

# Købmand Herman Sallings Fond

Rosbjergvej 33 - 35  
DK-8220 Brabrand

Annual report

2017

CVR no. 53 52 04 13

The Annual Report has been presented and  
approved at the Board meeting of the  
Foundation at 16 / 5 2018



Chair

# Table of contents

	<u>Page</u>
<b>Management's review</b>	
Financial highlights for the Group	1
Management's review	2
<b>Financial statements</b>	
<b>Statements</b>	
Management's statement	4
Independent auditor's report	5
<b>Købmand Herman Sallings Fond – Financial statements</b>	
Købmand Herman Sallings Fond – Income statement	8
Købmand Herman Sallings Fond – Statement of other comprehensive income	8
Købmand Herman Sallings Fond – Statement of financial position	9
Købmand Herman Sallings Fond – Cash flow statement	11
Købmand Herman Sallings Fond – Statement of changes in equity	12
Købmand Herman Sallings Fond – Notes to the financial statements	13
<b>Consolidated financial statements</b>	
Consolidated income statement	25
Consolidated statement of other comprehensive income	26
Consolidated statement of financial position	27
Consolidated cash flow statement	29
Consolidated statement of changes in equity	30
Notes to the consolidated financial statements	32

## Financial highlights for the Group

DKK million

	2017	2016	2015	2014 *)	2013 **)
Net revenue	58,446	57,582	57,148	43,455	-
Total revenue	58,804	57,901	57,474	43,754	12
Operating profit/loss (EBIT)	1,045	1,037	-2,034	9,599	-4
Financial items, net	-1,221	-191	46	-122	280
Total profit/loss for the year	-375	376	-2,369	9,134	945
Total assets	49,739	52,560	54,363	55,212	17,039
Total equity	19,557	19,881	20,055	22,307	11,540
Purchase of property, plant and equipment	1,276	1,070	937	879	212
Profit margin	1.8 %	1.8 %	-3.5 %	21.9 %	-33.3 %
Return on equity	-1.9 %	1.9 %	-11.2 %	54.0 %	8.5 %

### Definitions:

Profit margin is operating profit/loss divided by total revenue.

Return on equity is total profit/loss for the year divided by 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 year 2014 have not been adjusted to reflect the changes to the accounting principles applied in 2016 regarding insurance provisions in D. S. Forsikring A/S.

\*\*) The main and key figures for the financial year 2013 have not been adjusted to reflect the changes to the accounting principles applied resulting from the transition to IFRS in 2015 or the changes to the accounting principles applied in 2016 regarding insurance provisions.

### Comments to the main and key figures for the individual years:

In 2015-2017 Købmand Herman Sallings Fond and its subsidiaries are consolidated for the entire year. The consolidated statement of financial position for 2015-2017 comprises Købmand Herman Sallings Fond and its subsidiaries.

For 2014 the consolidated income statement comprises Købmand Herman Sallings Fond and F. Salling Invest A/S for the entire year. F. Salling Holding A/S' and Dansk Supermarked A/S' results until 11 April 2014 are recognised in the line item Share of profit/loss of associates, net of tax. As of 11 April 2014 F. Salling Holding A/S and Dansk Supermarked A/S are consolidated line-by-line in the consolidated income statement. The consolidated statement of financial position for 2014 comprises Købmand Herman Sallings Fond and its subsidiaries.

For 2013 the consolidated income statement comprises Købmand Herman Sallings Fond and F. Salling Invest A/S. F. Salling Holding A/S' and Dansk Supermarked A/S' results are recognised in the line item Share of profit/loss of associates, net of tax. The consolidated statement of financial position for 2013 comprises Købmand Herman Sallings Fond and F. Salling Invest A/S with F. Salling Holding A/S and Dansk Supermarked A/S recognised in the line item Investments in associates.

# Management's review

## Købmand Herman Sallings Fond

### Primary business area

Købmand Herman Sallings Fond is an independent Danish commercially operating foundation established 30 December 1964 by the founder of Dansk Supermarked A/S, Herman Christian Salling with the aim of ensuring the development of Dansk Supermarked A/S and its affiliated companies.

In 2017 the foundation and Købmand Ferdinand Sallings Mindefond increased their combined ownership of Dansk Supermarked Group to 100 %.

The purpose of the foundation is to own, protect and develop the strength and continuity of Dansk Supermarked Group. In addition to this the foundation also has charitable purposes to support:

- Groups of employees and present and former employees, initiative, ingenuity and the like in Danish business life and education of businessmen
- Ecclesiastical, sport, cultural and other worthy causes

### Development during the financial year

The annual report for Købmand Herman Sallings Fond is presented in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In 2017 the foundation has realised a profit for the year after tax of TDKK 109,564 against a result after tax of TDKK 26,568 in 2016. The increase is due to dividends received in 2017. The result after tax for 2017 is in line with the expectations.

### Distributions

For information about the foundations distribution policies, please refer to [http://sallingfondene.dk/wp-content/uploads/2018/03/KHSF\\_Uddelingspolitik\\_2017.pdf](http://sallingfondene.dk/wp-content/uploads/2018/03/KHSF_Uddelingspolitik_2017.pdf)

A total of TDKK 132,092 (2016: TDKK 147,467) has been distributed, which is allocated on main categories in accordance with the purpose of the foundation, groups of employees and present and former employees, initiative, ingenuity and the like in Danish business life and education of businessmen TDKK 11,766 and ecclesiastical, sport, cultural and other worthy causes TDKK 120,326. Distributions from previous years of TDKK 745 (2016: TDKK 1,037) have been reversed.

### Description of good foundation management

The foundation complies with most of the provisions for good foundation management. For further information, please refer to [http://sallingfondene.dk/wp-content/uploads/2018/03/KHSF\\_God\\_fondsledelse\\_2018.pdf](http://sallingfondene.dk/wp-content/uploads/2018/03/KHSF_God_fondsledelse_2018.pdf)

The table showing information about the board members (recommendation no. 2,3,4) and the independence of the board members (recommendation no. 2,4,1) is provided in the notes.

### Particular risks

The foundation has no particular risks.

### Expected development

The foundation expects that the result for the year 2018 will be positive.

### Subsequent events

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

# Management's review

## Købmand Herman Sallings Fond – the Group

### Primary business area

The primary business area of the Group includes the primary business area of the foundation as described above and the primary business area of the subsidiaries in the Group, which is to operate retailing in Denmark, Germany, Poland and Sweden.

### Development during the financial year

The annual report for Købmand Herman Sallings Fond – the Group is presented in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In 2017 the result is negatively impacted by an adjustment of the obligation to buy the remaining 19 % of Dansk Supermarked A/S (DKK 974 million) and impairment losses of DKK 365 million primarily related to goodwill and brands. In 2016 the result was negatively affected by an impairment loss of DKK 469 million regarding goodwill related to a change in the fair value of investments in subsidiaries.

The result of the underlying operations for 2017 is in accordance with expectations.

### Social responsibility and diversity in management

Købmand Herman Sallings Fond does not have policies regarding social responsibility, as the primary activity within the Group takes place in the Group's subsidiaries. The subsidiary in the Group, Dansk Supermarked A/S, has policies regarding social responsibility and prepares a report on social responsibility in connection with the annual report.

In Købmand Herman Sallings Fond the target regarding the gender constitution of the Board of Directors is that 40 % of the members of the Board of Directors equivalent to 2 must be women. At the end of 2017 the target is met, as 2 of the members of the Board of Directors are women.

### Particular risks

The retail activities is to a certain extent sensitive to market fluctuations. The Group has no special dependence on certain customers or suppliers.

### Expected development

The expectation for the result before financial items (EBIT) in 2018 is a decrease compared to 2017.

### Subsequent events

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

## Management's statement

The Board of Directors have today discussed and approved the annual report of Købmand Herman Sallings Fond for the financial year 1 January – 31 December 2017.

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 consolidated financial statements and the financial statements of Købmand Herman Sallings Fond give a true and fair view of the Group's and the foundation's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the foundation's operations and cash flows for the financial year 1 January – 31 December 2017.

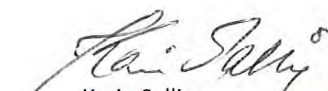
Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the foundation's operations and financial conditions, the results of the Group's and the foundation's operations, cash flows and financial position as well as a description of the most significant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

Brabrand, 16 May 2018

### Board of Directors



Jens Bjerg Sørensen  
Chairman



Karin Salling



Nils S. Andersen



Anne Broeng



Carsten Lorentzen

# Independent auditor's report

To the Board of Directors of Købmand Herman Sallings Fond

## ***Opinion***

We have audited the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond for the financial year 1 January – 31 December 2017, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group as well as for the foundation. The consolidated financial statements and the financial statements of Købmand Herman Sallings Fond are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond give a true and fair view of the financial position of the Group and the foundation at 31 December 2017 and of the results of the Group's and the foundation's operations and cash flows for the financial year 1 January – 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.

## ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. 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 consolidated financial statements and the financial statements of Købmand Herman Sallings Fond does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the consolidated financial statements or the financial statements of Købmand Herman Sallings Fond, 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 consolidated financial statements and the financial statements of Købmand Herman Sallings Fond 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 consolidated financial statements and the financial statements of Købmand Herman Sallings Fond***

Management is responsible for the preparation of consolidated financial statements and financial statements of Købmand Herman Sallings Fond that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and financial statements of Købmand Herman Sallings Fond that are free from material misstatement, whether due to fraud or error.

## Independent auditor's report

In preparing the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond, Management is responsible for assessing the Group's and the foundation'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 consolidated financial statements and the financial statements of Købmand Herman Sallings Fond unless Management either intends to liquidate the Group or the foundation or to cease operations, or has no realistic alternative but to do so.

### ***Auditor's responsibilities for the audit of the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond 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 these consolidated financial statements and parent company 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 consolidated financial statements and the financial statements of Købmand Herman Sallings Fond, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the foundation'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 consolidated financial statements and the financial statements of Købmand Herman Sallings Fond and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the foundation'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 consolidated financial statements and the financial statements of Købmand Herman Sallings Fond 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 Group and the foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond, including the note disclosures, and whether the consolidated financial statements and the financial statements of Købmand Herman Sallings Fond represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

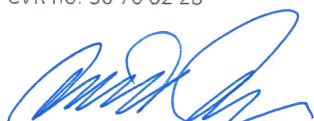


## Independent auditor's report

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.

Aarhus C, 16 May 2018

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

A blue ink signature of Henrik Kronborg Iversen, consisting of stylized, flowing letters.

Henrik Kronborg Iversen  
State Authorised Public Accountant  
MNE no. mne24687

A blue ink signature of Morten Friis, consisting of stylized, flowing letters.

