THE MANAGEMENT BOARD's REPORT on the activity for the 1st half of 2018

INTERSPORT Polska S.A.
Cholerzyn 382, 32-060 LISZKI
NIP: 676-001-65-53

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Name: INTERSPORT Polska S.A.

Headquarters: 32-060 Liszki, Cholerzyn 382

Subject of core activity:

Retail sales of sporting goods in specialist sports shops located in prestigious shopping malls in big cities in Poland.

Abbreviated name	INTERSPPL
Listing market	Primary 5 PLUS
Industry sector	Retail
WWW	www.intersport.pl
NIP [*Tax Identification No.*]	676-001-65-53
REGON [*Statistical no.*]	3900187

SPÓŁKA NOTOWANA NA GPW

1. DESCRIPTION OF THE RESULTS FOR THE 1ST HALF OF 2018

In the first half of 2018 INTERSPORT Polska S.A. generated the net profit from sales of PLN 92,952k, that is by 2.6% higher compared to PLN 90,636k generated in the corresponding period in 2017. In the first half of 2018 the Company recorded the net loss of PLN 1,106k with the gross loss of PLN 3,459k in the corresponding period of the previous year. EBIT equalled PLN -758k, and EBIDTA equalled PLN 2,377k.

1.1 SELECTED FINANCIAL DATA

BASIC FINANCIAL DATA *(data in PLNk)*	**from 01.01.2017 to 30.06.2017**	**from 01.01.2018 to 30.06.2018**
Profit on sales total	90 636	92 952
Gross result from sales	36 532	37 450
Gross margin on sales	40,3%	40,3%
Result from sales	-3 085	-402
Sales profitability		
Result from operations (EBIT)	-3 125	-758
EBIT margin		
EBITDA (EBIT + amortisation)	54	2 377
EBITDA margin	0,06%	2,6%
Gross result	-3 459	-1 106
Net result	-2 804	-945

SELECTED FINANCIAL DATA *(data in PLNk)*	**from 01.01.2017 to 30.06.2017**	**As at 31.12.2017**	**from 01.01.2018 to 30.06.2018**
I. Net income from sales of goods and services	90 636	183 934	92 952
II. Operating profit (loss)	-3 125	-10 230	-758
III. Gross profit (loss)	-3 459	-10 971	-1 106
IV. Net profit (loss)	-2 804	-8 999	-945
V. Net income from sales of goods and services	-13 283	-9 171	-560
VI. Net cash flow from investments	-1 554	-2 665	-339
VII. Net cash flow from financial activity	14 490	12 632	-139
VIII. Net financial flow, total	-347	796	-1 038
IX. Assets total	115 040	122 319	115 214
X. Liabilities and provisions for liabilities	88 330	101 804	95 644
XI. Long-term liabilities	3 159	2 786	2 362
XII. Short-term liabilities	77 896	91 836	85 386
XIII. Equity	26 710	20 515	19 570
XIV. Share capital	2 288	2 288	2 288
XV. Number of shares (items)	22 880 700	22 880 700	22 880 700
XVI. Profit per share/ordinary share (in PLN)	-		
XVII. Diluted earnings (loss) per ordinary share (in PLN)	-		
XVIII. Book value per share/share (in PLN)	1,17	0,90	0,86
XIX. Diluted book value per share (in PLN)	1,17	0,90	0,86
XX. Dividend declared or paid per share (in PLN)	-		

1.2 BALANCE

The balance sheet total as at 30 June 2018 equalled PLN 115,214k, and was on similar level in the corresponding period in 2017 (was: PLN 115,040k).

a) ASSETS

In the 1st half of 2018 the value of Company's fixed assets was on similar level in the 1st half of 2017. Decreasing the value of fixed assets in the 1st half of 2018 by PLN 4,264k as compared to the corresponding period of the previous year is mainly due to the depreciation of fixed assets. Higher value of current assets is mainly the result of increasing the inventories by PLN 6,399k, i.e. by 17.5%. the level of inventories is lower as compared to the status as at the end of the previous financial year by about 7.1%.

higher value of the inventories is a result of increasing the stocks of INTERSPORT exclusive brands (owing to the change of purchase model).

ASSETS STRUCTURE *(data in PLNk)*	**As at 30.06.2017**	**As at 30.06.2018**	**% change 2018/2017**
I. Fixed assets	**68 379**	**64 115**	**-6,2%**
1. Intangible assets	4 146	3 658	-11,8%
2. Fixed tangible assets	59 271	53 992	-8,9%
3. Long-term investments	813	839	3,2%
4. Long-term accruals	4 149	5 626	35,6%
II. Current assets	**46 661**	**51 099**	**9,5%**
1. Inventories	36 533	42 932	17,5%
2. Short-term receivables	6 931	4 228	-39,0%
3. Short-term investments	801	988	23,3%
4. Short-term accruals	2 396	2 951	23,2%
Assets total	**115 040**	**115 214**	**0,2%**

b) LIABILITIES

As at 30 June 2018 the value of Company equity was by PLN 7,140k lower as compared to the corresponding period of the previous year. It is related mainly to the loss recorded for 2017 and loss for the 1st period of 2018.

The decreased level of long-term liabilities classified as loans and credits and simultaneously similar level of this position classified as short-term liabilities is the effect of requalification of certain external sources of financing and payment of capital instalments.

LIABILITIES STRUCTURE *(data in PLNk)*	**stan na dzień 30.06.2017**	**stan na dzień 30.06.2018**	**zmiana % 2018/2017**
I. Equity	**26 710**	**19 570**	**-26,7%**
1. Share capital	2 288	2 288	0,0%
2. Reserve capital	27 226	18 227	-33,1%
3. Profit (loss) from previous years			
4. Net profit (loss)	-2 804	-945	-66,3%
II. Liabilities and provisions for liabilities	**88 330**	**95 644**	**8,3%**
1. Provisions for liabilities	1 283	1 126	-12,2%
2. Long-term liabilities	3 159	2 362	-25,2%
3. Short-term liabilities	77 896	85 386	9,6%
4. Accruals*	5 992	6 770	13,0%
Liabilities total	**115 040**	**115 214**	**0,2%**

** Accruals (registered on the liabilities side) of the Company are related to the settlement of the subsidy granted in 2009 under Operational Programme Innovative Economy (Measure 4.4. New investment of high innovative potential) under the project "Implementation of innovative EPC/RFID technology in Logistic Center of New Generation" INTERSPORT Polska S.A..*

c) EQUITY

As at 30 June 2018 the Company equity was PLN 19,570k and was composed of share capital of PLN 2,288k, reserve capital of PLN 18,227k, and net loss of PLN 945k.

SHARE CAPITAL

Pursuant to art. 308 § 1 of Polish Commercial Companies Code share capital of a joint-stock company should equal at least PLN 100k. INTERSPORT Polska S.A. share capital equals PLN 2,288,070 and is divided into 22,880,700 shares of nominal value of PLN 0.10 each.

RESERVE CAPITAL

Pursuant to art. 396 § 1 of Polish Commercial Companies Code a joint-stock company is obliged to allocate 8% of annual profit in reserve capital, which should be intended for coverage of potential losses, as long as the reserve capital does not constitute at least the equivalent of one third of the share capital. As at 31 Dec 2017 reserve capital was PLN 27,226k.

KEY CHANGES

In the 1st half of 2018 INTERSPORT Polska S.A. equity dropped by 26.7% as compared to the equity as at 30.06.2017. Pursuant to the resolution no. adopted on 20 June 2018 by Ordinary General Meeting of Shareholders of the Company, net loss of PLN 8,998,743.64 recorded in 2017 was covered from the reserve capital of the Company.

d) LONG-TERM AND SHORT-TERM LIABILITIES

As at 30.06.2018 the total liabilities of the Company equalled PLN 87,748k out of which PLN 2,362k were the long-term liabilities, and PLN 85,386k were the short-term liabilities. From 1st January to 30 June 2018 the value of liabilities decreased by PLN 6,874k i.e. by 7.8% as compared to the liabilities as at the end of 2017. A major share in the total liabilities of the Company towards other entities belongs to short-term liabilities towards the suppliers, which decreased from PLN 74,813k at the end of 2017 to PLN 68,312k as at 30 June 2018.

Information relating to the loans as at 30 June 2018 with the maturity dates are available in the tables below:

Long-term liabilities (as at 30 June 2018)

Table: Long-term Company's liabilities for the loans and credits (in PLNk)

Name (company) of the entity including its legal form	Amount of credit / loan according to the agreement	Remaining amount of credit / loan	Repayment date	Collateral	Other
RAIFFEISEN BANK POLSKA SA	4 000	2 333	2022-05-31	Contractual mortgage, registered pledge on fixed assets; in blanco bill of exchange; POA to the bank account	Investment loan

Table: Long-term Company's liabilities total (in PLNk)

Long-term liabilities total	**31.12.2017**	**30.06.2018**
Financial liabilities relating to the loans	2 733	2 333
Long-term liabilities relating to leasing	53	29
Total	**2 786**	**2 362**

The amount of long-term liabilities towards other entities for the credits and loans as at 30 June 2018 decreased by 25.2% as compared to the corresponding period of the previous year – the decrease is the effect of requalification of part of long-term credits to short-term credits and repayment of capital instalments.

Short-term liabilities (as at 30 June 2018)

Table: Short-term Company's liabilities for credits and loans (in PLNk)

Name (company) of the entity including its legal form	Remaining amount of credit / loan	Repayment date	Collateral	Other
ALIOR BANK SA	4 233	2019-06-12	Registered pledge on fixed assets and inventories; transfer of receivables; POA to the bank account; contractual mortgage	Overdraft
RAIFFEISEN BANK POLSKA SA	800	2022-05-31	Contractual mortgage, registered pledge on fixed assets; in blanco bill of exchange; POA to the bank account	Investment loan
RAIFFEISEN BANK POLSKA SA	2 916	2019-09-20	Contractual mortgage, registered pledge on fixed assets and inventories; in blanco bill of exchange; POA to the bank account; transfer of receivables	Overdraft
BANK ZACHODNI WBK SA	3 336	2018-09-30	Contractual mortgage, registered pledge on fixed assets; in blanco bill of exchange; POA to the bank account	Investment loan
BANK ZACHODNI WBK SA	459	2018-09-30	Contractual mortgage; in blanco bill of exchange; POA to the bank account	Overdraft

Table: Short-term Company's liabilities total (in PLNk)

Short-term Company's liabilities total	**31.12.2017**	**30.06.2018**
Financial liabilities relating to the loans	11 156	11 744
Short-term liabilities relating to leasing	52	49
Other short-term liabilities	80 628	73 593
Total	**91 836**	**85 386**

The state of short-term liabilities towards other entities for the loans and credits as at 30 June 2018 was PLN 11,744k and increased by 5.3% as compared to the corresponding period of the previous year.

Bank guarantees granted to INTERSPORT Polska S.A. refer to the amounts resulting from the rights and obligations relating to the tenancy agreements of premises. As at 30 June 2018 the guarantees were securing the beneficiaries for the total of PLN 3,893k and EUR 1,115k. In the reporting period the Company did not grant and did not receive any sureties.

