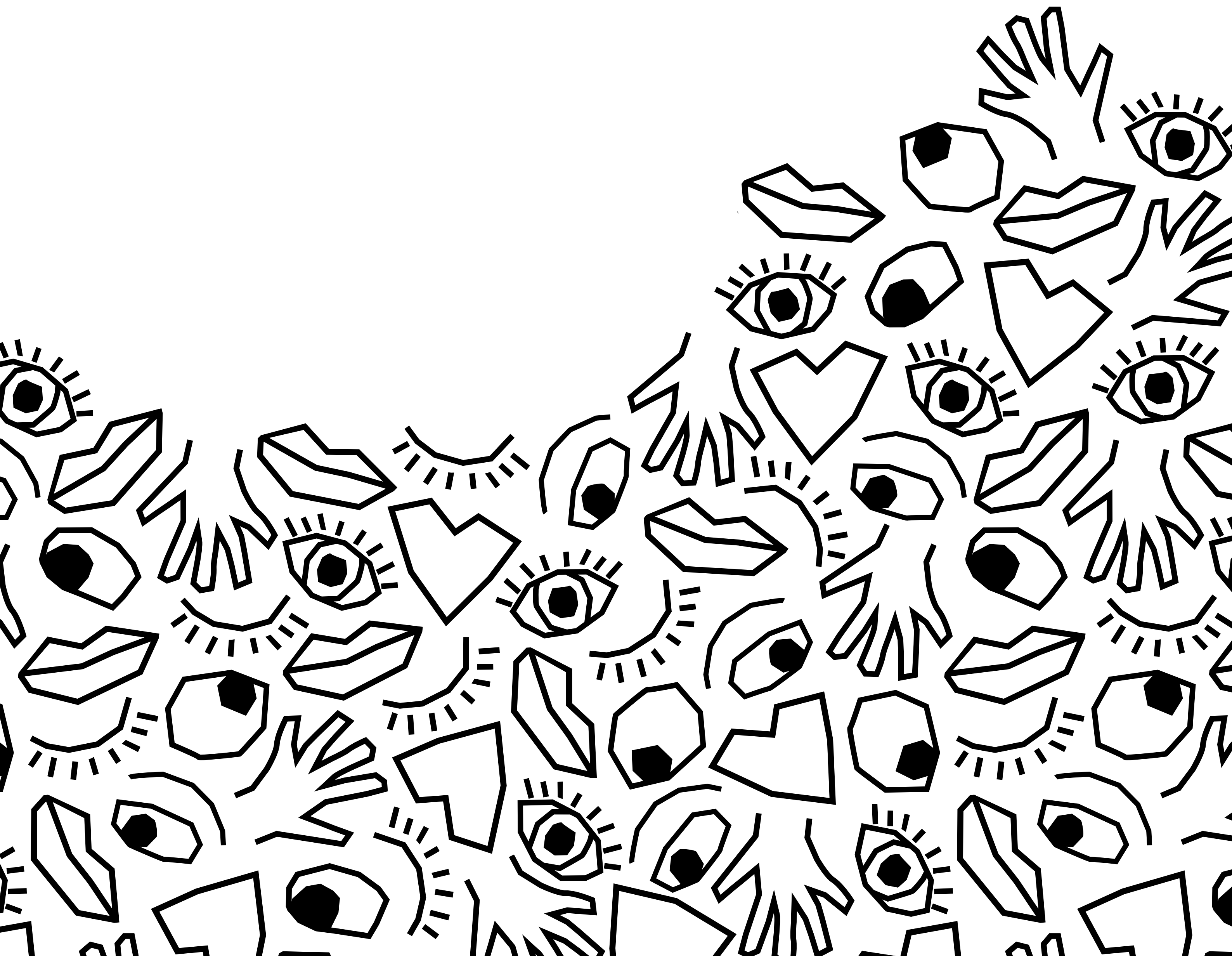
Annual Report 2018

Kitchen utensils.
Assorted
DKK 15

Zebra A/S

About us

- The very first Zebra store opened in 1988
- In 1995 we became a chain of retail stores named Tiger
- In 2016 we changed our name to Flying Tiger Copenhagen across all markets
- In our stores you can find things for your home, your hobby, for fun and parties, great gifts and award-winning design. All at affordable prices
- In 2018 we grew revenue by 11 percent to more than DKK 5.5 billion
- We have more than 6,000 employees worldwide
- We introduce around 300 fun and useful new products each month
- There are 77 Flying Tiger Copenhagen stores in Denmark
- Our biggest markets are Italy with 126 stores, Spain with 127 stores and United Kingdom with 98 stores
- We have a total of 990 stores in 30 countries across three continents



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The world of Flying Tiger Copenhagen

Zebra A/S, the parent company of the Flying Tiger Copenhagen stores, is a variety retailer founded in Denmark. Our stores offer new, fun and useful products at affordable prices, which are marketed internationally under the Flying Tiger Copenhagen brand name. By the end of 2018 the Group operated 990 stores in 30 countries across Europe, Asia and the United States. During the past year, more than two new Flying Tiger Copenhagen stores opened every week. We constantly work on innovating our product offering and design, and around 300 new products are introduced every month. Our product categories include home, toys, hobby, party, snacks, electronics, gadgets, fashion accessories and more. We keep our stores bright and easy to navigate with our Scandinavian decor being a differentiating characteristic.

Flying Numbers

Revenue	Adjusted EBITDA	Stores	Store openings	Countries
5,583	257	990	2-3	30
DKKm	DKKm	incl. Japanese joint venture	every week	across Europe, Asia and the United States

Message from the Chairman and the CEO

In 2018 Flying Tiger Copenhagen delivered revenue of DKK 5.6bn, which was an increase of 11% compared to 2017. However, our profit is not at a satisfactory level due to an increased operational cost base that mainly originates from our growth-related investments.

These are challenging times for the retail business in general. Luckily for Flying Tiger Copenhagen, our customers still value our concept. Although the performance in 2018 is unsatisfying, Flying Tiger Copenhagen is still a profitable business. We are off to a good start in 2019 and have demonstrated a positive comparable store sales growth for the first four months.

In response to the declining profitability we experienced in 2018, we initiated a transformation plan in late 2018. The overall objective is to ensure that we generate strong cash flows, improve profitability and maintain our comparable store sales at an attractive level.

The transformation plan is divided into five key pillars: Consolidate the network, optimize the cost structure, tighten the supply chain, build the retail operating model and evolve the Flying Tiger Copenhagen DNA. The plan is designed to address the shorter-term performance whilst investing in the core concept and people to safeguard the future.

To support the transformation plan, EQT injected DKK 350m in Q1 2019 as a statement of their strong belief in Flying Tiger Copenhagen, but also to ratify the solid and tangible initiatives already executed and planned for the remainder of 2019 and 2020.

The transformation plan includes:

Consolidate the network
The consolidation initiative will optimize our store network and market set-up following our rapid growth in stores as well as geographies. This entails radically reducing the number of new store openings compared to previous years. We will also relocate and close non-performing stores to ensure a healthy portfolio. Lastly, we will consolidate our market set-up where relevant.

Optimize the cost structure
The cost reduction initiative will capture the scale and simplification benefits from our strong growth. As part of this initiative, we will reduce HQ staff and simplify our set-up across functions. As an example of this, we have already reduced the number of employees in our headquarters by 25% (approx. 75 FTEs). We are also executing a rent reduction program, working with our landlords to secure competitive rents, reflecting the retail environment and our strong value to landlords as a tenant.

Furthermore, we are renegotiating with suppliers in our “Direct Procurement” program that aims to leverage our scale and consolidate volumes with suppliers who can provide strong savings, high quality and leading CSR performance. We have completed the first round of negotiations with our top suppliers in April 2019 and the process will continue throughout 2019 and 2020.

Tighten the supply chain
We are executing the supply chain initiative to deliver a cost and capital-efficient supply chain with high service levels throughout our network. As we consolidate the network and markets, the supply chain can be stabilized and optimized to deliver these objectives.

This includes implementing a revised logistics footprint incl. warehouse and transportation services catering for a higher service level with improved cost and capital efficiency. This is already in execution, with the first contracts signed and transition to new sites and suppliers ongoing.

We are also executing a revised planning set-up to ensure that we maintain sufficient but competitive and high-quality stock levels centrally and locally. This includes clearing slower moving inventory to return to a highly capital-efficient business model.

Build the retail operating model
This initiative will define and execute a standardized store operations and commercial model, which is primarily rolled out in the local markets.

The initiative includes developing standard store operations practices to lower our costs, improve our staff efficiency in daily operations and should enable us to re-invest in the service activities that drive value for our customers. Specifically, we have worked with stores and markets to develop new operating principles.

We are also working on improving how we service our stores from a central perspective by improving and developing several new central supporting structures such as product lifecycle management, improved visual merchandising guidelines, sales optimization tools and a staff planning system.

Evolve the Flying Tiger Copenhagen DNA
A cornerstone in Flying Tiger Copenhagen’s historic success is daring to be different and continuously focusing on what it takes to put a smile on people’s faces. All at affordable prices. This is still the core of our DNA and something we will never let go of. Therefore, it is important that we continue to develop and pursue new ideas in the quest for this. We have established a team who will continue to explore opportunities to keep strengthening and developing the assortment and customer experience.

/ Vagn Ove Sørensen & Martin Jermiin

Key figures

DKKm	2018	2017[6]	2016[6]	2015[6]	2014[6]
Income statement					
Revenue	5,583.3	5,032.3	4,274.0	3,571.7	2,464.2
Gross profit	3,191.7	3,051.6	2,577.8	2,226.9	1,529.9
EBITDA before special items	104.7	380.0	368.2	497.8	364.2
Adjusted EBITDA[2]	**256.7**	**460.2**	**443.2**	**497.8**	**364.2**
EBIT	(257.0)	89.2	186.7	343.7	286.5
Result from financial items	(328.7)	(63.5)	(57.9)	(52.4)	(27.2)
Adjusted profit for the year[1, 3]	(78.3)	138.9	167.7	242.5	195.7
Profit for the year	(541.4)	4.1	82.1	209.8	195.7
Financial position at 31 December					
Invested capital	1,213.5	1,160.5	1,116.5	846.4	760.5
Total assets	3,666.2	2,848.4	2,743.5	2,009.9	1,555.9
Net interest-bearing debt[1]	1,296.9	641.0	493.0	94.1	155.2
Pro forma adjusted equity[4]	**503.9**	**819.2**	**882.3**	**789.5**	**622.1**
Provision for acquisition of non-controlling interests	(245.6)	(352.5)	(490.3)	(850.7)	(704.8)
Accumulated impact from acquired non-controlling interests	(687.2)	(687.5)	(415.6)	(69.1)	(16.8)
Fair value of call options	450.2	-	-	-	-
Equity	21.3	(220.8)	(23.6)	(130.3)	(99.5)
Cash flow and investments					
Investment in property, plant and equipment	(241.2)	(213.9)	(263.4)	(292.3)	(159.7)
Free cash flow	(307.0)	(69.8)	(155.0)	93.3	(134.8)
Key ratio					
Revenue growth	10.9%	17.7%	19.7%	44.9%	44.0%
Gross margin[1]	57.2%	60.6%	60.3%	62.3%	62.1%
Adjusted gross margin[2]	59.9%	62.0%	62.1%	62.3%	62.1%
EBITDA margin before special items[1]	1.9%	7.6%	8.6%	13.9%	14.8%
Adjusted profit margin[1, 3]	(1.4)%	2.8%	3.9%	6.8%	7.9%
Profit margin	(9.7)%	0.1%	1.9%	5.9%	7.9%
Comparable store sales growth[1]	(0.2)%	(1.4)%	(4.5)%	1.5%	0.7%
Number of stores, including joint ventures	990	863	745	585	411
Adjusted EBITDA margin[2]	4.6%	9.1%	10.4%	13.9%	14.8%
Pro forma consolidated financial information[5]					
Pro forma revenue	5,676.4	5,126.5	4,415.2	3,726.2	2,562.8
Pro forma adjusted EBITDA[2]	258.6	463.5	445.2	497.0	371.1
Pro forma adjusted EBITDA margin	4.6%	9.0%	10.1%	13.3%	14.5%

[1] Key figures are defined in 'Definition of key figures and ratios' on page 86.
[2] Adjusted EBITDA, adjusted EBITDA margin and adjusted gross margin excludes extraordinary write-downs and scrappings of DKK 152.0m recognised in Cost of sales (2017: DKK 70.4m) and associated costs of DKK 0m recognised in Other external expenses (2017: DKK 9.8m) as described on page 15.
[3] Adjusted profit for the year excludes extraordinary write-downs and scrappings (see footnote 2), special items after tax and fair value adjustment of call options.
[4] The calculation of the pro forma adjusted equity is described in note 4.2.
[5] Pro forma consolidated financial information reflects a proforma proportionate consolidation of the 50% owned Japanese joint venture.
[6] 'IFRS 9 Financial instruments' and 'IFRS 15 Revenue from contracts with customers' have been adopted as of 1 January 2018 and have been applied prospectively making use of the relief from restating the comparative information. The above key figures for the years 2014 to 2017 have therefore not been altered.

A more sustainable packaging design

As packaging has a large environmental impact, in 2018 we consequently started a journey to optimise and reduce our packaging. Some of our new packaging design principles to optimise our value chain and operate more sustainably include:

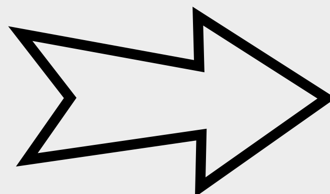
Minimise packaging materials
By doing this we pass on less waste to our customers and the waste disposal systems in local markets. Minimising the packaging material allows us to reduce the number of boxes we transport the goods in.

Less air in packaging
Reducing air in packaging, cuts air to be transported! Better utilisation of space in the trucks and boats transporting our products from supplier to stores leads to reduced CO2 emissions.

Reduce mixing different materials in packaging
We want to make it as easy as possible for our customers to recycle packaging. When packaging materials are not mixed, less effort is required to recycle, and less packaging ends up as waste and becoming landfill.

In 2019 we will start seeing the result of these changes to packaging. We have far more to do on this meaningful journey, reducing our environmental footprint while making our business more efficient at the same time.

Old packaging



Less plastic
One tangible example of working with our new packaging principles has resulted in a new packaging for our phone covers where plastic has been almost eliminated, while simultaneously reducing the use of cardboard.

For the sales of phone covers in 2018 this would correspond to a reduction of 8 tons of plastic.

New packaging

Mission and strategy

Welcome to the world of Flying Tiger Copenhagen. Here, we love fun, social activity and parties. Our mission is to inspire people to make the things they care about happen.

We want to ensure the long-term success of the Group by strengthening our concept and backbone and by daring to be different. We love to put a smile on peoples' faces while giving them the things they need, the things they dream of and the things they didn't even know existed. All at affordable prices.

We design products that inspire people to spend time together. This is why we strive to continue to find unique and relevant products for our customers, refine our brand, and further develop our concept.

The history of Flying Tiger Copenhagen

Flying Tiger Copenhagen traces its roots back to a stall at a flea market in Denmark where founder Lennart Lajboschitz sold umbrellas with his wife Suz. Then, in 1988, Lennart and Suz Lajboschitz opened their first brick-and-mortar store in a local neighbourhood of Copenhagen. Its name was Zebra, and it sold umbrellas and sunglasses and socks and surplus goods.

On the opening day our founder handed out coffee and cookies, and often on Saturdays there was a magic show for the children who came into the shop with their parents. So even back then, Flying Tiger Copenhagen was not only about products, it was also about giving people experiences to share with their loved ones, about products as catalysts for experiences.

We still believe that relationships and experiences are what make people happy. And ultimately happiness is what we want to give to our customers.

The first store called Tiger opened in Copenhagen in 1995, and everything in it cost 10 Danish kroner. The Danish word for a ten-kroner coin is pronounced tee'-yuh, which sounds just like the Danish word for tiger.

Now, 30 years after the opening of the first store, we are a variety retail concept with 990 stores across 3 continents and 30 countries. We achieved a revenue of DKK 5,583m, and we have more than 6,000 fantastic employees.

Flying Tiger Copenhagen's mission is to give the unexpected, while selling unique, relevant and fun products for every occasion. We want to be a catalyst for peoples' dreams and ideas. That is why we put a great deal of thought into each product we select and design, using materials, colours and graphics to add emotional value to functional objects.

To us it is imperative that our products stimulate personal relationships. Be it when you are preparing a picnic beneath the tree tops with your friends or the annual Christmas party with your loved ones, spending a fun and playful weekend with the kids, or redecorating your home or garden. Whatever the occasion, we help bring ideas to life.

We renew our product range by creating trends – not by copying them. Everything we surround ourselves with has a personality and a presence that affects our senses and influences how we experience the world.

Flower pots. Assorted
from DKK 10

Wall clock
DKK 50

When we meet you in our store, it's not an employee meeting a customer. It is two human beings meeting each other. And it is our aim that you feel welcome. We hate the slick, love the sincere and thrive to assist your every need when in our stores.

We design our own products

Our product range is developed in our own product department and is inspired by our Danish heritage, with a strong focus on product relevance and uniqueness. Our first graphic designer was hired in 2006 and now we have a whole in-house design department creating graphic design as well as product design in close cooperation with our Product Managers.

Through continuous retail insight and monitoring new trends, we aim to maintain a fresh and relevant product assortment that appeals to our customers.

Our assortment includes categories ranging from home, kitchen, hobby and party to toys, electronics and gadgets, food and accessories and has a broad appeal across age and income groups. Each month the assortment is refreshed with around 300 new products divided into two product campaigns, typically adapted to seasonal themes and/or festive occasions, e.g. Valentine's day, Back-to-School, Halloween, or Christmas.

The seasonal campaign products are complemented by our fixed assortment consisting of around 700 products that are relevant across seasons.

Sourcing

While the continuous work with product selection, innovation and development is mainly carried out internally, production is outsourced to external suppliers who commit to our Supplier Code of Conduct and our quality and ethical policies, while working under our supervision.

All products go through our product safety process, which coupled with our test programme seeks to ensure that quality and compliance requirements are met.

In order to ensure an optimal product execution in stores, we have established a cross-functional sales and operations planning process.

This process monitors the full supply chain status and alerts in due time in case of any discrepancies in targets or planning.

Logistics

An efficient logistics operation providing our stores with on-time deliveries is a cornerstone in our business. We work with a number of logistics providers to ensure scalable and cost-efficient operations around the globe. In 2018, our logistics centres in Copenhagen (DK), Raunds (UK), Barcelona (ES), New Jersey (US), Shanghai (CN), Shimizu (JP) and Icheon (KR) shipped more than 500,000,000 pieces to our stores.

Stores

In 2018 we continued the same level of store openings around the world as we have seen the last several years. For the coming years we will move towards consolidation of our store network and functions and also strengthen the backbone of our business to prepare for even more solid growth in the future.

Our stores are leased to minimise upfront investments and are located in high-footfall locations on high streets and in popular shopping malls. The typical size is between 150 and 250 m2 of selling space. The store appears open and light, laid out in a maze, simple to navigate, enabling the customer to seek inspiration and discover the full range of products as they go along, while the friendly, recognisable music creates a welcoming atmosphere.

The décor is Scandinavian with unpretentious, practical, wooden furniture, white walls and warm lighting from simple pendants that illuminate the products.

We want to ensure a positive customer experience and we believe that our store employees play an integral role in doing so. Their dedication and commitment to our concept is key for our customers' shopping experience and the perception of our brand. We owe a great part of our success to our store employees, as they interact with thousands of customers on a daily basis. We prioritise the development and training of our staff, as we believe that this will help us sustain a fun and inspiring customer experience.

Cover for iPhone
DKK 10

Corporate backbone

Our rapid growth over the past decades is supported by a flexible and scalable supply chain model, investments in new IT infrastructure and continued strengthening of the organisation and business processes. It is a strategic imperative to continue to strengthen our backbone to cost-effectively support future growth.

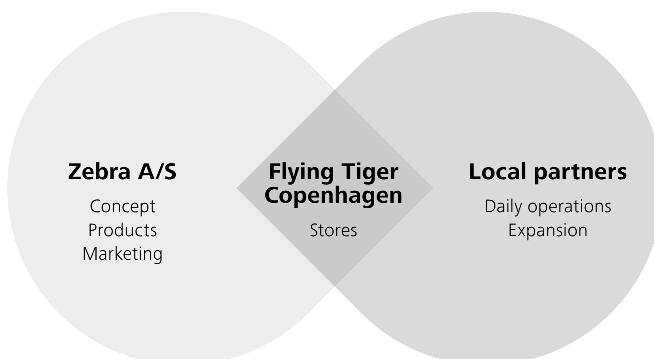
Financial and operating model

We have an operating model with a governance structure anchored around our management team. Management monitor and review the business units' operational and financial performance, aiming to proactively take advantage of opportunities as well as address potential challenges in our markets.

One area of focus is to ensure efficient supply chain operation and processes with low working capital requirements to service our stores effectively.

We look to free up capital for future country partner buy-outs and generally to support continuous developments of our business. Our initiatives aim to improve inventory levels by lowering lead time from purchase to sale, strengthening our forecasting process and improving working capital as well as enhancing coordination across the organisation.

Partner model



Establishing stores in new markets is generally achieved through 50/50 owned partnerships with a local partner, which ensures local entrepreneurship and significantly increases our organisational capacity for international expansion while reducing the risks when entering new markets.

A jointly owned local company is set up, and Zebra shares investments, costs and profits with the local partner. In other words, the cooperation is a business partnership, not a franchise operation. The partnership is assigned a certain territory, with the size of the territories ranging from a region to an entire country.

Tea set. Bioplastic.
Assorted colours. 14 pieces **DKK 80**

Plastic manufactured
from sugar cane

Zebra owns the concept and brand, supplies the products, store interior and marketing material, while the local partner is responsible for store roll-outs and day-to-day operations including staff, training and local marketing under specific guidelines set out by Zebra.

Partners are typically individuals or a small group of people with an entrepreneurial mindset who are appointed after a thorough selection process based on their operational capabilities to roll out the concept as well as their retail experience, local market knowledge, managerial and financial capacity.

The partnership model has a contractually defined exit mechanism. The partner holds put options that grant them the right to sell their non-controlling shares to Zebra in two windows annually and with a one-year notice period at redemption prices based on contractually defined EBITDA multiples. At the same time, Zebra holds call options to acquire the partner's shareholding, which are exercisable based on contractually defined EBITDA multiples. For accounting purposes, Zebra is considered to have control over the partnerships, and they are therefore fully consolidated. The only exception is the Japanese joint venture, which is therefore not consolidated.

It is part of Zebra's strategy to take full ownership of the local operating companies when this is assessed to be more beneficial than the partner model. Zebra operates companies in Denmark, Sweden, Finland, Iceland, Faeroe Islands, Southeast and Northern England, Scotland, Ireland and Northern Ireland, the Netherlands, Poland, Northern Italy, United States, Germany as well as a large part of Spain including areas around Barcelona, Madrid, Mallorca and Valencia.

Sketch pad
DKK 30

Oil pastels
DKK 20

Sunglasses.
Assorted
DKK 40

Operating and financial review 2018

In 2018, we reached a record revenue of DKK 5,583m, which is an increase of 11% compared to 2017, mainly due to the expansion of our international store network with flat comparable store sales growth despite a challenging retail market. Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") amounted to DKK 257m compared to DKK 460m in 2017. The year-on-year decline in Adjusted EBITDA was mainly driven by a decline in gross margin and an increased operational cost base, mainly due to growth-related investments that exceeded the increase in revenue.

Due to changes in the accounting principles (IFRS), we now recognise the fair value of outstanding call options of our 50% joint venture partnerships in the balance sheet and the corresponding fair value change has been included in the income statement. The fair value adjustment of the call options amounts to DKK -223m from 2017 to 2018 and therefore has a significant impact on net profit for 2018. This accounting item has no cash impact. Furthermore, an extraordinary inventory write-down, special items as well as increased impairment costs related to closing of stores, in total DKK 270m, led to a full year result of DKK -541m, compared to DKK 4m in 2017.

Although the flat comparable store sales growth in a challenging retail environment is considered acceptable, the Board of Directors and the Executive Management overall view the operational and financial performance of 2018 as unsatisfying. Consequently, at the end of 2018 a program was launched to reduce operating costs and consolidate the existing store network. Several of these initiatives will continue into 2019 and have full year impact in 2020. In Q1 2019 we executed a number of cost reduction initiatives such as reduction of FTEs in our head office as well as consolidation of country head offices. The shareholders support the transformation plan and in Q1 2019 have injected DKK 350m in equity and will inject an additional DKK 125m in June 2019. As a consequence of our focus on consolidation, we only expect limited openings for 2019.

Since for 2019 we are focusing on consolidation rather than growing our store network, we bought too much stock, which, coupled with a fire on a Maersk vessel, led to too high a build-up of stock at our central warehouse. Consequently, we have made extraordinary provision for inventory write-downs of DKK 152m in 2018.

Revenue Development

Total revenue for 2018 was DKK 5,583m, an increase of 11% compared to 2017. The increase was driven by net new store openings in 2018 and the full-year effect of stores opened in 2017, contributing approximately 7.8 percentage points and 6.1 percentage points of revenue growth, respectively, while comparable store sales growth was flat.

In 2018, we opened net 124 stores (net 127 new stores including the Japanese joint venture). 18 stores were closed (no stores were closed in the Japanese joint venture) as part of the ongoing optimisation of our store footprint.

