

SDK Sport I ApS

Baltorpbakken 5, 2750 Ballerup

CVR no. 34 48 59 84

Annual report 2017

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

Chairman:







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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of SDK Sport I ApS for the financial year 1 January - 31 December 2017.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

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

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

Copenhagen, 30 May 2018
Executive Board:



Jens Høgsted
CEO



Chris Bigler
CFO

Board of Directors:



Michael Christiansen
Chairman



Chris Bigler



Jens Høgsted

Independent auditor's report

To the shareholders of SDK Sport I ApS

Opinion

We have audited the financial statements of SDK Sport I ApS for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Independence

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent auditor's report

- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 30 May 2018

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Henrik Kronborg Iversen
State Authorised Public Accountant
MNE no.: mne24687



Michael Groth Hansen
State Authorised Public Accountant
MNE no.: mne33228



Management's review

Company details

Name	SDK Sport I ApS
Address, Postal code, City	Baltorpbakken 5, 2750 Ballerup
CVR no.	34 48 59 84
Established	1 May 2012
Registered office	Ballerup
Financial year	1 January - 31 December
Board of Directors	Michael Christiansen, Chairman Chris Bigler Jens Høgsted
Executive Board	Jens Høgsted, CEO Chris Bigler, CFO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Business review

The primary activity of SDK Sport I ApS is to own subsidiaries operating the retail banners SPORTMASTER and Rezet Sneaker Store.

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

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

Financial review

The income statement for 2017 shows a loss of DKK 45,766 thousand against a loss of DKK 40,605 thousand last year, and the balance sheet at 31 December 2017 shows equity of DKK 289,565 thousand.

Events after the balance sheet date

In the beginning of first quarter 2018 we went live with the new logistic platform. There has been implementation issues affecting deliveries to stores and online customers, which has had a negative impact on sales and profitability. Deliveries have been normalized in second quarter 2018. As a consequence of the lost profitability during the first quarter 2018, the Group did not comply with a loan covenant at the end of first quarter 2018. The breach has been waived by the Group's bank.

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

Outlook

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

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2017	2016
	Other external expenses	-27	-27
	Gross margin	-27	-27
	Share of profit/loss in subsidiaries after tax	-40,484	-25,050
3	Financial expenses	-6,403	-19,410
	Profit/loss before tax	-46,914	-44,487
4	Tax for the year	1,148	3,882
	Profit/loss for the year	-45,766	-40,605
	Recommended appropriation of profit/loss	-45,766	-40,605
	Retained earnings/accumulated loss	-45,766	-40,605

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Non-current assets		
5	Financial assets		
	Investments in subsidiaries	366,980	407,464
6	Deferred tax assets	2,689	1,839
		<u>369,669</u>	<u>409,303</u>
	Total non-current assets	<u>369,669</u>	<u>409,303</u>
	Current assets		
	Receivables		
	Amounts owed by group companies	7,826	14,977
	Corporation tax	3,390	3,090
		<u>11,216</u>	<u>18,067</u>
	Total current assets	<u>11,216</u>	<u>18,067</u>
	TOTAL ASSETS	<u>380,885</u>	<u>427,370</u>
	EQUITY AND LIABILITIES		
	Equity		
7	Share capital	15,275	15,275
	Retained earnings	274,290	320,056
	Total equity	<u>289,565</u>	<u>335,331</u>
	Non-current liabilities		
8	Bank loans	88,034	86,949
	Total non-current liabilities	<u>88,034</u>	<u>86,949</u>
	Current liabilities		
	Amounts owed to group companies	0	195
9	Other payables	3,286	4,895
	Total current liabilities	<u>3,286</u>	<u>5,090</u>
	Total liabilities	<u>91,320</u>	<u>92,039</u>
	TOTAL EQUITY AND LIABILITIES	<u>380,885</u>	<u>427,370</u>

- 1 Accounting policies
- 2 Events after the balance sheet date
- 10 Contractual obligations and contingencies, etc.
- 11 Collateral
- 12 Related parties

Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2016	11,800	269,637	281,437
Capital increase	3,475	86,525	90,000
Transfer through appropriation of loss	0	-40,605	-40,605
Value adjustments of hedging instruments in subsidiary	0	1,733	1,733
Tax on value adjustments of hedging instruments	0	-937	-937
Value adjustments of hedging instruments	0	4,092	4,092
Tax on value adjustments of hedging instruments in subsidiary	0	-389	-389
Equity at 1 January 2017	15,275	320,056	335,331
Transfer through appropriation of loss	0	-45,766	-45,766
Equity at 31 December 2017	15,275	274,290	289,565

No costs relating to the capital increase in 2016 has been recognized.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of SDK Sport I ApS for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

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

Reporting currency

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

Foreign currency translation

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

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

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised at cost in the balance sheet and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in "Other receivables" and "Other payables", respectively.

