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

# Annual report 2017

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 31 May 2018.

Casper Münch - 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<br>Søren Toft<br>Søren Skou<br>Caroline Sundorph Pontoppidan |
| Executive Board | Søren Skou, CEO |
| Auditors | PricewaterhouseCoopers<br>Statsautoriseret Revisionspartnerselskab<br>Strandvejen 44, 2900 Hellerup, Denmark |
| Annual General Meeting | Annual general meeting will be held on 31 May 2018 |

## FINANCIAL HIGHLIGHTS AND KEY FIGURES

| USD million | 2017 | 2016 | 2015** | 2014 | 2013* |
|---|---|---|---|---|---|
| **Key figures***** | | | | | |
| Revenue | 21,707 | 18,849 | 19,729 | 0 | 0 |
| Profit before depreciation and impairment | 1,871 | 688 | 1,891 | 0 | 0 |
| Profit before financial items | 458 | -693 | 692 | 0 | 0 |
| **Profit for the year** | **162** | **92** | **770** | **0** | **0** |
| Non-current assets | 25,024 | 19,566 | 19,287 | 0 | 0 |
| Current assets | 4,842 | 3,824 | 3,100 | 0 | 0 |
| **Total assets** | **29,866** | **23,390** | **22,387** | **0** | **0** |
| Share capital | 82 | 82 | 82 | 0 | 0 |
| **Equity** | **5,919** | **5,675** | **5,603** | **0** | **0** |
| Provisions | 336 | 382 | 432 | 0 | 0 |
| Non-current liabilities other than provisions | 15,940 | 10,046 | 9,954 | 0 | 0 |
| Current liabilities other than provisions | 7,671 | 7,287 | 6,398 | 0 | 0 |
| Cash flows from operating activities | 1,798 | 1,325 | 2,367 | 0 | 0 |
| Net cash flows from investing activities | -6,275 | -575 | -3,849 | 0 | 0 |
| Of which relating to investment in property, plant and equipment | -1,461 | -575 | -1,709 | 0 | 0 |
| Cash flows from financing activities | 4,400 | -682 | 1,512 | 0 | 0 |
| **Total cash flows** | **76** | **68** | **30** | **0** | **0** |
| **Financial ratios** | | | | | |
| Operating margin | 2% | -4% | 4% | 0 | 0 |
| Solvency ratio | 20% | 24% | 25% | 0 | 0 |
| Return on equity | 3% | 2% | 15% | 0 | 0 |
| **Average number of employees** | 1 | 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 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.

## 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, known for reliable, flexible and eco-efficient services. The Maersk Line group, including Hamburg Süd, employs 37,900 seafarers and land-based employees, and operates a total of 786 vessels.

Maersk Line's services are marketed through the Maersk Line, Hamburg Süd, Aliança, Safmarine, SeaLand (Intra-Americas), MCC Transport (Intra-Asia) and Seago Line (Intra-Europe) 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) made a profit of USD 162 million in 2017 (result for the Maersk Line segment as part of A.P. Moller – Maersk Group consolidated financial statements was USD 584 million) and revenue of USD 21,707 million (revenue for the Maersk Line segment as part of A.P. Moller – Maersk Group consolidated financial statements was USD 23,793 million).

The year was challenged by a cyber-attack and bunker price increases, however Maersk Line A/S regained profitability with a significant improvement compared to 2016. The increase in revenue was driven by an 11.7% increase in the average freight rate to 2,005 USD/FFE (1,795 USD/FFE) and by an increase in volumes despite the negative impact of the cyber-attack.

### Acquisition of Hamburg Süd

On 1 December 2016, it was announced that Maersk Line A/S and the Oetker Group had reached an agreement for Maersk Line A/S to acquire 100% of the shares in the German container shipping line Hamburg Süd. Following final approvals by the competition authorities, the transaction closed on 30 November 2017 with cash payment of the purchase price to the Oetker Group, amounting to USD 4.3 billion equivalent, at which point Hamburg Süd became a fully owned subsidiary of Maersk Line A/S.

At the time of acquisition, Hamburg Süd was the world's seventh-largest container shipping line operating 106 owned and chartered vessels with an average age of six years and slot capacity of 590,000 TEU. Hamburg Süd has 6,300 employees and more than 250 offices worldwide, and markets its services through the brands Hamburg Süd and Aliança (based in Brazil). Hamburg Süd is a leader in the North South trades.

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. Annual synergies, for A.P. Moller – Maersk Group, of USD 350-400m are expected to be realised as from 2019, primarily derived from:

- Integrating and optimising the vessel network both on ocean and feeder legs
- Standardised supplier contracts realising scale efficiencies
- Additional volumes in ports owned by APM Terminals, especially in South America.

By combining the two companies, the enlarged group is also expected to be able to drive down costs through business scale efficiencies.