Top markets in 2018

	Revenue (DKKm)	Growth (%)	Net new stores
Italy	1,061	14%	18
UK	691	1%	9
Spain	651	10%	11
Denmark	514	1%	2
Sweden	264	8%	6
Subtotal	3,181	8%	46
Total	**5,583**	**11%**	**127**

EBITDA

DKKm	2018	2017
EBITDA before special items	105	380
Extraordinary writedowns	152	70
Extraordinary stock costs, OPEX	-	10
Adjusted EBITDA	**257**	**460**
Adjusted EBITDA margin	4.6%	9.1%

More than 36% of the new stores were opened in our five largest markets, which represent 57% of total revenue. In 2018, Italy was the largest contributor to revenue followed by the United Kingdom, Spain, Denmark and Sweden.

By the end of 2018, we operated 990 stores across 30 countries and 3 continents. Although we have put the rapid store expansion on hold while we execute the transformation plan, we still believe the potential for further store expansion is significant across the globe.

Development in Earnings

In 2018, the gross margin decreased from 60.6% in 2017 to 57.2% in 2018, mainly driven by an increase in write-downs including the extraordinary write-down of stock at our warehouses as well as event initiatives in October and December. The gross margin adjusted for the extraordinary write-downs decreased in 2018 to 59.9% from 62.0%.

Operating costs (staff costs and other external expenses) were DKK 3,087m in 2018 compared to DKK 2,680m in 2017, representing 55.3% of revenue in 2018 compared to 53.3% in 2017. The absolute increase was primarily driven by the opening of new stores, full-year impact of stores opened in 2017 and increase of overhead costs.

Adjusted EBITDA amounted to DKK 257m compared to DKK 460m in 2017.

Adjusted profit for the year amounted to DKK -78m compared to DKK 139m in 2017, primarily driven by the decline in gross margin and increase in operating costs.

Special items in 2018 mainly related to strategic projects as well as costs related to the fire on a Maersk vessel.

Free cash flow, net interest-bearing debt and return on invested capital

Net Working Capital (NWC) decreased in absolute terms from DKK 112m in 2017 to DKK -57m in 2018. The decrease was driven by higher trade payables and other payables partially offset by higher inventory levels.

Cash flow from investing activities is on level with 2017, however with a little switch from investment in intangible assets to investment in property, plant and equipment.

Free cash flow ended at DKK -307m compared to DKK -70m in 2017, primarily driven by investing activities from opening new stores. Net interest-bearing debt was DKK 1,297m at the end of 2018, compared to DKK 641m in 2017, due to the Free cash flow and acquisition of partnerships of DKK 288m.

Provisions for the acquisition of non-controlling interest and equity

With the exception of the joint venture in Japan, partners hold a non-controlling interest and a put option to sell their non-controlling interest of Zebra, whereas Zebra holds a call option to acquire the partners' non-controlling interest. Under IFRS, Zebra is considered to control these partnerships, which leads to full consolidation under IFRS. Accordingly, the subsidiaries are fully consolidated in the consolidated financial statements and provisions have been made for acquisition of the non-controlling interests at estimated total amounts owed to the partners upon exercise of the put option of the partners or the call option if Zebra has exercised its call option. Under the accounting policies of the Group, changes in the fair value of these liabilities including differences upon settlement are accounted for as a transaction directly in equity.

The exercise prices are determined by reference to contractually defined EBITDA multiples. The calculation of the provisions under IFRS for the put options is based on the general assumption that the partners all exercise their put options at year-end 2018 with the

Natural mineral water,
0,5 l. **DKK 5**

agreed notice period of 12 months. When an entity with non-controlling interest is expected to grow EBITDA, the fair value adjustment of the provision will increase more than the increase in retained earnings from the net results of the fully consolidated non-controlling interests, thereby resulting in a net negative impact on the consolidated equity.

In 2018, the provisions for acquisition of non-controlling interests (non-current and current in total) decreased to DKK 246m from DKK 353m in 2017. The decrease was driven by the fair value adjustment from the estimated present value of the expected cash outflows to settle the put options. By the end of 2018 the Group had acquired partnerships for accumulated DKK 687m.

Due to changes in the accounting principles (IFRS), the fair value of outstanding call options, which Zebra holds to acquire the partners' non-controlling interest, is recognized in the balance sheet as a financial derivative. The fair value of the call options is determined by the estimated fair value of the non-controlling interest less the exercise price determined by reference to the contractually defined EBITDA multiples. The changes in fair value of these financial derivatives are included in the income statement. In 2018, the fair value of the call options was DKK 450m.

Croquis hand
DKK 100

Equity

DKKm	2018	2017	2016	2015	2014
Pro forma adjusted equity	**504**	**819**	**882**	**790**	**622**
Provision for non-controlling interests	(246)	(353)	(490)	(851)	(705)
Acquired non-controlling interests (accumulated impact)	(687)	(687)	(416)	(69)	(17)
Fair value of call options	450	-	-	-	-
Reported equity under IFRS	**21**	**(221)**	**(24)**	**(130)**	**(100)**

Adjusted for the accumulated impact of acquired non-controlling interests as well as provisions for existing partnership agreements and the fair value of the call options, the pro forma adjusted equity was DKK 504m by the end of 2018. The decrease in pro forma adjusted equity of DKK 315m was mainly driven by the negative operating profit of DKK -257m as well as dividends to non-controlling interests of DKK 44m.

If the capital injections had been injected in 2018 rather than in 2019, a pro forma adjusted equity would have been DKK 475m higher, corresponding to a reported equity (as reported under IFRS) of DKK 496m or a pro forma adjusted equity of DKK 979m.

Japanese joint venture

The Japanese joint venture was established together with a local partner in June 2013. Unlike the partner model applied in Europe, Zebra and the Japanese partner have joint control of the operating company in Japan, which is why the profits from the joint venture are recognised in a single line item in the income statement and the investment is measured using the equity method.

Revenue decreased by 5% in reporting currency from DKK 272m in 2017 to DKK 257m in 2018. In local currency, revenue fell 3% to JPY 4,493m. At the end of 2018 the JV operated 26 stores.

The EBITDA in the Japanese joint venture decreased from DKK 7m in 2017 to DKK 4m (including royalty and service fee payments to Zebra in 2018 and 2017 of DKK 13m and DKK 15m, respectively) driven by challenged trading performance. NWC improved from DKK 40m in 2017 to DKK 21m in 2018.

We still consider the Japanese market attractive and together with our partner we continue to improve the business based on the turnaround plan, which includes a shift from larger stores towards standard sized stores in line with our European stores, new assortment introductions as well as various store efficiency initiatives. It is a key priority to improve the Japanese joint venture's financial performance and we saw a very positive effect in the first half year of 2018 with positive comparable store sales growth and the opening of 3 new stores within our key clusters.

Outlook for 2019

Due to the unsatisfactory results in 2018, management has launched a transformation program to improve profitability through cost reductions and consolidation of the existing store network to prepare the Group for future growth opportunities. Several of these initiatives will continue into 2019 and have full year impact in 2020. Consequently, we only expect limited store openings for 2019 while we optimize our store network by relocating and closing unprofitable stores. Accordingly, we expect revenue for 2019 in line with this year while we expect a positive impact on profitability before implementation costs.

Shareholders have committed to inject total DKK 475m in equity, of which DKK 350m was injected in Q1 2019.

Winner of The Good Design Award 2018 and London International Creative Competition.

Wall storage organiser.
13,4 x 13 cm., 13,4 x 19,5 cm.
26,8 x 13 cm. Assorted colours.
From **DKK 10**

Corporate social responsibility

Our commitment

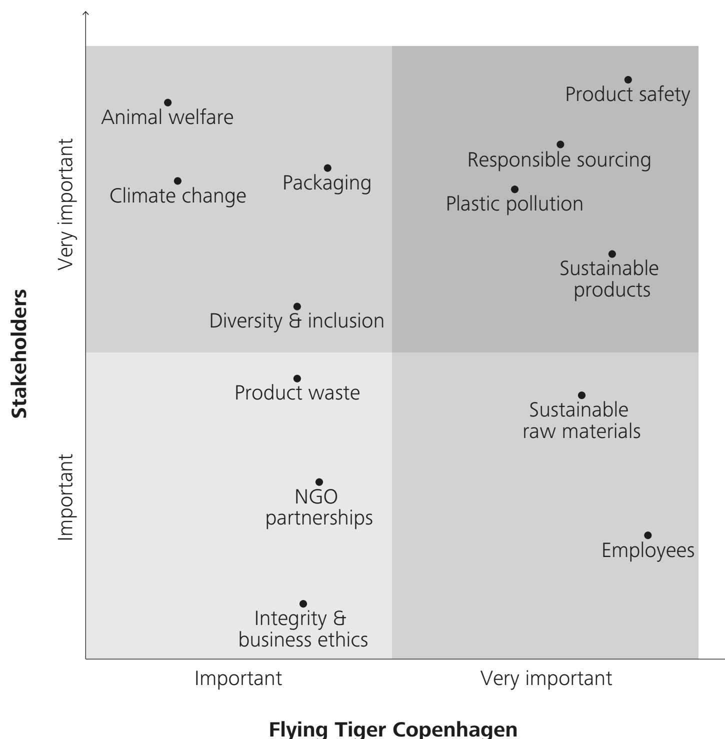
At Flying Tiger Copenhagen, we want to inspire people to make the things they care about happen. We love to put a smile on peoples' faces while giving them the things they need, the things they dream of and the things they didn't even know existed. All at affordable prices. In order to do so, we recognize that we depend on the environment we operate in. We want our customers to know that when they buy a product from Flying Tiger Copenhagen, we strive to ensure that it has been produced in respect of ethical, environmental and social standards and is safe to use. We believe this is critical for the success of our company, to protect our brand and to advance better social and environmental conditions in global supply chains. Consequently, our commitment to conduct our business ethically and responsibly cuts across the full value chain from sourcing to shipping and sales in stores.

Our responsibility framework 'It's about caring' unites our five priority areas:

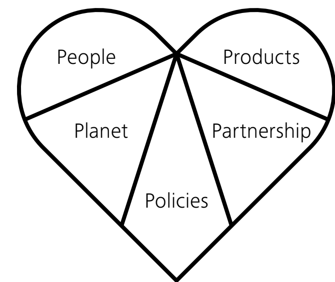
1. People **2.** Products **3.** Planet **4.** Partnerships **5.** Policies

Each year our management conducts a materiality assessment (Fig. 1) to assess key impact and risk areas along our value chain. In doing so, an analysis of mega-trends, market developments and risks related to the business model has been followed by an internal discussion. The resulting prioritised list of key issues feeds into the development of our new sustainability strategy and is translated into concrete activities under our five priority areas as described below. Ultimately, we use the Sustainable Development Goals for directing all our sustainability efforts.

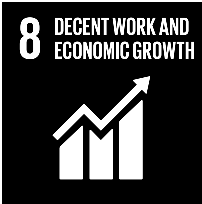
Fig. 1 – Materiality assessment



It´s about caring



Hand soap.
No parabens. No perfume.
No unwanted chemicals.
DKK 25



1. People

Flying Tiger Copenhagen is held accountable for creating a work environment that respects our employees' human and labour rights and allows them to thrive as professionals. Our Human Rights Policy outlines our standard to comply with all applicable UN and ILO conventions and applies them to our employees working across all levels. In 2018, we investigated how far our partners have incorporated due diligence processes for handling employee complaints. It became apparent that most of our partners have appropriate processes for mediating employee complaints in place. In addition to that, we will investigate potential developments in collaboration with our partners.

At Flying Tiger Copenhagen, we rely on our ability to attract, motivate and retain highly qualified employees at all levels of the organisation, from store staff and managers to creative and administrative people at head office. As we aim to offer an engaging workplace with equal opportunities for all, we employ people with a wide range of nationalities and educational backgrounds. Now that we are a truly global company, it is a particularly crucial task for us to keep working on the issue of diversity to live up to our values of being a welcoming and inclusive organisation. At corporate level we employ 58% female and 42% male employees, while three of our nine Senior Managers are female. In Flying Tiger Copenhagen it is our ambition to have more diversity in our Board of Directors. It was therefore with great pleasure that we in February 2018 could present Margaret McDonald as our first female member of our Board of Directors. In 2018 we had another replacement, where Morten Hummelmose was replaced by Mads Ditlevsen, who is partner at EQT and head of EQT's office in Denmark. As the owners of Flying Tiger Copenhagen need to be represented in the Board of Directors, it was not possible to find a female replacement of Morten Hummelmose. Flying Tiger Copenhagen will continue to work with diversity in our Board of Directors, and it is still the ambition to have two female members of the Board of Directors by 2023.

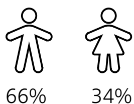
It is our responsibility to build the competencies of our colleagues. Zebra has a Group HR function that supports our employees in the HQ in Copenhagen and our locally operating partnerships. All district managers and store managers are enrolled in our international management training programme, which combines face-to-face training by the Zebra HR Group function and local roll-out via a "train the trainers" kit. Among other things, the training teaches how to apply our values in the management of employees. In Denmark, Sales Assistants at all levels are offered courses through our Kompetencefond, which consists of 5 courses related to store operation. In addition to that, our trainees programme ensures that we have skilled sales staff in our stores, bringing their ideas and creativity to the daily operations in the store and eventually becoming our future store managers. In 2018, 16 trainees finished their two-year trainee programme and are now skilled Sales Assistants.

As we believe that it is particularly important to recruit the right profiles for our company, we use several personality assessments to assess our candidates against our organisational culture and values. In September 2018, we set up a Talent Acquisition function with the specific aim of providing more internal expertise in the way we find the appropriate candidates and ensuring they have a positive recruitment experience with us.

In 2018, we also introduced HR Business Partner roles to ensure that HR acts as a strategic partner for the business. In 2019, we will keep strengthening this vital role and further focus on supporting our employees at all levels to ensure they have a great working experience at Flying Tiger Copenhagen. In addition to that, we will go through a digitalisation of our processes and tools to ensure an agile support function.

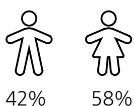
Gender distribution

Senior Management



66% 34%

Zebra employees in HQ



42% 58%

2. Products

Our products are the very core of our business. We want to offer our customers useful, fun and inspiring products at affordable prices. We want our products to be safe and therefore take significant measures to ensure that all items have been produced under humane and responsible conditions in respect of international social, environmental and ethical standards.

We do not produce the products ourselves and in 2018, we purchased products from around 350 suppliers worldwide. Approximately 60 percent of these are based in China; 30 percent are based in the EU and the remaining 10 percent are spread across the world, in countries like Turkey, Vietnam, India, etc. Most of our direct suppliers are trading companies who source from a range of different factories, enabling us to offer a broad array of novel products across a variety of categories.

During 2018, we continued to gradually reduce the tail of small suppliers to strengthen partnerships with our largest trading companies. The objective has been to ensure more effective supplier management and compliance with our requirements. In 2019, we will revise our sourcing strategy in order to further simplify our supply chain. We will also introduce more requirements to our existing and new partners, to assure compliance and transparency in our supply chain.

Safe products

All products go through our product compliance process to ensure they are safe and compliant. This means that all materials must be approved prior to purchase through our approval process. The process is complemented by our test programme, through which we ensure that our products are tested for hazardous materials. With very few exceptions, all our products are tested in the pre-production phase. For those products considered to be high risk, the testing is repeated during mass production. When we define our requirements, our policy is to comply with the EU requirements or the applicable national legislation, whichever sets the highest standards. In a number of areas, we go beyond the legal requirements. This means, for instance, that we prohibit chemicals like triclosan, formaldehyde, phthalates (all types of phthalates), formamide and coating materials that are based on halogens (bromine, chlorine, fluorine etc.). We work continuously on improving and developing our FTC product compliance requirements, leading to safer products. This is done through closer cooperation with our suppliers, helping them to understand and implement our restrictions. In 2018, we had one product recall of light clay with one non-compliant batch. We mitigated the risk by immediately recalling all batches.

Zebra Quality Programme

With a strategy of improving the quality of our products, Zebra developed a Quality programme focusing on physical inspections during production. A team of quality inspectors, a quality manager and supporting personnel was established in Shanghai. Selection of the products subject to quality checks and description of the quality check points are performed at the headquarters in Denmark, but the inspections and handling are done by the local team and in the local language.

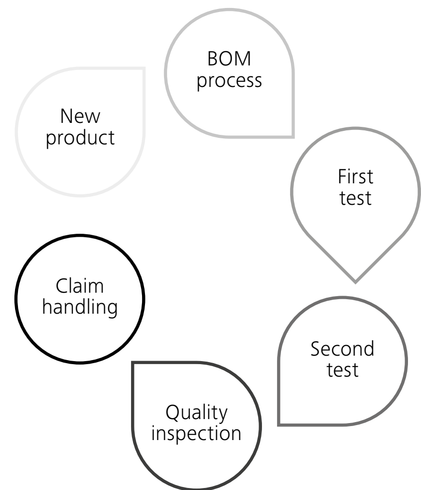
We develop the Quality Programme continuously by including more aspects leading to a higher quality in general, e.g. pre-evaluation, mold prevention and hygienic standards. The stronger quality focus also creates a higher awareness among our suppliers, leading to a continuously higher quality level for all products.

Responsible sourcing

With respect to our supply chain setup, focus on responsible sourcing ensures that we account for human rights and labour rights and adverse impacts on workers and communities in the production areas. Through our social compliance process, we work to ensure that factories selected for production on our behalf can meet our requirements, and that the people producing our products are treated with respect and provided with fair and safe working conditions. We have an ongoing focus on continuously improving our social compliance process and our performance. In 2018, we strengthened our cooperation with buying and product quality teams, measured progress on individual suppliers, allowing for an even more systematic and transparent process and cooperation.

The process follows three steps.

Product safety process



New product
A new product is developed.

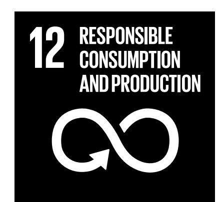
BOM process
Through the Bill of Material (BOM) process, all materials of a product are reviewed and approved.

First test
Products are tested in the sample phase to ensure there are no hazardous materials in the product.

Second test
Tests are repeated for high-risk products during mass production.

Quality inspection
Inspectors check selected products to ensure they have the right quality.

Claim handling
Claims are logged and analysed. Lessons learned feed into the development of new products.



Sustainable plastic

Carrier bags

To minimise plastic waste and support a more sustainable plastic lifecycle, we have initiated a transfer to carrier bags based on 80% recycled materials. In 2018, all our plastic carrier bags were already of this kind. In 2019 we will continue exploring new materials that can assure greater reusability of the bags by our customers and contribute to making a positive impact.

Our Social Compliance Process:

1. Commitment to the Zebra Supplier Code of Conduct
All product suppliers must sign the Zebra Supplier Code of Conduct. The Code is based on international standards as defined by the United Nations (UN) and the International Labour Organisation (ILO). It defines our requirements in the areas of workplace health and safety, terms of employment, working hours, wages, environmental protection and business ethics. Among other things, it prohibits child labour, forced labour, dangerous or severely unhealthy working conditions and abusive disciplinary practices. No purchases can take place without a valid Code in place. Commitment to the Code must be renewed every 2nd year in writing.

2. Risk assessment and factory audits
Factories are selected for audit in a two-step process:
I. Factory information for all items is gathered from the Bill of material (BOM) tool and items are automatically assigned a risk rating based on:

i) country of production; ii) purchase volume; iii) product category.

II. The automatic risk rating is combined with a manual process looking at: i) brand exposure of product; ii) audit history and performance of factory, including sub-contracting practices.

Items rated high-risk are selected for audit. On-site factory audits are carried out either by our China-based audit team or by Elevate, an organisation specialised in social compliance factory audits. All audits follow the Zebra Audit protocol that consists of 115 questions and assess practices in the areas of ethics, sub-supplier management, human rights, labour practices, and the environment. Audits include a combination of site assessment, documentation review, management interviews and anonymous workers' interviews. Audits can be announced, semi-announced and unannounced audits depending on progression of audits and types of findings in previous audits. All factories are evaluated from A (compliant) to E (Zero-tolerance).

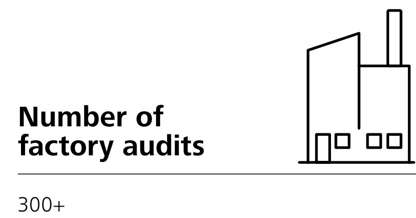
3. Improvement and remediation
All factories, apart from A-rated factories, must implement a corrective action plan (CAP) within a defined timeline. The CAP is reviewed regularly until closure by Zebra, and the factory must go through a re-audit to verify improvements. Re-audits are semi-announced or unannounced. Factories that present severe zero-tolerance issues are rejected (e.g. use of child labour, forced labour, severe safety and human rights issues, attempted bribery of auditor). In some cases, where good faith and procedural errors can be verified, the factory is put through a requalification process which includes training, a strictly monitored improvement plan and a re-audit. In case a supplier and/or factory is unwilling to improve, we will stop the collaboration permanently.

In 2018 we conducted more than 300 audits at factories in Asia. The most common issues in 2018 that required improvement were ensuring a safe and healthy working environment, tackling pollution and reducing overtime. Our target for 2019 is to maintain the number of audits and pursue greater transparency by introducing a pre-screening through the entire range of assortment, and further build the capacity of our suppliers.

Supplier engagement and capability building

We consider our social compliance processes a critical tool to ensure compliance in our supply chain. But we have also learned that to drive genuine improvements, we must combine these processes with proactive capacity building and training of our suppliers and their factories. We believe in a fair partnership based on transparency and trust, completed with the ability to check and drive improvement.

In 2018, we continued to establish a closer engagement with our suppliers. Our local office in Shanghai is growing, and now hosts the quality, social compliance and merchandising teams. That allows us to keep closer dialogue with our suppliers and develop the long-term partnerships.



300+

Notebooks,
from **DKK 20**

In 2018, for the third year we repeated a week of intensive product compliance, quality and social compliance training in Shanghai with 38 of our key suppliers, responsible for about 70% of our annual procurement. The training included practical instructions on our requirements within product compliance, quality and social compliance as well as guidance on how to build management systems to monitor and promote performance among their core suppliers. We believe this cascading of capacity building and management systems is a precondition for sustainable change, and as such a strong supplement to verification via Zebra audits and controls.

The annual training is complemented by individual dialogue meetings with our top 10 suppliers responsible for more than 60% of annual procurement throughout the year. Furthermore, bespoke training of these suppliers' core manufacturers is an integral part of our preventive and corrective action activities. During 2018 we conducted training sessions and assigned e-learning sessions to more than 90 factories. In 2019, we will continue the supplier engagement work with further strategic training, developing more concrete written guidelines that can be shared with a larger number of factories, as well as reviewing our policies and strengthening our internal commitment.

3. Planet

As a globally operating retailer, we have a responsibility for the impact we pose on the environment, such as emitting greenhouse gases and plastic pollution. Our Environmental policy expresses our commitment to protect the environment and the climate by minimising our negative impact. A significant part of our impact derives from production in our supply chain. Consequently, our Supplier Code of Conduct further specifies our requirements for the environmental awareness and conduct of our suppliers.

Apart from seeking to minimise impact in the supply chain, we focus our resources where Zebra, as a retailer, has the highest impact. This includes reducing energy consumption in stores and offices, sourcing sustainable forestry products, minimising packaging, looking into sustainable alternatives, and minimising food- and other product waste via donations, as described below.

Sustainable forestry products (FSC™)

In 2017, Zebra became FSC certified. With the certification and our membership of the FSC, we support the promotion of forests managed with consideration for people, wildlife and the environment. Among other things, FSC certification entails protection of biodiversity, and respect for the rights of local people as well as the people working in the forest: including that workers are properly trained, have decent health and safety conditions, and receive fair wages.

The mark of responsible forestry

Notebooks, gift wrapping, napkins, and paper cups are all part of our portfolio of FSC certified products, although not all carry the FSC logo yet. This was gradually implemented during 2018 and will be driven further in 2019. In 2018 we sold over 60 million pieces of FSC certified items, which is a significant percentage of our paper assortment. Our customers will increasingly be able to identify the products, as new labelling with the FSC logo is being developed and implemented. It is our ambition to gradually expand the range of FSC certified wood and paper products even further in the coming years. When it comes to store furniture, we have promoted use of sustainable wood since 2012. While all new stores feature furniture made of FSC certified wood, the existing stores switch to FSC certified furniture according to their usual refurbishing cycle.

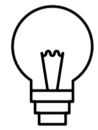
Sustainable materials

Carrier bags

To minimise plastic waste and support a more sustainable plastic lifecycle, we have initiated a transfer to carrier bags based on 80% recycled materials. In 2018, all our plastic carrier bags were already of this kind. In 2019 we will continue exploring new materials that can ensure greater reusability of the bags by our customers and contribute to making a positive impact.

Sustainable products

In 2018, we made the decision that we will stop purchasing single-use plastic. Items that fall into this category will be phased out by 2020. At the same time, in 2018 we began discussions, research and assessment on sustainable materials. It is a challenging exercise that requires constant decision-making from us and alignment on what sustainability means to Zebra and how can we translate that to our products.



LED lighting

100%

Energy

To minimise the environmental footprint of our stores, we began replacing traditional bulbs with LED bulbs back in 2013. Today we require that all new and refurbished stores install LED lighting, meaning that in 2018, all our stores are equipped with LED bulbs.

4. Partnerships

We have ambitious goals and a big tradition for philanthropy. We also recognize that we can only achieve big successes in cooperation with others. Therefore, we partner with many different institutions and NGOs in order to support the communities where we are present.

We support

In 2018, we entered two very important partnerships and projects that are of great significance to Zebra. We became a Signatory of the United Nations Global Compact initiative and made the commitment to comply with the ten principles, as well as to strive to improve our responsibility targets gradually each year. Zebra has also become a member of the CCR-CSR network. CCR-CSR is a social enterprise that sells its competence, experience and knowledge to help companies improve and implement child rights-related CSR-strategies, programmes and projects. Through this partnership, we ensure that our suppliers are better trained in how to prevent child labour and how to guarantee juvenile workers' rights. In 2019, we plan to unravel new ways of cooperating and adding more value to our portfolio of projects.

