Accounting policies

The consolidated financial statements for 2013 for the A.P. Moller – Maersk Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for listed companies. In addition, the consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB).

Changes to accounting policies

The accounting policies are, apart from the below, consistent with those applied in the consolidated financial statements for 2012. New financial reporting requirements, which will come into effect in coming years, are outlined in note 29.

Due to reduced activity management has in the segment reporting reclassified Maersk FPSOs and Maersk LNG into Other businesses.

As of 1 January 2013, the Group has implemented IFRS 11 Joint Arrangements with consequential amendments to IAS 28 Investments in Associates and Joint Ventures. In addition, the following have been implemented: IFRS 10, IFRS 12, IFRS 13 as well as amendments to IFRS 7, IAS 1, IAS 19, IAS 27 and Annual Improvements to IFRSs 2009-2011. Furthermore, bank overdrafts are now deducted from cash and cash equivalents where overdraft facilities form an integral part of the Group's cash management, cf. the cash flow statement. Recognition and measurement changes are described below while the other changes mainly concern presentation and disclosure requirements.

IFRS 11 Joint Arrangements replaces IAS 31 Interests in Joint Ventures and entails agreements on joint management to be classified as joint ventures or joint operations on the basis of the contracting parties' rights and obligations. Joint ventures are no longer recognised proportionately, but according to the equity method, similar to associated companies. Joint operations will however continue to be recognised relative to the economic interest in income, expenses, assets and liabilities. The classification principles are described below under Consolidation.

The Group's joint ventures are mainly found in APM Terminals, Maersk Drilling and Svitzer, whereas all joint arrangements in Maersk Oil are classified or treated as joint operations. The activities of vessels that are part of pool arrangements are treated as joint operations. Previously, these earnings were recognised net in revenue based on time charter equivalents.

With a few exceptions, including A.P. Møller – Mærsk A/S's share of profit and equity, all items of the Group's financial statement are affected by the change, although not significantly. Comparative figures have been restated. The effect on the consolidated balance sheet is presented in note 31.

IAS 19 Employee Benefits modifies the method for calculating the financing element of the period's pension costs for defined benefit obligations. Comparative figures are not restated as the change is immaterial to the Group.

As permitted, the Group has early-adopted the amendments to IAS 36 regarding disclosures on recoverable amounts and fair values used in impairment tests.

Consolidation

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

Subsidiaries are entities controlled by A.P. Moller - Maersk 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 commanding more than 50% of the voting rights or by other rights, such as agreements on management control.

Joint arrangements are entities in which the Group, 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 the Group exercises a significant but non-controlling influence are considered to be associated companies.
Accounting policies – continued

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, inclusive of the proportionate share of accounts related to joint operations, part-owned vessels and pool arrangements, which have been prepared in accordance with the Group’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 the Group’s ownership share. Unrealised losses are eliminated in the same way, unless they indicate impairment.

Non-controlling interests’ share of profit or loss for the year and of equity in subsidiaries which are not wholly owned is included as part of the Group’s profit and equity respectively, but shown as separate items.

Business combinations
Upon acquisition of new entities, the acquired assets, liabilities and contingent liabilities are measured at fair value at the date 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 under intangible assets. Any subsequent changes to contingent acquisition costs are recognised as other income or other costs in the income statement. Transaction costs are recognised as operating costs as they are incurred.

In business combinations achieved in stages, value adjustments of previously recognised investments are recognised in the income statement. When surrendering control, the value of any retained investment is adjusted at fair value and the value adjustment is recognised in the income statement as gain on sale of non-current assets, etc., net. The effect of the purchase and sale of non-controlling interests without changes in control is included directly in equity.

Foreign currency translation
The Group uses DKK as its presentation currency. In the translation to the presentation currency for entities with a functional currency different from DKK, the statement of comprehensive income is translated into DKK at average exchange rates and the balance sheet is translated at the exchange rates as at the balance sheet date. Exchange differences arising from such translations are recognised directly in other comprehensive income.

The functional currency varies from business area to business area. For the Group’s principal shipping and drilling activities and oil and gas activities, the functional currency is USD. This means that, among other things, 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 in the country in which such activities are performed.

Transactions in other currencies 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.

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 future transactions is recognised directly in other comprehensive income until the hedged transactions are realised. At that time, the cumulated 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
Accounting policies – continued

The value of the hedged assets or liabilities which can be attributed to the hedging relationship. The ineffective portion of hedge transactions, including time value for oil price hedges, 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 financial instruments, and as other income/costs for oil price hedges and forward freight agreements.