Morten Friis  
State Authorised Public Accountant  
MNE no. mne32732

## Købmand Herman Sallings Fond

### Income statement

Amounts in TDKK

Notes	2017	2016
4 Staff expenses	-1,700	-1,700
External expenses	-2,299	-1,981
Operating profit/loss (EBIT)	-3,999	-3,681
5 Financial income	105,108	3,153
6 Financial expenses	-396	-114
Profit/loss before tax	100,713	-642
7 Income tax	8,851	27,210
<b>Total profit for the year</b>	<b>109,564</b>	<b>26,568</b>
Proposal for distribution of profit for the year:		
Adjustment, distribution reserve	112,000	72,775
Transferred to/from available capital	-2,436	-46,207
<b>Total profit for the year</b>	<b>109,564</b>	<b>26,568</b>

### Statement of other comprehensive income

Amounts in TDKK

Profit for the year	109,564	26,568
Other comprehensive income for the year, net of income tax	-	-
<b>Total comprehensive income for the year</b>	<b>109,564</b>	<b>26,568</b>

# Købmand Herman Sallings Fond

## Statement of financial position

Amounts in TDKK

Assets			
Notes		2017	2016
<b>Non-current assets</b>			
<b>Financial assets</b>			
8	Investments in subsidiaries	17,834	17,834
	Total financial assets	17,834	17,834
	<b>Total non-current assets</b>	<b>17,834</b>	<b>17,834</b>
<b>Current assets</b>			
<b>Receivables</b>			
	Prepayments	23	-
9	Other current financial assets	214,043	205,005
	Total receivables	214,066	205,005
9	<b>Cash and short-term deposits</b>	<b>54,534</b>	<b>42,595</b>
	<b>Total current assets</b>	<b>268,600</b>	<b>247,600</b>
	<b>Total assets</b>	<b>286,434</b>	<b>265,434</b>

# Købmand Herman Sallings Fond

## Statement of financial position

Amounts in TDKK

Equity and liabilities			
Notes		2017	2016
	<b>Equity</b>		
	Registered capital	22,219	22,219
	Available capital	-710	1,726
	Distribution reserve	653	20,000
	<b>Total equity</b>	<b>22,162</b>	<b>43,945</b>
	<b>Liabilities</b>		
	<b>Non-current liabilities</b>		
10	Deferred tax liabilities	6,401	15,252
	<b>Total non-current liabilities</b>	<b>6,401</b>	<b>15,252</b>
	<b>Current liabilities</b>		
9	Other current financial liabilities	-	1,383
9	Trade payables	24	-
9	Other payables	257,847	204,854
	<b>Total current liabilities</b>	<b>257,871</b>	<b>206,237</b>
	<b>Total liabilities</b>	<b>264,272</b>	<b>221,489</b>
	<b>Total equity and liabilities</b>	<b>286,434</b>	<b>265,434</b>

# Købmand Herman Sallings Fond

## Cash flow statement

Amounts in TDKK

Notes	2017	2016
Profit/loss before tax	100,713	-642
11 Adjustments	-104,712	-3,039
12 Change in working capital	-228	241
Net cash flows from operating activities before financial items and tax	-4,227	-3,440
Financial income received	1,944	3,296
Financial expenses paid	-396	-114
Net cash flows from operating activities	-2,679	-258
Dividends received	103,160	-
Sale of securities	-	93,555
Net cash flows from investment activities	103,160	93,555
Net payments to subsidiaries	-10,417	-3,987
Loan repayments from subsidiaries	-	48,650
Net cash flows from financing activities	-10,417	44,663
Distributions paid	-78,125	-98,868
Net change in cash and cash equivalents	11,939	39,092
Cash and cash equivalents at 1 January	42,595	3,503
13 Cash and cash equivalents at 31 December	54,534	42,595

# Købmand Herman Sallings Fond

## Statement of changes in equity

Amounts in TDKK

2016:

	Registered capital	Available capital	Distribution reserve	Total equity
Equity at 1 January 2016	22,219	47,933	93,655	163,807
Profit for the year	-	-46,207	72,775	26,568
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-46,207	72,775	26,568
Approved distributions	-	-	-147,467	-147,467
Reversed distributions payable	-	-	1,037	1,037
Other transactions	-	-	-146,430	-146,430
Equity at 31 December 2016	22,219	1,726	20,000	43,945

2017:

	Registered capital	Available capital	Distribution reserve	Total equity
Equity at 1 January 2017	22,219	1,726	20,000	43,945
Profit for the year	-	-2,436	112,000	109,564
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-2,436	112,000	109,564
Approved distributions	-	-	-132,092	-132,092
Reversed distributions payable	-	-	745	745
Other transactions	-	-	-131,347	-131,347
Equity at 31 December 2017	22,219	-710	653	22,162

## **Købmand Herman Sallings Fond**

### **Summary of notes to the financial statements**

- 1 General information
- 2 Summary of significant accounting policies
- 3 Significant accounting judgements, estimates and assumptions

#### **Notes to the income statement**

- 4 Staff expenses
- 5 Financial income
- 6 Financial expenses
- 7 Income tax

#### **Notes to the balance sheet**

- 8 Investments in subsidiaries
- 9 Financial assets and financial liabilities
- 10 Deferred tax

#### **Notes to the cash flow statement**

- 11 Adjustments
- 12 Change in working capital
- 13 Cash and cash equivalents

#### **Other notes**

- 14 Related party disclosures
- 15 Capital management
- 16 Events after the reporting period
- 17 Standards issued but not yet effective

# Købmand Herman Sallings Fond

## Notes to the financial statements

*Amounts in TDKK*

### 1 General information

Købmand Herman Sallings Fond is an independent Danish commercially operating foundation established 30 December 1964 by the founder of Dansk Supermarked A/S, Herman Christian Salling with the aim of ensuring the development of Dansk Supermarked A/S and its affiliated companies.

In 2017 the foundation and Købmand Ferdinand Sallings Mindefond increased their combined ownership of Dansk Supermarked Group to 100 %.

The purpose of the foundation is to own, protect and develop the strength and continuity of Dansk Supermarked Group. In addition to this the foundation also have charitable purposes to support:

- Groups of employees and present and former employees, initiative, ingenuity and the like in Danish business life and education of businessmen
- Ecclesiastical, sport, cultural and other worthy causes

Købmand Herman Sallings Fond is a commercially operating foundation with its registered office located at Rosbjergvej 33 - 35, 8220 Brabrand in Denmark.

### 2 Summary of significant accounting policies

For a summary of significant accounting policies, please refer to note 2 in the notes to the consolidated financial statements.

The functional currency of Købmand Herman Sallings Fond is Danish kroner. The presentation currency of the financial statements of Købmand Herman Sallings Fond is Danish kroner. All amounts have been rounded to the nearest thousand DKK, unless otherwise indicated.

### 3 Significant accounting judgements, estimates and assumptions

For a summary of significant accounting judgements, estimates and assumptions please refer to note 3 in the notes to the consolidated financial statements.



# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

	2017	2016
<b>4 Staff expenses</b>		
Fee, Board of Directors	1,700	1,700
Total staff expenses	1,700	1,700
Average number of full-time employees	-	-
<b>5 Financial income</b>		
Interest income on loans to related parties	1,948	2,573
Dividends received	103,160	-
Net gain on financial instruments held for trading	-	580
Total financial income	105,108	3,153
<b>6 Financial expenses</b>		
Interest expense on bank loans	384	108
Interest expense on loans from related parties	12	5
Other financial expenses	-	1
Total financial expenses	396	114
<b>7 Income tax</b>		
Change in deferred tax	8,851	27,210
Total income tax	8,851	27,210
Income tax recognised in the income statement	8,851	27,210
Total income tax	8,851	27,210

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

	2017		2016	
	DKK	%	DKK	%
Tax on result for the year at the Danish income tax rate	-22,157	22.0 %	141	22.0 %
Non-deductible costs	-538	0.5 %	-141	-22.0 %
Non-taxable income	22,695	-22.5 %	-	0.0 %
Deferred tax, recapture of provisions for distributions	8,851	-8.8 %	27,210	4,238.3 %
Income tax recognised in the income statement	8,851	-8.8 %	27,210	4,238.3 %

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

	2017	2016
<b>8 Investments in subsidiaries</b>		
Cost		
Balance at 1 January	17,834	17,834
Balance at 31 December	17,834	17,834
Carrying amount at 31 December	17,834	17,834

For a list of subsidiaries please refer to note 2 in the notes to the consolidated financial statements.

## 9 Financial assets and financial liabilities

	Carrying amount		Fair value	
	2017	2016	2017	2016
<i>Financial assets comprise the following:</i>				
Receivables from subsidiaries	214,043	205,005	214,043	205,005
Other current financial assets	214,043	205,005	214,043	205,005
Cash and short-term deposits	54,534	42,595	54,534	42,595

*Financial liabilities comprise the following:*

Payables to subsidiaries	-	1,383	-	1,383
Other current financial liabilities	-	1,383	-	1,383
Trade payables	24	-	24	-
Distributions payable	256,122	202,901	256,122	202,901
Other payables	1,725	1,953	1,725	1,953
Other payables	257,847	204,854	257,847	204,854

*Financial instruments by category:*

Loans and receivables:

Other financial assets	214,043	205,005
Cash and short-term deposits	54,534	42,595

Financial liabilities measured at amortised cost:

Other financial liabilities	-	1,383
Trade payables	24	-
Other payables	257,847	204,854

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

### 9 Financial assets and financial liabilities - continued

#### *Fair value:*

For cash and short-term deposits, other receivables and payables and other short-term receivables and payables 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 securities is derived from quoted market prices in active markets, and falls within level 1 of the fair value hierarchy.

#### *Risks arising from financial instruments:*

The foundation'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 2016.

For an in depth description of the policies for managing risks please refer to note 14 in the notes to the consolidated financial statements.

#### Currency risks:

There are no foreign currency risk in Købmand Herman Sallings Fond.

#### Interest rate risks:

The foundation's exposure to risk of changes in market interest rates relates to internal loans and intercompany balances.

A general increase of 1 %-point in interest rates is estimated, all other things being equal, to affect profit before tax and pre-tax equity by TDKK 1,167 (TDKK 1,238 in 2016).

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

	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
31 December 2017				
Other current financial assets	214,043	1 %	1,167	1,167
Impact			1,167	1,167
31 December 2016				
Other current financial assets	205,005	1 %	1,248	1,248
Other current financial liabilities	1,383	1 %	-10	-10
Impact			1,238	1,238

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

For receivable from and payables to subsidiaries 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.

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

### 9 Financial assets and financial liabilities - continued

Liquidity risks:

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

Købmand Herman Sallings Fond ensures liquidity through flexibility and diversification of borrowing, maturity and renegotiation time points, as well as counterparts. Flexibility in cash resources ensures that the foundation can act appropriately in case of unforeseen changes in liquidity. The liquidity reserves consist of cash and securities if any. Købmand Herman Sallings Fond assesses the liquidity risk to be low.

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

	Within 1 year	1 to 5 years	After 5 years
31 December 2017			
Other payables	190,984	66,863	-
Total	190,984	66,863	-

	Within 1 year	1 to 5 years	After 5 years
31 December 2016			
Other current financial liabilities	1,383	-	-
Other payables	142,752	62,102	-
Total	144,135	62,102	-

*Changes in liabilities arising from financing activities:*

	1 January 2017	Cash flows	Other	31 December 2017
Other current financial assets	205,005	9,034	4	214,043
Other current financial liabilities	-1,383	1,383	-	-
Total liabilities from financing activities	203,622	10,417	4	214,043

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

### 10 Deferred tax

*Deferred tax relates to the following:*

	Income statement		Statement of financial position	
	2017	2016	2017	2016
Deferred tax, recapture of provisions for distributions	-8,851	-27,210	6,401	15,252
Deferred tax income/expense / Net deferred tax	-8,851	-27,210	6,401	15,252

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

Deferred tax liabilities	6,401	15,252
Net deferred tax	6,401	15,252

*Reconciliation of net deferred tax:*

Opening balance at 1 January	15,252	42,462
Adjustment of deferred tax recognised in the income statement	-8,851	-27,210
Closing balance at 31 December	6,401	15,252

### 11 Adjustments

Financial income	-105,108	-3,153
Financial expenses	396	114
Adjustments	-104,712	-3,039

### 12 Change in working capital

Change in prepayments	-23	-
Change in trade and other payables	-205	241
Change in working capital	-228	241

### 13 Cash and cash equivalents

Cash and short-term deposits	54,534	42,595
Cash and cash equivalents	54,534	42,595

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

2017	2016
------	------

### 14 Related party disclosures

All related party transactions take place at an arm's length basis. The following transactions were carried out with related parties:

#### Subsidiaries:

Purchase of goods and services	1,762	1,204
Interests received, net	1,936	2,568
Dividends received	103,160	-
Distributions	-35,673	-24,356

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 2016). No expense has been recognised in 2017 or 2016 for bad or doubtful debts.

