MAERSK PRODUCT TANKERS A/S

ANNUAL REPORT 2019

MAERSK PRODUCT TANKERS

Registration no: 39 06 70 64

CONTENTS

MANAGEMENT REVIEW

LETTER FROM THE CEO

DEAR READER,

We continued to push for improved performance and profitability for Maersk Product Tankers in 2019. We recorded a strong safety performance, improved financial results, raised the efficiency of the fleet through the use of digitisation and reduced CO2 emissions.

Financial results improved with an increase in revenue to USD 727.7 million (USD 647 million), a profit before tax of USD 91.4 million (a loss of USD 35 million) and a negative free cash flow of USD 11.1 million (a negative free cash flow of USD 27.7 million). Results were boosted by market rates, the sale of vessels, and a reduction in vessels' average daily running costs.

We entered a sale and leaseback agreement for four MR vessels, which increased the company's financial flexibility and position, supporting our ability to invest when market prices are attractive and thus exploit future market opportunities.

AN IMPROVED MARKET

In line with our expectations, spot markets improved during the fourth quarter of 2019. The markets were affected by the continued growth in demand for oil, sanctions limiting the available supply of vessels and increased transportation in preparation for the new sulphur regulation set by the International Maritime Organisation coming into force at the start of 2020.

While markets have benefitted from greater tonne-miles demand and a slow growth in operational vessel capacity in the early part of 2020, the outlook for the full year is uncertain. The outbreak and spread of coronavirus (COVID-19) and countries' containment measures have led to global reductions in transport, industrial and commercial activity. This has caused a decline in the demand for oil and could eventually affect product tanker markets and freight rates.

TAKING ADVANTAGE OF DIGITISATION

We took important steps during the year to improve the performance of the fleet, working closely with Maersk Tankers, which manages our 84 vessels commercially and technically.

The majority of vessels are deployed in the spot market, where the highest returns are generated over the market cycle. During the year, we outperformed the spot market, measured on time-charter equivalent earnings. This strong result was achieved through solid commercial decision-making on where, when and how to position vessels, drawing on Maersk Tankers' unique trading set-up, including the use of data.

Through our partnership with Maersk Tankers, we have applied new software products to the fleet to lower CO2 emissions and increase earnings. During the year, tangible results were achieved following the launch of two new software products.

We began using SimBunker on the entire fleet of vessels during the second quarter. SimBunker aims to reduce the tramp shipping industry's CO2 emissions, while optimising earnings. It achieves this twin benefit by tailoring voyages to take account of factors such as market conditions, weather, speed and bunker spend. The use of SimBunker has generated healthy earnings and, therefore, we will continue to use it on the entire fleet in 2020.

We began testing SimTanker on our LR2 fleet during the fourth quarter. This software product provides Maersk Tankers' commercial team with a data-driven trade signal, containing data from a decade of LR2 voyages, so they can determine the optimal voyage for vessels to meet customer demand and increase earnings. Testing will continue into 2020, and we expect to see increased earnings and competitive advantages from the use of this software product.

RETAINING A COMPETITIVE FLEET

The fleet is continually adjusted in size and composition, according to market conditions: vessels are purchased at attractive prices and sold when financially solid returns can be achieved. This strategy strengthens the balance sheet, provides financial flexibility, and ensures the fleet is competitive and meets customers' demand for high-quality vessels. During the year, we purchased eight second hand vessels of which we took delivery of six, along with delivery of four newbuildings, while selling 12 vessels of which five will be delivered in 2020. This is an increase in the number of vessels sold compared to 2018 when we sold three.

As part of our ongoing capital expenditure programme, we are expanding our market position in the larger LR2 and MR segments to meet customers' demand for larger vessels as transportation distances increase. In 2019, we took delivery of four MR newbuildings; the last vessel out of a total order of 19 will be delivered in 2020. We exercised four options on LR2 newbuildings at highly attractive ordering prices. With this, we increased capital commitments to USD 421.2 million (USD 384.4 million). The order book now contains 10 LR2s, which will be delivered between 2020 and 2022.

KEEPING COST INCREASES AT BAY

We reduced vessels' average daily running costs to USD 5,696 per day, compared to USD 6,055 per day in 2018. The key drivers were greater cost control in the process of 'procure to pay'; optimised procurement agreements with major suppliers, including applying shorter payment conditions; and technological efficiencies. Our commitment to keep costs low by continuing to optimise within these areas while enhancing the performance of the fleet through technical management and fuel-efficient technologies will ensure we retain our position as an industry cost-leader.

A MORE SUSTAINABLE FUTURE

Tackling climate change and its impact is a pressing challenge, which requires an urgent and effective response. While tanker shipping is an efficient and cost-effective method of transporting energy to meet the world's demand for energy, we are part of the fossil fuel value chain, and our vessels generate emissions that have a negative impact on the climate.

As a global leader in the industry, we have an obligation and are committed to reduce CO2 emissions. Our stakeholders are also demanding a more sustainable future.

We support the targets set by the International Maritime Organisation to reduce CO2 emissions in shipping. Our own targets are to cut CO2 emissions by 30% towards the end of 2021 and 45% by 2030, compared to their level in 2008. In 2019, we achieved a total reduction of 25.4% in CO2 emissions, as measured on the Energy Efficiency Operational Indicator (EEOI). A key driver in this was operational efficiencies in both commercial and technical management, such as managing speed and voyage execution and maintenance of vessel equipment for optimal efficiency.

To play an active role in this needed change in the industry and to meet our targets, we will draw on Maersk Tankers' investment, testing and use of fuel-efficient technologies, commercial initiatives and digitisation. We will also participate in partnerships to develop innovative fuel-efficient technologies that will bring industry-wide benefits. Examples include the strategic partnership between Maersk Tankers, Mitsui and Cargill, which was established to reduce further global greenhouse gases in shipping, and the testing of wind-propulsion technology on a vessel in 2019. The latter resulted in an 8.2% reduction in fuel consumption and emissions, and we are working to develop this as a commercially viable solution.

STRENGTHENING OUR MARKET POSITION

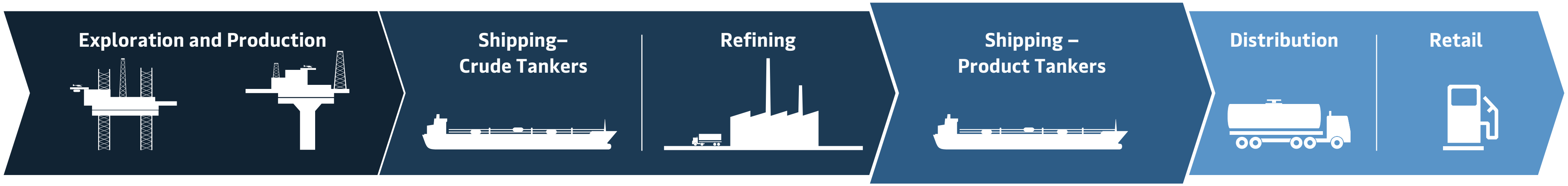
To strengthen our market position and take advantage of new opportunities, we will continue to optimise the fleet, making it more profitable and efficient while, at the same time, cutting CO2 emissions.

The world's access to reliable and affordable energy is important for societies to thrive. We will play our part in this by shipping the energy needed, and on behalf of the executive management, I would like to thank customers, partners, owners, employees and Maersk Tankers for their support, trust and collaboration in this. We look forward to continue to pursue a more digital and sustainable future for Maersk Product Tankers and the tramp shipping 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.



FLEET

INTERMEDIATE	HANDY	MR	LR2	AFRAMAX
15-20,000 dwt	**25-42,000 dwt**	**45-55,000 dwt**	**100-120,000 dwt**	**100-120,000 dwt**
Trading area: Northwest Europe, Asia **Products:** Clean, dirty	**Trading area:** Global **Products:** Clean, dirty, chemicals, vegetable oils	**Trading area:** Global **Products:** Clean, dirty, vegetable oils	**Trading area:** Arabic Gulf with main routes to North Asia and Europe **Products:** Clean	**Trading area:** Global **Products:** Dirty

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

OUR PURPOSE

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.

ANNUAL REPORT 2019 MANAGEMENT REVIEW

OUR VALUES

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

MAERSK PRODUCT TANKERS

AT A GLANCE

Maersk Product Tankers is a leading player in the product tanker industry, owning 84 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.

84

Vessels

Founded in

1928

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

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

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

727.7m
Revenue (USD)

-11.1m
Free cashflow (USD)

91.4m
Profit/Loss before tax (USD)

253.9m
Investment in vessels (USD)

KEY FIGURES AND FINANCIAL RATIOS

Amounts in USD million

Income statement	2019	2018	2017	2016
Revenue	727.7	647.0	621.1	593.5
Profit before depreciation and impairment losses (EBITDA)	**202.9**	**109.6**	**126.1**	**172.0**
Depreciation and amortisation	-114.0	- 106.9	- 121.2	- 128.4
Impairment reversals and losses	36.4	0.0	- 464.0	0.0
Gain/loss on sale of non-current assets, etc., net	6.7	- 0.5	1.3	- 4.0
Profit/loss before financial Items (EBIT)	**132.1**	**2.2**	**- 457.8**	**39.6**
Financial items, net	-40.7	- 37.2	- 31.8	- 24.2
Profit/loss before tax	**91.4**	**- 35.0**	**- 489.6**	**15.4**
Tax	1.0	1.9	- 1.1	1.4
Profit/loss for the year - continuing operations	92.4	- 33.1	- 490.7	16.8
Profit/loss for the year - discontinued operations	0	2.0	0.8	2.9
Profit/loss for the year	**92.4**	**- 31.1**	**- 489.9**	**19.7**

Balance sheet				
Total assets	1,527.5	1,358.1	1,364.3	1,828.0
Total equity	543.1	465.8	500.7	997.5
Investments in property, plant and equipment	-253.9	- 146.7	- 88.3	- 268.3

Cash flow statement				
Cash flow from operating activities	158.3	90.8	85.8	197.2
Cash flow used for investing activities	-169.4	- 118.5	- 56.5	- 245.4
Free cash flow	-11.1	- 27.7	29.3	- 48.2

Financial ratios				
Profit margin	27.9%	16.9%	20.2%	29.0%
Equity ratio	35.6%	34.3%	36.7%	54.6%
Return on equity	18.3%	-6.4%	-65.4%	2.0%

Please see definitions in Note 19 of the consolidated financial statements.

