at only 59k TEU, and the overall orderbook-to-fleet ratio remains relatively low at around 12%, well below the 2013-2017 average of 18%. According to Alphaliner, this means that the nominal global container fleet is set to grow by 4.0% in 2019.

The International Maritime Organization (IMO) has decided to implement a 0.5% sulphur cap on marine fuel from 2020 (IMO 2020). While the consequences for container vessel supply are difficult to forecast, it could very well lead to the retrofitting of a significant part of the global fleet during a three-to-five-year period beginning in the later part of 2019. Together with incentives to reduce vessel speed, this would likely reduce effective supply, potentially by up to 2.5% by 2021. Moreover, the spread between bunker and crude oil fuel types could widen sharply, as early as from Q4 2019.

Freight rates, as measured by the China Composite Freight Index (CCFI), declined slightly by 1.0% in 2018, reflecting the substantial number of new vessels entering the market, mainly in the first part of the year. However, freight rates were 9.3% higher in Q4 2018 compared to Q4 2017, as only a few vessel deliveries came to the market, the number of idled vessels increased, and due to the extra demand growth on the Pacific trades following the front-loading of US imports from China. Freight rates rose by 32% in Q4 on the Asia to West Coast US trade. Rates were stable on the Asia to North Europe trade, with an increase of 0.5%, while Asia to Mediterranean Europe trade increased by 14%. Uncertainties relating to the strength of container demand in 2019 pose a downside risk to freight rates in general, while uncertainties about supply, particularly relating to the impact of IMO 2020 sulphur regulations, present an upside.

Time charter rates rose sharply in 2018 and peaked during the summer, reflecting a shortage of small and medium-size vessels, as noted earlier. More recently, time charter rates have come down on the back of the more moderate fundamentals. In Q4 2018, time charter rates declined by 12% compared to Q3 2018, but remained elevated. Clarksons' time charter rate index increased by 8.8% compared to Q4 2017, down from a growth rate of 38% in Q2 2018.

Rotterdam bunker prices increased 31% in 2018 compared to 2017, reflecting a steady increase during Q1 to Q3 2018 followed by a decrease in Q4 of 6.0% compared to Q3 2018. Nevertheless, Q4 2018 bunker prices remained 19% higher than in Q4 2017. Forward markets project decline in bunker prices by Q4 2019, compared to Q4 2018. The anticipated decline is driven by a weaker outlook for crude oil prices and a wider bunker-crude oil spread, reflecting the market's view of the impact of the IMO 2020 sulphur regulations on demand for high sulphur bunker fuels.

The US dollar was on average 1.9% stronger against the euro in Q4 2018 compared to Q3 2018. The US dollar has on average been 4.5% weaker in 2018 than in 2017.

Strategy review

A.P. Moller - Maersk is in the process of transforming itself from being a conglomerate to becoming the global integrator of container logistics, providing customers with end-to-end supply chain solutions. Significant steps have been taken on this journey already, including the integration of the Transport & Logistics businesses and Hamburg Süd.

Considerable progress in building the new Maersk as one integrated container logistics company has already been made in several key areas, including the integration of Hamburg Süd, delivering synergies, improved customer satisfaction, as well as important steps in the digitisation journey. Moreover, changes to the Ocean and Logistics & Services organisations have been introduced with the One Maersk initiative, joining the front lines of the two, which came into effect on 1 January 2019. A transformation of this magnitude takes time, and Maersk is continuously working on and tracking the progress of the transformation.

The strategy for A.P. Moller – Maersk involves the activities of Maersk Line A/S. It is the view of Management that realising on the vision and strategy outlined for A.P. Moller – Maersk will bring benefits to Maersk Line A/S.

Integration of Hamburg Süd

The integration of Hamburg Süd is progressing ahead of plan, showing progress in network optimisation, synergies with APM Terminals and procurement, with realised synergies in A.P. Moller – Maersk at a level of around USD 420m in 2018. Synergy expectations were revised up to a minimum of USD 500m by the end of 2019, from initially USD 350-400m.

The integration synergies realised within A.P. Moller – Maersk and outlined above are partly realised within, and with direct financial benefit to, Maersk Line A/S.

OUTLOOK

For 2019, Maersk Line A/S (parent company non-consolidated) expects earnings before interests, tax, depreciation and amortisation (EBITDA) slightly above 2018 (USD 1,599 million) when excluding the impact from implementation of IFRS 16. The impact to EBITDA from implementation of IFRS 16 is presented in note 21 to the financial statements in this annual report. The outlook for 2019 is subject to considerable uncertainties due to the current risk of further restrictions on global trade and other factors impacting container freight rates, bunker prices and foreign rate of exchange. The organic volume growth is expected to be in line with the estimated average market growth of 1-3% for 2019.

RISKS

Market risks

The main risks to Maersk Line's performance and strategy execution relate to operational performance, cost inflation as well as a larger than expected downturn in the container market. In particular a structural supply/demand gap, coupled with the significant exposure that Maersk Line has to the Asia-Europe trade where the larger vessels are increasingly deployed, leaves the company vulnerable to substantial fluctuations in freight rates and commercial losses.

Maersk Line is mitigating these risks by designing a competitive network, being a cost leader in the industry, continuing to simplify the organisation and optimising the network utilisation through alliances and vessel sharing agreements.

Financial risks
Financial risks are described in note 14 of the financial statements.

SUSTAINABILITY AND GENDER COMPOSITION OF MANAGEMENT

An independently assured Sustainability Report for 2018 is published which provides detailed information on the A.P. Moller – Maersk Group's sustainability performance and new sustainability strategy. The report serves as the Group's Communication on Progress as required by the UN Global Compact, and ensures compliance with the requirements of Section 99a of the Danish Financial Statements Act (Årsregnskabsloven) on corporate social responsibility and reporting on the gender composition of management. The report is available on:

https://www.maersk.com/-/media/ml/about/sustainability/sustainability-new/files/apmm_sustainability_report_2018_a3_190228.pdf

Account and gender composition of Board of Directors
The Board of Directors consists of three men and one woman, thus the gender split is therefore considered to be balanced and is expected to be maintained in the future.

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after the balance sheet date up through the date of this report which would influence the evaluation of this annual report.

FOREIGN BRANCHES

The company has shipping activities in USA, Canada, New Zealand, Australia, Japan and United Kingdom through the branches Sea Land Branch U.S.A., Maersk Line Branch Canada, Maersk Line Branch New Zealand, Maersk Line Branch Australia, Maersk Line Branch Japan and Maersk Line Branch UK.

