Maersk Line A/S

Esplanaden 50, DK-1263 Copenhagen K
CVR-nr. 32 34 57 94

Annual report 2016

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 22 May 2017.

Casper Munch - chairman

Contents

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 Jakob Stausholm 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 22 May 2017

FINANCIAL HIGHLIGHTS AND KEY FIGURES

USD million	2016	2015**	2014	2013*
Key figures* **				
Revenue	18,849	19,729	0	0
Profit before depreciation and impairment	688	1,891	0	0
Profit before financial items	-693	692	0	0
Profit for the year	**92**	**770**	**0**	**0**
Non-current assets	19,566	19,287	0	0
Current assets	3,824	3,100	0	0
Total assets	**23,390**	**22,387**	**0**	**0**
Share capital	82	82	0	0
Equity	**5,675**	**5,603**	**0**	**0**
Provisions	382	432	0	0
Non-current liabilities other than provisions	10,046	9,954	0	0
Current liabilities other than provisions	7,287	6,398	0	0
Cash flows from operating activities	1,325	2,367	0	0
Net cash flows from investing activities	-575	-3,849	0	0
Portion relating to investment in property, plant and equipment	-575	-1,709	0	0
Cash flows from financing activities	-682	1,512	0	0
Total cash flows	**68**	**30**	**0**	**0**
Financial ratios				
Gross margin	4%	10%	0	0
Operating margin	-4%	4%	0	0
Current ratio	0,5	0,5	0	0
Solvency ratio	24%	25%	0	0
Return on equity	2%	15%	0	0
Average number of employees	1	0	0	0

*The company's first financial year covers the period 4 December – 31 December 2013.
**As of 1 February 2015 Maersk Line activities from A.P. Møller – Mærsk A/S, including related subsidiaries, were contributed to Maersk Line A/S. The period is therefore not comparable to prior financial years. Before this the company had no activity.
***Above key figures are not consolidated figures.

MAERSK LINE A/S' MAIN ACTIVITIES

Maersk Line A/S' and the 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, known for reliable, flexible and eco-efficient services. The Maersk Line group provides ocean transportation in all parts of the world and serve customers through 306 offices in 114 countries. The Maersk Line group employs 7,600 seafarers and 21,600 land-based employees and operates 639 container vessels.

Maersk Line's services are marketed through the Maersk Line, Safmarine, SeaLand (Intra-Americas), MCC Transport (Intra-Asia) and Seago Line (Intra-Europe) brands. Maersk Line is part of A.P. Moller – Maersk (APMM Group), an integrated transport & logistics company with multiple brands, and is a global leader in container shipping and ports. Including a stand-alone Energy division, the APMM group employs roughly 88,000 employees across operations in 130 countries and in 2016 the group revenue was USD 35.5 billion.

FINANCIAL REVIEW

Maersk Line A/S made a profit of USD 92 million in 2016 (NOPAT for the Maersk Line segment as part of A.P. Møller - Mærsk Group consolidated financial statements is USD -376 million) which was lower than expected, and revenue of USD 18,849 million (revenue for the Maersk Line segment as part of A.P. Møller - Mærsk Group consolidated financial statements is USD 20,715 million).

The result was mainly due to poor market conditions leading to sustained lower freight rates, partly offset by higher volumes and lower unit costs related to lower bunker price, higher utilisation and cost efficiencies.

Events during the year

Maersk Line reached an agreement on 1 December 2016 to acquire Hamburg Süd. Hamburg Süd is the world's seventh largest container shipping line and a leader in the North-South trades. The acquisition is subject regulatory approvals expected by the end of 2017. The transaction is expected to be completed by the end of 2017. Hamburg Süd will continue to operate as a separate brand and will keep its local organisations and headquarters in Hamburg, Germany. Customers will benefit from having access to a wider and more effective network.

The market

Challenging market conditions and industry dynamics in the container industry continued in 2016. The inflow of new container vessels was high in the last part of 2015 and early part of 2016. This added to the existing excess supply as global container demand continued to remain subdued in 2016. These supply/demand developments led to significant downward pressure on freight rates and industry revenues, especially in the first half of the year.

Global container demand grew 2-3% in 2016. Demand growth was low in the first half of 2016 but improved in the second half, especially in Q4. This partly reflects the contrast to the very weak demand in late 2015, as well as improvements in the global economic environment. Container demand on the East-West trades was in 2016 driven by higher US imports supported by the US economic expansion and the strong USD. European imports developed more softly and in line with GDP growth in the region. The declining imports in Africa and South America negatively impacted the container demand on the North-South trades. However, imports to South America stabilised somewhat in Q4, reflecting early signs of the Brazilian economy stabilising and improvements in commodity prices.

