**VILA A/S**
Stilling Kirkevej 10, Stilling
8660 Skanderborg
CVR NR. 67 75 68 19

# ANNUAL REPORT 2017/18

The annual report was presented and approved at the company's ordinary general meeting.

Aarhus, 19 November 2018

Thomas Børglum Jensen

BESTSELLER

# CONTENT OF THE ANNUAL REPORT

## Statement by the Executive Board and Board of Directors on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of VILA A/S for the financial year 1 August 2017 – 31 July 2018.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent company's financial position at 31 July 2018 and of the results of its operations and cash flows for the financial year 1 August 2017 – 31 July 2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Aarhus, 19 November 2018

**Executive Board**

Erik Weibel

**Board of Directors**

| | | |
|---|---|---|
| Anders Holch Povlsen<br>Chairman | Erik Weibel | Finn Poulsen |

# Independent auditor's report

**To the shareholders of VILA A/S**

## Opinion

We have audited the consolidated financial statements and the parent company financial statements of VILA A/S for the financial year 1 August 2017 – 31 July 2018, which comprise accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and notes, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 July 2018 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 August 2017 – 31 July 2018 in accordance with the Danish Financial Statements Act.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (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.

## Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company 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:

## Independent auditor's report (cont.)

- 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 Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our 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 Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- 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.

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.

## Independent auditor's report (cont.)

### Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

Based on the work we have performed, 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.

Aarhus, 19 November 2018

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

| | |
|---|---|
| Jens Weiersøe Jakobsen | Søren Jensen |
| State Authorised Public Accountant | State Authorised Public Accountant |
| MNE-no.: mne30152 | MNE-no.: mne34132 |

# Company details

| | | |
|---|---|---|
| **Company** | VILA A/S<br>Stilling Kirkevej 10, Stilling<br>8660 Skanderborg<br><br>Reg. no. 67 75 68 19<br>Residence Skanderborg | |
| **Financial year** | 1 August 2017 – 31 July 2018 | |
| **Ownership** | The company is owned by<br>50 % by<br>BESTSELLER UNITED A/S<br>Fredskovvej 5<br>7330 Brande<br>Reg. no. 26 50 83 47 | 50 % by<br>Aktieselskabet af 2.12.1998<br>Storskovvej 14 A, Ormslev<br>8260 Viby J<br>Reg.no. 21 26 24 47 |
| **Board of Directors** | Anders Holch Povlsen, chairman<br>Erik Weibel<br>Finn Poulsen | |
| **Executive Board** | Erik Weibel | |
| **Auditor** | ERNST & YOUNG<br>Godkendt Revisionspartnerselskab<br>Værkmestergade 25<br>8000 Aarhus C<br>Reg. no. 30 70 02 28 | |

## Group chart

| Company | Residence | Ownership |
|---|---|---|
| **VILA A/S** | **Skanderborg, Denmark** | |
| VILA Belgium BVBA | Antwerp, Belgium | 100 % |
| VILA Benelux B.V. | Amstelveen, Netherlands | 100 % |
| - VILA Stores B.V. | Amstelveen, Netherlands | 100 % |
| VILA Clothes AG | Glattbrugg, Switzerland | 100 % |
| VILA Clothes Handels GmbH | Wienna, Austria | 100 % |
| VILA Clothes Ltd. | Dublin, Ireland | 100 % |
| VILA Clothes Ltd. | London, United Kingdom | 100 % |
| VILA Finland Oy | Espoo, Finland | 100 % |
| VILA France SaS | Paris, France | 100 % |
| VILA Italy S.R.L. | Castel San Pietro Terme, Italy | 100 % |
| VILA Norge AS | Oslo, Norway | 100 % |
| VILA Spain, S.L.U. | Torremolinos, Spain | 100 % |
| VILA Stores ApS | Skanderborg, Denmark | 100 % |
| VILA Stores GmbH | Hamburg, Germany | 100 % |
| - VILA GmbH | Hamburg, Germany | 100 % |
| VILA Sweden AB | Solna, Sweden | 100 % |

# Key figures and financial ratios

| Parent company | 2017/18 | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|---|---|---|---|---|---|
| **Income statement (DKKm)** | | | | | |
| Revenue | 1.029 | 916 | 960 | 956 | 951 |
| Gross margin | 305 | 240 | 226 | 148 | 201 |
| Gross profit | 261 | 209 | 197 | 136 | 174 |
| Operating profit | 179 | 132 | 112 | 43 | 78 |
| Financial income and expenses, net | 1 | 1 | 0 | 14 | 1 |
| Profit before tax | 217 | 142 | 122 | 23 | 44 |
| Profit for the year | 178 | 113 | 97 | 9 | 24 |
| **Balance sheet (DKKm)** | | | | | |
| Total assets | 733 | 600 | 483 | 373 | 452 |
| Investment in property, plant and equip. | 0 | 0 | 0 | 0 | 4 |
| Equity | 441 | 324 | 262 | 168 | 198 |
| **Financial ratios (%)** | | | | | |
| Gross margin | 29,7 | 26,1 | 23,5 | 15,5 | 21,1 |
| Operating margin | 17,4 | 14,4 | 11,7 | 4,5 | 8,2 |
| Solvency ratio | 60,1 | 54,0 | 54,3 | 45,1 | 43,9 |

| Consolidated | 2017/18 | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|---|---|---|---|---|---|
| **Income statement (DKKm)** | | | | | |
| Revenue | 1.253 | 1.159 | 1.218 | 1.245 | 1.246 |
| Gross margin | 492 | 439 | 428 | 398 | 462 |
| Gross profit | 390 | 313 | 312 | 218 | 258 |
| Operating profit | 222 | 150 | 128 | 17 | 45 |
| Financial income and expenses, net | 2 | 1 | 0 | 12 | 1 |
| Profit before tax | 224 | 150 | 128 | 29 | 46 |
| Profit for the year | 178 | 113 | 97 | 9 | 24 |
| **Balance sheet (DKKm)** | | | | | |
| Total assets | 760 | 638 | 549 | 454 | 556 |
| Investment in property, plant and equip. | 20 | 4 | 12 | 10 | 16 |
| Equity (incl non-controlling interests) | 441 | 324 | 262 | 168 | 198 |
| **Financial ratios (%)** | | | | | |
| Gross margin | 39,3 | 37,9 | 35,1 | 32,0 | 37,1 |
| Operating margin | 17,7 | 12,9 | 10,5 | 1,4 | 3,6 |
| Solvency ratio | 58,0 | 50,9 | 47,8 | 37,1 | 35,7 |

The key figures and financial rations are defined and calculated in accordance with "Recommendations & Rations 2015" issued by the Danish Finance Society.

Gross margin is calculated as net revenue minus cost of sales.

Gross margin in %: $$\frac{\text{Gross margin x 100}}{\text{Revenue}}$$

Operating margin in %: $$\frac{\text{Operating profit/loss x 100}}{\text{Revenue}}$$

Solvency ratio in %: $$\frac{\text{Equity (at year end) x 100}}{\text{Total assets}}$$

# Management's review

### Primary activities

The Company's and the Group's activities are to develop and sell fashion wear.

The Company and the Group primarily sells it goods in Europe.

### Development in activities and finances

The result of the year is satisfying and above the expectations. The improved result can primarily be explained by increased gross profit margins and positive gains from foreign currency exchange.

### Outlook

For 2018/19, the Company and the Group expects a minor improvement in the financial performance.

### Research and development

The Company's and the Group's collections are being continually developed during the financial year. The Company and the Group does not engage in any actual development activities apart from the regular development and maintenance of its IT systems.

### Particular risks

In Management's assessment, the Company and the Group are not exposed to particular risks apart from those generally occurring in this line of business.