Debt analysis – APM [1]

Table: The Company's debt ratio (in %)

Debt ratios:	Formula	31.12.2017	30.06.2018
Total debt ratio	Total liabilities and inventories / Total liabilities	83,2%	83,0%
Long-term debt ratio	Long-term liabilities / Total liabilities	2,3%	2,0%
Short-term debt ratio	Short-term liabilities / Total liabilities	75,1%	74,1%
Equity debt ratio	Total liabilities / Equity	496,2%	488,7%
Equity to assets ratio	Total equity / Total assets	16,8%	17,0%

1.3 FINANCIAL FLOWS *(data in PLNk)*

	from 01.01.2017 to 30.06.2017	from 01.01.2018 to 30.06.2018
Net operating cash flows, including	**-13 283**	**-560**
Net profit (loss)	-2 804	-945
Amortisation	3 179	3 135
Profit (loss) due to exchange rate differences	38	-118
Interest and profit sharing (dividends)	313	301
Profit (loss) from investment activities	586	-19
Change in the provisions	204	122
Change in the inventories	5 643	3 300
Change in the status of receivables	-20	2 277
Change in the status of short-term liabilities excluding loans and credits	-17 532	-7 241
Change in the status of accruals	-2 285	-1 372
Other	-605	-
Net cash flow arising from investing activities	**-1 554**	**-339**
Net cash flow arising from financing activities	**14 490**	**-139**
Total cash flow	**-347**	**-1 038**

From 1st January to 30 June 2018 the amount of financial measures decreased from PLN 1,944k (by the end of 2017) to PLN 906k in the 1st half of 2018:

- **operating activity** generated negative cash flows of minus PLN 560k. Net loss which was PLN 945 was corrected by PLN 385k (in plus). The most significant corrections

[1] *The rules of calculating and justification of application of debt ratios as APM were described at the end of the report in "Explanations."*

resulted from amortization (plus PLN 3,135k), decreasing the stocks (PLN 3,300k), decreasing the short-term liabilities towards the suppliers (PLN 7,241k);

- **investing activities** generated negative cash flows of PLN 339k (they were mainly the expenses incurred in relation to the works connected with replacement investments of existing INTERSPORT Polska S.A. stores);
- **financing activity** generated negative cash flows of the total of PLN 139k – the expenses mainly referred to repayment of financial liabilities and costs of debt handling.

Cash flow analysis – APM [2]

The Company's current liquidity ratio and quick liquidity ratio were shaping as shown below.

Table: Company's liquidity ratios

Liquidity ratio	**Formula**	**31.12.2017 r.**	**30.06.2018 r.**
Current liquidity ratio	Current assets / Short-term liabilities	0,6	0,6
Quick liquidity ratio	(Current assets – Inventories) / Short-term liabilities	0,1	0,1

1.4 PROFIT AND LOSS ACCOUNT *(data in PLNk)*

	od 01.01.2017 do 30.06.2017	od 01.01.2018 do 30.06.2018	zmiana % 2018/2017
I. Total net income	**90 636**	**92 952**	**2,6%**
II. The value of goods and materials sold	54 104	55 502	2,6%
III. Gross profit (loss) from sales	**36 532**	**37 450**	**2,5%**
IV. Cost of sales and general Management expenses	39 617	37 852	-4,5%
VI. Profit (loss) from sales	**-3 085**	**-402**	**-87,0%**
VII. Other operating income	1 110	537	-51,6%
VIII. Other operating cost	1 150	893	-22,3%
IX. Operational profit (loss)	**-3 125**	**-758**	**-75,7%**
X. Financial income	249	155	-37,8%
XI. Financial cost	583	503	-13,7%
XII. Profit (loss) on business activity	**-3 459**	**-1 106**	**-68,0%**
XIII. Gross profit (loss)	**-3 459**	**-1 106**	**-68,0%**
XIV. Income tax	**-655**	**-161**	**-75,4%**

[2] *The rules of calculating and justification of application of liquidity ratios as APM were described at the end of the report in "Explanations."*

XV. Net profit (loss)	**-2 804**	**-945**	**-66,3%**

NET INCOME FROM SALES

From 1 January to 30 June 2018 INTERSPORT Polska SA recorded the total income from sales of goods and services of PLN 92,952k, i.e. by 2.6% higher as compared to the total turnover in the 1st half of 2017 (was: PLN 90,636k), despite decreased number of trade days as compared to the corresponding period of previous year due to the fact of introducing free-of-trade Sundays.

Table: Comparison of monthly net income from sales (in PLNk)

Net income from sales	2017	2018	% change 2018/2017
Q1	48 331	48 468	0.3%
Q2	42 305	44 484	5.2%
Total	**90 636**	**92 952**	**2,6%**

Main reasons for significant changes in the Company's net income in 1st half of 2018 are the following:

- higher stocks of offered goods – particularly exclusive brands, which affected the effectiveness of sales in the INTERSPORT Polska S.A. retail network (the stocks at the end of the 1st half of 2018 was higher by PLN 6,399k as compared to the stocks at the end of the 1st half of 2017),

COSTS *(in PLNk)*	from 01.01.2017 to 30.06.2017	from 01.01.2018 to 30.06.2018	%change 2017/2016
Amortisation	3 179	3 135	-1,4%
Consumption of materials and energy	1 869	1 596	-14,6%
Third-party services	21 353	19 799	-7,3%
Taxes and fees	1 220	1 272	4,3%
Remunerations	9 023	8 827	-2,2%
Social insurance and other benefits	1 897	1 765	-7,0%
Other generic costs	1 076	1 458	35,5%
Costs total	**39 617**	**37 852**	**-4,5%**

Due to decreasing the retail space, closure of the stores, sales and taking actions increasing the effectiveness of operations, the level of costs of operations in 1st half of 2018 is lower as compared to the corresponding period of previous year by about 4.5 %.

1.5 FACTORS AND EVENTS WHICH HAVE SIGNIFICANT IMPACT ON THE RESULTS OF OPERATING ACTIVITY

Table: Analytical compilation of the Company's operating result (in PLNk)

Operating result	01.01.2017 30.06.2017	01.01.2018 30.06.2018
Income from sales, including:	**90 636**	**92 952**
income from sales of products	1 362	1 391
income from sales of goods and materials	89 274	91 561
Cost of sold products, goods and materials	**54 104**	**55 502**
Gross profit from sales	**36 532**	**37 450**
cost of sales	36 105	34 457
general management costs	3 512	3 395
Profit from sales	**-3 085**	**-402**
other operating income	1 110	537
other operating costs	1 150	893
Operating result	**-3 125**	**-758**

The level of achieved profit from the sales of goods and materials has the key impact on the Company's operating result. Gross profit on sales in 1st half of 2018 increased to PLN 37,450k as compared to PLN 36,532k in 1st half of 2017 The level of profit on the sales of goods and materials generated in 1st half of 2018 was determined by higher income from sales of goods and materials (PLN 2,287k more in 1st half of 2018).

The cost of sales (mostly the costs of retail network, logistics and the Company's warehouse) in 1st half of 2018 were decreased as compared to the corresponding period of the previous year from PLN 36,105k to PLN 34,457k. Decreasing the value of this position of costs was a result of closing two stores in Q1 of 2017.

General management costs in 1st half of 2018 decreased as compared to the corresponding period of the previous year from PLN 3,512k to PLN 3,395k.

Other operating income related to i.al. accounting clearance of the EU subsidy granted in 2009 from assistance funds.

In 1st half of 2018 the operating cost was decreased by 4.5%, i.e. by 1,765k less y/y.

The operating result (EBIT) was minus PLN 758k and was higher as compared to the corresponding period of the previous year when it equalled minus PLN 3,125k.

According to the Management Board of the Company apart from the factors listed above there were no other significant extraordinary or sporadic events that had significant influence on operating result of the Company.

2. FINANCE MANAGEMENT

2.1 FINANCIAL CONDITION

The Company has introduced "**Alternative Performance Measures**" (APM") which means a measure of historical financial effectiveness of INTERSPORT Polska S.A. other than applicable in terms of financial reporting. The Company shall introduce the APM within the basic indicator in the period of historical and mid-year financial information, i.e.:

- *EBITDA = Profit / Loss from operations increased by amortization (both positions are included in the profit and loss account).*

Table: APM - Alternative Performance Measures - EBITDA (in PLNk)

APM - Alternative Performance Measures	01.01.2017 30.06.2017	2017	01.01.2018 30.06.2018
EBITDA = Profit / Loss from operations increased by amortization	54	-3 887	2 377

According to the Management Board applied indicator shall enable the capital market agents to get a fuller account of the evaluation of the Company. The values resulting from the applied indicator are a direct consequence of yearly and mid-year financial statements of the Company.

PROFITABILITY ANALYSIS [3] - APM

Table: Analysis of the profitability of Company's operation (in %)

Profitability ratios	Formula	01.01.2017 30.06.2017	2017	01.01.2018 30.06.2018
Gross margin on sales of goods	Gross profit / loss from sales of goods / income from sales of goods	39,4%	36,7%	39,4%
Return on sales	Profit / Loss from sales /income from sales of products and goods	-3,4%	-5,2%	-0,4%
EBIT return	Profit / Loss from operations / income from sales of products and goods	-3,4%	-5,6%	-0,8%
Net return	Net profit / loss / income from sales of products and goods	-3,1%	-4,9%	-1,0%
Return on assets**	Net profit / loss /assets as at the end of the period	-2,4%	-7,4%	-0,8%
Return on equity**	Net profit / loss / equity as at the end of the period	-10,5%	-43,9%	-4,8%

[3] *The rules of calculating and justification of application of profitability ratios as APM were described at the end of the report in "Explanations."*

In the 1st half of 2018 the Company recorded gross margin on sales on sales on the same level as in the 1st half of 2017, i.e. 39.4%.

In the 1st half of 2018 the profitability on sales was minus 0.4% as compared to minus 3.4% in the corresponding period of the previous year.

ROE and ROA indices from 1st January to 30 June 2018 were negative, from minus 0.8% to minus 2.4% (ROA) and from minus 4.8% to minus 10.5% (ROE) respectively. Low indices in this respect are the result of incurring a significant net loss in previous years.

2.2 PROPERTY CONDITION

TURNOVER RATIOS [4] - APM

Table: Turnover ratios of the components of the Company's working capital (in days)

Turnover cycle	Formula	As at 31.12.2017	*as at 30.06.2018
Inventory turnover cycle	Inventories at the end of the period / income from sales x number of days in the period**	91,7	83,1
Short-term liabilities turnover	Short-term liabilities / income from sales x number of days in the period **	12,9	8,2
Current liabilities turnover	Current liabilities (excluding financial liabilities) / income from sales x number of days in the period **	160,1	142,6

**/ Rates as at 30.06.2018 were calculated for the number of days equal to 180, remaining rates were calculated for the number of days equal to 365*

Inventory turnover rate was reduced from 91.7 days at the end of 2017 to 83.1 at the end of the 1st half of 2018. The reduction of inventory turnover rate was related to the increase in the value of inventories and decrease in the value of income from sales. Liabilities turnover rate was reduced from 12.9 days at the end of 2017 to 8.2 days at the end of the 1st half of 2018. Current liabilities turnover cycle at the end of June 2018 was reduced to 142.6 days.

3. INVESTMENTS

In the 1st half of 2018 the Company incurred minor expenses relating to replacement investments in the amount of PLN 530k.

Assessment of the possibility of financing the investment plans

In the 2nd half of 2018 the Company has no investment plans outside current operations.

4. CRITICAL EVENTS

[4] *The rules of calculating and justification of application of turnover ratios as APM were described at the end of the report in "Explanations."*

According to the Management Board of INTERSPORT Polska S.A. ("Company") from 1st January to 30 June 2018 no significant changes in the Company took place, except for the following:

(1) Starting from January 2018 the Company has modified their information policy and refrained from publishing monthly sales reports. Starting from 2018 the basic interval of preparing and publishing current reports relating to cyclical sales results is a quarter (details in current report no. 2/2018).

