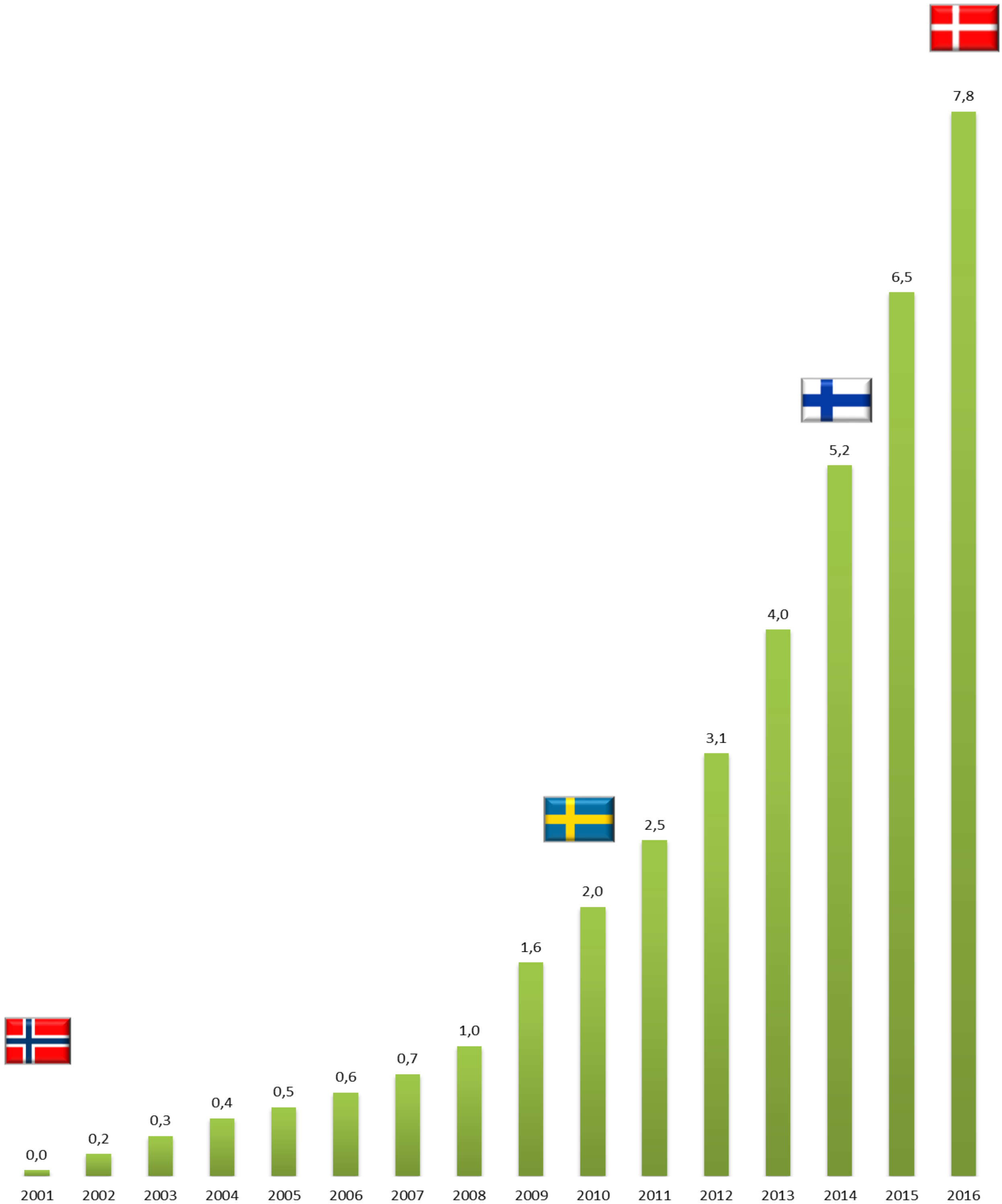
XXL

ALL SPORTS UNITED

XXL ASA
ANNUAL REPORT 2016

Revenue Growth

(NOK Billion)