### External environment

VILA aims to actively minimise the Company's and the Group's environmental impact on both the neighbouring and more distant locations by means of effective supplier control. The Company and the Group focuses on optimum utilisation of raw materials and energy, minimum pollution and recycling and minimisation of waste, whenever possible.

### Working environment

VILA's core resource is our employees. The Company and the Group want to promote and strengthen a physical, psychological and social healthy and well-functioning work environment for all employees.

### Statutory report on corporate social responsibility, cf. section 99a of the Danish Financial Statements Act.

This report is for the 1 August 2017 – 31 July 2018 financial year and applies to BESTSELLER A/S and VILA A/S ('BESTSELLER').

It's crucial to VILA and BESTSELLER that our products are manufactured under decent working conditions and with respect for human rights and with minimal impact on the environment and climate. This is a process involving many challenges and to overcome them, we cooperate closely with our suppliers, work with standards, policies and set up compliance programmes. Furthermore, we participate in industry-wide partnerships and partner with relevant stakeholders to make a clear difference in our industry.

## Management's review (cont.)

During the financial year, BESTSELLER started working on a new sustainability strategy. The strategy builds on the progress we have already made, and focuses on accelerating our work on climate, environment, circularity, working conditions and human rights. The new strategy will be launched towards the end of 2018 and will form the basis for our work, goals and expectations in BESTSELLER's ongoing focus on corporate social responsibility and sustainability. In addition to this statutory report on corporate social responsibility, more can be read about our work with CSR and sustainability in BESTSELLER's Sustainability Report for 2017:

https://about.bestseller.com/sustainability/sustainability-report

**BUSINESS MODEL**

BESTSELLER markets and sells fashion clothing and accessories for men, women, teens and children. BESTSELLER has offices and warehouses in 21 countries. The products are sold online, in approx. 2,700 chain stores and in 20,000 shop-in-shops and department stores across Europe, the Middle East, North and South America, Australia and India.

BESTSELLER works broadly in the value chain with a focus on sustainability and recognised international standards. We work closely with our suppliers to promote responsible production practices in the supply chain regarding environment protection, and the use of chemicals, healthy and safe working conditions, and workers' rights. We are also continually working to increase the use of sustainable materials in our products and to promote circular fashion, thereby contributing to reducing negative environmental impacts.

**HUMAN RIGHTS**

BESTSELLER's policies and work with human rights are based in part on the 'UN Universal Declaration of Human Rights', the 'International Labour Organisation's Declaration on Fundamental Principles and Rights at Work' and the 'UN Guiding Principles on Business and Human Rights'.

In our value chain, we focus on promoting human rights for our employees at BESTSELLER and for the workers in the supply chain, and we seek to identify and prevent negative impacts on human rights.

Our key focus areas are a safe and healthy working environment for our employees and in our supply chain, equality, diversity and the safety of our products.

**SUPPLY CHAIN**

BESTSELLER owns no factories, but as of 31 July 2018, we were working with 433 suppliers and 788 factories in 26 countries – primarily in Asia and Europe.

BESTSELLER works with suppliers who are willing to meet the commitments of BESTSELLER's Code of Conduct and Restricted Substances List (RSL). Our Code of Conduct and supporting policies describe the ethics and behaviour that we wish to promote throughout the supply chain and is directed at any supplier and his subcontractors who manufacture for BESTSELLER.

BESTSELLER operates partly in developing countries. We therefore maintain a constant focus on our supply chain to identify risks of negative impacts on human rights and to improve working conditions. In 2017/18, one of the greatest risks of negative impacts on human rights was seen at national level in Cambodia and Myanmar. Through BESTSELLER's membership of the Ethical Trading Initiative (ETI) in the UK, we have joined forces with major global competitors in the industry to influence the Cambodian Government to observe human rights and democracy in Cambodia.

## Management's review (cont.)

The same is true of Myanmar, which has received international criticism over the past year for its attempts at ethnic cleansing of the Muslim Rohingya minority. Together with the ETI, BESTSELLER has exerted pressure on the government, and is involved in dialogue with the Danish Embassy and EU representatives regarding the observance of human rights in the country. We have carried out a due diligence review investigating possible business links to the military regime through suppliers and factories we work with in Myanmar. The results showed no connections.

Follow-up from our local sourcing offices and sustainability teams is a key part of our efforts to prevent negative impacts on human rights in our supply chain.

Through our Compliance Programme, we conduct thorough human rights and environmental due diligence processes before we start working with new suppliers and factories. We are also working preventively with challenges we have identified as potential risks through our Social Engagement Programme and Environmental and Chemical Management Programme.

**Compliance Programme**

In 2017/18, a revision of our Compliance Programme resulted in the introduction of stricter requirements, still based on BESTSELLER's Code of Conduct as our baseline requirements for suppliers. We have broadened our focus to include a more in-depth assessment of the factors surrounding the wet processes at the facilities where our brands are present. This is being implemented in cooperation with suppliers.

Moreover, BESTSELLER has shifted its focus to a dialogue-based approach to factory audits. We will seek to gradually phase out third-party audits and instead make greater use of factory visits by our own local colleagues, while increasing our requirements for self-audits by suppliers.

Through BESTSELLER's membership of the Sustainable Apparel Coalition (SAC), we remain committed to the Social and Labour Convergence Project (SLCP) as a way of contributing to a common global factory evaluation tool for the industry. Together with selected suppliers, we have participated in pilot tests in China, India, Myanmar, Bangladesh and Cambodia during the period.

As a signatory to the 'Bangladesh Accord for Fire and Building Safety', BESTSELLER remains actively involved in implementing improvements. Our suppliers' factories have achieved an average improvement rate of 94% through follow-up visits and support from BESTSELLER's local sustainability team. We are maintaining a focus on introducing works councils and safety representatives, and BESTSELLER changed over to the new Transition Accord on 1 June 2018.

**Social Engagement Programme**

BESTSELLER focuses on preventing potential negative impacts on human rights by implementing global programmes for improvement.

BESTSELLER remained engaged in 'Women's Empowerment' in 2017/18 through the implementation of HERproject at selected factories in Bangladesh. The aim is to improve women's health and knowledge of family planning, hygiene and disease prevention, nutrition etc.

BESTSELLER is also continuing to focus on productivity improvements and social dialogue through the implementation of the MYPOD project in Myanmar. BESTSELLER embarked on this three-year project together with the Joint Ethical Trading Initiatives (Denmark, Norway and UK), Danish Union 3F, and the University of Aalborg. Factories in Myanmar have been visited by LEAN trainers and union representatives to improve working conditions, productivity and reduce employee turnover. A key aim is to contribute to sustainable development in the garment industry in Myanmar, with a focus on a better informed workforce.

# Management's review (cont.)

## DIRECT EMPLOYEES

BESTSELLER has more than 17,000 employees working in 46 countries. At BESTSELLER, we strive to be a workplace that promotes diversity and equal opportunities for all, in a safe and healthy work environment. We focus on ensuring that BESTSELLER is an attractive workplace that maintains and supports our employees' professional and personal development through a broad range of training programmes, courses and other initiatives, while also attracting new talent.

### Diversity

At BESTSELLER, we believe that diversity and a talented workforce are crucial to our ability to compete globally. To realise the full potential of our employees, we strive to have a workforce that reflects gender and cultural diversity.

In Denmark, 2,986 people work at our offices and warehouses, 2,014 of whom are women and 972 men. A total of 259 of our employees in Denmark come from other countries. We recruited 92 new international employees during the financial year, including our International Business Trainees (IBT). We provide equal opportunities for everyone, irrespective of gender, age, nationality, sexual orientation or religious background. At BESTSELLER, we hire our employees on the basis of their personality, skills and experience.

### Health and safety

At BESTSELLER, we strive to be a safe and healthy workplace for all our colleagues. Through our BESTSELLER CARES programme, we seek to improve employee well-being by offering various health benefits such as health insurance, physiotherapy, massage, healthy food in our canteens and much more.