Global container fleet capacity grew 4% in 2016 (Alphaliner), but with lower growth towards the end of the year. At the end of 2016, the fleet stood at 20.3m TEU of which 6.9% (7.0%) was idle. 934k TEU (136 vessels) were delivered and 665k TEU (201 vessels) were scrapped during 2016. Deliveries were dominated by the 10,000+ vessel segments while mainly smaller and midsized vessels were scrapped. The average scrapping age continued to decline and was 19 years in 2016, which compares to an average of 30 years in 2008 where the scrapping age was at its highest. New orderings amounted to 292k TEU (82 vessels), leading to a drop in the order book to 16% at the end of 2016 (compared to 20% of the fleet at the end of 2015).

The supply/demand gap widened further in the first half of 2016. This resulted in freight rates continuing the downward trend seen in 2015, before stabilising and even improving gradually in the second half of 2016. Developments in oil and fuel prices supported these dynamics. On average, the China Composite Freight Index (CCFI) declined by 19% in 2016, similar to the development on Maersk Line's East-West trades.

As a testimony to the situation, for the first time in 30 years, the industry saw a major carrier, Hanjin, go out of business. The industry has responded to the challenging market conditions by consolidating. CMA CGM completed its acquisition of Neptune Orient Lines (NOL) and the two Chinese carriers COSCO and CSCL completed their merger in 2016. Additionally three mergers and acquisitions have been agreed, but are still pending regulatory approval; the merger between Hapaq Lloyd and UASC, the merger between the three Japanese carriers NYK, MOL & K Line, and Maersk Line's acquisition of Hamburg Süd. As noted above Maersk Line's acquisition of Hamburg Süd is still subject to regulatory approvals.

Maersk Line and MSC (2M partners) and the South Korean container shipping line Hyundai Merchant Marine (HMM) announced a new strategic cooperation on the East-West trades in December 2016. The cooperation is outside the scope of 2M but will provide HMM access to the 2M network through a combination of slot exchanges and slot purchases. Maersk Line and MSC will charter and operate a number of vessels from HMM. The cooperation was officially launched on 16 March 2017 and the initial contract is three years with an option to extend.

Strategy review

In June the management of the company's owner A.P. Møller - Mærsk A/S was tasked to perform a review focusing on the strategic and structural options for the APMM Group with the objective of generating growth, increasing agilities and synergies and unlocking and maximising shareholder value with the long-term view. To enable the new strategic direction it has been decided to reorganise A.P. Møller - Mærsk A/S' portfolio of businesses into two independent divisions; an integrated Transport & Logistics division and an Energy division. This will ensure focus on driving synergies and developing new products and services in Transport & Logistics. The main growth focus of A.P. Møller - Mærsk A/S going forward will be delivering best in class transportation and logistics services as an integrated Transport & Logistics company. Building on the Group's unique position within container transport and port operations, and significant position in supply chain management and freight forwarding, Transport & Logistics will leverage its leading position through new product offerings, digitalised services and individualised customer solutions.

Maersk Line will pursue growth in three ways: organic growth, digitisation and inorganic growth. Organic growth will be driven by improvements in the customer experience and introduction of new solutions together with the other brands in the Transport & Logistics division. Digitisation will support organic growth via customer experience improvements, but will also drive growth in itself through the launch of new revenue generating digital solutions. Maersk Line will pursue inorganic growth through the intended acquisition of Hamburg Süd, subject to regulatory approvals. The intended acquisition will enable Maersk Line to offer an improved value proposition on its North-South trades and in the reefer segment. It will also enable network and procurement cost synergies for Maersk Line and revenue synergies for APM Terminals.

OUTLOOK

Due to gradual improvements in container rates Maersk Line A/S and its subsidiaries expect an improvement in excess of USD 1bn in underlying result[1] compared to 2016 (loss of USD 384m for the Maersk Line segment as part of A.P. Møller - Mærsk Group consolidated financial statements). Global demand for seaborne container transportation is expected to increase 2-4%.

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 13.

SUSTAINABILITY AND GENDER COMPOSITION OF MANAGEMENT

An independently assured Sustainability Report for 2016 is published which provides detailed information on the APMM 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:

http://files.shareholder.com/downloads/ABEA-3GG91Y/3141614625x0x926940/47A425A4-7527-4651-B873-9BE0A3A0521D/Maersk_Sustainability_Report_2016.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

On 14 March 2017 it was announced that Maersk Line A/S and the owner of Hamburg Süd, the Oetker Group, had signed a Sale and Purchase Agreement. On 28 April 2017 the Sale and Purchase Agreement was approved by the respective boards of Maersk Line A/S and the Oetker Group. A syndicated loan facility has been established to fully finance the acquisition. The agreement is subject to regulatory approvals. Maersk Line expects to close the transaction in Q4 2017.

