

MAERSK PRODUCT TANKERS A/S
ANNUAL REPORT 2017
(First accounting period 1 July-31 December)

(Central Business Registration no: 39067064)

The Annual Report was presented and adopted at the Annual General Meeting.

Copenhagen, 16 April 2018

Anette Ryde
Chairman of the meeting

Table of contents

Company Information 2

Management Review 3

Management Statement 6

Independent Auditor’s Report 7

Consolidated Financial Statement 10

Parent Company Financial Statements 33

Company information

Maersk Product Tankers A/S
Nicolai Eigtveds Gade 28, 4th floor
1402 Copenhagen K
Denmark

Registration no.:	39067064
Founded:	6 November, 2017
Domicile:	Copenhagen
Financial year:	1 January - 31 December

Board of directors

Robert M. Ugglå, Chairman
Paul Jonathan Reed, Deputy Chairman
Takeshi Setozaki
Maria Pejter
Martin Larsen

Executive Management

Christian M. Ingerslev
Henrik Kvist-Jacobsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup
Denmark

General meeting

16 April 2018

Management's review

Restructuring of Maersk Product Tankers A/S

Maersk Product Tankers A/S and subsidiaries' (hereafter: "Maersk Product Tankers") was established in 2017 following A.P. Møller Holding A/S's (hereafter: "APMH") acquisition of Maersk Tankers A/S from A.P. Møller – Mærsk A/S through its subsidiary APMH Invest A/S.

In connection with the acquisition, APMH announced it was entering into an ownership consortium for the Maersk Tankers fleet with Mitsui & Co Ltd., leading to a restructuring of Maersk Tankers A/S.

As part of the restructuring, Maersk Product Tankers was formed through contribution (spin-off) of Maersk Tankers A/S' vessel-related activities for owned vessels.

The vessel-related activities comprised 27 vessels owned by Maersk Tankers A/S, as well as all shares in Maersk Tankers Singapore Pte. Ltd. and Maersk Tankers UK Ltd. The operations in Maersk Tankers Singapore Pte. Ltd. have ownership and operation of 52 vessels, while Maersk Tankers UK Ltd. is a newly established company, which acquired one vessel from Maersk Tankers A/S in 2017. The legal spin-off of the vessel-related activities to Maersk Product Tankers took place in December 2017 through a contribution in kind.

The activities transferred are considered as a new reporting entity and predecessor accounting has been applied to reinstate financials. Therefore, the financial statements have been presented on the basis that the spin-off occurred and that Maersk Product Tankers existed as a stand-alone company from January 1, 2016. As Maersk Product Tankers has been an integrated part of Maersk Tankers A/S without separate reporting, it has been necessary for management to base the preparation of the historical financial information before July 1, 2017 on estimates in certain cases.

Result of the year

The result for the year was a loss of USD 489.9 million (2016: Profit of USD 19.7 million). The result was negatively impacted by the challenging market conditions with declining market rates in all segments.

As a result of the declining market rates the company decided to impair the carrying value of the fleet by USD 464.0 million.

Excluding impairments and sales gains and losses, the underlying result for the year was a loss of USD 27.2 million (2016: Profit of USD 15.7 million).

Investments and divestments

The last two Medium-Range vessels of a series of ten newbuildings from Sungdong Shipbuilding were delivered during 2017.

As a continued effort to renew the product fleet, Maersk Product Tankers have an order in place for nine MR newbuildings with Samsung Heavy Industries, Ningbo, whereof seven will be delivered in 2018 and two in 2019.

Risks

Maersk Product Tankers is exposed to fluctuations in global freight, bunker price levels and the development in vessel prices.

Maersk Product Tankers income is mainly in USD, whereas expenditure is spread across several currencies including USD. Maersk Product Tankers' primary financing currency is USD. The company has LIBOR-based loans and is exposed to changes in the interest rate. Financial instruments may be used to reduce the impact of exchange rate fluctuations and interest rate risks.

Maersk Product Tankers has a certain concentration of customers but no significant dependency on particular customers or suppliers and the company has no significant credit risks.

Corporate Social Responsibility

Maersk Product Tankers places a high priority on the health, safety and security of its employees and assets as well as of those contributing to the company's operations. This is done by having thorough risk management systems and policies in place and embedding a safety culture. The objective is to provide a workplace with zero work-related injuries.

The company is committed to conducting its operations in an environmentally responsible way with the aim of continuously reducing emissions, achieving zero spills and incidents, and to continuously find solutions for improvement.

Read more in the sustainability report that is within the requirements of the Danish Financial Statements Act §99a.

<https://maersktankers-cdn.azureedge.net/-/media/about-us/documents/mt-sustainability-update-2017.ashx?rev=176536b1c33f4eda9403852d517e415a>

Diversity

The Board believes that its members should be elected based on their combined qualifications and at the same time recognizes the advantages of a board comprising a wide range of backgrounds such as global experience, style, culture and gender.

On the basis of this ambition the Board has defined a target to maintain a share of the under-represented gender on the Board to account for equal distribution of the shareholder-appointed Board members.

As at the date of the signing of the annual report, Maersk Product Tankers did not comply with the requirements at the board level with respect to the Danish Financial Statement Act §99b. The expectation is to fulfill the requirement by end of 2020.

Expectations for 2018

Freight markets are expected to gradually recover in 2018 and the underlying result is expected to be somewhat above the result in 2017.

Events after balance sheet date

No events have occurred after 31 December 2017, which may significantly affect the financial statement of 2017.

