

# Dansk Supermarked Ejendomme A/S

Rosbjergvej 33  
DK-8220 Brabrand

Annual report

2017

CVR no. 21 50 38 94

The Annual report has been presented  
and approved on the company's annual  
general meeting at 26/4 2018



Chair

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## Financial highlights

DKK million	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Income from leaseholds	1,324	1,270	1,232	1,223	1,297
Result before financial items	1,540	813	1,013	862	852
Net financial items	-149	-138	-70	-47	-6
Result for the year	1,108	526	729	617	650
Total assets	12,189	15,165	15,115	14,443	10,379
Equity	2,130	4,983	4,616	3,868	6,604
Investment in property, plant and equipment	467	280	227	288	392
Profit margin (%)	116.3	64.0	82.2	70.5	65.7
Return on equity (%)	31.2	11.0	17.2	11.8	10.4

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 Dansk Supermarked A/S.

### **Development during the financial year**

In 2017 the company has realised a result for the year after tax of DKK 1,108 million against a result after tax of DKK 526 million in 2016. The result is positive impacted of a gain from sale of Real Estate.

The result for 2017 is in line with the expectations for 2017 for the primary business activities.

### **Social responsibility**

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

### **Diversity in management**

In Dansk Supermarked 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 Dansk Supermarked A/S.

### **Expected development**

The company expects that the result for the year 2018 from the primary business activities will be lower than for the financial year 2017.

## Management's statement

The Board of Directors and the Executive Board have today discussed and approved the annual report of Dansk Supermarked Ejendomme A/S for the financial year 1 January – 31 December 2017.

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 2017 and of the results of the company's operations for the financial year 1 January – 31 December 2017.

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, 6 April 2018

### 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 Dansk Supermarked Ejendomme A/S**

#### **Opinion**

We have audited the financial statements of Dansk Supermarked Ejendomme A/S for the financial year 1 January – 31 December 2017, 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 2017, and of the results of the company's operations for the financial year 1 January – 31 December 2017 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **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' reports**

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is 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' reports

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 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 Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus C, 6 April 2018

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 Dansk Supermarked Ejendomme A/S for 2017 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 Dansk Supermarked 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 Dansk Supermarked A/S. The company has no other significant activities.

## Income statement

*DKK million*

<u>Notes</u>	<u>2017</u>	<u>2016</u>
Income from leaseholds	1,324	1,270
Other operating income	864	88
	<u>2,188</u>	<u>1,358</u>
1 Other external expenses	-463	-373
<b>Gross profit</b>	<b>1,725</b>	<b>985</b>
2 Staff expenses	-1	-1
Amortisation, depreciation and impairment losses	-184	-171
<b>Result before financial items</b>	<b>1,540</b>	<b>813</b>
3 Financial income	33	54
4 Financial expenses	-182	-192
<b>Result before tax</b>	<b>1,391</b>	<b>675</b>
5 Tax on the result for the year	-283	-149
<b>Result for the year</b>	<b>1,108</b>	<b>526</b>

## Balance sheet

DKK million

### Assets

<u>Notes</u>	<u>31/12 2017</u>	<u>31/12 2016</u>
Key money	15	4
<b>6 Intangible assets</b>	<b>15</b>	<b>4</b>
Land and buildings	8,051	8,017
Leasehold improvements	205	119
Assets under construction	110	85
<b>7 Property, plant and equipment</b>	<b>8,366</b>	<b>8,221</b>
<b>Total non-current assets</b>	<b>8,381</b>	<b>8,225</b>
8 Receivables from affiliated companies	3,703	6,769
Other receivables	51	146
Corporation tax	54	25
<b>Receivables</b>	<b>3,808</b>	<b>6,940</b>
<b>Total current assets</b>	<b>3,808</b>	<b>6,940</b>
<b>Total assets</b>	<b>12,189</b>	<b>15,165</b>

## Balance sheet

DKK million

### Equity and liabilities

<u>Notes</u>	<u>31/12 2017</u>	<u>31/12 2016</u>
Share capital	500	500
Retained earnings	1,430	1,483
Proposed dividends	200	3,000
<b>Total equity</b>	<b>2,130</b>	<b>4,983</b>
9 Deferred tax	282	222
Other provisions	8	10
<b>Total provisions</b>	<b>290</b>	<b>232</b>
Mortgage credit institutions	9,227	9,394
Other non-current liabilities	240	302
<b>10 Non-current liabilities other than provisions</b>	<b>9,467</b>	<b>9,696</b>
10 Short-term part of non-current liabilities	176	153
Trade payables	81	71
Other payables	42	26
Deferred income	3	4
<b>Current liabilities other than provisions</b>	<b>302</b>	<b>254</b>
<b>Total liabilities other than provisions</b>	<b>9,769</b>	<b>9,950</b>
<b>Total equity and liabilities</b>	<b>12,189</b>	<b>15,165</b>
11 Contractual obligations and contingencies, etc.		
12 Related party disclosures		
13 Events after the reporting period		

## Statement of changes in equity

DKK million

Notes	Share capital	Retained earnings	Proposed dividends	Total
<b>Equity at 1 January 2017</b>	<b>500</b>	<b>1,483</b>	<b>3,000</b>	<b>4,983</b>
Dividends paid			-3,000	-3,000
Extraordinary dividends		-1,000		-1,000
Cash flow hedges (Interest rate swaps)		50		50
Tax on cash flow hedges (Interest rate swaps)		-11		-11
14 Result for the year		908	200	1,108
<b>Equity at 31 December 2017</b>	<b>500</b>	<b>1,430</b>	<b>200</b>	<b>2,130</b>

