

# **F. Salling Invest A/S**

**Rosbjergvej 33 - 35  
DK-8220 Brabrand**

**Annual report**

**2016**

**CVR no. 24 57 46 28**

The Annual Report has been presented and  
approved on the company's annual general  
meeting at <sup>28/</sup> 42017



Chair

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## Financial highlights for the company

DKK million

	2016	2015	2014	2013 *)	2012 *)
Rental revenue	28	27	25	12	6
Operating profit (EBIT)	16	10	11	-5	-1
Share of profit/loss of associates, net of tax	390	540	598	297	221
Net financial items	-15	-35	-36	280	229
Total profit for the year	393	616	578	503	411
Total assets	8,459	9,328	8,658	11,519	11,900
Total equity	7,256	7,019	6,368	6,186	5,706
Profit margin	57.1 %	37.0 %	44.0 %	-41.7 %	-16.7 %
Return on equity	5.5 %	9.2 %	9.2 %	8.5 %	7.4 %

### Definitions:

Profit margin is operating profit divided by rental revenue.

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

\*) The main and key figures for the financial years 2012 and 2013 have not been adjusted to reflect the changed accounting principles applied resulting from the transition to IFRS in 2015 or the changed accounting principles applied in associates.

## **Management's review**

### **Primary business area**

The company's primary business activity is the owning of shares in the associate, Dansk Supermarked A/S, and investment in properties.

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

The annual report for F. Salling Invest A/S is presented in accordance with the provisions of the International Financial Reporting Standards (IFRS).

In 2016 the company has realised a result for the year after tax of DKK 393 million against a result after tax of DKK 616 million in 2015. The result for 2015 was positively impacted by DKK 95 million related to the net result of the restructuring in Dansk Supermarked Group including effect from change in ownership.

The result for 2016 is satisfactory.

### **Social responsibility and diversity in management**

The company does not have policies regarding social responsibility, as the primary activity of the company is the owning of shares in Dansk Supermarked A/S. Dansk Supermarked A/S has policies regarding social responsibility and prepares a report on social responsibility in connection with the annual report.

In the company the target regarding the gender constitution of the Board of Directors is that 50 % of the members of the Board of Directors equivalent to 2 must be women. At the end of 2016 the target is met, as 2 of the members of the Board of Directors are women.

### **Particular risks**

The company's financial risks are primarily related to investments in Dansk Supermarked A/S.

### **Expected development**

The company expects that Dansk Supermarked A/S will show a positive result in 2017.

### **Subsequent events**

No subsequent events have occurred that would affect the annual report for 2016.

## Management's statement

The Board of Directors and the Executive Board have today discussed and approved the annual report of F. Salling Invest A/S for the financial year 1 January – 31 December 2016.

The annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in 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 2016 and of the company's operations and cash flows for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the company's operations and financial conditions, the results of the company's operations, cash flows and financial position as well as a description of the most significant risks and uncertainty factors that the company faces.

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

Brabrand, 28 April 2017

### Executive Board



Jakob Røddik Thøgersen  
CEO

### Board of Directors

Jens Bjerg Sørensen  
Chairman



Karin Salling

Nils S. Andersen

Anne Broeng

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# Independent auditors' report

## To the Shareholder of F. Salling Invest A/S

We have audited the financial statements of F. Salling Invest A/S for the financial year 1 January – 31 December 2016, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flow and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in 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 2016 and of the results of the company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

### ***Basis for opinion***

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

### ***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 the work we have performed, we concluded 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 misstatements of the Management's review.

### ***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 International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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.

Aarhus, 28 April 2017

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



Henrik Kronborg Iversen

State Authorised Public Accountant



Morten Friis

State Authorised Public Accountant

## Income statement

DKK million

<u>Notes</u>	<u>2016</u>	<u>2015</u>
7 Rental revenue	28	27
External expenses	-4	-3
Depreciation and impairment losses	-8	-14
Operating profit (EBIT)	16	10
8 Share of profit/loss of associates, net of tax	390	540
8 Net result of restructuring in Dansk Supermarked Group including effect from change in ownership	-	95
4 Financial income	5	9
5 Financial expenses	-20	-44
Profit before tax	391	610
6 Income tax	2	6
<b>Total profit for the year</b>	<b>393</b>	<b>616</b>
Proposal for distribution of profit for the year:		
Proposed dividends	59	-
Reserve for net revaluation under the equity method	390	635
Retained earnings	-56	-19
<b>Total profit for the year</b>	<b>393</b>	<b>616</b>