Income statement

Amounts in USD million

Note		2018	2017
1	Revenue	24,688	21,707
1	Operating costs	23,089	19,836
	Profit before depreciation and impairment losses	**1,599**	**1,871**
4,5,6	Depreciation and impairment losses, net	1,767	1,472
	Gain on sale of companies and non-current assets, etc., net	80	60
	Profit before financial items	**-88**	**458**
2	Dividends received	466	480
2	Financial income	187	60
2	Financial expenses	1,022	830
	Profit before tax	**-457**	**169**
3	Tax	7	-7
	Profit for the year	**-450**	**162**
	Appropriation:		
	Retained earnings	-450	162
		-450	**162**

Statement of comprehensive income

Amounts in USD million

Note		2018	2017
	Profit for the year	**-450**	**162**
	Cash flow hedges		
	Value adjustment of hedges for the year	-65	243
12	Reclassified to income statement	-2	-44
12	Reclassified to non-current assets	-	-119
3	Tax on other comprehensive income	-	3
	Total items that have been or may be reclassified to the income statement	**-67**	**83**
	Other comprehensive income, net of tax	**-67**	**83**
	Total comprehensive income for the year	**-517**	**245**

Balance sheet 31 December

Amounts in USD million

Note		2018	2017
4	**Intangible assets**	**359**	**377**
5	**Property, plant and equipment**	**16,432**	**15,790**
6	Investments in subsidiaries	7,610	8,844
12	Derivatives	2	10
	Financial non-current assets	**7,612**	**8,854**
7	**Deferred tax**	**-**	**3**
	Total non-current assets	**24,403**	**25,024**
8	**Inventories**	**641**	**446**
14	Trade receivables	2,162	1,926
	Tax receivables	57	50
13	Interest bearing receivables from subsidiaries	991	1,584
12	Derivatives	-	35
	Other receivables	116	470
	Other receivables from subsidiaries	127	145
	Prepayments	215	163
	Receivables	**3,668**	**4,372**
	Cash and bank balances	**72**	**24**
	Total current assets	**4,381**	**4,842**
	Total assets	**28,784**	**29,866**

Balance sheet 31 December

Amounts in USD million

Note		2018	2017
9	Share capital	82	82
	Reserves	5,320	5,837
	Total equity	**5 402**	**5,919**
10	**Borrowings, non-current**	**613**	**1,080**
10	**Interest bearing debt to group related entities, etc.**	**13,658**	**14,860**
11	Provisions	170	145
12	Derivatives	-	0
	Other non-current liabilities	**170**	**145**
	Total non-current liabilities	**14,441**	**16,085**
10	**Borrowings, current**	**149**	**146**
10	**Interest bearing debt to group related entities, etc.**	**4,598**	**3,250**
11	Provisions	248	191
	Trade payables	3,642	3,423
	Tax payables	21	17
12	Derivatives	32	-
	Other payables	119	355
	Other payables to subsidiaries	132	479
	Other current liabilities	**4,194**	**4,466**
	Total current liabilities	**8,941**	**7,862**
	Total liabilities	**23,382**	**23,947**
	Total equity and liabilities	**28,784**	**29,866**

Cash flow statement

Amounts in USD million

Note		2018	2017
	Profit before financial items	-88	458
4,5,6	Depreciation and impairment losses, net	1,767	1,472
	Gain/loss on sale of companies and non-current assets, etc., net	-80	-60
17	Change in working capital	-519	59
17	Other non-cash items	188	85
	Cash from operating activities before tax	1,268	2,014
	Taxes paid/received	4	-21
	Cash flow from operating activities	**1,272**	**1,993**
17	Purchase of property, plant and equipment	-2,564	-2,031
	Sale of property, plant and equipment	1,616	570
6	Acquisition of and capital increases in subsidiaries and activities	-35	-4,813
	Dividends received	466	480
	Cash flow used for investing activities	**-517**	**-5,794**
	Repayment of borrowings	-1,536	-839
	Proceeds from borrowings	1,004	5,988
	Financial income received	27	179
	Financial expenses paid	-949	-854
	Movements in interest bearing loans to/from subsidiaries, etc., net	727	-748
	Cash flow from financing activities	**-727**	**3,726**
	Net cash flow for the year	**28**	**-76**
	Cash and cash equivalents 1 January	24	76
	Currency translation effect on cash and cash equivalents	20	24
	Cash and cash equivalents 31 December	72	24
	Of which classified as assets held for sale		
	Cash and cash equivalents 31 December	**72**	**24**

Cash and cash equivalents	2018	2017
Cash and bank balances	72	24
Cash and cash equivalents 31 December	**72**	**24**

For an analysis of liabilities arising from financing activities, reference is made to note 10.

Statement of changes in equity

Amounts in USD million

Note		Share capital	Proposed dividend	Reserve for hedges	Retained earnings	Total equity
	Equity at 1 January 2017	**82**	**-**	**-35**	**5,628**	**5,675**
	Other comprehensive income, net of tax	-	-	83	-	83
	Profit for the year	-	-	-	162	162
	Total comprehensive income for the year	**-**	**-**	**83**	**162**	**245**
	Equity 31 December 2017	**82**	**-**	**48**	**5,789**	**5,919**
	2018					
	Other comprehensive income, net of tax	-	-	-67	-	-67
	Profit for the year	-	-	-	-450	-450
	Total comprehensive income for the year	**-**	**-**	**-67**	**-450**	**-517**
	Equity 31 December 2018	**82**	**-**	**-19**	**5,339**	**5,402**

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Notes to the financial statements

Amounts in USD million

1 Revenue and operating cost

Set out below is the reconciliation of revenue from contracts with customers to the amounts disclosed as total revenue:

	2018	2017
Revenue from contracts with customers:		
Freight revenue	20,534	19,528
Detention and demurrage fees	1,474	1,186
Others	455	78
Revenue from other sources:		
Vessel-sharing and slot charter income	2,013	795
Lease income	182	81
Others	30	39
Total revenue	**24,688**	**21,707**

	2018	2017
Contract balances		
Trade receivables	2,067	2,079
Accrued income - contract asset	65	-

Accrued income included in trade receivables in the balance sheet constitutes contract assets comprising unbilled amounts to customers representing the Company's right to consideration for the services transferred to date. Any amount previously recognised as accrued income is reclassified to trade receivables at the time it is invoiced to the customer.

Under the payment terms generally applicable to the Company's revenue generating activities, prepayments are received only to a limited extent. Typically, payment is due upon or after completion of the services.

There were no significant changes in accrued income and deferred income during the reporting period.

Impairment losses disclosed in Note 14 relate to trade receivables arising from contracts with customers.

Set out below is the reconciliation of operating cost by nature to the amounts disclosed as total operating cost:

	2018	2017
Bunker costs	4,076	2,860
Terminal costs	6,848	6,576
Intermodal costs	2,816	2,566
Port costs	2,037	1,773
Rent and lease costs	2,780	2,099
Staff costs reimbursed to related parties	518	413
Other	4,014	3,549
Total operating costs	**23,089**	**19,836**

During 2017 and 2018, one staff member was employed by Maersk Line A/S. Staff service has been purchased from affiliates in the A.P Moller - Maersk Group. The Board of Directors has not been remunerated by Maersk Line A/S. As only one member of the Executive Board is employed by the Company, remuneration to the single member is not disclosed in accordance with ÅRL, section 98 b(3). The aggregate remuneration to key management, as defined by IAS 24.9, is disclosed in note 18.

Staff costs reimbursed to related parties consists of wages and salaries USD 488m (386m), pension plan contributions USD 8m (12m) and other social security costs USD 22m (15m).

Notes to the financial statements

Amounts in USD million

2 Financial income and expenses

	2018	2017
Interest expenses on liabilities[1]	971	621
Interest income on loans and receivables	27	17
Net interest expenses	**944**	**604**
Exchange rate gains on bank balances, borrowings and working capital	160	35
Exchange rate losses on bank balances, borrowings and working capital	41	207
Net foreign exchange gains/losses	**119**	**172**
Fair value gains from derivatives	-	8
Fair value losses from derivatives	10	2
Net fair value gains/losses	**10**	**7**
Dividends received from subsidiaries and associated companies	466	480
Total dividends income	**466**	**480**
Financial net	**-369**	**-289**
Of which:		
Dividends	466	480
Financial income	187	60
Financial expenses	1,022	830

[1] Interest expenses of USD 9m (34m) have been capitalised on assets. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.3% (4.1%) p.a.

