

Registered Number: 07279467

Victoria's Secret UK Limited

Report and Financial Statements

For the 52 Weeks Ended 2 February 2019



Victoria's Secret UK Limited

Corporate Information

Directors

Timothy James Faber
Todd Gregory Helvie
Mark Koenig

Auditors

Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast
BT 2 7DT

Registered Office

16 Garrick Street
London
WC2E 9BA

Victoria's Secret UK Limited

Strategic Report

The directors present their Strategic Report and audited financial statements of Victoria's Secret UK Limited ("the Company") for the 52 weeks ended 2 February 2019. These financial statements have been prepared under International Financial Reporting Standards as adopted by the European Union.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest to 31 January. As used herein, "2018" refers to the 52 weeks ended 2 February 2019 and "2017" refers to the 53 weeks ended 3 February 2018.

Principal Activities and Review of Business

The Company's financial results are primarily related to the execution of the day-to-day store operations of 25 stores (2017 - 23 stores) in the United Kingdom ("UK") for the Victoria's Secret and Victoria's Secret PINK retail brands, which are specialty retailers of women's intimate and other apparel, beauty and personal care products and accessories.

Key Performance Indicators

The Company's key performance indicators during the period were as follows:

	52 weeks ended 2 February 2019 (£'000)	53 weeks ended 3 February 2018 (£'000)
Revenue	126,864	131,488
Gross Profit	69,720	76,857
Operating Loss	(170,825)	(49,428)

The Company's revenue and gross profit decrease are attributable to a decline in store traffic, an increase in promotional activity, and the extra week in 2017. The Company's operating loss in 2018 includes impairment charges for Property, Plant and Equipment of £26,583,000, Intangible Assets of £19,973,000 and a provision of £109,861,000 related to future operating lease commitments for stores that generate an operating loss on a four-wall basis. The Company had negative net assets of £31,039,000 as of 2 February 2019, and net assets of £85,673,000 as of 3 February 2018.

Principal Risks and Uncertainties

The Company's business is sensitive to a number of factors that influence the levels of consumer spending, including political and economic conditions such as recessionary environments, the levels of disposable consumer income, consumer debt, interest rates and consumer confidence. Declines in consumer spending could have a material adverse effect on the Company's operating results.

The principal risk that the Company faces is the ability to gauge the fashion interests of its customers and to provide merchandise that satisfies customer demand in a timely manner. The Company must focus on its core business by creating the right product and store experience, retaining and developing the best talent and examining the organisational structure to ensure that it effectively supports the business and meets the customer's needs. The Company seeks opportunities to maximise profitability and market share in the UK.

The Company's earnings are subject to exchange rate risk as substantially all of its merchandise is sourced through U.S. dollar transactions. As a result, the Company uses foreign currency forward contracts designated as cash flow hedges to mitigate the foreign currency exposure associated with forecasted U.S. dollar-denominated merchandise purchases. Additionally, the Company uses foreign currency forward contracts not designated as cash flow hedges to manage the impact of fluctuations in foreign currency exchange rates relative to recognised payable balances denominated in non-functional currencies.

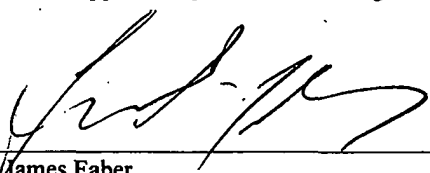
Victoria's Secret UK Limited

Strategic Report (continued)

At the end of June 2016, the United Kingdom ("U.K.") voted by referendum to exit the European Union ("E.U."), a vote commonly referred to as "Brexit". The U.K. invoked E.U. Article 50 in March 2017, triggering a two-year window in which the U.K. and European Commission could negotiate the future terms for imports, exports, taxes, employment, immigration and other areas. In March 2018, the U.K. and E.U. agreed on the terms of a 21-month transition period to avoid a potential economic damaging cliff edge departure, and subsequently delayed to October 2019. However, significant uncertainty remains as negotiations on the broader agreement continue. In addition to the volatility in global stock markets and currency exchange rates, the U.K. decision to leave the E.U. also created uncertainty in the global financial and business markets in which we operate and could adversely affect future demand for our products, our financial results and operations, and our relationships with customers, suppliers, employees in the short or long-term, and ultimately our business strategy. We are actively monitoring developments in the U.K. and E.U. and implications for our business.

These risks are principally managed by the parent companies of Victoria's Secret UK Limited by maintaining liquidity and managing cash generation by its operations. We will continue to monitor and manage the consequences of the referendum on withdrawal from the E.U.

This report was approved by the board and signed on its behalf:



Timothy James Faber

Director

30 October 2019

Victoria's Secret UK Limited

Directors' Report

Registered Number: 07279467

The directors present their report and financial statements of Victoria's Secret UK Limited ("the Company") for the 52 weeks ended 2 February 2019. These financial statements have been prepared under International Financial Reporting Standards as adopted by the European Union.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest to 31 January. As used herein, "2018" refers to the 52 weeks ended 2 February 2019 and "2017" refers to the 53 weeks ended 3 February 2018.

Results and Dividends

The Company's loss for the year, after taxation, amounted to £171,228,000 (2017 - loss of £48,458,000). No dividend was declared or paid in the period (2017 - £0). Provision for Onerous Lease expense for the year totaled £109,861,000 (refer to Note 16), impairment related expense for the year totaled £26,583,000 attributable to Property, Plant and Equipment (refer to Note 7) and £19,973,000 attributable to Intangible Assets (refer to Note 8).

Future Developments

The Company does not currently have plans to expand retail operations in the UK.

Financial Instruments

Details of financial instruments are provided in the Strategic Report on page 3.

Employee Investment

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. Periodically throughout the year, the Company provides updated company performance information on the internal intranet site which all associates have access to and are encouraged to review. Additionally, the Company conducts an annual Associate Opinion Survey ("AOS") in which employees are encouraged to provide feedback on the business performance, their working environment and leaders. From these results, the Company creates, communicates and implements action plans addressing the feedback received from the AOS. The AOS is not made compulsory, however, the Company strives to achieve 100% employee participation. Finally, the Company holds meetings, named 'Associate Insight Huddles', at least once a quarter between executive management and employees to allow a free flow of information and ideas amongst each other.