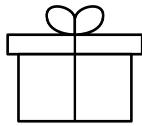
Combating food waste

As fighting food waste is a vital risk factor in achieving the Sustainable Development Goal "Zero Hunger", we strive to minimize food waste in all our partnerships. In 2015, we partnered with The Danish Food Bank and through this partnership we ensure that surplus food products in our warehouses are offered as donations when the expiry date approaches. Inspired by this success, today our warehouses in the UK and Spain have partnered with the equivalent national members of the Federation of European Food Banks. In 2018 we donated food products with a total retail value of more than DKK 1.9m.

Charity donations

As a global company, we want and can do good for the communities where we operate. This includes creating employment and stores' engagement in local charitable activities. We have developed guidelines on charitable giving in order to ensure transparency across the entire business.

At corporate level, we have partnered with, among others, the Red Cross in Denmark, the UK and Spain, as well as In Kind Direct in the UK. We donate a wide range of products to the organisations, who then distribute further to people in need. For instance, via our collaboration with In Kind Direct, 452 charities across the UK benefit from our products, the majority focusing on child/youth care and community projects. From our warehouses in the EU, we have donated reading and writing tools as wells as games with a total retail value of approximately DKK 35,000 to Klub Kickstart. The project supports refugee children aged 6 to 16 in learning Danish and mathematics. The children receive colorful boxes filled with products that make learning easy and playful. The project is carried out as a collaboration between The Danish Refugee Council, Als Research, the Egmont Foundation and the publishers Alinea and Carlsen. In the past year we have donated products worth more than DKK 5.9m in local markets.



Charity donations

More than DKK 7.8m at Group level

In the HQ, we have engaged employees in a Christmas donation for UNICEF, where we were able to donate DKK 62,400 to Global Parent, thereby supporting vulnerable children in other countries. These vulnerable children lack access to basic health services or do not have access to school.

Our ambition for 2019 is to maintain the level of engagement with the charities and define our partnership engagement on a strategic level that can support stores in all countries where we operate.

5. Policies

Consistency and transparency are a key pillar in any responsibility work. We use our responsibility policy framework to clarify our positions, guide our decision-making and define expectations for our business partners. The framework comprises of policies on business ethics, human rights, product safety and the environment. Within responsible sourcing, our Supplier Code of Conduct is the leading document. It has been complemented by policies on animal welfare, child labour and young workers, as well as home workers. In 2018, we published our second transparency statement according to the UK Modern Slavery Act and we will continue doing so moving forward.

In 2019, we will also review and publish all our policies and establish new baselines in some areas.

Business Ethics

When dealing with a wide range of suppliers and partners, we are expected to manage the risk of unethical behaviour and to promote anti-corruption measures. Our Business Ethics Code of Conduct outlines the ethical expectations to our employees. The Code is signed by all employees at Zebra A/S, all partners and subsidiaries, including their Headquarter staff, district and store managers. All our partners and most employees in leadership positions at Zebra A/S have received face-to-face business ethics training. In addition to that, our Supplier Code of Conduct outlines a zero-tolerance policy on bribery and unethical business behaviour. In 2018, our strategic suppliers received anti-corruption instruction through e-learning, and nominated people in their organizations responsible for implementing and securing the business ethics.

The Code of Conduct and the training sessions are supplemented by our whistleblower scheme, enabling our employees to report unethical and illegal behaviour anonymously. In 2018, no instances of illegal or unethical behaviour were reported.

New series of sustainable kitchen utensils
DKK 15

Winner of The Good Design Award, European Design Award 2018 and IDA Design Award 2018.

Corporate governance

Corporate governance practices at Zebra

Zebra strives to comply with generally accepted corporate governance principles as required under the Danish Companies Act, the Danish Financial Statements Act, IFRS as well as internal rules and procedures described in the Company's Rules of Procedure for the Board of Directors and for the Executive Management. As Zebra is controlled by a member of the Danish Venture Capital and Private Equity Association ("DVCA"), the company also strives to comply with the corporate governance guidelines issued by DVCA. These guidelines are available on www.dvca.dk.

At Zebra, powers are distributed between the Board of Directors and the Executive Management in accordance with common practices for Danish companies and are formalised by the Company's Rules of Procedure. The Executive Management handles all day-to-day operations while the Board of Directors supervises the work of the Executive Management and approves certain types of decisions and investments. Zebra's Board of Directors develops the Group's corporate strategy together with the Executive Management and oversees progress, financial development as well as assessing whether the necessary skills and qualifications are in place to support the Group's development and strategic business objectives. In addition, the Board of Directors ensures that Zebra works towards implementing efficient and transparent business procedures. The Board has at least six annual board meetings, of which at least one meeting shall to the extent possible be held in one of the Group's strategically important markets and such meeting typically include store visits, meetings with partners and updates on the local retail market.

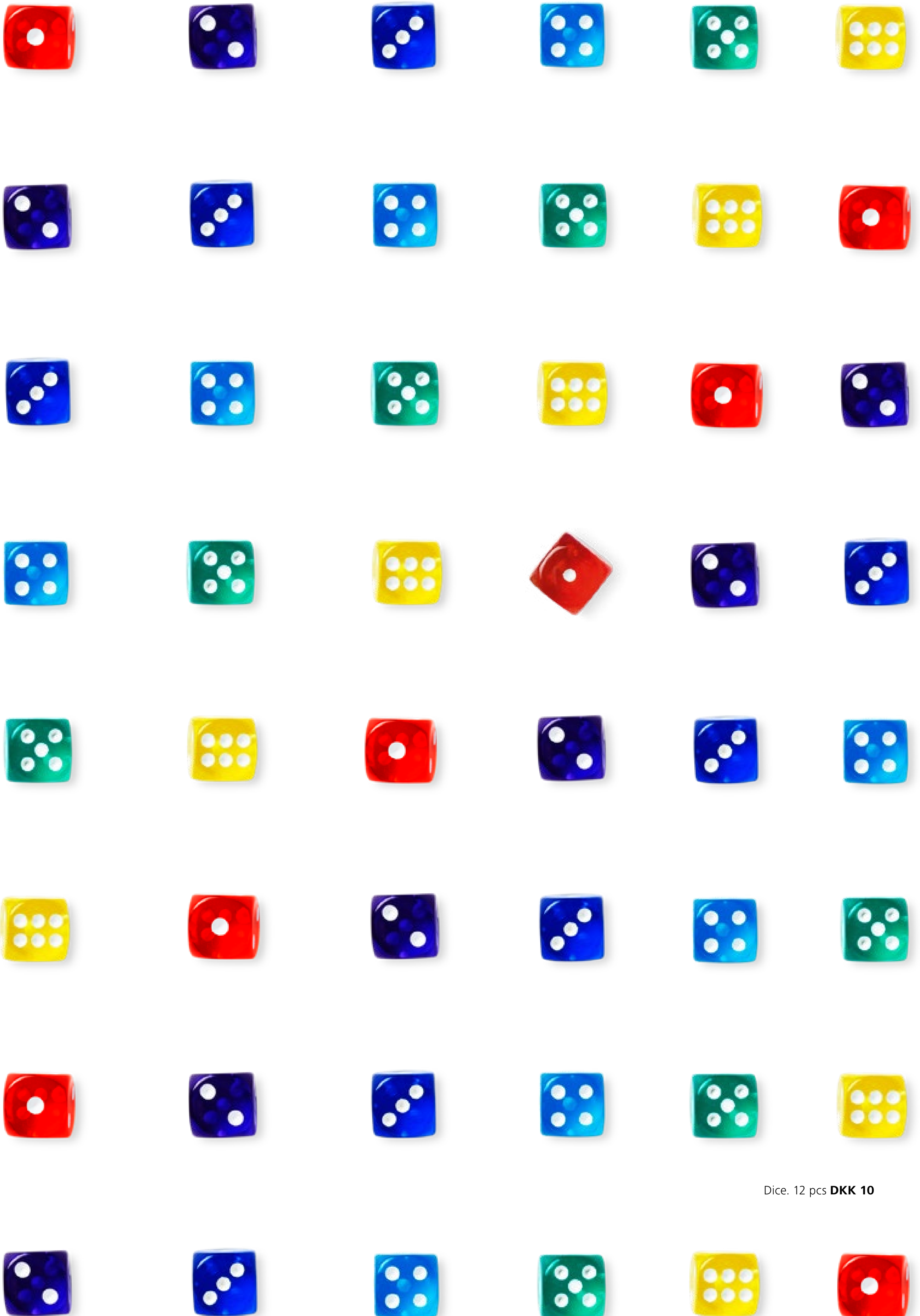
The content of the Board meetings is determined by the Board's meeting schedule, which is updated and approved by the Board of Directors at the beginning of each financial year, and by ongoing discussions between the Board of Directors and the Executive Management.

Board and Executive Management

In 2018 the Board of Directors was expanded from seven to eight members and held eight board meetings. Each meeting lasted at least a day, ensuring enough time for performance discussions as well as addressing critical and strategic issues. Key topics of discussion this year related to category management, procurement, logistics, driving sales and operational scale and efficiency as well as the company's strategy.

In March 2018 Margaret McDonald joined the Board of Directors and in December 2018 Mads Ditlevsen replaced Morten Hummelmose on the Board of Directors. Margaret brings extensive international retail experience mainly from the apparel/ fashion industry and Mads brings extensive experience as board member in numerous companies across different industries. Furthermore, in January 2019 Matthias Wittkowski replaced Rolf Eriksen on the Board of Directors. Matthias has significant experience within performance management and transformation. In March 2019 Tore Thorstensen replaced Michael Hauge Sørensen and Manel Adell Domingo and the Board of Directors now consists of seven members. Tore brings substantial operational and strategic experience from the private equity sector.

Chalks
DKK 20



Dice. 12 pcs **DKK 10**

During 2018, the Executive Management team consisted of Mette Maix (CEO) and Carsten Fensholt (CFO). In January 2019 Carsten Fensholt resigned and Martin Jermiin joined the Executive Management as co-CEO. In March 2019 Christian Kofoed Hertz Jakobsen joined the Executive Management team as CFO. Furthermore, in April 2019 Mette Maix also decided to pursue a career outside Flying Tiger Copenhagen. Martin Jermiin is now CEO.

Audit Committee

The current members of the Audit Committee are Jacob Bier (Chairman as of April 2019), and Mads Ditlevsen. The purpose of the Committee is to assist the Board of Directors with the following:

- Monitoring the financial reporting process
- Monitoring the efficiency of Zebra's internal control system and the audit process of the external audit
- Monitoring Zebra's process for compliance with laws and regulations
- Other tasks delegated from the Board of Directors

The Audit Committee meets as often as the Committee deems appropriate, however no less than twice a year. In 2018, the Audit Committee met five times. Key topics of discussion included financial reporting and other internal processes, Enterprise Risk Management, insurance and general compliance.

Internal control systems

The responsibility for maintaining an adequate and efficient internal control environment in connection with financial reporting is vested with the Executive Management. The Audit Committee together with the Board of Directors continuously review and assess the Group's control environment. In 2019, Zebra will continue to develop its control environment both in the local operating companies as well as at Group level.

Ownership and capital structure

At 31 December 2018, EQT held approximately 67% of the shares in Zebra A/S through Zebra Lux Holding S.a.r.l. Approximately 29% of the shares are held by Mitco ApS, which is controlled by Lennart Lajboschitz, and approximately 4% of the shares are held by the members of the Board of Directors, the Executive Management and a small number of senior Zebra employees.

Diversity

Zebra aims to offer equal opportunities to men and women across its organisation, and it is company policy to promote equal opportunities regardless of gender, ethnicity, race, religion and sexual orientation. When it comes to gender, Zebra aims at a balanced distribution among employees in leadership positions. Zebra's management is currently composed of 57% male and 43% female members. Zebra defines management as district leaders, country managers, partners as well as managers at headquarters. Relevant professional qualifications remain the key selection criteria for all positions in the Zebra organisation, and Management will continue to focus on diversity and to evaluate the need for initiatives within this area.

At the end of 2018, the Board of Directors of Zebra consisted of 1 female (12.5%) and 7 males (87.5%). It is the Board's ambition to increase diversity, including gender representation on the Board. It is the target to have at least two female board members before 2023. It is the current assessment that the Board has the required qualifications and composition to oversee Zebra's strategic development. Achievement of the target will be sought in connection with ongoing changes to the composition of the Board, where special efforts will be made to ensure that female candidates are identified and participate in the selection process.

Maze game
DKK 40

WE SUPPORT

Since 2018, we are proudly supporting the United Nations Global Compact, the world's largest corporate sustainability initiative. The Global Compact was founded 18 years ago under the leadership of former UN Secretary-General Kofi Annan. Today, more than 9000 companies and 4000 non-business actors worldwide support the initiative and align their strategies with societal goals. As we share the Global Compact's firm conviction that corporate sustainability starts with a company's value system, our CEO has pledged to its ten principles to respect human and labour rights, protect the environment, and fight corruption.

Signing up to the Global Compact is a natural extension of our existing commitments within areas of sustainability and responsible procurement. Our actions will be focused on setting an ambitious strategy that will promote the Sustainable Development Goals, together with the UNGC principles. That is to assure that we produce fun and affordable products under ethical conditions, with sustainability in mind!

Risk management

The Executive Management is working actively with risk management, including ongoing discussions and assessments of actual and potential risks, in order to ensure that such risks are managed in a proactive and efficient manner. The Board of Directors is ultimately responsible for risk management.

Financial risk

The nature of Zebra's operations, investments and financing arrangements, exposes the Group to financial risks from fluctuations in foreign exchange rates and interest rate levels. The Group's treasury policy is to actively address financial risks in order to mitigate the risk of material impacts on the Group's financial position.

For more information, see note 4.4 to the consolidated financial statements.

Currency risk

Zebra's international activities imply that the Group's financial results, cash flows and equity are exposed to fluctuations in various foreign currencies.

The main exchange rate exposure faced by Zebra relates to the purchase of goods in foreign currency, mainly USD, and net cash flows from foreign subsidiaries. It is the Group's policy to hedge approximately 90%, 80%, 70% and 60% of the currency risk associated with procurement for the following 1–3 months, 4–6 months, 7–9 months and 10–12 months respectively.

Exchange rate exposures related to translation of the financial results and equity of the foreign subsidiaries into Danish Kroner are not hedged.

Interest rate risk

Zebra is exposed to interest rate risk because entities of the Group borrow funds at variable interest rates. Zebra monitors the risk and hedging is applied in order to maintain a mix between fixed and floating rate borrowings in accordance with the Group's treasury policy.

Liquidity risk

Zebra monitors the liquidity flow in order to ensure adequate liquidity resources are available to the Group.

Funding risk

Zebra has credit facilities with covenants, which are customary for such facilities. However, if Zebra fails to comply with the covenants, the lenders may terminate the credit facilities. All covenants are monitored and reported on a regular basis, enabling Zebra to act before a potential breach is approaching.

Credit risk

The Group has limited credit risk exposure related to trade receivables, as revenue transactions are settled by cash, credit or debit cards, and the Group is not exposed to any major credit risk related to trade receivables from any single customer or other party. The Group is exposed to counterparty risk from cash held at financial institutions and unrealised gains on financial contracts.

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Power charger for smartphones, 3000 mAh
DKK 100

In addition, the Group is indirectly exposed to credit risk arising from credit insurance companies providing insurance cover to the Group's suppliers. A general reduced risk appetite from the credit insurance companies could have a negative impact on the payment terms offered by the Group's suppliers. Consequently, this may have an impact on net working capital. Zebra is regularly monitoring performance and, if required, proactively engaging with the credit insurance companies.

Tax

As part of Zebra conducting business across 30 countries, the Group is exposed to potential tax and transfer pricing disputes with local tax authorities. Zebra is committed to ensuring compliance with local tax laws and international transfer pricing regulation in the markets which the Group operates in.

Operational risk

Zebra has identified key operational risks within the areas of:

· Market place

· Sourcing

· Products, trademarks and legal claims

· Partner collaboration and buyout

· People

Market place

Competition

As a retailer, Zebra is exposed to competition from other retailers with a value proposition similar to Zebra's as well as competition from online formats. Online competition is limited due to our experience-based concept, low price points and low average basket size. Zebra is however continuously developing and considering its digital presence, including potential future ecommerce.

To mitigate competition from other retailers, Zebra continues to invest and develop the Flying Tiger Copenhagen brand and concept to maintain the concept's edge and attractive value proposition. The initiatives include continued development of the concept as well as strengthening of the Group's creative capabilities within category management, design and innovation, visual merchandising, marketing, branding and training of the store staff in order to sustain or improve the level of service provided in the stores.

Customer preferences

In line with other retailers, Zebra's assortment needs to meet customer preferences in order for our concept to stay successful. Should we fail to select the right products at the right prices, financial performance will be affected. We continuously review our assortment and actively engage in category management with an aim to constantly improve trend spotting and be updated on market developments.

Expansion

Zebra's growth ambitions require strong performance, both in existing markets and when launching the Flying Tiger Copenhagen concept in new markets. Failure to adequately address performance issues in local markets may impact the Group's financial results. Zebra continuously works on improving its monitoring, business review and controlling, aiming to proactively address any potential disruptions in local markets.

Sourcing

Forecasting

In Zebra, we are constantly strengthening our forecasting tools to better predict demand. Failure to correctly assess demand will impact financial results negatively. Underestimating

demand will lead to availability issues and missed sales with limited opportunities for substitution. Similarly, overestimating demand will lead to inventory build-up and potential future write-downs on stock impacting the financial results negatively.

Suppliers

Production is outsourced to external suppliers. If the suppliers fail to comply with Zebra's Supplier Code of Conduct, the Group's reputation and brand may be jeopardised. Suppliers must adhere to the Code and compliance is monitored through a supplier audit programme. See CSR section for further information about Zebra's CSR efforts and results achieved.

Supply chain disruptions

Disruption to our supply chain, both inbound to our warehouses as well as outbound from our warehouses to stores, may cause product shortage and/or longer lead times, which may have a negative impact on our reputation as well as our ability to meet demand, which can negatively impact our financial results. To mitigate such potentially negative impacts, Zebra constantly monitors the supply chain and continues to invest in and build sourcing and supply chain systems, processes and capabilities and holds a marine cargo insurance policy.

Products, trademarks and legal claims

Zebra operates in a number of different legal jurisdictions and introduces around 300 products each month. Failure to comply with local regulations may negatively affect our reputation as well as financial performance. Likewise, violations of our trademarks or product designs as well as damages caused by the use and/or misuse of our products may cause similar effects.

Zebra has policies across our business as well as process controls, which guide our day-to-day operations. Also, Zebra has dedicated teams who focus on legal aspects as well as compliance matters pertaining to our business model. When required, we make use of external advisors.

Partner collaboration and buyout

Zebra has built its success around a 50/50 partnership model in which we share investments, costs and profits with our partners. Zebra owns and develops the concept, brand and supplies the products while the partners carry out the store roll-outs and local day-to-day operations within the jointly developed business plans, framework and guidelines of the partnership agreements. These mechanisms and incentives ensure alignment of interests. Failure to maintain a successful collaboration may adversely affect our financial results. We value our partners and want to continue to work together, maintaining an open and frequent dialogue.

Batteries
from **DKK 10**

Meet our colleagues

At Flying Tiger Copenhagen diversity is at the very core of who we are, in everything we do and in how we think. Meet some of our colleagues from around the world.

**Alessia Vessicchio,
Product & Merchandising
Responsible, Italy.
Employed since 2012**

What is diversity to you?
Diversity is the base of every human being, without it there would be no individuality, originality and uniqueness. I see diversity in the world not with hate but with wonder, so as to make interesting all that is different from me ... a new culture, for example, or a new language. Diversity is a real source of enrichment for me, it is a continuous stimulus necessary to better enjoy the relationship with others and overcome prejudices.

Why is it important for you to work in a company where diversity matters?
Working in a company where diversity matters made me realise that being different is really a starting point in here for me and for others. I think it's wonderful to feel part of a very big family where everyone is given the chance to express their uniqueness. As employees we are not homogeneous.

How do you experience diversity within your work?
I am really happy because no one has ever asked me to change my way of being, I am appreciated, and my work skills have been valued because I am in this way. In my professional growth I have not encountered any find of prejudice and as a woman who has an important role I have never experienced discrimination. I am happy because I freely express my thoughts every day.

What good comes of having a diverse group of colleagues?
Everything is good because diversity is wealth and the greatest advantage of working with a mixed team is personal growth, there is a continuous exchange between us every day. In the group every diversity is recognised and appreciated. A heterogeneous work group creates an open environment that understands and anticipates the needs of customers because diversity brings innovation. In the world of business, only one thing matters: skills.... so gender, sexuality or religion do not affect this.

**Maarten de Greeve,
Product Designer,
Flying Tiger Copenhagen.
Employed since 2012**

What is diversity to you?
To me diversity is about people - our differences in culture, way of life, how we think and how we look. Diversity is all about the celebration of life. Diversity makes life fun and exciting. It would be quite boring if we were all similar.

Why is it important for you to work in a company where diversity matters?
The fact that our company has focus on diversity makes me happy and proud. It means we have a very tolerant and open-minded workplace, with space for our differences, quirks and ideas. It means that each and every one of us is special and appreciated in our own way and our united competences make it all work.

How do you experience diversity within your work?
Our design department is a colorful mix of creative souls from all over Europe. Working in a company where diversity matters makes you more aware of each other's differences, competences and uniqueness. The diversity in nationalities also combines into a big pool of knowledge and understanding of our customers all over the world. And it makes FTC a colorful, fun and great place to work.

At Flying Tiger CPH we get the opportunity to design an even greater variety in products that should make many happy customers, a fantastic place for a product designer.

What good comes of having a diverse group of colleagues?
The creative process is essential in our design work. The colorful and playful atmosphere is a result of the group dynamics in my group, my department, the HQ office in Copenhagen and ultimately our whole organization. In our diverse group the discussions can be very surprising and things that are normal for me or you can be special to others.

It is part of Zebra's strategy to take full ownership of the local operating companies when this is assessed to be more beneficial than the partner model. Failure to successfully integrate and operate the local operating companies post takeover as well as retain key employees may have a negative impact on Zebra's financial results as well as its reputation. To ensure a continued strong financial performance in, and after, a transformation period, the partner model entails a put or a call notice of one year, allowing Zebra to develop a transition plan together with the partner, ensure timely identification of new management and deploy various measures to ensure retention of local key employees.

People

Zebra relies critically on our ability to attract, motivate and retain highly qualified employees at all levels of the organisation – from store staff and managers to creative and administrative people at head office.

Zebra has a group HR function, which supports the local operating companies. Among other initiatives, Zebra has developed and rolled out a recruitment kit designed to assist in local recruitment of qualified talents for positions as store assistants, assistant store managers and store managers, and has implemented an international management training programme targeting our store and district managers. 80 district managers have participated in the training programme and Zebra will continue enrolling new district managers into the programme. The fourth module for store managers was rolled out in March 2018.

Insurance policies

Zebra maintains the following insurance policies covering the Group (incl. joint ventures): Product Liability, D&O, Cyber (from 2018) and Crime as well as Marine Cargo.
For compliance reasons, these insurance policies are supplemented with local policies by local group companies. Insurance policies for other types of coverage are maintained by each group company. Consequently, Zebra and other group companies maintain local policies to the extent relevant, such as All Risks, Professional Liability, Workers Injury, Vehicle, Travel, etc.

