Sportmaster Danmark ApS

Baltorpbakken 5, DK-2750 Ballerup

CVR no. 34 48 56 07

Annual report 2020

Approved at the Company's annual general meeting on 5 July 2021

Chairman:

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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 Sportmaster Danmark ApS for the financial year 1 January - 31 December 2020.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 2020 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

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

Copenhagen, 5 July 2021
Executive Board:

Andreas Holm
CEO

Board of Directors:

Dmitry Barkov
Chairman

Janusz Gembarski

Leonid Strakhov

Independent auditor's report

To the shareholders of Sportmaster Danmark ApS

Opinion

We have audited the financial statements of Sportmaster Danmark ApS for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Company, and a statement of comprehensive income and a cash flow statement. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 2020 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 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 additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 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 Statements Act. We did not identify any material misstatement of the Management's review.

Independent auditor's report

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 International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Moreover, Management is responsible 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 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 scepticism throughout the audit. We also:

- Identify and assess the risk 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.
- 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.

Independent auditor's report

- 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.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Copenhagen, 5 July 2021
EY 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	Sportmaster Danmark ApS
Address, zip code, city	Baltorpbakken 5, DK-2750 Ballerup
CVR no.	34 47 95 26
Established	20 April 2012
Registered office	Copenhagen
Financial year	1 January – 31 December
Board of Directors	Dmitry Barkov (Chairman) Janusz Gembarski Leonid Strakhov
Executive Board	Andreas Holm (CEO)
Auditor	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36, P.O. Box 250, DK-2000 Frederiksberg

Management's review

Financial highlights for the Company

	2020	2019	2018	2017	2016
Key figures (DKK'000)					
Revenue	864,771	1,082,060	1,094,291	1,146,008	1,106,120
Gross profit	347,183	399,923	432,116	496,816	486,651
Operating profit before depreciation and amortisation (EBITDA)	96,032	60,355	62,387	21,479	38,501
Operating profit/loss (EBIT)	-45,217	-453,802	-81,582	-3,488	15,612
Financial income and expense, net	-14,603	-1,091	-33,911	-18,405	-24,799
Profit/loss for the year	-59,820	-470,179	-122,666	-17,535	-7,682
Total assets	740,741	629,133	1,105,958	827,957	832,395
Investment in property, plant and equipment	2,380	9,040	27,952	13,889	25,938
Equity	**1,077**	**60,944**	**434,394**	**396,870**	**414,660**
Cash flows from operating activities	85,618	15,088	75,674	47,186	27,707
Cash flows from investing activities	-25,663	-16,613	-36,214	-43,204	-34,038
Cash flows from financing activities	-35,406	16,304	-38,605	-4,515	6,346
Total cash flows	**24,549**	**14,779**	**855**	**-533**	**15**
Financial ratios (%)					
Gross margin	40,1	37.0	39.5	43.4	44.0
EBITDA margin	11,1	5.6	5.7	1.9	3.5
Operating margin	-5.2	-42.0	-7.5	-0.3	1.4
Solvency ratio	0.1	9.7	39.3	47.9	49.8
Return on equity	-6.6	-189.8	-29.5	-4.3	-2.1
FTE (employees)	491	556	596	632	624

* *The Company early adopted IFRS 16 at 1 January 2018 using the simplified approach; thus, comparative figures for 2015-2017 have not been restated.*

Key figures and financial ratios are prepared in accordance with IFRS as adopted by EU.

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

As mentioned in note 1 – Accounting principles – the figures presented in the Financial highlights above are adjusted to show the combined figures for Sportmaster Danmark ApS as if they have been merged with the other Danish Group entities as the have merged into the Company and the pooling of interest method has been applied. We refer to note 1 where this described in further details.

Management's review

Primary activities

Sportmaster Danmark ApS is a Sport and Leisure retailer which operates the retail banners SPORTMASTER and Rezet Sneaker Store via online channels and in physical stores.

Sportmaster Danmark ApS is a subsidiary to one of the biggest and most successful sporting goods retailers in the world, Sportmaster Operations Pte LTD, who operates industrial sports retailing in numerous countries.

SPORTMASTER, which is the primary banner within Sportmaster Danmark ApS is a national wide omni-channel retailer with 76 stores, and is the leading Danish destination for costumers when buying sport, both online and in stores. SPORTMASTER has a wide and attractive range of quality products from key global sport brands (e.g. NIKE, Adidas, Hummel, Asics etc.) as well as a long range of high quality license brands and private label products.

SPORTMASTER has the leading position within online engagement from both sales and interaction with the Danish sports consumers. Since the launch of www.sportmaster.dk in the fall of 2013, the online share has developed to become an integrated part of the business model in being able to seamlessly serve the costumers at any time across Denmark.

SPORTMASTER is an award winning retailer for both OMNI and ONLINE performance for the last many years, and is the digital frontier within sporting goods in both Denmark and EMEA.

SPORTMASTER has a strong costumer focus and is strongly integrated with our many consumers primarily through our loyalty club with approximately 1.500.000 members. The loyalty club serves as the heart of the business and is also the primary source of both interactions and turnover between customers and SPORTMASTER.

The Rezet Sneaker Store was acquired in May 2015 and is now the leading premium sneaker and apparel omni-channel brand with 7 stores and a powerful offer of key bands in the segment of exclusive sneakers.

Development in activities and financial matters

Total revenue of the Company for 2020 was DKK 864,8 million (2019: DKK 1,082 million) and the operating profit before depreciations and amortizations (EBITDA) was DKK 96.0 million (2019: DKK 60.4 million), whereas operating profit (EBIT) amounts to DKK -45.2 million (2019: DKK -453.8 million). Loss for the year totals DKK -59.8 million (2019: DKK -470.2 million).

The COVID pandemic resulted in a direct impact to the company's revenue and is the primary source for the decline of more than 200 million in lost revenue. As explained in the managements review, in the section below, the Company was highly impacted by the strategy of being primarily placed in malls, which was significantly harder impacted by lock-down and restrictions, where as the street retail remained open.
Besides from the lock-down and effect on revenue from restrictions, the remaining part of decline in revenue is isolated to come from the closing of unprofitable stores, to improve the overall profitability.

During 2020 the Company experienced significant improvement from previous years on EBITDA and EBIT due to numerous efforts to focus the company towards profitability and structural improvement of the business model.

Regarding the online impact in 2020, the management during the first lock-down took a strategic decision to change the focus for the online channel away from being a revenue driver, towards being a true profit centre. As a result, online became the most profitable profit-centre of Sportmaster Danmark operation, and became the biggest contributor for the positive development of the result compared to previous years.

As the financial performance of 2020 ended with a negative result, the Company's management considers the result as non-satisfactory.
The ability to compensate for the covid impact and create several improvements to the business model which also resulted in significant improvements of the years financial result compared to previous years, is however recognized as an extraordinary effort by the entire team.
The previous lossmaking profit centres was shut down, the less profitable ones were improved and the general and overall cost level was precisely and structurally decreased.

Management's review

In this light the performance of 2020 gives a positive outlook on the future from the managements point of view.

On the 23rd of December 2019, the sale of Sportmaster Danmark ApS was successfully carried through, and the Group was sold by the previous owner, Nordic Capital, to the international and successful Sporting Goods retailer Sportmaster Group Ltd.

In connection with the new ownership, the composition of the Executive Board was changed, and a new CEO were appointed, coming from within the company. Covid-19 gave an unforeseen and unanticipated impact on the expectation for the company's turnover, from March and through the second quarter. The third quarter showed strong performance with increase in both top and bottom, but the second wave of Covid-19 in late Q4 had high impact to the sale, both concerning Black Friday footfall and the shutdown of malls a week before Christmas.

The Company has as a storeportfolio strategy of being located in the most consumer relevant areas. Besides from several stores in the city centers of the largest danish citys, the strategy also targeted being located in the best malls around Denmark.

This means that over 65% of the budgettet store turnover comes from malls. Being located in the best and most consumer relevant retail-areas led to competitive disadvantage in 2020 where the covid lock down in Q1, Q2 and the lock down before Christmas only impacted the mall doors, as the street stores remained open.

Due to Covid-19 the Company led a loss of turnover of close to 200M DKK. The remaining of the deduction in turnover can be isolated to the decision to permanantly close the non profitable stores. The impact of Covid-19 was high on SPORTMASTERs store operation, due to the strategy of high mall share of both m2's and budgettet turnover. Hence the general strategy of being located in the best and most consumer relevant retail areas proved to be a significant downside in 2020, as it was primarily these areas that was forced closed by restrictions.
However the long term strategy of the store portfolio and the belief in physical store retail remains unchanged and an important part of the future strategy.

The 2020 result in total is seen as not being satisfactory. However, it is recognized that the company has significantly improved from previous years and that besides from the covid impact on decreased top-line, all other parts of the business has positively improved.

The number of employees amounts to 491 (FTE) during the year (2019: 556). Management finds it satisfactory that we due to governmental salary compensation during lock-down have been able to protect the majority of our employees, and as such have not gone into structural downsizing due to the pandemic. The decline in FTE is primarily related to organizational changes in the head quarter and the staff released from the closed stores.

During 2020, besides from the overall goal of protecting the employment of the staff, several initiatives were launched to improve Sportmaster as a workplace. As examples a completely new internal communication APP was launched to ensure quick, efficient and comforting communication towards and between the workforces. The educational programs were carried through and transferred to online education were possible.

Therefore it is also assessed as satisfactory, that we during 2020 experienced a slight increase in the amount of trainees in our stores, hereby also improving the educational level
In terms of gender equality, the company is satisfied to note that women had a share of 33% in the work force in our stores, when both looking at store managers, sous-chefs and regional managers.