Financial highlights

Amounts in USD million

	<u>2017</u>	<u>2016</u>
<i>Revenue</i>	623.6	593.5
<i>Profit before depreciation and impairment losses</i>	126.1	172.0
<i>Financial items, net</i>	-31.8	-24.2
<i>Profit/loss for the year</i>	-489.9	19.7
<i>Underlying results excluding sales gains/loss and impairment</i>	-27.2	15.7
<i>Total assets</i>	1,364.3	1,828.0
<i>Equity</i>	500.7	997.5
<i>Investments in Property, plant and equipment</i>	-88.3	-268.3
<i>Profit margin</i>	20.2%	29.0%
<i>Equity ratio</i>	36.7%	54.6%
<i>Return on equity</i>	-65.4%	2.0%

Management's Statement

The Board of Directors and Executive management have today considered and adopted the Annual Report of Maersk Product Tankers A/S for the financial year 1 January – 31 December 2017.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Group and the Parent Company and of the results of the Group and Parent 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 Group and the Parent Company, of the results for the year and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

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

Copenhagen, 9 April 2018

Executive management

Christian Michael Ingerslev
CEO

Henrik Kvist-Jacobsen
CFO

Board of Directors

Robert Mærsk Uggla
Chairman

Paul Jonathan Reed
Deputy Chairman

Takeshi Setozaki

Maria Aagaard Pejter

Martin Nørkjær Larsen

Independent Auditor's Report

To the Shareholders of Maersk Product Tankers A/S

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 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 Consolidated Financial Statements and the Parent Company Financial Statements of Maersk Product Tankers A/S for the financial year 1 January - 31 December 2017, which comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for both the Group and the Parent Company ("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 Group 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 Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement 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 Consolidated Financial Statements and Parent Company 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 Group's and the Parent 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 Group or the Parent 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 Group's and the Parent 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 Group's and the Parent 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 Group and the Parent 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, 9 April 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Gert Fisker Tomczyk
State Authorised Public Accountant
mne9777

Henrik Ødegaard
State Authorised Public Accountant
mne31489

Consolidated comprehensive income statement

AMOUNTS IN USD THOUSANDS

Note		H1 2017	H2 2017	2017	2016
	Revenue	306,041	317,596	623,637	593,455
1	Operating costs	-234,409	-253,542	-487,951	-410,450
	Other income	24	-	24	456
	Other costs	-8,059	-1,584	-9,643	-11,460
	Profit before depreciation and impairment losses, etc.	63,597	62,470	126,067	172,001
5,6	Depreciation and impairment losses, net	-533,396	-51,771	-585,167	-128,412
2	Gain/loss on sale of non-current assets, etc., net	1,337	-51	1,286	-3,953
	Profit/loss before financial items	-468,462	10,648	-457,814	39,636
3	Financial income	93	111	205	52
3	Financial expenses	-13,972	-18,023	-31,995	-24,263
	Profit/loss before tax	-482,341	-7,264	-489,604	15,426
4	Tax	730	-1,797	-1,067	1,379
	Profit/loss for the year - continuing operations	-481,611	-9,060	-490,671	16,805
7	Profit for the year - discontinued operations	2,837	-2,090	747	2,871
	Profit/loss for the year	-478,774	-11,150	-489,924	19,676
	Other comprehensive income	-	-	-	-
	Comprehensive Income for the year	-478,774	-11,150	-489,924	19,676
	Of which:				
	Maersk Product Tankers's Share	-478,774	-11,150	-489,924	19,676

Consolidated balance sheet at 31 December

Assets

AMOUNTS IN USD THOUSANDS

Note		2017	2016
6	Property, plant and equipment	1,137,039	1,661,651
	Deposits	2	3
4	Deferred tax	205	-
	Total non-current assets	1,137,247	1,661,654
	Inventories	20,838	13,950
	Trade receivables	79,896	60,800
	Tax receivables	479	-
	Other receivables	48,006	55,554
	Prepayments	10,132	5,468
	Receivables, etc.	138,513	121,822
	Cash and cash equivalents	53,288	13,925
7	Discontinued operations and assets held for sale	14,398	16,694
	Total current assets	227,037	166,391
	Total assets	1,364,284	1,828,045

Consolidated balance sheet at 31 December

Equity and Liabilities

AMOUNTS IN USD THOUSANDS

Note		2017	2016
	Share capital	1,590	1,590
	Retained Earnings	499,066	995,928
	Total equity	500,656	997,518
8	Borrowings, non-current	705,725	600,000
	Total non-current liabilities	705,725	600,000
8	Borrowings, current	50,242	146,399
9	Provisions	3,562	3,015
	Trade payables	65,584	55,108
	Tax payables	92	-
	Other payables	28,425	10,060
	Deferred income	6,295	10,546
	Other current liabilities	103,958	78,730
7	Discontinued operations and assets held for sale	3,702	5,398
	Total current liabilities	157,902	230,527
	Total liabilities	863,628	830,527
	Total equity and liabilities	1,364,284	1,828,045

Consolidated statement of changes in Equity

AMOUNTS IN USD THOUSANDS

	Share capital	Retained Earnings	Total equity
Equity 1 January 2016	1,590	1,013,418	1,015,008
Profit/loss for the year	-	19,676	19,676
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	19,676	19,676
Other equity movements	-	-37,165	-37,165
Total transactions with shareholders	-	-37,165	-37,165
Equity 31 December 2016	1,590	995,928	997,518
2017			
Profit/loss for the year	-	-489,924	-489,924
Other comprehensive income	-	-	-
Total comprehensive income for the year		-489,924	-489,924
Other equity movements	-	-6,938	-6,938
Total transactions with shareholders	-	-6,938	-6,938
Equity 31 December 2017	1,590	499,066	500,656

Other Equity movements relate to impact of predecessor accounting for transactions/settlements not occurred in the past or not part of the transferred assets and liabilities.

A capital increase was decided at the extraordinary general meeting dated, December 14 2017 of DKK 9.5m (USD 1.5m) and registered on April 3 2018.

Consolidated cash flow statement

AMOUNTS IN USD THOUSANDS

Note		2017	2016
	Profit/Loss before financial items	-457,814	39,636
5,6	Depreciation, impairment	585,167	128,412
2	Gain/Loss on sale of non-current assets	-1,286	3,953
	Profit/loss before depreciation	126,067	172,001
13	Change in working capital	-7,036	56,345
9	Change in provisions	547	-870
	Other non-cash items	1,035	-889
	Cash generated from operations before financial items and tax	120,613	226,587
3	Interest received	87	20
3	Interest paid	-33,291	-30,758
	Tax paid	-1,659	1,375
	Net cash from operating activities	85,750	197,224
13	Purchase of vessels	-88,260	-268,322
	Proceeds from disposal	31,785	22,917
	Deposits	1	-
	Net cash from investing activities	-56,474	-245,405
8	Proceeds from new borrowings	400,000	194,196
8	Repayment of borrowings	-390,432	-157,500
	Net cash from financing activities	9,568	36,696
	Net cash flow from continuing operations	38,844	-11,485
7	Cash flows from discontinued operations	519	1,505
	Net cash flow from discontinued operations	519	1,505
	Liquid funds at beginning of period	13,925	23,905
	Liquid funds at end of period	53,288	13,925