## Statement of other comprehensive income

DKK million

<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>Profit for the year</b>	393	616
<b>Other comprehensive income, net of income tax:</b>		
<b>Items that will not be reclassified to the income statement:</b>		
8 Other comprehensive income not to be reclassified in associates	<u>-5</u>	<u>2</u>
	<u>-5</u>	<u>2</u>
<b>Items that are or may be reclassified subsequently to the income statement:</b>		
8 Exchange differences on translating foreign operations in associates	-89	21
8 Other comprehensive income to be reclassified in associates	<u>-62</u>	<u>12</u>
	<u>-151</u>	<u>33</u>
<b>Other comprehensive income for the year, net of income tax</b>	<u>-156</u>	<u>35</u>
<b>Total comprehensive income for the year</b>	<u>237</u>	<u>651</u>

## Statement of financial position

DKK million

<b>Assets</b>			
<u>Notes</u>		<u>2016</u>	<u>2015</u>
<b>Non-current assets</b>			
7	<b>Investment property</b>	<u>506</u>	<u>513</u>
<b>Financial assets</b>			
8	Investments in associates	7,651	8,473
9	Other non-current financial assets	<u>-</u>	<u>256</u>
	Total financial assets	<u>7,651</u>	<u>8,729</u>
	<b>Total non-current assets</b>	<u><b>8,157</b></u>	<u><b>9,242</b></u>
<b>Current assets</b>			
<b>Receivables</b>			
	Income tax receivables	-	6
9	Other receivables	-	3
9	Other current financial assets	<u>302</u>	<u>77</u>
	Total receivables	<u>302</u>	<u>86</u>
	<b>Total current assets</b>	<u><b>302</b></u>	<u><b>86</b></u>
	<b>Total assets</b>	<u><b>8,459</b></u>	<u><b>9,328</b></u>

## Statement of financial position

DKK million

### Equity and liabilities

<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>10 Equity</b>		
Share capital	3	3
Reserve for net revaluation under the equity method	1,200	1,933
Foreign currency translation reserve	-117	-28
Retained earnings	6,111	5,111
Proposed dividends	59	-
<b>Total equity</b>	<b><u>7,256</u></b>	<b><u>7,019</u></b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
<b>11</b> Deferred tax liabilities	1	3
<b>9</b> Mortgage loans	260	260
<b>9</b> Other non-current financial liabilities	-	1,780
<b>Total non-current liabilities</b>	<b><u>261</u></b>	<b><u>2,043</u></b>
<b>Current liabilities</b>		
<b>9</b> Other current financial liabilities	941	254
<b>9</b> Trade payables	-	11
<b>9</b> Other payables	1	1
<b>Total current liabilities</b>	<b><u>942</u></b>	<b><u>266</u></b>
<b>Total liabilities</b>	<b><u>1,203</u></b>	<b><u>2,309</u></b>
<b>Total equity and liabilities</b>	<b><u>8,459</u></b>	<b><u>9,328</u></b>

## Cash flow statement

DKK million

<u>Notes</u>	<u>2016</u>	<u>2015</u>
Profit before tax	391	610
12 Adjustments	-367	-586
13 Change in working capital	-8	9
Net cash flows from operating activities before financial items and tax	16	33
Financial income received	-	4
Financial expenses paid	-19	-6
Income tax	6	27
Net cash flows from operating activities	3	58
Purchase of investment property	-1	-25
Dividends received	1,056	-
Net cash flows from investment activities	1,055	-25
Proceeds from borrowings	735	-
Repayment of borrowings	-1,829	-20
Net cash flows from financing activities	-1,094	-20
Net change in cash and cash equivalents	-36	13
Cash and cash equivalents at 1 January	77	64
14 Cash and cash equivalents at 31 December	41	77