The safety of our employees is a key focus area. We have a special focus on reducing the number of workplace accidents, particularly in our logistics centres. In the past year, we have focused especially on improving the reporting of incidents that could have caused an accident (near misses), and on using this data in our work to prevent workplace accidents. In 2017/18 financial year we registered 50 incidents that could have caused an accident compared to 2016/17 where we registered 25 incidents.

## ETHICAL BEHAVIOUR

At BESTSELLER, we uphold high ethical standards for how we conduct our business, and we compete on fair terms. We have policies and guidelines in these areas, including BESTSELLER's Code of Ethics and Anti-Fraud and Anti-Corruption policies.

We are constantly working with our Code of Ethics, including our Anti-Corruption Programme, and training our employees. We released the latest version of the Code of Ethics and Anti-Corruption e-learning course to colleagues around the world in 2016. We are now working on an update to this e-learning programme, which will be released to our employees during the coming financial year.

In parallel with the Code of Ethics, we will also be rolling out other relevant e-learning programmes focusing on ethical and proper business conduct. The latest e-learning about personal data and the handling of sensitive personal data was released in spring 2018 to coincide with the EU General Data Protection Regulation entering into force.

# Management's review (cont.)

## ENVIRONMENT AND CLIMATE

### Reduced electricity and heat consumption in our buildings

At BESTSELLER, we are continuously working to optimise our buildings and reduce heat and electricity consumption, particularly by optimising lighting and ventilation.

This year we focused on our warehouses in Denmark and our new warehouse in the Netherlands, where light sources have been replaced with LED lighting, among other initiatives.

### Materials and circular fashion

We recognise that there is a need to rethink the way our products are produced, so our business and our industry become more circular. Through our membership of EllenMacArthur CE100, BESTSELLER has contributed to the 'New Textile Economy' initiative and report, and we are currently evaluating how we can take this initiative further in the form of the Make Fashion Circular initiative. There is a need for systemic change and hence joint action and collaboration across companies, organisations and other institutions.

As a strategic partner in the Global Fashion Agenda, BESTSELLER has also signed 'A Call to Action for a Circular Fashion System', which aims to accelerate action. Through the initiative, we have set targets for the collection of used garments, testing and using more circular fibres, and increasing awareness and knowledge at BESTSELLER about design and circularity.

We have been working to reduce our environmental footprint through greater use of more sustainable materials for several years. We are focusing on our biggest fibres, such as cotton, polyester and viscose. We have also tested selected circular fibres and started pilot projects using fibres designed for circularity.

During the past year, we have intensified our efforts to support more sustainable cotton farming globally through the Better Cotton Initiative (BCI). We have been a member of this initiative since 2012, which works with farmers in 23 countries to improve cotton farming, reducing the use of pesticides and chemical fertilisers and focusing on more responsible use of water. We have also increased the use of organic cotton in our products, and a number of brands such as SELECTED and NAME IT have worked strategically to convert their conventional cotton to organic cotton.

In the 2017/18 financial year, 59% of our total cotton consumption at BESTSELLER came from more sustainable sources. In the 2016/17 financial year this number was 37%.

During the past year, we have also increased our use of other sustainable fibres such as recycled polyester, lyocell and other recycled fibres, in order to address our biggest fibres and test several innovative new materials.

### Environment

In 2017, BESTSELLER invested in the expansion of our global environmental teams and procedures with the aim of reducing our environmental impact, achieving more comprehensive standards for the handling of chemicals and improving health and safety for employees in these areas.

Local colleagues performed environmental assessments at all factories handling wet processes and producing for us in Bangladesh and India. These initial assessments highlighted the need for improvements, which we worked on in close cooperation with our suppliers. We conducted 79 initial assessments and 24 follow-up inspections in Bangladesh, and 40 initial assessments and 15 follow-up inspections in India.

# Management's review (cont.)

## Higg index

The Higg index was developed by the Sustainable Apparel Coalition (SAC). It encompasses a number of tools that allow brands and suppliers of all sizes – and in all phases of their journey towards sustainability – to accurately measure a company or product's sustainability performance. The Higg index provides a holistic overview which allows companies to make valuable social and environmental improvements.

From 2018, the Higg FEM (Facility Environmental Module) will be used as part of BESTSELLER's in-depth evaluations of chemical and environmental management at the factories. From August 2016 to December 2017, we worked with our key suppliers to prepare for this by using Higg FEM to perform an in-depth evaluation and assessment of the supply chain for our biggest brand, JACK & JONES (see below).

## Chemical management

BESTSELLER's Restricted Substances List (RSL) is the list of substances restricted in our products and during the manufacture of our products. The RSL is updated annually – most recently in April 2018 – and takes account of all new and emerging legislation in Europe (the EU's REACH), USA and Canada. Our restrictions are fully aligned with best practice in the industry, and as a member of the AFIRM Group, we have introduced limit values and test methods. In a complex, global supply chain with new test methods, we seek – through our membership of the AFIRM Group – to work with other brands to create a core standard for our supply chain.

As part of BESTSELLER's ongoing due diligence to ensure that our products comply with the limit values, we make use of our chemical testing programme. Each month we select a large number of products for testing in cooperation with accredited international and independent laboratories. Products that do not comply with our RSL are not accepted.

## Training suppliers in responsible chemical management

BESTSELLER's chemical specialists, based at our global sourcing offices, work closely with suppliers to help them comply with our RSL, and we have a strong focus on training and supporting our suppliers in reducing the risks associated with the handling of chemicals.

In 2017, BESTSELLER completed 186 training sessions for suppliers in our sourcing countries. These were attended by 3,700 participants. The training sessions are based on BESTSELLER's RSL and chemical management guidelines, and are carried out both on site at the factories and in group sessions at our offices. The training is either delivered by our qualified chemical specialists, or in cooperation with third-party suppliers.

## Industry-wide challenges

To address some of the biggest challenges facing the garment industry, we devote extra focus to the substances associated with particularly high risks, and we work strategically to remove these from our supply chain.

In 2016, BESTSELLER introduced a complete ban on the use of water and oil-repellent finishing in the form of perfluorinated substances (PFCs) in our products. The ban has been implemented through supplier training, which included providing suggestions and recommendations for PFC-free chemicals, and testing end-products to ensure the ban is being observed.

BESTSELLER's NAME IT children's brand has had a very strong focus on finding solutions to this challenge, and has worked with suppliers to identify alternative treatment methods. One example of this is BIONIC-FINISH® ECO from Rudolf Group.

## Management's review (cont.)

APEOs are common ingredients in many chemical formulations used to manufacture apparel and footwear materials. They are also widely used in detergents. At BESTSELLER, we carefully monitor the content of APEOs in our products, and work closely with our suppliers to use APEO-free chemicals in production. We have had a significant focus on APEOs over the last few years, and have reduced the incidence of APEOs in our products.

**Statutory report on the underrepresented gender in the Board of Directors cf. section 99b of the Danish Financial Statements Act**

VILA A/S is subject to the rules on target figures and policies for the gender composition of management. VILA A/S is, however, of the opinion that qualifications and experience should be the decisive factor behind any job position.

In order to comply with the legislation, VILA A/S has formulated target figures for equal representation of men and women in the Board of Directors of VILA A/S.

The 2018 target figure for the representation of women in the Board of Directors of VILA A/S is 25%. Today, the Board of Directors of VILA A/S consists of 3 men. The target has not yet been reached, as a present change in the composition of the Board of Directors has not been considered appropriate, taking the qualifications and experience of potential candidates into consideration. The target figure will be reinstated with an expected fulfilment time horizon of 4 years.

At the other management levels, VILA A/S has an even gender composition at present.

# Accounting policies

The annual report of VILA A/S for the financial year 1 August 2017 – 31 July 2018 has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

The accounting policies applied for this consolidated financial statements and parent company financial statements are consistent with those applied last year.

