MAERSK PRODUCT TANKERS A/S

ANNUAL REPORT 2018

MAERSK PRODUCT TANKERS

Registration no: 39 06 70 64

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MANAGEMENT REVIEW

LETTER FROM THE CEO

DEAR READER,

In 2018, we continued the work to create sustainable, long-term profitable growth for Maersk Product Tankers under the ownership of A.P. Møller Holding A/S and Mitsui & Co Ltd. We invested in the future of the business, especially in areas that will strengthen us commercially and operationally, while focusing on safety and keeping vessels' daily running costs at competitive levels.

2018 was a financially challenging year for Maersk Product Tankers. While we increased revenue to USD 647.0 million (USD 621.1 million), we recorded a loss before tax of USD 35.0 million and a negative free cash flow of USD 27.7 million. Results were affected by the lowest spot market rates seen in a decade, which fell by 14.5% compared to the previous year.

To put the company in a position to take advantage of future market opportunities, we invested significantly in optimising the fleet during the year. In a market where prices were at a low point in their cycle, capital commitments reached USD 384.4 million, an increase of USD 141.0 million compared to 2017.

CHALLENGING MARKETS WITH IMPROVEMENT ON THE WAY

The first three-quarters of the year saw tumbling spot market rates, although there were signs of improvement in the fourth quarter. Factors such as lower bunker prices, supply disruption in the Middle East and a jump in long-haul product trade tightened the market, which pushed up spot market rates.

Slowing fleet growth and stronger demand are expected to improve market conditions in the coming years. Regulations limiting the sulphur content of marine fuel are also likely to add volatility to markets, generating earning opportunities. This leaves us optimistic that markets will improve gradually, with more sustainable improvements from the end of 2019.

STRATEGIC PERFORMANCE

Despite facing headwinds in most markets, we outperformed the market, quarter on quarter, on time-charter equivalent earnings. We achieved this through our partnership with Maersk Tankers, taking advantage of its strong trading capabilities, data insights and new digital solutions, in which the company has invested substantially over recent years.

Vessels' average running costs rose during the year, compared to 2017, which was mainly caused by an increase in insurance costs, and unscheduled repair and maintenance work. We nevertheless maintained our position as a cost leader, which is critical in an asset-heavy industry. To retain this position, we will reduce costs by optimising processes and technology, providing offshore leadership training and improving procurement contracts with vendors.

TAKING ADVANTAGE OF DIGITISATION

Our partnership with Maersk Tankers, gives us access to its digital capability, which was strengthened during the year. One benefit was the launch of a digital platform, which provides greater transparency and more insight into vessels' performance. Progress was also made on developing digital solutions that will support charterers' commercial decision-making on where, when and how to position vessels. This will ensure they are trading in those markets where earnings are highest. Finally, testing began of a new digital solution to reduce bunker consumption and associated emissions.

MAINTAINING A COMPETITIVE FLEET

To maintain a competitive fleet of vessels that meets our customers' needs, we took delivery of four MR newbuildings, bringing the total fleet to 81. Taking advantage of a market with attractive asset prices, the Board of Directors also approved the order of six LR2 newbuildings. We have the option to buy an additional four LR2s.

As the world's first product tanker company, we began testing wind-propulsion technology on board a product tanker vessel. Two 30-metre-tall and five-metre-wide rotor sails were installed on Maersk Pelican, with the aim of achieving an average reduction in fuel consumption and emissions of 7-10%. We will evaluate the results during 2019 to assess the commercial and financial viability of this emission-friendly technology.

A new IMO regulation will reduce the global limit for sulphur content in fuel oil from 3.5% to 0.5% from 1 January 2020. While most of the fleet will use compliant fuel, we have decided to install scrubbers on four LR2 vessels.

POSITIONED FOR THE FUTURE

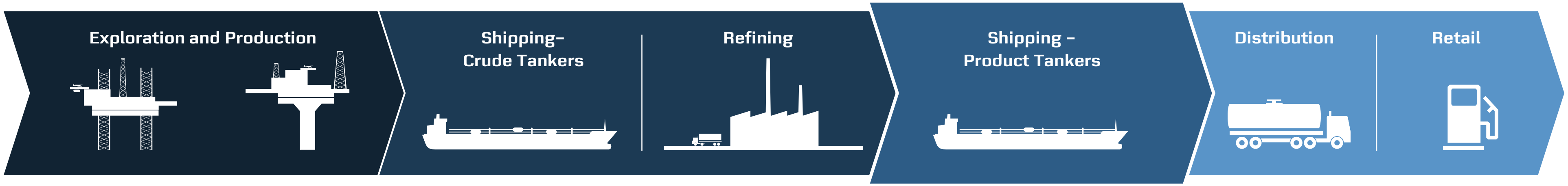
We remain positive about the mid- and long-term prospects for the tanker industry, and the company is well positioned to exploit the opportunities that will emerge. We have a competitive fleet of vessels that is able to serve customers globally, the market offers helpful asset prices and we will derive more value from the fleet by increasing the use of data and digital solutions.

On behalf of the leadership team, I would like to thank customers, business partners, owners and employees for the trust they have shown the company in 2018. We will continue to generate value with and for them, cementing Maersk Product Tankers' position as a leading player in the product tanker industry.

Christian M. Ingerslev,
CEO of Maersk Product Tankers

ENERGY VALUE CHAIN

Of the world's seaborne transportation, 9% is carried out by product tanker vessels. Companies operating in the industry carry oil products from refineries to distribution points determined by customers, who are mainly oil majors and trading houses. As demand for oil is expected to remain high for decades to come, the industry will continue to play a critical part in the energy value chain.



PRODUCTS

Clean Petroleum Products (CPP), e.g. gasoline, diesel, naphtha and jet fuel, mainly used in transportation, industrial and chemical industries
Dirty Petroleum Products (DPP), e.g. fuel oil and crude oil, mainly used for refining or industrial purpose, incl. transportation
Vegetable and other edible oils, e.g. sunflower oil, mainly used in the food industry

FLEET

INTERMEDIATE
15-20,000 dwt

Trading area: Northwest Europe
Products: Clean and dirty

HANDY
25-45,000 dwt

Trading area: Global
Products: Clean and dirty, chemicals, vegetable oils

MR
45-55,000 dwt

Trading area: Global
Products: Clean and dirty

LR2
100-120,000 dwt

Trading area: Arabic Gulf with main routes to North Asia and Europe
Products: Clean

AFRAMAX
100-120,000 dwt

Trading area: Global
Products: Dirty

MAERSK PRODUCT TANKERS AT A GLANCE

Maersk Product Tankers is a leading player in the product tanker industry, owning more than 80 vessels, which are carrying refined oil products worldwide for customers. The company is owned by A.P. Møller Holding A/S and Mitsui & Co. Ltd., and has its headquarters in Copenhagen, Denmark.

Founded

1928
Maersk Product Tankers A/S became an independent company in 2017

647.0m

Revenue (USD)

Owners

A.P. Møller Holding A/S (controlling shareholder)
Mitsui & Co. Ltd.

-35.0m

Profit/Loss before tax (USD)

Partnership

Maersk Tankers A/S is the commercial, technical and corporate manager of the vessels

-27.7m

Free cashflow (USD)

81 Vessels

Vessel segments:
Aframax, LR2, MR, Handy, Intermediate

146.7m

Investment in vessels (USD)

PURPOSE AND CORE VALUES

We are bringing energy supplies to where they are needed, contributing to a stable and sustainable supply of energy, and the social and economic development of society. That is why we say our purpose is to keep the world moving.

Constant Care
Take care of today, actively prepare for tomorrow

Humbleness
Listen, learn, share and give space to others

Uprightness
Our word is our bond

Our Employees
The right environment for the right people

Our Name
The sum of our Values: passionately striving higher

KEY FIGURES AND FINANCIAL RATIOS

Amounts in USD million

Income statement	2018	2017	2016
Revenue	647.0	621.1	593.5
Profit before depreciation and impairment losses (EBITDA)	**109.6**	**126.1**	**172.0**
Depreciation and amortisation	- 106.9	- 121.2	- 128.4
Impairment losses	0.0	- 464.0	0.0
Gain/loss on sale of non-current assets, etc., net	- 0.5	1.3	- 4.0
Profit/loss before financial Items (EBIT)	**2.2**	**- 457.8**	**39.6**
Financial items, net	- 37.2	- 31.8	- 24.2
Profit/loss before tax	**- 35.0**	**- 489.6**	**15.4**
Tax	1.9	- 1.1	1.4
Profit/loss for the year - continuing operations	- 33.1	- 490.7	16.8
Profit/loss for the year - discontinued operations	2.0	0.8	2.9
Profit/loss for the year	**- 31.1**	**- 489.9**	**19.7**

Balance sheet			
Total assets	1,358.1	1,364.3	1,828.0
Total equity	465.8	500.7	997.5
Investments in property, plant and equipment	- 146.7	- 88.3	- 268.3

Cash flow statement			
Cash flow from operating activities	90.8	85.8	197.2
Cash flow used for investing activities	- 118.5	- 56.5	- 245.4
Free cash flow	- 27.7	29.3	- 48.2

Financial ratios			
Profit margin	16.9%	20.2%	29.0%
Equity ratio	34.3%	36.7%	54.6%
Return on equity ratio	-6.4%	-65.4%	2.0%

Please see definitions in Note 16 of the consolidated financial statements.

HIGHLIGHTS 2018

JANUARY
The MR newbuilding Maersk Cancun is delivered

MARCH
Sale of Maersk Ellen

APRIL
Mitsui & Co. Ltd. acquires a part of the shares of Maersk Product Tankers from A.P. Møller Holding A/S

The company orders six LR2 vessels

The MR newbuilding Maersk Capri is delivered

Sale of Maersk Privilege

JULY
The MR newbuilding Maersk Callao is delivered

AUGUST
The company begins to use the digital solution InSite digital to gain greater transparency and insight into vessels' performance

Testing of wind-propulsion technology onboard a product tanker vessel begins

SEPTEMBER
Sale of Maersk Rhode Island

OCTOBER
The MR newbuilding Maersk Cayman is delivered

DECEMBER
Morten M. Christensen joins the company as the new Chief Financial Officer

MARKET AND STRATEGY

MARKET

The product tanker market was challenging in 2018. While fleet growth had slowed significantly over the previous two years, the market remained heavily oversupplied. Product trade demand growth was positive, but below historical ranges. As a result, product tanker freight rates fell. This decline, combined with high fuel prices, depressed industry earnings, reaching lows not experienced since the 2008/9 financial crisis.