Disabled Employees

It is the Company's policy to give every practical consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities, and to ensure that those who are appointed receive the same opportunities as their colleagues for training, career development and promotions. If and when existing employees become disabled, every reasonable effort is made to ensure that their employment and training will continue as stated above.

Directors

The directors who served during the period and up to the date of approval of the financial statements were as follows:

Timothy James Faber
Todd Gregory Helvie
Mark Koenig

Victoria's Secret UK Limited

Directors' Report (continued)

Going Concern

The Company's business activities and principal risks and uncertainties are described in the Strategic Report on page 3. The directors have received assurances from LB US Holding Inc. ("LBUS"), an intermediate parent of the Company and a wholly-owned subsidiary of L Brands, Inc., the ultimate parent company, that if the Company does not have sufficient funds to settle any liabilities as and when they fall due, then monies will be made available for a period of at least twelve months from the date of approval of these financial statements. The directors have ascertained that LBUS has the ability to continue its financial support to the Company (either directly or through another LBUS company). LBUS is expected to continue to be profitable and has a strong net asset and cash position for the foreseeable future. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Events Since the Balance Sheet Date

On 16 October 2019, the Company loaned L Brands Service Company, LLC ("LBSC") £11,800,764. The loan is due to be paid on or before 11 December 2019 and bears interest at a rate of 4.027% per annum.

Disclosure of Information to Auditors

Each of the Company's directors at the date of the approval of this report confirms:

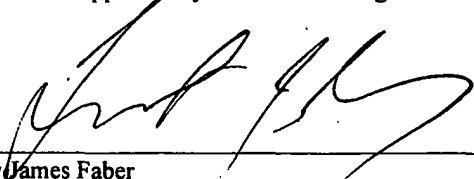
- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that ought to have been taken as directors in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

A resolution to reappoint Ernst & Young LLP as the auditors will be put to the members at the annual general meeting.

This report was approved by the board and signed on its behalf:



Timothy James Faber

Director

30 October 2019

Victoria's Secret UK Limited

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the Company's financial statements in accordance with United Kingdom applicable law and regulations.

Company law requires the directors to prepare Company financial statements for each financial year. Under that law, the directors have elected to prepare the Company financial statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Company law states the directors must not approve the Company's financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Company financial statements the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Victoria's Secret UK Limited

Opinion

We have audited the financial statements of Victoria's Secret UK Limited for the 52 weeks ended 2 February 2019 which comprise of the Statement of Comprehensive Loss, the Statement of Financial Position, the Statement of Changes in Equity/ (Deficit), the Statement of Cash Flows, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 2 February 2019 and of its loss for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Neil Warnock (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast
Date: 31 October 2019

Victoria's Secret UK Limited

Registered Number: 07279467

STATEMENT OF COMPREHENSIVE LOSS

For the 52 weeks ended 2 February 2019

	Note	52 weeks ended 2 February 2019 (£'000)	53 weeks ended 3 February 2018 (£'000)
Revenue		126,864	131,488
Cost of Sales		(57,144)	(54,631)
Gross Profit		69,720	76,857
Operating Expenses	3	(130,684)	(126,285)
Onerous Lease Expense	16	(109,861)	—
Operating Loss		(170,825)	(49,428)
Finance Costs	5	(503)	(72)
Finance Income	5	100	24
Loss Before Tax		(171,228)	(49,476)
Income Tax Benefit	6	—	1,018
Loss After Tax		(171,228)	(48,458)
Loss After Tax		(171,228)	(48,458)
Other Comprehensive Loss, Net of Tax:			
Net Gain/(Loss) on Cash Flow Hedges	17	3,588	(3,473)
Other Comprehensive Income/(Loss), Net of Tax		3,588	(3,473)
Total Comprehensive Loss, Net of Tax		(167,640)	(51,931)

All transactions are derived entirely from continuing operations.

The Notes on pages 14 to 32 form part of these financial statements.

Victoria's Secret UK Limited

Registered Number: 07279467

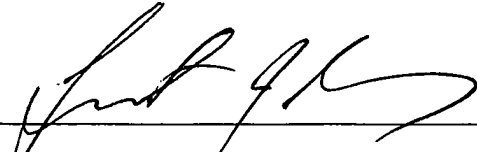
STATEMENT OF FINANCIAL POSITION

As at 2 February 2019

	Note	2 February 2019 (£'000)	3 February 2018 (£'000)
Assets			
Non-current Assets			
Property, Plant and Equipment	7	35,397	59,353
Intangible Assets	8	15,846	35,997
Long-term Deposits	9	4,562	5,658
		<u>55,805</u>	<u>101,008</u>
Current Assets			
Inventories	10	12,275	9,900
Other Current Assets	11	9,635	8,337
Cash and Cash Equivalents		39,065	12,735
		<u>60,975</u>	<u>30,972</u>
Total Assets		<u>116,780</u>	<u>131,980</u>
Liabilities			
Current Liabilities	12	20,188	29,160
Current Provisions	16	8,532	—
Non-current Liabilities	13	17,770	17,147
Non-current Provisions	16	101,329	—
Total Liabilities		<u>147,819</u>	<u>46,307</u>
Equity/(Deficit)			
Issued Capital	14	84,842	84,842
Share Premium	14	100,028	49,100
Retained Deficit		(216,744)	(45,516)
Other Comprehensive Income/(Loss)		835	(2,753)
Total Equity/(Deficit)		<u>(31,039)</u>	<u>85,673</u>
Total Equity/(Deficit) and Liabilities		<u>116,780</u>	<u>131,980</u>

The Notes on pages 14 to 32 form part of these financial statements.