## Statement of changes in equity

DKK million

2015:	Share capital	Reserve for net revaluation under the equity method	Foreign currency translation reserve	Retained earnings	Proposed dividends	Total equity
Equity at 1 January 2015	3	1,290	-49	5,130	-	6,374
Effect of changes to accounting policies in associates		-6				-6
Adjusted equity at 1 January 2015	3	1,284	-49	5,130	-	6,368
Profit for the year		635		-19		616
Other comprehensive income not to be reclassified in associates		2				2
Exchange differences on translating foreign operations in associates			21			21
Other comprehensive income to be reclassified in associates		12				12
Other comprehensive income	-	14	21	-	-	35
Total comprehensive income for the year	-	649	21	-19	-	651
Equity at 31 December 2015	3	1,933	-28	5,111	-	7,019
2016:						
	Share capital	Reserve for net revaluation under the equity method	Foreign currency translation reserve	Retained earnings	Proposed dividends	Total equity
Equity at 1 January 2016	3	1,933	-28	5,111	-	7,019
Profit for the year		390		-56	59	393
Other comprehensive income not to be reclassified in associates		-5				-5
Exchange differences on translating foreign operations in associates			-89			-89
Other comprehensive income to be reclassified in associates		-62				-62
Other comprehensive income	-	-67	-89	-	-	-156
Total comprehensive income for the year	-	323	-89	-56	59	237
Dividends received from associates		-1,056		1,056		-
Total transactions with owners	-	-1,056	-	1,056	-	-
Equity at 31 December 2016	3	1,200	-117	6,111	59	7,256



## Summary of notes to the financial statements

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# Notes to the financial statements

DKK million

## 1 General information

F. Salling Invest A/S' primary business areas are investment in the associate, Dansk Supermarked A/S and owning property.

F. Salling Invest A/S is a public limited company with its registered office located at Rosbjergvej 33-35, 8220 Brabrand in Denmark.

The following shareholder owns more than 5 % of the share capital and the voting rights in F. Salling Invest A/S:

Købmand Herman Sallings Fond, Rosbjergvej 33-35, Brabrand, Denmark

F. Salling Invest A/S is included in the consolidated financial statements of Købmand Herman Sallings Fond, which is the ultimate controlling party of F. Salling Invest A/S.

## 2 Summary of significant accounting policies

The financial statements section of the annual report for the period 1 January – 31 December 2016 comprises the financial statements of F. Salling Invest A/S.

The financial statements of F. Salling Invest A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements for class C large enterprises in the Danish Financial Statements Act. Except from increased disclosure requirements resulting from the company being a class C large enterprise in 2016 instead of a class B enterprise in 2015 and the below mentioned, the accounting policies are unchanged compared to last year.

A number of new, amended or revised International Financial Reporting Standards (including interpretations) issued by the International Accounting Standards Board and endorsed by the European Union have become effective on or after 1 January 2016. The company has assessed the changes, and it has been concluded that the application of the changes has not had a material impact on the financial statements in 2016, and no significant impact on future periods from the changes is expected.

Minor changes have been made to the comparison figures due to changes in accounting policies regarding insurance provisions in the associate, Dansk Supermarked A/S. Equity at 1 January 2015 and investments in associates have been decreased by DKK 6 million, whereas share of profit/loss of associates, net of tax for 2015 have been increased by DKK 2 million. Due to the immateriality of the changes no statement of financial position as at the beginning of the preceding period is presented.

### ***Basis of preparation***

The functional currency of F. Salling Invest A/S is Danish kroner. The presentation currency of the financial statements is Danish kroner. All amounts have been rounded to the nearest million, unless otherwise indicated.

The financial statements have been prepared on the historical cost basis.

### ***Accounting policies, income statement***

#### ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable, and excluding amounts collected on behalf of third parties such as sales taxes and value added taxes. Rental revenue arising from operating leases on investment properties is recognised on a straight-line basis over the lease terms.

## Notes to the financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *External expenses*

External expenses primarily include direct and indirect costs related to rental and lease, operating expenses regarding investment properties as well as consultants fees etc.

#### *Depreciation and impairment losses*

Depreciation and impairment losses comprise depreciation and impairment losses on investment property.

#### *Share of profit/loss of associates, net of tax*

Investments in associates are measured in the statement of financial position using the equity method. The share of profit/loss of associates after elimination of unrealised gains and losses resulting from transactions between the parent company and the associates and including the effect of depreciation of fair value adjustments recognised as part of business combinations is recognised in the income statement.