After hitting near record lows in the third quarter of 2018, however, the market rallied in the fourth quarter. This was caused by a large increase in US crude production and exports, which coincided with reduced Iranian oil supply, prompting Asian refiners to buy supplies from long-haul sources in the Atlantic. The strong crude carrier market led owners to switch from clean to dirty products, which ultimately reduced the overall clean product fleet. The confluence of rising demand and shrinking supply also coincided with lower fuel costs which led to the high freight rates achieved at the end of the year.

2019 Market Outlook

The market is expected to improve from the end of 2019. On the demand side, trade is expected to increase sharply, driven by the advent of the new IMO 2020 sulphur regulations. The regulations will require a major reconfiguration of the global refining infrastructure and logistics to meet blending demand for compliant marine fuels. Moreover, we see the market being structurally short of diesel and marine gasoil and the refining industry will likely see a step change increase in refinery output to meet marine fuel demand. With this comes increased output of other fuels, which will need to be priced into the market, the clear majority of which will be carried by product tankers. As a result, we see an upward trajectory in demand, starting from the end of 2019.

The trade impact from new sulphur regulations could ultimately benefit the full range of product tankers, as both intra- and inter-regional trade is stimulated. The larger LR2s and MRs will benefit from growth of inter-regional trade from the Middle East to Europe and Asia, while the smaller Handy and Intermediates will benefit more from the intra-regional trade growth within Asia and Europe. An increase in greenfield refining capacity in the Middle East as Asia will also spur growth of trade in 2019.

At the same time, global fleet supply growth is expected to flatten because of increased scrapping of older tonnage, a result of the last few years of low earnings, combined with the increased capital expenditure required to remain competitive in the market with impending new environmental regulations. Furthermore, deliveries of new vessels are expected to remain below historical norms, as the product tanker order book is historically low.

With slowing vessel supply growth and vessel demand expected to rise, product tanker freight rates are projected to increase, starting at the end of 2019.

STRATEGY

Maersk Product Tankers is well positioned to take advantage of market opportunities that arise, retaining a market-leading position and remaining a vessel owner of choice among customers. This is possible due to a competitive, high-quality fleet that is able to meet customer demand for global transportation of cargoes in a safe, efficient and reliable manner.

The fleet will continue to be managed commercially and technically in a strategic partnership with Maersk Tankers. The company has historically shown itself capable of outperforming the market on time charter equivalent earnings, and its strategy – focused on digital freight trading and cost leadership – is helping to deliver maximum value from the fleet. This includes obtaining access to cargoes in a global network of around 200 customers; performance insight to optimise bunker consumption; cost-savings stemming from scale benefits; and flexibility in entering and exiting the pools.

Maersk Product Tankers' strategy can be broken down into the following strategic priorities.

Dynamic vessel portfolio

The company follows a rigid risk management process to employ an opportunistic investment strategy, allowing it to buy assets when the prices are attractive and selling them when financial solid returns can be achieved.

The company will take a more active approach to asset trading in the future to strengthen its financial position and achieve financial flexibility. This is underpinned by capital commitments of USD 384.4 m in the fleet. In 2018 alone, we have invested USD 146.7m. In 2019 and 2020, we will take delivery of the last five of 19 MR newbuildings, and, in 2020, we will add the first four of six LR2 newbuildings. We have an option to order four more LR2 vessels; the decision on which will be made in 2019.

The significant investments in assets have ensured a competitive fleet younger than 15 years, that is sufficiently flexible to meet the trading needs of our customers.

The transport of refined oil products makes up around 9% of the world's total seaborne transportation, which puts an onus on the tanker industry to find solutions to the problems associated with climate change. We are reducing the fleet's CO2 emission levels through digital solutions, more efficient operation of vessels and fleet optimisation. From 2010 to 2018, CO2 emissions were reduced by approximately 20%. This work will continue, along with the testing of new fuel-efficient technology. For example, we have, as the world's first product tanker company, begun testing wind-propulsion technology on board a product tanker vessel, with the aim of achieving an average reduction of 7-10% in fuel consumption and emissions.

Delivering commercial outperformance enabled by digitisation

The majority of Maersk Product Tankers' fleet is in the Aframax, LR2, MR, Handy and Intermediate pools, serving customers' need for transportation in the spot market. The deployment strategy of pools gives the company exposure to the spot market's inherent volatility and, therefore, the anticipated increase in freight rates.

The strategy is to continue as a spot-trading tanker company using time charters opportunistically to lock in high returns. Our assessment is that this strategy, coupled with our partnership with

Maersk Tankers and its data-driven operating model, offers the highest potential for maximising earnings over the life of the business cycle. Through our strategic partnership, considerable progress on digitising parts of the commercial operations has been made. As a result, quarter-by-quarter, we have outperformed the market in 2018. Furthermore, we have gained more insight into vessels' performance with the use of a new digital platform, InSite digital.

Testing has also begun of a digital simulation solution, which provides a data-driven trade signal that will be used to position the fleet in the most optimal way, meeting both customer demand and increasing earnings. The testing began with the LR2 fleet and in 2019 will continue with the MR fleet.

A digital solution that aims to optimise bunker usage is being tested. It will help determine, among other things, the optimum speed of a vessel and the best way to buy bunker. Bunker accounts for up to 60% of a vessel's total voyage costs and this is set to increase when the global sulphur cap is introduced in 2020. The cap reinforces the need for us to find solutions that will make significant savings and lower CO2 emissions.

Retaining a cost leadership position

Vessels' daily running costs have been reduced by approximately 30% since 2014. Despite unsatisfactory cost increases in 2018, we have retained a cost leadership position, as measured by external benchmarks. This has largely been achieved through technology optimisation, process efficiencies and procurement improvements. The work will continue to keep costs at competitive levels.

2019 focus: driving commercial and operational excellence

In 2019, we will continue to strengthen our asset-trading business, take advantage of Maersk Tankers' digitisation strategy to optimise time charter equivalent earnings and reduce vessels' running costs. We will also prepare to meet the new sulphur regulation by installing the first of four scrubbers, while continuing to test new vessel technology.

Delivering on this strategy will create a solid foundation for adding value to our owners and customers and for the long-term profitable growth of Maersk Product Tankers.

SUSTAINABILITY

Maersk Product Tankers is part of the global energy value chain, providing transportation solutions to oil companies and trading houses, as noted in the section 'Energy value chain'.

As an international company operating at sea and onshore, Maersk Product Tankers' activities have an impact on people, societies and the environment. We acknowledge this responsibility and are committed to conducting our business in an ethically, environmentally and socially responsible manner, while also promoting responsible practice in our business relations.

We do this by adhering to the company's core values and through the implementation of policies and guidelines. Our Code of Conduct, for example, describes what we expect from those we are working with. It also reflects our commitment to the United Nations Global Compact and our respect for universally recognised standards such as the United Nations Universal Declaration of Human Rights.

Making a real impact often requires industry collaboration. Through our partnership with Maersk Tankers, we are working with other vessel owners and stakeholders and are able to promote responsible practices in the maritime industry and supply chain. This includes a commitment to the principles expressed in the United Nations Sustainable Development Goals, in the High Impact Low Frequency (HiLo) initiative and in the Maritime Anti-Corruption Network (MACN).

You can read more about our work in the sustainability report: https://maersktankers.com/about/sustainability/sustainability-update-archive

DIVERSITY

We strive to create a diverse and inclusive work culture in accordance with our Core Values, enabling diversity of thought and helping us attract and retain employees from the widest talent pool. We do this by building teams with differences in, among other things, nationality, age, experience and gender. Strategy and initiatives related to the recruitment and development of employees are in place to support us in realising our ambitions.

At the date of the signing of the annual report, the Board of Directors had one female director among its five members. Despite an active search in recruitment, it has not been possible to ensure an equal gender distribution. The company will set a target for equal gender distribution in 2019.

On other management levels, Maersk Product Tankers will continue to pursue a diverse and inclusive composition of members.

The company continued its work on strengthening this area in 2018. This included, for example, more actively shortlisting female candidates in the recruitment process. The work will continue to further bridge the gap in the coming years.

FOUR MAIN AREAS

HUMAN RIGHTS

Human rights are a precondition to ensure the freedom and dignity of people. Safety at work is a basic human right, preventing major accidents or fatalities. We are committed to achieving zero incidents at work by making safety a top priority for Maersk Product Tankers. We base our decisions and actions on achieving zero incidents, and encourage an open dialogue and feedback process throughout the company in safety matters. During 2018, we continued to promote safety with campaigns, training and optimised safety tools.

ENVIRONMENTAL ACTION

Air emissions from seaborne transportation have negative effects on human health and the natural environment. We continuously seek to improve vessel efficiency, which will reduce both costs and CO2 emissions. New ways of using data and a new digital solution that draws on market rates, bunker prices and weather conditions have been developed in 2018 and will help to determine the right speed for vessels, which will optimise fuel consumption and have a positive impact on CO2 emissions. Additionally, the testing of wind-propulsion technology on board one of our LR2 product tanker vessels has begun, targeting an annual average reduction in fuel consumption and associated emissions of 7-10%.

RESPONSIBLE PROCUREMENT

International companies' purchasing decisions have an impact on environmental, social and economic conditions around the world. The safe and reliable operation of vessels is dependent on a large and complex network of suppliers worldwide. We have strengthened our policy in 2018 to ensure that suppliers that fall in a high-risk category take a responsible approach towards people, environment and assets. This approach needs to be in accordance with international and our own standards. Suppliers must also establish similarly responsible practices towards their own suppliers to promote a sustainable supply chain.

ANTI-CORRUPTION WORK

Corruption undermines social and economic development, destabilises the business environment, adds to the cost of trade and has a negative impact on markets and countries. Our vessels carry cargo for customers and make a large number of port calls worldwide. Regardless of destination, we demand that both crew and employees onshore take a zero-corruption stand. This is supported by Maersk Tankers' membership of the Maritime Anti-Corruption Network (MACN), which works towards eliminating corruption and enabling fair trade in the maritime industry, and the company's adherence to the Zero Facilitation Payment (FP) Policy. Our work in 2018 has ensured progress has been made to reduce the number of facilitation payments.


MAERSK TRIESTE
SINGAPORE
IMO 9732931
MAERSK TRENTON
SINGAPORE

FINANCIAL PERFORMANCE IN 2018

The result for 2018 was a loss before tax of USD 35.0m compared to a loss of USD 489.6m in 2017, which was significantly impacted by the impairment of vessel values of USD 464.0m. EBITDA was USD 109.6m (USD 126.1m). The lower result was mainly due to very low freight rates in 2018, partly mitigated by increased market outperformance.