The management of Sportmaster target is to ensure a healthy and constantly improving work environment for our employees, with explicit focus on employee retention and focus on individual development.

However, the first half year of 2021 has led to several of initiatives in the business model which have important influence of the business in the future.

Management's review

Events after the balance sheet date
The lockdown effectuated before Christmas continued with high impact on the company's store turnover in the first quarter of 2021. In January and February all normal store turnover was removed due to full lock down. In March Sportmaster experienced positive return of sales in street stores with high LFL growth, but still suffered from the high share of store turnover budgeted from shopping mall stores that remained closed until late April (for the bigger malls, and hence the majority of our stores).

Sportmaster has put great emphasis on attracting talents to the organisation and have successfully put into place a new management team with strong and relevant profiles to bring forward the company's strategy.

The management has in Q1 prioritized the digital initiatives in the pipeline to improve the consumer experience and meet the business consequence of the extensive lock-down. This has resulted in ship-from-store and click & collect functions have been added to the e-commerce site and thereby enabled consumer to order from our full stock both online. On the business side the initiative has increased the stock rotation significantly from the old stock, and as a result given a positive impairment for the inventory as it now looks healthier than ever before. With the support from Sportmaster's important partners, Sportmaster has launched a new OMNI tool in all physical stores to enable consumers in-store to order from the full assortment.

In the rest of 2021, many more digital initiatives are in pipeline from optimizing of Sportmaster e-commerce site and loyalty program to enforcing the companies target to remain the digital frontier within sporting goods.

In addition to the digital initiatives, Sportmaster find the local sport communities as an important element of its strategy. Sportmaster support +350 sport communities today and will continue in 2021 to growth the amount of sport clubs in the local cities all around Denmark.

The consecutive approach to handle the crisis at hand was to create several different scenarios for impact during the crisis. The expected impact was close to actual, which gave a good foundation for creating a matching crisis-management-plan. The management decision was to first stop capital commitments, especially concerning purchasing of new goods. Thereafter it was to reach out to all partners and find agreed solutions for lowering the impact of the crisis. Furthermore, the Group operated within all governmental instructions and also made use of the government support package for sending employees home, rather than initiating lay-offs during the peak of Covid-19, hereby actively targeting to retain and secure jobs.

Outlook

Sportmaster Danmark expects that the continuously increasing competition in the market over time will have consequences for the distribution in Denmark. Sportmaster Danmark expects and believes in benefitting from our strong focus on continued digital development and Omni-channel perspective in our offerings and in the way 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.
Sportmaster Danmark expects to be able to benefit from the production possibilities within the group, which gives expectations that the gross profit can continue the positive development we have seen during 2020.

Risk management

Sportmaster Danmark 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 strategy and continuous realisation of business opportunities involve an inherent risk, and therefore, the Companies handling of these issues is considered a natural and integrated part of the daily work and a way to create a profitable Company with constant growth.

The Executive Board develops, implements and maintains internal control and risk management systems. These systems are approved by the Board of Directors, who holds the overall responsibility for risk management in the Company.

Management's review

Significant commercial risks

Sportmaster Danmark's most significant business risks concern general socio-economic developments, including private consumption developments as well as SPORTMASTER's and Rezet Sneaker Store's capacity to maintain their strong market positions. Accordingly, Sportmaster Danmark aims to be at the forefront of market developments by constantly improving and developing its range of products and services and the related delivery terms, with a view to always be the natural choice for Danes buying sports apparel, footwear and equipment.

Cyclical development

Sportmaster Danmark has a nationwide shop network and a high market share in Denmark. The Company is thus affected by the cyclical trends in Denmark. Management monitors the development in consumer behaviour and sales closely on a daily basis and can therefore promptly respond to a sales slide, for example by initiating sales promotions.

Industry development

In later years, high competition for store traffic has characterised the Danish sports retail market, and many stores have had to close over the past 36 years. This also implied a concentration of the ownership of the Danish retail stores. Moreover, trade patterns of the customers have changed as they, to an increasing extent, do their shopping in web shops as well as physical shops. The Company's presence is massive on both platforms, and it succeeds in creating an integrated purchase experience - the omni-channel focus. The Company always strives at improving the customers' experience through a high level of service in the shops, local presence throughout the organisational environment, development of the network of shops, development of the assortment, marketing through the more traditional and new online media and the development of offers to the most loyal customers via an increasing level of customised offers.

During Covid-19 Sportmaster Denmark has experienced a big shift towards online buying options, but have also seen high costumer preference for physical retail after ended lock down.

Products and suppliers

The industry is characterised by global players who constantly increase their market shares. Strong and true partnerships are essential to win with the leading brands, as well as attractive terms of trade. The Company has invested a lot of management power in building strong relations that are believed to be an asset in a highly competitive environment.

The Company develops its own goods under a long list of license brands produced by the group and also own labels, which is manufactured through Sportmaster Group facilities.

Internal controls over financial reporting

Sportmaster Danmarks ApS risk management and internal controls over financial reporting are focused on reducing the risk of material misstatements in the financial statements.

Management evaluates essential risks and internal controls related to Sportmaster Danmark's financial reporting on an ongoing basis. The Company has established a central accounting function, which is responsible for managing the financial reporting process, as well as a controlling function, which is responsible for the detailed follow-up on the Company's shops.

During the Covid-crisis and the related impact on the company's liquidity frequent liquidity control meetings were held with between the board of directors and the Danish management to ensure full overview on the development and impact of quickly changing retail performance. The purpose was to ensure that Sportmaster Danmark ApS at any time during the crisis had sufficient liquidity, which was successfully done.

Management's review

Corporate social responsibility

The Company is active in sports retailing both through physical stores in Denmark and online in Denmark. We are resellers of global brands like Nike, Adidas, Hummel and Asics.

We are crazy about sports, and we strive to get more people into sports. Therefore, we support more than 350 local sports clubs, as well as several professional clubs as well as professional athletes.

All the Company's employees are located in Denmark, and we have adopted the collective agreement between the Danish Chamber of Commerce and HK.

The Company has adopted a CSR policy covering the following areas:

- Anti-corruption and competition
- Labour standards and human rights

Anti-corruption and competition

The Company refuses to accept or retain business through bribery. Employees are not allowed directly or indirectly to offer, promise, grant or authorise the giving of money or anything of value to someone in order to unduly influence the recipient in the performance of professional duties or in order to obtain or retain an improper business advantage. Employees do not ask for or accept improper benefits from others for performance of their duties to the Company. Applicable anti-bribery laws are strictly followed.

The Company and its employees follow applicable competition law. Employees do not engage in discussions with competitors regarding market allocation, information exchange, production and sales quotas.

During 2020, we did not see any breaches of our policies. Further, we have continued developed our internal education programme so that these policies will be a part of our Talent and Leadership Academy

The risk of violation of the above rules is considered limited, as invoice controls and invoice payments are separated from the procurement process, even with a four-eye control before settlements are released. Further, the procurement process of private labels is separated in a two-layer management model and with spend and volume analyses carried out independently from the actual procurement.

Labour standards and human rights

The Company does not compromise on requirements set out in national law or international standards with regard to worker safety and human rights. The Company takes responsibility for all people participating in the conduct of its business. Those whose work contributes to the Company's business success are not deprived of their human rights or subject to mental or bodily harm in their labour. The Company understands that its business may have an impact on human rights issues, in particular in relation to people's working and living conditions.

Suppliers of the Company are required to adhere to the Company's Code of Conduct. The Company base their requirements mainly on internationally recognised standards such as the Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, applicable International Labour Organisation ("ILO") Conventions and national legislation.

All new suppliers in 2020 have been informed about the Company's Code of Conduct. The Company has not observed any breaches of the Company'sCodes of Conduct in 2020.

In terms of risk related to our employees, Sportmaster Denmark has identified the risk of stress, burnout and high turnover in general among our employees. All employees have had a dedicated one-to-one session to discuss work climate, development, wishes for the future as well as performance of the employee and the manager.

All employees that resigned during the year had an exit talk for Sportmaster Danmark to gain a deeper understanding on the reasons behind people leaving the Company.

An employee satisfaction survey was carried out in 2020 for the first time in some years, it is scheduled to be an annual returning event from now on, to be able to measure structural development over time.

Finally, a whistle-blower system was put into place in 2016. Nothing was reported in 2020.

Management's review

In 2020 our employees were put under extraordinary and additional pressure, both physically and mentally due to Covid-19. In general, several protective schemes to protect the employees was initiated and a special Covid-employee task-force was created. Their task was to secure rapid and efficient communication and translation on the recommendations and regulations set out by the Danish government. On all the company's location, but especially concerning the stores the company rapidly invested in protective equipment to ensure the health of the employees during the pandemic.

Furthermore, the new communication tool that was developed during the pandemic was used to efficiently communicate and update the entire staff on changes in regulations from the government. The management finds it satisfactory that Sportmaster several times during the pandemic by the public press has been highlighted as "a responsible retailer" with specific focus on our employees and customers health.

In our stores as well as our head quarter an escalation scheme was put in place to ensure automatic protocols, if Covid was detected. Along a management encouraged request to work remotely when possible was done both to ensure the health of the employees and to minimize the possibility to spread and thereby breaking the contamination chains (smittekæder).
The company did not experience a single day of closed stores due to contamination during the entire pandemic, and the management finds the measurements implemented to be sufficient and successful both in terms of the employees' health and for the operation of the company.

Environment and climate

At Sportmaster we understand the importance of collaborative actions toward the becoming a more environment friendly world.