For an analysis of gains and losses from derivatives, reference is made to note 12.

Notes to the financial statements

Amounts in USD million

3 Tax

	2018	2017
Tax recognised in the income statement		
Current tax on profit for the year	-64	-49
Adjustment for current tax of prior periods	-23	-8
Total current tax	**-87**	**-57**
Reassessment of recoverability of deferred tax asset, net	3	-
Total deferred tax	**3**	**-**
Total income Tax	**-84**	**-57**
Tonnage and freight tax	77	64
Total tax	**-7**	**7**
Tax reconciliation		
Profit before tax	-457	169
Income subject to Danish and foreign tonnage taxation, etc.	88	-458
Profit before tax, adjusted	**-369**	**-289**
Tax using the Danish corporation tax rate (2018: 22.0%, 2017: 22.0%)	-81	-64
Adjustment to previous years' taxes	-12	5
Effect of other income taxes distinct from corporation tax	-14	14
Non-taxable income	14	-7
Non-deductible expenses	68	70
Non-taxable dividends	-103	-105
Deferred tax asset not recognised	48	20
Other differences, net	-4	10
Total income tax	**-84**	**-57**
Tax recognised in other comprehensive income and equity		
Interest rate hedges	-	3
Tax recognised in other comprehensive income, net	**-**	**3**
Total	**-**	**3**
Of which:		
Current tax	-	3

Notes to the financial statements

Amounts in USD million

4 Intangible assets

	Brand name
Cost	
1 January 2017	-
Additions	379
31 December 2017	**379**
Additions	-
31 December 2018	**379**
Amortisation and impairment losses	
1 January 2017	-
Amortisation	2
31 December 2017	**2**
Amortisation	18
31 December 2018	**20**
Carrying amount:	
31 December 2018	**359**
31 December 2017	**377**

Impairment analysis

The brand name right was acquired in 2017 from a wholly owned subisidiary, subsequent to Maersk Line A/S's acquistion of Hamburg Süd. The transaction price equals the cost price of the addition in 2017. Transaction price was based on, and is equal to, the fair value established under the acquisition method applied for the consolidated accounts of A.P. Møller - Mærsk A/S, upon obtaining control over Hamburg Süd. The fair value of the brand has been measured using the relief from royalty method, in which management, based on an analysis has assessed a royalty rate which an independent third party would charge for the use of the brands. Besides the royalty rate, the main input value driver is estimated future revenue. The useful life of brand is estimated at 20 years. The valuation of the intangible asset reflects a market participants view applying a discount rate of 9%. Management is of the opinion that the assumptions, applied in methodology as described above, are sustainable at the balance sheet date. The carrying value of the brand name has been assessed for impairment as part of the annual impairment test, performed at the balance sheet date, for non-current assets constituting the CGU (as elaborated in section "Significant accounting estimates and judgements" of this annual report).

Notes to the financial statements

Amounts in USD million

5 Property, plant and equipment

	Ships, containers, etc.	Production facilities and equipment, etc.	Construction work in progress and payment on account	Total
Cost				
1 January 2017	23,913	917	948	25,778
Additions	1,684	41	1,294	3,019
Disposal	-1,834	-2	-	-1,836
Transfer	1,437	-	-1,437	-
31 December 2017	**25,200**	**956**	**805**	**26,961**
Additions	2,719	68	1,175	3,962
Disposal	-2,332	-6	-2	-2,340
Transfer	1,604	-	-1,604	-
31 December 2018	**27,191**	**1,018**	**374**	**28,583**
Depreciation and impairment losses				
1 January 2017	10,832	199	-	11,031
Depreciation	1,386	84	-	1,470
Disposal	-1,328	-2	-	-1,330
31 December 2017	**10,890**	**281**	**-**	**11,171**
Depreciation	1,681	68	-	1,749
Disposal	-763	-6	-	-769
31 December 2018	**11,808**	**343**	**-**	**12,151**
Carrying amount:				
31 December 2017	**14,309**	**675**	**805**	**15,790**
31 December 2018	**15,383**	**675**	**374**	**16,432**
Of which carrying amount of finance leased assets:				
31 December 2017	**1,949**	**676**	**4**	**2,629**
31 December 2018	**1,464**	**677**	**4**	**2,145**

In 2017 and 2018, total amount of additions to property, plant and equipment, is inclusive of acquistion for containers and vessels from the subsidiary Hamburg Süd. The cost price of the acquired assets has been established on the basis of the fair value measurement as per the purchase price allocation in A.P. Møller - Mærsk A/S consolidated financial statements.

Finance leases
As part of the Company's activities, customary leasing agreements are entered into, especially with regard to the chartering of vessels and lease of containers and other equipment. In some cases, the leasing agreements include purchase options for the company and options for extension of the lease term. In the financial statements, assets held under finance leases are recognised in the same way as owned assets.

Operating leases as lessor
Property, plant and equipment includes assets that are leased out as operational leases as part of the Company's activities, mainly related to container vessels.

The future lease income is USD 399m (415m) of which USD 263m (189m) is expected within one year.

Pledges
Ships, containers, etc. with a carrying amount of USD 1,617m (1,230m) have been pledged as security for loans of USD 547m (668m).

Notes to the financial statements

Amounts in USD million

6 Investments in subsidiaries

	Investments in subsidiaries
Cost	
1 January 2017	4,835
Acquisition and capital injection*	4,813
Return of capital*	-785
31 December 2017	**8,863**
Acquisition and capital injection**	1,957
Disposal	-2,197
Return of capital**	-994
31 December 2018	**7,629**
Impairment losses	
1 January 2017	19
31 December 2017	**19**
Impairment losses	-
31 December 2018	**19**
Carrying amount:	
31 December 2017	**8,844**
31 December 2018	**7,610**

*Acquisition and capital injection in 2017 comprises of investment in Hamburg Süd of USD 4,333m and capital injections to various subsidiaries of USD 480m. Return of capital in 2017 comprises of a return of capital from Hamburg Süd of USD 785m. The return of capital was on a non-cash basis and is hence not reflected in the cash flow statement.

**Acquisition and capital injection in 2018 comprises of purchase price adjustment to the acquisition of Hamburg Süd of USD 45m and capital injections to various subsidiaries of USD 1,912m. Return of capital in 2018 comprises of a return of capital from Hamburg Süd of USD 994m. The return of capital was on a non-cash basis and is hence not reflected in the cash flow statement.

The list of directly owned subsidiaries is included in note 23.

Notes to the financial statements

Amounts in USD million

7 Deferred tax

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net assets	
	2018	2017	2018	2017	2018	2017
Tax loss carryforwards	-	3	-	-	-	3
Total	-	3	-	-	-	3

Change in deferred tax, net during the year:	2018	2017
1 January	3	3
Recognised in the income statement	-3	-
31 December	-	3

Tax losses for which no deferred tax asset has been recognised amount to USD 87m (39m).