Content

HIGHLIGHTS

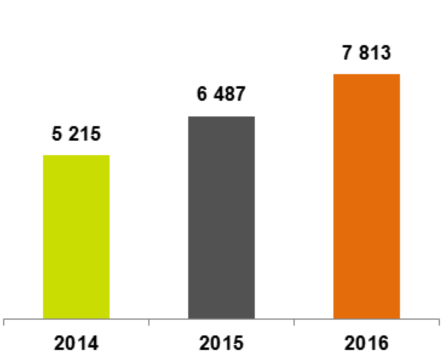
- Total revenues of NOK 7 813 million (NOK 6 487 million), up 20 per cent
- 12 new stores in 2016
- Opened E-commerce in Denmark
- EBITDA increased by 14 per cent to NOK 824 million (NOK 725 million)
- Net income increased by 21 per cent to NOK 516 million (NOK 427 million)

2016
Growth

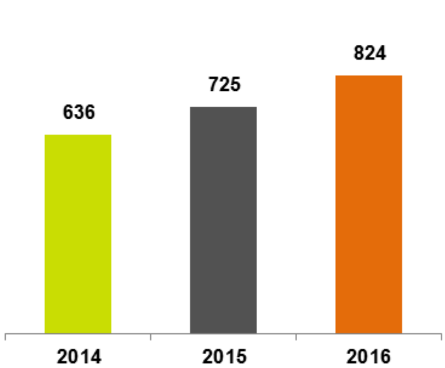
Revenue
+20%

EBITDA
+14%

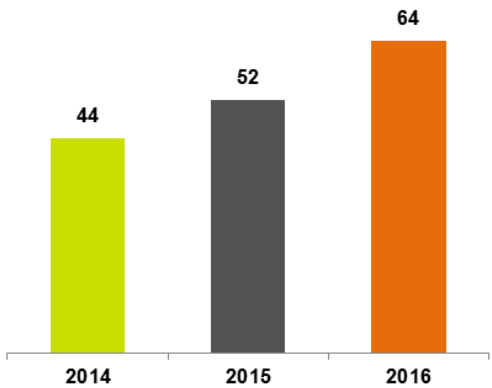
OPERATING REVENUES
(Amounts in MNOK)



EBITDA*
(Amounts in MNOK)



NUMBER OF STORES



*EBITDA before One-Off costs

KEY FIGURES

(Amounts in NOK million)	FY 2016 Audited	FY 2015 Audited
GROUP		
Operating revenue	**7 813**	6 487
Growth (%)	***20,4 %***	*24,4 %*
Gross profit[4]	**3 119**	2 579
Gross margin (%)	***39,9 %***	*39,8 %*
OPEX %[7]	***29,4 %***	*28,6 %*
EBITDA[2]	**824**	725
EBITDA margin (%)	***10,5 %***	*11,2 %*
EBIT[1]	**697**	634
EBIT margin	***8,9 %***	*9,8 %*
**Basic Earnings per share (NOK)	**3,73**	3,08
**Average number of shares (1 000 shares)	**138 512**	138 512
Net cash flow from operating activites	**31**	352
Like for like revenue growth[3]	**7,5 %**	7,7 %
Number of stores at year end	**64**	52

**Earnings per share: See Note 14
Footnotes and definitions are described in the end of the report

KEY FIGURES

(Amounts in NOK million)	FY 2016 Audited	FY 2015 Audited
SEGMENT		
Norway		
Operating revenue	4 151	3 617
Growth (%)	*14,7 %*	*8,3 %*
Gross profit[4]	1 764	1 529
Gross margin (%)	42,5 %	42,3 %
OPEX % [7]	21,9 %	21,2 %
EBITDA[2]	857	763
EBITDA margin (%)	*20,6 %*	*21,1 %*
Number of stores at year end	31	24
Sweden		
Operating revenue	2 474	2 045
Growth (%)	*21,0 %*	*29,2 %*
Gross profit[4]	959	783
Gross margin (%)	38,8 %	38,3 %
OPEX % [7]	28,4 %	29,1 %
EBITDA[2]	257	188
EBITDA margin (%)	*10,4 %*	*9,2 %*
Number of stores at year end	22	20
Finland		
Operating revenue	1 161	825
Growth (%)	*40,8 %*	*182,6 %*
Gross profit[4]	392	268
Gross margin (%)	33,8 %	32,5 %
OPEX % [7]	30,3 %	30,2 %
EBITDA[2]	40	19
EBITDA margin (%)	*3,5 %*	*2,3 %*
Number of stores at year end	11	8
Denmark		
Operating revenue	27	-
Gross profit[4]	3	-
Gross margin (%)	11,2 %	-
OPEX % [7]	57,9 %	-
EBITDA[2]	-13	-
EBITDA margin (%)	*-46,7 %*	-
HQ & logistics		
EBITDA[2]	-318	-244
EBITDA margin (% of Group revenues)	*-4,1 %*	*-3,8 %*