RESULTS

Amounts in USD million	2018	2017	% change
Revenue	647.0	621.1	4.2%
Operating costs	- 536.7	- 488.0	10.0%
EBITDA	109.6	126.1	-13.0%
Depreciation and impairment losses	- 106.9	- 585.2	-81.7%
Financial income and expenses	- 37.2	- 31.8	17.0%
Tax	1.9	- 1.1	-279.4%
Profit/loss for the year	- 31.1	- 489.9	-93.6%

Revenue
Revenue for 2018 increased by 4% compared to the previous year. The increase in revenue is mainly due to delivery of four new MR vessels offset by the lowest spot market rates seen in a decade.

Operating costs
Operating costs comprising bunker costs, voyage costs, vessel operating costs, port costs, staff costs and management fees increased by 10%, due to higher bunker costs and vessel operating costs. Vessel operating costs increased from 5,633 USD/day in 2017 to 6,055 USD/day in 2018. The development is due to higher insurance costs and unscheduled repair and maintenance work.

EBITDA
EBITDA decreased by 13% from 2017 to 2018 while we outperformed the market quarter on quarter. In time charter equivalent, we realised a decline of 2.7% from 12,352 USD/day in 2017 to 12,023 USD/day in 2018 compared to a decline in the market of 14.5%.

Depreciation and impairment losses
Depreciation decreased with 12% compared to 2017 which was mainly driven by the impairment in 2017 of USD 464.0m that reduced depreciable book values, slightly offset by depreciation on four new MR vessels.

Financial income and expenses
Financial expenses, net increased by USD 5.4m in 2018, primarily due to higher interest rates on new debt financing.

Tax
Tax changed from a USD 1.1m loss for the year ended 31 December 2017 to a USD 1.9m income for the year ended 31 December 2018, primarily due to the higher utilization of tax loss and lower tonnage and freight tax.

CASH FLOWS

Amounts in USD million	2018	2017	Δ
Cash flow from operating activities	90.9	85.8	5.1
Cash flow used for investing activities	- 118.5	- 56.5	- 62.0
Cash flow from financing activities	48.9	9.6	39.3

Cash flow from operating activities
Cash flow from operating activities was USD 90.9m in 2018 compared to USD 85.8m in 2017. The increase is mainly driven by an improvement in net working capital offset by increased payment of interest on new debt financing.

Cash flow used for investing activities
Cash flow used for investing activities was USD 118.5 in the 2018 compared to USD 56.5m in 2017. The increase was mainly due to the delivery of four MR vessels and installments on remaining five MR vessels.

Cash flow from financing activities
Cash flow from financing activities was positive by USD 48.9m in 2018 (positive by USD 9.6m), impacted by the new debt financing of USD 458.0 from a consortium of international banks used to settle balances with A.P. Møller Holding of USD 409.1m.

CAPITAL STRUCTURE AND FUNDING

Amounts in USD million	2018	2017	Δ
Property, plant and equipment	1,159.5	1,137.0	22.5
Equity	465.8	500.7	- 34.9
Borrowings	809.1	759.6	49.5
Cash and cash equivalents	76.5	53.3	23.2
Net debt	732.6	706.3	26.3

Property, plant and equipment
Property, plant and equipment increased with USD 22.5m compared to 2017 due to the delivery of four new MR vessels, instalments on five remaining MR vessels, offset by the sale of two vessels and depreciations on the remaining fleet.

Equity
Equity decreased by USD 34.9m in 2018, primarily impacted by the loss for the year of USD 31.1m and negative impact from interest rate swaps of USD 3.7m. The equity share of total assets was 34.3% at the end of 2018 (36.7%).

Net debt
At 31 December 2018, net debt amounted to USD 732.6m (USD 706.3m), primarily comprising gross borrowings of USD 809.1m (USD 759.6m) and cash and bank balances of USD 76.5m (USD 53.3m).

Expectation for 2019
The result for 2019 is expected to improve due to higher freight rates and lower vessel operating costs.

RISKS

Freight Rates
Maersk Product Tankers is exposed to fluctuations in global freight rates, bunker prices and vessel prices. Vessels are largely exposed in the spot market, but coverage is applied selectively if deemed attractive. Currently we have covered 9% of our vessel days for 2019.

Currency and Interest rates
Maersk Product Tankers' income is mainly in USD, whereas spending is spread across several currencies, including USD. It is Maersk Product Tankers policy to partly hedge fluctuations in exchange rates. As of 31 December 2018, Maersk Product Tankers had 52% (0%) of its exchange rates risks on future spending hedged by the use of FX hedges.

Maersk Product Tankers primary financing currency is USD. The company has LIBOR-based loans and is exposed to changes in interest rates. It is Maersk Product Tankers policy to partly hedge interest rate risks using a model under which a larger proportion of risk is hedged in the short to medium term and a smaller proportion is hedged in the long-term. As of 31 December 2018, Maersk Product Tankers had 74% (0%) of its debt fixed through the use of interest rate swaps.

Counterparties
Maersk Product Tankers has exposure to financial and commercial counterparties and manages those exposures through the use of credit risk frameworks. To minimise credit risks, a limit structure and vetting process has been put in place for all counterparties to avoid concentrations of credit exposure on particular counterparties or risk tranches.

FINANCIAL STATEMENTS

Consolidated financial statements | Parent company financial statements | Management's statement | Independent auditor's report

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement | Consolidated statement of comprehensive income | Consolidated balance sheet at 31 December | Consolidated cash flow statement | Consolidated statement of changes in equity | Notes to the consolidated financial statements

FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT FOR 1 JANUARY TO 31 DECEMBER

Note	Amounts in USD thousands	2018	2017
	Revenue	646,998	621,086
1	Operating costs	- 536,666	- 487,951
	Other income	7,325	2,575
	Other costs	- 8,028	- 9,643
	Profit before depreciation and impairment losses (EBITDA)	**109,629**	**126,067**
2	Gain/loss on sale of non-current assets, etc., net	- 530	1,286
5	Depreciation and impairment losses, net	- 106,904	- 585,167
	Profit/loss before financial items (EBIT)	**2,194**	**- 457,814**
3	Financial income	1,326	205
3	Financial expenses	- 38,533	- 31,995
	Profit/loss before tax	**- 35,012**	**- 489,604**
4	Tax	1,914	- 1,067
	Profit/loss for the year - continuing operations	**- 33,098**	**- 490,671**
6	Profit/loss for the year - discontinued operations	1,988	747
	Profit/loss for the year	**- 31,110**	**- 489,924**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Note	Amounts in USD thousands	2018	2017
	Profit/loss for the year	- 31,110	- 489,924
	Cash flow hedges		
	Value adjustment of hedges for the year	- 4,053	0
4	Tax on other comprehensive income	304	0
	Total items that have been or may be reclassified subsequently	**- 3,749**	0
	Other comprehensive income, net of tax	**- 3,749**	0
	Total comprehensive income for the year	**- 34,860**	**- 489,924**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

Note	Amounts in USD thousands	2018	2017
5	Property, plant and equipment	1,159,505	1,137,039
	Deposits	2	2
	Deferred tax	0	205
	Total non-current assets	**1,159,507**	**1,137,247**
	Inventories	**22,620**	**20,838**
10,15	Trade receivables	77,598	79,896
	Tax receivables	3,052	479
	Other receivables	8,639	48,006
	Prepayments	10,150	10,132
	Other current assets	**99,439**	**138,513**
	Cash and cash equivalents	**76,531**	**53,288**
6	Discontinued operations and Assets held for sale	0	14,398
	Total current assets	**198,590**	**227,037**
	Total assets	**1,358,097**	**1,364,284**

Note	Amounts in USD thousands	2018	2017
	Share capital	1,590	1,590
	Retained Earnings	467,956	499,066
	Reserves for Hedging	-3,749	0
	Total equity	**465,796**	**500,656**
13	Derivatives	3,540	0
7	Borrowings, non-current	705,757	705,725
	Total non-current liabilities	**709,297**	**705,725**
7	**Borrowings, current**	**103,364**	**53,849**
8	Provisions	3,221	3,562
	Trade payables	52,926	65,584
	Tax payables	0	92
	Other payables	18,739	24,818
13	Derivatives	594	0
15	Deferred income	4,159	6,295
	Other current liabilities	**79,639**	**100,351**
6	Discontinued operations and assets held for sale	0	3,702
	Total current liabilities	**183,004**	**157,902**
	Total liabilities	**892,300**	**863,628**
	Total equity and liabilities	**1,358,097**	**1,364,284**

CONSOLIDATED CASH FLOW STATEMENT

Note	Amounts in USD thousands	2018	2017
	Profit/Loss before financial items (EBIT)	**2,194**	**- 457,814**
6	Depreciation, impairment	106,904	585,167
2	Gain/Loss on sale of non-current assets	530	- 1,286
	Profit before depreciation and impairment losses (EBITDA)	**109,629**	**126,067**
13	Change in working capital	20,557	- 7,036
	Change in provisions	- 697	547
	Other non-cash items	493	1,035
	Cash generated from operations before financial items and tax	**129,982**	**120,613**
3	Interest received	1,326	87
3	Interest paid	- 40,335	- 33,291
	Tax paid	- 101	- 1,659
	Net cash from operating activities	**90,872**	**85,750**
13	Purchase of vessels	- 146,696	- 88,260
	Proceeds from disposal	28,173	31,785
	Other Capital expenditure	0	1
	Net cash used for investing activities	**- 118,523**	**- 56,474**
7	Proceeds from new borrowings	458,002	400,000
7	Repayment of borrowings	- 409,088	- 390,432
	Net cash from financing activities	**48,914**	**9,568**
	Net cash flow from continuing operations	**21,263**	**38,844**
6	Cash flows from discontinued operations	1,988	519
	Net cash flow from discontinued operations	**1,988**	**519**
	Net cash flow for the year	**23,251**	**39,363**
	Liquid funds at beginning of period	53,288	13,925
	Exchange gain/loss on Liquid funds	- 8	0
	Liquid funds at end of period	**76,531**	**53,288**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD thousands	Share capital	Reserve for hedges	Retained Earnings	Total equity
Equity 1 January 2017	1,590	0	995,928	997,518
Profit/loss for the year	0	0	- 489,924	- 489,924
Other comprehensive income	0	0	0	0
Total comprehensive income for the year	0	0	- 489,924	- 489,924
Other equity movements	0	0	- 6,938	- 6,938
Total transactions with shareholders	0	0	-6,938	-6,938
Equity 31 December 2017	**1,590**	**0**	**499,066**	**500,656**
2018				
Profit/loss for the year	0	0	- 31,110	- 31,110
Other comprehensive income, net of tax	0	- 3,749	0	- 3,749
Total comprehensive income for the year	0	- 3,749	- 31,110	- 34,860
Total transactions with shareholders	0	0	0	0
Equity 31 December 2018	**1,590**	**- 3,749**	**467,956**	**465,796**

The 2017 "Other equity movements" relate to impact of predecessor accounting for transactions/settlements not occurred in the past or not part of the transferred assets and liabilities.