### Key management personnel

Key management personnel includes the Board of Directors. The key management personnel remuneration is shown below:

Short-term employee benefits	1,700	1,700
Total remuneration	1,700	1,700

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

### 14 Related party disclosures - continued

	Jens Bjerg Sørensen	Karin Salling	Nils S. Andersen
<b>Position</b>	Chairman	Vice chairman	Board member
<b>Gender</b>	Male	Female	Male
<b>Age</b>	60 (born in 1957)	74 (born in 1943)	59 (born in 1958)
<b>Original appointment</b>	2009	1978	2014
<b>End of appointment period</b>	2018	Appointed by the founder of the foundation and has a lifelong position according to the charter of the foundation	2018
<b>Other managerial positions:</b>			
<b>Chairman</b>	Alba Ejendomme A/S, BioMar Group A/S, Dovista A/S, F. Salling Holding A/S, F. Salling Invest A/S, GPV International A/S, Hydra-Grene A/S, Xergi A/S, Borg Automotive A/S, Borg Automotive Holding A/S, Car Parts Industries ApS		Dansk Supermarked A/S, Unifeeder A/S, Færch Plast Group A/S
<b>Vice chairman</b>	Dansk Supermarked A/S, Fibertex Nonwovens A/S, Fibertex Personal Care A/S, Per Aarsleff A/S, Per Aarsleff Holding A/S	Købmand Ferdinand Salling Mindefond, F. Salling A/S	
<b>Board member</b>	Aida A/S, Ejendomsselskabet FMJ A/S, F.M.J. A/S, Incuba Invest A/S, Niels Bohrs Vej A/S, Schouw & Co. Finans A/S, Specma AB	F. Salling Holding A/S, F. Salling Invest A/S, Tivoli Friheden A/S, Dansk Laksefond	F. Salling Invest A/S, F. Salling Holding A/S, Unilever PLC, Unilever NV, BP p.l.c.
<b>Positions on executive boards</b>	CEO at Aktieselskabet Schouw & Co., Schouw & Co. Finans A/S, Jens Bjerg Sørensen Datterholding 1 ApS, Jens Bjerg Sørensen Holding ApS, Saltebakken 29 ApS		Teix Partners ApS
<b>Other managerial positions</b>			Non Executive Director
<b>Independence</b>	Not considered independent	Not considered independent	Not considered independent
<b>Special competences</b>	Appointed to handle the foundation's business purpose	Appointed to handle the foundation's distribution purpose	Appointed to handle the foundation's business purpose

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

### 14 Related party disclosures - continued

	Anne Broeng	Carsten Lorentzen
<b>Position</b>	Board member	Board member
<b>Gender</b>	Female	Male
<b>Age</b>	56 (born in 1961)	61 (born in 1956)
<b>Original appointment</b>	2014	2015
<b>End of appointment period</b>	2018	2019
<b>Other managerial positions:</b>		
<b>Chairman</b>		Ørnstrand Holding A/S, Jacob Lee Ørnstrand Holding A/S, Aktieselskabet Århus af 1. Oktober 1992, Niels Mølgaard A/S, Benjamin Capital ApS, Poul-Jørn Holding ApS, JACO supermarkeder A/S, PHIRIK Invest ApS, ROOV ApS, Christina Ørnstrand Holding A/S, Malene Ørnstrand Holding A/S, Emiliehøj ApS, JACO Gruppen Holding A/S, Ejendomsselskabet Aarhus 2012 ApS, Ejendomsselskabet af den 4. Januar 1999 A/S, Lægårdsvej ApS, Pantus Invest Aps, IPJ Invest A/S, PMM Ejendomsselskab A/S, Holmstrupgårdvej ApS, JNRP Invest A/S, Jacob PNO Holding A/S, CPHI-Holding A/S
<b>Vice chairman</b>		
<b>Board member</b>	Købmand Ferdinand Salling Mindefond, F. Salling Holding A/S, F. Salling Invest A/S, Bruhn Holding ApS, Pensiondanmark Pensionsforsikringsaktieselskab, Pensiondanmark Holding A/S, VKR Holding A/S, NNIT A/S, Danske Commodities A/S, Bikubenfonden, ATP, Lønmodtagernes Garantifond, S/I Arbejdsmarkedets Fond for Udstationerede, NASDAQ Nordic oy, Velux A/S	DLA Piper Denmark Advokatpartnerselskab, DLA Piper Denmark Komplementar ApS, Benjamin Holding A/S, Formula Automobile A/S, Pam Holding A/S, Medital A/S, Pantus Holding ApS, PHIRIK ApS, Søholt Hovedgård A/S, Lindberg A/S, Soft Xpress A/S, Bell Xpress A/S, Per N. Ørnstrand A/S, Formula Leasing A/S, PNO Holding A/S, MF Hansen Holding ApS, Formula Holding 2017 A/S, Give Sværgods NH3 A/S, Give Sværgods Transport A/S
<b>Positions on executive boards</b>		Partner, Lawyer, DLA Piper Denmark Advokatpartnerselskab, Medital A/S, Advokatanpartsselskabet C.L.
<b>Other managerial positions</b>	Non Executive Director	Positions as liquidator are not included
<b>Independence</b>	Considered independent	Considered independent
<b>Special competences</b>	Appointed to handle the foundation's business purpose	Appointed to handle the foundation's distribution purpose



# **Købmand Herman Sallings Fond**

## **Notes to the financial statements**

*Amounts in TDKK*

### **15 Capital management**

For a description of the capital management please refer to note 27 in the notes to the consolidated financial statements.

### **16 Events after the reporting period**

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

### **17 Standards issued but not yet effective**

For a description of standards issued but not yet effective please refer to note 29 in the notes to the consolidated financial statements.

**Købmand Herman Sallings Fond - the Group**

**Consolidated financial statements**

## Consolidated income statement

DKK million

Notes	2017	2016
Net revenue	58,446	57,582
Other revenue	358	319
4 Total revenue	58,804	57,901
Cost of sales	-42,861	-42,589
Gross profit	15,943	15,312
5 Staff expenses	-7,096	-6,894
6 External expenses	-5,821	-5,393
Depreciation, amortisation and impairment losses	-1,973	-1,978
Net loss on disposal of investment property, property, plant and equipment and intangible assets	-8	-10
Operating profit/loss (EBIT)	1,045	1,037
13 Share of profit/loss of joint ventures, net of tax	7	-205
7 Financial income	44	129
8 Financial expenses	-1,265	-320
Profit/loss before tax	-169	641
9 Income tax	-206	-265
<b>Total profit/loss for the year</b>	<b>-375</b>	<b>376</b>
Attributable to:		
Adjustment, distribution reserve	112	72
Købmand Herman Sallings Fond	-429	251
Non-controlling interests	-58	53
<b>Total profit/loss for the year</b>	<b>-375</b>	<b>376</b>

# Consolidated statement of other comprehensive income

DKK million

Notes	2017	2016
<b>Profit/loss for the year</b>	-375	376
<b>Other comprehensive income, net of income tax:</b>		
<b>Items that will not be reclassified to the consolidated income statement:</b>		
9 Remeasurement of defined benefit plans	-6	-15
	<u>-6</u>	<u>-15</u>
<b>Items that are or may be reclassified subsequently to the consolidated income statement:</b>		
9 Exchange differences on translating foreign operations	168	-229
9 Cash flow hedges, value adjustment for the year	-27	-211
9 Cash flow hedges, reclassified to financial expenses	66	51
	<u>207</u>	<u>-389</u>
<b>Other comprehensive income for the year, net of income tax</b>	<u>201</u>	<u>-404</u>
<b>Total comprehensive income for the year</b>	<u>-174</u>	<u>-28</u>
Attributable to:		
Adjustment, distribution reserve	112	72
Købmand Herman Sallings Fond	-258	-91
Non-controlling interests	<u>-28</u>	<u>-9</u>
<b>Total comprehensive income for the year</b>	<u>-174</u>	<u>-28</u>

# Consolidated statement of financial position

DKK million

Assets			
Notes		2017	2016
<b>Non-current assets</b>			
10	<b>Intangible assets</b>		
	Goodwill	7,781	7,959
	Software	948	1,027
	Software development in progress	160	145
	Brands	1,442	1,511
	Other intangible assets	20	9
	Total intangible assets	10,351	10,651
11	<b>Property, plant and equipment</b>		
	Land and buildings	25,944	26,694
	Fixtures and fittings, tools and equipment	1,832	1,702
	Leasehold improvements	420	324
	Assets under construction and prepayments	127	111
	Total property, plant and equipment	28,323	28,831
12	<b>Investment property</b>	1,004	1,440
<b>Financial assets</b>			
13	Investments in joint ventures	4	32
	Total financial assets	4	32
15	<b>Deferred tax assets</b>	133	194
	<b>Total non-current assets</b>	<b>39,815</b>	<b>41,148</b>
<b>Current assets</b>			
16	<b>Inventories</b>	4,885	4,727
<b>Receivables</b>			
14	Trade receivables	179	204
	Income tax receivables	22	20
14	Other receivables	399	499
	Prepayments	55	70
14	Other current financial assets	10	5
	Total receivables	665	798
14	<b>Securities</b>	2,797	4,718
14	<b>Cash and short-term deposits</b>	1,568	1,160
17	<b>Assets classified as held for sale</b>	9	9
	<b>Total current assets</b>	<b>9,924</b>	<b>11,412</b>
	<b>Total assets</b>	<b>49,739</b>	<b>52,560</b>

# Consolidated statement of financial position

DKK million

Equity and liabilities			
Notes		2017	2016
<b>Equity</b>			
	Registered capital	22	22
	Retained earnings	16,751	17,186
	Cash flow hedge reserve	-217	-251
	Foreign currency translation reserve	-110	-253
	Distribution reserve	1	20
	Equity attributable to Købmand Herman Sallings Fond	16,447	16,724
	Non-controlling interests	3,110	3,157
	<b>Total equity</b>	<b>19,557</b>	<b>19,881</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
18	Pensions	320	327
15	Deferred tax liabilities	2,863	3,169
19	Provisions	259	143
14	Mortgage loans	12,351	12,623
14	Other non-current financial liabilities	265	4,894
	<b>Total non-current liabilities</b>	<b>16,058</b>	<b>21,156</b>
<b>Current liabilities</b>			
19	Provisions	83	59
14	Mortgage loans	169	126
14	Bank loans	-	1
14	Other current financial liabilities	111	95
14	Trade payables	11,055	8,755
	Income tax payable	20	6
14	Other payables	2,650	2,457
	Deferred income	36	24
	<b>Total current liabilities</b>	<b>14,124</b>	<b>11,523</b>
	<b>Total liabilities</b>	<b>30,182</b>	<b>32,679</b>
	<b>Total equity and liabilities</b>	<b>49,739</b>	<b>52,560</b>

## Consolidated cash flow statement

DKK million

Notes	2017	2016
Profit/loss before tax	-169	641
20 Adjustments	3,319	2,363
21 Change in working capital	2,285	1,868
Net cash flows from operating activities before financial items and tax	5,435	4,872
Financial income received	44	116
Financial expenses paid	-291	-313
Income tax paid	-467	-226
Net cash flows from operating activities	4,721	4,449
Purchase of intangible assets	-172	-166
Purchase of property, plant and equipment	-1,276	-1,070
Purchase of investment property	-6	-5
Proceeds from sale of property, plant and equipment and investment property	1,125	212
22 Acquisition of subsidiaries, net of cash received	-4,526	-
Capital contribution, joint ventures	-	-203
Purchase of securities	-5,618	-7,965
Sale of securities	7,538	7,645
Dividends received from joint venture	34	44
Net cash flows from investment activities	-2,901	-1,508
Loan repayments to related parties	-8	-
Loan repayments from related parties	-	15
Payment of finance lease liabilities	-1	-
Proceeds from loans from related parties	-	4
Repayment of borrowings	-229	-2,773
Dividends paid	-1,098	-513
Net cash flows from financing activities	-1,336	-3,267
Distributions paid	-78	-99
Net change in cash and cash equivalents	406	-425
Cash and cash equivalents at 1 January	1,159	1,589
Net foreign exchange difference	3	-5
23 Cash and cash equivalents at 31 December	1,568	1,159

## Consolidated statement of changes in equity

DKK million

### Equity attributable to Købmand Herman Sallings Fond

2016:

	Registered capital	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Distribution reserve	Total	Non- controlling interests	Total equity
Equity at 1 January 2016	22	16,948	-116	-59	94	16,889	3,166	20,055
Profit for the year		251			72	323	53	376
Remeasurement of defined benefit plans		-13				-13	-2	-15
Exchange differences on translating foreign operations				-194		-194	-35	-229
Cash flow hedges, value adjustment for the year			-178			-178	-33	-211
Cash flow hedges, reclassified to financial expenses			43			43	8	51
Other comprehensive income	-	-13	-135	-194	-	-342	-62	-404
Total comprehensive income for the year	-	238	-135	-194	72	-19	-9	-28
Approved distributions					-147	-147		-147
Reversed distributions payable					1	1		1
Other transactions	-	-	-	-	-146	-146	-	-146
Equity at 31 December 2016	22	17,186	-251	-253	20	16,724	3,157	19,881



