Maersk A/S

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

Annual report 2019

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 27 May 2020.

Jacob Ramsgaard Nielsen
Chairman

Contents

MANAGEMENT'S REVIEW

COMPANY DETAILS

Name	Maersk 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.maersk.com
Board of Directors	Jim Hagemann Snabe, Chairman Søren Skou Caroline Sundorph Pontoppidan
Executive Board	Vincent Clerc, CEO
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44, 2900 Hellerup, Denmark
Annual General Meeting	Annual general meeting will be held on 27 May 2020

FINANCIAL HIGHLIGHTS AND KEY FIGURES

USD million	2019	2018	2017	2016	2015*
Key figures**					
Revenue	24,888	24,688	21,707	18,849	19,729
Profit before depreciation and impairment	3,369	1,599	1,871	688	1,891
Profit before financial items	469	-88	458	-693	692
Profit for the year	**-331**	**-450**	**162**	**92**	**770**
Non-current assets	27,800	24,403	25,024	19,566	19,287
Current assets	3,740	4,381	4,842	3,824	3,100
Total assets	**31,540**	**28,784**	**29,866**	**23,390**	**22,387**
Share capital	82	82	82	82	82
Equity	**5,114**	**5,402**	**5,919**	**5,675**	**5,603**
Provisions	360	377	336	382	432
Non-current liabilities other than provisions	17,456	14,282	15,940	10,046	9,954
Current liabilities other than provisions	8,610	8,723	7,671	7,287	6,398
Cash flows from operating activities	4,357	1,272	1,993	1,325	2,367
Net cash flows from investing activities	175	-517	-5,794	-575	-3,849
Of which property, plant and equipment	*-386*	*-948*	*-1,461*	*-575*	*-1,709*
Cash flows from financing activities	-4,594	-727	3,726	-682	1,512
Total cash flows	**-62**	**28**	**-76**	**68**	**30**
Financial ratios***					
Operating margin	2%	0%	2%	-4%	4%
Solvency ratio	16%	19%	20%	24%	25%
Return on equity	-6%	-8%	3%	2%	15%
Average number of employees *****	9,743	9,202	1	1	0

*As of 1 February 2015, Maersk Line activities of A.P. Møller – Mærsk A/S, including related subsidiaries, were contributed to Maersk 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 A/S legal entity and are not consolidated figures. IFRS 16 was implemented in 2019, therefore the figures for 2018 and backward do not follow the same accounting practice.

***Definitions of financial ratios are presented in note 20 to the financial statements of this annual report.

****Prior to 2018 staff was employed in other A.P. Moller - Maersk companies. From 2018, the majority of seafarers are employed directly.

MAERSK A/S' MAIN ACTIVITIES

Maersk A/S' and its subsidiaries' primary activities are to perform shipping, chartering, trade and service, other transport business and industrial activities at home and abroad, investment in fixed assets and financing, as well as other related activities. The Maersk Line group is the world's largest container shipping company, operating 708 vessels and known for reliable, flexible and eco-efficient services.

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. Maersk's services are marketed through the Maersk Line, Hamburg Süd, Aliança, Safmarine and SeaLand brands.

FINANCIAL REVIEW

Maersk A/S (parent company non-consolidated) generated revenue of USD 24,888 million and made a loss of USD 331 million in 2019. A minor growth in revenue compared to 2018, driven by an increase in volumes, and generally overall costs at 2018 level ended with loss for the year improved by USD 119 million compared to 2018.

The market

Global container trade growth was weak in 2019, as expected. Growth softened to around 0% in Q4 2019, and full-year growth ended at 1.4% (3.8%), considerably weaker than in 2018. The slowdown reflected broad-based weakening across all the main economies. Negative effects from escalating trade restrictions also weighed on trade growth.

Effective supply growth was contained during the year because of the moderate number of new vessels entering the market and the increase in the number of idled vessels. Therefore, despite the soft market demand, market fundamentals were more supportive of freight rates than in recent years, and freight rates increased slightly compared to 2018.

Container trade growth on the East-West trades grew 2.0% in 2019. Solid trade flows in the first part of 2019 were counterbalanced by negative demand growth in the last quarter. European import growth from Asia was very strong in H1 2019 (5.1%) but moderated sharply to 0.6% in H2, bringing it closer in line with Europe's underlying economic fundamentals. North American container imports were under pressure during most of 2019 due to the US-China trade restrictions and slowing US capital expenditures, and consequently declined compared to 2018. Meanwhile, Asian imports from the US and Europe (East-West backhaul) showed solid growth in 2019, as the negative impact of trade restrictions on the US-China trade was more than offset by strong exports from Europe. North-South container trade stagnated in 2019. Latin American imports decreased slightly by 0.3%, reflecting weak macroeconomics, mainly in Brazil and Argentina and partly in Mexico. Import growth in the Middle East and Indian subcontinent declined marginally by 0.4% in 2019, while African imports grew by 4.0%. Finally, intra-regional trades posted modest growth in 2019, mainly supported by strong Intra-European flows.

While the outlook is very uncertain, it is expected that container demand will decline in 2020 compared to 2019. At present, it is difficult to predict the timing and the shape of the recovery in global trade volumes with confidence, as it will be determined by the interplay between the path of COVID-19 and government policies in relation to the economy. As a reference point, WTO projects global merchandised trade to decline by between 13-32% in 2020, and the IMF expects a decrease of 11% (goods and services) but with a significant downside risk. Also, the collapse in Brent crude prices adds significant risk to the global demand volumes as it will negatively impact the economics of a number of oil-producing countries in Latin America, Africa and Middle East.

