

# **Købmand Herman Sallings Fond**

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

**Annual report**

**2019**

**CVR no. 53 52 04 13**

The Annual Report has been presented and  
approved at the Board meeting of the  
Foundation at 25 / 5 2020



Chair

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## Financial highlights for the Group

DKK million

	2019	2018 <sup>2)</sup>	2017 <sup>1,2)</sup>	2016 <sup>1,2)</sup>	2015 <sup>1,2,3)</sup>
Revenue from contracts with customers	56,305	55,505	58,289	57,582	57,148
Total revenue	56,688	55,850	58,688	57,901	57,474
Operating profit/loss (EBIT)	1,800	1,568	1,045	1,037	-2,034
Financial items, net	-544	-248	-1,221	-191	46
Profit for the year from continuing operations	971	1,025	-	-	-
Profit/loss for the year from discontinued operations	714	-50	-	-	-
Total profit/loss for the year	1,685	975	-375	376	-2,369
Total assets	53,265	49,577	49,738	52,559	54,363
Total equity	21,828	20,205	19,556	19,880	20,055
Purchase of property, plant and equipment	1,489	1,233	1,276	1,070	937
Profit margin	3.2 %	2.8 %	1.8 %	1.8 %	-3.5 %
Return on equity	8.0 %	4.9 %	-1.9 %	1.9 %	-11.2 %

### 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).

<sup>1)</sup> Discontinued operations are included in all the main and key figures for the financial years 2015 - 2017 presented above. Thus, the main and key figures for the financial years 2015 - 2017 are not comparable to the main and key figures for the financial years 2018 - 2019.

<sup>2)</sup> The main and key figures for the financial years 2015 - 2018 have not been adjusted to reflect the changed accounting principles resulting from the implementation of IFRS 16 regarding leases in the Group, as the changes have been implemented retrospectively but with the cumulative effect of initially applying the new standard recognised on 1 January 2019. The comparative figures have not been restated as permitted by the specific transition provisions in the standard.

<sup>3)</sup> The main and key figures for the financial year 2015 have not been adjusted to reflect the changed accounting principles regarding the allowance for impairment losses on trade receivables.

## Management's review

### Købmand Herman Sallings Fond – the foundation

#### Primary business area

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

The purpose of the foundation is to own, protect and develop the strength and continuity of Salling 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 requirements in the Danish Financial Statements Act.

In 2019 the foundation has realised a profit for the year after tax of TDKK 168,606 against a result after tax of TDKK 168,918 in 2018. The result after tax for 2019 is in line with the expectations.

#### Distributions

For information about the foundations distribution policies, please refer to

<https://storage.sallinggroup.com/media/2599/khsf-uddelingspolitik-2020.pdf>

A total of TDKK 174,521 (2018: TDKK 158,640) 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 12,433 and ecclesiastical, sport, cultural and other worthy causes TDKK 162,088. Distributions from previous years of TDKK 25,722 (2018: TDKK 2,019) 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 <https://storage.sallinggroup.com/media/2600/redegoerelse-for-god-fondsledelse-2020.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 2020 will be at the same level as in 2019.

#### Subsequent events

No subsequent events have occurred that affect the annual report for 2019.



## 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 and Poland.

#### 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. In 2019 the Group applied IFRS 16 regarding leases for the first time. The figures for 2018 have not been adjusted to reflect the changed accounting principles.

End June 2019 the subsidiary, Salling Group A/S, sold its Swedish subsidiaries, Netto Marknad AB and Netto Fastigheter AB (Netto Sweden) to the Swedish company COOP Butiker och Stormarknader AB. As a result of the transaction, Salling Group A/S established the subsidiaries Fastighetsbolaget den 10. Maj 2019 AB and Salling Group Sverige AB. Fastighetsbolaget den 10. Maj 2019 was sold in December 2019 to Visionsbolaget 18748 AB (Swedish Logistic Property Förvaltning AB). The sale of the Swedish companies resulted in a total gain in Købmand Herman Sallings Fond – the Group of DKK 734 million.

Operating profit (EBIT) for 2019 amounts to DKK 1,800 million. EBIT is positively impacted by the implementation of IFRS 16. EBIT adjusted for the effect of IFRS 16 for 2019 is DKK 1,661 million, which is comparable to the 2018 EBIT of DKK 1,568 million. Profit before tax is DKK 1,257 million. Profit before tax is negatively impacted by the implementation of IFRS 16. Profit before tax adjusted for the effect of IFRS 16 for 2019 is DKK 1,418 million, which is comparable to the 2018 profit before tax of DKK 1,319 million. Total profit for the year for 2019 is DKK 1,685 million, which is positively impacted by the sale of Swedish subsidiaries and negatively impacted due to the implementation of IFRS 16. Total profit for the year in 2018 was DKK 975 million.

The result of the underlying operations for 2019 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, Salling Group 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 figure for the share of the underrepresented gender in the Board of Directors is 40 % meaning that two of the members of the Board of Directors must be of one gender and three of the members must be of the other gender. At the end of 2019 the target is not met, as only 1 of the members of the Board of Directors is a woman. Købmand Herman Sallings Fond will work towards achieving the target figure and recognises the benefits of a diverse board, but the Board of Directors believes that the board members should always be chosen based on their overall competences.

#### Particular risks

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

#### Expected development

Despite a slight negative impact from COVID-19 it is the expectation that the result before tax for 2020 will be in line with the result before tax for 2019.

#### Subsequent events

No subsequent events have occurred that affect the annual report for 2019.

## 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 2019.

The annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional 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 2019 and of the results of the Group's and the foundation's operations and cash flows for the financial year 1 January – 31 December 2019.

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, 25 May 2020

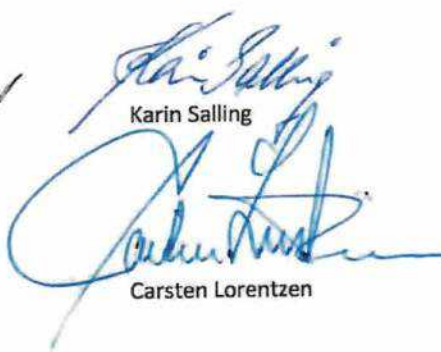
### Board of Directors



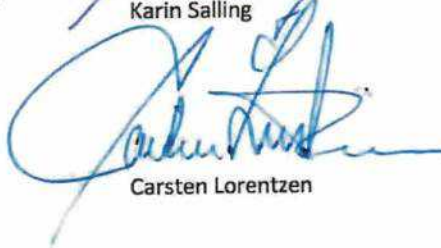
Jens Bjerg Sørensen  
Chairman



Michael Holm



Karin Salling



Carsten Lorentzen

Nils S. Andersen

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# 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 2019, 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 and 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 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 2019 and of the results of the Group's and the foundation's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional 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" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the 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.

## Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

## Management's responsibilities for the financial statements

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 requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Independent auditor's report

In preparing the financial statements, 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 financial statements 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 financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- 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, 25 May 2020

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

A blue ink signature of Henrik Kronborg Iversen, written in a cursive style.

Henrik Kronborg Iversen  
State Authorised Public Accountant  
MNE no. mne24687

A blue ink signature of Jes Lauritzen, written in a cursive style.

Jes Lauritzen  
State Authorised Public Accountant  
MNE no. mne10121

## Købmand Herman Sallings Fond

### Income statement

Amounts in TDKK

Notes	2019	2018
4 Staff expenses	-1,700	-1,701
External expenses	-2,644	-2,081
Operating loss (EBIT)	-4,344	-3,782
5 Financial income	169,811	170,561
6 Financial expenses	-830	-293
Profit before tax	164,637	166,486
7 Income tax	3,969	2,432
<b>Total profit for the year</b>	<b>168,606</b>	<b>168,918</b>
Proposal for distribution of profit for the year:		
Transferred to distribution reserve	159,675	160,671
Transferred to available capital	8,931	8,247
<b>Total profit for the year</b>	<b>168,606</b>	<b>168,918</b>

### Statement of other comprehensive income

Amounts in TDKK

Profit for the year	168,606	168,918
Other comprehensive income for the year, net of income tax	-	-
<b>Total comprehensive income for the year</b>	<b>168,606</b>	<b>168,918</b>



# Købmand Herman Sallings Fond

## Statement of financial position

Amounts in TDKK

Assets			
Notes		2019	2018
Non-current assets			
Financial assets			
8	Investments in subsidiaries	17,834	17,834
	Total financial assets	17,834	17,834
	Total non-current assets	17,834	17,834
Current assets			
Receivables			
9	Other current financial assets	359,261	264,962
	Total receivables	359,261	264,962
9	Cash and short-term deposits	29,395	37,787
	Total current assets	388,656	302,749
	Total assets	406,490	320,583

# Købmand Herman Sallings Fond

## Statement of financial position

Amounts in TDKK

Equity and liabilities		2019	2018
Notes			
<b>Equity</b>			
	Registered capital	22,219	22,219
	Available capital	16,468	7,537
	Distribution reserve	15,579	4,703
	<b>Total equity</b>	<b>54,266</b>	<b>34,459</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
10	Deferred tax liabilities	-	3,969
	<b>Total non-current liabilities</b>	<b>-</b>	<b>3,969</b>
<b>Current liabilities</b>			
9	Other current financial liabilities	-	443
9	Trade payables	77	2
9	Other payables	352,147	281,710
	<b>Total current liabilities</b>	<b>352,224</b>	<b>282,155</b>
	<b>Total liabilities</b>	<b>352,224</b>	<b>286,124</b>
	<b>Total equity and liabilities</b>	<b>406,490</b>	<b>320,583</b>

# Købmand Herman Sallings Fond

## Cash flow statement

Amounts in TDKK

Notes	2019	2018
Profit before tax	164,637	166,486
11 Adjustments	-168,981	-170,268
12 Change in working capital	77	50
Net cash flows from operating activities before financial items and tax	-4,267	-3,732
Financial income received	-	797
Financial expenses paid	-868	-293
Net cash flows from operating activities	-5,135	-3,228
Dividends received	169,811	169,811
Net cash flows from investment activities	169,811	169,811
Net payments to subsidiaries	-94,705	-60,000
Loan repayments from subsidiaries	-	9,477
Net cash flows from financing activities	-94,705	-50,523
Distributions paid	-78,363	-132,807
Net change in cash and cash equivalents	-8,392	-16,747
Cash and cash equivalents at 1 January	37,787	54,534
13 Cash and cash equivalents at 31 December	29,395	37,787

