

Registered Number: 07279467

Victoria's Secret UK Limited

Report and Financial Statements

For the 53 Weeks Ended 3 February 2018

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COMPANIES HOUSE

Victoria's Secret UK Limited

Corporate Information

Directors

Timothy James Faber
Todd Gregory Helvie
Mark Koenig

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered Office

16 Garrick Street
London
WC2E 9BA

Victoria's Secret UK Limited

Strategic Report

The directors present their Strategic Report and financial statements of Victoria's Secret UK Limited ("the Company") for the 53 weeks ended 3 February 2018. 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, "2017" refers to the 53 weeks ended 3 February 2018 and "2016" refers to the 52 weeks ended 28 January 2017.

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 23 stores (2016 - 18 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. Prior to 22 December 2016, the Company licensed the use of Victoria's Secret and Victoria's Secret PINK trademarks and other intellectual property from a related party, Victoria's Secret International S.a.r.l. ("VSIS"). On 22 December 2016, through a series of transactions, the Company was assigned these intellectual property rights for the UK from VSIS.

Key Performance Indicators

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

	53 weeks ended 3 February 2018	52 weeks ended 28 January 2017
	(£'000)	(£'000)
Revenue	131,488	132,162
Gross Profit	76,857	82,843
Operating Loss	(49,428)	(15)

The Company's revenue and gross profit decrease are attributable to a decline in overall store traffic, impacted significantly by the exit of certain categories and promotional activity, partially offset by the net sales for the five additional stores that commenced trading in 2017. Gross profit was also impacted by higher occupancy expenses due to investments in store real estate. The Company's operating loss in 2017 was attributable to impairment charges for Property, Plant and Equipment of £29,131,000 and Intangible Assets of £1,586,000, as well as, the overall decline in store traffic and increased investments in store real estate.

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.

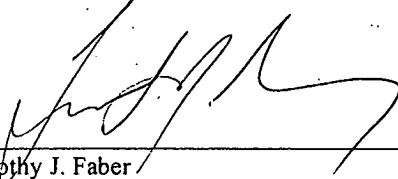
The Company's earnings are subject to exchange rate risk as substantially all of its merchandise is sourced through U.S. dollar transactions. As a result, the Company uses foreign currency forward contracts designated as cash flow hedges to mitigate the foreign currency exposure associated with forecasted 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 recognized payable balances denominated in non-functional currencies.

Victoria's Secret UK Limited

Strategic Report (continued)

On 23 June 2016, the United Kingdom ("UK") voted to exit from the European Union. The impact of this decision continues to be evaluated, however it is expected to impact the UK and European economies in both the short and long term. We will continue to monitor the impacts of this decision, if any, on the Company.

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



Timothy J. Faber
Director
31 October 2018

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 53 weeks ended 3 February 2018. 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, "2017" refers to the 53 weeks ended 3 February 2018 and "2016" refers to the 52 weeks ended 28 January 2017.

Results and Dividends

The Company's loss for the year, after taxation, amounted to £48,458,000 (2016 - loss of £852,000). No dividend was declared or paid in the period (2016 - £13,000,000). Impairment related expense for the year totaled £29,131,000 attributable to Property, Plant and Equipment (refer to Note 7) and £1,586,000 attributable to Intangible Assets (refer to Note 8).

Future Developments

The Company plans to expand retail operations in the UK by opening one to two additional stores in 2018. In September 2018, one Victoria's Secret store was opened in Glasgow.

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

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 L (Overseas) Holdings LP ("LOHLP"), 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 LOHLP has the ability to continue its financial support to the Company (either directly or through another LOHLP company). LOHLP 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 21 March 2018, the Company entered into a revolving loan whereby Intimate Brands Management Limited ("IBML"), the immediate parent company, will lend up to £30,000,000 to the Company. Borrowings on the loan are due on 21 March 2023 and bear interest of LIBOR plus 2.0%. As of the end of fiscal September, the outstanding balance is £7,000,000.

On 11 June 2018, IBML contributed capital of £9,461,096 to the Company in exchange for 1 ordinary share for £1.00.

On 17 September 2018, IBML contributed £15,369,232 to the Company in exchange for 1 ordinary share for £1.00.

In September 2018, one Victoria's Secret store was opened in Glasgow.

