

# **Dansk Supermarked A/S**

**Rosbjergvej 33  
DK-8220 Brabrand**

**Annual report**

**2017**

**CVR no. 35 95 47 16**

The Annual Report has been presented and  
approved on the company's annual general  
meeting at / 2018

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**Chair**

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## Financial highlights for the Group

DKK million

	2017	2016	2015	2014 *)	2013 **)
Net revenue	58,446	57,582	57,148	56,816	56,607
Total revenue	58,805	57,899	57,474	57,156	56,941
Operating profit (EBIT)	2,472	2,164	2,558	2,430	2,385
Net financial items	-248	-196	-226	-52	141
Total profit for the year	1,698	1,322	1,739	1,819	1,922
Total assets	30,477	31,871	32,467	28,596	36,309
Total equity	2,953	6,733	8,513	6,702	24,158
Purchase of property, plant and equipment	1,276	1,070	912	1,095	1,726
Profit margin	4.2 %	3.7 %	4.5 %	4.3 %	4.2 %
Return on equity	35.1 %	17.3 %	22.9 %	11.8 %	8.2 %

### Definitions:

Profit margin is operating profit divided by total revenue.

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

\*) The main and key figures for the financial year 2014 have not been adjusted to reflect the changes to the accounting principles applied in 2016 regarding insurance provisions.

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

# Management's review

## Primary business area

Dansk Supermarked Group runs 4 different formats of retail stores. In Denmark, Bilka, føtex, Netto and Salling and in Germany, Poland and Sweden we are present with Netto stores. In E-commerce we operate with Bilka.dk, Salling.dk, føtex.dk, wupti.com and Skagenfood A/S. Furthermore Dansk Supermarked Group operates Starbucks and Carl's Jr as franchises in Denmark.

The parent company's activities include all retail activities in Denmark.

## Development during the financial year

### *Market development*

The Danish grocery market continued to grow at a slow pace in 2017. The market was characterised by strong competition and continued price sensitive consumers. The discount segment accounts for more than 40 % of the market for fast moving consumer goods in Denmark with several discount banners opening new stores and making significant refurbishment of a part of the stores during the year. The discount segment is expected to continue its growth in the coming years, though at a slower pace than earlier. In 2017 Kiwi left the Danish market as a result of competitive pressure but despite their departure we still expect the total number of stores to be at the same level .

The market for nonfood and textile was characterized by limited growth. Volumes are continuously shifting towards online trade and a lot of the trade is not coming from Danish players, a trend that is expected to continue in the coming years.

Dansk Supermarked Group grew its food market share significantly in Denmark in 2017.

### *Structural development*

In 2017 Dansk Supermarked A/S acquired 80 % of Skagenfood A/S.

### *Result for the year*

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

The total revenue for 2017 amounts to DKK 58,805 million, an increase of DKK 906 million compared to 2016. The expansion continued with the opening of 55 new stores of which 25 were converted from former Kiwi sites. During the year Dansk Supermarked Group closed 2 stores.

Operating profit before depreciation, amortisation and impairment losses (EBITDA) adjusted for onerous contracts and other expenses related to marked expansion is DKK 3,166 million DKK compared to DKK 3,006 million in 2016.

Operation profit (EBIT) for 2017 is DKK 2,472 million compared to DKK 2,164 million in 2016. Adjusted for one offs in 2017 related to gain from sale of Næstved Storcenter less impairment losses and expenses related to marked expansion the underlying EBIT is DKK 2,134 million in 2017 compared to DKK 2,100 million in 2016.

Profit before tax is DKK 2,231 million compared to DKK 1,763 million in 2016. Profit for the year is DKK 1,698 million an increase of DKK 376 million compared to the result in 2016 of DKK 1,322 million

The result for the underlying business was in line with expectations.

Cash flows from operating activities amount to DKK 4,691 million (DKK 4,434 million in 2016). Cash flows from investment activities were DKK 1,579 million (DKK -1,600 million in 2016 ). Investments in intangible assets, property, plant and equipment and capital contribution to joint venture amount to DKK 1,454 million in 2017 (DKK 1,442 million in 2016).

Net cash flows from financing activities include dividend paid out of DKK 5,680 million (DKK 2,700 million in 2016).

## Management's review

### Employees

As at 31 December 2017 the Dansk Supermarked Group employed 53,143 employees against 51,202 as at 31 December 2016. Converted into the average number of full time employees this equals 26,935 in 2017 (26,568 in 2016).

### Social responsibility and diversity in management

Dansk Supermarked Group considers social responsibility to be important for the Group. Regarding the efforts in 2017 we refer to our report on social responsibility in pursuance of sections 99a and 99b of the Danish Financial Statements Act. The report is available on:

<https://dscomprodstorage.blob.core.windows.net/media/42567/csr-report-2017.pdf>

### Particular risks

The Group's financial risks include interest and exchange rate risks. The interest rate risk is related to the Group's mortgage loans where the risk is hedged by interest rate swaps. The exchange rate risk primarily concerns purchase of goods in USD where the major part hereof is covered by short-term forward contracts.

### Expected development

The result before tax for 2018 is expected to be lower than in 2017 adjusted for one offs as a result of lowering 2,000 products in føtex to discount price level.

## Management's statement

The Board of Directors and the Executive Board have today discussed and approved the annual report of Dansk Supermarked A/S for the financial year 1 January – 31 December 2017.

The annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the company's operations and cash flows for the financial year 1 January – 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the company's operations and financial conditions, the results of the Group's and the company'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 company faces.

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

Brabrand, 19 April 2018

### Executive Board

Per Bank  
CEO

### Board of Directors

Nils S. Andersen  
Chairman

Jens Bjerg Sørensen

Marianne Kirkegaard Knudsen

Bjørn Gulden

Freddy Mikael Sobin

Thomas Carsten Alexander Tochtermann

Helle Bech  
Employee representative

Kenneth Wedel  
Employee representative

# Independent auditor's report

To the shareholders of Dansk Supermarked A/S

## ***Opinion***

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

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

## ***Basis for opinion***

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

## ***Statement on the Management's review***

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements or the parent company 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 consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatements of the Management's review.

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

## Independent auditor's report

In preparing the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the company or to cease operations, or has no realistic alternative but to do so.

### ***Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company 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 these consolidated financial statements and parent company financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the note disclosures, and whether the consolidated financial statements and the parent company 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, 19 April 2018

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

Henrik Kronborg Iversen  
State Authorised Public Accountant  
MNE no. mne24687

Morten Friis  
State Authorised Public Accountant  
MNE no. mne32732

## Consolidated income statement

DKK million

Notes	2017	2016
Net revenue	58,446	57,582
Other revenue	359	317
4 Total revenue	58,805	57,899
Cost of sales	-42,861	-42,589
Gross profit	15,944	15,310
5 Staff expenses	-7,094	-6,892
6 External expenses	-5,684	-5,412
Provision regarding onerous contracts and other expenses related to market expansion	-160	-
Operating profit before depreciation, amortisation and impairment losses (EBITDA)	3,006	3,006
Depreciation and amortisation	-1,032	-906
Impairment losses	-365	-23
Net gain on disposal of investment property, property, plant and equipment and intangible assets	863	87
Operating profit (EBIT)	2,472	2,164
13 Share of profit/loss of joint ventures, net of tax	7	-205
7 Financial income	44	115
8 Financial expenses	-292	-311
Profit before tax	2,231	1,763
9 Income tax	-533	-441
<b>Total profit for the year</b>	<b>1,698</b>	<b>1,322</b>

The total profit for the year is attributable to shareholders of Dansk Supermarked A/S.

# Consolidated statement of other comprehensive income

DKK million

Notes	2017	2016
<b>Profit for the year</b>	1,698	1,322
<b>Other comprehensive income, net of income tax:</b>		
<b>Items that will not be reclassified to the consolidated income statement:</b>		
9 Remeasurement of defined benefit plans	-5	-13
	-5	-13
<b>Items that are or may be reclassified subsequently to the consolidated income statement:</b>		
9 Exchange differences on translating foreign operations	168	-229
9 Cash flow hedges, value adjustment for the year	-27	-211
9 Cash flow hedges, reclassified to financial expenses	66	51
	207	-389
<b>Other comprehensive income for the year, net of income tax</b>	202	-402
<b>Total comprehensive income for the year</b>	1,900	920

The total comprehensive income for the year is attributable to shareholders of Dansk Supermarked A/S.

# Consolidated statement of financial position

DKK million

<b>Assets</b>			
<u>Notes</u>		<u>2017</u>	<u>2016</u>
	<b>Non-current assets</b>		
10	<b>Intangible assets</b>		
	Goodwill	131	309
	Software	948	1,027
	Software development in progress	160	145
	Brands	80	65
	Other intangible assets	20	9
	Total intangible assets	1,339	1,555
11	<b>Property, plant and equipment</b>		
	Land and buildings	16,433	16,169
	Fixtures and fittings, tools and equipment	1,832	1,702
	Leasehold improvements	420	324
	Assets under construction and prepayments	127	111
	Total property, plant and equipment	18,812	18,306
12	<b>Investment property</b>	335	424
	<b>Financial assets</b>		
13	Investments in joint ventures	4	32
	Total financial assets	4	32
15	<b>Deferred tax assets</b>	125	186
	<b>Total non-current assets</b>	<b>20,615</b>	<b>20,503</b>
	<b>Current assets</b>		
16	<b>Inventories</b>	4,885	4,727
	<b>Receivables</b>		
14	Trade receivables	179	204
	Income tax receivables	17	20
14	Other receivables	399	499
	Prepayments	55	71
14	Other current financial assets	10	6
	Total receivables	660	800
14	<b>Securities</b>	2,797	4,718
14	<b>Cash and short-term deposits</b>	1,513	1,118
17	<b>Assets classified as held for sale</b>	7	5
	<b>Total current assets</b>	<b>9,862</b>	<b>11,368</b>
	<b>Total assets</b>	<b>30,477</b>	<b>31,871</b>