Notes to the financial statements

Amounts in USD million

8 Inventories

	2018	2017
Bunker	603	446
Other consumables	38	0
Total	**641**	**446**

Notes to the financial statements

Amounts in USD and DKK where so indicated

9 Share capital

	No. of shares	Nominal value DKK per share	Nominal value USD per share	Nominal value DKK	Nominal value USD
1 January 2015	500	1,000	182	500,000	91,000
Issue of shares	499,500	1,000	163	499,500,000	81,598,320
31 December 2015	**500,000**			**500,000,000**	**81,689,320**
Issue of shares	-	-	-	-	-
31 December 2016	**500,000**			**500,000,000**	**81,689,320**
Issue of shares	-	-	-	-	-
31 December 2017	**500,000**			**500,000,000**	**81,689,320**
Issue of shares	-	-	-	-	-
31 December 2018	**500,000**			**500,000,000**	**81,689,320**

All shares are fully issued and paid up. All shares carry the same rights.
The controlling party is A.P. Møller - Mærsk A/S, Copenhagen, Denmark through 100% ownership of the voting rights, and who prepares consolidated financial statements.

A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal is the ultimate controlling shareholder.

Shareholder disclosure subject to section 104 in the Danish Financial Statements Act:

	Share capital	Votes
A.P. Møller - Mærsk A/S, Copenhagen, Denmark	100%	100%

Notes to the financial statements

Amounts in USD million

10 Borrowings and net debt reconciliation

	Net debt as at 31 December 2017	Cash flow	Foreign exchange movements	Other changes	Net debt as at 31 December 2018
Debt to group related entities[1]	18,110	-209	0	355	18,256
Financial leasing liability	1,226	-326	-	-138	762
Total borrowings	**19,336**	**-535**	**0**	**217**	**19,018**
Of which:					
Classified as non-current	15,939				14,271
Classified as current	3,397				4,747

The cash flow from financing activities, as per the cash flow statement, includes a net cash flow of USD 727m related to interest bearing receivables from subsidiaries and is not included in the reconciliation presented above.

	Net debt as at 31 December 2016	Cash flow	Foreign exchange movements	Other changes	Net debt as at 31 December 2017
Debt to group related entities[1]	12,117	5,533	-68	528	18,110
Financial leasing liability	1,374	-348	-	200	1,226
Total borrowings	**13,491**	**5,185**	**-68**	**728**	**19,336**
Of which:					
Classified as non-current	10,046				15,939
Classified as current	3,445				3,397

The cash flow from financing activities, as per the cash flow statement, includes a net cash flow of USD -748m related to interest bearing receivables from subsidiaries and is not included in the reconciliation presented above.

Financial leasing liability	Minimum lease payments 2018	Interest 2018	Carrying amount 2018	Minimum lease payments 2017	Interest 2017	Carrying amount 2017
Within one year	182	33	149	213	67	146
Between one and five years	363	99	264	717	152	565
After five years	419	70	349	734	219	515
Total	**964**	**202**	**762**	**1,664**	**438**	**1,226**

[1] Including intercompany financial leasing liability

Notes to the financial statements

Amounts in USD million

11 Provisions

	Restructuring	Legal disputes, etc.	Other	Total
1 January 2018	1	262	72	335
Transfer of type	-	-	-	-
Provision made	4	228	41	273
Amount used	-2	-97	-10	-109
Amount reversed	-0	-64	-15	-79
Exchange rate adjustment	-0	-2	-0	-2
31 December 2018	**3**	**327**	**88**	**418**
Classified as non-current	1	111	58	170
Classified as current	2	216	30	248
	3	**327**	**88**	**418**

Restructuring includes provisions for decided and publicly announced restructurings. Legal disputes, etc. include tax and duty disputes among other things. Other includes provisions for guarantees, onerous contracts, and risk under certain self-insurance programmes. The provisions are subject to considerable uncertainty.

Reversals of provisions primarily relate to legal disputes, tax and duty disputes and contractual disagreements, which are recognised in the income statement under operating costs and tax.

The difference between the nominal amount and the discounted amount, considering the non-current amount of provisions, is considered immaterial.

Notes to the financial statements

Amounts in USD million

12 Derivatives

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency, including mainly currency risks related to recognised and unrecognised transactions.

Fair values 31 December:	2018	2017
Non-current receivables	2	10
Current receivables	-	35
Non-current liabilities	-	-
Current liabilities	-32	-
Assets, net	-	45
Liabilities, net	-30	-

The fair value of derivatives held at the balance sheet date are allocated by type as follows:

	Cash flow hedges 2018	Held for trading 2018	Cash flow hedges 2017	Held for trading 2017
Currency derivatives, net	-32	2	35	10
Interest rate derivatives, net	-	-	-	-
Price hedge derivatives	-	-	-	-
Total	-32	2	35	10

Cash flow hedges recognised within equity are maturing within 12 months from the balance sheet date.

Notes to the financial statements

Amounts in USD million

12 Derivatives

The gains/losses, including realised transactions, are recognised as follows:

	2018	2017
Hedging foreign exchange risk on consideration paid for acquisition	-	119
Hedging foreign exchange risk on operating costs	2	44
Hedging interest rate risk	-	-
Total effective hedging	**2**	**163**
Ineffectiveness of unrealised currency derivatives recognised in financial expenses	-	-
Total reclassified from equity reserve for hedges	**2**	**163**
Net gains/losses recognised directly in the income statement	**-10**	**-2**
Total	**-8**	**161**

Currency derivative contracts are entered to hedge operating costs denominated in foreign currencies and are recognised in the income statement upon maturity.

Interest rate derivatives primarily swap floating for fixed rates on borrowings and are recognised in the income statement concurrently with the hedged interest expenses.

In 2017, currency derivatives were entered to hedge consideration payment for the acquisition of Hamburg Süd, denominated in a foreign currency, and hence USD 119m was allocated to the investment.

Amounts in USD million

13 Financial instruments by category

Financial instruments measured at fair value can be divided into three levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Carried at amortised cost				
Interest bearing receivables from subsidiaries, etc.	991	991	1,584	1,584
Trade receivables	2,162		1,926	
Other receivables (non-interest-bearing)	116		682	
Other receivables from subsidiaries, etc	127		145	
Cash and bank balances	72		24	
Financial assets at amortised cost	**3,468**		**4,361**	
Derivatives	**2**	**2**	**45**	**45**
Total financial assets	**3,470**		**4,406**	
Carried at amortised cost				
Interest bearing debt to group related entities	18,256	18,256	18,110	18,110
Financial leasing liability	762	864	1,226	1,520
Trade payables	3,642		3,423	
Other payables	119		373	
Other payables to subsidiaries and associated companies, etc	132		479	
Financial liabilities at amortised cost	**22,911**		**23,611**	
Derivatives	**32**	**32**	**0**	**0**
Total financial liabilities	**22,943**		**23,611**	

Financial instruments measured at fair value
The fair value of derivatives falling within level 2 of the fair value hierarchy is calculated on the basis of observable market data for similar instruments as of the end of the reporting period.

Financial instruments measured at amortised cost
The fair value of financial assets and liabilities carried at amortised cost was determined primarily by measuring the present value of expected future cash flows (level 2 inputs). The results of these valuations has led management to conclude that the carrying value of these assets and liabilities is not materially different from their fair value.

Notes to the financial statements

Amounts in USD million

14 Financial risks, etc.

The Company's activities expose it to a variety of financial risks: currency risk, interest rate risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central finance department under policies approved by the Board of Directors. The finance department identifies, evaluates and hedges financial risks in accordance with the policies.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's profit or the value of its holdings of financial instruments. The below sensitivity analyses relate to the position of financial instruments at 31 December 2018.

The sensitivity analyses for currency risk and interest rate risk have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies remain unchanged from hedge designations in place at 31 December 2018. Furthermore, it is assumed that the exchange rate and interest rate sensitivities have a symmetric impact, i.e. an increase in rates results in the same absolute movement as a decrease in rates.