On behalf of the Board:



Timothy James Faber
Director
30 October 2019

Victoria's Secret UK Limited

Registered Number: 07279467

STATEMENT OF CHANGES IN EQUITY/(DEFICIT) For the 52 weeks ended 2 February 2019

	Note	Issued Capital (£'000)	Share Premium (£'000)	Retained Earnings/ (Deficit) (£'000)	Other Comprehensive Income/(Loss) (£'000)	Total Equity/ (Deficit) (£'000)
As at 28 January 2017		84,842	49,100	2,942	720	137,604
Cash Flow Hedges	17	—	—	—	(3,473)	(3,473)
Loss for the Period		—	—	(48,458)	—	(48,458)
As at 3 February 2018		<u>84,842</u>	<u>49,100</u>	<u>(45,516)</u>	<u>(2,753)</u>	<u>85,673</u>
As at 3 February 2018		84,842	49,100	(45,516)	(2,753)	85,673
Contributed Capital	14	—	50,928	—	—	50,928
Cash Flow Hedges	17	—	—	—	3,588	3,588
Loss for the Period		—	—	(171,228)	—	(171,228)
As at 2 February 2019		<u>84,842</u>	<u>100,028</u>	<u>(216,744)</u>	<u>835</u>	<u>(31,039)</u>

The Notes on pages 14 to 32 form part of these financial statements.

Victoria's Secret UK Limited

Registered Number: 07279467

STATEMENT OF CASH FLOWS For the 52 weeks ended 2 February 2019

	Note	52 weeks ended 2 February 2019 (£'000)	53 weeks ended 3 February 2018 (£'000)
Operating Activities			
Loss Before Tax		(171,228)	(49,476)
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of Property, Plant and Equipment	7	11,398	15,206
Impairment of Property, Plant and Equipment	7	26,583	29,131
Impairment of Intangible Asset	8	19,973	1,586
Provision for Onerous Operating Lease	16	109,861	—
Loss on Long-lived Asset Disposal	7	—	371
Amortisation of Intangible Asset	8	441	551
(Gain)/Loss on Previously Settled Hedges	17	478	(389)
Changes in Assets and Liabilities:			
Decrease/(Increase) in Inventories	10	(2,375)	633
Increase in Other Current Assets	11	(790)	(2,701)
Decrease in Current Liabilities	12	(13,491)	(494)
Increase in Noncurrent Liabilities	13	815	1,008
Settled Hedges Not Yet Recognised	17	444	(478)
Interest Paid	5	(515)	—
Income Tax Paid	6	—	(839)
Net Cash flows used in Operating Activities		<u>(18,406)</u>	<u>(5,891)</u>
Investing Activities			
Purchase of Property, Plant, and Equipment	7	(14,025)	(14,420)
Purchase of Intangible Assets	8	(263)	(163)
Net Receipt/(Payment) of Long-term Deposits	9	1,096	(139)
Net Cash flows used in Investing Activities		<u>(13,192)</u>	<u>(14,722)</u>
Financing Activities			
Proceeds from Issuance of Short-term Loan from Related Party	18	7,000	10,000
Proceeds from issuance of share capital	14	50,928	—
Net Cash flows provided by Financing Activities		<u>57,928</u>	<u>10,000</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		26,330	(10,613)
Cash and Cash Equivalents at Beginning of Period		12,735	23,348
Cash and Cash Equivalents at End of Period		<u>39,065</u>	<u>12,735</u>

The Notes on pages 14 to 32 form part of these financial statements.

Victoria's Secret UK Limited

Registered Number: 07279467

NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

1. Corporate Information

The financial statements of Victoria's Secret UK Limited ("the Company") for the 52 weeks ended 2 February 2019 were authorised for issue in accordance with the resolution of the directors. The Company is a private limited company incorporated and domiciled in the United Kingdom ("UK"). The Company's registered address is 16 Garrick Street, London SE1 2AF.

The Company's financial results for the 52 weeks ended 2 February 2019 primarily relate to the execution of day-to-day store operations for the 25 stores (2017 - 23 stores) operating in the UK under the Victoria's Secret and Victoria's Secret PINK retail brands.

2. Accounting Policies

Fiscal Year

The Company's fiscal year ends on the Saturday nearest to 31 January. As used herein, "2018" refers to the 52 weeks ended 2 February 2019 and "2017" refers to the 53 weeks ended 3 February 2018.

Basis of Preparation

The Company's financial statements have been prepared on a historical cost basis and in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union as they apply to the financial statements of the Company for the 52 weeks ended 2 February 2019.

The Company's financial statements are presented in British pounds and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. The British pound is regarded as the Company's functional currency.

Going Concern

The Company's business activities and principal risks and uncertainties are described in the Strategic Report on page 3. The directors have received assurances from LB US Holding Inc. ("LBUS"), an intermediate parent of the Company and a wholly-owned subsidiary of L Brands, Inc., the ultimate parent company, that if the Company does not have sufficient funds to settle any liabilities as and when they fall due, then monies will be made available for a period of at least twelve months from the date of approval of these financial statements. The directors have ascertained that LBUS has the ability to continue its financial support to the Company (either directly or through another LBUS company). LBUS is expected to continue to be profitable and has a strong net asset and cash position for the foreseeable future. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Significant Accounting Judgements and Estimates

Intangible Assets

Key Money

Intangible assets, which represent key money payments, are stated at cost net of amortisation and any provisions for impairment. Amortisation is provided on key money payments to write off the cost, less the estimated residual value, evenly over the life of the lease.

Key money is reviewed for impairment annually. If events or changes in circumstances indicate that the carrying value may not be recoverable and this is written down immediately to its recoverable amount.

Victoria's Secret UK Limited
Registered Number: 07279467

NOTES TO THE FINANCIAL STATEMENTS
As of 2 February 2019

2. Accounting Policies (continued)

Intellectual Property

Intangible assets, which represent intellectual property, are stated at cost less any provisions for impairment.

These assets are considered to have an indefinite life as there is no foreseeable limit to their useful economic life. They are not amortised but tested for impairment annually or more frequently if an impairment indicator is triggered. The assessment of the classification of intangible assets as indefinite is reviewed annually.