### The market

Global container demand grew around 5% in 2017. Demand growth was particularly high in the first three quarters of the year, while growth in Q4 2017 slowed down. The strong development in demand in 2017 partly reflects a rebound from weak demand in the first months of 2016, as well as fundamental improvements in the global economic environment. Container demand on the East-West trades was solid in 2017, driven by higher US imports and supported by stronger US growth, and particularly by solid growth in durable goods consumption. European imports also grew firmly on the back of the economic recovery.

Container demand on the North-South trades strengthened notably in 2017, mainly in parts of South America and Africa. This development reflected an economic stabilisation in countries such as Brazil, Argentina and Nigeria, but also came in the wake of a strong correction in inventory dynamics following sharp reductions in the preceding years. Chinese import growth was strong in the first half of 2017, but slowed down in the second half of the year following similar developments in Chinese economic activity. The tightened restrictions on pollution in northern China together with initiatives to restrict imports of waste and scrap materials also impacted Chinese imports.

At the end of 2017, the global container fleet stood at 21m TEU, which was 3.7% higher than a year earlier. Deliveries totalled 1,200k TEU (158 vessels) in 2017, and, like previous years, were dominated by vessels larger than 10k TEU. Scrappings were particularly high at the start of the year, and in total 427k TEU (161 vessels) were scrapped. There was a declining trend in the number of vessels standing idle, with 1.8% of the global fleet idle at the end of 2017 compared to 6.9% a year earlier. New vessel ordering increased especially during the second half of the year, and a total of 671k TEU (107 vessels) of new capacity was ordered in 2017. At the end of the year, the orderbook-to-fleet-ratio stood at 12.7%. Due to the large number of scrappings, nominal capacity grew less than headhaul demand in 2017. However, the sharp fall in the number of idle vessels added significantly to the available carrying capacity.

Compared to the low levels recorded in 2016, average freight rates were higher in 2017, supported by developments in oil and fuel prices. On average, the China Composite Freight Index (CCFI) increased by 15% in 2017.

**Strategy review**

A.P. Moller – Maersk announced in September 2016 that it would depart from the 'Premium Conglomerate' strategy, and pursue a new strategy to become an integrated container shipping, logistics and ports company. As part of the strategy A.P. Moller – Maersk will lead the transformation of the container transport and logistics industry through offering customers more integrated services, and by using data and digital technology to create opportunities through the end-to-end container logistics value chain.

The strategy for A.P. Moller – Maersk involves the activities of Maersk Line A/S, and therefore the main components are presented here. 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.

**A.P. Moller – Maersk's vision and strategy**

A.P. Moller – Maersk's vision of becoming the 'global integrator of container logistics connecting and simplifying our customers' supply chain' can be broken down into the following three strategic building blocks:

- **Simple end-to-end offering of products and services:** Developing a broader, scalable and flexible portfolio of products and solutions to serve all our customers' supply chain needs.

- **Seamless customer engagement:** Offering proactive, tailored and value-adding service through connected, digital and engaging interfaces with A.P. Moller – Maersk's customers.

- **Superior delivery network end to end:** Operating the industry's largest, most reliable and most cost-competitive network on all markets that matter to customers.

With these three building blocks, A.P. Moller – Maersk aims to reposition itself to compete on differentiation, service level and customer satisfaction, while safeguarding cost leadership and competitiveness.

The recent acquisition of Hamburg Süd will also shape the 2018 agenda. Maersk Line A/S has acquired a well-run and historically profitable company, and integrating it has been initiated with the objective of realising annual synergies for A.P. Moller – Maersk in the range of USD 350-400m by 2019. It is expected that Maersk Line A/S will directly benefit on the realization of the synergies, both within Maersk Line A/S itself and indirectly through its ownership in Hamburg Süd.

## OUTLOOK

For 2018, Maersk Line A/S (parent company non-consolidated) expects earnings before interests, tax, depreciation and amortisation (EBITDA) slightly above 2017 (USD 1,871m), however noting increased uncertainties due to geopolitical risks, trade tensions and other factors impacting container freight rates, bunker prices and rate of exchange. The organic volume growth is still expected slightly below the estimated average market growth of 2-4% for 2018.

## 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 2017 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:

http://files.shareholder.com/downloads/ABEA-3GG91Y/6013617125x0x972428/F5554324-60AA-455A-A40B-084AB5A4B979/APMM_Sustainability_Report_2017_A3_180221_final.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 | | 2017 | 2016 |
|---|---|---|---|
| | Revenue | 21,707 | 18,849 |
| 1 | Operating costs | 19,836 | 18,161 |
| | **Profit before depreciation and impairment losses** | **1,871** | **688** |
| 4,5,6 | Depreciation and impairment losses, net | 1,472 | 1,410 |
| | Gain/loss on sale of companies and non-current assets, etc., net | 60 | 29 |
| | **Profit before financial items** | **458** | **-693** |
| 2 | Dividends received | 480 | 1,309 |
| 2 | Financial income | 60 | 53 |
| 2 | Financial expenses | 830 | 599 |
| | **Profit before tax** | **169** | **70** |
| 3 | Tax | -7 | 22 |
| | **Profit for the year** | **162** | **92** |
| | **Appropriation:** | | |
| | Retained earnings | 162 | 92 |
| | | **162** | **92** |