Notes Table of contents

Note 1 Operating costs.....	16
Note 2 Gain/loss on sale of non-current assets	17
Note 3 Financial income and expenses	17
Note 4 Tax	18
Note 5 Property, plant and equipment.....	19
Note 6 Property, plant and equipment impairment.....	20
Note 7 Discontinued operations and assets held for sale	21
Note 8 Borrowings	22
Note 9 Provisions	22
Note 10 Financial instruments by category	23
Note 11 Financial risks	23
Note 12 Commitments.....	25
Note 13 Cash flow specifications	25
Note 14 Related parties	26
Note 15 Pledges	27
Note 16 Contingent liabilities.....	27
Note 17 Significant accounting policies	27
Note 18 Significant accounting estimates and judgements.....	30
Note 19 New financial reporting requirements.....	32

Note 1 Operating costs

AMOUNTS IN USD THOUSANDS

	H1 2017	H2 2017	2017	2016
Bunker costs	71,245	69,215	140,460	80,236
Voyage costs	11,985	19,490	31,474	35,452
Vessel operating costs	65,845	69,932	135,777	152,600
Port costs	54,659	66,529	121,188	83,701
Charter hire	11,249	9,200	20,449	17,755
Staff costs	1,957	2,230	4,187	3,162
Management fees	17,260	14,837	32,097	37,761
Other operating costs	209	2,109	2,318	-216
Total operating costs	234,409	253,542	487,951	410,450
Remuneration of employees				
Wages and salaries	-1,595	-1,917	-3,512	-2,574
Other Benefits	-	-	0	-267
Pension costs, defined contribution plans	-216	6	-210	-27
Social Security Contributions	-146	-318	-464	-294
Total remuneration	-1,957	-2,230	-4,187	-3,162
Average number of employees	45	51	48	40

With reference to the Danish Financial Statement Act §98b section 3, as the executive management only consisted of one member during 2017, the remuneration has not been disclosed.

No remuneration has been paid to the board of directors in 2017.

PriceWaterhouseCoopers	2017	2016
Statutory audit	39	29
Other services	40	-
Total fees	79	29

Note 2 Gain/loss on sale of non-current assets

AMOUNTS IN USD THOUSANDS

	H1 2017	H2 2017	2017	2016
Gains on sale of vessels	1,337	-	1,337	-
Losses on sale of vessels	-	-51	-51	-3,953
Gain/loss on sale of non-current assets, etc., net	1,337	-51	1,286	-3,953

Note 3 Financial income and expenses

AMOUNTS IN USD THOUSANDS

	H1 2017	H2 2017	2017	2016
Interest expenses, related parties	-14,849	-17,237	-32,086	-27,529
Interest expenses	-9	-1,867	-1,876	-2
Of which borrowing costs capitalised on assets ¹	887	1,081	1,968	3,269
Interest income on loans and receivables	19	68	87	20
Net interest expenses	-13,952	-17,955	-31,908	-24,243
Exchange rate gains on bank balances, borrowings and working capital	74	44	118	32
Net foreign exchange gains/losses	74	44	118	32
Financial expenses, net	-14,026	-17,999	-32,025	-24,210
Of which:				
Financial income	93	111	205	52
Financial expenses	-13,972	-18,023	-31,995	-24,263

¹The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 4.1% (3.9%).

Note 4 Tax

AMOUNTS IN USD THOUSANDS

	H1 2017	H2 2017	2017	2016
TAX RECOGNISED IN THE INCOME STATEMENT				
Current tax on profits for the year	821	-1,197	-375	1,561
Adjustment for current tax of prior periods	-6	-12	-18	-8
Utilization of previously unrecognized deferred tax assets	3	4	7	3
Total current tax	818	-1,204	-386	1,557
Total income tax	818	-1,204	-386	1,557
Tonnage and freight tax	-88	-592	-680	-178
Total tax expense	730	-1,797	-1,067	1,379
TAX RECONCILIATION:				
Profit/loss before tax	-482,341	-7,264	-489,604	15,426
Profit/loss from discontinued operations	2,837	-2,090	747	2,871
Profit/loss subject to Danish and foreign tonnage taxation, etc.	41,821	1,932	43,753	-13,379
Profit/loss before tax, adjusted	-437,683	-7,422	-445,104	4,918
Tax using the Danish corporation tax rate (22.0%)	96,290	1,634	97,924	-1,082
Tax rate deviations in foreign jurisdictions	-93,554	-398	-93,156	6,285
Non-deductible expenses	-1,916	-3,228	-5,144	-3,642
Adjustment to previous years' taxes	-3	-8	-10	-4
Total income tax	818	-1,204	-386	1,557

Deferred Tax

Maersk Product Tankers A/S is part of a joint taxation group with A.P. Møller Holding A/S, and part of its activities is subject to corporate income tax. In 2017 it is estimated that only 70% of taxable losses of Maersk Product Tankers A/S can be utilized against taxable income of other participants in the joint taxation group, accordingly the remaining 30% of the tax losses have been capitalized as deferred tax asset due to expected utilization in future income. Deferred tax assets amount to USD 0.2m based on Danish Corporate tax rate of 22%.

Note 5 Property, plant and equipment

AMOUNTS IN USD THOUSANDS

	Vessels	Assets under construction	Total
COST			
1 January 2016	2,285,499	112,238	2,397,737
Addition	58,262	196,725	254,987
Disposal	-22,073	-	-22,073
Transfer	221,193	-221,193	-
Transfer, assets held for sale	-12,276	-	-12,276
31 December 2016	2,530,605	87,770	2,618,375
Addition	25,658	64,569	90,227
Disposal	-39,937	-	-39,937
Transfer	81,583	-81,583	-
Transfer, assets held for sale	-20,361	-	-20,361
31 December 2017	2,577,549	70,756	2,648,304
DEPRECIATION AND IMPAIRMENT LOSSES			
1 January 2016	839,360	-	839,360
Depreciation	128,412	-	128,412
Disposal	-13,766	-	-13,766
Transfer, assets held for sale	2,717	-	2,717
31 December 2016	956,724	-	956,724
Depreciation	121,139	-	121,139
Impairment losses	410,961	53,069	464,030
Disposal	-26,969	-	-26,969
Transfer, assets held for sale	-3,657	-	-3,657
31 December 2017	1,458,197	53,069	1,511,266
CARRYING AMOUNT:			
31 December 2016	1,573,882	87,770	1,661,651
31 December 2017	1,119,352	17,687	1,137,039

Note 6 Property, plant and equipment impairment

AMOUNTS IN USD MILLIONS

Cash generating unit	Methodology	Impairment losses	
		2017	2016
LR2	Fair value	131	-
MR	Fair value	150	-
Intermediate	Fair value	2	-
Handy	Fair value	181	-
Total		464	-

Applied discount rate is 8.5%

Management's assessment led to an impairment of USD 464m related to vessels due to an expected continuation of the lower asset valuations (fair value).