Disclosure of Information to Auditors

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

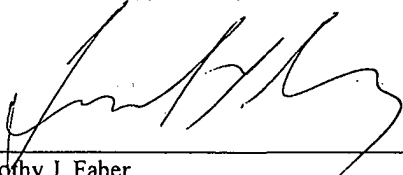
- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that ought to have been taken as directors in order to be aware of any information needed by the Company's auditors in connection with preparing 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 J. Faber
Director
31 October 2018

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 judgments 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 53 weeks ended 3 February 2018 which comprise of the Statement of Comprehensive Loss, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 19. 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 3 February 2018 and of its loss for the year 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 annual report, 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 parent 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

Christine Chua (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

31 October 2018

Victoria's Secret UK Limited

Registered Number: 07279467

STATEMENT OF COMPREHENSIVE LOSS

For the 53 weeks ended 3 February 2018

	Notes	53 weeks ended 3 February 2018 (£'000)	52 weeks ended 28 January 2017 (£'000)
Revenue		131,488	132,162
Cost of Sales		(54,631)	(49,319)
Gross Profit		76,857	82,843
Operating Expenses	3	(126,285)	(82,858)
Operating Loss		(49,428)	(15)
Finance Costs	5	(72)	—
Finance Income	5	24	122
Profit/(Loss) Before Tax		(49,476)	107
Income Tax Benefit/(Expense)	6	1,018	(959)
Loss After Tax		(48,458)	(852)
Loss After Tax		(48,458)	(852)
Other Comprehensive Income/(Loss), Net of Tax:			
Net Gain/(Loss) on Cash Flow Hedges	16	(3,473)	720
Other Comprehensive Income/(Loss), Net of Tax		(3,473)	720
Total Comprehensive Loss, Net of Tax		(51,931)	(132)

All transactions are derived entirely from continuing operations.

The Notes on pages 14 to 30 form part of these financial statements.

Victoria's Secret UK Limited

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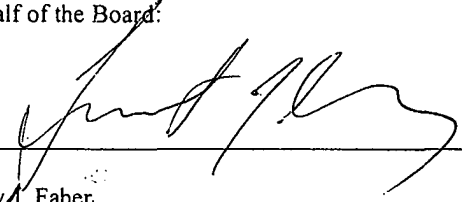
STATEMENT OF FINANCIAL POSITION

As at 3 February 2018

	Notes	3 February 2018 (£'000)	28 January 2017 (Restated) (£'000)
Assets			
Non-current Assets			
Property, Plant and Equipment	7	59,353	89,641
Intangible Assets	8	35,997	37,967
Long-term Deposits	9	5,658	5,519
		<u>101,008</u>	<u>133,127</u>
Current Assets			
Inventories	10	9,900	10,533
Other Current Assets	11	8,337	4,667
Cash and Cash Equivalents		12,735	23,348
		<u>30,972</u>	<u>38,548</u>
Total Assets		<u>131,980</u>	<u>171,675</u>
Liabilities			
Current Liabilities	12	29,160	17,780
Non-current Liabilities	13	17,147	16,291
Total Liabilities		<u>46,307</u>	<u>34,071</u>
Equity			
Issued Capital	14	84,842	84,842
Share Premium	14	49,100	49,100
Retained Earnings/(Deficit)		(45,516)	2,942
Other Comprehensive Income		(2,753)	720
Total Equity		<u>85,673</u>	<u>137,604</u>
Total Equity and Liabilities		<u>131,980</u>	<u>171,675</u>

The Notes on pages 14 to 30 form part of these financial statements.

On behalf of the Board:


 Timothy J. Faber,
 Director
 31 October 2018

Victoria's Secret UK Limited

Registered Number: 07279467

STATEMENT OF CHANGES IN EQUITY

For the 53 weeks ended 3 February 2018

Notes	Issued Capital	Share Premium	Retained Earnings/ (Deficit)	Other Comprehensive Income/(Loss)	Total Equity
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
As at 30 January 2016	58,562	27,572	4,794	—	90,928
Contributed Capital 14	38,280	21,528	—	—	59,808
Shares Extinguished 14	(12,000)	—	12,000	—	—
Cash Dividend Paid 17	—	—	(13,000)	—	(13,000)
Cash Flow Hedges 16	—	—	—	720	720
Loss for the Period	—	—	(852)	—	(852)
As at 28 January 2017	<u>84,842</u>	<u>49,100</u>	<u>2,942</u>	<u>720</u>	<u>137,604</u>
As at 28 January 2017	84,842	49,100	2,942	720	137,604
Cash Flow Hedges 16	—	—	—	(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>

The Notes on pages 14 to 30 form part of these financial statements.