# **Statement** of comprehensive income

**Amounts in USD million**

| Note | | 2017 | 2016 |
|---|---|---|---|
| | **Profit for the year** | **162** | **92** |
| | **Cash flow hedges** | | |
| | Value adjustment of hedges for the year | 243 | -63 |
| 12 | Reclassified to income statement | -44 | 44 |
| 12 | Reclassified to non-current assets | -119 | - |
| 3 | Tax on other comprehensive income | 3 | -1 |
| | **Total items that have been or may be reclassified to the income statement** | **83** | **-20** |
| | **Other comprehensive income, net of tax** | **83** | **-20** |
| | **Total comprehensive income for the year** | **245** | **72** |

# **Balance** sheet 31 December

**Amounts in USD million**

| Note | | 2017 | 2016 |
|---|---|---|---|
| 4 | **Intangible assets** | **377** | **-** |
| 5 | **Property, plant and equipment** | **15,790** | **14,747** |
| 6 | Investments in subsidiaries | 8,844 | 4,816 |
| 12 | Derivatives | 10 | - |
| | **Financial non-current assets** | **8,854** | **4,816** |
| 7 | **Deferred tax** | **3** | **3** |
| | **Total non-current assets** | **25,024** | **19,566** |
| 8 | **Inventories** | **446** | **332** |
| 14 | Trade receivables | 1,926 | 1,803 |
| | Tax receivables | 50 | 43 |
| 13 | Interest bearing receivables from subsidiaries | 1,584 | 927 |
| 12 | Derivatives | 35 | 6 |
| | Other receivables | 470 | 415 |
| | Other receivables from subsidiaries | 145 | 131 |
| | Prepayments | 163 | 91 |
| | **Receivables** | **4,372** | **3,416** |
| | **Cash and bank balances** | **24** | **76** |
| | **Total current assets** | **4,842** | **3,824** |
| | **Total assets** | **29,866** | **23,390** |

# **Balance** sheet 31 December

**Amounts in USD million**

| Note | | 2017 | 2016 |
|---|---|---|---|
| 9 | Share capital | 82 | 82 |
| | Reserves | 5,837 | 5,593 |
| | **Total equity** | **5,919** | **5,675** |
| | | | |
| 10 | **Borrowings, non-current** | **1,080** | **1,266** |
| 10 | **Interest bearing debt to group related entities, etc.** | **14,860** | **8,780** |
| | | | |
| 11 | Provisions | 145 | 185 |
| 12 | Derivatives | 0 | - |
| | **Other non-current liabilities** | **145** | **185** |
| | **Total non-current liabilities** | **16,085** | **10,231** |
| | | | |
| 10 | **Borrowings, current** | **146** | **108** |
| 10 | **Interest bearing debt to group related entities, etc.** | **3,250** | **3,337** |
| | | | |
| 11 | Provisions | 191 | 197 |
| | Trade payables | 3,423 | 3,012 |
| | Tax payables | 17 | 13 |
| 12 | Derivatives | - | 92 |
| | Other payables | 355 | 350 |
| | Other payables to subsidiaries | 479 | 375 |
| | **Other current liabilities** | **4,466** | **4,039** |
| | **Total current liabilities** | **7,862** | **7,484** |
| | **Total liabilities** | **23,947** | **17,715** |
| | **Total equity and liabilities** | **29,866** | **23,390** |

# **Cash** flow statement

**Amounts in USD million**

| Note | | 2017 | 2016 |
|---|---|---|---|
| | Profit before financial items | 458 | -693 |
| 4,5,6 | Depreciation and impairment losses, net | 1,472 | 1,410 |
| | Gain/loss on sale of companies and non-current assets, etc., net | -60 | -29 |
| 17 | Change in working capital | 59 | -260 |
| 17 | Other non-cash items | 85 | 61 |
| | Cash from operating activities before financial items and tax | 2,014 | 489 |
| | Dividends received | 480 | 1,309 |
| | Financial income received | 179 | 8 |
| | Financial expenses paid | -854 | -526 |
| | Taxes paid/received | -21 | 45 |
| | **Cash flow from operating activities** | **1,798** | **1,325** |
| 17 | Purchase of property, plant and equipment | -2,031 | -804 |
| | Sale of property, plant and equipment | 570 | 229 |
| 6 | Acquisition of and capital increases in subsidiaries and activities | -4,813 | - |
| | **Cash flow used for investing activities** | **-6,275** | **-575** |
| | Repayment of borrowings | -839 | -682 |
| | Proceeds from borrowings | 5,988 | - |
| | Movements in interest bearing loans to/from subsidiaries, etc., net | -748 | - |
| | **Cash flow from financing activities** | **4,400** | **-682** |
| | **Net cash flow for the year** | **-76** | **68** |
| | Cash and cash equivalents 1 January | 76 | 26 |
| | Currency translation effect on cash and cash equivalents | 24 | -18 |
| | **Cash and cash equivalents 31 December** | **24** | **76** |

| **Cash and cash equivalents** | 2017 | 2016 |
|---|---|---|
| Cash and bank balances | 24 | 76 |
| **Cash and cash equivalents 31 December** | **24** | **76** |