(2) On 15 March 2018 the Company Management Board informed about the conclusion of the tenancy agreement with CENTRALNA 3 Sp. z o.o. based in Krakow on the commercial facility, as a result of which starting from Q4 of 2019 the surface of INTERSPORT Polska network shall be expanded by a new outlet store of about 412 m^2 located in the new outlet center in Krakow, Nowohucka St. (details in current report no. 5/2018).

(3) On 22 March 2018 Mr. Mathias Boenke, also a member of Remuneration and Nomination Committee acting within the Supervisory Board resigned from the function of the member of the Company Supervisory Board (details in current report no. 6/2018).

(4) On 28 March 2018 the Management Board became aware of the conclusion of the tenancy agreement with SILESIA OUTLET Sp. z o.o. based in Warsaw on commercial facility, as a result of which in the 1st half of 2019 INTERSPORT Polska network shall be expanded by a new outlet store of about 398 m2 located in the new outlet center in Gliwice, Rybnicka St. (details in current report no. 7/2018).

(5) On 17 April 2018 the Company received informationthat Bank Zachodni WBK S.A. based in Wrocław signed appendices to loan agreements described in current report no. 19 of 29 May 2013, current report no. 16 of 27 May 2015 and current report no. 47 of 29 May 2017. Overdraft agreement up to PLN 500,000 (five hundred thousand PLN) was prolonged till 30 September 2018, and the maturity date falls on 30 September 2018 (details in current report no. 10/2018).

(6) On 27 April 2018 Mrs. Dorota Radwańska notified the Company of reducing the share in the total numer of votes resulting from transactions concluded on 23 April 2018 (details in current report no. 11/2018).

(7) On 21 May 2018 the Company Supervisory Board adopted a resolution on the appointment of AMZ sp. z o.o. based in Krakow as an entity authorized to audit the semi-annual financial statement of the Company and to audit the financial statement for the period from 1st January 2018 to 31st March 2019 and to audit the semi-annual

financial statement of the Company and to audit the financial statement for the period from 1^{st} April 2019 to 31^{st} March 2020 (details in current report no. 12/2018).

(8) On 5 June 2018 Raiffeisen Bank Polska S.A. based in Warsaw prolonged the debt limit agreement concluded with the Company and described in current report no. 32 of 28 April 2017. Maturity date for the limit of the debt limit agreement in the amount of PLN 6,000,000 (six million PLN) falls on 20 September 2019 (details in current report no. 15/2018).

(9) On 12 June 2018 the Management Board received information that appendices to the agreements were signed by Alior Bank Spółka Akcyjna based in Warsaw, according to which:

- overdraft agreement up to the limit of PLN 4,250,000 was prolonged till 12 June 2019;
- the last day of the period of use of the Agreement on the limit for guarantee products up to PLN 4,100,000 falls on 12 June 2019; the maturity date falls on 12 June 2020;
- o the last day of the period of use of the Agreement on the limit for guarantee products up to EUR 1.200.000 falls on 12 June 2019; the maturity date falls on 12 June 2020;
- Cooperation Agreement the Right of Subrogation (Reverse Factoring) up to PLN 3,000,000, whose last day of use of falls on 12 March 2020, and the maturity date falls on 10 June 20. (details in current report no. 16/2018).

(10) On 20 June 2018 General Meeting of Shareholders was held and as a result:

- approved the Management Board's report on operations and financial statement of the Company for the year 2017;
- granted to the members of the Management Board and the Supervisory Board discharge of the performance of duties in 2017;
- established that net loss of the Company for 2017 in the amount of PLN 8,998,743.64 net shall be covered from the Company's reserve capital;
- appointed a new member of the Company's Supervisory Board, Mr. Krzysztof Schilla (details in current report no. 18/2018).

<u>additionally after the date of the semi-annual financial statement (i.e. after 30 June 2018) -</u>

- at the end of July 2018 due to termination of tenancy agreements the Company closed two stores: store of 665 m2 located in "Galeria Wisła" shopping center at ul. Wyszogrodzka 144 in Płock (details in current report no. 20/2018), store of 908 m2 located in Warsaw, ul. Sójki 4, near "Ursynów" shopping center (details in current report no. 22/2018);
- Extraordinary General Meeting of Shareholders held on 30 August 2018 adopted Resolution no. 4 on increasing the Company's share capital by issuing new G series

shares, depriving the exisiting shareholders of full preemptive right to G series shares and offering these shares in private placement, dematerialization and conducting agreements with National Depository for Securities [*Krajowy Depozyt Papierów Wartościowych*] on registration of G series shares and the right to G series shares in the depository of securities and applying for admittance of the right to G series shares and introduction of G series shares to regulated market conducted by Warsaw Stock Exchange S.A. (details in current report no. 26/2018)

5. TRANSACTIONS WITH RELATED ENTITIES

INTERSPORT Polska S.A. (Company) does not have related entities that meet the definition of related entity pursuant to the provisions of the Accountancy Act of 29 September 1994 (as amended).

INTERSPORT Polska S.A. did not conclude any agreements with related entities on conditions other than market conditions in accordance with the definitione of related entity defined by international accounting standards adopted in accordance with the regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.9.2002, p. 1-4 as amended – Special edition in Polish: Chapter 13 Volume 029 P. 609 – 612 as amended).

6. ABOUT INTERSPORT Polska S.A.

Headquarters:	Cholerzyn
Legal form:	Joint-stock co. [*Spółka akcyjna*]
Legislation under which the Company operates:	INTERSPORT Polska S.A. was established under the Polish Commercial Code and operates according to the provisions of polish Commercial Companies Code. The Company being a public company operates under the regulations which determine capital market functioning.
Country:	Poland
Address:	Cholerzyn 382, 32-060 Cholerzyn
Phone no.:	(+48) 124448100, 124448103
Email:	biuro@intersport.pl
Website:	www.intersport.pl

INTERSPORT Polska S.A. was entered into register of entrepreneurs of the National Court register by the District Court for Krakow-Śródmieście in Krakow, XII Commercial Division of the National Court Register under the KRS number 0000216182. The Company was assigned the NIP identification number: 6760016553. The identification REGON numer of the Company is: 003900187.

6.1. Organization structure

INTERSPORT Polska S.A. is not a capital group, where it would be a dominant entity, but also does not belong to the capital group where it would be a dependent entity. The Company is not directly or indirectly owned or controlled.

6.2. Organizational and capital relationships

LICENSE AGREEMENT

Owing to the Agreements signed on 9 March 2017 with INTERSPORT International Corporation (IIC) the Company, INTERSPORT Polska S.A. is the sole business partner of INTERSPORT Group in Poland. On the basis of concluded Agreements with IIC, INTERSPORT Polska S.A. as the licensee, was granted directly by IIC: (i) exclusive right to use the protected INTERSPORT trade mark on the territory of Poland, in terms of services and goods the trade mark was registered for; (ii) exclusive right to import, promote, distribute, advertise and sell on the territory of Poland offered and manufactured by IIC goods and services marked with other trademarks registered on the behalf of IIC in other words, INTERSPORT exclusive brands; (iii) exclusive right to develop the network of own sports shops, as well as franchise, under the INTERSPORT logo; (iv) the right to purchase goods marked as INTERSPORT exclusive brands directly from their manufacturers via the agent, i.e. IIC.

INVESTMENT AGREEMENT

Pursuant to the Investment Agreement signed by INTERSPORT Polska S.A. (IPL) of 27 October 2005, the company INTERCONTACT Beteiligungsgesellschaft mbH - former: INTERCONTACT Werbeangentur GmbH (ITC), holds 1,666,666 registered voting preference shares (Series C1 Shares), 1,166,668 ordinary bearer shares (Series C2 Shares), 650,000 ordinary bearer shares (Series E Shares), constituting 15.22% of share capital and authorizing to 17.73% votes at the General Meeting of Shareholders of INTERSPORT Polska S.A.. ITC is a subsidiary of INTERSPORT Deutschlang eG (former sub-licensor of IPL).

6.3 INTERSPORT GROUP in the world

INTERSPORT Group is the largest in the world organization dealing in retail sale of sporting goods. Annual sales conducted in over 5,647 stores all over the world under the label of INTERSPORT amounts to EUR 11.5 billion including VAT.

INTERSPORT Group gathers entities which: (1) conduct economic activity, (2) are authorized to use INTERSPORT trade mark and to trade INTERSPORT exclusive brands, (3) make joint purchases, (4) use common model of economic activity, under uniform international standards.

INTERSPORT Group is present in 45 countries on five continents. After Europe, Canada, Near East, Asia and Australia, the time has come for South America. Till 2020 in Chile over 40 stores are to be open under the INTERSPORT label.

6.4 Core activity of the Company

The Company operates on the retail market of sporting goods which is developing in Poland. As at 30 June 2018 the Company conducted activity in 31 own INTERSPORT stores of the total retail surface of 28,933 m^2 located in 23 urban agglomerations.

6.5 The concept of a model store

LOCATION – the largest shopping centers in the leading cities of Poland

STORE SIZE – about 1,000 m^2, which allows full presentation of wide range of assortment of branded goods and sports outfit.

UNIFORM INTERIOR – all stores have uniform interior design and shop window arrangement. Exposition are changed according to the seasons, which shall remind about the coming season and activities related to it.

DISPLAY OF GOODS – well-thought arrangement of goods in thematic lines shall help customers do efficient shopping. Boards advertising promotions and marketing campaigns are placed along the alleys leading the customer through the store.

ASSORTMENT – the main offer is composed of the best brands of leading sports manufacturers well recognized by the customers. As the supplement to them, an the level of medium price shelf, exclusive INTERSPORT brands are gradually introduced, in order to eventually constitute 25% of the whole assortment offered in the stores. Such products policy makes INTERSPORT stores unique among the competition. Customers can purchase specialist goods and general sports goods.

SERVICES – the Company pays great attention to the customer service which is not limited to sales. The customer gets the chance to service purchased equipment, participate in sport and recreation events and test the most recent skiing and snowboarding equipment in INTERSPORT RENT.

PROFESSIONAL SKI SERVICE – service is performed with the use of fully automatized and efficient *Montana* and *Wintersteiger* machines for base repairs. The machines guarantee quick and high quality service. They are installed in the biggest INTERSPORT stores.

MAINTENANCE SERVICES – in each store in the summer season the following are available: (1) **bike service** – which offers guarantee and post-guarantee overhauls, replacement of bike components, including elements upgrading the comfort of use, (2) **tennis service** – which offers replacement of strings and stringing the rackets with specialist *Babolat* or *Pro Spro* equipment, (3**) rollerblades service**, (4) **skate blade sharpening service**.

LOGISTIC SYSTEMS – the Company has central information system which allows detailed reporting on sales, supervising warehouse management and automatizing the activities regarding the price level and discounts.
SECURITY SYSTEMS – the stores are equipped with full antitheft security system including: special lockers for bags and backpacks for customers , alarm connections, electronic gates, elements securing the goods.
INTERNAL CONTROL – in order to streamline the functioning of the stores complex instructions of acting for the store staff including the division into positions were implemented. The control over the appropriate operation of the shops is managed by particular departments in the headquarters according to the delegated tasks.
CUSTOMER TRAFFIC MONITORING SYSTEM – stores are equipped with professional customer counter located at the gates to register the number of customers visiting the stores.
PROMOTION AND MARKETING – the Company follows a well-thought marketing plan to reinforce the image of INTERSPORT brand in Poland. Additionally, it organizes multiple promotional campaigns reinforcing sales by means of different media.