Trade restrictions, mainly between the US and China and partly between the US and the EU, intensified in 2019, and the trade restrictive measures introduced since 2018 impact around USD 640bn worth of traded goods, corresponding to nearly 4% of the global value of traded goods. The trade restrictions have reduced bilateral trade between the US and China and led to shifts in trade structure. So far, US importers have shifted imports away from China to other countries such as Vietnam, Korea, Thailand, India, Mexico, and Europe. Globally, the implemented trade restrictions have reduced container trade by 0.5-1.0% in 2019 via direct and indirect channels, such as deteriorating sentiment and business investments. Despite some relief of the US-China trade restrictions towards the end of 2019, uncertainty about the outcome of subsequent trade negotiations and the impact on trade remains large. Meanwhile, the US continues to threaten to introduce higher tariffs on EU imports, for example on the automotive industry. The outcome of the 2020 US Presidential elections is not expected to significantly change the US stance on its foreign trade policy.

The global container fleet stood at 23.2m TEU at the end of 2019, 4.1% higher than at the end of 2018. Deliveries amounted to 1,059k TEU (148 vessels) in 2019 and were evenly distributed during the year. Deliveries were dominated by vessels larger than 10k TEU. Around 208k TEU were scrapped in 2019, likely reflecting scarce market availability of some vessel segments as ships were removed temporarily from service to install fuel scrubbers, primarily in the +10k TEU segment in preparation for IMO 2020 regulations in January 2020. Idling totalled 6.1% (1,417 TEU) of the fleet at the end of 2019. The idle fleet bottomed out in Q2 and began to increase in the following two quarters, mainly because vessels were taken out of service for scrubber retrofitting. Consequently, effective capacity increased less than 1% in 2019.

784k TEU were ordered in 2019, corresponding to orderbook-to-fleet ratio of 10% at the end of the year. According to Alphaliner, the nominal global container fleet will grow by 2.9% in 2020.

Freight rates, as measured by the China Composite Freight Index (CCFI), were on average 0.7% higher than in 2018, supported by headhaul demand slightly outgrowing average effective capacity. Freight rates held up firmly in the first part of the year but began to decline in H2 as demand weakened and bunker prices fell. Freight rates fell on the Asia to North Europe route by 4.5% but strengthened by 4.8% from Asia to Mediterranean Europe. Asia to US West Coast freight rates were stable by negative 0.1%, while Asia to US East Coast fell by 1.3%. Uncertainties relating to the strength of container demand and the dynamics of instalments of fuel scrubbers continue to pose a risk to the developments of freight rates in 2020.

The switch into low-sulphur bunker fuels to comply with the new IMO 2020 sulphur cap caused an expected and dramatic reduction in consumption of high-sulphur bunker fuel in the shipping industry. As a consequence, high-sulphur prices fell considerably end of 2019 and continued to decline in the beginning of 2020. The prices declined by 13% in Singapore and by 2.5% in Rotterdam compared to Q4 2019. Similarly, the prices of low-sulphur fuel oil in Singapore and Rotterdam declined by 12.6% and 17.3% since Q4 2019 with the initial price support erased as more supply of low-sulphur became available. In this highly volatile period of demand, deterioration on the back of the COVID-19-related lockdowns in place and the oil supply increase from Saudi Arabia and Russia, crude prices have fallen by 18% from Q4 2019 to Q1 2020.

Singapore is the largest bunker port in the world accounting for an estimated quarter of global bunker sales and has experienced an active and volatile pricing period in the last months ahead of the specification switch. Singapore's low-sulphur 0.5% fuel oil posted prices above that of LSMGO for a period of 19 trading days at the end of December 2019 till early January 2020 high lighting the tight demand of low-sulphur fuel oil in the Asian region.

Strategy review

Maersk is on a transformation journey to become the global integrator of container logistics, connecting, and simplifying our customers' supply chains.

Global trade is a key contributor to economic development, enabling exporters to sell their products in all relevant markets and importers to source goods and parts from the most competitive suppliers around the world. Container logistics play a significant role in global trade by reducing trade barriers through reducing the cost of transportation. Maersk has played a vital role in container logistics for more than 40 years and takes pride in this contribution to global growth and wealth. Maersk's strategy is to accelerate that contribution by reducing complexity and waste along the global containerised supply chains. Maersk has designed the strategy around its customers' needs and pain points, hereby creating a market opportunity that will deliver value to customers as well as profitable growth and improved performance for Maersk.

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

OUTLOOK

The Company's outlook for the future will be affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak, see also subsequent events disclosures in note 22.

Management is currently not able to reliably estimate the effect of COVID-19 on the expected revenue and net profit of the Company. Consequently, Management finds itself unable to reliably disclose its outlook for the future in accordance with section 12 of the Danish Financial Statements Act.

RISKS

Market risks
Global container trade declined by 4.7% in the beginning of 2020, primarily due to the COVID-19 pandemic that impacted both the supply chain and demand. Container demand is expected to weaken further in 2020, particular in Q2, although it is not possible at this stage to be more precise about the development due to the impact on global economics from COVID-19.

The supply chain across the world has been disrupted, particularly given the lower production in China in Q1 of 2020. Further negative impact is expected in the coming periods from the wider lockdown of economies, resulting in significant lower business and consumer activity. Focus will remain on curbing the negative financial impact by managing capacity to adjust to demand and to safeguard margins.

Overall, 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 2019 is published which provides detailed information on the A.P. Moller – Maersk Group's sustainability performance and sustainability strategy. The report serves as the Group's Communication on Progress as required by the UN Global Compact and ensures compliance with the requirements of Section 99a of the Danish Financial Statements Act (Årsregnskabsloven) on corporate social responsibility and reporting on the gender composition of management. The report is available on:

https://www.maersk.com/about/sustainability/reports

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

EVENTS AFTER THE BALANCE SHEET DATE

Other than the COVID-19 pandemic mentioned above, 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. Reference is made to note 22 of the financial statements.