HIGHLIGHTS
2019

Q1

Delivery
- Maersk Cebu

Q2

Taking Deliverv
- Maersk Maru (MR)

Deliveries
- Maersk Prosper (LR2)
- Sale and leaseback agreement for four MR vessels

Delivery
- Maersk Corsica

Test & Order
- Order confirmed for remaining four of 10 LR2 newbuildings
- Test begins of SimBunker on the fleet

Q3

Deliveries
- Maersk Raleigh (Handy)
- Maersk Jeddah (Aframax)

Taking Delivery
- Hans Maersk (Handy)

Delivery
- Maersk Crete (MR)

Q4

Taking Delivery
- Helene Maersk (Handy)
- Henriette Maersk (Handy)
- Harald Maersk (Handy)
- Hulda Maersk (Handy)

Test, Scrubbers & CO2
- Scrubbers installed on Maersk Piper
- Test begins of SimTanker on LR2s
- Confirmed savings of 8.2.% in fuel and CO2 reductions from test of wind-propulsion technology onboard Maersk Pelican

Deliveries
- Rita Maersk (Handy)
- Maersk Erin (Handy)
- Maersk Jamnagar (Aframax)
- Maersk Producer (LR2)

Delivery
- Maersk Curacao (MR)

MARKET

MARKET DEVELOPMENTS AND MARKET OUTLOOK

Freight markets improved across all tanker segments in 2019, especially in the fourth quarter and in line with our expectations. The primary drivers were a reduction in available supply due to the imposition of political sanctions and increased freight demand associated with the re-distribution of crude and refined oil products, in preparation for the new sulphur regulation coming into force.

Global oil demand continues to grow at a low but steady pace of 1%, despite a mild economic slowdown and the growth of new and renewable energy supplies. Rising population and wealth in North America, South and Southeast Asia and, to a lesser extent, Africa, drive the increase in oil demand from more passenger and freight transportation. At the same time, political tensions slowed the growth of oil demand in parts of the world. In particular, the implementation of trade tariffs between the US and China, as well as political and economic tensions in Latin America and the Middle East, led to the slow-down in oil demand growth.

Despite the overall increase in demand for oil, refinery throughput fell during 2019. This was partly due to unusually high refinery maintenance in the run-up to the introduction of the International Maritime Organisation's (IMO) deadline of 1 January 2020 to reduce sulphur in fuel oil to 0.50%, but also because refining margins declined due to an oversupply of gasoline and high-sulphur-content fuel. The result was a storage drawdown throughout the year, which led to relatively slow export growth. Oil carried on product tankers grew by only 1% year-on-year. However, average distances increased by around 2%, driven by the redistribution of crude and refined products to meet demand for IMO 2020 fuel grades and resulting in a 3% year-on-year increase in tonne-miles.

In the second half of the year, ship owners and refiners prepared for the new sulphur regulation. Ship owners retrofitted vessels for scrubber installations, while traders and charterers employed large tankers to store IMO-compliant low-sulphur fuel oil. Both reduced the tonnage available in the spot market.

US sanctions on Chinese and Venezuelan shipping interests further reduced vessel supply and caused crude tanker rates to spike in October 2019. As a result, product tanker owners began converting LR2, MR, and Handy vessels to trade in crude and dirty products, which boosted clean product tanker rates.

These trends meant that the effective operational product tanker fleet grew by less than half the rate than would have been the case from new deliveries and scrapping. Specifically, deliveries picked up, with around 9m DWT of new vessels coming into the water, while only 2m DWT were scrapped during the year. However, the combination of floating storage, cargo switching and scrubber retrofitting reduced the fleet by more than 4m DWT. These trends reduced the growth in the effective operational fleet from 4% year-on-year to under 2%. This tightened the supply-demand balance and increased tanker earnings across all segments.

In summary, normal seasonal demand strength, industry efforts to meet new sulphur standards for marine fuel and political tensions made it a positive year for earnings. There was a material increase in tanker demand towards the end of the year that boosted freight rates.

2020 MARKET OUTLOOK

At the time of publishing the Annual Report, the coronavirus (COVID-19) is presenting severe challenges to the global economy. Containment measures have led to global reductions in transport, industrial and commercial activity, which has caused a decline in the demand for oil. If the situation persists it could have a material adverse impact on oil and tanker markets, including freight rates.

While COVID-19 is clouding the outlook, underlying fundamentals have helped markets in the early part of 2020. They have benefitted from increased tonne-mile demand, at the same time as effective operational capacity growth has slowed. This tightening of the balance between supply and demand has been supported by global trade flows that have adjusted to the new sulphur fuel regulation. Lately, Saudi Arabia's increased oil production has created additional demand and a potential need for floating storage.

Supply-side factors remain mixed. For example, US sanctions have in some instances been lifted and this has released more vessels into the market. Moreover, the pace of vessels entering yards for scrubber retrofits will reduce over the year, which will increase effective tanker supply. However, COVID-19 has caused a reduction in operating shipyard capacity, which is causing delays, for example, in the newbuilding delivery schedule. Moreover, the order book remains low with limited ordering expected in the short term.

The outlook for 2020 is subject to extraordinary uncertainty due to the COVID-19 outbreak and spread which has significantly lowered visibility on what to expect. The impact on the world economy is becoming more apparent and we mainly see risks skewed to the downside for freight markets in the latter part of the year.

STRATEGY

Shipping is a low-cost and efficient transport method, which has an essential role to play in the growth and sustainable development of society. We play our part in this by shipping the energy products from refineries to destinations determined by the customer in a safe, efficient and reliable manner.

To do this profitably, we are maximising the fleet's value-creation in a strategic partnership with Maersk Tankers, which has nine decades of experience in the highly cyclical tanker industry. Value is unlocked through competitive deployment strategies that expose the fleet to the spot market; provide access to cargoes from its own trading books, partners and a global trusted network of more than 200 customers of oil majors and trading houses; offer performance insight into bunker optimisation; and give the benefits of scale to cut costs.

The management of the fleet is underpinned by a three-point strategy, guided by our efforts to build a more sustainable future.

ENHANCING CUSTOMER VALUE

As it is the case for our customers, safety is a key priority for us. We are committed to keeping our employees, vessels and customers' cargoes safe. Therefore, we apply the highest safety standards to our operations. In 2019, we recorded 11 Total Recordable Cases, with four of these categorised as Lost Time Incidents. We continue to adopt measures in our quest for zero incidents.

As many customers prefer newer vessels, we continue to maintain a competitive fleet below 15 years of age. We took delivery of six second-hand vessels that met our market and financial return requirements. Furthermore, we took delivery of four MR newbuildings from a total order of 19. Of these, 10 have been delivered from Sungdong Shipbuilding in Korea; the remaining nine are from Samsung Heavy Industries in Ningbo, China, of which eight have been delivered. The final vessel will be delivered in early 2020.

At the end of 2019, outstanding capital commitments amounted to USD 421.2 million (USD 384.4 million), mostly related to LR2 newbuidlings bought when asset prices were low. During the year, we confirmed the order of the last four of 10 LR2 newbuildings at an attractive price. The vessels will enter the fleet in 2020-2022, meeting our customers' increasing demand for larger vessel segments as transportation distances grow.

While the vast majority of customers prefer chartering in the spot market, some request vessels for an extended period. Although we generally focus on the spot market, we have made a strategic decision to adopt a two-fold strategy of combining spot market exposure with some exposure to long-term time-charter agreement when certain return requirements are met.

STRATEGIC PARTNERSHIP WITH MAERSK TANKERS

The fleet is deployed in Maersk Tankers' Aframax, LR2, MR, Handy and Intermediate pools and, primarily, in the spot market. The latter gives exposure to a highly volatile market, which generates higher returns over the cycle, compared to other deployment strategies. In 2019, the fleet outperformed the spot market, measured on time-charter-equivalent earnings. The result was achieved through Maersk Tankers' commercial decisions on vessel positioning, which the company bases on its commercial team's capabilities, market insight, relationships in the market and use of data.

DIGITISATION TO REDUCE CO2 AND INCREASE EARNINGS

We continue to pursue solutions to reduce bunker spend, which will also cut CO2 emissions. Maersk Tankers' investment in and development of software products that support these achievements are significant. In 2019, the company launched two new products, which we gain access to through our strategic partnership.

We began testing SimBunker on our entire fleet during the second quarter. The software product is also used by other owners in the tramp shipping industry, helping them to use their vessels more efficiently. It reduces vessels' bunker spend, which can account for up to 60% of total voyage costs, by providing operators with access to live data on how to sail vessels at the optimal speed on the optimal route, taking into account factors such as market rates, weather, speed and bunker spend. SimBunker generated healthy earnings during its initial use and it has significant potential to increase earnings and reduce CO2 emissions, supporting the shipping industry's ongoing efforts towards more sustainable development. Therefore, we have committed the entire fleet to continue using it in 2020.

We began testing SimTanker on our LR2 fleet during the fourth quarter. It provides charterers with a data-driven trade signal, using data collected from a decade of LR2 voyages. In the highly cyclical tanker market, this will support commercial decision-making on where, when and how to position vessels to best meet customer demand and increase earnings. Testing will continue in 2020.

MANAGING A COST-EFFICIENT FLEET

The tanker industry is asset-heavy and is marked by limited differentiation, which means there is a constant need to keep costs low to increase profitability and remain competitive. By strategically prioritising the reduction of vessels' average daily running costs, we have reduced costs by approximately 35% since 2014. In 2019, we adopted further cost-cutting measures, reducing average daily running costs to USD 5,696 per day, compared to USD 6,055 per day in 2018.

This encouraging result was achieved by strict cost controls across the 'procure to pay' process; optimising the procurement frame agreements with major suppliers, including improved payment terms; and technological efficiencies, such as increasing the gap between overhauls of major machinery. We will continue to optimise our performance in these areas, while enhancing the performance of the fleet through innovation in technical management and fuel-efficient technologies, which, in turn, will ensure we retain our position as an industry cost-leader.

MAINTAINING A DYNAMIC FLEET

To strengthen the company's financial flexibility and position, we manage the fleet dynamically: vessels are bought at attractive prices and sold when financially solid returns can be achieved. The number of vessels and the composition of segments are adjusted according to market conditions and predicted future demand.

We monitor market cyclical up- and downturns, which enabled us to take advantage of attractive financial opportunities in 2019. There were 12 vessel sales during the year, compared to three in 2018, generating solid returns and ensuring we retain a relatively young fleet. We will continue to adjust the fleet in 2020 whenever attractive opportunities arise. At the same time, we will improve the performance of individual vessels under our ownership. This will be done through monitoring and evaluating each vessel's performance and potential, taking both commercial and technical factors into consideration and adopting measures aimed to ensure vessels generate maximum value.