6.6 Complementary activities

- The following services are available seasonally: (1) bike service – which offers guarantee and post-guarantee overhauls, replacement of bike components, including elements upgrading the comfort of use, (2) tennis service – which offers replacement of strings and stringing the rackets with specialist *Babolat* or *Pro Spro* equipment, (3**)** rollerblades service, (4) skate blade sharpening service, (5) professional ski service - performed with the use of fully automatized and efficient *Montana* and *Wintersteiger* machines for base repairs

- Regular customers get the chance to participate in **"eKARTA INTERSPORT" program**, which is based on the system of vouchers generated during shopping. Additionally, loyalty card entitles to discount on services and participation in special sales promotions and sporting events.

- The Company provides online sales at the following address: www.intersport.pl, which is of particular importance for the customers from the regions where INTERSPORT does not have its stores. In May 2017 new eCommerce platform was launched made on the basis of renowned Magento solution, which guarantees many innovative functionalities to facilitate its operation servicing and make the platform maximum user-friendly. Sales platform and CMS views are constructed in responsive way, i.e. they flexibly adjust to the device they are displayed on. Dedicated functions were adjusted to the requirements of business strategy of the Company. eCommerce store meets all standards of modern customer service in the multichannel sales model:

- Support for eKarta, loyal customer and all promotions functioning in the brick and mortar.
- Click & Collect Process – in-store pickup, courier delivery.
- Sales mechanisms: bundle offer, full range of catalogue and basket promotions.
- Discount codes and gift vouchers module.

eCommerce platform is integrated with the external systems ERP / POS / WMS by data bus ESB which ensures safe and quick communication. Thanks to open technology used during the construction of eCommerce platform current development of the application adjusting its functions to changing needs is possible. Applied systems guarantee service of a large number of customers at the same time. The Company aim is to make the offline and online offer the same.

- In selected stores **INTERSPORT RENT** is available. The customer before purchasing has the opportunity to test the newest collection of winter equipment.

- In order to make the communication system with the customer better, the Company established **CUSTOMER SERVICE +48 801-500-502**, which shall help, i.al. in obtaining quick and professional information about services, availability of goods in different stores, handling complaints and the rules of loyalty program.

6.7 Number of stores (as at 30.06.2018)

INTERSPORT Polska S.A. headquarters and central warehouse of about 2 500 m^2 are located in Cholerzyn 382, gm. Liszki k/Krakowa. The table below presents the list of INTERSPORT Polska S.A. stores.

1	Kraków	CH Zakopianka	ul. Zakopiańska 62, 30-418 KRAKÓW
2	Bielsko-Biała	CHR Sfera	ul. Mostowa 5, 43-300 BIELSKO-BIAŁA
3	Warszawa	Arkadia	al. Jana Pawła II 82, 01-501 WARSZAWA
4	Katowice	Silesia City Center	ul. Chorzowska 107, 40-101 KATOWICE
5	Łódź	CH Manufaktura	ul. Karskiego 5, 91-071 ŁÓDŹ
6	Gdańsk	CH Madison	ul. Rajska 10, 80-850 GDAŃSK
7	Kraków	Galeria Krakowska	ul. Pawia 5, 31-154 KRAKÓW
8	Warszawa	Sadyba Best Mall	ul. Powsińska 31, 02-903 WARSZAWA
9	Gdańsk	Galeria Bałtycka	al. Grunwaldzka 141, 80-264 GDAŃSK

10	Wrocław	Magnolia Park	ul. Legnicka 58, 54 - 203 WROCŁAW
11	Poznań	Galeria Pestka	al. Solidarności 47, 61-696 POZNAŃ
12	Bydgoszcz	Focus Mall	ul. Jagiellońska 39-47, 85-097 BYDGOSZCZ
13	Białystok	CH Alfa	ul. Świętojańska 15, 15-277 BIAŁYSTOK
14	Poznań	CH King Cross Marcelin	ul. Bukowska 156, 60-198 POZNAŃ
15	Gdynia	CH Riviera	ul. Kazimierza Górskiego 2, 81-304 GDYNIA
16	Opole	GH Solaris Center	pl. Kopernika 16, 45-040 OPOLE
17	Częstochowa	GH Jurajska	al. Wojska Polskiego 207, 42-202 CZĘSTOCHOWA
18	Zakopane	Wierchy	ul. Tetmajera 2, 34-500 ZAKOPANE
19	Radom	Galeria Słoneczna	ul. Chrobrego 1, 26-600 RADOM
20	Szczecin	Galeria Kaskada	Al. Niepodległości 36, 70-404 SZCZECIN
21	Rzeszów	Milenium Hall	Al. Mjr. Kopisto 1, 35-315 RZESZÓW
22	Gorzów Wlkp.	CH Nova Park	ul. Przemysłowa 2, 66-400 GORZÓW Wlkp.
23	Kielce	Galeria Korona	ul. Warszawska 26, 25-312 KIELCE
24	Kraków	Galeria Bronowice	ul. Stawowa 61, 31-346 KRAKÓW
25	Lublin	Atrium Felicity	Al. Witosa 32, 20-331 LUBLIN
26	Kalisz	Galeria Amber	ul. Górnośląska 82, 62-800 KALISZ
27	Olsztyn	Galeria Warmińska	ul. Tuwima 26, 10-748 OLSZTYN
28	Bydgoszcz	Zielone Arkady	ul. Wojska Polskiego 1, 85-171 BYDGOSZCZ
29	Poznań	CH Posnania	ul. Pleszewska, 61-136 POZNAŃ
30	Płock	Galeria Wisła	ul. Wyszogrodzka 144, 09-410 PŁOCK
31	Warszawa	Ursynów	ul. Sójki 37, 02-812 WARSZAWA

** stores closed after 30 June 2018*

6.8 State and structure of employment

As at 30 June 2018 there were 389 employees with the employment contract - including 22 disabled persons. The Company also permanently cooperated with 49 persons conducting specialized economic activity. These persons performed contracted activities (outsourcing) under the conducted agreements. From 1 January to 30 June 2018 the Company employed 51 persons (contracts were terminated with 93 persons). Average employment within the period from 1 January to 30 June 2018 equalled 401 persons.

6.9 Company Authorities

MANAGEMENT BOARD

The Management Board works in the panel of two members. The term of office of Artur Mikołajko, the President of the Management Board shall expire in June 2019, and of Sławomir Gil, the Vice-President – in June 2020. The mandate of each member expires as at the date of the General Meeting of Shareholders approving the company's financial statement for the previous full financial year of acting in the capacity.

SUPERVISORY BOARD

The term of office of the following members of the Supervisory Board: Artur Olender, Beata Mikołajko, Łukasz Gil shall expire in 2020, the term of office of Krzysztof Pieła, Wojciech Mamak and Jarosław Krotacz shall expire in 2022, and the term of office of Krzysztof Schilla shall expire in 2023. The mandates of all members of the Supervisory Board shall expire as at the date of General Meeting of INTERSPORT Polska S.A. Shareholders approving the company's financial statement for the previous full financial year of acting in the capacity.
Artur Olender, Beata Mikołajko and Łukasz Gil have acted in the capacity of members of the Supervisory Board since 2004; Krzysztof Pieła, Wojciech Mamak, Jarosław Krotacz have acted in the capacity of members of the Supervisory Board since 2017, and Krzysztof Schilla has acted in the capacity of members of the Supervisory Board since 2018.

From 1 January to 22 March 2018 the Supervisory Board worked in the panel of seven persons. On 22 March 2018 Mr. Mathias Boenke also a member of Remuneration and Nomination Committee acting within the Supervisory Board resigned from the function of the member of the Company Supervisory Board (details in current report no. 6/2018).

After appointing Mr. Krzysztof Schilla a new member of the Supervisory Board on 20 June 2018 by WZA (details in current report no. 18/2018), the Company's supervising body again works in the panel of seven persons.

Audit committee and remuneration committee

Audit commission (Audit Committee) and remuneration committee, and nomination committee (as one body under the name: Remuneration and Nomination Committee) operate within the Supervisory Board. Audit Committee and Remuneration and Nomination Committee operate within the Supervisory Board. Audit Committee is composed of: Wojciech Mamak, Łukasz Gil and Jarosław Krotacz. Mr. Wojciech Mamak and Mr. Jarosław Krotacz are experts in trade industry, in area of which the Company operates, and Łukasz Gil meets the requirements of holding qualifications in accounting or auditing. Remuneration and Nomination Committee is composed of: Jarosław Krotacz and Wojciech Mamak.

The Management Board of the Company reckons that Jarosław Krotacz and Wojciech Mamak meet the criteria of independence agreed upon the act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws of 2017, item 1089), and pursuant to Appendix II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC OJ L 2005.52.51 of 25 February 2005) which refer to "Good Practices of Companies Listed on Stock Exchange 2016," the Appendix to the Resolution No. 26/1413/2015 of the Supervisory Board of Warsaw Stock Exchange S.A. of 13 October 2015 and they are knowledgeable and skilled at the trade industry of the INTERSPORT Polska S.A. operations.

THE RISK OF THE CONFLICT OF INTEREST

Neither the members of the Management Board nor of Supervisory Board conduct private businesses or perform other duties that are in conflict with the interest of the Company, provided that:

- there are particular family relations between the members of the Management Board and Supervisory Board (refers to the relations between Artur Mikołajko and Beata Mikołajko and Sławomir Gil and Łukasz Gil);

- Krzysztof Schilla is related to INTERSPORT Group – INTERCONTACT Werbeagentur GmbH, the company belonging to the group is a shareholder of INTERSPORT Polska S.A.,
  and IIC-INTERSPORT International Corporation GmbH, a company operating within the group is the licensor of trade marks used in the Company's operation;

- Krzysztof Pieła, the member of Supervisory Board is a partner in LARIX, Janusz Pieła – sp. j., where the Company purchases sports goods and accessories.

- Wojciech Mamak – does not conduct private business and does not perform other duties which might be in conflict with the interest of the Company,

- Jarosław Krotacz – does not conduct private business and does not perform other duties which might be in conflict with the interest of the Company,

7. SHARES AND SHAREHOLDERS

7.1 Shareholders structure

The Company's share capital is PLN 2,288.070.00 (two million two hundred and eighty-eight thousand seventy zloty) and is divided into 22,880,700 (twenty-two million eight hundred and eighty thousand seven hundred) shares of nominal value of PLN 0.10 (zero zloty ten grosz) each, including:

1) 4,500,000 (four million five hundred thousand) series A registered shares,

2) 500,000 (five hundred thousand) series A ordinary bearer shares,
3) 3,500,000 (three million five hundred thousand) series B ordinary bearer shares,
4) 1,666,666 (one million six hundred and sixty-six thousand six hundred and sixty-six) series C1 registered shares,
5) 1,166,668 (one million one hundred and sixty-six thousand six hundred and sixty-eight) series C2 ordinary bearer shares,
6) 100,000 (one hundred) series D ordinary bearer shares,
7) 2,500,000 (two million five hundred) series E ordinary bearer shares,
8) 8,947,366 (eight million nine hundred and forty-seven thousand three hundred and sixty-six) series F ordinary bearer shares.

7.2 Significant shareholders

Indication of shareholders holding directly or indirectly via related entities at least 5% of total number of votes at the general meeting of the issuer as at the date of the regular report (30 August 2017) with the indication of the number of shares held by these entities, their percentage share in the share capital, the number of votes resulting from them and their percentage share in the total number of votes at the general meeting.