Wireless speaker with microphone. Audio and USB charging cables included
DKK 200

Selected store openings 2018

Prague **Czech Republic**

Guimarães **Portugal**

Boston **United States**

Ebina-shi Kanagawa **Japan**

Larvik **Norway**

Schaffhausen **Switzerland**

Montpellier **France**

Trento **Italy**

Badalona **Spain**

Helsinki **Finland**

York **United Kingdom**

Katowice **Poland**

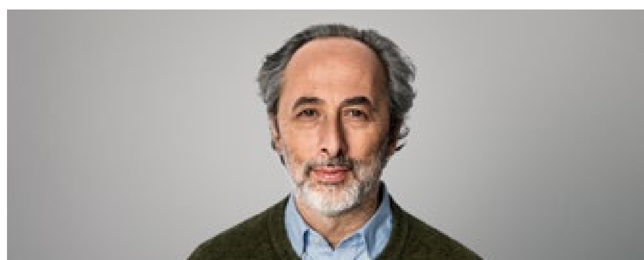
Board of Directors

Vagn Ove Sørensen (1959)
Chairman, Member since 2015

Educational background	M.Sc. Econ. and Business Administration, Aarhus School of Business and Social Sciences
Current position	Professional Board Member
Other positions	Air Canada (Chairman) FLSmidth A/S (Chairman) TIA Technologies A/S (Chairman) Select Service Partner Plc (Chairman) Nordic Aviation Capital A/S (Advisory Board Member) VFS Global (Board Member) Unilode Aerospace (Board Member) CP Dyvig & Co. A/S (Board Member) Royal Caribbean Cruises Ltd. (Board Member) Braganza AS (Board Member) Rock'n Roll Forever Foundation (Board Member) EQT Partners (Senior Advisor) Morgan Stanley (Senior Advisor)

Jacob Bier (1961)
Vice Chairman, Member since 1998

Educational background	LLM, University of Copenhagen
Current position	Senior counsel, Fried, Frank, Harris, Shriver & Jacobson
Other positions	CERTA Intelligence & Security A/S (Chairman) Nosomnia ApS (Chairman) Bier Brothers Ltd. (Board Member) Hos Fischer ApS (Board Member) Mitco ApS (Board Member)



Lennart Lajboschitz (1959)
Member since 1998

Current position	Board Member and Founder, Zebra A/S
Other positions	Mitco ApS (Chairman) Hos Fischer ApS (Board Member) Nosomnia ApS (Board Member) GoMore ApS (Board Member) CERTA Intelligence & Security A/S (Board Member) Absalon Sønder Boulevard (Founder and Owner) The Danish Film Institute (Vice Chairman)

Mads Ditlevsen (1976)
Member since 2018

Educational background	M.Sc. in Finance and Accounting, Copenhagen Business School and Case Western Reserve University, Ohio
Current position	Head of EQT Partners Equity Team, Denmark and EQT Office, Copenhagen
Other positions	Banking Circle (Board Member) HusCompaniet (Board Member)

Margaret McDonald (1966)
Member since 2018

Educational background	Certificate in Management Science, Dublin Institite of Technology, Ireland Grafton Academy of Fashion Design, Dublin, Ireland. Diploma, Fashion Design.
Current position	Professional Board Member
Other positions	Global President, Victoria's Secret Managing Director, Coast CEO, LK Bennett VP, Gap Inc Other career roles include Marks and Spencer and Primark

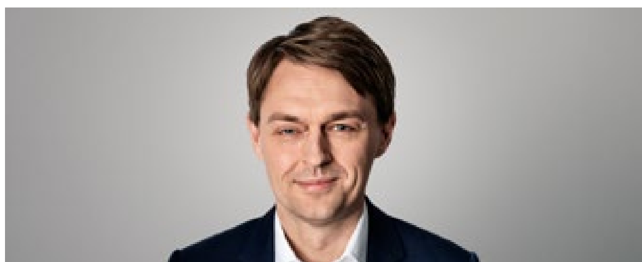
Matthias Wittkowski (1983)
Member since 2019

Educational background	Diploma Degree in Business Administration, European Business School, Oestrich-Winkel
Current position	Partner at EQT Partners, Munich
Other positions	Apleona GmbH (Board Member)

Tore Thorstensen (1951)
Member since 2019

Educational background	MBA-Civilokonom from NHH Bergen (Norwegian School of Economics)
Current position	Professional Board Member, Industrial Advisor EQT. Private Investor.
Other positions	AutoStore (Chairman) HusCompagniet (Board member) KB Gruppen AS (Chairman) Nordic Concrete Group AS (Board member) Ø M Fjeld Holding AS (Chairman) Kibord AS (Board member) LY Insurance ASA (Board member)

Executive Management



Martin Jermiin (1976)
Chief Executive Officer

Educational background	M.Sc. Applied Economics & Finance, Copenhagen Business School
Previous experience	Partner, McKinsey & Co CEO, Cembrit Holding Chief Strategy Officer, TDC Investment Banking Analyst, Goldman Sachs International

Christian Kofoed H. Jakobsen (1970)
Chief Financial Officer

Educational background	MBA in Strategy, Bradford University, United Kingdom BA in Finance (HD (F)), Copenhagen Business School
Previous experience	CFO, TOP-TOY A/S Regional Key Account Director, ISS World Services A/S Regional CFO, ISS World Services A/S CEO, Saxo Privatbank A/S Group Treasurer/SVP, ISS World Services A/S
Other positions	SFT A/S (Board member)

The Executive Management consists of Martin Jermiin (CEO) and Christian Kofoed Hertz Jakobsen (CFO) who both joined in Q1 2019. This team adds substantial experience to Flying Tiger Copenhagen, both from transformational processes as well as retail, and they have both operated in large international companies. Martin from a background as Partner in McKinsey & Co and involvement in many private equity transformation situations, both as a consultant and in leadership positions up to CEO level. Martin knows Flying Tiger Copenhagen from his previous positions in McKinsey working on different strategic assignments. Christian from a range of different CFO and finance roles with great involvement in operations and with a solid international background.

Ceramics.
Assorted, from **DKK 10**

Consolidated financial statements

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Income statement

1 January - 31 December

DKKm	Note	2018	2017
Revenue	2.1	5,583.3	5,032.3
Cost of sales		(2,391.6)	(1,980.7)
Gross profit		**3,191.7**	**3,051.6**
Other external expenses		(1,540.8)	(1,349.1)
Staff costs	2.2	(1,546.6)	(1,331.3)
Other operating income		0.4	8.8
EBITDA before special items		**104.7**	**380.0**
Amortisation and depreciation		(260.1)	(220.8)
Operating profit/(loss) (EBIT) before special items		**(155.4)**	**159.2**
Special items	2.3	(101.6)	(70.0)
Operating profit/(loss) (EBIT)		**(257.0)**	**89.2**
Share of loss in joint ventures	3.3	(6.4)	(6.7)
Financial income	4.6	1.4	1.0
Financial expenses	4.6	(100.5)	(57.8)
Fair value adjustment of call options	4.4	(223.2)	-
Profit/(loss) before tax		**(585.7)**	**25.7**
Tax on profit/(loss) for the year	2.4	44.3	(21.6)
Profit/(loss) for the year		**(541.4)**	**4.1**
Profit/(loss) for the year is attributable to:			
Owners of Zebra A/S		(569.6)	4.1
Non-controlling interests		28.2	-
		(541.4)	**4.1**

Statement of other comprehensive income

DKKm	**Note**	**2018**	**2017**
Profit/(loss) for the year (brought forward)		**(541.4)**	**4.1**
Items that may be reclassified subsequently to profit or loss:			
Exchange rate differences on translation of investments in foreign entities		(2.9)	2.1
Foreign exchange hedging instruments:			
- Realised in inventories		(6.1)	5.0
- Realised in cost of sales		(8.7)	27.2
- Fair value adjustments		66.7	(101.6)
Tax on hedging instruments		(11.4)	15.3
Other comprehensive income		**37.6**	**(52.0)**
Total comprehensive loss for the year		**(503.8)**	**(47.9)**
Total comprehensive loss for the year is attributable to:			
Owners of Zebra A/S		(532.9)	(47.9)
Non-controlling interests		29.1	-
		(503.8)	**(47.9)**

Balance sheet
31 December

Assets

DKKm	**Note**	**2018**	**2017**
Intangible assets	3.1	306.3	285.5
Property, plant and equipment	3.2	655.6	630.8
Investment in joint ventures	3.3	17.6	26.1
Deposits		95.5	88.7
Derivative financial instruments	4.3, 4.4	450.2	-
Deferred tax	2.4	232.9	144.2
Non-current assets		**1,758.1**	**1,175.3**
Inventories	3.4	1,254.8	1,012.3
Income tax receivables		31.8	9.5
Derivative financial instruments	4.3, 4.4	42.5	-
Other receivables	4.3	65.3	51.5
Prepayments		89.4	80.2
Cash and cash equivalents	4.3	424.3	519.6
Current assets		**1,908.1**	**1,673.1**
Assets		**3,666.2**	**2,848.4**

Balance sheet

31 December

Equity and liabilities

DKKm	Note	2018	2017
Share capital	4.1	0.5	0.5
Currency translation reserve		(9.4)	(6.5)
Currency hedging reserve		20.7	(19.8)
Retained earnings		9.5	(195.0)
Capital and reserves attributable to owners of Zebra A/S	4.2	**21.3**	**(220.8)**
Non-controlling interests		-	-
Total equity		**21.3**	**(220.8)**
Provisions for the acquisition of non-controlling interests	4.3, 4.5	245.6	343.4
Other provisions	3.5	25.0	20.3
Bank debt	4.3, 4.7	1,148.9	1,047.2
Finance leases	4.3, 4.7	5.9	10.4
Deferred considerations	4.3, 4.5, 4.7	7.3	120.3
Lease incentives		64.4	67.1
Deferred tax	2.4	4.2	7.5
Other non-current liabilities	4.3	30.7	22.0
Non-current liabilities		**1,532.0**	**1,638.2**
Provisions for the acquisition of non-controlling interests	4.3, 4.5	-	9.1
Other provisions	3.5	33.6	15.7
Loans provided by shareholders of non-controlling interests	4.3, 4.7	44.7	45.0
Bank debt	4.3, 4.7	516.7	49.8
Finance leases	4.3, 4.7	5.0	8.2
Trade payables	4.3	913.2	529.7
Income tax payables	4.3	17.5	24.6
Deferred considerations	4.3, 4.5, 4.7	92.6	267.5
Lease incentives		24.2	20.6
Derivative financial instruments	4.3, 4.4	0.8	45.7
Other payables	3.6, 4.3	464.6	415.1
Current liabilities		**2,112.9**	**1,431.0**
Liabilities		**3,644.9**	**3,069.2**
Equity and liabilities		**3,666.2**	**2,848.4**

Statement of changes in equity

DKKm	Share capital	Currency translation reserve	Currency hedging reserve	Retained earnings	Attributable to the owners of Zebra A/S	Non-controlling interests	Total equity
2018							
Equity at 31.12.2017	**0.5**	**(6.5)**	**(19.8)**	**(195.0)**	**(220.8)**	**-**	**(220.8)**
Effect of change in accounting policies related to call options	-	-	-	702.8	702.8	-	702.8
Equity at 01.01.	**0.5**	**(6.5)**	**(19.8)**	**507.8**	**482.0**	**-**	**482.0**
Loss for the year	-	-	-	(569.6)	(569.6)	28.2	(541.4)
Other comprehensive income for the year, net of tax	-	(3.8)	40.5	-	36.7	0.9	37.6
Transactions with owners:							
Dividend paid to non-controlling interests	-	-	-	-	-	(43.5)	(43.5)
Fair value adjustment of provisions for the acquisition of non-controlling interests, c.f. Note 4.5	-	-	-	91.9	91.9	-	91.9
Fair value adjustment of purchase consideration for the acquisition of non-controlling interests, c.f. Note 4.5	-	-	-	15.3	15.3	-	15.3
Fair value of exercised call options, c.f. Note 4.4	-	-	-	(29.4)	(29.4)	-	(29.4)
Contribution from non-controlling interests	-	-	-	-	-	6.1	6.1
Reclassification of the non-controlling interests subject to the put option recognised as a liability		0.9		(9.2)	(8.3)	8.3	-
Share capital increase	0.0	-	-	2.7	2.7	-	2.7
Equity at 31.12.	**0.5**	**(9.4)**	**20.7**	**9.5**	**21.3**	**-**	**21.3**
2017							
Equity at 01.01.	**0.5**	**(8.6)**	**34.3**	**(49.8)**	**(23.6)**		
Profit for the year	-	-	-	4.1	4.1		
Other comprehensive income for the year, net of tax	-	2.1	(54.1)	-	(52.0)		
Transactions with owners:							
Dividend paid to non-controlling interests	-	-	-	(39.1)	(39.1)		
Fair value adjustment of provisions for the acquisition of non-controlling interests, c.f. Note 4.5	-	-	-	(148.4)	(148.4)		
Fair value adjustment of purchase consideration for the acquisition of non-controlling interests, c.f. Note 4.5	-	-	-	14.3	14.3		
Share capital increase	0.0	-	-	23.9	23.9		
Equity at 31.12.	**0.5**	**(6.5)**	**(19.8)**	**(195.0)**	**(220.8)**		

In accordance with IFRS, where the non-controlling interests have put options that can be exercised to transfer their present ownership interest to the Parent, a liability is recognised corresponding to the redemption amount, and the subsidiaries are fully consolidated, with no recognition of a non-controlling interest at the reporting date. Changes in the value of these liabilities as well as differences upon settlement, are accounted for directly in equity. At 31 December 2018, the accumulated changes and differences upon settlement amount to DKK -932.8m (2017: DKK -1,040.0m) included in equity. With effect from 1 January 2018 fair value of the call options over the remaining ownership interests is recognised in the balance sheet.
1 January 2018 the effect was DKK 702.8m recognised as an opening item in equity and was fair value adjusted over the income statement to DKK 450.2m at 31 December 2018. Additional details on the impact are provided in note 4.2.

Cash flow statement

DKKm	Note	2018	2017
Operating profit/(loss) (EBIT) before special items		**(155.4)**	**159.2**
Depreciation and amortisation		260.1	220.8
Special items paid		(82.0)	(38.0)
Working capital changes	3.7	(61.9)	91.8
Other non-cash adjustments		196.8	(49.0)
Interest income received		0.6	0.5
Interest expenses paid		(64.9)	(49.4)
Taxes paid		(88.9)	(94.5)
Cash flows from operating activities		**4.4**	**241.4**
Investment in intangible assets		(65.1)	(90.9)
Sale of intangible assets		0.8	2.3
Investment in property, plant and equipment		(241.2)	(213.9)
Sale of property, plant and equipment		0.8	3.6
Deposits paid		(14.5)	(17.8)
Deposits received		7.8	5.5
Cash flows from investing activities		**(311.4)**	**(311.2)**
Free cash flow		**(307.0)**	**(69.8)**
Contribution from non-controlling interests		0.1	-
Acquisition of non-controlling interests	4.5, 4.7	(287.6)	(40.9)
Share capital increase		2.7	23.9
Proceeds from loans provided by shareholders of non-controlling interests	4.7	17.1	10.6
Repayment of loans provided by shareholders of non-controlling interests	4.7	(11.3)	(10.6)
Proceeds from loans and borrowings	4.7	613.5	160.7
Repayment of loans and borrowings	4.7	(79.7)	(78.7)
Dividend paid to non-controlling interests		(43.5)	(39.1)
Cash flows from financing activities		**211.3**	**25.9**
Increase in cash and cash equivalents		**(95.7)**	**(43.9)**
Cash and cash equivalents at 1 January		519.6	566.4
Unrealised exchange gains/(losses) included in cash and cash equivalents		0.4	(2.9)
Cash and cash equivalents at 31 December		**424.3**	**519.6**

Unutilised credit facilities for the Group were DKK 317.9m at 31 December 2018 (2017: DKK 364.5m).
The cash flow cannot be derived directly from the income statement and the balance sheet.

Section 1 Basis of preparation

This section

Note 1.1 General accounting policies
Note 1.2 Significant accounting estimates and judgments
Note 1.3 Changes to the opening balance as of 1 January 2018

Zebra presents its consolidated financial statements in accordance with IFRS. This section sets out Zebra's significant accounting policies, Management's key accounting estimates, new IFRS requirements and other accounting policies in general. A detailed description of accounting policies and significant estimates related to specific reported amounts is presented in the notes to which they relate.

1.1 General accounting policies

The Annual Report for the period 1 January – 31 December 2018 comprises the consolidated financial statements of the parent company Zebra A/S and subsidiaries controlled by the Parent Company (the Group) as well as separate financial statements for the parent company Zebra A/S.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements applying to entities of reporting class C (large).

Basis for measurement
The consolidated financial statements are presented in Danish kroner (DKK), which is the Parent Company's functional currency.

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments including call options and provisions for the acquisition of non-controlling interests, which are measured at fair value.

Accounting policies
The accounting policies as described below and in the respective notes have been used consistently for the financial year and are unchanged from last year except for changes following the adoption of IFRS 9. Please see below section 'Implementation of new or amended standards and interpretations'.

Accounting policies related to specific line items are described in connection with the notes to which they relate. The description of accounting policies in the notes form part of the overall description of accounting policies. Accounting policies not directly related to a specific line item covered by a note are presented below.

Basis for consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. Subsidiaries controlled by the Parent Company are fully consolidated from the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. Control is obtained when the Parent Company directly or indirectly owns or controls more than 50% of the voting rights in the subsidiary or has control in some other way. The financial statements of the controlled subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intercompany balances, income and expenses, unrealised gains and losses and dividends resulting from intercompany transactions are eliminated in full.

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value at the date that control is lost.

Entities, which by agreement are managed jointly with one or more other parties, are considered joint ventures. Joint ventures are consolidated using the equity method.

Foreign currencies
Transactions denominated in currencies other than the functional currency of the respective Group companies are considered transactions denominated in foreign currencies.

Transactions and balances
On initial recognition, transactions denominated in foreign currencies are recognised by the Group entities at their functional currency rates prevailing at the date of the transaction. Monetary items denominated

1.1 General accounting policies (continued)

in foreign currencies are translated at the exchange rates at the reporting date. Foreign exchange adjustments are recognised in the income statement under financial items.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. An average exchange rate for the month is used at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date.

Group companies with another functional currency than DKK
The assets and liabilities of foreign subsidiaries are translated into the functional currency at the rate of exchange prevailing at the reporting date, and income statements and cash flow statements are translated at exchange rates prevailing at the dates of the transactions. An average exchange rate for the month is used at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date. Foreign exchange adjustments arising on translation are recognised in other comprehensive income.

Equity
Currency translation reserve
The currency translation reserve in equity comprises foreign exchange differences relating to the translation of the results and net assets of the foreign subsidiaries from their functional currencies into the presentation currency used by Zebra A/S (DKK). Translation adjustments are reclassified to the income statement on the disposal of the foreign operation.

Currency hedging reserve
The currency hedging reserve in equity comprises changes in the fair value of hedging transactions that qualify for recognition as cash flow hedges and where the hedged transaction has not yet been realised.

Cash flow
Cash flows from operating activities are determined using the indirect method.

Cash flows from investing activities mainly comprise purchase of intangible assets, property, plant and equipment and business combinations.

Cash flows from financing activities comprise dividend paid, proceeds and repayments of loans and borrowings, changes in non-controlling interest' ownership share and share capital increase.

Cash flows in currencies other than the functional currency are translated at the average exchange rates for the month in question, unless these differ significantly from the rates at the transaction dates.

Implementation of new or amended standards and interpretations
The Group has adopted all new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year 1 January - 31 December 2018, most significantly:

IFRS 9 Financial Instruments
IFRS 9 'Financial instruments', with effective date 1 January 2018, replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The Group has applied the standard prospectively and has made use of the relief from restating comparative figures. The classification and measurements requirements of IFRS 9 did not have a significant impact on the Group. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified and measured as Debt instruments at amortised cost. There are no changes in classification and measurement of the Group's financial liabilities. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. However, the exception in IAS 39 allowing options over the remaining ownership interests to be measured at cost, due to fair value cannot be determined reliably, has not been brought forward to IFRS 9. The effect of measuring the call options over the remaining ownership interests at fair value is recognised in the opening balance sheet on 1 January 2018. Please see note 1.3 for an overview of the changes to the opening balance sheet.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and contract assets. As the Group's sale to customers are mainly cash sales the new approach did not have any significant impact on Zebra A/S' consolidated financial statements.

The adoption of IFRS 9 has not had any significant effect on the Group's accounting policies related to derivative financial instruments used at hedging instruments. At the date on initial application of IFRS 9, all the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. The Group continues to designate the change in fair value of the entire forward contracts in its cash flow hedge relationships. For an explanation of how the Group classifies and measures financial derivative instruments please see note 4.4.

IFRS 9 has also affected the recognition and measurement of borrowings. In accordance with IAS 39 a modification of the loan terms was not considered to result in an extinguishment of the initial borrowings. At the date of the modification no loss was recognised in profit or loss. Instead the discounted cash flows of the modified borrowings using a revised effective interest rate was recognised over the remaining modified term of the borrowings. Under IFRS 9, the cash flows of the modified borrowings must be discounted at the original effective interest rate, and an immediate loss must be recognised in profit or loss at the date of the modification. This change in accounting policies did not have an effect of the opening balance sheet of 1 January 2018, but it has affected the measurement of borrowings during 2018. Please see note 4.4 for further information.

IFRS 15 Revenue from contracts with customers
IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2018, establish a single framework for the treatment of revenue using a five-step model to account for revenue arising from contracts with customers. The standard has been implemented using the modified retrospective method. The Group has made use of the relief from restating comparative figures and has only applied IFRS 15 to contracts that were not completed as of January 1, 2018. The standard has not had any significant impact on recognition and measurement of revenue in the consolidated financial statements.

1.1 General accounting policies (continued)

The implementation of amended standards has not had any material impact on the consolidated financial statements.

Standards issued but not yet effective
The IASB has issued new IFRS standards, amended standards, revised standards and interpretations, which are effective for financial years beginning on or after 1 January 2019, most significantly:

IFRS 16 Leases
IFRS 16 'Leases', with effective date 1 January 2019, requires that all leases are to be recognised in the balance sheet with a corresponding lease liability, except for short-term leases and leases of low-value assets. Leased assets are amortised over the lease term, and payments are allocated between instalments on the lease obligation and interest expense, classified as financial items. This will have a significant impact as the Group's business model is based on leasing rather than owning property, plant and equipment. The Group has entered into a significant number of operational lease agreements, and therefore expects a significant increase in property, plant and equipment and in financial liabilities in the range of DKK 2,500m to DKK 3,500m, as well as an improved EBITDA in the range of DKK 500m to DKK 1,000m as a consequence of implementing IFRS 16. Furthermore, cash payments of the main portion of the lease liability will be presented under financing activities in the cash flow statement instead of today's presentation under operating activities. Also, most key figures will be significantly impacted. The expected impact is currently being assessed. The Group intends to adopt the standard on 1 January 2019 applying the simplified transition approach without restating the comparative amounts for the year prior to first adoption.

The Group expects to adopt the standards and interpretations when they become effective.

1.2 Significant accounting estimates and judgments

The consolidated financial statements have been prepared to give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2018. The Executive Management makes various accounting estimates and judgments which affect the consolidated financial statements.

The judgments, estimates and assumptions made are based on historical experience and other factors that the Executive Management considers to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise.

The Group is subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively.

Information about judgment, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment is included in the following notes of which the Executive Management regards as significant estimates and judgments:

- Consolidation of entities in which the Group holds a 50% ownership interest (cf. below),
- Valuation of deferred tax assets (note 2.4),
- Write-downs against the carrying amount of inventories (note 3.4),
- Fair value measurement of call options (note 4.4) and
- Provisions for the acquisition of non-controlling interests (note 4.5).

Apart from these, several other significant estimates and judgments have been applied. Please refer to the notes for further information.

Consolidation of entities in which the Group holds a 50% ownership interest
The Group considers that it controls several entities even though it does not hold the majority of the voting rights in the entities. The assessment of whether the Group controls an entity is based on an evaluation of whether the Group has the current ability to direct the relevant activities of the entity. The Group holds call options to acquire all remaining outstanding shares, including the voting rights related to these shares. All call options are currently exercisable. Zebra A/S has also entered into shareholders agreements (partnership agreements) with the other investors (partners) and supply agreements etc. that give Zebra A/S substantial rights, including in connections with a deadlock situation. Accordingly, the Group considers at a balanced view that these potential voting rights and other rights in all substance give rise to the existence of control at the reporting date.

Non-controlling interests
Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively. The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group.

The non-controlling ownership interest, which is subject to the put option, is reclassified as a liability at the end of the reporting period, as if the acquisition took place at that date. Any difference between the exercise price of the put option and the net assets allocated to the non-controlling interest is recognised as an adjustment to retained earnings.

1.3 Changes to the opening balance as of 1 January 2018

IFRS 9 has been adopted without restating the comparative information. The reclassifications and adjustments arising from the adoption of IFRS 9 are therefore not reflected in the balance sheet as of 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

DKKm	31 Dec 2017 as originally presented	IFRS 9 changes	1 Jan 2018 restated
Derivative financial instruments	-	702.8	702.8
Non-current assets	**1,175.3**	**702.8**	**1,878.1**
Assets	**2,848.4**	**702.8**	**3,551.2**
Retained earnings	(195.0)	702.8	507.8
Capital and reserves attributable to owners of Zebra A/S	**(220.8)**	**702.8**	**482.0**
Total equity	**(220.8)**	**702.8**	**482.0**
Equity and liabilities	**2,848.4**	**702.8**	**3,551.2**

The IFRS 9 changes relate to the fair value measurement of the call options over the remaining ownership interests in certain subsidiaries.

Section 2 Results for the year

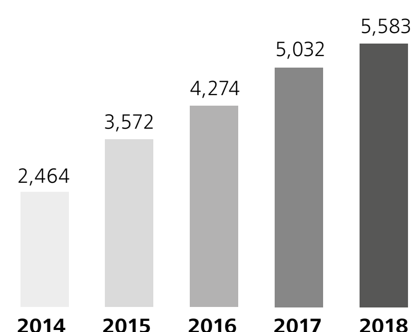
This section

Note 2.1 Revenue
Note 2.2 Staff costs
Note 2.3 Special items
Note 2.4 Income taxes and deferred tax

This section comprises notes related to the results for the year including revenue, staff costs, special items and tax.

In 2018, Zebra's revenue was DKK 5,583m, compared to DKK 5,032m in 2017, corresponding to 11% growth driven by the rapid expansion of our store footprint.

Revenue (DKKm)



(2017: 30)
Number of countries

(2017: 863)
Number of stores incl. Japanese joint venture

(2017: 5,529)
Average number of FTE

2.1 Revenue

Accounting policies
The Group operates a chain of retail stores selling a wide range of affordable products within categories ranging from home, kitchen, hobby and party to toys, electronics and gadgets, foods and accessories.

Revenue from the sale of the goods is recognised when a group entity sells a product to a customer and thereby transfers the control of the goods to the customer at that point of time.

The Group's sales to customers are cash sales without any variable consideration elements. Payment of the transaction price is due immediately when the customer purchases the goods and takes delivery in the store.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes and duties.

A provision of DKK 2.8m has been recognised for returned goods.

The table below shows the Group's revenue broken down by geographical regions:

DKKm	2018	2017
Geographical regions		
Northern Europe	1,236.5	1,229.4
Central Europe	860.8	725.5
Western Europe	1,395.4	1,255.7
Southern Europe	1,914.7	1,690.0
Northern America and Asia	175.9	131.7
Total	**5,583.3**	**5,032.3**

2.2 Staff costs

Accounting policies
Salaries and wages, social security contributions, leave and sick leave, bonuses and non-monetary benefits are recognised in the period in which employees of the Group render the services.