Currency risk
The Company's currency risk arises due to income from shipping activities that are denominated mainly in USD, while the related expenses are incurred in both USD and a wide range of other currencies including DKK, CAD, EUR, GBP, HKD, INR, JPY, MXN, SEK and MYR. Overall the Company has net income in USD and net expenses in other currencies. As the net income is in USD, this is also the primary financing currency, thus the majority of the Company's borrowings are in USD.

The main purpose of hedging the Company's currency risk is to hedge the USD value of the Company's net cash flow and reduce fluctuations in the Company's profit. The Company uses FX contracts and cross-currency swaps, to hedge these risks. The key aspects of the currency hedging policy are as follows:
- Net cash flows in other significant currencies than USD are hedged using a layered model with a 12-month horizon; and
- Significant capital commitments in other currencies than USD are hedged.

Under the assumption of the effectiveness of the currency hedges, we assess the exposure of a change in the currency rates to be not significant.

Interest rate risk
The Company has most of its debt denominated in USD, but part of the debt is in other currencies such as EUR, SEK and JPY. Some loans are at fixed interest rates, while others are at floating interest rates.

The Company strives to maintain a combination of fixed and floating interest rates on its net debt, reflecting expectations and risks. The hedging of the interest rate risk is governed by a duration range and is primarily obtained through the use of interest rate swaps. A general increase in interest rates by one percentage point is estimated, all else being equal, to affect profit before tax and equity, excluding tax effect, negatively by approx. USD 169m (negatively by approx. USD 168m).

The analysis is made under the assumption that all other variables, in particular foreign currency rates, remain constant.

Borrowings and interest bearing debt to group related entities by interest rate levels inclusive of interest rate swaps	Carrying amount	Next interest rate fixing 0-1 year	1-5 years	5- years
2018				
0-3%	2,984	2,984	-	-
3-6%	15,261	13,993	566	702
6%-	773	-	34	739
Total	**19,018**	**16,977**	**600**	**1,441**
Of which:				
Bearing fixed interest	2,074			
Bearing floating interest	16,944			
2017				
0-3%	3,297	3,297		
3-6%	14,503	13,842	661	
6%-	1,536			1,536
Total	**19,336**	**17,139**	**661**	**1,536**
Of which:				
Bearing fixed interest	2,477			
Bearing floating interest	16,859			

Notes to the financial statements

Amounts in USD million

14 Financial risks, etc. - continued

The table below shows the derivatives the company has contracted to hedge currency exposure on financial assets and liabilities that give rise to currency adjustment in the income statement.

Forward exchange contracts	Contract amount	Fair value
EUR	622	-18
DKK	244	-8
CAD	128	-5
GBP	102	-3
MXN	67	3
SEK	81	1
HKD	151	-
MYR	75	-
JPY	49	-
INR	17	-
Total	**1,536**	**-30**

The forward exchange contracts fall due in the period January to December 2019.

Amounts in USD million

14 Financial risks, etc. - continued

Credit risk
The Company has substantial exposure to financial and commercial counterparties but has no particular concentration of customers or suppliers. To minimise the credit risk, financial vetting is undertaken for all major customers and financial institutions, adequate security is required for commercial counterparties and credit limits are set for financial institutions and key commercial counterparties.

The Company applies the simplified approach to providing the expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. In accordance with IFRS 9, also non-due trade receivables have also been impaired.

Maturity analysis of trade receivables	2018	2017
Receivables not due	1,496	879
Less than 90 days overdue	558	780
91-365 days overdue	151	270
More than 1 year overdue	131	174
Receivables, gross	**2,336**	**2,103**
Provision for bad debt	174	177
Carrying amount	**2,162**	**1,926**

The loss allowance provision for trade receivables as at 31 December 2018 reconciles to the opening loss allowance as follows:

Change in provision for bad debt	2018	2017
1 January	177	162
Provisions made	143	142
Amount used	104	104
Amount reversed	42	22
Exchange rate adjustment	-	-1
31 December	**174**	**177**

Approximately 68% (88%) of the provision for bad debt is related to trade receivables overdue by more than one year.

Other financial assets at amortised cost
Other financial assets at amortised cost comprise loans receivable, finance lease receivables and other receivables. All of these financial assets are considered to have low credit risk and thus the impairment provision calculated basis of 12 month expected losses is considered immaterial. The financial assets are considered to be low risk when they have low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Notes to the financial statements

Amounts in USD million

14 Financial risks, etc. - continued

Liquidity risk
It is of great importance for the Company to maintain a financial reserve to cover the Company's obligations and investment opportunities and to provide the capital necessary to offset changes in the Company's liquidity due to changes in the cash flow from operating activities.

The flexibility of the financial reserve is subject to ongoing prioritisation and optimisation, among other things, by focusing on release of capital and following up on the development in working capital.

Maturities of liabilities and commitments	Carrying amount	Cash flows including interest 0-1 year	1-5 years	5- years	Total
2018					
Interest bearing debt to group related entities	18,256	5,526	14,099	588	20,213
Financial leasing liability	762	182	363	419	964
Trade payables	3,642	3,642	-	-	3,642
Other payables	119	119	-	-	119
Other payables to group related entities	132	132	-	-	132
Non-derivative financial liabilities	**22,911**	**9,601**	**14,462**	**1,007**	**25,070**
Derivatives	32	32	-	-	32
Total recognised in balance sheet	**22,943**	**9,633**	**14,462**	**1,007**	**25,102**
Operating lease commitments		2,063	3,499	892	6,454
Capital commitments		637	29	-	666
Total		**12,333**	**17,990**	**1,899**	**32,222**
2017					
Interest bearing debt to group related entities	18,110	4,563	15,114	443	20,120
Financial leasing liability	1,226	337	418	920	1,675
Trade payables	3,423	3,423	-	-	3,423
Other payables	355	355	-	-	355
Other payables to group related entities	479	479	-	-	479
Non-derivative financial liabilities	**23,593**	**9,157**	**15,532**	**1,363**	**26,052**
Derivatives	-	-	-	-	-
Total recognised in balance sheet	**23,593**	**9,157**	**15,532**	**1,363**	**26,052**
Operating lease commitments		1,832	2,923	1,044	5,799
Capital commitments		1,530	369	-	1,899
Total		**12,519**	**18,824**	**2,407**	**33,750**

Amounts in USD million

15 Commitments

Operating lease commitments

As part of the Company's activities, customary agreements are entered into regarding charter and operating leases of ships, containers, port facilities, other equipment etc. In some cases, the leasing agreements include purchase options for the company and options for extension of the lease term. On average 24% of the committed payments reflected below is estimated to be operational costs related to time charter agreements.

The future charter and operating lease payments are:

	2018	2017
Within one year	2,063	1,832
Between one and two years	1,431	1,138
Between two and three years	867	831
Between three and four years	694	547
Between four and five years	507	407
After five years	892	1,044
Total	**6,454**	**5,799**
Net present value [1]	5,618	5,002

[1] The net present value has been calculated using a discount rate of 6% p.a. (6% p.a.).

Total operating lease costs incurred are presented in note 1.

Capital commitments

At the end of 2018, capital commitments amounted to USD 0.7bn (1.9bn), primarily related to acquisitions of container vessel new buildings and purchase of containers.

Notes to the financial statements

Amounts in USD million

16 Contingent liabilities

Except for customary agreements within the Company's activities, no material agreements have been entered into that will take effect, change or expire upon changes of the control over the Company.