Victoria's Secret UK Limited

Registered Number: 07279467

STATEMENT OF CASH FLOWS For the 53 weeks ended 3 February 2018

	Notes	53 weeks ended 3 February 2018 (£'000)	52 weeks ended 28 January 2017 (Restated) (£'000)
Operating Activities			
Profit/(Loss) before tax		(49,476)	107
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of Property, Plant and Equipment	7	15,206	9,395
Impairment of Property, Plant and Equipment	7	29,131	—
Impairment of Intangible Assets	8	1,586	—
(Gain)/Loss on Long-lived Asset Disposal	7	371	(348)
Amortisation of Intangible Assets	8	551	538
(Gain)/Loss on Previously Settled Hedges	16	(389)	—
Changes in Assets and Liabilities:			
Decrease/(Increase) in Inventories	10	633	(2,523)
Decrease/(Increase) in Other Current Assets	11	(2,701)	3,494
(Decrease)/Increase in Current Liabilities	12	(494)	3,399
(Decrease)/Increase in Noncurrent Liabilities	13	1,008	2,451
Settled Hedges Not Yet Recognized	16	(478)	389
Income tax paid	6	(839)	(1,516)
Net Cash flows (used in)/from Operating Activities		(5,891)	15,386
Investing Activities			
Purchase of Property, Plant, and Equipment	7	(14,420)	(13,258)
Purchase of Intangible Assets	8	(163)	(264)
Payment of Long-term Deposits	9	(139)	(846)
Issuance of Short-term Loan to Related Party	17	—	(30,000)
Repayment of Short-term Loan from Related Party	17	—	30,000
Net Cash flows used in Investing Activities		(14,722)	(14,368)
Financing Activities			
Proceeds from Issuance of Short-term Loan from Related Party	17	10,000	—
Dividend Paid	17	—	(13,000)
Net Cash flows from/(used in) Financing Activities		10,000	(13,000)
Net Decrease in Cash and Cash Equivalents		(10,613)	(11,982)
Cash and Cash Equivalents at Beginning of Period		23,348	35,330
Cash and Cash Equivalents at End of Period		12,735	23,348

The Notes on pages 14 to 30 form part of these financial statements.

Victoria's Secret UK Limited

Registered Number: 07279467

NOTES TO THE FINANCIAL STATEMENTS

As of 3 February 2018

1. Corporate Information

The financial statements of Victoria's Secret UK Limited ("the Company") for the 53 weeks ended 3 February 2018 were authorised for issue in accordance with the resolution of the directors. The Company is a limited company incorporated and domiciled in the United Kingdom ("UK").

The Company's financial results for the 53 weeks ended 3 February 2018 primarily relate to the execution of day-to-day store operations for the 23 stores (2016 - 18 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, "2017" refers to the 53 weeks ended 3 February 2018 and "2016" refers to the 52 weeks ended 28 January 2017.

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 53 weeks ended 3 February 2018.

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.

The Statement of Financial Position as of 28 January 2017 was corrected to present the VAT payable and VAT receivable on a net basis, consistent with the presentation as of 3 February 2018.

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 L (Overseas) Holdings LP ("LOHLP"), 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 LOHLP has the ability to continue its financial support to the Company (either directly or through another LOHLP company). LOHLP 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 Judgments 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 3 February 2018

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.

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 irrecoverable amounts.

Victoria's Secret UK Limited

Registered Number: 07279467

NOTES TO THE FINANCIAL STATEMENTS

As of 3 February 2018

2. Accounting Policies (continued)

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 recognized 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.

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.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of 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

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2. Accounting Policies (continued)

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 judgment 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.

Revenue Recognition

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.

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As of 3 February 2018

2. Accounting Policies (continued)

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.

New Accounting Pronouncements

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 recognize 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. This guidance will be effective beginning in fiscal 2018. The standard allows for either a full retrospective or a modified retrospective transition method. The Company will adopt the standard in fiscal 2018 under the modified retrospective approach.