Termination benefits are recognised at the time an agreement between the Group and the employee is made and the employee in exchange for the benefits provides no future service.

DKKm	2018	2017
Salaries and wages	1,280.6	1,110.5
Pension contributions	55.0	46.4
Other social security costs	188.4	152.3
Other staff costs	34.5	34.1
Total	**1,558.5**	**1,343.3**
Capitalised salaries and wages related to development projects	(11.9)	(12.0)
Recognised in the income statement	**1,546.6**	**1,331.3**
Average number of full-time equivalents	**6,018**	**5,529**
Remuneration for the Executive Management and the Board of Directors		
Total remuneration, Executive Management*	10.6	17.8
Total remuneration, Board of Directors	1.8	1.5
Total	**12.4**	**19.3**
Remuneration for the Executive Management and the Board of Directors		
Salaries and wages*	11.4	18.5
Pensions	1.0	0.8
Total	**12.4**	**19.3**

*Includes severance payments.

In addition to the above mentioned, one member of the Board of Directors received a consultancy fee of DKK 0.4m in 2018 (2017: DKK 0m) for work related to a specific project.

2.3 Special items

Accounting policies
Special items include significant income and expenses of a special non-recurring nature which cannot be attributed directly to the Group's ordinary operating activities. Such income and expenses relate to significant restructuring of processes and fundamental structural adjustment, as well as gains or losses arising in this connection, and which are significant over time.

These items are classified separately in the income statement, in order to provide a more transparent view of the Group's recurring operating profit.

DKKm	2018	2017
Costs related to strategy project	62.2	18.8
Costs associated with the establishment of new management team	8.3	22.8
Costs related to acquisition of non-controlling interests	1.8	2.1
Pruning of the United States store network	-	13.5
Impairment losses in the United States store network	-	12.8
Costs related to the fire on the vessel Maersk Honam	20.7	-
Restructuring of subsidiaries	3.7	-
Implementation of GDPR	3.3	-
Establishment in new markets	1.6	-
Total	**101.6**	**70.0**

2.4 Income taxes and deferred tax

Accounting policies
Income tax for the year, comprising the year's current tax and the change to deferred tax, is recognised in the income statement with the amount that can be attributed to the net profit or loss for the year and under other comprehensive income with the amount that can be attributed to items under other comprehensive income.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. No deferred tax is recognised for goodwill, unless amortisation of goodwill for tax purposes is allowed.

Deferred tax is measured on the basis of the tax rules and the tax rate enacted in the respective countries on the balance sheet date.

Changes in deferred tax due to tax rate changes are recognised in the income statement, except to the extent that they relate to items recognised either in other comprehensive income or directly in equity.

Significant accounting estimates and judgments
The Group recognises deferred tax assets including the expected tax value of tax losses carry forward, if Executive Management assesses that these tax assets can be offset against positive taxable income within the Group's budgeting period that exceeds realisation of deferred tax liabilities. Executive Management assesses tax assets and liabilities at least annually based on dialogue with tax advisors, business plans for the coming years, including other planned commercial initiatives.

Of the total deferred tax assets recognised, DKK 103.5m (2017: DKK 81.1m) is related to tax loss carry-forwards. Executive Management considers it probable that an amount of DKK 228.7m (2017: DKK 136.7m) in tax assets can be offset against positive taxable income in the near future. The remaining amount of DKK 11.8m (2017: DKK 0m) at year-end in tax assets has been impaired.

However, the amount of tax assets not shown on the books can still be carried forward to be offset against future taxable income after the budgeting period.

2.4 Income taxes and deferred tax (continued)

Tax costs

DKKm	**2018**	**2017**
Current tax	58.6	86.2
Adjustment to current tax concerning previous years	0.6	(1.7)
Change in deferred tax during the year	(110.9)	(66.0)
Impact from change in tax rate to deferred tax	(0.1)	1.8
Adjustment to deferred tax concerning previous years	7.5	1.3
Total	**(44.3)**	**21.6**

Tax reconciliation

DKKm	**2018**	**2017**
Profit/(loss) before tax	(585.7)	25.7
Calculated 22.0% on profit/(loss) before tax	(128.9)	5.6
Difference in local tax rate compared to Parent's tax rate of 22.0%	8.0	14.3
Tax effect from:		
Non-taxable income and non-deductible expenses	56.2	0.6
Impact from change in the tax rates	(0.1)	1.8
Impact of non-recognised tax losses to be carried forward and value adjustments	12.4	(0.3)
Adjustments concerning previous years	8.1	(0.4)
Total	**(44.3)**	**21.6**
Effective tax rate	**7.6%**	**84.0%**

Deferred tax

DKKm	**2018**	**2017**
Deferred tax assets	232.9	144.2
Deferred tax liabilities	(4.2)	(7.5)
Total	**228.7**	**136.7**

2.4 Income taxes and deferred tax (continued)

DKKm	Deferred tax 01.01.	Exchange rate adjustment	Recognised in profit and loss	Recognised in other comprehen-sive income	Deferred tax 31.12.
2018					
Intangible assets	2.4	(0.1)	7.9	-	10.2
Property, plant and equipment	6.1	-	12.9	-	19.0
Inventories	26.3	(0.1)	39.7	-	65.9
Provisions etc.	(0.1)	0.1	8.2	-	8.2
Foreign exchange hedging	5.6	-	-	(11.4)	(5.8)
Tax losses to be carried forward	79.9	-	35.4	-	115.3
Valuation allowances and fair value adjustments	0.6	-	(12.4)	-	(11.8)
Interest limitation balance	0.6	-	3.4	-	4.0
Other	15.3	-	8.4	-	23.7
Deferred tax	**136.7**	**(0.1)**	**103.5**	**(11.4)**	**228.7**
2017					
Intangible assets	(4.1)	0.0	6.5	-	2.4
Property, plant and equipment	(3.5)	0.9	8.7	-	6.1
Inventories	41.7	0.0	(15.4)	-	26.3
Provisions etc.	2.8	(0.0)	(2.9)	-	(0.1)
Foreign exchange hedging	(9.7)	-	-	15.3	5.6
Tax losses to be carried forward	17.7	(0.8)	63.0	-	79.9
Valuation allowances and fair value adjustments	0.1	-	0.5	-	0.6
Interest limitation balance	-	-	0.6	-	0.6
Other	14.0	(0.6)	1.9	-	15.3
Deferred tax	**59.0**	**(0.5)**	**62.9**	**15.3**	**136.7**

Unrecognised tax loss carry-forwards amount to DKK 11.8m (2017: DKK 0m).

Section 3 Invested capital and working capital items

This section

Note 3.1 Intangible assets
Note 3.2 Property, plant and equipment
Note 3.3 Investment in joint ventures
Note 3.4 Inventories
Note 3.5 Other provisions
Note 3.6 Other payables
Note 3.7 Working capital changes

The notes in this section present details on the operating assets that form the basis for the activities of Zebra, and the related liabilities.

Net working capital

DKKm	2018	2017
Inventories	1,255	1,012
Other receivables	65	52
Prepayments	89	80
Trade payables	(913)	(530)
Other payables	(465)	(415)
Lease incentives	(88)	(87)
Net working capital	**(57)**	**112**

Invested capital

DKKm	2018	2017
Intangible assets	306	286
Property, plant and equipment	656	631
Investment in joint ventures	18	26
Deposits	96	89
Net working capital	(57)	112
Other provisions	(59)	(36)
Derivative financial instruments	42	(46)
Other non-current liabilities	(31)	(22)
Net income tax	14	(15)
Net deferred tax	229	136
Invested capital	**1,214**	**1,161**

3.1 Intangible assets

Accounting policies

Goodwill

Goodwill is initially recognised at the amount by which the purchase price for a business combination exceeds the recognised value of the identifiable assets, liabilities and contingent liabilities. Subsequently to initial recognition, goodwill is measured at cost less impairment losses. Goodwill is not amortised and impairment loss charges in previous years are not reversed.

Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation.

Amortisation is carried out systematically over the expected useful lives of the assets:

- Leasehold rights; Lease term or a maximum of 20 years
- Trademarks; 5-20 years
- Licenses and software; a maximum of 5 years
- Group-wide software developed for internal use; a maximum of 10 years

Group-wide software developed for internal use includes external costs to consultants, licenses and software as well as internal costs related to the development and are included in Licenses and software.

Intangible assets in progress and assets with an indefinite useful life are measured at cost less impairment losses.

Significant accounting estimates and judgments

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset is required, the Group estimates the recoverable amount of the asset.

Goodwill

Goodwill relates primarily to acquisition of a few Danish stores in the period 2006 to 2011 and the acquisition of J.H.L. ApS in 2015.

The carrying amount of goodwill is tested annually for impairment. The recoverable amount is calculated as the present value of future net cash flows (value in use) from the activity to which the goodwill is allocated.

The estimate of the future free net cash flows is based on budgets and business plans for 2019 and projections for 2020.

Key parameters are revenue development, profit margins, proposed capital expenditures and growth expectations for the following years. Key factors that could trigger an impairment test include a macro economy downscaling and changes to the competitive environment.

A pre-tax discount rate of 8.7% is used to calculate recoverable amounts, representing the weighted average cost of capital. The discount rate reflects current market assessments of the time value of money and the risks specific to the asset.

The impairment tests of goodwill did not show any need for impairment losses to be recognised in 2018 (2017: DKK 0m). In the Executive Management's opinion, no probable change in any of the key assumptions mentioned above would cause the carrying amount to exceed its recoverable amount.

Development projects in progress

For development projects in progress, including assets developed internally, the Executive Management estimates on an ongoing basis whether each project is likely to generate future economic benefits for the Group in order to qualify for recognition. The development projects are evaluated on technical as well as commercial criteria. In the Executive Management's opinion, the development projects qualify for recognition.

The carrying amount of development projects in progress is tested annually for impairment. The impairment test is performed on the basis of various factors, including future use of the project, the fair value of estimated future earnings or savings, interest rates and risks. The impairment tests of development projects in progress did not show any need for impairment losses to be recognised in 2018 (2017: DKK 0m).

Other intangible assets with an indefinite useful life

Licenses and software includes a carrying amount of DKK 3.2m (2017: DKK 0 m) related to REACH authorisations which are considered to have an indefinite useful life.

Other intangible assets with an indefinite useful life are tested annually for impairment. The impairment test is performed on the basis of various factors, including future use of the authorisations. The impairment tests did not show any need for impairment losses to be recognised in 2018 (2017: DKK 0m).

3.1 Intangible assets (continued)

DKKm	Goodwill	Leasehold rights	Trademarks	Licenses and software	Intangible assets in progress	Total
2018						
Cost 01.01.	19.5	78.7	0.9	250.3	19.2	368.6
Exchange rate adjustment	-	(0.6)	-	-	-	(0.6)
Additions	-	13.6	-	15.9	-	29.5
Additions, internal development	-	-	-	27.9	7.7	35.6
Transfer	-	(4.0)	-	20.2	(18.7)	(2.5)
Disposals	-	(1.7)	-	-	-	(1.7)
Cost 31.12.	**19.5**	**86.0**	**0.9**	**314.3**	**8.2**	**428.9**
Amortisation 01.01.	(3.6)	(36.3)	(0.3)	(42.9)	-	(83.1)
Exchange rate adjustment	-	0.3	-	-	-	0.3
Amortisation	-	(9.9)	-	(31.9)	-	(41.8)
Impairment losses	-	(0.2)	-	-	-	(0.2)
Transfer	-	2.4	-	(1.0)	-	1.4
Disposals	-	0.8	-	-	-	0.8
Amortisation 31.12.	**(3.6)**	**(42.9)**	**(0.3)**	**(75.8)**	**-**	**(122.6)**
Carrying amount 31.12.	**15.9**	**43.1**	**0.6**	**238.5**	**8.2**	**306.3**
2017						
Cost 01.01.	19.5	71.6	1.1	86.0	105.6	283.8
Exchange rate adjustment	-	(1.1)	-	-	-	(1.1)
Additions	-	11.9	-	7.0	0.5	19.4
Additions, internal development	-	-	-	54.1	17.4	71.5
Transfer	-	-	-	104.3	(104.3)	-
Disposals	-	(3.7)	(0.2)	(1.1)	-	(5.0)
Cost 31.12.	**19.5**	**78.7**	**0.9**	**250.3**	**19.2**	**368.6**
Amortisation 01.01.	(3.6)	(29.8)	(0.2)	(15.9)	-	(49.5)
Exchange rate adjustment	-	0.6	-	-	-	0.6
Amortisation	-	(8.6)	(0.1)	(27.0)	-	(35.7)
Disposals	-	1.5	-	-	-	1.5
Amortisation 31.12.	**(3.6)**	**(36.3)**	**(0.3)**	**(42.9)**	**-**	**(83.1)**
Carrying amount 31.12.	**15.9**	**42.4**	**0.6**	**207.4**	**19.2**	**285.5**

Net loss from disposal of intangible assets amounts to DKK 0.1m (2017: DKK 1.2m).

3.2 Property, plant and equipment

Accounting policies
Property, plant and equipment is measured at cost less accumulated depreciations and impairment losses. Cost comprises the acquisition price, cost directly attributable to the acquisition, and the preparation costs of the asset until the time when it is ready for the intended use. The present value of estimated liabilities related to restoration of stores in connection with a termination of a lease is added to the cost if the liabilities are provided for.

The basis of depreciation is cost less estimated residual value after the shorter of estimated useful life or the terms of respective leases, if applicable.

At the inception of a lease, the Executive Management assesses and determines the lease term, which could include periods under the exercise of renewal options that are reasonably assured and at the Group's sole discretion.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is recorded using the straight-line method on the basis of the following estimated useful lives of the assets:

- Leasehold improvement; Lease term or a maximum of 10 years
- Store furniture; a maximum of 5 years
- Other fixtures and equipment; 3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Leases
Lease agreements in which a substantial portion of the risks and benefits from the ownership are transferred to the Group are classified as finance lease. Other leases are classified as operating leases.

The cost of assets held under finance leases is stated at the lower of fair value of the asset and the net present value of future minimum lease payments.

When calculating the net present value, the interest rate implicit in the lease or an approximated rate is applied as the discount rate.

Assets under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

When entering into lease agreements, management considers the substance of the contract in order to determine whether the agreement is a lease or a service contract. Particular emphasis is put on whether the fulfilment of the agreement is attached to a specific asset.

Contingent (sale based) rentals arising under operating leases are recognised as an expense in the same period as the corresponding sales.

The aggregated benefit of any lease incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Significant accounting estimates and judgments
If there is any indication that an asset may be impaired, the value in use of the asset is estimated and compared with the current value. The value in use calculation is based on the discounted cash flow method using estimates of future cash flows from the continuing use of the asset. The key parameters are expected utilisation of the asset, expected growth in cash flow in the terminal period etc. All these parameters are based on estimates of the future and may give rise to changes in future accounting periods.

Estimates are required in assessing the useful lives of tangible assets. These assumptions are based on the Executive Management's best estimate of the useful life of the asset and its residual value at the end of the useful life.

The impairment test of property, plant and equipment resulted in a recognition of an impairment loss of DKK 16.4m relating to stores in Germany, France, the United States, the Netherlands and the UK (2017: DKK 12.7m).

3.2 Property, plant and equipment (continued)

DKKm	Leasehold improvements	Store furniture	Other equipment	Assets under construction	Total
2018					
Cost 01.01.	588.9	413.6	153.4	-	1,155.9
Exchange rate adjustment	(0.1)	(2.0)	(0.2)	(0.1)	(2.4)
Additions	134.5	67.5	38.5	1.9	242.4
Transfer	4.8	(28.0)	25.1	0.6	2.5
Disposals	(10.7)	(8.3)	(2.2)	-	(21.2)
Cost 31.12.	**717.4**	**442.8**	**214.6**	**2.4**	**1,377.2**
Depreciation 01.01.	(215.1)	(221.6)	(88.4)	-	(525.1)
Exchange rate adjustment	0.7	1.2	0.6	-	2.5
Depreciation	(91.2)	(71.3)	(34.9)	-	(197.4)
Impairment losses	(11.0)	(2.4)	(3.0)	-	(16.4)
Transfer	(1.3)	10.1	(10.2)	-	(1.4)
Disposals	7.6	7.0	1.6	-	16.2
Depreciation 31.12.	**(310.3)**	**(277.0)**	**(134.3)**	**-**	**(721.6)**
Carrying amount 31.12.	**407.1**	**165.8**	**80.3**	**2.4**	**655.6**
2017					
Cost 01.01.	477.6	360.1	129.5	-	967.2
Exchange rate adjustment	(7.5)	(4.1)	(1.1)	-	(12.7)
Additions	133.2	65.1	35.3	-	233.6
Transfer	(0.2)	0.2	-	-	-
Disposals	(14.2)	(7.7)	(10.3)	-	(32.2)
Cost 31.12.	**588.9**	**413.6**	**153.4**	**-**	**1,155.9**
Depreciation 01.01.	(135.8)	(162.4)	(63.4)	-	(361.6)
Exchange rate adjustment	1.4	2.3	0.9	-	4.6
Depreciation	(75.3)	(67.8)	(35.2)	-	(178.3)
Impairment losses	(12.2)	(0.5)	-	-	(12.7)
Disposals	6.8	6.8	9.3	-	22.9
Depreciation 31.12.	**(215.1)**	**(221.6)**	**(88.4)**	**-**	**(525.1)**
Carrying amount 31.12.	**373.8**	**192.0**	**65.0**	**-**	**630.8**

Net loss from selling or scrapping property, plant and equipment amounts to DKK 4.2m (2017: DKK 5.7m).

The carrying amount of assets under finance lease amount to DKK 11.9m (2017: DKK 22.1m) which is made up of Leasehold improvements DKK 0.6m (2017: DKK 0.8m), Store furniture DKK 10.8m (2017: DKK 15.1m) and Other equipment DKK 0.5m (2017: DKK 6.3m).

3.2 Property, plant and equipment (continued)

Operating leases

DKKm	2018	2017
Non-cancellable operating lease commitments		
Not later than 1 year	742.9	653.6
1-5 years	1,227.2	1,214.0
Later than 5 years	178.2	220.0
Total	**2,148.3**	**2,087.6**

The Group has a large number of individual leases. The leases are mainly for stores, offices and office equipment etc. with lease terms up to 10 years, of which several include renewal options. The increase in commitments in 2018 is mainly related to opening of new stores.

Lease payments recognised in the income statement relating to operating leases amount to DKK 945.3m (2017: DKK 857.6m). Contingent (sale-based) rent included in lease payments amounts to DKK 37.4m (2017: DKK 23.9m).

3.3 Investment in joint ventures

Accounting policies
An investment is considered a joint venture when Zebra and a third party have joint control of the arrangement and have right to the net assets of the arrangement. Joint control exists when all significant decisions require the unanimous consent of Zebra and the other party.

Investments in joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment in joint ventures is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group’s share of profit or loss of the investee after the date of acquisition. The Group´s investments in joint ventures include goodwill identified on acquisition.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint ventures are recognised in the Group´s consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale.

Significant accounting estimates and judgments
The carrying amount of the investment (including goodwill) is tested annually for impairment. Any impairment loss recognised forms part of the carrying amount of the investment.

The estimated future free net cash flows are based on budget for 2019 and business plans and projections for 2020–2023.

Key parameters are revenue development, profit margins, proposed capital expenditure and growth expectations for the following years. Key factors that could trigger an impairment test include a macro economy downscaling and changes to the competitive environment.

A discount rate of 7.5% is used to calculate recoverable amounts, representing the weighted average cost of capital pre-tax. The discount rate reflects current market assessments of the time value of money and the risks specific to the assets.

Zebra Japan K.K.
The investment in joint ventures has in 2018 and 2017 consisted of the investment in Zebra Japan K.K., which markets and sells products from Flying Tiger Copenhagen on the Japanese market. Zebra's ownership interest has been 50% in the whole period.

Zebra appoints two out of four members of the Board of Directors. The Board of Directors makes decisions on all material matters, and all decisions require three-quarter majority. The joint venture contract includes a future right for Zebra to acquire all shares in Zebra Japan K.K. as well as put and call options depending on certain financial targets. None of these rights are exercisable at the balance sheet date.

The impairment test of the investment in Zebra Japan K.K. did not show any need for impairment losses to be recognised. In the Executive Management's opinion, no probable change in key assumptions mentioned above will cause significant impairment losses.

3.3 Investment in joint ventures (continued)

DKKm	2018	2017
Cost 01.01.	53.1	53.1
Cost 31.12.	**53.1**	**53.1**
Adjustment 01.01.	(27.0)	(22.6)
Exchange rate adjustment	(2.1)	2.3
Share of loss for the year after tax	(6.4)	(6.7)
Adjustment 31.12.	**(35.5)**	**(27.0)**
Carrying amount 31.12.	**17.6**	**26.1**

Summarised financial information in respect of the Group´s joint venture Zebra Japan K.K. is set out below. The summarised financial information below represents amounts shown in the joint venture´s financial statements prepared in accordance with the IFRS, adjusted by the Group for equity accounting purposes.

DKKm	2018	2017
Revenue	257.2	271.7
EBITDA	3.8	6.5
Amortisation and depreciation	(16.2)	(19.7)
Loss for the year	(12.7)	(13.5)
Total comprehensive income	(12.7)	(13.5)
Non-current assets	71.3	73.5
Current assets	93.1	87.4
Non-current liabilities	16.9	14.8
Current liabilities	152.0	138.1
Equity	(4.5)	8.0
Net working capital	20.7	39.6
Number of stores	26	23

3.4 Inventories

Accounting policies
Inventories consist of finished goods purchased for resale and include costs incurred in bringing the goods to their existing location and condition, e.g. delivery costs as well as freight and handling costs. Inventories are measured at the lower of cost using the FIFO method and net realisable value.

The net realisable value of inventories is calculated as the estimated selling price less costs incurred to execute sale.

Significant accounting estimates and judgments
The value used in the lower of cost and net realisable value is subject to the effects of customer demands and preferences as well as the broader economy. These effects are not controllable by the Executive Management.

The Executive Management continuously reviews inventory levels to identify obsolete and slow-moving inventory items, as these factors can indicate a decline in inventory value. Estimates are required in respect of assessing future customer demands and preferences as well as the broader economy.

At 31 December 2018, the inventory write-down amounts to DKK 227.5m (2017: DKK 60.8m). The increase in inventory write-down is mainly related to an extraordinary write-down based on management's assessment of inventory level and net realisation value taking the transformation plan into account, which includes fewer store openings, and the extraordinary circumstances around the fire on the Maersk vessel.

DKKm	2018	2017
Finished goods	1,482.3	1,073.1
Write-downs	(227.5)	(60.8)
Total	**1,254.8**	**1,012.3**
Write-downs 01.01.	(60.8)	(131.1)
Write-downs, during the year	(204.8)	(34.7)
Write-downs, utilised during the year	22.0	97.7
Write-downs, reversed during the year	16.1	7.3
Writedowns 31.12.	**(227.5)**	**(60.8)**

The carrying amount of inventories at fair value less cost to sell amounts to DKK 80.8m (2017: DKK 62.4m).

3.5 Other provisions

Accounting policies
Provisions are recognised where a legal or constructive obligation has incurred as a result of past events, it is probable that it will lead to an outflow of financial resources, and the amount can be estimated reliably.

Provisions are measured on the basis of Management's best estimate of the expected expenditure required to settle the obligation. Provisions are discounted if the effect is material to the measurement of the liability.

Provisions are made for obligations to restore leased premises to their original condition at the end of the respective lease terms. The corresponding costs are capitalised as part of the cost of leasehold improvements and are depreciated over the shorter of the term of the lease or the useful life of the assets.

DKKm	2018	2017
Provisions 01.01.	36.0	20.7
Provisions, during the year	25.0	16.2
Provisions, utilised	(0.2)	(0.6)
Provisions, reversed during the year	(2.2)	(0.3)
Provisions 31.12.	**58.6**	**36.0**
Non-current provisions	25.0	20.3
Current provisions	33.6	15.7
Total	**58.6**	**36.0**

Other provisions relate mainly to restoration obligations in connection with vacating leased premises and to onerous contracts for leased premises. Other provisions also include an estimated contribution to damage and salvage costs from a fire on the container carrier Maersk Honam in March 2018.

The expected costs and timing are by nature uncertain. No provisions are discounted as the impact is considered insignificant.

3.6 Other payables

Accounting policies
Other payables which include debt to public authorities, employee costs payable and accruals etc. are measured at amortised cost.

