SDK Sport II ApS

Baltorpbakken 5, DK-2750 Ballerup

CVR no. 34 47 95 26

Annual report 2017

Approved at the Company's annual general meeting on 30 May 2018

Chairman:

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Building a better working world

Contents

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 2017.

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 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the 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, 30 May 2018
Executive Board:

Jens Høgsted CEO	Chris Bigler CFO	Jack Friis COO

Board of Directors:

Michael Christiansen Chairman	Chris Bigler	Jens Høgsted

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 2017, 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 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 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.

Independent auditor's report

- 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.
- 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, 30 May 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Kronborg Iversen State Authorised Public Accountant MNE no.: mne24687	Michael Groth Hansen State Authorised Public Accountant MNE no.: mne33228

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 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, 2000 Frederiksberg, Denmark

Management's review

Financial highlights

DKK'000	2017	2016	2015	2014	2013
Key figures					
Revenue	1,144,724	1,102,337	1,063,528	1,072,267	1,016,735
Gross margin	178,433	194,671	187,877	210,981	194,043
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	7,510	28,238	22,021	37,742	21,496
Operating profit/loss	-37,433	-14,347	-24,056	-7,562	-21,359
Earnings before interest, taxes, depreciation, amortisation and special items (Adjusted EBITDA)	16,403	29,331	29,196	41,259	22,514
Net financials	-10,330	-11,965	-11,629	-7,972	-10,175
Profit/loss for the year	-40,335	-24,901	-14,323	-28,251	-42,072
Total assets	664,819	707,085	735,330	806,771	789,517
Investment in property, plant and equipment	11,172	23,285	17,596	13,283	11,065
Equity	365,567	405,902	429,459	453,214	577,171
Financial ratios					
Operating margin	-3.3%	-1.3%	-2.3%	-0.7 %	-2.1 %
Gross margin	15.6%	17.7%	17.7%	19.7%	19.1%
Solvency ratio	55.0%	57.4%	58.4%	56.2%	73.1%
Return on equity	-10.5%	-6.0%	-3.2%	-5.5%	-7.3%
Adjusted EBITDA-margin	1.4%	2.7%	2.7%	3.8%	2.2%
Average number of employees	550	544	535	576	619

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

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 2017.

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. In 2015 SPORTMASTER was appointed best omni-channel company in Denmark.

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.

Financial review

Total revenue of SPORTMASTER for 2017 was DKK 1,144 million (2016: DKK 1,102 million) and the operating profit before depreciation and amortisation (EBITDA) was DKK 116 million (2016: DKK 28.2 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 2017 was DKK 16,4 million (2016: DKK 29.3 million).

Loss for the year was DKK 40.3 million (2016: DKK -24.9 million).

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, 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 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.

Events after the balance sheet date

In the beginning of first quarter 2018 we went live with the new logistic platform. There has been implementation issues affecting deliveries to stores and online customers, which has had a negative impact on sales and profitability. Deliveries have been normalized in second quarter 2018.

Except from the above, no events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Outlook

Sportmaster expects that the continuously increasing competition in the market over time will have consequences for the distribution in Denmark. We expect to benefit from our continued investments in digitization of the company, OMNI channel solutions combined with being the preferred Danish partner for the major global suppliers. In the shorter term, profitability will continue to be challenged.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2017	2016
	Revenue	1,144,724	1,102,337
	Cost of goods sold	-666,894	-635,965
	Other operating income	500	1,400
	Other external expenses	-299,897	-273,101
	Gross margin	178,433	194,671
3	Staff costs	-170,923	-166,433
	Depreciation and amortisation	-44,943	-42,585
	Profit/loss before net financials	-37,433	-14,347
	Share of profit in subsidiaries after tax	2,130	2,461
4	Financial expenses	-10,330	-11,965
	Profit/loss before tax	-45,633	-23,851
5	Tax on loss for the year	5,298	-1,050
	Profit/loss for the year	-40,335	-24,901