Sportmaster Denmark find it important to find the key scalable solutions to become one of the leading responsible retailers in Denmark. We have concentrated our sustainable efforts around what we call "vild med bæredygtighed". The strategy focus on following four areas: Operation, People, Partners and our selections. By making responsible choices in all these areas of the business, Sportmaster reduce the direct footprint of the operation while also engaging the partners, customers and people in the journey of becoming a more sustainable company.

In order to create the most significant impact, a dedicated group across department has been appointed to work strategically with "vild med bæredygtighed" to enable Sportmaster to lead the progress toward a more responsible industry.

In 2020, several key areas got improved within the four strategic focus areas, from handling of surplus products, reduction of in-store material to consolidation of online packages.

During 2021 a group will be dedicated to work even more strategically with decreasing the company's environmental and climate impacts.

Due to the business model of the Company, the most material risk of negatively impacting the environment and climate occurs in the supply chain. The main climate risk is emission of CO2 due to the transportation of the products and the main environmental risk is the use of resources in the production, including use of material, water and chemicals.

Policy concerning the underrepresented gender

It is the policy of the Company always to appoint the best qualified candidates to managerial positions and at the same time support and enhance the qualifications of female leadership talents. The company is still working with the implemented recruitment procedure, which have to ensure that candidates of both genders are considered when hiring or promoting for management positions

As mentioned above the share of Women in a management position in Retail has increased to 33%. In the top management team at the head office, the share of women was at the end of 2020 10% but has increase to 30% in the first half year of 2021. The company has not reached previous years targets regarding gender equality in the top management by the end of 2020 but instead in the first part of 2021

The Company's Board of Directors consists of 3 persons, of whom all is male and therefore no female is at the moment included in the board of directors. It is the company's goal that the Board of Directors has minimum 1 female member by the end of 2022. During the past year, no changes have been made to the Board of Directors, which is why the target has not been achieved yet.

Financial statements for the period 1 January – 31 December

Statement of comprehensive income

Note	DKK'000	2020	2019
3	Revenue	864,771	1,082,060
	Cost of goods sold	-517,588	-682,137
	Gross profit	347,183	399,923
4	Other operating income	30,848	0
	Other external costs	-100,912	-126,879
6	Staff costs	-181,087	-212,689
10	Amortisation	-10,722	-12,927
12,13	Depreciation	-119,671	-133,423
11,13	Impairment of tangible and intangible assets	-10,856	-367,807
	Operating profit/loss	-45,217	-453,802
7	Financial income	204	22,082
8	Financial expenses	-14,807	-23,173
	Profit/loss before tax	-59,820	-454,893
9	Tax for the year	0	-15,286
	Profit/loss for the year	-59,820	-470,179
	Other comprehensive income after tax	0	0
	Total comprehensive income	-59,820	-470,179

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2020	2019	1/1 2019
	ASSETS			
	Non-current assets			
10,11	**Intangible assets**			
	Goodwill	0	0	367,805
	Other intangible assets	27,616	32,409	38,016
		27,616	32,409	405,821
	Property, plant and equipment			
12	Plant and equipment	6,395	9,363	11,549
12	Leasehold improvements	47,558	58,191	66,156
13	Right-of-use assets	281,238	197,594	259,684
		335,191	265,148	337,389
	Other non-current assets			
	Deposits	40,457	22,821	22,570
9	Deferred tax	0	0	15,286
		40,457	22,821	37,856
	Total non-current assets	403,264	320,378	781,066
	Current assets			
14	Inventories	234,602	251,983	291,840
23	Trade receivables	14,154	10,330	9,864
	Right of return assets	1,449	1,831	0
	Prepayments	5,634	6,975	5,288
15	Other receivables	40,787	21,334	16,377
	Cash at bank and in hand	40,851	16,302	1,523
	Total current assets	337,477	308,755	324,892
	TOTAL ASSETS	740,741	629,133	1,105,958

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2020	2019	1/1 2019
	EQUITY AND LIABILITIES			
16	**Equity**			
	Share capital	10,111	10,111	10,111
	Retained earnings	-9,034	50,833	424,283
	Total equity	1,077	60,944	434,394
	Liabilities			
	Non-current liabilities			
17	Provisions	21,350	23,100	25,264
18	Bank loans	0	0	22,082
13	Lease liability	194,797	90,654	148,026
	Other payables	9,584	5,224	0
	Amounts owed to group companies	135,497	0	0
	Total non-current liabilities	361,228	118,978	195,372
	Current liabilities			
17	Provisions	0	0	1,456
	Amounts owed to group companies	0	67,240	0
18	Bank loans	0	0	37,980
13	Lease liability	109,843	119,130	119,001
19	Contract liabilities	15,702	18,296	20,614
	Trade payables	145,631	157,345	200,241
20	Other payables	90,600	64,954	75,951
	Deferred income	16,660	22,246	20,949
	Total current liabilities	378,436	449,211	476,192
	Total liabilities	739,664	568,189	671,564
	TOTAL EQUITY AND LIABILITIES	740,741	629,133	1,105,958

Financial statements for the period 1 January - 31 December

Cash flow statement

Note	DKK'000	2020	2019
	Profit/loss for the year	-59,820	-470,179
	Depreciation, amortisation and impairment	141,249	514,157
22	Other adjustments of non-cash operating items, etc.	12,853	13,048
	Cash generated from operations (operating activities) before changes in working capital	94,282	57,026
23	Changes in working capital	6,143	-18,772
	Cash generated from operations	100,425	38,254
	Interest paid	-5,085	-10,022
	Interest payments under IFRS 16	-9,722	-13,144
	Cash flows from operating activities	85,618	15,088
10	Acquisition of other intangible assets	-5,929	-7,322
12	Acquisition of property, plant and equipment	-2,380	-9,040
	Disposal of property, plant and equipment	282	0
	Acquisition of other non-current assets	-17,636	-251
	Cash flows from investing activities	-25,663	-16,613
	External financing:		
	Loan from parent Company	68,257	67,240
	Net change in short-term bank loans (cash-pool) before repayment	0	58,458
	Repayment of bank loans	0	-96,438
	Lease payments under IFRS 16	-103,616	-109,394
	Group contribution from owners	0	96,438
	Other transactions with owners	-47	0
	Cash flows from financing activities	-35,406	16,304
	Net cash flows from operating, investing and financing activities	24,549	14,779
	Cash and cash equivalents at 1 January	16,302	1,523
	Cash and cash equivalents at 31 December	40,851	16,302

Financial statements for the period 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total equity
Equity 1 January 2020	10,111	50,833	60,944
Comprehensive income in 2020			
Profit for the year	0	-59,820	-59,820
Total comprehensive income for the period	0	-59,820	-59,820
Transactions with owners			
Other transactions with owners	0	-47	-47
Total transactions with owners	0	-47	-47
Equity 31 December 2020	10,111	-9,034	1,077

The Company's current liabilities exceed the current assets and the Company has lost more than half of it's share capital as of 31 December 2020. Please refer to Note 24, where the liquidity position is described in further details.

DKK'000	Share capital	Retained earnings	Total equity
Equity 1 January 2019	10,111	424,283	434,394
Comprehensive income in 2019			
Profit for the year	0	-470,179	-470,179
Total comprehensive income for the period	0	-470,179	-470,179
Transactions with owners			
Group contribution	0	96,438	96,438
Incentive program	0	291	291
Total transactions with owners	0	96,729	96,729
Equity 31 December 2019	10,111	50,833	60,944

Financial statements for the period 1 January - 31 December

Summary of notes to the financial statements

Financial statements for the period 1 January – 31 December

Notes

1 **Accounting policies**

Sportmaster Danmark ApS is a limited liability company registered in Denmark. The financial statements section of the annual report for the period 1 January - 31 December 2020 comprises financial statements of Sportmaster Danmark ApS.

The financial statements for Sportmaster Danmark ApS for 2020 have been prepared in accordance with International Financial Reporting Standards issued by the IASB as adopted by the EU and additional requirements in the Danish Financial Statements Act for large class C companies.

Changes in accounting policies

Previously, Sportmaster Danmark ApS has prepared its financial statements in accordance with the Danish Financial Statements Act. This annual report is the first to be presented in accordance with IFRS as adopted by EU. On transition, IFRS 1, First-time Adoption of IFRS has been applied. The annual report is prepared based on the standards applicable at 31 December 2020.

The transition has been done simultaneously with the merger of the 4 Danish Sportmaster Companies - Sport Nordic Holding ApS, SDK Sport I ApS, SDK Sport II ApS and Sport Danmark A/S. SDK Sport II ApS (now changed to Sportmaster Danmark ApS) is the continuing Company after the merger. All entities are owned by the same parent Company (Sportmaster Operations Pte Ltd.) both before and after the merger. The merger has been done in accordance with the pooling of interests method which is generally considered to involve the combining parties being presented as if they had always been combined. To this effect, the receiving entity accounts for the transaction from the beginning of the period in which the combination occurs (irrespective of its actual date) and restates comparatives to include all combining parties.

As Sport Nordic Holding ApS has prepared consolidated financial statements in accordance with IFRS from 2016, the opening balance at 1 January 2019 and the comparative figures at 31 December 2019 as well as financial highlights in the Management Review for Sport Danmark ApS is equal to Sport Nordic Holding Aps' financial figures in the consolidated financial statements for 2019.

