

# Accounting policies 2019

## Note 24 Significant accounting policies

### Basis of preparation

The consolidated financial statements for 2019 for A.P. Møller - Maersk 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 Danish disclosure requirements for listed companies. The consolidated financial statements are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

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

The accounting policies are consistent with those applied in the consolidated financial statements for 2018, except for the changes to the accounting standards that were effective from 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, A.P. Møller - Maersk 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 asset is available for use by A.P. Møller - Maersk.

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.

A.P. Møller - Maersk transitioned to IFRS 16 in accordance with the modified retrospective approach, therefore previous period comparative figures are not adjusted in the financial statements. Additionally, the IAS 17 definition of a lease and its related interpretations have been retained.

Lease liabilities classified as finance leases at 31 December 2018 were transitioned to IFRS 16 at their carrying amount of USD 2.3bn.

At 31 December 2018, A.P. Møller - Maersk had non-cancellable operating lease commitments of USD 12.0bn. As part of the transition, A.P. Møller - Maersk 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.
- Terminal concession agreements to which A.P. Møller - Maersk is committed, but which will only begin operations during Q1 2019 or later were not capitalised at transition.
- A.P. Møller - Maersk did not apply the new standard to leases with a remaining term of 12 months or less from 1 January 2019. Additionally, leases with maximum lease term less than 12 months are exempted from provisions of the new standard.

The table below bridges operating lease commitments related to continuing operations to IFRS 16 lease liabilities on 1 January 2019:

### Reconciliation of commitments to lease liability (USDm)

Operating lease obligations (continuing operations)	12,041
Adjustment for commitments not yet commenced	-2,240
Adjustments for service components	-1,266
Optional period payments	758
Other adjustments	-283
<b>Undiscounted lease liabilities</b>	<b>9,010</b>
Discounting effect	-2,765
<b>Lease liability</b>	<b>6,245</b>

A weighted average incremental borrowing rate of 6.6% was applied. The incremental borrowing rate was based on reference interest rates derived for a period up to 10 years based on corporate bond yields in major currencies, i.e. USD, EUR and SEK.

On transition, A.P. Møller - Maersk's opening balance of gross debt increased by USD 6.2bn to USD 18.1bn, while property, plant and equipment increased to USD 39.9bn. The increase in property, plant and equipment of USD 6.2bn mainly related to ships, container, etc. (USD 3.1bn) and concession agreements (USD 2.4bn).

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 its judgements and assumptions based on historical experience, internal and external data points.

### Uncertainty over income tax treatments (IFRIC 23)

A.P. Møller - Maersk follows 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, A.P. Møller - Maersk presents uncertain tax positions as either non-current or current tax payables. The 2018 ending balances have been restated by USD 410m from provisions to tax liabilities.

### Interest rate benchmark reform

(Amendments to IFRS 9, IAS 39 & IFRS 7)

A.P. Møller - Maersk has elected to early adopt the amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest Rate Benchmark Reform'. The transition provisions require that the amendments are adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow reserve at that date. The reliefs specify that the IBOR reform should not generally cause hedge accounting to terminate. Hence there are reliefs in the amendments that apply to the hedging relationships directly affected by the IBOR reform.

In summary, the reliefs provided by the amendments that apply to A.P. Møller - Maersk are:

- When considering the 'highly probable' requirement, A.P. Møller - Maersk has assumed that the different

- IBOR interest rates on which our hedged debts are based do not change as a result of the IBOR reform.
- In assessing whether an economic relationship between the hedged cash flows and the hedging instruments is expected to exist throughout the term of hedge, A.P. Møller - Maersk has assumed that the IBOR interest rates on which the cash flows of the hedged debt and the interest rate swaps that hedge it are based are not altered by IBOR reform.
- Whether the benchmark interest component in a fair value hedge is a separately identifiable component is not assessed on an ongoing basis.
- A.P. Møller - Maersk will not discontinue hedge accounting during the period of IBOR-related uncertainty as the hedge relationships are still economic relationships.
- A.P. Møller - Maersk has not recycled the cash flow hedge reserve relation to the period after the reforms are expected to take effect.
- There is no ineffectiveness recognised in profit or loss as a result of the early adoption of the amendments to IFRS 9 and IFRS 7.