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		2019	2018
1	Revenue	24,888	24,688
1	Operating costs	21,519	23,089
	Profit before depreciation and impairment losses	**3,369**	**1,599**
4,5,6	Depreciation and impairment losses, net	3,008	1,767
	Gain on sale of companies and non-current assets, etc., net	108	80
	Profit before financial items	**469**	**-88**
2	Dividends received	561	466
2	Financial income	113	187
2	Financial expenses	1,251	1,022
2,7	Impairment of financial assets	222	-
	Profit before tax	**-330**	**-457**
3	Tax	-1	7
	Profit for the year	**-331**	**-450**
	Appropriation:		
	Retained earnings	-331	-450
		-331	**-450**

Statement of comprehensive income

Amounts in USD million

Note		2019	2018
	Profit for the year	**-331**	**-450**
	Cash flow hedges		
	Value adjustment of hedges for the year	-32	-65
13	Reclassified to income statement	76	-2
3	Tax on other comprehensive income	-	-
	Total items that have been or may be reclassified to the income statement	**43**	**-67**
	Other comprehensive income, net of tax	**43**	**-67**
	Total comprehensive income for the year	**-287**	**-517**

Balance sheet 31 December

Amounts in USD million

Note		2019	2018
4	**Intangible assets**	**355**	**359**
5	**Property, plant and equipment**	**13,412**	**16,432**
6	**Right-of-use assets**	**6,276**	**-**
7	Investments in subsidiaries	7,757	7,610
13	Derivatives	-	2
	Financial non-current assets	**7,757**	**7,612**
8	**Deferred tax**	-	**-**
	Total non-current assets	**27,800**	**24,403**
9	**Inventories**	**690**	**641**
15	Trade receivables	1,886	2,162
	Tax receivables	58	57
14	Interest bearing receivables from subsidiaries	695	991
13	Derivatives	11	-
	Other receivables	120	116
	Other receivables from subsidiaries	142	127
	Prepayments	129	215
	Receivables	**3,041**	**3,668**
	Cash and bank balances	**9**	**72**
	Total current assets	**3,740**	**4,381**
	Total assets	**31,540**	**28,784**

Balance sheet 31 December

Amounts in USD million

Note		2019	2018
10	Share capital	82	82
	Reserves	5,032	5,320
	Total equity	**5,114**	**5,402**
11	**Lease liabilities, non-current**	**5,106**	**1,869**
11	**Interest bearing debt to group related entities, etc.**	**12,336**	**12,402**
12	Provisions	141	159
13	Derivatives	3	-
	Tax payables	11	11
	Other non-current liabilities	**155**	**170**
	Total non-current liabilities	**17,597**	**14,441**
11	**Lease liabilities, current**	**1,362**	**287**
11	**Interest bearing debt to group related entities, etc.**	**2,536**	**4,460**
12	Provisions	219	218
	Trade payables	4,261	3,642
	Tax payables	39	51
13	Derivatives	-	32
	Other payables	251	119
	Other payables to subsidiaries	161	132
	Other current liabilities	**4,931**	**4,194**
	Total current liabilities	**8,829**	**8,941**
	Total liabilities	**26,426**	**23,382**
	Total equity and liabilities	**31,540**	**28,784**

Cash flow statement

Amounts in USD million

Note		2019	2018
	Profit before financial items	469	-88
4,5,6	Depreciation and impairment losses, net	3,008	1,767
	Gain/loss on sale of companies and non-current assets, etc., net	-108	-80
18	Change in working capital	942	-519
	Other non-cash items	59	188
	Cash from operating activities before tax	4,370	1,268
	Taxes paid/received	-13	4
	Cash flow from operating activities	**4,357**	**1,272**
18	Purchase of property, plant and equipment	-516	-2,564
	Sale of property, plant and equipment	130	1,616
7	Acquisition of and capital increases in subsidiaries and activities	-	-35
	Dividends received	561	466
	Cash flow used for investing activities	**175**	**-517**
	Repayment of borrowings *	-2,533	-734
	Repayment of lease liabilities	-1,483	-802
	Proceeds from borrowings	564	1,004
	Financial income received	39	27
	Financial expenses paid	-1,447	-949
	Financial expenses paid on lease liabilities	268	-
	Movements in interest bearing loans to/from subsidiaries, etc., net	367	727
	Other equity transactions	-369	-0
	Cash flow from financing activities	**-4,594**	**-727**
	Net cash flow for the year	**-62**	**28**
	Cash and cash equivalents 1 January	72	24
	Currency translation effect on cash and cash equivalents	-1	20
	Cash and cash equivalents 31 December	9	72
	Of which classified as assets held for sale	-	-
	Cash and cash equivalents 31 December	**9**	**72**

Cash and cash equivalents	2019	2018
Cash and bank balances	9	72
Cash and cash equivalents 31 December	**9**	**72**

For an analysis of liabilities arising from financing activities, reference is made to note 11.

Repayment of borrowings, lease liabilities and financial expenses paid have all been impacted by implementation of IFRS 16 in 2019. The figures for 2018 are not directly comparable.

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 2018	**82**	-	**48**	**5,789**	**5,919**
	Other comprehensive income, net of tax	-	-	-67	-	-67
	Profit for the year	-	-	-	-450	-450
	Total comprehensive income for the year	**-**	**-**	**-67**	**-450**	**-517**
	Equity 31 December 2018	**82**	**-**	**-19**	**5,339**	**5,402**
	2019					
	Other comprehensive income, net of tax	-	-	43	-	43
	Profit for the year	-	-	-	-331	-331
	Total comprehensive income for the year	**-**	**-**	**43**	**-331**	**-288**
	Equity 31 December 2019	**82**	**-**	**24**	**5,008**	**5,114**

Notes to the financial statements

Notes to the financial statements

Amounts in USD million

1 Revenue and operating cost

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

	2019	2018
Revenue from contracts with customers:		
Freight revenue	20,332	20,534
Detention and demurrage fees	1,363	1,474
Others	365	455
Revenue from other sources:		
Vessel-sharing and slot charter income	2,713	2,013
Lease income	91	182
Others	24	30
Total revenue	**24,888**	**24,688**

	2019	2018
Contract balances		
Trade receivables	1,719	2,067
Accrued income - contract asset	111	65

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

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

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

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

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

	2019	2018
Bunker costs	3,968	4,076
Terminal costs	6,567	6,848
Intermodal costs	2,755	2,816
Port costs	2,106	2,037
Rent and lease costs*	1,448	2,780
Staff costs, incl. reimbursed to related parties	462	518
Other	4,213	4,014
Total operating costs	**21,519**	**23,089**
Remuneration of employees		
Wages and salaries	226	209
Pension costs	0	0
Other social security costs	9	7
Total direct remuneration	**235**	**216**
Average number of employees**	9,743	9,202
The Company's share of fees and remuneration to Management		
Fixed base salary	3	4
Short-term incentive	2	2
Long term incentive	1	0
Remuneration in connection with redundancy, resignation and release from duty to work	1	2
Total share of fees and remuneration to Management* **	**7**	**8**

*Rent and lease costs have decreased due to the implementation of IFRS 16.
**Average number of employees are seafarers directly employed by the Company. A number of seafarers and other staff are employed by other A.P. Moller - Maersk companies, however, costs are recharged and included in staff costs.
***The slight decrease is due to minor changes to the Management composition in 2019.