The share capital consists of 10 million shares with a nominal value of DKK 1 per share. The shares are divided into two share classes; A (nominal value DKK 2.5m) and B (nominal value DKK 7.5m) with A shares carrying three votes and B shares carrying 1 vote in voting power.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Operating costs

Amounts in USD thousands	2018	2017
Bunker costs	156,772	140,460
Voyage costs	44,595	31,474
Vessel operating costs	177,846	135,777
Port costs	113,791	121,188
Charter hire	0	20,449
Staff costs	7,118	4,187
Management fees	35,344	32,097
Other operating costs	1,200	2,318
Total operating costs	**536,666**	**487,951**
Remuneration of employees		
Wages and salaries	6,427	3,512
Other Benefits	192	0
Pension costs, defined contribution plans	27	210
Social Security Contributions	472	464
Total remuneration	**7,118**	**4,187**
Average number of employees	**76**	**48**

The renumeration of Executive Management of USD 1.49m in salaries is included in the management fees paid to Maersk Tankers A/S.

The Board of Directors has received fees of USD 0.1m (USD 0m).

Fees to PricewaterhouseCoopers[1]

Amounts in USD thousands	2018	2017
Statutory audit	59	39
Other assurance engagements	2	0
Tax advisory services	7	0
Other Services	8	40
Total fees	**76**	**79**

[1] Fee to PricewaterhouseCoopers, Statsautoriseret Revisionsaktieselskab amounts to USD 67k (USD 79k).

Note 2: Gain on sale of non-current assets, etc., net

Amounts in USD thousands	2018	2017
Gains on sale of vessels	461	1,337
Losses on sale of vessels	-991	-51
Gain/loss on sale of non-current assets, etc., net	-530	1,286

Note 3: Financial income and expenses

Amounts in USD thousands	2018	2017
Interest expenses on liabilities	-40,231	-33,963
Of which borrowing costs capitalised on assets[1]	2,665	1,968
Interest income on loans and receivables	1,326	87
Net interest expenses	**-36,239**	**-31,908**
Exchange rate gains on bank balances, borrowings and working capital	0	118
Exchange rate losses on bank balances, borrowings and working capital	-148	0
Net foreign exchange gains/losses	**-148**	**118**
Guarantee fees	-819	0
Financial expenses, net	**-37,206**	**-31,790**
Of which:		
Financial income	1,326	205
Financial expenses	-38,533	-31,995

[1]The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5% (4.1%).

For an analysis of gains and losses from derivatives, reference is made to note 13.

Note 4: Tax

Amounts in USD thousands	2018	2017
Tax recognised in the income statement		
Current tax on profits for the year	2,663	-375
Adjustment for current tax of prior periods	-684	-18
Utilisation of previously unrecognised deferred tax assets	0	7
Total current tax	**1,979**	**-386**
Total income tax	1,979	-386
Tonnage and freight tax	-66	-681
Total tax expense	**1,914**	**-1,066**
Tax reconciliation		
Profit/loss before tax	-35,012	-489,604
Profit/loss from discontinued operations	1,988	747
Profit/loss subject to Danish and foreign tonnage taxation, etc.	5,004	43,753
Profit/loss before tax, adjusted	**-28,020**	**-445,104**
Tax using the Danish corporation tax rate (22.0%)	6,164	97,924
Tax rate deviations in foreign jurisdictions	2,175	-93,156
Effect of Joint Taxations	-2,922	-5,144
Adjustment to previous years' taxes	-684	-10
Other differences, net	168	0
Loss not expected to be utilised	-2,922	0
Total income tax	**1,979**	**-386**
Tax recognised in other comprehensive income and equity		
Of which:		
Current tax	304	0
Deferred tax	0	0

Maersk Product Tankers is part of a joint taxation group with A.P. Møller Holding A/S and part of its activities is subject to corporate income tax. Taxable losses of Maersk Product Tankers that is expected to be utilised against taxable income of other participants in the joint taxation group in 2018 is capitalised as tax receivable. The remaining tax losses have not been capitalised as deferred tax asset as it is not expected to be utilised in future income.

Amounts in USD thousands	2018	2017
Tax loss carry forward	13,282	0
Total	**13,282**	**0**

The tax value of the loss carry forward is USD 2.9m (USD 0m). The unrecognised deferred tax assets have no significant time limitations and relates to tax loss not expected to be utilised.

Note 5: Property, plant and equipment incl. impairment

Amounts in USD thousands	Vessels	Assets under construction	Total
Cost			
1 January 2017	2,530,605	87,770	2,618,375
Addition	25,658	64,569	90,227
Disposal	-39,937	0	-39,937
Transfer	81,583	-81,583	0
Transfer, assets held for sale	-20,361	0	-20,361
31 December 2017	**2,577,549**	**70,756**	**2,648,304**
Addition	24,287	125,075	149,361
Disposal	-77,318		-77,318
Transfer	142,056	-142,056	0
31 December 2018	**2,666,574**	**53,774**	**2,720,348**
Depreciation and impairment losses			
1 January 2017	956,724	0	956,724
Depreciation	121,139	0	121,139
Impairment losses	410,961	53,069	464,030
Disposal	-26,969	0	-26,969
Transfer, assets held for sale	-3,657	0	-3,657
31 December 2017	**1,458,197**	**53,069**	**1,511,266**
Depreciation	106,904	0	106,904
Disposal	-57,327	0	-57,327
Transfer	30,141	-30,141	0
31 December 2018	**1,537,915**	**22,928**	**1,560,843**
Carrying amount			
31 December 2017	1,119,352	17,687	1,137,039
31 December 2018	1,128,659	30,846	1,159,505

Note 5: Property, plant and equipment incl. impairment-continued

The recoverable amount of each cash generating unit (CGU) is determined on the basis of the higher of its value-in-use or fair value less cost to sell. The value-in-use is calculated using certain key assumptions for the expected future cash flows and applied discount factor of 8.5% (8.5%).

The cash flow projections are based on financial budgets and business plans approved by management. In nature, these projections are subject to judgement and estimates that are uncertain, though based on experience and external sources where available. Key assumptions comprise of freight rates, operating costs, inflation and discount rates. The discount rates applied reflect the time value of money as well as the specific risks related to the underlying cash flows. Any uncertainties reflecting past performance and possible variations in the amount or timing of the projected cash flows are generally reflected in the discount rates.

Management's assessment led to an impairment of USD 464m in 2017 related to vessels due to an expected continuation of the lower asset valuations. Given the continued volatility in the market, an impairment test for 2018 did not reveal a need for further impairments or a reversal of the previous impairment, as the longer term expectations has not changed significantly since the last impairment test.

Note 6: Discontinued operations and assets held for sale

Amounts in USD thousands	2018	2017
Profit/loss for the year		
Revenue	319	29,643
Other income	1,703	0
Operating Costs	-34	-28,896
Profit/loss for the year-discontinued operations	**1,988**	**747**
Cash flow from discontinued operations		
Cash flow from operating activities	1,988	519
Cash flow used for investing activities	0	0
Cash flow from financing activities	0	0
Net cash flow from discontinued operations	**1,988**	**519**
Balance sheet for discontinued operations and assets held for sale		
Assets		
Property, plant and equipment[1]	0	8,712
Trade receivables	0	3,139
Inventories	0	0
Other receivables	0	1,947
Prepayments	0	600
Total Assets	**0**	**14,398**
Liabilities		
Provisions, non-current	0	0
Provisions, current	0	215
Trade payables	0	843
Other payables, current	0	2,644
Total Liabilities	**0**	**3,702**

[1] Property, plant and equipment consists of one vessel, Maersk Ellen classified as asset held for sale in 2017.

The VLCC activities were divested in 2014. The discontinued operations consist of two remaining bareboat contracts which expired in 2017.

Note 7: Borrowings

Amounts in USD thousands	31 December 2017	Cash flows	31 December 2018
Bank and other credit institutions, related parties	359,108	- 359,108	0
Bank and other credit institutions	400,466	408,656	809,121
Total	**759,574**	**49,548**	**809,122**
Of which:			
Classified as non-current	705,725		705,757
Classified as current	53,849		103,364
Derivatives hedge of borrowings, net	0	3,540	3,540

Reference is made to Liquidity risk in Note 10 of the consolidated financial statements for covenants related to borrowings.

Note 8: Provisions

Amounts in USD thousands	Total
1 January 2018	3,777
Provision made	712
Amount used	- 452
Amount reversed	- 816
31 December 2018	3,221
Of which:	
Classified as non-current	0
Classified as current	3,221

The majority of the provisions are to cover commercial claims.

Note 9: Financial Instruments by Category

Amounts in USD thousands	Carrying amount 2018	Fair Value 2018	Carrying amount 2017	Fair Value 2017
Carried at amortized cost				
Deposits	2		2	
Trade receivables	77,599		83,035	
Other receivables	8,639		49,953	
Cash and cash equivalents	76,531		53,288	
Financial assets at amortized costs	162,768		186,278	
Total financial assets	**162,768**		**186,278**	
Carried at amortized costs				
Borrowings	809,121		759,574	
Trade payables	52,926		65,584	
Other payables	18,739		24,818	
Financial liabilities at amortized costs	880,786		849,975	
Carried at fair value				
Derivatives	0	4,134	0	0
Total financial liabilities	**880,786**	**4,134**	**849,975**	0

Financial instruments measured at fair value

Financial instruments measured at fair value can be divided into three levels:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 — Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 — Inputs for the asset or liability that are not based on observable market data.

Fair value of derivatives is within level 2 of the fair value hierarchy and is calculated on the basis of observable market data as of the end of the reporting period.