# Købmand Herman Sallings Fond

## Statement of changes in equity

Amounts in TDKK

2018:

	Registered capital	Available capital	Distribution reserve	Total equity
Equity at 1 January 2018	22,219	-710	653	22,162
Profit for the year	-	8,247	160,671	168,918
Total comprehensive income for the year	-	8,247	160,671	168,918
Approved distributions	-	-	-158,640	-158,640
Reversed distributions payable	-	-	2,019	2,019
Other transactions	-	-	-156,621	-156,621
Equity at 31 December 2018	22,219	7,537	4,703	34,459

2019:

	Registered capital	Available capital	Distribution reserve	Total equity
Equity at 1 January 2019	22,219	7,537	4,703	34,459
Profit for the year	-	8,931	159,675	168,606
Total comprehensive income for the year	-	8,931	159,675	168,606
Approved distributions	-	-	-174,521	-174,521
Reversed distributions payable	-	-	25,722	25,722
Other transactions	-	-	-148,799	-148,799
Equity at 31 December 2019	22,219	16,468	15,579	54,266

## **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 Contingent liabilities and other financial commitments
- 15 Related party disclosures
- 16 Capital management
- 17 Events after the reporting period
- 18 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 Salling Group A/S, Herman Christian Salling with the aim of ensuring the development of Salling Group A/S and its affiliated companies.

The purpose of the foundation is to own, protect and develop the strength and continuity of Salling 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

	2019	2018
<b>4 Staff expenses</b>		
Fee, Board of Directors	1,700	1,701
Total staff expenses	1,700	1,701
Average number of full-time employees	-	-
<b>5 Financial income</b>		
Interest income on loans to related parties	-	750
Dividends received	169,811	169,811
Total financial income	169,811	170,561
<b>6 Financial expenses</b>		
Interest expense on bank loans	266	256
Interest expense on loans from related parties	55	37
Interest expense on loans to related parties	509	-
Total financial expenses	830	293
<b>7 Income tax</b>		
Change in deferred tax	3,969	2,432
Total income tax	3,969	2,432
Income tax recognised in the income statement	3,969	2,432
Total income tax	3,969	2,432
<b>Reconciliation of income tax recognised in the income statement</b>		
	2019	2018
	DKK	DKK
	%	%
Tax on result for the year at the Danish income tax rate	-36,220	-36,627
Non-deductible costs	-1,138	-731
Non-taxable income	37,358	37,358
Deferred tax, change related to recapture of provisions for distributions	3,969	2,432
Income tax recognised in the income statement	3,969	2,432



# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

	2019	2018
<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	
	2019	2018	2019	2018
<i>Financial assets comprise the following:</i>				
Receivables from subsidiaries	359,261	264,962	359,261	264,962
Other current financial assets	359,261	264,962	359,261	264,962
Cash and short-term deposits	29,395	37,787	29,395	37,787

*Financial liabilities comprise the following:*

Payables to subsidiaries	-	443	-	443
Other current financial liabilities	-	443	-	443
Trade payables	77	2	77	2
Distributions payable	350,371	279,936	350,371	279,936
Other payables	1,776	1,774	1,776	1,774
Other payables	352,147	281,710	352,147	281,710

### Financial instruments by category

Financial assets at amortised cost:

Other financial assets	359,261	264,962
Cash and short-term deposits	29,395	37,787

Financial liabilities measured at amortised cost:

Other financial liabilities	-	443
Trade payables	77	2
Other payables	352,147	281,710

# 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.

#### 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 2018.

For an in depth description of the policies for managing risks please refer to note 16 in the notes to the consolidated financial statements.

#### Currency risks

There is 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 1,738 (TDKK 1,550 in 2018).

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

	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
31 December 2019				
Other current financial assets	359,261	1 %	1,738	1,738
Impact			1,738	1,738
31 December 2018				
Other current financial assets	264,962	1 %	1,554	1,554
Other current financial liabilities	443	1 %	-4	-4
Impact			1,550	1,550

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 receivables 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.

31 December 2019	Carrying amount	Within 1 year	1 to 5 years	After 5 years
Trade and other payables	352,224	213,018	139,206	-
Total, current liabilities	352,224	213,018	139,206	-

31 December 2018	Carrying amount	Within 1 year	1 to 5 years	After 5 years
Other current financial liabilities	443	443	-	-
Trade and other payables	281,712	176,896	98,986	5,830
Total, current liabilities	282,155	177,339	98,986	5,830

#### Changes in assets and liabilities arising from financing activities

2019	1 January 2019	Cash flows	Other	31 December 2019
Other current financial assets	264,962	94,262	37	359,261
Other current financial liabilities	-443	443	-	-
Total liabilities from financing activities	264,519	94,705	37	359,261
2018	1 January 2018	Cash flows	Other	31 December 2018
Other current financial assets	214,043	50,966	-47	264,962
Other current financial liabilities	-	-443	-	-443
Total liabilities from financing activities	214,043	50,523	-47	264,519

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

### 10 Deferred tax

#### Specification of deferred tax

	Income statement		Statement of financial position	
	2019	2018	2019	2018
Deferred tax, recapture of provisions for distributions	-3,969	-2,432	-	3,969
Deferred tax income / Net deferred tax	-3,969	-2,432	-	3,969

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

Deferred tax liabilities	-	3,969
Net deferred tax	-	3,969

#### Reconciliation of net deferred tax

Opening balance at 1 January	3,969	6,401
Adjustment of deferred tax recognised in the income statement	-3,969	-2,432
Closing balance at 31 December	-	3,969

### 11 Adjustments

Financial income	-169,811	-170,561
Financial expenses	830	293
Adjustments	-168,981	-170,268

### 12 Change in working capital

Change in prepayments	-	23
Change in trade and other payables (excl. distributions payable)	77	27
Change in working capital	77	50

### 13 Cash and cash equivalents

Cash and short-term deposits	29,395	37,787
Cash and cash equivalents	29,395	37,787

### 14 Contingent liabilities and other financial commitments

As at 31 December 2019 Købmand Herman Sallings Fond has signed a letter of intent stating its intention to, during an undefined number of years, decide to distribute up to DKK 250 million to a major project in Aarhus, if a number of prerequisites are fulfilled.

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

2019      2018

### 15 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	1,799	1,452
Interests received, net	-564	713
Dividends received	169,811	169,811
Distributions	-10,330	-10,752

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 2018). No expense has been recognised in 2019 or 2018 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	<u>1,700</u>	<u>1,701</u>
Total remuneration	<u>1,700</u>	<u>1,701</u>

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

### 15 Related party disclosures - continued

	Jens Bjerg Sørensen	Karin Salling	Nils S. Andersen
Position	Chairman	Vice chairman	Board member
Gender	Male	Female	Male
Age	62 (born in 1957)	76 (born in 1943)	61 (born in 1958)
Original appointment	2009	1978	2014
End of appointment period	2022	Appointed by the founder of the foundation and has a lifelong position according to the charter of the foundation	2022
Other managerial positions:			
Chairman	Alba Ejendomme A/S, BioMar Group A/S, GPV International A/S, HydraSpecma A/S, Borg Automotive A/S, Borg Automotive Holding A/S, A. Kirk A/S		Unilever PLC, Unilever NV, AkzoNobel N/V, Worldwide Flight Services, Færch Plast Group A/S, Færch Groups A/S, WWF Verdensnaturfonden
Vice chairman	Salling Group A/S, Fibertex Nonwovens A/S, Fibertex Personal Care A/S, Per Aarsleff A/S, Per Aarsleff Holding A/S	Købmand Ferdinand Salling Mindefond	
Board member	Aida A/S, Ejendomsselskabet FMJ A/S, F.M.J. A/S, Bitten og Mads Clausens Fond	Tivoli Friheden A/S	
Positions on executive boards	CEO at Aktieselskabet Schouw & Co., Jens Bjerg Sørensen Datterholding 1 ApS, Jens Bjerg Sørensen Holding ApS		
Other managerial positions			Non Executive Director
Independence	Not considered independent	Not considered independent	Not considered independent
Special competences	Appointed due to special managerial qualifications to handle the foundation's business purpose. Meets the requirement of close connection to Aarhus. Experience in board work, management and innovation among others in large, international corporations. Thorough knowledge of the activities within Salling Group.	Appointed to handle the foundation's distribution purpose. Experience in board work, handling of distribution purposes and close connection to the locale circles within church, culture, sports etc. Thorough knowledge of Salling Groups business, practices and history.	Appointed due to special managerial qualifications to handle the foundation's business purpose. Experience in board work and management among others in large, international corporations. Thorough knowledge of the activities within Salling Group.

# Købmand Herman Sallings Fond

## Notes to the financial statements

Amounts in TDKK

### 15 Related party disclosures - continued

	Michael Holm	Carsten Lorentzen
Position	Board member	Board member
Gender	Male	Male
Age	62 (born in 1957)	63 (born in 1956)
Original appointment	2018	2015
End of appointment period	2022	2023
Other managerial positions:		
Chairman	Systematic Library & Learning Holding A/S, Systematic Library & Learning A/S, Web2media ApS	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, Lindberg Optik A/S, Per N. Ørnstrand A/S
Vice chairman		
Board member	Copenhagen Optimization 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, Formula Leasing A/S, PNO Holding A/S, MF Hansen Holding ApS, Formula Holding 2017 A/S, , Give Sværgods A/S, Timelog A/S, DLA Piper Denmark Komplementar ApS, DLA Piper Denmark Advokatpartnerselskab, Nordic Compliance Services, Nordic Cooking & Catering A/S
Positions on executive boards	CEO at Systematic A/S, Systematic Holding ApS, Michael Holm Holding ApS, Kristian Salling Holding ApS, Kaare Salling Holm Aps, Kasper Kielsgaard Holm ApS, Kathrine Kielsgaard Holding Aps, Klaus Kielsgaard Holding ApS, Michael Holm Holding II ApS	Partner, Lawyer, DLA Piper Denmark Advokatpartnerselskab, Medital A/S, CLO 2018 ApS
Other managerial positions	DI FAD, DI Digital, DI Hovedbestyrelse	Positions as liquidator are not included
Independence	Considered independent	Considered independent
Special competences	Appointed to handle the foundation's business purpose. Experience in management, strategy, corporate governance and finance.	Appointed to handle the foundation's distribution purpose. Meets the requirement of close connection to Aarhus. Experience in corporate law and board work.