Fair values are based on valuations obtained from brokers classified as level 2 and are based on a discounted cash flow model. The key assumptions are expected TCE rates and discount rate (for further details refer to Note 18).

Note 7 Discontinued operations and assets held for sale

AMOUNTS IN USD THOUSANDS

	H1 2017	H2 2017	2017	2016
PROFIT/LOSS FOR THE PERIOD - DISCONTINUED OPERATIONS				
Revenue	19,981	9,662	29,643	25,265
Operating Costs	-17,144	-11,752	-28,896	-22,394
Profit/loss before tax, etc.	2,837	-2,090	747	2,871
Tax	-	-	-	-
Profit/loss for the year - discontinued operations	2,837	-2,090	747	2,871
CASH FLOWS FROM DISCONTINUED OPERATIONS				
Cash flow from operating activities	1,427	-908	519	1,505
Cash flow used for investing activities	-	-	-	-
Cash flow from financing activities	-	-	-	-
Net cash flow from discontinued operations	1,427	-908	519	1,505
			2017	2016
BALANCE SHEET RELATED TO DISCONTINUED OPERATIONS				
ASSETS				
Trade receivables			3,139	4,277
Inventories			-	2,225
Other receivables			1,947	207
Prepayments			600	445
Total Assets			5,686	7,154
LIABILITIES				
Provisions, non-current			-	513
Provisions, current			215	1,592
Trade payables			843	3,264
Other payables, current			2,644	29
Total Liabilities			3,702	5,398
BALANCE SHEET RELATED TO ASSETS HELD FOR SALE				
ASSETS				
Property, plant and equipment			8,712	9,540
Total Assets held for sale			8,712	9,540

The VLCC activities were divested from Maersk Tankers A/S in 2014. The discontinued operations consist of two remaining bareboat contract which expired in 2017.

Bro Vario is classified as asset held for sale in 2016 and Maersk Ellen in 2017.

Note 8 Borrowings

AMOUNTS IN USD THOUSANDS

	Net debt as at		Net debt as at
	31 December	Cash flows	31 December
	2016		2017
Bank and other credit institutions, related parties	746,399	-390,432	355,967
Bank and other credit institutions	-	400,000	400,000
Total	746,399	9,568	755,967
Of which:			
Classified as non-current	600,000		705,725
Classified as current	146,399		50,242

All borrowings are denominated in USD with a floating interest rate based on LIBOR.

Note 9 Provisions

AMOUNTS IN USD THOUSANDS

	Total
1 January 2017	3,015
Provision made	918
Amount used	8
Amount reversed	364
31 December 2017	3,562
Of which:	
Classified as non-current	-
Classified as current	3,562

Majority of the provisions are to cover commercial claims.

Note 10 Financial instruments by category

AMOUNTS IN USD THOUSANDS

	Carrying amount 2017	Carrying amount 2016
CARRIED AT AMORTIZED COST		
Deposits	2	3
Trade receivables	83,035	65,077
Other receivables	49,953	55,761
Cash and cash equivalents	53,288	13,925
Total financial assets at amortized costs	186,278	134,766
CARRIED AT AMORTIZED COST		
Borrowings	755,967	746,399
Trade payables	66,427	58,372
Other payables	31,069	10,089
Total financial liabilities at amortized costs	850,463	814,860

Note 11 Financial risks

AMOUNTS IN USD THOUSANDS

	2017	2016
Maturity analysis of trade receivables		
Receivables not due	53,420	43,080
Less than 90 days overdue	24,986	19,606
More than 90 days overdue	8,042	4,769
Receivables, gross	86,447	67,455
Provision for bad debt	-3,413	-2,378
Carrying amount	83,035	65,077
Change in provision for bad debt		
1 January	2,378	2,752
Provision made	1,152	3,028
Amount reversed	-117	-3,402
31 December	3,413	2,378

Majority of the provision relates to receivables above 90 days.

Note 11 Financial risks – continued

AMOUNTS IN USD THOUSANDS

Maturities of liabilities and commitments	Carrying	Cash flows including interest			Total
	Amount	0-1 year	1-5 years	5- years	
2017					
Borrowings	755,967	79,914	621,075	174,630	875,619
Trade payables	66,427	66,427	-	-	66,427
Other payables	31,069	31,069	-	-	31,069
Total recognised in balance sheet	853,462	177,410	621,075	174,630	973,115
Operating lease commitments	565	565	-	-	565
Capital commitments	243,349	194,022	49,327	-	243,349
Total	1,097,376	371,997	670,402	174,630	1,217,029
2016					
Borrowings	746,399	173,879	682,441	-	856,320
Trade payables	58,372	58,372	-	-	58,372
Other payables	10,090	10,090	-	-	10,090
Total recognised in balance sheet	814,861	242,341	682,441	-	924,782
Operating lease commitments	15,180	15,180	-	-	15,180
Capital commitments	288,486	128,994	159,492	-	288,486
Total	1,118,527	386,515	841,933	-	1,228,448
				2017	2016
Liquidity reserve incl. undrawn facility				97,321	67,525

A general change in interest rates by 0.5 percentage point is estimated, all other things being equal, to affect profit before tax, negatively or positively by approximately USD 3.8m.