Only change between Sport Nordic Holding ApS' financial figures and opening balance in this year's annual report for Sportmaster Danmark ApS is reclassification of share capital and retained earnings as Sport Nordic Holding ApS had a share capital of DKK 16,264 thousand and Sportmaster Danmark ApS has a share capital of DKK 10,111 thousand, resulting in a transfer from share capital to retained earnings of DKK 5,153 thousand. Compared to the public accessible annual report of Sportmaster Danmark ApS (former SDK Sport II ApS), the impact of the transition to IFRS at 1 January 2019 and the merger had the below impact:

	1/1 2019	2019		31/12 2019
DKK'000	Equity	Profit/loss for the year	Equity transactions including transactions with owners	Equity
According to Danish Financial Statements Act	297,993	-347,061	96,438	47,370
Goodwill amortisation	116,490	0	0	116,490
Goodwill impairment	0	-116,490	0	-116,490
Deferred tax of goodwill depreciated under Danish GAAP	-3,579	3,579	0	0
IFRS16 (not adopted in Danish GAAP)	-4,473	-7,718	0	-12,191
Incentive program (share-based payment)	0	-291	291	0
Net assets in merged Companies	27,963	-2,198	0	25,765
Total adjustments	136,401	-123,118	291	13,576
According to IFRS	434,394	-470,179	96,729	60,944

In addition certain reclassifications have been made.

Financial statements for the period 1 January - 31 December

Notes

1 Accounting policies

Basis of preparation

The financial statements have been presented in Danish kroner, rounded to the nearest DKK thousand.

The accounting policies set out below have been applied consistently in respect of the financial year and to comparative figures. Summary of significant accounting policies

Going concern statement

In connection with the financial reporting, the Board of Directors and the Executive Board have assessed whether presentation of the annual report under the going concern assumption is well-founded. The Board of Directors and the Executive Board have concluded that no such factors exist at the balance sheet date that may cast doubt on the Company's ability to continue as a going concern at least until the next balance sheet date. The conclusion is based on knowledge of the Company, the outlook and the uncertainties and risks identified in this respect (described in the Management's review and note 24) as well as an examination of budgets, including the expected developments in liquidity, capital base, etc., existing credit facilities, including contractual and expected maturity periods as well as other terms and conditions. Thus, it is considered appropriate, reasonable and well-founded to base the financial reporting on the going concern assumption.

Foreign currency translation

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the rate at the transaction date and the rate at the date of payment are recognised in profit or loss as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the balance sheet date.

The difference between the exchange rates at the end of the reporting period and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in profit or loss as financial income or financial expenses.

Derivative financial instruments

Derivative financial instruments are recognised at the date a derivative contract is entered into and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are included in the balance sheet, and positive and negative values are set off only when the Company has the right and the intention to settle several financial instruments net.

As derivative financial instruments (currency exchange contracts and interest rate swaps) are not classified and/or do not qualify for hedge accounting, changes in fair value are recognised in the income statement as financial income or financial expenses.

Revenue

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on the time of sale in the stores or delivery from the website.

The Company considers whether there are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer loyalty points).

The recognized revenue is measured at the fair value of the agreed price exclusive of VAT and fees collected on behalf of third parties. All forms of discounts are recognised in revenue.

Financial statements for the period 1 January – 31 December

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1 **Accounting policies**

Right of return

The customers hold a right to return the goods within a specified period. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. For goods that are expected to be returned, instead of revenue, the Company recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Loyalty points programme

The Company has a loyalty points programme, "Klub SPORTMASTER", which allows customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Company considers the likelihood that the customer will redeem the points. The Company updates its estimates of the points that will be redeemed on a yearly basis and any adjustments to the contract liability balance are charged against revenue. The methods are also applied regarding gift cards. Loyalty programme points and gift vouchers are valid 2 years from the grant date.

Government grants

Government grants include COVID-19 related compensation of salary costs and fixed costs in accordance with the applicable Government aid packages. Grants are not recognised until there is reasonable assurance that the grants will be received.

Compensation of salary costs and fixed costs, which are recognised directly in the income statement, are recognised in other operating income.

Grants, which relate to different periods are being deferred, so that only the part relating to the fiscal year is recognized. Grants, which have not been settled by the Government at the balance sheet date are recognized as other receivables.

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 external costs

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

Staff costs

Staff costs comprise wages, salaries, including compensated absence, pensions and other staff costs to the Company's employees, as well as other social security contributions, etc. The items is net of refunds from public authorities.

Special items

Special items comprise significant income and expenses of an exceptional nature relative to the Company's earnings-generating operating activities, including expenses relating to the establishment of SPORTMASTER as an integrated retail chain and restructuring cost, as well as other significant one-off items.

Financial statements for the period 1 January – 31 December

Notes

1 **Accounting policies**

The items are stated separately to give a true and fair view of the Company's operating profit/loss and are specified in a note to the financial statements.

Financial income and expenses

Finance income and expenses comprise interest income and expenses as well as exchange gains and losses on transactions denominated in foreign currencies, remissions of debt, etc. Furthermore, amortisation of financial assets and liabilities as well as surcharges and allowances under the on-account tax scheme and fair value adjustments of derivative financial instruments which are not designated as hedging instruments are included.

Corporation tax

Tax for the year

Tax for the year comprises the year's current tax charge and deferred tax adjustments. The tax expense is recognised in profit or loss, other comprehensive income or directly in equity.

Current and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

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 on office premises 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 alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised under other non-current assets 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.

Deferred tax assets are subject to annual impairment tests and are recognised only in so far as it is probable that the assets will be utilised.

Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to set off current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets on a net basis or to realise the assets and settle the liabilities simultaneously.

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

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the comprehensive income for the year.

Financial statements 1 January - 31 December

Notes

1 **Accounting policies (continued)**

Intangible assets

Goodwill

Goodwill is initially recognised in the balance sheet at cost. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the Company's cash-generating units at the date of acquisition. Identification of cash-generating units is based on the management structure and internal financial control.

Other intangible assets

Other intangible assets, which comprise IT software, payment regarding tenancy takeover and trade names, are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised at a straight-line basis over 3-7 years.

Property, plant and equipment

Plant and machinery 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. Further, cost includes the present value of the estimated costs for dismantling and removing the asset and restoring the site on which the asset was located.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Company. The replaced components are de-recognised in the balance sheet, and the carrying amount is recognised in the income statement. All other expenses relating to ordinary repairs and maintenance are recognised in profit or loss as incurred.

Where individual components of an item of property, plant and equipment have different useful lives, they are depreciated separately. Depreciation is provided on a straight-line basis over the expected useful lives of the assets/components. The expected useful lives are as follows:

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

Depreciation is calculated on the basis of the residual value and impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

When the depreciation period or the residual value is changed, the effect on depreciation is recognised prospectively as a change in accounting estimates.

Financial statements 1 January - 31 December

Notes

1 **Accounting policies (continued)**

Impairment testing of non-current assets

Goodwill

Goodwill is subject to annual impairment tests, initially before the end of the acquisition year. Similarly, in-process development projects are subject to an annual impairment test.

The carrying amount of goodwill is tested for impairment together with the other non-current assets of the cash-generating unit or Company of cash-generating units to which goodwill is allocated. The assets of the cash-generating units are written down to the recoverable amount over the income statement if the carrying amount is higher. The recoverable amount of a cash-generating unit is generally determined as the present value of the expected future net cash flows from the entity or activity (cash-generating unit) to which the goodwill relates.

Other non-current assets

The carrying amount of other non-current assets is tested annually for evidence of impairment. When there is evidence that assets may be impaired, the recoverable amount of the asset is calculated. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use.

Value in use is the present value of the future cash flows expected to be derived from an asset or the cash-generating unit to which the asset belongs.

Recognition of impairment losses in the income statement

An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit, respectively, exceeds the recoverable amount of the asset or the cash-generating unit. The impairment loss is recognised in a separate line item in the income statement.

Impairment of goodwill is not reversed. Impairment losses recognised in respect of other assets are reversed in so far as the assumptions and estimates underlying the impairment losses have changed. Impairment losses are reversed only in so far as the new carrying amount of the asset does not exceed the carrying amount that would have resulted (net of amortisation or depreciation) had no impairment loss been recognised in respect of the asset in prior years.

Leasing

Whether a contract contains a lease is assessed at contract inception. For identified leases a right-of-use asset and corresponding lease liability are recognised at the lease commencement date. At initial recognition, the right-of-use asset is measured at cost corresponding to the lease liability recognised, adjusted for any lease prepayments or directly related costs including dismantling and restoration costs. The lease liability is measured at the present value of lease payments discounted using the interest rate implicit in the lease. In cases where the implicit interest rate cannot be determined an appropriate incremental borrowing rate is used instead.

At subsequent measurement, the right-of-use asset is measured less accumulated depreciations and impairment losses and adjusted for any remeasurements of the lease liability. Depreciations are done following the straight-line method over the lease term or the useful life of the right-of-use asset, whichever is shortest. The lease liability is measured at amortised cost using the effective interest method and adjusted for any remeasurements or modifications made to the contract.

Right-of-use assets and lease liabilities are not recognised for low value lease assets or leases with a lease term of 12 months or less. These are recognised as an expense on a straight-line basis over the term of the lease. Any service elements separable from the lease are also accounted for following same principle.

Right-of-use assets classified as buildings mainly relate to leases of stores and office buildings. All other leases regarding other property, plant and equipment have been assessed as either short-term or low value leases and hence is not recognized as right-of-use assets.

Buildings leases normally have an estimated lease term of 15-51 months.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at the lower of cost in accordance with the FIFO method and the net realisable value.

Goods for resale are measured at cost, comprising purchase price plus delivery costs.

The net realisable value of inventories is determined as the selling price less costs of completion and costs incurred to effect the sale, taking into account marketability, obsolescence and developments in the expected selling price.

Receivables

Receivables are measured at amortized cost. A credit loss allowance is made upon initial recognition based on historical observed default rates adjusted for forward looking estimates (simplified 'expected credit loss' model). The cost of the credit loss allowances is included in other external costs. A loss is considered realized when it is certain that we will not recover the receivable, e.g. in case of bankruptcy or similar.