# Consolidated statement of financial position

DKK million

## Equity and liabilities

Notes	2017	2016
<b>Equity</b>		
Share capital	524	524
Retained earnings	2,622	6,659
Cash flow hedge reserve	-256	-295
Foreign currency translation reserve	-137	-305
Proposed dividends	200	150
<b>Total equity</b>	<b>2,953</b>	<b>6,733</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
18 Pensions	285	291
15 Deferred tax liabilities	427	407
19 Provisions	259	143
14 Mortgage loans	12,091	12,362
14 Other non-current financial liabilities	265	309
<b>Total non-current liabilities</b>	<b>13,327</b>	<b>13,512</b>
<b>Current liabilities</b>		
19 Provisions	83	59
14 Mortgage loans	169	126
14 Bank loans	-	1
14 Other current financial liabilities	445	404
14 Trade payables	11,054	8,755
Income tax payable	20	6
14 Other payables	2,390	2,251
Deferred income	36	24
<b>Total current liabilities</b>	<b>14,197</b>	<b>11,626</b>
<b>Total liabilities</b>	<b>27,524</b>	<b>25,138</b>
<b>Total equity and liabilities</b>	<b>30,477</b>	<b>31,871</b>

## Consolidated cash flow statement

DKK million

Notes	2017	2016
Profit before tax	2,231	1,763
20 Adjustments	901	1,233
21 Change in working capital	2,284	1,874
Net cash flows from operating activities before financial items and tax	5,416	4,870
Financial income received	43	115
Financial expenses paid	-305	-306
Income tax paid	-463	-245
Net cash flows from operating activities	4,691	4,434
Purchase of intangible assets	-172	-165
Purchase of property, plant and equipment	-1,276	-1,070
Purchase of investment property	-6	-4
Proceeds from sale of property, plant and equipment	1,125	212
22 Acquisition of subsidiaries, net of cash received	-46	-
Capital contribution, joint ventures	-	-203
Purchase of securities	-5,618	-7,965
Sale of securities	7,538	7,551
Dividends received from joint venture	34	44
Net cash flows from investment activities	1,579	-1,600
Net repayments to related parties	-8	-24
Payment of finance lease liabilities	-1	-
Net repayments from related parties	40	33
Repayment of borrowings	-228	-606
Dividends paid to equity holders of the parent	-5,680	-2,700
Net cash flows from financing activities	-5,877	-3,297
Net change in cash and cash equivalents	393	-463
Cash and cash equivalents at 1 January	1,117	1,585
Net foreign exchange difference	3	-5
23 Cash and cash equivalents at 31 December	1,513	1,117

## Consolidated statement of changes in equity

DKK million

2016:

	Share capital	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Proposed dividends	Total equity
Equity at 1 January 2016	524	5,500	-135	-76	2,700	8,513
Profit for the year		1,172			150	1,322
Remeasurement of defined benefit plans		-13				-13
Exchange differences on translating foreign operations				-229		-229
Cash flow hedges			-211			-211
Cash flow hedges, reclassified to financial expenses			51			51
Other comprehensive income	-	-13	-160	-229	-	-402
Total comprehensive income for the year	-	1,159	-160	-229	150	920
Payment of dividends					-2,700	-2,700
Total transactions with owners	-	-	-	-	-2,700	-2,700
Equity at 31 December 2016	524	6,659	-295	-305	150	6,733

## Consolidated statement of changes in equity

DKK million

2017:

	Share capital	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Proposed dividends	Total equity
Equity at 1 January 2017	524	6,659	-295	-305	150	6,733
Profit for the year		1,498			200	1,698
Remeasurement of defined benefit plans		-5				-5
Exchange differences on translating foreign operations				168		168
Cash flow hedges			-27			-27
Cash flow hedges, reclassified to financial expenses			66			66
Other comprehensive income	-	-5	39	168	-	202
Total comprehensive income for the year	-	1,493	39	168	200	1,900
Payment of dividends					-150	-150
Payment of extraordinary dividends		-5,530				-5,530
Total transactions with owners	-	-5,530	-	-	-150	-5,680
Equity at 31 December 2017	524	2,622	-256	-137	200	2,953



## Summary of notes to the consolidated financial statements

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# Notes to the consolidated financial statements

DKK million

## 1 General information

Dansk Supermarked Group's primary business area is retailing in Denmark through the physical stores Bilka, føtex, Netto and Salling and online with Bilka.dk, Salling.dk, føtex.dk, wupti.com and føtexdagligvarer.dk. Furthermore, the Group also operates franchises in Denmark including coffee shops Starbucks and the burger restaurants Carl's Jr. In Germany, Poland and Sweden the subsidiaries in the Group operates through Netto. During 2017 Dansk Supermarked A/S acquired 80 % of Skagenfood A/S. Skagenfood A/S is one of the main players in Denmark regarding online sale of meal boxes.

Dansk Supermarked A/S is a public limited company with its registered office located at Rosbjergvej 33, 8220 Brabrand in Denmark.

## 2 Summary of significant accounting policies

The financial statements section of the annual report for the period 1 January – 31 December 2017 comprises the consolidated financial statements of Dansk Supermarked A/S and its subsidiaries (the Group) and the separate parent company financial statements.

The consolidated financial statements of Dansk Supermarked A/S and the separate parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further Danish disclosure requirements for class C large enterprises.

### ***Changes to accounting policies***

A number of new, amended or revised International Financial Reporting Standards (including interpretations) issued by the International Accounting Standards Board and endorsed by the European Union have become effective on or after 1 January 2017. The Group has assessed the changes, and it has been concluded that the application of the changes has not had a material impact on the consolidated financial statements or the separate parent company financial statements in 2017, and no significant impact on future periods from the changes is expected.

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

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

The functional currency of the Dansk Supermarked A/S is Danish kroner. The presentation currency of the consolidated financial statements and the separate parent company financial statements is Danish kroner. All amounts have been rounded to the nearest million, unless otherwise indicated.

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

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Basis of consolidation*

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

	<u>Share of issued share capital and voting rights</u>	<u>Principal place of business and country of incorporation</u>
F. Salling A/S	100 %	Brabrand, Denmark
Dansk Supermarked Ejendomme A/S	100 %	Brabrand, Denmark
D. S. Forsikring A/S	100 %	Brabrand, Denmark
Dansk Netto Deutschland ApS	100 %	Brabrand, Denmark
Skagenfood A/S	80 %	Strandby, Denmark
Netto Supermarkt GmbH	100 %	Stavenhagen, Germany
NETTO ApS & Co. KG	100 %	Stavenhagen, Germany
Netto Sp. Z o.o	100 %	Szczecin, Poland
Netto Marknad AB	100 %	Halmstad, Sweden
Netto Fastigheter AB	100 %	Halmstad, Sweden
Future Express Ltd. (under liquidation)	100 %	Leeds, the UK
NETTO Ukraine LLC (under liquidation)	99 %	Lviv, Ukraine
Orbita Propeerty LLC. (under liquidation)	100 %	Lviv, Ukraine

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

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

The following shareholders own more than 5 % of the share capital and the voting rights in Dansk Supermarked A/S:

F. Salling Invest A/S, Rosbjergvej 33-35, Brabrand, Denmark  
F. Salling Holding A/S, Rosbjergvej 33-35, Brabrand, Denmark

Dansk Supermarked A/S and its subsidiaries are included in the consolidated financial statements of Købmand Herman Sallings Fond, which is the ultimate controlling party of Dansk Supermarked A/S.

### *Accounting policies, income statement*

#### *Revenue recognition*

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

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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

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

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

Other revenue comprises rental revenue and revenue from other income sources e.g. sale of cardboard. Rental revenue arising from operating leases 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.

### *Staff expenses*

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

### *External expenses*

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

### *Depreciation, amortisation and impairment losses*

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

### *Government grants*

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

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

Investments in subsidiaries are measured in the parent company's statement of financial position using the equity method. The share of profit/loss of subsidiaries after elimination of unrealised gains and losses resulting from transactions between the parent company and the subsidiaries is recognised in the income statement.

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

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

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

### *Financial income and expenses*

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

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

### *Income tax*

Dansk Supermarked A/S and its Danish subsidiaries are included in the joint taxation in the Købmand Herman Sallings Fond Group. Tax for the year is allocated between the jointly taxed companies in proportion to their taxable income (full allocation). The jointly taxed companies are taxed under the on-account tax scheme.

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

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

### *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.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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 - 15 years
Other separately acquired intangible assets	3 - 10 years

### *Property, plant and equipment*

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

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

Land	No depreciation
Buildings, including investment property:	
Technical installations within the property	10 - 30 years
Foundation and bearing structure	80 years
Remaining property	40 years
Fixtures and fittings, tools and equipment	3 - 20 years

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

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

### *Investment property*

Investment property is property held to earn rentals or for capital appreciation or both, not for use in the supply of goods or services or for administrative purposes. Investment property is measured initially at cost comprising purchase price and any directly attributable expenditure including transaction costs. Subsequent to initial recognition investment property is measured at cost net of accumulated depreciation and accumulated impairment losses if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of the investment property. The useful lives are similar to those of other buildings.

### *Borrowing costs*

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

### *Investments in subsidiaries*

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

### *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.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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

### *Inventories*

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

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

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

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

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

Subsequently financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement. Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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

### *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.

### *Equity - Development projects reserve*

Development projects reserve, which is recognised in the separate parent company financial statements, comprises an amount equalling the capitalised development projects excluding payments for separable assets e.g. software licenses, and adjusted for the income tax effect. The reserve is an undistributable equity reserve, and cannot be used for dividends or for covering any deficits. The reserve is reduced as the development projects are sold or amortised by way of a transfer from development projects reserve to the distributable equity reserves.

### *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.



# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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

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

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

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, borrowings and payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequently financial liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance items in the income statement. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. 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. Accordingly, any difference between the proceeds and the nominal value is recognised in the income statement as finance costs over the term of the loan. This category is most relevant to the Group. This category generally applies to interest-bearing loans, borrowings, payables and the capitalised residual lease obligation under finance leases.

### *Deferred income*

Deferred income is measured at the consideration received or receivable.

### *Taxes*

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

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.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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

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

### ***Accounting policies, other***

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

The consolidated financial statements comprise the parent company Dansk Supermarked A/S and the subsidiaries in which Dansk Supermarked A/S directly or indirectly exercises control. Dansk Supermarked A/S exercises control if Dansk Supermarked A/S 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 the parent company and the subsidiaries and are a pooling of the accounting items of similar nature. On consolidation intra-group transactions are eliminated.