During the year, we completed a sale and leaseback agreement for four MR vessels. This boosted the company's financial flexibility and position by releasing significant capital, and gives us greater opportunity to act if and when the right opportunities materialise. We will bareboat charter-in the four vessels for a period of ten years and retain continuous purchase options on them. Maersk Tankers continues to undertake commercial and technical management of the vessels.

2020 PRIORITIES

In 2020, guided by our strategy, we will look to increase the performance and profitability of Maersk Product Tankers. This will include exploiting opportunities to sell vessels when attractive financial returns can be achieved; optimising every vessel's performance and reducing bunker spend through the use of software products such as SimBunker and technical solutions; and keeping vessels average daily running costs at low levels.

Furthermore, a priority in 2020 will be to ensure we comply with the new sulphur regulation. The vast majority of the fleet will switch to compliant fuel, while we will install scrubbers on three LR2 newbuildings as they are delivered.

Finally, in partnership with Maersk Tankers, we will continue to take measures to ensure we cut CO2 emissions, benefitting the industry as a whole.

Delivering our strategy will enhance value-creation for both our owners and customers, and it will benefit the industry by reducing the fleet's CO2 emissions.

SUSTAINABILITY

Maersk Product Tankers is part of the global energy value chain, carrying energy products for oil companies and trading houses, as noted in the section 'Energy value chain'.

Maersk Product Tankers' activities have an impact on people, society and the environment. We acknowledge this responsibility, and it is at the centre of our values to conduct our business in an ethically, environmentally and socially responsible manner, while also promoting responsible practice in our business relations.

We are committed to the United Nations Global Compact and universally recognised standards, including the United Nations Universal Declaration of Human Rights. Furthermore, we are pursuing industry-wide collaboration and global partnerships. These include a commitment to the principles expressed in the United Nations Sustainable Development Goals, to which we are a signatory.

Our sustainability strategy focuses on three main areas: safety, climate and responsible business.

SAFETY

Safety at work is a basic human right, and it is a high priority for Maersk Product Tankers. In 2019, we had 11 Total Recordable Cases of which four were categorised as Lost Time Incidents. We are committed to reducing the number of incidents to zero and took further measures towards achieving this aim during the year. These included continued work to foster a safety culture, underpinned by procedural compliance, robust reporting and open dialogue and feedback processes throughout the company.

CLIMATE

Tackling climate change and its impact is a pressing challenge, which requires an urgent and effective response. While tanker shipping is an efficient and cost-effective method of transporting energy to meet the world's growing demand for energy, as part of the fossil fuel value chain, our vessels emit emissions, which have a negative impact on the climate.

As a global leader in the product tanker shipping industry, we have both an obligation and interest to make changes in the way vessels are operated.

We have made it a strategic priority to work with the United Nations Sustainable Development Goal 13: 'Take urgent action to combat climate change and its impacts'. We are prioritising this area because, taking our business and value chain into consideration, this is were our efforts will have the greatest effect.

In 2019, we set the targets to reduce CO2 emissions by 30% in 2021 and 45% by 2030, compared to their level in 2008. From 2008 to 2018, we cut CO2 emissions by approximately 20%. In 2019, we made further improvements, bringing the total reduction to 25.4%, as measured on the Energy Efficiency Operational Indicator (EEOI), which is a measure of CO2 emissions per cargo unit per tonne-miles. This was achieved through operational efficiencies in both commercial and technical management, such as managing speed and voyage execution and improved maintenance of vessel equipment.

As we intensify our efforts to reduce CO2 emissions from the fleet, we will make the most of our partnership with Maersk Tankers; a company that for many years has invested in, tested and used fuel-efficient technologies, including super-slow steaming, silicon paints, wind-propulsion technology and propeller boss cap fins. These technologies, along with commercial initiatives, such as choosing the most energy-efficient vessels for longer trades, will continue to be important. We are also confident of the industry-wide potential that lies in the digital solutions developed by Maersk Tankers, such as SimBunker, which is helping vessels becoming more fuel-efficient.

The industry needs new innovative fuel-efficient technologies; some are yet to be found, while others need further development to become commercially viable. An example of the latter is the use of wind-propulsion technology such as the Flettner rotor sails to propel vessels forward. In 2019, we concluded the world's first test of this technology onboard a product tanker vessel, Maersk Pelican, achieving a 8.2% reduction in fuel consumption and emissions. We are now pushing for this to become a commercially viable solution.

Partnerships, across the industry, with like-minded companies that share the goal of reducing CO2 by investing in digital solutions and new technology, are important. Maersk Tankers has, for example, entered a strategic partnership with Mitsui and Cargill to find new fuel-efficient technologies to accelerate the reduction of global greenhouse gases in shipping. In 2019, the company also joined the Getting to Zero Coalition, which brings together decision-makers from the shipping value chain to reduce greenhouse gas emissions.

We will work towards ensuring greater transparency of vessels' CO2 performance in the coming years, allowing stakeholders to follow our performance and compare it to other product tanker companies. As mentioned above, we have set targets and are measuring these as per the EEOI measurement. EEOI is an internationally recognised and comparable measurement system and, although it has some shortcomings, it provides a yard-stick for measuring the industry's efforts in a standardised way.

RESPONSIBLE BUSINESS

LABOUR AND HUMAN RIGHTS

Human rights are a precondition for the freedom and dignity of people. During 2019, we continued to work with the shipyards Samsung Heavy Industries and Dalian Shipbuilding Industry where our new vessels are being built. This is to ensure both their and their subcontractors' work is conducted in accordance with our standards, for example, to ensure the safety of workers. External auditors are being used to support the work by assessing performance owing to their local knowledge and proximity to location.

ANTI-CORRUPTION WORK

Corruption is illegal, undermines social and economic development, destabilises the business environment, adds to the cost of trade and has a negative impact on markets and society. We have put strict policies in place to ensure we do not engage in corruption of any kind. We are a member of Maritime Anti-Corruption Network (MACN), which works towards eliminating corruption and enabling fair trade in the maritime industry. We strictly adhere to our Zero Facilitation Payment (FP) Policy. In 2019, we continued to re-enforce the Anti-Corruption Policy through fleet communication and training.

RESPONSIBLE PROCUREMENT

Global 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. Our responsible procurement programme is aimed at ensuring suppliers conduct business in a responsible manner, in accordance with the international and our own standards. In 2019 we took further measures to implement the programme. This included training our procurement team in the due diligence process for new suppliers and ensuring the team is taking a more active role in communicating the company's requirements to suppliers.

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

DIVERSITY AND INCLUSION

We strive to create a diverse and inclusive work culture in accordance with our Core Values. This increases diversity of thought within the company and helps us to attract and retain employees from the widest talent pool. We do this by building teams with differences in, among other things, nationality, age and experience.

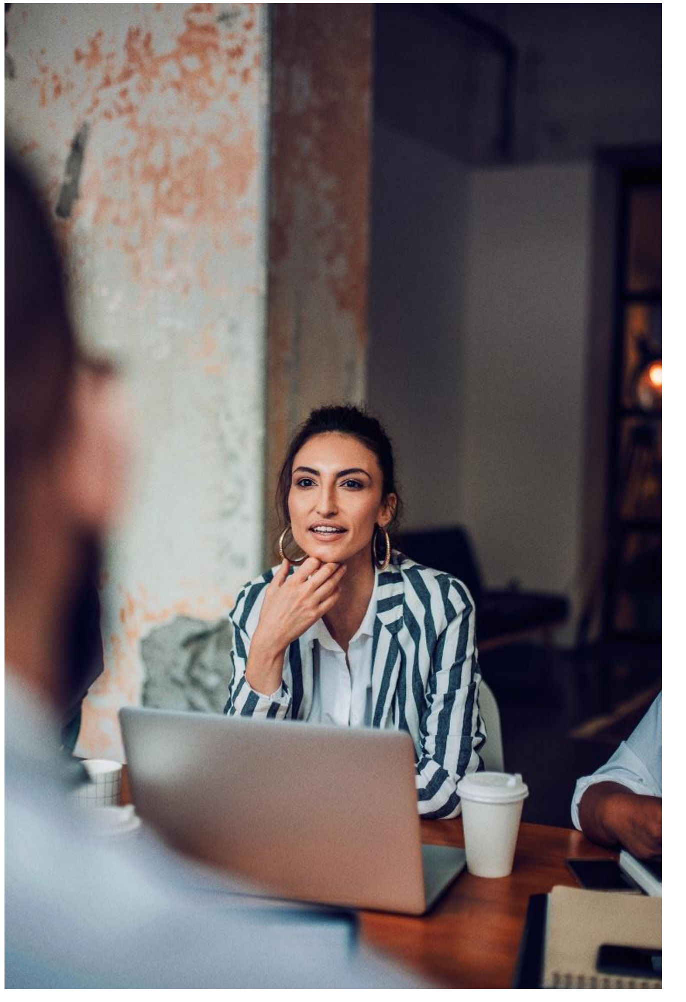
While our employee composition is diverse when it comes to nationality, age and experience, women are under-represented. We have an interest and obligation to bring more women into the company in different roles – both those who have industry experience and those who haven't.

We took further measures towards ensuring a better gender balance in 2019 by strengthening our diversity strategy. Specifically, we used our name and leading industry position to create awareness of the need for more women to work in shipping; for example, by becoming a member of the Diversity Council's CEO committee and committing to sign the 'Charter for more women in shipping' by Danish Shipping in January 2020. We looked to recruit more women, trained management in identifying and reducing bias in decisions on who to hire and promote, and worked to promote a culture in which all employees can thrive and exploit their full potential. As testament to our commitment we will implement a new parental leave policy in January 2020, providing male employees across all onshore locations with four weeks' paid leave, supporting them in fulfilling their roles as both fathers and employees.

During the second half of 2019, our efforts led to an increase of 3% in the share of women employed in the offices. We are aiming to increase the share from 30 to 35% by the end of 2023.

We will also continue to pursue greater diversity at management level and have set a target of 35% women managers, also by the end of 2023.

At the date of signing the annual report, the Board of Directors had one female director among its six members. The company is committed to achieving a more equal gender distribution through recruitment efforts. The target is to have a 33% representation of women on the Board of Directors by the third quarter of 2023.