Prepayments

Prepayments are measured at cost.

Equity

Company contributions

Contributions from owners without consideration are recognized as Company contributions directly in retained earnings, when there is no obligations of repayment.

Employee obligations

Pension commitments and similar non-current liabilities

The Company has entered into pension plans and similar arrangements with most employees.

Contributions to defined contribution plans where the Company makes fixed pension payments to independent pension funds are recognised in the income statement in the period to which they relate, and any outstanding contributions are recognised in the balance sheet as other payables.

The Company has not established any defined benefits plans.

Warrants programme

The value of services received in exchange for granted warrants is measured at the fair value of the warrants granted.

For equity-settled programmes, the warrants are measured at the fair value at the grant date and recognised in the income statement under staff costs over the vesting period. The counter entry is recognised directly in equity as an owner transaction.

On initial recognition of the warrants, an estimate is made of the number of options expected to vest. That estimate is subsequently revised for changes in the number of warrants expected to vest so that the total recognition is based on the actual number of vested warrants.

Accordingly, recognition is based on the number of warrants ultimately vested. The fair value of granted warrants is estimated using an option pricing model, taking into account the terms and conditions upon which the warrants were granted.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Provisions

Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there will be an outflow of resources embodying economic benefits to settle the obligation.

The amount recognised as a provision is Management's best estimate of the expenses required to settle the obligation.

On measurement of provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability. A pre-tax discount factor is used that reflects the current market interest rate level plus risks specific to the liability. Changes to the discount factor during the year are recognised as financial expenses.

Restructuring costs are recognised as liabilities once a detailed, formal restructuring plan has been published no later than on the balance sheet date to the persons affected by the plan. On acquisition of businesses, restructuring provisions in the acquired business are included in goodwill only when the acquired business had a restructuring liability at the acquisition date.

A provision for onerous contracts is recognised when the expected benefits to be obtained by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract. Provisions for onerous contracts relating to leases under IFRS 16 are recognized in the respective right-of-use-assets.

Provisions for restoration of leasehold improvements, etc., are measured at the present value of the expected future restoration costs at the end of the reporting period. The provision is calculated on the basis of current public authority orders and estimated costs that are discounted at present value. Specific risks associated with the provision are included in the estimated costs. A discount factor reflecting the general interest rate levels is used. Provisions are recognised as they arise and are adjusted on an ongoing basis in order to reflect changes in requirements and prices, etc. The present value of the costs is recognised in the cost of the property, plant and equipment in question and is depreciated with these assets. The increase of the present value due to the passage of time is recognised in the income statement as financial expenses.

Prepayments 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.

Financial liabilities

Amounts owed to credit institutions, etc. are recognised at the date of borrowing at fair value less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement under financial expenses over the term of the loan.

Other financial liabilities are measured at amortised cost.

Financial liabilities which are written-off by the lender are recognized as income in the profit and loss statement if they are carried out on arms-length basis with no consideration in relation to shares, warrants, earn-outs, etc. If a loan is written off and the lender retains a right to proceeds from a future sale, liquidation or distribution of dividends, etc. the income is recognized directly in retained earnings under equity.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Deferred income

Deferred income comprise leasehold improvement grants from land lords and vendors, which is recognized over the expected useful life of the improvements, which usually is 3 years.

Deferred income is measured at cost.

Fair value measurement

The Company uses the fair value concept in connection with certain disclosure requirements and for recognition of financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants ("exit price").

The fair value is a market-based and not an entity-specific measurement. The entity uses the assumptions that the market participants would use for the pricing of the asset or liability based on the current market conditions, including risk assumptions. The entity's purpose of holding the asset or settling the liability is thus not taken into account when the fair value is determined.

The fair value measurement is based on the principal market. If a principal market does not exist, the measurement is based on the most advantageous market, i.e. the market that maximises the price of the asset or liability less transaction and transport costs.

All assets and liabilities measured at fair value, or in respect of which the fair value is disclosed, are classified based on the fair value hierarchy, see below:

- Level 1: Value in an active market for similar assets/liabilities
- Level 2: Value based on recognised valuation methods on the basis of observable market information
- Level 3: Value based on recognised valuation methods and reasonable estimates (non-observable market information).

Cash flow statement

The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities. Cash flows from acquired businesses are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of businesses are recognised up until the date of disposal.

Cash flows from operating activities are calculated according to the indirect method as the profit/loss after tax adjusted for non-cash operating items, changes in working capital, interest income and expenses, dividends received and corporation tax paid.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of businesses and activities, addition and disposal of intangible assets, property, plant and equipment and other non-current assets as well as securities not classified as cash and cash equivalents.

Cash flows from financing activities comprise changes in the size and composition of the share capital and associated expenses as well as borrowings, repayment of interest-bearing debt, lease payments under IFRS 16, purchase and sale of treasury shares and distribution of dividends to shareholders.

Cash and cash equivalents comprise cash which are subject to an insignificant risk of changes in value.

Cash flows in currencies other than the functional currency are translated using average exchange rates unless these deviate significantly from the rates ruling at the transaction date.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Financial ratios

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

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

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Operating margin	$\frac{\text{Operating profit x 100}}{\text{Revenue}}$
Adjusted EBITDA margin	$\frac{\text{Adjusted EBITDA x 100}}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at year end}}$
Solvency ratio (excluding lease liabilities under IFRS 16)	$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities, excluding lease liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$

Adjusted EBITDA is calculated as EBITDA +/- special items.

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Notes

2 Significant estimation uncertainty, assumptions and assessments

Significant estimation uncertainty and assumptions

The calculation of the carrying amount of certain assets and liabilities requires judgements, estimates and assumptions concerning future events.

The estimates and assumptions made are among other things based on historical experience and other factors that Management finds reasonable in the circumstances but which are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise. The Company is subject to risks and uncertainties which may mean that the actual outcome may differ from the estimates made. Special risks for the Company are mentioned in the Management's review under "Risk management" and in note 24 to the financial statements.

It may be necessary to change previously made estimates due to changes in the facts on which these estimates were based or due to new knowledge or subsequent events.

Estimates particularly material to the financial reporting are made, e.g., by way of impairment testing of intangible and tangible assets, including Right-of-use assets, and an assessment of the recoverability of deferred tax assets and impairment write-down in respect of inventories.

Impairment test, goodwill

Due to losses in previous years, after the change of control on 23 December 2019, goodwill was written down to 0 at 31 December 2019 and no additions to goodwill have been recognized in 2020.

Recoverability of deferred tax assets

The expected recoverable amount of deferred tax assets is based on an estimate for the expected development in the Company's earnings capacity and the possibilities of applying the tax asset to recoverable amount to reduce expected future tax payments. If the expected earnings development is not realised, the carrying amount of deferred tax therefore cannot be maintained.

Based on last years' losses and uncertainties about the timing of future positive earnings, Management wrote down the full carrying amount of deferred tax assets in 2019. Due to the loss generated in 2020 and COVID-19 related close-down of stores beginning of 2021, Management has assessed that it is unlikely that deferred tax assets can be utilized and recovered within the next 3-4 years and therefore deferred tax assets have not been recognized at 31 December 2020.

Special items

Management has assessed that certain costs are special items due to their exceptional nature relative to the Company's cash-generating operating activities.

The items are stated separately to give a true and fair view of the Company's operating profit/loss and are specified in a note to the financial statements.

No costs and income has been assessed as special items in 2020, however COVID-19 obviously impacted the year negatively and has only to some extent been compensated through government grants (COVID-19 packages regarding salary compensation and fixed costs compensation).

Financial statements 1 January – 31 December

Notes

2 **Significant estimation uncertainty, assumptions and assessments (continued)**

Assessment of the need for impairment write-down in respect of inventories

The Company has inventories in all its stores and in the central warehouse. As the net realisable value of some of these inventories is expected to be lower than cost, the inventories have been written down to such expected lower value. The write-down is based on an estimate of the net realisable value based on actual, historical sales and Management's assessment.

Leases

The Company has entered into leases regarding its stores, head quarter and central inventory buildings.

Lease period

The lease term includes the non-cancellable period of the lease, periods covered by an extension clause that the Company with reasonable probability expects to use and periods covered by a termination clause that the Company with reasonable probability does not expect to use.

Provisions for restoration of leaseholds

As stated in note 1 *Accounting policies*, an obligation to restore the Company 's leaseholds has been recognised. The amount is determined using the expected costs at the time of vacating the leaseholds.

Discount rate

The Company uses its incremental borrowing rate to measure the future lease payments at present value. Management has assessed its incremental borrowing rate to range from 3.4 - 5.5% at 31 December 2020.

Assessment of impairment on Right-of-use assets

The Company leases its premises, which in accordance with IFRS16 are recognized as lease liabilities and Right-of-use assets. Management has assessed the need for impairment for each cash generating unit being the individual stores. As indicators of impairment have been identified due to continued COVID-19 restrictions and close down of stores, impairment tests have been performed at year-end, which is the base for recognition of impairment. Write-downs have been recognized if the recoverable amount is assessed lower than the carrying amount of the Right-of-use assets. The budget periods in the impairment tests equals the lease periods used for the IFRS-16 recognition of the lease liabilities.

Significant accounting judgements in applying the chosen accounting policies

As part of the application of the Company 's accounting policies, Management performs judgements, based on estimations, which may materially impact the amounts recognised in the consolidated financial statements.

In 2020, Management has performed such assessments regarding leases. All leases, except from low-value leases and short-term leases, have been recognised as finance leases in accordance with IFRS 16. The practical expedient relating COVID-19 related rent-free periods have been applied resulting in periods with an income corresponding to the recognized lease costs (depreciation and interests).

