

SDK Sport II ApS

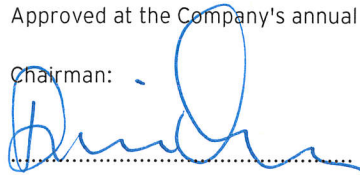
Baltorpbakken 5, DK-2750 Ballerup

CVR no. 34 47 95 26

Annual report 2018

Approved at the Company's annual general meeting on 31 May 2019

Chairman:





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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of SDK Sport II ApS for the financial year 1 January - 31 December 2018.

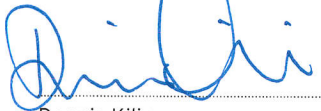
The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

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

Copenhagen, 31 May 2019
Executive Board:

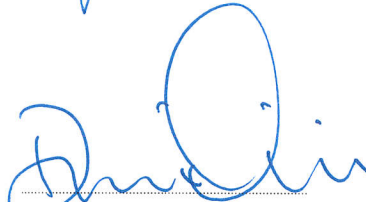


Dennis Kilian
CEO



Jack Friis
COO

Board of Directors:



Michael Christiansen
Chairman

Dennis Kilian



Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of SDK Sport II ApS for the financial year 1 January - 31 December 2018.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

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

Copenhagen, 31 May 2019
Executive Board:

Dennis Killian
CEO

Jack Frils
COO

Board of Directors:

Michael Christiansen
Chairman

Dennis Killian

Independent auditor's report

To the shareholders of SDK Sport II ApS

Opinion

We have audited the financial statements of SDK Sport II ApS for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Independent auditor's report

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 31 May 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Henrik Kronborg Iversen
State Authorised Public Accountant
mne24687



Karsten Faurholt
State Authorised Public Accountant
mne41309

Management's review

Company details

Name	SDK Sport II ApS
Address, Postal code, City	Baltorpbakken 5, DK-2750 Ballerup
CVR no.	34 47 95 26
Established	20 April 2012
Registered office	Ballerup
Financial year	1 January - 31 December
Board of Directors	Michael Christiansen, Chairman Dennis Kilian
Executive Board	Dennis Kilian, CEO Jack Friis, COO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Financial highlights

DKK'000	2018	2017	2016	2015	2014
Key figures					
Revenue	1,094,292	1,144,724	1,102,337	1,063,528	1,072,267
Gross margin	119,355	178,433	194,671	187,877	210,981
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	-48,831	7,510	28,238	22,021	37,742
Ordinary operating profit/loss	-97,702	-37,934	-14,347	-24,056	-7,562
Earnings before interest, taxes, depreciation, amortisation and special items (Adjusted EBITDA)	-37,806	16,403	29,331	29,196	41,259
Net financials	-10,798	-10,330	-11,965	-11,629	-7,972
Profit/loss for the year	-137,909	-40,335	-24,901	-14,323	-28,251
Balance sheet					
Total assets	613,813	664,819	707,085	735,330	806,771
Investment in property, plant and equipment	27,090	11,172	23,285	17,596	13,283
Equity	297,993	365,565	405,902	429,459	453,214
Financial ratios					
Operating margin	-8.9%	-3.3%	-1.3%	-2.3%	-0.6%
Gross margin	10.9%	15.6%	17.7%	17.7%	19.7%
Equity ratio	48.5%	55.0%	57.4%	58.4%	56.2%
Return on equity	-41.6%	-10.5%	-6.0%	-3.2%	-5.5%
Adjusted EBITDA-margin	-35.0%	1.4%	2.7%	2.7%	3.8%
Other key figures					
Average number of employees	515	550	544	535	576

Financial ratios except from adjusted EBITDA margin are calculated in accordance with the Danish Finance Society's recommendations on the calculation of financial ratios. For terms and definitions, please see the accounting policies.

Management's review

Business review

The primary activities of Sport Nordic Holding ApS is to own and operate the retail Banners Sportmaster and Rezet Sneaker Store in physical stores as well as online.

SPORTMASTER is a national wide omni-channel retailer with 95 stores, and is the leading Danish sport online shop. SPORTMASTER has a wide and attractive range of quality products from key 3rd party sporting goods suppliers and brands (e.g. NIKE, Adidas, Hummel etc.) as well as own private label products (M79 and MASTER).