#### *Financial income and expenses*

Financial income and expenses comprise interest income and expense, exchange gains and losses on transactions denominated in foreign currencies and fair value adjustments of financial assets held for trading. Moreover, financial income and expenses comprise amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax.

Borrowing costs from general borrowing or loans directly related to acquisition, construction or development of qualifying assets are allocated to the cost of such assets.

#### *Income tax expense*

The company is included in the joint taxation in the Købmand Herman Sallings Fond Group. Tax for the year is allocated between the jointly taxed companies in proportion to their taxable income (full allocation). The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense is recognised in the income statement, other comprehensive income or directly in equity.

### ***Accounting policies, statement of financial position***

#### *Investment property*

Investment property is property held to earn rentals or for capital appreciation or both, not for use in the supply of goods or services or for administrative purposes. Investment property is measured initially at cost comprising purchase price and any directly attributable expenditure including transaction costs. Subsequent to initial recognition investment property is measured at cost net of accumulated depreciation and accumulated impairment losses if any.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Land	No depreciation
Investment property:	
Technical installations within the property	10 - 30 years
Foundation and bearing structure	80 years
Remaining property	40 years

The residual values, useful lives and methods of depreciation of investment property are reviewed at each financial year end and adjusted prospectively, if necessary.

## Notes to the financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

#### *Investments in associates*

Investments in associates are measured in the statement of financial position using the equity method. The share of profit/loss of associates, net of tax is recognised in the income statement.

#### *Impairment testing of non-current assets*

The carrying amount of non-current assets 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 asset's 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, securities and other financial assets*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially on the trading date at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Loans and receivables are most relevant for the company.

Subsequently financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement. Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

After initial recognition, loans and receivables are measured at amortised cost less impairment. First it is assessed whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The losses arising from impairment are recognised in an allowance account and in the income statement in finance costs for loans and in external expenses for receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

#### *Cash and short-term deposits*

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits.

# Notes to the financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Loans, trade payables and other financial liabilities*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, borrowings and payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. Loans, borrowings and payables are relevant for the company.

After initial recognition, interest-bearing loans, borrowings and payables are measured at amortised cost. Accordingly, any difference between the proceeds and the nominal value is recognised in the income statement as finance costs over the term of the loan.

### *Taxes*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement or the statement of other comprehensive income.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside the income statement is recognised outside the income statement. Deferred tax items are recognised in correlation to the underlying transaction either in the statement of other comprehensive income or directly in equity.

### ***Accounting policies, cash flow statement***

The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities. Cash flows from acquired businesses are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of businesses are recognised up until the date of disposal.

Cash flows from operating activities are calculated according to the indirect method as the profit before tax adjusted for non-cash operating items, changes in working capital, interest payments and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of businesses and of investment property, dividends received and other non-current assets as well as acquisition and disposal of securities not classified as cash and cash equivalents.

Cash flows from financing activities comprise changes in the size or composition of share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, and payment of dividends to shareholders.

## Notes to the financial statements

DKK million

### 2 Summary of significant accounting policies - continued

Cash flows in other currencies than the functional currency are translated using average exchange rates unless these deviate significantly from the rate at the transaction date.

#### *Accounting policies, other*

##### *Business combinations*

Business combinations are accounted for using the acquisition method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. If the business combination is a step acquisition, any previously held shares are remeasured at the acquisition-date fair value and any resulting gain or loss is recognised in the income statement. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Provisions are made for costs related to adopted and announced plans to restructure the acquired enterprise in connection with the acquisition. Enterprises disposed of are recognised until the date of disposal.

According to the equity method, goodwill is recognised as a part of the carrying amount of the investment. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Goodwill is also recognised regarding previously owned shares in step acquisitions. Goodwill is not amortised, but is included in impairment tests of the investments.

##### *Foreign currency translation*

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as finance income or finance costs.

Receivables and payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the reporting date. The difference between the exchange rates at the reporting date and at the date at which the receivable or payable arose or the rates in the latest annual report is recognised in profit or loss as finance income or finance costs.

##### *Fair value measurement*

The company uses the fair value concept in connection with certain disclosure requirements and in connection with business combinations. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants ("exit price").