INTERSPORT Polska S.A. shareholders who directly or indirectly hold shares in the Company's capital or the right of vote subject to the submission under Polish law are the following INTERCONTACT Beteiligungsgesellschaft mbH, Artur Mikołajko, Sławomir Gil, Jolanta Milewska, Dorota Radwańska, Janusz Pieła and Krzysztof Pieła.

Table: Significant shareholders of INTERSPORT Polska S.A.

Shareholder	Share series	Type of shares	No. of shares	Total no. of shares	Share in share capital (%)	No. of votes at GM	Share in total no. of votes at GM (%)
INTERCONTACT Beteiligungsgesellschaft	C1	Registered, preference	1 666 666	3 483 334	15,22%	5 150 000	17,73%
	C2, E	Ordinary bearer	1 816 668				
Krzysztof Pieła	F	Ordinary bearer	3 457 895	3 457 895	15,11%	3 457 895	11,90%
Janusz Pieła	F	Ordinary bearer	3 357 895	3 357 895	14,68%	3 357 895	11,56%
Artur Mikołajko	A	Registered, preference	1 250 000	1 918 054	8,38%	3 168 054	10,91%
	B, D	Ordinary bearer	668 054				
Sławomir Gil	A	Registered, preference	1 250 000	1 918 054	8,38%	3 168 054	10,91%
	B, D	Ordinary bearer	668 054				
Dorota Radwańska with related persons	A	Registered, preference	1 250 000	1 645 942	7,19%	2 895 942	9,97%
	B, D	Ordinary bearer	395 942				

Jolanta Milewska	A	Registered, preference	750 000	750 000	3,28%	1 500 000	5,16%

Compilation of the number of INTERSPPL shares was prepared on the basis of notification received from the shareholders defined in art. 69 of the Act on Offering and art. 19 para. 1 of MAR Resolution.

7.3 Changes in the qualifying holding structure of INTERSPORT Polska S.A. shares

On 27 April 2018, significant shareholder of the Company, Mrs. Dorota Radwańska notified the Management Board of decreasing the share in the total number of votes resulting from the transaction of selling 26,000 INTERSPORT Polska S.A. shares on 23 April 2018. Transactions were between her and her daughters, i.e. persons alleged to be involved in agreement stipulated in art. 87 para. 1(5) in conjunction with art. 87 para. 4 of the Act on Offering. As a result of the above transactions the nuber of shares held by Mrs. Dorota Radwańska and her daughters was decreased to holds 1,645,942 INTERSPORT Polska S.A. shares, which equals 7,19% of share capital of the Company, entitling to 2,895,942 votes at the General Meeting, which equals 9.97% of the total number of votes (details in current report no. 11/2018).

7.4 Number of shares held by managing and supervising persons

Compilation of the number of issuer's shares or rights to them (options) held by persons managing or supervising the issuer as at the date of the regular report (30 June 2018), with the indication of changes in holding during the period from the submission of the previous regular report (20 April 2018) separately for each person.

Table: Number of shares held by managing and supervising persons

managing /supervising person	total no. of shares as at the date of report submission for Q1 of 2018 i.e. 20.04.2018	changes in property structure from 20.04.2018 to 30.06.2018.	no. of shares as at the date of report submission for 1st half of 2018 i.e. 30.08.2018
Artur Mikołajko President of the Board	1 918 054 shares	N/A	1,918,054 shares which equals: 8.38% share in the share capital and 10.91% share of votes at GM
Sławomir Gil Vice-President of the Board	1 918 054 shares	N/A	1,918,054 shares which equals: 8.38% share in the share capital and 10.91% share of votes at GM

Łukasz Gil Member of Supervisory Board	4 500 shares	N/A	4 500 shares which equals: 0.02% share in the share capital and 0.01% share of votes at GM
Krzysztof Pieła Member of Supervisory Board	3 457 895 shares	N/A	3,457,895 shares which equals: 15.11% share in the share capital and 11.90% share of votes at GM

Compilation of the number of INTERSPPL shares was prepared on the basis of notification received from the shareholders defined in art. 69 of the Act on Offering and art. 19 para. 1 of MAR Resolution.

7.5 Description of dividend policy

The guiding principle of INTERSPORT Polska S.A. Management Board regarding the dividend policy is realization of payments according to the size of generated profit and current capability of the Company. In announcing proposal for dividend payment the Management Board is guided by the necessity of ensuring financial liquidity and capital necessary for development of operations, including the capital necessary to keep relevant stock inventory to ensure effective sales and potential investments in terms of obtaining new stores. It is pertinent to state that INTERSPORT Polska S.A. Management Board when making decisions relating to recommendations regarding dividend payments shall in the future take particular account of current and future financial situation of the Company, its strategic objectives and efficiency of planned investment projects. The resolution on division of profit and dividend payment is adopted by the Ordinary General Meeting of Shareholders taking into account i.al. recommendation of the Management Board in this regard, yet such recommendation is not binding for the Ordinary General Meeting of Shareholders.

8. ASSORTMENT POLICY

8.1 Commercial offer

Majority of the INTERSPORT Polska retail network stores offer are the brands of the world leading producers and their special offers. The collection is seasonally enriched by supplementary brands and exclusive INTERSPORT brands.

LEADING BRANDS (alphabetically) – Adidas, Alpina, Asics, Atomic, Berkner, Buff, Burton, Descente, Everlast, Fischer, Giant, Head, Jack Wolfskin, K2, Merrell, Nike, The North Face, Odlo, Puma, Reebok, Rollerblade, Romet, Rontil, Rossignol, Salomon, Speedo, Under Armour, Uvex, Volkl, 4F.

SPECIAL OFFERS of leading brands – models unavailable in catalogue sales designed particularly at INTERSPORT Group order and available exclusively in the stores of this network. Currently INTERSPORT has the widest choice of special offers of the strategic brands in the world.

COMPLEMENTARY BRANDS (alphabetically) – Abus, Accent, Activita, Aim, Anon, B2, Babolat, Barts, Basis, Bauer, Benlee, Bestway, Bolle, Brunotti, Butterfly, Campagnolo, Camping Gas, Cat, Cep, Citadel, Coleman, Columbia, Contim, Continental, Craft, Cressi, Dalbello, Deuter, Dunlop, Ecco, Elan, Feba, Fila, Gabel, Garmin, Garmont, Geobike, Giro, Goggle, Grangers, Gri Sport, Hanna, Hektor, Helly Hansen, Icebreaker, JJW, Keen, Kettler, Killtec, Komperdel, Lange, Leki, Lonsdale, Lowe Alpine, MacTronic, Mammut, Mechanics, Meindl, Mikasa, Mueller, Nikwax, Nordica, Nutrend, Olang, ONeill, Only Hot, Oshee, Packlon, Phenix, Polar, Powerblade, Protest, Quiksilver, Raibaru, Reda, Relax, Reusch, Rider, Romet, Roxy, Salewa, Schildkrot, Sea To Summit, Seac Sub, Shimano, Shock, Sidas, Sigma, SMJ, Spalding, Spokey, Spotlite, Spree, Suunto, Tempish, Topeak, Toro, Trelock, Tusa, Viking, Vision, Wilson, X-Bionic, Xenofit, x-socks, Ziener.

"INTERSPORT" EXCLUSIVE BRANDS (alphabetically) – Genesis, Energetics, Etirel, Firefly, McKinley, Nakamura, Pro Touch, Tecno Pro.

8.2 Suppliers and source of supplies

INTERSPORT Polska S.A. cooperates with over 100 suppliers. In the first half of 2018 significant percentage of contribution to the total purchase was generated by: (1) Adidas Poland sp. z o.o. (Adidas and Reebok brands) – 16,6% share in total purchase, (2) Giant Polska (Giant brand) – 11,6% share in total purchase.

INTERSPORT Polska S.A. is capable of negotiating favorable conditions of cooperation with selected supplier, changing the contractor to the one offering more favorable conditions of cooperation within a particular product group or choosing the alternative supply channel in central warehouse of INTERSPORT Group.

8.3 Characteristics of sales

STRUCTURE

In 1st half of 2018 significant share in INTERSPORT Polska S.A. turnover (98,5%) belonged to the sales of sporting goods. The remaining part of income (1,5%) was generated by services including: ski service, bike service, tennis and rollerblade services. In 1st half of 2018 the largest percentage share in the structure of sales had such groups as: tourism, skiing and fitness training. As compared to the corresponding period of the previous year, the largest dynamics of sales was recorded in the following product groups: skiing, team sport and multisport textile and equipment.

SEASONALITY AND CYCLITALITY OF OPERATIONS

The sales of INTERSPORT Polska S.A. network is subjected to fluctuations connected with seasonality – characteristic of the whole sports industry. It is dependent on the seasons of the year and weather conditions. In order to minimize the factor of seasonality which affects the Company's operation, a major change was introduced to the product group policy. The percentage contribution of winter goods to the total sales was decreased in favor of all-year goods. The stores were divided into permanent all-year zones for presentation of the offer, i.al. football, running, fitness, outdoor and swimming. In order to reinforce the sales of all-year goods the Company is striving for gaining independence from volatile winter and levelling off the income from sales in particular quarters.

9. MARKETING ACTIONS

9.1 Sales support

In 1st half of 2018 INTERSPORT Polska S.A. network organized a number of promotional and marketing actions for sales support in compliance with the internal marketing plan. Realized campaigns used both BTL and ATL communication tools.

Above all, in the spring-summer season the Company supported through marketing key categories like: biking, football, fitness, running and tourism, and also winter sale.

In the first half of 2018 INTERSPORT Polska network carried out a number of support actions for sales and key categories products:

- In February 2018, as part of fitness category support, a campaign was organized with Reebok brand to promote the new collection of Reebok Sprint TR fitness shoes and activation for the customers, in particular a game which involved finding numbered deltas with the help of a tablet and performing exercises displayed on the screen. The discount was granted for each exercise.
- In March 2018, as part of football category support, a football campaign ”Here to create” was organized with Adidas brand to promote the new X line collection of shoes. Additionally an activation ”Buy football products for PLN 250 and get an Adidas football for PLN 10” was organized.
- From March to April 2018 some activations supporting new collections were organized with leading brands such as: Adidas, New Balance and Salomon in trial running category. For the first time an integrated campaign promoting running goods of exclusive brand – ProTouch.
- Till June 2018 the Company was present during locally organized recreation running events, half-marathons and triathlons – mainly in the cities where INTERSPORT has its stores. During the largest in Poland Orlen Marathon in Warsaw, INTERSPORT network organized a sales stand with the point of foot testing which was a great opportunity to meet a number of existing and prospect customers.
- In the spring-summer season a number of support actions for bike sales were carried out. The Company was involved in the campaign supporting sales of the new collection of Romet bikes available in INTERSPORT stores.

- In cooperation with Salomon a campaign supporting tourism assortment was organized in the form of a competition with Suunto watch as the main prize.
- As a support of McKinley Outdoor exclusive brand an Internet campaign and BTL and ATL campaign was carried out where BTL shopwindows and materials were used in the stores.
- In connection with 2018 FIFA World Cup Russia in June the Company promoted in the stores and on the Internet the official World Cup footballs, Polish representation jerseys and the new collection of football shoes prepared for the occasion by Adidas and Nike.

9.2 Loyalty customers

INTERSPORT Polska network has an active loyalty program based on rewarding the customers with a voucher for shopping. Besides regular operation of the program, the Company realized additional promotional actions dedicated exclusively to the loyal customers. Apart from sending the newsletter, information about and discounts and sales, numerous promotional actions were carried out to activate the participants of "eKARTA INTERSPORT" program to visit and do shopping in the INTERSPORT network.