SPORTMASTER.dk was relaunched in the fall of 2013 and has been upgraded on a continuous basis, adding products and functionality, supported by updated customer care support and with a high level of integration towards the physical shops. Today it is possible to combine store products with online orders and availability on site in the shops to secure the highest level of customer wishes being fulfilment and purchases generated.

The Rezet Sneaker Store was acquired in May 2015 and is now the leading premium sneaker and apparel omni-channel with a powerful offer of key bands in the segment of exclusive sneakers.

Building the best omni-channel offer to our club members has been the key focus since the establishment as a vertical capital chain. Club SPORTMASTER was re-launched in the fall of 2012. The offer to our club members has proven successful in both number of memberships and their share of revenue continued to grow throughout 2018. In March 2018 SPORTMASTER was again appointed best omni-channel retailer in Denmark, and is in the run-up for the 2019 as well.

Financial review

Total revenue of SPORTMASTER for 2018 was DKK 1,095 million (2017: DKK 1,144 million) and the operating profit before depreciations and amortizations (EBITDA) was DKK -48.8 million (2017: DKK 7.5 million), whereas operating profit (EBIT) amounts to DKK -97.7 million (2017: DKK -38.0 million).

Loss for the year totals DKK -137.9 million (2017: DKK -40.3 million)

Management considers the Company's financial performance in the year 2018 to be non-satisfactory, due to the massive impacts to the business from the twice made inventory moves in running an optimal supply chain in a competitive retail environment.

The debt was reduced by DKK 35.3 million and further DKK 35 million was injected as equity as part of an overall re-financing plan of the Sport Nordic Group.

Special risks

Risk management:

SDK Sport II ApS considers risk management an essential and natural element in connection with the realisation of the Company's objectives and strategy. The daily activities, the implementation of the established strategy and continuous realisation of business opportunities involve a natural risk and, therefore, the Company's handling of these issues are seen as a natural and integrated part of the daily work and a way to create a profitable Company with constant growth.

Commercial risks:

The Company's most significant business risks concern general socioeconomic developments, including private consumption developments as well as the Company's capacity to maintain its strong market position. Accordingly, the Company aims to be at the forefront of market developments by constantly improving and developing its range of products and services with a view to always be the natural choice for Danes buying sports equipment.

Interest rate risks

The Company's bank debt carries variable interest, which is invoiced in DKK. To reduce the interest rate exposure, the Company has entered an interest-rate swap covering the entire bank debt until the maturity of bank agreement.

Currency risks:

The Company's revenue is primarily invoiced in DKK, whereas below 1% of purchases are made in USD related currencies. Accordingly, the Company's currency risk exposure is limited.

Management's review

Capital structure and funding

SDK Sport II ApS is financed by a combination of equity and bank debt. Equity consists of one share class which is owned by SDK Sport I ApS and ultimately Nordic Capital Fund VII, its co-investors and senior management. The capital structure is considered adequate and flexible enough to support the strategy and continued growth of the Company.

Statutory CSR report

The statutory report regarding CSR, including human rights, environment and climate and anti-corruption and competition, cf. §99a in the Danish Financial Statements Act, is included in Sport Nordic Holding ApS' report, to which reference is made.

Account of the gender composition of Management

The Board of Directors currently consists of 2 members, out of which all are men. The company's goal is to be seen in a broad group target context and therefore has its own specific goal of having one woman in the Board, which is expected to be fulfilled by the end of 2019. The goal of one woman in the board before 2020 was not reached in 2018 due to a limited number of vacant positions and a lack of qualified female candidates.

On other management levels the Company is seeking to increase the number of female managers. The company has established recruitment procedures ensuring that candidates of both genders are considered when hiring or promoting for management positions.