The fair value is a market-based and not an entity-specific valuation. The company uses the assumptions that the market participants would use for the pricing of the asset or liability based on existing market conditions, including assumptions relating to risks. The company's intention to own the asset or settle the liability is thus not taken into consideration when the fair value is determined.

The fair value measurement is based on the primary market. If a primary market does not exist, the measurement is based on the most favourable market, which is the market that maximises the price of the asset or liability less transaction and transportation costs.

To the widest possible extent, the fair value measurement is based on market values in active markets (level 1) or alternatively on values derived from observable market information (level 2). If such observable information is not available or cannot be used without significant modifications, fair values are based on generally accepted valuation methods and reasonable estimates (level 3).

# Notes to the financial statements

DKK million

2016

2015

## 2 Summary of significant accounting policies - continued

The company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 3 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the accounting policies, management has made the following judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

### *Valuation of investment property*

Investment property is tested for impairment if there is an indication of impairment. An impairment loss is recognised if the recoverable amount of an asset is lower than the asset's carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the long-term plans. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

### *Depreciation*

The useful lives and residual values of investment property are reviewed annually based on available information. If necessary they are adjusted prospectively. Changes to estimates of useful lives and residual values may affect the annual depreciation and thereby the results for the year significantly.

### *Valuation of financial assets*

Investments in associates are recognised according to the equity method. The carrying amount includes goodwill and other fair value adjustments arising as part of business combinations. Investments in associates are tested for impairment annually. An impairment loss is recognised if the recoverable amount of an asset is lower than the asset's carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the long-term plans for Dansk Supermarked A/S. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

## 4 Financial income

Interest income on loans to related parties	5	5
Other financial income, related parties	-	1
Other financial income	-	3
Total financial income	5	9

## Notes to the financial statements

DKK million

	2016	2015
<b>5 Financial expenses</b>		
Interest expense on mortgage loans	1	2
Interest expense on loans from related parties	8	4
Interest expense on other loans	11	38
Total financial expenses	<u>20</u>	<u>44</u>

<b>6 Income tax</b>		
Current income tax	-	6
Adjustment regarding prior years, current income tax	-	-2
Change in deferred tax	2	-
Adjustment regarding prior years, deferred tax	-	2
Total income tax	<u>2</u>	<u>6</u>
Income tax recognised in the income statement	<u>2</u>	<u>6</u>
Total income tax	<u>2</u>	<u>6</u>

### Reconciliation of income tax recognised in the income statement

	2016		2015	
	DKK	%	DKK	%
Tax on result for the year at the Danish income tax rate	-86	22.0 %	-143	23.5 %
Non-deductible costs and non-taxable income	88	-22.5 %	149	-24.5 %
Income tax recognised in the income statement	<u>2</u>	<u>-0.5 %</u>	<u>6</u>	<u>-1.0 %</u>

	2016	2015
<b>7 Investment property</b>		
Cost		
Balance at 1 January	537	512
Additions	1	25
Balance at 31 December	<u>538</u>	<u>537</u>
Accumulated depreciation and impairment losses		
Balance at 1 January	-24	-10
Depreciation	-8	-7
Impairment losses recognised in the income statement	-	-7
Balance at 31 December	<u>-32</u>	<u>-24</u>
Carrying amount at 31 December	<u>506</u>	<u>513</u>

Investment property primarily comprises stores that are leased by Dansk Supermarked A/S.



## Notes to the financial statements

DKK million

2016      2015

### 7 Investment property - continued

The estimated fair value of investment property amounts to DKK 464 million at 31 December 2016 (DKK 463 million at 31 December 2015). The estimated fair value equals the estimated price that would be received if selling the investment property in an orderly transaction between market participants. The estimated fair value is not based on a valuation by an independent valuer. Most of the investment property is held to earn rentals not with the purpose of being sold in the near future. For these investment property no impairment losses have been recognised since the value in use is higher than the carrying amount for any investment property for which there is an indication that the property may be impaired.

The fair value of the investment property falls within level 3 of the fair value hierarchy. The fair value is based on a rate of return compared with a price per square metre. The rate of return is based on experience with real estate deals.