Note 12 Commitments

AMOUNTS IN USD THOUSANDS

Capital commitments	Newbuilding of vessels
2017	
Capital commitments relating to acquisition of non-current assets	243,349
2016	
Capital commitments relating to acquisition of non-current assets	288,486

Capital commitments relating to the vessels	2018	2019	Tanker Vessels
Tanker vessels	194,022	49,327	243,349

Number of Vessels	2018	2019	Tanker Vessels
Tanker vessels	7	2	9

Note 13 Cash flow specifications

AMOUNTS IN USD THOUSANDS

	2017	2016
Change in working capital		
Trade receivables	-20,131	-12,055
Other working capital movements	12,977	-68,400
Exchange rate adjustment of working capital	118	-
Total	-7,036	56,345
Purchase of property, plant and equipment		
Additions	-90,228	-271,591
Of which borrowing costs capitalised on assets	1,968	3,269
Total	-88,260	-268,322

Note 14 Related parties

AMOUNTS IN USD THOUSANDS

	2017	2016
Income statement		
Revenue	2,551	4,574
Operating costs	-26,076	-25,882
Other income	2,535	2,203
Financial expenses	-19,573	-3,853
Assets		
Trade receivables	3,247	264
Other receivables	54,518	57,645
Liabilities		
Borrowings	359,109	746,399
Trade payables	33,750	28,258
Other payables	13,331	723

A.P. Møller Holding A/S, Copenhagen, Denmark has control over the Company and prepares consolidated financial statements. A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal is the ultimate owner. Other related parties include A.P. Møller-Mærsk A/S and Maersk Tankers A/S and APMH Invest A/S.

Note 15 Pledges

Vessels with a carrying amount of USD 619.9m have been pledged as security for borrowings for USD 400m.

Note 16 Contingent liabilities

Maersk Product Tankers have entered agreements on technical management, commercial management and corporate management with a notice period of three months and six months respectively.

The group is involved in a number of commercial claims and disputes, which are subject to uncertainty. Tax may come into effect if the company leaves the tonnage tax regime. Through participation in a joint taxation scheme with A.P. Møller Holding A/S, the Danish Company is jointly liable for taxes payable etc. in Denmark.

Note 17 Significant accounting policies

Basis of preparation

The consolidated financial statements for 2017 for Maersk Product Tankers have been prepared on a going concern basis and in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act. The consolidated financial statements are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements of Maersk Product Tankers A/S are included in the consolidated financial statements of A.P. Møller Holding A/S.

Maersk Product Tankers A/S and subsidiaries' (hereafter: "Maersk Product Tankers") was established in 2017 following A.P. Møller Holding A/S's acquisition of Maersk Tankers A/S from A.P. Møller – Mærsk A/S through its subsidiary APMH Invest A/S (hereafter: "APMH").

In connection with the acquisition, APMH announced it was entering into an ownership consortium for the Maersk Tankers fleet with Mitsui & Co Ltd., leading to a restructuring of Maersk Tankers A/S.

As part of the restructuring, Maersk Product Tankers was formed through contribution (spin-off) of Maersk Tankers A/S' vessel-related activities for owned vessels.

The vessel-related activities comprised 27 vessels owned by Maersk Tankers A/S, as well as all shares in Maersk Tankers Singapore Pte. Ltd. and Maersk Tankers UK Ltd. The operations in Maersk Tankers Singapore Pte. Ltd. have ownership and operation of 52 vessels, while Maersk Tankers UK Ltd. is a newly established company, which acquired one vessel from Maersk Tankers in 2017. The legal spin-off of the vessel-related activities to Maersk Product Tankers took place in December 2017 through a contribution in kind.

The activities transferred are considered as a new reporting entity and predecessor accounting has been applied to reinstate financials. Therefore, the financial statements have been presented on the basis that the spin-off occurred and that Maersk Product Tankers existed as a stand-alone company from January 1, 2016. As Maersk Product Tankers, has been an integrated part of Maersk Tankers A/S without separate reporting, it has been necessary for management to base the preparation of the historical financial information before July 1, 2017 on estimates in certain cases.

The service agreements, the company entered with Maersk Tankers A/S as of the contribution date have been retroactively applied based on market rates for corporate management and technical management fees for the contributed vessels prior to July 1, 2017. Furthermore, Daily Running Costs (DRC) have been calculated based on an average DRC per vessel for the period.

Danish tonnage tax has been applied for the 27 Danish flagged vessels and tax on financials calculated based on the net financial items for the period along with the allocated allowance due to the joint taxation scheme.

Consolidation

The consolidated financial statements consist of Maersk Product Tankers A/S and its two subsidiaries; Maersk Tankers Singapore Pte. Ltd. and Maersk Tankers UK Ltd.

Subsidiaries are entities controlled by Maersk Product Tankers A/S. Control is based on the power to direct the relevant activities of an entity and the exposure, or right, to variable returns arising from it. In that connection, relevant activities are those that significantly affect the investee's returns. Control is usually achieved by directly or indirectly owning or in other ways controlling more than 50% of the voting rights or by other rights, such as agreements on management control.

Foreign currency translation

The consolidated financial statements are presented in USD, the functional currency of the parent company. Transactions in currencies other than the functional currency are translated at the exchange rate prevailing at the date of the transaction. Monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rate as at the balance sheet date. Foreign exchange gains and losses are included in the income statement as financial income or expenses.

Income statement

Revenue

Revenue from shipping activities is recognized 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. Revenue is recognized net on a load to discharge basis (or charter party to discharge if earlier).

Most of the company's vessels participate in commercial pools in which other vessel owners with similar, high-quality, modern and well-maintained vessels also participate. Pools employ experienced commercial charterers and operators who have established relationships with customers and brokers, while technical management is arranged by each vessel owner. The managers of the pools negotiate charters with customers. The earnings allocated to vessels are aggregated and divided on the basis of a weighted scale, or Pool Points, which reflect comparative voyage results on hypothetical benchmark routes. The Pool Point system is generally weighted by attributes such as size, fuel consumption, class notation and other capabilities. Pool revenues are recognized when the vessel has participated in a pool during the period and the amount of pool revenue for the period can be estimated reliably.

Financial items

Financial income and expenses are recognized in the income statement at the amount relating to the financial year. Financial items include interest income and expense, gains and losses on transactions in foreign currency.

Tax for the year

Tax comprises an estimate of current and deferred income tax as well as adjustments to previous years of those. Income tax is tax on taxable profits and consists of corporation tax. In addition, tax comprises tonnage tax. Tonnage tax is classified as tax when creditable in, or paid in lieu of, income tax. Tax is recognized in the income statement to the extent it arises from items recognized in the income statement.

Balance sheet

Property, plant and equipment

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 20 years for vessels.

