

SDK Sport II ApS

Baltorpbakken 5, DK-2750 Ballerup

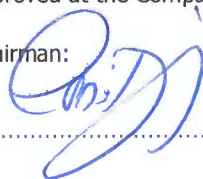
CVR no. 34 47 95 26



Annual report 2016

Approved at the Company's annual general meeting on 29 May 2017

Chairman:



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Building a better
working world



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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of SDK Sport II ApS for the financial year 1 January - 31 December 2016.

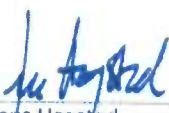
The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Copenhagen, 29 May 2017
Executive Board:




Jens Høgsted
CEO


Chris Bigler
CFO

Jack Fris
COO

Board of Directors:



Michael Christiansen
Chairman

Chris Bigler

Jens Høgsted

Independent auditors' report

To the shareholder 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 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant 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 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

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 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 and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism 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 conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the 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 our procedures, 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, 29 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Henrik Kronborg Iversen
State Authorised
Public Accountant



Søren Christiansen
State Authorised
Public Accountant



Management's review

Company details

Name	SDK Sport II ApS
Address, zip 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) Chris Bigler Jens Høgsted
Executive Board	Jens Høgsted, CEO Chris Bigler, CFO Jack Friis, COO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, DK-2000 Frederiksberg

Management's review

Financial highlights

	2016	2015	2014	2013	2012 (6 mths)
Key figures (DKK'000)					
Revenue	1,102,337	1,063,528	1,072,267	1,016,735	581,022
Gross profit	194,671	187,877	210,981	194,043	137,843
Operating profit/loss before depreciation and amortisation (EBITDA)	28,238	22,021	37,742	21,496	46,120
Operating profit/loss before special items, depreciation and amortisation (Adjusted EBITDA)	29,331	29,196	41,259	22,514	50,318
Operating profit/loss before special items	-13,254	-16,881	-4,045	-20,341	29,789
Operating profit/loss	-14,347	-24,056	-7,562	-21,359	25,591
Profit/loss from financial income and expenses	-11,965	-11,629	-7,972	-10,175	-718
Profit/loss for the year	-24,901	-14,323	-28,251	-42,072	-579
Total assets	707,086	735,330	806,771	789,517	799,406
Investment in property, plant and equipment	23,285	17,596	13,283	11,065	10,581
Equity	405,902	429,459	453,214	577,171	618,756
Financial ratios (%)					
Gross margin	17.7	17.7	19.7	19.1	23.7
Operating margin	-1.3	-2.3	-0.7	-2.1	4.4
Solvency ratio	57.4	58.4	56.2	73.1	77.4
Return on equity	-6.0	-3.2	-5.5	-7.0	-0.1
FTE (employees)	544	535	576	619	652

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

Management's review

Operating review

Primary activities

The primary activity of SDK II Sport ApS is to operate the retail banners SPORTMASTER and Rezet Sneaker Store.

SPORTMASTER is a nationwide omni-channel retailer with more than 100 quality stores and the leading Danish sports online store. SPORTMASTER has an extensive and attractive range of products, including own brands and leading sports brands of shoes, clothing and equipment for sports and leisure activities.

Rezet Sneaker Store was acquired in May 2015 and is now the leading premium sneaker omni-channel retailer with a powerful offer of key brands' exclusive sneaker range.

Development in activities and finances

As of 1 July 2012, SPORTMASTER was established as a vertical capital retail chain – a transformation from the voluntary chain that had been operating since 1979.

SPORTMASTER.DK was relaunched in the fall 2013 and has continuously been upgraded with broader product offerings, improved customer service and increased integration with our physical SPORTMASTER stores.

Building an omni-channel offer to our club members has been first priority since the establishment as a vertical capital retail chain. Club SPORTMASTER was re-launched in the fall 2012. The offer to our club members has proved to be very successful and both the number of memberships and their share of revenue continued to grow in 2016. In 2015 SPORTMASTER was appointed best omni-channel company in Denmark.

During 2016, 5 stores were fully refurbished and 3 new stores were opened.

Total revenue of SPORTMASTER for 2016 was DKK 1,102 million (2015: DKK 1,064 million) and the operating profit before depreciation and amortisation (EBITDA) was DKK 28.2 million (2015: DKK 22.0 million).

The operating profit was negatively impacted by the transformation to a vertical chain which are considered as special items. Adjusting for special items, the Company's EBITDA for 2016 was DKK 29.3 million (2015: DKK 29.2 million).

Loss for the year was DKK 24.9 million (2015: DKK 14.3 million).