The Company mainly has two segments; sales in the physical stores (bricks and mortar) and sales on the website. All revenue is on a certain point of time and is located on the Danish market.

Financial statements for the period 1 January – 31 December

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3 **Revenue**

The Company's activities are based in Denmark, and revenue derives from the sale of sports consumer products in its 83 physical stores (bricks and mortar) and through the Company's website. A minor part of the revenue consists of sales to soccer clubs and sporting associations.

All revenue transactions are recognised at a point in time.

Revenue is specified on the two segments below; bricks and mortar and website:

DKK'000	2020	2019
Revenue		
Bricks and mortar	634,415	834,299
Website and I Sport	230,356	247,761
	864,771	1,082,060

4 **Other operating income**

Government grants, Covid-19 related	22,869	680
Remeasurement of right of use assets	0	45
Rent concessions (IFRS16 – practical expedient)	6,229	0
Other operating income	1,750	53
	30,848	841

5 **Fees paid to auditor appointed at the annual general meeting**

Fee regarding statutory audit	470	680
Assurance engagements	130	45
Tax assistance	110	53
Other assistance	165	63
	875	841

6 **Staff costs**

Wages and salaries	166,488	195,281
Defined contribution plans (pension)	11,142	12,401
Other social security costs	3,457	4,716
Share-based payment	0	291
	181,087	212,689
FTE (employees)	491	556

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6 Staff costs (continued)

Remuneration of the Board of Directors, Executive Board and executive employees

	2020			2019		
DKK'000	Board of Directors	Executive Board	Executive employees	Board of Directors	Executive Board	Executive employees
Wages and salaries	0	6,976	8,943	920	6,148	8,830
Defined contribution plans	0	460	493	0	346	470
Other social costs	0	4	49	0	4	40
Share-based payment	0	0	0	0	10	281
	0	7,440	9,485	920	6,508	9,621

Members of the Executive Board and other executive officers are eligible for bonus depending on the financial performance for the year in question.

The Company has not entered into any special agreements on severance pay with members of the Executive Board in connection with a takeover of the Company.

Incentive programmes

Sportmaster Danmark ApS has previously established a share-based incentive programme in the form of a warrant programme for members of the Board of Directors, the Executive Board, executive employees and other employees. The warrants have been acquired at a value close to the fair value at the grant date.

In connection with the change of control at 23 December 2019, all warrants were cancelled. No proceeds were paid to the warrant owners. Consequently, the outstanding warrants constituted 0% of the share capital if all warrants were exercised.

Specification of outstanding warrants

	Board of Directors and Executive Board	Executive employees	Other employees	Former employees	Number in total	Average exercise price per warrant (DKK)	Fair value per warrant (DKK)	Total fair value (DKK '000)
Outstanding 1/1 2019	606,179	545,484	1,105,803	1,615,050	3,872,516	34.4		
Cancelled in 2019	-606,179	-545,484	-1,105,803	-1,615,050	-3,872,516	-	-	-
Outstanding at the beginning of 2020	0	0	0	0	0	-		
Outstanding at the end of 2020	0	0	0	0	0	-		

The fair value calculated at the granting was based on a Black-Scholes warrant pricing model. The value of the warrants granted in 2015 and 2018 was calculated using an expected volatility of 35% and a risk-free interest rate of 0.1%. In 2020, no costs is recognised in the profit/loss for the year as the warrants were cancelled in 2019 (2019: DKK 291 thousand).

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	DKK'000	2020	2019
7	**Financial income**		
	Foreign exchange gain	204	0
	Debt remission	0	22,082
		204	22,082

	DKK'000	2020	2019
8	**Financial expenses**		
	Interest expense, banks	377	7,931
	Interests on leases	9,722	13,151
	Foreign exchange loss	0	369
	Interest expense to group companies	2,323	0
	Other interest expenses	2,385	1,722
		14,807	34,948
	Interest on financial liabilities measured at amortised costs	0	3,083

	DKK'000	2020	2019
9	**Tax for the year**		
	Tax for the year can be specified as follows:		
	Current tax	0	0
	Deferred tax	13,160	25,458
	Write-down of deferred tax assets to net realisable value	-13,160	-40,744
		0	-15,286

Tax for the year can be explained as follows:

	2020 DKK'000	2020 %	2019 DKK'000	2019 %
Computed tax of profit/loss before tax	13,160	22.0	100,076	22.0
Tax effect of			0	0
Non-deductible expenses	0	0	-74,618	-16.4
Write-down of deferred tax assets	-13,160	-22.0	-40,744	-9.0
	0	0%	-15,286	-3.4%

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9 Tax for the year (continued)

Deferred tax

DKK'000	2020	2019
Deferred tax assets 1 January	0	15,286
Deferred tax, recognised in profit/loss for the year	13,160	25,458
Deferred tax, write-down to net realisable value through profit/loss for the year	-13,160	-40,744
Deferred tax assets 31 December	0	0

Deferred tax assets relates to:		
Intangible assets	9,622	9,622
Property, plant and equipment	21,261	21,261
Inventories	752	752
Provisions and contract liabilities	9,946	9,946
Tax losses carry forward, etc.	33,492	20,332
Deferred tax before write-down to net realisable value	75,073	61,913
Write-down to net realisable value	-75,073	-61,913
	0	0

Changes in temporary differences during the year

	2020		
DKK'000	Balance at 1/1	Recognised in profit/loss for the year, net	Balance at 31/12
Intangible assets	9,622	0	9,622
Property, plant and equipment	21,261	0	21,261
Inventories	752	0	752
Provisions	9,946	0	9,946
Tax loss carryforwards	20,332	13,160	33,492
Write-down to net realisable value	-61,913	-13,160	-75,073
Carrying value	0	0	0

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9 Tax for the year (continued)

Changes in temporary differences during the year

	2019		
DKK'000	Balance at 1/1	Recognised in profit/loss for the year, net	Balance at 31/12
Intangible assets	-4,072	13,694	9,622
Property, plant and equipment	16,590	4,671	21,261
Inventories	704	48	752
Liabilities other than provisions	355	-355	0
Provisions	10,660	-714	9,946
Tax loss carryforwards	12,218	8,114	20,332
Write-down to net realisable value	-21,169	-40,744	-61,913
Carrying value	15,286	-15,286	0

10 Intangible assets

DKK'000	Goodwill	Other intangible assets	Total
Cost at 1 January 2020	367,805	99,000	466,805
Additions	0	5,929	5,929
Cost at 31 December 2020	367,805	104,929	472,734
Amortisation at 1 January 2020	367,805	66,591	434,396
Amortisation	0	10,722	10,722
Amortisation at 31 December 2020	367,805	77,313	445,118
Carrying amount at 31 December 2020	0	27,616	27,616
Cost at 1 January 2019	367,805	91,678	459,483
Additions	0	7,322	7,322
Cost at 31 December 2019	367,805	99,000	466,805
Amortisation at 1 January 2019	0	53,662	53,662
Amortisation	0	12,927	12,927
Impairment loss for the year	367,805	2	367,807
Amortisation at 31 December 2019	367,805	66,591	434,396
Carrying amount at 31 December 2019	0	32,409	32,409

Other intangible assets comprise IT Software.

Except from goodwill, it is assessed that intangible assets have a definite useful life.

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11 Impairment test

Goodwill

As mentioned in note 2, goodwill was written down in 2019 and no additions have been recognized in 2020, hence no impairment test is applicable for 2020.

Other intangible assets

Management has not identified any factors that indicate impairment of other intangible assets and other intangible assets in progress.

Right-of-use assets

As mentioned in note 2, indicators of impairment were identified at year-end due to continued COVID-19 restrictions and close-down of stores beginning of 2021. Therefor impairment tests were carried out on each of the store leases (cash generating units). The impairment tests resulted in a total impairment of DKK 10,473 thousand as disclosed in note 13.

12 Property, plant and equipment

DKK'000	Plant and equipment	Leasehold improve-ments	Total
Cost at 1 January 2020	59,526	135,975	195,501
Additions	1,308	1,072	2,380
Disposals	0	-2,032	-2,032
Cost at 31 December 2020	60,834	135,015	195,849
Depreciation at 1 January 2020	50,163	77,784	127,947
Depreciation	4,111	11,205	15,316
Disposals	0	-1,750	-1,750
Impairment loss for the year	165	218	383
Depreciation at 31 December 2020	54,439	87,175	141,896
Carrying amount at 31 December 2020	6,395	47,840	53,953

DKK'000	Plant and equipment	Leasehold improve-ments	Total
Cost at 1 January 2019	55,975	132,350	188,325
Additions	3,551	5,489	9,040
Disposals	0	-1,864	-1,864
Cost at 31 December 2019	59,526	135,975	195,501
Depreciation at 1 January 2019	44,426	66,194	110,620
Depreciation	5,091	11,920	17,011
Disposals	0	-1,864	-1,864
Impairment loss for the year	646	1,534	2,180
Depreciation at 31 December 2019	50,163	77,784	127,947
Carrying amount at 31 December 2019	9,363	58,191	67,556

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13 **Leases**

Leased assets

DKK'000	Buildings	Total
Opening balance at 1 January 2020	197,594	197,594
Additions in the year	7,428	7,428
Disposals in the year	-7,539	-7,539
Remeasurement of lease liabilities during the year	195,654	195,654
Depreciation in the year	-104,355	-104,355
Reversal of depreciation for disposed assets	2,929	2,929
Impairment loss for the year	-10,473	-10,473
Carrying amount at 31 December 2020	281,238	281,238

Reference is made to note 2 for descriptions regarding

- the extent of the Company's lease arrangements
- process for determination of the discount rate

Lease liabilities

DKK'000	2020	2019
Maturity of lease liabilities		
Within 1 year	104,805	122,538
Between 1-5 years	207,361	101,476
Over 5 years	0	0
Total non-discounted lease liabilities at 31 December	312,166	224,014
Lease liabilities recognised in the balance sheet	304,640	209,784
Current liabilities	-109,843	-119,130
Non-current liabilities	194,797	90,654

Amounts recognised in the statement of comprehensive income		
Interest expenses relating to leases	9,722	13,152
Depreciation on leased assets	104,355	114,235
Impairment on leased assets	10,473	0
	124,550	127,387

For 2020, the Company has paid DKK 113,338 thousand (2019: DKK 122,538 thousand) regarding leases, of which interest expenses amounted to DKK 9,722 thousand (2019: DKK 13,151 thousand) and repayment of lease liabilities amounted to DKK 103,616 thousand (2019: DKK 109,387 thousand).