**Recognition and measurement**
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is affected as described below for each financial statement item. Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

**Foreign currency translation**
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Accounts receivable and debts in foreign currencies are translated into Danish kroner at the exchange rate on the balance sheet date. Exchange rate differences that arise between the rate at the transaction date and the rate at the payment data are recognised in the profit and loss account. Intangible assets, property, plant and equipment, inventories and other non-monetary assets purchased in foreign currency are translated at historical exchange rates. Realised and unrealized exchange rate adjustments are included in the profit and loss account.

The profit and loss accounts of foreign subsidiaries are translated into Danish kroner at the average exchange rate of the individual months. The balance sheets of foreign subsidiaries are translated at the exchange rate of the balance sheet date. Goodwill is considered belonging to the independent foreign entity and is translated applying the exchange rate at the balance sheet date. Exchange rate differences from translating the equity of independent foreign entities at the beginning of the year using the exchange rate at the balance sheet date and by translating income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity.

Foreign exchange rate adjustments of balances which are considered part of the total investment in companies with a different functional currency than Danish kroner are recognised directly in the equity.

**Consolidated financial statements**
The consolidated financial statements comprise the parent company, VILA A/S, and the subsidiaries where the parent company directly or indirectly owns more than 50 % of the voting shares or in another way has a dominant participation. Companies in which the Group owns between 20 % and 50 % of the voting shares and has a significant position are considered associated companies.

## Accounting policies (cont.)

The consolidated annual accounts are prepared as a consolidation of the accounts of the parent company and the individual subsidiaries. Adjustments are made for intercompany turnover and expenditure, share-holdings, intra-group balances and dividends, as well as unrealized internal income and loss. The accounts used for the consolidation are prepared in accordance with the Group's accounting policies.

The annual accounts of the Group's subsidiaries are included 100 % in the consolidated figures. The non-controlling interests proportionate share of the profit and loss as well as the equity in subsidiaries not 100 % owned by the Group are included as a part of the Group's profit and loss but are disclosed separately.

**Non-controlling interests**
On initial recognition, non-controlling interest are measured at the fair value of the non-controlling interests' ownership share or at the non-controlling interests' proportionate share of the fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities.

In the first case, goodwill concerning the non-controllnig interest's share of the acquired entity is recognised, while in the last case goodwill concerning the non-controlling interest's share is not recognised. Measurement of non-controlling interests is chosen on a transaction-by-transaction basis.

**Business combinations**
Newly acquired or newly established subsidiaries are recognised in the consolidated financial statement from the date of acquisition or the date of establishment respectively. When subsidiaries are sold or liquidated, they cease to be recognised in the consolidated financial statement at the time of transfer or time of liquidation and earnings or losses at the time of sale or liquidation are recognised in the profit and loss account. The comparative figures are not adjusted for acquisitions or disposals.

Gains and losses on the disposal of subsidiaries and associates are calculated as the difference between the sales amount and the carrying amount of net assets at the date of disposal including any non-amortised goodwill and anticipated disposal costs.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair value at the date of acquisition. Costs for restructuring recognised in the acquired entity before the date of acquisition and not an agreed part of the acquisition are part of the acquisition balance sheet and hence the calculation of goodwill. Costs relating to restructuring decided by the acquiring entity must be recognised in the income statement. The tax effect of the restatement of assets and liabilities is considered.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill) is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset. Any excess of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition (badwill), representing an anticipated adverse development in the acquired enterprises is recognised in the income statement at the date of acquisition when the general revenue recognition criteria are met.

Goodwill and negative goodwill (badwill) from acquired enterprises can be adjusted until 12 months after the acquisition.

# Accounting policies (cont.)

**Intra-group business combinations**
The book value method is applied to business combinations such as acquisition and disposal of investments, mergers, demergers, additions of assets and share conversions, etc. in which entities controlled by the parent company are involved, provided the combination is considered final at the time of acquisition without any restatement of comparative figures. Differences between the agreed consideration and the carrying amount of the acquired entity are recognised in equity.

## Income statement

**Revenue**
Revenue from the sale of goods is recognized in the income statement when delivery is made, and risk has passed to the buyer and that the income can be reliably measured and is expected to be received. Revenue is recognized net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

**Cost of sales**
Cost of sales comprises costs incurred in generating the revenue for the year. Cost of sales includes provisions for loss on returned goods.

**Other operating income**
Other operating income comprises items secondary to the principal activities of the Group.

**Other external costs**
Other external costs comprise costs for distribution, including marketing and advertising, etc. and administration, including office costs, etc.

**Development costs**
Development costs are expensed in the income statement as cost of sales, other external costs and staff costs unless the criteria for recognition in the balance sheet are met for the individual development project.

**Staff costs**
Staff costs comprise costs for wages and salaries, pensions, social security costs and other staff related costs.

**Depreciation and amortisation of intangible assets and property, plant and equipment**
Depreciation and amortisation of intangible assets and property, plant and equipment comprise depreciation and amortisation for the year on intangible assets and property, plant and equipment based on the determined residual values and useful life as well as any impairment losses.

**Profit/loss from investments in subsidiaries**
The proportionate share of the results after tax of the individual subsidiaries is recognized in the income statement of the Parent company less amortization of goodwill and after full elimination of intra-group profits/losses.

**Financial income and expenses**
Financial income and expenses comprises interest income and expenses, realized and unrealized gains and losses on securities, payables and transactions denominated in foreign currencies, dividends received on other investments, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme.

## Accounting policies (cont.)

**Tax on profit/loss for the year**
The Company is subject to the Danish legislation on compulsory joint taxation with all Danish consolidated subsidiaries.

HEARTLAND A/S is the administrative company and incurs all Danish tax payables on the Danish subsidiaries taxable income.

The current Danish corporation tax is allocated between the jointly taxed subsidiaries in proportion to their taxable income. Subsidiaries with tax losses receive joint taxation contributions from those subsidiaries that have been able to use the tax losses to reduce their own taxable income.

Tax for the year comprises current tax, joint taxation contributions and changes in deferred tax such as changes due to changes in the tax rate. The tax attributable to the profit/loss for the year is recognized in the income statement while the tax attributable to direct postings on the equity account is recognized in equity.

## Balance sheet

**Intangible assets**
Intangible assets are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Interests are not included in the cost.

Where individual components of an item of intangible assets have different useful lives, they are accounted for as separate items, which are depreciated separately.

Non-current assets are depreciated on a straight-line basis, based on cost and on the following continually estimated useful lifes:

| | **Useful life** |
|---|---|
| Goodwill | 5 – 20 years |

Goodwill is amortised over the estimated useful life. The estimated useful life is determined by management based on their experience within each area of business. The amortisation period is determined based on to what extent the purchase concerns a strategically acquired company with a strong market position and a long-term profitability and to what extent the goodwill includes temporary intangible ressources which has not been able to spin off and recognize as individual assets.

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal and recognised in the income statement as recpectively 'Other operating income' and 'Other external costs'.

Intangible assets are written down to its recoverable amount if this is lower than the carrying amount.

**Property, plant and equipment**
Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Interests are not included in the cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

## Accounting policies (cont.)

Non-current assets are depreciated on a straight-line basis, based on cost and on the following continually estimated useful lifes:

| | Useful life |
|---|---|
| Operating equipment | 3 - 5 years |
| Leasehold improvements | 5 - 10 years |

The basis of depreciation is based on the residual value of the asset at the end of its useful life. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal and recognised in the income statement as recpectively 'Other operating income' and 'Other external costs'.

Property, plant and equipment are written down to its recoverable amount if this is lower than the carrying amount.

**Investments**

**Investments in subsidiaries**
Investments in subsidiaries are measured according to the equity method.

Investments in subsidiaries are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealized intra-group profits and losses and minus or plus any residual value of positive or negative goodwill determined in accordance with the purchase method.