The Company assesses at each reporting date whether there is an indication that an indefinite lived asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value, being a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the Statement of Comprehensive Loss in the expense category consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset in prior periods. A reversal of impairment loss is recognised immediately in the Statement of Comprehensive Loss.

Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value, being a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the Statement of Comprehensive Loss in the expense category consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior periods. A reversal of impairment loss is recognised immediately in the Statement of Comprehensive Loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less residual value, on a systematic basis over its remaining useful life.

Victoria's Secret UK Limited

Registered Number: 07279467

NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

2. Accounting Policies (continued)

Significant Accounting Policies

Financial Instruments

Financial Assets

Amounts owed by group undertakings and other trade receivables are initially recognised at fair value and subsequently carried at amortised cost, reduced by any appropriate allowances for unrecoverable amounts.

Cash and short-term deposits comprise cash held by the Company and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

Financial Liabilities

The Company's financial liabilities consist of amounts owed to group undertakings, accruals and trade and other payables. All of which, are initially recognised at fair value and subsequently carried at amortised cost.

Derivative Financial Instruments

The Company uses derivative financial instruments to manage exposure to foreign currency exchange rates. The Company does not use derivative instruments for trading purposes. All derivative instruments are recorded on the Statement of Financial Position at fair value.

For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income in equity and reclassified into earnings in the same period during which the hedged item affects earnings, which is upon sale of the hedged merchandise to the customer. Gains and losses that are reclassified into earnings are recognised in the same line item on the Statement of Comprehensive Loss as the underlying hedged item. Gains and losses on the derivative representing hedge ineffectiveness, if any, are recognised in current earnings.

For derivative financial instruments that are not designated as hedging instruments, the gain or loss on the derivative instrument is recognised in current earnings in Operating Expenses in the Statement of Comprehensive Loss.

Intangible Assets

The Company has certain intangible assets that are stated at cost, net of amortisation and any provisions for impairment. Definite lived intangible assets include key money which are capitalised and amortised as rent expense over the term of the lease agreements. Indefinite lived intangible assets include intellectual property rights which are stated at cost, net of provisions for impairment.

Inventories

Inventories are stated at the lower of cost or net realisable value. The Company records valuation adjustments to its inventories if the cost of specific inventory items on hand exceeds the amount it expects to realise from the ultimate sale or disposal of the inventory. These estimates are based on management's judgment regarding future demand and market conditions and analysis of historical experience.

The Company also records inventory loss adjustments for estimated physical inventory losses that have occurred since the date of the last physical inventory. These estimates are based on management's analysis of historical results and operating trends.

Long-term Deposits

The long-term deposits are recognised at the transactional value, with an impairment review taking place at the reporting date.

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As of 2 February 2019

2. Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and any provision for impairment. Depreciation is provided on all plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life.

<u>Category of Property and Equipment</u>	<u>Depreciable Life Range</u>
Furniture, fixtures and equipment	3 - 10 years
Leasehold improvements	Shorter of lease term or 10 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Property, plant and equipment are reviewed for impairment annually when events or changes in circumstances indicate that the carrying value may not be recoverable.

Construction in Process

Construction in process include all costs incurred in the development of the store and is stated at the lower of cost and net realisable value. Costs include all costs which are directly related to the property, incurred up to the earlier of practical completion and the date that the store is opened. On the opening of the store, all costs are transferred to leasehold improvements.

Operating Leases

Rentals payable under operating leases are charged to the Statement of Comprehensive Loss on a straight line basis over the lease term. Operating lease incentives are recognised as a reduction in the rental expense over the lease term.

Income Taxes

Current tax assets and liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities.

Deferred income tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax.

Deferred income tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the Statement of Comprehensive Loss.

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of future tax planning strategies.

Foreign Currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). The results and financial position of the company are expressed in British pounds, which is the functional currency for the Company.

Transactions in foreign currencies are translated into British pounds at the rate ruling on the date of the transaction. Exchange differences are recognised in the Statement of Comprehensive Loss in the period in which they arise.

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

2. Accounting Policies (continued)

Revenue Recognition

The Company recognises revenue based on the amount it expects to receive when control of the goods or services is transferred to the customer. The Company recognises sales upon customer receipt of the merchandise. Revenues are comprised by the sale of goods within its retail stores. All revenues relate to sales within the UK. The Company also provides a reserve for projected merchandise returns based on prior experience. Revenue excludes value added tax collected from customers.

The Company also sells gift cards with no expiration dates to customers. The Company does not charge administrative fees on unused gift cards. The Company recognises income from gift cards when they are redeemed by the customer. To date, the Company has not recognised gift card breakage revenue.

Pensions

The Company operates a defined contribution pension scheme. Contributions are charged to profit or loss as they become payable in accordance with the rules of the scheme.

Provisions for Liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Loss, net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Provisions for Onerous Leases

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for onerous leases are recognised when the Company believes that the unavoidable costs of meeting or exiting the lease obligations exceed the economic benefits expected to be received under the lease.

New and Revised International Financial Reporting Standards (IFRS)

Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which was further clarified and amended in 2015 and 2016. This guidance requires companies to recognise revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard allows for either a full retrospective or a modified retrospective transition method. The Company adopted the standard in fiscal 2018 under the modified retrospective approach.

The only change to current accounting relates to sales returns. The new standard requires sales returns to be presented on a gross basis with the sales refund liability presented separately from the return asset. There was no cumulative catch-up adjustment to opening retained earnings as a result of adoption.

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

2. Accounting Policies (continued)

Leases

In February 2016, the IASB issued IFRS 16, *Leases*, which requires companies classified as lessees to put most leases on their balance sheets. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognised and expected to be recognised from existing leases. The standard requires full retrospective or modified retrospective adoption and will be effective beginning in fiscal 2019.

The Company is currently evaluating the impacts that this standard will have on its financial statements and notes. The Company's operating lease commitments will be recognised as operating lease liabilities and right-of-use assets upon adoption of the standard, resulting in a material increase to the assets and liabilities on the Statement of Financial Position. The Company will adopt the standard in fiscal 2019.