9.3 Awards and recognitions

In 1st half of 2018 INTERSPORT Polska S.A. network was awarded in the largest in Poland ranking of consumer satisfaction and was granted a title of "Star of Customer Service 2018".

Polish Customer Service Program has been collecting shopping experience of customers for 11 years on jakoscobslugi.pl website. In cooperation with SecretClient® experts in terms of mystery shopping and NPS it has carried out marketing research and published reports on the standards and customer service in Poland and development of the standards of service.

10. PERSPECTIVES and DEVELOPMENT STRATEGY

Since 2017 INTERSPORT network has been systematically implementing the rules of new business model in connection with signing direct license agreements and agency agreement concluded with IIC-INTERSPORT International Corporation GmbH.

10.1 Change of fiscal year

In conjunction to the change of financial and fiscal year of the Company made in accordance with the Resolution No. 16 of 30 June 2017 of the Ordinary General Meeting of Shareholders on the change of financial and fiscal year and the amendment to para 34 of the Statutes of the Company, **financial and fiscal year of the Company beginning on 1 January 2018 shall end on 31 March 2019.**

The first financial and fiscal year of the Company defined according to the new rules shall begin on 1 April 2019 and finish on 31 March 2020.

10.2 New products and services

In 1st half of 2018 INTERSPORT Polska S.A. network introduced the new expanded offer of INTERSPORT exclusive brands such as: Genesis, Energetics, Etirel, Firefly, McKinley, Nakamura, Pro Touch, Tecno Pro. The Company intends to optimally adjust these products' prices to the reality of Polish market.

10.3 Optimization of retail network

The Company continues process of retail network optimization inter alia by not prolonging tenancy agreements of less profitable stores. For this reason on 31 July 2018 the Company closed two INTERSPORT stores: store of 665 m^2 located in Galeria Wisła in Płock and store of 908 m^2 located at ul. Sójki 4 in Warsaw near CH Ursynów.
Additionally from 1 January 2018 to date of publication of this report the Company prolonged the tenancy agreements relating to the stores located in Bydgoszcz (CH Focus), Gdańsk (Galeria Bałtycka) and Warsaw (CH Sadyba).

Starting from 1 September 2018 the Company will conduct the activity in 29 sports INTERSPORT stores located in 22 urban agglomerations of the total retail surface of 27 360 m^2, i.e. by 5.4% less as compared to the situation as at 30 June 2018 (was: 31 stores of total surface of 28 933 m^2). All existing INTERSPORT stores are the stores of the Company.

10.4 Dependent and independent factors which may have impact on the results in the perspective of 2018

The largest impact on the Company's performance in the perspective of the following six months shall have general socio-economic situation in the country, the wealth of the Poles and weather conditions which directly affect the growth or drop in demand for sporting goods offered by INTERSPORT Polska S.A.

- Political and economic conditions in Poland which may affect the increase in EUR and USD exchange rate. Weakening of PLN to EUR may increase the cost of tenancy, and weakening of PLN to EUR or USD means for the Company higher cost of purchase of goods and higher cost of rentals;
- Decrease or increase in the wealth of Polish citizens may favor or hinder development of retail sales;

- Unusual weather conditions which may affect the increase or decrease in the interest of customers in disciplines that are dependent on the weather conditions (specificity of sports industry).

11. COURT PROCEEDINGS AND ARBITRATION

On 18 January 2018 INTERSPORT Polska S.A. (”Company” ”INTERSPORT”) submitted an application to the Arbitration Court at the Polish Chamber of Commerce in Warsaw to order Samuri Investments Spółka z ograniczoną odpowiedzialnością based in Warsaw (”Samuri Investments”), KRS0000275062, from which the Company used to rent a commercial facility located in Warsaw at ul. Sójki 37, to pay damages of PLN 915,139.90 with statutory interest for making imossible for the Company to conduct business in the facility from 25 September 2017 to 30 April 2018.

Pursuant to the tenancy agreement the Company was entitled to claim from Samuri Investments payment of contractual penalty for each day of delay in seamless access to the facility and delivery point. Tenancy agreement on the above facility terminated on 31 July 2018. The Company reserves the right to further claims.
The result of the above proceedings will have impact on future improvement of financial results of the Company in terms of the loss of profit.

12. RISKS AND THREATS for one year

12.1 INTERNAL FACTORS

The risk relating to the execution of strategic objectives
The future position of the Company’s income and profit depend on its capability to develop and implement long-term strategy. Any decisions made as a result of faulty assessment of the situation or the incapability of managing dynamic development or adjustment to changing market conditions may have significant negative impact on the activity, financial situation, results or the Company’s perspectives.

The risk relating to the failure to issue new shares
The Management Board cannot guarantee that the Company will achieve the objective of increasing share capital of INTERSPORT Polska S.A. by issuing new G series shares, depriving the exisiting shareholders of full preemptive right to G series shares and offering these shares in private placement, dematerialization and applying for admittance of the right to G series shares and introduction of G series shares to regulated market conducted by Warsaw Stock Exchange S.A. – since it is dependent on the offers from potential investors. In case such offers do not appear or the G series shares ara not acquired in full, the Company may not obtain additional means for improving the level and structure of equity, which is necessary for further development and achievement of strategic objectives of the Company.

The risk relating to the fact that the members of managerial staff do high-risk sports.

The Company's managers and directors are passionate about different sports disciplines. They do sports on an advanced level and often participate in events and excursions of high-risk. It is connected with the possibility of being injured causing a long absence at work. The risk of related disturbances is minimised by delegating replacements during such absence and carrying out strategic projects in multi-person teams, which may have significant negative impact on the activity, financial situation, results or the Company's perspectives.

The risk relating to the delay in or failure to open the stores in planned locations or the availability of new locations

The Company, while realising planned development strategy, frequently signs the tenancy agreements with the newly built shopping centres, whose construction is not complete. There is a risk that due to the event beyond the Company's control the construction of a shopping centre where the Company was ready to open the shop is delayed or ceased, the dynamics of development of retail network may slow down and in consequence lead to failing to achieve expected financial results, which may have significant negative impact on the activity, financial situation, results or the Company's perspectives.

The factor which plays significant role in development of retail network in Poland and realization of the strategy of development is the availability of new attractive locations for new stores to open. Possibility to obtain new locations is directly connected with the current situation on commercial real estate market, particularly with availability of funding for the needs of this kind of ventures, availability of existing facilities and competition in terms of obtaining them, including outside of retail sales industry. The choice of location is preceded by detailed analysis and determined by many factors connected with its potential. Provided that unfavorable trends occur in terms of the listed factors, the Company may have trouble developing the retail network smoothly and effectively or obtaining an attractive location may be connected with higher expenditures. The limited availability of attractive locations or related increased cost of rental or the choice of non-attractive locations may negatively affect the operations, financial situation, performance or the Company's perspectives .

The risk relating to the location of INTERSPORT Polska stores

The Company has the stores located in shopping centers in different cities in Poland. The popularity and attractiveness of particular shopping centers are subject to significant changes i.al. in terms of marketing actions conducted by them, opening new competitive centers etc. Incorrect analysis of the potential of a given location or deterioration of its popularity and attractiveness among the customers results in risk that a store in such location will not realize the expected level of sales or margin, or will achieve them in a longer term than initially expected. It cannot be ruled out either that historically profitable stores in the future will realize the levels of sales or margins on dissatisfactory levels or the tenancy agreements will be terminated or not prolonged under desired conditions. This might be the result of e.g. opening other competitive stores in the neighborhood, change in feelings about a given location, faulty marketing policy or increasing the cost of rental of a given store. The occurrence of the above conditions may negatively affect the operations, financial situation, performance or the Company's perspectives.

The risk relating to the trademarks used by the Company

The Company within its activity uses both own trademarks, licensed trademarks of INTERSPORT Group and trademarks of third persons – particularly of the manufacturers of goods offered by the Company. The risk of infringement of protected trademarks used by the Company, by third persons and also of the damage to the image and reputation of the Company or the decrease in the income or margin related to such infringement cannot be ruled out. It cannot be ruled out that certain operations of the Company may infringe the rights of third persons in terms of trademarks belonging to them, which may give rise to significant costs or losses on the Company's side, and may negatively affect its reputation. The risk that registered trademarks, both those belonging to the Company and third persons including INTERSPORT Group, will be questioned. There is a risk that the Company will lose control over own trademarks or lose the possibility of using trademarks belonging to third persons including INTERSPORT Group. There is particularly the risk that third persons including INTERSPORT Group will dispose of trademarks they are entitled to use with the omission or infringement of the Company's interest. The risks relating to INTERSPORT International Corporation GmbH licensed trademarks were described in more detail in the risk factor "the risk of losing INTERSPORT license." The occurrence of the above conditions may negatively affect the operations, financial situation, performance or the Company's perspectives.

The risk of losing INTERSPORT license

On the basis of license agreements conducted in March 2017 with INTERSPORT International Corporation GmbH the Company continues the cooperation which begun in 2005 with INTERSPORT Group - the largest in the world organization dealing in retail sale of sporting goods. The agreements were conducted for the fixed period of 10 years beginning on 24 March 2017 and are automatically prolonged for subsequent five-year periods. Each party of the agreement is entitled to lead to termination of the license agreement, by submitting a written notification of non-renewal to the other party not later than 12 months before the end of the current year. INTERSPORT International Corporation GmbH can terminate the license agreements also in case the Company loses major share in the market of retail stores, provided that the Company does not fulfil the obligations stipulated in the license agreement, relevant franchise agreement, if the Company fails to ensure that franchisees fulfil these obligations or when the Company committed serious infringement of the obligations stipulated in the license agreement.

The occurrence of the risk of termination of the above license agreements would mean for the Company losing the right to use INTERSPORT trademark and other trademarks (INTERSPORT exclusive brands), losing the authorization to use INTERSPORT trademark after a year of the termination of the Agreement, losing the alternative source of supplies and decreasing the competitiveness of the conditions of purchasing the catalogue assortment and special offers. The occurrence of the above conditions may negatively affect the operations, financial situation, performance or the Company's perspectives.

The risk of significant raise in the assortment purchase prices

The price for labelled goods, renowned producers may be changed due to the pricing policy, manufacture cost, fluctuation of exchange rates and other factors. There is a risk that a significant raise in the prices by the main suppliers may make customers less interested in a given brand and affect the financial results of the Company, which may have significant negative impact on the activity, financial situation, results or the Company's perspectives.

The risk relating to provision of seamless supplies of full assortment

The Company cooperates with over 100 suppliers of different equipment and sportswear. The specificity of the industry is to order seasonal collections of assortment well in advance, depending on the product group, even 6 months ahead. There is a risk that one or more out of ordered collections will be delivered to the Company with a delay or not delivered at all leading to a gap in assortment offered to the customers and as a result to losing part of the expected income from sales. The Company limits this risk by composing the assortment of at least a few competitive brands from different suppliers of main groups of seasonal goods. Such diversification of product policy allows offering a wide range of products to a customer even in case some goods are delivered with a delay or missing. Occurrence of delays in deliveries of goods or goods being not delivered by the suppliers may have significant negative impact on the activity, financial situation, results or the Company's perspectives.

The risk relating to the seasonality of sales

The field of Company's operations is characterised by seasonality of sales. Seasons easy to single out are summer season and winter season, yet each of the product group is characterised by a slightly different pace and nature of sales throughout the year. At the end of each season, the INTERSPORT network carries out a planned sale of end-of-line assortment of each season, which lowers the assortment in stock significantly, thus improving Company's liquidity, yet, on the other hand, it may significantly lower the profitability of sales. There is a risk that after a given season the Company will continue to store those goods, which were not purchased either in season, or during after-season sales, of the value exceeding the expected level. This might lead to a drop in Company's financial results, and also additional freeze of working capital in the goods thus leading to potential drop in liquidity and consequently to potential significant negative impact on the activity, financial situation, results or the Company's perspectives.

