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INTERSPORT POLSKA S.A.

Report supplementing the auditors opinion on the financial statements

**Financial Year ended
31 December 2016**

SPIS TREŚCI

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I. General information

1. General information about the Company

Company name

INTERSPORT POLSKA SPÓŁKA AKCYJNA

Registered Office

Cholerzyn 382, 32-060 Liszki

Registration in the National Court Register

| | |
|----------------------|--|
| Registration Court: | District Court for Kraków-Śródmieście, XII Commercial Department of the National Court Register |
| Date: | 01.09.2004 |
| Registration Number: | KRS 0000216182 |

Tax Office and Provincial Statistical Office registration

| | |
|-------------|------------|
| NIP number: | 6760016553 |
| REGON: | 003900187 |

Share Capital

The Company was established for an indefinite period under the terms of its articles of association dated 26.08.2004

The share capital of the Company amounted to PLN 1.393.333,40 as at 31 December 2016 divided into 13.933.334 shares with a nominal value of PLN 0,10 each.

Company's shares are listed on the Warsaw Stock Exchange.

During the financial year there was no changes to the share capital of the Company.

On March 15, 2017 Extraordinary General Meeting of Shareholders of the Company passed a resolution on raising capital by an amount not exceeding PLN 1.052,6 thousand. As at the date of this report, the Company is in the process of subscribing for shares resulting from this resolution.

Management of the Company

The Management Board is responsible for management of the Company.

At 31 December 2016, the Management Board of the Company was comprised of the following members:

- | | |
|-------------------|-------------------------------|
| • Artur Mikołajko | – President of the Board |
| • Sławomir Gil | – Vice-President of the Board |

During the 2016 as well as after the balance sheet date there was no changes of Company Management Board.

Scope of activities

The business activities listed in the Company's articles of association include in particular:

- Retail sale of sports equipment in specialized stores.

2. Prior period financial statements

The financial statements as at and for the year ended 31 December 2015 were audited by WL Finance Sp. z o. o. and received an unqualified opinion.

The financial statements were approved at the General Shareholders' Meeting on 16 June 2016 where it was resolved that the loss for the prior financial year of PLN 4.419 thousand will be covered by the reserve capital.

The closing balances as at 31 December 2015 have been properly recorded as the opening balances of the audited year.

The financial statements were submitted to the Registry Court on 21 June 2016

3. Auditor information

| | |
|----------------------|--|
| Company: | AMZ Sp. z o.o. |
| Registered office: | Kraków |
| Address: | ul. Strzelców 6A/1, 31-422 Kraków |
| Registration number: | KRS 0000417022 |
| Registration Court: | District Court for Kraków Śródmieście in Kraków, XI Commercial Department of the National Court Register |
| Share capital: | PLN 100.000 |
| NIP Number: | 9452168004 |

AMZ Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 3787.

On behalf of the authorised entity the audit of financial statement was conducted under supervision of Certified Auditor Marek Zych (nr 11406).

The auditor was appointed by Supervisory Board in the resolution dated 7 December 2016.

The financial statements have been audited in accordance with the contract dated 8 December 2016.

AMZ Sp. z o. o. and the Certified Auditor Marek Zych confirm to be authorised to audit financial statements and fulfill the requirements to express an independent opinion on INTERSPORT POLSKA S.A. financial statements, laid down in Article 56 of Act on Auditors and their government, entities authorized to audit financial statements and public supervision (Official Journal from 2016, item 1000).

4. Audit scope and responsibilities

This report was prepared for the Shareholders' Meeting of INTERSPORT POLSKA S.A. seated in Cholerzyn 382, 32-060 Liszki („Company”), which comprise the introduction to the financial statements, the balance sheet as at 31 December 2016, the profit and loss account, the statement of changes in equity and the cash flow statement for the financial year from 1 January 2016 to 31 December 2016 and the supplementary information and explanations.

We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the resolution of the National Council of Certified Auditors as National Standards on Assurance.

We audited the financial statements in the Company's head office during the period from 19 to 21 December 2016, from 7 to 10 February 2017, from 2 to 6 March 2017 and outside Company's premises to the date of the report.

Management of the Company is responsible for the correctness of the accounting records and the preparation and fair presentation of the financial statements in accordance with the accounting principles as set out in the Accounting Act and in compliance with the respective bylaws and other applicable regulations.

Management of the Company and Members of its Supervisory Board are obliged to ensure that the financial statements and the Report on the Company's activities are in compliance with the requirements set forth in the Accounting Act.

Our responsibility is to express an opinion and to prepare a supplementing report on the financial statements and whether the financial statements have been prepared from properly maintained accounting records based on our audit.

Management of the Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the financial statements.

Our audit has not been limited in any way.