CEO comment

All the XXL employees combined is the most powerful business model in the sports retail industry. Together we created solid results in 2016 and gained market shares in all markets. The year was eventful with a XXL-record of 12 new store openings, establishment of an E-commerce operation in Denmark, expansion of warehouse capacity in the Group, upgrade of the ERP platform, launch of a new front-end website in all markets and signing the first two lease contracts for store openings in Austria. I would like to thank all the employees and reassure you that all these efforts make a good platform for further growth and fun in 2017.

XXL had a good year in 2016 with 20 per cent revenue growth to NOK 7.8 billion. The growth is driven by new stores and a solid like-for-like growth of 7.5 per cent. The revenue contribution from E-commerce for the Group corresponded to 10.9 per cent in 2016 and E-commerce delivered a growth of 60 per cent for the year, which positioned us as a true omni-channel player. XXL opened 12 new stores in 2016 and operated 64 stores in total at the year end.

In Norway XXL crossed the 30 per cent market share in 2016 and is now the largest sports retail chain in the market. For the year the Norwegian operations delivered a growth of 14.7 per cent, driven by seven new store openings and a sound like-for-like growth of 4.9 per cent. Like-for-like growth adjusted for cannibalization effects equaled 6.3 per cent. XXL is also pleased with the improved gross margin for the year despite a challenging currency situation.

According to market figures from HUI Research for 2016 the sales of sporting goods in Sweden increased by 5.2 per cent. This should be compared to 17.7 per cent growth for XXL in local currency in 2016. The like-for-like growth for 2016 was 7.2 per cent in local currency, also surpassing the market growth. Higher gross margin as well as cost efficiency and overall better store operations improved the EBITDA.

The challenging macro situation in Finland continued in 2016 and the retail sale of sporting goods increased by 3.7 per cent in 2016 according to market figures from TMA. The market growth was driven by XXL which delivered a growth in revenues of 35.5 per cent in local currency in 2016. The like-for-like figure of 5.2 per cent for 2016 in local currency also surpassed the market growth. The gross margin improved through overall better store operations and better pricing strategies.

XXL launched an E-commerce offering in Denmark on 27 May 2016, utilizing existing infrastructure in the XXL Group. XXL has seen a positive revenue development during the year with good improvements in traffic and conversion rates. Four dedicated XXL employees in Copenhagen are exalting the brand and perception in the market every day, supported by the rest of the XXL organization. Logistics, delivery times and back office functions have surpassed expectations.

Many new initiatives have been introduced during the year to further strengthen the E-commerce operation. The most important event was the introduction of a new front-end website, on all platforms and in all countries. This has improved the user experience with faster loading speeds, better mobile interface and personalization opportunities.

Logistics and our two central warehouses represent the heart of XXL's well functioning value chain. In 2016 XXL increased the capacity at the central warehouse in Norway from 24 000 to 32 000 square meters, making us ready to conquer new geographies and customers both in stores and online.

We believe there is a positive correlation between being a sustainable company and doing profitable business. In 2016 XXL further strengthened the sustainability work in all the operations by training of employees, thorough supplier assessment processes and focus on product quality and safety. For the year 2016 XXL Children's Foundation donated USD 125.000 to "Projecto UERE" in the favela of Maré in Rio, Brazil, a proud moment for all our employees.