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

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

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

Business combinations are accounted for using the acquisition method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the income statement. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

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

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

### *Foreign currency translation*

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

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

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

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

# Notes to the consolidated financial statements

DKK million

## 2 Summary of significant accounting policies - continued

Foreign exchange differences arising on translation of the opening equity of such foreign enterprises at the exchange rates at the reporting date and on translation of the income statements and the statement 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 in the statement of financial position on the trading date at cost and are subsequently measured at fair value. Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a cash flow hedge are recognised in other comprehensive income, and are reclassified to the income statement in the periods when the hedged item affects the income statement. Changes in the fair value of other derivative financial instruments are recognised in the income statement. The positive and negative fair values of derivative financial instruments are included in other financial assets or other financial liabilities, respectively.

### *Fair value measurement*

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

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

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

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

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

# Notes to the consolidated financial statements

DKK million

## 3 Significant accounting judgements, estimates and assumptions

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

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

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

Intangible assets, property, plant and equipment and investment property are tested for impairment if there is an indication of impairment. For goodwill and intangible asset that are not yet in use annual impairment tests are carried out. An impairment loss is recognised if the recoverable amount of an asset is lower than the asset's carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the long-term plans. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the development in turnover and gross margins during the forecast period and the growth rate used for extrapolation purposes. For most intangible assets no fair value less costs of disposal exists. The key assumptions used to determine the recoverable amount are disclosed and further explained in the relevant notes.

### *Depreciation and amortisation*

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

### *Inventories*

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

### *Provisions*

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

### *Put option regarding non-controlling interests*

The put option regarding the non-controlling interests consisting of the remaining 20 % of the shares in Skagenfood A/S, which is owned by Kuba Holding ApS, is recognised initially at fair value. The fair value calculation is based on the present value of the amount expected to be paid for the remaining 20 % based on the realised results and the budget for the coming years. Subsequently, the put option is recognised at amortised cost.

# Notes to the consolidated financial statements

DKK million

	2017	2016
<b>4 Total revenue</b>		
Revenue from the sale of goods	58,446	57,582
Total net revenue	58,446	57,582
Rental revenue, investment property	89	94
Other rental	178	137
Other revenue	92	86
Total other revenue	359	317
Total revenue	58,805	57,899
<b>Geographical split</b>		
Denmark	41,347	40,771
Abroad	17,458	17,128
Total revenue	58,805	57,899
<b>5 Staff expenses</b>		
Wages and salaries incl. termination benefits	6,304	6,118
Post-employment benefits – defined contribution plans	365	358
Post-employment benefits – defined benefit plans	2	3
Social security costs	423	413
Total staff expenses	7,094	6,892
Average number of full-time employees	26,935	26,568
<b>6 External expenses</b>		
Fees paid to the auditors appointed at the annual general meeting:		
Fee regarding statutory audit	2.2	2.4
Tax assistance	0.6	0.6
Assurance engagements	0.3	0.3
Other assistance	2.2	1.0
Total fee paid to the auditors appointed at the annual general meeting	5.3	4.3
<b>7 Financial income</b>		
Interest income on loans and receivables	4	7
Ineffective portion of changes in fair value of cash flow hedges	1	-
Net gain on derivatives not designated as hedges	-	17
Net gain on financial instruments held for trading	35	57
Net foreign exchange gain	4	34
Total financial income	44	115

# Notes to the consolidated financial statements

DKK million

## 8 Financial expenses

	2017	2016
Interest expense on mortgage loans	169	202
Interest expense paid to banks	22	11
Interest expense on loans from entities with significant influence	3	5
Ineffective portion of changes in fair value of cash flow hedges	-	1
Cash flow hedges reclassified from other comprehensive income	84	65
Net loss on derivatives not designated as hedges	3	-
Other financial expenses	11	27
Total financial expenses	292	311

## 9 Income tax

Current income tax	-484	-278
Adjustment regarding prior years, current income tax	4	-7
Change in deferred tax	-35	-108
Adjustment regarding prior years, deferred tax	-27	-
Total income tax	-542	-393
Income tax recognised in the income statement	-533	-441
Income tax recognised in other comprehensive income	-9	48
Total income tax	-542	-393

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

	2017		2016	
	DKK	%	DKK	%
Tax on result for the year at the Danish income tax rate	-491	22.0 %	-388	22.0 %
Non-deductible costs	-53	2.4 %	-58	3.3 %
Non-taxable income	48	-2.1 %	11	-0.6 %
Deviating tax rates in foreign operations	-7	0.3 %	-10	0.6 %
Adjustment to prior periods	-23	1.0 %	-7	0.4 %
Not capitalised tax loss carry forwards	-6	0.3 %	12	-0.7 %
Other	-1	0.0 %	-1	0.0 %
Income tax recognised in the income statement	-533	23.9 %	-441	25.0 %

# Notes to the consolidated financial statements

DKK million

## 9 Income tax - continued

### Tax on other comprehensive income

	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Remeasurement of defined benefit plans	-7	2	-5	-17	4	-13
Exchange differences on translating foreign operations	168	-	168	-229	-	-229
Cash flow hedges, value adjustment for the year	-34	7	-27	-269	58	-211
Cash flow hedges, reclassified to financial expenses	84	-18	66	65	-14	51
	<u>211</u>	<u>-9</u>	<u>202</u>	<u>-450</u>	<u>48</u>	<u>-402</u>

## 10 Intangible assets

2016:

	Goodwill	Software	Software development in progress	Brands	Other intangible assets	Total
Cost						
Balance at 1 January 2016	310	1,528	158	76	12	2,084
Additions	-	26	135	-	4	165
Adjustments, acquisitions through business combinations	-1	-	-	-	-	-1
Reclassifications	-	141	-148	-	-	-7
Disposals	-	-14	-	-	-	-14
Balance at 31 December 2016	<u>309</u>	<u>1,681</u>	<u>145</u>	<u>76</u>	<u>16</u>	<u>2,227</u>
Accumulated amortisation and impairment losses						
Balance at 1 January 2016	-	-499	-	-3	-4	-506
Amortisation	-	-158	-	-8	-3	-169
Disposals	-	3	-	-	-	3
Balance at 31 December 2016	<u>-</u>	<u>-654</u>	<u>-</u>	<u>-11</u>	<u>-7</u>	<u>-672</u>
Carrying amount at 31 December 2016	<u>309</u>	<u>1,027</u>	<u>145</u>	<u>65</u>	<u>9</u>	<u>1,555</u>



# Notes to the consolidated financial statements

DKK million

## 10 Intangible assets - continued

2017:

	Goodwill	Software	Software develop- ment in progress	Brands	Other in- tangible assets	Total
<b>Cost</b>						
Balance at 1 January 2017	309	1,681	145	76	16	2,227
Additions	-	50	116	-	6	172
Acquisitions through business combinations		1	-	82	-	83
Reclassifications	-	96	-101	-	9	4
Disposals	-	-7	-	-	-	-7
Balance at 31 December 2017	309	1,821	160	158	31	2,479
<b>Accumulated amortisation and impairment losses</b>						
Balance at 1 January 2017	-	-654	-	-11	-7	-672
Amortisation	-	-168	-	-10	-4	-182
Impairment losses recognised in the income statement	-178	-56	-	-57	-	-291
Disposals	-	5	-	-	-	5
Balance at 31 December 2017	-178	-873	-	-78	-11	-1,140
Carrying amount at 31 December 2017	131	948	160	80	20	1,339

### 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:

	e-commerce		Danish retail activities		Other	
	2017	2016	2017	2016	2017	2016
Goodwill	-	178	91	91	40	40

The most significant goodwill amounts in the Group relate to the e-commerce and the Danish retail activities.

# Notes to the consolidated financial statements

DKK million

## 10 Intangible assets - continued

The recoverable amount of the goodwill and brand related to e-commerce and goodwill related to the Danish retail 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 10 %, and cash flows beyond the five-year period are extrapolated using a 2 % growth rate which is the expected long-term inflation rate. As a result of the impairment test management did not identify any impairment losses regarding goodwill related to the Danish retail activities. The result for 2017 for e-commerce has not been as expected, and the expected results for the coming years have been reduced as well. As a consequence the impairment test showed that goodwill and brand related to e-commerce was impaired as the recoverable amount based on the future cash flow projections was below the carrying amount, and an impairment loss of DKK 235 million was recognised (DKK 0 in 2016).

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, as well as the discount rate used. Development in turnover and gross margins are based on expectations to an average growth for 2018 - 2022.

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

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

The impairment losses and reversal of impairment losses are recognised in the income statement as part of Impairment losses.

# Notes to the consolidated financial statements

DKK million

## 11 Property, plant and equipment

2016:

	Land and buildings	Fixtures and fittings, tools and equipment	Leasehold improve- ments	Assets under construction	Total
Cost					
Balance at 1 January 2016	24,055	5,009	1,145	81	30,290
Foreign currency translation	-241	-35	-10	-1	-287
Additions	342	565	64	99	1,070
Reclassifications	17	11	3	-68	-37
Disposals	-47	-168	-16	-	-231
Balance at 31 December 2016	24,126	5,382	1,186	111	30,805
Accumulated depreciation and impairment losses					
Balance at 1 January 2016	-7,702	-3,492	-836	-	-12,030
Foreign currency translation	36	24	6	-	66
Depreciation	-312	-376	-40	-	-728
Impairment losses recognised in the income statement	-17	-	-9	-	-26
Reversals of impairment losses recognised in the income statement	4	2	-	-	6
Reclassifications	12	-	-	-	12
Disposals	22	162	17	-	201
Balance at 31 December 2016	-7,957	-3,680	-862	-	-12,499
Carrying amount at 31 December 2016	16,169	1,702	324	111	18,306
Hereof finance leases	-	7	-	-	7

# Notes to the consolidated financial statements

DKK million

## 11 Property, plant and equipment - continued

2017:

	Land and buildings	Fixtures and fittings, tools and equipment	Leasehold improve- ments	Assets under construction	Total
Cost					
Balance at 1 January 2017	24,126	5,382	1,186	111	30,805
Foreign currency translation	223	24	-2	-	245
Additions	448	589	129	110	1,276
Acquisitions through business combinations	-	1	-	-	1
Reclassifications	55	8	27	-94	-4
Reclassified as held for sale	-8	-	-	-	-8
Disposals	-232	-153	-33	-	-418
Balance at 31 December 2017	24,612	5,851	1,307	127	31,897
Accumulated depreciation and impairment losses					
Balance at 1 January 2017	-7,957	-3,680	-862	-	-12,499
Foreign currency translation	-27	-16	2	-	-41
Depreciation	-325	-469	-47	-	-841
Impairment losses recognised in the income statement	-60	-1	-13	-	-74
Reclassified as held for sale	4	-	-	-	4
Disposals	186	147	33	-	366
Balance at 31 December 2017	-8,179	-4,019	-887	-	-13,085
Carrying amount at 31 December 2017	16,433	1,832	420	127	18,812
Hereof finance leases	-	7	-	-	7

### Impairment losses during the year

#### Land and buildings and Leasehold improvements

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

# Notes to the consolidated financial statements

DKK million

	2017	2016
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## 12 Investment property

Cost		
Balance at 1 January	1,322	1,324
Foreign currency translation	1	-1
Additions	6	4
Reclassifications	-	43
Reclassified as held for sale	-	-22
Disposals	-318	-26
Balance at 31 December	1,011	1,322
Accumulated depreciation and impairment losses		
Balance at 1 January	-898	-905
Foreign currency translation	-	1
Depreciation	-9	-9
Reclassified as held for sale	-	16
Disposals	231	15
Impairment losses recognised in the income statement	-	-3
Reclassifications	-	-13
Balance at 31 December	-676	-898
Carrying amount at 31 December	335	424

Investment property comprises a shopping centre and flats located adjacent to Dansk Supermarked's stores.