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 recognized in the carrying amount of vessels when incurred and depreciated over the period until the next dry-docking.

The cost of assets includes directly attributable 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.

Property, plant and equipment are tested for impairment, if there is an indication of impairment. Impairment losses are recognized 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 of disposal.

Assets held for sale are measured at the lower of carrying amount immediately before classification as held for sale and fair value less costs to sell and impairment tests are performed immediately before classification as held for sale. Non-current assets are not depreciated or amortized while classified as held for sale. Measurement of deferred tax and financial assets and liabilities is unchanged.

Leases

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 contractual terms. 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.

Inventories

Inventories mainly consist of bunker. Inventories are measured at cost according to the FIFO method.

Receivables

Receivables are initially recognized at fair value, plus any direct transaction costs and subsequently measured at amortized cost using the effective interest method. For other receivables, write-down is made for anticipated losses based on specific individual or group assessments. For trade receivables, the loss allowance is measured in accordance with IFRS 9 applying a provision matrix in order to calculate the impairment. The provision matrix does include an impairment for non-due receivables.

Provisions

Provisions are recognized when Maersk Product Tankers has a present legal or constructive obligation from past events. The item includes, among other things, legal disputes. Provisions are recognized based on best estimates and are discounted where the time element is significant and where the time of settlement is reasonably determinable.

Financial liabilities

Financial liabilities are initially recognized at fair value less transaction costs. Subsequently, the financial liabilities are measured at amortized cost using the effective interest method, whereby transaction costs and any premium or discount are recognized as financial expenses over the term of the liabilities.

Cash flow statement

The cash flow statement shows the Company's cash flows and cash and cash equivalents at the beginning and the end of the period.

Cash flow from operating activities is presented using the indirect method and includes all cash transactions other than cash flows arisen from investments and divestments, principal payments of loans and equity transactions. Capitalization of borrowing costs is considered as non-cash items, and the actual payments of those are included in cash flow from operations.

Cash and cash equivalents includes cash pool receivables.

Discontinued operations

Discontinued operations represent a separate major line of business disposed of or in preparation for sale. The results of discontinued operations are presented separately in the income statement and the cash flows from discontinued operations are presented separately in the cash flow statement with restatement of comparative figures. Assets and liabilities held for sale from discontinued operations are presented as separate items in the balance sheet.

Assets and liabilities from discontinued operations and assets held for sale are measured at the lower of carrying amount immediately before classification as held for sale and fair value less cost to sell and impairment tests are performed immediately before classification as held for sale. Non-current assets held for sale are not depreciated.

Note 18 – Significant accounting estimates and judgements

The preparation of the consolidated 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 on 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.

In certain areas, the outcome of business plans, including ongoing negotiations with external parties to execute those plans or to settle claims that are raised against Maersk Product Tankers, is highly uncertain. Therefore, assumptions may change or the outcome may differ in the coming years, which could require a material upward or downward adjustment to the carrying amounts of assets and liabilities. This note includes the areas in which Maersk Product Tankers is particularly exposed to a material adjustment of the carrying amounts as at the end of 2017.

General**Freight rates**

The future development in the freight rates is an uncertain and significant factor impacting Maersk Product Tankers which financial results are directly affected by the fluctuation in the freight rates. Freight rates are influenced by the global economic environment and trade patterns, as well as industry specific trends in respect of supply and demand of capacity.

Oil prices

The future development in the oil price is an uncertain and impacting accounting estimates and financial results. Maersk Product Tankers is directly impacted by the price of bunker oil, where the competitive landscape determines the extent to which the development is reflected in the freight rates charged to the customer.

Property, plant and equipment**Impairment considerations**

An impairment charge of USD 464 million was recognized in 2017 due to the continuing challenging market conditions. The current supply/demand imbalance in the market along with the uncertainty regarding the future oil price projections driving demand and consequently rates are key drivers for the impairments in Maersk Product Tankers. The recoverable amount is determined as fair value less cost to sell based the higher of broker valuations and value-in-use. The calculations are sensitive to expected future market rates in addition to the discount rate.

Depreciation and residual values

Useful lives are estimated based on past experience. 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.

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 general rule, the residual values of vessels are initially estimated at 10% of the purchase price excluding dry-docking costs. The long-term view is prioritized in order to disregard, to the extent possible, temporary market fluctuations which may be significant.

Provisions for commercial claims, legal disputes, etc.

Management's estimate of the provisions in connection with commercial claims, legal disputes, including disputes on taxes and duties, is based on the knowledge available on the actual substance of the cases and a legal assessment of these.

The resolution of legal disputes, through either negotiations or litigation, can take several years to complete and the outcome is subject to considerable uncertainty.

Maersk Product Tankers is engaged in a number of disputes of varying scope. Appropriate provisions have been made where the probability of payment in individual cases is considered more likely than not.

Note 19 - New financial reporting requirements

IFRS 9 Financial Instruments was adopted by Maersk Product Tankers in 2017.

IASB has issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. New or amended and revised standards are implemented when taking effect. The following standards are, in general, expected to cause the most significant changes to current accounting regulation:

- 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.

IFRS 15 Revenue from contracts with customers

The standard contains a revised model for the recognition of revenue and a number of additional disclosure requirements. Management has assessed the implementation of IFRS 15 and concluded that the effect on the consolidated financial statements is considered immaterial.

IFRS 16 Leases

The standard requires that all leases must be recognized in the balance sheet with a corresponding lease liability, except for short-term assets and minor assets. Maersk Product Tankers is currently analyzing the effects of implementing IFRS 16, but implementation is not expected to have a material effect on the consolidated financial statements. Maersk Product Tankers expect to adopt by application of the simplified approach with no restatement of comparative figures for prior periods.

None of the other changed standards or interpretations are expected to have any significant monetary effect on the statements of the Group's results, assets and liabilities or the equity.