Outlook

SDk Sport II expects that the continuously increasing competition in the market over time will have consequences for the distribution in Denmark. SDK Sport II expects and believes in benefitting from our strong focus on continued digital development and Omni-channel perspective in our offerings and in the ways we address the market. This is also the view of our key global partners and suppliers who confirms and continues to see us as their preferred Danish partner and sales channel going into the future. In the shorter term, we - despite the above - expect profitability to be under pressure.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2018	2017
	Revenue	1,094,292	1,144,724
	Cost of goods sold	-655,603	-666,894
	Other operating income	0	500
	Other external expenses	-319,334	-299,897
	Gross profit	119,355	178,433
3	Staff costs	-168,186	-170,923
	Depreciation and amortisation	-48,871	-44,943
	Profit/loss before net financials	-97,702	-37,433
	Share of profit in subsidiaries after tax	-22,466	2,130
4	Financial expenses	-10,798	-10,330
	Profit/loss before tax	-130,966	-45,633
5	Tax on loss for the year	-6,943	5,298
	Profit/loss for the year	-137,909	-40,335

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2018	2017
	ASSETS		
	Fixed assets		
6	Intangible assets		
	Other intangible assets	6,591	8,611
	Goodwill	237,877	265,337
		<u>244,468</u>	<u>273,948</u>
7	Property, plant and equipment		
	Plant and equipment	8,817	7,244
	Leasehold improvements	65,993	54,683
		<u>74,810</u>	<u>61,927</u>
8	Investments		
	Investments in subsidiaries	35,170	57,636
	Deposits	21,984	19,752
		<u>57,154</u>	<u>77,388</u>
	Total fixed assets	<u>376,432</u>	<u>413,263</u>
	Non-fixed assets		
	Inventories		
	Goods for resale	202,482	213,065
		<u>202,482</u>	<u>213,065</u>
	Receivables		
	Trade receivables	9,679	8,978
9	Deferred tax assets	15,667	22,986
	Other receivables	5,332	3,626
	Prepayments	3,411	2,280
		<u>34,089</u>	<u>37,870</u>
	Cash	810	621
	Total non-fixed assets	<u>237,381</u>	<u>251,556</u>
	TOTAL ASSETS	<u>613,813</u>	<u>664,819</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2018	2017
	EQUITY AND LIABILITIES		
	Equity		
10	Share capital	10,111	10,101
	Retained earnings	287,882	355,464
	Total equity	297,993	365,565
	Provisions		
11	Other provisions	29,590	21,608
	Total provisions	29,590	21,608
	Liabilities other than provisions		
12	Non-current liabilities other than provisions		
	Bank debt	22,082	56,436
		22,082	56,436
	Current liabilities other than provisions		
	Bank debt	37,649	1,552
	Prepayments received from customers	15,989	19,012
	Trade payables	28,212	19,725
	Amounts owed to group companies	127,402	102,842
	Corporation tax	3,725	3,725
13	Other payables	30,222	64,935
	Deferred income	20,949	9,419
		264,148	221,210
	Total liabilities other than provisions	286,230	277,646
	TOTAL EQUITY AND LIABILITIES	613,813	664,819

- 1 Accounting policies
- 2 Events after the balance sheet date
- 14 Contractual obligations and contingencies, etc.
- 15 Collateral
- 16 Related parties
- 17 Fee to the auditors appointed by the Company in general meeting

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Total
	Equity at 1 January 2017	10,101	395,799	405,900
18	Transfer, see "Appropriation of profit/loss"	0	-40,335	-40,335
	Equity at 1 January 2018	10,101	355,464	365,565
	Capital increase	10	34,990	35,000
18	Transfer, see "Appropriation of profit/loss"	0	-137,909	-137,909
	Remission of debt	0	35,337	35,337
	Equity at 31 December 2018	10,111	287,882	297,993

The company re-negotiated the loan agreement with the bank end of 2018 resulting in a debt remission of DKK 35.3 million.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of SDK Sport II ApS for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

In accordance with section 112(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement is prepared for the parent company, as its cash flows are reflected in the consolidated cash flow statement.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

External business combinations

Enterprises acquired or formed during the year are recognised in the financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the income statement until the date of disposal. The comparative figures are not adjusted for acquisitions or disposals.

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

Acquisitions of enterprises are accounted for using the acquisition method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired enterprise in connection with the acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years. Any excess of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition (negative goodwill), representing an anticipated adverse development in the acquired enterprises, is recognised in the balance sheet as deferred income and recognised in the income statement as the adverse development is realised. Negative goodwill not related to any anticipated adverse development is recognised in the balance sheet at an amount corresponding to the fair value of non-monetary assets. The amount is subsequently recognised in the income statement over the average useful lives of the non-monetary assets.

Goodwill and negative goodwill from acquired enterprises can be adjusted until the end of the year following the year of acquisition.