The estimated fair value of investment property amounted to DKK 1,063 million at 31 December 2017 (DKK 1,610 million at 31 December 2016). The fair value is not based on a valuation by an independent valuer.

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

Rental income from investment property	89	94
Direct operating expenses from investment that generated rental income	-21	-31
Direct operating expenses from investment that did not generate rental income	-1	-3
Profit arising from investment property	67	60

# Notes to the consolidated financial statements

DKK million

2017 2016

## 13 Investments in joint ventures

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

Cost		
Balance at 1 January	424	221
Additions	-	203
Balance at 31 December	424	424
Value adjustments		
Balance at 1 January	-392	-108
Dividends	-34	-44
Foreign currency translation etc.	-1	-35
Result	7	-205
Balance at 31 December	-420	-392
Carrying amount at 31 December	4	32

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

## 14 Financial assets and financial liabilities

Financial assets comprise the following:

	Carrying amount		Fair value	
	2017	2016	2017	2016
Trade receivables	179	204	179	204
Other receivables	399	499	399	499
Receivables from entities with controlling influence	-	1	-	1
Receivables from other related parties	8	-	8	-
Derivatives not designated as hedges	2	5	2	5
Other current financial assets	10	6	10	6
Securities	2,797	4,718	2,797	4,718
Cash and short-term deposits	1,513	1,118	1,513	1,118

## Notes to the consolidated financial statements

DKK million

### 14 Financial assets and financial liabilities - continued

*Financial liabilities comprise the following:*

	Carrying amount		Fair value	
	2017	2016	2017	2016
Mortgage loans - non-current	12,091	12,362	12,343	12,587
Mortgage loans - current	169	126	169	126
Mortgage loans	12,260	12,488	12,512	12,713
Bank loans - current	-	1	-	1
Bank loans	-	1	-	1
Obligations under finance leases	4	6	4	6
Cash flow hedges	241	303	241	303
Other non-current financial liabilities	20	-	20	-
Other non-current financial liabilities	265	309	265	309
Payables to entities with controlling influence	9	-	9	-
Payables to entities with significant influence	325	309	325	309
Obligations under finance leases	3	2	3	2
Derivatives not designated as hedges	15	10	15	10
Cash flow hedges	93	81	93	81
Other current financial liabilities	-	2	-	2
Other current financial liabilities	445	404	445	404
Trade payables	11,054	8,755	11,054	8,755
Other payables	2,390	2,251	2,390	2,251

# Notes to the consolidated financial statements

DKK million

	2017	2016
<b>14 Financial assets and financial liabilities - continued</b>		
<i>Financial instruments by category:</i>		
Loans and receivables:		
Trade receivables	179	204
Other receivables	399	499
Other financial assets excluding derivatives	8	1
Cash and short-term deposits	1,513	1,118
Financial assets at fair value through profit or loss:		
Derivatives not designated as hedges	2	5
Financial assets at fair value through profit or loss, held for trading:		
Securities	2,797	4,718
Financial liabilities measured at amortised cost:		
Mortgage loans	12,260	12,488
Bank loans	-	1
Other financial liabilities excluding derivatives	361	319
Trade payables	11,054	8,755
Other payables	2,390	2,251
Financial liabilities at fair value through profit or loss:		
Derivatives not designated as hedges	15	10
Financial liabilities at fair value through other comprehensive income:		
Cash flow hedges	334	384

## *Hedge accounting:*

Cash flow hedging is used to ensure that part of the Group's interest rate risk exposure is at a fixed rate. This is achieved by using interest rate swaps to hedge some of the floating-rate mortgage loans.

The hedged cash flows are expected to occur and affect the income statement during the coming 30 years. During the coming year DKK -93 million is expected to affect profit or loss (DKK -81 million in 2016), during 1 - 5 years DKK -225 million is expected to affect profit or loss (DKK -266 million in 2016), and after 5 years DKK -16 million is expected to affect profit or loss (DKK -35 million in 2016).

It is assessed and documented on a continuous basis, whether the interest rate swaps are effective.

The effective portion of the change in the fair value of the interest rate swaps is recognised in other comprehensive income, while any ineffective portion is recognised immediately in the income statement.



# Notes to the consolidated financial statements

DKK million

## 14 Financial assets and financial liabilities - continued

### *Fair value:*

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

Cash flow hedges and other derivatives not defined 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 frequent 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 borrowing items falls within level 2 of the fair value hierarchy and is calculated on the basis of discounted interests and instalments.

### *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 has been no structural changes in the Group's risk exposure or risks compared to 2016. The policies for managing risk are explained below.

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

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

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

### *Currency risks:*

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

# Notes to the consolidated financial statements

DKK million

## 14 Financial assets and financial liabilities - continued

The majority of purchases of goods for resale made by the Group are denominated in the parent company'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 has not been used regarding the hedging of purchase orders. In other words, changes in the fair value of the hedging instruments are recognised in the income statement on a continuous basis, which can result in timing discrepancies.

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

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

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

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

31 December 2017	EUR/DKK	GBP/DKK	PLN/DKK	SEK/DKK	USD/DKK
Financial assets	18	8	641	85	1
Financial liabilities	-798	-	-	-	-
Known USD purchase orders	-	-	-	-	-536
Net exposures before derivatives	-780	8	641	85	-535
Derivatives	-67	-	-642	59	709
Net exposures after derivatives	-847	8	-1	144	174
The net exposures relate to:					
Hedging of expected commercial cash flows where hedge accounting is not used	-847	8	-1	144	174
Applied sensitivity	1 %	5 %	5 %	5 %	5 %
Impact on the consolidated income statement	-8	-	-	7	9

# Notes to the consolidated financial statements

DKK million

## 14 Financial assets and financial liabilities - continued

31 December 2016	EUR/DKK	GBP/DKK	PLN/DKK	SEK/DKK	USD/DKK
Financial assets	54	2	715	247	54
Financial liabilities	-551	-123	-	-	-
Known USD purchase orders	-	-	-	-	-580
Net exposures before derivatives	-497	-121	715	247	-526
Derivatives	401	123	-362	-198	430
Net exposures after derivatives	-96	2	353	49	-96
The net exposures relate to:					
Hedging of expected commercial cash flows where hedge accounting is not used	-96	2	353	49	-96
Applied sensitivity	1 %	5 %	5 %	5 %	5 %
Impact on the consolidated income statement	-1	-	18	2	-5

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

Interest rate risks:

The Group's exposure to risk of changes in market interest rates relates primarily to Group's mortgage loan financing 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 policy to keep an overall duration target for the mortgage loan portfolio in the range of 4 to 8. The potential impact on the equity ratio will be considered and controlled by balancing the maturity of the hedging instruments.

As at 31 December 2017, after taking into account the effect of interest rate swaps, approximately 86 % of the Group's mortgage loan portfolio are at a fixed rate, compared to 86 % as at 31 December 2016.

A general increase of 1 %-point in interest rates is estimated, all other things being equal, to affect profit before tax by DKK -12 million (DKK -56 million in 2016), and pre-tax equity by DKK 254 million (DKK 253 million in 2016). The direct impact on pre-tax equity is due to changes in the fair value of the interest rate swaps.

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

31 December 2017	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
Securities	2,797	1 %	-8	-8
Mortgage loans	12,260	1 %	-34	-34
Derivatives	334	1 %	30	296
Impact			-12	254

# Notes to the consolidated financial statements

DKK million

## 14 Financial assets and financial liabilities - continued

31 December 2016	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
Securities	4,718	1 %	-43	-43
Mortgage loans	12,488	1 %	-48	-48
Derivatives	384	1 %	35	344
Impact			-56	253

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

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

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

31 December 2017	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	10,960	1,583	1,717	7,660
2 - 4 %	1,300	-	-	1,300
Total	12,260	1,583	1,717	8,960
Of which:				
Bearing fixed interests	86 %			
Bearing floating interests	14 %			

31 December 2016	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	11,157	1,707	2,636	6,814
2 - 4 %	1,331	-	-	1,331
Total	12,488	1,707	2,636	8,145
Of which:				
Bearing fixed interests	86 %			
Bearing floating interests	14 %			

# Notes to the consolidated financial statements

DKK million

## 14 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. In both 2017 and 2016 the Group has had no breach of covenants or otherwise been close to breaking the agreed borrowing conditions during the year. The Group assesses the liquidity risk to be low.

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

	Within 1 year	1 to 5 years	After 5 years
31 December 2017			
Mortgage loans	336	1,337	13,153
Obligations under finance leases	3	5	-
Trade and other payables	13,778	20	-
Derivatives	94	394	125
Total	14,211	1,756	13,278
31 December 2016			
Mortgage loans	312	1,243	13,882
Bank loans	1	-	-
Obligations under finance leases	3	6	-
Trade and other payables	11,317	-	-
Derivatives	83	374	204
Total	11,716	1,623	14,086

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.

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

The Group is exposed to credit risks from trade receivables, balances with banks in the form of deposits and other financial instruments. The majority of the Group's sales 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 Dansk Supermarked Group's bond portfolio will typically be low, currently 1.2.