## **Købmand Herman Sallings Fond**

### **Notes to the financial statements**

*Amounts in TDKK*

#### **16 Capital management**

For a description of the capital management please refer to note 30 in the notes to the consolidated financial statements.

#### **17 Events after the reporting period**

No subsequent events have occurred that affect the annual report for 2019.

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

For a description of standards issued but not yet effective please refer to note 32 in the notes to the consolidated financial statements.

**Købmand Herman Sallings Fond - the Group**  
**Consolidated financial statements**

## Consolidated income statement

DKK million

Notes	2019	2018 *
Revenue from contracts with customers	56,305	55,505
Other revenue	383	345
4 Total revenue	56,688	55,850
Cost of sales	-40,627	-40,447
Gross profit	16,061	15,403
5 Staff expenses	-7,215	-6,870
6 External expenses	-4,743	-5,404
Depreciation, amortisation and impairment losses	-2,281	-1,591
Net gain/loss on disposal of investment property, property, plant and equipment and intangible assets	-22	30
Operating profit (EBIT)	1,800	1,568
15 Share of profit/loss of joint ventures, net of tax	1	-1
7 Financial income	44	63
8 Financial expenses	-588	-311
Profit before tax	1,257	1,319
9 Income tax	-286	-294
Profit for the year from continuing operations	971	1,025
10 Profit/loss for the year from discontinued operations	714	-50
<b>Total profit for the year</b>	<b>1,685</b>	<b>975</b>
Attributable to:		
Distribution reserve	160	161
Købmand Herman Sallings Fond (retained earnings)	1,272	668
Non-controlling interests	253	146
<b>Total profit/loss for the year</b>	<b>1,685</b>	<b>975</b>

\*) The 2018 figures have not been adjusted to reflect the changed accounting principles regarding leases.

## Consolidated statement of other comprehensive income

DKK million

Notes	2019	2018 *
Profit/loss for the year	1,685	975
Other comprehensive income, net of income tax:		
Items that will not be reclassified to the consolidated income statement:		
9 Remeasurement of defined benefit plans	-9	-4
	<u>-9</u>	<u>-4</u>
Items that are or may be reclassified subsequently to the consolidated income statement:		
9 Exchange differences on translating foreign operations	21	-112
9 Exchange differences related to the disposal of discontinued operations	167	-
9 Cash flow hedges, value adjustment for the year	-144	-96
9 Cash flow hedges, reclassified to financial expenses	82	73
	<u>126</u>	<u>-135</u>
Other comprehensive income for the year, net of income tax	<u>117</u>	<u>-139</u>
Total comprehensive income for the year	<u>1,802</u>	<u>836</u>
Attributable to:		
Distribution reserve	160	161
Købmand Herman Sallings Fond	1,372	549
Non-controlling interests	270	126
Total comprehensive income for the year	<u>1,802</u>	<u>836</u>

\*) The 2018 figures have not been adjusted to reflect the changed accounting principles regarding leases.

## Consolidated statement of financial position

DKK million

Assets			
Notes		2019	2018 *
<b>Non-current assets</b>			
11	<b>Intangible assets</b>		
	Goodwill	7,570	7,781
	Software	848	965
	Software development in progress	102	83
	Brands	1,381	1,399
	Other intangible assets	49	24
	<b>Total intangible assets</b>	<b>9,950</b>	<b>10,252</b>
12	<b>Property, plant and equipment</b>		
	Land and buildings	24,253	25,444
	Fixtures and fittings, tools and equipment	1,873	1,831
	Leasehold improvements	450	460
	Assets under construction and prepayments	280	230
	<b>Total property, plant and equipment</b>	<b>26,856</b>	<b>27,965</b>
13	<b>Right-of-use assets</b>		
	Land and buildings	5,246	-
	Fixtures and fittings, tools and equipment	88	-
	<b>Total right-of-use assets</b>	<b>5,334</b>	<b>-</b>
14	<b>Investment property</b>	<b>913</b>	<b>943</b>
	<b>Financial assets</b>		
15	Investments in joint ventures	-	-
	<b>Total financial assets</b>	<b>-</b>	<b>-</b>
17	<b>Deferred tax assets</b>	<b>35</b>	<b>100</b>
	<b>Total non-current assets</b>	<b>43,088</b>	<b>39,260</b>
<b>Current assets</b>			
18	<b>Inventories</b>	<b>4,911</b>	<b>4,758</b>
	<b>Receivables</b>		
16	Trade receivables	120	125
	Income tax receivables	46	80
16	Other receivables	433	416
	Prepayments	95	63
16	Other current financial assets	10	1
	<b>Total receivables</b>	<b>704</b>	<b>685</b>
16	<b>Securities</b>	<b>2,804</b>	<b>3,340</b>
16	<b>Cash and short-term deposits</b>	<b>1,717</b>	<b>1,526</b>
19	<b>Assets classified as held for sale</b>	<b>41</b>	<b>8</b>
	<b>Total current assets</b>	<b>10,177</b>	<b>10,317</b>
	<b>Total assets</b>	<b>53,265</b>	<b>49,577</b>

## Consolidated statement of financial position

DKK million

Equity and liabilities			
Notes		2019	2018 *
<b>Equity</b>			
	Registered capital	22	22
	Retained earnings	18,678	17,414
	Cash flow hedge reserve	-289	-237
	Foreign currency translation reserve	-45	-205
	Distribution reserve	16	5
	Equity attributable to Købmand Herman Sallings Fond	18,382	16,999
	Non-controlling interests	3,446	3,206
	<b>Total equity</b>	<b>21,828</b>	<b>20,205</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
20	Pensions	305	309
17	Deferred tax liabilities	2,658	2,792
21	Provisions	140	198
16	Mortgage loans	7,893	10,497
13, 16	Lease liabilities	5,020	-
16	Other non-current financial liabilities	344	275
16	Other non-current payables	225	-
	<b>Total non-current liabilities</b>	<b>16,585</b>	<b>14,071</b>
<b>Current liabilities</b>			
21	Provisions	32	87
16	Mortgage loans	80	149
13, 16	Lease liabilities	564	-
16	Bank loans	1	4
16	Other current financial liabilities	112	112
16	Trade payables	11,259	11,854
	Income tax payable	14	25
16	Other payables	2,751	3,032
	Deferred income	39	38
	<b>Total current liabilities</b>	<b>14,852</b>	<b>15,301</b>
	<b>Total liabilities</b>	<b>31,437</b>	<b>29,372</b>
	<b>Total equity and liabilities</b>	<b>53,265</b>	<b>49,577</b>

\*) The 2018 figures have not been adjusted to reflect the changed accounting principles regarding leases.

## Consolidated cash flow statement

DKK million

Notes	2019	2018 *
Profit before tax from continuing operations	1,257	1,319
Loss before tax from discontinued operations	-17	-24
22 Adjustments	2,900	1,809
23 Change in working capital	-506	1,376
Net cash flows from operating activities before financial items and tax	3,634	4,480
Financial income received	41	40
Financial expenses paid	-550	-311
Income tax paid	-358	-405
Net cash flows from operating activities	2,767	3,804
11 Purchase of intangible assets	-183	-152
12 Purchase of property, plant and equipment	-1,489	-1,233
14 Purchase of investment property	-6	-1
Proceeds from sale of property, plant and equipment and investment property	56	111
24 Acquisition of subsidiaries, net of cash received	-9	-
Purchase of securities	-2,446	-3,010
Sale of securities	2,982	2,467
25 Sale of subsidiaries, net of cash sold	1,683	-
Repayment, receivables	121	-
15 Dividends received from joint venture	1	3
Net cash flows from investment activities	710	-1,815
Loan repayments from related parties	-	8
Payment of lease liabilities	-501	-1
Repayment of borrowings	-2,673	-1,874
Dividends paid	-30	-30
Net cash flows from financing activities	-3,204	-1,897
Distributions paid	-78	-133
Net change in cash and cash equivalents	195	-41
Cash and cash equivalents at 1 January	1,522	1,568
Net foreign exchange difference	-1	-5
26 Cash and cash equivalents at 31 December	1,716	1,522

\*) The 2018 figures have not been adjusted to reflect the changed accounting principles regarding leases.



## DKK million

30

# Consolidated statement of changes in equity

DKK million

## Equity attributable to Købmand Herman Sallings Fond

2019:

	Registered capital	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Distribution reserve	Total	Non-controlling interests	Total equity
Equity at 1 January 2019	22	17,414	-237	-205	5	16,999	3,206	20,205
Profit for the year	-	1,272	-	-	160	1,432	253	1,685
Remeasurement of defined benefit plans	-	-8	-	-	-	-8	-1	-9
Exchange differences on translating foreign operations	-	-	-	18	-	18	3	21
Reclassification to the consolidated income statement on	-	-	-	142	-	142	25	167
Cash flow hedges, value adjustment for the year	-	-	-122	-	-	-122	-22	-144
Cash flow hedges, reclassified to financial expenses	-	-	70	-	-	70	12	82
Other comprehensive income	-	-8	-52	160	-	100	17	117
Total comprehensive income for the year	-	1,264	-52	160	160	1,532	270	1,802
Dividends paid to non-controlling interests	-	-	-	-	-	-	-30	-30
Approved distributions	-	-	-	-	-175	-175	-	-175
Reversed distributions payable	-	-	-	-	26	26	-	26
Other transactions	-	-	-	-	-149	-149	-30	-179
Equity at 31 December 2019	22	18,678	-289	-45	16	18,382	3,446	21,828

## Summary of notes to the consolidated financial statements

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

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# 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 in 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 the running of five different formats of retail stores. In Denmark, Bilka, føtex, Netto, Salling and BR, and in Germany and Poland we are present with Netto stores. In E-commerce we operate with Bilka.dk, Salling.dk, føtex.dk, BR.dk, wupti.com, flowr.dk and Skagenfood.dk. Furthermore Salling Group operates Starbucks and Carl's Jr as franchises in Denmark.