The only change to current accounting relates to sales returns. The new standard will require sales returns to be presented on a gross basis with the sales refund liability presented separately from the return asset. There will not be a cumulative catch-up adjustment to opening retained earnings as a result of adoption.

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 recognized and expected to be recognized from existing leases. The standard requires full retrospective or modified retrospective adoption and will be effective beginning in fiscal 2019, with early adoption permitted.

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

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As of 3 February 2018

2. Accounting Policies (continued)

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 standard will be effective beginning in fiscal 2018, with early adoption permitted subject to local endorsement requirements. The general requirement is the standard must be applied retrospectively upon adoption, except for the requirements for hedge accounting which are generally applied prospectively.

The Company is currently evaluating the impacts that this standard will have on its financial statements and notes. The Company believes the most significant impact the standard could have is on the accounting and disclosure for its cash flow hedges. However, upon initial application of IFRS 9 the Company may elect to continue applying the hedge accounting requirements of IAS 39 instead of the requirements set out in IFRS 9.

3. Operating Loss

This is stated after charging:

	53 weeks ended 3 February 2018 (£'000)	52 weeks ended 28 January 2017 (£'000)
Operating lease charges	34,181	29,484
Depreciation	15,206	9,395
Impairment of Property, Plant and Equipment	29,131	—
Impairment of Intangible Assets	1,586	—
Foreign currency exchange (gain)/loss	(641)	664
Amortisation	551	538
(Gain)/loss on long-lived asset disposal	371	(348)
Auditor's remuneration - audit of the financial statements	94	73
Tax remuneration	15	—

4. Employees

	53 weeks ended 3 February 2018 (£'000)	52 weeks ended 28 January 2017 (£'000)
Staff costs during the year, excluding directors:		
Wages and salaries	19,381	17,550
Social security costs / Other	1,765	1,513
	<u>21,146</u>	<u>19,063</u>

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

	53 weeks ended 3 February 2018 (No.)	52 weeks ended 28 January 2017 (No.)
Store employees	1,254	1,251
	<u>1,254</u>	<u>1,251</u>

Directors' remuneration is paid by L Brands, Inc., the ultimate parent company, and is nil (2016 - nil).

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As of 3 February 2018

5. Finance Income/(Expense)

	53 weeks ended 3 February 2018	52 weeks ended 28 January 2017
	(£'000)	(£'000)
Interest Expense on Related Party Loans	(72)	—
Interest Income	24	122
	<u>(48)</u>	<u>122</u>

6. Income Taxes

	53 weeks ended 3 February 2018	52 weeks ended 28 January 2017
	(£'000)	(£'000)
Current Tax Expense/(Benefit)		
Current tax on Profit/(Loss) for the year	(743)	930
Adjustment relating to prior periods	(188)	123
Total Current Tax Expense/(Benefit)	<u>(931)</u>	<u>1,053</u>
Deferred Tax Expense/(Benefit)		
Origination and reversal of temporary differences	—	(42)
Adjustment relating to prior periods	194	(52)
Write-downs of deferred tax liabilities	(281)	—
Total Deferred Tax Expense/(Benefit)	<u>(87)</u>	<u>(94)</u>
Total Tax Expense/(Benefit)	<u>(1,018)</u>	<u>959</u>
Other Comprehensive Income Items		
Deferred tax current year charge	<u>(180)</u>	<u>180</u>

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:

	53 weeks ended 3 February 2018	52 weeks ended 28 January 2017
	(£'000)	(£'000)
Profit/(Loss) before tax	(49,476)	107
Expected tax charge based on the standard rate of UK corporation tax at the domestic rate of 19.16% (2016: 20%)	(9,480)	21
Expenses not deductible for tax purposes	3,895	871
Effect of unused tax losses and attributes not recognised as deferred tax assets	4,016	—
Change in deferred rates	536	(4)
Group relief with no payment	127	—
Adjustment relating to prior periods	6	71
Effect of loss carry back	(31)	—
Write-downs of deferred tax liabilities	(87)	—
Total Tax Expense/(Benefit)	<u>(1,018)</u>	<u>959</u>

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NOTES TO THE FINANCIAL STATEMENTS

As of 3 February 2018

6. Income Taxes (continued)

Finance (No 2) Act 2015 included a provision for the rate of corporation tax to be reduced from 20% to 19% on 1 April 2017 and to 18% on 1 April 2020. This will reduce the Company's tax charge accordingly. These rate changes were substantively enacted on 26 October 2015. Finance Act 2016 included a provision for the rate of corporation tax to be further reduced from 18% to 17% on 1 April 2020. This rate change was substantively enacted on 15 September 2016.