Segment information

The allocation of business activities into segments reflects the Group’s character as a conglomerate and is in line with the internal management reporting. Some activities are related, but are managed as independent units. The segments are as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maersk Line</td>
<td>Global container services</td>
</tr>
<tr>
<td>Maersk Oil</td>
<td>Oil and gas production and exploration activities</td>
</tr>
<tr>
<td>APM Terminals</td>
<td>Container terminal activities, inland transportation, container depots and repair of containers, etc.</td>
</tr>
<tr>
<td>Maersk Drilling</td>
<td>Offshore drilling activities and operation of land-rigs through 50% ownership of Egyptian Drilling Company</td>
</tr>
<tr>
<td>Maersk Supply Service</td>
<td>Supply vessel activities with anchor handling and platform supply vessels, etc.</td>
</tr>
<tr>
<td>Maersk Tankers</td>
<td>Tanker shipping of crude oil, oil products and gas</td>
</tr>
<tr>
<td>Damco</td>
<td>Logistic and forwarding activities</td>
</tr>
<tr>
<td>Svitzer</td>
<td>Towing and salvage activities, etc.</td>
</tr>
</tbody>
</table>

In addition, the Group comprises Other businesses, which does not constitute a reportable segment. This includes, inter alia, investments in the associated companies Danske Bank, Höegh Autoliners and DFDS. Revenue from Other businesses consists mainly of income from sale of containers, air freight, and services sold to the energy industry.

The reportable segments do not comprise costs in group functions. Also, oil hedging activities in Maersk Oil Trading and the results of Maersk Oil Trading’s trading activity in the form of purchasing bunker and lubricating oil on behalf of entities in the Group are not allocated to business segments.

Revenue between segments is limited except for Terminal activities and Damco, which deliver a large part of their services to the Group’s container shipping activities. Sales of products and services between segments are based on market terms.

Segment profit or loss (NOPAT), assets and liabilities comprise items directly related to or which can be allocated to segments. With no effect on the Group, long-term agreements between segments on reserved capacity in container terminals are treated as operating leases, where under IFRS they are classified as finance leases (cf. IFRIC 4). Financial assets and liabilities and financial income and expenses are not attributed to business segments.

Income statement

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

Revenue from shipping activities is recognised as the service is rendered, by which incomplete voyages are recognised at the share related to the financial year.

Oil and gas sales are recognised as revenue upon discharge from the production site. In agreements where tax is settled in oil, this tax is recognised both as revenue and tax.

Revenue from terminal operations, logistics, forwarding activities 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 also included. For drilling activities, which are typically carried out under long-term agreements with fixed day rates, revenue is recognised for the production time related to the financial year.

Lease income from operational leases is recognised over the lease term.
Accounting policies – continued

**Exploration costs** in the oil and gas activities are recognised as operating costs as they are incurred.

**Share in profits of 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, including goodwill, and their reversal.

**Tax** comprises the amount estimated to be paid for the year, as well as adjustments to previous years and deferred tax. The tax amount includes the special taxes relating to extraction and production of hydrocarbons, including the profit share to the Danish State and tax on income subject to Danish and foreign tonnage taxation etc.

**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, adjustment of other equity investments and hedging instruments to fair value and actuarial gains or losses on defined benefit plans, etc. The Group’s share of other comprehensive income in associated companies and joint ventures is also included.

In the event of disposal or discontinuation of an entity, the Group’s share of the accumulated exchange rate adjustment relating to the relevant entity is reclassified to the income statement. Accumulated value adjustments of securities are transferred to the income statement in the event of sale or when an impairment loss is deemed to be unrecoverable.

Actual and deferred tax relating to other comprehensive income are included.

**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 in connection with acquired oil resources (concession rights, etc.) are amortised from the commencement of production until the fields’ expected production periods ends – a period of up to 15 years. Acquired exploration rights are amortised from the date of acquisition for a period of up to five years. IT software is amortised over a useful life of 3-5 years. Goodwill and other intangible assets with indefinite useful lives are not amortised, but impairment tests are prepared at least annually, starting in the year of acquisition. Goodwill is attributed to cash-generating units.

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:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ships, rigs, etc.</td>
<td>20-25 years</td>
</tr>
<tr>
<td>Containers etc.</td>
<td>12 years</td>
</tr>
<tr>
<td>Buildings</td>
<td>10-50 years</td>
</tr>
<tr>
<td>Terminal infrastructure</td>
<td>over lease or concession period</td>
</tr>
<tr>
<td>Plant and machinery, cranes and other terminal equipment</td>
<td>5-20 years</td>
</tr>
<tr>
<td>Other operating equipment, fixtures, etc.</td>
<td>3-7 years</td>
</tr>
<tr>
<td>Oil and gas production facilities, etc. – based on the expected production periods of the fields</td>
<td>up to 15 years</td>
</tr>
</tbody>
</table>

Estimated useful lives and residual values are reassessed on a regular basis.
Accounting policies – continued

The cost of an asset is divided into separate components which are depreciated separately if the useful lives of the individual components differ. Dry-docking costs are recognised in the carrying amount of ships, rigs, etc. when incurred and depreciated over the period until the next drydocking. For oil production facilities, including facilities under construction, where oil is received as payment for the investment (cost oil), depreciation generally takes place concurrently with the receipt of cost oil.