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

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

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

Income statement

Other external expenses

Other external costs comprise administrative expenses.

Income from investments in subsidiaries

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial expenses

Financial expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

The parent company is covered by the Danish rules on mandatory joint taxation of the Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date at which they are included in the consolidated financial statements and up to the date when they are no longer consolidated.

Sport Nordic Holding ApS acts as management company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

Tax for the year, which comprises the current income tax charge, joint taxation contributions and deferred tax adjustments, including adjustments arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Investments in subsidiaries

Investments in subsidiaries are measured under the equity method.

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

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

Goodwill is amortised over its estimated useful life determined on the basis of Management's experience of the specific business areas. Goodwill is amortised on a straight-line basis over a period of 15 years, as investments are considered strategic and long-term.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Impairment of non-current assets

The carrying amount of investments in subsidiaries is subject to an annual test for indications of impairment.

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

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

Equity

Reserve for net revaluation according to the equity method

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

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

The reserve cannot be recognised as a negative amount.

Proposed dividends

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

Income taxes

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

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

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

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

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

2 Events after the balance sheet date

In the beginning of first quarter 2018 we went live with the new logistic platform. There has been implementation issues affecting deliveries to stores and online customers, which has had a negative impact on sales and profitability. Deliveries have been normalized in second quarter 2018. As a consequence of the lost profitability during the first quarter 2018, the Group did not comply with a loan covenant at the end of first quarter 2018. The breach has been waived by the Group's bank.

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

DKK'000	2017	2016
3 Financial expenses		
Interest expenses, banks	5,317	15,032
Amortisation of financing costs	1,086	3,778
Other interest expense	0	600
	6,403	19,410
4 Tax for the year		
Estimated tax charge for the year	-332	-5,467
Deferred tax adjustments in the year	-850	1,585
Tax adjustments, prior years	34	0
	-1,148	-3,882

Financial statements 1 January - 31 December

Notes to the financial statements

5 Investments

DKK'000	Investments in subsidiaries
Cost at 1 January 2017	640,292
Cost at 31 December 2017	640,292
Value adjustments at 1 January 2017	-232,828
Profit/loss for the year	-40,335
Amortisation of goodwill	-149
Value adjustments at 31 December 2017	-273,312
Carrying amount at 31 December 2017	366,980

In the carrying amount of investments in subsidiaries, goodwill amounting to DKK 1,413 (2016:1,569) is included.

Name	Legal form	Domicile	Interest	Equity DKK'000	Profit/loss DKK'000
Subsidiaries					
SDK Sport II	ApS	Ballerup	100.00%	365,567	-40,335
				2017	2016

6 Deferred tax

Deferred tax at 1 January	-1,839	-3,425
Adjustment of deferred tax regarding prior years	0	1,252
Adjustment of deferred tax	-850	334
Deferred tax at 31 December	-2,689	-1,839
Deferred tax relates to:		
Liabilities	-965	-726
Tax loss	-1,724	-1,113
	-2,689	-1,839

7 Share capital

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

DKK'000	2017	2016	2015	2014	2013
Opening balance	15,275	11,800	10,000	10,000	10,000
Capital increase	0	3,475	1,800	0	0
	15,275	15,275	11,800	10,000	10,000

Financial statements 1 January - 31 December

Notes to the financial statements

8 Mortgage debt and debt to other credit institutions

The liabilities are recognised in the balance sheet as follows:

DKK'000	2017	2016
Non-current liabilities other than provisions	88,034	86,949
	88,034	86,949

Of the long-term liabilities, DKK 0 falls due for payment after more than 5 years after the balance sheet date.

9 Other payables

Fair value of hedging instruments	3,060	4,624
Other liabilities	224	271
	3,284	4,895

10 Contractual obligations and contingencies, etc.

Other financial obligations

The Company is jointly taxed with the parent company Sport Nordic Holding ApS. The companies included in the joint taxation have joint and several unlimited liability for Danish corporation taxes. At 31 December 2017, the net taxes payable to the Danish Central Tax Administration by the companies included in the joint taxation amounted to DKK 0. Any subsequent corrections of the taxable income subject to joint taxation may entail that the companies' liability will increase.

The Company has provided a guarantee for loans totalling DKK 146,022 thousand raised in group companies.

11 Collateral

The Company's assets, including inventories, are provided as security for bank loans in group companies.

12 Related parties

SDK Sport I ApS' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Sport Nordic Holding ApS	Ballerup	100 % ownership

Information about consolidated financial statements

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