The IBOR's that A.P. Møller - Maersk is affected by are: USD LIBOR, GBP LIBOR, JPY LIBOR, EURIBOR, NIBOR and STIBOR.

### Consolidation

The consolidated financial statements comprise the parent company A.P. Møller - Mærsk A/S, its subsidiaries and proportionate shares in joint arrangements classified as joint operations.

Subsidiaries are entities controlled by A.P. Møller - Mærsk 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.

Joint arrangements are entities in which A.P. Møller - Maersk, according to contractual agree-

## Note 24 Significant accounting policies – continued

ments with one or more other parties, has joint control. The arrangements are classified as joint ventures, if the contracting parties' rights are limited to net assets in the separate legal entities, and as joint operations, if the parties have direct and unlimited rights to the assets and obligations for the liabilities of the arrangement.

Entities in which A.P. Moller - Maersk exercises a significant but non-controlling influence are considered associated companies. A significant influence is usually achieved by directly or indirectly owning or controlling 20-50% of the voting rights. Agreements and other circumstances are considered when assessing the degree of influence.

Consolidation is performed by summarising the financial statements of the parent company and its subsidiaries, including the proportionate share of joint operations, which have been prepared in accordance with A.P. Moller - Maersk's accounting policies. Intra-group income and expenses, shareholdings, dividends, intra-group balances and gains on intra-group transactions are eliminated. Unrealised gains on transactions with associated companies and joint arrangements are eliminated in proportion to A.P. Moller - Maersk's ownership share. Unrealised losses are eliminated in the same way, unless they indicate impairment.

Non-controlling interests' share of profit/loss for the year and of equity in subsidiaries is included as part of A.P. Moller - Maersk's profit and equity respectively but shown as separate items.

### Foreign currency translation

The consolidated financial statements are presented in USD, the functional currency of the parent company. In the translation to the presentation currency for subsidiaries, associates or joint arrangements with functional currencies other than USD, the total comprehensive income is translated into USD at average exchange rates, and the balance sheet is translated at the exchange rates as at the balance sheet date. Exchange rate differences arising from such translations are recognised directly in other comprehensive income and in a separate reserve of equity.

The functional currency varies from business area to business area. For A.P. Moller - Maersk's principal shipping activities, the functional currency is typically USD. This means, among other things, that the carrying amounts of property, plant and equipment and intangible assets and, hence, depreciation and amortisation, are maintained in USD from the date of acquisition. For other activities, including container terminal activities and land-based container activities, the functional currency is generally the local currency of the country in which such activities are performed, unless circumstances suggest a different currency is appropriate. The functional currency of oil and oil-related business within discontinued operations is USD.

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.

### Segment information

The allocation of business activities into segments reflects A.P. Moller - Maersk's character as an integrated container logistics business and is in line with the internal management reporting. The reportable segments are as follows:

<b>Ocean</b>	Global container shipping activities including strategic transshipment hubs
<b>Logistics &amp; Services</b>	Freight forwarding, supply chain management, inland haulage and other logistic services
<b>Terminals &amp; Towage</b>	Gateway terminal activities, towage and related marine activities
<b>Manufacturing &amp; Others</b>	Production of reefer and dry containers, trading and sale of bunker oil and other businesses

Operating segments have not been aggregated.

The reportable segments comprise:

### Ocean

*Ocean activities*, defined as operating activities under Maersk Line, Safmarine, Sealand – A Maersk Company and Hamburg Süd brands with Ocean container freight being the main revenue stream. Ocean container freight is defined as the cost-per-weight measure of transporting goods on board a container vessel across the ocean, including demurrage and detention, terminal handling, documentation services, container services as well as container storage.

*Hub activities*, defined as operating activities under the APM Terminals brand generating revenue by providing port services only in major transshipment ports such as Rotterdam, Maasvlakte-II, Algeciras, Tangier, Tangier-Med II, Port Said, and joint ventures in Salalah, Tanjung Pelepas and Bremerhaven. The respective terminals are included under the Ocean segment, as the primary purpose of those ports is to provide transshipment services to Maersk's Ocean business, whereas third-party volumes sold in those locations are considered secondary.