# Notes to the consolidated financial statements

DKK million

2017 2016

## 14 Financial assets and financial liabilities - continued

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

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

Changes in liabilities arising from financing activities:

	1 January 2017	Cash flows	Other	31 December 2017
Mortgage loans	12,488	-228	-	12,260
Obligations under finance leases	8	-1	-	7
Other financial liabilities excluding derivatives	309	39	-14	334
Other financial assets excluding derivatives	-1	-7	-	-8
Total liabilities from financing activities	12,804	-197	-14	12,593

## 15 Deferred tax

Deferred tax relates to the following:

	Consolidated income statement		Consolidated statement of financial position	
	2017	2016	2017	2016
Intangible assets	17	-29	-213	-212
Property, plant and equipment	-102	-93	-335	-234
Investment property	2	-6	10	8
Financial assets	1	-1	-	-1
Provisions	-4	10	88	89
Other liabilities	32	-6	73	42
Tax loss carryforward	1	-5	68	68
Other	-11	18	7	19
Deferred tax expense / Net deferred tax	-64	-112	-302	-221

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

Deferred tax assets	125	186
Deferred tax liabilities	-427	-407
Net deferred tax	-302	-221

# Notes to the consolidated financial statements

DKK million

	<u>2017</u>	<u>2016</u>
<b>15 Deferred tax - continued</b>		
<i>Reconciliation of net deferred tax:</i>		
Opening balance at 1 January	-221	-107
Foreign currency translation adjustments	-1	-6
Adjustment of deferred tax recognised in the income statement	-64	-112
Adjustment of deferred tax recognised in other comprehensive income	2	4
Deferred tax acquired in business combinations	<u>-18</u>	<u>-</u>
Closing balance at 31 December	<u>-302</u>	<u>-221</u>

The Group has a deferred tax asset of DKK 36 million at 31 December 2017, which is not recognised in the consolidated statement of financial position (DKK 21 million in 2016). The deferred tax asset has not been recognised due to uncertainties regarding the future taxable profits against which the unused tax losses can be utilised.

## 16 Inventories

Goods held for resale	4,855	4,698
Consumables	<u>30</u>	<u>29</u>
Total inventories	<u>4,885</u>	<u>4,727</u>

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

## 17 Assets classified as held for sale

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

Investment property	<u>7</u>	<u>5</u>
Assets classified as held for sale	<u>7</u>	<u>5</u>

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

# Notes to the consolidated financial statements

DKK million

2017      2016

## 18 Pensions

The Group has entered into pension schemes and similar arrangements with most of the Group's employees. The majority of the Group's pension schemes are defined contribution plans. For a few former employees and some members of the founder's 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	291	286
Interest expenses recognised as part of staff expenses	2	3
Actuarial gains / losses, demographic assumptions	7	3
Actuarial gains / losses, financial assumptions	-4	12
Actuarial gains / losses, experience adjustments	4	2
Payments from the plan	-15	-15
Defined benefit obligation at 31 December	<u>285</u>	<u>291</u>

The following significant actuarial assumptions are applied:

Discount rate (%)	<u>0.5 %</u>	<u>0.5 %</u>
Price inflation (%)	<u>1.7 %</u>	<u>1.8 %</u>

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	<u>-15</u>	<u>-15</u>
Decrease of 0.5 % point	<u>16</u>	<u>17</u>

Price inflation:

Increase of 0.5 % point	<u>16</u>	<u>17</u>
Decrease of 0.5 % point	<u>-15</u>	<u>-15</u>

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 2017 is 33 years (34 years in 2016). DKK 15 million is expected to be paid from the plans in 2018.



# Notes to the consolidated financial statements

DKK million

## 19 Provisions

2016:

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

2017:

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

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

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

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

## Notes to the consolidated financial statements

DKK million

	2017	2016
<b>20 Adjustments</b>		
Financial income	-44	-115
Financial expenses	292	311
Amortisation and impairment of intangible assets	473	169
Depreciation and impairment of property, plant and equipment	915	748
Depreciation and impairment of investment property	9	12
Gain on sale of non-current assets, etc., net	-863	-87
Share of profit of joint ventures, net of tax	-7	205
Other adjustments	126	-10
Adjustments	901	1,233

## 21 Change in working capital

Change in trade and other receivables and prepayments	35	-71
Change in inventories	-133	208
Change in trade and other payables	2,382	1,737
Change in working capital	2,284	1,874

# Notes to the consolidated financial statements

DKK million

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

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

Brands	82	-
Software	1	-
Fixtures and fittings, tools and equipment	1	-
Inventory	2	-
Trade receivables	9	-
Other receivables	1	-
Cash and bank balances	3	-
Total assets	99	-
Deferred tax liability	18	-
Trade payables	5	-
Income tax payable	1	-
Other payables	7	-
Total liabilities	31	-
Total identifiable net assets at fair value	68	-
Purchase consideration transferred	68	-
Cash	49	-
Contingent consideration arrangement	19	-
Total	68	-
Net cash acquired with the subsidiary	3	-
Cash paid	-49	-
Net cash flow on acquisition	-46	-

## 23 Cash and cash equivalents

Cash and bank balances	1,513	1,118
Current liabilities - bank loans	-	-1
Cash and cash equivalents available to the Group	1,513	1,117

# Notes to the consolidated financial statements

DKK million

2017      2016

## 24 Contingent liabilities and other financial commitments

*Operating leases, the Group is lessee:*

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

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

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

The Group has also entered into a number of operating leases with terms of up to 18 years with entities with significant influence over the Group, in which the future minimum rentals payable amount to DKK 419 million (DKK 436 million in 2016). Minimum lease payments recognised as an operating lease expense amount to DKK 27 million (DKK 27 million in 2016).

*Finance leases:*

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

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

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

# Notes to the consolidated financial statements

DKK million

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

*Operating leases, the Group is lessor:*

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

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

Within 1 year	190	214
1 to 5 years	287	297
After 5 years	109	143
Total	586	654

*Other contingent liabilities and financial commitments:*

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

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

As security for mortgage loans land and buildings with a carrying amount of DKK 10,164 million have been provided as collateral (DKK 10,243 million in 2016).

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

The Danish companies in the Købmand Herman Sallings Fond Group are jointly taxed. As jointly taxed companies, which are not wholly owned, the companies in the Dansk Supermarked A/S subgroup have limited and subsidiary liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation group. However, Dansk Supermarked A/S' subsidiaries have joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the Dansk Supermarked A/S subgroup. The total net taxes payable to the Danish Central Tax Administration by the companies included in the joint taxation is disclosed in the annual report of the administration company (F. Salling Holding A/S, CVR no. 41 94 01 15). Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends etc. may entail that the companies' liability will increase.

Guarantees of DKK 263 million have been provided to credit institutions regarding related parties' mortgage loans (DKK 265 million in 2016).

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

# Notes to the consolidated financial statements

DKK million

	2017	2016
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## 25 Related party disclosures

Transactions between Dansk Supermarked A/S 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 related party transactions were carried out with related parties:

Entities with controlling influence over the Group:

Sales of services	2	-
Donations from Købmand Herman Sallings Fond	36	24

Entities with significant influence over the Group:

Sales of services	1	-
Leasing expense	-27	-26
Interests paid	-3	-5
Dividends paid	-4,601	-2,187

Joint ventures:

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

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

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

### Key management personnel

Key management personnel includes the Board of Directors, the Executive Board and other executive employees. Other executive employees comprise 9 employees end 2017 and 9 employees end 2016. The key management personnel remuneration is shown below:

Short-term employee benefits	62	50
Post-employment benefits - defined contribution plans	3	3
Other long-term benefits	11	22
Total remuneration	76	75

Short term Bonus plan

The Executive Board and other executive employees participate in short term bonus plans, in which the bonus is dependent on profit for the year and other conditions.

Long Term Incentive Plan

The Executive Board and other executive employees was granted a Long Term Incentive Plan under which a cash bonus might be paid based upon performance of the Group over the period 2014-2018. The Long Term Incentive Plan was renegotiated in 2016 and as a consequence the performance period was changed to 2014 – 2016, and a cash bonus of DKK 22 million was expensed in 2016 and paid out in 2017.

# Notes to the consolidated financial statements

DKK million

## 25 Related party disclosures - continued

For the period 2017-2019 a new Long Term Incentive plan has been granted to the Executive Board and other executive employees and the estimated provision for 2017 amounts to DKK 11 million DKK.

The total remuneration of the Board of Directors and the Executive Board amounts to DKK 25 million (DKK 28 million in 2016).

## 26 Business combinations

As at 1 January 2016 Dansk Supermarked A/S merged with the subsidiaries wupti.com A/S and Thomberg ApS.

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

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

The put options are 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 put options are recognised at DKK 20 million as at 31 December 2017.

## 27 Capital management

The 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 the 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. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

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

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

## 28 Events after the reporting period

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

# Notes to the consolidated financial statements

DKK million

## 29 Standards issued but not yet effective

The standards IFRS 17 Insurance Contracts, IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, IFRIC Interpretation 23 Uncertainty over Income Tax Treatments, Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions, Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, Amendments to IAS 40: Transfers of Investment Property, Amendments to IFRS 9: Prepayment Features with Negative Compensation, Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures, Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, parts of Annual Improvements 2014-2016 Cycle and Annual Improvements to IFRS Standards 2015-2017 Cycle have been issued, but are not yet effective. The Group plans to adopt the new standards on the required effective dates. Overall the Group expects no significant impact on its statement of financial position and equity of the standards.

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

In January 2016 IFRS 16 Leases was issued by the International Accounting Standards Board. The standard has been endorsed by the European Union. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard requires a lessee to recognise assets and liabilities for the rights and obligations created by all leases (with limited exceptions for short-term leases and leasing of assets with low value). IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The Group plans to adopt the new standard on the required effective date. Based on the Group's analysis of the standard, the Group has determined that the standard will increase the total assets and liabilities significantly due to a considerable number of operating leases and also increase operating profit and financial expenses. Thus, the standard will affect the main and key figures of the Group significantly. The Group has yet to determined the exact monetary effect.