Tasks
In progress

FINANCIAL PERFORMANCE IN 2019

The result for 2019 was a profit before tax of USD 91.4m compared to a loss of USD 35.0m in 2018. The higher result was mainly due to higher freight rates in 2019, further supported by increased market outperformance, lower costs and reversals of impairments.

RESULTS

Amounts in USD million	2019	2018	% change
Revenue	727.7	647.0	12.5%
Operating costs	- 518.4	- 536.7	-3.4%
EBITDA	202.9	109.6	85.1%
Depreciations	- 114.0	- 106.9	6.6%
Impairment reversals and losses	36.4	0.0	N/A
Financial income and expenses	- 40.7	- 37.2	9.4%
Profit/loss before tax	91.4	-35.0	N/A
Tax	1.0	1.9	-46.4%
Profit/loss for the year*	92.4	- 31.1	N/A

**Profit/loss of the year in 2018 includes an income of USD 2.0m from discontinued operations.*

Revenue

Revenue for 2019 increased by 12.5% compared to the previous year. The increase in revenue is mainly due to the improved spot market rates during the year, further supported by an increase of vessel days by 3%.

Operating costs

Operating costs comprising bunker costs, voyage costs, vessel operating costs, port costs, staff costs and management fees decreased by 3.4%, driven primarily by a reduction in vessel operating costs from 6,055 USD/day in 2018 to 5,695 USD/day in 2019, primarily due to more efficient procurement and the use of new technology. This in addition to a reduction in bunker, port and voyage costs in 2019.

EBITDA

EBITDA Increased by 85.1% from 2018 to 2019 mostly due to increased freight rates and increased outperformance of the market.

Depreciation

Depreciation increased by 6.6% compared to 2018, primarily due to increased dry-docking and the net increase in the number of vessels during the year.

Impairment losses and reversals

During the year, reversal of impairment was USD 66.0m (USD 0.0m) related to vessels sold during the year and the sale and leaseback transaction. This was offset by an impairment of USD 29.6m for vessels not meeting future expectations.

Financial income and expenses

Financial expenses, net increased by USD 3.5m in 2019, primarily due to higher interest payments compared to 2018 following the increase in borrowing by USD 52.7m.

Tax

Tax changed from USD 1.9m in 2018 to 1.0m in 2019, primarily due to the lower utilization of tax loss for 2019 compared to 2018.

CASH FLOWS

Amounts in USD million	2019	2018	Δ
Cash flow from operating activities	158.3	90.9	67.4
Cash flow used for investing activities	- 169.4	- 118.5	-56.5
Cash flow from financing activities	52.2	48.9	3.3

Cash flow from operating activities

Cash flow from operating activities was USD 158.3m in 2019 compared to USD 90.9m in 2018. The increase is mainly driven by an improved EBITDA partially offset by an increase in net working capital and increased payments of interest on new debt financing and received contribution from joint taxation.

Cash flow used for investing activities

Cash flow used for investing activities was USD 169.4m in 2019 compared to USD 118.5m in 2018. The change is primarily due to the delivery of four new MR vessels, five second hand handy vessels and one secondhand MR vessel which was largely offset by the sale and delivery of seven LR2 and Handy vessels.

Cash flow from financing activities

Cash flow from financing activities was USD 52.2m in 2019 (USD 48.9m), impacted by a new debt financing of USD 191..8m from the sale and leaseback transaction and additional debt related to the purchase of MR and Handy vessels. The increase is offset by repayment of loans of USD 139.6m.

CAPITAL STRUCTURE AND FUNDING

Amounts in USD million	2019	2018	Δ
Property, plant and equipment	1,160.4	1,159.5	0.9
Equity	543.1	465.8	77.3
Borrowings	862.6	809.1	53.5
Cash and cash equivalents	117.6	76.5	41.1
Net debt	715.7	732.6	-16.8

Property, plant and equipment

Property, plant and equipment increased with USD 0.9m compared to 2018 due to the delivery of 4 new MR vessels, and 6 second hand vessels, offset by the sale and delivery of 12 vessels during the year and the depreciations of the year.

Equity

Equity increased by USD 77.3m in 2019, primarily impacted by the profit for the year of USD 92.4m and negative impact from the unrealised value adjustments on the interest rate swaps of USD 15.0m, as rates fell during the year. The equity share of total assets was 35.6% at the end of 2019 compared to 34.3% at the end of 2018.

Net debt

At 31 December 2019, net debt amounted to USD 715.7m (USD 732.6m), primarily comprising gross borrowings of USD 862.6m (USD 809.1m) and cash and bank balances of USD 117.6m (USD 76.5m). The increase in gross borrowing is due to the Sale and leaseback transaction with a gross financing of USD 122.7m (0).

Expectation for 2020

The result for 2020 is expected to remain positive, with positive market fundamentals, continued low vessel operating costs and gain from sale of vessels.

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 5% of vessel days in 2020 have been covered through longer term TCs

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 hedge at least 50% of the currency effect of non-USD denominated EBITDA for the next 12 months and hedge at least 80% of the currency effects of committed financial and investment flows and balances . As of 31 December 2019, Maersk Product Tankers had 56% (52% in 2018) of the exchange rate risk of its future spending hedged through 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 have at least 50% of its total debt on a fixed interest rate-equivalent basis, either through outright fixed-rate financing or by hedging floating-rate financing. As of 31 December 2019, 71% (74%) of Maersk Product Tankers' total debt was, by nature or through the use of swaps, fixed rate.

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
CONTENTS

CONSOLIDATED INCOME STATEMENT FOR 1 JANUARY TO 31 DECEMBER

Note	Amounts in USD thousands	2019	2018
	Revenue	727,721	646,998
1	Operating costs	- 518,350	- 536,666
	Other income	4,175	7,325
	Other costs	- 10,641	- 8,028
	Profit before depreciation and impairment losses (EBITDA)	**202,905**	**109,629**
2	Gain/loss on sale of non-current assets, etc., net	6,726	- 530
5	Depreciation, impairment losses and impairment reversals, net	- 77,572	- 106,904
	Profit/loss before financial items (EBIT)	**132,059**	**2,194**
3	Financial income	1,339	1,326
3	Financial expenses	- 42,059	- 38,533
	Profit/loss before tax	**91,339**	**- 35,012**
4	Tax	1,026	1,914
	Profit/loss for the year - continuing operations	**92,365**	**- 33,098**
	Profit/loss for the year - discontinued operations	0	1,988
	Profit/loss for the year	**92,365**	**- 31,110**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Note	Amounts in USD thousands	2019	2018
	Profit/loss for the year	92,365	- 31,110
	Cash flow hedges		
	Value adjustment of hedges for the year	- 12,289	- 736
	Reclassified to income statement:		
	-Vessel operating costs	-1,547	-1,526
	-Financial expenses and income	-1,210	-1,791
4	Tax on other comprehensive income	0	304
	Total items that have been or may be reclassified subsequently	**- 15,046**	**- 3,749**
	Other comprehensive income, net of tax	**- 15,046**	**- 3,749**
	Total comprehensive income for the year	**77,319**	**- 34,860**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

Note	Amounts in USD thousands	2019	2018
5	Property, plant and equipment	1,160,371	1,159,505
6	Right-of-use asset	717	0
	Deposits	1	2
	Total non-current assets	**1,161,089**	**1,159,507**
	Inventories	**23,375**	**22,620**
	Trade receivables	102,563	77,598
	Tax receivables	0	3,052
	Deposits	29,217	0
	Other receivables	14,792	8,639
	Prepayments	10,499	10,150
	Other current assets	**157,071**	**99,439**
	Cash and cash equivalents	**117,619**	**76,531**
8	**Assets held for sale**	**68,323**	**0**
	Total current assets	**366,388**	**198,590**
	Total assets	**1,527,477**	**1,358,097**

Note	Amounts in USD thousands	2019	2018
	Share capital	1,590	1,590
	Retained Earnings	495,320	467,956
	Reserves for Hedging	- 18,795	- 3,749
	Dividend proposed for the year	65,000	0
	Total equity	**543,115**	**465,796**
16	Derivatives	14,089	3,540
9	Borrowings, non-current	751,254	705,757
	Total non-current liabilities	**765,343**	**709,297**
9	**Borrowings, current**	**111,327**	**103,364**
	Provisions	3,329	3,221
	Trade payables	60,114	52,926
	Tax payables	216	0
	Other payables	31,164	18,739
16	Derivatives	4,707	594
	Deferred income	8,162	4,159
	Other current liabilities	**107,692**	**79,639**
	Total current liabilities	**219,020**	**183,004**
	Total liabilities	**984,362**	**892,300**
	Total equity and liabilities	**1,527,477**	**1,358,097**

CONSOLIDATED CASH FLOW STATEMENT

Note	Amounts in USD thousands	2019	2018
	Profit/Loss before financial items (EBIT)	**132,060**	**2,194**
5	Depreciation, impairment	77,572	106,904
2	Gain/Loss on sale of non-current assets	- 6,726	530
	Profit before depreciation and impairment losses (EBITDA)	**202,906**	**109,629**
15	Change in working capital	- 7,951	20,557
	Change in provisions	4	- 697
	Other non-cash items	2,010	493
	Cash generated from operations before financial items and tax	**196,969**	**129,982**
3	Interest received	1,339	1,326
3	Interest paid	- 44,401	- 40,335
	Tax paid/received	4,399	- 101
	Net cash from operating activities	**158,306**	**90,872**
15	Purchase of vessels	- 251,149	- 146,696
	Deposits for acquisition of vessels	-2,729	0
	Proceeds from disposal	113,749	28,173
	Deposits placed	- 29,317	0
9	**Net cash from investing activities**	**- 169,446**	**- 118,523**
	Proceeds from new borrowings	69,059	458,002
	Proceeds from other borrowings	122,695	0
	Repayment of borrowings	- 139,525	- 409,088
	Net cash from financing activities	**52,229**	**48,914**
	Net cash flow from continuing operations	41,089	21,263
	Cash flows from discontinued operations	0	1,988
	Net cash flow from discontinued operations	0	1,988
	Net cash flow for the year	**41,089**	**23,251**
	Liquid funds at beginning of period	76,531	53,288
	Exchange gain/loss on Liquid funds	- 1	- 8
	Liquid funds at end of period	**117,619**	**76,531**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD thousands	Share capital	Reserve for hedges	Retained Earnings	Dividend Proposed	Total equity
Equity 1 January 2018	1,590	0	499,066	0	500,656
Profit/loss for the year	0	0	- 31,110	0	- 31,110
Other comprehensive income	0	- 3,749	0	0	- 3,749
Total comprehensive income for the year	0	- 3,749	- 31,110	0	- 34,860
Equity 31 December 2018	**1,590**	**- 3,749**	**467,956**	**0**	**465,796**
2019					
Profit/loss for the year	0	0	27,365	65,000	92,365
Other comprehensive income, net of tax	0	- 15,046	0	0	- 15,046
Total comprehensive income for the year	0	- 15,046	27,365	65,000	77,319
Equity 31 December 2019	**1,590**	**- 18,795**	**495,320**	**65,000**	**543,115**

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 one vote in voting power.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Operating costs

Amounts in USD thousands	2019	2018
Bunker costs	149,346	156,772
Voyage costs	45,023	44,595
Vessel operating costs	171,904	177,846
Port costs	108,169	113,791
Staff costs	5,578	7,118
Management fees	35,824	35,344
Other operating costs	2,506	1,200
Total operating costs	**518,350**	**536,666**
Remuneration of employees		
Wages and salaries	5,051	6,427
Other Benefits	81	192
Pension costs, defined contribution plans	26	27
Social Security Contributions	420	472
Total remuneration	**5,578**	**7,118**
Average number of employees	35	44

The remuneration of Executive Management of USD 2.2m (1.5m) in salaries and any incentive plans is included in the management fees paid to Maersk Tankers A/S.