A necessary facility of USD 245m (214m) has been established in order to meet the requirements for using USA waters under the American Oil Pollution Act of 1990 (Certificate of Financial Responsibility).

The Company has furthermore entered into certain agreements with terminals containing volume commitments including an extra payment in case minimum volumes are not met.

The Company is involved in a number of legal disputes. The Company is also involved in tax disputes in certain countries. Some of these involve significant amounts and are subject to considerable uncertainty.

Tax may crystallise if the companies leave the tonnage tax regimes and on repatriation of dividends. Through participation in a joint taxation scheme with A.P. Møller Holding A/S, the Company is jointly and severally liable for taxes payable, etc. in Denmark.

Notes to the financial statements

Amounts in USD million

17 Cash flow specifications

	2018	2017
Change in working capital		
Inventories	-195	-114
Trade receivables	-338	-242
Other receivables and prepayments	327	-143
Trade payables and other payables, etc.	-272	547
Exchange rate adjustment of working capital	-41	11
Total	**-519**	**59**
Purchase of property, plant and equipment		
Additions	-2,470	-2,137
Of which which pertains to borrowing costs capitalized on assets	9	34
Change in payables to suppliers regarding purchase of assets	-103	72
Total	**-2,564**	**-2,031**

Other non-cash items are primarily related to changes of provision for bad debt regarding trade receivables.

Notes to the financial statements

Amounts in USD million

18 Related parties

	Subsidiaries		Other related companies		Parent company		Management*	
	2018	2017	2018	2017	2018	2017	2018	2017
Income statement								
Revenue	1,784	259	424	419	-	0	-	-
Operating costs	2,446	2,004	6,811	5,460	290	270	-	
Remuneration to management	-	-	-	-	-	-	8	12
Dividends	466	480	-	-	-	-	-	-
Financial income	23	14	4	4	-	-	-	-
Financial expenses	88	158	5	528	859	-169	-	-
Assets								
Tax receivables	-	-	-	-	57	50	-	-
Interest bearing receivables, current	832	956	175	154	4	580	-	-
Other receivables, current	266	70	55	152	4	70	-	-
Liabilities								
Interest bearing debt, non-current	-	420	-	699	13,002	13,740	-	-
Interest bearing debt, current	1,297	1,696	102	109	2,462	1,445	-	-
Trade payables	165	159	207	208	51	17	-	-
Other liabilities, current	868	182	566	712	73	310	-	-
Capital increases and purchase of shares	1,957	4,813	-	-	-	-	-	-
Return of capital	994	785	-	-	-	-	-	-

*Management refers to key management as defined by IAS 24.9.

Operating leases
At the end of 2018, operating lease commitments to related companies amounted to USD 2,166m (USD 1,646m) of which USD 946m (USD 753m) is payable within one year and USD 1,220m (USD 892m) is non-current. The operating lease commitments relate mainly to leasing of container vessels.

Capital commitments
At the end of 2018, capital commitments to other related companies amounted to USD 21m (USD 182m) of which USD 21m (USD 144m) is payable within one year and USD 0m (USD 38m) is non-current. The capital commitments relate to purchases of containers.

Operating leases as lessor
After the end of 2018, the future lease income from subsidiaries is USD 399m (USD 415m) of which USD 263m (USD 189m) is receivable within one year, and USD 135m (USD 226m) is non-current. The future lease income relates mainly to leased out container vessels.

A.P. Møller - Mærsk A/S, Copenhagen owns 100% of the share capital. A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal is the ultimate controlling shareholder. The Company is included in the consolidated financial statements of A.P. Møller - Mærsk A/S, Copenhagen and A.P. Møller Holding A/S, Copenhagen.

Notes to the financial statements

Amounts in USD million

19 Summary of significant accounting policies

Basis of preparation

The financial statements for 2018 for Maersk Line A/S have been prepared on a going concern basis and in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Danish Financial Statements Act.

The accounting policies are consistent with those applied in the financial statements for 2017 except for the below areas:

- Maersk Line A/S has implemented IFRS 15, which has had no material effect on the financial statements. Maersk Line A/S' current practice for recognising revenue has been shown to comply, in all material aspects, with the concepts and principles encompassed by the new standard.

- Maersk Line A/S has changed the presentation of the cash flow statement. Net financial payments are included in the cash flow from financing activities, and dividends received are included in the cash flow from investing activities. The items were previously included in cash flow from operating activities. Comparative figures have been restated. The effect of the changes on the cash flow statement are:

USD million	2018	2017
Cash flow from operating activities	456	195
Cash flow from investing activities	466	480
Cash flow from financing activities	-922	-675

- Maersk Line A/S has implemented IFRIC 22, which has had no material effect on the financial statements. Maersk Line A/S' current practice for foreign currency translation has been shown to comply, in all material aspects, with the concepts and principles encompassed by the interpretation.

The exemption from preparing consolidated financial statements has been used, and the financial statements presented are separate financial statements.

The parent company A.P. Møller - Mærsk A/S, Copenhagen, has prepared consolidated financial statements that comply with International Financial Reporting Standards, which can be obtained here:

http://investor.maersk.com/financials.cfm

New financial reporting requirements coming into effect after 31 December 2018 are outlined in note 21.

Foreign currency translation

The financial statements are presented in USD, the functional currency of the company. On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Share capital denominated in DKK is translated to USD at the effective rate on the transaction day and is therefore not revalued subsequently.

Income statement

Revenue is recognised when the performance obligation has been satisfied, which happens upon the transfer of control to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the goods and services. Revenue from shipping activities is recognised over time as performance obligation is satisfied, including a share of revenue from incomplete voyages at the balance sheet date. Invoiced revenue related to an estimated proportion of remaining voyage time and activities at the destination port is deferred. Detention and demurrage fees are recognised over time up until the time of customers' late return or pick-up of containers. Retrospective volume rebates provided to certain customers which give rise to variable consideration are based on the expected value method and allocated to ocean freight revenue. Lease income from operating leases is recognised over the lease term.

Financial items includes dividends from investments in subsidiaries, interest income and expenses and exchange rate gains and losses. Dividends received from subsidiaries are recognised when distribution has been formally declared. Furthermore, realised and unrealised gains and losses on derivative financial instruments that cannot be classified as hedging contracts are also included.

Tax comprises current and deferred tax as well as adjustments to previous years of those. Income tax is tax on taxable profits and consists of tonnage tax, corporation tax and withholding tax of dividends, etc. Tonnage tax is classified as tax when creditable in, or paid in lieu of, income tax.

Tax is recognised in the income statement to the extent it arises from items recognised in the income statement.

Amounts in USD million

19 Summary of significant accounting policies - continued

Statement of comprehensive income

Other comprehensive income consists of income and costs not recognised in the income statement, including cash flow hedges to fair value. Other comprehensive income includes current and deferred tax to the extent the income and costs recognised in other comprehensive income are taxable or deductible.

Balance sheet

Intangible assets are valued at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the useful lives. The useful lives of intangible assets are as follows:

Brand names	20 years

Property, plant and equipment are valued at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the useful lives at an estimated residual value. The useful lives of new assets are typically as follows:

Ships	20 years
Containers, etc.	12 years
Terminal infrastructure	over lease or concession period
Plant and machinery, cranes and other terminal equipment	5-20 years
Other operating equipment, fixtures, etc.	3-7 years

Estimated useful lives and residual values are reassessed on a regular basis.