Rental income from investment property	28	27
Direct operating expenses from investment that generates rental income	<u>-4</u>	<u>-3</u>
Profit arising from investment property	<u>24</u>	<u>24</u>

No impairment losses have been recognised in 2016. During 2015 an impairment loss was recognised regarding a piece of land for which the expected sales price that might be obtained in a possible future sale was assessed to be lower than the carrying amounts of the piece of land. The impairment loss was recognised in the income statement as part of Depreciation and impairment losses.

### 8 Investments in associates

F. Salling Invest A/S has a 39.11 % ownership in Dansk Supermarked A/S, and F. Salling Invest A/S' sister company F. Salling Holding A/S has a 41.89 % ownership in Dansk Supermarked A/S. Thus, controlling interest in Dansk Supermarked A/S exists in Købmand Herman Sallings Fond.

Cost		
Balance at 1 January	6,568	6,577
Purchase price reduction	<u>-</u>	<u>-9</u>
Balance at 31 December	<u>6,568</u>	<u>6,568</u>
Value adjustments		
Balance at 1 January	1,905	1,241
Effect of changes to accounting policies in associates	<u>-</u>	<u>-6</u>
Adjusted balance at 1 January	1,905	1,235
Dividends	-1,056	-
Foreign currency translation	-89	21
Other comprehensive income	-67	14
Result	390	540
Net impact from restructuring in Dansk Supermarked Group including effect from change in ownership	<u>-</u>	<u>95</u>
Balance at 31 December	<u>1,083</u>	<u>1,905</u>
Carrying amount at 31 December	<u>7,651</u>	<u>8,473</u>

## Notes to the financial statements

DKK million

### 8 Investments in associates - continued

Specification of investments in associates:

	<u>Share of issued share capital and voting rights</u>	<u>Principal place of business and country of incorporation</u>
Dansk Supermarked A/S	39.11 %	Brabrand, Denmark

As at 31 December 2013 the company owned 16.75 % of the shares in Dansk Supermarked A/S, which was increased to 41 % as at 11 April 2014 when the company purchased 24.25 % of the shares in Dansk Supermarked A/S. Due to agreements entered into the company was considered to have significant influence in Dansk Supermarked A/S before 11 April 2014. As at 21 December 2015 the company's ownership in Dansk Supermarked A/S was reduced to 39.11 % as a consequence of an exchange of shares, in which F. Salling Holding A/S received a larger ownership in Dansk Supermarked A/S in return for its shares in F. Salling A/S.

### 9 Financial assets and financial liabilities

*Financial assets comprise the following:*

	<u>Carrying amount</u>		<u>Fair value</u>	
	2016	2015	2016	2015
Receivables from associates	-	256	-	256
Other non-current financial assets	-	256	-	256
Other receivables	-	3	-	3
Receivables from associates	302	-	302	-
Receivables from other related companies	-	77	-	77
Other current financial assets	302	77	302	77

*Financial liabilities comprise the following:*

Mortgage loans - non-current	260	260	265	265
Mortgage loans	260	260	265	265
Non-current payables	-	1,780	-	1,780
Other non-current financial liabilities	-	1,780	-	1,780
Payables to entities with controlling influence	205	254	205	254
Payables to other related parties	736	-	736	-
Other current financial liabilities	941	254	941	254
Trade payables	-	11	-	11
Other payables	1	1	1	1

## Notes to the financial statements

DKK million

	2016	2015
<b>9 Financial assets and financial liabilities - continued</b>		
<i>Financial instruments by category:</i>		
Loans and receivables:		
Other receivables	-	3
Other financial assets excluding derivatives	302	333
Financial liabilities measured at amortised cost:		
Mortgage loans	260	260
Other financial liabilities excluding derivatives	941	2,034
Trade payables	-	11
Other payables	1	1

### *Fair value:*

For cash and short-term deposits, trade receivables and payables, other receivables and payables, other short-term receivables and payables and non-current financial assets the carrying amount is a reasonable approximation of fair value, largely due to the short-term maturities of the financial instruments.

The fair value of mortgage loans are derived from quoted market prices in active markets, and fall within level 1 of the fair value hierarchy. Fair value of the remaining borrowing items fall within level 2 of the fair value hierarchy and are calculated on the basis of discounted interests and instalments.