Financial Instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments*, which was subsequently reissued in 2010 and 2014. The standard brings fundamental changes to financial instruments accounting and replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The standard specifies requirements for recognition and measurement, impairment and derecognition of financial instruments and general hedge accounting. Further, the standard requires additional disclosures of the Company's risk management activities and hedge accounting. The Company adopted the standard in fiscal 2018. The adoption of the standard did not have a material impact to the financial statements or notes.

Other Standards

Several other amendments and interpretations became effective as of 1 January 2018 and apply for the first time in 2018, but do not have an impact on the financial statements of the Company. These amendments and interpretations are summarised below:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to IAS 40 *Transfers of Investment Property*
- 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 28 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters.*

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

3. Operating Loss

This is stated after charging:

	52 weeks ended 2 February 2019 (£'000)	53 weeks ended 3 February 2018 (£'000)
Operating lease charges	38,888	34,181
Impairment of Property, Plant and Equipment	26,583	29,131
Impairment of Intangible Assets	19,973	1,586
Depreciation	11,398	15,206
Foreign currency exchange (gain)/loss	938	(641)
Amortisation	441	551
Loss on long-lived asset disposal	—	371
Auditor's remuneration - audit of the financial statements	123	94
Tax remuneration	15	15

4. Employees

	52 weeks ended 2 February 2019 (£'000)	53 weeks ended 3 February 2018 (£'000)
Staff costs during the year, excluding directors:		
Wages and salaries	19,607	19,381
Pension, social security costs / other	1,936	1,765
	<u>21,543</u>	<u>21,146</u>

The average number of employees (excluding directors) in the year was:

	52 weeks ended 2 February 2019 (No.)	53 weeks ended 3 February 2018 (No.)
Store employees	1,153	1,254
	<u>1,153</u>	<u>1,254</u>

Key management personnel of the Company are the Directors as well as other employees of L Brands, Inc. Key management of the Company are persons having direct or indirect authority and responsibility for planning, directing and controlling extra space the activities of the Company. Key management personnel compensation was £578,000 for the year (2017 - £246,000). Directors' remuneration is paid by L Brands, Inc., the ultimate parent company, and is nil (2017 - nil).

5. Finance Income/(Expense)

	52 weeks ended 2 February 2019 (£'000)	53 weeks ended 3 February 2018 (£'000)
Interest Expense on Related Party Loans	(503)	(72)
Interest Income	100	24
	<u>(403)</u>	<u>(48)</u>

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

6. Income Tax Benefit

	52 weeks ended 2 February 2019 (£'000)	53 weeks ended 3 February 2018 (£'000)
Current Tax Expense/(Benefit)		
Current tax on Loss for the year	—	(743)
Adjustment relating to prior periods	—	(188)
Total Current Tax Expense/(Benefit)	—	(931)
Deferred Tax Expense/(Benefit)		
Origination and reversal of temporary differences	—	—
Adjustment relating to prior periods	—	194
Write-downs of deferred tax liabilities	—	(281)
Total Deferred Tax Expense/(Benefit)	—	(87)
Total Tax Expense/(Benefit)	—	(1,018)
Other Comprehensive Income Items		
Deferred tax current year charge	—	(180)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	52 weeks ended 2 February 2019 (£'000)	53 weeks ended 3 February 2018 (£'000)
Loss before tax	(171,228)	(49,476)
Expected tax expense/(credit) based on the standard rate of United Kingdom corporation tax at the domestic rate of 19%	(32,533)	(9,480)
Expenses not deductible for tax purposes	3,956	3,895
Effect of unused tax losses and attributes not recognised as deferred tax assets	25,401	4,016
Change in deferred rates	2,908	536
Group relief with no payment	252	127
Adjustment relating to prior periods	16	6
Effect of loss carry back	—	(31)
Write-downs of deferred tax liabilities	—	(87)
Total Tax Benefit	—	(1,018)

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

6. Income Tax Benefit (continued)

The corporation tax rate in the UK reduced from 20% to 19% effective from 1 April 2017. This will be further reduced to 17% on 1 April 2020. The 17% statutory rate of corporation tax was enacted in full on 15 September 2016 and this is the rate at which deferred tax has been provided.

Deferred Income Taxes

The deferred tax balances that are recognized as assets / (liabilities) in the Statement of Financial Position, as well as, the deferred tax balances that are unrecognized are as shown below:

	52 weeks ended 2 February 2019			53 weeks ended 3 February 2018		
	Recognised	Not recognised	Total	Recognised	Not recognised	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Accelerated capital allowances	—	5,626	5,626	—	2,893	2,893
Intangible assets	—	2,162	2,162	—	(140)	(140)
Other temporary and deductible differences	—	104	104	—	112	112
Leases	—	—	—	—	—	—
Tax loss carried forward	—	21,398	21,398	—	1,096	1,096
Revaluation of hedge instrument	—	(142)	(142)	—	468	468
Deferred Asset at the end of the year	—	29,148	29,148	—	4,429	4,429

The movement in the deferred tax asset is as shown below:

	52 weeks ended 2 February 2019			53 weeks ended 3 February 2018		
	Recognised	Not recognised	Total	Recognised	Not recognised	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Asset/(Liability) at the beginning of the year	—	4,429	4,429	(266)	—	(266)
Movement in period through:						
Credit to the income statement	—	25,401	25,401	86	3,961	4,047
Credit/(Expense) to other comprehensive income	—	(682)	(682)	180	468	648
Asset at the end of the year	—	29,148	29,148	—	4,429	4,429

The Company has not recognised a deferred tax asset relating to the losses incurred in the period due to the uncertainty as to their future recoverability. Tax losses of approximately £125,869,709 in 2018 and £6,444,161 in 2017 can be carried forward as losses that may be used against future trade and non-trade income. The potential deferred tax asset in respect of tax losses carried forward is approximately £21,397,851 (2017 - £1,095,507).