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Fixed assets		
6	Intangible assets		
	Other intangible assets	9,388	4,541
	Goodwill	264,560	292,020
	Other intangible assets in progress	0	208
		273,948	296,769
7	Property, plant and equipment		
	Plant and equipment	7,244	7,496
	Leasehold improvements	54,683	55,915
		61,927	63,411
8	Investments		
	Investments in subsidiaries	57,636	55,505
	Deposits	19,752	19,388
		77,388	74,893
	Total fixed assets	413,263	435,073
	Non-fixed assets		
	Inventories		
	Goods for resale	213,065	240,916
		213,065	240,916
	Receivables		
	Trade receivables	8,978	8,390
9	Deferred tax assets	22,986	16,684
	Other receivables	3,626	3,107
	Prepayments	2,280	2,383
		37,870	30,564
	Cash	621	532
	Total non-fixed assets	251,556	272,012
	TOTAL ASSETS	664,819	707,085

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
10	Share capital	10,101	10,101
	Retained earnings	355,466	395,801
	Total equity	365,567	405,902
	Provisions		
11	Other provisions	21,608	16,937
	Total provisions	21,608	16,937
	Liabilities other than provisions		
12	Non-current liabilities other than provisions		
	Bank debt	56,436	55,781
		56,436	55,781
	Current liabilities other than provisions		
	Bank debt	1,552	0
	Prepayments received from customers	19,012	19,056
	Trade payables	19,723	0
	Amounts owed to group companies	102,842	131,275
	Corporation tax	3,725	2,720
13	Other payables	64,935	67,023
	Deferred income	9,419	8,391
		221,208	228,465
	Total liabilities other than provisions	277,644	284,246
	TOTAL EQUITY AND LIABILITIES	664,819	707,085

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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 2016	10,101	419,358	429,459
18	Transfer, see "Appropriation of profit/loss"	0	-24,901	-24,901
	Value adjustments of hedging instruments	0	1,733	1,733
	Tax on value adjustments of hedging instruments	0	-389	-389
	Equity at 1 January 2017	10,101	395,801	405,902
18	Transfer, see "Appropriation of profit/loss"	0	-40,335	-40,335
	Equity at 31 December 2017	10,101	355,466	365,567

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of SDK Sport II ApS for 2017 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

On initial recognition, leases for assets that transfer substantially all the risks and rewards incident to the ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the present value of the future lease payments. In calculating the net present value, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently accounted for in the same way as the Company's other assets.

The capitalised residual lease liability is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

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

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

Income 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, 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 deduced 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.

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.

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 ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios.

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

Operating margin	$\frac{\text{Operating profit x 100}}{\text{Revenue}}$
Gross margin ratio	$\frac{\text{Gross margin x 100}}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax x 100}}{\text{Average equity}}$

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Notes to the financial statements

1 Accounting policies (continued)

Adjusted EBITDA-margin $\frac{\text{Adjusted EBITDA x 100}}{\text{Revenue}}$

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

In the beginning of first quarter 2018 we went live with the new logistic platform. There has been implementation issues affecting deliveries to stores and online customers, which has had a negative impact on sales and profitability. Deliveries have been normalized in second quarter 2018.

Further, the Group is engaged in negotiations with the Group's bank partly to adjust covenant levels in the loan agreement in light of the adoption of IFRS16 Leases on Group level and partly around the length of the current seasonal credit line.

	DKK'000	2017	2016
3	Staff costs		
	Wages/salaries	157,886	155,087
	Pensions	8,742	7,570
	Other social security costs	4,295	3,776
		170,923	166,433
	Average number of full-time employees	550	544

Remuneration to the Executive Board and the Board of Directors amount to DKK 0 (2016: DKK 0) as remuneration is expensed through the mangement fee paid to Sport Danmark A/S.

		2017	2016
4	Financial expenses		
	Interest expenses, banks	3,028	4,087
	Amortisation of financing costs	655	763
	Interest expenses, group companies	3,694	3,547
	Other interest expense	2,953	3,568
		10,330	11,965

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2017	2016
5 Tax on loss for the year		
Estimated tax charge for the year	1,004	2,828
Deferred tax adjustments in the year	-6,302	-1,778
	-5,298	1,050