DKKm	2018	2017
VAT and other indirect taxes	148.3	157.1
Employee costs	204.4	181.4
Other	111.9	76.6
Total	**464.6**	**415.1**

3.7 Working capital changes

DKKm	2018	2017
Change in inventories	(410.5)	1.9
Change in other receivables	(13.8)	17.7
Change in prepayments	(9.9)	(5.8)
Change in lease incentives	0.7	8.8
Change in trade payables	341.0	53.4
Change in other payables	30.6	15.8
Total	**(61.9)**	**91.8**

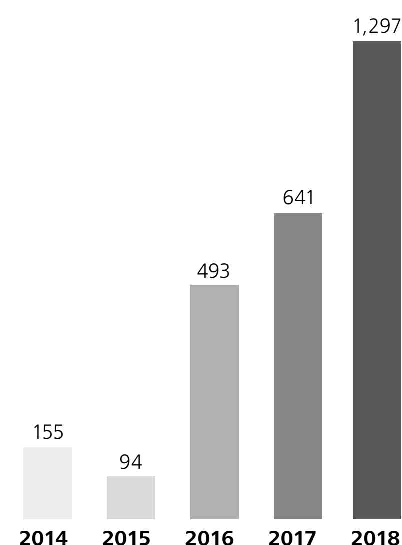
Section 4 Capital structure and financing

This section

Note 4.1 Share capital
Note 4.2 Pro forma adjusted equity
Note 4.3 Financial assets and liabilities
Note 4.4 Financial risk management
Note 4.5 Provisions for the acquisition of non-controlling interests
Note 4.6 Net financials
Note 4.7 Liabilities arising from financing activities

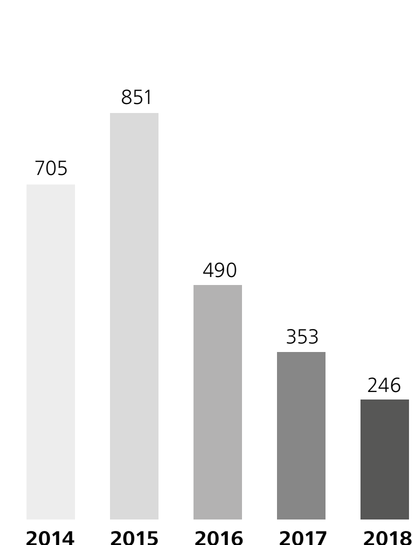
This section provides insights into Zebra's capital structure, including financial risk management, provisions for acquisition of non-controlling interests and net financials.

Net interest-bearing debt (DKKm)



The provisions for the acquisition of non-controlling interests have decreased since 2015 due to takeovers of partnerships.

Provisions for the acquisition of non-controlling interests (DKKm)



4.1 Share capital

The share capital consists of shares at DKK 0.1 or multiples thereof.

The shares have been divided into classes:

Class A	3,368,891
Class B	897,965
Class C	897,965
Class D	31,534
Class E	26,235

Special economical rights and special voting rights apply to the different share classes.

Changes in share capital in the past five financial years:

	DKK '000
Share capital at 1 January 2014	515
Capital increase 2015	2
Capital increase 2016	0
Capital increase 2017	5
Capital increase 2018	0
Share capital at 31 December 2018	**522**

4.2 Pro forma adjusted equity

The reported IFRS equity includes the accounting impacts from certain fully consolidating entitles where local partners have an ownership interest of 50%, cf. note 1.2.

For these entities, the Group has entered into put and call options with the non-controlling interests. The put option gives the non-controlling shareholder the right to sell its non-controlling interests to the Group at a defined exercise price, cf. note 4.5. In accordance with IFRS, the put options over shareholdings held by non-controlling interests are included as a provision in the financial statements until exercised or lapsed. Consequently, no non-controlling interests (minority interests) for these fully consolidated entities are recognised at the reporting date but only a provision (or a deferred consideration if a call or put option is exercised and consideration not yet paid).

The call options over the non-controlling shareholdings are measured at fair value with adjustments over profit or loss from 1 January 2018 according to IFRS 9.

A number of call and put options have been exercised, giving rise to recognition of deferred considerations or cash outflow for the acquisition of non-controlling interests. Under the accounting policies of the Group changes in the value of these liabilities, including differences upon settlement, are accounted for as a transaction directly in equity.

The equity analysis below illustrates on a pro forma basis the development of the equity adjusted for the impact from realised or potential acquisition of non-controlling interests on an accumulated basis.

DKKm	2018	2017	2016	2015	2014
Pro forma equity adjusted for impact from realised or potential acquisition of non-controlling interests					
Pro forma adjusted equity 01.01.	819.2	882.3	789.5	622.1	393.8
Total comprehensive income for the year before fair value adjustments of call options, net of tax	(280.6)	(47.9)	100.9	183.1	238.8
Share capital increase	2.7	23.9	2.0	16.9	-
Dividend paid to non-controlling interests	(43.5)	(39.1)	(47.0)	(33.0)	(11.0)
Other movements	6.1	-	36.9	0.4	0.5
Pro forma adjusted equity 31.12.	**503.9**	**819.2**	**882.3**	**789.5**	**622.1**
Impact on reported equity from realised or potential acquisition of non-controlling interests					
Fair value of call options, non-current assets	450.2	-	-	-	-
Provision for the acquisition of non-controlling interests, non-current	(245.6)	(343.4)	(377.9)	(647.6)	(638.5)
Provision for the acquisition of non-controlling interests, current	-	(9.1)	(112.4)	(203.1)	(66.3)
Deferred considerations, non-current	(7.3)	(120.3)	(150.9)	(31.9)	-
Deferred considerations, current	(92.6)	(267.5)	(5.9)	-	-
Cash flow used for acquisition of non-controlling interests (accumulated)	(587.3)	(299.7)	(258.8)	(37.2)	(16.8)
Accumulated fair value adjustment 31.12.	**(482.6)**	**(1,040.0)**	**(905.9)**	**(919.8)**	**(721.6)**
Reported IFRS equity 31.12.	**21.3**	**(220.8)**	**(23.6)**	**(130.3)**	**(99.5)**

4.3 Financial assets and liabilities

Accounting policies
Loans and receivables
Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. For loans and receivables that are subject to IFRS 9, the expected credit loss model is applied to calculate impairment losses over the life of the receivables.

Cash and cash equivalents
Cash and cash equivalents comprises short term cash in hand, bank deposits and credit card receivables less any drawings on credit facilities that are an integral part of the cash management.

Finance lease
The residual finance lease obligation is measured at amortised cost. Lease payments are allocated between the lease obligation and finance expenses so that a constant rate of interest is recognised on the outstanding finance balance.

Bank debt and other financial liabilities
Bank debt and other financial liabilities are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method. The difference between proceeds and the nominal value is recognised as a financial expense over the term of the loan. Other debt is recognised at amortised costs. If the loan terms of borrowings are modified, it is considered to result in an extinguishment of the initial borrowings. The cash flows of the modified borrowings are discounted at the original interest rate, and an immediate loss is recognised in profit and loss at the date of the modification.

Derivative financial instruments
Derivative financial instruments consist of interest rate and currency instruments such as forward contracts, interest and currency swaps, options and similar products as well as call options over the non-controlling shareholdings. Please see note 4.4 for further information.

Significant accounting estimates and judgments
The maturity analysis is based on all undiscounted cash flows, including estimated interest payments, which are estimated based on the current market conditions.

The undiscounted cash flows from derivative financial instruments are presented in gross amounts. The contractual cash flows for the acquisition of non-controlling interests are based on estimated redemption amounts, as set out in note 4.5.

DKKm	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total contractual cash flows	Carrying amount
2018					
Financial liabilities					
Bank debt	570.8	1,208.5	-	1,779.3	1,665.6
Provisions for the acquisition of non-controlling interests	-	286.2	-	286.2	245.6
Loans provided by shareholders of non-controlling interests	27.5	14.4	2.8	44.7	44.7
Finance leases	5.4	6.5	-	11.9	10.9
Deferred considerations	92.6	7.3	-	99.9	99.9
Financial derivative instruments	0.8	-	-	0.8	0.8
Other non-current liabilities	-	30.7	-	30.7	30.7
Trade payables	913.2	-	-	913.2	913.2
Income tax payables	17.5	-	-	17.5	17.5
Other payables	464.6	-	-	464.6	464.6
Total	**2,092.4**	**1,553.6**	**2.8**	**3,648.8**	**3,493.5**

4.3 Financial assets and liabilities (continued)

DKKm	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total contractual cash flows	Carrying amount
2017					
Financial liabilities					
Bank debt	69.6	1,082.5	-	1,152.1	1,097.0
Provisions for the acquisition of non-controlling interests	10.0	395.8	-	405.8	352.5
Loans provided by shareholders of non-controlling interests	41.5	3.5	-	45.0	45.0
Finance leases	9.5	11.3	-	20.8	18.6
Deferred considerations	267.5	120.3	-	387.8	387.8
Financial derivative instruments	45.7	-	-	45.7	45.7
Other non-current liabilities	-	-	22.0	22.0	22.0
Trade payables	529.7	-	-	529.7	529.7
Income tax payables	24.6	-	-	24.6	24.6
Other payables	415.1	-	-	415.1	415.1
Total	**1,413.2**	**1,613.4**	**22.0**	**3,048.6**	**2,938.0**

Fair value of financial assets and liabilities is approximately equal to the carrying amount in both 2018 and 2017.

Financial risk management

The nature of the Group's operations, investment and financing exposes the Group to financial risks in the form of changes in foreign exchange rates and interest levels as well as credit risks and liquidity risks. The financial risks are monitored and managed by Zebra's Group Treasury. Please see note 4.4 for further information.

The Group's general policy with respect to financial risks is that they should be proactively addressed in order to mitigate the risk of material impacts to the financial situation of the Group, which could negatively influence the operations. It is the Group's policy not to engage in active speculation in financial risks.

4.4 Financial risk management

Accounting policies
The Group is exposed to financial risks due to the nature of operating, investing and financing activities. The primary financial risks are currency risk, interest rate risk, liquidity risk and credit risk. Financial risks are monitored and managed by Group Treasury based on the treasury policy. The treasury policy is reviewed and approved annually by the Board of Directors.

It is Group policy not to take speculative positions. Currency and interest rate risks are managed by the use of interest rate and currency instruments such as forward contracts, interest rate and currency swaps, options and similar products.

Call options over the remaining ownership interests in certain subsidiaries
The Parent is granted call options over the non-controlling interests. These options are measured at fair value through profit or loss.

Hedging instruments
The Group designates certain derivatives as cash flow hedges of highly probable future forecast transactions related to procurement. At inception of the hedge relationship, the Group documents the economic relationship between hedge instruments and the hedged items, including whether changes in the cash flow of the hedging instruments are expected to offset changes in the cash flows of hedged items.

On initial recognition, financial instruments are measured at fair value at the transaction date. After initial recognition, financial instruments are measured at fair value at the balance sheet date. The fair value of financial instruments is measured at fair value in accordance with level 2 (on observable data) according to the fair value hierarchy. The derivatives are not traded on an active market based on quoted prices, but are individual contracts. The fair value of these contracts is determined using valuation techniques that utilise market-based data such as exchange rates, interest rates, credit risk and volatilities. The positive or negative fair value of derivatives is recognised in the balance sheet.

The Group designates both the change in the spot component as well as the forward element of the contract as the hedging instrument. The effective portion of changes in fair value of financial instruments classified as and satisfying the conditions for effective hedging of future transactions is recognised in other comprehensive income.

Amounts accumulated in equity are reclassified to profit or loss in the same period as the effect from the hedged items. Initially hedging gains and losses are included in the cost of inventory and subsequently affect profit or loss through cost of sales.

Hedging instruments that do not satisfy the conditions for treatment as hedging instruments are measured at their fair value, with fair value adjustments being recognised, on an ongoing basis, in the income statement under financial income or financial expenses.

Significant accounting estimates and judgments
The fair value of the call option is equal to the estimated market value of the underlying asset at the balance sheet date less the estimated exercise price of the call option, assuming notice of exercise is given at the balance sheet date.

The estimated exercise price of the call option is based on the same assumptions and calculation methods as used for estimating the value of the provision for acquisition of non-controlling interests.

The fair value of the call options is based on input measured in accordance with level 3 (non-observable data) and level 2 (observable data) in the fair value hierarchy using projected results derived from approved budgets and agreed EBITDA multiple, external market data and expected vesting periods.

The fair value of the call options at effective transfer date might materially vary from the fair value of the call options if:

- The timing of the utilisation of the call options differs from the assumptions applied,
- The put option is utilised rather than the call option
- The actual results of the respective subsidiary companies vary from the Executive Management´s projections, or
- The EBITDA multiples of the peer group differs at effective transfer date.

The value of the call option is sensitive to the development in EBITDA multiples of the relevant peer group. If the average EBITDA multiple increases/decreases by 1.0x, then the value will change by DKK +76.9m / DKK -76.0m.

4.4 Financial risk management (continued)

Call options over the remaining ownership interests in certain subsidiaries

The fair value adjustment includes the effect from change in the estimated present value of the expected cash outflows to purchase the remaining ownerships as well as the change in the market multiples.

In 2018 Zebra acquired ownership of two partnerships relating to Spain (Tiger Stores Spain 6, S.L.) and Wales (Tiger Cardiff Ltd.), exercising the related call options.

The fair value of the call options over the remaining ownership interests in certain subsidiaries has been included in the line item Financial derivative instruments under non-current assets.

DKKm	2018
Balance 01.01.	702.8
Utilisation of call options	(29.4)
Fair value adjustment	(223.2)
Balance 31.12.	**450.2**

Foreign currency risk

Cash flow hedges

It is the Group's policy to hedge approximately 90%, 80%, 70% and 60% of the currency risk associated with procurement for the following 1-3 months, 4-6 months, 7-9 months and 10-12 months respectively. It is further the policy to hedge confirmed future payments related to procurement in full.

Hence, all open foreign exchange contracts at 31 December 2018 have a maturity of less than 1 year.

Forward exchange contracts – USD	1-3 months	4-6 months	7-9 months	10-12 months
2018				
Contract value (DKKm)	536.1	278.8	254.6	136.4
Weighted average hedged rate (DKK/USD)	6.20	6.21	6.21	6.34
2017				
Contract value (DKKm)	445.0	253.5	300.8	159.8
Weighted average hedged rate (DKK/USD)	6.64	6.32	6.20	6.15

The forward exchange contracts are denominated in the same currency as the highly probable future inventory purchases (USD), which is why the hedge ratio is 1:1.

4.4 Financial risk management (continued)

DKKm	2018	2017
Forward exchange contracts - USD		
Carrying amount included in line item 'Derivative financial instruments' under current assets	42.5	-
Carrying amount included in line item 'Derivative financial instruments' under current liabilities	(0.8)	(45.7)
Net carrying amount	**41.7**	**(45.7)**
Fair value adjustment recognised in other comprehensive income	51.9	(69.4)

DKKm	2018	2017
Cash flow hedge reserve 01.01.	(19.8)	34.3
Change in fair value of cash flow hedges recognised in other comprehensive income	66.7	(101.6)
Reclassified to the cost of inventory	(6.1)	5.0
Reclassified to profit or loss	(8.7)	27.2
Tax on cash flow hedges	(11.4)	15.3
Cash flow hedge reserve 31.12.	**20.7**	**(19.8)**

Hedge ineffectiveness
The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated.

There was no ineffectiveness during 2018 or 2017 in relation to the cash flow hedges.

4.4 Financial risk management (continued)

Currency exposure
The Group's most material exchange rate risk is the exposure to the purchase of goods invoiced in USD. The Group's exposure to currency fluctuations in foreign subsidiaries is to some extent mitigated by the fact that both revenue and local costs of the individual subsidiaries are denominated in the same currencies. Exposure to currency fluctuations in subsidiaries primarily relates to the foreign subsidiaries' purchase of goods from Zebra A/S in DKK. The income statement is affected by changes in exchange rates, as the profit of foreign subsidiaries is translated into Danish kroner using average exchange rates.

An average exchange rate for the month is used at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date.

Please find below a table of the impact on profit for the year and equity from change in the Group's primary currencies adjusted for hedge accounting:

Exchange rate analysis

DKKm	Change in exchange rate	2018* Profit before tax	2018* Equity	2017 Profit before tax	2017 Equity
USD	(10)%	9.9	(76.2)	8.4	(82.5)
USD	10%	(9.9)	76.2	(8.4)	82.5
GBP	(10)%	1.6	(5.6)	0.0	4.7
GBP	10%	(1.6)	5.6	(0.0)	(4.7)
EUR	(1)%	(1.2)	(2.8)	0.3	4.0
EUR	1%	1.2	2.8	(0.3)	(4.0)
SEK	(10)%	(0.6)	(0.6)	(0.9)	0.0
SEK	10%	0.6	0.6	0.9	(0.0)
PLN	(10)%	(1.3)	(1.3)	(1.8)	(1.8)
PLN	10%	1.3	1.3	1.8	1.8

*Includes fair value of call options in 2018.

The analysis is based on monetary assets and liabilities as of the end of 2018 and 2017. The movements arise from monetary items (cash, borrowings, receivables, payables and hedging instruments) where the functional currency of the entity is different to the currency that the monetary items are denominated in.

Interest rate risk
The Group is exposed to interest rate risk because entities in the Group borrow funds at variable interest rates. The risk is monitored by Group Treasury in order to maintain an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts.

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

The Group's interest-bearing financial assets are limited to cash holdings.

Interest-bearing financial liabilities relate to bank loans and borrowings, loans provided by shareholders of non-controlling interests and finance leases, as set out in note 4.3.

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming that the amount of the outstanding liability at the end of the reporting period was outstanding for the whole year.

A change in interest levels will impact the Group's cash holdings, bank debt and borrowings that are subject to variable interest rates. An increase in interest levels of 1 percentage point annually compared to the interest rates at 31 December 2018 would have a negative impact of DKK 13.0m on the Group's profit for the year and equity (2017: negative impact of DKK 6.3m). A corresponding decrease in interest levels would have a negative impact of DKK 3.8m on the Group's profit for the year and equity (2017: negative DKK 4.7m).

4.4 Financial risk management (continued)

Liquidity risk
Liquidity risk results from the Group's inability to cover its financial liabilities with cash. Please refer to note 4.3. Group Treasury is responsible for monitoring and mitigating liquidity risk. This is done by ensuring adequate liquidity resources are available to the Group. The Group's liquid reserves consist of cash, undrawn committed and uncommitted credit facilities.

According to the Group's policy, cash can only be placed in bank deposits with banks with the highest credit rating. 100% owned subsidiaries can place surplus cash with Zebra A/S either through a cash pool setup or directly with Zebra A/S outside a cash pool.

The availability of cash and cash equivalents held in subsidiaries that are less than 100% owned by the Group is restricted to the extent that non-controlling interests in the respective subsidiaries hold dividend rights over available liquidity.

Zebra A/S has an external credit facility in place totaling DKK 2,050m. In March 2019 the terms of the facilities were amended in connection with additional equity injection from the owners. Consequently, the amortisation is designed such that DKK 225m matures in 2019, DKK 225m in 2020 and DKK 1,600m matures in 2021. The credit facility is subject to a number of undertakings, financial covenants and other restrictions.

Financial covenants consist of nominal EBITDA level, a leverage cover, an interest cover and certain capex limitations. Financial covenants are calculated on a last-twelve month basis. In the event of default under the credit facility agreement debt including accrued interest could be declared immediately due and payable.

Credit risk
The Group's sales to customers are mainly cash sales, which limits the credit risk in the Group.

Optimising the capital structure
The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net interest-bearing debt and equity of the Group, comprising issued capital, reserves and retained earnings.

The Group is not subject to any externally imposed capital requirement.

Fair value measurements using significant unobservable inputs (level 3)
The below table shows the changes in level 3 items for the periods ended 31 December 2018 and 31 December 2017:

DKKm	**Provsion for the acqusition of non-controlling interests (liability)**	**Call options over the remaining ownership interests in certain subsidiaries (asset)**
Opening balance 01.01.2017	490.3	-
Utilisation	(286.2)	-
Fair value adjustment recognised in equity	148.5	-
Exchange rate adjustment	(0.1)	-
Closing balance 31.12.2017	352.5	-
Effect of change in accounting policies related to call options	-	702.8
Opening balance 01.01.2018	352.5	702.8
Utilisation	(15.0)	(29.4)
Fair value adjustment recognised in equity	(92.8)	-
Fair value adjustment recognised in profit or loss	-	(223.2)
Exchange rate adjustment	0.9	-
Closing balance 31.12.2018	**245.6**	**450.2**

4.5 Provisions for the acquisition of non-controlling interests

Accounting policies

The Group has entered into put and call options with non-controlling interests of certain Group entities. The put option gives the non-controlling shareholder the right to sell its non-controlling interest to the Group at a defined exercise price that reflects an EBITDA multiple. At the same time, Zebra A/S has call options over the non-controlling shareholdings with exercise prices reflecting EBITDA multiples that differ from those relevant for the aforementioned put options.

Provisions for the acquisition of non-controlling interests are measured at fair value in accordance with the anticipated acquisition method, i.e. as if the put options have been exercised at year-end in the current financial year. The fair value is determined by means of the estimated present value of the expected cash outflows to settle the put options or the call options where Zebra A/S has exercised its call options. The fair value is measured in accordance with level 3 (non-observable data) in the fair value hierarchy and is based on projected results derived from the approved budget, agreed EBITDA multiples and assuming that the put options are exercised by the non-controlling interests at year-end in the current financial year.

In line with the nature of the put options, the liabilities are classified as non-current liabilities, except for payments due within one year of exercised options, which are classified as current liabilities. Changes in the value of these liabilities, as well as differences upon settlement between the actual cash outflow and the expected cash outflows, are accounted for as a transaction directly in equity.

Subsidiaries whose non-controlling shareholdings are subject to put options are fully consolidated. The non-controlling ownership interest, which is subject to the put option, is reclassified as a liability at the end of the reporting period, as if the acquisition took place at that date.

Significant accounting estimates and judgments

The exercise prices are determined by contractually defined EBITDA multiples for both the put and call options calculated on realised financial figures for two financial years adjusted for the net interest-bearing debt and normalised net working capital adjustments as of the effective date.

The calculation of the provisions for the put options is based on the general assumption that all the local partners exercise their put options at year-end in the current financial year with the contractually determined notice period of 12 months.

In accordance with IFRS, the put option over shareholdings held by non-controlling interest is included as a provision in the financial statements as the estimated present value of the expected cash outflows to settle the liability based on projected results and based on the mentioned general assumption on collective exercise at 31 December 2018.

The actual cash outflows might materially vary from the valuation of the provisions for the acquisition of non-controlling interests if:

- The timing of the actual acquisition of the non-controlling interest differs from the assumptions applied,
- The additional ownership interest is acquired by exercise of the aforementioned call option rather than the non-controlling shareholders´ respective put option, or
- The actual results of the respective subsidiary companies vary from the Executive Management´s projections.

The discount rate of 11.4% (2017: 10.1%) applied in discounting the expected cash outflows is based on an interest rate that reflects the current market assessment of the time value of money, taking into account the expected settlement of these liabilities, and the risk specific to the non-controlling interest.

DKKm	**2018**	**2017**
Balance 01.01.	352.5	490.3
Exchange rate adjustment	0.9	(0.1)
Utilisation of provision to acquire non-controlling interests resulting in a deferred consideration	(6.8)	(258.9)
Utilisation of provision to acquire non-controlling interests paid upfront	(8.2)	(27.3)
Fair value adjustment	(92.8)	148.5
Balance 31.12.	**245.6**	**352.5**
Non-current provisions for the acquisitions of non-controlling interests	245.6	343.4
Current provisions for the acquisitions of non-controlling interests	-	9.1
Total	**245.6**	**352.5**

4.5 Provisions for the acquisition of non-controlling interests (continued)

In 2018 Zebra acquired ownership of two partnerships relating to Spain (Tiger Stores Spain 6, S.L.) and Wales (Tiger Cardiff Ltd.).

In 2017 Zebra acquired full ownership of six partnerships relating to partners in Poland (Tiger Poland 2 Sp. z.o.o.), Germany (Tiger Retail Germany 04 GmbH and Tiger Retail Germany 05 GmbH), Northern Ireland (TGR Stores (NI) Ltd.), Ireland (Tiger Retail Ireland Ltd) and Italy (Tiger Italia 1, S.r.l.).

DKKm	2018	2017
Deferred considerations 01.01.	387.8	156.8
Additions	6.8	258.9
Settlements paid during the period	(279.4)	(13.6)
Fair value adjustment	(15.3)	(14.3)
Deferred considerations 31.12.	**99.9**	**387.8**
Non-current deferred considerations	7.3	120.3
Current deferred considerations	92.6	267.5
Total	**99.9**	**387.8**

4.6 Net financials

Accounting policies

Financial income comprises interest receivable, realised and unrealised capital gains on payables and transactions in foreign currencies as well as tax relief under the Danish Tax Payment Scheme. Also included are realised and unrealised gains on derivative financial instruments that are not designated as hedges.

Financial expenses comprise interest payable, realised and unrealised capital losses on payables and transactions in foreign currencies as well as tax surcharge under the Danish Tax Payment Scheme. Also included are realised and unrealised losses on derivative financial instruments that are not designated as hedges.

DKKm	2018	2017
Financial income		
Interest on financial assets measured at amortised cost	0.2	0.5
Gains on derivative financial instruments not designated as hedges	0.8	0.5
Other financial income	0.4	-
Total	**1.4**	**1.0**
Financial expenses		
Bank charges*	17.2	17.9
Interest on financial liabilities measured at amortised cost	71.5	33.1
Losses on derivative financial instruments not designated as hedges	0.7	1.2
Exchange rate adjustments, net	8.8	4.0
Other financial expenses	2.3	1.6
Total	**100.5**	**57.8**
Net financials	**(99.1)**	**(56.8)**

*Bank charges mainly include letter of credit fees as well as bank commitment fees.

4.7 Liabilities arising from financing activities

Accounting policies

Cash flows from financing activities comprise dividend paid, proceeds and repayments of loans and borrowings, changes in non-controlling interest ownership and share capital increase.

Liabilities arising from financing activities comprise loans provided by shareholders of non-controlling interests, bank debt, finance leases and deferred considerations and provisions related to acquisitions of non-controlling interests.

