

F. Salling A/S

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

Annual report

2017

CVR no. 30 51 13 36

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>
Net revenue	959	942	943	911	900
Result before financial items	74	54	65	6	76
Net financial items	-11	0	6	4	118
Result for the year	56	42	54	8	151
Total assets	1,839	1,885	1,898	1,830	3,109
Equity	337	381	339	285	1,588
Investment in property, plant and equipment	57	21	12	12	60
Profit margin (%)	7.7	5.7	6.9	0.7	8.4
Return on equity (%)	15.6	11.7	17.3	0.9	9.7

Profit margin is result before financial items divided by net revenue.

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 activities primarily consist of retailing in 2 department stores.

Development during the financial year

In 2017 the company has realised a result for the year after tax of DKK 56 million against a result after tax of DKK 42 million in 2016.

In 2017 net revenue is DKK 959 million compared to DKK 942 million in 2016. Gross profit has increased compared to 2016. Result before financial items (EBIT) is DKK 74 million against DKK 54 million in 2016.

The result is in line with the expectations.

Employees

As at 31 December 2017 F. Salling A/S employed 1,320 employees against 1,254 as at 31 December 2016. Converted into the average number of full time employees this equals 681 against 687 in 2016.

Social responsibility

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

Diversity in management

In F. Salling A/S the target regarding the gender constitution of the Board of Directors is an equal number of both gender elected by the general meeting. Today, there are 5 members of the Board of Directors two of which are women elected by the general meeting, two are men elected by the general meeting, and one is a woman elected by employees. Immediately after the upcoming annual general meeting a second employee representative will join the Board of Directors. On the other management levels no gender is under-represented either. The target regarding the under-represented gender must not compromise other recruitment criteria.

Particular risks

The retailing activities include sale of consumers' goods and is to a degree market sensitive. The company is not significantly dependent on certain customers or suppliers. The company's financial risk is primarily related to interest rate risk. The interest rate risk concerns the company's mortgage loans.

Expected development

The company expects that the result in 2018 will be at the same level as the realised result in 2017.

Management's statement

The Board of Directors and the Executive Board have today discussed and approved the annual report of F. Salling 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, 16 April 2018

Executive Board



Marianne Bedsted
CEO

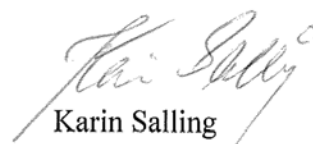
Board of Directors



Per Bank
Chairman



Jette Christiansen



Karin Salling



Jakob Røddik Thøgersen



Marianne Larsen
Employee representative

Independent auditor's report

To the shareholder of F. Salling A/S

Opinion

We have audited the financial statements of F. Salling 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 company at 31 December 2017, and of the results of the company 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 auditor's 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 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 auditor's 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 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, 16 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 for F. Salling 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.

Foreign currencies

Transactions in foreign currencies are translated into DKK at the exchange rates prevailing at the date of the transaction. Monetary items in foreign currencies, which are not settled at the balance sheet date, are translated into DKK at the exchange rate at the balance sheet date.

Foreign exchange differences arising between the exchange rates at the transaction date and the exchange rates at the date of payment / the balance sheet date are recognised in financial items in the income statement.

Income statement

Net revenue

Net revenue from sale of goods for resale is recognised in the income statement provided that delivery and transfer of risks and rewards to the buyer have taken place. Net revenue is measured exclusive of VAT and taxes charged on behalf of third parties, and net of discounts relating to sales.

Financial items

Financial income and expenses comprise interest income and expenses and capital gains and losses on securities and price adjustment of receivables.

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

Property, plant and equipment

Property, plant and equipment 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
Fixtures and fittings, tools and equipment	3 – 10 years

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

Impairment losses in excess of depreciations are recognised when deemed necessary.

Inventories

Inventories are measured at calculated cost (weighted averages) less write-down for obsolescence.

Receivables

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

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.

Accounting policies

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.

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 the consolidated financial statements for Købmand Herman Sallings Fond, 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 retailing in Denmark. The company has no other significant activities.

Income statement

DKK million

<u>Notes</u>	<u>2017</u>	<u>2016</u>
Net revenue	959	942
Other operating income	66	67
	<u>1,025</u>	<u>1,009</u>
Consumption of goods	-580	-579
1 Other external expenses	-135	-135
Gross profit	310	295
2 Staff expenses	-215	-217
3 Depreciation and impairment losses	-21	-24
Result before financial items	74	54
4 Financial income	12	12
5 Financial expenses	-23	-12
Result before tax	63	54
6 Tax on the result for the year	-7	-12
Result for the year	56	42