At 1 January 2016, SDK Sport II ApS merged with Uniboys ApS. Consequently, the realised revenue in 2016 was affected by DKK 31.9 million.

Outlook

SPORTMASTER expects that the market will stay competitive in 2017. We expect to continuously invest in the market and our platforms.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would significantly influence the evaluation of this annual report.

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.

Management's review

Operating review (continued)

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.

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.

Corporate Social Responsibility

The Company follows Sport Nordic Holding ApS' group policies. Sport Nordic Holding ApS works with specific objectives in a number of relevant areas, but a policy on corporate social responsibility, human rights, environment and climate was not adopted in 2016.

The Group has in 2017 adopted a CSR policy covering the following areas:

- Anticorruption and competition
- Labour standards and Human rights

The policies will in 2017 be rolled out to the employees and manufacturers of the private label products for the Group.

Goals and policies for the underrepresented gender

The Board of Directors currently consists of 3 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. During the year there has been no change in the Board.

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. During the year the number of female managers in the Company has remained unchanged.

Financial statements for the period 1 January – 31 December

Income statement

Note	DKK'000	2016	2015
	Revenue	1,102,337	1,063,528
	Cost of goods sold	-635,965	-615,641
	Other operating income	1,400	0
	Other external expenses	-273,101	-260,010
	Gross profit	194,671	187,877
2	Staff costs	-166,433	-165,856
	Depreciation and amortisation	-42,585	-46,077
	Operating profit/loss	-14,347	-24,056
3	Share of profit/loss in subsidiaries after tax	2,461	20,028
4	Financial expenses	-11,965	-11,629
	Profit/loss before tax	-23,851	-15,657
5	Tax on profit/loss for the year	-1,050	1,334
	Profit/loss for the year	-24,901	-14,323

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Non-current assets		
6	Intangible assets		
	Goodwill	292,020	311,252
	Other intangible assets	4,541	3,288
	Other intangible assets in progress	208	0
		<u>296,769</u>	<u>314,540</u>
7	Property, plant and equipment		
	Plant and equipment	7,496	6,500
	Leasehold improvements	55,915	44,559
		<u>63,411</u>	<u>51,059</u>
	Other non-current assets		
3	Investments in subsidiaries	55,505	62,411
	Deposits	19,389	20,841
		<u>74,894</u>	<u>83,252</u>
	Total non-current assets	<u>435,074</u>	<u>448,851</u>
	Current assets		
	Inventories		
	Goods for resale	240,916	251,506
		<u>240,916</u>	<u>251,506</u>
	Receivables		
	Trade receivables	8,390	16,264
8	Deferred tax	16,684	14,598
	Other receivables	3,107	896
	Prepayments	2,383	2,420
		<u>30,564</u>	<u>34,178</u>
	Cash at bank and in hand	532	795
	Total current assets	<u>272,012</u>	<u>286,479</u>
	TOTAL ASSETS	<u><u>707,086</u></u>	<u><u>735,330</u></u>

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
9	Share capital	10,101	10,101
	Retained earnings	395,801	419,358
	Total equity	405,902	429,459
	Non-current liabilities		
10	Other provisions	16,937	16,870
11	Bank loans	55,781	62,337
		72,718	79,207
	Current liabilities		
	Prepayments from customers	19,056	21,812
	Amounts owed to group companies	131,275	117,485
	Corporation tax	2,720	2,048
	Amounts owed to former owners	3,267	4,667
12	Other payables	63,757	71,423
	Deferred income	8,391	9,229
		228,466	226,664
	Total liabilities	301,184	305,871
	TOTAL EQUITY AND LIABILITIES	707,086	735,330
13	Contractual obligations and contingencies, etc.		
14	Related party disclosures		

Financial statements for the period 1 January – 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Proposed dividends	Total
	Equity at 1 January 2015	10,100	423,114	20,000	453,214
	Distributed dividends during the year	0	0	-20,000	-20,000
	Capital increase	1	10,999	0	11,000
	Value adjustments of hedging instruments	0	-554	0	-554
	Tax on value adjustments of hedging instruments	0	122	0	122
15	Transferred, see profit appropriation/ distribution of loss		-14,323	0	-14,323
	Equity at 1 January 2016	10,101	419,358	0	429,459
	Value adjustments of hedging instruments	0	1,733	0	1,733
	Tax on value adjustments of hedging instruments	0	-389	0	-389
15	Transferred, see profit appropriation/ distribution of loss	0	-24,901	0	-24,901
	Equity at 31 December 2016	10,101	395,801	0	405,902

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies

The annual report of SDK Sport II ApS for 2016 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies that annual reassessment of residual values and depreciation period of property, plant and equipment and intangible assets should be made. The Company has no significant residual values. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity.