Parent company financial statements

Parent comprehensive income statement

AMOUNTS IN USD THOUSANDS

Note		2017	2016
	Revenue	190,141	196,672
1	Operating costs	-155,063	-143,409
	Other costs	-1,985	-3,940
	Profit before depreciation and impairment losses	33,093	49,323
4	Depreciation and impairment losses, net	-76,846	-35,945
	Gain/loss on sale of non-current assets, etc., net	-51	-
	Profit/loss before financial items	-43,804	13,379
5	Profit/loss from the subsidiaries	-415,342	28,570
2	Financial income	15	-
2	Financial expenses	-30,238	-23,657
	Profit/loss before tax	-489,369	18,292
3	Tax	-555	1,384
	Profit for the year	-489,924	19,676
	Other Comprehensive Income	-	-
	Comprehensive Income for the year	-489,924	19,676
	Appropriation:		
	Retained Earnings	-489,924	19,676

Parent balance sheet at 31 December

Assets

AMOUNTS IN USD THOUSANDS

Note		2017	2016
4	Property, plant and equipment	261,150	350,648
5	Investments in subsidiaries	954,132	1,207,784
3	Deferred tax	205	-
	Total non-current assets	1,215,487	1,558,432
	Inventories	6,285	3,563
	Trade receivables	24,318	14,376
	Tax receivables	479	-
	Other receivables	28,080	28,935
	Prepayments	3,175	2,599
	Receivables, etc.	56,052	45,910
	Cash and cash equivalents	2,796	5,953
	Assets held for sale	8,712	-
	Total current assets	73,845	55,426
	Total assets	1,289,332	1,613,858

Parent balance sheet at 31 December

Equity and liabilities

AMOUNTS IN USD THOUSANDS

Note		2017	2016
	Share capital	1,590	1,590
	Reserves	499,066	995,928
	Total equity	500,656	997,518
6	Borrowings, non-current	705,725	600,000
	Total non-current liabilities	705,725	600,000
	Borrowings, current	50,242	-
	Provisions	980	980
	Trade payables	24,934	10,654
	Tax payables	92	-
	Other payables	4,814	3,339
	Deferred income	1,889	1,368
	Other current liabilities	32,708	16,340
	Total current liabilities	82,950	16,340
	Total liabilities	788,675	616,340
	Total equity and liabilities	1,289,332	1,613,858

Parent statement of changes in equity

AMOUNTS IN USD THOUSANDS

	Share capital	Retained Earnings	Total equity
Equity 1 January 2016	1,590	1,013,418	1,015,007
Profit/loss for year	-	19,676	19,676
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	19,676	19,676
Other equity movements	-	-37,165	-37,165
Total transactions with shareholders	-	-37,165	-37,165
Equity 31 December 2016	1,590	995,928	997,518
2017			
Profit/loss for year	-	-489,924	-489,924
Other comprehensive income, net of tax	-	-	-
Total comprehensive income for the year	-	-489,924	-489,924
Other equity movements	-	-6,938	-6,938
Total transactions with shareholders	-	-6,938	-6,938
Equity 31 December 2017	1,590	499,066	500,656

Other Equity movements relate to impact of predecessor accounting for transactions/settlements not occurred in the past or not part of the transferred assets and liabilities.

A capital increase was decided at the extraordinary general meeting dated, December 14 2017 of DKK 9.5m (USD 1.5m) and registered on April 3 2018.

Parent cash flow statement

AMOUNTS IN USD THOUSANDS

Note		2017	2016
	Profit/loss before financial items	-43,804	13,379
4	Depreciation, impairment	76,846	35,945
	Gain/loss on sale of assets	51	-
	Profit/loss before depreciation	33,093	49,324
9	Change in working capital	-4,205	52,590
	Change in provisions	-	-460
	Other non-cash items	-205	-
	Cash generated from operations before financial items and tax	28,683	101,454
2	Interest received	15	-
2	Interest paid	-29,076	-27,124
	Tax paid	-943	1,384
	Net cash from operating activities	-1,321	75,714
4	Purchase of vessels	-6,725	-19,283
	Proceeds from disposal	10,613	-
5	Investment in subsidiaries	-161,690	-250,001
	Net cash from investing activities	-157,802	-269,284
6	Proceeds from new borrowings	400,000	194,196
6	Repayment of borrowings, related parties	-244,033	-
	Net cash from financing activities	155,967	194,196
	Net cash flow	-3,157	626
	Liquid funds at beginning of period	5,953	5,327
	Liquid funds at end of period	2,796	5,953

Notes Table of contents

Note 1 Operating costs.....	39
Note 2 Financial income and expenses.....	39
Note 3 Tax	40
Note 4 Property, plant and equipment.....	41
Note 5 Investment in subsidiaries.....	42
Note 6 Borrowings	42
Note 7 Financial instrument by category.....	43
Note 8 Financial risks	44
Note 9 Cash flow specifications	45
Note 10 Related Parties	45
Note 11 Parent Accounting Policies	46

Note 1 Operating costs

AMOUNTS IN USD THOUSANDS

With reference to the Danish Financial Statement Act §98b section 3, as the executive management only consisted of one member during 2017, the remuneration has not been disclosed.

No remuneration has been paid to the board of directors in 2017.

Note 2 Financial income and expenses

AMOUNTS IN USD THOUSANDS

	2017	2016
Interest expenses, related parties	-28,373	-23,657
Interest expenses	-1,865	-
Interest income on loans and receivables	15	-
Financial expenses, net	-30,223	-23,657
Of which:		
Financial income	15	-
Financial expenses	-30,238	-23,657

Note 3 Tax

AMOUNTS IN USD THOUSANDS

	2017	2016
TAX RECOGNISED IN THE INCOME STATEMENT		
Current tax on profits for the year	-375	1,561
Total current tax	-375	1,561
Total income tax	-375	1,561
Tonnage and freight tax	-180	-178
Total tax expense	-555	1,384
TAX RECONCILIATION:		
Profit/loss before tax	-489,369	18,292
Profit/loss subject to Danish and foreign tonnage taxation, etc.	43,754	-13,379
Internal gain/loss on sale of assets	51	-
Profit/loss before tax, adjusted	-445,564	4,913
Tax using the Danish corporation tax rate (22.0%)	98,024	-1,081
Profit/loss excluding subsidiaries	-91,374	6,285
Non-deductible expenses	-5,144	-3,643
Other taxes	-1,881	-
Total income tax	-375	1,561

Deferred Tax

Maersk Product Tankers A/S is part of a joint taxation group with A.P. Møller Holding A/S, and part of its activities is subject to corporate income tax. In 2017 it is estimated that only 70% of taxable losses of Maersk Product Tankers A/S can be utilized against taxable income of other participants in the joint taxation group, accordingly the remaining 30% of the tax losses have been capitalized as deferred tax asset due to expected utilization in future income. Deferred tax assets amount to USD 0.2m based on Danish Corporate tax rate of 22%.