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*

	2017	2016
<b>1 Other external expenses</b>		
Fees to the statutory auditors:		
Fee for auditing	0.2	0.2
<b>2 Staff expenses</b>		
Salaries	1.3	0.9
Pensions	0.1	0.1
Other social security costs	0.0	0.0
	<b>1.4</b>	<b>1.0</b>
Average number of full-time employees	1	1
<b>3 Financial income</b>		
Interest from affiliated companies	33	53
Other financial income	0	1
	<b>33</b>	<b>54</b>
<b>4 Financial expenses</b>		
Interest expense on mortgage loans	94	103
Interest rate swaps	83	66
Other financial expenses	5	23
	<b>182</b>	<b>192</b>
<b>5 Tax on the result for the year</b>		
Current tax for the year	237	64
Adjustment of deferred tax for the year	60	40
Adjustment to tax regarding previous years	-3	0
	<b>294</b>	<b>104</b>
Income tax recognised in the income statement	283	149
Income tax recognised in equity	11	-45
	<b>294</b>	<b>104</b>



## Notes to the financial statements

DKK million

### 6 Intangible assets

	<u>Key money</u>
Cost:	
1 January 2017	5
Additions during the year	13
31 December 2017	<u>18</u>
Amortisation and impairment losses:	
1 January 2017	-1
Amortisation for the year	-2
31 December 2017	<u>-3</u>
<b>Carrying amount at 31 December 2017</b>	<b><u>15</u></b>

### 7 Property, plant and equipment

	<u>Land and buildings</u>	<u>Leasehold improvements</u>	<u>Assets under construction</u>
Cost:			
1 January 2017	13,984	218	85
Additions during the year	294	80	93
Transfers	41	27	-68
Disposals during the year	-535	-10	0
31 December 2017	<u>13,784</u>	<u>315</u>	<u>110</u>
Depreciation and impairment losses:			
1 January 2017	-5,967	-99	
Depreciation for the year	-167	-15	
Disposals during the year	401	4	
31 December 2017	<u>-5,733</u>	<u>-110</u>	
<b>Carrying amount at 31 December 2017</b>	<b><u>8,051</u></b>	<b><u>205</u></b>	<b><u>110</u></b>

### 8 Receivables from affiliated companies

No part of the receivables from affiliated companies falls due after more than 1 year in 2017 or 2016.

## Notes to the financial statements

DKK million

	2017	2016
<b>9 Deferred tax</b>		
Deferred tax at 1 January	222	182
Adjustment of deferred tax for the year recognised in the income statement	60	40
<b>Deferred tax at 31 December</b>	<b>282</b>	<b>222</b>
Deferred tax relates to:		
Property, plant and equipment	291	242
Provisions	-2	-2
Other	-7	-18
	<u>282</u>	<u>222</u>
<b>10 Non-current liabilities other than provisions</b>		
Mortgage credit institutions	9,310	9,465
Other non-current liabilities	333	384
	<u>9,643</u>	<u>9,849</u>
Short term part of non-current liabilities	-176	-153
<b>Total non-current liabilities other than provisions</b>	<b>9,467</b>	<b>9,696</b>
Due as follows:		
Between 1 and 5 years	557	564
After 5 years	8,910	9,132
	<u>9,467</u>	<u>9,696</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, Dansk Supermarked A/S, has executed the Groups 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 Dansk Supermarked 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 -93 million is expected to affect profit or loss (DKK -81 million in 2016), during 1 - 5 years DKK -224 million is expected to affect profit or loss (DKK -266 million in 2016), and after 5 years DKK -16 million is expected to affect profit or loss (DKK -35 million in 2016).

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 %-points in interest rates is estimated, all other things being equal, to affect profit before tax by DKK 30 million (DKK 35 million in 2016), and pre-tax equity by DKK 296 million (DKK 344 million in 2016). 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 2017 (31 December 2016: 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 95 million as of 31 December 2017 (31 December 2016: DKK 231 million).

The company has entered into leasing agreements with an usual duration of up to 10 years. The total leasing commitments amount to DKK 2,584 million as of 31 December 2017 (31 December 2016: DKK 1,072 million).

The company is part of the joint registration with companies in the Dansk Supermarked 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 567 million at 31 December 2017 (31 December 2016: DKK 497 million).

The company is jointly taxed with the Danish companies in the Købmand Herman Sallings Fond Group. As a 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 Dansk Supermarked 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 6,524 million have been provided as collateral (31 December 2016: DKK 6,582 million).

The company has entered contractual commitments regarding acquisition and construction of properties of a total of DKK 154 million (31 December 2016: DKK 227 million).

## Notes to the financial statements

*DKK million*

	<u>2017</u>	<u>2016</u>
<b>12 Related party disclosures</b>		
Transactions with related parties take place at arm's length terms.		
<b>Controlling interest</b>		
The company is included in the consolidated financial statements for Dansk Supermarked A/S, Rosbjergvej 33, Brabrand and the consolidated financial statements for Købmand Herman Sallings Fond, Rosbjergvej 33-35, Brabrand, which has controlling interest.		
<b>Ownership</b>		
The company is 100% owned by Dansk Supermarked A/S, Rosbjergvej 33, Brabrand.		
<b>13 Events after the reporting period</b>		
No subsequent events have occurred that affect the annual report for 2017.		
<b>14 Proposal for distribution of result for the year</b>		
Proposed dividends	200	3,000
Retained earnings	908	-2,474
	<u><b>1,108</b></u>	<u><b>526</b></u>