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

Fees to PricewaterhouseCoopers[1]

Amounts in USD thousands	2019	2018
Statutory audit	55	59
Other assurance engagements	0	2
Tax advisory services	0	7
Other Services	35	8
Total fees	**90**	**76**

[1] Fee to PricewaterhouseCoopers, Statsautoriseret Revisionsaktieselskab amounts to USD 90k (USD 67k).

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

Amounts in USD thousands	2019	2018
Gains on sale of vessels	6,825	461
Losses on sale of vessels	- 97	- 991
Gain/loss on sale of non-current assets, etc., net	**6,726**	**- 530**

Note 3: Financial income and expenses

Amounts in USD thousands	2019	2018
Interest expenses on liabilities	- 44,383	- 40,231
Of which borrowing costs capitalised on assets[1]	2,492	2,665
Interest income on loans and receivables	1,339	1,326
Net interest expenses	**- 40,552**	**- 36,239**
Exchange rate losses on bank balances, borrowings and working capital	- 168	- 148
Net foreign exchange gains/losses	**- 168**	**- 148**
Guarantee fees	0	- 819
Financial expenses, net	**- 40,720**	**- 37,206**
Of which:		
Financial income	1,339	1,326
Financial expenses	- 42,059	- 38,533

[1]The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.1% (5.0%).

For an analysis of gains and losses from derivatives, reference is made to note 16.

Note 4: Tax

Amounts in USD thousands	2019	2018
Tax recognised in the income statement		
Current tax on profits for the year	- 463	2,663
Adjustment for current tax of prior periods	1,611	- 684
Total current tax	**1,148**	**1,979**
Total income tax	1,148	1,979
Tonnage and freight tax	- 122	- 66
Total tax expense	**1,026**	**1,914**
Tax reconciliation		
Profit/loss before tax	91,340	- 35,012
Profit/loss from discontinued operations	0	1,988
Profit/loss subject to Danish and foreign tonnage taxation, etc.	- 132,059	5,004
Profit/loss before tax, adjusted	**- 40,719**	**- 28,020**
Tax using the Danish corporation tax rate (22.0%)	8,958	6,164
Tax rate deviations in foreign jurisdictions	-31	2,175
Effect of Joint Taxations	0	- 2,922
Adjustment to previous years' taxes	1,610	- 684
Other differences, net	- 431	168
Loss not expected to be utilised	- 8,958	- 2,922
Total income tax	**1,148**	**1,979**
Tax recognised in other comprehensive income and equity		
Of which:		
Current tax	0	304
Deferred tax	0	0

Shipping activities are taxed on the basis of the net tonnage (tonnage tax). Furthermore, Maersk Product Tankers A/S is part of a joint taxation with A.P. Møller Holding A/S and its Danish subsidiaries regarding general tax regulations for net financial items and other activities. Tax losses related to net financial expenses have not been capitalised as these have limitations in regard to utilisation and are not expected to be utilised in the future.

Note 5: Property, plant and equipment incl. impairment

Amounts in USD thousands	Vessels	Assets under construction	Total
Cost			
1 January 2018	2,577,549	70,756	2,648,304
Addition	24,287	125,075	149,361
Disposal	- 77,318	0	- 77,318
Transfer	142,056	- 142,056	0
31 December 2018	2,666,574	53,774	2,720,348
Addition	109,606	144,034	253,641
Disposal	- 301,569	0	- 301,569
Transfer	135,545	- 135,545	0
Transfer, assets held for sales	- 191,101	- 905	- 192,006
31 December 2019	2,419,055	61,359	2,480,414
Depreciation and impairment losses			
1 January 2018	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
Depreciation	113,836	0	113,836
Impairment loss	29,581	0	29,581
Reversal of impairment	- 65,988	0	- 65,988
Disposal	- 195,451	0	- 195,451
Transfer	13,258	- 13,258	0
Transfer, assets held for sale	- 122,778	0	- 122,778
31 December 2019	1,310,373	9,670	1,320,043
Carrying amount			
31 December 2018	1,128,659	30,846	1,159,505
31 December 2019	1,108,682	51,689	1,160,371

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

Property, plant and equipment include four vessels that are recognised as a part of a sale and leaseback transaction. The carrying amount of the vessels as per 31 December 2019 amounts to USD 113.4m (cost price USD 144.4m less depreciation and impairment of USD 31.0m). The transaction resulted in a reversal of impairment of USD 26.3m, based on fair value less cost to sell. The fair value is supported by broker valuations.

Impairment tests of property, plant and equipment are carried out for cash generating units with indications of impairment losses or reversals. No indicators of a need for additional impairments or reversal of impairment have been identified as of 31 December 2019 as the longer term expectations have not changed significantly except for Intermediate segment. Management's assessment led to an impairment of USD 29.6m in 2019 related to the Intermediate segment due to an expected continuation of the low asset values impacted by the rates not picking up as in other segments and the illiquid second hand market which leaves the recoverable amount for Intermediate segment to be USD 103.7m

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 weighted average cost of capital of 8.0% (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, discount rates, vessel useful life and expected sales price. 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.

Note 6: Leases

Amounts in USD thousands	Land and buildings	Total
Recognition of right-of-use asset on initial application		
1 January 2019	0	0
Addition	860	860
Depreciation	- 143	- 143
31 December 2019	717	717
Net Carrying amount		
01 January 2019	0	0
31 December 2019	717	717
Lease liabilities		
1 January 2019		
Additions	860	860
Interest expense	20	20
Lease payments	- 151	- 151
Foreign exchange movements	4	4
31 December 2019	733	733
Lease liabilities are recognised in the balance sheet as follows		
Non-current liabilities, presented in borrowings, non-current	464	464
Current liabilities, presented in borrowings, current	269	269
	733	733
Recognised in the profit and loss statement as follows:		
Interest expense relating to lease liability	20	20
	20	20
Recognised in the cash flow statement as follows:		
Interest elements of lease payments, presented in "interest paid"	- 20	- 20
Principal elements of lease payments, presented in "repayment of borrowings"	- 131	- 131
	- 151	- 151

Note 7: Discontinued operations

Amounts in USD thousands	2019	2018
Profit/loss for the year		
Revenue	0	319
Other income	0	1,703
Operating Costs	0	- 34
Profit/loss for the year-discontinued operations	**0**	**1,988**
Cash flow from discontinued operations		
Cash flow from operating activities	0	1,988
Cash flow used for investing activities	0	0
Cash flow from financing activities	0	0
Net cash flow from discontinued operations	**0**	**1,988**

Discontinued operations in 2018 consisted of the VLCC activities which were divested in 2014 and the two remaining bareboat contracts which expired in 2017.

Note 8: Assets held for sale and assets sold during the year

During the year 2019, the Group sold twelve vessels. Seven vessels were delivered to the new owners during the period and five vessels will be delivered to the new owners in 2020 and are presented as assets held for sale of USD 68.3m. The sales of the twelve vessels has led to a reversal of impairment of USD 39.6m.

Note 9: Borrowings

Amounts in USD thousands	2019	2018
Bank and other credit institutions	861,848	809,122
Lease liabilities	733	0
Total	862,581	809,122
Of which:		
Classified as non-current	751,254	705,757
Classified as current	111,327	103,364
Derivatives hedge of borrowings, net	18,616	3,540

Movement in financial liabilities	Borrowings	Leases	Total
Cost			
1 January 2018	759,574	0	759,574
Cashflows	49,548	0	49,548
31 December 2018	809,122	0	809,122
Cashflows	52,726	- 127	52,599
Acquisition of leases	0	860	860
31 December 2019	861,848	733	862,581

Reference is made to Liquidity risk in Note 13 of the consolidated financial statements for covenants related to borrowings.

The Group has entered into a sale and leaseback transaction of four MR vessels with effect from second quarter of 2019. The sale of the vessels does not fulfil the conditions for being recognised as a sale but instead as a financing transaction. Apart from the reversal of impairment, there is no further impact of this transaction on profit and loss. The proceeds from the loan less transaction costs to obtain the loan have been received at inception with the amount of USD 122.7m and recognised as Borrowings in the consolidated balance sheet, and as cash flow from financing activities. The leases have a duration of 10 years and contains quarterly repayments and purchase options over the lease period. The leases contain obligations to repurchase the vessels at the end of the lease period if purchase options have not been exercised during the ordinary lease period. The total purchase obligations including fees amount to USD 49.2m.

Note 10: Net Debt

Amounts in USD thousands	2019	2018
Borrowings	862,581	812,661
Deposits	- 29,217	0
Cash and cash equivalents	- 117,619	- 76,531
Net debt	**715,745**	**736,130**

Note 11: Provisions

Amounts in USD thousands	Total
1 January 2019	3,221
Provision made	1,482
Amount used	- 323
Amount reversed	- 1,051
31 December 2019	**3,329**
Of which:	
Classified as non-current	0
Classified as current	3,329

The majority of the provisions are to cover commercial claims.