Variable lease costs regarding revenue-based lease contracts, which are not in scope for IFRS 16 amounts to DKK 10,598 thousand in 2020 (2019: DKK 2,764 thousand).

Rent concessions due to COVID-19 lock-downs recognized as income amount to DKK 6,229 thousand and presented as other operating income.

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DKK'000	2020	2019
14 Inventories		
Goods for resale	234,602	251,983
Carrying amount of inventories, recognised at net sales value	7,420	74,646

	2020	2019
15 Other receivables		
Supplier bonuses	6,473	7,819
VAT receivables	9,049	1,422
Other receivables	25,265	12,093
	40,787	21,334

16 Equity

Capital management

Management continually assesses the need to adjust the capital structure to weigh the higher yield requirement applicable to equity against the increased uncertainty associated with loan capital. The equity share of total assets amounted to 0% at the end of 2020 (2019: 10%). The decrease is due to the loss for the year. The equity is expected to be restored within the next couple of years.

It is the Company's policy to use cash flows from operating activities to invest in developing the Company's revenue and earnings and to repay long-term liabilities.

Share capital

The share capital comprises 10,111,100 shares of DKK 1 each.

Changes in share capital since the establishment can be specified as follows:

DKK'000	2020	2019	2018	2017	2016
Opening balance	10,111	10,111	10,101	10,101	10,101
Capital increase	0	0	10	0	0
	10,111	10,111	10,111	10,101	10,101

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17 Provisions

DKK '000	2020	2019
Provisions 1 January	23,100	26,720
Reclassified to contract liabilities	0	-1,456
Provided during the year	281	381
Provisions used during the year	-1,481	-2,237
Reversal of provisions in connection with closing of stores	-550	-308
Provisions at 31 December	21,350	23,100
Specification of provisions:		
Restoration costs in connection with vacation of premises	21,350	23,100
Provisions at 31 December	21,350	23,100

Provisions include liabilities for restoration upon 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 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.

18 Bank loans

DKK '000	2020	2019
Bank loans at 1 January	0	60,062
Change in short-term bank loans (cash-pool)	0	58,458
Repayment of bank loans	0	-96,438
Debt relief	0	-22,082
Carrying amount	0	0

19 Contract liabilities

Contract liabilities can be specified as follows:

DKK '000	2020	2019
Loyalty programme liability	663	650
Gift vouchers	12,005	14,083
Refund liabilities	2,824	3,132
Other	210	431
Contract liabilities at 31 December	15,702	18,296

Loyalty program liability and gift vouchers are in all material aspects expected to be recognized as income during 2021 as the utilization of gift vouchers and loyalty program points in all material aspects happens within 12 months.

Refund liabilities are based on sales activities, returns percentages and the period for returning sold goods. Refund liabilities are short-term as they relate to returns in the beginning of 2021.

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20 Other payables

DKK' 000	2020	2019
Holiday pay obligations and salary related liabilities	33,899	24,216
VAT payable	48,502	30,925
Other payables	8,199	9,815
	90,600	64,956

21 Contractual obligations and contingencies, etc.

Contingent assets and liabilities

The Company has issued bank guarantees towards landlords regarding leased premises amounting to DKK 0 thousand (2019: DKK 21,100).

All securities have been annulled in 2020 and no securities are present at 31 December 2020.

22 Other adjustments of non-cash operations items, etc.

DKK'000	2020	2019
Financial income	-204	-22,082
Financial expenses	14,807	23,173
Tax for the year	0	15,286
Share-based payment	0	291
Other provisions	-1,750	-3,620
	12,853	13,048

23 Changes in working capital

Change in inventories	17,381	39,857
Change in receivables	-21,554	-8,941
Change in trade and other payables, prepayments from customers and deferred income	10,316	-49,688
	6,143	-18,772

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24 Financial risks and financial instruments

The Company's risk management policy

The overall financial risk management framework is laid down in the Company's finance policy. The finance policy includes the Company's currency policy, investment policy and policies regarding credit risks vis-a-vis financial counterparties. Moreover, the policy includes a description of approved financial instruments and risk framework.

The Company's risk exposure or risk management has not changed relative to 2019.

The Company's finance function manages financial risks at centralised level. Every month, Management supervises the Company's risk concentration in areas such as currencies, interest, liquidity, etc.

The finance policy is updated annually.

It is the Company's policy not to engage in active speculation in financial risks. Thus, the Company's financial management is aimed solely at managing and reducing the financial risks directly associated with the Company's operations and financing.

The Company is exposed to a few financial risks. The disclosures in this note solely concern the most critical financial risks, which are:

- Market risks (currency and interest rate risks)
- Liquidity and financing risks.

The Company's most critical risks are described in the sections below. Each section first provides a summary description of the financial risk, the relating business activity, impacts, risk management related to the financial risk and the effect in the financial year and the future.

Market risks

Currency risks

Related business activity	Impact	Risk management	Effect
The Company is exposed to currency movements primarily EUR and USD due to purchases that are settled in currencies other than the functional currency.	*Effect:* Moderate *Threat:* Low	It was group currency policy to hedge 60%-100% of the currency risks based on expected foreign currency transactions in the coming 6-12 months. Due to liquidity constraints in 2019 no hedging was done. No hedging is planned for 2020 either. The EURO is not hedged due to Denmark's fixed exchange rate policy; however, the development in the Eurozone is monitored on an ongoing basis.	The primary effect following from currency risks relates to the Company's purchases in USD. USD was fairly stable of the duration of 2020. Effect is therefore relatively small and purchases were also decreased in the same period. No foreign exchange contracts were open at 31 December 2020.

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24 **Financial risks and financial instruments (continued)**

Exposure and sensitivity analysis

The Company's exposure and sensitivity to currency movements are summed up in the table below.

A fairly reasonable change in the exchange rates vis-a-vis the exchange rates at the balance sheet date would all things being equal have the following hypothetical impact on profit for the year and the Company's equity at year end:

	2020					
	Nominal position			Sensitivity		
DKK'000	Cash and receivables	Financial liabilities (non-derivative)	Derivative financial instruments held to hedge future cash flows	Increase in the exchange rate	Hypothetical impact on profit/loss for the year	Hypothetical impact on equity
USD/DKK	145	2,333	0			

	2019					
	Nominal position			Sensitivity		
DKK'000	Cash and receivables	Financial liabilities (non-derivative)	Derivative financial instruments held to hedge future cash flows	Increase in the exchange rate	Impact of profit/loss	Hypothetical impact on equity
USD/DKK	501	0	0	5%	25	25

A corresponding negative change of the exchange rates would have a corresponding reverse impact on profit/loss for the year and equity.

Assumptions applied for the sensitivity analysis

- The sensitivities stated are based on the assumption of unchanged sales, price level and interest level.

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24 Financial risks and financial instruments (continued)

Interest rate risks

Related business activity	Impact	Risk management	Effect
Following the financing of investments and the day-to-day operations, the Company is exposed to movements in the level of interest. The primary exposure relates to movements in CIBOR.	*Effect:* Moderate *Threat:* Low	After the debt reliefs in 2018 and 2019 and the maturity of the interest rate swaps in June 2019, the Company has no debt to credit institutions and therefore seized to hedge interest rate risks relating to lending.	The Company's bank loans were paid off in 2019 and during 2020 and at 31 December 2020 the Company is financed by a loan from the parent Company Sportmaster Operations PTE Ltd. which mature at 31 December 2022.
		No new hedge contracts have been entered into in 2020.	The interest rate on the intercompany loan is floating and 1.5% at 31 December 2020.
			The incremental borrowing rate used for amortizing the lease liability is ranging from 3.4-5.5%, cf. note 13.

Exposure

The Company's interest rate exposure is summed up as follows:

- The interest rate on the intercompany loan is floating and at 31 December at 1.5%
- The interest rate on the lease liabilities is ranging from 3.4-5.5%
- The Company's cash is deposited on a drawing account.

Sensitivity analysis

A change of +/- 1% in the interest rate on the intercompany would result in a profit/loss impact om DKK 1,355 thousand.

A change of +/- 1% in the incremental borrowing rate used for the amortization of the lease liability would result in a profit/loss impact of DKK 2,498 thousand if all other parameters were unchanged (2019: DKK 2,384 thousand).

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24 Financial risks and financial instruments (continued)

Derivative financial instruments

For accounting purposes the interest rate swaps are not treated as a hedging instrument and changes in fair value are therefore recognised in the income statement. The interest rate swaps matured in June 2019 and no new interest rate swap agreements have been entered into in 2020.