Investments in subsidiaries with negative net asset values are measured at DKK 0, and any amounts owed by such enterprises are written down if the amount owed is irrecoverable. If the Parent company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognized as a provision.

Net revaluation of investments in subsidiaries are recognized in the reserve for net revaluation according to the equity method in equity to the extent the carrying amount exceeds cost.

The reserve for net revaluation can be neutralized by deficits, sale of investments or changes in accounting estimates. The reserve for net revaluation cannot be recognized with a negative balance.

The purchase method is applied on acquisition of enterprises cf. above-section "Business combinations".

Investments in subsidiaries are written down to its recoverable amount if this is lower than the carrying amount.

**Impairment of non-current assets**
The carrying amount of intangible assets and property, plant and equipment is reviewed in general to determine whether there is any indication of impairment in addition to that expressed by amortisation or depreciation. The impairment test is performed for each individual asset or group of assets. The recoverable amount of the asset is calculated as the value in use or the fair value less disposal costs, whichever is higher.

# Accounting policies (cont.)

If it is not possible to determine the recoverable amount for individual assets, the assets are reviewed jointly in the smallest identifiable group of assets to determine a reliable recoverable amount.

Domicile properties and other assets, for which it is not possible to calculate an individual capital value as the asset, in itself, does not generate future cash flows, are subject to a test for indication of impairment together with the group of assets, to which they may be attributed.

Previously recognised impairment losses are reversed when the reason for recognition no longer exist. Impairment losses on goodwill are not reversed.

**Inventories**
Inventories are measured at the lower of cost in accordance with the FIFO method and the net realisable value. The net realizable value of inventories is calculated as the expected selling price less selling costs. The net realizable value is calculated taking marketability, obsolescence and development in the expected selling price into account.

Costs comprise purchase price plus delivery costs.

**Receivables**
Receivables are recognised in the balance sheet at the lower of amortised cost and net realization value, which corresponds to the nominal value less write-down for bad debt losses. Write-downs for bad debt lossed are computed based on an individual assessment of each receivable.

**Prepayments**
Prepayments comprise costs incurred concerning subsequent financial years. Prepayments are measured at cost.

**Cash at hand and in bank**
Cash at hand and in bank comprise cash at hand and in bank.

**Equity - dividend**
Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the year is disclosed as a separate item under equity. Extraordinary dividend approved in the financial year is recognised directly in equity and disclosd as a separate item in the distribution of profits.

**Provisions**
Provisions are measured at net realizable value or fair value. If the obligation is expected to be settled far into the future the obligation is measured at fair value. Provisions comprise anticipated costs for losses on returned goods, obligations concerning leases and other contractual liabilities.

Provisions are recognized when the Group has a legal or constructive obligation at the balance sheet date and there is a probability of an outflow of ressources required to settle the obligation.

In connection with corporate acquisitions, provisions for restructuring of the acquired entity are included in the calculation of the cost of acquisition and accordingly in goodwill or in goodwill on consolidation, provided that they have been adopted and published no later than at the date of acquisition

**Deferred tax**
Deferred tax and adjustment of deferred tax for the year are measured using the balance sheet liability method as the tax value of all temporary differences between the carrying amount and the tax value of certain assets and liabilities. However, deferred tax is not recognized on temporary differences relating to non-amortisable goodwill.

## Accounting policies (cont.)

Deferred tax assets, including the tax value of a tax loss carried forwards are recognised at the expected value of their utilization, either a a set-off against tax on future income or as a set-off against deferred tax liabilities in enterprises in the same joint taxation and jurisdiction.

Deferred tax is measured according to the tax legislation and at the tax rates applicable at the balance sheet date when the deferred tax is expected to be converted to current tax.

Adjustments are made to deferred tax resulting from elimination of unrealized intra-group profits and losses.

**Liabilities other than provisions**
Financial liabilities are recognised at the date of borrowing as the net proceeds received less any transaction costs paid. Subsequent measurement of financial liabilities is at amortised cost.

Other liabilities are measured at net realizable value.

**Current tax payable and receivable**
Current tax payable and receivable are recognized in the balance sheet as the calculated tax based on the taxable income for the year adjusted for tax on prior years taxable income and for taxes paid on account

Current tax payable and receivable are set-off to the extent a legal right to do so exist and the entries are expected to be set-off net or simultaneous.

**Deferred income (liability)**
Deferred income comprises payments received concerning the following financial year.

**Contingent assets and liabilities**
Contingent assets and liabilities are not recognised in the annual report but are disclosed in the notes.

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

Cash flows from operating activities comprise cash flows presented according to the indirect method and are calculated as the Groups share of the profit/loss for the year adjusted for changes in the working capital, paid corporate taxes and non-cash income statement items such as depreciation, amortisation and impairment losses and provisions made. The working capital comprises current assets less current liabilities – exclusive of the financial statement items included in cash and cash equivelants.

Cash flows from investing activities comprise cash flows from payments associated with the purchase of sale of companies, activities and financial non-current assets as well as purchase, development, improvement and sale etc. of intangible assets and property, plant and equipment including the acquisition of financially leased assets.

Cash flows from financing activities comprise cash flows from changes in the size or composition of the Group's share capital and any associated costs as well as taking out loans and financial lease agreements, payments on interest-bearing debts and payment of dividends to the shareholders.

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less, which are freely negotiable into cash and which are subject to an insignificant risk of changes in value.

# Income Statement 1 August - 31 July

| Parent company 2017/18 (DKK'000) | Parent company 2016/17 (DKK'000) | Note | | Consolidated 2017/18 (DKK'000) | Consolidated 2016/17 (DKK'000) |
|---|---|---|---|---|---|
| 1.029.025 | 915.662 | 1 | Revenue | 1.252.864 | 1.159.024 |
| -723.918 | -676.497 | | Cost of sales | -760.586 | -720.221 |
| 15.451 | 14.341 | | Other operating income | 5.218 | 6.430 |
| -59.474 | -44.857 | | Other external costs | -107.459 | -131.810 |
| **261.085** | **208.649** | | **Gross profit** | **390.036** | **313.423** |
| -81.880 | -75.727 | 2 | Staff costs | -160.162 | -155.443 |
| -541 | -723 | | Depreciation and amortisation of property, plant and equipment and intangible assets | -8.095 | -8.200 |
| **178.664** | **132.199** | | **Operating result** | **221.779** | **149.780** |
| 37.480 | 9.507 | 9 | Profit/loss from investments in subsidiaries | 0 | 0 |
| 3.293 | 23.415 | 3 | Financial income | 6.288 | 25.831 |
| -2.038 | -22.894 | 4 | Financial expenses | -4.485 | -25.209 |
| **217.398** | **142.227** | | **Result before tax** | **223.583** | **150.402** |
| -39.644 | -29.228 | 5 | Tax on profit for the year | -45.828 | -37.403 |
| **177.755** | **112.999** | 6 | **Result for the year** | **177.755** | **112.999** |