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 unrecognised are as shown below:

	53 weeks ended 3 February 2018			52 weeks ended 28 January 2017		
	Recognised	Not recognised	Total	Recognised	Not recognised	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Accelerated capital allowances	—	2,893	2,893	(179)	—	(179)
Intangible assets	—	(140)	(140)	(15)	—	(15)
Other temporary and deductible differences	—	112	112	108	—	108
Tax loss carried forward	—	1,096	1,096	—	—	—
Revaluation of hedge instrument	—	468	468	(180)	—	(180)
Deferred Asset/(Liability) at the end of the year	—	4,429	4,429	(266)	—	(266)

The movement in the deferred tax asset/(liability) is as shown below:

	53 weeks ended 3 February 2018			52 weeks ended 28 January 2017		
	Recognised	Not recognised	Total	Recognised	Not recognised	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Asset/(Liability) at the beginning of the year	(266)	—	(266)	(180)	—	(180)
Movement in period through:						
Credit/(Expense) to the income statement	86	3,961	4,047	94	—	94
Credit/(Expense) to other comprehensive income	180	468	648	(180)	—	(180)
Asset/(Liability) at the end of the year	—	4,429	4,429	(266)	—	(266)

A deferred tax asset of £0 (2016 - £107,000) is disclosed in Current Assets on the Statement of Financial Position. A deferred tax liability of £0 (2016 - £373,000) is disclosed in Non-current Liabilities on the Statement of Financial Position.

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 £6,444,161 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 £1,095,507.

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NOTES TO THE FINANCIAL STATEMENTS

As of 3 February 2018

7. Property, Plant and Equipment

	Furniture, Fixtures and Equipment (£'000)	Leasehold Improvements (£'000)	Construction in Process (£'000)	Total (£'000)
Cost:				
At 30 January 2016	35,387	34,027	1,530	70,944
Additions	—	34,500	13,258	47,758
Disposals	(540)	(594)	(143)	(1,277)
Transfers	14,668	(833)	(13,835)	—
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
Accumulated Depreciation:				
At 30 January 2016	9,020	10,994	—	20,014
Charge for the year	5,626	3,769	—	9,395
Disposals	(492)	(1,133)	—	(1,625)
Transfers	—	—	—	—
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)
Transfers	—	—	—	—
At 3 February 2018	12,689	14,477	—	27,166
Carrying Amount:				
At 3 February 2018	22,655	35,725	973	59,353
At 28 January 2017	35,361	53,470	810	89,641

In 2016, the Company's immediate parent, Intimate Brands Management Limited ("IBML") contributed certain leasehold improvement assets valued at £34,500,000 to the Company. Because the consideration of the assets was in shares, there is no impact to the cash flow statement for this transaction.

Impairment Assessment

In 2017, 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.

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NOTES TO THE FINANCIAL STATEMENTS

As of 3 February 2018

7. Property, Plant and Equipment (continued)

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.

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 £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 £35,997,000 (2016 - £37,967,000).

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 30 January 2016	14,557
Additions	500
At 28 January 2017	15,057
Additions	167
Impairment loss for the year	(2,120)
At 3 February 2018	13,104
Accumulated Amortisation:	
At 30 January 2016	1,860
Charge for the year	538
At 28 January 2017	2,398
Charge for the year	551
Impairment loss for the year	(534)
At 3 February 2018	2,415
Carrying Amount:	
At 3 February 2018	10,689
At 28 January 2017	12,659

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 £1,586,000 in 2017. This impairment charge is included in Operating Expenses on the Statement of Comprehensive Loss.

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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 30 January 2016	—
Additions	25,308
At 28 January 2017	25,308
Additions	—
At 3 February 2018	25,308
Provisions:	
At 30 January 2016	—
Additions for the year	—
At 28 January 2017	—
Additions for the year	—
At 3 February 2018	—
Carrying Amount:	
At 3 February 2018	25,308
At 28 January 2017	25,308

In 2016, the Company's immediate parent company, IBML, assigned the Victoria's Secret and Victoria's Secret PINK intellectual property rights for the UK, valued at £25,308,000, to the Company. Because the consideration for the assets was in shares, there was no impact to the cash flow statement.

