

Salling Group Ejendomme A/S

Rosbjergvej 33
DK-8220 Brabrand

Annual report

2018

CVR no. 21 50 38 94

The Annual report has been presented
and approved on the company's annual
general meeting at ³/₄ 2019



Chair

Table of contents

Page

Management's review

Financial highlights 1

Management's review 2

Statements

Management's statement 3

Independent auditors' report 4

Financial statements

Accounting policies 7

Income statement 10

Balance sheet 11

Statement of changes in equity 13

Notes to the financial statements 14

Financial highlights

DKK million	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Income from leaseholds	1,379	1,324	1,270	1,232	1,223
Result before financial items	673	1,540	813	1,013	862
Net financial items	-172	-149	-138	-70	-47
Result for the year	390	1,108	526	729	617
Total assets	12,304	12,189	15,165	15,115	14,443
Equity	2,297	2,130	4,983	4,616	3,868
Investment in property, plant and equipment	479	467	280	227	288
Profit margin (%)	48.8	116.3	64.0	82.2	70.5
Return on equity (%)	17.6	31.2	11.0	17.2	11.8

Profit margin is result before financial items divided by income from leaseholds.

Return on equity is the result for the year divided by the average equity (average of equity at the beginning of the year and at the end of the year).

Management's review

Primary business area

The company's primary business activity is leasing of property in Denmark to Salling Group A/S.

Development during the financial year

On 1 June 2018 the company changed its name from Dansk Supermarked Ejendomme A/S to Salling Group Ejendomme A/S. At the same time the parent company changed its name from Dansk Supermarked A/S to Salling Group A/S. With the name change it is emphasised that Salling Group is owned 100 % by the Salling Foundations, and that the profit from Salling Group is used for two purposes only: For reinvestment in better stores in order to give more value for customers and to create more jobs, and for donations from the Salling Foundations for good causes. Also the name change honours Salling Group's historical roots as a tribute to Salling Group's visionary founder, Herman Salling.

In 2018 the company has realised a result for the year after tax of DKK 390 million against a result after tax of DKK 1,108 million in 2017. In 2017 the result was positively impacted of a gain from sale of real estate.

The result for 2018 is in line with the expectations for the year.

Social responsibility

Salling Group Ejendomme A/S considers social responsibility to be important for the company. Salling Group Ejendomme A/S is included in Salling Group's report on social responsibility to which we refer.

Diversity in management

In Salling Group Ejendomme A/S the target regarding the gender constitution of the Board of Directors is to have one person of one gender and two persons of the other gender elected by the general meeting. Today, there are 3 members of the Board of Directors two of which are men elected by the general meeting and one is a woman. The target regarding the under-represented gender must not compromise other recruitment criteria.

Particular risks

The company's financial risk is primarily related to interest rate risk. The interest rate risk concerns the company's mortgage loans where the risk is hedged by interest rate swaps. The company has no other particular risks. The properties are rented out on contracts with long periods of irrevocability primarily to Salling Group A/S.

Expected development

The company expects that the result for the year 2019 will be in line with the result for the financial year 2018.

Management's statement

The Board of Directors and the Executive Board have today discussed and approved the annual report of Salling Group Ejendomme A/S for the financial year 1 January – 31 December 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the company's operations and financial matters and the results of the company's operations and financial position.

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

Brabrand, 5 April 2019

Executive Board



Jakob Røddik Thøgersen
CEO

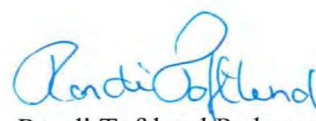
Board of Directors



Per Bank
Chairman



Jakob Røddik Thøgersen



Randi Toftlund Pedersen

Independent auditors' reports

To the shareholder of Salling Group Ejendomme A/S

Opinion

We have audited the financial statements of Salling Group Ejendomme A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the company at 31 December 2018, and of the results of the company's operations for the financial year 1 January – 31 December 2018 in accordance with 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 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 company 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.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with 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 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 company or to cease operations, or has no realistic alternative but to do so.

Independent auditors' report

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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditors' report

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.

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 form of 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 the work we have performed, 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 Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus C, 5 April 2019

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Henrik Kronborg Iversen
State Authorised Public Accountant
MNE no. mne24687



Morten Friis
State Authorised Public Accountant
MNE no. mne32732

Accounting policies

The annual report of Salling Group Ejendomme A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies are unchanged compared to last year.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a cash flow hedge are recognised in the equity, and are reclassified to the income statement in the periods when the hedged item affects the income statement. Changes in the fair value of other derivative financial instruments are recognised in the income statement. The positive and negative fair values of derivative financial instruments are included in other receivables or other payables, respectively.