# Balance sheet at 31 July

| Parent company 2018 (DKK'000) | Parent company 2017 (DKK'000) | Note | | Consolidated 2018 (DKK'000) | Consolidated 2017 (DKK'000) |
|---|---|---|---|---|---|
| | | | **ASSETS** | | |
| | | 7 | **Intangible assets** | | |
| 0 | 0 | | Goodwill | 0 | 0 |
| **0** | **0** | | | **0** | **0** |
| | | 8 | **Property, plant and equipment** | | |
| 844 | 832 | | Operating equipment | 6.232 | 5.883 |
| 342 | 459 | | Leasehold improvements | 10.321 | 1.743 |
| 0 | 0 | | Prop., plant and equip. under construction | 22 | 0 |
| **1.186** | **1.291** | | | **16.575** | **7.626** |
| | | | **Investments** | | |
| 164.011 | 146.673 | 9 | Investments in subsidaries | 0 | 0 |
| 18 | 0 | | Other receivables | 281 | 608 |
| **164.029** | **146.673** | | | **281** | **608** |
| **165.215** | **147.964** | | **Total non-current assets** | **16.856** | **8.234** |
| **180.150** | **154.035** | | **Inventories** | **194.851** | **166.175** |
| | | | **Receivables** | | |
| 11.459 | 6.572 | | Trade receivables | 133.878 | 118.518 |
| 344.594 | 275.712 | | Amounts owed by group enterprises | 318.082 | 272.089 |
| 623 | 633 | 10 | Deferred tax | 3.222 | 3.005 |
| 0 | 0 | | Corporation tax | 2.841 | 5.279 |
| 255 | 516 | | Other receivables | 16.510 | 5.792 |
| 893 | 623 | 11 | Prepayments | 7.975 | 7.423 |
| **357.825** | **284.056** | | | **482.509** | **412.106** |
| **29.788** | **14.429** | | **Cash at hand and in bank** | **65.618** | **51.146** |
| **567.763** | **452.520** | | **Total current assets** | **742.978** | **629.427** |
| **732.979** | **600.484** | | **Total assets** | **759.834** | **637.661** |

# Balance sheet at 31 July

| Parent company 2018 (DKK'000) | Parent company 2017 (DKK'000) | Note | | Consolidated 2018 (DKK'000) | Consolidated 2017 (DKK'000) |
|---|---|---|---|---|---|
| | | | **EQUITY AND LIABILITIES** | | |
| | | | **Equity** | | |
| 6.300 | 6.300 | 12 | Share capital | 6.300 | 6.300 |
| 0 | 0 | | Reserve for net revaluation according to the equity method | 0 | 0 |
| 354.573 | 258.198 | | Retained earnings | 354.573 | 258.198 |
| 80.000 | 60.000 | | Proposed dividend | 80.000 | 60.000 |
| **440.873** | **324.498** | | **Total equity** | **440.873** | **324.498** |
| | | | **Provisions** | | |
| 337 | 265 | 13 | Other provisions | 43.579 | 58.301 |
| 9.977 | 21.812 | | Provision for negative balances in subsidiaries | 0 | 0 |
| 0 | 0 | 10 | Deferred tax | 1.525 | 2.010 |
| **10.314** | **22.077** | | | **45.104** | **60.311** |
| | | | **Current liabilities other than provisions** | | |
| 0 | 0 | | Credit institutions | 0 | 5 |
| 37.074 | 32.641 | | Trade payables | 44.241 | 40.590 |
| 156.529 | 158.722 | | Payables to group enterprises | 107.678 | 104.590 |
| 39.627 | 25.323 | | Corporation tax | 41.462 | 33.548 |
| 48.562 | 37.223 | | Other payables | 80.396 | 74.119 |
| 0 | 0 | 14 | Deferred income | 81 | 0 |
| **281.792** | **253.909** | | | **273.857** | **252.852** |
| **281.792** | **253.909** | | **Total liabilities other than provisions** | **273.857** | **252.852** |
| **732.979** | **600.484** | | **Total equity and liabilities** | **759.834** | **637.661** |

15 Fees to the auditors appointed at the annual general meeting
16 Contingent liabilities and other obligations
17 Events after the balance sheet date
18 Related parties

# Statement of changes in equity at 31 July

| Parent company | Note | Share capital (DKK'000) | Reserve for net revaluation according to the equity method (DKK'000) | Retained earnings (DKK'000) | Proposed dividend (DKK'000) | Total (DKK'000) |
|---|---|---|---|---|---|---|
| Equity at 1 August 2017 | | 6.300 | 0 | 258.198 | 60.000 | 324.498 |
| Profit for the year | | 0 | 37.480 | 140.275 | 0 | 177.755 |
| Dividends distributed | | 0 | -6.439 | 6.439 | 0 | 0 |
| Foreign exchange adjustments on investments | | 0 | -1.380 | 0 | 0 | -1.380 |
| Transfer | | | -29.661 | 29.661 | 0 | 0 |
| Dividends paid | | 0 | 0 | 0 | -60.000 | -60.000 |
| Proposed dividend | | 0 | 0 | -80.000 | 80.000 | 0 |
| Equity at 31 July 2018 | | **6.300** | **0** | **354.573** | **80.000** | **440.873** |

| Consolidated | Share capital (DKK'000) | Retained earnings (DKK'000) | Proposed dividend (DKK'000) | Total (DKK'000) |
|---|---|---|---|---|
| Equity at 1 August 2017 | 6.300 | 258.198 | 60.000 | 324.498 |
| Profit for the year | 0 | 177.755 | 0 | 177.755 |
| Foreign exchange adjustments on investments | 0 | -1.380 | 0 | -1.380 |
| Paid dividend | 0 | 0 | -60.000 | -60.000 |
| Proposed dividend | 0 | -80.000 | 80.000 | 0 |
| Equity at 31 July 2018 | **6.300** | **354.573** | **80.000** | **440.873** |

# Statement of cash flows

| Parent company 2017/18 (DKK'000) | Parent company 2016/17 (DKK'000) | Note | | Consolidated 2017/18 (DKK'000) | Consolidated 2016/17 (DKK'000) |
|---|---|---|---|---|---|
| 177.755 | 112.999 | | Profit for the year | 177.755 | 112.999 |
| 2.777 | 20.553 | 19 | Adjustments | 39.032 | 59.119 |
| -69.338 | -68.598 | 20 | Change in working capital | -88.207 | -99.398 |
| **111.194** | **64.954** | | **Cash generated from operations** | **128.580** | **72.720** |
| -25.328 | -24.673 | | Corporation tax paid | -35.816 | -26.648 |
| **85.865** | **40.281** | | **Cash flows from operating activities (I)** | **92.764** | **46.072** |
| -436 | -253 | | Acquisition of property, plant and equipment | -20.136 | -4.405 |
| 0 | 14 | | Disposal of property, plant and equipment | 1.523 | 241 |
| -16.492 | -10.000 | | Acquisition of investments | 0 | 0 |
| 0 | 111 | | Disposal of investments | 0 | 0 |
| -18 | 598 | | Other receivables | 327 | 589 |
| **-16.945** | **-9.530** | | **Cash flows from investing activities (II)** | **-18.286** | **-3.575** |
| 0 | 0 | | Repayment/proceeds of bank loans | -5 | 5 |
| 6.439 | 15.683 | | Dividends from group enterprises | 0 | 0 |
| -60.000 | -50.000 | | Dividends paid | -60.000 | -50.000 |
| 0 | 0 | | Other adjustments from financing activity (III) | 0 | 766 |
| **-53.561** | **-34.317** | | **Cash flows from financing activities (III)** | **-60.005** | **-49.229** |
| **15.359** | **-3.566** | | **Changes in cash and cash equivalents (I+II+III)** | **14.473** | **-6.732** |
| 14.429 | 17.995 | | Cash and cash equivalents at 1 August | 51.146 | 57.879 |
| 0 | 0 | | Currency translation adjustment of cash | -1 | -1 |
| **29.788** | **14.429** | | **Cash and cash equivalents at 31 July** | **65.618** | **51.146** |
| | | | **Cash and cash equivalents are specified as follows:** | | |
| 29.788 | 14.274 | | Liquid funds | 65.618 | 50.744 |
| 0 | 155 | | Securities | 0 | 402 |
| **29.788** | **14.429** | | | **65.618** | **51.146** |

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements and the parent company financial statements.