Intra-group business combinations

In connection with business combinations such as acquisition and disposal of equity investments, mergers, demergers, addition of assets and exchange of shares, etc., the book-value method is used. Differences between the agreed consideration and the carrying amount of the acquired enterprise are recognised in equity. Comparative figures for previous financial years are not restated.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously deferred in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement on a regular basis.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Revenue from the sale of goods for resale is recognised in the income statement provided that transfer of risk to the buyer has taken place before year end and that the income can be reliably measured and is expected to be received.

Revenue is measured at the fair value of the agreed consideration net of VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Other operating income

Other operating income comprises items secondary to the entities' activities, including gains on disposal of intangible assets and items of property, plant and equipment.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Cost of goods sold is recognised after deduction of supplier discounts and bonuses.

Other external expenses

Other external costs comprise administrative expenses and other costs for operations and maintenance.

Staff costs

Staff costs comprise wages, salaries, pensions and other staff costs.

Amortisation/depreciation and impairment

The item comprises amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Other intangible assets	2-3 years
Goodwill	15 years
Plant and equipment	2-10 years
Leasehold improvements	3-10 years

Profit from investments in subsidiaries

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement.

Financial expenses

Financial income and expenses comprise interest income and expense, gains and losses on payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, remission of debt, etc.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Tax

The Company is covered by the Danish rules on compulsory joint taxation of the Sport Nordic Holding Group's subsidiaries. Subsidiaries form part of the joint taxation from the date on which they are included in the consolidation of the consolidated financial statements and up to the date on which they exit the consolidation.

Sport Nordic Holding ApS is the administrative company for the joint taxation and consequently settles all corporation tax payments with the tax authorities.

The current Danish corporation tax is allocated by settlement of joint taxation contribution between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carryforwards receive joint taxation contribution from companies that have used these losses to reduce their own taxable profits.

Tax for the year comprises joint taxation contributions for the year and changes in deferred tax for the year - due to changes in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Intangible assets

Goodwill

Goodwill is measured at cost less accumulated amortisation and impairment loss. Goodwill is amortised over its estimated useful life determined on the basis of Management's experience of the specific business areas. Goodwill is considered strategic and consequently amortised over a period of 15 years.

The depreciation period is determined at the time of acquisition and is reassessed every year. In case of changes in the amortisation period, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Other intangible assets

Other intangible assets, which comprise payment regarding tenancy takeover and trade names, are measured at cost less accumulated amortisation and impairment losses.

The depreciation period is determined at the time of acquisition and is reassessed every year. In case of changes in the amortisation period, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Property, plant and equipment

Plant and equipment and leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and is reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

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

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

Investments in subsidiaries

Investments in subsidiaries are measured under the equity method.

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

Net revaluation of investments in subsidiaries is recognised in the reserve for net revaluation in equity under the equity method to the extent that the carrying amount exceeds cost. Dividends from subsidiaries which are expected to be adopted before the approval of the annual report of SDK Sport II ApS are not recognised in the reserve for net revaluation.

On acquisition of subsidiaries, the acquisition method is applied, see Business combinations above.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deducted from the carrying amount.

Equity investments in subsidiaries measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as investments in subsidiaries is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Inventories

Inventories are measured at the lower of cost, measured by reference to the FIFO method, and net realisable value.

Goods for resale are measured at cost, which comprises the cost of acquisition plus delivery costs as well as other costs directly attributable to the acquisition.

The net realisable value of inventories is calculated as the sales amount less costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

Write-down is made for bad debt losses where there is an objective indication that a receivable has been impaired. If there is an objective indication that an individual receivable has been impaired, a write-down is made based on an individual assessment.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of the expected cash flows.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Reserve for net revaluation according to the equity method

Net revaluation of investments in subsidiaries is recognised at cost in the reserve for net revaluation according to the equity method.

The reserve may be eliminated in case of losses, realisation of investments or a change in accounting estimates.

The reserve cannot be recognised at a negative amount.

Proposed dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income taxes

Joint taxation contribution payable and receivable is recognised in the balance sheet as corporation tax payable and corporation tax receivable.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where different tax rules can be applied to determine the tax base, deferred tax is measured based on Management's planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured in accordance with the tax rules and at the tax rate applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Prepayments received from customers

Prepayments from customers comprise liabilities regarding issued gift vouchers, recognised at the date of issue, and the customer loyalty programme, Club SPORTMASTER, recognised at fair value at the date of recognition of the related sales.