No further 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.

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[1] Underlying result is defined as profit before tax adjusted for gain/losses on sale of non-current assets, impairment losses (net) and related tax adjustments.

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		2016	2015
	Revenue	18,849	19,729
1	Operating costs	18,161	17,838
	Profit before depreciation and impairment losses	**688**	**1,891**
4, 5	Depreciation and impairment losses, net	1,410	1,218
	Gain/loss on sale of companies and non-current assets, etc., net	29	19
	Profit before financial items	**-693**	**692**
2	Dividends	1,309	329
2	Financial income	53	38
2	Financial expenses	599	277
	Profit before tax	**70**	**782**
3	Tax	22	12
	Profit for the year	**92**	**770**
	Appropriation:		
	Retained earnings	92	770
		92	**770**

Statement of comprehensive income

Amounts in USD million

Note		2016	2015
	Profit for the year	**92**	**770**
	Cash flow hedges		
	Value adjustment of hedges for the year	-63	-32
11	Reclassified to income statement:	44	80
3	Tax on other comprehensive income	-1	-2
	Total items that are or may be reclassified subsequently to the income statement	**-20**	**48**
	Other comprehensive income, net of tax	**-20**	**48**
	Total comprehensive income for the year	**72**	**818**

Balance sheet 31 December

Amounts in USD million

Note		2016	2015
4	**Property, plant and equipment**	**14,747**	**14,452**
5	Investments in subsidiaries	4,816	4,816
12	Derivatives	-	1
	Financial non-current assets	**4,816**	**4,817**
6	**Deferred tax**	**3**	**18**
	Total non-current assets	**19,566**	**19,287**
7	**Inventories**	**332**	**211**
13	Trade receivables	1,803	1,642
	Tax receivables	43	44
12	Interest bearing receivables from subsidiaries	927	670
11	Derivatives	6	-
	Other receivables	415	319
	Other receivables from subsidiaries	131	87
	Prepayments	91	101
	Receivables	**3,416**	**2,863**
	Cash and bank balances	**76**	**26**
	Total current assets	**3,824**	**3,100**
	Total assets	**23,390**	**22,387**

Balance sheet 31 December

Amounts in USD million

Note		2016	2015
8	Share capital	82	82
	Reserves	5,593	5,521
	Total equity	**5,675**	**5,603**
9	**Borrowings, non-current**	**1,266**	**877**
9	**Interest bearing debt to subsidiaries, etc.**	**8,780**	**9,033**
10	Provisions	185	220
11	Derivatives	-	44
	Other non-current liabilities	**185**	**264**
	Total non-current liabilities	**10,231**	**10,174**
9	**Borrowings, current**	**108**	**88**
9	**Interest bearing debt to subsidiaries, etc.**	**3,337**	**2,882**
10	Provisions	197	212
	Trade payables	3,012	2,742
	Tax payables	13	3
11	Derivatives	92	26
	Other payables	350	308
	Other payables to subsidiaries	375	349
	Other current liabilities	**4,039**	**3,640**
	Total current liabilities	**7,484**	**6,610**
	Total liabilities	**17,715**	**16,784**
	Total equity and liabilities	**23,390**	**22,387**

Cash flow statement

Amounts in USD million

Note		2016	2015
	Profit before financial items	-693	692
4	Depreciation and impairment losses, net	1,410	1,218
	Gain/loss on sale of companies and non-current assets, etc., net	-29	19
16	Change in working capital	-260	382
16	Other non-cash items	61	23
	Cash from operating activities before financial items and tax	489	2,334
	Dividends received	1,309	329
	Financial income received	8	3
	Financial expenses paid	-526	-222
	Taxes paid/received	45	-77
	Cash flow from operating activities	**1,325**	**2,367**
16	Purchase of property, plant and equipment	-804	-1,767
	Sale of property, plant and equipment	229	58
	Acquisition of and capital increases in subsidiaries and activities	-	-2,140
	Cash flow used for investing activities	**-575**	**-3,849**
	Cash balance from contribution 1st February 2015	-	14
	Repayment of borrowings	-682	-272
	Proceeds from borrowings	-	9,770
	Dividends distributed	-	-8,000
	Cash flow from financing activities	**-682**	**1,512**
	Net cash flow for the year	**68**	**30**
	Cash and cash equivalents 1 January	26	0
	Currency translation effect on cash and cash equivalents	-18	-4
	Cash and cash equivalents 31 December	76	26
	Cash and cash equivalents 31 December	**76**	**26**

Cash and cash equivalents	2016	2015
Cash and bank balances	76	26
Cash and cash equivalents 31 December	**76**	**26**