Financial instruments carried at amortised cost

Fair value of the short-term financial assets and other financial liabilities carried at amortised cost is not materially different from the carrying amount. In general, fair value is determined primarily based on the present value of expected future cash flows. Where a market price was available, however, this was deemed to be the fair value.

Note 10: Financial risks, etc.

The group's activities expose it to a variety of financial risks:
• Market risks, i.e. currency risk and interest rate risk
• Credit risk
• Liquidity risk

The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the group's profit or the value of its holdings of financial instruments.

The sensitivity analyses for currency risk and interest rate risk have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies remain unchanged from hedge designations in place at 31 December 2018. Furthermore, it is assumed that the exchange rate and interest rate sensitivities have a symmetric impact, i.e. an increase in rates results in the same absolute movement as a decrease in rates.

The sensitivity analyses show the effect on both pre-tax profit and equity that would result from a reasonably possible change in exchange rates and interest rates.

Currency risk
The group's currency risk relates to the fact that while income from shipping activities is denominated mainly in USD, the related expenses are incurred in both USD and a wide range of other currencies such as DKK, EUR, SGD and GBP. As the net income is in USD, this is also the primary financing currency.

The main purpose of hedging the group's currency risk is to mitigate the impact of changes in the USD value of the group's net cash flow and hence reduce associated volatility in the group's profit. The group uses forwards to hedge these risks. The key aspects of the currency hedging policy are as follows:

• Net cash flows in other significant currencies than USD are hedged using a layered model with a 12-month horizon
• Commercial and financial exposures such as investments, divestments and debt in currencies other than USD are hedged according to the financial policy

An increase in the USD exchange rate of 10% against all other significant currencies to which the group is exposed is estimated to have an insignificant impact on the group's profit and loss and an impact of USD 2.0m(0) on the other comprehensive income.

Interest rate risk
The group has all its debt denominated in USD.

The group strives to maintain a combination of fixed and floating interest rates on its net debt, reflecting expectations and risks. The hedging of the interest rate risk is governed by a minimum level of fixed rate debt obtained through the use of interest rate swaps. As of 31 December 2018, the Group had 74% (0%) of its debt fixed through the use of interest rate swaps.

An increase in interest rates by one percentage point is estimated to decrease profit for the year by USD 1.4m and increase other comprehensive income by USD 22.8m (2017: decrease profit for the year by USD 7.0m and increase other comprehensive income by USD 0m). This analysis is based on borrowings and loan receivables at 31 December, and assumes that all other variables remain constant. A one percentage point decrease in interest rates would have a corresponding inverse effect.

This analysis assumes that all other variables remain constant.

Borrowings by interest rate level - Amounts in USD thousands	Carrying amount	0-1 year	1-5 years	5- years
2018				
3-6%	809,122	103,363	355,242	350,516
Of which:				
Bearing fixed interest	592,800			
Bearing floating interest	216,321			
2017				
3-6%	759,574	53,828	534,006	171,740
Of which:				
Bearing fixed interest	0			
Bearing floating interest	759,574			

Note 10: Financial risks, etc.-continued

Credit risk

Trade receivables

Maersk Product Tankers has exposure to financial and commercial counterparties and actively manage those exposures through our credit risk frameworks. To minimise the credit risk, a limit structure and vetting process is in place for all counterparties, to ensure that concentrations of credit exposure on particular counterparties or risk tranches are avoided.

The group applies the simplified approach to providing the expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. In accordance with IFRS 9, also non-due trade receivables have been impaired.

Maturity analysis of trade receivables	2018	2017
Receivables not due	51,258	53,420
Less than 90 days overdue	24,085	24,986
More than 90 days overdue	6,129	8,008
Receivables, gross	81,472	86,414
Expected credit loss	-3,874	-3,379
Carrying amount	**77,598**	**83,035**

Majority of the expected credit loss is related to trade receivables overdue by more than one year.

Liquidity risk

In order to provide cover for the cyclical nature of the business, the group is committed to keep a minimum liquidity reserve. The purpose of the group's liquidity reserve is to ensure that short-term payment obligations can be honoured at all times and ensure compliance with financial covenants from lenders. The financial covenants from lenders are related to minimum cash position, minimum loan to value ratio and equity-to-assets. All loans have cross-default clauses.

As of 31 December 2018, the Group had a liquidity reserve of USD 76.5m. The equity share of total equity and liabilities was 34.3% at the end of 2018 (36.7%).

Liquidity reserve is defined as undrawn loan facilities with maturities in excess of 12 months, cash and bank balances.

Maturities of liabilities and commitments		Cash flows including interest			
Amounts in USD thousands	Carrying amount	0-1 year	1-5 years	5-years	Total
2018					
Borrowings	809,121	140,059	470,579	381,521	992,159
Trade payables	52,926	52,926	0	0	52,926
Other payables	18,739	18,739	0	0	18,739
Non-derivative financial liabilities	880,786	211,724	470,579	381,521	1,063,824
Derivatives, payables	4,134	-863	4,997	0	4,134
Total recognised in balance sheet	884,920	210,861	475,576	381,521	1,067,958
Operating lease commitments	1,317	370	947	0	1,317
Capital commitments	384,360	134,389	249,971	0	384,360
Total	1,270,597	345,620	726,494	381,521	1,453,635
2017					
Borrowings	759,574	83,521	621,075	174,630	879,226
Trade payables	65,584	65,584	0	0	65,584
Other payables	24,818	24,818	0	0	24,818
Total recognised in balance sheet	849,975	173,922	621,075	174,630	969,627
Operating lease commitments	565	565	0	0	565
Capital commitments	243,349	194,022	49,327	0	243,349
Total	1,093,889	368,509	670,402	174,630	1,213,541

The weighted average term to maturity of loan facilities in the group is about four and a half years (about four years at 31 December 2017).

Note 11: Commitments

Amounts in USD thousands	Newbuilding of vessels
2018	
Capital commitments relating to acquisition of non-current assets	384,360
2017	
Capital commitments relating to acquisition of non-current assets	243,349

	2019	2020	2021	Total
Capital commitments relating to vessels	134,389	180,140	69,831	384,360
Number of Vessels	4	5	2	11

The increase in capital commitments is primarily related to exercising an option for 6 new LR2 vessels. The group has commitments for six LR2 and five MR vessels in total. The capital commitments will be financed by cash flow from operating activities as well as existing and new loan facilities.

Note 12: Cash flow specifications

Amounts in USD thousands	2018	2017
Inventories	- 1,783	- 6,888
Trade receivables	6,928	- 20,131
Other receivables and prepayments	39,908	2,884
Trade payables and other payables	- 24,359	16,981
Exchange rate adjustment of working capital	- 137	118
Change in working capital Total	**20,557**	**- 7,036**
Additions	- 149,361	- 90,228
Of which borrowing costs capitalised on assets	2,665	1,968
Purchase of property, plant and equipment	**- 146,697**	**- 88,260**

Note 13: Derivatives

Hedges consists of currency derivatives and interest rate derivatives. Foreign exchange forwards contracts are used to hedge the currency risk related to recognised and unrecognised transactions. Interest rate swaps are used to hedge interest rate exposure on borrowings.

Amounts in USD thousands	2018	2017
Non-current receivables	0	0
Current receivables	0	0
Non-current liabilities	3,540	0
Current liabilities	594	0
Liabilities, net	4,134	0

Hedge of operating cash flows in foreign currencies

Currency derivatives hedge future operating costs and are recognised on an ongoing basis in the income statement. The maturity of the hedges are within a year.

For hedges related to operating cash flows USD 0.6m is recognised in other comprehensive income and the cash flow hedge reserve in equity.

Amounts in USD thousands	2018	2017
Hedging foreign exchange risk on operating costs	- 594	0
Hedging interest rate risk	- 3,540	0
Total effective hedging	- 4,134	0
Ineffectiveness recognised in financial expenses	0	0
Total reclassified from equity reserve for hedges	- 4,134	0

Hedge of borrowings

Interest rate swaps are used to swap variable interest payments on term loans to fixed interest payments. All interest rate swaps are designated as cash flow hedges.

The notional amount of interest rate swaps at 31 December 2018 amounts to USD 592.8m, and are all denominated in USD. The average fixed rate of the interest rate swaps are 2.83%.

For cash flow hedges related to borrowings USD 3.5m is recognised in other comprehensive income and the cash flow hedges reserve in equity.

The hedge ratio are 1:1 for all hedging relationships.

Note 13: Derivatives-continued

The fair value of derivatives held at the balance sheet date can be allocated by type as follows:

Amounts in USD thousands	Fair value, asset 2018	Fair value, asset 2018	Nominal amount of derivative 2018	Fair value, asset 2017	Fair value, liability 2017	Nominal amount of derivative 2017
Interest rate swaps						
- cash flow hedges	0	3,540	592,800	0	0	0
- fair value hedges	0	0	0	0	0	0
Total	**0**	**3,540**	**592,800**	**0**	**0**	**0**
Hedge of cash flows and investments in foreign currencies						
Main currencies hedged						
- EUR	0	216	3,720	0	0	0
- GBP	0	0	0	0	0	0
- DKK	0	347	10,820	0	0	0
Other currencies	0	31	2,400	0	0	0
Total	**0**	**594**	**16,940**	**0**	**0**	**0**

For information about risk management strategy, currencies, maturities, etc. reference is made to note 10.

Note 14: Related parties

Amounts in USD thousands	2018	2017
Income statement		
Revenue	0	0
Operating costs	- 35,332	- 26,076
Other income	2,480	2,535
Financial expenses	- 5,577	- 19,573
Assets		
Trade receivables	1,088	3,247
Other receivables	6,288	54,518
Liabilities		
Bank and other credit institutions, etc. current	0	359,109
Trade payables	5,311	33,750
Other payables	998	13,331

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

The company’s vessels participate in commercial pools (Maersk Tankers-Afra Pool, Maersk Tankers-Handytankers Pool, Maersk Tankers-Intermediate Pool, Maersk Tankers-LR2 Pool, Maersk Tankers-MR Handytankers pool).

Note 15: Contract Balances

Amounts in USD thousands	2018	2017
Trade receivables from contracts with customers	55,751	63,590
Accrued income-contract asset	20,724	23,354
Deferred income-contract liability	4,159	6,295

The group has entered into contracts with an income value of USD 30.1m (USD 0m) within one year and USD 11.5m (USD 0m) within 1-2 years.