The risk of introducing faulty goods

Due to the fact of being supplied with large lots by the producers, there is a risk of the Company's warehouse being supplied with a large lot of faulty goods, e.g. in consequence of a faulty production line. In order to protect their reliability, the Company as a retailer of high-quality labelled products may return the faulty goods to the supplier without financial consequences including the request for the replacement of faulty goods, and in case the faultless goods are unavailable the Company may order comparable assortment from another supplier. However, the fact of not noticing the defects and introduction of such faulty goods into the offer, and returning the faulty goods combined with the necessity of waiting for delivery of faultless goods may have significant negative impact on the activity, financial situation, results or the Company's perspectives.

The risk related to customers complaints regarding faulty goods

There is a risk that the goods purchased from the distributors will have some hidden faults which may increase the number of complaints made by the customers of the Company. In case the complaint is accepted, the customer may request goods being either repaired or replaced, the price reduction or they may withdraw from the sales agreement and claim a refund. Moreover, the customer is entitled to claim compensation for damages. Occurrence of significant number of complaints may have significant negative impact on the activity, financial situation, results or the Company's perspectives.

he risk relating to weather conditions (aura)

Sports industry is characterised by a high seasonality of sales influenced by inter alia weather conditions in different seasons acting in favour of doing a given sport discipline. There is a risk that occurrence of anomalies (weather disturbances such as cold and rainy summer, delayed or warm and not snowy enough winter) may contribute to a temporary drop in demand for seasonal products and sportswear, thus contributing to the level of the Company's income and may have significant negative impact on the activity, financial situation, results or the Company's perspectives.

The risk relating to staff turnover

The staff which is qualified and experienced in sports industry, attending the customer with specialist help while choosing professional equipment is one of the key advantages over the competitive networks of INTERSPORT. There is a risk of the increase in turnover of staff directly involved in customer service which could negatively influence the turnover or margin generated by the stores and have significant negative impact on the activity, financial situation, results or the Company's perspectives.

The risk relating to minimum pay

A trend of the past few years is to keep improving the minimum pay for work and introduce other measures in order to set the minimum remuneration for the employees and persons employed on the basis of civil law contracts. The increase in minimum pay for the employees and persons employed on the basis of civil law contracts may significantly affect staff cost and may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to collective labor law

The Company, as the entity employing a few hundred employees nationwide has to be aware that in its structures trade union may become active and collective labor disputes may become the case. The activity of trade unions is partly financed by the employer and associated with a number of entitlements of the union activists thus may cause the occurrence of additional costs which may translate into the increase Company's costs and have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to temporary halt or restriction on sales

Conducting the commercial activity by the Company requires applying a number of restrictions resulting from the provisions of law, particularly installation of fiscal cash register and market standards – e.g. using payment terminals that allow non-cash payment by the customers for the goods purchased. There is a risk of the failure of devices used while selling goods which may either limit or stop sales of goods in the network of the Company's stores. There is also a risk of limiting or stopping sales of goods in the network of the Company's stores due to damaging of particular stores, damaging the equipment inside, seizure or loss of goods and store equipment, including by the authorities within potential enforcement proceedings or due to staff strike. The occurrence of such circumstances may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to high debt

It is pertinent to assess the level of INTERSPORT Polska S.A. debt as high (the debt ratio as at 30 June 2018 is 83%). Further development of the Company may make it necessary to take out new loans or credits which will further affect the increase in debt and increase in financial costs incurred by the Company. The Company cannot guarantee that it will be able to ensure financing of its operations on favorable terms and that it will be able to repay the interest and capital or fulfil other obligations resulting from the loan agreements and credit agreements. Provided that the Company is not able to maintain or obtain additional financing according to its expectations, it may be forced to alter its strategy or refinancing of existing debt. Provided that the Company is not able to refinance existing debt, INTERSPORT Polska S.A. debt may become immediately payable in full or in part. Increasing debt of the Company may also cause the excess of covenants and as a result limitation of debt financing in full or in part. Provided that significant part of credits or loans are immediately payable, the Company may be forced to sell a part the whole of its assets in order to repay the debt. Considering the above the exposure and sensitivity of the Company to the level of exchange rates is also growing. Each of the above circumstances may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

<u>The risk relating to the financial situation of the Company</u>

The source of financing INTERSPORT Polska S.A. operations besides own resources include mainly short-term liabilities relating to the loan agreements on the purchase of goods from the suppliers, long-term liabilities relating to the investment loan agreements and short-term liabilities relating to the suppliers of goods. There is a chance that in case of sudden shortening of payment periods by the largest suppliers and the request to repay the remaining financial liabilities, the Company might be forced to search for other sources of financing, which depending on the future situation of the Company and financial markets would possibly lead to problems with on-time payments. There is a risk of losing financial liquidity and insolvency of the Company and consequently filing for bankruptcy or commencing the restructuring proceedings. The occurrence of such circumstances may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

<u>The risk relating to potential increase in operating costs</u>

Operating costs, particularly the cost of rental or employed staff and other Company's costs may increase while at the same time the income may not increase respectively. The factors which may contribute to the increase in operating costs and other costs include i.al. the following: inflation, increase in taxes or other public-law liabilities, changes in government policies, provisions of law or other regulations, increase in labor costs, raw materials, energy, increase in the cost of financing the loans and credits, actions taken by competitors, losing economic utility of the assets. Moreover, the increase may refer to the cost of goods offered by the retail network of the Company (i.al. as a result of strengthening of USD to PLN, labor costs). This also affects the level of realized margin, in case of limited possibility to renegotiate conducted agreements. Each of the above factors and the increase in operating costs and other costs caused by them and the lack of respective increase in the income at the same time may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

<u>The risk relating to court and administration proceedings and other potential claims</u>

The Company can be a party to legal proceedings relating to i.al. commercial agreements concluded by the Company, including tenancy agreements and goods offered by it. The Company can take legal actions and vindicate own claims, particularly for non-execution or undue execution of obligations by its contractors, and also can be the defendant. Claims may be connected with seeking payment, particularly for goods, tenancy or non-cash services (e.g. delivery of free of faults product). Moreover, the risk of initiating legal proceedings referring to other claims cannot be ruled out, including i.al. disputes over intellectual property rights or staff disputes. This may necessitate incurring additional costs by the Company and affect its image in a negative way. Such events may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to the competition and consumer protection

The Company while its operation is obliged to follow the provisions of competition and consumer protection law including regulations resulting from i.al. the Act of 16 February 2007 on Competition and Consumer Protection (consolidated text: Journal of Laws of 2017, item 229 as amended), Act of 16 April 1993 on Combating Unfair Competition (consolidated text: Journal of Laws of 2003 No. 153 item 1503 as amended) and Act of 23 August 2001 on Preventing Unfair Market Practices (consolidated text: Journal of Laws of 2016, item 3 as amended). Infringement of the competition and consumer protection provisions may result in civil law liability of the Company towards other entrepreneurs or consumers, and also administrative liability, particularly on the grounds of the Act of 16 February 2007 on Competition and Consumer Protection. Subject to this act infringement of the antimonopoly regulations, application of the template of agreement considered as illegal or practices violating collective consumer rights, infringement of the concentration or consumer interests protected by law may result in legal actions being taken before the President of the Competition and Consumer Protection Office. In case of infringement of the provisions of competition and consumer protection law the President of the Competition and Consumer Protection Office basing on a decision and apart from applying other measures may impose a fine on the entity infringing the above regulations, including the fine which amounts to 10% of the turnover obtained in the financial year preceding the year of imposing the fine. This also refers to unintentional infringements of law in the above respect. The occurrence of such circumstances in case of the Company and particularly considering the necessity to pay a high financial fine may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to assortment management

The Company introduces changes to the offered assortment and frequently places orders and realizes the purchase of goods. This may result in mismatching between the assortment and customers demand relating to e.g. weather changes or current consumer trends. There is a risk relating to overrating or underrating of the purchased goods. In case of overrating the Company may have limited possibility to return the goods or to sell them. This may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to the collateral on a part of Company's assets

Due to the fact that the Company uses financing from external sources such as loans and due to the required collaterals due under tenancy agreements, the Company established collateral on part of its assets (pledges and mortgages) which are securing the execution of the above agreements. This form of collateral is commonly accepted on the market. Establishing pledges may cause the loss of part of the Company's assets provided that it stops respecting the obligations under the conducted agreements which may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

12.2 EXTERNAL FACTORS

The risk relating to macroeconomic situation on the markets of the Company's operation

The Company operates in Poland. Part of goods sold by the Company is produced in Far East. Due to this fact, the Company operation is directly connected with the macroeconomic situation in Poland and in that region, and the results generated by the Company are affected i.al. by the GDP growth, fluctuation of exchange rates, level of inflation, unemployment rate, fiscal policy of the countries and purchasing power of money-unit on the above markets. The above factors contribute to shaping the level of real pays, household budgets, wealth of society and consumer prosperity indicator. This in turn affects the buying habits and size of demand for goods offered by the Company. Any further changes to one or more of the above factors may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk of economic downturn in Poland

The level of Company's income is dependent on the purchasing power of the Polish population which is changing according to the economic prosperity including: economic growth dynamics, unemployment level, individual consumption, consumer confidence index, EUR/PLN exchange rate and the state fiscal policy. There is a risk that in case of a sudden or long-lasting economic downturn, the decrease in demand on goods offered by the Company may occur. Any future changes in one or more factors above may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk of a downturn on the sporting goods

The main source of the Company's income is the retail of sports equipment and outfit. The downturn on the sporting goods market might have a significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk of growing competition in the Company's operation sector

In the industry of the Company's operation specific thing is the fragmentation of the demand to separate local markets located around big cities, of different level of competitiveness. However, sporting goods are sold both in single sports shops and chains of sports shops, as well as in chains of multi-spaced facilities (i.al. supermarkets, hypermarkets). According to the Company, the main competitors of INTERSPORT Polska S.A. are the chains of sports shops. However, on some of the local markets the Company is one of many competitors. The policy of some of the competitors is focused on the low and average price segment of sold goods, whereas the policy of INTERSPORT Polska S.A. –

the average and high. There is a risk that the policy of other competitors will change and their target will become the same as the Company's. Moreover, there is a risk that the competitors will expand their network of sports shops or some new foreign entities will enter Polish market. The above situations might contribute to the concentration of competition on particular markets and threaten the competitive edge of INTERSPORT Polska S.A. Any future changes in one or more factors above may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to interpretation, application and amendments to the provisions of law including tax law

The system of Polish law including tax law is characterized by little stability. The provisions of law, including tax law, labor law and social insurance law are subject to significant changes which are frequently of fundamental nature, and equally frequently this happens without the chance of ensuring that the addressees of particular legal norms appropriate time for adaptation to changing regulations (lack of or very short *vacatio legis*). There is a risk of various interpretations of particular provisions of law by the public administration authorities and courts that apply them. However the diversity of interpretations of the legal regulations may occur both between Company and authority or court applying a given regulation, and between courts and authorities. There is a risk that the Company will not be able to adapt to the changes in legal system within the period provided by law or adaptation will result in significant expenditures on the Company side. The changes to the provisions of law and their interpretation may result in additional claims from third persons, and also increase in the obligations of the Company which may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to the application of foreign law and submission to foreign courts jurisdiction