Note 4 Property, plant and equipment

AMOUNTS IN USD THOUSANDS

	Vessels	Assets under Construction	Total
COST			
1 January 2016	641,760	156	641,916
Addition	9,355	4,327	13,682
Disposal	-4,699	-	-4,699
Transfer	156	-156	-
31 December 2016	646,572	4,327	650,899
Addition	5,670	1,055	6,725
Disposal	-25,321	-	-25,321
Transfer	4,792	-4,792	-
Transfer, assets held for sale	-8,326	-	-8,326
31 December 2017	623,388	589	623,977
DEPRECIATION AND IMPAIRMENT LOSSES			
1 January 2016	269,005	-	269,005
Depreciation	35,945	-	35,945
Disposal	-4,699	-	-4,699
31 December 2016	300,251	-	300,251
Depreciation	33,864	-	33,864
Impairment losses	42,981	-	42,981
Disposal	-14,270	-	-14,270
31 December 2017	362,827	-	362,827
CARRYING AMOUNT:			
31 December 2016	346,321	4,327	350,648
31 December 2017	260,561	589	261,150

AMOUNTS IN USD MILLIONS

Cash generating unit	Methodology	Impairment losses	
		2017	2016
Handy	Fair value	43	-
Total		43	-

Applied discount rate is 8.5%

Management's assessment led to an impairment of USD 43m related to vessels due to an expected continuation of the lower asset valuations (fair value).

Fair values are based on valuations obtained from brokers classified as level 2 and are based on a discounted cash flow model. The key assumptions are expected TCE rates and discount rate (for further details refer to Note 18).

Note 5 Investments in subsidiaries

AMOUNTS IN USD THOUSANDS

	Total
1 January 2016	929,214
Capital Increase	250,000
Profit/loss for the period	28,570
31 December 2016	1,207,784
Capital Increase	161,690
Profit/Loss for the period	-415,342
31 December 2017	954,132

Name	Domicile	Capital	Equity	Profit/Loss	Ownership Interest
Maersk Tankers Singapore Pte. Ltd.	Singapore	1,570,000	941,717	-416,067	100%
Maersk Tankers UK Limited	UK	11,691	12,416	725	100%

Note 6 Borrowings

AMOUNTS IN USD THOUSANDS

	Net debt as at 31 December 2016	Cash flows	Net debt as at 31 December 2017
Bank and other credit institutions, related parties	600,000	-244,033	355,967
Bank and other credit institutions	-	400,000	400,000
Total	600,000	155,967	755,967

Of which:

Classified as non-current	600,000	705,725
Classified as current	-	50,242

All borrowings are denominated in USD with a floating interest rate based on LIBOR.

Note 7 Financial instruments by category

AMOUNTS IN USD THOUSANDS

	Carrying amount 2017	Carrying amount 2016
CARRIED AT AMORTIZED COST		
Trade receivables	24,318	14,376
Other receivables	28,080	28,935
Cash and cash equivalents	2,796	5,953
Total financial assets at amortized costs	55,193	49,263
CARRIED AT AMORTIZED COST		
Borrowings	755,967	600,000
Trade payables	24,934	10,654
Other payables	4,814	3,338
Total financial liabilities at amortized costs	785,715	613,993

Note 8 Financial risks

AMOUNTS IN USD THOUSANDS

Maturities of liabilities and commitments	Carrying amount	Cash flows including interest			Total
		0-1 year	1-5 years	5- years	
2017					
Bank and other credit institutions	755,967	79,914	621,075	174,630	875,619
Trade payables	24,934	24,934	-	-	24,934
Other payables	4,814	4,814	-	-	4,814
Total recognised in balance sheet	786,715	109,662	621,075	174,630	905,367
2016					
Bank and other credit institutions	600,000	-	682,441	-	682,441
Trade payables	10,654	10,654	-	-	10,654
Other payables	3,339	3,339	-	-	3,339
Total recognised in balance sheet	613,993	13,993	682,441	-	696,434
				2017	2016
Liquidity reserve incl. undrawn facility				46,829	59,554

A general change in interest rates by 0.5 percentage point is estimated, all other things being equal, to affect profit before tax, negatively or positively by approximately USD 3.8m.

Maturity analysis of trade receivables	2017	2016
Receivables not due	16,186	9,510
Less than 90 days overdue	6,422	4,328
More than 90 days overdue	3,005	1,053
Receivables, gross	25,612	14,891
Provision for bad debt	-1,295	-515
Carrying amount	24,318	14,376

Change in provision for bad debt	2017	2016
1 January	515	-
Provision made	780	515
31 December	1,295	515

Majority of the provision relates to receivables above 90 days.

Note 9 Cash flow specifications

AMOUNTS IN USD THOUSANDS

	2017	2016
Change in working capital		
Trade receivables	-9,942	701
Other working capital movements	5,737	51,889
Total	-4,205	52,590

Note 10 Related Parties

AMOUNTS IN USD THOUSANDS

	2017	2016
Income statement		
Revenue		
Operating costs	-38,206	-
Financial expenses	-15,931	-
Other costs		
Assets		
Trade receivables	2,986	-
Other receivables	29,654	28,935
Liabilities		
Borrowings	359,108	600,000
Trade payables	17,091	-
Other payables		

A.P. Møller Holding A/S, Copenhagen, Denmark has control over the Company and prepares consolidated financial statements. A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal is the ultimate owner. Other related parties include A.P. Møller-Mærsk A/S and Maersk Tankers A/S and APMH Invest A/S.

Note 11 Parent Accounting Policies

General Accounting Policies

The financial statements for 2017 for Maersk Product Tankers 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 further requirements in the Danish Financial Statements Act. The financial statements are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The accounting policies of the Company are consistent with those applied in the Group's financial statements 2017 (note 17 in the Consolidated financial statements) with the following exceptions:

Investments in Subsidiaries

Investments in subsidiaries are measured as per the equity method. The initial investment is recognized at cost and adjusted thereafter to recognize the share of profits, losses and other adjustments. There have been no dividends declared by the subsidiaries for the year of 2017 to be considered. The Management assesses impairment for investment in subsidiaries and determines the amount generally consistent with the assumptions stated in Note 18 Significant accounting policies in the consolidated financial statements.