Revenue relates to spot voyages, voyages under contracts of affreightment (COAs) and limited lease income

Accrued income included in trade receivables in the balance sheet constitutes contract assets comprising unbilled amounts to customers representing the company's rights to consideration for services transferred to date. Any amount previously recognised as accrued income is reclassified to trade receivables at the time it is invoiced to the customer.

Under the payment terms generally applicable to the company's revenue generating activities, prepayments are received only to a limited extent. Typically, payment is due upon or after completion of the services.

Part of the deferred income presented in the balance sheet constitutes contract liabilities which represents advance payments and billings in excess of revenue recognised.

There were no significant changes in accrued income and deferred income during the reporting period

Note 16: Significant accounting policies

Basis of preparation

The consolidated financial statements for 2018 for Maersk Product Tankers A/S (hereafter: "Maersk Product Tankers") have been prepared on a going concern basis and in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act. The consolidated financial statements are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

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

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

In connection with the acquisition, APMH announced it was entering into an ownership consortium for the Maersk Tankers fleet with Mitsui & Co Ltd., leading to a restructuring of Maersk Tankers A/S.
As part of the restructuring, Maersk Product Tankers was formed through contribution (spin-off) of Maersk Tankers A/S' vessel-related activities for owned vessels.

The legal spin-off of the vessel-related activities to Maersk Product Tankers took place in December 2017 through a contribution in kind.

Changes to accounting policies

The accounting policies remain unchanged from the Annual Report for 2017 except for the adoption of IFRS 15 from 1 January 2018.

IFRS 15 entails a change of accounting treatment for the recognition of revenue and expenses from "charter party to discharge" to "load to discharge". Direct costs related to relocation of a vessel under contract are capitalized to the extent they are recoverable. The change in treatment did not have any material effect.

New financial reporting requirements in 2019

IASB has issued a new accounting standard for treatment of leases – IFRS 16, which is effective from 1 January 2019 and is endorsed by the EU. The standard requires that all leases must be recognised in the balance sheet with a corresponding lease liability, except for short-term and small-value assets. Maersk Product Tankers will adopt the new standard by applying the simplified approach with no restatement of comparative figures for prior period.

Maersk Product Tankers has analysed the effects of implementing IFRS 16 from 1 January 2019. The impact is considered not to have a material effect on the consolidated financial statements.

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

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

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

INCOME STATEMENT

Revenue
Revenue 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 Maersk Product Tankers expects to be entitled in exchange for the services. Revenue from ongoing voyages at the balance sheet date is estimated following the "load to discharge" method, where freight income and related expenses are recognized in the income statement from the first load date of the voyage to the discharge date of the cargo. Invoiced revenue related to an estimated proportion of remaining voyage time and activities at the destination port is deferred.

Lease income from operating leases is recognized over the lease term. Demurrage claims are recognized if they are considered probable.

The majority of the company's vessels participate in commercial pools (Maersk Tankers-Afra Pool, Maersk Tankers-Handytankers Pool, Maersk Tankers-Intermediate Pool, Maersk Tankers-LR2 Pool, Maersk Tankers-MR Handytankers pool) in which other vessel owners with similar, high-quality, modern and well-maintained vessels also participate. Pools employ experienced commercial charterers and operators who have established relationships with customers and brokers, while technical management is arranged by each vessel owner. The managers of the pools negotiate charters with customers.

The earnings allocated to vessels are aggregated and divided on the basis of a weighted scale, or Pool Points, which reflect comparative voyage results on hypothetical benchmark routes. The Pool Point system is generally weighted by attributes such as size, fuel consumption, class notation and other capabilities. Pool revenues are recognised when the vessel has participated in a pool during the period and the amount of pool revenue for the period can be estimated reliably.

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

Tax for the year
The company is subject to Danish corporate taxation. Part of the taxable income is calculated in accordance with Danish tonnage tax act. The tax compromises of an estimate of current and deferred income tax as well as any adjustments to previous years.

OTHER COMPREHENSIVE INCOME

Other comprehensive income consists of income and costs not recognised in the income statement including cashflow- and fair value adjustments.

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.

Currency basis spread and forward points are considered a cost of hedge and included in the fair value.

BALANCE SHEET

Property, plant and equipment
Property, plant and equipment are valued at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the useful lives at an estimated residual value. The useful lives of new assets are typically 20 years for vessels.

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

The cost of an asset is divided into separate components, which are depreciated separately if the useful lives of the individual components differ. Dry-docking costs are recognized in the carrying amount of vessels when incurred and depreciated over the period until the next dry-docking. Dry-docking cycles are typically 5 years.

The cost of assets includes directly attributable expenses. For assets with a long construction period, borrowing costs during the construction period from specific as well as general borrowings are attributed to cost.

Property, plant and equipment are tested for impairment at least on an annual basis or if there is an indication of impairment. 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.

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.

Leases
Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently reassessed unless there are changes to the contractual terms. Contracts which transfer all significant risks and benefits associated with the underlying asset to the lessee are classified as finance leases. Assets held under finance leases are treated as property, plant and equipment.

Inventories
Inventories mainly consist of bunker, lubricants and spare parts. Inventories are measured at cost according to the FIFO method.

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

Equity
Equity includes total comprehensive income for the year comprising the profit/loss for the year and other comprehensive income. 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.

Provisions
Provisions are recognised when Maersk Product Tankers has a present legal or constructive obligation from past events. The item includes, among other things, legal disputes. 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.

Financial liabilities
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.

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

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

Discontinued operations
Discontinued operations represent a separate line of business disposed of. 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

Definitions

Free cash flow
Cash flow from operating activity less cash flow from investing activities

Profit margin
Profit or loss before depreciation and impairment divided by Revenue

Equity ratio
Equity at the year-end divided by total assets

Return on equity ratio
Profit/loss for the year divided by average equity

Note 17: Significant accounting estimates and judgements

The preparation of the consolidated financial statements requires management, on an ongoing basis, to make judgements and estimates and form assumptions that affect the reported amounts. Management forms its judgements and estimates on historical experience, independent advisors and external data points as well as in-house specialists and on other factors believed to be reasonable under the circumstances.

In certain areas, the outcome of business plans, including ongoing negotiations with external parties to execute those plans or to settle claims that are raised against Maersk Product Tankers, is highly uncertain. Therefore, assumptions may change or the outcome may differ in the coming years, which could require a material upward or downward adjustment to the carrying amounts of assets and liabilities. This note includes the areas in which Maersk Product Tankers is particularly exposed to a material adjustment of the carrying amounts as at the end of 2018.

GENERAL

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

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

Vessel values
The vessel values including newbuildings and second hand vessels, are exposed to the volatility in the industry and global economy, which among others includes global freight rates, newbuilding costs, emission regulations and steel prices.

PROPERTY, PLANT AND EQUIPMENT

Impairment considerations
An impairment of USD 464 million was recognized in 2017 due to challenging market conditions and pressure on long term market rates. The supply/demand imbalance in the market along with the uncertainty of future oil price levels were key drivers for the impairments taken last year. Given the continued volatility in the market, an impairment test for 2018 did not reveal a need for further impairments or a reversal of the previous impairment, as the longer term expectations have not changed significantly since the last impairment test.

The recoverable amount is determined as the higher of fair value less cost to sell (based on broker valuations) and value-in use. The calculations are sensitive to expected future market rates in addition to the discount rate.

Depreciation and residual values
Useful lives are estimated based on past experience. Management decides from time to time to revise the estimates for individual assets or groups of assets with similar characteristics due to factors such as quality of maintenance and repair, technical development and environmental requirements.
Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel, which is considered as the main determinant of the residual price. As a general rule, the residual values of vessels are initially estimated at 10% of the purchase price excluding dry-docking costs. The long-term view is prioritised in order to disregard, to the extent possible, temporary market fluctuations which may be significant.

Provisions for commercial claims, legal disputes, etc.
Management's estimate of the provisions in connection with commercial claims, legal disputes, including disputes on taxes and duties, is based on the knowledge available on the actual substance of the cases and a legal assessment of these. The resolution of legal disputes, through either negotiations or litigation, can take years to complete and the outcome is subject to considerable uncertainty.

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

Note 18: Contingent assets, liabilities and pledges

Contingent assets and liabilities
The group is involved in commercial claims and disputes, which are subject to uncertainty.

Taxes may come into effect if the company leaves the tonnage tax regime. Through participation in a joint taxation scheme with A.P. Møller Holding A/S, the Danish company is jointly liable for taxes payable etc. in Denmark.

Pledges
Vessels with a carrying amount of USD 1,152.3m have been pledged as security for borrowings of USD 809.1m.

Note 19: Events after the balance sheet date

No events of importance to the Annual Report have occurred during the period from the balance sheet date until the presentation of the financial statements.

Note 20: Company overview

List of subsidiaries of Maersk Product Tankers A/S:

Subsidiary	Country of incorporation	Ownership share
Maersk Tankers Singapore Pte. Ltd.	Singapore	100%
Maersk Tankers UK Limited	United Kingdom	100%

PARENT COMPANY FINANCIAL STATEMENTS

Parent income statement | Parent statement of comprehensive income | Parent balance sheet at 31 December | Parent cash flow statement | Parent statement of changes in equity | Notes to the parent financial statements

PARENT COMPANY FINANCIAL STATEMENTS

CONTENTS

PARENT INCOME STATEMENT

Note	Amounts in USD thousands	2018	2017
	Revenue	190,761	190,141
1	Operating costs	- 165,659	- 155,063
	Other costs	- 468	- 1,985
	Profit before depreciation and impairment losses (EBITDA)	**24,634**	**33,093**
4	Depreciation and impairment losses, net	- 30,785	- 76,846
	Gain/loss on sale of non-current assets, etc., net	- 133	- 51
	Profit/loss before financial items (EBIT)	**- 6,284**	**- 43,804**
	Profit/loss from subsidiaries	**13,003**	**- 415,342**
2	Financial income	703	15
2	Financial expenses	- 40,596	- 30,238
	Profit/loss before tax	**- 33,173**	**- 489,369**
3	Tax	2,063	- 555
	Profit/loss for the year	**- 31,110**	**- 489,924**

PARENT STATEMENT OF COMPREHENSIVE INCOME

Note	Amounts in USD thousands	2018	2017
	Profit/loss for the year	- 31,110	-489,924
	Cash flow hedges:		
	Value adjustment of hedges for the year	- 4,053	0
	Tax on other comprehensive income	304	0
	Total items that have been or may be reclassified subsequently	**- 3,749**	0
	Total comprehensive income for the year	**- 34,860**	**-489,924**