Income statement

Rental income

Rental income from rental of the company's leasehold is recognised in the income statement during the rental period. Rental income is measured exclusive of VAT and taxes charged on behalf of third parties.

Financial items

Financial income and expenses comprise interest income and expense.

Tax on the result for the year

Tax on the result for the year comprises current tax for the year and adjustment in deferred tax.

The company is jointly taxed with the Danish companies in the Købmand Herman Sallings Fond Group. The tax effect of the joint taxation is allocated to Danish enterprises showing profits or losses in proportion to their taxable incomes (full allocation).

Accounting policies

Balance sheet

Intangible assets

Key money is measured at cost and is amortised on a straight-line basis based on an individual assessment over the estimated useful life, which in general is 3 – 10 years.

Property, plant and equipment

Land and buildings and leasehold improvements are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date, when the asset is available for use.

Assets are depreciated on a straight-line basis over their estimated useful lives to residual value as follows:

Buildings:	
Technical installations within the property	10 – 30 years
Foundation and bearing structure	80 years
Remaining property	40 years
Leasehold improvements	12 years

The residual values are reviewed at each financial year end and adjusted prospectively, if necessary.

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment is evaluated annually for indications of impairment.

If indications of impairment exist, tests are performed to determine whether recognition of impairment losses is necessary for individual assets as well as groups of assets. If the recoverable amount is lower than an asset's carrying amount, an impairment loss is recognised so that the carrying amount is reduced to the recoverable amount.

The recoverable amount is the higher value of an assets net sales price and its value in use. The value in use is assessed as the present value of the expected net cash flow from utilization of the asset or the group of assets and expected net cash flow from disposal of the asset or the group of assets after the end of the useful life.

Receivables

Receivables are measured at amortised cost price less write-down for expected loss.

Accounting policies

Equity – Dividend

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting. The expected dividend payment for the year is presented in a separate line item within equity.

Corporation tax and deferred tax

Corporation tax payable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Provision for deferred tax is made on differences between the accounting and tax values of assets and liabilities. Deferred tax assets are recognised at the value at which they are expected to be realised.

Liabilities other than provisions

Liabilities other than provisions are recognised as the net proceeds from the loan at the time of the raising of the loan. In the subsequent periods the debt is measured using amortisation of the cost price.

Other liabilities are measured at net realisable value.

Other provisions

Other provisions comprise onerous lease and rental contracts. Other provisions are recognised based on specific calculations.

Deferred income

Deferred income is measured at the consideration received or receivable.

Cash flow statement

The company is included in the consolidated financial statements for Salling Group A/S, Brabrand, and in accordance with section 86, paragraph 4 of the Danish Financial Statements Act no cash flow statement has been prepared.

Segment information

The company's main activity is leasing of property in Denmark to Salling Group A/S. The company has no other significant activities.

Income statement

DKK million

<u>Notes</u>	<u>2018</u>	<u>2017</u>
Income from leaseholds	1,379	1,324
Other operating income	40	864
	<u>1,419</u>	<u>2,188</u>
1 Other external expenses	-540	-463
Gross profit	879	1,725
2 Staff expenses	-3	-1
Amortisation, depreciation and impairment losses	-203	-184
Result before financial items	673	1,540
3 Financial income	29	33
4 Financial expenses	-201	-182
Result before tax	501	1,391
5 Tax on the result for the year	-111	-283
Result for the year	390	1,108

Balance sheet

DKK million

Assets

<u>Notes</u>	<u>31/12 2018</u>	<u>31/12 2017</u>
Key money	20	15
6 Intangible assets	20	15
Land and buildings	8,156	8,051
Leasehold improvements	263	205
Assets under construction	185	110
7 Property, plant and equipment	8,604	8,366
Total non-current assets	8,624	8,381
8 Receivables from affiliated companies	3,550	3,703
Other receivables	123	51
Corporation tax	7	54
Receivables	3,680	3,808
Total current assets	3,680	3,808
Total assets	12,304	12,189