Note 12: Financial Instruments by Category

Amounts in USD thousands	Carrying amount 2019	Fair Value 2019	Carrying amount 2018	Fair Value 2018
Carried at amortised cost				
Deposits	29,218		2	
Total interest-bearing receivables	**29,218**		**2**	
Trade receivables	102,562		77,599	
Other receivables	14,792		8,639	
Cash and cash equivalents	117,619		76,531	
Financial assets at amortised costs	**264,191**		**162,768**	
Total financial assets	**264,191**		**162,768**	
Carried at amortised costs				
Borrowings	861,848		809,121	
Lease liabilities	733			
Trade payables	60,114		52,926	
Other payables	31,164		18,739	
Financial liabilities at amortised costs	**953,859**		**880,786**	
Carried at fair value				
Derivatives	18,796	18,796	4,134	4,134
Total financial liabilities	**972,655**	**18,796**	**884,920**	**4,134**

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 13: 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 2019. 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 (2.0) 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 2019, 71% (74%) of the Group's total debt was, by nature or through the use of swaps, fixed rate.

An increase in interest rates by one percentage point is estimated to decrease profit for the year by USD 1.0m and increase other comprehensive income by USD 17.0m (2018: decrease profit for the year by USD 1.4m and increase other comprehensive income by USD 22m). 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
2019				
3-6%	862,581	111,327	540,805	210,449
Of which:				
Bearing fixed interest	641,665			
Bearing floating interest	220,916			
2018				
3-6%	809,122	103,363	355,242	350,516
Of which:				
Bearing fixed interest	592,800			
Bearing floating interest	216,321			

Note 13: Financial risks, etc.-continued

Credit risk

Trade receivables

Maersk Product Tankers has exposure to financial and commercial counterparties and actively manages 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	2019	2018
Receivables not due	70,789	51,258
Less than 90 days overdue	29,940	24,085
More than 90 days overdue	6,683	6,129
Receivables, gross	107,412	81,472
Expected credit loss	- 4,849	- 3,874
Carrying amount	**102,563**	**77,598**

Approx. 79.8% (72.0%) 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 2019, the Group had a liquidity reserve of USD 177.4m (76.5m). The equity share of total equity and liabilities was 35.6% at the end of 2019 (34.3%).

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
2019					
Borrowings	861,849	143,038	622,249	233,331	998,618
Lease liabilities	733	286	493	0	779
Trade payables	60,114	60,114	0	0	60,114
Other payables	31,164	31,164	0	0	31,164
Non-derivative financial liabilities	953,860	234,602	622,742	233,331	1,090,675
Derivatives, payables	18,796	4,707	12,850	1,239	18,796
Total recognised in balance sheet	972,656	239,309	635,592	234,570	1,109,471
Operating lease commitments	0	0	0	0	0
Capital commitments	421,209	191,852	229,357	0	421,209
Total	1,393,865	431,160	864,949	234,570	1,530,680
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		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

The weighted average term to maturity of loan facilities in the Group is about six and a half years (about four and a half years at 31 December 2018).

Note 14: Commitments

Amounts in USD thousands	Newbuilding of vessels
2019	
Capital commitments relating to acquisition of non-current assets	421,209
2018	
Capital commitments relating to acquisition of non-current assets	384,360

	2020	2021	2022	Total
Capital commitments relating to vessels	191,852	158,457	70,900	421,209
Number of Vessels	5	4	2	11

The increase in capital commitments is primarily related to exercising an option for four new LR2 vessels. The Group has commitments for ten LR2 and one 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 15: Cash flow specifications

Amounts in USD thousands	2019	2018
Inventories	- 755	- 1,783
Trade receivables	- 26,974	6,928
Other receivables and prepayments	- 6,502	39,908
Trade payables and other payables	26,345	- 24,359
Exchange rate adjustment of working capital	- 65	- 137
Change in working capital Total	**- 7,951**	**20,557**
Additions	- 253,641	- 149,361
Of which borrowing costs capitalised on assets	2,492	2,665
Purchase of property, plant and equipment	**- 251,149**	**- 146,697**

Note 16: 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	2019	2018
Non-current receivables	0	0
Current receivables	0	0
Non-current liabilities	14,089	3,540
Current liabilities	4,707	594
Liabilities, net	18,796	4,134

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 0.2m is recognised in other comprehensive income and the cash flow hedge reserve in equity.

Amounts in USD thousands	2019	2018
Hedging foreign exchange risk on operating costs	- 180	- 594
Hedging interest rate risk	- 18,616	- 3,540
Total effective hedging	**- 18,796**	**- 4,134**
Ineffectiveness recognised in financial expenses	0	0
Total reclassified from equity reserve for hedges	**- 18,796**	**- 4,134**

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 2019 amounts to USD 521.0m, and are all denominated in USD. The average fixed rate of the interest rate swaps are 2.26%.

For cash flow hedges related to borrowings USD 18.6m 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 16: 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 2019	Fair value, liability 2019	Nominal amount of derivative 2019	Fair value, asset 2018	Fair value, liability 2018	Nominal amount of derivative 2018
Interest rate swaps						
- cash flow hedges	0	18,616	520,990	0	3,540	592,800
- fair value hedges	0	0	0	0	0	0
Total	**0**	**18,616**	**520,990**	**0**	**3,540**	**592,800**
Hedge of cash flows and investments in foreign currencies						
Main currencies hedged						
- EUR	0	173	12,882	0	216	3,720
- DKK	0	28	11,300	0	347	10,820
Other currencies	0	- 21	2,050	0	31	2,400
Total	**0**	**180**	**26,232**	**0**	**594**	**16,940**

For information about risk management strategy, currencies, maturities, etc. reference is made to note 13.

Note 17: Related parties

Amounts in USD thousands	2019	2018
Income statement		
Revenue	0	0
Operating costs	- 35,805	- 35,332
Other income	2,779	2,480
Financial expenses	0	- 5,577
Assets		
Trade receivables	691	1,088
Other receivables	10,693	6,288
Liabilities		
Bank and other credit institutions, etc. current	0	0
Trade payables	3,007	5,311
Other payables	1,642	998

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, Maersk Drilling A/S, A.P. Møller Holding A/S 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 pool).

Note 18: Contract Balances

Amounts in USD thousands	2019	2018
Trade receivables from contracts with customers	54,379	55,751
Accrued income-contract asset	35,467	20,724
Deferred income-contract liability	8,162	4,159

The Group has entered into contracts with an income value of USD 24.9m (USD 30.1m) within one year and USD 12.4m (USD 11.5m) 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.

Note 19: Significant accounting policies

Basis of preparation

The consolidated financial statements for 2019 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.

Changes to accounting policies

The accounting policies remain unchanged from the Annual Report for 2018 except for the adoption of IFRS 16 from 1 January 2019.

The accounting policies described have been applied consistently for the financial year and for the comparative figures except for the implementation of IFRS 16 'Leases' as set out further below.

IFRS16 'Leases'

IFRS 16 'Leases' was implemented as of 1 January 2019, the standard requires that all leases must be recognised in the balance sheet as right-of-use assets, by discounting the remaining lease payments using the incremental borrowing rate as of 1 January 2019 with a corresponding lease liability, except for short-term and small-value assets. Maersk Product Tankers adopted the new standard by applying the simplified approach with no restatement of comparative figures for prior period. No right-of-use assets or lease liabilities have been recognised upon the initial recognition of IFRS 16 as of 1 January 2019. There has been no material impact on other financial statement items.

Lease payments are allocated between a reduction of the liability and interest expense. The right-of-use asset is depreciated over the lease term on a straight-line basis. Cash flow from operating activities will increase and be offset by an equal increase in cash outflow from financing activities, and accordingly, there is no change to the underlying cash flow.

Contracts under which Maersk Product Tankers is the lessor

IFRS 16 does not introduce material changes from a lessor perspective, and no changes in the composition of the balance sheet from the adoption of IFRS 16 deriving from current contracts with costumers have been identified.

Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 & IFRS 7)

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

In summary, the reliefs provided by the amendments that apply to the Group are:

• When considering the 'highly probable' requirement, Maersk Product Tankers has assumed that the different IBOR interest rates on which our hedged debts are based do not change as a result of the IBOR reform.

• In assessing whether an economic relationship between the hedged cash flows and the hedging instruments is expected to exist throughout the term of hedge, it has been assumed that the IBOR interest rates on which the cash flows of the hedged debt and the interest rate swaps that hedge it are based are not altered by IBOR reform.

Note 19: Significant accounting policies - continued

• Whether the benchmark interest component in a fair value hedge is a separately identifiable component is not assessed on an ongoing basis.

• Hedge accounting will not be discontinued during the period of IBOR-related uncertainty as the hedge relationships are still economic relationships.

• The Group has not recycled the cash flow hedge reserve relation to the period after the reforms are expected to take effect.

• There is no ineffectiveness recognised in profit or loss as a result of the early adoption of the amendments to IFRS 9 and IFRS 7.

The only IBOR that Maersk Product Tankers is affected by is USD LIBOR.

New reporting requirements
Maersk Product Tankers expects no material impact of endorsed but not yet implemented amendments or interpretations of IFRS standards.

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 recognised following the "load to discharge" method, where freight income and related expenses are recognised 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 recognised over the lease term. Demurrage claims are recognised 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 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

Note 19: Significant accounting policies - continued

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 recognised in the carrying amount of vessels when incurred and depreciated over the period until the next dry-docking. Dry-docking cycles are typically five 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 indication on an annual basis. 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 costs of disposal.

Assets held for sale

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, under which the Group is the lessee, are capitalised using an incremental borrowing rate and recognised in the balance sheet as right-of-use assets and corresponding lease liabilities. The right-of-use assets are generally depreciated over the lease term. Lease payments made are split into an interest element presented under financial expenses and amortisation of the lease liability. Both elements are included under cash flow from financing activities in the cash flow statement.

Lease contracts with a term shorter than 12 months or for which the underlying asset are of low value are not capitalised but expensed straight-line over the lease term.

Sale and leaseback

Sales and leaseback transactions for which the Group maintains substantially all the risks and rewards incidental to economic ownership, are recognised on the balance sheet as finance lease liability. Transactions for which the sale of the vessels does not fulfil the conditions for being recognised as a sale are instead recognised as a financing transaction.

Lease liability are measured at the start of the leasing contract at the lower of the present value of minimum lease payments determined in the lease contract and the assets' fair value, plus any incidental expense borne by the lessee.

For the purpose of calculating the present value, the interest rate implicit in the lease is used as discount factor. Liabilities for financial leases are recognised on the balance sheet and the interest included in the lease payment is charged to the income statement.

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.

Note 19: Significant accounting policies-continued

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. Capitalisation 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
Profit/loss for the year divided by average equity

Note 20: 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 2019.