The below table shows the changes of liabilities arising from financing activities specified on cash flows and non-cash changes:

DKKm	Liabilities 01.01.	Cash movements	Fair value movements	Other non-cash movements	Exchange rate adjustment	Liabilities 31.12.
2018						
Financial liabilities						
Loans provided by shareholders of non-controlling interests	45.0	5.8	-	(6.0)	(0.1)	44.7
Bank debt	1,097.0	541.5	-	26.4	0.7	1,665.6
Finance leases	18.6	(7.7)	-	-	-	10.9
Deferred considerations	387.8	(279.4)	(15.3)	6.8	-	99.9
Provision for the acquisition of non-controlling interests	352.5	(8.2)	(92.8)	(6.8)	0.9	245.6
Total	**1,900.9**	**252.0**	**(108.1)**	**20.4**	**1.5**	**2,066.7**

DKKm	Liabilities 01.01.	Cash movements	Fair value movements	Other non-cash movements	Exchange rate adjustment	Liabilities 31.12.
2017						
Financial liabilities						
Loans provided by shareholders of non-controlling interests	45.3	-	-	-	(0.3)	45.0
Bank debt	994.6	101.5	-	3.1	(2.2)	1,097.0
Finance leases	19.5	(19.5)	-	19.5	(0.9)	18.6
Deferred considerations	156.8	(13.6)	(14.3)	258.9	-	387.8
Provision for the acquisition of non-controlling interests	490.3	(27.3)	148.5	(258.9)	(0.1)	352.5
Total	**1,706.5**	**41.1**	**134.2**	**22.6**	**(3.5)**	**1,900.9**

Section 5 Other disclosures

This section

Note 5.1 Fees to statutory auditor
Note 5.2 Related parties
Note 5.3 Guarantee commitments and contingent liabilities
Note 5.4 Events after the balance sheet date
Note 5.5 List of group companies

This section includes other statutory notes not related to the previous sections including a list of group companies.

52
(2017: 55)
Total number of Group companies

28
(2017: 30)
50% owned companies

24
(2017: 25)
Fully owned companies

5.1 Fees to statutory auditor

DKKm	**2018**	**2017**
EY		
Statutory audit of financial statements	5.3	4.5
Other assurance engagements	2.5	0.5
Tax advisory services	1.9	1.5
Other services	6.7	6.4
Total	**16.4**	**12.9**

5.2 Related parties

Related parties exercising control
Zebra A/S is subject to controlling influence by Zebra Lux Holding S.à.r.l., 23 rue Aldringen, L-1118, Luxembourg, which holds 67.4% of the share capital.

Zebra A/S has registered the following shareholders who hold 5% or more of the share capital:
- Zebra Lux Holding S.à.r.l., 23 rue Aldringen, L-1118 Luxembourg
- Mitco ApS, c/o Piaster Revisorerne, Abildgårdsparken 8A, 3460 Birkerød.

During 2018 and 2017 there were no transactions with these related parties.

Balances and transactions between Zebra A/S and its subsidiaries, which are related parties of Zebra A/S, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Related parties exercising significant influence
Related parties in Zebra A/S with significant influence include the Group's Executive Management and Board of Directors and their close relatives. Related parties also comprise companies in which these individuals have material interests.

Members of the Board of Directors and key management personnel acquired shares in Zebra A/S of DKK 2.7m in 2018 (2017: DKK 23.9m).

In 2018 one member of the Board of Directors received a consultancy fee of DKK 0.4m (2017: DKK 0m) for work related to a specific project.

Other than these transactions and remuneration as set out in note 2.2, there has been no trading with members of key management personnel or their close relatives.

Joint ventures
The related parties of Zebra A/S also included the joint venture in which the company participates, Zebra Japan K.K.

During the year, the Group received royalty and service fees in the amount of DKK 12.9m from the joint venture company (2017: DKK 14.9m) and sold goods for an amount of DKK 58.2m (2017: DKK 68.4m) to the joint venture company.

At 31 December 2018, the joint venture company owed the Group DKK 3.8m (2017: DKK 2.8m). All amounts outstanding are unsecured and will be settled in cash.

The Group has provided a guarantee to Zebra Japan K.K.'s bank which amounts to a maximum of DKK 85.7m (2017: DKK 80.0m). At 31 December 2018 the guaranteed amount constituted DKK 65.0m (2017: DKK 60.6m).

5.3 Guarantee commitments and contingent liabilities

Litigation
A few legal proceedings are pending which are not estimated to result in significant losses to the Group, other than what has been provided for in the financial statements.

Other guarantees
The Group has provided a guarantee to the joint venture Zebra Japan K.K.'s bank which amounts to a maximum of DKK 85.7m (2017: DKK 80.0m). At 31 December 2018 the guaranteed amount constituted DKK 65.0m (2017 DKK 60.6m).

In addition, the Group has guaranteed or provided gurarantees for banking facilities, etc. for subsidaries amounting to a total of DKK 105.7m (2017: DKK 61.8m).

Contractual obligation
The Group is obligated to contribute to the expected damage and salvage costs from a fire on the container carrier Maersk Honam in March 2018. Apsen Insurance UK Ltd has, on behalf of the Group, provided guarantees to relevant parties (vessel owners, average adjusters, salvage contractors, etc) amounting to a total of DKK 8.5m (2017: DKK 0m) in order to release the Group's cargo on the container carrier Maersk Honam that caught fire in March 2018. Consequently, the Group is under contractual obligation to indemnify Aspen Insurance UK Ltd for claims made under their guarantees related to the Maersk Honam matter. The final settlement is expected within three to five years and is not expected to result in a significant cost other than what has been provided for under other provisions.

In addition to the lease commitments disclosed in note 3.2, the contractual obligations related to service contracts amounted to DKK 33.0m (2017: DKK 39.2m). Aside from liabilities recognised in the balance sheet, no significant losses are expected to incur as a result of contractual obligations.

5.3 Guarantee commitments and contingent liabilities (continued)

Pledged assets
A letter of indemnity (company charge) of nominal DKK 30.0m (2017: DKK 30.0m) has been deposited by the Group as security for the Group's bank debt.

Bank debt is secured by a mortgage of nominal DKK 25.0m deposited by the Group on assets, including the Group's goodwill, leasehold rights, furniture including store furniture (2017: DKK 25.0m).

The foreign-owned entities' bank debt is secured by mortgages on their movable equipment and inventory of a total nominal amount of DKK 56.0m (2017: DKK 63.1m).

The carrying amounts of the above-mentioned pledged assets are stated below:

DKKm	2018	2017
Pledged assets		
Goodwill	12.5	12.5
Leasehold rights	18.1	17.9
Trademarks	0.6	0.6
Leasehold improvements	124.3	123.9
Store furniture	41.4	60.5
Other equipment	22.1	17.1
Inventories	886.0	744.1
Receivables	3.8	2.8
Total	**1,108.8**	**979.4**

5.4 Events after the balance sheet date

On March 2019 a new A1 preference share class was created. In total 3,396,585,686 shares of DKK 0.1 nominal value each was issued to Zebra Lux Holding S.a.r.l., increasing the share capital with DKK 339.7m and with a share premium of DKK 14.6m.

Besides this, no other events have occurred after the balance sheet date that have a material impact on the financial position of the Group.

5.5 List of group companies

Investments in group companies comprise the following at 31 December 2018.

Name	Home	Year of establishment	Ownership interest
Tiger Ísland ehf.	Reykjavík, Iceland	2001	100%
Tiger Retail Ltd.	London, England	2005	100%
Tiger Deutschland GmbH	Flensburg, Germany	2007	100%
Tiger Stores Nederland B.V.	Amsterdam, the Netherlands	2008	100%
Tiger Stores Spain, S.L.	Madrid, Spain	2008	100%
TZ-shops South Sweden AB	Malmö, Sweden	2008	100%
SIA Tiger Shop	Riga, Latvia	2009	50%
UAB Tiger Shop	Vilnius, Lithuania	2010	50%
Tiger Hellas S.A.	Thessaloniki, Greece	2010	50%
Tiger Italia 1, S.r.l.	Turin, Italy	2011	100%
Tiger Warsaw Sp. Z.o.o.	Warszawa, Poland	2011	100%
Tiger Retail Ireland Ltd.	Dublin, Ireland	2011	100%
TGR Norge AS	Oslo, Norway	2011	50%
TZ Stores Ltd.	Edinburgh, Scotland	2011	100%
Tiger Stores OY	Espoo, Finland	2011	100%
Zebra Japan K.K.	Tokyo, Japan	2011	50%
HK China Trading Holding Ltd.	Hong Kong	2012	100%
Tiger Italy 2, S.r.l.	Bologna, Italy	2012	50%
TGR Stores (NI) Ltd.	Omagh, Northern Ireland	2012	100%
Tiger Portugal S.A.	Charneca de Caparica, Portugal	2012	50%
Tiger Carnarias, S.L.	Las Palmas, Spain	2013	50%
Tiger South Spain, S.L.	Malaga, Spain	2013	50%
Tiger Italy 3, S.r.l.	Bologna, Italy	2013	50%
Tiger Stores North West Spain, S.L.	La Coruña, Spain	2013	50%
Tiger Cardiff Ltd.	Newport, Wales	2013	100%
Tiger Stores Spain 6, S.L.	Madrid, Spain	2013	100%
Tiger U.K. (Midlands) Ltd.	Glostershire, England	2013	50%
Tiger Stores Belgium, BVBA	Antwerp, Belgium	2013	50%
Sp/f Tiger Førorar	Torshavn, Faroe Islands	2013	100%
Tiger Stores Austria GmbH	Wien, Austria	2014	50%
Tiger Stores Belgium 2 SPRL	Namur, Belgium	2014	50%
Tiger Stores Cyprus Limited	Nicosia, Cyprus	2014	50%
Tiger Czech Republic s.r.o.	Prague, Czech Republic	2014	50%
Tiger Stores OU Estonia	Tallinn, Estonia	2014	50%
Tiger Stores Spain 5, S.L.	Bilbao, Spain	2014	50%
Tiger Stores France SAS	Nice, France	2014	50%
Tiger Poland 2 Sp. z. o. o.	Poznan, Poland	2014	100%
Tiger Stores France 2 SAS	Paris, France	2014	50%
Tiger Stores France 4 SAS	Paris, France	2014	50%
Zebra US Holding, Inc.	Delaware, United States	2014	100%
Tiger Retail East Coast, LLC	New York, United States	2014	100%
Tiger Stores Slovakia S.R.O.	Bratislava, Slovakia	2014	50%
Tiger North Ltd.	Birmingham, England	2015	100%
Tiger Stores Hungary Zrt.	Budapest, Hungary	2015	50%
Tiger Stores (Malta) Limited	Valletta, Malta	2015	50%
Tiger Stores (Switzerland AG)	Luzern, Switzerland	2016	50%
Flying Tiger Korea Chusik Hoesa	Seoul, South Korea	2016	50%
Zebra Trading (Shanghai) Co., Ltd	Shanghai, China	2017	100%
Zebra Stores New England, LLC	Delaware, United States	2017	50%
Zebra US Franchisor, LLC	Delaware, United States	2018	100%
Zebra US Supplier, LLC	Delaware, United States	2018	100%
Zebra Canada Retail Holding Inc	New Brunswick, Canada	2018	100%

The voting interests correspond to ownership interests. Please refer to note 1.2 regarding consolidation of 50% ownership interests.

During 2018 all group companies in Germany were merged into one with Tiger Deutchland GmbH as the continuing company and the two group companies in Sweden have been merged into one with TZ-shops South Sweden AB as the continuing company.

Definition of key figures and ratios

The figures and ratios have been compiled based on the following definitions and formulas:

Gross margin = $\frac{\text{Gross profit x 100}}{\text{Revenue}}$

EBITDA margin before special items = $\frac{\text{EBITDA before special items}}{\text{Revenue}}$

Net interest-bearing debt = Bank debt + Loans provided by shareholders of non-controlling interests + Finance lease – Cash and cash equivalents

Adjusted profit for the year = Profit for the year adjusted for write-downs and scrappings, special items after tax and fair value adjustment of call options

Adjusted profit margin = $\frac{\text{Adjusted profit for the year}}{\text{Revenue}}$

Comparable store sales growth

• *Comparable store sales include the following:*
– Stores open for at least 18 full months at the reporting date.
– Stores that have been expanded but not changed significantly in size.
– Stores that are relocated but remain within the same trade area, and are not changed significantly in size.

• *Comparable store sales exclude the following:*
– If a store is closed for refurbishment, it is excluded in the months during which the store is closed plus one full calendar month following reopening.
– If a store is relocated within the same trade area and the original store remains temporarily open, the original store will be excluded from the month where the new store opens.
– If the opening of a new store significantly cannibalises surrounding stores' performance over a 6-month period, the existing store will be excluded for 18 months from the month where the new store opens.

• *Comparable store sales growth excludes foreign currency translation effects.*

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Income statement – Parent

1 January - 31 December

DKKm	Note	2018	2017
Revenue	2.1	2,701.7	2,328.8
Cost of sales		(2,273.6)	(1,816.4)
Gross profit		**428.1**	**512.4**
Other external expenses		(348.1)	(334.6)
Staff costs	2.2	(317.2)	(283.2)
Impairment loss on receivables from subsidiaries	3.4	(17.9)	-
Other operating income		(0.9)	8.7
EBITDA before special items		**(256.0)**	**(96.7)**
Amortisation and depreciation		(50.2)	(44.7)
Operating profit/(loss) (EBIT) before special items		**(306.2)**	**(141.4)**
Special items	2.3	(98.6)	(42.1)
Operating loss (EBIT)		**(404.8)**	**(183.5)**
Income from investments in subsidiaries		67.4	78.3
Financial income	4.4	12.7	22.5
Financial expenses	4.4	(105.7)	(41.3)
Fair value adjustment of call options		(223.2)	-
Loss before tax		**(653.6)**	**(124.0)**
Tax on loss for the year	2.4	92.4	40.1
Loss for the year		**(561.2)**	**(83.9)**
Proposed appropriation of loss for the year:			
Retained earnings		(561.2)	(83.9)
		(561.2)	**(83.9)**

Statement of other comprehensive income – Parent

DKKm	Note	2018	2017
Loss for the year (brought forward)		**(561.2)**	**(83.9)**
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange hedging instruments:			
- Realised in inventories		(6.1)	5.0
- Realised in cost of sales		(8.7)	27.2
- Fair value adjustments		66.7	(101.6)
Tax on hedging instruments		(11.4)	15.3
Other comprehensive income		**40.5**	**(54.1)**
Total comprehensive income for the year		**(520.7)**	**(138.0)**

Balance sheet – Parent

31 December

Assets

DKKm	**Note**	**2018**	**2017**
Intangible assets	3.1	264.9	245.2
Property, plant and equipment	3.2	56.1	51.1
Investment in subsidiaries and joint ventures	3.3	766.5	740.0
Receivables from subsidiaries	3.4	100.9	48.0
Deposits		18.4	17.6
Derivative financial instruments	4.3	450.2	-
Deferred tax	2.4	176.2	93.7
Non-current assets		**1,833.2**	**1,195.6**
Inventories	3.5	825.3	685.4
Receivables from subsidiaries	3.4	332.2	264.5
Receivables from joint ventures		3.8	2.8
Derivative financial instruments	4.3	42.5	-
Other receivables		30.7	21.4
Prepayments		9.7	6.8
Cash and cash equivalents		18.9	22.1
Current assets		**1,263.1**	**1,003.0**
Assets		**3,096.3**	**2,198.6**

Balance sheet – Parent

31 December

Equity and liabilities

DKKm	Note	2018	2017
Share capital	4.1	0.5	0.5
Currency hedging reserve		20.7	(19.8)
Development costs reserve		148.8	134.5
Retained earnings		166.5	41.4
Equity		**336.5**	**156.6**
Other provisions	3.6	17.4	12.3
Bank debt	4.2, 4.5	1,126.1	1,014.6
Deferred considerations	4.2	7.3	120.3
Other non-current liabilities	4.2	1.3	2.1
Non-current liabilities		**1,152.1**	**1,149.3**
Other provisions	3.6	0.9	-
Bank debt	4.2, 4.5	459.0	-
Trade payables	4.2	807.0	401.1
Amounts payable to subsidiaries	4.2, 4.5	147.0	96.7
Deferred considerations	4.2	92.6	267.5
Derivative financial instruments	4.2	0.8	45.7
Other payables	3.7, 4.2	100.4	81.7
Current liabilities		**1,607.7**	**892.7**
Liabilities		**2,759.8**	**2,042.0**
Equity and liabilities		**3,096.3**	**2,198.6**

Statement of changes in equity – Parent

DKKm	Share capital	Currency hedging reserve	Development costs reserve	Retained earnings	Total
2018					
Equity at 31.12.2017	**0.5**	**(19.8)**	**134.5**	**41.4**	**156.6**
Effect of change in accounting policies related to call options	-	-	-	702.8	702.8
Effect of change in accounting policies related to impairment of intercompany loans and receivables	-	-	-	(4.9)	(4.9)
Equity at 01.01.	**0.5**	**(19.8)**	**134.5**	**739.3**	**854.5**
Loss for the year	-	-	-	(561.2)	(561.2)
Other comprehensive income for the year, net of tax	-	40.5	-	-	40.5
Capitalised development costs	-	-	14.3	(14.3)	-
Transactions with owners:					
Share capital increase	0.0	-	-	2.7	2.7
Equity at 31.12.	**0.5**	**20.7**	**148.8**	**166.5**	**336.5**
2017					
Equity at 01.01.	**0.5**	**34.3**	**88.8**	**147.1**	**270.7**
Loss for the year	-	-	-	(83.9)	(83.9)
Other comprehensive income for the year, net of tax	-	(54.1)	-	-	(54.1)
Capitalised development costs	-	-	45.7	(45.7)	-
Transactions with owners:					
Share capital increase	0.0	-	-	23.9	23.9
Equity at 31.12.	**0.5**	**(19.8)**	**134.5**	**41.4**	**156.6**

Cash flow statement – Parent

DKKm	Note	2018	2017
Operating profit/(loss) (EBIT) before special items		**(306.2)**	**(141.4)**
Depreciation and amortisation		50.2	44.7
Special items paid		(82.0)	(34.1)
Working capital changes	3.8	(63.0)	57.9
Other non-cash adjustments		172.9	(82.1)
Interest income received		11.8	8.8
Interest expenses paid		(50.2)	(33.6)
Taxes paid/received		(1.5)	5.8
Cash flows from operating activities		**(268.0)**	**(174.0)**
Investment in intangible assets		(50.8)	(77.5)
Sale of intangible assets		-	1.3
Investment in property, plant and equipment		(23.8)	(10.0)
Sale of property, plant and equipment		-	0.6
Investment in subsidiaries		(288.8)	(40.9)
Loans to subsidiaries		(47.4)	(54.2)
Dividend from subsidiaries		67.4	78.3
Change in deposits		(0.8)	(0.9)
Cash flow from investing activities		**(344.2)**	**(103.3)**
Free cash flow		**(612.2)**	**(277.3)**
Share capital increase		2.7	23.9
Proceeds from loans and borrowings	4.5	606.3	182.8
Cash flow from financing activities		**609.0**	**206.7**
Increase in cash and cash equivalents		**(3.2)**	**(70.6)**
Cash and cash equivalents at 1 January		22.1	92.7
Cash and cash equivalents at 31 December		**18.9**	**22.1**

Unutilised credit facilities for the Parent Company were DKK 215.4m at 31 December 2018 (2017: DKK 229.9m).
The cash flow cannot be derived directly from the income statement and the balance sheet.

1.1 General accounting policies

Accounting policies
The financial statements for Zebra A/S have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements applying to companies of reporting class C (large). Zebra A/S is a public limited company registered in Denmark.

The Parent generally applies the same accounting policies for recognition and measurement as the Group. Cases in which the Parent´s accounting policies differ from those of the Group are described below. For a detailed specification of the Parent´s accounting policies, please see note 1.1 to the consolidated financial statements.

Cases in which the Parent´s accounting policies differ from those of the Group
Foreign currency translation
Currency adjustments of receivables from or payables to subsidiaries which are considered part of the Parent´s total investment in the relevant subsidiary are recognised in profit or loss in financial income or financial expenses. In the consolidated financial statements, the currency adjustment is recognised in other comprehensive income.

Investment in subsidiaries and joint ventures in the Parent financial statements
Investments in subsidiaries and joint ventures are measured at cost in the Parent financial statements. If cost exceeds the recoverable amount of the investments, the investments are written down to such lower amount.

In connection with sale of investments in subsidiaries and joint ventures, profits or losses are calculated as the difference between the carrying amount of the investments sold and the fair value of the sales proceeds.

Reserve for capitalised developments costs
In accordance with the amended Danish Financial Statements Act, the Parent has established a non-distributable reserve in equity covering development costs capitalised in 2016 and later less amortisation and tax.

Implementation of new or amended standards and interpretations
In addition to the impact described in note 1.1 to the consolidated financial statements, the separate financial statements for Zebra A/S have been impacted by the adoption of the 'expected credit loss' (ECL) model in IFRS 9 in relation to impairment of intercompany loans and receivables.

As IFRS 9 has been adopted without restating comparative information, an increase of DKK 4.9m in the allowance for impairment of intercompany loans and receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9. Please see note 1.3 to the Parent financial statements for an overview of the changes to the opening balance sheet.

Following the adoption of IFRS 9, the parent has adopted consequential amendments to IAS 1 'Presentation of Financial Statements', which require impairment of financial assets to be presented in a separate line item in income statement. Previously, the Parent's approach was to include the impairment of intercompany trade receivables in the line item 'Other external expenses'. There was no impairment of intercompany trade receivables in 2017, which is why there are no changes to the comparative figures. Impairment losses on intercompany loans are presented under finance expenses similar to the presentation under IAS 39. The amount of impairment losses on intercompany loans are specified in note 3.4 to the Parent financial statements.

1.2 Significant accounting estimates and judgments

The Executive Management regards the following as the significant accounting estimates and assumptions used in the preparation of the Parent financial statements:

Recoverable amount of investments in subsidiaries and joint ventures
All subsidiaries and joint ventures of the Group are considered independent cash-generating entities. If there is any indication of impairment of the carrying amount (cost) of investments in subsidiaries or joint ventures, the impairment loss is determined based on the calculation of the value-in-use of the relevant entity.

If dividends distributed exceed the comprehensive income of the relevant entity in the period for which dividend is distributed, this is considered an indication of impairment. If, in the consolidated financial statements, write-down of goodwill attributable to a subsidiary or a joint venture is recognised, this is also considered an indication of impairment.

Other significant accounting estimates, assumptions and uncertainties
For a description of other significant accounting estimates, assumptions and uncertainties, please refer to note 1.2 to the consolidated financial statements.

1.3 Changes to the opening balance as of 1 January 2018

IFRS 9 has been adopted without restating the comparative information. The reclassifications and adjustments arising from the adoption of IFRS 9 are therefore not reflected in the balance sheet as of 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

DKKm	31 Dec 2017 as originally presented	IFRS 9 changes	1 Jan 2018 restated
Derivative financial instruments	-	702.8	702.8
Receivables from subsidiaries	48.0	6.2	54.2
Non-current assets	**1,195.6**	**709.0**	**1,904.6**
Receivables from subsidiaries	264.5	(11.1)	253.4
Current assets	**1,003.0**	**(11.1)**	**991.9**
Assets	**2,198.6**	**697.9**	**2,896.5**
Retained earnings	41.4	697.9	739.3
Total equity	**156.6**	**697.9**	**854.5**
Equity and liabilities	**2,198.6**	**697.9**	**2,896.5**

The IFRS 9 changes relate to the fair value measurement of the call options over the remaining ownership interests in certain subsidiaries and the impairment losses of intercompany loans and receivables following the adoption of the 'expected credit loss' model.

2.1 Revenue

Accounting policies

The Parent designs and purchases the goods for the whole Group and sells the goods to all the group entities. Sales are recognised when control of products has transferred upon delivery to the group entity. Delivery occurs when the goods have been shipped from the central warehouses.

Revenue is recognised based on the price specified in the invoice. No element of financing is deemed present as the sales are made with a credit term of mainly 14 days.

A receivable is recognised when the goods are delivered. Please refer to note 3.4 for information on receivables from subsidiaries and recognition of impairment losses.

The Parent operates the Group's retail stores in Denmark. Please refer to note 2.1 to the consolidated financial statements for more information.

DKKm	2018	2017
Retail sale	513.7	505.6
Wholesale, affiliated entities	2,188.0	1,823.2
Total	**2,701.7**	**2,328.8**

2.2 Staff costs

DKKm	2018	2017
Salaries and wages	283.9	254.7
Pension contributions	27.6	24.0
Other social security costs	3.1	2.1
Other staff costs	14.5	14.4
Total	**329.1**	**295.2**
Capitalised salaries and wages related to development projects	(11.9)	(12.0)
Recognised in the income statement	**317.2**	**283.2**
Average number of full-time equivalents	**619**	**613**
Remuneration for the Executive Management and the Board of Directors		
Total remuneration, Executive Management*	10.6	17.8
Total remuneration, Board of Directors	1.8	1.5
Total	**12.4**	**19.3**
Remuneration for the Executive Management and the Board of Directors		
Salaries and wages*	11.4	18.5
Pensions	1.0	0.8
Total	**12.4**	**19.3**

*Includes severance payments.

In addition to the above mentioned, one member of the Board of Directors received a consultancy fee of DKK 0.4m in 2018 (2017: DKK 0m) for work related to a specific project.

2.3 Special items

DKKm	2018	2017
Costs related to strategy project	62.2	18.8
Costs associated with the establishment of new management team	8.3	21.2
Costs related to acquisition of non-controlling interests	1.8	2.1
Costs related to the fire on the vessel Maersk Honam	20.7	-
Restructuring of subsidiaries	0.7	-
Implementation of GDPR	3.3	-
Establishment in new markets	1.6	-
Total	**98.6**	**42.1**

2.4 Income taxes and deferred tax

Tax costs

DKKm	2018	2017
Current tax	1.5	2.7
Change in deferred tax during the year	(95.0)	(41.7)
Adjustment to deferred tax concerning previous years	1.1	(1.1)
Total	**(92.4)**	**(40.1)**

Tax reconciliation

DKKm	2018	2017
Loss before tax	(653.6)	(124.0)
Calculated 22.0% on loss before tax	(143.8)	(27.3)
Tax effect from:		
Withholding taxes	1.5	-
Non-taxable income and non-deductible expenses	48.8	(11.7)
Adjustments concerning previous years	1.1	(1.1)
Total	**(92.4)**	**(40.1)**
Effective tax rate	**14.1%**	**32.3%**

Effective tax rate adjusted for non-taxable income from investments in subsidiaries is 12.8% (2017: 19.8%).