The cost of assets constructed by the Group includes direct and indirect expenses. For assets with a long construction period, borrowing costs during the construction period from specific as well as general borrowings are attributed to cost. In addition, the cost includes the net present value of estimated costs of abandonment, removal and restoration.

Assets held under finance leases are treated as property, plant and equipment.

**Impairment losses** are recognised when the carrying amount of an asset or a cash-generating unit exceeds the higher of the estimated value in use and fair value less costs to sell. Goodwill is fully impaired before other assets in a cash-generating unit.

**Investments in associated companies and joint ventures** are recognised as the Group’s share of the equity value measured according to the Group’s accounting policies 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 regained.

**Securities**, 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 other securities. Securities that form part of the liquidity resources (Held for trading) are classified as current assets and value adjustments are recognised in the income statement under financial items. Other equity investments are classified as non-current assets (the category Available-for-sale) where unrealised value adjustments are recognised in other comprehensive income.

**Inventories** are measured at cost, primarily according to the FIFO method. Write-down is made to net realisable value if lower. The cost of finished goods and work in progress includes direct and indirect production costs.

**Receivables** are generally recognised at nominal value, which in all material respects corresponds to amortised cost. Non-current receivables are recognised at present value, including finance lease receivables. Write-down is made for anticipated losses based on specific individual or group assessments.

**Equity** includes total comprehensive income for the year comprising the profit or loss for the year and other comprehensive income. Proposed dividend for distribution is included as a separate component of equity until the declaration date. Proceeds on the purchase and sale of own shares and dividend from such shares are recognised in equity, including proceeds on the disposal of own shares in connection with the exercise of share options.

The **translation reserve** comprises the Group’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 securities in the category Available-for-sale. The reserve for hedges includes the accumulated net change in the fair value of hedging transactions qualifying for cash flow hedge accounting.

**Share options and restricted shares** allocated to the executive employees of the Group as part of the Group’s long-term incentive programme are recognised as staff costs over the vesting period at estimated fair value at the grant date. The counter item is equity. The fair value of share options is calculated on the basis of the Black & Scholes formula.
Accounting policies – continued

**Provisions** are recognised when the Group has a current legal or constructive obligation and include provisions for abandonment of oil fields, restructuring costs, legal disputes, onerous contracts, etc. Provisions are recognised on the basis of best estimates and considering discounting when the time element is significant.

**Pension obligations**, which are defined benefit plans, are recognised based on actuarial valuations of the obligations and the fair value of the assets in the plans. 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 pension obligations. Actuarial gains and losses are recognised in other comprehensive income. Costs regarding defined contribution pension and insurance plans are recognised as incurred.

Pension plans where the Group, 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 differences between the carrying amount and tax base of assets and liabilities. Deferred tax is not provided on goodwill which is not deductible or depreciable for tax purposes, or temporary differences which have no effect on the accounting results or taxable income at the time of the transaction. In addition, deferred tax is not calculated for differences relating to investments in subsidiaries, associated companies and joint ventures to the extent that taxable dividends are unlikely in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that they can be utilised within 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 which under hedge accounting are swapped to variable interest are measured at amortised cost adding or deducting the fair value of the hedged interest component. Liabilities in respect of finance leases are recognised in the balance sheet as borrowings.

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

**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 comparative figures are restated. Similarly, assets and related liabilities from discontinued operations are presented as separate items in the balance sheet, and the cash flows from discontinued operations are presented separately in the cash flow statement.

Individual assets or groups of assets that are to be disposed of collectively are classified as assets held for sale, when the activities to carry out such a sale have been initiated and the activities are expected to be disposed of within 12 months. Liabilities that are directly related to assets held for sale are presented correspondingly.

Assets and liabilities from discontinued operations and assets held for sale except financial assets, etc., are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

**Key figures**
Return on equity is calculated as the profit or loss for the year divided by the average equity.

Equity ratio is calculated as the equity divided by total assets.
Accounting policies – continued

Return on invested capital after tax (ROIC) is the profit or loss for the year before interest but after calculated tax, divided by the quarterly average invested capital (equity plus net interest-bearing debt).

The segments’ return on invested capital after tax (ROIC) is net operating profit or loss after tax (NOPAT) divided by the quarterly average invested capital, net (assets less liabilities).

Earnings per share and cash flow from operating activities per share comprise A.P. Møller - Mærsk A/S’ share of the profit or loss for the year respectively the cash flow from operating activities divided by the number of shares (of DKK 1,000 each), excluding the Group’s holding of own shares.

Diluted earnings per share are adjusted for the dilution effect of issued share options.

Total market capitalisation is the total number of shares – excluding the Group’s holding of own shares – multiplied by the end-of-year price quoted by NASDAQ OMX Copenhagen.