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
Impairment tests of property, plant and equipment are carried out for cash generating units with indications of impairment losses or reversals. No indicators of a need for additional impairments or reversal of impairment have been identified as of 31 December 2019 as the longer term expectations have not changed significantly except for Intermediate segment. Management's assessment led to an impairment of USD 29.6m in 2019 related to the Intermediate segment due to an expected continuation of the low asset values impacted by the rates not picking up as in other segments and the illiquid second hand market.

Note 20: Significant accounting estimates and judgements-continued

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 21: Contingent assets, liabilities and pledges

Contingent assets and liabilities
The Group is involved in commercial claims and disputes, which are subject to considerable uncertainty. The commercial claims and disputes do not involve significant amounts.

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 1,027.6m have been pledged as security for borrowings of USD 737.6m.

Note 22: Events after the balance sheet date

Maersk Edgar was delivered to new owners on 8th January 2020. Maersk Princess was delivered to the new owners on 5th March 2020.
Maersk Edgar and Maersk Princess are classified as assets held for sale in the annual report 2019.

Note 23: 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%

**Maersk Tankers UK Limited is currently under liquidation*

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	2019	2018
	Revenue	211,760	190,761
	Operating costs	- 164,048	- 165,659
	Other costs	- 2,881	- 468
	Profit before depreciation and impairment losses (EBITDA)	**44,831**	**24,634**
	Depreciation, impairment losses and impairment reversals, net	- 49,153	- 30,785
	Gain/loss on sale of non-current assets, etc., net	359	- 133
	Profit/loss before financial items (EBIT)	**- 3,963**	**- 6,284**
	Profit/loss from subsidiaries	140,060	13,003
2	Financial income	881	703
2	Financial expenses	- 46,034	- 40,596
	Profit/loss before tax	**90,944**	**- 33,173**
	Tax	1,420	2,063
	Profit/loss for the year	**92,365**	**- 31,110**
	Proposal for distribution of the profit for the year:		
	Proposed dividend for the financial year	**65,000**	**0**
	Retained earnings	**27,365**	**- 31,110**
	Total distribution	**92,365**	**- 31,110**

PARENT STATEMENT OF COMPREHENSIVE INCOME

Note	Amounts in USD thousands	2019	2018
	Profit/loss for the year	92,365	- 31,110
	Cash flow hedges:		
	Value adjustment of hedges for the year	- 12,289	- 736
	Reclassified to income statement:		
	- Vessel operating costs	-1,547	-1526
	- Financial expenses and income	-1,210	-1791
	Tax on other comprehensive income	0	304
	Total items that have been or may be reclassified subsequently	**- 15,046**	**- 3,749**
	Other comprehensive income, net of tax	**- 15,046**	**- 3,749**
	Total comprehensive income for the year	**77,319**	**- 34,860**

PARENT BALANCE SHEET AT 31 DECEMBER

Note	Amounts in USD thousands	2019	2018
4	Property, plant and equipment	204,461	238,025
5	Right-of-use asset	125,755	0
6	Investments in subsidiaries	990,813	965,636
	Total non-current assets	**1,321,029**	**1,203,661**
	Inventories	**7,084**	**3,961**
	Trade receivables	33,752	17,613
	Tax receivables	0	3,052
	Deposits	29,217	0
	Other receivables	1,985	15,000
	Prepayments	3,872	2,673
	Other current assets	**68,826**	**38,339**
	Cash and cash equivalents	**52,019**	**46,204**
	Assets held for sale	**9,024**	**0**
	Total current assets	**136,953**	**88,504**
	Total assets	**1,457,982**	**1,292,165**

Note	Amounts in USD thousands	2019	2018
	Share capital	1,590	1,590
	Retained Earnings	495,320	467,956
	Reserves for hedging	- 18,795	- 3,749
	Proposed dividend	65,000	0
	Total equity	**543,115**	**465,796**
	Derivatives	14,089	3,540
7	Borrowings, non-current	750,790	705,757
	Total non-current liabilities	**764,879**	**709,297**
7	**Borrowings, current**	**111,059**	**102,545**
	Provisions	760	1,116
	Trade payables	23,174	7,287
	Derivatives	4,707	594
	Tax payables	208	0
	Other payables	6,576	4,466
	Deferred income	3,504	1,065
	Other current liabilities	**38,929**	**18,067**
	Total current liabilities	**149,988**	**117,072**
	Total liabilities	**914,867**	**826,369**
	Total equity and liabilities	**1,457,982**	**1,292,165**

PARENT CASH FLOW STATEMENT

Note	Amounts in USD thousands	2019	2018
	Profit/Loss before financial items	**- 3,963**	**- 6,284**
4	Depreciation, impairment	49,153	30,785
	Gain/Loss on sale of non-current assets	- 359	133
	Profit before depreciation and impairment losses (EBITDA)	**44,831**	**24,634**
10	Change in working capital	231	22,085
	Change in provisions	- 356	136
	Other non-cash items	1,098	- 361
	Cash generated from operations before financial items and tax	**45,804**	**46,494**
	Interest received	- 217	535
	Interest paid	- 44,639	- 39,864
	Tax paid/received	4,680	- 93
	Net cash from operating activities	**5,628**	**7,073**
	Purchase of vessels	- 45,685	- 7,830
	Proceeds from disposal	15,638	8,749
6	Dividend and capital reduction from subsidiaries	114,884	1,500
	Change in loans from subsidiaries	15,000	-14,815
	Deposits placed	- 29,318	0
	Net cash from investing activities	**70,519**	**-12,396**
	Proceeds from new borrowings	69,059	460,703
	Repayment of borrowings	- 139,392	- 411,974
	Net cash from financing activities	**- 70,333**	**48,728**
	Net cash flow for the year	**5,814**	**43,405**
	Liquid funds at beginning of period	46,204	2,796
	Exchange gain/loss on Liquid funds	1	3
	Liquid funds at end of period	**52,019**	**46,204**

PARENT STATEMENT OF CHANGES IN EQUITY

Amounts in USD thousands	Share capital	Reserve for hedges	Retained Earnings	Dividend proposed	Total equity
Equity 1 January 2018	1,590	0	499,066	0	500,656
Profit/loss for the year	0	0	- 31,110	0	- 31,110
Other comprehensive income	0	- 3,749	0	0	- 3,749
Total comprehensive income for the year	0	- 3,749	- 31,110	0	- 34,859
Equity 31 December 2018	**1,590**	**- 3,749**	**467,956**	**0**	**465,796**
2019					
Profit/loss for the year	0	0	27,365	65,000	92,365
Other comprehensive income, net of tax	0	- 15,046	0	0	- 15,046
Total comprehensive income for the year	0	- 15,046	27,365	65,000	77,319
Equity 31 December 2019	**1,590**	**- 18,795**	**495,321**	**65,000**	**543,115**

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 one vote in voting power.

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

Parent Note 1: Operating costs

Maersk Product Tankers A/S has not had employees in 2019 or 2018, 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	2019	2018
Interest expenses on liabilities	- 45,888	- 40,578
Interest income on loans and receivables	881	703
Net interest expenses	**- 45,007**	**- 39,875**
Exchange rate losses on bank balances, borrowings and working capital	- 146	- 18
Net foreign exchange gains/losses	**- 146**	**- 18**
Financial expenses, net	**- 45,153**	**- 39,892**
Of which:		
Financial income	881	703
Financial expenses	- 46,034	- 40,596

Parent Note 3: Tax

Amounts in USD thousands	2019	2018
TAX RECOGNISED IN THE INCOME STATEMENT		
Current tax on profits for the year	0	2,919
Adjustment for current tax of prior periods	1,628	- 684
Total current income tax	**1,628**	**2,235**
Total income tax	1,628	2,235
Tonnage and freight tax	- 208	- 172
Total tax expense	**1,420**	**2,063**
TAX RECONCILIATION		
Profit/loss before tax	90,944	- 33,173
Profit/loss subject to Danish and foreign tonnage taxation, etc.	3,963	6,284
Profit/loss before tax, adjusted	**94,907**	**- 26,889**
Tax using the Danish corporation tax rate (22.0%)	-20,880	5,916
Profit/loss excluding subsidiaries	30,813	2,861
Effect of Joint Taxations	0	- 2,922
Adjustment to previous years' taxes	1,628	- 684
Other differences, net	0	- 13
Loss not expected to be utilised	-9,933	- 2,922
Total income tax	**1,628**	**2,235**
Tax recognised in other comprehensive income and equity		
Of which:		
Current tax	0	304
Deferred tax	0	0

Shipping activities are taxed on the basis of the net tonnage (tonnage tax). Furthermore, Maersk Product Tankers A/S is part of a joint taxation with A.P. Møller Holding A/S and its Danish subsidiaries regarding general tax regulations for net financial items and other activities. Tax losses related to net financial expenses have not been capitalised as these have limitations in regard to utilisation and are not expected to be utilised in the future.

Parent Note 4: Property, plant & equipment

Amounts in USD thousands	Vessels	Assets under construction	Total
Cost			
1 January 2018	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
Addition	33,537	1,108	34,645
Disposals	- 59,417	0	- 59,417
Transfer, asset held for sale	- 24,849	- 905	- 25,754
Transfer	1,177	- 1,177	0
31 December 2019	582,085	974	581,111
Depreciation and impairment losses			
1 January 2018	362,826	0	362,826
Depreciation	30,785	0	30,785
31 December 2018	393,611	0	393,611
Depreciation	32,073	0	32,073
Impairment loss	14,222	0	14,222
Reversal of impairments	- 2,387	0	- 2,387
Disposals	- 44,139	0	- 44,139
Transfer, asset held for sale	- 16,730	0	- 16,730
31 December 2019	376,650	0	376,650
Carrying amount:			
31 December 2018	238,026	0	238,026
31 December 2019	205,435	- 974	204,461

Impairment tests of property, plant and equipment are carried out for cash generating units with indications of impairment losses or reversals. No indicators of a need for additional impairments or reversal of impairment have been identified as of 31 December 2019 as the longer term expectations have not changed significantly except for Intermediate segment. Management's assessment led to an impairment of USD 14.2m in 2019 related to the Intermediate segment due to an expected continuation of the low asset values impacted by the rates not picking up as in other segments and the illiquid second hand market which leaves the recoverable amount for intermediate segment to be USD 79.4m.