The cost of an asset is divided into separate components which are depreciated separately if the useful lives of the individual components differ. Dry-docking costs are recognised in the carrying amount of ships when incurred and depreciated over the period until the next dry-docking.

The cost of assets constructed by the Company includes direct and indirect expenses. For assets with a long construction period, borrowing costs during the construction period from specific as well as general borrowings are attributed to cost. In addition, the cost includes the net present value of estimated costs of abandonment, removal and restoration.

Impairment losses are recognised when the carrying amount of an asset or a cash-generating unit exceeds the higher of the estimated value in use and fair value less costs to sell.

Intangible assets and property, plant and equipment are tested for impairment, if there is an indication of impairment.

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently reassessed unless there are changes to the contract conditions. Contracts which transfer all significant risks and benefits associated with the underlying asset to the lessee are classified as finance leases. Assets held under finance leases are treated as property, plant and equipment.

Investments in subsidiaries are recognised at cost price less any impairment losses. When tested for impairment, the cost price of investment is compared to the equity value as well as the enterprise value.

Inventories mainly consist of bunkers, spare parts not qualifying as property, plant and equipment and other consumables. Inventories are measured at cost, primarily according to the FIFO method.

Loans and receivables are initially recognised at fair value plus any direct transaction costs and subsequently measured at amortised cost using the effective interest method. Write-down is made for anticipated losses based on specific individual or group assessments, including expected credit losses as required under IFRS 9.

Equity includes total comprehensive income for the year comprising the profit or loss for the year and other comprehensive income.

The reserve for hedges includes the accumulated net change in the fair value of hedging transactions qualifying for cash flow hedge accounting.

Provisions are recognised when the Company has a current legal or constructive obligation and includes among other items legal disputes and onerous contracts. Provisions are recognised on the basis of best estimates and are discounted where the time element is significant and where the time of settlement is reasonably determinable.

Notes to the financial statements

Amounts in USD million

19 Summary of significant accounting policies - continued

Deferred tax is calculated on differences between the carrying amount and tax base of assets and liabilities. Deferred tax is not provided on temporary differences which have no effect on the accounting results or taxable income at the time of the transaction. Deferred tax assets are recognised to the extent that it is probable that they can be utilised within the foreseeable future.

Financial liabilities are initially recognised at fair value less transaction costs. Subsequently the financial liabilities are measured at amortised cost using the effective interest method, whereby transaction costs and any premium or discount are recognised as financial expenses over the term of the liabilities. Liabilities in respect of finance leases are recognised in the balance sheet as borrowings.

Derivative financial instruments are recognised on the trading date and measured at fair value using generally acknowledged valuation techniques based on relevant observable swap curves and exchange rates.

The effective portion of changes in the value of derivative financial instruments designated to hedge future transactions is recognised in other comprehensive income until the hedged transactions are realised. At that time, the cumulative gains/losses are transferred to the items under which the hedged transactions are recognised. The effective portion of changes in the value of derivative financial instruments used to hedge the value of recognised financial assets and liabilities is recognised in the income statement together with changes in the fair value of the hedged assets or liabilities which can be attributed to the hedging relationship. The ineffective portion of hedge transactions, and changes in the fair values of derivative financial instruments, which do not qualify for hedge accounting are recognised in the income statement as financial income or expenses for interest and currency based instruments.

Cash flow statement

Cash flow for the year is divided into cash flow from operating activities, cash flow used for investing activities and cash flow from financing activities. Cash and cash equivalents comprise cash and bank balances net of bank overdrafts where overdraft facilities form an integral part of the Company's cash management. Changes in marketable securities are included in cash flow used for investing activities.

Key figures/financial ratios

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Operating margin: Operating profit/loss (EBIT) / Revenue
Solvency ratio: Equity at year end / Total equity and liabilities at year end
Return on equity: Profit for the year after tax / Average equity

Fees to statutory auditor
In accordance with the Danish Financial Statements Act section 96, paragraph 3, fees to statutory auditors is not disclosed as the information is disclosed in the Annual Report for the APMM Group, in which the Company is fully consolidated. The Annual Report of A.P. Møller - Mærsk A/S is available at:

http://investor.maersk.com/financials.cfm

Notes to the financial statements

Amounts in USD million

20 Significant accounting estimates and judgements

The preparation of the financial statements requires management, on an ongoing basis, to make judgements and estimates and form assumptions that affect the reported amounts. Management forms its judgements and estimates based upon historical experience, independent advisors and external data points as well as in-house specialists and on other factors believed to be reasonable under the circumstances.

The most significant areas subject to estimates and judgements are mentioned below.

Property, plant and equipment

Management assesses impairment indicators across the company's portfolio of assets. Judgement is applied in the definition of cash generating units and in the selection of methodologies and assumptions for impairment tests. Projected cash flow models are used when fair value is not obtainable or when fair value is deemed lower than value in use. External data is used to the extent possible and centralised processes, involving corporate functions, shall ensure that indexes or data sources are selected consistently observing differences in risks and other circumstances.

The company operates its fleet of container vessels in an integrated network for which reason the global container shipping activities are tested for impairment as a single cash generating unit.

Impairment considerations

Although freight rates improved compared to 2017, it was not enough to compensate for the 32% increase in average bunker cost, the continuing low freight rates and a historical inability in the industry to recoup cost due to increased bunker costs are impairment indicators. In addition, the estimated fair value of the fleet continues to be significantly lower than the carrying amount. Consequently, an estimate of the recoverable amount has been prepared by a value in use calculation. The cash flow projection is based on forecasts as per December 2018 covering plans for 2019-23. The key sensitivities are: development in freight rates, container volumes, bunker costs, effect of cost savings as well as the discount rate. Management has applied an assumption of growth in volumes and continued pressure on, but increasing freight rates, and continued cost efficiency. The impairment test continues to show headroom from value in use to the carrying amount. Management is of the opinion that the assumptions applied are sustainable.

Depreciation and residual values

Useful lives are estimated based on past experience and management's estimates of the period over which the assets will provide economic benefits. Management decides from time to time to revise the estimates for individual assets or groups of assets with similar characteristics due to factors such as quality of maintenance and repair, technical development and environmental requirements. Refer to note 19 for the useful lives typically used for new assets.

Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel, which is considered as the main determinant of the residual price. As a main rule the residual values of vessels are initially estimated at 10% of the purchase price, exclusive of dry-docking costs. The long term view is prioritised in order to disregard, to the extent possible, temporary market fluctuations which may be significant.

Intangible assets

Impairment considerations for brand name is included in note 4.

Provisions for legal disputes, etc.

Management's estimate of the provisions in connection with legal disputes, including disputes on taxes and duties, is based on the knowledge available of the actual substance of the cases and a legal assessment of these. The resolution of legal disputes, either through negotiations or litigation, can take several years to complete and the outcome is subject to considerable uncertainty.

The company is engaged in a number of disputes with tax authorities of various scope. Appropriate provision has been made where the probability of payment of additional taxes in individual cases is considered more likely than not. In addition, certain disputed items are evaluated on a portfolio basis by geographical area and country risk provisions are established where the aggregated risk of additional payments is more likely than not. Demands for which the probability of payment is assessed by management to be less than 50% are not provided for.

Leasing

Judgement is applied in the classification of lease as operating or finance lease. The company enters into a substantial amount of lease contracts, some of which are combined lease and service contracts like time-charter agreements. Management applies a formalised process for classification and estimation of present values for finance leases with use of specialised staff in corporate functions.