## Notes to the income statement and the balance sheet

| | 2017/18 (DKK'000) | 2016/17 (DKK'000) |
|---|---|---|
| **Note 1: Revenue** | | |
| **Parent company** | | |
| Denmark | 102.435 | 87.976 |
| Rest of Europe | 926.590 | 827.686 |
| | **1.029.025** | **915.662** |
| **Consolidated** | | |
| Denmark | 193.674 | 162.037 |
| Rest of Europe | 1.059.190 | 996.987 |
| | **1.252.864** | **1.159.024** |

**Segment information**
The Company's and the Group's revenue is disclosed by geographical markets. The Company's and the Group's activities consists of one business segment why the revenue is only disclosed by geographical markets. The segment information is consistent with the Company's and the Group's applied accounting policies, risks and internal controlling.

**Note 2: Staff costs**

| | 2017/18 | 2016/17 |
|---|---|---|
| **Parent company** | | |
| Salaries and wages | 67.945 | 63.419 |
| Pensions | 7.229 | 6.700 |
| Other social security costs | 936 | 1.051 |
| Other staff costs | 5.770 | 4.557 |
| | **81.880** | **75.727** |
| **Average number of employees** | **167** | **161** |
| **Consolidated** | | |
| Salaries and wages | 130.565 | 126.931 |
| Pensions | 10.767 | 10.425 |
| Other social security costs | 10.935 | 11.153 |
| Other staff costs | 7.896 | 6.934 |
| | **160.162** | **155.443** |
| **Average number of employees** | **406** | **420** |

By reference to section 98b(3) of the Danish Financial Statements Act, remuneration to Management is not disclosed. The members of the board have not received any wages.

**Note 3: Financial income**

| | 2017/18 | 2016/17 |
|---|---|---|
| **Parent company** | | |
| Intercompany financial income | 18 | 99 |
| Other financial income | 3.274 | 23.317 |
| | **3.293** | **23.416** |

## Notes to the income statement and the balance sheet

| | 2017/18 (DKK'000) | 2016/17 (DKK'000) |
|---|---|---|
| **Note 3: Financial income (cont.)** | | |
| **Consolidated** | | |
| Intercompany financial income | 4 | 70 |
| Other financial income | 6.284 | 25.761 |
| | **6.288** | **25.831** |
| **Note 4: Financial expenses** | | |
| **Parent company** | | |
| Intercompany financial expenses | 760 | 838 |
| Other financial expenses | 1.279 | 22.056 |
| | **2.038** | **22.894** |
| **Consolidated** | | |
| Intercompany financial expenses | 722 | 746 |
| Other financial expenses | 3.762 | 24.463 |
| | **4.485** | **25.209** |
| **Note 5: Tax on profit for the year** | | |
| Specified as follows: | | |
| **Parent company** | | |
| Current tax for the year | 39.627 | 29.338 |
| Change in deferred tax | 11 | -110 |
| Tax concerning previous years | 5 | 0 |
| | **39.644** | **29.228** |
| **Consolidated** | | |
| Current tax for the year | 46.160 | 37.690 |
| Change in deferred tax | -341 | -415 |
| Tax concerning previous years | 8 | 128 |
| | **45.828** | **37.403** |
| **Note 6: Result for the year** | | |
| Proposed dividend | 80.000 | 60.000 |
| Retained earnings | 97.755 | 52.999 |
| | **177.755** | **112.999** |

## Notes to the income statement and the balance sheet

### Note 7: Intangible assets

| | Goodwill (DKK'000) |
|---|---|
| **Consolidated** | |
| Cost at 1 August 2017 | 4.540 |
| Exchange adjustment, closing rate | 5 |
| Disposals for the year | -1.986 |
| **Cost at 31 July 2018** | **2.559** |
| Amortisation and impairment losses at 1 August 2017 | -4.540 |
| Exchange adjustment, closing rate | -5 |
| Amortisation, disposals | 1.986 |
| **Amortisation and impairment losses at 31 July 2018** | **-2.559** |
| **Carrying amount at 31 July 2018** | **0** |

### Note 8: Property, plant and equipment

| | Operating equipment (DKK'000) | Leasehold improvements (DKK'000) |
|---|---|---|
| **Parent company** | | |
| Cost at 1 August 2017 | 3.761 | 3.178 |
| Additions for the year | 436 | 0 |
| Disposals for the year | 369 | 0 |
| **Cost at 31 July 2018** | **4.566** | **3.178** |
| Depreciation and impair. losses at 1 August 2017 | -2.929 | -2.719 |
| Depreciation for the year | -424 | -117 |
| Depreciation on assets disposed | -369 | 0 |
| **Depriciation and impairment losses at 31 July 2018** | **-3.722** | **-2.837** |
| **Carrying amount at 31 July 2018** | **844** | **342** |

## Notes to the income statement and the balance sheet

### Note 8: Property, plant and equipment

| Consolidated | Operating equipment (DKK'000) | Leasehold improvements (DKK'000) | Property, plant and equipment under construction (DKK'000) |
|---|---|---|---|
| Cost at 1 August 2017 | 24.809 | 26.450 | 0 |
| Exchange adjustment, closing rate | -89 | 28 | 0 |
| Additions for the year | 4.330 | 15.784 | 22 |
| Disposals for the year | -3.013 | -6.951 | 0 |
| **Cost at 31 July 2018** | **26.037** | **35.311** | **22** |
| Depreciation and impair. losses at 1 August 2017 | -18.926 | -24.707 | 0 |
| Exchange adjustment, closing rate | 66 | -11 | 0 |
| Write-downs for the year | -1.564 | -3.279 | 0 |
| Depreciation for the year | -2.214 | -1.038 | 0 |
| Depreciation on assets disposed | 2.833 | 4.046 | 0 |
| **Depriciation and impairment losses at 31 July 2018** | **-19.805** | **-24.990** | **-0** |
| **Carrying amount at 31 July 2018** | **6.232** | **10.321** | **22** |

### Note 9: Investments in subsidaries and associates

| Parent company | Subsidiaries (DKK'000) |
|---|---|
| Cost at 1 August 2017 | 302.172 |
| Additions for the year | 16.492 |
| **Cost at 31 July 2018** | **318.664** |
| Value adjustment at 1 August 2017 | -201.043 |
| Foreign exchange adjustment | -1.380 |
| Profit for the year | 37.480 |
| Dividends | -6.439 |
| **Value adjustment at 31 July 2018** | **-171.382** |
| **Carrying amount at 31 July 2018** | **147.282** |
| Negative balances recognised in receivables | 6.752 |
| Negative balances recognised in provisions | 9.977 |
| **Carrying amount at 31 August 2018** | **164.011** |

## Notes to the income statement and the balance sheet

| | 2018 (DKK'000) | 2017 (DKK'000) |
|---|---|---|
| **Note 10: Deferred tax** | | |
| **Parent company** | | |
| Deferred tax at 1 August | 633 | 523 |
| Adjustment of deferred tax for the year | 0 | 110 |
| Deferred tax concerning previous years | -11 | 0 |
| Deferred tax at 31 July | **623** | **633** |
| Recognised as follows: | | |
| Deferred tax assets | 623 | 633 |
| | **623** | **633** |
| **Consolidated** | | |
| Deferred tax at 1 August | 995 | 2.271 |
| Adjustment of deferred tax for the year | -106 | 415 |
| Other changes in deferred tax | 672 | -1.698 |
| Exchange rate adjustment | 136 | 7 |
| Deferred tax at 31 July | **1.697** | **995** |
| Recognised as follows: | | |
| Deferred tax assets | 3.222 | 3.005 |
| Deferred tax liabilities | -1.525 | -2.010 |
| | **1.697** | **995** |

The company's and the group's deferred tax assets consists primarily of temporary differences between the financial value and the tax value of certain assets and liabilities.

| | 2018 (DKK'000) | 2017 (DKK'000) |
|---|---|---|
| **Note 11: Prepayments** | | |
| **Parent company** | | |
| Other | 893 | 623 |
| | **893** | **623** |
| **Consolidated** | | |
| Rent | 103 | 103 |
| Insurance | 50 | 50 |
| Other | 7.821 | 7.270 |
| | **7.975** | **7.423** |

**Note 12: Share capital**

The shares are not divided into classes. The nominal value of DKK 6.300.000 is distributed on 6.300 shares of DKK 1.000.