Notes to the financial statements

Amounts in USD million

2 Financial income and expenses

	2019	2018
Interest expenses on liabilities*	1,218	971
Interest income on loans and receivables	39	27
Net interest expenses	**1,179**	**944**
Exchange rate gains on bank balances, borrowings and working capital	74	160
Exchange rate losses on bank balances, borrowings and working capital	27	41
Net foreign exchange gains/losses	**47**	**119**
Fair value gains from derivatives	-	-
Fair value losses from derivatives	6	10
Net fair value gains/losses	**6**	**10**
Dividends received from subsidiaries and associated companies	561	466
Total dividends income	**561**	**466**
Impairment losses, investments in and loans to subsidiaries and associated companies	222	-
Financial net	**-800**	**-369**
Of which:		
Dividends	561	466
Financial income	113	187
Financial expenses	1,251	1,022
Impairment of financial assets	222	-

* Interest expenses of USD 2m (USD 9m) have been capitalised on assets. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.2% (4.3%) p.a.

For an analysis of gains and losses from derivatives, reference is made to note 13.

Notes to the financial statements

Amounts in USD million

3 Tax

	2019	2018
Tax recognised in the income statement		
Current tax on profit for the year	-60	-64
Adjustment for current tax of prior periods	-7	-23
Total current tax	**-67**	**-87**
Reassessment of recoverability of deferred tax asset, net	-	3
Total deferred tax	**-**	**3**
Total income Tax	**-67**	**-84**
Tonnage and freight tax	68	77
Total tax	**1**	**-7**
Tax reconciliation		
Profit before tax	-330	-457
Income subject to Danish and foreign tonnage taxation, etc.	-452	88
Profit before tax, adjusted	**-782**	**-369**
Tax using the Danish corporation tax rate (2019: 22.0%, 2018: 22.0%)	-172	-81
Adjustment to previous years' taxes	-7	-12
Effect of other income taxes distinct from corporation tax	8	-14
Non-taxable income	-3	14
Non-deductible expenses	163	68
Non-taxable dividends, etc. net	-74	-103
Deferred tax asset not recognised	18	48
Other differences, net	-	-4
Total income tax	**-67**	**-84**
Tax recognised in other comprehensive income and equity		
Interest rate hedges	-	-
Tax recognised in other comprehensive income, net	**-**	**-**
Total	**-**	**-**
Of which:		
Current tax	-	-

Notes to the financial statements

Amounts in USD million

4 Intangible assets

	Brand name	Prepayment for IT software	Total
Cost			
1 January 2018	379	-	379
Additions	-	-	-
31 December 2018	**379**	**-**	**379**
Additions	-	15	15
31 December 2019	**379**	**15**	**394**
Amortisation and impairment losses			
1 January 2018	2	-	2
Amortisation	18	-	18
31 December 2018	**20**	**-**	**20**
Amortisation	19	-	19
31 December 2019	**39**	**-**	**39**
Carrying amount:			
31 December 2019	**340**	**15**	**355**
31 December 2018	**359**	**0**	**359**

Impairment analysis

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

Notes to the financial statements

Amounts in USD million

5 Property, plant and equipment

	Ships, containers, etc.	Production facilities and equipment, etc.	Construc-tion work in progress and pay-ment on account	Total
Cost				
1 January 2018	25,200	956	805	26,961
Additions	2,719	68	1,175	3,962
Disposal	-2,332	-6	-2	-2,340
Transfer	1,604	-	-1,604	0
31 December 2018	**27,191**	**1,018**	**374**	**28,583**
Transfer of IAS 17 Finance Lease	-2,223	-1,009	-	-3,232
Additions	311	1	564	876
Disposal	-835	-3	-	-838
Transfer	835	1	-799	37
31 December 2019	**25,279**	**8**	**139**	**25,426**
Depreciation and impairment losses				
1 January 2018	10,890	281	-	11,171
Depreciation	1,681	68	-	1,749
Disposal	-763	-6	-	-769
31 December 2018	**11,808**	**343**	**-**	**12,151**
Transfer of IAS 17 Finance Lease	-759	-335	-	-1,094
Depreciation	1,432	1	-	1,433
Disposal	-477	-3	-	-480
Transfer	4	-	-	4
31 December 2019	**12,008**	**6**	**-**	**12,014**
Carrying amount:				
31 December 2018	**15,383**	**675**	**374**	**16,432**
31 December 2019	**13,271**	**2**	**139**	**13,412**
Of which carrying amount of finance leased assets:				
31 December 2018	**1,464**	**677**	**4**	**2,145**

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 255m (USD 399m) of which USD 156m (USD 263m) is expected within one year.

Pledges
Ships, containers, etc. with a carrying amount of USD 1.5bn (USD 1.6bn) have been pledged as security for loans of USD 1bn (USD 1bn).