# **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 2016** | **82** | - | **-15** | **5,536** | **5,603** |
| 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** |
| **2017** | | | | | |
| 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** |

# **Notes** to the financial statements

# **Notes** to the financial statements

**Amounts in USD million**

## 1 Operating costs

| | **2017** | 2016 |
|---|---|---|
| Bunker costs | 2,860 | 1,828 |
| Terminal costs | 6,576 | 6,274 |
| Intermodal costs | 2,566 | 2,426 |
| Port costs | 1,773 | 1,597 |
| Rent and lease costs | 2,099 | 2,308 |
| Staff costs reimbursed to related parties | 413 | 360 |
| Other | 3,549 | 3,368 |
| **Total operating costs** | **19,836** | **18,161** |

During 2016 and 2017, 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 386m (326m), pension plan contributions USD 12m (31m) and other social security costs USD 15m (4m).

# Notes to the financial statements

**Amounts in USD million**

## 2 Financial income and expenses

| | 2017 | 2016 |
|---|---|---|
| Interest expenses on liabilities[1] | 621 | 503 |
| Interest income on loans and receivables | 17 | 8 |
| **Net interest expenses** | **604** | **495** |
| Exchange rate gains on bank balances, borrowings and working capital | 35 | 45 |
| Exchange rate losses on bank balances, borrowings and working capital | 207 | 96 |
| **Net foreign exchange gains/losses** | **172** | **51** |
| Fair value gains from derivatives | 8 | - |
| Fair value losses from derivatives | 2 | - |
| **Net fair value gains/losses** | **7** | **-** |
| Dividends received from subsidiaries and associated companies | 480 | 1,309 |
| **Total dividends income** | **480** | **1,309** |
| **Financial net** | **-289** | **763** |
| **Of which:** | | |
| Dividends | 480 | 1,309 |
| Financial income | 60 | 53 |
| Financial expenses | 830 | 599 |

[1] Interest expenses of USD 34m (26m) have been capitalised on assets. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.1% (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

| | 2017 | 2016 |
|---|---|---|
| **Tax recognised in the income statement** | | |
| Current tax on profit for the year | -49 | -41 |
| Adjustment for current tax of prior periods | -8 | -42 |
| **Total current tax** | **-57** | **-83** |
| | | |
| Reassessment of recoverability of deferred tax asset, net | - | 15 |
| **Total deferred tax** | **-** | **15** |
| **Total income Tax** | **-57** | **-68** |
| Tonnage and freight tax | 64 | 46 |
| **Total tax** | **7** | **-22** |
| | | |
| **Tax reconciliation** | | |
| Profit before tax | 169 | 70 |
| Income subject to Danish and foreign tonnage taxation, etc. | -458 | 693 |
| **Profit before tax, adjusted** | **-289** | **763** |
| | | |
| Tax using the Danish corporation tax rate (2017: 22.0%, 2016: 22.0%) | -9 | 168 |
| Adjustment to previous years' taxes | -8 | -27 |
| Effect of other income taxes distinct from corporation tax | 14 | 5 |
| Non-taxable income | -7 | -8 |
| Non-deductible expenses | 70 | 55 |
| Non-taxable dividends | -161 | -288 |
| Deferred tax asset not recognised | 20 | 18 |
| Change in recoverability of deferred tax assets | 13 | 0 |
| Other differences, net | 10 | 8 |
| **Total income tax** | **-57** | **-68** |
| | | |
| **Tax recognised in other comprehensive income and equity** | | |
| Interest rate hedges | 3 | -1 |
| **Tax recognised in other comprehensive income, net** | **3** | **-1** |
| **Total** | **3** | **-1** |
| | | |
| Of which: | | |
| Current tax | 3 | -1 |

# **Notes** to the financial statements

**Amounts in USD million**

## 4 Intangible assets

| | Brand name |
|---|---|
| **Cost** | |
| 1 January 2016 | - |
| **31 December 2016** | **-** |
| Additions | 379 |
| **31 December 2017** | **379** |
| **Amortisation and impairment losses** | |
| 1 January 2016 | - |
| **31 December 2016** | **-** |
| Amortisation | 2 |
| **31 December 2017** | **2** |
| **Carrying amount:** | |
| **31 December 2016** | **-** |
| **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.