## Notes to the income statement and the balance sheet

### Note 13: Other provisions

| | Others (DKK'000) |
|---|---|
| **Parent company** | |
| Provisions at 1 August 2017 | 265 |
| Provisions for the year | 72 |
| **Provisions at 31 July 2018** | **337** |

Other provisions are expected to mature within:

| | |
|---|---|
| 0 - 1 year | 337 |
| **Provisions at 31 July 2018** | **337** |

| | Others (DKK'000) |
|---|---|
| **Consolidated** | |
| Provisions at 1 August 2017 | 58.301 |
| Exchange adjustment, closing rate | 1 |
| Provisions for the year | -14.295 |
| Utilised during the year | -428 |
| **Provisions at 31 July 2018** | **43.579** |

Other provisions are expected to mature within:

| | |
|---|---|
| 0 - 1 year | 3.509 |
| > 1 year | 40.070 |
| **Provisions at 31 July 2018** | **43.579** |

Other provisions primarily comprise pending disputes, lease liabilities and other liabilities, etc.

| | **2017/18** (DKK'000) | **2016/17** (DKK'000) |
|---|---|---|
| **Note 14: Deferred income** | | |
| Tenant allowance / benefits from landlords | 81 | 0 |
| | **81** | **0** |

**Note 15: Fees to the auditors appointed at the annual general meeting**

**Consolidated**

Fees to the auditors appointed at the annual general meeting, total:

| | 2017/18 | 2016/17 |
|---|---|---|
| Fees regarding statutory audit | 637 | 579 |
| Tax assistance | 109 | 131 |
| Other assistence | 46 | 78 |
| | **793** | **788** |

## Notes to the income statement and the balance sheet

**Note 15: Fees to the auditors appointed at the annual general meeting (cont.)**

| | 2017/18 (DKK'000) | 2016/17 (DKK'000) |
|---|---|---|
| Fees to other auditors total: | | |
| Fees regarding statutory audit | 86 | 77 |
| Tax assistance | 13 | 120 |
| Other assistence | 15 | 4 |
| | **113** | **201** |

**Note 16: Contingent liabilities and other obligations**

The Parent company and the Group are parties to a number of pending disputes that are not deemed to have any material effect on coming financial years.

**Contingent liabilities towards group companies:**
The Company participates in a Danish joint taxation arrangement with HEARTLAND A/S serving as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore secondarily liable for income taxes etc for the jointly taxed entities as well as to the withholding of tax on interest, royalties and dividends for the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

The Company has issued a guarantee of payment for the liabilities of a number of subsidiaries totalling 7,9m DKK pr. 31-07-2018.

| | 2018 (DKK'000) | 2017 (DKK'000) |
|---|---|---|
| **Parent company** | | |
| Obligations for rent and lease commitments | 2.520 | 3.447 |
| | **2.520** | **3.447** |
| Future minimum payments according to rent commitments: | | |
| Within 1 year | 2.125 | 2.106 |
| Between 1 and 5 years | 395 | 1.341 |
| | **2.520** | **3.447** |
| **Consolidated** | | |
| Obligations for rent and lease commitments | 65.019 | 52.590 |
| Guarantees | 0 | 94 |
| Other obligations | 3.519 | 3.818 |
| | **68.538** | **56.502** |
| Future minimum payments according to rent commitments: | | |
| Within 1 year | 3.359 | 16.445 |
| Between 1 and 5 years | 41.820 | 30.964 |
| After 5 years | 19.840 | 5.181 |
| | **65.019** | **52.590** |

## Notes to the income statement and the balance sheet

### Note 17: Events after the balance sheet date

No events materially affecting the financial position have occured after the balance sheet date.

### Note 18: Related parties

The Company is owned 50 % by BESTSELLER United A/S, Fredskovvej 5, 7330 Brande and 50 % by Aktieselskabet af 2.12.1998, Storskovvej 14 A, 8260 Viby J. The consolidated financial statement of VILA A/S is included in the consolidated financial statement for HEARTLAND A/S, Inge Lehmanns Gade 2, 8000 Aarhus C being both the largest and smallest Group.

| Related parties with dominant influence: | Basis for influence: |
|---|---|
| BESTSELLER United A/S, Fredskovvej 5, 7330 Brande | Majority owner |

| | 2017/18 (DKK'000) | 2016/17 (DKK'000) |
|---|---|---|
| **Related party transactions** | | |
| **Parent company** | | |
| Sale of goods to subsidiaries | 884.043 | 821.061 |
| Sale of services to subsidiaries | 29.097 | 13.899 |
| Purchase of goods and services from subsidiaries | 11.568 | 0 |
| Sale of goods to other related parties | 69.243 | 37.922 |
| Sale of services to other related parties | 5.399 | 0 |
| Purchase of goods and services from other related parties | 491.866 | 421.338 |
| Interest income from subsidiaries | 18 | 29 |
| Interest expense to subsidiaries | 38 | 92 |
| Interest income from other related parties | 4 | 70 |
| Interest expense to other related parties | 722 | 746 |
| Capital contribution | 15.000 | 10.000 |
| Paid dividend | 60.000 | 50.000 |
| Receivables from group companies | 62.544 | 3.996 |
| Payables to group enterprises | 61.930 | 63.464 |
| Receivables from other related parties | 282.051 | 271.716 |
| Payables to other related parties | 94.599 | 95.258 |
| **Consolidated** | | |
| Sale of goods and services to other related parties | 116.634 | 79.672 |
| Purchase of goods and services from other related parties | 523.528 | 466.858 |
| Interest income from other related parties | 4 | 70 |
| Interest expense to other related parties | 722 | 746 |
| Paid dividend | 60.000 | 50.000 |
| Receivables from related parties | 318.082 | 272.089 |
| Payables to related parties | 107.678 | 104.590 |

Besides distribution of dividend, no other transactions were carried through with shareholders in the year.

## Notes to the income statement and the balance sheet

| | 2017/18 (DKK'000) | 2016/17 (DKK'000) |
|---|---|---|
| **Note 19: Statement of cash flows - Adjustments** | | |
| **Parent company** | | |
| Depreciation, amorti. and impairment losses | 541 | 723 |
| Income from investments in subsidiaries | -37.480 | -9.507 |
| Change in other provisions | 72 | -1 |
| Tax on profit/loss for the year | 39.644 | 29.228 |
| Adjustments of forward exchange of transations taken to equity | 0 | 110 |
| | **2.777** | **20.553** |
| **Consolidated** | | |
| Depreciation, amorti. and impairment losses | 8.095 | 8.200 |
| Change in other provisions | -14.722 | 13.516 |
| Tax on profit/loss for the year | 45.828 | 37.403 |
| Other adjustments | -169 | 0 |
| | **39.032** | **59.119** |

**Note 20: Statement of cash flows - Change in working capital**

| | 2017/18 (DKK'000) | 2016/17 (DKK'000) |
|---|---|---|
| **Parent company** | | |
| Change in inventories | -26.115 | -2.829 |
| Change in receivables | -73.779 | -71.028 |
| Change in trade creditors and other payables | 13.578 | 28.991 |
| Other adjustments (in working capital) | 16.978 | -23.732 |
| | **-69.338** | **-68.598** |
| **Consolidated** | | |
| Change in inventories | -28.676 | -1.806 |
| Change in receivables | -72.624 | -100.228 |
| Change in trade creditors and other payables | 13.093 | 2.636 |
| | **-88.207** | **-99.398** |