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As of 2 February 2019

7. Property, Plant and Equipment

	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Process	Total
	(£'000)	(£'000)	(£'000)	(£'000)
Cost:				
At 28 January 2017	49,515	67,100	810	117,425
Additions	664	1,112	12,644	14,420
Disposals	(473)	(322)	(4)	(799)
Impairment	(19,970)	(24,557)	—	(44,527)
Transfers	5,608	6,869	(12,477)	—
At 3 February 2018	35,344	50,202	973	86,519
Additions	6,631	8,302	(908)	14,025
Impairment	(14,680)	(17,486)	—	(32,166)
At 2 February 2019	27,295	41,018	65	68,378
Accumulated Depreciation:				
At 28 January 2017	14,154	13,630	—	27,784
Charge for the year	6,832	8,374	—	15,206
Disposals	(404)	(24)	—	(428)
Impairment	(7,893)	(7,503)	—	(15,396)
At 3 February 2018	12,689	14,477	—	27,166
Charge for the year	273	11,125	—	11,398
Impairment	(2,960)	(2,623)	—	(5,583)
At 2 February 2019	10,002	22,979	—	32,981
Carrying Amount:				
At 2 February 2019	17,293	18,039	65	35,397
At 3 February 2018	22,655	35,725	973	59,353

Impairment Assessment

In 2017 and 2018, the Company's operating results declined significantly due to the challenging UK retail environment, as well as other factors, including pressure similar to what the Victoria's Secret and Victoria's Secret PINK brands have encountered in the United States. As such, the Company assessed that indicators of impairment exist, and proceeded to estimate the recoverable amount of its assets.

The Company assessed the recoverability of its assets, at the individual store level, using a discounted cash flow methodology. The determination of estimated fair value requires significant judgments about economic factors, industry factors, prospects of future cash flows, as well as numerous estimates and assumptions that are highly subjective. The estimates and assumptions critical to the overall fair value estimates include: (i) estimated future cash flows generated by the stores and (ii) the discount rate used to present value the future cash flow projections. These and other estimates and assumptions are impacted by economic conditions and expectations of management and may change in the future based on period-specific facts and circumstances.

The cash flow projections used in the discounted cash flow analysis cover the remaining lease term of each individual store. The discount rate used takes into consideration the time value of money and represents the current market assessment of the risks of the stores. Sales, gross margin and operating expense assumptions used in the cash flow projections reflect the recent deterioration in the business.

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

7. Property, Plant and Equipment (continued)

Based on the Company's evaluation, the carrying values of certain Property, Plant and Equipment assets exceed their estimated fair values. As a result, the Company recorded an impairment charge of £26,583,000 in 2018 and £29,131,000 in 2017. This impairment charge is included in Operating Expenses on the Statement of Comprehensive Loss. A significant change in the current estimates and assumptions used in the cash flow projections would be required in order to change the impairment charge.

8. Intangible Assets

The Company has intangible assets, both with definite and indefinite lives, totaling £15,846,000 (2017 - £35,997,000).

Intangible Assets with definite lives

Key money payments to landlords are capitalised and amortised as rent expense over the term of the lease agreements to 30 June 2045.

	(£'000)
Cost:	
At 28 January 2017	15,057
Additions	167
Impairment loss for the year	(2,120)
At 3 February 2018	13,104
Additions	263
Impairment loss for the year	(1,045)
At 2 February 2019	12,322
Accumulated Amortisation:	
At 28 January 2017	2,398
Charge for the year	551
Impairment loss for the year	(534)
At 3 February 2018	2,415
Charge for the year	441
Impairment loss for the year	(138)
At 2 February 2019	2,718
Carrying Amount:	
At 2 February 2019	9,604
At 3 February 2018	10,689

Impairment Assessment

As discussed in Note 7, the Company's operating results declined significantly in 2017. As such, the Company assessed that indicators of impairment exist, and proceeded to estimate the recoverable amount of its assets. Based on the Company's evaluation, using the methodology discussed in Note 7, the carrying values of certain key money assets exceed their estimated fair values. As a result, the Company recorded an impairment charge of £907,000 in 2018 and £1,586,000 in 2017. This impairment charge is included in Operating Expenses on the Statement of Comprehensive Loss.

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

8. Intangible Assets (continued)

Intangible Assets with indefinite lives

The Company's concession contracts, patents, licences, trade marks and similar rights and assets are as shown below:

	(£'000)
Cost:	
At 28 January 2017	25,308
Additions	—
At 3 February 2018	25,308
Additions	—
At 2 February 2019	25,308
Provisions:	
At 28 January 2017	—
Additions for the year	—
At 3 February 2018	—
Additions for the year	19,066
At 2 February 2019	19,066
Carrying Amount:	
At 2 February 2019	6,242
At 3 February 2018	25,308

The Company owns the Victoria's Secret and Victoria's Secret PINK intellectual property rights for the UK.

Impairment Assessment

As discussed in Note 7, the Company's operating results declined significantly in 2017 and 2018. As such, the Company assessed that indicators of impairment exist, and proceeded to estimate the recoverable amount of this asset. The Company estimated the fair value using a relief from royalty methodology. The relief from royalty utilized the projected revenues considering the deterioration in the business and a 3% royalty rate. The estimated fair value did not exceed the carrying value. As such, an impairment charge of £19,066,000 was recognised. A significant change in the current estimates and assumptions used in the analysis would be required in order to reverse this impairment charge. This impairment charge is included in Operating Expenses on the Statement of Comprehensive Loss.

9. Long-term Deposits

The Company's long-term deposits are related to property leases which are repayable at lease expiration.

	(£'000)
At 28 January 2017	5,519
Additions	150
Reductions	(11)
At 3 February 2018	5,658
Additions	579
Reductions	(1,675)
At 2 February 2019	4,562

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

10. Inventories

	2 February 2019 (£'000)	3 February 2018 (£'000)
Finished Goods	12,275	9,900
	<u>12,275</u>	<u>9,900</u>

Finished Goods inventory is recorded net of reserves of £2,716,000 and £1,886,000 in 2018 and 2017, respectively. The Company recognized expense related to the inventory reserves of £3,171,000 in 2018 and £3,271,000 in 2017.