# Notes to the financial statements

**Amounts in USD million**

## 5 Property, plant and equipment

| | Ships, containers, etc. | Production facilities and equipment, etc. | Construc-tion work in progress and pay-ment on accoount | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| 1 January 2016 | 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** |
| Additions* | 1,684 | 41 | 1,294 | 2,863 |
| Disposal | -1,834 | -2 | - | -1,835 |
| Transfer | 1,437 | - | -1,437 | - |
| **31 December 2017** | **25,200** | **957** | **805** | **26,962** |
| **Depreciation and impairment losses** | | | | |
| 1 January 2016 | 10,450 | 124 | - | 10,574 |
| Depreciation | 1,335 | 75 | - | 1,410 |
| Disposal | -952 | - | - | -952 |
| **31 December 2016** | **10,832** | **199** | **-** | **11,031** |
| Depreciation | 1,386 | 84 | - | 1,470 |
| Disposal | -1,328 | -2 | - | -1,330 |
| **31 December 2017** | **10,891** | **281** | **-** | **11,172** |
| **Carrying amount:** | | | | |
| **31 December 2016** | **13,081** | **718** | **948** | **14,747** |
| **31 December 2017** | **14,309** | **675** | **805** | **15,790** |
| **Of which carrying amount of finance leased assets:** | | | | |
| **31 December 2016** | **1,015** | **718** | **4** | **1,737** |
| **31 December 2017** | **1,949** | **676** | **4** | **2,629** |

*An amount of USD 681m, included in the total amount for additions, relates to the acquistion of containers from the subsidiary Hamburg Süd. The cost price of the acquired containers 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 415m (37m) of which USD 189m (30m) is expected within one year.

**Pledges**

Ships, containers, etc. with a carrying amount of USD 1,230m (1,333m) have been pledged as security for loans of USD 668m (904m).

# Notes to the financial statements

**Amounts in USD million**

## 6 Investments in subsidiaries

| | Investments in subsidiaries |
|---|---|
| **Cost** | |
| 1 January 2016 | 4,835 |
| Acquisition and capital injection | - |
| **31 December 2016** | **4,835** |
| Acquisition and capital injection | 4,813 |
| Return of capital | -785 |
| **31 December 2017** | **8,863** |
| **Impairment losses** | |
| 1 January 2016 | 19 |
| **31 December 2016** | **19** |
| Impairment losses | - |
| **31 December 2017** | **19** |
| **Carrying amount:** | |
| **31 December 2016** | **4,816** |
| **31 December 2017** | **8,844** |

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 629m. 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 | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Tax loss carryforwards | 3 | 3 | - | - | 3 | 3 |
| **Total** | **3** | **3** | **-** | **-** | **3** | **3** |

| Change in deferred tax, net during the year: | 2017 | 2016 |
|---|---|---|
| **1 January** | **3** | **18** |
| Recognised in the income statement | - | -15 |
| **31 December** | **3** | **3** |

Tax losses for which no deferred tax asset has been recognised amount to USD 39m (19m).

# Notes to the financial statements

**Amounts in USD million**

## 8 Inventories

| | 2017 | 2016 |
|---|---|---|
| Bunker | 446 | 332 |
| **Total** | **446** | **332** |

# **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** |

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 2016 | Cash flow | Foreign exchange movements | Other changes | Net debt as at 31 December 2017 |
|---|---|---|---|---|---|
| Debt to group related entities | 12,117 | 5,532 | -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.

# Notes to the financial statements

**Amounts in USD million**

## 11 Provisions

| | Restructuring | Legal disputes, etc. | Other | Total |
|---|---|---|---|---|
| 1 January 2017 | 4 | 306 | 71 | 381 |
| Transfer of type | 2 | - | -2 | - |
| Provision made | 1 | 131 | 21 | 153 |
| Amount used | -5 | -93 | -2 | -100 |
| Amount reversed | -1 | -85 | -16 | -102 |
| Exchange rate adjustment | 0 | 3 | 0 | 3 |
| **31 December 2017** | **1** | **262** | **72** | **335** |
| | | | | |
| Classified as non-current | - | 98 | 46 | 144 |
| Classified as current | 1 | 164 | 26 | 191 |
| | **1** | **262** | **72** | **335** |

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: | 2017 | 2016 |
|---|---|---|
| Non-current receivables | 10 | - |
| Current receivables | 35 | 6 |
| Non-current liabilities | - | - |
| Current liabilities | - | 92 |
| **Assets, net** | **45** | - |
| **Liabilities, net** | **-** | **86** |

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

| | Cash flow hedges 2017 | Fair value hedges 2017 | Held for trading 2017 | Cash flow hedges 2016 | Fair value hedges 2016 | Held for trading 2016 |
|---|---|---|---|---|---|---|
| Currency derivatives, net | 35 | - | 10 | 86 | - | - |
| Interest rate derivatives, net | - | - | - | - | - | - |
| Price hedge derivatives | - | - | - | - | - | - |
| **Total** | **35** | **-** | **10** | **86** | **-** | **-** |