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 2015	0	-	-	0	0
Other comprehensive income, net of tax	-	-	48	-	48
Profit for the year	-	-	-	770	770
Total comprehensive income for the year	**-**	**-**	**48**	**770**	**818**
Contribution on 1st February[1]	82	-	-63	12,766	12,785
Extraordinary dividends proposed	-	8,000	-	-8,000	-
Pay out dividend	-	-8,000	-	-	-8,000
Total transactions with shareholders	**82**	**-**	**-63**	**4,766**	**4,785**
Equity 31 December 2015	**82**	**-**	**-15**	**5,536**	**5,603**
2016					
Other comprehensive income, net of tax	-	-	-20	-	-20
Profit for the year	-	-	-	92	92
Total comprehensive income for the year	**-**	**-**	**-20**	**92**	**72**
Equity 31 December 2016	**82**	**-**	**-35**	**5,628**	**5,675**

[1] The capital increase in 2015 consists of the contribution of the Maersk Liner Business as per 1 February 2015, which is described in note 18 accounting policies.
Shares were issued to the parent at a premium comprising of the net of share capital and total injected equity in Maersk Liner Business on 1 February 2015.

Notes to the financial statements

Notes to the financial statements

Amounts in USD million

1 Operating costs

	2016	2015
Bunker costs	1,828	2,191
Terminal costs	6,274	5,710
Intermodal costs	2,426	2,179
Port costs	1,597	1,483
Rent and lease costs	2,308	3,094
Staff costs reimbursed to related parties	360	365
Other	3,368	2,816
Total operating costs	**18,161**	**17,838**

During 2016 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.

Staff costs reimbursed to related parties consists of wages and salaries of USD 326m (331m), pension plan contributions of USD 31m (29m) and other social security costs of USD 4m (5m).

Notes to the financial statements

Amounts in USD million

2 Financial income and expenses

	2016	2015
Interest expenses on liabilities[1]	503	172
Interest income on loans and receivables	8	2
Net interest expenses	**495**	**170**
Exchange rate gains on bank balances, borrowings and working capital	45	26
Exchange rate losses on bank balances, borrowings and working capital	96	85
Net foreign exchange gains/losses	**51**	**58**
Fair value losses from derivatives	-	8
Net fair value gains/losses	**-**	**8**
Dividends received from subsidiaries and associated companies	1,309	329
Total dividends income	**1,309**	**329**
Financial net	**763**	**93**
Of which:		
Dividends	1,309	329
Financial income	53	38
Financial expenses	599	277

[1] Interest expenses of USD 26m (9m) have been capitalised on assets. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.1% (3.8%) p.a.

Notes to the financial statements

Amounts in USD million

3 Tax

	2016	2015
Tax recognised in the income statement		
Current tax on profit for the year	-41	-31
Adjustment for current tax of prior periods	-42	-5
Total current tax	**-83**	**-36**
Origination and reversal of temporary differences	-	-18
Reassessment of recoverability of deferred tax asset, net	15	-
Total deferred tax	**15**	**-18**
Total Income Tax	**-68**	**-54**
Tonnage and freight tax	46	66
Total tax	**-22**	**12**
Tax reconciliation		
Profit before tax	70	782
Income subject to Danish and foreign tonnage taxation, etc.	693	-711
Profit before tax, adjusted	**763**	**71**
Tax using the Danish corporation tax rate (2016: 22.0%, 2015: 23.5%)	168	17
Adjustment to previous years' taxes	-27	-5
Effect of changed tax rate	-	-0
Effect of other income taxes distinct from corporation tax	5	-
Non-taxable income	-8	-
Non-deductible expenses	55	-
Non-taxable dividends	-288	-
Deferred tax asset not recognised	18	-
Change in recoverability of deferred tax assets	0	-3
Other differences, net	8	-63
Total income tax	**-68**	**-54**
Tax recognised in other comprehensive income and equity		
Interest rate hedges	1	2
Tax recognised in other comprehensive income, net	**1**	**2**
Total	**1**	**2**
Of which:		
Current tax	**1**	**2**

Notes to the financial statements

Amounts in USD million

4 Property, plant and equipment

	Ships, containers, etc.	Production facilities and equipment, etc.	Construc-tion work in progress and pay-ment on acoount	Total
Cost				
1 January 2015				
Contribution on 1st February	21,565	565	421	22,551
Additions	1,387	256	1,122	2,764
Disposal	-290	-	-	-290
Transfer	965	-	-965	-
31 December 2015	**23,627**	**821**	**578**	**25,026**
Additions	1,311	96	454	1,862
Disposal	-1,109	-	-	-1,109
Transfer	84	-	-84	-
31 December 2016	**23,913**	**917**	**948**	**25,778**
Depreciation and impairment losses				
1 January 2015	-	-	-	-
Contribution on 1st February	9,566	59	-	9,625
Depreciation	1,133	65	-	1,198
Disposal	-249	-	-	-249
31 December 2015	**10,450**	**124**	**-**	**10,574**
Depreciation	1,335	75	-	1,410
Disposal	-952	-	-	-952
31 December 2016	**10,832**	**199**	**-**	**11,031**
Carrying amount:				
31 December 2015	**13,177**	**697**	**578**	**14,452**
31 December 2016	**13,081**	**718**	**948**	**14,747**
Of which carrying amount of finance leased assets:				
31 December 2015	**937**	**697**	**-**	**1,634**
31 December 2016	**1,015**	**718**	**4**	**1,737**

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.