PARENT BALANCE SHEET AT 31 DECEMBER

Note	Amounts in USD thousands	2018	2017
4	**Property, plant and equipment**	**238,025**	**261,150**
5	Investments in subsidiaries	965,636	954,132
	Deferred tax	0	205
	Total non-current assets	**1,203,661**	**1,215,487**
	Inventories	**3,961**	**6,285**
11	Trade receivables	17,613	24,318
	Tax receivables	3,052	479
	Other receivables	15,000	28,080
	Prepayments	2,673	3,175
	Other current assets	**38,339**	**56,052**
	Cash and cash equivalents	46,204	2,796
	Assets held for sale	0	8,712
	Total current assets	**88,504**	**73,845**
	Total assets	**1,292,165**	**1,289,332**

Note	Amounts in USD thousands	2018	2017
	Share capital	1,590	1,590
	Retained Earnings	467,956	499,066
	Reserves for hedging	-3,749	0
	Total equity	**465,796**	**500,656**
	Derivatives	3,540	0
6	Borrowings, non-current	705,757	705,725
	Total non-current liabilities	**709,297**	**705,725**
6	**Borrowings, current**	**102,545**	**53,849**
	Provisions	1,116	980
	Trade payables	7,287	24,934
	Derivatives	594	0
	Tax payables	0	92
	Other payables	4,466	1,207
11	Deferred income	1,065	1,889
	Other current liabilities	**18,067**	**29,102**
	Total current liabilities	**117,072**	**82,951**
	Total liabilities	**826,369**	**788,676**
	Total equity and liabilities	**1,292,165**	**1,289,332**

PARENT STATEMENT OF CHANGES IN EQUITY

Amounts in USD thousands	Share capital	Reserve for hedges	Retained Earnings	Total equity
Equity 1 January 2017	1,590	0	995,928	997,518
Profit/loss for the year	0	0	- 489,924	- 489,924
Other comprehensive income	0	0	0	0
Total comprehensive income for the year	0	0	- 489,924	- 489,924
Other equity movements	0	0	- 6,938	- 6,938
Total transactions with shareholders	0	0	- 6,938	- 6,938
Equity 31 December 2017	**1,590**	**0**	**499,066**	**500,656**
2018				
Profit/loss for the year	0	0	- 31,110	- 31,110
Other comprehensive income, net of tax	0	- 3,749	0	- 3,749
Total comprehensive income for the year	0	- 3,749	- 31,110	- 34,860
Total transactions with shareholders	0	0	0	0
Equity 31 December 2018	**1,590**	**- 3,749**	**467,956**	**465,796**

The 2017 "Other equity movements" relate to impact of predecessor accounting for transactions/settlements not occurred in the past or not part of the transferred assets and liabilities.

The share capital consists of 10 million shares with a nominal value of DKK 1 per share. The shares are divided into two share classes; A (nominal value DKK 2.5m) and B (nominal value DKK 7.5m) with A shares carrying three votes and B shares carrying 1 vote in voting power.

PARENT CASH FLOW STATEMENT

Note	Amounts in USD thousands	2018	2017
	Profit/Loss before financial items	- 6,284	- 43,804
	Depreciation, impairment	30,785	76,846
	Gain/Loss on sale of non-current assets	133	51
	Profit before depreciation and impairment losses (EBITDA)	24,634	33,093
	Change in working capital	22,085	- 4,205
	Change in provisions	136	0
	Other non-cash items	- 361	- 205
	Cash generated from operations before financial items and tax	**46,494**	**28,683**
	Interest received	535	15
	Interest paid	- 39,864	- 29,076
	Tax paid	- 93	- 943
	Net cash from operating activities	**7,073**	**- 1,321**
4	Purchase of vessels	- 7,830	- 6,725
4	Proceeds from disposal	8,749	10,613
	Dividend in subsidiaries	1,500	0
5	Investment in subsidiaries	0	- 161,690
	Net cash from investing activities	**2,419**	**- 157,802**
	Proceeds from new borrowings	460,703	400,000
	Repayment of borrowings	- 426,789	- 244,033
	Net cash from financing activities	**33,913**	**155,967**
	Net cash flow for the year	**43,405**	**- 3,156**
	Liquid funds at beginning of period	2,796	5,953
	Exchange gain/loss on Liquid funds	3	0
	Liquid funds at end of period	**46,204**	**2,796**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

Parent Note 1: Operating costs

Maersk Product Tankers A/S has not had employees in 2018 or 2017, as all personnel is employed in affiliated companies. For remuneration of the Board of Directors and Executive Management reference is made to note 1 in the consolidated financial statements.

Parent Note 2: Financial income and expenses

Amounts in USD thousands	2018	2017
Interest expenses on liabilities	- 40,578	- 30,238
Interest income on loans and receivables	703	15
Net interest expenses	**- 39,875**	**- 30,223**
Exchange rate losses on bank balances, borrowings and working capital	- 18	0
Net foreign exchange gains/losses	**- 18**	**0**
Financial expenses, net	**- 39,892**	**- 30,223**
Of which:		
Financial income	703	15
Financial expenses	- 40,596	- 30,238

Parent Note 3: Tax

Amounts in USD thousands	2018	2017
Tax recognised in the income statement		
Current tax on profits for the year	2,919	- 375
Adjustment for current tax of prior periods	- 684	0
Utilisation of previously unrecognised deferred tax assets	0	0
Total current tax	**2,235**	**- 375**
Total income tax	2,235	- 375
Tonnage and freight tax	- 172	- 180
Total tax expense	**2,063**	**- 555**
Tax reconciliation		
Profit/loss before tax	- 33,173	- 489,369
Profit/loss subject to Danish and foreign tonnage taxation, etc.	6,284	43,805
Profit/loss before tax, adjusted	**- 26,889**	**- 445,564**
Tax using the Danish corporation tax rate (22.0%)	5,916	98,024
Profit/loss excluding subsidiaries	2,861	- 91,374
Effect of Joint Taxations	- 2,922	- 5,144
Adjustment to previous years' taxes	- 684	0
Other differences, net	- 13	- 1,881
Loss not expected to be utilised	- 2,922	0
Total income tax	**2,235**	**- 375**
Tax recognised in other comprehensive income and equity		
Of which:		
Current tax	304	0
Deferred tax	0	0

Maersk Product Tankers is part of a joint taxation group with A.P. Møller Holding A/S and part of its activities is subject to corporate income tax. Taxable losses of Maersk Product Tankers that is expected to be utilised against taxable income of other participants in the joint taxation group in 2018 is capitalised as tax receivable. The remaining tax losses have not been capitalised as deferred tax asset as it is not expected to be utilised in future income.

Amounts in USD thousands	2018	2017
Tax loss carry forward	13,282	0
Total	**13,282**	**0**

The tax value of the loss carry forward is USD 2.9m (USD 0m). The unrecognised deferred tax assets have no significant time limitations and relates to tax loss not expected to be utilised.

Parent Note 4: Property, plant & equipment

Amounts in USD thousands	Vessels	Assets under construction	Total
Cost			
1 January 2017	646,572	4,327	650,899
Addition	5,670	1,055	6,725
Disposal	- 25,321	0	- 25,321
Transfer	4,792	- 4,792	- 0
Transfer, assets held for sale	- 8,326	0	- 8,326
31 December 2017	623,387	590	623,977
Addition	7,073	587	7,660
Transfer	1,177	- 1,177	0
31 December 2018	631,637	0	631,637
Depreciation and impairment losses			
1 January 2017	300,251	0	300,251
Depreciation	33,864	0	33,864
Impairment losses	42,981	0	42,981
Disposal	- 14,270	0	- 14,270
31 December 2017	362,826	0	362,826
Depreciation	30,785		30,785
31 December 2018	393,611	0	393,611
Carrying amount:			
31 December 2017	260,561	590	261,151
31 December 2018	238,026	- 0	238,026

Management's assessment led to an impairment of USD 43m in 2017 related to vessels due to an expected continuation of the lower asset valuations. Given the continued volatility in the market, an impairment test for 2018 did not reveal a need for further impairments or a reversal of the previous impairment, as the longer term expectations hasn't changed significantly since the last impairment test.

Parent Note 5: Investment in subsidiaries

Amounts in USD thousands	Total
1 January 2017	**1,207,784**
Capital Increase	161,691
Profit/loss for the period	- 415,342
31 December 2017	**954,133**
Profit/Loss for the period	13,003
Dividend paid	- 1,500
31 December 2018	**965,636**

Subsidiaries

Amounts in USD thousands

Name	Domicile	Capital	Equity	Profit/Loss	Ownership Interest
Maersk Tankers Singapore Pte. Ltd.	Singapore	1,570,000	953,440	11,723	100.0%
Maersk Tankers UK Limited	UK	11,691	12,196	1,280	100.0%

Parent Note 6: Borrowings

Amounts in USD thousands	31 December 2017	Cash flows	31 December 2017
Bank and other credit institutions, related parties	359,109	- 359,109	0
Bank and other credit institutions	400,466	407,837	808,302
Total	**759,574**	**48,728**	**808,302**
Of which:			
Classified as non-current	705,725		705,757
Classified as current	53,849		102,545
Derivatives hedge of borrowings, net	**0**	**3,540**	**3,540**

Parent Note 7: Financial instruments by category

Amounts in USD thousands	Carrying amount 2018	Fair Value 2018	Carrying amount 2017	Fair Value 2017
Carried at amortized cost				
Trade receivables	17,613		24,318	
Other receivables	15,000		28,080	
Cash and cash equivalents	46,204		2,796	
Financial assets at amortized costs	78,818		55,194	
Total financial assets	**78,818**		**55,194**	
Carried at amortized costs				
Borrowings	808,302		759,574	
Trade payables	7,287		24,934	
Other payables	4,466		1,207	
Financial liabilities at amortized costs	820,055		785,715	
Carried at fair value				
Derivatives		4,134		
Total financial liabilities	**820,055**	**4,134**	**785,715**	**0**

Financial instruments measured at fair value

Fair value of derivatives is within level 2 of the fair value hierarchy and is calculated on the basis of observable market data as of the end of the reporting period.

Financial instruments carried at amortised cost

Fair value of the short-term financial assets and other financial liabilities carried at amortised cost is not materially different from the carrying amount. In general, fair value is determined primarily based on the present value of expected future cash flows. Where a market price was available, how-ever, this was deemed to be the fair value.