Balance sheet

DKK million

Equity and liabilities

<u>Notes</u>	<u>31/12 2018</u>	<u>31/12 2017</u>
Share capital	500	500
Retained earnings	1,597	1,430
Proposed dividends	200	200
Total equity	2,297	2,130
9 Deferred tax	322	282
Other provisions	5	8
Total provisions	327	290
Mortgage credit institutions	9,091	9,227
Other non-current liabilities	265	240
10 Non-current liabilities other than provisions	9,356	9,467
10 Short-term part of non-current liabilities	210	176
Trade payables	83	81
Other payables	28	42
Deferred income	3	3
Current liabilities other than provisions	324	302
Total liabilities other than provisions	9,680	9,769
Total equity and liabilities	12,304	12,189
11 Contractual obligations and contingencies, etc.		
12 Related party disclosures		
13 Events after the reporting period		

Statement of changes in equity

DKK million

<u>Notes</u>	<u>Share capital</u>	<u>Retained earnings</u>	<u>Proposed dividends</u>	<u>Total</u>
Equity at 1 January 2018	500	1,430	200	2,130
Dividends paid			-200	-200
Cash flow hedges (Interest rate swaps)		-30		-30
Tax on cash flow hedges (Interest rate swaps)		7		7
14 Result for the year		190	200	390
Equity at 31 December 2018	500	1,597	200	2,297

The share capital is composed as follows:

5,000,000 shares of DKK 100	500
	<u>500</u>

Notes to the financial statements

DKK million

	<u>2018</u>	<u>2017</u>
1 Other external expenses		
Fees to the statutory auditors:		
Fee for auditing	0.2	0.2
2 Staff expenses		
Salaries	2.8	1.3
Pensions	0.2	0.1
Other social security costs	0.0	0.0
	<u>3.0</u>	<u>1.4</u>
Average number of full-time employees	<u>4</u>	<u>1</u>
3 Financial income		
Interest from affiliated companies	29	33
	<u>29</u>	<u>33</u>
4 Financial expenses		
Interest expense on mortgage loans	91	94
Interest rate swaps	94	83
Other financial expenses	16	5
	<u>201</u>	<u>182</u>
5 Tax on the result for the year		
Current tax for the year	63	237
Adjustment of deferred tax for the year	41	60
Adjustment to tax regarding previous years	1	-3
Adjustment of deferred tax regarding previous years	-1	0
	<u>104</u>	<u>294</u>
Income tax recognised in the income statement	111	283
Income tax recognised in equity	-7	11
	<u>104</u>	<u>294</u>

Notes to the financial statements

DKK million

6 Intangible assets

	<u>Key money</u>
Cost:	
1 January 2018	18
Additions during the year	9
31 December 2018	<u>27</u>
Amortisation and impairment losses:	
1 January 2018	-3
Amortisation for the year	-4
31 December 2018	<u>-7</u>
Carrying amount at	
31 December 2018	<u>20</u>

7 Property, plant and equipment

	<u>Land and buildings</u>	<u>Leasehold improvements</u>	<u>Assets under construction</u>
Cost:			
1 January 2018	13,784	315	110
Additions during the year	232	71	176
Transfers	90	11	-101
Disposals during the year	-96	0	0
31 December 2018	<u>14,010</u>	<u>397</u>	<u>185</u>
Depreciation and impairment losses:			
1 January 2018	-5,733	-110	
Depreciation for the year	-175	-24	
Disposals during the year	54	0	
31 December 2018	<u>-5,854</u>	<u>-134</u>	
Carrying amount at			
31 December 2018	<u>8,156</u>	<u>263</u>	<u>185</u>

8 Receivables from affiliated companies

No part of the receivables from affiliated companies falls due after more than 1 year in 2018 or 2017.

Notes to the financial statements

DKK million

	2018	2017
9 Deferred tax		
Deferred tax at 1 January	282	222
Adjustment of deferred tax for the year recognised in the income statement	41	60
Adjustment of deferred tax regarding previous years recognised in the income statement	-1	0
Deferred tax at 31 December	322	282
Deferred tax relates to:		
Property, plant and equipment	334	291
Provisions	-1	-2
Other	-11	-7
	<u>322</u>	<u>282</u>
10 Non-current liabilities other than provisions		
Mortgage credit institutions	9,203	9,310
Other non-current liabilities	363	333
	<u>9,566</u>	<u>9,643</u>
Short term part of non-current liabilities	-210	-176
Total non-current liabilities other than provisions	9,356	9,467
Due as follows:		
Between 1 and 5 years	1,042	557
After 5 years	8,314	8,910
	<u>9,356</u>	<u>9,467</u>

Derivatives

The company has floating rate mortgage debt carrying a CIBOR based interest plus a loan specific spread. Consequently, the company is exposed to changes in interest payments due to changes in market interest rates (e.g. CIBOR). Other non-current liabilities consist of interest rate swaps used as hedging instruments in cash flow hedges. Cash flow hedging is used to ensure that part of the company's interest rate risk exposure is at a fixed rate. This is achieved by using interest rate swaps to hedge some of the floating-rate mortgage loans.