## Parent company income statement

DKK million

Notes	2017	2016
Net revenue	40,230	39,682
Other revenue	176	155
4 Total revenue	40,406	39,837
Cost of sales	-28,665	-28,667
Gross profit	11,741	11,170
5 Staff expenses	-5,334	-5,239
External expenses	-5,104	-4,740
Operating profit before depreciation, amortisation and impairment losses (EBITDA)	1,303	1,191
Depreciation and amortisation	-538	-440
Impairment losses	-292	2
Net loss on disposal of property, plant and equipment and intangible assets	-7	-10
Operating profit (EBIT)	466	743
11 Share of profit/loss of subsidiaries, net of tax	1,428	981
12 Share of profit/loss of joint ventures, net of tax	7	-205
6 Financial income	46	134
7 Financial expenses	-128	-166
Profit before tax	1,819	1,487
8 Income tax	-121	-165
<b>Total profit for the year</b>	<b>1,698</b>	<b>1,322</b>
Proposal for distribution of profit for the year:		
Proposed dividends	200	150
Equity reserves	1,498	1,172
<b>Total profit for the year</b>	<b>1,698</b>	<b>1,322</b>

## Parent company statement of other comprehensive income

DKK million

Notes	2017	2016
<b>Profit for the year</b>	1,698	1,322
<b>Other comprehensive income, net of income tax:</b>		
<b>Items that will not be reclassified to the income statement:</b>		
8 Remeasurement of defined benefit plans	-5	-13
	<u>-5</u>	<u>-13</u>
<b>Items that are or may be reclassified subsequently to the income statement:</b>		
11,12 Exchange differences on translating foreign operations	168	-229
11,12 Other comprehensive income to be reclassified in subsidiaries and joint ventures	39	-160
	<u>207</u>	<u>-389</u>
<b>Other comprehensive income for the year, net of income tax</b>	<u>202</u>	<u>-402</u>
<b>Total comprehensive income for the year</b>	<u>1,900</u>	<u>920</u>

# Parent company statement of financial position

DKK million

<b>Assets</b>			
<u>Notes</u>		<u>2017</u>	<u>2016</u>
<b>Non-current assets</b>			
9	<b>Intangible assets</b>		
	Goodwill	92	270
	Software	946	1,027
	Software development in progress	159	145
	Brands	-	65
	Other intangible assets	4	5
	<b>Total intangible assets</b>	<b>1,201</b>	<b>1,512</b>
10	<b>Property, plant and equipment</b>		
	Fixtures and fittings, tools and equipment	1,304	1,213
	Leasehold improvements	143	127
	Assets under construction and prepayments	15	6
	<b>Total property, plant and equipment</b>	<b>1,462</b>	<b>1,346</b>
<b>Financial assets</b>			
11	Investments in subsidiaries	11,128	13,741
12	Investments in joint ventures	4	32
13	Other non-current financial assets	241	303
	<b>Total financial assets</b>	<b>11,373</b>	<b>14,076</b>
	<b>Total non-current assets</b>	<b>14,036</b>	<b>16,934</b>
<b>Current assets</b>			
14	<b>Inventories</b>	<b>3,401</b>	<b>3,297</b>
<b>Receivables</b>			
13	Trade receivables	115	149
13	Other receivables	257	287
	Prepayments	27	38
13	Other current financial assets	771	1,036
	<b>Total receivables</b>	<b>1,170</b>	<b>1,510</b>
13	<b>Securities</b>	<b>2,505</b>	<b>4,334</b>
13	<b>Cash and short-term deposits</b>	<b>1,132</b>	<b>788</b>
	<b>Total current assets</b>	<b>8,208</b>	<b>9,929</b>
	<b>Total assets</b>	<b>22,244</b>	<b>26,863</b>

# Parent company statement of financial position

DKK million

## Equity and liabilities

Notes	2017	2016
<b>15 Equity</b>		
Share capital	524	524
Reserve for net revaluation under the equity method	552	3,429
Foreign currency translation reserve	-137	-305
Development projects reserve	239	126
Retained earnings	1,575	2,809
Proposed dividends	200	150
<b>Total equity</b>	<b>2,953</b>	<b>6,733</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
16 Pensions	285	291
17 Deferred tax liabilities	107	166
18 Provisions	312	160
13 Other non-current financial liabilities	1,944	2,036
<b>Total non-current liabilities</b>	<b>2,648</b>	<b>2,653</b>
<b>Current liabilities</b>		
18 Provisions	39	20
13 Other current financial liabilities	5,932	8,902
13 Trade payables	8,738	6,759
Income tax payable	70	24
13 Other payables	1,831	1,751
Deferred income	33	21
<b>Total current liabilities</b>	<b>16,643</b>	<b>17,477</b>
<b>Total liabilities</b>	<b>19,291</b>	<b>20,130</b>
<b>Total equity and liabilities</b>	<b>22,244</b>	<b>26,863</b>

## Parent company cash flow statement

DKK million

Notes	2017	2016
Profit before tax	1,819	1,487
19 Adjustments	-353	-324
20 Change in working capital	2,043	1,393
Net cash flows from operating activities before financial items and tax	3,509	2,556
Financial income received	45	134
Financial expenses paid	-141	-166
Income tax paid	-132	-123
Net cash flows from operating activities	3,281	2,401
Purchase of intangible assets	-165	-162
Purchase of property, plant and equipment	-478	-478
Proceeds from sale of property, plant and equipment	1	7
Acquisition of subsidiaries, net of cash received	-46	-
Capital contribution, joint ventures	-	-203
Dividends received from subsidiaries	4,317	-
Purchase of securities	-5,618	-7,925
Sale of securities	7,447	7,551
Dividends received from joint ventures	34	44
Net cash flows from investment activities	5,492	-1,166
Net repayments from related parties	-	800
Net repayments to related parties	-2,749	-
Repayment of borrowings to related parties	-	-4
Dividends paid	-5,680	-2,700
Net cash flows from financing activities	-8,429	-1,904
Net change in cash and cash equivalents	344	-669
Cash and cash equivalents at 1 January	788	1,457
21 Cash and cash equivalents at 31 December	1,132	788

## Parent company statement of changes in equity

DKK million

2016:

	Share capital	Reserve for net revaluation under the equity method	Foreign currency translation reserve	Develop- ment projects reserve	Retained earnings	Proposed dividends	Total equity parent company
Equity at 1 January 2016	524	2,857	-76	-	2,508	2,700	8,513
Profit for the year		776		126	270	150	1,322
Remeasurement of defined benefit plans					-13		-13
Exchange differences on translating foreign operations			-229				-229
Other comprehensive income to be reclassified in subsidiaries		-160					-160
Other comprehensive income	-	-160	-229	-	-13	-	-402
Total comprehensive income for the year	-	616	-229	126	257	150	920
Dividends received from joint venture		-44			44		-
Payment of dividends						-2,700	-2,700
Total transactions with owners	-	-44	-	-	44	-2,700	-2,700
Equity at 31 December 2016	524	3,429	-305	126	2,809	150	6,733

## Parent company statement of changes in equity

DKK million

2017:

	Share capital	Reserve for net revaluation under the equity method	Foreign currency translation reserve	Develop- ment projects reserve	Retained earnings	Proposed dividends	Total equity parent company
Equity at 1 January 2017	524	3,429	-305	126	2,809	150	6,733
Profit for the year		1,435		113	-50	200	1,698
Remeasurement of defined benefit plans					-5		-5
Exchange differences on translating foreign operations			168				168
Other comprehensive income to be reclassified in subsidiaries		39					39
Other comprehensive income	-	39	168	-	-5	-	202
Total comprehensive income for the year	-	1,474	168	113	-55	200	1,900
Dividends received from subsidiaries		-4,317			4,317		-
Dividends received from joint venture		-34			34		-
Payment of dividends						-150	-150
Payment of extraordinary dividends					-5,530		-5,530
Total transactions with owners	-	-4,351	-	-	-1,179	-150	-5,680
Equity at 31 December 2017	524	552	-137	239	1,575	200	2,953

## Summary of notes to the parent company financial statements

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

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- 5 Staff expenses
- 6 Financial income
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# Notes to the parent company financial statements

*DKK million*

## **1 General information**

Dansk Supermarked A/S' primary business area is retailing in Denmark through the physical stores Bilka, føtex and Netto and online with Bilka.dk, føtex.dk, wupti.com and føtexdagligvarer.dk. Furthermore Dansk Supermarked A/S also operates franchises in Denmark including coffee shops Starbucks and the burger restaurants Carl's Jr.

Dansk Supermarked A/S also owns a number of subsidiaries in Denmark and abroad.

Dansk Supermarked A/S is a public limited company with its registered office located at Rosbjergvej 33, 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.

## **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.

# Notes to the parent company financial statements

DKK million

	2017	2016
<b>4 Total revenue</b>		
Revenue from the sale of goods	40,230	39,682
Total net revenue	40,230	39,682
Other revenue	176	155
Total other revenue	176	155
Total revenue	40,406	39,837
<b>5 Staff expenses</b>		
Wages and salaries incl. termination benefits	4,757	4,646
Post-employment benefits – defined contribution plans	332	325
Post-employment benefits – defined benefit plans	2	3
Social security costs	107	113
Other staff expenses	136	152
Total staff expenses	5,334	5,239
Average number of full-time employees	16,348	16,272
<b>6 Financial income</b>		
Interest income on loans to related parties	19	22
Interest income on other loans and receivables	1	3
Net gain on derivatives not designated as hedges	-	17
Net gain on financial instruments held for trading	26	52
Net foreign exchange gain	-	40
Total financial income	46	134
<b>7 Financial expenses</b>		
Interest expense on bank loans	21	20
Interest expense on loans from related parties	101	142
Net loss on derivatives not designated as hedges	2	-
Other financial expenses	4	4
Total financial expenses	128	166

# Notes to the parent company financial statements

DKK million

## 8 Income tax

	2017	2016
Current income tax	-177	-132
Adjustment regarding prior years, current income tax	-1	-16
Change in deferred tax	59	-26
Adjustment regarding prior years, deferred tax	-	13
Total income tax	-119	-161
Income tax recognised in the income statement	-121	-165
Income tax recognised in other comprehensive income	2	4
Total income tax	-119	-161

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

	2017		2016	
	DKK	%	DKK	%
Tax on result for the year at the Danish income tax rate	-400	22.0 %	-327	22.0 %
Non-deductible costs	-46	2.5 %	-51	3.4 %
Non-taxable income	326	-17.9 %	216	-14.5 %
Adjustment to prior periods	-1	0.1 %	-3	0.2 %
Income tax recognised in the income statement	-121	6.7 %	-165	11.1 %

### Tax on other comprehensive income

	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Remeasurement of defined benefit plans	-7	2	-5	-17	4	-13
	-7	2	-5	-17	4	-13