## Consolidated statement of changes in equity

DKK million

	Equity attributable to Købmand Herman Sallings Fond						
	Registered capital	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Distribution reserve	Total	Non-controlling interests
							Total equity
2017:							
Equity at 1 January 2017	22	17,186	-251	-253	20	16,724	3,157
Profit for the year		-429			112	-317	-58
Remeasurement of defined benefit plans		-6				-6	-
Exchange differences on translating foreign operations				143		143	25
Cash flow hedges, value adjustment for the year			-22			-22	-5
Cash flow hedges, reclassified to financial expenses			56			56	10
Other comprehensive income	-	-6	34	143	-	171	30
Total comprehensive income for the year	-	-435	34	143	112	-146	-28
Dividends paid to non-controlling interests						-	-19
Approved distributions					-132	-132	
Reversed distributions payable					1	1	
Other transactions	-	-	-	-	-131	-131	-19
Equity at 31 December 2017	22	16,751	-217	-110	1	16,447	3,110

## Summary of notes to the consolidated financial statements

- 1 General information
- 2 Summary of significant accounting policies
- 3 Significant accounting judgements, estimates and assumptions

### **Notes to the income statement**

- 4 Total revenue
- 5 Staff expenses
- 6 External expenses
- 7 Financial income
- 8 Financial expenses
- 9 Income tax

### **Notes to the balance sheet**

- 10 Intangible assets
- 11 Property, plant and equipment
- 12 Investment property
- 13 Investments in joint ventures
- 14 Financial assets and financial liabilities
- 15 Deferred tax
- 16 Inventories
- 17 Assets classified as held for sale
- 18 Pensions
- 19 Provisions

### **Notes to the cash flow statement**

- 20 Adjustments
- 21 Change in working capital
- 22 Acquisition of subsidiaries, net of cash received
- 23 Cash and cash equivalents

### **Other notes**

- 24 Contingent liabilities and other financial commitments
- 25 Related party disclosures
- 26 Business combinations
- 27 Capital management
- 28 Events after the reporting period
- 29 Standards issued but not yet effective

# Notes to the consolidated financial statements

DKK million

## 1 General information

The primary business area of the Group includes the primary business area of the foundation as described note 1 in the notes to the financial statements of Købmand Herman Sallings Fond and the primary business area of the subsidiaries in the Group, which is retailing in Denmark through the physical stores Bilka, føtex, Netto and Salling and online with Bilka.dk, Salling.dk, føtex.dk, wupti.com and føtexdagligvarer.dk. Furthermore, the Group also operates franchises in Denmark including coffee shops Starbucks and the burger restaurants Carl's Jr. In Germany, Poland and Sweden the subsidiaries in the Group operates through Netto. During 2017 the Group acquired 80 % of Skagenfood A/S. Skagenfood A/S is one of the main players in Denmark regarding online sale of meal boxes.

Købmand Herman Sallings Fond is a commercially operating foundation with its registered office located at Rosbjergvej 33 - 35, 8220 Brabrand in Denmark.

## 2 Summary of significant accounting policies

The financial statements section of the annual report for the period 1 January – 31 December 2017 comprises the consolidated financial statements of Købmand Herman Sallings Fond and its subsidiaries (the Group) and the separate financial statements of Købmand Herman Sallings Fond.

The consolidated financial statements of Købmand Herman Sallings Fond Group and the separate financial statements 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.

### *Changes to accounting policies*

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 2017. The Group has assessed the changes, and it has been concluded that the application of the changes has not had a material impact on the consolidated financial statements or the separate financial statements in 2017, and no significant impact on future periods from the changes is expected.

Except from the above mentioned, the accounting policies are unchanged compared to last year.

### *Basis of preparation*

The functional currency of Købmand Herman Sallings Fond is Danish kroner. The presentation currency of the consolidated financial statements and the separate financial statements is Danish kroner. All amounts have been rounded to the nearest million, unless otherwise indicated.

The consolidated financial statements and the separate financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Basis of consolidation*

The subsidiaries, which are consolidated in the Group, are:

	Share of issued share capital and voting rights	Principal place of business and country of incorporation
F. Salling Invest A/S	100.00 %	Brabrand, Denmark
F. Salling Holding A/S	70.81 %	Brabrand, Denmark
Associate of F. Salling Invest A/S: Dansk Supermarked A/S	48.29 %	Brabrand, Denmark
Subsidiary of F. Salling Holding A/S: Dansk Supermarked A/S	51.71 %	Brabrand, Denmark
Subsidiaries of Dansk Supermarked A/S:		
F. Salling A/S	100.00 %	Brabrand, Denmark
Dansk Supermarked Ejendomme A/S	100.00 %	Brabrand, Denmark
D. S. Forsikring A/S	100.00 %	Brabrand, Denmark
Dansk Netto Deutschland ApS	100.00 %	Brabrand, Denmark
Skagenfood A/S	80.00 %	Strandby, Denmark
Netto Supermarkt GmbH	100.00 %	Stavenhagen, Germany
NETTO ApS & Co. KG	100.00 %	Stavenhagen, Germany
Netto Sp. Z o.o	100.00 %	Szczecin, Poland
Netto Marknad AB	100.00 %	Halmstad, Sweden
Netto Fastigheter AB	100.00 %	Halmstad, Sweden
Future Express Ltd.	100.00 %	Leeds, the UK
NETTO Ukraine LLC	100.00 %	Lviv, Ukraine
Orbita Propeerty LLC.	100.00 %	Lviv, Ukraine

As at 21 June 2017 the Group acquired 80 % of the issued share capital and voting rights of Skagenfood A/S.

As at 1 December 2017 F. Salling Holding A/S and F. Salling Invest A/S acquired the remaining 19 % of the shares in Dansk Supermarked A/S from A. P. Møller - Mærsk A/S, so that Dansk Supermarked A/S is owned 100 % by F. Salling Holding A/S and F. Salling Invest A/S.

As put options regarding non-controlling interests in subsidiaries, which are written in connection with business combinations, are treated according to the anticipated acquisition method, according to which the non-controlling interests that are comprised by the put option are considered to be purchased at the point in time where the put option is written, no non-controlling interests are recognised in the income statement, the statement of other comprehensive income or the equity regarding the comprised non-controlling interests. Dansk Supermarked A/S has written a put option regarding the 20 % of Skagenfood A/S, which are presently owned by Kuba Holding ApS. Consequently, no non-controlling interests regarding the 20 % of Skagenfood A/S are recognised in the consolidated financial statements. The put option liability is recognised at fair value at acquisition date under other non-current financial liabilities and subsequently measured at amortised costs.

Jointly F. Salling Holding A/S and F. Salling Invest A/S had written a put option regarding the 19 % of Dansk Supermarked A/S, which were owned by A.P. Møller Mærsk A/S until 1 December 2017. Consequently, no non-controlling interests regarding the 19 % of Dansk Supermarked A/S have been recognised in the consolidated financial statements for the period until 1. December 2017.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Accounting policies, income statement*

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, and excluding amounts collected on behalf of third parties such as sales taxes and value added taxes.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, the revenue can be measured reliably, and the consideration has been received or it is probable it will be received. Thus, revenue from the sale of goods is recognised at the point of sale in the store and for online purchases at collection in a store or a warehouse or at delivery of the goods.

In situations where the companies in the Group are acting as agents the recognised revenue equals the amount of commission plus any other amounts received from the principal or other parties.

Revenue is allocated between any customer loyalty programmes and the other components of the sale. The amount allocated to the customer loyalty programmes is deferred, and is recognised as revenue when the obligations to supply the discounted products are fulfilled or no longer probable.

Other revenue comprises rental revenue and revenue from other income sources e.g. sale of cardboard. Rental revenue arising from operating leases of buildings, investment properties and operating leases regarding in store rental is recognised on a straight-line basis over the lease terms, and is recognised in other revenue in the consolidated income statement.

#### *Cost of sales*

Cost of sales comprises the costs incurred in generating revenue. Supplier discounts attributable to the purchase price of the sold articles are part of cost of sales.

#### *Staff expenses*

Staff expenses comprise wages and salaries, post-employment benefits as well as related expenses.

#### *External expenses*

External expenses include direct and indirect costs related to rental and lease, franchise fees, operating expenses regarding investment properties, sales and distribution costs as well as office supplies etc. Supplier discounts related to cost reimbursements are recognised as part of external expenses.

#### *Depreciation, amortisation and impairment losses*

Depreciation, amortisation and impairment losses comprise depreciation on property, plant and equipment and investment property and amortisation of intangible assets, unless it is included in the carrying amount of another asset, as well as impairment losses.

#### *Government grants*

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a deduction of the related expense. When the grant relates to an asset, it is recognised as a deduction of the carrying amount of the asset, and is recognised in the income statement as a deduction of the related depreciation.

#### *Share of profit/loss of joint ventures, net of tax*

Joint arrangements, which are classified as joint ventures, are recognised using the equity method. The share of profit/loss of joint ventures after elimination of unrealised gains and losses resulting from transactions between the Group and the joint ventures to the extent of the interest in the joint ventures is recognised in the income statement.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Financial income and expenses*

Financial income and expenses comprise interest income and expense, exchange gains and losses on transactions denominated in foreign currencies as well as impairment of available-for-sale securities and fair value adjustments of financial assets held for trading and financial instruments recognised at fair value through profit or loss. Moreover, financial income and expenses comprise amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme.

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.

In the financial statements of Købmand Herman Sallings Fond dividends from investments in subsidiaries are recognised as financial income, when the final right to receive the dividends is established.

### *Income tax*

The Danish companies in the Group are included in the joint taxation in 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***

### *Intangible assets*

#### **Goodwill**

Goodwill is measured initially at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition goodwill is measured at cost net of accumulated impairment losses if any. Goodwill is not amortised. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the combination.

#### **Software and software development in progress**

Acquired software and software licenses are measured on initial recognition at cost. Subsequent to initial recognition acquired software and software licenses are measured at cost net of accumulated amortisation and accumulated impairment losses if any.

Development costs that are directly attributable to the design and testing of identifiable and unique software controlled by the Group are recognised as software development in progress, if it is the intention to complete the software, if sufficient resources to complete the software are available, if the costs can be measured reliably, and if the software is expected to generate probable future economic benefits.

The cost of the internally developed software comprises employee related costs, external costs as well as interest expenses during the period of production.

When internally developed software is available for use, it is reclassified from the line item software development in progress to the line item software. Internally developed software, which is available for use, is measured at cost net of accumulated amortisation and accumulated impairment losses if any.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

Brands and other separately acquired intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost net of accumulated amortisation and accumulated impairment losses if any.

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

Goodwill	No amortisation
Acquired software	3 - 10 years
Internally developed software	3 - 10 years
Software development in progress	No amortisation
Brands	10 - 40 years
Other separately acquired intangible assets	3 - 10 years

### *Property, plant and equipment*

Property, plant and equipment comprises land and buildings, fixtures and fittings, tools and equipment, leasehold improvements and assets under construction and prepayments. Property, plant and equipment is measured initially at cost comprising purchase price and any costs directly attributable to the acquisition until the date, when the asset is available for use. Government grants related to assets are deducted in arriving at the carrying amount of the asset. Subsequent to initial recognition property, plant and equipment 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
Buildings, including investment property:	
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 - 20 years

Leasehold improvements are depreciated over the shorter of the lease term of the related lease and the estimated useful lives of 12 years.

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

### *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 investment property. The useful lives are similar to those of other buildings.

### *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.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Investments in subsidiaries*

Investments in subsidiaries are measured at cost in Købmand Herman Sallings Fond's statement of financial position. If the cost exceeds the investment's recoverable amount, the carrying amount is reduced to this lower amount.

Dividends from investments in subsidiaries are recognised, when the final right to receive the dividends is established.

### *Investments in joint ventures*

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

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

Goodwill and software development in progress are tested annually. The carrying amount of other 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 utilisation 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.