The above changes do not affect the income statement or the balance sheet for 2016 or the comparative figures.

In connection with the adoption of act no. 738 of 1 June 2015 and in connection with the Group's change of accounting policies to IFRS for the consolidated financial statements for Sport Nordic Holding ApS, provisions for restoration of leasehold improvements etc. have been recognized. Comparative figures have been adjusted. Result for the year has been affected DKK -18 thousand in 2015 and DKK -417 thousand in 2016 respectively and Equity at 31 December 2015 and 31 December 2016 are affected with DKK -11,564 thousand and DKK -11,981 thousand respectively. The balance sheet is affected with DKK 5,306 thousand at 31 December 2015 and DKK 4,956 thousand at 31 December 2016.

In addition, the Company has decided to present its balance sheet in horizontal format where non-current and current assets and liabilities are broken down and comparative figures for 2015 are restated.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

No cash flow statement has been prepared as the cash flows of SDK Sport II ApS are included in the cash flow statement of Sport Nordic Holding ApS.

Pursuant to section 112 of the Danish Financial Statements Act, no consolidated financial statements have been prepared as the Company is included in the consolidated financial statements of Sport Nordic Holding ApS.

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Foreign currency translation

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

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest 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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Revenue

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.

Cost of goods sold

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 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.

Other external costs

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.

Profits/losses from investments in subsidiaries

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

Financial income and 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, etc.

Tax on profit/loss for the year

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 amortised over its estimated useful life determined on the basis of Management's experience of the specific business areas. Goodwill is amortised on a straight-line basis over a period of 15 years. 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. Other intangible assets are amortised on a straight-line basis over 3 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.

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.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Plant and equipment	3-5 years
Leasehold improvements	3-10 years

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Impairment of non-current 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.

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.

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Corporation tax and deferred tax

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 from customers

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

Subsequently, prepayments from customers are measured at amortised cost.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Segment information

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

Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$		
Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$		
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$		
Return on equity	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$		
DKK'000		2016	2015
2 Staff costs			
Wages and salaries		155,087	154,753
Pensions		7,570	6,848
Other social security costs		3,776	4,255
		166,433	165,856
Average number of full-time employees		544	535

Remuneration to the Executive Board and the Board of Directors amount to DKK 0 (2015: DKK 0) as remuneration is expensed through the management fee paid to Sport Danmark A/S.

3 Investments in subsidiaries

DKK'000	2016	2015
Cost at 1 January	84,349	73,720
Addition	0	10,629
Disposals relating to merger	-10,629	0
Cost at 31 December	73,720	84,349
Value adjustments at 1 January	-21,938	-41,966
Disposals relating to merger	1,262	0
Profit/loss for the year	2,104	-535
Adjustment, internal profit elimination	1,881	22,707
Amortisation of goodwill	-1,524	-2,144
Value adjustments at 31 December	-18,215	-21,938
Carrying amount at 31 December	55,505	62,411

The carrying amount of goodwill recognised as investments in subsidiaries amounts to DKK 15,599 thousand (2015: DKK 26,928 thousand).

Financial statements for the period 1 January – 31 December

Notes to the financial statements

Name	Registered office	Voting rights and ownership		
Sport Danmark A/S	Ballerup	100%		
DKK'000	2016	2015		
4 Financial expenses				
Interest expense, banks	4,087	7,195		
Amortisation of financing costs	763	600		
Other interest expense	3,568	2,359		
Interest expense, group companies	3,547	1,475		
	<u>11,965</u>	<u>11,629</u>		
5 Tax on the profit/loss for the year				
Joint taxation contribution	-2,687	-2,048		
Adjustment of deferred tax	743	4,959		
Adjustment of current tax regarding prior years	-141	-1,869		
Adjustment of deferred tax regarding prior years	1,035	292		
	<u>-1,050</u>	<u>1,334</u>		
6 Intangible assets				
DKK'000	Goodwill	Other intangible assets	Other intangible assets in progress	Total
Cost at 1 January 2016	404,015	6,419	0	410,434
Additions related to merger	9,074	1,000	0	10,074
Additions	0	4,000	208	4,208
Cost at 31 December 2016	<u>413,089</u>	<u>11,419</u>	<u>208</u>	<u>424,716</u>
Impairment losses and amortisation at 1 January 2016	92,763	3,131	0	95,894
Additions related to merger	329	292	0	621
Amortisation	27,977	3,455	0	31,432
Impairment losses and amortisation at 31 December 2016	<u>121,069</u>	<u>6,878</u>	<u>0</u>	<u>127,947</u>
Carrying amount at 31 December 2016	<u>292,020</u>	<u>4,541</u>	<u>208</u>	<u>296,769</u>
Amortised over	<u>15 years</u>	<u>3 years</u>		