Notes to the financial statements

Amounts in USD million

4 Property, plant and equipment - continued

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 37m (87m) of which USD 30m (45m) is expected within one year.

Pledges
Ships, containers, etc. with a carrying amount of USD 1,333m (1,450m) have been pledged as security for loans of USD 904m (1,162m).

Notes to the financial statements

Amounts in USD million

5 Investments in subsidiaries

	Investments in subsidiaries
Cost	
1 January 2015	-
Contribution on 1st February	4,805
Acquisition and capital injection	30
31 December 2015	**4,835**
Acquisition and capital injection	
31 December 2016	**4,835**
Impairment losses	
1 January 2015	-
Impairment losses	19
31 December 2015	**19**
Impairment losses	
Disposal	-
31 December 2016	**19**
Carrying amount:	
31 December 2015	**4,816**
31 December 2016	**4,816**

The list of directly owned subsidiaries is included in note 22.

Notes to the financial statements

Amounts in USD million

6 Deferred tax

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

	Assets		Liabilities		Net assets	
	2016	2015	**2016**	2015	**2016**	2015
Tax loss carryforwards	3	18	-	-	3	18
Total	**3**	**18**	**-**	**-**	**3**	**18**

Change in deferred tax, net during the year:	**2016**	2015
1 January	**18**	
Recognised in the income statement	-15	18
31 December	**3**	**18**

Notes to the financial statements

Amounts in USD million

7 Inventories

	2016	2015
Bunker	332	211
Total	**332**	**211**

Notes to the financial statements

Amounts in USD and DKK where so indicated

8 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**

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 owner.

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

9 Borrowings and other interest bearing debt

	2016	2015
Interest bearing debt to group related entities	12,117	11,915
Financial leasing liability	1,374	965
Total	**13,491**	**12,880**
Of which:		
Classified as non-current	10,046	9,910
Classified as current	3,445	2,970

Notes to the financial statements

Amounts in USD million

10 Provisions

	Restructuring	Legal disputes, etc.	Other	Total
1 January 2016	40	325	67	432
Provision made	-	122	14	136
Amount used	-16	-26	-10	-52
Amount reversed	-20	-106	-	-126
Exchange rate adjustment	-	-9	-	-9
31 December 2016	**4**	**306**	**71**	**381**
Classified as non-current	-	140	44	184
Classified as current	4	166	27	197
	4	**306**	**71**	**381**

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 is considered immaterial.

Notes to the financial statements

Amounts in USD million

11 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 and interest rate risks, including:
- Currency risks related to recognised and unrecognised transactions
- Interest rate exposure on borrowings

Fair values 31 December:	2016	2015
Current receivables	6	-
Non-current liabilities	-	44
Current liabilities	92	26
Liabilities, net	**86**	**70**

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

	Cash flow hedges 2016	Fair value hedges 2016	Held for trading 2016	Cash flow hedges 2015	Fair value hedges 2015	Held for trading 2015
Currency derivatives, net	86	-	-	64	-	-
Interest rate derivatives, net	-	-	-	6	-	-
Total	**86**	**-**	**-**	**70**	**-**	**-**

A majority of the hedges recognised in equity are realised within one year.

Notes to the financial statements

Amounts in USD million

11 Derivatives

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

	2016	2015
Hedging foreign exchange risk on operating costs	-37	-63
Hedging interest rate risk	-7	-9
Total effective hedging	**-44**	**-72**
Ineffectiveness of unrealised currency derivatives recognised in financial expenses	-	-8
Total reclassified from equity reserve for hedges	**-44**	**-80**
Net gains/losses recognised directly in the income statement	**-**	**-**
Total	**-44**	**-80**

Currency derivatives hedge operating costs and are recognised on an ongoing basis in the income statement.