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 this asset. The Company estimated the fair value using a relief from royalty methodology. The relief from royalty utilized the projected revenues considering the recent deterioration in the business and royalty rates commensurate with those achieved by the related party, Victoria's Secret International S.a.r.l., for other markets. The estimated fair value exceeded the carrying value. As such, no impairment was recognised. A significant change in the current estimates and assumptions used in the analysis would be required in order to trigger an impairment charge.

9. Long-term Deposits

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

	(£'000)
At 30 January 2016	4,673
Additions	1,432
Reductions	(586)
At 28 January 2017	5,519
Additions	150
Reductions	(11)
At 3 February 2018	5,658

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NOTES TO THE FINANCIAL STATEMENTS

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10. Inventories

	3 February 2018	28 January 2017
	(£'000)	(£'000)
Finished Goods	9,900	10,533
	<u>9,900</u>	<u>10,533</u>

11. Other Current Assets

	3 February 2018	28 January 2017 (Restated)
	(£'000)	(£'000)
Prepayments	4,560	3,585
Corporation tax debtor	2,000	230
Amounts owed by group undertakings	1,250	28
Construction allowance receivable	225	—
Forward foreign currency contracts	12	700
Deferred tax asset	—	107
Other receivables	290	17
	<u>8,337</u>	<u>4,667</u>

12. Current Liabilities

	3 February 2018	28 January 2017 (Restated)
	(£'000)	(£'000)
Amounts owed to group undertakings	19,166	8,974
VAT payable, net	576	334
Accruals	5,182	6,314
Trade payables	2,183	1,975
Forward foreign currency contracts	2,053	183
	<u>29,160</u>	<u>17,780</u>

On 20 November 2017, the Company entered into a demand promissory note whereby the Company was lent £10,000,000 from IBML. The note is due on 20 November 2018 and bears interest of LIBOR plus 2.0%.

For comparability purposes, the VAT payable balance as of 28 January 2017 was corrected to be presented on a net basis consistent with the presentation as of 3 February 2018. Previously, a VAT payable of £6,547,000 and a VAT receivable of £6,213,000 was disclosed in Current Liabilities and Other Current Assets, respectively, on the Statement of Financial Position as of 28 January 2017.

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NOTES TO THE FINANCIAL STATEMENTS

As of 3 February 2018

13. Non-current Liabilities

	3 February 2018	28 January 2017
	(£'000)	(£'000)
Operating lease accruals	14,241	14,467
Asset retirement obligation	2,684	1,451
Forward foreign currency contracts	222	—
Deferred tax liability	—	373
	<u>17,147</u>	<u>16,291</u>

14. Share Capital and Share Premium

	3 February 2018	28 January 2017
	(£'000)	(£'000)
Authorised, issued and fully paid:		
2017 - 84,841,924 (2016 - 84,841,924) Shares at par value £1 each	84,842	84,842
Share Premium	49,100	49,100
	<u>133,942</u>	<u>133,942</u>

Prior to 22 December 2016, Luxembourg (Overseas) Holdings S.à.r.l. ("LOHS") owned 100% of the ordinary shares in the Company. On 6 December 2016, the Company's share capital was reduced by £12,000,000 by canceling and extinguishing 12,000,000 ordinary shares held by LOHS. That amount was credited to retained earnings of the Company.

On 22 December 2016, LOHS contributed its shares in the Company to IBML, resulting in IBML owning 100% of the ordinary shares in the Company.

The Company authorised 38,279,577 additional shares on 22 December 2016. These shares were issued to IBML as consideration for the assignment of the Victoria's Secret and Victoria's Secret PINK intellectual property rights in the UK and certain leasehold improvement assets that were contributed to the Company. The total consideration for these intellectual property rights and leasehold improvement assets was valued at £59,808,000.

15. Operating Lease Arrangements

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

	3 February 2018	28 January 2017
	(£'000)	(£'000)
Not later than one year	20,830	18,853
Later than one year and not later than five years	87,093	76,576
Later than five years	207,494	207,919
	<u>315,417</u>	<u>303,348</u>

The Company did not have subtenant income in 2017 or 2016. Minimum rent expense in 2017 and 2016 was £19,510,905 and £17,228,561, respectively.