11. Other Current Assets

	2 February 2019 (£'000)	3 February 2018 (£'000)
Prepayments	5,381	4,560
Corporation tax debtor	2,000	2,000
Amounts owed by group undertakings	1,298	1,250
Construction allowance receivable	—	225
Forward foreign currency contracts	510	12
Other receivables	446	290
	<u>9,635</u>	<u>8,337</u>

See Note 18 for additional information on amounts owed by group undertakings, including repayment terms and interest, if applicable.

12. Current Liabilities

	2 February 2019 (£'000)	3 February 2018 (£'000)
Amounts owed to group undertakings	11,588	19,166
VAT payable, net	982	576
Accruals	6,111	5,182
Trade payables	1,420	2,183
Forward foreign currency contracts	87	2,053
	<u>20,188</u>	<u>29,160</u>

On 20 November 2017, the Company entered into a demand promissory note whereby the Company was lent £10,000,000 from IBML. On 20 November 2018, IBML extinguished the loan in exchange for one share of the Company as described in Note 14.

On 21 March 2018, the Company entered into a revolving credit facility with IBML whereby the Company can borrow up to £30,000,000. The loan bears interest at the 3 month LIBOR plus 2.0%. As of 2 February 2019, the Company has borrowed a total of £7,000,000 which is outstanding and included within Amounts owed to group undertakings.

See Note 18 for additional information amounts owed to group undertakings, including repayment terms and interest, if applicable.

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NOTES TO THE FINANCIAL STATEMENTS As of 2 February 2019

13. Non-current Liabilities

	2 February 2019 (£'000)	3 February 2018 (£'000)
Operating lease accruals	14,671	14,241
Asset retirement obligation	3,058	2,684
Forward foreign currency contracts	41	222
	<u>17,770</u>	<u>17,147</u>

14. Share Capital and Share Premium

	2 February 2019 (£'000)	3 February 2018 (£'000)
Authorised, issued and fully paid:		
2018 - 84,841,928 (2017 - 84,841,924) Shares at par value £1 each	84,842	84,842
Share Premium	<u>100,028</u>	<u>49,100</u>
	<u>184,870</u>	<u>133,942</u>

Issued capital represents the nominal value of shares issued.

Share premium represents the amount above the nominal value received for shares sold, less transaction costs.

Retained earnings/(deficit) represents all current and prior year profits and losses.

On 11 June 2018 IBML contributed £9,461,096 to the Company in exchange for one ordinary share of the Company.

On 17 September 2018 IBML contributed £15,369,232 to the Company in exchange for one ordinary share of the Company.

On 20 November 2018 IBML contributed a £10,000,000 loan receivable to extinguish the related party note between the Company and IBML in exchange for one ordinary share of the Company.

On 24 January 2019 IBML contributed £16,097,356 to the Company in exchange for one ordinary share of the Company.

15. Operating Lease Arrangements

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2 February 2019 (£'000)	3 February 2018 (£'000)
Not later than one year	21,845	20,830
Later than one year and not later than five years	86,096	87,093
Later than five years	<u>192,363</u>	<u>207,494</u>
	<u>300,304</u>	<u>315,417</u>

The Company did not have subtenant income in 2018 or 2017. Minimum rent expense in 2018 and 2017 was £22,984,319 and £19,510,905, respectively.

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As of 2 February 2019

16. Provisions

	Property Provisions (£'000)
At 28 January 2017	—
Amount provided in the year	—
Amount utilised in the year	—
At 3 February 2018	—
Amount provided in the year	109,861
Amount utilised in the year	—
At 2 February 2019	109,861

The provision balances are as follows:

	2 February 2019 (£'000)	3 February 2018 (£'000)
Current	8,532	—
Non-current	101,329	—
	109,861	—

Property provisions comprise onerous lease provisions for leases on unprofitable stores.

The calculation of the value in use of the leased properties to the Company is based on assumptions for growth rates and expected future cash flows for the stores, discounted at the appropriate risk-free rate. The cost of exiting lease contracts is estimated as the present value of expected rents based on discounting at the appropriate risk-free rate.

Based on the factors set out above, the Company has recognised a net onerous property provision charge in the year of £109,861,000 (2017: £Nil), largely relating to onerous lease contracts for fully impaired properties. The charge has been recognised under Operating Expenses within the Statement of Comprehensive Loss.

The Company has performed sensitivity analysis on the onerous lease provisions using reasonably possible scenarios based on recent market movements. Neither a half a percentage point increase nor decrease in the risk-free rate would result in a material change to the onerous lease provisions.

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NOTES TO THE FINANCIAL STATEMENTS

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17. Financial Instruments and Financial Risks

The Company is exposed to certain risks arising from its use of financial instruments. The Company's financial assets and liabilities are shown in the table below:

	2 February 2019	3 February 2018
	(£'000)	(£'000)
Financial assets		
Amounts owed by group undertakings	1,298	1,250
Other receivables	446	290
Forward foreign currency contracts	510	12
Long-term deposits	4,562	5,658
Cash and short-term deposits	39,065	12,735
	<u>45,881</u>	<u>19,945</u>
Financial liabilities		
Amounts owed to group undertakings	11,588	19,166
Operating lease accruals	14,671	14,241
Accruals	6,111	5,182
Trade payables	1,420	2,183
Forward foreign currency contracts	128	2,275
	<u>33,918</u>	<u>43,047</u>

The Company's cash and short-term deposits, trade payables and amounts owed by/to group undertakings approximate fair value because of their short maturity. The Company's forward foreign currency contracts are considered Level 2 fair value measurements and use a market approach valuation technique. The primary input to this technique include foreign currency exchange rates.

In the Directors' opinion, there is no material difference between the book value and the fair value of any of the financial instruments. Hedge accounting is used for the derivative financial instruments.

The Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include foreign currency risk, credit risk, liquidity risk and interest rate risk. Financial risk management is carried out by management in accordance with established policies and guidelines reviewed and agreed by the Board of Directors of the ultimate parent company. These guidelines set out the overall business strategies, tolerance for risk and general risk management philosophy and processes.