### *Non-current assets held for sale*

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. Such non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition and the sale is expected to occur within one year from the date of the classification. Non-current assets are not depreciated or amortised once classified as held for sale.

### *Inventories*

Inventories are valued at the lower of calculated cost (weighted averages) and net realisable value.

Calculated cost comprises the purchase cost and other costs incurred in bringing the inventories to their present location and condition, which include cost of transportation from central warehouses to individual stores. Supplier discounts attributable to the articles in inventory reduce the calculated cost. Borrowing costs are not included in calculated cost.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### *Trade 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.



# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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 and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequently 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. This category generally applies to trade and other receivables, and the category is most relevant to the Group.

### *Prepayments*

Prepayments are measured at cost price.

### *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.

### *Distributions*

Distributions following the charter of the foundation made during the year are presented as an equity adjustment not as part of the proposal for distribution of profit/loss for the year. Approved distributions where payment has not been made are included as part of other current financial liabilities.

### *Pensions*

The Group has entered into defined contribution pension schemes and similar arrangements with the majority of the Group's employees. Contributions to defined contribution plans where the Group pays fixed pension payments to independent pension funds are recognised in the income statement in the period to which they relate, and any contributions outstanding are recognised in the statement of financial position as other payables.

For defined benefit plans an annual actuarial calculation (Projected Unit Credit method) is made of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation, retirement age and mortality. The actuarial present value is recognised in the statement of financial position under pension obligations. Pension costs for the year are recognised in the income statement based on actuarial estimates at the beginning of the year. Any difference between the calculated development in plan liabilities and realised amounts determined at year end constitutes actuarial gains or losses and is recognised in other comprehensive income.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Provisions*

Provisions are recognised when, as a result of past events, the Group has a legal or a constructive obligation and it is probable that there will be an outflow of resources embodying economic benefits to settle the obligation. The amount recognised as a provision is Management's best estimate of the expenses required to settle the obligation. On measurement of provisions, the costs required to settle the obligation are discounted if the effect is material to the measurement of the obligation.

A provision for onerous lease contracts is recognised when the expected benefits to be obtained by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

Insurance provisions include the actuarial estimated costs expected to be paid by the Group for insured events existing at the reporting date and risk margin. The estimate includes amounts expected to be incurred for the settlement of the obligations. Discounting is performed based on an estimate of the expected payment period.

Other provisions include among other things warranties, restructuring costs and jubilee benefits. Provisions for warranty-related costs are recognised upon a sale of a product for which the Group is liable for future warranty costs. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually. Restructuring costs are recognised under liabilities when a detailed, formal restructuring plan has been announced to the parties affected no later than at the end of the reporting period.

### *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. The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequently financial liabilities 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 items in the income statement. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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. This category is most relevant to the Group. This category generally applies to interest-bearing loans, borrowings, payables and the capitalised residual lease obligation under finance leases.

### *Deferred income*

Deferred income is measured at the consideration received or receivable.

### *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.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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 intangible assets, property, plant and equipment, investment property 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 the raising of loans, repayment of interest-bearing debt, and payment of dividends to minority shareholders.

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***

#### ***Consolidated financial statements***

The consolidated financial statements comprise Købmand Herman Sallings Fond and the subsidiaries in which Købmand Herman Sallings Fond directly or indirectly exercises control. Købmand Herman Sallings Fond exercises control if Købmand Herman Sallings Fond is exposed to or has rights to variable returns arising from its involvement in a company and may affect these returns through its power over the company.

The consolidated financial statements are prepared based on the accounts for Købmand Herman Sallings Fond and the subsidiaries and are a pooling of the accounting items of similar nature. On consolidation intra-group transactions are eliminated.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

Joint arrangements are activities or enterprises in which the Group exercises control through cooperation agreements with one or more parties. Joint control implies that decisions on relevant activities require unanimous consent of the parties sharing control over the arrangement. Joint arrangements are classified as joint ventures or joint operations. Joint operations are activities where the participants have direct rights over assets and are subject to direct liability, whereas joint ventures are activities where the participants solely have rights over the net assets.

Business combinations of entities under common control are accounted for using the pooling of interests method, and the comparative figures are restated.

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 achieved in stages, any previously held equity interest is remeasured at its 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.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Put options regarding non-controlling interests in subsidiaries, which are written in connection with business combinations, are treated according to the anticipated acquisition method, according to which the non-controlling interests that are comprised by the put option are considered to be purchased at the point in time where the put option is written. An amount equal to the financial obligation is recognised as part of the cost price of the investments in subsidiaries. As a consequence no non-controlling interests are recognised in the income statement, the statement of other comprehensive income or the equity regarding the comprised non-controlling interests, as the non-controlling interests are regarded as purchased. The obligation regarding the put option is recognised as part of Other non-current financial liabilities and is measured at fair value.

### *Foreign currency translation*

For each of the enterprises in the Group a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the enterprise operates. Transactions denominated in other currencies than the functional currency are foreign currency transactions.

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.

Foreign consolidated enterprises' statements of financial position are translated to Danish kroner at the exchange rates at the reporting date, while the enterprises' income statements and the statements of other comprehensive income are translated to the average exchange rates.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

Foreign exchange differences arising on translation of the opening equity of such foreign enterprises at the exchange rates at the reporting date and on translation of the income statements and the statements of other comprehensive income from the exchange rates at the transaction date to the exchange rates at the reporting date are recognised in other comprehensive income and in a separate translation reserve under equity.

### *Derivative financial instruments*

Derivative financial instruments are initially recognised at fair value in the statement of financial position on the trading date 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 other comprehensive income, 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 financial assets or other financial liabilities, respectively.

### *Fair value measurement*

The Group uses the fair value concept in connection with certain disclosure requirements and for recognition of some financial instruments. 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 Group 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 Group'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).

The Group 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:

# Notes to the consolidated financial statements

DKK million

## 3 Significant accounting judgements, estimates and assumptions - continued

### *Valuation of intangible assets, property, plant and equipment and investment property*

Intangible assets, property, plant and equipment and investment property are tested for impairment if there is an indication of impairment. For goodwill and intangible asset that are not yet in use annual impairment tests are carried out. 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 financial five-year plan. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the development in turnover and gross margins during the forecast period and the growth rate used for extrapolation purposes. For most intangible assets no fair value less costs of disposal exists. The key assumptions used to determine the recoverable amount are disclosed and further explained in the relevant notes.

### *Depreciation and amortisation*

The useful lives and residual values of intangible assets, property, plant and equipment and 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 amortisation and thereby the results for the year significantly.

### *Inventories*

Inventories are valued at the lower of calculated cost (weighted averages) and net realisable value. The calculated cost comprises supplier discounts. Supplier discounts are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group. A specific assessment of the need for write-down for obsolescence of inventories is made based on the future sales potential.

### *Provisions*

Provisions have been made for onerous contracts, insurance, warranties, jubilee benefits and pending lawsuits. These provisions are Management's best estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be recognised in the period when information about the actual liability becomes available.

# Notes to the consolidated financial statements

DKK million

	2017	2016
<b>4 Total revenue</b>		
Revenue from the sale of goods	58,446	57,582
Total net revenue	58,446	57,582
Rental revenue, investment property	91	96
Other rental	178	137
Other revenue	89	86
Total other revenue	358	319
Total revenue	58,804	57,901
<b>Geographical split</b>		
Denmark	41,346	40,773
Abroad	17,458	17,128
Total revenue	58,804	57,901
<b>5 Staff expenses</b>		
Wages and salaries incl. termination benefits	6,305	6,119
Post-employment benefits – defined contribution plans	366	358
Post-employment benefits – defined benefit plans	2	4
Social security costs	423	413
Total staff expenses	7,096	6,894
Average number of full-time employees	26,935	26,568
<b>6 External expenses</b>		
Fees paid to the auditors appointed at the annual general meeting:		
Fee regarding statutory audit	2.3	2.5
Tax assistance	0.6	0.6
Assurance engagements	0.3	0.3
Other assistance	2.3	1.0
Total fee paid to the auditors appointed at the annual general meeting	5.5	4.4

# Notes to the consolidated financial statements

DKK million

	2017	2016
<b>7 Financial income</b>		
Interest income on loans and receivables	4	7
Ineffective portion of changes in fair value of cash flow hedges	1	-
Net gain on derivatives not designated as hedges	-	17
Net gain on financial instruments held for trading	35	57
Net foreign exchange gain	4	34
Net gain on financial instruments recognised at fair value through profit or loss	-	13
Other financial income	-	1
Total financial income	44	129
<b>8 Financial expenses</b>		
Interest expense on mortgage loans	171	204
Interest expense paid to banks	23	11
Interest expense on other loans	-	13
Ineffective portion of changes in fair value of cash flow hedges	-	1
Cash flow hedges reclassified from other comprehensive income	84	65
Net loss on derivatives not designated as hedges	2	-
Net loss on financial instruments recognised at fair value through profit or loss	974	-
Other financial expenses	11	26
Total financial expenses	1,265	320
<b>9 Income tax</b>		
Current income tax	-485	-278
Adjustment regarding prior years, current income tax	6	-7
Change in deferred tax	292	68
Adjustment regarding prior years, deferred tax	-28	-
Total income tax	-215	-217
Income tax recognised in the income statement	-206	-265
Income tax recognised in other comprehensive income	-9	48
Total income tax	-215	-217



# Notes to the consolidated financial statements

DKK million

## 9 Income tax - continued

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

	2017		2016	
	DKK	%	DKK	%
Tax on result for the year at the Danish income tax rate	37	22.0 %	-141	22.0 %
Non-deductible costs	-267	-158.0 %	-161	25.1 %
Non-taxable income	52	30.7 %	16	-2.5 %
Deviating tax rates in foreign operations	-7	-4.1 %	-10	1.6 %
Adjustment to prior periods	-22	-13.0 %	-7	1.1 %
Not capitalised tax loss carry forwards	-6	-3.6 %	12	-1.9 %
Other	7	4.1 %	26	-4.1 %
Income tax recognised in the income statement	-206	-121.9 %	-265	41.3 %

### Tax on other comprehensive income

	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Remeasurement of defined benefit plans	-8	2	-6	-19	4	-15
Exchange differences on translating foreign operations	168	-	168	-229	-	-229
Cash flow hedges, value adjustment for the year	-34	7	-27	-269	58	-211
Cash flow hedges, reclassified to financial expenses	84	-18	66	65	-14	51
	210	-9	201	-452	48	-404

# Notes to the consolidated financial statements

DKK million

## 10 Intangible assets

2016:

	Goodwill	Software	Software develop- ment in progress	Brands	Other in- tangible assets	Total
Cost						
Balance at 1 January 2016	11,996	1,528	158	1,755	10	15,447
Additions	-	27	135	-	4	166
Adjustment, acquisitions through business combinations	-1	-	-	-	-	-1
Reclassifications	-	141	-148	-	-	-7
Disposals	-	-15	-	-	-	-15
Balance at 31 December 2016	11,995	1,681	145	1,755	14	15,590
Accumulated amortisation and impairment losses						
Balance at 1 January 2016	-3,567	-499	-	-152	-2	-4,220
Amortisation	-	-158	-	-92	-3	-253
Disposals	-	3	-	-	-	3
Impairment losses recognised in the income statement	-469	-	-	-	-	-469
Balance at 31 December 2016	-4,036	-654	-	-244	-5	-4,939
Carrying amount at 31 December 2016	7,959	1,027	145	1,511	9	10,651

# Notes to the consolidated financial statements

DKK million

## 10 Intangible assets - continued

2017:

	Goodwill	Software	Software development in progress	Brands	Other intangible assets	Total
<b>Cost</b>						
Balance at 1 January 2017	11,995	1,681	145	1,755	14	15,590
Additions	-	50	116	-	6	172
Acquisitions through business combinations	-	1	-	82	-	83
Reclassifications	-	96	-101	-	9	4
Disposals	-	-7	-	-	-	-7
Balance at 31 December 2017	11,995	1,821	160	1,837	29	15,842
<b>Accumulated amortisation and impairment losses</b>						
Balance at 1 January 2017	-4,036	-654	-	-244	-5	-4,939
Amortisation	-	-167	-	-94	-4	-265
Disposals	-	4	-	-	-	4
Impairment losses recognised in the income statement	-178	-56	-	-57	-	-291
Balance at 31 December 2017	-4,214	-873	-	-395	-9	-5,491
Carrying amount at 31 December 2017	7,781	948	160	1,442	20	10,351

### Impairment losses during the year

For impairment testing goodwill acquired through business combinations are allocated to the cash generating units that benefit from the synergies resulting from the acquisitions.