Parent Note 5: Leases

Amounts in USD thousands	Vessels	Total
Recognition of right-of-use asset on initial application		
1 January 2019	0	0
Addition	131,000	131,000
Depreciation	- 5,245	- 5,245
31 December 2019	125,755	125,755
Net Carrying amount		
01 January 2019	0	0
31 December 2019	125,755	125,755
Lease liabilities		
1 January 2019		
Additions	122,690	122,690
Interest expense	4,172	4,172
Lease payments	- 6,919	- 6,919
Foreign exchange movements	0	0
31 December 2019	119,943	119,943
Lease liabilities are recognised in the balance sheet as follows		
Non-current liabilities, presented in borrowings, non-current	113,850	113,850
Current liabilities, presented in borrowings, current	6,093	6,093
	119,943	119,943
Recognised in the profit and loss statement as follows:		
Interest expense relating to lease liability	4,172	4,172
	4,172	4,172
Recognised in the cash flow statement as follows:		
Interest elements of lease payments, presented in "interest paid"	- 4,172	- 4,172
Principal elements of lease payments, presented in "repayment of borrowings"	- 2,747	- 2,747
	- 6,919	- 6,919

Parent Note 6: Investment in subsidiaries

Amounts in USD thousands	Total
1 January 2018	**954,133**
Profit/Loss for the period	13,003
Dividend paid	- 1,500
31 December 2018	**965,636**
Profit/Loss for the period	140,061
Share capital reduction	- 100,000
Dividend paid	- 14,884
31 December 2019	**990,813**

Subsidiaries
Amounts in USD thousands

Name	Domicile	Capital	Equity	Profit/Loss	Ownership Interest
Maersk Tankers Singapore Pte. Ltd.	Singapore	1,470,000	990,796	137,357	100.0%
Maersk Tankers UK Limited*	UK	11,691	16	2,704	100.0%

*Maersk Tankers UK Limited is under liquidation.

Parent Note 7: Borrowings

Amounts in USD thousands	2019	2018
Bank and other credit institutions	741,906	808,302
Lease liabilities	119,943	0
Total	861,849	808,302
Of which:		
Classified as non-current	750,790	705,757
Classified as current	111,059	102,545
Derivatives hedge of borrowings, net	18,796	3,540

Amounts in USD thousands	Borrowings	Leases	Total
Cost			
1 January 2018	759,574	0	759,574
Cashflows	48,728	0	48,728
31 December 2018	808,302	0	808,302
Cashflows	- 67,282	- 3,048	- 70,330
Non cash transactions	886	301	1,187
Acquisition of leases	0	122,690	122,690
31 December 2019	741,906	119,943	861,849

The Group has entered into a sale and leaseback transaction of four MR vessels with delivery in second quarter of 2019. The sale of the vessels does not fulfil the conditions for being recognised as a sale but instead as a financing transaction. Apart from the reversal of impairment, there is no further impact of this transaction on profit and loss. The proceeds from the loan less transaction costs to obtain the loan have been received at inception with the amount of USD 122.7m and recognised as Other Borrowings in the consolidated balance sheet, and as cash flow from financing activities. The leases have a duration of 10 years and contains quarterly repayments and purchase options over the lease period. The leases contain obligations to repurchase the vessels at the end of the lease period if purchase options have not been exercised during the ordinary lease period. The total purchase obligations including fees amount to USD 49.2m.

Parent Note 8: Financial instruments by category

Amounts in USD thousands	Carrying amount 2019	Fair Value 2019	Carrying amount 2018	Fair Value 2018
Carried at amortized cost				
Deposits	29,217		0	
Total interest-bearing receivables	**29,217**		**0**	
Trade receivables	33,752		17,613	
Other receivables	1,985		15,000	
Cash and cash equivalents	52,019		46,204	
Financial assets at amortized costs	**116,973**		**78,818**	
Total financial assets	**116,973**		**78,818**	
Carried at amortized costs				
Borrowings	741,906		808,302	
Lease liabilities	119,943		0	
Trade payables	23,174		7,287	
Other payables	6,576		4,466	
Financial liabilities at amortized costs	**891,599**		**820,055**	
Carried at fair value				
Derivatives	18,796	18,796	4,134	4,134
Total financial liabilities	**910,395**	**18,796**	**824,189**	**4,134**

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 9: 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
2019					
Borrowings	741,906	130,448	571,991	128,235	830,673
Lease liabilities	119,943	12,590	50,258	105,096	167,944
Trade payables	23,174	23,174	0	0	23,174
Other payables	6,576	6,576	0	0	6,576
Non-derivative financial liabilities	**891,599**	**172,788**	**622,249**	**233,331**	**1,028,367**
Derivatives, payables	18,796	4,707	12,850	1,239	18,796
Total recognised in balance sheet	**910,395**	**177,495**	**635,099**	**234,570**	**1,047,163**
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**

For description of financial risks, a reference is made to note 13 in the consolidated financial statements.

Maturity analysis of trade receivables	2019	2018
Receivables not due	21,943	11,848
Less than 90 days overdue	11,206	4,925
More than 90 days overdue	2,602	1,740
Receivables, gross	35,751	18,514
Expected credit loss	- 1,999	- 901
Carrying amount	**33,752**	**17,613**

Approx. 82.1% (62.0%) of the expected credit loss is related to trade receivables overdue by more than one year.

Parent Note 10: Cash flow specifications

Amounts in USD thousands	2019	2018
Inventories	- 3,125	2,324
Trade receivables	- 17,236	9,050
Other receivables and prepayments	- 3,845	29,243
Trade payables and other payables	24,480	- 18,515
Other working capital movements	0	0
Exchange rate adjustment of working capital	- 43	- 18
Change in working capital Total	**231**	**22,085**
Additions	- 45,685	- 7,830
Purchase of property, plant and equipment Total	**- 45,685**	**- 7,830**

Parent Note 11: Related parties

Amounts in USD thousands	2019	2018
Income statement		
Revenue	0	0
Operating costs	- 91,912	- 80,648
Financial expenses	- 264	- 5,621
Assets		
Trade receivables	152	435
Other receivables	882	- 1,445
Liabilities		
Bank and other credit institutions, etc. current	0	0
Trade payables	1,951	- 792
Other payables	208	998

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, Maersk Drilling A/S, A.P. Møller Holding A/S, and all its subsidiaries and affiliates.

Parent Note 12: Contract balances

Amounts in USD thousands	2019	2018
Trade receivables from contracts with customers	10,888	12,269
Accrued income-contract asset	9,981	4,034
Deferred income-contract liability	3,504	1,065

Reference is made to note 18 of the consolidated financial statements for more details on the balances.

Parent Note 13: Accounting policies

General Accounting Policies

The financial statements for 2019 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 2019 (note 19 in the consolidated financial statements) with the following exception:

Investments in Subsidiaries

Investments in subsidiaries are measured as per the equity method. The initial investment is recognised at cost and adjusted thereafter to recognise the share of profits, losses and other adjustments. The Management assesses impairment for investment in subsidiaries and determines the amount generally consistent with the assumptions stated in Note 19 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 2019.

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 2019 of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2019.

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, 5th March 2020

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

Ibrahim Gokcen

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 2019 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 2019 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 2019, 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, 5 March 2020

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 other members of the executive management.

ROBERT M. UGGLA
Chairman of the Board of Directors

Gender	Male
Joined the board	2017

Robert M. Uggla, MSc in Business Administration, joined A.P. Møller - Mærsk A/S in 2004 and has held various roles, latest as CEO for Svitzer A/S.

Chairman, the Board of Directors:
A.P. Møller Capital P/S; Maersk Tankers A/S; Maersk Product Tankers A/S

Member of the Board of Directors:
A.P. Møller - Mærsk A/S; Foundation Board of IMD; The Drilling Company of 1972 A/S (Maersk Drilling) (Vice Chair-man)

Other management duties:
Agata ApS; Estemco XII ApS

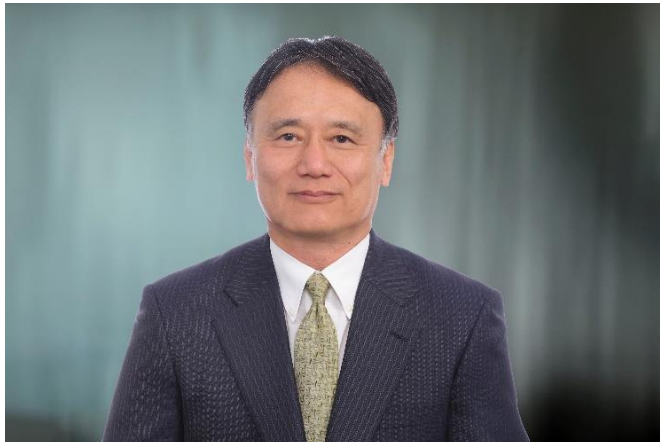
Robert M. Uggla is appointed to the Board of Directors in a number of entities fully owned by A.P. Møller Holding A/S.

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)



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:
JA Mitsui Leasing, Ltd.

MARTIN N. LARSEN
Member of the Board of Directors

Gender	Male
Joined the board	2017

Martin N. Larsen, MSc in Economics & Finance, joined A.P. Møller – Mærsk A/S in 2003 and has held several roles, latest as VP, Head of Financial Planning & Analysis.

Member of the Board of Directors:
The Drilling Company of 1972 A/S (Maersk Drilling); Maersk Tankers A/S; Maersk Product Tankers A/S; A.P. Møller Capital P/S; Navigare Capital Partners A/S; Assuranceforeningen SKULD (Gjensidige)

Martin N. Larsen is appointed to the Board of Directors in a number of entities fully owned by A.P. Møller Holding A/S

MARIA PEJTER
Member of the Board of Directors

Gender	Female
Joined the board	2018

Maria Pejter, BSc in Political Science, has since 1997 held several top-level positions within organisational strategy and development in A.P. Møller - Mærsk A/S.

Member of the Board of Directors:
Maersk Tankers A/S; Maersk Product Tankers A/S

Maria Pejter is appointed to the Board of Directors in a number of entities fully owned by A.P. Møller Holding A/S

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:
Danish Shipping; The Diversity Council, CEO committee

MORTEN M. CHRISTENSEN
Chief Financial Officer

Gender	Male
Joined the board	2018

Morten M. Christensen's responsibilities include finance, strategy and IT. He 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 Asset Officer

Gender	Male

Soren C. Meyer's responsibilities include digital development and asset management. 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. 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:
International Tanker Owners Pollution Federation; 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
Tatsuya Okamoto
Martin N. Larsen
Maria Pejter
Ibrahim Gokcen

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

Auditor
PricewaterhouseCoopers
Statsautoriseret
Revisionspartnerselskab

Produced in Denmark 2020

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MAERSK PRODUCT TANKERS