The Company indicates that a part of significant agreements concluded by it was subject to foreign law and the disputes arising from them to foreign court jurisdiction including arbitration courts. This particularly refers to the agreements with IIC-INTERSPORT International Corporation GmbH. The Company authorities do not have full knowledge about the application of foreign law, including the interpretation and functioning of foreign courts including arbitration courts and case-laws. There is a risk that provisions of the agreement concluded by the Company in compliance with foreign law and taking disputes to foreign courts including arbitration courts may be counter-productive and lead to the increase in the cost of the Company's operation. This may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk of limiting the working hours of shops at the weekends

INTERSPORT shops are located in shopping centres which attract customers with long opening hours, thus allowing the shopping on Saturdays and Sundays. Changing patterns of spending free time and doing shopping result in the fact that the stores have recorded the highest customer traffic and the highest turnover at the weekends. Implementation of statutory free-of-trade Sundays from 2019 and other restrictions may contribute to decreasing the income and weakening the financial results of the Company, which may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk related to changes in the exchange rate

Financial results of the Company may change under the influence of the fluctuations in the EUR/PLN and USD/PLN exchange rate due to the following: (1) the relation of payments for the shop facility tenancy agreements to the EUR exchange rate; the payments are the PLN equivalent of EUR contractual amount, which means that if the PLN exchange rate is weakened against EUR, the costs of the Company may be increased, (2) the dependency of imported goods price on the EUR and USD exchange rate. The depreciation of PLN against EUR or USD means higher costs of purchase of goods and higher cost of rentals which may translate into the increase in retail prices of a part of the Company's offer or lowering the margin. This may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk relating to the level of interest rates

The Company reports financial debt in PLN. Any changes in the level of interest rates significantly influence the level of financial costs incurred by the Company which may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk of buyers changing tastes

What is important on the market where the Company operates is subjective factors of choosing goods by the customers, related to the brand awareness, fashion and change in preferences. These factors are diverse for buyers of particular product groups. The Company's assortment and pricing policy is diversified in order to minimize the above risk of not responding to the taste of customers. The Company takes part in presentations and tests of seasonal offer of sporting goods and gets familiar with and synchronises own marketing campaigns with the promotional campaigns planned by the producers. However, there is a risk that the Company's offer will differ from the customer preferences in a given season and thus may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

The risk of liquidation or insolvency of suppliers

The trade policy adopted by the company assumes placing orders for particular type assortment with at least a few competitive brands, cooperation with over 100 suppliers, keeping the possibility of supplementing the missing stocks under international brands via

INTERSPORT Group and possibility of supplementing the collection with exclusive INTERSPORT brand products. The Company is, however, exposed to the potential risk of losing one or a few suppliers servicing the network of INTERSPORT stores, which might lead to the lack of certain goods and subsequently lower the income. Occurrence of such events may have significant negative impact on the operation, financial situation, results or perspectives of the Company.

13. COMPANY'S INDUSTRIAL ENVIRONMENT

13.1 SPORTING GOODS MARKET in Poland

In Poland the sales of sporting goods concentrates around distribution channels, i.e.:

- **networks of sports shops**, such as: Decathlon Polska, Go Sport Polska, Martes Sport, INTERSPORT Polska**,** i.e. sports networks offering wide range of sporting goods, with with the shop assistants specialised in advising customers on the equipment;
- **mono-brand stores**, mainly of world leading brands like: NIKE, ADIDAS, PUMA, REEBOK offering goods of only one renowned brand; focused on the repeat customers loyal towards the brand;
- **sports stands in hypermarkets**, on a large retail area, there is a not separated stand offering seasonal goods used in popular sports disciplines; most of the available goods belong to a lower price segment; those shops are focused on a less demanding mass customer;
- **specialist sports shops** – biking, outdoor, running, snowboard, which offer very specialist equipment used in one of the selected sports disciplines usually housed on a small area.

Owing to the fashion for active leisure and healthy lifestyle, the market of sporting goods and outfit is systematically growing. The market of sporting goods and outfit is strongly dependent on the financial resources of the Poles and economic prosperity. Therefore each increase in disposable income translates into the increase in spending on sporting goods. The fastest growing distribution channels are internet sales and sports markets networks (e.g. Martes Sport).

13.2 IMPACT OF MACROECONOMIC SITUATION

The key factors affecting the profitability of INTERSPORT Polska S.A. network include: tax rates, duty rates, level of basic interest rates set by the central banks, inflation policy, and a number of macroeconomic variables determining i.al. exchange rates, including USD and EUR rates in particular, in relation to each other and to PLN.

The operation of the Company is clearly affected by macroeconomic factors, including GDP growth, inflation level, level of consumption expenditures and changes in the legal regulations. The factors which affect the operating activity of the Company include:

- competition from other entities,
- weather conditions in particular seasons of the year,
- availability of locations for potential new INTERSPORT Polska S.A. stores and the possibility to keep desired standards in existing stores,
- trends relating to consumer habits (both in terms of trends referring to doing sports and trends referring to the popularity of certain shopping centers),
- efficient purchase and sales policy of the Company, including the effectiveness of implementation and management of the "New Business Model" being implemented from 2017,
- changes in the level of pay in Poland significantly affecting the profitability of a given store.

Besides the above factors the Company's operations is not subject to any particular regulations of government, economic, fiscal and monetary policy the change of which might be crucial for INTERSPORT Polska network and its industry.

14. ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS

The statutory auditor authorized to overhaul and audit financial information of INTERSPORT Polska S.A. for the 1st half of 2018:

Name (company): **AMZ Sp. z o.o. w Krakowie**
Address: **ul. Strzelców 6A/1, 31-422 Kraków**

The entity is entered into the register of entities authorized to audit financial statements kept by Krajowa Izba Biegłych Rewidentów [*National Chamber of Statutory Auditors*] under the number 3787. Marek Zych, Key Statutory Auditor entered into the register of statutory auditors under the number 11406 acted on the behalf of AMZ Sp. z o.o.

15. STANCE AND STATEMENTS OF THE MANAGEMENT BOARD

The Management Board's statement on the possibility of realization of previously published performance forecast for a given year in light of the results reported in the regular report against the forecasted performance.

The Company has not published the financial forecast for 2018.

Cholerzyn, 30 August 2018

_______________________________Artur Mikołajko – President of the Management Board

______________________________Sławomir Gil – Vice-President of the Management Board

EXPLANATIONS

Alternative Performance Measures ("APM”)

Below INTERSPORT Polska S.A. presents the rules of calculating the indicators and justification of them being used by the Company.

DEBT RATIOS

Debt ratio = total commitments / total liabilities. Debt ratio is a financial measure presenting the level of security for debt to the assets of an enterprise. The alterations to the value of debt ratio over time are reflected by the alterations to the level of financing from borrowed funds (lower level of the ratio means a drop in outside financing and decrease in the risk relating to the repayment of debt). Debt ratio is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.
Debt to equity ratio = liabilities total / equity. Debt to equity ratio allows the measurement of the involvement of borrowed capital to equity and defines the size of the company's liabilities per equity unit. This ratio defines the possibility to repay the debt from equity. The increase in the ratio value in particular periods means the increase in contribution of debt in financing the company's operations. Debt to equity ratio is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.
Assets to equity ratio = total equity / total assets Assets to equity ratio informs about the contribution of equity to financing the company's operations. Assets to equity ratio is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.
Short-term liabilities ratio = short-term liabilities / total liabilities Short-term liabilities to total liabilities ratio shows the extent to which the company finances its operations with short-term capital. Short-term liabilities is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.
Long-term liabilities ratio = long-term liabilities / total liabilities. Long-term liabilities to total liabilities informs about the extent to which the company finances its operations with long-term capital. Long-term liabilities ratio is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.

LIQUIDITY RATIOS

Current liquidity ratio = total current assets /short-term liabilities
Current liquidity ratio shows what is the capability of the company to settle short-term liabilities with current assets. It is one of the standard financial liquidity indicators which allow to assess the capability of entity to maintain financial liquidity. Current liquidity ratio
is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.
Quick liquidity ratio = (current assets – inventories) / short-term liabilities. Quick liquidity ratio is complementary to the current liquidity ratio. It informs about the capability of a company to repay its short-term liabilities with high-liquidity assets (excluding inventories and accruals). It is one of the standard financial liquidity indicators which allow to assess the capability of entity to maintain financial liquidity in short period. Quick liquidity ratio is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.

PROFITABILITY RATIOS

Gross margin on sales of goods = Gross profit / loss on sales of goods / income from sales of goods. Gross return on sales ratio shows the profitability of the enterprise after considering the value of sold goods and materials (increasing value of the gross profitability ratio in the analyzed period means higher effectiveness of the enterprise's performance). Gross return on sales ratio is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.

Return on sales = Profit / Loss on sales / income from sales of goods and products. Return on sales ratio informs about what percentage of income constitutes the generated income from sales – profit after consideration of the value of sold goods and materials, and sales and general management costs. Increasing value of the ration means higher effectiveness of the enterprise's performance. Return on sales ratio is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.

EBIT return = Profit / Loss on operations / income from sales of goods and products. Operating profit margin ratio (EBIT) includes other operating activity in the assessment of sales profitability (Increasing value of the ration means higher operational effectiveness of the enterprise's performance). Profit margin ratio EBIT is a standard measure applied in comparative analysis of an enterprise against competitors. Profit margin ratio EBIT is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.

Net return = Net profit / loss / income from sales of goods and products

Net return ratio indicates what percentage of income the net profit constitutes. Obtained result informs about the profitability of sales (net profit margin) and how the enterprise manages cost to income ratio. Net return ratio is a standard measure applied in comparative analysis of an enterprise and for this reason the Company has decided on applying it during the presentation of financial data.

Return on assets (ROA) = net financial result / assets at the end of a period. Return on assets ratio (ROA) allows checking to what extent total assets are capable of generating profit and changes in the value of this ratio over time reflect trends in respect of assets capability to generate profit). Return on assets ratio is a standard measure applied in comparative analysis of an enterprise and for this reason the Company has decided on applying it during the presentation of financial data.

Return on equity (ROE) = net financial result / total equity at the end of a period. Return on equity ratio (ROE) is the measure of enterprise profitability for its owners, i.e. reflects how much of obtained profit there is per one unit of equity which was engaged by the shareholders. This value results from net profit to equity ratio (the value of enterprise's assets contributed by the owners and profit generated during current operation of the entity). Changes in the value of ROE ratio over time reflect the trend in return rates on capital invested by the shareholders. Return on equity ratio is a standard measure applied in financial analysis and for this reason the Company has decided on applying it during the presentation of financial data.

TURNOVER RATIOS

Inventories turnover cycle = Inventories as at the end of a period / income from sales x number of days in the analyzed period. *Inventories turnover cycle allows the analysis of the renewability of the Company's inventories for performed sales. Inventories turnover rotation is a standard measure applied in comparative analysis of an enterprise and for this reason the Company has decided on applying it during the presentation of financial data.*

Receivables turnover cycle = short-term receivables / income from sales x number of days in the analyzed period. *Receivables turnover ratio allows the analysis of the payment cycle of receivables by the Company's recipients. Receivables turnover ratio is a standard measure applied in comparative analysis of an enterprise and for this reason the Company has decided on applying it during the presentation of financial data.*

Current liabilities turnover cycle = Current liabilities (excluding financial liabilities) / income from sales x number of days in the analyzed period.

Current liabilities turnover ratio allows the analysis of a payback period required from the Company to settle its short-term liabilities. Liabilities turnover ratio is a standard measure applied in comparative analysis of an enterprise and its competition and for this reason the Company has decided on applying it during the presentation of financial data