A.P. Møller - Mærsk A/S

Accounting policies 2016

NOTE 22 SIGNIFICANT ACCOUNTING POLICIES

AMOUNTS IN USD MILLION

BASIS OF PREPARATION

The Consolidated financial statements for 2016 for A.P. Moller - 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 further requirements in the Danish Financial Statements Act. The Consolidated financial statements are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The accounting policies are consistent with those applied in the Consolidated financial statements for 2015. A number of changes to accounting standards became effective 1 January 2016. Those relevant to A.P. Moller - Maersk are: 'Annual improvements to IFRSs 2012-2014 cycle' as well as 'Accounting for acquisitions of interests in joint operations' (amendments to IFRS 11) and 'Disclosure initiative' (amendments to IAS 1). The amendments encompass various guidance and clarifications, which has had no material effect on the financial statements.

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. Moller - 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. 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, part-owned vessels and pool arrangements, 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 and drilling activities and oil and gas 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.

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 a conglomerate and is in line with the internal management reporting. Some activities are related, but are managed individually. The reportable segments are as follows:

Maersk Line	Global container shipping activities
APM Terminals	Container terminal activities and inland container services
Damco	Freight forwarding and supply chain management services
Svitzer	Towing and related marine activities
Maersk Oil	Oil and gas production and exploration activities
Maersk Drilling	Offshore drilling activities as well as operation of land-rigs through 50% ownership of Egyptian Drilling Company
Maersk Supply Service	Global offshore marine services
Maersk Tankers	Tanker shipping of refined oil products

NOTE 22 SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

AMOUNTS IN USD MILLION

In addition, A.P. Moller - Maersk comprises other businesses, which neither individually nor in aggregate constitute reportable segments. These include, inter alia, Maersk Container Industry, Maersk Aviation, Maersk Training and Höegh Autoliners (associated company).

The reportable segments do not comprise costs in group functions. In addition, oil hedging activities in Maersk Oil Trading and the results of Maersk Oil Trading's activity in the form of purchasing bunker and lubricating oil on behalf of entities in A.P. Moller - Maersk are not allocated to reportable segments.

Revenue between segments is limited except for terminal activities where a large part of the services is delivered to A.P. Moller - Maersk's container shipping activities. Sales of products and services between segments are based on market terms.

Segment profit/loss (NOPAT defined as net operating profit/loss after tax), free cash flow and invested capital comprise items directly related to or which can be allocated to segments. Financial assets, liabilities, income and expenses and cash flows from these items are not attributed to reportable segments. With no effect on A.P. Moller - Maersk's results or financial position, long-term agreements between Maersk Line and APM Terminals on reserved terminal facilities are treated as operating leases, which under IFRS would be classified as finance leases.

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 provided, including a share of revenue from incomplete voyages at the balance sheet date. Invoiced revenue related to an estimated proportion of remaining voyage time and activities at the destination port is deferred. Detention and demurrage fees are recognised at the time of customers' late return or pick-up of containers. Revenue is recognised net of volume discounts and rebates.

Oil and gas sales 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.

Revenue from terminal operations, freight 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 recognised as revenue during the construction.

For drilling activities, which are typically carried out under long-term agreements, revenue is recognised in accordance with the agreed day rates for the work performed to date. Mobilisation fees are recognised straight-line over the production period, along with amortisation of mobilisation costs. Compensations received, or receivable, for early termination are recognised as revenue with deferral of an estimated value of any obligations to standing ready for new engagements in the remaining contract period.

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

Exploration and evaluation costs in the oil and gas activities are expensed as they are incurred.

Share of profit or 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, hydrocarbon tax in Denmark and other countries, withholding tax of dividends, etc. In addition, tax comprises tonnage tax and oil tax based on gross measures. Tonnage tax is classified as tax when creditable in, or paid in lieu of, income tax. Oil tax on gross measures is a special tax in certain countries on the production of hydrocarbons, and is separately disclosed within tax to provide clarity over A.P. Moller - Maersk's overall tax expense. Tax is recognised in the income statement to the extent it arises from items recognised in the income statement, including tax of gains on intra-group transactions that have been eliminated in the consolidation.

Earnings per share is 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. Moller - Maersk's holding of own shares. Diluted earnings per share is 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 and cash flow hedges as well as actuarial gains/losses on defined benefit plans, etc. A.P. Moller - 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. Moller - 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 securities are transferred to the income statement in the event of sale or when there is objective evidence that the asset is impaired.

Other comprehensive income includes current and deferred income tax to the extent 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 in connection with acquired oil resources (concession rights, etc.) are amortised from the commencement of production until the fields' expected production periods end – a period of up to 20 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.

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.

NOTE 22 SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

AMOUNTS IN USD MILLION

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. 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 useful lives of new assets are typically as follows:

Ships, etc.	20-25 years
Rigs	25 years
Containers, etc.	12 years
Buildings	10-50 years
Terminal infrastructure	10-20 years or concession period, if shorter
Plant and machinery, cranes and other terminal equipment	5-20 years
Other operating equipment, fixtures, etc.	3-7 years
Oil and gas production facilities, etc. – based on the expected production periods of the fields	up to 20 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 and rigs when incurred and depreciated over the period until the next dry-docking.