End June 2019 the subsidiary, Salling Group A/S, sold the Swedish subsidiaries, Netto Marknad AB and Netto Fastigheter AB (Netto Sweden) to the Swedish company COOP Butiker och Stormarknader AB. As a result of the transaction, Salling Group A/S established the subsidiaries Fastighetsbolaget den 10. Maj 2019 AB and Salling Group Sverige AB. Fastighetsbolaget den 10. Maj 2019 was sold in December 2019 to Visionsbolaget 18748 AB (Swedish Logistic Property Förvaltning AB).

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 2019 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 requirements for class C large enterprises in the Danish Financial Statements Act.

### *Changes to accounting policies*

In 2019 the Group has applied IFRS 16: Leases for the first time.

The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The comparative figures have not been restated as permitted by the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group has recognised lease liabilities in relation to leases which had previously been classified as operating leases under the previous accounting principles regarding leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.6 %.

For leases previously classified as finance leases the Group has recognised the carrying amount of the leased assets and the lease liabilities immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. No remeasurements were necessary.

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard: Applying a single discount rate to a portfolio of leases with reasonably similar characteristics, Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review, Accounting for operating leases for all other leases than leases of cars with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease. The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group has relied on its assessment made under the previous accounting principles regarding leases.

The difference between the lease liability recognised as at 1 January 2019 and the operating lease commitments as at 31 December 2018 can be broken down as follows:

Operating lease commitments disclosed as at 31 December 2018	4,212
Discounted using the lessee's incremental borrowing rate of at the date of initial application	3,310
Finance lease liabilities recognised as at 31 December 2018	6
Short-term and low value leases not recognised as a liability	-171
Contracts reassessed as lease contracts	138
Adjustments as a result of a different treatment of extension and termination options	2,126
Adjustments as a result of known changes in future lease payments	72
Lease liability recognised as at 1 January 2019	<u>5,481</u>

The lease liability is recognised as shown below:

Current lease liability	610
Non-current lease liability	<u>4,871</u>
Lease liability recognised as at 1 January 2019	<u>5,481</u>

The associated right-of-use assets have been measured at an amount equal to the lease liability.

The change in accounting policy has affected the following items in the balance sheet as at 1 January 2019:

Property, plant and equipment - reduced by	-5
Right-of-use assets - increased by	5,365
Non-current provisions - reduced by	-72
Current provisions - reduced by	-43
Other non-current financial liabilities - reduced by	-3
Other current financial liabilities - reduced by	-3
Non-current lease liability - increased by	4,871
Current lease liability - increased by	610

The lessor accounting policies are unchanged by the adoption of IFRS 16.

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

Several other amendments and interpretations issued by the International Accounting Standards Board and endorsed by the European Union have become effective on or after 1 January 2019. 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 parent company financial statements in 2019, and no significant impact on future periods from the changes is expected. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

#### *Basis of preparation*

The functional currency of Kjøbmand 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.

#### *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: Salling Group A/S	48.29 %	Brabrand, Denmark
Subsidiary of F. Salling Holding A/S: Salling Group A/S	51.71 %	Brabrand, Denmark
Subsidiaries of Salling Group A/S:		
Salling Group Ejendomme A/S	100.00 %	Brabrand, Denmark
Salling Group Forsikring A/S	100.00 %	Brabrand, Denmark
Dansk Netto Deutschland ApS	100.00 %	Brabrand, Denmark
Skagenfood A/S	90.00 %	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
Salling Group Sverige AB	100.00 %	Stockholm, Sweden

During July 2019 the subsidiary, Salling Group A/S, sold the Swedish subsidiaries, Netto Marknad AB and Netto Fastigheter AB, to the Swedish company COOP Butiker och Stormarknader AB. During 2019 Salling Group A/S founded and sold the subsidiary Fastighetsbolaget den 10. Maj 2019 AB.

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

On 1 June 2018 the companies Dansk Supermarked A/S, Dansk Supermarked Ejendomme A/S and D.S. Forsikring A/S changed their names to Salling Group A/S, Salling Group Ejendomme A/S and Salling Group Forsikring A/S.

As at 1 January 2018 Salling Group A/S merged with the subsidiary F. Salling A/S with Salling Group A/S as the continuing entity.

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. In 2017, when Salling Group A/S acquired 80 % of the issued share capital and voting rights of Skagenfood A/S, it also wrote a put option regarding the 20 % of Skagenfood A/S, which were then owned by Kuba Holding ApS. A further 10 % were acquired during 2019, and a put option remains regarding the 10 %, which continues to be owned by Kuba Holding ApS. No non-controlling interests regarding the 10 % 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.

#### *Accounting policies, income statement*

##### *Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services taking into account the amount of any trade discounts and expected returns, and excluding amounts collected on behalf of third parties such as sales taxes and value added taxes. Thus, revenue from the sale of goods is recognised at the point of sale (at delivery) in the store and for online purchases at collection in a store or a warehouse or at delivery of the goods, i.e. when the performance obligations are satisfied.

The Group provides customers with a right to return the goods within a specified period, and a refund liability and a right of return asset will be recognised if not immaterial. The Group uses historical return data to estimate the expected return percentages. These percentages are applied to determine the expected value of the variable consideration related to returns.

In situations where Salling Group is acting as an agent the recognised revenue equals the amount of commission plus any other amounts received from the principal or other parties.

Customer loyalty programmes give rise to a separate performance obligation, and the portion of the transaction price that is allocated to the customer loyalty programmes based on the relative stand-alone selling prices 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 on 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.



## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *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 short-term and low value leases (in 2018 direct and indirect costs related to operating leases), franchise fees, operating expenses regarding 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 right-of-use assets, 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.

#### *Financial income and expenses*

Financial income and expenses comprise interest income and expense including interest expenses related to lease liabilities (in 2019 all leases except for short-term leases and leases of low-value assets and in 2018 only finance leases), exchange gains and losses on transactions denominated in foreign currencies as well fair value adjustments of financial assets held for trading. Moreover, financial income and expenses comprise amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax.

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

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.



## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *Profit/loss for the year from discontinued operations, net of tax*

Profit/loss for the year from discontinued operations, net of tax includes the results of discontinued operations and the eliminations between the continuing and the discontinued operations. The comparative figures are restated. The gain on the sale is also included as part of profit/loss for the year from discontinued operations, net of tax.

#### *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 measure 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.

##### *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

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *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 expected 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.

#### *Right-of-use assets*

At contract inception it is assessed whether a contract is, or contains, a lease. A single recognition and measurement approach is applied for all leases, except for short-term leases and leases of low-value assets. Right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments are recognised.

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land and buildings	1 - 60 years
Fixtures and fittings, tools and equipment	1 - 5 years

The short-term lease recognition exemption is applied to short-term leases (leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The lease of low-value assets recognition exemption is also applied to leases that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

#### *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.

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *Borrowing costs*

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

#### *Investments in 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.

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *Trade receivables, securities and other financial assets*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss, based on two criteria: the business model for managing the assets, and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. Purchases or sales of financial assets are recognised on the trade date. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at transaction price.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired. This category is the most relevant to the Group, and generally it applies to trade and other receivables.

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 financial expenses (negative net changes in fair value) or financial 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. This category includes derivatives not designated as hedges and securities, as they are held for trading.

At present the category financial assets at fair value through other comprehensive income is not relevant for the Group.

A financial asset or a part of a financial asset is derecognised from the statement of financial position, when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment is recognised as an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. The expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows includes any cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default. For trade receivables, the Group applies a simplified approach in calculating expected credit losses, and recognises a loss allowance based on lifetime expected credit losses at each reporting date irrespective of changes in credit risk using a provision matrix, which is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *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.

#### *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. In 2019 lease contracts are recognised as right-of-use assets and are included in the impairment test of non-current assets. Thus, no provision for onerous lease contracts is recognised in 2019 except for onerous short-term leases and leases of low-value assets if relevant. In 2018 any relevant provision for all operating lease contracts are included.

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.



# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, borrowings and payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. 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 financial 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. The Group has not designated any financial liability as at fair value through profit or loss.

After initial recognition, interest-bearing loans, borrowings and payables are measured at amortised cost using the effective interest method. Accordingly, any difference between the proceeds and the nominal value is recognised in the income statement as financial expenses over the term of the loan or at derecognition. This category is most relevant to the Group. This category generally applies to interest-bearing loans and borrowings.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

### *Lease liabilities*

At the commencement date of leases, lease liabilities are recognised measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating the lease, if the lease term reflects that the option to terminate is exercised. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the incremental borrowing rate at the lease commencement date is used unless the interest rate implicit in the lease is readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

### *Deferred income*

Deferred income is measured at the consideration received or receivable.

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

#### *Taxes*

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

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

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

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

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

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

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

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of businesses and of 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.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Accounting policies, other*

#### *Discontinued operations*

Discontinued operations represent a separate major line of business disposed of. The results of discontinued operations are presented separately in the income statement as profit/loss for the year from discontinued operations, net of tax. The comparative figures are restated. Eliminations between the continuing and the discontinued operations is presented to reflect continuing operations as post-separation. Assets and liabilities from the discontinued operations disposed of are not presented as separate items in the comparative figures in the statement of financial position as the criteria for held for sale classification was not regarded as met for the discontinued operations at the end of the comparative period. Cash flows from discontinued operations are not presented separately in the cash flow statement, but are included in net cash flows from operating activities, from investment activities and from financing activities. The effect from the discontinued operations on the cash flow statement is presented in note 10 along with other specifications related to the discontinued operations.

#### *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.

Joint arrangements are activities or enterprises in which the Group exercises joint 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.



# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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 financial income or financial expenses.

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 financial income or financial expenses.

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.

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").