Cash flow hedges recognised as reserves 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:

| | 2017 | 2016 |
|---|---|---|
| Hedging foreign exchange risk on consideration paid for acquisition | 119 | - |
| Hedging foreign exchange risk on operating costs | 44 | -37 |
| Hedging interest rate risk | - | -7 |
| **Total effective hedging** | **163** | **-44** |
| Ineffectiveness of unrealised currency derivatives recognised in financial expenses | - | - |
| **Total reclassified from equity reserve for hedges** | **163** | **-44** |
| **Net gains/losses recognised directly in the income statement** | **-2** | **-** |
| **Total** | **161** | **-44** |

Currency derivative contracts are entered to hedge operating costs denominated in foreign currencies and are recognised in the income statement upon maturity. Further, during the year currency derivatives were entered to hedge consideration payment for the acquisition of Hamburg Süd, denominated in a foreign currency. The hedge gain of USD 119m has been reclassified to investments in subsidiaries.

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**

## 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 2017 | Fair value 2017 | Carrying amount 2016 | Fair value 2016 |
|---|---|---|---|---|
| **Carried at amortised cost** | | | | |
| Interest bearing receivables from subsidiaries, etc. | 1,584 | 1,584 | 927 | 927 |
| Trade receivables | 1,926 | | 1,803 | |
| Other receivables (non-interest-bearing) | 682 | | 549 | |
| Other receivables from subsidiaries, etc. | 145 | | 131 | |
| Cash and bank balances | 24 | | 76 | |
| **Financial assets at amortised cost** | **4,361** | | **3,486** | |
| **Derivatives** | **45** | **45** | **6** | **6** |
| **Total financial assets** | **4,406** | | **3,492** | |
| **Carried at amortised cost** | | | | |
| Interest bearing debt to group related entities | 18,110 | 18,110 | 12,117 | 12,117 |
| Financial leasing liability | 1,226 | 1,520 | 1,374 | 1,756 |
| Trade payables | 3,423 | | 3,012 | |
| Other payables | 373 | | 363 | |
| Other payables to subsidiaries and associated companies, etc. | 479 | | 375 | |
| **Financial liabilities at amortised cost** | **23,611** | | **17,241** | |
| **Derivatives** | **0** | **0** | **92** | **92** |
| **Total financial liabilities** | **23,611** | | **17,333** | |

**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 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**

## 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 2017.
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 2017. 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 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.

**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 | 0-1 year | Next interest rate fixing 1-5 years | 5- years |
|---|---|---|---|---|
| **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 | | | |
| **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 | | | |

# 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 |
|---|---|---|
| CAD | 113 | 2 |
| DKK | 273 | 8 |
| EUR | 687 | 18 |
| GBP | 257 | 7 |
| HKD | 185 | -1 |
| INR | 75 | 1 |
| JPY | 70 | -1 |
| MXN | 81 | -3 |
| MYR | 81 | 4 |
| SEK | 128 | 9 |
| **Total** | **1,950** | **45** |

The forward exchange contracts fall due in the period from January 2018 to December 2018.

# Notes to the financial statements

**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 been impaired.

| Maturity analysis of trade receivables | 2017 | 2016 |
|---|---|---|
| Receivables not due | 879 | 1,057 |
| Less than 90 days overdue | 780 | 595 |
| 91-365 days overdue | 270 | 209 |
| More than 1 year overdue | 174 | 104 |
| Receivables, gross | **2,103** | **1,964** |
| Provision for bad debt | 177 | 162 |
| **Carrying amount** | **1,926** | **1,802** |

The loss allowance provision for trade receivables as at 31 December 2017 reconciles to the opening loss allowance as follows:

| Change in provision for bad debt | 2017 | 2016 |
|---|---|---|
| 1 January | 162 | 164 |
| Provisions made | 142 | 121 |
| Amount used | 104 | 102 |
| Amount reversed | 22 | 21 |
| Exchange rate adjustment | -1 | 0 |
| **31 December** | **177** | **162** |

Approximately 59% (64%) 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 |
|---|---|---|---|---|---|
| **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 | 1,676 |
| 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** | **23,594** | **9,158** | **15,532** | **1,363** | **26,053** |
| Derivatives | 0 | 0 | - | - | 0 |
| **Total recognised in balance sheet** | **23,594** | **9,159** | **15,532** | **1,363** | **26,054** |
| Operating lease commitments | | 1,832 | 2,923 | 1,044 | 5,799 |
| Capital commitments | | 1,530 | 369 | | 1,899 |
| **Total** | | **12,521** | **18,825** | **2,407** | **33,752** |
| **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** |

# Notes to the financial statements

**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. Around 40% of the commited time charter payments reflected below is estimated to be operational costs related to the asset.