Notes to the financial statements

Amounts in USD million

6 Right-of-use assets

	Ships, containers, etc.	Concession agreements	Real estate and other leases	Total
Right-of-use assets				
1 January 2019	3,964	-	8	3,972
Transfer from IAS 17 finance leases	1,464	677	-	2,141
Additions	1,331	630	2	1,963
Disposal	-210	-	-	-210
Depreciation cost	-1,455	-99	-3	-1,557
Transfer, assets held for sale	-	-	-	-
Transfer to owned assets, etc.	-33	-	-	-33
Exchange rate adjustment	-	-	0	0
31 December 2019	**5,061**	**1,208**	**7**	**6,276**

Amounts recognised in profit and loss	Total
Depreciation cost on right-of-use assets	1,557
Interest expenses (included in finance costs)	268
Expenses relating to service elements of leases	1,123
Expenses relating to short-term leases	403
Expenses relating to variable lease payments	57
Expenses relating to leases of low-value assets	3
Total recognised in operating costs	**1,586**

Notes to the financial statements

Amounts in USD million

7 Investments in subsidiaries

	Investments in subsidiaries
Cost	
1 January 2018	8,863
Acquisition and capital injection*	1,957
Disposal	-2,197
Return of capital*	-994
31 December 2018	**7,629**
Acquisition and capital injection**	402
Disposal	-
Return of capital**	-33
Exchange rate adjustment	-
31 December 2019	**7,998**
Impairment losses	
1 January 2018	19
31 December 2018	**19**
Impairment losses	222
31 December 2019	**241**
Carrying amount:	
31 December 2018	**7,610**
31 December 2019	**7,757**

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

**Acquisition and capital injection in 2019 comprise capital injections to various subsidiaries of USD 247m as well as investment in Maersk Shipping K/S of USD 155m. Return of capital in 2019 comprises of a return of capital from Hamburg Süd of USD 33m. The return of capital was on a non-cash basis and is thus not reflected in the cash flow statement.

** Impairment losses are recognised when carrying amount exceeds recoverable amount. The impairment relates to investments Maersk Line UK Ltd. of USD 109m and Maersk Shipping K/S of USD 113m.

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

Notes to the financial statements

Amounts in USD million

8 Deferred tax

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

	2019	2018	2019	2018	2019	2018
Tax loss carryforwards	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Change in deferred tax, net during the year:	2019	2018
1 January	**-**	**3**
Recognised in the income statement	-	-3
31 December	**-**	**-**

Tax losses for which no deferred tax asset has been recognised amount to USD 104m (USD 87m).

Notes to the financial statements

Amounts in USD million

9 Inventories

	2019	2018
Bunker	657	603
Other consumables	33	38
Total	**690**	**641**

Notes to the financial statements

Amounts in USD and DKK where so indicated

10 Share capital

	No. of shares	Nominal value DKK per share	Nominal value USD per share	Nominal value DKK	Nominal value USD
1 January 2015	500	1,000	182	500,000	91,000
Issue of shares	499,500	1,000	163	499,500,000	81,598,320
31 December 2015	**500,000**			**500,000,000**	**81,689,320**
Issue of shares	-	-	-	-	-
31 December 2016	**500,000**			**500,000,000**	**81,689,320**
Issue of shares	-	-	-	-	-
31 December 2017	**500,000**			**500,000,000**	**81,689,320**
Issue of shares	-	-	-	-	-
31 December 2018	**500,000**			**500,000,000**	**81,689,320**
Issue of shares	-	-	-	-	-
31 December 2019	**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%

Amounts in USD million

11 Borrowings and lease liability reconciliation

	Net debt as at 31 December 2018	Cash flow	IFRS 16 adoption	Additions	Disposals	Foreign exchange movements	Other changes	Net debt as at 31 December 2019
Debt to group related entities	16,862	-1,990	-	-	-	-	-	14,872
Leasing liability	2,156	-1,483	3,972	2,015	-190	-3	-	6,467
Total borrowings	**19,018**	**-3,473**				**-3**	**-**	**21,339**
Of which:								
Classified as non-current	14,271							17,442
Classified as current	4,747							3,898

The cash flow from financing activities, as per the cash flow statement, includes a net cash flow of USD 367m related to interest bearing receivables from subsidiaries and is not included in the reconciliation presented above.

	Net debt as at 31 December 2017	Cash flow	Foreign exchange movements	Other changes	Net debt as at 31 December 2018
Debt to group related entities	16,596	266	0	1	16,863
Leasing liability	2,740	-802	-	218	2,156
Total borrowings	**19,336**	**-535**	**0**	**218**	**19,019**
Of which:					
Classified as non-current	15,939				14,271
Classified as current	3,397				4,747

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

Notes to the financial statements

Amounts in USD million

12 Provisions

	Restruct-turing	Legal dis-putes, etc.	Other	Total
1 January 2019	3	286	88	377
Transfer of type	-	-	-	-
Provision made	4	119	174	297
Amount used	-1	-142	-5	-148
Amount reversed	-1	-106	-71	-178
Exchange rate adjustment	0	12	-0	12
31 December 2019	**5**	**169**	**186**	**360**
Classified as non-current	1	78	61	141
Classified as current	4	91	124	219
	5	**169**	**186**	**360**

Restructuring includes provisions for decided and publicly announced restructurings. Legal disputes, etc. include indirect 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 and duty disputes and contractual disagreements, which are recognised in the income statement under operating costs.

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

13 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:	2019	2018
Non-current receivables	-	2
Current receivables	11	-
Non-current liabilities	-3	-
Current liabilities	-	-32
Assets, net	**8**	**-**
Liabilities, net	**-**	**-30**

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

	Cash flow hedges 2019	Held for trading 2019	Cash flow hedges 2018	Held for trading 2018
Currency derivatives, net	8	-	-32	2
Interest rate derivatives, net	-	-	-	-
Price hedge derivatives	-	-	-	-
Total	**8**	**-**	**-32**	**2**

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

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

	2019	2018
Hedging foreign exchange risk on consideration paid for acquisition	-	-
Hedging foreign exchange risk on operating costs	-76	2
Hedging interest rate risk	-	-
Total effective hedging	**-76**	**2**
Ineffectiveness of unrealised currency derivatives recognised in financial expenses	-	-
Total reclassified from equity reserve for hedges	**-76**	**2**
Net gains/losses recognised directly in the income statement	**-6**	**-10**
Total	**-82**	**-8**