## Notes to the consolidated financial statements

DKK million

### 2 Summary of significant accounting policies - continued

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:

#### *Recognition of right-of-use assets and lease liabilities*

In recognising right-of-use assets and lease liabilities the lease terms of the leases have to be determined. The lease term is the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Several lease contracts include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, all relevant factors that create an economic incentive to exercise either the renewal or termination are considered. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements).

For leases of land and buildings renewal periods are included as part of the lease term for leases with shorter non-cancellable periods. The renewal periods are included for the period that the Group expects to continue the lease taking into consideration that the retail business might look different in the future compared to the present set-up. The renewal periods for leases of land and buildings with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for no longer than the non-cancellable period and, hence, is not exercising any renewal options.

## Notes to the consolidated financial statements

DKK million

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

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

Intangible assets, property, plant and equipment, right-of-use assets 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, right-of-use assets 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 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

	2019	2018
<b>4 Total revenue</b>		
Revenue from contracts with customers, retail and ecommerce activities	56,305	55,505
Total revenue from contracts with customers	56,305	55,505
Rental revenue, investment property	63	63
Other rental	193	204
Other revenue	127	78
Total other revenue	383	345
Total revenue	56,688	55,850
<b>Geographical split</b>		
Denmark	42,804	42,049
Abroad	13,884	13,801
Total revenue	56,688	55,850

The absolut majority of sales in the Group is cash at delivery. The credit term for the remaining sales is 30 days, and the trade receivables are non-interest bearing if paid when due. No contracts with customers have an expected duration of more than one year, and in accordance with the practical expedient information about the amount of the transaction price related to unsatisfied or partially unsatisfied performances is not provided. The amount relates to the limited number of orders, where the order is received before year end and the delivery takes place after year end.

All revenue from contracts with customers is recognised at a point in time, and no revenue is recognised from performance obligations satisfied in previous years.

No material contract assets and liabilities or right of return assets and refund liabilities are recognised as at 31 December 2019 or 31 December 2018.

In a few situations related to the online activities the Group acts as an agent, thus arranging for another party to transfer the goods to the customer. In all other situations the Group is responsible for delivering the goods and services sold in the stores and online.

## 5 Staff expenses

Wages and salaries incl. termination benefits	6,476	6,186
Post-employment benefits – defined contribution plans	382	353
Post-employment benefits – defined benefit plans	1	1
Social security costs	356	330
Total staff expenses	7,215	6,870
Average number of full-time employees in continuing operations	25,769	26,024

## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>6 External expenses</b>		
Fees paid to the auditors appointed at the annual general meeting:		
Fee regarding statutory audit	2.7	2.7
Tax assistance	0.2	0.6
Assurance engagements	0.4	0.3
Other assistance	1.2	2.9
Total fee paid to the auditors appointed at the annual general meeting	4.5	6.5
In both 2018 and 2019 fee regarding statutory audit includes DKK 0.2 million paid to other auditors (the auditors appointed at the annual general meeting in Salling Group Forsikring A/S). All other fees mentioned above are paid to ERNST & YOUNG.		
<b>7 Financial income</b>		
Interest income on loans and receivables	5	2
Net gain on derivatives not designated as hedges	-	19
Net gain on financial instruments held for trading	-	8
Net foreign exchange gain	39	30
Other financial income	-	4
Total financial income	44	63
<b>8 Financial expenses</b>		
Interest expense on mortgage loans	109	188
Interest expense on lease liabilities	300	-
Interest expense paid to banks	8	14
Cash flow hedges reclassified from other comprehensive income	105	94
Net loss on derivatives not designated as hedges	2	-
Net loss on financial instruments recognised at fair value through profit or loss	6	-
Other financial expenses	58	15
Total financial expenses	588	311
<b>9 Income tax</b>		
Current income tax	-371	-351
Adjustment regarding prior years, current income tax	2	-1
Change in deferred tax	100	37
Adjustment regarding prior years, deferred tax	-	3
Total income tax	-269	-312
Income tax recognised in the income statement	-289	-320
Income tax recognised in other comprehensive income	20	8
Total income tax	-269	-312

## Notes to the consolidated financial statements

DKK million

### 9 Income tax - continued

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

	2019		2018	
	DKK	%	DKK	%
Tax on result for the year at the Danish income tax rate	-434	22.0 %	-285	22.0 %
Non-deductible costs	-25	1.3 %	-14	1.1 %
Non-taxable income	176	-9.0 %	16	-1.2 %
Deviating tax rates in foreign operations	-5	0.2 %	-7	0.5 %
Adjustment to prior periods	2	-0.1 %	2	-0.2 %
Not capitalised tax loss carry forwards	-7	0.4 %	-32	2.5 %
Other	4	-0.2 %	-	0.0 %
Income tax recognised in the income statement	-289	14.6 %	-320	24.7 %
Income tax recognised in the income statement related to continuing operations	-286		-294	
Income tax recognised in the income statement related to discontinued operations	-3		-26	
Income tax recognised in the income statement	-289		-320	

Divided on countries, where the Group has operating activities, the effective tax rate of 14.6 % (24.7 % in 2018) shown above can be specified as follows: Denmark 12.0 % (21.2 % in 2018), Sweden -3.1 % (-46.5 % in 2018), Germany 28.0 % (29.9 % in 2018) and Poland 20.1 % (18.8 % in 2018). The low effective tax rate in Sweden for 2018 and 2019 is due to the fact of non-capitalised tax losses carry forwards. The low tax rate in Denmark in 2019 is due to non-taxable income from the sale of subsidiaries.

#### Tax on other comprehensive income

	2019			2018		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Remeasurement of defined benefit plans	-12	3	-9	-5	1	-4
Exchange differences on translating foreign operations	21	-	21	-112	-	-112
Exchange differences related to the disposal of discontinued operations	167	-	167	-	-	-
Cash flow hedges, value adjustment for the year	-184	40	-144	-124	28	-96
Cash flow hedges, reclassified to financial expenses	105	-23	82	94	-21	73
	97	20	117	-147	8	-139



## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>10 Profit/loss for the year from discontinued operations</b>		
During June 2019 the subsidiary, Salling Group A/S, sold the Swedish subsidiaries, Netto Marknad AB and Netto Fastigheter AB, to the Swedish company COOP Butiker och Stormarknader AB and Fastighetsbolaget den 10. Maj 2019 AB was sold to Visionsbolaget 18748 AB (Swedish Logistic Property Förvaltning AB) during December 2019. The results for the subsidiaries and the gain on the sales are presented below. No remeasurements to fair value less costs to sell have been necessary.		
Revenue from contracts with customers	1,741	3,554
Other revenue	7	5
Total revenue	1,748	3,559
Cost of sales	-1,321	-2,702
Gross profit	427	857
Staff expenses	-243	-485
External expenses	-151	-348
Depreciation, amortisation and impairment losses	-54	-72
Net gain on disposal of investment property, property, plant and equipment and intangible assets	-1	3
Operating loss (EBIT)	-22	-45
Financial items	-9	-6
Loss before tax	-31	-51
Income tax related to loss from ordinary activities for the period	-	-20
Loss for the year from the subsidiaries sold	-31	-71
Group transactions towards the subsidiaries sold	14	27
Income tax related to the Group transactions towards the subsidiaries sold	-3	-6
Gain on disposal of the subsidiaries	734	-
Income tax related to the gain on disposal of the subsidiaries	-	-
Profit/loss for the year from discontinued operations	714	-50
Average number of full-time employees in discontinued operations	737	1,473
The cash flows incurred by the subsidiaries are as follows:		
Operating activities	-25	66
Investment activities	35	-62
Financing activities	-18	6
	-8	10

## Notes to the consolidated financial statements

DKK million

### 11 Intangible assets

2018:

	Goodwill	Software	Software develop- ment in progress	Brands	Other in- tangible assets	Total
Cost						
Balance at 1 January 2018	11,995	1,821	160	1,837	29	15,842
Additions	-	63	78	-	11	152
Reclassifications	-	147	-155	-	-	-8
Balance at 31 December 2018	11,995	2,031	83	1,837	40	15,986
Accumulated amortisation and impairment losses						
Balance at 1 January 2018	-4,214	-873	-	-395	-9	-5,491
Amortisation	-	-193	-	-43	-7	-243
Balance at 31 December 2018	-4,214	-1,066	-	-438	-16	-5,734
Carrying amount at 31 December 2018	7,781	965	83	1,399	24	10,252

2019:

	Goodwill	Software	Software develop- ment in progress	Brands	Other in- tangible assets	Total
Cost						
Balance at 1 January 2019	11,995	2,031	83	1,837	40	15,986
Additions	-	70	55	27	31	183
Reclassifications	-	32	-36	-	-	-4
Disposals, sale of subsidiaries	-314	-	-	-	-	-314
Balance at 31 December 2019	11,681	2,133	102	1,864	71	15,851
Accumulated amortisation and impairment losses						
Balance at 1 January 2019	-4,214	-1,066	-	-438	-16	-5,734
Amortisation	-	-219	-	-45	-6	-270
Disposals, sale of subsidiaries	103	-	-	-	-	103
Balance at 31 December 2019	-4,111	-1,285	-	-483	-22	-5,901
Carrying amount at 31 December 2019	7,570	848	102	1,381	49	9,950



## Notes to the consolidated financial statements

DKK million

### 11 Intangible assets - continued

#### 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:

	Salling Group		Other	
	2019	2018	2019	2018
Goodwill	7,439	7,650	131	131

The goodwill amounts in the Group relate to the activities within Salling Group.

The recoverable amount of the goodwill related to Salling Group's activities has been determined based on a value in use calculation using cash flow projections from the financial five-year plan approved by management. The pre-tax discount rate applied to cash flow projections is 9.0 % (9 % in 2018), 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 2018). As a result of the impairment test, management did not identify any impairment losses regarding goodwill.

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 2020 -2024.

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.

Management have considered and assessed reasonably possible changes for the key assumptions and have not identified any instances that would cause the carrying amount of the goodwill to exceed its recoverable amount.

During 2019 and 2018 no impairment losses have been recognised regarding intangible assets.

The impairment losses and reversal of impairment losses, if any, are recognised in the income statement as part of Depreciation, amortisation and impairment losses.