Notes to the financial statements

DKK million

10 Non-current liabilities other than provisions (continued)

The parent company, Salling Group A/S, has executed the Group's hedging strategy by entering into interest rate swaps with external bank counterparties. The external interest rate swaps are completely mirrored by also making internal back-to-back interest rate swaps between Salling Group A/S and the company, thereby hedging the interest rate risk of the company's mortgage loan portfolio.

The hedged cash flows are expected to occur and affect the income statement during the coming 30 years. During the coming year DKK -99 million is expected to affect profit or loss (DKK -93 million in 2017), during 1 - 5 years DKK -257 million is expected to affect profit or loss (DKK -224 million in 2017), and after 5 years DKK -7 million is expected to affect profit or loss (DKK -16 million in 2017).

It is assessed and documented on a continuous basis, whether the interest rate swaps are effective.

The effective portion of the change in the fair value of the interest rate swaps is recognised in equity, while any ineffective portion is recognised immediately in the income statement.

The fair value of the cash flow hedges is estimated using valuation techniques, which are based on market observable inputs, and thereby fall within level 2 of the fair value hierarchy. The most frequent applied valuation technique for interest rate swaps, i.e. a fixed rate swapped for a floating rate, is determining the present value of the fixed leg and the floating leg using a relevant swap curve.

A change in the level of the interest rates will affect profit and equity of the company. The effect on the interest rate swaps of a general increase of 1 % point in interest rates is estimated, all other things being equal, to affect profit before tax by DKK 35 million (DKK 30 million in 2017), and pre-tax equity by DKK 287 million (DKK 296 million in 2017). The direct impact on pre-tax equity is due to changes in the fair value of the interest rate swaps.

The fair value of the interest rate swaps is currently negative for the company. This combined with the fact that there is no principal exchange in the interest rate swaps makes the credit risk in these transactions limited.

11 Contractual obligations and contingencies, etc.

The company has entered contractual agreements about leasing of property to affiliated companies. The leaseholds normally run for 20 years. The total income from leaseholds during the contractual lease period is DKK 16 billion as of 31 December 2018 (31 December 2017: DKK 16 billion).

Notes to the financial statements

DKK million

11 Contractual obligations and contingencies, etc. (continued)

The company has entered contractual agreements about leasing of property to external parties. The leaseholds normally run for 10 years. The total income from leaseholds during the contractual lease period is DKK 98 million as of 31 December 2018 (31 December 2017: DKK 95 million).

The company has entered into leasing agreements with an usual duration of up to 10 years. The total leasing commitments amount to DKK 2,665 million as of 31 December 2018 (31 December 2017: DKK 2,584 million).

The company is part of the joint registration with companies in Salling Group and F. Salling Invest A/S regarding payment of VAT, PAYE taxes etc. and is thus jointly liable for the total liability of DKK 545 million at 31 December 2018 (31 December 2017: DKK 567 million).

The company is jointly taxed with the Danish companies in the Købmand Herman Sallings Fond Group. As jointly taxed company, which is not wholly owned, the company has limited and subsidiary liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation group. However, the company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the Salling Group A/S subgroup. The total net taxes payable to the Danish Central Tax Administration by the companies included in the joint taxation is disclosed in the annual report of the administration company (F. Salling Holding A/S, CVR no. 41 94 01 15). Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends etc. may entail that the company's liability will increase.

As security for mortgage loans land and buildings with a carrying amount of DKK 6,543 million have been provided as collateral (31 December 2017: DKK 6,524 million).

The company has entered contractual commitments regarding acquisition and construction of properties of a total of DKK 438 million (31 December 2017: DKK 154 million).

Notes to the financial statements

DKK million

	<u>2018</u>	<u>2017</u>
12 Related party disclosures		
Transactions with related parties take place at arm's length terms.		
Controlling interest		
The company is included in the consolidated financial statements for Salling Group A/S, Rosbjergvej 33, Brabrand and the consolidated financial statements for Købmand Herman Sallings Fond, Rosbjergvej 33-35, Brabrand, which has controlling interest.		
Ownership		
The company is 100% owned by Salling Group A/S, Rosbjergvej 33, Brabrand.		
13 Events after the reporting period		
No subsequent events have occurred that affect the annual report for 2018.		
14 Proposal for distribution of result for the year		
Proposed dividends	200	200
Retained earnings	190	908
	<u>390</u>	<u>1,108</u>