2017 will mark a milestone in the history of XXL. It will be the year where we conquer Europe by opening up the first stores and E-commerce in Austria. We will continue to open new stores in attractive locations but never loose sight of growth from existing stores. Our new category, Sportstech, is an important fuel generator for positive like-for-like figures in the coming years. XXL will always focus on efficiency improvements because the one with the lowest costs will win. Future success lies in the hands of all the employees. We are stronger together, we are the XXL family. Are you ready for new XXL-adventures in 2017?

Fredrik Steenbuch
CEO

Historical milestones

XXL is a growth company with a short, but successful history. XXL entered the Norwegian market in 2001, Sweden in 2010 and Finland in 2014 with a format that became a game changer in the sports retail market. Through cost efficient operations, broad product range, focus on branded goods and high degree of service, XXL has quickly grown to be the leading distribution channel for sports, outdoors and wilderness in the Nordics. Important milestones on this achievement are listed below

2000	Founded by Øivind Tidemandsen
2001	The first XXL store was opened in central Oslo
2002	Norwegian webpage was launched
2001-2005	Opened 6 stores and a central warehouse in Norway
2007	Reached a 10 per cent market share (source: Sportsbransjen 2007) in Norway with 8 stores
2008-2009	Opened 6 stores in seven months
2010	Private equity company EQT acquired a majority stake in XXL
2010	Opened the first 3 Swedish stores during a three month period
2011	Opened central warehouse at Gardermoen, Norway
2012	Swedish webpage was launched
2012	XXL gained a 20 per cent market share (source: Sportsbransjen 2012) in Norway with 18 stores
2013	XXL became the market leader in Norway with a 24 per cent market share (source: Sportsbransjen 2013) and 22 stores
2013	Established a central warehouse in Sweden for distribution in the EU
2014	Entered the Finnish market with 1 store and launch of Finnish website
2014	Successful IPO of XXL ASA at Oslo Stock Exchange
2015	XXL became the largest sports retailer in the Nordics
2015	Opened the first XXL Outlet store, in Charlottenberg Sweden
2016	Launched E-commerce operation in Denmark
2016	Crossed 30 per cent market share in Norway and above 15 per cent market share in both Sweden and Denmark
2016	Signed the first lease contracts in Austria for store openings in late 2017

About XXL

XXL is a true omni-channel sports retailer with the largest stores, well-functioning online websites, the widest assortment of products, focusing on well-known quality brands at the best prices in the market. XXL pursues a broad customer appeal, both in the stores and online, offering a wide range of products for sports, hunting, skiing, biking and other outdoor activities, as well as sportswear, shoes, health & fitness and sports technology products. XXL is the leading and fastest growing sports retailer in the Nordics with stores and E-commerce in Norway, Sweden, Finland and Denmark.

XXL has a strong, performance-based culture throughout the organization. The business is based on trained, skilled and enthusiastic employees strengthening the XXL brand every day. Motivated employees are crucial to maximizing customer satisfaction. XXL is an attractive employer. When XXL open a new store, around 50 young new employees are recruited. We experience solid interest to these positions, often above 2 000 applicants.

The core objective revolves around customer satisfaction and cost consciousness and thereby maximization of the Group's profitability.

Omni-channel

XXL believe that the strong brand name and customer recognition offline is advantageous to the online offering and vice versa. With a state of the art logistics and IT-systems, as well as an experienced and efficient purchasing team with strong supplier relationships, XXL has a robust backbone structure to support both the E-commerce operations and the physical stores. XXL is in a strong position to build a true omni-channel platform offering a broad range of branded goods at the lowest price, providing valued customer service across all channels.

Omni-channeling provides for a high degree of flexibility for the customer and also allows XXL to effectively use customer data to optimize marketing and facilitate cross-selling and up-selling. We are continuously working on strengthening the omni-channel offering to drive visitors and transactions. XXL has introduced pick-up at store services in all the physical stores of the Group, enabling online shoppers at XXL to retrieve their goods in the nearest store. All products bought online with XXL could also be returned in the stores and the stores prepare the necessary services, fittings and adjustments on products for all our customers as well. XXL has also developed an omni-channel customer service function for the XXL Group and continued building a robust digital customer database in all markets. We have strengthened our content services with the establishment of XXL blogs in al markets being inspiring for the customers, building brand position and increasing loyalty.