### Logistics & Services

*Damco activities*, defined as all operating activities under the Damco brand, a provider of logistics, freight forwarding and supply chain management services.

*Inland haulage activities* (intermodal), defined as all operating activities under Maersk Line, Safmarine, Sealand – A Maersk Company brands with the main stream of revenue deriving from the transportation of containers from vendors (shippers) to the port of shipment, and from discharge port to the point of stripping (consignee) by truck and/or rail. Inland haulage activities operating under the Hamburg Süd brand are still part of the Ocean activity.

*APM Terminals inland activities*, defined as operating activities in inland activities facilities fully or partially controlled by APM Terminals, with the main revenue stream being inland services such as full container storage, bonded warehousing, empty depot, local transportation, etc.

*Trade Finance*, a function providing export finance solutions, post-shipment and import finance solutions.

*Star Air activities*, operating cargo aircraft on behalf of UPS.

### Terminals & Towage

*Terminals activities*, defined as operating activities in ports fully or partially controlled by the APM Terminals brand, with the main revenue stream being port activities not considered a hub activity as described above.

*Towage activities*, defined as all operating activities under the Svitzer brand, a provider of offshore towage and salvage services.

### Manufacturing & Others

*Maersk Container Industry*, a container manufacturer that produces reefer containers.

*Maersk Supply Service* provides marine services and integrated solutions to the energy sector worldwide with a large fleet of anchor handling tug supply vessels and subsea support vessels.

*Maersk Oil Trading* is dedicated to sourcing marine fuels and lubricants for A.P. Moller - Maersk's fleet in addition to refinery activities and sales to external parties including Maersk Tankers.

*Hamburg Süd tramp activity*, bulk and tanker activity acquired as part of the Hamburg Süd acquisition.

*Other businesses*, consisting of Maersk Training, a provider of training services to the maritime, oil and gas, offshore wind and crane industries.

The reportable segments do not comprise costs in A.P. Moller - Maersk's corporate functions. These functions are reported as unallocated items.

Revenue between segments is limited, except for the Terminals & Towage segment, where a large part of the services is delivered to the Ocean segment as well as the sale of containers from Maersk Container Industry to the

## Note 24 Significant accounting policies – continued

Ocean segment. Sales of products and services between segments are based on market terms.

### Income statement

*Revenue* for all businesses 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 group expects to be entitled in exchange for the goods and services.

Revenue from shipping activities is recognised over time as the 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 the customer's 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.

Revenue from terminal operations and towing activities is recognised upon completion of the service. In container terminals operated under certain restrictive terms of pricing and service, etc., the value of tangible assets constructed on behalf of the concession grantor is recognised as revenue during the construction.

Revenue from most freight forwarding activities is recognised over time.

Revenue from the sale of goods is recognised upon the transfer of control to the buyer.

*Share of profit/loss in associated companies and joint ventures* is recognised net of tax and corrected for the share of unrealised intra-group gains and losses. The item also comprises any impairment losses for such investments and their reversal.

*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, withholding tax of dividends, etc. In addition, tax comprises tonnage tax. 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, including tax on gains on intra-group transactions that have been eliminated in the consolidation.

*Earnings per share* are calculated as

A.P. Møller - Mærsk A/S' share of the profit/loss for the year divided by the number of shares (of DKK 1,000 each), excluding A.P. Møller - Maersk's holding of own shares. Diluted earnings per share are adjusted for the dilution effect of share-based compensation issued by the parent company.

### Statement of comprehensive income

*Other comprehensive income* consists of gains and losses not recognised in the income statement, including exchange rate adjustments arising from the translation from functional currency to presentation currency, fair value adjustments of other equity investments (at FVOCI), cash flow hedges, forward points and currency basis spread as well as actuarial gains/losses on defined benefit plans, etc. A.P. Møller - Maersk's share of other comprehensive income in associated companies and joint ventures is also included.

On disposal or discontinuation of an entity, A.P. Møller - Maersk's share of the accumulated exchange rate adjustment relating to the relevant entity with a non-USD functional currency is reclassified to the income statement. Accumulated value adjustments of equity instruments classified as equity instruments at fair value through other comprehensive income will remain in equity upon disposal.

Other comprehensive income includes current and deferred income tax to the extent that the items recognised in other comprehensive income are taxable or deductible.