Subsequently, prepayments from customers are measured at amortised cost

Deferred income

Prepayments from customers comprise liabilities regarding issued gift vouchers, recognised at the date of issue.

Subsequently, prepayments from customers are measured at amortised cost.

Segment information

SDK Sport II ApS has only domestic revenue and only one segment. Consequently, the Company does not provide segment information.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

Operating margin	$\frac{\text{Operating profit (EBIT)} \times 100}{\text{Revenue}}$
Gross margin ratio	$\frac{\text{Gross margin} \times 100}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss after tax} \times 100}{\text{Average equity}}$
Adjusted EBITDA-margin	$\frac{\text{Adjusted EBITDA} \times 100}{\text{Revenue}}$

Adjusted EBITDA

Adjusted EBITDA, as disclosed in the Management's review, comprise operating profit before amortisation, depreciation and impairment losses amortization and adjusted for special items.

Special items

Special items comprise significant income and expenses of a special nature relative to the Group's revenue generating operating activities such as costs of comprehensive structuring of processes and basic structural adjustments as well as any disposal gains and losses relating thereto and which over time are of significant importance. Special items also comprise significant one-off items which in the opinion of Management do not form part of the Group's operating activities.

2 Events after the balance sheet date

No materially events affecting the company's financial position have occurred subsequent to the financial year-end.

DKK'000	2018	2017
3 Staff costs		
Wages/salaries	155,162	157,886
Pensions	8,732	8,742
Other social security costs	4,292	4,295
	<u>168,186</u>	<u>170,923</u>
Average number of full-time employees	<u>515</u>	<u>550</u>

Remuneration to the Executive Board and the Board of Directors amount to DKK 0 (2017: DKK 0) as remuneration is expensed through the management fee paid to Sport Danmark A/S.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2018	2017
4 Financial expenses		
Interest expenses, banks	7,401	3,028
Exchange losses	40	0
Amortisation of financing costs	982	655
Interest expenses, group companies	0	3,694
Other interest expense	2,375	2,953
	10,798	10,330
5 Tax on loss for the year		
Estimated tax charge for the year	0	1,004
Deferred tax adjustments in the year	7,286	-6,302
Tax adjustments, prior years	-343	0
	6,943	-5,298

Deferred tax adjustments in the year consists of deferred tax adjustments of t.DKK -10,978 and write-down of deferred tax assets to net realizable value of t.DKK 18,264.

6 Intangible assets

DKK'000	Other intangible assets	Goodwill	Total
Cost at 1 January 2018	21,093	413,089	434,182
Additions in the year	5,181	0	5,181
Cost at 31 December 2018	26,274	413,089	439,363
Impairment losses and amortisation at 1 January 2018	12,482	147,752	160,234
Amortisation/depreciation in the year	7,201	27,460	34,661
Impairment losses and amortisation at 31 December 2018	19,683	175,212	194,895
Carrying amount at 31 December 2018	6,591	237,877	244,468
Amortised over	2-3 years	15 years	

Financial statements 1 January - 31 December

Notes to the financial statements

7 Property, plant and equipment

DKK'000	Plant and equipment	Leasehold improvements	Total
Cost at 1 January 2018	38,093	111,761	149,854
Additions in the year	5,185	21,905	27,090
Disposals in the year	0	-1,801	-1,801
Cost at 31 December 2018	43,278	131,865	175,143
Impairment losses and depreciation at 1 January 2018	30,849	57,078	87,927
Amortisation/depreciation in the year	3,392	8,905	12,297
Amortisation/depreciation and impairment of disposals in the year	220	1,690	1,910
Disposals	0	-1,801	-1,801
Impairment losses and depreciation at 31 December 2018	34,461	65,872	100,333
Carrying amount at 31 December 2018	8,817	65,993	74,810
Depreciated over	2-10 years	3-10 years	

8 Investments

DKK'000	Investments in subsidiaries	Deposits	Total
Cost at 1 January 2018	73,720	19,752	93,472
Additions in the year	0	4,035	4,035
Disposals in the year	0	-1,803	-1,803
Cost at 31 December 2018	73,720	21,984	95,704
Value adjustments at 1 January 2018	-16,084	0	-16,084
Share of the profit for the year	-25,948	0	-25,948
Adjustment of internal profit on inventories	3,482	0	3,482
Value adjustments at 31 December 2018	-38,550	0	-38,550
Carrying amount at 31 December 2018	35,170	21,984	57,154

Name	Domicile	Interest	Equity DKK'000	Profit/loss DKK'000
Subsidiaries				
Sport Danmark A/S	Ballerup	100.00%	24,556	-25,948

Goodwill of DKK 9.614 million is included in the carrying amount of investment in subsidiaries.