All requests for documents and information have been fulfilled and detailed information and explanations were disclosed to authorized entity and Certified Auditor.

II. Financial position of the Company

Below are presented key balance sheet profit and loss statement figures as well as financial ratios presenting the Company's financial results and its financial position compared to prior periods.

Balance sheet

| ASSETS | 31.12.2016 | | 31.12.2015 | |
|--|----------------|--------------|----------------|--------------|
| | PLN '000 | % of total | PLN '000 | % of total |
| Non-current assets | | | | |
| Intangible assets | 2 612 | 2,1 | 2 921 | 2,2 |
| Tangible fixed assets | 63 185 | 52,1 | 68 273 | 50,7 |
| Long term investments | 851 | 0,7 | 820 | 0,6 |
| Long term prepayments and deferred expenses | 3 266 | 2,7 | 2 907 | 2,2 |
| | 69 914 | 57,6 | 74 921 | 55,7 |
| Current assets | | | | |
| Inventories | 42 175 | 34,8 | 56 165 | 41,7 |
| Short term receivables | 6 912 | 5,7 | 1 323 | 1,0 |
| Short term investments | 1 148 | 0,9 | 1 157 | 0,9 |
| Short term prepayments and deferred expenses | 1 177 | 1,0 | 973 | 0,7 |
| | 51 412 | 42,4 | 59 618 | 44,3 |
| TOTAL ASSETS | 121 326 | 100,0 | 134 539 | 100,0 |

| EQUITY AND LIABILITIES | 31.12.2016 | | 31.12.2015 | |
|---|----------------|--------------|----------------|--------------|
| | PLN '000 | % of total | PLN '000 | % of total |
| Equity | | | | |
| Share capital | 1 393 | 1,2 | 1 393 | 1,1 |
| Reserve capital | 20 507 | 16,9 | 24 927 | 18,5 |
| Net profit/(loss) | (8 573) | 7,1 | (4 419) | 3,3 |
| | 13 327 | 11,0 | 21 901 | 16,3 |
| Liabilities and provisions for liabilities | | | | |
| Provisions for liabilities | 1 080 | 0,9 | 1 092 | 0,8 |
| Long term liabilities | 4 940 | 4,1 | 19 902 | 14,8 |
| Short term liabilities | 95 804 | 78,9 | 85 090 | 63,2 |
| Accruals and deferred income | 6 175 | 5,1 | 6 554 | 4,9 |
| | 107 999 | 89,0 | 112 638 | 83,7 |
| TOTAL EQUITY AND LIABILITIES | 121 326 | 100,0 | 134 539 | 100,0 |

Profit and loss

| | 1.01.2016 - 31.12.2016 PLN '000 | % of total sales | 1.01.2015 - 31.12.2015 PLN '000 | % of total sales |
|---|--|-----------------------------|--|-----------------------------|
| Net revenues from the sale of finished products, merchandise and raw materials | | | | |
| Net revenues from the sale of finished products | 3 357 | 1,6 | 4 183 | 2,0 |
| Net revenues from the sale of merchandise and raw materials | 201 844 | 98,4 | 210 001 | 98,0 |
| | <u>205 201</u> | <u>100,0</u> | <u>214 184</u> | <u>100,0</u> |
| Cost of finished products, merchandise and raw materials sold | | | | |
| Cost of merchandise and raw materials sold | (126 808) | 61,8 | (131 243) | 61,3 |
| | <u>(126 808)</u> | <u>61,8</u> | <u>(131 243)</u> | <u>61,3</u> |
| Gross profit/(loss) on sales | 78 393 | 38,2 | 82 941 | 38,7 |
| Selling expenses | (77 071) | 37,5 | (77 531) | 36,2 |
| Administrative and general expenses | (6 715) | 3,3 | (7 215) | 3,3 |
| Profit/(loss) on sales | (5 393) | 2,6 | (1 805) | 0,8 |
| Other operating revenues | | | | |
| Grants | 378 | 0,1 | 409 | 0,2 |
| Other operating revenues | 1 406 | 0,7 | 1 335 | 0,6 |
| | <u>1 784</u> | <u>0,8</u> | <u>1 744</u> | <u>0,8</u> |
| Other operating expenses | | | | |
| Loss on the disposal of non-financial fixed assets | (1 050) | 0,5 | (117) | 0,1 |
| Other operating costs | (2 428) | 1,2 | (1 572) | 0,7 |
| | <u>(3 478)</u> | <u>1,7</u> | <u>(1 689)</u> | <u>0,8</u> |
| Operating profit/(loss) | (7 087) | 3,5 | (1 750) | 0,8 |
| Financial income | | | | |
| Dividends received and share of profits | 189 | 0,1 | - | - |
| Financial expenses | | | | |
| Interest | (1 490) | 0,7 | (1 783) | 0,9 |
| Other | (573) | 0,3 | (278) | 0,1 |
| | <u>(2 063)</u> | <u>1,0</u> | <u>(2 061)</u> | <u>1,0</u> |
| | - | - | - | - |
| Gross profit/(loss) | (8 961) | 4,4 | (3 811) | 1,8 |
| Corporate income tax | 388 | 0,2 | (608) | 0,3 |
| Net profit/(loss) | (8 573) | 4,2 | (4 419) | 2,1 |