### Balance sheet

*Intangible assets* are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful

lives of the assets. Intangible assets regarding acquired customer relationships and brand names are amortised over a useful life of 15 and 20 years, respectively. IT software is amortised over a useful life of 3-5 years.

For container terminals operated under certain restrictive price and service conditions, etc., concessional rights to collect usage charges are included under intangible assets. The cost includes the present value of minimum payments under concession agreements and the cost of property, plant and equipment constructed on behalf of a grantor of a concession. The rights are amortised from the commencement of operations over the concession period.

*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:

<b>Ships, etc.</b>	20-25 years
<b>Containers, etc.</b>	12 years
<b>Buildings</b>	10-50 years
<b>Terminal infrastructure</b>	10-20 years or concession period, if shorter
<b>Plant and machinery, cranes and other terminal equipment</b>	5-20 years
<b>Other operating equipment, fixtures, etc.</b>	3-7 years

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

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

The cost of assets constructed by A.P. Møller - Maersk 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. In addition, the cost includes the net present value of estimated costs of removal and restoration.

*Right-of-use assets:* The group mainly leases vessels, containers, concessions arrangements and real estate property. Lease contracts for vessels and containers are typically made for fixed periods of about five years but may have extension options as described below. Concession arrangements and real estate contracts are negotiated on an individual basis and contain a wide range of terms and conditions.

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.

Intercompany leases will continue to be presented according to IFRS 8 - Segment Reporting, as operating leases in accordance with the old lease standard, IAS 17.

*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 of disposal. Goodwill is attributed to cash-generating units on acquisition and impaired before other assets.

Intangible assets and property, plant and equipment are tested for impairment if there is an indication of impairment. However, annual impairment tests are carried out for goodwill and other intangible assets with indefinite useful lives as well as intangible assets that are not yet in use.

*Assets are held for sale*, when the carrying amount of an individual non-current asset, or disposal groups, will be recovered principally through a sale transaction rather than through continuing use. Assets are classified as held for sale when activities to carry out a sale have been initiated, when the activities are available for immediate

## Note 24 Significant accounting policies – continued

sale in their present condition and when the activities are expected to be disposed of within 12 months. Liabilities directly associated with assets held for sale are presented separately from other liabilities.

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 amortised while classified as held for sale. Measurement of deferred tax and financial assets and liabilities is unchanged.

*Investments in associated companies and joint ventures* are recognised as A.P. Moller - Maersk's share of the equity value inclusive of goodwill less any impairment losses. Goodwill is an integral part of the value of associated companies and joint ventures and is therefore subject to an impairment test together with the investment as a whole. Impairment losses are reversed to the extent the original value is considered recoverable.

*Equity instruments, etc.*, including shares, bonds and similar securities, are recognised on the trading date at fair value, and subsequently measured at the quoted market price for listed securities and at estimated fair value for non-listed securities. Fair value adjustments from equity investments at fair value through other comprehensive income (FVOCI) remain in equity upon disposal. Dividends are recognised in the income statement.

*Inventories* mainly consist of bunkers, containers (manufacturing), spare parts not qualifying for property, plant and equipment and other consumables. Inventories are measured at cost, primarily according to the FIFO method. The cost of finished goods and work in progress includes direct and indirect production costs.

*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. For loans and 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 to calculate the minimum impairment. The provision matrix includes an impairment for non-due receivables.

*Equity* includes total comprehensive income for the year comprising the profit/loss for the year and other comprehensive income. Proceeds on the purchase and sale of own shares and dividend from such shares are recognised in equity.

The translation reserve comprises A.P. Moller - Maersk's share of accumulated exchange rate differences arising on translation from functional currency into presentation currency. The reserve for other equity investments comprises accumulated changes in the fair value of equity investments (at FVOCI), net of tax. Reserve for hedges includes the accumulated fair value of derivatives qualifying for cash flow hedge accounting, net of tax as well as forward points and currency basis spread.

*Equity-settled performance shares*, restricted shares and share options allocated to the employees of A.P. Moller - Maersk as part of A.P. Moller - Maersk's long-term incentive programme are recognised as staff costs over the vesting period at estimated fair value at the grant date and a corresponding adjustment in equity. Cash-settled performance awards allocated to employees below executive levels as part of A.P. Moller - Maersk's long-term incentive programme is recognised as staff costs over the vesting period and a corresponding adjustment in other payables.