The future charter and operating lease payments are:

| | 2017 | 2016 |
|---|---|---|
| Within one year | 1,832 | 1,423 |
| Between one and two years | 1,138 | 791 |
| Between two and three years | 831 | 692 |
| Between three and four years | 547 | 439 |
| Between four and five years | 407 | 177 |
| After five years | 1,044 | 236 |
| **Total** | **5,799** | **3,758** |
| Net present value [1] | 5,002 | 3,268 |

[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 2017, capital commitments amounted to USD 1.9bn (3.2bn), 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 214m (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**

## 17 Cash flow specifications

| | 2017 | 2016 |
|---|---|---|
| **Change in working capital** | | |
| Inventories | -114 | -120 |
| Trade receivables | -242 | -262 |
| Other receivables and prepayments | -143 | -125 |
| Trade payables and other payables, etc. | 547 | 273 |
| Exchange rate adjustment of working capital | 11 | -26 |
| **Total** | **59** | **-260** |
| **Purchase of property, plant and equipment** | | |
| Additions | -2,137 | 841 |
| Of which which pertains to borrowing costs capitalized on assets | 34 | -26 |
| Change in payables to suppliers regarding purchase of assets | 72 | -11 |
| **Total** | **-2,031** | **804** |

**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* | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Income statement** | | | | | | | | |
| Revenue | 259 | 231 | 419 | 320 | 0 | - | - | - |
| Operating costs | 2,004 | 2,509 | 5,460 | 4,362 | 270 | 201 | | - |
| Remuneration to management | - | - | - | - | - | - | 12 | 9 |
| Dividends | 480 | 1,309 | - | - | - | - | - | - |
| Financial income | 14 | 28 | 4 | - | - | - | - | - |
| Financial expenses | 158 | - | 528 | 539 | -169 | - | - | - |
| **Assets** | | | | | | | | |
| Tax receivables | - | - | - | - | 50 | 43 | - | - |
| Interest bearing receivables, current | 956 | 728 | 154 | 9 | 580 | 191 | - | - |
| Other receivables, current | 70 | 116 | 152 | 162 | 70 | 50 | - | - |
| **Liabilities** | | | | | | | | |
| Interest bearing debt, non-current | 420 | 343 | 699 | 8,437 | 13,740 | - | - | - |
| Interest bearing debt, current | 1,696 | 1,313 | 109 | 2,023 | 1,445 | 2 | - | - |
| Trade payables | 159 | 278 | 208 | 576 | 17 | 21 | - | - |
| Other liabilities, current | 182 | 4 | 712 | 114 | 310 | 302 | - | - |
| Capital increases and purchase of shares | 4,813 | - | - | - | - | - | - | - |
| Return of capital | 785 | - | - | - | - | - | - | - |
| Distribution of retained earnings to parent | - | - | - | - | - | - | - | - |

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

**Operating leases**
At the end of 2017, operating lease commitments to related companies amounted to 1,646m (1,267m) of which USD 753m (634m) is payable within one year and USD 892m (633m) is non-current. The operating lease commitments relate mainly to leasing of container vessels.

**Capital commitments**
At the end of 2017, capital commitments to other related companies amounted to USD 182m (384m) of which 144m (307m) is payable within one year and USD 38m (77m) is non-current. The capital commitments mainly relate to purchases of containers.

**Operating leases as lessor**
After the end of 2017, the future lease income from subsidiaries is USD 415m (37m) of which USD 189m (30m) is receivable within one year, and USD 226m (7m) 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 Accounting policies

**Basis of preparation**

The financial statements for 2017 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 consolidated financial statements for 2016 except for the below areas:

• As stated in the Annual Report 2016, Maersk Line A/S has decided to adopt IFRS 9 from 1 January 2017. The implementation of IFRS 9 has not affected the classification and measurement of financial instruments, and the new standard does not fundamentally change the hedging relationships.

• 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 Maersk Line A/S. Due to immaterial effects from implementing IFRS 9, the 2016 financial statements have not been restated. The effects as of end of 2016 have been recognised in 2017.

• A number of changes to accounting standards became effective 1 January 2017. Relevant to Maersk Line A/S is 'Disclosure initiative' (amendments to IAS 7). The amendment encompasses various guidance and clarifications, which only affects disclosures.

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 2017 are outlined in note 21.

**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.

**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 originates mainly from 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 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.

**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.

# **Notes** to the financial statements

**Amounts in USD million**

## 19 Accounting policies - continued

### 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.

**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.

# **Notes** to the financial statements

**Amounts in USD million**

## 19 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**

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

# **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 2016, and despite generating positive cash flows in the year, the continuing low freight rates 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 2017 covering plans for 2018-2022. The key sensitivities are: development in freight rates, container volumes, bunker costs, effect of cost savings, capital expenditures 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, 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

### 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

# **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 2018 or later. Maersk Line A/S has not yet applied the following standards:

- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases.