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

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

Amounts in USD million

14 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 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Carried at amortised cost				
Interest bearing receivables from subsidiaries, etc.	695	695	991	991
Trade receivables	1,886		2,162	
Other receivables (non-interest-bearing)	120		116	
Other receivables from subsidiaries, etc.	142		127	
Cash and bank balances	9		72	
Financial assets at amortised cost	**2,852**		**3,468**	
Derivatives	**11**	**11**	**2**	**2**
Total financial assets	**2,863**		**3,470**	
Carried at amortised cost				
Interest bearing debt to group related entities	14,872	14,872	16,862	16,862
Leasing liabilities*	6,468	4,195	2,156	2,258
Trade payables	4,261		3,642	
Other payables	251		119	
Other payables to subsidiaries and associated companies, etc.	161		132	
Financial liabilities at amortised cost	**26,013**		**22,911**	
Derivatives	**3**	**3**	**32**	**32**
Total financial liabilities	**26,016**		**22,943**	

*Leasing liabilities are towards group related entities. In the 2018 financial statements such leasing liabilities were included in Interest bearing debt to group related entities. 2018 amounts have been restated accordingly.

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

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

Notes to the financial statements

Amounts in USD million

15 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 2019.

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 2019. 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 EUR, DKK, HKD, SGD, CNY, GBP, CAD, MYR, MXN, KRW, ZAR, JPY, NZD, BRL, AUD, CLP, SEK, INR, COP and THB. Overall the Company has net income in USD , this is also the primary financing currency.

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

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

Interest rate risk
The Company has most of its debt denominated in USD, but part of the debt is in other currencies such as EUR, 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. A general increase in interest rates by one percentage point is estimated, all else being equal, to affect profit before tax and equity, excluding tax effect, negatively by approx. USD 149m (negatively by approx. USD 168m).

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

Borrowings and interest bearing debt to group related entities by interest rate levels inclusive of interest rate swaps	Carrying amount	0-1 year	Next interest rate fixing 1-5 years	5- years
2019				
0-3%	2,837	2,837	-	-
3-6%	18,476	13,508	2,817	2,151
6%-	27	27	-	-
Total	**21,340**	**16,372**	**2,817**	**2,151**
Of which:				
Bearing fixed interest	6,453			
Bearing floating interest	14,887			
2018				
0-3%	2,984	2,984	-	-
3-6%	15,261	13,993	566	702
6%-	773	-	34	739
Total	**19,018**	**16,977**	**600**	**1,441**
Of which:				
Bearing fixed interest	2,074			
Bearing floating interest	16,944			

Notes to the financial statements

Amounts in USD million

15 Financial risks, etc. - continued

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

Forward exchange contracts	Contract amount	Fair value
EUR	574	4
SEK	101	4
DKK	235	2
JPY	45	1
CLP	23	1
HKD	148	-
AUD	30	-
THB	14	-
SGD	143	-1
CAD	123	-1
CNY	99	-1
KRW	58	-1
NZD	39	-1
BRL	39	-1
COP	21	-1
GBP	87	-2
MYR	73	-2
ZAR	57	-3
MXN	59	-4
Total	**1,968**	**-6**

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

Notes to the financial statements

Amounts in USD million

15 Financial risks, etc. - continued

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

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

Maturity analysis of trade receivables	2019	2018
Receivables not due	1,375	1,496
Less than 90 days overdue	457	558
91-365 days overdue	82	151
More than 1 year overdue	102	131
Receivables, gross	**2,016**	**2,336**
Provision for bad debt	130	174
Carrying amount	**1,886**	**2,162**

The loss allowance provision for trade receivables as at 31 December 2019 reconciles to the opening loss allowance as follows:

Change in provision for bad debt	2019	2018
1 January	174	177
Provisions made	148	143
Amount used	128	104
Amount reversed	64	42
31 December	**130**	**174**

Approximately 78% (68%) 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

15 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
2019					
Interest bearing debt to group related entities	14,872	11,834	4,867	-	16,701
Leasing liability	6,468	1,710	3,486	2,371	7,567
Trade payables	4,261	4,261	-	-	4,261
Other payables	251	251	-	-	251
Other payables to group related entities	161	161	-	-	161
Non-derivative financial liabilities	**26,013**	**18,217**	**8,353**	**2,371**	**28,941**
Derivatives	3	3	-	-	3
Total recognised in balance sheet	**26,016**	**18,220**	**8,353**	**2,371**	**28,944**
Operating lease commitments		75			75
Capital commitments		298			298
Total		**18,593**	**8,353**	**2,371**	**29,317**
2018					
Interest bearing debt to group related entities*	16,862	5,258	13,089	-	18,347
Financial leasing liability*	2,156	268	1,010	588	1,866
Trade payables	3,642	3,642	-	-	3,642
Other payables	119	119	-	-	119
Other payables to group related entities	132	132	-	-	132
Non-derivative financial liabilities	**22,911**	**9,419**	**14,099**	**588**	**24,106**
Derivatives	32	32	-	-	32
Total recognised in balance sheet	**22,943**	**9,451**	**14,099**	**588**	**24,138**
Operating lease commitments		2,063	3,499	892	6,454
Capital commitments		637	29	-	666
Total		**12,151**	**17,627**	**1,480**	**31,258**

*Financial leasing liabilities include leasing liabilities to group related entities. In the 2018 financial statements such leasing liabilities were included in Interest bearing debt to group related entities. 2018 amounts have been restated accordingly.

Notes to the financial statements

Amounts in USD million

16 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. From 1 January 2019, the group has recognised right-of-use assets for these leases, except for short-term and low-value leases. See note 6 for further information. In 2018, about 24% of the committed time charter payments are estimated to relate to operational costs for the assets. In 2019, the short-term and low-value leases do not include any payment for operational costs.

The future charter and operating lease payments are:

	2019	2018
Within one year	75	2,063
Between one and two years	-	1,431
Between two and three years	-	867
Between three and four years	-	694
Between four and five years	-	507
After five years	-	892
Total	**75**	**6,454**
Net present value [1]		5,618

[1] The net present value of 2018 has been calculated using a discount rate of 6% p.a.