## Notes to the consolidated financial statements

DKK million

### 12 Property, plant and equipment

2018:

	Land and buildings	Fixtures and fittings, tools and equipment	Leasehold improve- ments	Assets under construction	Total
Cost					
Balance at 1 January 2018	35,902	5,851	1,307	127	43,187
Foreign currency translation	-163	-25	-9	-	-197
Additions	372	542	98	221	1,233
Reclassifications	104	13	9	-118	8
Reclassified as held for sale	-20	-	-	-	-20
Disposals	-105	-146	-7	-	-258
Balance at 31 December 2018	36,090	6,235	1,398	230	43,953
Accumulated depreciation and impairment losses					
Balance at 1 January 2018	-9,958	-4,019	-887	-	-14,864
Foreign currency translation	27	17	6	-	50
Depreciation	-765	-545	-55	-	-1,365
Impairment losses recognised in the income statement	-11	-	-9	-	-20
Reversals of impairment losses recognised in the income statement	5	-	-	-	5
Reclassified as held for sale	12	-	-	-	12
Disposals	44	143	7	-	194
Balance at 31 December 2018	-10,646	-4,404	-938	-	-15,988
Carrying amount at 31 December 2018	25,444	1,831	460	230	27,965
Hereof finance leases	-	5	-	-	5

## Notes to the consolidated financial statements

DKK million

### 12 Property, plant and equipment - continued

2019:	Land and buildings	Fixtures and fittings, tools and equipment	Leasehold improve- ments	Assets under construction	Total
<b>Cost</b>					
Balance at 1 January 2019	36,090	6,235	1,398	230	43,953
Reclassified to right-of-use assets	-	-12	-	-	-12
Adjusted balance at 1 January 2019	36,090	6,223	1,398	230	43,941
Foreign currency translation	9	-3	-5	-	1
Additions	475	713	97	204	1,489
Reclassifications	157	3	-2	-154	4
Reclassified as held for sale	-75	-	-	-	-75
Disposals	-74	-286	-24	-	-384
Disposals, sale of subsidiaries	-1,402	-330	-180	-	-1,912
Balance at 31 December 2019	35,180	6,320	1,284	280	43,064
<b>Accumulated depreciation and impairment losses</b>					
Balance at 1 January 2019	-10,646	-4,404	-938	-	-15,988
Reclassified to right-of-use assets	-	7	-	-	7
Adjusted balance at 1 January 2019	-10,646	-4,397	-938	-	-15,981
Foreign currency translation	2	1	4	-	7
Depreciation	-756	-564	-58	-	-1,378
Impairment losses recognised in the income statement	-22	-	-2	-	-24
Reversals of impairment losses recognised in the income statement	15	-	-	-	15
Reclassified as held for sale	34	-	-	-	34
Disposals	52	282	14	-	348
Disposals, sale of subsidiaries	394	231	146	-	771
Balance at 31 December 2019	-10,927	-4,447	-834	-	-16,208
Carrying amount at 31 December 2019	24,253	1,873	450	280	26,856

#### Impairment losses during the year

##### *Land and buildings and Leasehold improvements*

During 2019 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 a few stores were, due to competitive pressures in the local areas of the stores, not sufficiently profitable to cover the full carrying amount of the investments. In total impairment losses were recognised regarding 19 Danish and 2 German stores. At the same time, impairment losses have been reversed regarding 3 Danish stores, where the profitability has increased sufficiently to cover 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

### 13 Leases

The Group has entered into leases with external parties regarding a number of stores, warehouses and some operational equipment. 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 imposes no restrictions on the Group.

#### Right-of-use assets

2019:

	Land and buildings	Fixtures and fittings, tools and equipment	Total
<b>Cost</b>			
Balance at 1 January 2019 (previously recognised as property, plant and equipment)	-	12	12
Effect of implementing IFRS 16 at 1 January 2019	5,373	102	5,475
Adjusted balance at 1 January 2019	5,373	114	5,487
Foreign currency translation	-4	-	-4
Additions	711	26	737
Remeasurement of lease liabilities	18	1	19
Disposals	-	-5	-5
Disposals, sale of subsidiaries	-162	-4	-166
Balance at 31 December 2019	5,936	132	6,068
<b>Accumulated depreciation and impairment losses</b>			
Balance at 1 January 2019 (previously recognised as property, plant and equipment and provisions)	-115	-7	-122
Depreciation	-618	-42	-660
Impairment losses recognised in the income statement	-5	-	-5
Reversals of impairment losses recognised in the income statement	21	-	21
Disposals	-	4	4
Disposals, sale of subsidiaries	27	1	28
Balance at 31 December 2019	-690	-44	-734
Carrying amount at 31 December 2019	5,246	88	5,334

## Notes to the consolidated financial statements

DKK million

### 13 Leases - continued

#### Lease liabilities

	2019	
	Undis- counted payments	Present value of payments
Within 1 year	796	564
1 to 5 years	2,903	2,070
After 5 years	3,478	2,950
Total	7,177	5,584

For 2018 the lease liability regarding finance leases is included in the line items other non-current and current financial liabilities (a total of DKK 6 million). Since the amount is not comparable with the 2019 lease liabilities, the amount is not reclassified to the line items lease liabilities in the consolidated statement of financial position.

#### Amounts recognised in the consolidated income statement

	2019
Interest expense on lease liabilities	306
Costs related to short-term leases	2
Costs related to leases of low value assets	18
Income from subleasing right-of use assets	170

Variable lease payments not recognised as part of the lease liabilities are immaterial.

In 2019 the Group paid DKK 807 million related to lease contracts, of which DKK 306 million relate to interest payments regarding recognised lease liabilities and DKK 501 million relate to payment of recognised lease liabilities.

Regarding situations, where the Group is lessor, and information about leases for 2018, please refer to note 27.

## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>14 Investment property</b>		
Cost		
Balance at 1 January	1,752	1,792
Additions	6	1
Disposals	-30	-41
Balance at 31 December	1,728	1,752
Accumulated depreciation and impairment losses		
Balance at 1 January	-809	-788
Depreciation	-34	-34
Impairment losses recognised in the income statement	-	-6
Disposals	28	19
Balance at 31 December	-815	-809
Carrying amount at 31 December	913	943

Investment property comprises a shopping centre and flats located adjacent to Salling Group's stores.

During 2019 no impairment losses have been recognised. During 2018 impairment losses were recognised regarding a few German investment property, where the expected sales price of the investment property is lower than the carrying amount of the investment property. The impairment losses and reversal of impairment losses are recognised in the income statement as part of Impairment losses.

The estimated fair value of investment property amounts to DKK 1,065 million at 31 December 2019 (DKK 1,065 million at 31 December 2018). 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	63	63
Direct operating expenses from investment that generates rental income	-18	-18
Direct operating expenses from investment that does not generate rental income	-	-1
Profit arising from investment property	45	44

## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>15 Investments in joint ventures</b>		
Netto UK Ltd. has handed in final accounts in liquidation of the company in December 2019, and the company will be dissolved in 2020.		
Cost		
Balance at 1 January	424	424
Balance at 31 December	424	424
Value adjustments		
Balance at 1 January	-424	-420
Dividends	-1	-3
Result	1	-1
Balance at 31 December	-424	-424
Carrying amount at 31 December	-	-
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

## 16 Financial assets and financial liabilities

Financial assets comprise the following:

	Carrying amount		Fair value	
	2019	2018	2019	2018
Trade receivables	120	125	120	125
Other receivables	433	416	433	416
Derivatives not designated as hedging instruments	-	1	-	1
Other current financial assets	10	-	10	-
Other current financial assets	10	1	10	1
Securities	2,804	3,340	2,804	3,340
Cash and short-term deposits	1,717	1,526	1,717	1,526

## Notes to the consolidated financial statements

DKK million

### 16 Financial assets and financial liabilities - continued

*Financial liabilities comprise the following:*

	Carrying amount		Fair value	
	2019	2018	2019	2018
Mortgage loans - non-current	7,893	10,497	7,997	10,642
Mortgage loans - current	80	149	80	149
Mortgage loans	7,973	10,646	8,077	10,791
Lease liabilities - non-current	5,020	NA		
Lease liabilities - current	564	NA		
Lease liabilities	5,584	NA		
Bank loans - current	1	4	1	4
Bank loans	1	4	1	4
Obligations under finance leases	NA	3	NA	3
Derivatives designated as hedging instruments (cash flow hedges)	334	265	334	265
Other non-current financial liabilities	10	7	10	7
Other non-current financial liabilities	344	275	344	275
Obligations under finance leases	NA	3	NA	3
Derivatives not designated as hedging instruments	3	1	3	1
Derivatives designated as hedging instruments (cash flow hedges)	109	99	109	99
Other current financial liabilities	-	9	-	9
Other current financial liabilities	112	112	112	112
Trade payables	11,259	11,854	11,259	11,854
Other payables - non-current	225	-	225	-
Other payables - current	2,751	3,032	2,751	3,032
Other payables	2,976	3,032	2,976	3,032



## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>16 Financial assets and financial liabilities - continued</b>		
<b>Financial instruments by category</b>		
Financial assets at amortised cost:		
Trade receivables	120	125
Other receivables	433	416
Other financial assets excluding derivatives	10	-
Cash and short-term deposits	1,717	1,526
Financial assets at fair value through profit or loss:		
Derivatives not designated as hedging instruments	-	1
Securities	2,804	3,340
Financial liabilities measured at amortised cost:		
Mortgage loans	7,973	10,646
Lease liabilities	5,584	NA
Bank loans	1	4
Other financial liabilities excluding derivatives	10	22
Trade payables	11,259	11,854
Other payables	2,976	3,032
Financial liabilities at fair value through profit or loss:		
Derivatives not designated as hedging instruments	3	1
Financial liabilities at fair value through other comprehensive income:		
Derivatives designated as hedging instruments (cash flow hedges)	443	364

Derivatives not designed as hedging instruments reflect the positive or negative change in fair value of the foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk.

Financial assets at fair value through profit or loss include investments in listed Danish mortgage bonds. Fair values of the bonds are determined by reference to published price quotations in an active market.

Derivatives designed as hedging instruments reflect the negative change in fair value of the interest rate swaps, designated as cash flow hedges to hedge interest rate risk in CIBOR-based mortgage loans.