# Notes to the parent company financial statements

DKK million

## 9 Intangible assets

2016:

	Goodwill	Software	Software development in progress	Brands	Other intangible assets	Total
<b>Cost</b>						
Balance at 1 January 2016	270	1,528	158	76	11	2,043
Additions	-	27	135	-	-	162
Reclassifications	-	141	-148	-	-	-7
Disposals	-	-15	-	-	-	-15
Balance at 31 December 2016	270	1,681	145	76	11	2,183
<b>Accumulated amortisation and impairment losses</b>						
Balance at 1 January 2016	-	-499	-	-3	-4	-506
Amortisation	-	-158	-	-8	-2	-168
Disposals	-	3	-	-	-	3
Balance at 31 December 2016	-	-654	-	-11	-6	-671
Carrying amount at 31 December 2016	270	1,027	145	65	5	1,512

2017:

	Goodwill	Software	Software development in progress	Brands	Other intangible assets	Total
<b>Cost</b>						
Balance at 1 January 2017	270	1,681	145	76	11	2,183
Additions	-	49	115	-	1	165
Reclassifications	-	96	-101	-	-	-5
Disposals	-	-7	-	-	-	-7
Balance at 31 December 2017	270	1,819	159	76	12	2,336
<b>Accumulated amortisation and impairment losses</b>						
Balance at 1 January 2017	-	-654	-	-11	-6	-671
Amortisation	-	-167	-	-8	-2	-177
Disposals	-	4	-	-	-	4
Impairment losses recognised in the income statement	-178	-56	-	-57	-	-291
Balance at 31 December 2017	-178	-873	-	-76	-8	-1,135
Carrying amount at 31 December 2017	92	946	159	-	4	1,201

For a description of the recognised impairment losses please refer to note 10 in the notes to the consolidated financial statements.

# Notes to the parent company financial statements

DKK million

## 10 Property, plant and equipment

2016:

	Fixtures and fittings, tools and equipment	Leasehold improve- ments	Assets under construction	Total
Cost				
Balance at 1 January 2016	3,435	678	17	4,130
Additions	444	28	6	478
Reclassifications	23	-	-17	6
Disposals	-109	-10	-	-119
Balance at 31 December 2016	3,793	696	6	4,495
Accumulated depreciation and impairment losses				
Balance at 1 January 2016	-2,430	-562	-	-2,992
Depreciation	-257	-16	-	-273
Reversals of impairment losses recognised in the income statement	2	-	-	2
Disposals	105	9	-	114
Balance at 31 December 2016	-2,580	-569	-	-3,149
Carrying amount at 31 December 2016	1,213	127	6	1,346

2017:

	Fixtures and fittings, tools and equipment	Leasehold improve- ments	Assets under construction	Total
Cost				
Balance at 1 January 2017	3,793	696	6	4,495
Additions	429	35	14	478
Reclassifications	10	-	-5	5
Disposals	-100	-19	-	-119
Balance at 31 December 2017	4,132	712	15	4,859
Accumulated depreciation and impairment losses				
Balance at 1 January 2017	-2,580	-569	-	-3,149
Depreciation	-342	-19	-	-361
Impairment losses recognised in the income statement	-1	-	-	-1
Disposals	95	19	-	114
Balance at 31 December 2017	-2,828	-569	-	-3,397
Carrying amount at 31 December 2017	1,304	143	15	1,462

# Notes to the parent company financial statements

DKK million

	2017	2016
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## 11 Investments in subsidiaries

Cost		
Balance at 1 January	10,225	10,225
Additions	68	-
Balance at 31 December	10,293	10,225
Value adjustments		
Balance at 1 January	3,516	2,889
Dividends	-4,317	-
Foreign currency translation	169	-194
Other comprehensive income for the year	39	-160
Profit for the year	1,428	981
Balance at 31 December	835	3,516
Carrying amount at 31 December	11,128	13,741

For information about business combinations, please refer to note 24.

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

## 12 Investments in joint ventures

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

Cost		
Balance at 1 January	424	221
Additions	-	203
Balance at 31 December	424	424
Value adjustments		
Balance at 1 January	-392	-108
Dividends	-34	-44
Foreign currency translation	-1	-35
Profit for the year	7	-205
Balance at 31 December	-420	-392
Carrying amount at 31 December	4	32

Specification of investments in joint ventures:	Share of issued share capital and voting rights	Principal place of business and country of incorporation
Netto UK Ltd.	50 %	Wakefield, the UK

# Notes to the parent company financial statements

DKK million

## 13 Financial assets and financial liabilities

*Financial assets comprise the following:*

	Carrying amount		Fair value	
	2017	2016	2017	2016
Derivatives not designated as hedges	241	303	241	303
Other non-current financial assets	241	303	241	303
Trade receivables	115	149	115	149
Other receivables	257	287	257	287
Receivables from entities with controlling influence	-	1	-	1
Receivables from subsidiaries	668	949	668	949
Receivables from other related parties	8	-	8	-
Derivatives not designated as hedges	95	86	95	86
Other current financial assets	771	1,036	771	1,036
Securities	2,505	4,334	2,505	4,334
Cash and short-term deposits	1,132	788	1,132	788

*Financial liabilities comprise the following:*

	Carrying amount		Fair value	
	2017	2016	2017	2016
Payables to subsidiaries	1,683	1,733	1,718	1,772
Derivatives not designated as hedges	241	303	241	303
Other non-current financial liabilities	20	-	20	-
Other non-current financial liabilities	1,944	2,036	1,979	2,075
Payables to entities with controlling influence	9	-	9	-
Payables to entities with significant influence	325	308	325	308
Payables to subsidiaries	5,491	8,501	5,491	8,501
Derivatives not designated as hedges	107	91	107	91
Other current financial liabilities	-	2	-	2
Other current financial liabilities	5,932	8,902	5,932	8,902
Trade payables	8,738	6,759	8,738	6,759
Other payables	1,831	1,751	1,831	1,751

# Notes to the parent company financial statements

DKK million

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

### Financial instruments by category:

#### Loans and receivables:

Trade receivables	115	149
Other receivables	257	287
Other financial assets excluding derivatives	676	950
Cash and short-term deposits	1,132	788

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

Derivatives not designated as hedges	336	389
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#### Financial assets at fair value through profit or loss, held for trading:

Securities	2,505	4,334
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#### Financial liabilities measured at amortised cost:

Other financial liabilities excluding derivatives	7,528	10,544
Trade payables	8,738	6,759
Other payables	1,831	1,751

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

Derivatives not designated as hedges	348	394
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### Hedge accounting:

Cash flow hedging is used on Group level to ensure that part of Groups interest rate risk exposure is at a fixed rate. In the parent company hedge accounting is not used. For further information about the use of hedge accounting please refer to note 14 in the notes to the consolidated financial statements.

### 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 defined 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 frequent 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.



# Notes to the parent company financial statements

DKK million

## 13 Financial assets and financial liabilities - continued

The fair value of the non-current payables to entities with significant influence falls within level 2 of the fair value hierarchy. The carrying amount is a reasonable approximation of fair value due to the relatively short maturities.

Fair value of the remaining borrowing items falls within level 2 of the fair value hierarchy and is calculated on the basis of discounted interests and instalments.

### *Risks arising from financial instruments:*

The parent company'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 parent company's financial counterparties. There has been no structural changes in the risk exposure or risks compared to 2016.

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

### Currency risks:

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 parent company's exposure to the risk of changes in foreign exchange rate relates primarily to the 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.

For a description of the FX risk management please refer to note 14 in the notes to the consolidated financial statements.

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

31 December 2017	EUR/DKK	GBP/DKK	PLN/DKK	SEK/DKK	USD/DKK
Financial assets	18	8	641	85	1
Financial liabilities	-798	-	-	-	-
Known USD purchase orders	-	-	-	-	-423
Net exposures before derivatives	-780	8	641	85	-422
Derivatives	-67	-	-642	59	708
Net exposures after derivatives	-847	8	-1	144	286
The net exposure relates to:					
Hedging of expected commercial cash flows where hedge accounting is not used	-847	8	-1	144	286
Applied sensitivity	1 %	5 %	5 %	5 %	5 %
Impact on the income statement	-8	-	-	7	14

# Notes to the parent company financial statements

DKK million

## 13 Financial assets and financial liabilities - continued

31 December 2016	EUR/DKK	GBP/DKK	PLN/DKK	SEK/DKK	USD/DKK
Financial assets	54	2	715	247	54
Financial liabilities	-551	-123	-	-	-
Known USD purchase orders	-	-	-	-	-447
Net exposures before derivatives	-497	-121	715	247	-393
Derivatives	401	123	-362	-198	430
Net exposures after derivatives	-96	2	353	49	37
The net exposure relates to:					
Hedging of expected commercial cash flows where hedge accounting is not used	-96	2	353	49	37
Applied sensitivity	1 %	5 %	5 %	5 %	5 %
Impact on the income statement	-1	-	18	2	2

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 parent company's exposure to risk of changes in market interest rates relates to internal loans and intercompany balances and its bond holdings. For further descriptions regarding the overall interest rate risk management please refer to note 14 in the notes to the consolidated financial statements.

A general increase of 1 %-points in interest rates is estimated, all other things being equal, to affect profit before tax and pre-tax profit by DKK -39 million (DKK -82 million in 2016).

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

31 December 2017	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
Financial assets	3,181	1 %	9	9
Financial liabilities	7,499	1 %	-48	-48
Impact			-39	-39
31 December 2016	Carrying amount	Sensitivity	Profit before tax	Pre-tax equity
Financial assets	5,283	1 %	-29	-29
Financial liabilities	10,542	1 %	-53	-53
Impact			-82	-82

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.

# Notes to the parent company financial statements

DKK million

## 13 Financial assets and financial liabilities - continued

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

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

31 December 2017	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	5,763	5,763	-	-
2 - 4 %	1,736	-	-	1,736
Total	7,499	5,763	-	1,736
Of which:				
Bearing fixed interest	23 %			
Bearing floating interest	77 %			

31 December 2016	Carrying amount	Next interest rate fixing		
		Within 1 year	1 to 5 years	After 5 years
0 - 2 %	8,758	8,758	-	-
2 - 4 %	1,784	-	-	1,784
Total	10,542	8,758	-	1,784
Of which:				
Bearing fixed interest	19 %			
Bearing floating interest	81 %			

Liquidity risks:

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

The parent company ensures liquidity through flexibility and diversification of borrowing, maturity and renegotiation time points, as well as counterparts. Flexibility in cash resources ensures that the parent company can act appropriately in case of unforeseen changes in liquidity. The liquidity reserves consist of cash, securities and undrawn credit facilities. In both 2017 and 2016 the Group has had no breach of covenants or otherwise been close to breaking the agreed borrowing conditions during the year. The parent company 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 will differ from both the carrying value and the fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date.