Balance sheet

DKK million

Assets

<u>Notes</u>	<u>31/12 2017</u>	<u>31/12 2016</u>
Land and buildings	583	552
Fixtures and fittings, tools and equipment	30	29
Assets under construction	2	0
7 Property, plant and equipment	615	581
Total non-current assets	615	581
Inventories	175	190
8 Receivables from affiliated companies	940	1,034
Other receivables	80	63
Corporation tax	13	5
Receivables	1,033	1,102
Cash at bank and in hand	16	12
Total current assets	1,224	1,304
Total assets	1,839	1,885

Balance sheet

DKK million

Equity and liabilities

<u>Notes</u>	<u>31/12 2017</u>	<u>31/12 2016</u>
Share capital	200	200
Retained earnings	87	81
Proposed dividends	50	100
Total equity	337	381
9 Deferred tax	44	44
Total provisions	44	44
Mortgage credit institutions	1,185	1,239
10 Non-current liabilities other than provisions	1,185	1,239
10 Short-term part of non-current liabilities	33	3
Trade payables	114	120
Other payables	102	97
Deferred income	24	1
Current liabilities other than provisions	273	221
Total liabilities other than provisions	1,458	1,460
Total equity and liabilities	1,839	1,885
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 2017	200	81	100	381
Dividends paid			-100	-100
14 Result for the year		6	50	56
Equity at 31 December 2017	200	87	50	337

The share capital is composed as follows:

2,000,000 shares of DKK 100	<u>200</u>
	<u>200</u>

Notes to the financial statements

DKK million

	<u>2017</u>	<u>2016</u>
1 Other external expenses		
Fees to the statutory auditors:		
Fee for auditing	0.1	0.1
2 Staff expenses		
Salaries	194	196
Pensions	16	16
Other social security costs	5	5
	<u>215</u>	<u>217</u>
Average number of full-time employees	<u>681</u>	<u>687</u>
The board of directors received no fees. The remuneration to the registered member of the executive board is not disclosed in accordance with section 98b(3) of the Danish Financial Statements Act.		
3 Depreciation and impairment losses		
Land and buildings	12	12
Fixtures and fittings, tools and equipment	9	12
	<u>21</u>	<u>24</u>
4 Financial income		
Interest from affiliated companies	9	9
Other financial income	3	3
	<u>12</u>	<u>12</u>
5 Financial expenses		
Interest expense on mortgage loans	18	12
Other financial expenses	5	0
	<u>23</u>	<u>12</u>

Notes to the financial statements

DKK million

	2017	2016
6 Tax on the result for the year		
Current tax for the year	7	10
Adjustment of deferred tax for the year	0	2
	<u>7</u>	<u>12</u>

7 Property, plant and equipment

	Land and buildings	Fixtures and fittings, tools and equipment	Assets under construction
Cost:			
1 January 2017	1,327	87	0
Additions during the year	45	10	2
Disposals during the year	-2	-7	0
Transfers	0	0	0
31 December 2017	<u>1,370</u>	<u>90</u>	<u>2</u>
Depreciation and impairment losses:			
1 January 2017	-775	-58	
Disposals during the year	0	7	
Depreciation for the year	-12	-9	
31 December 2017	<u>-787</u>	<u>-60</u>	
Carrying amount at			
31 December 2017	<u>583</u>	<u>30</u>	<u>2</u>

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
9 Deferred tax		
Deferred tax at 1 January	44	42
Adjustment of deferred tax for the year recognised in the income statement	0	2
Deferred tax at 31 December	44	44
Deferred tax relates to:		
Property, plant and equipment	44	44
	44	44
10 Non-current liabilities other than provisions		
Mortgage credit institutions	1,218	1,242
	1,218	1,242
Short-term part of non-current liabilities	-33	-3
Total non-current liabilities other than provisions	1,185	1,239
Due as follows:		
Between 1 and 5 years	139	12
After 5 years	1,046	1,227
	1,185	1,239

11 Contractual obligations and contingencies, etc.

The company has entered contractual agreements about leasing of property. The total income from leaseholds during the contractual lease period is DKK 100 million as of 31 December 2017 (31 December 2016: DKK 70 million).

The company has entered into leasing agreements with a duration of 1 year. The total leasing commitments amount to DKK 1 million as of 31 December 2017 (31 December 2016: DKK 1 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).

Notes to the financial statements

DKK million

11 Contractual obligations and contingencies, etc. (continued)

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 at carrying amount of DKK 550 million have been provided as collateral (31 December 2016: DKK 532 million).

The company has not entered contractual commitments regarding acquisition or construction of properties at 31 December 2017 (31 December 2016: DKK 0 million).

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 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.

Ownership

The following shareholder owns 100 % of the share capital:

Dansk Supermarked A/S, Rosbjergvej 33, Brabrand

13 Events after the reporting period

No subsequent events have occurred that affect the annual report for 2017.

	<u>2017</u>	<u>2016</u>
14 Proposal for distribution of result for the year		
Proposed dividends	50	100
Retained earnings	6	-58
	<u>56</u>	<u>42</u>