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

Amounts in USD million

12 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 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Carried at amortised cost				
Interest bearing receivables from subsidiaries, etc.	927	927	670	670
Total interest-bearing receivables	**927**	**927**	**670**	**670**
Trade receivables	1,803		1,642	
Other receivables (non-interest-bearing)	549		464	
Other receivables from subsidiaries, etc.	131		87	
Cash and bank balances	76		26	
Total loans and receivables	**3,486**		**2,889**	
Carried at fair value				
Derivatives	6	6	1	1
Other financial assets	**6**	**6**	**1**	**1**
Total financial assets	**3,492**		**2,890**	
Carried at amortised cost				
Interest bearing debt to group related entities	12,117	12,117	11,915	11,915
Financial leasing liability	1,374	1,756	965	1,104
Total borrowings	**13,491**	**13,873**	**12,880**	**13,019**
Trade payables	3,012		2,742	
Other payables	363		311	
Other payables to subsidiaries and associated companies, etc.	375		349	
Total borrowings and payables	**17,241**		**16,282**	
Carried at fair value				
Derivatives	92	92	70	70
Other financial liablities	**92**	**92**	**70**	**70**
Total financial liabilities	**17,333**		**16,352**	

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 using level 1 valuation inputs where available, but primarily by measuring the present value of expected future cash flows (level 3 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

13 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 2016.
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 2016. 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.
The sensitivity analyses show the effect on profit or loss and equity of a reasonably possible change in exchange rates and interest 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 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 in each 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 in-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, GBP and SEK. 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.

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
2016				
0-3%	178	178		
3-6%	11,484	11,048	436	
6%-	1,829		272	1,557
Total	**13,491**	**11,226**	**708**	**1,557**
Of which:				
Bearing fixed interest	2,265			
Bearing floating interest	11,226			
2015				
0-3%	187	187		
3-6%	11,234	11,234		
6%-	1,459	680	336	443
Total	**12,880**	**12,101**	**336**	**443**
Of which:				
Bearing fixed interest	187			
Bearing floating interest	12,693			

Notes to the financial statements

Amounts in USD million

13 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
CAD	70	1
DKK	235	10
EUR	278	13
GBP	176	11
HKD	101	0
INR	0	0
JPY	40	3
MXN	34	3
MYR	74	5
SEK	145	42
Total	**1,153**	**86**

* Amounts are based on agreed rates. Positive contract amounts represent a sale of the respective currency, and negative amounts represent a purchase.

The forward exchange contracts fall due in the period from January 2017 to December 2017.

Notes to the financial statements

Amounts in USD million

13 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.

Maturity analysis of trade receivables	2016	2015
Receivables not due	1,057	1,012
Less than 90 days overdue	595	479
More than 90 days overdue	312	315
Receivables, gross	**1,964**	**1,806**
Provision for bad debt	162	164
Carrying amount	**1,802**	**1,642**

Notes to the financial statements

Amounts in USD million

13 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
2016					
Interest bearing debt to group related entities	12,117	3,837	9,179	577	13,593
Financial leasing liability	1,374	189	801	938	1,928
Trade payables	3,012	3,012	-	-	3,012
Other payables	350	350	-	-	350
Other payables to group related entities	375	375	-	-	375
Non-derivative financial liabilities	**17,228**	**7,763**	**9,980**	**1,515**	**19,258**
Derivatives	92	92	-	-	92
Total recognised in balance sheet	**17,320**	**7,855**	**9,980**	**1,515**	**19,350**
Operating lease commitments		1,423	2,099	236	3,758
Capital commitments		2,666	532	-	3,198
Total		**11,944**	**12,611**	**1,751**	**26,306**
2015					
Interest bearing debt to group related entities	11,915	3,288	9,523	441	13,252
Financial leasing liability	965	133	744	284	1,161
Trade payables	2,742	2,742	-	-	2,742
Other payables	308	308	-	-	308
Other payables to group related entities	349	349	-	-	349
Non-derivative financial liabilities	**16,279**	**6,820**	**10,267**	**725**	**17,812**
Derivatives	70	26	44	-	70
Total recognised in balance sheet	**16,349**	**6,846**	**10,311**	**725**	**17,882**
Operating lease commitments		1,946	3,432	124	5,502
Capital commitments		658	1,875	480	3,013
Total		**9,451**	**15,617**	**1,329**	**26,397**

Notes to the financial statements

Amounts in USD million

14 Commitments

As part of the Company's activities, customary agreements are entered into regarding charter and operating leases of ships, port facilities, etc.

	2016	2015
Within one year	1,423	1,946
Between one and two years	791	1,297
Between two and three years	692	907
Between three and four years	439	769
Between four and five years	177	460
After five years	236	124
Total	**3,758**	**5,502**
Net present value [1]	3,268	4,790

[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 2016, capital commitments amounted to USD 3.2bn (3.0bn), primarily related to acquisitions of container vessel new buildings.

Operating 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.