# Notes to the parent company financial statements

DKK million

## 13 Financial assets and financial liabilities - continued

	Within 1 year	1 to 5 years	After 5 years
31 December 2017			
Trade and other payables	16,394	243	1,460
Derivatives	94	394	125
Total	16,488	637	1,585
31 December 2016			
Trade and other payables	17,321	218	1,515
Derivatives	83	374	204
Total	17,404	592	1,719

### Credit risks:

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument leading to a financial loss or a counterparty not being able to meet any other obligations leading to a financial loss. The parent company 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.

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

The parent company is exposed to credit risks from trade receivables, balances with banks in the form of deposits and other financial instruments. The majority of the parent company's sales are made in cash, and therefore, the credit risks are very low. The parent company 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 bond portfolio will typically be low, currently 0.9.

	2017	2016
The table below summarises the ageing analysis of trade receivables, which are not impaired:		
Not due	69	70
< 30 days past due	6	14
30 to 90 days past due	12	28
90 to 180 days past due	8	15
> 180 days past due	20	22
Total	115	149

# Notes to the parent company financial statements

DKK million

## 13 Financial assets and financial liabilities - continued

*Changes in liabilities arising from financing activities:*

	1 January 2017	Cash flows	Other	31 December 2017
Other financial assets	-949	273	-	-676
Other financial liabilities	10,544	-3,022	-14	7,508
Total liabilities from financing activities	9,595	-2,749	-14	6,832

2017	2016
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## 14 Inventories

Goods held for resale	3,379	3,276
Consumables	22	21
Total inventories	3,401	3,297

In the income statement as part of cost of sales an income of DKK 1 million have been recognised regarding write-downs of inventories to net realisable value (an expense of DKK 8 million in 2016).

## 15 Equity

*Share capital:*

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

1,048,223 shares of DKK 500	524	524
Total share capital	524	524

There has been no changes to the share capital during 2013 - 2014 or in 2016 - 2017. In 2015 48,223 new shares were issued to F. Salling Holding A/S and A.P. Møller Mærsk A/S in connection with the non-cash contribution of F. Salling A/S. All shares have been fully paid.

*Retained earnings:*

During the 2017 financial year an ordinary dividend of DKK 150 million has been paid (DKK 2,700 million in 2016). During the 2017 financial year an extraordinary dividend of DKK 5,530 million has been approved and paid (DKK 0 in 2016). A dividend for the 2017 financial year of DKK 200 million is proposed. Payment of dividends to shareholders does not trigger taxes for the parent company.

# Notes to the parent company financial statements

DKK million

	2017	2016
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## 16 Pensions

The parent company has entered into pension schemes and similar arrangements with most of the parent company's employees. The majority of the parent company's pension schemes are defined contribution plans. For a few former employees and some members of the founder's 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	291	286
Interest expenses recognised as part of staff expenses	2	3
Actuarial gains / losses, demographic assumptions	7	3
Actuarial gains / losses, financial assumptions	-4	12
Actuarial gains / losses, experience adjustments	4	2
Payments from the plan	-15	-15
Defined benefit obligation at 31 December	285	291

The following significant actuarial assumptions are applied:

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

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

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

Discount rate:

Increase of 0.5 % point	-15	-15
Decrease of 0.5 % point	16	17

Price inflation:

Increase of 0.5 % point	16	17
Decrease of 0.5 % point	-15	-15

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 2017 is 33 years (34 years in 2016). DKK 15 million is expected to be paid from the plans in 2018.

# Notes to the parent company financial statements

DKK million

## 17 Deferred tax

Deferred tax relates to the following:

	Parent company income statement		Parent company statement of financial position	
	2017	2016	2017	2016
Intangible assets	-29	-3	247	276
Property, plant and equipment	6	20	2	-4
Provisions	4	2	-62	-64
Other	-38	-2	-80	-42
Deferred tax expense/income / Net deferred tax	-57	17	107	166

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

Deferred tax liabilities	107	166
Net deferred tax	107	166

Reconciliation of net deferred tax:

Opening balance at 1 January	166	153
Adjustment of deferred tax recognised in the income statement	-57	17
Adjustment of deferred tax recognised in other comprehensive income	-2	-4
Closing balance at 31 December	107	166

## 18 Provisions

2016:

	Onerous contracts	Other	Total
Balance at 1 January 2016	124	47	171
Provisions made during the year	12	13	25
Provisions utilised during the year	-3	-8	-11
Reversals during the year	-	-5	-5
Balance at 31 December 2016	133	47	180
Current	7	13	20
Non-current	126	34	160
Balance at 31 December 2016	133	47	180

# Notes to the parent company financial statements

DKK million

## 18 Provisions - continued

2017:

	Onerous contracts	Other	Total
Balance at 1 January 2017	133	47	180
Provisions made during the year	187	10	197
Provisions utilised during the year	-2	-4	-6
Reversals during the year	-13	-7	-20
Balance at 31 December 2017	305	46	351
Current	26	13	39
Non-current	279	33	312
Balance at 31 December 2017	305	46	351

The provision for onerous contracts comprises provision for leasing contracts, in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them. The provision is calculated as the least net cost of exiting from the contracts, which is the lower of the cost of fulfilling the contracts and any compensation or penalties arising from failure to fulfil them, and DKK 191 million is expected to fall due after more than 5 years (DKK 108 million in 2016). The majority of the provision relates to leasing contracts signed with companies within the Købmand Herman Sallings Fond Group.

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 parent company 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 concern the Danish employees, and are estimated based on the expected jubilees for current employees. Of the provision DKK 16 million is expected to fall due after more than 5 years (DKK 16 million in 2016). No further information is provided regarding the provision for pending lawsuits as the information might harm the parent company's position.

## 19 Adjustments

	2017	2016
Financial income	-46	-134
Financial expenses	128	166
Amortisation and impairment of intangible assets	468	168
Depreciation and impairment of property, plant and equipment	362	271
Loss on sale of non-current assets, etc., net	7	10
Share of profit/loss of subsidiaries, net of tax	-1,428	-981
Share of profit of joint ventures, net of tax	-7	205
Other adjustments	163	-29
Adjustments	-353	-324

## 20 Change in working capital

Change in trade and other receivables and prepayments	75	-88
Change in inventories	-104	222
Change in trade and other payables	2,072	1,259
Change in working capital	2,043	1,393



# Notes to the parent company financial statements

DKK million

	2017	2016
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## 21 Cash and cash equivalents

Cash and bank balances	1,132	788
Cash and cash equivalents available to the parent company	1,132	788

## 22 Contingent liabilities and other financial commitments

*Operating leases, the parent company is lessee:*

The parent company has entered into operating leases with external parties regarding a number of stores, warehouses and some operational equipment. The leases have terms of between 1 month and 13 years. Under some of the leases the parent company has the option to continue the lease of the assets beyond the agreed upon lease terms. The lease arrangements imposes no restrictions on the parent company.

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

Within 1 year	262	274
1 to 5 years	350	305
After 5 years	79	36
Total	691	615

Future minimum sublease payments expected to be received under non-cancellable subleases

2	5
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Minimum lease payments recognised as operating lease expenses

510	366
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Sublease payments recognised as a reduction of operating lease expenses

4	3
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The parent company has also entered into a number of operating leases with terms of up to 20 years with companies within the Købmand Herman Sallings Fond Group, in which the future minimum rentals payable amount to DKK 17 billion (DKK 16 billion in 2016). Minimum lease payments recognised as an operating lease expense amount to DKK 1,303 million (DKK 1,232 million in 2016).

*Operating leases, the parent company is lessor:*

The parent company leases a number of properties, shops and flats as operating leases to external parties. The leases have terms of between 4 months and 4 years.

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

Within 1 year	1	2
1 to 5 years	1	3
Total	2	5

# Notes to the parent company financial statements

DKK million

## 22 Contingent liabilities and other financial commitments - continued

*Other contingent liabilities and financial commitments:*

The parent company has entered into contractual commitments regarding acquisition and construction of property, plant and equipment of a total of DKK 53 million (DKK 0 million in 2016).

The company is jointly taxed with the Danish companies in the Købmand Herman Sallings Fond Group. As a jointly taxed company, which is not wholly owned, the company has limited and subsidiary liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation group. The total net taxes payable to the Danish Central Tax Administration by the companies included in the joint taxation is disclosed in the annual report of the administration company (F. Salling Holding A/S, CVR no. 41 94 01 15). Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends etc. may entail that the company's liability will increase.

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

Guarantees of DKK 12,631 million have been provided to credit institutions regarding related parties' mortgage loans (DKK 12,895 million in 2016).

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

	2017	2016
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## 23 Related party disclosures

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

Entities with controlling influence over the parent company:

Sales of services	2	-
Donations from Købmand Herman Sallings Fond	12	15

Entities with significant influence over the parent company:

Sales of services	1	-
Leasing expense	-27	-26
Interests paid	-3	-5
Dividends paid	-4,601	-2,187

Subsidiaries:

Sales of goods and services	195	195
Purchase of goods and services	-40	-35
Leasing expense	-1,275	-1,206
Interests paid	-79	-115
Dividends received	4,317	-

Joint ventures:

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

# Notes to the parent company financial statements

*DKK million*

## **23 Related party disclosures - continued**

All outstanding balances with related parties as at 31 December are presented in note 13. All outstanding balances carry interest and are to be settled in cash within 1 year unless otherwise specified in note 13.

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

Any guarantees Dansk Supermarked A/S has provided for associates are listed in note 22.

### **Key management personnel**

For a description of the key management personnel and an overview of the key management personnel remuneration please refer to note 25 in the notes to the consolidated financial statements.

## **24 Business combinations**

As at 1 January 2016 Dansk Supermarked A/S merged with the subsidiaries wupti.com A/S and Thomberg ApS.

For a description of the business combinations during 2017 please refer to note 26 in the notes to the consolidated financial statements.

## **25 Capital management**

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

## **26 Events after the reporting period**

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

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

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