Parent Note 8: Financial risks

Maturities of liabilities and commitments		Cash flows including interest			
Amounts in USD thousands	Carrying amount	0-1 year	1-5 years	5- years	Total
2018					
Borrowings	808,302	139,240	470,579	381,521	991,340
Trade payables	7,287	7,287	0	0	7,287
Other payables	4,466	4,466	0	0	4,466
Non-derivative financial liabilities	820,055	150,992	470,579	381,521	1,003,092
Derivatives, payables	4,134	- 863	4,997	0	4,134
Total recognised in balance sheet	824,189	150,129	475,576	381,521	1,007,226
2017					
Borrowings	759,574	83,521	621,075	174,630	879,226
Trade payables	24,934	24,934	0	0	24,934
Other payables	1,207	1,207	0	0	1,207
Total recognised in balance sheet	785,715	109,662	621,075	174,630	905,367

Maturity analysis of trade receivables	2018	2017
Receivables not due	11,848	16,186
Less than 90 days overdue	4,925	6,422
More than 90 days overdue	1,740	3,005
Receivables, gross	18,514	25,613
Expected credit loss	- 901	- 1,295
Carrying amount	**17,613**	**24,318**

Majority of the expected credit loss is related to trade receivables overdue by more than one year.

For description of financial risks, a reference is made to note10 in the consolidated financial statements.

Parent Note 9: Cash flow specifications

Amounts in USD thousands	2018	2017
Inventories	2,324	- 2,722
Trade receivables	9,050	- 9,942
Other receivables and prepayments	29,243	280
Trade payables and other payables	- 18,515	14,592
Other working capital movements	0	- 6,413
Exchange rate adjustment of working capital	- 18	0
Change in working capital Total	**22,085**	**- 4,205**
Additions	- 7,830	- 6,725
Purchase of property, plant and equipment	**- 7,830**	**- 6,725**

Parent Note 10: Related parties

Amounts in USD thousands	2018	2017
Income statement		
Revenue	0	0
Operating costs	- 80,648	- 38,206
Financial expenses	- 5,621	- 15,931
Assets		
Trade receivables	435	2,986
Other receivables	- 1,445	29,654
Liabilities		
Bank and other credit institutions, etc. current	0	359,108
Trade payables	- 792	17,091
Other payables	998	0

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

Parent Note 11: Contract balances

Amounts in USD thousands	2018	2017
Trade receivables from contracts with customers	12,269	18,097
Accrued income-contract asset	4,034	8,275
Deferred income-contract liability	1,065	1,889

Reference is made to note 15 of the consolidated financial statements for more details on the balances.

Parent Note 12: Accounting policies

General Accounting Policies

The financial statements for 2018 for Maersk Product Tankers A/S have been prepared on a going concern basis and in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act. The financial statements are also in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The accounting policies of the Company are consistent with those applied in the Group's financial statements 2018 (note 16 in the Consolidated financial statements) with the following exceptions:

Investments in Subsidiaries

Investments in subsidiaries are measured as per the equity method. The initial investment is recognized at cost and adjusted thereafter to recognize the share of profits, losses and other adjustments. There have been no dividends declared by the subsidiaries for the year of 2018 to be considered. The Management assesses impairment for investment in subsidiaries and determines the amount generally consistent with the assumptions stated in Note 17 Significant accounting policies in the consolidated financial statements.

REPORTS

STATEMENT OF THE BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT

The Board of Directors and Executive management have today considered and adopted the Annual Report of Maersk Product Tankers A/S for the financial year 1 January – 31 December 2018.

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

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2018.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent Company, of the results for the year and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

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

Copenhagen, 27th March 2019

Executive Management

Christian Michael Ingerslev

Morten Mosegaard Christensen

Board of Directors

Robert Maersk Uggla
Chairman

Paul Jonathan Reed
Vice Chairman

Martin Nørkjær Larsen

Maria Aagaard Pejter

Tatsuya Okamoto

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Maersk Product Tankers A/S

Opinion
In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Maersk Product Tankers A/S for the financial year 1 January - 31 December 2018, which comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for both the Group and the Parent Company ("financial statements").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review
Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 27 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Thomas Wraae Holm
State Authorised Public Accountant
MNE-number 30141

Henrik Ødegaard
State Authorised Public Accountant
MNE-number 31489

ADDITIONAL INFORMATION

BOARD OF DIRECTORS

The Board of Directors appoints Executive Management and sets out its responsibilities and conditions, which includes the day-to-day management of the company and implementation of strategy. The Chief Executive Officer and Chief Financial Officer are registered with the Danish Business Authority as Directors of Maersk Product Tankers. They are also responsible for the operational running of Maersk Tankers, together with the Chief Commercial Officer, Chief Strategy Officer, Chief Technical Officer and Chief Human Resources Officer.

ROBERT M. UGGLA
Chairman of the Board of Directors

Gender	Male
Joined the board	2017

Robert M. Uggla is the CEO of A.P. Møller Holding A/S. He has held several management positions, including CEO of Svitzer and Managing Director at Brostrom. He holds an MSc in Business Administration from Bocconi University and has completed an Executive Education programme at Harvard Business School.

Member of the Board of Directors:
A.P. Møller – Mærsk A/S
A.P. Møller Capital P/S (Chairman)
The Drilling Company of 1972 A/S
(Maersk Drilling) (Vice Chairman)
Foundation Board for IMD
Other management duties include Agata ApS, Estemco XII ApS, and four entities fully owned by A.P. Møller Holding A/S

PAUL J. REED
Deputy Chairman of the Board of Directors

Gender	Male
Joined the board	2018

Paul J. Reed worked for 37 years with BP where, most recently, he was responsible for its Integrated Supply and Trading division. He holds a degree in Classics, from the University of Durham and attended the Programme for Management Development at Harvard Business School.

Member of the Board of Directors:
Marquard and Bahls
ICE Futures Europe
BP Investment Management (Chairman)

MARTIN N. LARSEN
Member of the Board of Directors

Gender	Male
Joined the board	2017

Martin N. Larsen is the CFO of A.P. Møller Holding A/S and has held several roles in A.P. Møller – Mærsk A/S. Most recently, he was VP, Head of Financial Planning & Analysis. He holds a MSc in Economics and Finance from University of Warwick and a Master of Business Administration from London Business School and Columbia University.

Member of the Board of Directors:
A.P. Møller Capital P/S
Navigare Capital Partners A/S
Assuranceforeningen SKULD (Gjensidige)
The Drilling Company of 1972 A/S (Maersk Drilling)
Other management duties include five entities fully owned by A.P. Møller Holding A/S

MARIA A. PEJTER
Member of the Board of Directors

Gender	Female
Joined the board	2018

Maria A. Pejter has held several top-level positions within organisational strategy and development in A.P. Møller – Mærsk A/S. From 2015 to 2017, she was Head of Human Resources at Maersk Tankers A/S. She holds a BSc in Political Science from Copenhagen University.

Member of the Board of Directors:
APMH Invest IV A/S
Maersk Tankers A/S

TATSUYA OKAMOTO
Member of the Board of Directors

Gender	Male
Joined the board	2019

Tatsuya Okamoto has decades of experience from working at Mitsui. He has held leadership roles in various functions; for example, Business Development, and in Mitsui's shipping business. He graduated from Sophia University in Japan in Sociology.

Member of the Board of Directors:
Mitsui Bussan Aerospace Co., Ltd.

EXECUTIVE MANAGEMENT

From left: Claus Gronborg, Tommy Thomassen, Christian M. Ingerslev, Morten M. Christensen, Prakash Thangachan, Soren C. Meyer

CHRISTIAN M. INGERSLEV
Chief Executive Officer

Gender	Male
Joined the board	2017

Christian M. Ingerslev has more than two decades of industry and leadership experience from, among others, positions as Chief Commercial Officer and Head of Business Development at Maersk Tankers A/S. He holds an Executive MBA from Columbia Business School/London Business School.

Member of the Board of Directors:
International Tanker Owners Pollution Federation

MORTEN M. CHRISTENSEN
Chief Financial Officer

Gender	Male
Joined the board	2018

Morten M. Christensen has more than a decade of experience in the financial sector. This includes different executive positions at Danske Bank, including interim Chief Financial Officer, Chief of Staff and Head of Group Finance. He holds a Master of Mathematics and Economics and a PhD in Finance from the University of Southern Denmark.

SOREN C. MEYER,
Chief Strategy Officer

Gender	Male

Soren C. Meyer's responsibilities include digital development, asset management and strategy. Previously, he was Head of MR vessels, Freight Derivatives and Time Charter activities. Before joining Maersk Tankers A/S, he was Vice President at O.W. Bunker & Trading. He holds a Master in Marketing from Aarhus School of Business.

Member of the Board of Directors:
CargoMetrics Technologies LLC

CLAUS GRONBORG
Chief Commercial Officer

Gender	Male

Claus Gronborg has overall responsibility for Maersk Tankers A/S' chartering, operations and freight trading. Before taking up this role, he was Head of Business Development. He holds a Bachelor in Chinese from Beijing Language and Culture University and an Executive MBA from Columbia Business School/London Business School.

TOMMY THOMASSEN
Chief Technical Officer

Gender	Male

Tommy Thomassen's responsibilities include ensuring safe and cost-efficient vessel technical operations and IT. He first worked for A.P. Møller – Mærsk A/S in 1994 and has held different leadership positions in and outside the company, including Senior Vice President at J. Lauritzen. He holds a B.Sc. in Mechanical Engineering from Aarhus Technical University and an MBA in Management of Technology from The Technical University of Denmark.

Member of Board of Directors:
DS Medical Office
HiLo Risk Management
Survey Association
Lloyds Registry Nordic Committee
American Bureau of Shipping Technical Committee

PRAKASH THANGACHAN
Chief Human Resources Officer

Gender	Male

Prakash Thangachan has overall responsibility for Human Resources. He has amassed vast experience across Human Resources from international companies such as A.P. Møller – Mærsk A/S, GE and Nestlé. He holds a Bachelor in Mechanical Engineering from National Institute of Technology Calicut and a Post Graduate Diploma in Management, Human Resources, from the Symbiosis Centre for Management and Human Resource Development in Pune.

COLOPHON

Board of Directors
Robert M. Uggla, Chairman
Paul J. Reed, Deputy Chairman
Martin N. Larsen
Maria A. Pejter
Tatsuya Okamoto

Executive Management
Christian M. Ingerslev, CEO
Morten M. Christensen, CFO

Auditor
PricewaterhouseCoopers
Statsautoriseret
Revisionspartnerselskab

Produced in Denmark 2019

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MAERSK
PRODUCT TANKERS