

# 2018

# Accounting policies

A.P. Møller - Mærsk A/S

 Note 23

# Significant accounting policies

## BASIS OF PREPARATION

The consolidated financial statements for 2018 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 2017, except for the following areas:

- A.P. Møller - Maersk has changed its reportable segments. Comparative figures have been restated.
- A.P. Møller - Maersk has changed the presentation of the cash flow statement. Net financial payments are included in cash flow from financing activities, and dividends received are included in cash flow from investing activities. These items were previously included in cash flow from operating activities. Comparative figures have been restated.

The effects of the changes on the cash flow statement are as follows:

USD million	2018	2017
Cash flow from operating activities	+92	+517
Cash flow from investing activities	+439	+213
Cash flow from financing activities	-531	-730

In addition, a number of changes to accounting standards are effective from 1 January 2018 and are endorsed by the EU. Those of relevance to A.P. Møller - Maersk are:

- Revenue from contracts with customers (IFRS 15)
- Foreign currency transactions and advance consideration (IFRIC 22)
- Classification and Measurement of Share-based Payment Transactions (amendments to IFRS 2)
- Annual Improvements 2014-2016 (amendments to IFRS 1 and IAS 28).

## IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

A.P. Møller - Maersk's current practice for recognising revenue has been shown to comply, in all material aspects, with the concepts and principles encompassed by the new standard.

For IFRS 15, the modified retrospective approach has been applied which entails that any cumulative effects are recognised in retained earnings as of 1 January 2018 and the comparison period has not been restated.

The other amendments encompass various guidance and clarifications which only affect disclosures.

New financial reporting requirements coming into effect after 31 December 2018 are outlined in note 25:

## 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 agreements 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. Møller - 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, part-owned vessels and pool arrangements, which have been prepared in accordance with A.P. Møller - 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. Møller - 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. Møller - 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. Møller - 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.

→ **Note 23 – continued**

## Significant accounting policies

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 (NEW SEGMENT STRUCTURE)

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 logistics 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 mainly 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 (D&D), terminal handling, documentation services, container services as well as container storage.

**Hub activities**, defined as operating activities under the APM Terminal 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 dry containers and reefer containers.

**Maersk Oil Trading**, 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 Ocean segment. Sales of products and services between segments are based on market terms.

Maersk Oil, Maersk Drilling and Maersk Supply Service were classified as discontinued operations during 2017.

#### 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

 **Note 23 – continued**

## Significant accounting policies

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.

**Lease income** from operating leases is recognised over the lease term.

**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 that 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 the 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 income and costs 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.

**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.

 **Note 23 – continued**

## Significant accounting policies

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 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.

**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.

**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 bunker, 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 executive 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 are 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 that it is probable that it can be utilised within a foreseeable future.

 **Note 23 – continued**

## Significant accounting policies

**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.

### 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 is 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.

[→ Note 23 – continued](#)

## Significant accounting policies

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

Annual impairment tests are not carried out for oil concession rights within the scope of IFRS 6.

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** includes provisions for the abandonment of oil fields.

---