	2020				2019			
DKK'000	Notional amount	Fair value adjust-ment recog-nised in income statement	Fair value	Time to maturity (months)	Notional amount	Fair value adjust-ment recog-nised in income statement	Fair value	Time to maturity (months)
Interest rate swap	0	0	0		-	1,443	-	-

Liquidity risks

Related business activity	Impact	Risk management	Impact
The Company is exposed to liquidity risks due to its ongoing activities. The Company's cash management in relation to the day-to-day operations and payment of financial liabilities is vital as insufficient liquidity may obstruct a steady supply of goods, and thereby income stream.	*Effect:* Moderate *Threat:* Moderate	The Company's cash position is monitored on a day to day basis in addition to the overall liquidity forecasts.	The Company was at the balance date financed with long term intercompany loans from Sportmaster Operations Pte. LTD. which has been paid out in several instalments upon request in 2020 totalling a debt of DKK 135,497 thousand at 31 December 2020. An agreement with Citibank with a credit line of DKK 100 million has been entered into during 2020 to further strengthen the Company's liquidity position. This has not been used during 2020. The cash resources totalled DKK 140,851 thousand at 31 December 2020 including the DKK 100 million in credit line from Citibank (2019: DKK 16,302 thousand). Management is of the opinion that the Company has sufficient cash resources to meet its obligations as they fall due.

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24 Financial risks and financial instruments (continued)

Analysis of term to maturity

The Company's financial liabilities fall due as follows:

2020 DKK'000	Contractual cash flows	Within one year	1-3 years	3-5 years	After 5 years
Non-derivative financial instruments					
Intercompany loan to the parent company	139,592	0	139,592		
Trade payables	145,631		145,631	0	0
31 December 2020	285,223	0	285,223	0	0

2019 (DKK'000)	Contractual cash flows	Within one year	1-3 years	3-5 years	After 5 years
Non-derivative financial instruments					
Intercompany loan to the parent company	68,249	68,249	0	0	0
Trade payables	157,434	157,434	0	0	0
31 December 2019	225,683	225,683	0	0	0

Assumptions underlying the analysis of term to maturity

- The analysis of term to maturity is based on all non-discounted cash flows, including estimated interest payments. Interest payments are estimated based on the existing market conditions and the interest rates within the agreements.
- Liabilities under leases are not included but are reflected in note 13.

On the basis of the Company's expectations as to its future operations and current cash resources, no other critical liquidity risks have been identified.

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24 Financial risks and financial instruments (continued)

Financing risks

Related business activity	Impact	Risk management	Effect
The Company's operations depend on the future financing of the Company's operations and facilities.	*Effect:* Moderate *Threat:* Moderate	The financing risks are followed on a daily basis in order to ensure sufficient cash resources to the Company's short term operation and to be able to realize the long strategy. The term of gross debt is 1.0 years.	The average term of the Company's intercompany loans is 2.0 years as it matures at 31 December 2022. As mentioned in the liquidity risks section, a facility agreement with Citibank was entered into in Q4 2020 with a credit limit of DKK 100 million. In Management's opinion, the Company's cash resources and earnings expectations suffice for the realisation of the Company's long-term strategy.

Credit risks

Risk management	Effect
The Company's credit risks are partly linked to receivables and cash at bank and in hand and partly to derivative financial instruments with positive fair value. The maximum credit risk linked to financial assets corresponds to the values recognised in the balance sheet.	The Company has no significant risks regarding one individual customer or partner. Thus there is no insurance of trade receivables from sales.

Trade receivables

At 31 December 2020, the terms of payment were exceeded by 38% (2019: 51%) of the Company's receivables.

The maximum credit risk associated with financial assets is reflected in the carrying amounts in the balance sheet.

Credit risks associated with the individual receivables are considered high quality with a low loss risk. At 31 December 2020, trade receivables have been written down by DKK 418 thousand (2019: DKK 337 thousand), which is based on the expected credit loss model.

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24 Financial risks and financial instruments (continued)

Breakdown of trade receivables including Expected Credit Loss rate (ECL rate):

DKK'000	ECL rate	Nom. amount	ECL amount	2020	2019
Ageing of trade receivables					
Not due	1%	8,999	90	8,909	7,020
0-30 days overdue	2%	1,114	22	1,092	1,591
31-90 days overdue	5%	402	20	382	312
> 90 days overdue	7%	4,057	286	3,771	1,407
		14,572	418	14,154	10,330

Categories of financial instruments

	2020		2019	
DKK'000	Carrying value	Fair value	Carrying value	Fair value
Deposits	40,457	40,457	22,821	22,821
Trade receivables	14,154	14,154	10,330	10,330
Other receivables	40,787	40,787	21,334	21,334
Cash at bank and in hand	40,851	40,851	16,385	16,385
Receivables and cash at bank and in hand	136,249	136,249	70,870	70,870
Financial liabilities measured at fair value over the income statement	0	0	1,443	1,443
Intercompany loans	135,497	135,497	67,240	67,240
Financial liabilities measured at amortised cost	135,497	135,497	67,240	67,240

Reference is made to the section "Methods and assumptions underlying the fair value determination" below.

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Notes

24 Financial risks and financial instruments (continued)

Fair value hierarchy for financial instruments which are measured at fair value in the balance sheet or whose fair value is disclosed

DKK'000	Quoted prices (Level 1)	Observable input (Level 2)	Non observable input (Level 3)	Total
2020				
Intercompany loans	0	135,497	0	135,497
Financial liabilities, where fair value is presented	0	135,497	0	135,497

DKK'000	Quoted prices (Level 1)	Observable input (Level 2)	Non observable input (Level 3)	Total
2019				
Intercompany loans	0	67,240	0	67,240
Financial liabilities, where fair value is presented	0	67,240	0	67,240

Methods and assumptions underlying the fair value determination

The methods and assumptions applied to determine the fair value of financial instruments are described per class of financial instruments. The methods applied are unchanged compared to 2019.

Derivative financial instruments

Derivative financial instruments are valued in accordance with generally accepted valuation principles based on relevant observable swap curves. Only externally calculated fair values are used. Interest rate swaps matured during 2019 and was not present at year-end 2019 and no new interest rate swaps have been entered into in 2020.

Bank loans (measured at amortised cost in the balance sheet)

As the loans carry floating interest, the nominal residual liability is deemed to correspond to fair value.

Intercompany loans (measured at amortised cost in the balance sheet)

As the loan carry floating interest, the nominal residual liability is deemed to correspond to fair value.

Other (measured at amortised cost in the balance sheet)
Trade receivables, deposits, cash and trade payables are measured at amortised cost in the balance sheet. The fair value of trade receivables, deposits, cash and trade payables with a short period of credit are deemed to be equal to the carrying amount.

Financial statements for the period 1 January - 31 December

Notes

25 **Related party disclosures**

Sportmaster Danmark ApS' related parties comprise the following:

Parties exercising control

Sportmaster Operations PTE Ltd., Singapore, which controls the Company.

Other related parties

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

Transactions with related parties

Remuneration of the Executive Board and the Board of Directors is disclosed in note 5.

As disclosed in note 24, the Company has a loan to the parent company, which carries interests.

Apart from the above, no transactions with related parties has been carried out.

26 **Events after the balance sheet date**

The lockdown effectuated before Christmas continued with high impact on the company's store turnover in the first quarter of 2021. In January and February all normal store turnover was removed due to full lock down. In March Sportmaster experienced positive return of sales in street stores with high LFL growth, but still suffered from the high share of store turnover budgeted from shopping mall stores that remained closed until late April (for the bigger malls, and hence the majority of our stores).

Sportmaster has put great emphasis on attracting talents to the organisation and have successfully put into place a new management team with strong and relevant profiles to bring forward the company's strategy.

The management has in Q1 prioritized the digital initiatives in the pipeline to improve the consumer experience and meet the business consequence of the extensive lock-down. This has resulted in ship-from-store and click & collect functions have been added to the e-commerce site and thereby enabled consumer to order from our full stock both online. On the business side the initiative has increased the stock rotation significantly from the old stock, and as a result given a positive impairment for the inventory as it now looks healthier than ever before. With the support from Sportmaster's important partners, Sportmaster has launched a new OMNI tool in all physical stores to enable consumers in-store to order from the full assortment.

In the rest of 2021, many more digital initiatives are in pipeline from optimizing of Sportmaster e-commerce site and loyalty program to enforcing the companies target to remain the digital frontier within sporting goods.

In addition to the digital initiatives, Sportmaster find the local sport communities as an important element of its strategy. Sportmaster support +350 sport communities today and will continue in 2021 to growth the amount of sport clubs in the local cities all around Denmark.

The consecutive approach to handle the crisis at hand was to create several different scenarios for impact during the crisis. The expected impact was close to actual, which gave a good foundation for creating a matching crisis-management-plan. The management decision was to first stop capital commitments, especially concerning purchasing of new goods. Thereafter it was to reach out to all partners and find agreed solutions for lowering the impact of the crisis. Furthermore, the Group operated within all governmental instructions and also made use of the government support package for sending employees home, rather than initiating lay-offs during the peak of Covid-19, hereby actively targeting to retain and secure jobs.

Management's review

27 New financial reporting regulation

The Company has implemented the following new standards and interpretations in its financial statements for 2020:

- Amendments to References to the Conceptual Framework in IFRS
- Amendments to IFRS 3 about the definition of a business combination
- Amendments to IAS 1 and IAS 8 about definition of materiality
- Amendments to IFRS 9, IAS 39 and IFRS 7 about the IBOR-reform
- Amendments to IFRS 16 Covid-19 Related Rent Concessions

Of the above-mentioned standards and interpretations, only ammendments to IFRS 16 regarding rent concessions due to COVID-19 have had impact on recognition and measurement for Sportmaster Danmark ApS, as rent concessions have been recognized in 2020 instead of re-measuring the lease liability.