### *Risks arising from financial instruments:*

The company's main risks are market risks relating to fluctuations in interest rates. There has been no structural changes in the risk exposure or risks compared to 2015.

The overall framework for financial risk management is set out in Dansk Supermarked A/S's financial policy, which also comprises F. Salling Invest A/S. The companies have a centralised management of financial risks undertaken by a Treasury Department. The financial policy is reviewed and updated on a regular basis. The companies do not engage in speculation in financial risks. The companies' financial strategy is directed solely towards the management and mitigation of financial risks that are a direct result of the operating, investing and financing activities.

### *Interest rate risks:*

The company's exposure to risk of changes in market interest rates relates to loans to and from related parties, non-current payables and mortgage loans. The mortgage loan portfolio is actively managed by Group Treasury in Dansk Supermarked Group.

A general increase of 1 %-point in interest rates is estimated, all other things being equal, to affect profit before tax by DKK 1 million (DKK -7 million in 2015), and pre-tax equity by DKK 1 million (DKK -7 million in 2015).

## Notes to the financial statements

DKK million

### 9 Financial assets and financial liabilities - continued

Sensitivity analysis based on a 1 %-point increase in interest rates:

31 December 2016	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
Financial assets	302	1 %	8	8
Financial liabilities	1,202	1 %	-7	-7
Impact			1	1

  

31 December 2015	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
Financial assets	336	1 %	5	5
Financial liabilities	2,306	1 %	-12	-12
Impact			-7	-7

The sensitivity analysis has been prepared on the basis of the amount of net debt and the ratio of fixed to floating interest rate of the net debt in place as at 31 December.

For receivable from and payables to entities with significant influence and associates interest rates are fixed based on the relevant interbank rate with a debit or credit margin. Other receivables or payables are not interest-bearing if they are paid when due.

Overview of borrowings by interest rate levels:

31 December 2016	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	1,201	1,187	14	-
Total	1,201	1,187	14	-
Of which:				
Bearing fixed interests	1 %			
Bearing floating interests	99 %			

  

31 December 2015	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	2,294	2,260	34	-
Total	2,294	2,260	34	-
Of which:				
Bearing fixed interests	1 %			
Bearing floating interests	99 %			

## Notes to the financial statements

DKK million

### 9 Financial assets and financial liabilities - continued

Liquidity risks:

Liquidity risk is the risk that the company will not be able to settle its financial liabilities when they fall due.

The associate, Dansk Supermarked A/S, acts as a financial coordinator for the company to ensure the funding of the operating and investing activities at all time. The company considers the liquidity risk to be low.

The overview below summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments. The undiscounted cash flows differ from both the carrying amount and the fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date.

	On demand	Within 1 year	1 to 5 years	After 5 years
31 December 2016				
Mortgage loans	-	2	10	295
Trade and other payables	205	737	-	-
Total	205	739	10	295
	On demand	Within 1 year	1 to 5 years	After 5 years
31 December 2015				
Mortgage loans	-	2	10	297
Trade and other payables	254	12	1,910	-
Total	254	14	1,920	297
			2016	2015

### 10 Equity

*Share capital:*

As at 31 December, the share capital, which consists of one share class, comprises:

10 shares of TDKK 1	0	0
29 shares of TDKK 10	0	0
1 share of TDKK 445	0	0
1 share of TDKK 446	1	1
1 share of TDKK 1,809	2	2
Total share capital	3	3

There has been no changes to the share capital during 2012 - 2016. All shares have been fully paid.

*Retained earnings:*

During the 2016 financial year no dividend has been paid (DKK 0 million in 2015). A dividend for the 2016 financial year of DKK 59 million is proposed. Payment of dividends to the shareholder does not trigger taxes for the company.

## Notes to the financial statements

DKK million

### 11 Deferred tax liabilities

Deferred tax relates to the following:

	Income statement		Statement of financial position	
	2016	2015	2016	2015
Investment property	-2	-2	1	3
Deferred tax expense/income / Net deferred tax	-2	-2	1	3

Deferred tax is recognised in the statement of financial position as follows:

Deferred tax liabilities	1	3
Net deferred tax	1	3

Reconciliation of net deferred tax:

Opening balance at 1 January	3	5
Adjustment of deferred tax recognised in the income statement	-2	-2
Closing balance at 31 December	1	3

The company has a deferred tax asset of DKK 6 million at 31 December 2016, which is not recognised in the statement of financial position (DKK 6 million in 2015). The deferred tax asset has not been recognised due to uncertainties regarding the future taxable profits against which the unused tax losses can be utilised.