Currency risk

The Company's earnings are subject to exchange rate risk as substantially all of its merchandise is sourced through U.S. dollar transactions. As a result, the Company uses foreign currency forward contracts designated as cash flow hedges to mitigate the foreign currency exposure associated with forecasted U.S. dollar-denominated merchandise purchases. These forward contracts currently have a maximum term of 18 months.

The Company uses foreign currency forward contracts not designated as cash flow hedges to manage the impact of fluctuations in foreign currency exchange rates relative to recognized payable balances denominated in non-functional currencies.

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

17. Financial Instruments and Financial Risks (continued)

The following table provides a summary of the fair value and classification of outstanding derivative financial instruments:

	2 February 2019 (£'000)	3 February 2018 (£'000)
Financial assets		
Foreign exchange forward contracts not designated as hedging instruments	—	12
Foreign exchange forward contracts designated as hedging instruments	510	—
Total foreign exchange forward contracts	510	12
Financial liabilities		
Foreign exchange forward contracts designated as hedging instruments	128	2,275

In 2018, the cash flow hedges of the expected merchandise purchases in 2019 were assessed to be highly effective and an unrealised gain of £391,000 is included in OCI. Comparatively, the cash flow hedges of merchandise purchases in 2018 were assessed to be highly effective and an unrealised gain of £444,000 is included in OCI in respect of these contracts. The loss reclassified from OCI during 2018 and recognised as an addition to Cost of Sales was £939,000.

In 2017, the cash flow hedges of the expected merchandise purchases in 2018 were assessed to be highly effective and an unrealised loss of £2,275,000 was included in OCI. Comparatively, the cash flow hedges of merchandise purchases in 2017 were assessed to be highly effective and an unrealised loss of £478,000 was included in OCI in respect of these contracts. The gain reclassified from OCI during 2017 and recognized as a reduction to Cost of Sales was £303,000.

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness to be recognised in the statement of profit or loss.

In the Directors' opinion, the possible change in the British pound against the U.S. dollar exchange rate with all other variables held constant, of the Company's profit before tax (due to foreign exchange translation of monetary assets and liabilities) is sufficiently mitigated by the foreign currency forward contracts on recognized payables. Management has not performed a detailed sensitivity analysis given these factors.

Liquidity risk

Liquidity risk arises from the Company's management of working capital, including cash and cash equivalents and short term deposits. The Company's policy is to manage its working capital flows such that it will always have sufficient cash to allow it to meet its liabilities as and when they become due.

Budgeted cash flow forecasts are prepared setting out anticipated working capital flows together with future obligations from capital projects in progress and the resulting impact on its cash balances.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets held at the balance sheet date. The Company's maximum exposure to credit risk by type of financial asset equals the carrying value of financial assets shown in 2018 and 2017.

All receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market, with the exception of the forward foreign currency contracts (as discussed above). As such, the Company has limited exposure to credit risk as the receivables on the balance sheet are from related parties and are current. These relationships are monitored closely and given the ongoing nature of trading with such counterparties, the risk of default is considered to be low. As a result, there are no material debts which are past due, and no provision for doubtful debts has been made in the financial statements. Management has not performed a detailed sensitivity analysis given these factors.

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

17. Financial Instruments and Financial Risks (continued)

Interest rate risk

Interest rate risk is the risk that the value of financial assets will fluctuate due to changes in market interest rates. The Company's income and operating cash flows and the value of its financial assets are largely independent of changes in market interest rates. Surplus funds are invested in short-term accounts such that the Company is not unduly exposed to market interest rate fluctuations.

Interest income received on the short-term bank deposits in the period amounts to £99,781 (2017: £23,948). Interest expense paid on related party loans in the period amounts to £502,901 (2017: £71,960). Management has not performed a detailed sensitivity analysis given that interest income and expense are not significant components of the overall operations of the Company or drivers of financial performance.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support and expand its business. The Company manages its capital structure utilizing issued capital and loans from related parties. No changes were made in the objectives, policies or processes during 2018 and 2017.

18. Related Party Transactions

During the period, the Company entered into transactions, in the ordinary course of business, with related parties. Transactions entered into, and trading balances outstanding at 2 February 2019 with related parties, are as follows:

	Dividend to Related Party	Purchases from Related Party	Amounts owed by Related Parties	Amounts owed to Related Parties
	(£'000)	(£'000)	(£'000)	(£'000)
Fellow group subsidiaries				
2018	—	57,144	1,298	11,588
2017	—	54,631	1,250	19,166

Entities with significant influence over the Group

IBML owns 100% of the ordinary shares in the Company.

Terms and conditions of transactions with related parties

Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 30 days of invoice. The Company has not provided or benefited from any guarantees for any related party receivables or payables. During 2018, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2017: nil).

Dividend to related party

There were no dividends to related parties in 2018.

Purchases from related party

These transactions are related to merchandise purchased from Victoria's Secret Stores Brand Management, Inc.

Amounts owed by related parties

This balance relates to shared service charges due from the Company's parent company or its associates.

Amounts owed to related parties

This balance is primarily due to transactions related to merchandise and construction payables, as well as shared service charges, owed to the Company's parent company or its associates. In 2018, the Company also entered into a loan agreement with IBML whereby IBML loaned the Company £7,000,000 which bears interest at the 3 month LIBOR plus 2.0%.

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NOTES TO THE FINANCIAL STATEMENTS

As of 2 February 2019

18. Related Party Transactions (continued)

See Note 14 for capital contributions and activity with related parties that took place during the period.

19. Ultimate Parent Company

The Company's immediate parent company is Intimate Brands Management Limited, a wholly-owned subsidiary of L Brands, Inc., the ultimate parent company, controlling entity of the group and the only company to prepare consolidated financial statements. L Brands, Inc. is incorporated and registered in the United States of America and its financial statements may be obtained by writing to L Brands, Inc., Investor Relations, Three Limited Parkway, Columbus, OH 43230 USA.

20. Subsequent Events

On 16 October 2019, the Company loaned L Brands Service Company, LLC ("LBSC") £11,800,764. The loan is due to be paid on or before 11 December 2019 and bears interest at a rate of 4.027% per annum.