Total operating lease costs incurred are presented in note 1.

Capital commitments
At the end of 2019, capital commitments amounted to USD 0.3bn (0.7bn), primarily related to acquisitions of container vessel new buildings and purchase of containers.

Notes to the financial statements

Amounts in USD million

17 Contingent liabilities

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

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

The Company has furthermore entered into certain agreements with terminals and port authorities, etc. 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 on repatriation of dividends. Through participation in a joint taxation scheme with A.P. Møller Holding A/S, the Danish companies are jointly and severally liable for taxes payable, etc. in Denmark.

Notes to the financial statements

Amounts in USD million

18 Cash flow specifications

	2019	2018
Change in working capital		
Inventories	-49	-195
Trade receivables	191	-338
Other receivables and prepayments	55	327
Trade payables and other payables, etc.	759	-272
Exchange rate adjustment of working capital	-14	-41
Total	**942**	**-519**
Purchase of property, plant and equipment		
Additions	-454	-2,470
Of which which pertains to borrowing costs capitalized on assets	2	9
Change in payables to suppliers regarding purchase of assets	-64	-103
Total	**-516**	**-2,564**

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

19 Related parties

	Subsidiaries		Other related companies		Parent company		Management*	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Income statement								
Revenue	2,110	1,784	436	424	3	-	-	-
Operating costs	1,801	2,446	6,708	6,811	288	290	-	-
Remuneration to management	-	-		-		-	7	8
Dividends	561	466	0	-		-	-	-
Financial income	33	23	5	4	0	-	-	-
Financial expenses	110	88	4	5	789	859	-	-
Assets								
Tax receivables	-	-	-	-	58	57	-	-
Interest bearing receivables, current	652	832	131	175	14	4	-	-
Other receivables, current	353	266	73	55	11	4	-	-
Liabilities								
Interest bearing debt, non-current	-	-	-	-	12,339	13,002	-	-
Interest bearing debt, current	1,794	1,297	92	102	649	2,462	-	-
Trade payables	270	165	295	207	41	51	-	-
Other liabilities, current	496	868	738	566	131	73	-	-
Capital increases and purchase of shares	402	1,957	-	-	-	-	-	-
Return of capital	33	994	-	-	-	-	-	-

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

Operating leases
At the end of 2019, operating lease commitments to related companies amounted to USD 64m (USD 2,166m) of which USD 64m (USD 946m) is payable within one year and USD 0m (USD 1,220m) is non-current.
The operating lease commitments relate mainly to leasing of container vessels.

Capital commitments
At the end of 2019, capital commitments to other related companies amounted to USD 0m (USD 21m) of which USD 0m (USD 21m) is payable within one year and USD 0m (USD 0m) is non-current.

Operating leases as lessor
After the end of 2019, the future lease income from subsidiaries is USD 255m (USD 399m) of which USD 155m (USD 263m) is receivable within one year, and USD 98m (USD 135m) 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

20 Summary of significant accounting policies

Basis of preparation

The financial statements for 2019 for Maersk A/S have been prepared on a going concern basis and in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Danish Financial Statements Act.

The accounting policies are consistent with those applied in the financial statements for 2018 except for the changes to the accounting standards that were effective 1 January 2019 and were endorsed by the EU:

- Leases (IFRS 16)
- Uncertainty over income tax treatments (IFRIC 23)

LEASES (IFRS 16)

Effective 1 January 2019, Maersk A/S applied the new reporting standard on leases, IFRS 16. All leases are recognised as right-of-use assets with corresponding lease liabilities at the date on which the leased assets are available for use by Maersk A/S. The new requirement has a significant impact on the presentation of Maersk A/S gross debt and profit before depreciation, amortisation and impairment losses (EBITDA).

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

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

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

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

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

Bridge between lease commitment and IFRS 16 Lease Liability

	2019
USD million	
Total lease commitments as at 31 December 2018	**6,453**
Adjustments for service components	-1,524
Adjustments for short term leases	-257
Other lease adjustments	-81
Total leases to be discounted	**4,591**
Discounting effect	-619
Lease liability as at 1 January 2019	**3,972**

On transition, Maesk A/S' gross interest-bearing debt increased by approx. USD 4.0bn to USD 23.0bn, while property, plant and equipment increased to approx. USD 20.4bn.

Operating expenses decreased, positively impacting EBITDA compared to the previous lease standard IAS 17 because former operating leases are now recognised as depreciation, negatively impacting profit before financial items (EBIT) and interest cost, negatively impacting profit before tax.

In connection with the transition to the new standard, management has applied judgement and formed assumptions in relation to assessing the incremental borrowing rate, service components and extension options of leasing arrangements. Management has formed it's judgements and assumptions based on historical experience, internal and external data points.

UNCERTAINTY OVER INCOME TAX TREATMENTS (IFRIC 23)

Maersk A/S follows most of the guidelines in IFRIC 23 for accounting for uncertain income tax positions and the implementation of the interpretation standard has not resulted in a significant change to the measurement of recognised uncertain tax positions.

Following the application of IFRIC 23, Maersk A/S presents uncertain tax positions as either non-current or current tax payables. The 2018 ending balances have been restated by USD 41m from provisions to tax liabilities.

Notes to the financial statements

Amounts in USD million

20 Summary of significant accounting policies - continued

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: https://investor.maersk.com/financial-reports

Foreign currency translation

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

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

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

Income statement

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

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

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

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

Statement of comprehensive income

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

Balance sheet

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

Brand names	20 years

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

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

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

Notes to the financial statements

Amounts in USD million

20 Summary of significant accounting policies - continued

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.

Leases are recognised as a right-of-use asset with a corresponding lease liability at the date on which the leased asset is available for use by the group. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

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. Deferred tax assets are recognised to the extent that it is probable that they can be utilised within the foreseeable future.