Notes to the financial statements

Amounts in USD million

21 New financial reporting requirements

The following new accounting standards are relevant to Maersk Line A/S for the years commencing from 1 January 2019. Maersk Line A/S has not yet applied the following standards:

- IFRS 16 Leases.
- IFRIC 23 Uncertain tax positions.

Maersk Line A/S has in all material aspects, concluded analyses of the impending changes resulting from IFRS 16 and IFRIC 23. The key findings are explained below:

IFRS 16 LEASES
Effective 1 January 2019, Maersk Line A/S applied the new reporting standard on Leases, IFRS 16 according to the adoption date stipulated by the International Accounting Standards Board, IASB. Post transition, leases will be recognised as a right-of-use asset and a corresponding lease liability at the date on which the leased asset is available for use by Maersk Line A/S.

Each lease payment is allocated between a reduction of the liability and an interest expense. The interest expense is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset´s useful life and the lease term on a straight-line basis.

Maersk Line A/S will transition to IFRS 16 in accordance with the modified retrospective approach, therefore previous period comparative figures will not be adjusted. Additionally, the definition of a lease under IAS 17 and its related interpretations has been retained. Leases including internal leases classified as finance leases at 31 December 2018 have been transitioned to IFRS 16 at their carrying amount of USD 2.1bn.

At 31 December 2018, Maersk Line A/S had non-cancellable operating lease commitments of USD 6.5bn (USD 5.8bn). As part of the transition, Maersk Line A/S applied the following adjustments before discounting lease payments:

- Service components included in the pricing of vessel charter fees are not included as part of the lease liability. These costs will be recognised in the income statement as incurred.
- Maersk Line A/S will not apply the new standard to leases with a remaining term of 12 months or less from 1 January 2019. Additionally, leases with a maximum lease term of less than 12 months are exempted from the provisions of the new standard.

After adjustments and discounting effect the lease liability is estimated at approx. USD 4.0bn. In discounting the future lease payments incremental borrowing rates of 4.5%-8.31% have been applied for the significant leasing contracts. A bridge between the lease commitments and the lease liability is presented below.

The new requirement to recognise a right-of-use asset and a related lease liability has a significant impact on the presentation of Maersk Line A/S gross debt and profit before depreciation, amortisation and impairment losses (EBITDA).

Bridge between lease commitment and IFRS 16 Lease Liability as of 31 December 2018

USD million	2018
Total lease commitments	**6,453**
Adjustments for service components	-1,524
Adjustments for short term leases	-257
Other lease adjustments	-80
Total leases to be discounted	**4,592**
Discount factor	-619
Lease liability as of 31 December 2018	**3,973**

Maesk Line A/S gross interest-bearing debt is estimated to increase by approx. USD 4.0bn to USD 23.0bn, while property, plant and equipment increases to approx. USD 20.4bn.

Operating expenses are estimated to decrease, positively impacting EBITDA by USD 1.2bn in comparison to the previous lease standard IAS 17. The cost related to operating leases will be recognised as depreciation, negatively impacting profit before financial items (EBIT) and interest cost, negatively impacting profit before tax.

IFRIC 23 UNCERTAIN TAX POSITIONS
Maersk Line A/S follows most of the guidelines in IFRIC 23 for accounting for uncertain income tax positions and the implementation of the interpretation standard is not expected to result in a significant change to the net amount of tax provisions. The recognition in the balance sheet will change as Maersk Line A/S recognises uncertain tax positions under provisions, whereas from 2019 these will be recognised as current and deferred tax.

Notes to the financial statements

Amounts in USD million

22 Subsequent events

No significant events have occurred after the balance sheet date up through the date of this report which would influence the evaluation of this annual report.

Notes to the financial statements

Amounts in USD thousand

23 Subsidiaries

Directly owned entities	Ownership share (%)	Registered Country	Equity USD 000'	Profit or loss for the period USD 000'	Maersk Line A/S' share of profit/loss USD 000'
Safmarine MPV NV	100	Belgium	6,302	1,063	1,063
Maersk China Ltd.	100	China	219,473	13,017	13,017
Rederiaktieselskabet Kuling A/S	100	Denmark	784	-20	-20
Maersk Line Agency Holding A/S	100	Denmark	616,731	88,500	88,500
Seago Line A/S	100	Denmark	39,113	12,388	12,388
Maersk Trade Finance A/S	100	Denmark	16,661	-5,261	-5,261
Maersk Deutschland A/S & Co. KG	100	Germany	4,407	-355	-355
Maersk Shipping Hong Kong Ltd.	100	Hong Kong	1,954,861	17,826	17,826
MCC Transport Singapore Pte. Ltd.	100	Singapore	136,889	132,801	132,801
A.P. Moller Singapore Pte. Ltd.	100	Singapore	1,755,614	-13,968	-13,968
Maersk Line UK Ltd.	100	United Kingdom	423,992	46,106	46,106
Maersk Inc.	100	United States	NA	NA	NA
Maersk GP GmbH	100	Germany	NA	NA	NA
Rudolf August Oetker Tanker ApS & Co KG	100	Germany	NA	NA	NA
Maersk Shipping K/S	100	Denmark	NA	NA	NA
Frey P/S	50	Denmark	2,956	-41	-21
Frey GP ApS	50	Denmark	5	-3	-2
HS GP ApS	100	Denmark	6	-2	-2
Maersk Line Crewing Hamburg ApS & Co KG	100	Germany	NA	NA	NA
Hamburg Südamerikanische DG KG	100	Germany	458,284	-1,006,484	-1,006,484
Maersk GTD Holdings Inc.	100	United States	NA	NA	NA

Only subsidiaries of direct ownership have been included. The Company holds a controlling influence in the entities listed above.
All subsidiaries are consolidated in the A.P. Møller - Mærsk A/S annual report for 2018 which is avalable on:
http://investor.maersk.com/financials.cfm

Profit/loss for the period and equity are disclosed as per the latest official financial statement, in accordance with the requirement in the Danish Financial Statements Act. NA (not available) indicates that no official financial statement is required to be prepared or the financial statement for the entity's first statutory reporting period has not yet been made official.

Impairment losses recognised in prior years on investments in subsidiaries, disclosed in note 6, relate to investments in vessel-owning subsidiaries. Impairment is recognised when the carrying amount exceeds the value in use as described in the accounting policies in note 19.

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today considered and adopted the Annual Report of Maersk Line A/S for the financial year 1 January – 31 December 2018.

The Annual Report is prepared in accordance with International Financial Reporting Standards as adopted by the EU. Moreover, the Annual Report is prepared in accordance with additional Danish disclosure requirements.

In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations and cash flows for 2018.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Company, of the results for the year and of the financial position of the Company as well as a description of the most significant risks and elements of uncertainty facing the Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 29 May 2019

Executive Board

DocuSigned by:
BEFEB39B89724AA...
Søren Skou
CEO

Board of Directors

DocuSigned by:
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Jim Hagemann Snabe
Chairman

DocuSigned by:
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Søren Toft

DocuSigned by:
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Søren Skou

DocuSigned by:
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Caroline Sundorph Pontoppidan

Independent Auditor's Report

To the Shareholder of Maersk Line 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 2018, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Financial Statements of Maersk Line A/S for the financial year 1 January - 31 December 2018, which comprise income statement and statement of comprehensive income, 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 International Financial Reporting Standards as adopted by the EU and further requirements in 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, 29 May 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Mogens Nørgaard Mogensen	Gert Fisker Tomczyk
State Authorised Public Accountant	State Authorised Public Accountant
mne 21404	mne9777