Carrying amount of goodwill within the Group:

	Dansk Supermarked A/S		Other	
	2017	2016	2017	2016
Goodwill	7,650	7,650	131	309

The goodwill amounts in the Group relate to the retail activities and the e-commerce activities within Dansk Supermarked Group A/S.

# Notes to the consolidated financial statements

DKK million

## 10 Intangible assets - continued

The recoverable amount of the goodwill and brand related to the retail activities and the e-commerce activities has been determined based on a value in use calculation using cash flow projections from the financial five-year plan approved by management and the purchase price, which was been paid when the remaining 19 % of Dansk Supermarked A/S was acquired. The pre-tax discount rate applied to cash flow projections is 9.0 % (9 % in 2016), and cash flows beyond the five-year period are extrapolated using a 2 % growth rate which is the expected long-term inflation rate (2 % in 2016). As a result of the impairment test, management identified an impairment loss of DKK 235 million regarding goodwill and brand (DKK 469 million in 2016). The impairment loss is recognised in the income statement as part of Depreciation, amortisation and impairment losses.

The calculation of value in use is most sensitive to the following key assumptions: Development in turnover and gross margins during the forecast period and growth rates used to extrapolate cash flows beyond the forecast period. Development in turnover and gross margins are based on expectations to average growth rates within the different formats for 2018 -2022.

Discount rates represent the current market assessment of the risks, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

During 2017 an impairment loss of DKK 56 million has been recognised regarding software. The impairment loss is recognised due to the fact that the use of the software will be discontinued within a shorter period than previously expected (DKK 0 in 2016). The impairment loss is recognised in the income statement as part of Depreciation, amortisation and impairment losses.

# Notes to the consolidated financial statements

DKK million

## 11 Property, plant and equipment

2016:

	Land and buildings	Fixtures and fittings, tools and equipment	Leasehold improve- ments	Assets under construction	Total
Cost					
Balance at 1 January 2016	36,013	5,012	1,145	103	42,273
Foreign currency translation	-240	-38	-9	-1	-288
Additions	342	565	64	99	1,070
Reclassifications	39	11	3	-90	-37
Disposals	-75	-168	-17	-	-260
Balance at 31 December 2016	36,079	5,382	1,186	111	42,758
Accumulated depreciation and impairment losses					
Balance at 1 January 2016	-8,679	-3,495	-836	-	-13,010
Foreign currency translation	33	27	6	-	66
Depreciation	-763	-376	-40	-	-1,179
Impairment losses recognised in the income statement	-17	-	-9	-	-26
Reversals of impairment losses recognised in the income statement	4	2	-	-	6
Reclassifications	13	-	-	-	13
Disposals	24	162	17	-	203
Balance at 31 December 2016	-9,385	-3,680	-862	-	-13,927
Carrying amount at 31 December 2016	26,694	1,702	324	111	28,831
Hereof finance leases		7			7

# Notes to the consolidated financial statements

DKK million

## 11 Property, plant and equipment - continued

2017:

	Land and buildings	Fixtures and fittings, tools and equipment	Leasehold improve- ments	Assets under construction	Total
Cost					
Balance at 1 January 2017	36,079	5,382	1,186	111	42,758
Foreign currency translation	223	24	-2	-	245
Additions	448	589	129	110	1,276
Acquisitions through business combinations	-	1	-	-	1
Reclassifications	55	8	27	-94	-4
Reclassified as held for sale	-10	-	-	-	-10
Disposals	-893	-153	-33	-	-1,079
Balance at 31 December 2017	35,902	5,851	1,307	127	43,187
Accumulated depreciation and impairment losses					
Balance at 1 January 2017	-9,385	-3,680	-862	-	-13,927
Foreign currency translation	-28	-16	2	-	-42
Depreciation	-775	-469	-47	-	-1,291
Impairment losses recognised in the income statement	-60	-1	-13	-	-74
Reclassified as held for sale	5	-	-	-	5
Disposals	285	147	33	-	465
Balance at 31 December 2017	-9,958	-4,019	-887	-	-14,864
Carrying amount at 31 December 2017	25,944	1,832	420	127	28,323
Hereof finance leases		7			7

### Impairment losses during the year

#### Land and buildings and Leasehold improvements

During 2017 impairment losses were recognised regarding a few buildings that had been vacated in connection with relocations of the stores to other locations, and it was assessed that the expected sales price of the building were lower than the carrying amount of the buildings. Impairment losses were recognised regarding leaseholds that had been closed or vacated in connection with relocations. Also impairment losses were recognised regarding 20 Polish, 1 Danish and 10 Swedish stores. Due to competitive pressures in local area the stores were not sufficiently profitable to cover the full carrying amount of the investments. The impairment losses and reversal of impairment losses are recognised in the income statement as part of Depreciation, amortisation and impairment losses.

# Notes to the consolidated financial statements

DKK million

	2017	2016
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## 12 Investment property

### Cost

Balance at 1 January	2,460	2,476
Foreign currency translation	1	-1
Additions	6	5
Reclassifications	-	43
Reclassified as held for sale	-1	-26
Disposals	-674	-37
Balance at 31 December	1,792	2,460

### Accumulated depreciation and impairment losses

Balance at 1 January	-1,020	-993
Foreign currency translation	-	1
Depreciation	-52	-55
Impairment losses recognised in the income statement	-	-3
Reclassified as held for sale	-	17
Disposals	284	25
Reclassifications	-	-12
Balance at 31 December	-788	-1,020

Carrying amount at 31 December	1,004	1,440
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Investment property comprises a shopping centre and flats located adjacent to Dansk Supermarked's stores.

The estimated fair value of investment property amounts to DKK 1,094 million at 31 December 2017 (DKK 1,640 million at 31 December 2016). The fair value is not based on a valuation by an independent valuer.

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	91	96
Direct operating expenses from investment that generates rental income	-22	-31
Direct operating expenses from investment that does not generate rental income	-1	-3
Profit arising from investment property	68	62

# Notes to the consolidated financial statements

DKK million

2017 2016

## 13 Investments in joint ventures

In 2014 Dansk Supermarked A/S and J Sainsbury plc formed a joint venture with the purpose of bringing the Netto brand back to the UK. During 2016 it was decided together with J Sainsbury plc. to end the joint venture as it proved difficult to reach sufficient scale due to a lack of availability of appropriate sites.

### Cost

Balance at 1 January	424	221
Additions	-	203
Balance at 31 December	424	424

### Value adjustments

Balance at 1 January	-392	-108
Dividends	-34	-44
Foreign currency translation etc.	-1	-35
Result	7	-205
Balance at 31 December	-420	-392

Carrying amount at 31 December	4	32
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Specification of investments in joint ventures:

	Share of issued share capital and voting rights	Principal place of business and country of incorporation
Netto UK Ltd.	50 %	Wakefield, the UK



# Notes to the consolidated financial statements

DKK million

## 14 Financial assets and financial liabilities

*Financial assets comprise the following:*

	Carrying amount		Fair value	
	2017	2016	2017	2016
Trade receivables	179	204	179	204
Other receivables	399	499	399	499
Receivables from other related parties	8	-	8	-
Derivatives not designated as hedges	2	5	2	5
Other current financial assets	10	5	10	5
Securities	2,797	4,718	2,797	4,718
Cash and short-term deposits	1,568	1,160	1,568	1,160

*Financial liabilities comprise the following:*

	Carrying amount		Fair value	
	2017	2016	2017	2016
Mortgage loans - non-current	12,351	12,623	12,609	12,852
Mortgage loans - current	169	126	169	126
Mortgage loans	12,520	12,749	12,778	12,978
Bank loans - current	-	1	-	1
Bank loans	-	1	-	1
Obligations under finance leases	4	6	4	6
Cash flow hedges	241	303	241	303
Other non-current financial liabilities	20	4,585	20	4,585
Other non-current financial liabilities	265	4,894	265	4,894
Obligations under finance leases	3	2	3	2
Derivatives not designated as hedges	15	10	15	10
Cash flow hedges	93	81	93	81
Other current financial liabilities	-	2	-	2
Other current financial liabilities	111	95	111	95
Trade payables	11,055	8,755	11,055	8,755
Other payables	2,650	2,457	2,650	2,457

# Notes to the consolidated financial statements

DKK million

2017	2016
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## 14 Financial assets and financial liabilities - continued

### Financial instruments by category:

#### Loans and receivables:

Trade receivables	179	204
Other receivables	399	499
Other financial assets excluding derivatives	8	-
Cash and short-term deposits	1,568	1,160

#### Financial assets at fair value through profit or loss:

Derivatives not designated as hedges	2	5
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#### Financial assets at fair value through profit or loss, held for trading:

Securities	2,797	4,718
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#### Financial liabilities measured at amortised cost:

Mortgage loans	12,520	12,749
Bank loans	-	1
Other financial liabilities excluding derivatives	27	10
Trade payables	11,055	8,755
Other payables	2,650	2,457

#### Financial liabilities at fair value through profit or loss:

Derivatives not designated as hedges	15	10
Other financial liabilities excluding derivatives	-	4,585

#### Financial liabilities at fair value through other comprehensive income:

Cash flow hedges	334	384
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### Hedge accounting:

Cash flow hedging is used to ensure that part of Groups 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.

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 as at 2016). During 1 - 5 years DKK -224 million is expected to affect profit or loss (DKK -267 million as at 2016), and after 5 years DKK -17 million is expected to affect profit or loss (DKK -36 million as at 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 other comprehensive income, while any ineffective portion is recognised immediately in the income statement.

# Notes to the consolidated financial statements

DKK million

2017      2016

## 14 Financial assets and financial liabilities - continued

### *Fair value:*

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

Cash flow hedges and other derivatives not designated as hedges are valued using valuation techniques, which are based on market observable inputs, and thereby fall within level 2 of the fair value hierarchy. The most frequently 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.

The fair value of securities is derived from quoted market prices in active markets, and falls within level 1 of the fair value hierarchy.

The fair value of mortgage loans is derived from quoted market prices in active markets, and falls within level 1 of the fair value hierarchy. The fair value of the obligation related to the put option regarding the non-controlling interests fell within level 3 of the fair value hierarchy due to the use of significant unobservable inputs. The fair value was based on a DCF calculation using cash flow projections from the financial five-year plan approved by management, a pre-tax discount rate of 9.0 % and cash flows beyond the five-year period that are extrapolated using a 2 % growth rate. Fair value of the remaining financial liabilities falls within level 2 of the fair value hierarchy and is calculated on the basis of discounted interests and instalments.

Specification of movements in level 3 of the fair value hierarchy:

Balance at 1 January	4,585	5,111
Dividends paid	-1,079	-513
Unrealised gains/losses recognised as part of financial income in the income statement	974	-13
Acquisition of the remaining 19 % of the shares in Dansk Supermarked A/S	-4,480	-
Balance at 31 December	-	4,585

### *Risks arising from financial instruments:*

The Group's main risks are market risks relating to fluctuations in foreign exchange rates and interest rates, liquidity risk relating to the availability of funds to support business needs and credit risk relating to the undesirable event of a default among the Group's financial counterparties. There have been no structural changes in the Group's risk exposure or risks compared to 2016. The policies for managing risks are explained below.

The overall framework for financial risk management is set out in Dansk Supermarked A/S' financial policy, which also comprises the holding companies and Købmand Herman Sallings Fond. The objective of the financial policy and the independent controls, that are established, is to minimize the potential adverse impact on the Group's financial performance. The financial policy is reviewed and updated on a regular basis. Dansk Supermarked A/S has a centralised management of financial risks undertaken by Group Treasury.