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

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

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

Cash flow statement

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

Key figures/financial ratios

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

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

Notes to the financial statements

Amounts in USD million

20 Summary of significant accounting policies - continued

Key figures/financial ratios

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

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

Fees to statutory auditor

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

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

New financial reporting requirements

Maersk A/S has not yet applied the following standards/requirements:

- Amendments to IAS 1 & IAS 8: Definition of Material
- Amendments to IFRS 3 - Business Combinations: Definition of a Business.
- IFRS 17 - Insurance Contracts

Amendments to IAS 1, IAS 8 and IFRS 3 are effective from 1 January 2020. IFRS 17 is effective from 1 January 2021, but there is some uncertainty as to its EU endorsement date.

Maersk A/S follows most of the guidelines in the amendments to IAS 1 & IAS 8, which means the implementation is not expected to result in a significant change to the financial statements' presentation.

IFRS 17: An analysis of the impact is being assessed and is expected to be concluded in due course ahead of the implementation date.

Notes to the financial statements

Amounts in USD million

21 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 and transhipment hub activities are tested for impairment as a single cash generating unit.

Impairment considerations

Although average bunker cost reduced by 2.9%, the impact of IMO 2020 on bunker supply and uncertainty around cost recovery, in addition to weakness in the broader macroeconomic backdrop, are impairment indicators. Trade protectionism has reduced the global container outlook and recession risks have increased. In addition, the estimated fair value of the fleet continues to be 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 Q3 2019 covering plans for 2020-24. The key sensitivities are: development in freight rates, container volumes, bunker costs, effect of cost savings and the discount rate applicable. Management has applied an assumption of growth in volumnes 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. Under IFRS 16, right-of-use assets are subject to the impairment requirements of IAS 36 Impairment of Assets. Impairment risk remains largely unchanged. 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 20 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 provisions and recognition of uncertain tax positions has been made where the probability of our tax position being upheld in individual cases is considered leass than 50%. Claims for which the probablility of our tax position being upheld is assessed by management to be at least 50% are not provided for. Such risks are instead evaluated on a portfolio basis by geographical area and country risk provisions and uncertain tax liabilities are recognised where the aggregated probability of our tax position being upheld is considered less than 50%.

Leasing

The Company enters into a substantial amount of lease contracts, some of which combine lease and service components in the same leasing arrangement, such as time charter contracts. Judgement is applied in determining the stand-alone value of each component using specialised tools to streamline the valuation process. Similarly, determining variable lease payments requires significant judgement and understanding of facts and circumstances that give rise to variable payments. Variable payments are mainly linked to the uncertain period for which container equipment is used outside the firm contract period, due to flexible redelivery periods

A significant amount of lease contracts contain extension or purchase options or termination options or various combinations of these options. Assessment of the exercise or non-exercise of such options impacts the value of right-of-use asset recognised. Such assessments are reviewed whenever a significant event or change in circumstances occurs.

IFRS 16 requires that a discount rate is applied to determine the present value of lease payments. Significant judgement is required in determining appropriate rate, therefore management applies a formalised process for determining applicable discount rates using specialist staff in the corporate function.

Notes to the financial statements

Amounts in USD million

22 Subsequent events

The implications of COVID-19 with many governments across the world deciding to ”close down their countries” will have great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company. At this time, it is not possible to calculate the size of the negative COVID-19 impact.

No other 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	Profit or loss for the period	Maersk A/S' share of profit/loss
			USD 000'	USD 000'	USD 000'
Safmarine MPV NV	100	Belgium	8,098	1,046	1,046
Maersk China Ltd.	100	China	190,621	-28,429	-28,429
Rederiaktieselskabet Kuling	100	Denmark	836	62	62
Maersk Line Agency Holding A/S	100	Denmark	810,757	194,026	194,026
Sealand Europe A/S	100	Denmark	39,113	12,388	12,388
Maersk Trade Finance A/S	100	Denmark	9,798	-6,863	-6,863
Maersk Deutschland A/S & Co. KG	100	Germany	4,084	-255	-255
Maersk Shipping Hong Kong Ltd.	100	Hong Kong	1,876,533	71,672	71,672
Sealand Maersk Asia Pte. Ltd.	100	Singapore	120,963	120,074	120,074
A.P. Moller Singapore Pte. Ltd.	100	Singapore	3,458,155	161,945	161,945
Maersk Line UK Ltd.	100	United Kingdom	406,371	1,189	1,189
Maersk Inc.	100	United States	NA	NA	NA
Maersk GP GmbH	100	Germany	NA	NA	NA
Rudolf August Oetker Tanker ApS & Co KG	100	Germany	NA	NA	NA
Maersk Shipping K/S	100	Denmark	NA	NA	NA
Frey P/S	50	Denmark	3,888	-1,068	-534
Frey GP ApS	50	Denmark	5	-3	-2
HS GP ApS	100	Denmark	36	30	30
Maersk Line Crewing Hamburg ApS & Co KG	100	Germany	NA	NA	NA
Hamburg Südamerikanische Dampfschifffahrts-Gesellschaft A/S & Co KG	100	Germany	NA	NA	NA
Maersk GTD Inc.	100	United States	NA	NA	NA

Only subsidiaries of direct ownership have been included. The Company holds a controlling influence in the entities listed above.
All subsidiaries are consolidated in the A.P. Møller - Mærsk A/S annual report for 2019 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 recognised in prior years on investments in subsidiaries, disclosed in note 7, 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 20.

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 A/S for the financial year 1 January – 31 December 2019.

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 2019 of the Company and of the results of the Company operations and cash flows for 2019.

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, 27 May 2020

Executive Board:

Vincent Clerc
CEO

Board of Directors:

Jim Hagemann Snabe Chairman	Søren Skou	Caroline Sundorph Pontoppidan

Independent Auditor's Report

To the Shareholder of Maersk 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 2019, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019 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 A/S for the financial year 1 January - 31 December 2019, which comprise income statement and statement of comprehensive income, balance sheet, cash flow statement, 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, 27 May 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Mogens Nørgaard Mogensen State Authorised Public Accountant mne21404	Lars Baungaard State Authorised Public Accountant mne23331