IFRS 15 is effective from 1 January 2018 and IFRS 16 is effective from 1 January 2019, and both are endorsed by the EU. Early adoption of IFRS 16 is currently not considered by Maersk Line A/S.

Maersk Line A/S has, in all material aspects, concluded analyses of the impending changes resulting from IFRS 15 and IFRS 16. The key findings are explained below.

**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. Accordingly, the impact on the financial statements is considered immaterial.

**IFRS 16 Leases**
The new requirement in IFRS 16 to recognise a right-of-use asset and a related lease liability is expected to have a material impact on the amounts recognised in the financial statements.

Maersk Line A/S will adopt IFRS 16 on 1 January 2019, applying the following main transition options:

- No reassessment of lease definition compared to the existing IAS 17 and IFRIC 4
- Application of the simplified approach with no restatement of comparative figures for prior periods.

As at 31 December 2017, Maersk Line A/S has non-cancellable operating lease commitments for continuing operations of USD 5.8bn (USD 3.8bn) on an undiscounted basis and including payments for service components and variable lease payments which will be recognised under IFRS 16 as an expense in the income statement, on a straight-line basis.

A preliminary assessment of the potential impact on the financial statements of implementing IFRS 16 shows that a lease liability in the range of USD 3-5bn has to be recognised. This preliminary assessment is based on a number of estimates and assumptions which by nature are subject to significant uncertainty. The actual impact of applying IFRS 16 at 1 January 2019 will, among other factors, depend on future economic conditions – including the composition of the lease portfolio at that date as well as the level of time charter rates, incremental borrowing rates, etc.

# 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 | 6,337 | 240 | 240 |
| Maersk China Ltd. | 100 | China | 221,939 | 15,130 | 15,130 |
| Rederiaktieselskabet Kuling A/S | 100 | Denmark | 853 | 115 | 115 |
| Maersk Line Agency Holding A/S | 100 | Denmark | 528,232 | 104,658 | 104,658 |
| Seago Line A/S | 100 | Denmark | 184,304 | 75,420 | 75,420 |
| Sunrise 14 A/S | 100 | Denmark | 21,922 | -4,219 | -4,219 |
| Maersk Deutschland A/S & Co. KG | 100 | Germany | 5,046 | -314 | -314 |
| Maersk Shipping Hong Kong Ltd. | 100 | Hong Kong | 2,087,035 | 51,137 | 51,137 |
| MCC Transport Singapore Pte. Ltd. | 100 | Singapore | 64,088 | 61,218 | 61,218 |
| A.P. Moller Singapore Pte. Ltd. | 100 | Singapore | 1,319,582 | -763,826 | -763,826 |
| Maersk Line UK Ltd. | 100 | United Kingdom | 600,040 | 221,894 | 221,894 |
| Maersk Inc. | 100 | United States | NA | NA | NA |
| Maersk GP GmbH | 100 | Germany | NA | NA | NA |
| CSR MS Cap Jackson GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Cap Jervis GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Cap San Antonio GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Cap San Augustin GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Cap San Juan GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Cap San Lazaro GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Cap San Lorenzo GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Cap San Marco GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Cap San Nicolas GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Cap San Raphael GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Cap San Vincent GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Monte Aconcagua GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Monte Alegre GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Monte Azul GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Monte Tamaro GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Rio Blanco GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Rio Bravo GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Rio de Janeiro GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS Rio de la Plata GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Rio Madeira GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Rio Negro GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| CSR MS San Christobal GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS San Clemente GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS San Vicente GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Santa Barbara GmbH & Co. KG | 97.99 | Germany | NA | NA | NA |
| CSR MS Santa Ines GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Santa Teresa GmbH & Co. KG | 100 | Germany | NA | NA | NA |
| CSR MS Santa Ursula GmbH & Co. KG | 97.99 | Germany | NA | NA | NA |
| Reederei Monte Containerschiffe GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| Reederei Santa Containerschiffe GmbH & Co. KG | 99.95 | Germany | NA | NA | NA |
| HS GP ApS | 100 | Denmark | NA | NA | NA |
| Maersk Line Crewing Hamburg ApS & Co KG | 100 | Germany | NA | NA | NA |
| Hamburg Südamerikanische DG KG | 100 | Germany | NA | NA | NA |
| GTD Holdings Inc. | 100 | United States | NA | NA | NA |

"CSR" is abbreviation for Containerschiffsreederei.

Only subsidiaries of direct ownership have been included.
All subsidiaries are consolidated in the A.P. Møller - Mærsk A/S annual report for 2017 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 or the financial statement for the entity's first statutory reporting period has not yet been made official.

Impairment losses 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 2017.

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 2017 of the Company and of the results of the Company operations and cash flows for 2017.

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 2018

Executive Board:

Søren Skou
CEO

Board of Directors:

Jim Hagemann Snabe
Chairman

Søren Toft

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 2017, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2017 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 2017, 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, 31 May 2018
**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 |