In 2014, the Company entered into an agreement with the U.S. Branch of Victoria's Secret International S.à.r.l. ("VSIS"), a wholly owned subsidiary of L (Overseas) Holdings LP, whereby VSIS would reimburse the Company for certain leasehold improvement asset additions placed in service beginning on 2 February 2014. In order to utilize these assets, the Company also entered into a lease agreement with VSIS whereby the Company pays VSIS contingent rent set at 1% of net sales.

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15. Operating Lease Arrangements (continued)

On 22 December 2016, this lease agreement ceased in conjunction with the series of transactions in which these leasehold improvement assets were contributed to the Company. Leasehold improvement additions reimbursed by VSIS in the period amounts to £0 (2016: £12,653,889). Contingent rent expense related to this lease in the period amounts to £0 (2016: £573,489).

16. 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:

	3 February 2018 (£'000)	28 January 2017 (£'000)
Financial assets		
Amounts owed by group undertakings	1,250	28
Forward foreign currency contracts	12	700
Cash and short-term deposits	12,735	23,348
	<u>13,997</u>	<u>24,076</u>
Financial liabilities		
Amounts owed to group undertakings	19,166	8,974
Trade payables	2,183	1,975
Forward foreign currency contracts	2,275	183
	<u>23,624</u>	<u>11,132</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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16. Financial Instruments and Financial Risks (continued)

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

	3 February 2018 (£'000)	28 January 2017 (£'000)
Financial assets		
Foreign exchange forward contracts not designated as hedging instruments	12	7
Foreign exchange forward contracts designated as hedging instruments	—	693
Total foreign exchange forward contracts	12	700
Financial liabilities		
Foreign exchange forward contracts designated as hedging instruments	2,275	183

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 is 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 is 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.

In 2016, the cash flow hedges of the expected merchandise purchases in 2017 were assessed to be highly effective and a net unrealised gain of £511,000, with a deferred tax liability of £102,000 relating to hedging instruments, was included in OCI. Comparatively, the cash flow hedges of merchandise purchases in 2016 were assessed to be highly effective and an unrealised gain of £389,000 with a deferred tax liability of £78,000 was included in OCI in respect of these contracts. The gain reclassified from OCI during 2016 and recognized as a reduction to Cost of Sales was £112,000.

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 2017 and 2016.

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As of 3 February 2018

16. Financial Instruments and Financial Risks (continued)

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.

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 £23,948 (2016: £122,023). Interest expense paid on related party loans in the period amounts to £71,960 (2016: £0). 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 2017 and 2016.

17. 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 3 February 2018 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				
2017	—	54,631	1,250	19,166
2016	13,000	49,319	28	8,974

Entities with significant influence over the Group

Beginning on 22 December 2016, IBML owns 100% of the ordinary shares in the Company. Prior to 22 December 2016, LOHS owned 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 2017, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2016: nil).

Dividend to related party

There were no dividends to related parties in 2017.

On 25 January 2017, the Company declared and paid a dividend in the amount of £13,000,000 to IBML.

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As of 3 February 2018

17. Related Party Transactions (continued)

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. This balance is also related to the tax effect of the net operating loss disclosed on the UK tax return for the period ending 1 February 2015 that was surrendered as group relief to the Company, from Mast Industries UK.

Additionally, in July 2016, the Company entered into a loan agreement with L Brands Service Company, LLC whereby the Company loaned L Brands Service Company, LLC £30,000,000. The loan was repaid in two payments, one payment for £8,000,000 in September 2016 and one payment for £22,000,000 in December 2016.

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 2017, the Company also entered into a loan agreement with IBML whereby IBML loaned the Company £10,000,000.

18. 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.

19. Subsequent Events

On 21 March 2018, the Company entered into a revolving loan whereby Intimate Brands Management Limited ("IBML"), the immediate parent company, will lend up to £30,000,000 to the Company. Borrowings on the loan are due on 21 March 2023 and bear interest of LIBOR plus 2.0%. As of the end of fiscal September, the outstanding balance is £7,000,000.

On 11 June 2018, IBML contributed capital of £9,461,096 to the Company in exchange for 1 ordinary share for £1.00.

On 17 September 2018, IBML contributed £15,369,232 to the Company in exchange for 1 ordinary share for £1.00.

In September 2018, one Victoria's Secret store was opened in Glasgow.