# Notes to the consolidated financial statements

*DKK million*

## 14 Financial assets and financial liabilities - continued

In accordance with policies, Group Treasury uses derivative financial instruments with the purpose of hedging exposures related to the Group's operations and its source of financing. It is the Group's policy to minimize the potential adverse impact on the Group's financial performance and protect the Group against negative impact of market risks. Group Treasury has primarily used forward contracts to hedge foreign exchange exposures and interest rate swaps to hedge interest rate exposures.

Treasury transactions and hedging activities are recognised in a Treasury management system with a high degree of system integration, control and automation of processes on treasury transactions. Operational risk on trading and settlement methods is minimizing financial counterparty risks.

Currency risks:

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The exposure to the risk of changes in foreign exchange rate relates primarily to the Group's operating activities and the net investments in foreign subsidiaries. The framework for hedging guidelines and risk mandate is covered by the FX risk management policy.

The majority of purchases of goods for resale made by the Group is denominated in the Group's functional currency DKK. However, some trade purchases are made in other currencies, primarily EUR and USD. It is the Group's policy to hedge known purchase orders in specific material currencies. Presently, USD is assessed to be a material currency, and purchase orders in USD are hedged. Purchase orders in other currencies are considered immaterial, and are therefore not hedged.

Hedge accounting is not used regarding the hedging of purchase orders. In other words, changes in the fair value of the hedging instruments are recognised in the income statement on a continuous basis, which can result in timing discrepancies.

Material committed and uncommitted investments in foreign currency can be hedged. Hedge accounting is not used regarding such hedges.

According to the FX risk management policy, cash positions (internal and external) are hedged. According to the policy exposures in EUR need not be hedged.

The Group's net currency exposure is the basis for determining the Group's risk. The hedging principles determine the risk neutral position (fully hedged) in regards of foreign exchange exposures. Deviations from the risk neutral position are summarized in an absolute VaR-based risk figure covering the various currency exposures. The foreign exchange exposures and the VaR-based risk figure are monitored and controlled on a daily basis, thereby securing compliance with thresholds and policies.

The following overview illustrates the effect on the consolidated income statement and the consolidated equity that would result, at the balance sheet date, from changes in currency exchange rates that are reasonable possible for material currencies:

# Notes to the consolidated financial statements

DKK million

## 14 Financial assets and financial liabilities - continued

31 December 2017	EUR/DKK	GBP/DKK	PLN/DKK	SEK/DKK	USD/DKK
Financial assets	18	8	641	85	1
Financial liabilities	-798	-	-	-	-
USD purchase orders	-	-	-	-	-536
Net exposures before derivatives	-780	8	641	85	-535
Derivatives	-67	-	-642	59	709
Net exposures after derivatives	-847	8	-1	144	174
The net exposures relate to:					
Expected commercial cash flows where hedge accounting is not used	-847	8	-1	144	174
Applied sensitivity	1 %	5 %	5 %	5 %	5 %
Impact on the consolidated income statement	-8	-	-	7	9
31 December 2016	EUR/DKK	GBP/DKK	PLN/DKK	SEK/DKK	USD/DKK
Financial assets	54	2	715	247	54
Financial liabilities	-551	-123	-	-	-
USD purchase orders	-	-	-	-	-580
Net external exposures	-497	-121	715	247	-526
Derivatives	401	123	-362	-198	430
Net exposures	-96	2	353	49	-96
The net exposures relate to:					
Expected commercial cash flows where hedge accounting is not used	-96	2	353	49	-96
Applied sensitivity	1 %	5 %	5 %	5 %	5 %
Impact on the consolidated income statement	-1	-	18	2	5

The sensitivity analysis only includes currency exposures arising from financial instruments. The applied change in the exchange rates is based on historical currency fluctuations. A decrease in the foreign currencies would have the opposite effect as the impact shown in the above overview.

### Interest rate risks:

The Group's exposure to risk of changes in market interest rates relates primarily to Group's mortgage loan financing, other non-current financial liabilities and its bond holdings. It is the Group's policy to limit fluctuations in interest rate expenses, and maintain a relative high degree of certainty for future interest payments. This is obtained through a diversified loan portfolio, consisting of both fixed and floating rate mortgage loans, in combination with interest rate hedges. The hedged loan portfolio is actively managed by Group Treasury reflecting ongoing risk assessment and expectations for the future development in interest rates.

# Notes to the consolidated financial statements

DKK million

## 14 Financial assets and financial liabilities - continued

Having a longer-term perspective for the mortgage loan portfolio, it is the Group's policy to keep an overall duration target for the mortgage loan portfolio in the range of 4 to 8. The potential impact on the equity ratio will be considered and controlled by balancing the maturity of the hedging instruments.

As at 31 December 2017, after taking into account the effect of interest rate swaps, approximately 85 % of the Group's mortgage loan portfolio are at a fixed rate, compared to 85 % as at 31 December 2016.

A general increase of 1 %-point in interest rates is estimated, all other things being equal, to affect profit before tax by DKK -12 million (DKK -80 million in 2016), and pre-tax equity by DKK 254 million (DKK 229 million in 2016). The direct impact on pre-tax equity is due to changes in the fair value of the interest rate swaps.

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

31 December 2017	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
Securities	2,797	1 %	-8	-8
Other current financial asset	8	1 %	-	-
Mortgage loans and other non-current financial liabilities	12,540	1 %	-34	-34
Cash flow hedges	334	1 %	30	296
Impact			-12	254

31 December 2016	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
Securities	4,718	1 %	-43	-43
Mortgage loans and other non-current financial liabilities	17,334	1 %	-72	-72
Cash flow hedges	384	1 %	35	344
Impact			-80	229

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

For receivable from joint ventures 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 (including the effect of related interest rate swaps):

31 December 2017	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	11,240	1,863	1,717	7,660
2 - 4 %	1,300	-	-	1,300
Total	12,540	1,863	1,717	8,960

Of which:

Bearing fixed interests	85 %
Bearing floating interests	15 %

# Notes to the consolidated financial statements

DKK million

## 14 Financial assets and financial liabilities - continued

31 December 2016	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	16,003	6,440	2,666	6,897
2 - 4 %	1,331	-	-	1,331
Total	17,334	6,440	2,666	8,228
Of which:				
Bearing fixed interests	63 %			
Bearing floating interests	37 %			

Liquidity risks:

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

The Group ensures liquidity through flexibility and diversification of borrowing, maturity and renegotiation time points, as well as counterparts. Flexibility in cash resources ensures that the Group can act appropriately in case of unforeseen changes in liquidity. The liquidity reserves consist of cash, securities and undrawn credit facilities. In both 2017 and 2016 the Group has had no breach of covenants or otherwise been close to breaking the agreed borrowing conditions during the year. The Group assesses the liquidity risk to be low.

The overview below summarises the maturity profile of the Group'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.

31 December 2017	Within 1 year	1 to 5 years	After 5 years
	year		years
Mortgage loans	338	1,347	13,437
Obligations under finance leases	3	5	-
Trade and other payables	13,638	87	-
Derivatives	94	394	125
Total	14,073	1,833	13,562
31 December 2016	Within 1 year	1 to 5 years	After 5 years
	year		years
Mortgage loans	314	1,253	14,177
Bank loans	1	-	-
Obligations under finance leases	3	6	-
Trade and other payables	11,152	4,647	-
Derivatives	83	374	204
Total	11,553	6,280	14,381

Credit risks:

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

# Notes to the consolidated financial statements

DKK million

2017      2016

## 14 Financial assets and financial liabilities - continued

The Group prepares credit ratings of customers and counterparties on a regular basis. Credit risks are managed on the basis of internal credit ratings and credit lines for customers and financial counterparties. The credit lines are determined on the basis of the customers' and counterparties' creditworthiness and local market risks.

The Group is exposed to credit risks from trade receivables, balances with banks in the form of deposits and other financial instruments. The majority of the Group's sales is made in cash, and therefore, the credit risks are very low. The Group reduces its credit risks with banks by only doing business with banks with high credit ratings. Moreover, excess liquidity is deposited with banks or placed in liquid and secure bonds. The bond portfolio consists of a combination of DKK mortgage bonds, DKK governments bond and EUR covered bonds with very high credit rating. The overall portfolio duration is low, approximately 2.

The table below summarises the ageing analysis of trade receivables, which are not impaired:

Not due	105	101
< 30 days past due	16	20
30 to 90 days past due	17	36
90 to 180 days past due	12	19
> 180 days past due	29	28
Total	179	204

*Changes in liabilities arising from financing activities:*

	1 January 2017	Cash flows	Other	31 December 2017
Mortgage loans	12,749	-229	-	12,520
Obligations under finance leases	8	-1	-	7
Other financial assets excluding derivatives	-	-8	-	-8
Total net liabilities from financing activities	12,757	-238	-	12,519



# Notes to the consolidated financial statements

DKK million

## 15 Deferred tax

*Deferred tax relates to the following:*

	Consolidated income statement		Consolidated statement of financial position	
	2017	2016	2017	2016
Intangible assets	35	-11	-513	-530
Property, plant and equipment	119	10	-2,325	-2,444
Investment property	81	22	-130	-211
Financial assets	1	-1	-	-1
Provisions	-4	10	96	97
Other liabilities	32	-6	73	42
Tax loss carryforward	1	-5	68	68
Other	-3	45	1	4
Deferred tax income / Net deferred tax	262	64	-2,730	-2,975

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

Deferred tax assets	133	194
Deferred tax liabilities	-2,863	-3,169
Net deferred tax	-2,730	-2,975

*Reconciliation of net deferred tax:*

Opening balance at 1 January	-2,975	-3,038
Foreign currency translation adjustments	-1	-5
Adjustment of deferred tax recognised in the income statement	262	64
Adjustment of deferred tax recognised in other comprehensive income	2	4
Deferred tax acquired in business combinations	-18	-
Closing balance at 31 December	-2,730	-2,975

The Group has a deferred tax asset of DKK 42 million at 31 December 2017, which is not recognised in the consolidated statement of financial position (DKK 27 million in 2016). 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.

## 16 Inventories

Goods held for resale	4,855	4,698
Consumables	30	29
Total inventories	4,885	4,727

In the income statement as part cost of sales DKK 2 million have been recognised regarding write-downs of inventories to net realisable value (DKK 9 million in 2016).

# Notes to the consolidated financial statements

DKK million

	2017	2016
<b>17 Assets classified as held for sale</b>		
The major classes of assets classified as held for sale as at 31 December are as follows:		
Investment property	9	9
Assets classified as held for sale	9	9

The investment property classified as held for sale is recognised at carrying amount because the fair value less costs to sell of the investment property is higher than the carrying amount.

## 18 Pensions

The Group has entered into pension schemes and similar arrangements with most of the Group's employees. The majority of the Group's pension schemes is defined contribution plans. For a few former employees and some members of the founders family defined benefit plans exist. The defined benefit plans are lifelong. The defined benefit plans guarantee fixed amounts per year adjusted for price inflation and the plans are fully unfunded.

Changes in the present value of the defined benefit obligation:

Defined benefit obligation at 1 January	327	321
Interest expenses recognised as part of staff expenses	2	4
Actuarial gains / losses, demographic assumptions	8	3
Actuarial gains / losses, financial assumptions	-5	14
Actuarial gains / losses, experience adjustments	5	2
Payments from the plan	-17	-17
Defined benefit obligation at 31 December	320	327

The following significant actuarial assumptions are applied:

Discount rate (%)	0.5 %	0.5 %
Price inflation (%)	1.7 %	1.8 %

Life expectations are based on the Danish FSA's longevity benchmarks for the individual financial years.

A quantitative sensitivity analysis for the significant actuarial assumptions is shown below:

Discount rate:		
Increase of 0.5 % point	-17	-17
Decrease of 0.5 % point	18	19
Price inflation:		
Increase of 0.5 % point	18	19
Decrease of 0.5 % point	-17	-17

The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

# Notes to the consolidated financial statements

DKK million

## 18 Pensions - continued

No contributions will be made to the plans in the future. The average duration of the defined benefit obligation as at 31 December 2017 is 33 years (34 years in 2016). DKK 17 million is expected to be paid from the plans in 2018.