Notes to the financial statements

Amounts in USD million

15 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 153m 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

16 Cash flow specifications

	2016	2015
Change in working capital		
Inventories	-120	133
Trade receivables	-262	84
Other receivables and prepayments	-125	-294
Trade payables and other payables, etc.	273	498
Exchange rate adjustment of working capital	-26	-39
Total	**-260**	**382**
Purchase of property, plant and equipment		
Additions	841	2,765
Of which which pertains to borrowing costs capitalized on assets	-26	-9
Change in payables to suppliers regarding purchase of assets	-11	-989
Total	**804**	**1,767**

Other non-cash items are primarily related to adjustment of provision for bad debt regarding trade receivables and adjustment of provisions related to restructuring.

Notes to the financial statements

Amounts in USD million

17 Related parties

	Subsidiaries		Other related companies		Parent company		Management*	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Continuing operations								
Income statement								
Revenue	231	233	320	292	-	-	-	-
Operating costs	2,509	2,844	4,362	4,054	201	170	-	-
Remuneration to management	-	-	-	-	-	-	9	-
Dividends	1,309	329	-		-	-	-	-
Financial income	28	46	-	25	-	-	-	-
Financial expenses	-	36	539	43	-	47	-	-
Assets								
Tax receivables	-	-	-		43	44	-	-
Interest bearing receivables, current	728	628	9	42	191	-	-	-
Other receivables, current	116	53	162	141	50	10	-	-
Liabilities								
Interest bearing debt, non-current	343	-	8,437	9,033	-	-	-	-
Interest bearing debt, current	1,313	1,497	2,023	1,385	2	-	-	-
Trade payables	278	343	576	370	21	24	-	-
Other liabilities, current	4	11	114	85	302	339	-	-
Capital increases and purchase of shares	-	1,994	-	-	-	-	-	-
Distribution of retained earnings to parent	-	-	-	-	-	-8,000	-	-

***Management** refers to key management as defined by IAS 24.9. During 2015 there were no employees in the company and therefore no disclosure is required under IAS 24.17A.

Operating leases
At the end of 2016, operating lease commitments to related companies amounted to 1,267m (2,395m) of which USD 634m (896m) is payable within one year and USD 633m (1,499m) is non-current. The operating lease commitments relate mainly to leasing of container vessels.

Capital commitments
At the end of 2016, capital commitments to other related companies amounted to USD 384m (127m) of which 307m (127m) is payable within one year and USD 77m (0m) is non-current. The capital commitments relate to purchases of containers.

Operating leases as lessor
After the end of 2016, the future lease income from subsidiaries is USD 37m (87m) of which USD 30m (45m) is receivable within one year, and USD 7m (42m) is non-current. The future lease income relates mainly to leased out container vessels.

Contribution of Maersk Line activities
As of 1 February 2015 the Maersk Line activities, including the related subsidiaries, were contributed from A.P. Møller - Mærsk A/S to Maersk Line A/S at book values. As remuneration for the contribution, A.P. Møller - Mærsk A/S received shares in Maersk Line A/S at a price of DKK 15,610.12 (USD 2,550.09), corresponding to a premium of DKK 77,473,053k (USD 12,656,100k).

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 owner. The Company is included in the consolidated financial statements of A.P. Møller - Mærsk A/S, Copenhagen and A.P. Møller Holding A/S.

Notes to the financial statements

Amounts in USD million

18 Accounting policies

Basis of preparation

The financial statements for 2016 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 financial statements are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The accounting policies are consistent with those applied in the financial statements for 2015. A number of changes to accounting standards became effective 1 January 2016, which has had no material effect on the financial statements.

The exemption from preparing consolidated financial statements has been used, and the financial statements 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 2016 are outlined in note 20.

Foreign currency translation

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.

Contribution of activities in 2015

The contribution of the Maersk Line activities from A.P. Møller - Mærsk A/S to Maersk Line A/S done in February 2015 consists of certain assets and liabilities related to the activity at booked values as of the date of transaction. As a consequnce of the contribution taking place on 1 February 2015 the income statement for 2015 reflects 11 months of Maersk Line activities.

Income statement

Revenue from shipping activities is recognised as the service is provided, 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 at the time of customers' late return or pick-up of containers. Revenue is recognised net of volume discounts and rebates, some of which are estimated based on volume incentives and other factors. Lease income from operating leases is recognised over the lease term.

Revenue consists mainly of shipping activities.

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 decided. 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.

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.

Amounts in USD million

18 Accounting policies - continued

Balance sheet

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.

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.

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. In addition, deferred tax is not calculated for differences relating to investments in subsidiaries, associated companies and joint ventures to the extent that taxable dividends are unlikely in the foreseeable future. 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.