Financial statements for the period 1 January – 31 December

Notes to the financial statements

7 Property, plant and equipment

DKK'000	Plant and equipment	Leasehold improve- ments	Total
Cost at 1 January 2016	31,182	85,323	116,505
Additions related to merger	62	427	489
Additions	3,728	19,557	23,285
Disposals	0	-1,300	-1,300
Cost at 31 December 2016	<u>34,972</u>	<u>104,007</u>	<u>138,979</u>
Impairment losses and depreciation at 1 January 2016	24,682	40,764	65,446
Additions related to merger	4	265	269
Depreciation	2,790	8,363	11,153
Disposals	0	-1,300	-1,300
Impairment losses and depreciation at 31 December 2016	<u>27,476</u>	<u>48,092</u>	<u>75,568</u>
Carrying amount at 31 December 2016	<u>7,496</u>	<u>55,915</u>	<u>63,411</u>
Depreciated over	<u>3-5 years</u>	<u>3-10 years</u>	

DKK'000	2016	2015
8 Deferred tax assets		
Deferred tax assets at 1 January	14,598	9,224
Additions related to merger	308	0
Adjustment of deferred tax, prior years	1,035	293
Adjustment of deferred tax	743	4,959
Adjustment of deferred tax recognised in equity	0	122
Deferred tax assets at 31 December	<u>16,684</u>	<u>14,598</u>
Deferred tax assets relates to:		
Intangible assets	-849	-720
Property, plant and equipment	15,143	12,896
Liabilities other than provisions	1,828	391
Deferred income	562	2,031
	<u>16,684</u>	<u>14,598</u>

9 Share capital

The share capital comprises 10,101,000 shares of DKK 1 each.

Changes in share capital for the past five years can be specified as follows:

DKK'000	2016	2015	2014	2013	2012
Balance at 1 January	10,101	10,100	10,100	10,100	10,100
Capital increase	0	1	0	0	0
	<u>10,101</u>	<u>10,101</u>	<u>10,100</u>	<u>10,100</u>	<u>10,100</u>

Financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK'000	2016	2015
10 Other provisions		
Other provisions at 1 January	16,870	18,037
Used during the year	-667	-856
Reversal	-5	-737
Provisions for the year	739	426
Other provisions at 31 December	<u>16,937</u>	<u>16,870</u>

Provisions include liabilities for restoration upon the vacation of premises. 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.

Costs are expected to incur upon the expected termination of the premises which depends on a potential extension of the leases.

11 Bank loans

The bank loans are recognised in the balance sheet as follows:

Non-current liabilities	<u>55,781</u>	<u>62,337</u>
Non-current liabilities falling due more than five years after the balance sheet date (carrying amount)	<u>0</u>	<u>0</u>
Financing costs offset against liabilities	<u>1,638</u>	<u>2,100</u>

12 Other payables

Holiday pay obligations and salary related liabilities	23,113	22,847
VAT payables	33,330	41,186
Fair value of hedging instruments	1,797	1,734
Other liabilities	5,517	5,656
	<u>63,757</u>	<u>71,423</u>

13 Contractual obligations and contingencies, etc.

Contingent assets and liabilities

The Company is jointly taxed with the 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 2016, 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.

The Company's assets, including goodwill, are provided as security for bank loans.

The Company has provided a guarantee for loans totalling DKK 142,730 thousand raised in group companies.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

Operating lease obligations

The Company has entered into operating leases with an annual lease payment of DKK 101,084 thousand (2015: 99,839 thousand). The total nominal residual lease payment amounts to DKK 241,094 thousand (2015: 276,235 thousand).

14 Related party disclosures

SDK Sport II ApS' related parties comprise the following:

Parties exercising control

SDK Sport I ApS, Denmark, which controls the Company.

The financial statements are included in the consolidated financial statements for Sport Nordic Holding ApS, Baltoprakken 5, 2750 Ballerup, Denmark.

Other related parties

The member of the Executive Board and the members of the Board of Directors.

The Sport Nordic Holding ApS Group companies: Sport Nordic Holding ApS and Sport Danmark A/S.

Related party transactions

During 2016, Sport Danmark A/S engaged in the below related parties transactions:

DKK'000	2016
Purchase of goods and services from group companies	797,314
Management fee expense to group companies	94,916
Payables to group companies	-131,275

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.

DKK'000	2016	2015
15 Proposed distribution of loss		
Retained earnings	-24,901	-14,323
Loss of the year	-24,901	-14,323