At the end of each reporting period, A.P. Moller - Maersk revises its estimates of the number of awards that are expected to vest based on the non-market vesting conditions and service conditions. Any impact of the revision is recognised in the income statement with a corresponding adjustment to equity and other payables.

*Provisions* are recognised when A.P. Moller - Maersk has a present legal or constructive obligation from past events. The item includes, among other things, legal disputes, provisions for onerous contracts, unfavourable contracts acquired as part of a business combination as well as provisions for incurred, but not yet reported, incidents under

certain insurance programmes, primarily in the US. Provisions are recognised based on best estimates and are discounted where the time element is significant and where the time of settlement is reasonably determinable.

*Pension obligations* are the net liabilities of defined benefit obligations and the dedicated assets adjusted for the effect of minimum funding and asset ceiling requirements. Plans with a funding surplus are presented as net assets on the balance sheet. The defined benefit obligations are measured at the present value of expected future payments to be made in respect of services provided by employees up to the balance sheet date. Plan assets are measured at fair value. The pension cost charged to the income statement consists of calculated amounts for vested benefits and interest in addition to settlement gains or losses, etc. Interest on plan assets is calculated with the same rates as used for discounting the obligations. Actuarial gains/losses are recognised in other comprehensive income.

Pension plans where A.P. Moller - Maersk, as part of collective bargaining agreements, participates together with other enterprises – so-called multi-employer plans – are treated as other pension plans in the financial statements. For defined benefit multi-employer plans, where sufficient information to apply defined benefit accounting is not available, the plans are treated as defined contribution plans.

*Deferred tax* is calculated on temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax is not recognised for differences on the initial recognition of assets or liabilities, where at the time of the transaction neither accounting nor taxable profit/loss is affected, unless the differences arise in a business combination. In addition, no deferred tax is recognised for undistributed earnings in subsidiaries, when A.P. Moller - Maersk controls the timing of dividends, and no taxable dividends are currently expected. A deferred tax asset is recognised to the extent it is probable that it can be utilised within a 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. Fixed interest loans subject to fair value hedge accounting are measured at amortised cost with an adjustment for the fair value of the hedged interest component. Liabilities in respect of finance leases are measured at the interest rate implicit in the lease, if practicable to determine, or else at A.P. Moller - Maersk's incremental borrowing rate.

*Lease liabilities* are initially measured at the present value of the lease payments over the lease term, discounted using the incremental borrowing rate.

The following lease payments are included in the net present value:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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.

Extension and termination options in lease contracts are included in those contracts A.P. Moller - Maersk will probably exercise those options. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Most of the extension and termination options held, are exercisable only by A.P. Moller - Maersk and not by the respective lessor.

## Note 24 Significant accounting policies – continued

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. Where A.P. Moller - Maersk will probably exercise specific purchase options, those options are included in the measurement of the lease liability with corresponding right-of-use asset depreciated over the asset's useful life rather than lease term.

Lease payments are discounted at the implicit interest rate, to the extent this can be determined, otherwise discounted using incremental borrowing rates (IBRs). A.P. Moller Maersk's IBR reflects the group's credit risk, leased amount and contract duration; nature and quality of the asset's security and economic environment in which the leased assets operate. To determine the IBR, where possible, A.P. Moller - Maersk uses recent third-party financing received by the individual lessee as a starting point, with adjustments to reflect changes in financing conditions since that financing was received. Where such financing is not available, A.P. Moller - Maersk uses a build-up approach that starts with a risk-free interest rate adjusted by credit risk and specific risks faced by the lessee such as asset type, geographical risks, etc.

Subsequently, the lease liability is measured at amortised cost with each lease payment allocated between the repayment of the liability and financing cost. The finance cost is charged to the income statement over the lease period using the IBR that was used to discount the lease payments.

### Derivative financial instruments

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 highly probable future transactions is recognised in other comprehensive income until the hedged transactions are realised. At that time, the accumulated 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 that can be attributed to the hedging relationship. Currency basis spread, and forward points are considered a cost of hedging and deferred in equity.