6 Intangible assets

DKK'000	Other intangible assets	Goodwill	Other intangible assets in progress	Total
Cost at 1 January 2017	11,419	413,089	208	424,716
Additions in the year	9,464	0	0	9,464
Transfer from other accounts	208	0	-208	0
Cost at 31 December 2017	21,091	413,089	0	434,180
Impairment losses and amortisation at 1 January 2017	6,878	121,069	0	127,947
Impairment losses in the year	6	0	0	6
Amortisation/depreciation in the year	4,819	27,460	0	32,279
Impairment losses and amortisation at 31 December 2017	11,703	148,529	0	160,232
Carrying amount at 31 December 2017	9,388	264,560	0	273,948
Amortised over	2-3 years	15 years		

7 Property, plant and equipment

DKK'000	Plant and equipment	Leasehold improvements	Total
Cost at 1 January 2017	34,972	104,007	138,979
Additions in the year	3,121	8,051	11,172
Disposals in the year	0	-297	-297
Cost at 31 December 2017	38,093	111,761	149,854
Impairment losses and depreciation at 1 January 2017	27,476	48,092	75,568
Impairment losses in the year	243	1,328	1,571
Amortisation/depreciation in the year	3,130	7,955	11,085
Disposals	0	-297	-297
Impairment losses and depreciation at 31 December 2017	30,849	57,078	87,927
Carrying amount at 31 December 2017	7,244	54,683	61,927
Depreciated over	2-10 years	3-10 years	

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Notes to the financial statements

8 Investments

DKK'000	Investments in subsidiaries	Deposits	Total
Cost at 1 January 2017	73,720	19,388	93,108
Additions in the year	0	364	364
Cost at 31 December 2017	73,720	19,752	93,472
Value adjustments at 1 January 2017	-18,215	0	-18,215
Share of the profit for the year	735	0	735
Adjustment of internal profit on inventories	1,396	0	1,396
Value adjustments at 31 December 2017	-16,084	0	-16,084
Carrying amount at 31 December 2017	57,636	19,752	77,388

Name	Legal form	Domicile	Interest	Equity DKK'000	Profit/loss DKK'000
Subsidiaries					
Sport Danmark A/S	A/S	Ballerup	100.00%	50,504	735

DKK'000	2017	2016
9 Deferred tax		
Deferred tax at 1 January	-16,684	-14,598
Additions related to merger	0	-308
Adjustment of deferred tax, prior years	0	-1,035
Adjustment of deferred tax	-6,302	-743
Deferred tax at 31 December	-22,986	-16,684
Deferred tax relates to:		
Intangible assets	-1,104	849
Property, plant and equipment	-14,316	-15,143
Provisions	-4,788	0
Liabilities	-706	-1,828
Other taxable temporary differences	-2,072	-562
	-22,986	-16,684

10 Share capital

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

DKK'000	2017	2016	2015	2014	2013
Opening balance	10,101	10,101	10,100	10,100	10,100
Capital increase	0	0	1	0	0
	10,101	10,101	10,101	10,100	10,100

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DKK'000	2017	2016
11 Other provisions		
Opening balance at 1 January	16,937	16,870
Provisions in the year	4,943	739
Provisions utilised in the year	0	-667
Unutilised provisions in the year, reversed	-272	-5
Other provisions at 31 December	21,608	16,937

12 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2017	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Bank debt	56,436	0	56,436	0
	56,436	0	56,436	0

DKK'000	2017	2016
13 Other payables		
Holiday pay obligations and salary related liabilities	24,363	23,113
VAT payables	31,670	33,330
Fair value of hedging instruments	1,237	1,797
Debt to former owners	3,267	3,267
Other liabilities	4,398	5,516
	64,935	67,023

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 2017, 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 has Provided a guarantee for loans totaling DKK 146,022 thousand raised in group companies.

Other financial obligations

The Company has entered into operating leases with an annual lease payment of DKK 86,254 thousand (2016: DKK 101,084 thousand). The total nominal residual lease payment amounts to DKK 160,289 thousand (2016: DKK 241,094 thousand).

15 Collateral

The Company's assets, including shares in SDK Sport II ApS, are provided as security for bank loans.

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Notes to the financial statements

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	2017	2016
Purchase of goods and services from group companies	719,344	797,314
Management fee expense to group companies	104,890	94,916
Payables to group companies	-102,842	-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.

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	2017	2016
18 Appropriation of profit/loss		
Recommended appropriation of profit/loss		
Retained earnings/accumulated loss	-40,335	-24,901
	-40,335	-24,901