Deferred tax

DKKm	2018	2017
Deferred tax assets	176.2	93.7
Total	**176.2**	**93.7**

2.4 Income taxes and deferred tax (continued)

DKKm	Deferred tax 01.01.	Recognised in profit and loss	Recognised in other comprehensive income	Deferred tax 31.12.
2018				
Intangible assets	4.2	7.0	-	11.2
Property, plant and equipment	7.8	3.7	-	11.5
Inventories	12.0	37.1	-	49.1
Provisions etc.	5.9	6.9	-	12.8
Receivables from subsidaries	-	3.0	-	3.0
Foreign exchange hedging	5.6	-	(11.4)	(5.8)
Tax losses to be carried forward	57.5	32.9	-	90.4
Interest limitation balances	0.7	3.3	-	4.0
Deferred tax	**93.7**	**93.9**	**(11.4)**	**176.2**
2017				
Intangible assets	(1.8)	6.0	-	4.2
Property, plant and equipment	3.9	3.9	-	7.8
Inventories	25.5	(13.5)	-	12.0
Provisions etc.	8.7	(2.8)	-	5.9
Foreign exchange hedging	(9.7)	-	15.3	5.6
Tax losses to be carried forward	9.0	48.5	-	57.5
Interest limitation balances	-	0.7	-	0.7
Deferred tax	**35.6**	**42.8**	**15.3**	**93.7**

3.1 Intangible assets

DKKm	Goodwill	Leasehold rights	Trademarks	Licenses and software	Intangible assets in progress	Total
2018						
Cost 01.01.	12.5	16.1	0.8	243.0	19.3	291.7
Additions	-	1.7	-	13.5	-	15.2
Additions, internal development	-	-	-	27.9	7.7	35.6
Transfer	-	-	-	18.8	(18.8)	-
Cost 31.12.	**12.5**	**17.8**	**0.8**	**303.2**	**8.2**	**342.5**
Amortisation 01.01.	-	(8.0)	(0.1)	(38.4)	-	(46.5)
Amortisation	-	(0.9)	-	(30.2)	-	(31.1)
Amortisation 31.12.	**-**	**(8.9)**	**(0.1)**	**(68.6)**	**-**	**(77.6)**
Carrying amount 31.12.	**12.5**	**8.9**	**0.7**	**234.6**	**8.2**	**264.9**
2017						
Cost 01.01.	12.5	18.0	1.1	80.3	105.6	217.5
Additions	-	-	-	5.5	0.5	6.0
Additions, internal development	-	-	-	54.1	17.4	71.5
Transfer	-	-	-	104.2	(104.2)	-
Disposals	-	(1.9)	(0.3)	(1.1)	-	(3.3)
Cost 31.12.	**12.5**	**16.1**	**0.8**	**243.0**	**19.3**	**291.7**
Amortisation 01.01.	-	(8.2)	(0.1)	(13.0)	-	(21.3)
Amortisation	-	(0.9)	-	(25.4)	-	(26.3)
Disposals	-	1.1	-	-	-	1.1
Amortisation 31.12.	**-**	**(8.0)**	**(0.1)**	**(38.4)**	**-**	**(46.5)**
Carrying amount 31.12.	**12.5**	**8.1**	**0.7**	**204.6**	**19.3**	**245.2**

Net loss from disposals of intangible assets amounts to DKK 0m (2017: DKK 0.9m).

3.2 Property, plant and equipment

DKKm	Leasehold improvements	Store furniture	Other equipment	Total
2018				
Cost 01.01.	55.5	45.3	14.4	115.2
Additions	5.8	5.7	12.6	24.1
Disposals	(5.1)	(4.3)	-	(9.4)
Cost 31.12.	**56.2**	**46.7**	**27.0**	**129.9**
Depreciation 01.01.	(24.6)	(27.7)	(11.8)	(64.1)
Depreciation	(6.6)	(7.2)	(2.3)	(16.1)
Impairment losses	-	-	(2.3)	(2.3)
Disposals	4.7	4.0	-	8.7
Depreciation 31.12.	**(26.5)**	**(30.9)**	**(16.4)**	**(73.8)**
Carrying amount 31.12.	**29.7**	**15.8**	**10.6**	**56.1**
2017				
Cost 01.01.	52.1	43.3	22.5	117.9
Additions	6.2	3.8	0.2	10.2
Disposals	(2.8)	(1.8)	(8.3)	(12.9)
Cost 31.12.	**55.5**	**45.3**	**14.4**	**115.2**
Depreciation 01.01.	(20.2)	(21.8)	(16.8)	(58.8)
Depreciation	(6.4)	(7.2)	(3.2)	(16.8)
Disposals	2.0	1.3	8.2	11.5
Depreciation 31.12.	**(24.6)**	**(27.7)**	**(11.8)**	**(64.1)**
Carrying amount 31.12.	**30.9**	**17.6**	**2.6**	**51.1**

Net loss from selling or scrapping of property, plant and equipment amounts to DKK 0.7m (2017: DKK 0.7m).

3.2 Property, plant and equipment (continued)

Operating leases

DKKm	2018	2017
Non-cancellable operating lease commitments		
Not later than 1 year	68.9	58.2
1-5 years	85.6	90.8
Later than 5 years	-	0.9
Total	**154.5**	**149.9**

Operating leases relate to leases of stores, headquarters and equipment with lease terms up to 10 years.

Lease payments recognised in the income statement relating to operating leases amount to DKK 147.3m (2017: DKK 154.2m).
Contingent (sale-based) rent included in lease payments amounts to DKK 3.3m (2017: DKK 2.5m).

3.3 Investment in subsidiaries and joint ventures

Zebra Japan K.K.

The investment in joint ventures in 2017 and 2018 consisted of the investment in Zebra Japan K.K., which markets and sells products from Flying Tiger Copenhagen on the Japanese market.

The carrying amount of the investment is tested annually for impairment.

The impairment test did not show any need for additional impairment loss or reversal of the existing impairment losses recognised in prior years.

The applied assumptions are disclosed in note 3.3 to the Consolidated Financial Statements.

DKKm	Investment in subsidiaries	Investment in joint ventures	Total
2018			
Cost 01.01.	707.4	53.1	760.5
Additions	35.2	-	35.2
Cost 31.12.	**742.6**	**53.1**	**795.7**
Impairment losses 01.01.	(2.5)	(18.0)	(20.5)
Impairment losses	(8.7)	-	(8.7)
Impairment losses 31.12.	**(11.2)**	**(18.0)**	**(29.2)**
Carrying amount 31.12.	**731.4**	**35.1**	**766.5**
2017			
Cost 01.01.	434.4	53.1	487.5
Additions	273.0	-	273.0
Cost 31.12.	**707.4**	**53.1**	**760.5**
Impairment losses 01.01.	(2.5)	(18.0)	(20.5)
Impairment losses 31.12.	**(2.5)**	**(18.0)**	**(20.5)**
Carrying amount 31.12.	**704.9**	**35.1**	**740.0**

See note 5.5 to the consolidated financial statements for a list of Group companies.

3.4 Receivables from subsidiaries

Accounting policies
Receivables from subsidiaries consists of receivables from trade as well as intercompany loans and cash pools. The receivables are measured at amortised cost less expected lifetime credit losses.

The expected loss rates are based on days past due and whether a receivable concerns sale of goods or a loan. Current expectations and estimates of expected credit losses are furthermore based on historic impairment rates, change in debtor behaviour and current economic conditions.

Expected credit losses are based on an individual assessment of each receivable and at portfolio level.

As stated in note 1.1, Zebra A/S has adopted IFRS 9 as of 1 January 2018 and consequently, the Parent Company's trade receivables and intercompany loans must be evaluated in accordance with the new write-down requirements.

The adoption of IFRS 9 has been implemented without restating the comparative figures. The impairment losses in 2017 have therefore been measured using the incurred loss model under the former standard IAS 39 Financial Instruments. However, a total of DKK 4.9m on increase of impairment has been calculated based on IFRS 9 as a consequence of the transition as stated in note 1.3.

Impairment losses relating to trade receivables are deducted from the carrying amount and is recognised in the Income statement under other external expenses. Impairment losses relating to intercompany loans are deducted from the carrying amount and are recognised in the income statement under financial expenses.

Intercompany balances which are expected to be settled as part of the normal operating cycle, or where an unconditional right to defer settlement of the liability for at least twelve months after the reporting period do not exist, are classified as current assets.

Significant accounting estimates and judgments
If a subsidiary's financial conditions deteriorates, further impairment losses may be required in future periods. In assessing the adequacy of expected credit losses, Management analyses receivables, including overdue debt, current economic conditions and changes in debtor's payment behaviour.

		Due between (days)			
DKKm	**Not fallen due**	**1-30**	**31-90**	**>91**	**Total**
2018					
Intercompany loans (interest-bearing)	229.3	-	-	-	229.3
Trade receivables	136.5	46.1	33.1	33.8	249.5
Impairment losses	(22.2)	(7.6)	(9.7)	(6.2)	(45.7)
Receivables from subsidiaries	**343.6**	**38.5**	**23.4**	**27.6**	**433.1**
Proportion of the total receivables expected to be settled					90.5%
Impairment rate	6.1%	16.5%	29.3%	18.3%	9.5%
2017					
Intercompany loans (interest-bearing)	187.9	-	-	-	187.9
Trade receivables	43.0	34.6	43.0	13.5	134.1
Impairment losses	(9.5)	-	-	-	(9.5)
Receivables from subsidiaries	**221.4**	**34.6**	**43.0**	**13.5**	**312.5**
Proportion of the total receivables expected to be settled					97.0%
Impairment rate	4.1%	0.0%	0.0%	0.0%	3.0%

3.4 Receivables from subsidiaries (continued)

DKKm	2018	2017
Impairment losses on receivables from subsidiaries		
Impairment losses in accordance with IAS 39 at 1 January	(9.5)	(13.4)
Change in accounting policies	(4.9)	-
Impairment losses in accordance with IFRS 9 at 1 January	**(14.4)**	**(13.4)**
Foreign exchange adjustments		0.2
Reversed impairment losses	0.1	7.1
Impairment, during the year recognised in Income statement under 'Impairment loss on receivables from subsidiaries'	(17.9)	-
Impairment, during the year recognised in Income statement under 'Financial expenses'	(17.6)	(3.4)
Realised losses	4.1	-
Impairment losses, end of period	**(45.7)**	**(9.5)**

3.5 Inventories

DKKm	2018	2017
Finished goods	1,048.7	741.5
Write-downs	(223.4)	(56.1)
Total	**825.3**	**685.4**
Write-downs 01.01.	(56.1)	(138.2)
Write-downs, during the year	(184.2)	(17.0)
Write-downs, utilised during the year	16.9	99.1
Write-downs 31.12.	**(223.4)**	**(56.1)**

The carrying amount of inventories at fair value less cost to sell amounts to DKK 75.5m (2017: DKK 62.4m).

3.6 Other provisions

DKKm	2018	2017
Provisions 01.01.	12.3	12.1
Provisions, during the year	6.0	0.3
Provisions, reversed during the year	-	(0.1)
Provisions 31.12.	**18.3**	**12.3**
Non-current provisions	17.4	12.3
Current provisions	0.9	-
Total	**18.3**	**12.3**

Other provisions relate mainly to restoration obligations in connection with vacating leased premises and to an estimated contribution to damage and salvage costs from a fire on the container carrier Maersk Honam in March 2018. The expected costs and timing are by nature uncertain.
No provisions are discounted as the impact is considered insignificant.

3.7 Other payables

DKKm	2018	2017
VAT and other indirect taxes	6.8	14.5
Employee costs	46.2	47.7
Other	47.4	19.5
Total	**100.4**	**81.7**

3.8 Working capital changes

DKKm	2018	2017
Change in inventories	(307.1)	38.2
Change in receivables from subsidiaries	(101.7)	(19.0)
Change in receivables from joint ventures	(1.0)	0.8
Change in other receivables	(9.3)	23.4
Change in prepayments	(3.0)	1.1
Change in trade payables	368.5	33.8
Change in payables to subsidiaries	(11.9)	10.4
Change in other payables	2.5	(30.8)
Total	**(63.0)**	**57.9**

4.1 Share capital

Please refer to note 4.1 to the consolidated financial statements for information on share capital.

4.2 Financial liabilities

DKKm	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total contractual cash flows	Carrying amount
2018					
Financial liabilities					
Bank debt	513.5	1,185.9	-	1,699.4	1,585.1
Deferred considerations	92.6	7.3	-	99.9	99.9
Financial derivative instruments	0.8	-	-	0.8	0.8
Trade payables	807.0	-	-	807.0	807.0
Amounts payable to subsidiaries	147.0	-	-	147.0	147.0
Other payables	100.4	-	-	100.4	100.4
Total	**1,661.3**	**1,193.2**	**-**	**2,854.5**	**2,740.2**
2017					
Financial liabilities					
Bank debt	19.3	1,048.4	-	1,067.7	1,014.6
Deferred considerations	267.5	120.3	-	387.8	387.8
Financial derivative instruments	45.7	-	-	45.7	45.7
Trade payables	401.1	-	-	401.1	401.1
Amounts payable to subsidiaries	96.7	-	-	96.7	96.7
Other payables	81.7	-	-	81.7	81.7
Total	**912.0**	**1,168.7**	**-**	**2,080.7**	**2,027.6**

4.3 Financial derivative instruments

Accounting policies
The Parent has entered into forward exchange contracts to hedge USD exchange risk related to procurement.

Please refer to note 4.4 to the consolidated financial statements for more information regarding hedging instruments and financial risks.

The Parent is granted call options over the ownership interests (not held by the Parent) in certain local subsidiaries. These options are measured at fair value through profit or loss.

Please refer to note 4.4 to the consolidated statements for more information regarding measurement and presentation of call options over the remaining ownership interests in certain subsidiaries.

4.4 Net financials

DKKm	2018	2017
Financial income		
Interest on financial assets measured at amortised cost	-	0.3
Interest from subsidiaries	10.9	8.0
Commission fee from subsidiaries	0.5	0.5
Gains on derivative financial instruments not designated as hedges	0.8	0.5
Reversal of write-down of receivables from subsidiaries	0.1	7.1
Exchange rate adjustments, net	-	6.1
Other financial income	0.4	-
Total	**12.7**	**22.5**
Financial expenses		
Bank charges*	10.0	9.3
Interest on financial liabilities measured at amortised cost	66.6	27.4
Losses on derivative financial instruments not designated as hedges	0.7	1.2
Impairment losses on investment in subsidiaries	8.7	-
Write-down of receivables from subsidiaries	17.6	3.4
Exchange rate adjustments, net	2.1	-
Total	**105.7**	**41.3**
Net financials	**(93.0)**	**(18.8)**

*Bank charges mainly include letter of credit fees as well as bank commitment fees.

4.5 Liabilities arising from financing activities

The below table shows the changes of liabilities arising from financing activities specified on cash flows and non-cash changes:

DKKm	Liabilities 01.01.	Cash movements financing activities	Cash movements operating activities	Non-cash movements	Liabilities 31.12.
2018					
Financial liabilities					
Bank debt	1,014.6	544.1	-	26.4	1,585.1
Amounts payable to subsidiaries	96.7	62.2	(11.9)	-	147.0
Total	**1,111.3**	**606.3**	**(11.9)**	**26.4**	**1,732.1**
2017					
Financial liabilities					
Bank debt	912.1	99.4	-	3.1	1,014.6
Amounts payable to subsidiaries	2.8	83.4	10.5	-	96.7
Total	**914.9**	**182.8**	**10.5**	**3.1**	**1,111.3**

5.1 Fees to statutory auditor

DKKm	2018	2017
EY		
Statutory audit of financial statements	0.9	0.7
Other assurance engagements	2.4	0.4
Tax advisory services	1.8	1.2
Other services	6.0	5.6
Total	**11.1**	**7.9**

5.2 Related parties

Please refer to note 5.2 to the consolidated financial statements for information on related parties.

Subsidiaries and joint ventures
Refer to note 5.5 to the consolidated financial statements for a list of subsidiaries.

The Parent has had the following transactions with related parties:

DKKm	Subsidiaries	Joint ventures	Total
2018			
Sale of goods	2,112.2	58.2	2,170.4
Royalty and service fee	4.0	12.9	16.8
Dividends received	67.4	-	67.4
Interests	10.9	-	10.9
Commitment and facility fees on loans	0.5	-	0.5
2017			
Sale of goods	1,738.0	68.4	1,806.4
Royalty and service fee	1.8	14.9	16.7
Dividends received	78.3	-	78.3
Interests	2.0	-	2.0
Commitment and facility fees on loans	0.5	-	0.5

There have been no transactions with the controlling shareholder and companies owned or otherwise controlled by the shareholders.
Remuneration paid to key management personnel is included in note 2.2.

Amounts receivable/payable with related parties

DKKm	2018	2017
Current loans:		
Receivables from subsidiaries, non-current	100.9	48.0
Receivables from subsidiaries, current	332.2	264.5
Receivables from joint ventures	3.8	2.8
Payables to subsidiaries	(147.0)	(96.7)
Total	**289.9**	**218.6**

The amounts outstanding are unsecured and will be settled in cash. Please refer to note 3.4 regarding impairment loss on receivables from subsidiaries.

5.3 Guarantee commitments and contingent liabilities

Litigation
A few legal proceedings are pending which are not estimated to result in significant losses to the Parent, other than what has been provided for in the financial statements.

Other guarantees
The Parent has provided a guarantee to the Japanese joint venture's bank which amounts to a maximum of DKK 85.7m (2017: DKK 80.0m). At 31 December 2018 the guaranteed amount constituted DKK 65.0m (2017: DKK 60.6m).

The Parent has guaranteed or provided guarantees for banking facilities, etc. for subsidiaries amounting to a total of DKK 105.7m (2017: DKK 61.8m).

Contractual obligation
The Parent is obligated to contribute to the expected damage and salvage costs from a fire on the container carrier Maersk Honam in March 2018. Apsen Insurance UK Ltd has, on behalf of the Parent, provided guarantees to relevant parties (vessel owners, average adjusters, salvage contractors, etc) amounting to a total of DKK 8.5m (2017: 0m) in order to release the Parent's cargo on the container carrier Maersk Honam that caught fire in March 2018. Consequently, the Parent is under contractual obligation to indemnify Aspen Insurance UK Ltd for claims made under their guarantees related to the Maersk Honam matter. The final settlement is expected within three to five years and is not expected to result in a significant cost other than what has been provided for under other provisions.

In addition to the lease commitment disclosed in note 3.2, the contractual obligations related to service contracts amounted to DKK 26.3m (2017: DKK 34.0m). Aside from liabilities recognised in the balance sheet, no significant losses are expected to incur as a result of contractual obligations.

Pledged assets
A letter of indemnity (company charge) of nominal DKK 30.0m (2017: DKK 30.0m) has been deposited by the Parent as security for the Parent’s bank debt.

Bank debt is secured by a mortgage of nominal DKK 25.0m deposited by the Parent on assets, including the Parent’s goodwill, leasehold rights and furniture (2017: DKK 25.0m).

The carrying amount of pledged assets is stated below:

DKKm	2018	2017
Pledged assets		
Goodwill	12.5	12.5
Leasehold rights	8.9	8.1
Trademarks	0.7	0.7
Leasehold improvements	29.7	30.9
Other equipment	10.6	2.6
Store furniture	15.8	17.6
Inventories	825.3	685.4
Receivables	268.9	136.9
Total	**1,172.4**	**894.7**

5.4 Events after the balance sheet date

On March 2019 a new A1 preference share class was created. In total 3,396,585,686 shares of DKK 0.1 nominal value each was issued to Zebra Lux Holding S.a.r.l., increasing the share capital with DKK 339.7m and with a share premium of DKK 14.6m.

Besides this, no other events have occurred after the balance sheet date that have a material impact on the financial position of the Parent.

Management statement

The Board of Directors and the Executive Management have today discussed and approved the annual report of Zebra A/S for the financial year 2018.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and further disclosure requirements required according to the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2018, the results of the Group and Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018.

In our opinion, the Management review includes a fair review of the development in the Group's and the Parent Company's operations and financial conditions, the results for the year, cash flows and financial position as well as a description of the most significant risks and uncertainty factors that the Group and the Parent Company face.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 24 May 2019

Executive Management

Martin Jermiin
CEO

Christian Kofoed H. Jakobsen
CFO

Board of Directors

Vagn Ove Sørensen
Chairman

Jacob Bier
Vice Chairman

Lennart Lajboschitz

Mads Ditlevsen

Margaret McDonald

Matthias Wittkowski

Tore Thorstensen

Independent Auditor's report

To the shareholders of Zebra A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Zebra A/S for the financial year 1 January – 31 December 2018, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group as well as for the Parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on the Management's review

Management is responsible for the Management's review. Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the 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 additional requirements of 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 as to 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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism 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 Group's and the Parent 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 Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.

· Evaluate the overall presentation, structure and contents of the financial statements, including the note 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.

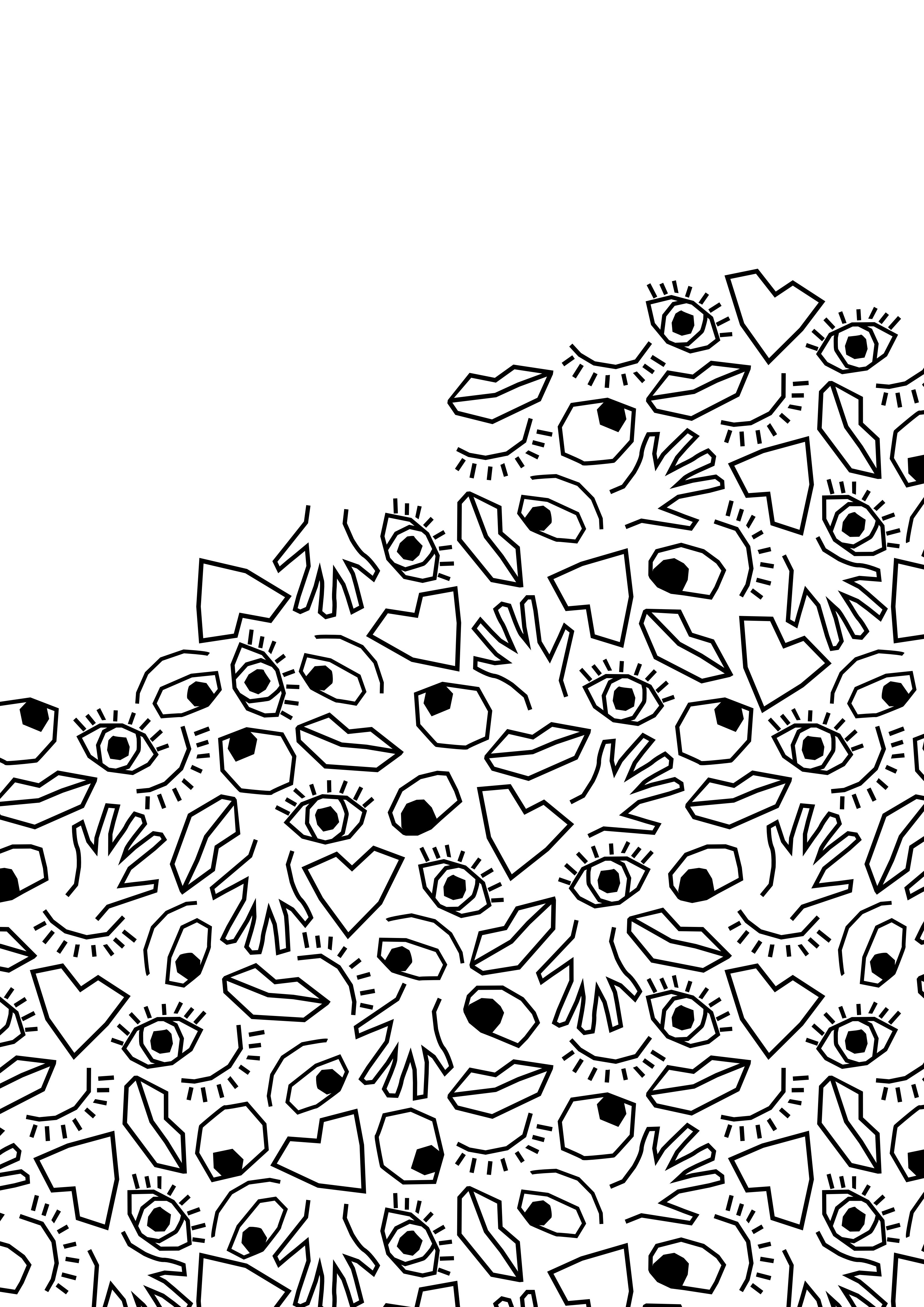
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 24 May 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender
State Authorised
Public Accountant
mne 21332

Thomas Bruun Kofoed
State Authorised
Public Accountant
mne 28677

Hair clip.
Assorted **DKK 15**



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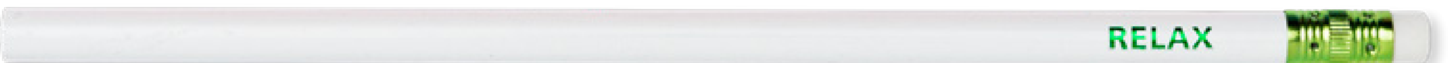

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