Amounts in USD million

18 Accounting policies - continued

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

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:
Operating margin: Operating profit/loss (EBIT) / Revenue
Gross margin: Gross profit / Revenue
Current ratio: Current assets / Current liabilities
Solvency ratio: Equity at year end / Total equity and liabilities at year end
Return on equity: Profit for the year after tax / Average equity

Notes to the financial statements

Amounts in USD million

19 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

The continuous decrease in freight rates and the low result in 2016 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 2016 covering plans for 2017-21. 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 and that the gap to fair value can be explained mainly by Maersk Line performing at margins above the industry average.

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 18 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.

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, 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

20 New financial reporting requirements

Maersk Line A/S has not yet applied the following standards:
- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases

IFRS 9 and IFRS 15 are effective from 1 January 2018 and are endorsed by the EU. IFRS 16 is effective from 1 January 2019 and is expected to be endorsed by the EU before the effective date. Maersk Line A/S has decided to adopt IFRS 9 from 1 January 2017. Early adoption of IFRS 15 and IFRS 16 is currently not considered by Maersk Line A/S.

Maersk Line A/S has in all material respects concluded analyses of the impending changes resulting from IFRS 9 and IFRS 15. The key findings are explained below. The project initiated to prepare for IFRS 16 is ongoing, where conclusions cannot be drawn yet.

IFRS 9 Financial instruments
The IASB accounting standard for Financial Instruments (IFRS 9) has been endorsed by the EU and Maersk Line A/S has decided to adopt IFRS 9 from 1 January 2017.

The implementation of IFRS 9 will not affect the current classification and measurement of the Company's financial instruments, and the new standard does not fundamentally change the accounting and reporting of hedging.

The effect of the change from the 'incurred loss' model in IAS 39 to the 'expected credit loss' model in IFRS 9 is considered immaterial due to the low credit risk in the Group. The implementation of IFRS 9 is therefore not expected to materially impact the financial position or performance of Maersk Line A/S.

IFRS 15 Revenue from contracts with customers
Maersk Line A/S's current practices for recognising revenue have shown to comply in all material aspects with the concepts and principles encompassed by the new standard.

IFRS 16 Leases
Due to the ongoing strategy review, the nature, number and complexity of lease contracts to which Maersk Line A/S is expected to be committed at the end of 2018 is unpredictable at present, thus the expected impact of the new standard cannot be estimated. For the same reason, management has not made any decisions on transition options.

Notes to the financial statements

Amounts in USD million

21 Subsequent events

On 14 March 2017 it was announced that Maersk Line A/S and the owner of Hamburg Süd, the Oetker Group, had signed a Sale and Purchase Agreement. On 28 April 2017 the Sale and Purchase Agreement was approved by the respective boards of Maersk Line A/S and the Oetker Group. A syndicated loan facility has been established to fully finance the acquisition. The agreement is subject to regulatory approvals. Maersk Line expects to close the transaction in Q4 2017.

Notes to the financial statements

Amounts in USD thousand

22 Subsidiaries

	Registered Country	Equity	Profit/loss for the period	Maersk Line A/S share of profit/loss
		USD 000'	USD 000'	USD 000'
Directly owned entities				
Safmarine MPV NV	Belgium	9,870	-15,886	-15,886
Maersk China Ltd.	China	198,354	23,102	23,102
Rederiaktieselskabet Kuling A/S	Denmark	667	173	173
Maersk Line Agency Holding A/S	Denmark	423,574	-35,564	-35,564
Seago Line A/S	Denmark	233,884	140,243	140,243
Sunrise 14 A/S	Denmark	26,141	-3,933	-3,933
Maersk Deutschland A/S & Co. KG	Germany	4,929	-307	-307
Maersk Shipping Hong Kong Ltd.	Hong Kong	2,035,898	74,599	74,599
MCC Transport Singapore Pte. Ltd.	Singapore	46,870	44,742	44,742
A.P. Moller Singapore Pte. Ltd.	Singapore	2,083,408	-198,100	-198,100
Maersk Line UK Ltd.	United Kingdom	963,087	75,548	75,548
Maersk Inc.	United States	NA	NA	NA

Only subsidiaries of direct ownership have been included.
All subsidiaries are consolidated in the Maersk Group annual report for 2016 which is avaiable 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.

Impairment losses on investments in subsidiaries 2015, disclosed in note 5, 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 18.

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 2016.

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 for large companies.

In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations and cash flows for 2016.

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, 22 May 2017

Executive Board:

Søren Skou
CEO

Board of Directors:

Jim Hagemann Snabe Chairman	Jakob Stausholm	Søren Skou
Caroline Sundorph Pontoppidan		

Independent Auditor's Report

To the Shareholders 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 2016, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016 in accordance with 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 2016, 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, 22 May 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Gert Fisker Tomczyk	Søren Ørjan Jensen
State Authorised Public Accountant	State Authorised Public Accountant