## 19 Provisions

2016:

	Onerous contracts	Insurance	Other	Total
Balance at 1 January 2016	16	138	50	204
Provisions made during the year	11	23	17	51
Provisions utilised during the year	-7	-24	-9	-40
Reversals during the year	-3	-5	-5	-13
Balance at 31 December 2016	17	132	53	202
Current	12	28	19	59
Non-current	5	104	34	143
Balance at 31 December 2016	17	132	53	202

2017:

	Onerous contracts	Insurance	Other	Total
Balance at 1 January 2017	17	132	53	202
Provisions made during the year	160	33	12	205
Provisions utilised during the year	-11	-34	-4	-49
Reversals during the year	-1	-8	-7	-16
Balance at 31 December 2017	165	123	54	342
Current	35	27	21	83
Non-current	130	96	33	259
Balance at 31 December 2017	165	123	54	342

The provision for onerous contracts comprises provision for leasing contracts, in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them. The provision is calculated as the least net cost of exiting from the contracts, which is the lower of the cost of fulfilling the contracts and any compensation or penalties arising from failure to fulfil them, and DKK 57 million is expected to fall due after more than 5 years (DKK 0 million in 2016).

The insurance provision comprises the estimated expenditure based on actuarial calculations that the Group expects to incur. The insurance provision is based on insured events that have taken place before year end. The estimate includes the direct and indirect amounts that the Group expects to pay to settle the outstanding claims. The provision is discounted based on estimates of the payment period, and DKK 36 million is expected to fall due after more than 5 years (DKK 45 million in 2016).

# Notes to the consolidated financial statements

DKK million

2017	2016
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## 19 Provisions - continued

Other provisions comprise a provision for warranties, a provision for jubilee benefits and a provision for pending lawsuits. The warranty provision is recognised upon a sale of a product for which the Group is liable for future warranty costs. Initial recognition is based on historical experience. The existing provision will expire in 2032. The provision for jubilee benefits concerns the Danish employees, and is estimated based on the expected jubilees for current employees. Of the provision DKK 16 million is expected to fall due after more than 5 years (DKK 16 million in 2016). No further information is provided regarding the provision for pending lawsuits as the information might harm the Group's position.

## 20 Adjustments

Financial income	-44	-129
Financial expenses	1,265	320
Amortisation and impairment of intangible assets	556	722
Depreciation and impairment of property, plant and equipment	1,365	1,199
Depreciation and impairment of investment property	52	58
Loss on sale of non-current assets, etc., net	8	10
Share of profit of joint ventures, net of tax	-7	205
Other adjustments	124	-22
Adjustments	3,319	2,363

## 21 Change in working capital

Change in trade and other receivables and prepayments	34	-70
Change in inventories	-133	208
Change in trade and other payables	2,384	1,730
Change in working capital	2,285	1,868

# Notes to the consolidated financial statements

DKK million

2017	2016
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## 22 Acquisition of subsidiaries, net of cash received

For a description of the acquisition of subsidiaries please refer to note 26.

Brands	82	-
Software	1	-
Fixtures and fittings, tools and equipment	1	-
Inventory	2	-
Trade receivables	9	-
Other receivables	1	-
Cash and bank balances	3	-
Total assets	99	-
Deferred tax liability	18	-
Trade payables	5	-
Income tax payable	1	-
Other payables	7	-
Total liabilities	31	-
Total identifiable net assets at fair value	68	-
Purchase consideration transferred	68	-
Cash	49	-
Contingent consideration arrangement	19	-
Total	68	-
Net cash acquired with the subsidiary	3	-
Cash paid	-49	-
Cash paid relating to the purchase of the remaining 19 % of the shares in Dansk Supermarked A/S	-4,480	-
Net cash flow on acquisitions	-4,526	-

## 23 Cash and cash equivalents

Cash and short-term deposits	1,568	1,160
Current liabilities - bank loans	-	-1
Cash and cash equivalents available to the Group	1,568	1,159

## Notes to the consolidated financial statements

DKK million

2017      2016

### 24 Contingent liabilities and other financial commitments

*Operating leases, the Group is lessee:*

The Group has entered into operating leases with external parties regarding a number of stores, warehouses and some operational equipment. The leases have terms of between 1 month and 61 years. Under some of the leases the Group has the option to continue the lease of the assets beyond the agreed upon lease terms. The lease arrangements impose no restrictions on the Group.

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

Within 1 year	674	542
1 to 5 years	1,495	970
After 5 years	<u>1,530</u>	<u>731</u>
Total	<u>3,699</u>	<u>2,243</u>
Future minimum sublease payments expected to be received under non-cancellable subleases	<u>202</u>	<u>175</u>
Minimum lease payments recognised as operating lease expenses	<u>854</u>	<u>645</u>
Sublease payments recognised as a reduction of operating lease expenses	<u>72</u>	<u>69</u>

*Finance leases, the Group is lessee:*

The Group's finance leases consist of leasing of a number of cars in the Polish subsidiary. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	<u>2017</u>		<u>2016</u>	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within 1 year	3	3	3	2
1 to 5 years	<u>5</u>	<u>4</u>	<u>6</u>	<u>6</u>
Total	<u>8</u>	<u>7</u>	<u>9</u>	<u>8</u>

The difference between the minimum payments and the present value of payments (DKK 1 million in 2017 and DKK 1 million in 2016) represents the finance charges.

# Notes to the consolidated financial statements

DKK million

	2017	2016
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## 24 Contingent liabilities and other financial commitments - continued

*Operating leases, the Group is lessor:*

The Group leases a number of properties, shops and flats as operating leases to external parties. The leases have terms of between 1 month and 24 years. Under some of the leases the external parties have the option to continue the lease of the assets beyond the agreed upon lease terms.

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

Within 1 year	192	216
1 to 5 years	293	304
After 5 years	111	145
Total	596	665

*Other contingent liabilities and financial commitments:*

The Group has entered into contractual commitments regarding acquisition and construction of property, plant and equipment of a total of DKK 310 million (DKK 380 million in 2016).

The Group has entered into contractual commitments regarding acquisition of intangible assets of a total of DKK 2 million (DKK 2 million in 2016).

As security for mortgage loans land and buildings with a carrying amount of DKK 16,414 million have been provided as collateral (DKK 17,444 million in 2016).

The Danish companies in the Group excl. F. Salling Holding A/S are part of the joint registration regarding payment of VAT, PAYE taxes etc. and are thus jointly liable for the total liability of DKK 567 million at 31 December 2017 (DKK 497 million in 2016).

The Danish companies in Købmand Herman Sallings Fond Group are jointly taxed. As jointly taxed companies, which are not wholly owned, the companies in the Dansk Supermarked A/S subgroup have limited and subsidiary liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation group. However, Dansk Supermarked A/S' subsidiaries have 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 companies' liability will increase.

Guarantees of DKK 172 million have been provided to external parties regarding subsidiaries' leasing obligations (DKK 106 million in 2016).

# Notes to the consolidated financial statements

DKK million

	<u>2017</u>	<u>2016</u>
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## 25 Related party disclosures

Transactions between Købmand Herman Sallings Fond and its subsidiaries have been eliminated in the consolidated financial statements and are not disclosed in this note.

All related party transactions take place at an arm's length basis. The following transactions were carried out with related parties:

Joint ventures:

Sales of goods and services to joint ventures	-	18
Purchase of goods and services	-	-12
Dividends received	34	44

Any outstanding balances with related parties as at 31 December are presented in note 14. Outstanding balances carry interest and are to be settled in cash within 1 year unless otherwise specified in note 14.

None of the outstanding balances are secured, and no provisions are held against the balances as at 31 December (DKK 0 in 2016). No expense has been recognised in 2017 or 2016 for bad or doubtful debts.

### Key management personnel

Key management personnel includes the Board of Directors. The key management personnel remuneration for the Group companies is shown below:

Short-term employee benefits	<u>3</u>	<u>3</u>
Total remuneration	<u>3</u>	<u>3</u>

Of the total remuneration DKK 1 million (DKK 1 million in 2016) concerns payments from other Group companies.

## 26 Business combinations

As at 1 January 2016 Dansk Supermarked A/S merged with the subsidiaries wupti.com A/S and Thomberg ApS. During 2016 no other business combinations have taken place.

During 2017 Dansk Supermarked A/S acquired controlling interests in Skagenfood A/S. Dansk Supermarked A/S acquired 80 % of the issued share capital and voting rights in the company. Skagenfood A/S was acquired 21 June 2017.

Skagenfood A/S is one of the main players in Denmark regarding sale of meal boxes, and Dansk Supermarked Group intends to continue running Skagenfood A/S along side the Group's other online-activities. The purchase consideration transferred consists of cash. Dansk Supermarked A/S has entered into a contractual commitment to purchase the remaining 20 % of the shares in Skagenfood A/S. The founders of the company hold put options that allow them to sell the remaining shares at a price depended on the development of the company. The put options can be exercised in 2019 and 2021.



# Notes to the consolidated financial statements

DKK million

## 26 Business combinations - continued

As at 1 December 2017 F. Salling Holding A/S and F. Salling Invest A/S acquired the remaining 19 % of the shares in Dansk Supermarked A/S from A. P. Møller - Mærsk A/S, so that Dansk Supermarked A/S is owned 100 % by F. Salling Holding A/S and F. Salling Invest A/S. Jointly F. Salling Holding A/S and F. Salling Invest A/S had written a put option regarding the 19 % of Dansk Supermarked A/S, which were owned by A.P. Møller Mærsk A/S until 1 December 2017. As put options regarding non-controlling interests are treated according to the anticipated acquisition method in the Group, no non-controlling interests regarding the 19 % of Dansk Supermarked A/S were recognised in the consolidated financial statements for the period until 1. December 2017, and the Group is thus unaffected by the acquisition except for the payment of the obligation related to the put option.

## 27 Capital management

Købmænd Herman Sallings Fond Group ensures the continuity within Dansk Supermarked A/S and affiliated companies. Distributions are based on the financial strength of Købmænd Herman Sallings Fond Group taking the liquidity situation into account.

Købmænd Herman Sallings Fond Group manages its capital to ensure that the entities in Købmænd Herman Sallings Fond Group will be able to continue as going concerns while maximising the return to the shareholders through the optimisation of the debt and equity balance. For the purpose of Købmænd Herman Sallings Fond Group's capital management, capital includes total equity.

Købmænd Herman Sallings Fond Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

In order to achieve this overall objective, Købmænd Herman Sallings Fond Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to bank facilities. Breaches in meeting the financial covenants could permit the bank to call the bank facilities. There have been no breaches of the financial covenants in the current or previous periods.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

## 28 Events after the reporting period

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

## 29 Standards issued but not yet effective

The standards IFRS 17 Insurance Contracts, IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, IFRIC Interpretation 23 Uncertainty over Income Tax Treatments, Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, 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, Amendments to IAS 40: Transfers of Investment Property, Amendments to IFRS 9: Prepayment Features with Negative Compensation, Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures, Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, parts of Annual Improvements 2014-2016 Cycle and Annual Improvements to IFRS Standards 2015-2017 Cycle have been issued, but are not yet effective. The Group plans to adopt the new standards on the required effective dates. Overall the Group expects no significant impact on its statement of financial position and equity of the standards.

# Notes to the consolidated financial statements

*DKK million*

## **29 Standards issued but not yet effective - continued**

In May 2014 IFRS 15 Revenue from Contracts with Customers, in September 2015 amendments to IFRS 15: Effective date of IFRS 15 and in April 2016 Clarifications to IFRS 15 Revenue from Contracts with Customers were issued by the International Accounting Standards Board. The standard including amendments and clarifications have been endorsed by the European Union. The standard establishes a five-step model to account for revenue arising from contracts with customers. Revenue has to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group plans to adopt the new standard on the required effective date. The Group has performed a analysis of the standard. Based on the analysis the Group expects no significant impact on its statement of financial position and equity of the standard due to the relatively uncomplex nature of the Group's revenue generating activities.

In January 2016 IFRS 16 Leases was issued by the International Accounting Standards Board. The standard has been endorsed by the European Union. 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 Group plans to adopt the new standard on the required effective date. Based on the Group's analysis of the standard, the Group has determined that the standard will increase the total assets and liabilities significantly due to a considerable number of operating leases and also increase operating profit and financial expenses. Thus, the standard will affect the main and key figures of the Group significantly. The Group has yet to determined the exact monetary effect.