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Notes to the financial statements

DKK'000	2018	2017
9 Deferred tax		
Deferred tax at 1 January	-22,986	-16,684
Adjustment of deferred tax, prior years	33	0
Adjustment of deferred tax	-10,978	-6,302
Write-down of deferred tax assets to net realizable value	18,264	0
Deferred tax at 31 December	-15,667	-22,986

Management has assessed that the carrying amount of deferred tax assets can be recovered within 4-5 years.

10 Share capital

Analysis of changes in the share capital over the past 5 years:

DKK'000	2018	2017	2016	2015	2014
Opening balance	10,101	10,101	10,100	10,100	10,100
Capital increase	10	0	1	0	0
	10,111	10,101	10,101	10,100	10,100

11 Other provisions

Opening balance at 1 January	21,608	16,937
Provisions in the year	11,189	4,943
Provisions utilised in the year	-1,406	0
Unutilised provisions in the year, reversed	-1,801	-272
Other provisions at 31 December	29,590	21,608

Provisions include liabilities for restoration upon vacation of premises, provisions for onerous leases and provision for returns after the balance sheet date. The liability accumulates as wear and tear increase on the premises and is reassessed annually to determine the state of the premises at the balance sheet date. Provisions for returns are based on sales activities, returns percentages and the period for returning sold goods.

Costs regarding restoration of vacated premises are expected to be incurred upon the expected termination of the premises, which depends on a potential extension of the leases. Provisions for returns are short-term as they relate to returns in the beginning of 2019.

12 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2018	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Bank debt	22,082	0	22,082	0
	22,082	0	22,082	0

13 Other payables

Holiday pay obligations and salary related liabilities	25,601	24,363
VAT payables	0	31,670
Fair value of hedging instruments	417	1,237
Debt to former owners	0	3,267
Other liabilities	4,204	4,398

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Notes to the financial statements

30,222 64,935

14 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with the Danish parent company Sport Nordic Holding ApS. The companies included in the joint taxation have joint and several unlimited liability for Danish corporation taxes. At 31 December 2018, the net taxes payable to the Danish Central Tax Administration by the companies included in the joint taxation amounted to DKK 0. Any subsequent corrections of the taxable income subject to joint taxation may entail that the companies' liability will increase.

The Group's Danish companies are jointly and severally liable for group VAT registration.

Other financial obligations

The Company has entered into operating leases with an annual lease payment of DKK 101,966 thousand (2017: DKK 86,254 thousand). The total nominal residual lease payment amounts to DKK 196,905 thousand (2017: DKK 160,289 thousand).

15 Collateral

The Company's assets, including inventories, receivables and property, plant and equipment, are provided as security for bank loans amounting to DKK 60.063 thousand raised in group companies.

16 Related parties

SDK Sport II ApS' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
SDK Sport I ApS	Ballerup	100 % control

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Sport Nordic Holding ApS	Ballerup	Baltorpbakken 5, 2750 Ballerup

Related party transactions

SDK Sport II ApS was engaged in the below related party transactions:

DKK'000	2018	2017
Purchase of goods and services from group companies	630,832	625,979
Management fee expense to group companies	116,421	104,890
Payables to group companies	-127,402	-102,842

As stated in note 2, remuneration of the Executive Board and the Board of Directors is expensed through the management fee to Sport Danmark A/S.

Financial statements 1 January - 31 December**Notes to the financial statements****17 Fee to the auditors appointed by the Company in general meeting**

Audit fees are not disclosed with reference to section 96(3) of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements for Sport Nordic Holding ApS.

DKK'000	<u>2018</u>	<u>2017</u>
18 Appropriation of profit/loss		
Recommended appropriation of profit/loss	-137,909	-40,335
Retained earnings/accumulated loss	<u>-137,909</u>	<u>-40,335</u>