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, and as other income/costs for oil price hedges and forward freight agreements.

### Cash flow statement

Cash flow from operating activities includes all cash transactions other than cash flows arising from investments and divestments, received dividends, principal payments of loans, instalments on finance lease liabilities, paid and received financial items and equity transactions. Capitalisation of borrowing costs is considered as a non-cash item, and the actual payments of these borrowing costs are included in cash flow from financing.

Cash and cash equivalents comprise cash and bank balances net of bank overdrafts where overdraft facilities form an integral part of A.P. Moller - Maersk's cash management.

### Business combinations and disposal of subsidiaries

Upon acquisition of new entities, the acquired assets, liabilities and contingent liabilities are measured at fair value at the date when control was achieved using the acquisition method. Identifiable intangible assets are recognised if they arise from a contractual right or can otherwise be separately identified. The difference between the fair value of the acquisition cost and the fair value of acquired identifiable net assets is recognised as goodwill. Contingent consideration is measured at fair value and

any subsequent changes to contingent consideration are recognised as other income or other costs in the income statement. Transaction costs are recognised as operating costs as they are incurred.

When A.P. Moller - Maersk ceases to have control of a subsidiary, the value of any retained investment is re-measured at fair value, and the value adjustment is recognised in the income statement as a gain (or loss) on the sale of non-current assets. The difference between sales proceeds and the carrying amount of the subsidiary is recognised in the income statement including fair value of contingent consideration at the time of sale. Contingent consideration is re-measured at fair value with changes recognised in the income statement.

The effect of the purchase and sale of non-controlling interests without changes in control is included directly in equity.

### Discontinued operations and assets held for sale

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 with no restatement of comparative figures. Elimination between continuing and discontinued operations is presented to reflect continuing operations as post-separation, which entails the elimination of interest, borrowing, dividends and capital increases.

Assets and liabilities from discontinued operations and assets held for sale except financial assets, etc., 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.

In addition to the above general accounting policies, the following are significant about discontinued operations. For drilling activities, *revenue* is recognised in accordance with the agreed day rates for the work performed to date. Compensations received, or receivable, for early termination are recognised as revenue with deferral of an estimated value of any obligations to stand ready for new engagements in the remaining contract period.

Oil and gas revenue are recognised as revenue upon discharge from the production site, reflecting the production entitlement quantities. In agreements where tax is settled in oil, an amount corresponding to the sales value is recognised as both revenue and tax.

Income *tax* also consists of oil tax based on gross measures. Oil tax on gross measures is a special tax in certain countries on the production of hydrocarbons and is separately disclosed within tax.

*Intangible assets* regarding acquired oil resources (concession rights, etc.) are amortised over a useful life of production until the fields' expected production periods end – a period of up to 20 years until classification as assets held for sale.

In *property, plant and equipment*, oil production facilities, where oil is received as payment for the investment (cost oil), depreciation generally takes place concurrently with the receipt of cost oil until classification as assets held for sale.

The cost includes the net present value of estimated costs of abandonment.

The useful lives of new assets are 25 years for rigs and up to 20 years for oil and gas production facilities, etc. – based on the expected production periods of the fields.

*Provisions* include provisions for the abandonment of oil fields.

## Note 24 Significant accounting policies – continued

### New financial reporting requirements

A.P. Moller - Maersk has not yet adopted the following accounting standards/requirements:

- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3 – Business Combinations: Definition of a Business
- IFRS 17 - Insurance contracts.

Amendments to IAS 1 and IAS 8 are effective from 1 January 2020 and are endorsed by the EU. Amendments to IFRS 3 are also effective from 1 January 2020 and are expected to be endorsed by the EU. IFRS 17 is

effective from 1 January 2021, but there is some uncertainty as to its EU endorsement date.

A.P. Moller - Maersk follows most of the guidelines in the Amendments to IAS 1 and IAS 8, therefore the implementation is not expected to result in a significant change to the presentation of the financial statements.

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

The IASB has also issued amendments to IFRS 9, IAS 39 and IFRS 7 that are effective from 1 January 2020 and are endorsed by the EU. In December 2019, A.P. Moller - Maersk has elected to early adopt those amendments.