# Notes to the consolidated financial statements

DKK million

## 16 Financial assets and financial liabilities - continued

### Financial liabilities: Interest-bearing mortgage loans including hedges

Overview of borrowings by interest rate levels (including the effect of related interest rate swaps):

31 December 2019	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	6,786	507	4,100	2,179
2 - 4 %	1,187	-	-	1,187
Total	7,973	507	4,100	3,366

Of which:

Bearing fixed interests	94 %
Bearing floating interests	6 %

31 December 2018	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	9,425	1,590	2,300	5,535
2 - 4 %	1,221	-	-	1,221
Total	10,646	1,590	2,300	6,756

Of which:

Bearing fixed interests	85 %
Bearing floating interests	15 %

### Hedging activities and derivatives

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk and interest rate risk. The Group's risk management strategy and how it is applied to manage risk is explained below.

#### Derivatives not designated as hedging instruments

The Group uses foreign currency-denominated forward contracts to manage some of its transaction exposures and intercompany balances. The foreign exchange forward contracts are not designated as cash flow hedging instruments and are typically entered into for periods of up to 3 months.

#### Derivatives designated as hedging instruments (cash flow hedges)

The hedged item is the highly probable interest rate payment on the Group's mortgage loan portfolio. The loan portfolio has been hedged in layers, where each layer is hedged by a single interest rate swap. The hedged item and the hedging instrument are identical in respect of the critical terms. To illustrate the robustness of the hedge relationship, a regression analysis using historical monthly swap rate, CIBOR and bond price data for a rolling 5 year period is performed. Hedge ineffectiveness can arise from:

- Unexpected changes to the size of hedged items from sale of properties with repayment of related mortgage loans,
- Counterparties not fulfilling their contractual obligations,
- Refinancing of underlying mortgage bonds, if known critical terms should be changed.

## Notes to the consolidated financial statements

DKK million

### 16 Financial assets and financial liabilities - continued

	Notional amount	Carrying amount	Line item in the statement of financial position
31 December 2019			
CIBOR-based mortgage loans (hedged items)	6,217	6,217	Mortgage loans
Interest rate swap contracts (active)	5,900	346	Other non-current and current financial liabilities
Interest rate swap contracts (forward-starting)	1,300	97	Other non-current and current financial liabilities
31 December 2018			
CIBOR-based mortgage loans (hedged items)	6,278	6,278	Mortgage loans
Interest rate swap contracts (active)	5,900	216	Other non-current and current financial liabilities
Interest rate swap contracts (forward-starting)	2,800	148	Other non-current and current financial liabilities

The hedged cash flows are expected to occur and affect the income statement during the coming 10 years. During the coming year DKK -109 million is expected to affect profit or loss (DKK -99 million as at 2018). DKK -308 million is expected to affect profit or loss during 1 - 5 years (DKK -258 million as at 2018), and after 5 years DKK -26 million is expected to affect profit or loss (DKK -7 million as at 2018).

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. The amount accumulated in other comprehensive income is reclassified to the income statement as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the income statement. No ineffectiveness was recognised in 2019 or 2018.

#### 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. 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.

## Notes to the consolidated financial statements

DKK million

### 16 Financial assets and financial liabilities - continued

#### 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 2018. The policies for managing risks are explained below.

The overall framework for financial risk management is set out in Salling Group 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. Salling Group A/S has a centralised management of financial risks undertaken by Group Treasury.

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.

#### Market risk

Market risk is the risk that the fair value of or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk; currency risk, interest rate risk and other price risks such as commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt, fixed income investments and derivative financial instruments.

The sensitivity analysis in the following sections relate to the position as at 31 December 2019 and 2018. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place 31 December.

#### 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.

## Notes to the consolidated financial statements

DKK million

### 16 Financial assets and financial liabilities - continued

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:

31 December 2019	EUR/DKK	GBP/DKK	PLN/DKK	SEK/DKK	USD/DKK
Financial assets	83	8	422	15	14
Financial liabilities	-862	-	-	-	-
Known USD purchase orders	-	-	-	-	-561
Net exposures before derivatives	-779	8	422	15	-547
Derivatives	-448	-	-228	-	307
Net exposures after derivatives	-1,227	8	194	15	-240

The net exposures relate to:

Expected commercial cash flows where hedge accounting is not used

-1,227	8	194	15	-240
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Applied sensitivity

1 %	5 %	5 %	5 %	5 %
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Impact on the consolidated income statement

-12	-	10	1	-12
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31 December 2018	EUR/DKK	GBP/DKK	PLN/DKK	SEK/DKK	USD/DKK
Financial assets	45	11	426	136	3
Financial liabilities	-1,151	-	-	-	-
Known USD purchase orders	-	-	-	-	-577
Net external exposures	-1,106	11	426	136	-574
Derivatives	-448	-	-174	-	378
Net exposures	-1,554	11	252	136	-196

The net exposures relate to:

Expected commercial cash flows where hedge accounting is not used

-1,554	11	252	136	-196
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Applied sensitivity

1 %	5 %	5 %	5 %	5 %
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Impact on the consolidated income statement

-16	1	13	7	-10
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## Notes to the consolidated financial statements

DKK million

### 16 Financial assets and financial liabilities - continued

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.

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 2019, after taking into account the effect of interest rate swaps, approximately 94 % of the Group's mortgage loan portfolio are at a fixed rate, compared to 85 % as at 31 December 2018.

A general increase of 1 %-point in interest rates is estimated, all other things being equal, to affect profit before tax by DKK -28 million (DKK -25 million in 2018), and pre-tax equity by DKK 191 million (DKK 227 million in 2018). 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:

	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
31 December 2019				
Securities	2,804	1 %	-25	-25
Other financial assets	10	1 %	-	-
Mortgage loans	7,973	1 %	-38	-38
Derivatives	443	1 %	35	254
Impact			-28	191
31 December 2018				
Securities	3,340	1 %	-11	-11
Mortgage loans	10,646	1 %	-49	-49
Derivatives	364	1 %	35	287
Impact			-25	227

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 other current financial assets 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.



## Notes to the consolidated financial statements

DKK million

### 16 Financial assets and financial liabilities - continued

#### 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. The Group currently has no covenants. The Group assesses the liquidity risk to be low.

The Group uses Supply Chain Financing (SCF) to strengthen its financial position. SCF is based on a three-way relationship between Salling Group, a given supplier and the syndication banks facilitating the SCF program. As at 31 December 2019 the Group has utilised the SCF facility by DKK 5.9 billion (DKK 6.9 billion in 2018).

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.

	Within 1 year	1 to 5 years	After 5 years
31 December 2019			
Mortgage loans	141	788	8,164
Lease liabilities	796	2,903	3,478
Bank loans	1	-	-
Trade and other payables	13,871	374	-
Derivatives	110	365	47
Total	14,919	4,430	11,689
	Within 1 year	1 to 5 years	After 5 years
31 December 2018			
Mortgage loans	2,093	1,099	11,169
Bank loans	4	-	-
Obligations under finance leases	4	4	-
Trade and other payables	14,790	106	6
Derivatives	100	398	93
Total	16,991	1,607	11,268

#### 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

2019

2018

### 16 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. Counterparty credit lines are reviewed on an ongoing basis and may be updated throughout the year subject to approval of management. Limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty's potential failure to make payments.

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 are 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 government and mortgage bonds with a rating of minimum Aa2. The overall duration of the Group's bond portfolio will typically be low, currently 1,4.

The table below summarises the ageing analysis of trade receivables:

Not due	91	83
< 30 days past due	23	23
30 to 90 days past due	3	11
90 to 180 days past due	1	7
> 180 days past due	2	1
Total	120	125

The Group recognises an allowance for impairment of receivables. The entire allowance for impairment of receivables relates to trade receivables, as the allowance regarding any other financial assets is immaterial. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due, and a provision is recognised for not due receivables as well as past due receivables. As at the 31 December 2019 the provision amounts to DKK 6 million (31 December 2018: DKK 7 million), and is thus immaterial for the financial statements. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral or other forms of credit insurance as security. The Group assesses the concentration of risk with respect to receivables as low.

### Changes in liabilities arising from financing activities

	1 January 2019	Cash flows	Other	31 December 2019
2019				
Mortgage loans	10,646	-2,673	-	7,973
Lease liabilities	6	-501	6,079	5,584
Other financial assets excluding derivatives	-	-	-10	-10
Total net liabilities from financing activities	10,652	-3,174	6,069	13,547

## Notes to the consolidated financial statements

DKK million

### 16 Financial assets and financial liabilities - continued

	1 January 2018	Cash flows	Other	31 December 2018
2018				
Mortgage loans	12,520	-1,874	-	10,646
Obligations under finance leases	7	-1	-	6
Other financial assets excluding derivatives	-8	8	-	-
Total net liabilities from financing activities	12,519	-1,867	-	10,652

### 17 Deferred tax

#### Specification of deferred tax

	Consolidated income statement		Consolidated statement of financial position	
	2019	2018	2019	2018
Intangible assets	18	11	-483	-500
Property, plant and equipment	76	47	-2,189	-2,279
Investment property	4	7	-120	-123
Financial assets	-3	2	-	2
Other assets	-	-3	-3	-3
Provisions	-	-2	97	95
Other liabilities	-5	-8	60	66
Tax loss carryforward	-	-21	-	43
Leases	35	-	35	-
Other	-28	6	-20	7
Deferred tax income / Net deferred tax	97	39	-2,623	-2,692

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

Deferred tax assets	35	100
Deferred tax liabilities	-2,658	-2,792
Net deferred tax	-2,623	-2,692

#### Reconciliation of net deferred tax

Opening balance at 1 January	-2,692	-2,730
Foreign currency translation adjustments	-	-2
Adjustment of deferred tax recognised in the income statement	97	39
Adjustment of deferred tax recognised in other comprehensive income	3	1
Deferred tax related to discontinued operations	-31	-
Closing balance at 31 December	-2,623	-2,692

The Group has a deferred tax asset of DKK 6 million at 31 December 2019, which is not recognised in the consolidated statement of financial position (DKK 63 million in 2018, which was primarily related to the discontinued operations). 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.

## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>17 Deferred tax - continued</b>		
A deferred tax asset of DKK 31 million related to Netto Marknad AB was recognised as at 31 December 2018, and when the company was sold during June 2019. Netto Marknad AB suffered a loss in 2018.		
<b>18 Inventories</b>		
Goods held for resale	4,852	4,714
Consumables	59	44
Total inventories	4,911	4,758

In the income statement as part cost of sales an income of DKK 1 million has been recognised regarding reversal of write-downs of inventories to net realisable value (an income of DKK 1 million in 2018).

### 19 Assets classified as held for sale

The major classes of assets classified as held for sale as at 31 December are as follows:

Land and buildings	41	8
Assets classified as held for sale	41	8

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

### 20 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	309	320
Interest expenses recognised as part of staff expenses	1	1
Actuarial gains / losses, demographic assumptions	-3	7
Actuarial gains / losses, financial assumptions	13	-5
Actuarial gains / losses, experience adjustments	2	3
Payments from the plan	-17	-17
Defined benefit obligation at 31 December	305	309

## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>20 Pensions - continued</b>		
The following significant actuarial assumptions are applied:		
Discount rate (%)	-0.2 %	0.2 %
Price inflation (%)	1.3 %	1.4 %

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	-15	-16
Decrease of 0.5 % point	17	17
Price inflation:		
Increase of 0.5 % point	16	17
Decrease of 0.5 % point	-15	-16

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.

No contributions will be made to the plans in the future. The average duration of the defined benefit obligation as at 31 December 2019 is 31 years (32 years in 2018). DKK 17 million is expected to be paid from the plans in 2020.

## 21 Provisions

2018:	Onerous contracts	Insurance	Other	Total
Balance at 1 January 2018	165	123	54	342
Provisions made during the year	26	16	12	54
Provisions utilised during the year	-23	-18	-6	-47
Reversals during the year	-53	-	-11	-64
Balance at 31 December 2018	115	121	49	285
Current	43	29	15	87
Non-current	72	92	34	198
Balance at 31 December 2018	115	121	49	285

## Notes to the consolidated financial statements

DKK million

### 21 Provisions - continued

2019:	Onerous contracts	Insurance	Other	Total
Balance at 1 January 2019	115	121	49	285
Reclassified to right-of-use assets	-115	-	-	-115
Provisions made during the year	-	44	6	50
Provisions utilised during the year	-	-25	-8	-33
Reversals during the year	-	-12	-3	-15
Balance at 31 December 2019	-	128	44	172
Current	-	21	11	32
Non-current	-	107	33	140
Balance at 31 December 2019	-	128	44	172

The provision for onerous contracts comprises provision for lease contracts for short-term leases and leases of low-value assets, in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them (in 2018 all operating lease contracts are included). 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 0 million is expected to fall due after more than 5 years (DKK 24 million in 2018).

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 56 million is expected to fall due after more than 5 years (DKK 42 million in 2018).

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 2018). No further information is provided regarding the provision for pending lawsuits as the information might harm the Group's position.

	2019	2018
<b>22 Adjustments</b>		
Financial income	-44	-57
Financial expenses	597	311
Amortisation and impairment of intangible assets	270	243
Depreciation and impairment of property, plant and equipment	1,387	1,380
Depreciation and impairment of right-of-use assets	644	-
Depreciation and impairment of investment property	34	40
Loss on sale of non-current assets, etc., net	23	-33
Share of profit of joint ventures, net of tax	-1	1
Other adjustments	-10	-76
Adjustments	2,900	1,809

## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>23 Change in working capital</b>		
Change in trade and other receivables and prepayments	-103	43
Change in inventories	-417	103
Change in trade and other payables	14	1,230
Change in working capital	-506	1,376
<b>24 Acquisition of subsidiaries, net of cash received</b>		
For a description of the acquisition of subsidiaries please refer to note 29.		
Cash paid relating to the purchase of an additional 10 % of the shares in Skagenfood A/S (previously recognised as put option liability)	-9	-
Net cash flow on acquisitions	-9	-
<b>25 Sale of subsidiaries, net of cash sold</b>		
Goodwill	211	-
Land and buildings	1,008	-
Fixtures and fittings, tools and equipment	99	-
Leasehold improvements	34	-
Right-of-use assets: Land and buildings	135	-
Right-of-use assets: Fixtures and fittings, tools and equipment	3	-
Deferred tax assets	31	-
Inventory	262	-
Income tax receivables	12	-
Other receivables	14	-
Prepayments	12	-
Cash and bank balances	60	-
Total assets	1,881	-
Lease liabilities	149	-
Other current financial liabilities	128	-
Trade payables	563	-
Income tax payable	1	-
Other payables	152	-
Total liabilities	993	-
Total net assets in the subsidiaries	888	-
Cash	1,761	-
Total consideration received	1,761	-
Net cash sold with the subsidiaries	-60	-
Cash received	1,761	-
Cost incurred related to the sale of the subsidiaries	-18	-
Net cash flow on sale	1,683	-

## Notes to the consolidated financial statements

DKK million

	2019	2018
<b>26 Cash and cash equivalents</b>		
Cash and short-term deposits	1,717	1,526
Current liabilities - bank loans	-1	-4
Cash and cash equivalents available to the Group	<u>1,716</u>	<u>1,522</u>

## 27 Contingent liabilities and other financial commitments

From 1 January 2019 the Group has recognised right-of-use assets for the leases, except for short-term leases and leases of low-value assets. Please refer to note 2 and note 13 for further information.

The below information about the Group as lessee is provided in accordance with the previous disclosure requirements regarding leases (IAS 17).

### Operating leases, the Group is lessee

In 2018 the Group has entered into operating leases with external parties regarding a number of stores, warehouses and some operational equipment. The leases has terms of between 1 month and 60 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 imposes no restrictions on the Group.

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

Within 1 year	722
1 to 5 years	1,753
After 5 years	<u>1,737</u>
Total	<u>4,212</u>
Future minimum sublease payments expected to be received under non-cancellable subleases	<u>198</u>
Minimum lease payments recognised as operating lease expenses	<u>713</u>
Sublease payments recognised as a reduction of operating lease expenses	<u>74</u>

### Finance leases, the Group is lessee

In 2018 the Group's finance leases consist of leases 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:



## Notes to the consolidated financial statements

DKK million

	2018	
<b>27 Contingent liabilities and other financial commitments - continued</b>		
	Minimum payments	Present value of payments
Within 1 year	4	3
1 to 5 years	4	3
Total	8	6

The difference between the minimum payments and the present value of payments represents the finance charges.

### 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 22 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:

	2019	2018
Within 1 year	186	189
1 to 5 years	288	287
After 5 years	117	124
Total	591	600

### 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 1,102 million (DKK 943 million in 2018).

The Group has entered into contractual commitments regarding acquisition of intangible assets of a total of DKK 12 million (DKK 11 million in 2018).

As security for mortgage loans land and buildings with a carrying amount of DKK 9,692 million have been provided as collateral (DKK 11,402 million in 2018).

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 564 million at 31 December 2019 (DKK 545 million in 2018).

## Notes to the consolidated financial statements

DKK million

2019

2018

### 27 Contingent liabilities and other financial commitments - continued

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 Salling Group 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, Salling Group A/S' subsidiaries have joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the Salling Group A/S subgroup. The total net taxes payable to the Danish Central Tax Administration by the companies included in the joint taxation is disclosed in the annual report of the administration company (F. Salling Holding A/S, CVR no. 41 94 01 15). Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends etc. may entail that the companies' liability will increase.

As at 31 December 2019 Købmand Herman Sallings Fond has signed a letter of intent stating its intention to, during an undefined number of years, decide to distribute up to DKK 250 million to a major project in Aarhus, if a number of prerequisites are fulfilled.

### 28 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:

Dividends received	1	3
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Any outstanding balances with related parties as at 31 December are presented in note 16. Outstanding balances carry interest and are to be settled in cash within 1 year unless otherwise specified in note 16.

None of the outstanding balances are secured, and no provisions are held against the balances as at 31 December (DKK 0 in 2018). No expense has been recognised in 2019 or 2018 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	3	3
Total remuneration	3	3

Of the total remuneration DKK 1 million (DKK 1 million in 2018) concerns payments from other Group companies.

## Notes to the consolidated financial statements

DKK million

### 29 Business combinations

During 2019 no business combinations have taken place. As at 1 January 2018 Salling Group A/S merged with the subsidiary F. Salling A/S. The merger did not affect the consolidated financial statements.

During 2017 Salling Group A/S acquired controlling interests in Skagenfood A/S. Salling Group 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 Salling Group intends to continue running Skagenfood A/S along side the Group's other online-activities. The purchase consideration transferred consisted of cash. Salling Group A/S entered into a contractual commitment to purchase the remaining 20 % of the shares in Skagenfood A/S. The founders of the company held put options that allowed them to sell the remaining shares at prices dependent on the development of the company. The put options could be exercised in 2019 and 2023. During 2019 the first put option was exercised and an additional 10 % of Skagenfood A/S was acquired.

The remaining put option is treated according to the anticipated acquisition method, according to which the non-controlling interests that are comprised by the put options are considered to be purchased at the point in time where the put options are written. Thus, 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. The remaining put option is recognised at DKK 10 million as at 31 December 2019 (DKK 7 million in 2018).

### 30 Capital management

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

Købmand Herman Sallings Fond Group manages its capital to ensure that the entities in the 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 Købmand Herman Sallings Fond Group's capital management, capital includes total equity.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

The Group has no covenants in relation to bank facilities or other financing activities, hence as at 31 December 2018 or 2019 no covenants exist.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

### 31 Events after the reporting period

No subsequent events have occurred that affect the annual report for 2019. The current Covid-19 crisis has no effect on the annual report for 2019 and is also not expected to have any material impact on the result for 2020.

## Notes to the consolidated financial statements

*DKK million*

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

The new and amended standards IFRS 17 Insurance Contracts, Amendments to IFRS 3: Definition of a Business, Amendments to IAS 1 and IAS 8: Definition of Material, Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and the Revised Conceptual Framework for Financial Reporting 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.