The cost of assets constructed by A.P. Moller - 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 abandonment, removal and restoration.

Impairment losses are recognised when the carrying amount of an asset or a cash-generating unit exceeds the higher of the estimated value in use and fair value less costs 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, except oil concession rights in scope of IFRS 6.

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 and 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 and fair value less costs to sell. 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 at 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.

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 non-listed securities. Securities forming part of the liquidity resources 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 and unrealised value adjustments recognised in other comprehensive income and transferred to the income statement in the event of sale or when there is objective evidence that the asset is impaired.

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. 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/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 other equity investments, net of tax. Reserve for hedges includes the accumulated fair value of derivatives qualifying for cash flow hedge accounting, net of tax.

NOTE 22 SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

AMOUNTS IN USD MILLION

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, provisions for abandonment of oil fields, legal disputes, onerous contracts, as well as provisions for incurred, but not yet reported, incidents under certain insurance programmes, primarily in the USA. 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 multiemployer 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.

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 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 value of the hedged assets or liabilities that can be attributed to the hedging relationship. The ineffective portion of hedge transactions and changes in the fair values of derivative financial instruments, which do not qualify for hedge accounting, are recognised in the income statement as financial income or expenses for interest and currency based instruments, and as other income/costs for oil price hedges and forward freight agreements, including time value for oil price hedges.

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 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. 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. 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 gain (or loss) on sale of non-current assets. The effect of the purchase and sale of non-controlling interests without changes in control is included directly in equity.

CASH FLOW STATEMENT

Cash flow from operating activities includes all cash transactions other than cash flows arisen from investments and divestments, principal payments of loans, instalments on finance lease liabilities and equity transactions. Capitalisation of borrowing costs and abandonment costs are considered as non-cash items, and the actual payments of those are included in cash flow from operations.

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.

NOTE 22 SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

AMOUNTS IN USD MILLION

NEW FINANCIAL REPORTING REQUIREMENTS

A.P. Moller - Maersk has not yet applied the following standards:

- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases

IFRS 9 and IFRS 15 are effective from 1 January 2018 and are endorsed by the EU. IFRS 16 is effective from 1 January 2019 and is expected to be endorsed by the EU before the effective date. A.P. Moller - Maersk has decided to adopt IFRS 9 from 1 January 2017. Early adoption of IFRS 15 and IFRS 16 is currently not considered by A.P. Moller - Maersk.

A.P. Moller - Maersk has in all material respect concluded analyses of the impending changes resulting from IFRS 9 and IFRS 15. The key findings are explained below. The project initiated to prepare for IFRS 16 is ongoing, where conclusions cannot be drawn yet.

IFRS 9 Financial instruments

The IASB accounting standard Financial Instruments (IFRS 9) has been endorsed by the EU and A.P. Moller - Maersk has decided to adopt IFRS 9 from 1 January 2017.

The implementation of IFRS 9 will not affect the current classification and measurement of the Group's financial instruments, and the new standard does not fundamentally change the hedging relationships. Management has elected to classify the 19% shareholding in Dansk Supermarked Group as fair value through other comprehensive income. The accumulated currency loss at year-end 2016 of USD 235m currently recognised in other comprehensive income will as a consequence remain in equity as will any future value adjustments related to this investment.

Finally, the effect of the change from the 'incurred loss' model in IAS 39 to the 'expected credit loss' model in IFRS 9 is considered immaterial due to the low credit risk in the Group. The implementation of IFRS 9 is therefore not expected to materially impact the financial position or performance of A.P. Moller - Maersk.

IFRS 15 Revenue from contracts with customers

A.P. Moller - Maersk's current practices for recognising revenue have shown to comply in all material aspects with the concepts and principles encompassed by the new standard. The following two changes have been identified, which in our view deviate from current industry practices.

In tanker shipping, revenue in accordance with IAS 18 is recognised by the stage of completion from discharge-to-discharge. According to IFRS 15, revenue shall be recognised on transfer of control, which is deemed to occur over time from load-to-discharge. The change will result in a shift in timing for when recognition of revenue from a contract commences. In return, costs incurred in positioning of the tanker to the load port are capitalised as contract costs and amortised as revenue is recognised. The change does not have a material impact on the financial position or performance of A.P. Moller - Maersk.

In contracts for sale of oil and gas, quantities transferred on vessel or pipeline to customers are identified as performance obligations. Hence, IFRS 15 revenue will reflect the sales entitlement method. A.P. Moller - Maersk will continue to present total revenue based on production entitlement. Changes in payables/receivables for over-/underlifts, as well as the value of oil used to settle tax, will be presented as entitlement adjustments in Other Revenue.

IFRS 16 Leases

Due to the ongoing strategy review, the nature, number and complexity of lease contracts to which A.P. Moller - Maersk is expected to be committed at the end of 2018 is unpredictable at present, thus the expected impact of the new standard cannot be estimated. For the same reason, management has not made any decisions on transition options.