Financial ratios

| | 2016 | 2015 |
|--|----------------|----------------|
| 1. Return on sales | | |
| $\frac{\text{net profit} \times 100\%}{\text{net revenues}}$ | negative value | negative value |
| 2. Return on equity | | |
| $\frac{\text{net profit} \times 100\%}{\text{equity} - \text{net profit}}$ | negative value | negative value |
| 3. Debtors' days | | |
| $\frac{\text{average trade receivables (gross)} \times 365 \text{ days}}{\text{net revenues}}$ | 3 days | 1 days |
| 4. Debt ratio | | |
| $\frac{\text{liabilities and provisions for liabilities} \times 100\%}{\text{total equity and liabilities}}$ | 89,0% | 83,7% |
| 5. Current ratio | | |
| $\frac{\text{current assets}}{\text{current liabilities}}$ | 0,5 | 0,7 |

Return on sales and return on equity ratios

Due to losses incurred both in 2016 and 2015 the profitability ratios are negative.

Debtors days

Debtors days ratio is relatively low as share of sales with deferred payment in total sales is small. The Company sells merchandises mainly on retail basis with cash or credit card payments.

Debt ratio

Increasing debt ratio results from lower equity following incurred in audited period net loss.

Current ratio

Lower current ratio results from increasing short term liabilities and decreasing current assets, especially inventories.

III. Detailed report

1. Assessment of accounting system

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board as required by Art. 10 of the Accounting Act.

Accounting principles adopted by the Company are in accordance with the Accounting Act. Key principles of valuation of assets and liabilities and financial result measurement were described in the introduction to the financial statements.

For opening balances we have performed the procedures necessary to conclude whether those balances are free from material misstatements.

For the sample of business transactions we tested, the supporting documentation, accounting records and the matching of accounting entries with supporting documentation and the financial statements comply with the requirements of Chapter 2 of Accounting Act.

The accounting records, supporting documentation of transactions, accounting policies and Company's financial statements are safeguarded in compliance with chapter 8 of Accounting Act.

The Company performed a verification of assets and liabilities in accordance with the requirements and time frame specified in the Accounting Act.

2. Information on audited financial statements

The audited financial statements as at 31 December 2016 comprise of:

- the introduction to the financial statements,
- the balance sheet as at 31 December 2016, with total assets and total liabilities and equity of PLN 121.326 thousand,
- the profit and loss account for the year from 1 January 2016 to 31 December 2016 with a loss of PLN 8.573 thousand,
- the statement of changes in equity for the year from 1 January 2016 to 31 December 2016 with an increase in equity of PLN 8.573 thousand,
- the cash flow statement for the year 1 January 2016 to 31 December 2016 with an increase in cash of PLN 9 thousand,
- the supplementary information and explanations.

The structure of assets and liabilities and equity as well as the profit and loss account was presented in financial statements.

3. Completeness and correctness of the introduction to the financial statements, the supplementary information and explanations and the Report on the Company's activities

The introduction to the financial statements includes all material information required by attachment 1 to the Accounting Act. The Company confirmed the going-concern basis for preparing the financial statements. Principles of valuation of assets and liabilities, financial result measurement and financial statement presentation were correctly and completely described in the introduction.

The Company presented the supplementary information and explanations in the form of tables to individual items of the balance sheet and profit and loss account as well as descriptions.

Explanatory notes for tangible fixed assets, intangible fixed assets, investments, provisions and liabilities correctly presents additions and disposals and corresponding titles for the financial year. The information on assets disposal's restrictions and the pledges established on Company's assets are disclosed.

The supplementary information and explanations to the financial statements correctly and completely explains financial statements positions and clearly presents supplementary information required by attachment 1 to the Accounting Act.

Management Board presented together with financial statements the Report on Company's Activities in the year ended 31 December 2016. The Report includes the information required by Art. 49 ust. 2 of the Accounting Act. We have audited the report with respect to the disclosed information derived directly from the audited financial statements.

Signed on Polish original

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Marek Zych, evidence number 11406

Auditor responsible for the audit

on behalf of entity authorised to audit financial statements registered under the number 3787

Cracow, 31 March 2017