### 12 Adjustments

Financial income	-5	-9
Financial expenses	20	44
Share of profit/loss of associates, net of tax	-390	-540
Net result of restructuring in Dansk Supermarked Group including effect from change in ownership	-	-95
Depreciation and impairment of investment property	8	14
Adjustments	-367	-586

### 13 Change in working capital

Change in trade and other receivables and prepayments	3	-3
Change in trade and other payables	-11	12
Change in working capital	-8	9

### 14 Cash and cash equivalents

Receivables from associates, excluding loans	41	-
Receivables from other related parties	-	77
Cash and cash equivalents available to the company	41	77

## Notes to the financial statements

DKK million

2016      2015

### 15 Contingent liabilities and other financial commitments

*Operating leases, the company is lessor:*

The company leases a number of properties, shops and flats as operating leases to related and external parties. The leases have terms of between 1 year and 20 years.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

Within 1 year	29	27
1 to 5 years	114	107
After 5 years	304	313
Total	447	447

*Other contingent liabilities and financial commitments:*

No contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements exist (DKK 14 million in 2015).

As security for mortgage loans investment property with a carrying amount of DKK 389 million has been provided as collateral (DKK 422 million in 2015).

The company is part of the joint registration with companies in the Dansk Supermarked Group regarding payment of VAT, PAYE taxes etc. and is thus jointly liable for the total liability of DKK 497 million at 31 December 2016 (DKK 418 million in 2015).

The company is jointly taxed with the Danish companies in the Købmand Herman Sallings Fond Group. As a group company, the company has joint and several unlimited liability together with the other group companies for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation group. 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.

In connection with the purchase of shares from A. P. Møller - Mærsk A/S in April 2014 the company has, together with F. Salling Holding A/S, entered into a contractual commitment to purchase the remaining 19 % of the shares in Dansk Supermarked A/S and F. Salling A/S from A. P. Møller - Mærsk A/S. A. P. Møller - Mærsk A/S holds a put option that allows them to sell the remaining share at market value. The put option can be exercised in April 2019.

## Notes to the financial statements

DKK million

	<u>2016</u>	<u>2015</u>
<b>16 Related party disclosures</b>		
All related party transactions take place at an arm's length basis. The following transactions were carried out with related parties:		
Entities with controlling influence over the company:		
Interests paid	-3	-4
Associates:		
Leasing income	26	25
Interests received	5	5
Dividend received	1,056	-
Other related parties:		
Interests received	-	1
Interests paid	-5	-

All outstanding balances with related parties as at 31 December are presented in note 9. All outstanding balances carry interest and are to be settled in cash within 1 year unless otherwise specified in note 9.

None of the outstanding balances are secured, and no provisions are held against the balances as at 31 December (DKK 0 in 2015). No expense has been recognised in 2016 or 2015 for bad or doubtful debts.

### Key management personnel

F. Salling Invest A/S does not incur costs related to remuneration of key management personnel.

## 17 Capital management

The company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balance. For the purpose of the company's capital management, capital includes total equity.

The company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholder or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

## 18 Events after the reporting period

No subsequent events have occurred that affect the annual report for 2016.



## Notes to the financial statements

*DKK million*

### 19 Standards issued but not yet effective

The standards IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers including clarifications, Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses, Amendments to IAS 7: Disclosure Initiative, Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions, Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, Amendments to IAS 40: Transfers of Investment Property and Annual Improvements 2014-2016 Cycle have been issued, but are not yet effective. The company plans to adopt the new standards on the required effective dates. Overall the company expects no significant impact on its statement of financial position and equity of the standards.

In January 2016 IFRS 16 Leases was issued. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard requires a lessee to recognise assets and liabilities for the rights and obligations created by all leases (with limited exceptions for short-term leases and leasing of assets with low value). IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date. The company expects no significant impact on its statement of financial position and equity of the standard, as the lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.