E-commerce operation

XXL's E-commerce operation currently consists of online websites in Norway, Sweden, Finland and Denmark with xxl.no, xxl.se, xxl.fi and xxl.dk respectively. The revenue contribution from E-commerce for the Group in 2016 corresponded to 10.9 per cent. Many initiatives have been introduced during the year to improve the user experience and increase sales. The most important event was the introduction of a new front-end website, on all platforms (mobile, tablets, desktop) and in all countries. This has improved the user experience with faster loading speeds, better mobile interface and personalization opportunities. XXL also moved the platform over to cloud services to secure scalability.

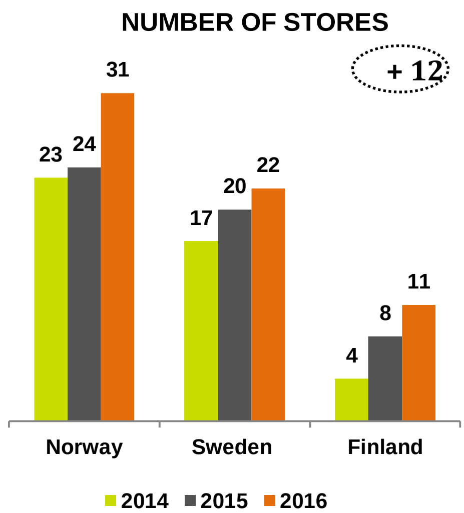
The websites are an extension of the XXL brand and work as platforms for sales of goods, marketing of the brand as well as product education. The websites are also used to provide information on upcoming events, promotions, new products and store locations. The websites feature a similar range of products as offered in the stores at generally the same prices as in the physical store. However, due to the dynamics in the online market, certain prices may be reduced for online sale to meet competition and to enable XXL to keep its price promise.

Store concept

XXL stores aim at simplicity with highly uniform store layouts, a high degree of overlap in product ranges across stores and a lean cost structure. Each XXL store features specialist stores within a store concept for 1) sports, health & fitness, 2) shoes, 3) sportswear, 4) outdoor, 5) ski/bike and 6) hunting. XXL introduced a new category in 2016, 7) Sportstech, which will be rolled out to all stores during 2017. The ski/bike store changes in accordance with the relevant season and XXL has the flexibility of changing assortment quickly when needed. The fully integrated model of XXL with a centralized purchasing function has the ability of shifting goods to regions with the highest demand and rapidly switching from winter to summer assortment. XXL also places a strong emphasis on maximizing customer convenience with respect to the entire shopping experience, from accessibility and parking to customer service and product placement. XXL uses a comprehensive product information system which allows customers to easily assess where products are located, with the key facts on each product. This leads to a high degree of self-service among customers and an efficient use of skilled staff. The Group focuses on providing the best customer service with trained category specialists for each section of the store.

The majority of the Group's stores are located in shopping centers and retail parks in high-density residential areas, with a substantial number of potential customers in the surrounding area and convenient access to transportation. XXL leases all of its stores. XXL has successfully opened new stores in city centers as well as suburban areas. In larger cities, such as Oslo, Bergen, Stockholm and Helsinki, XXL has opened more than one store. This allows us to take advantage of local synergies for example in respect of marketing. Local infrastructure, the presence of competitors, the condition of available buildings for lease (i.e. technical standard, features and size) and the logistical fit into XXL's support system are important factors in selecting locations for new stores. In addition XXL has a strong focus on cost-efficiency and synergies when rolling out new stores. XXL had in total 64 stores at the end of 2016, 31 stores in Norway, 22 stores in Sweden and 11 stores in Finland.

Store development per country:



Value chain and business model
XXL owns and operates all of our stores without joint venture or any franchise arrangements. This means that the Group has control of the product flow with continuous tracking of key performance metrics such as sales data and inventory levels. XXL maintains central purchasing and distribution functions to manage inventory planning, allocate flow of goods to the stores and oversee the replenishment of goods to the central warehouses. The integrated value chain facilitates simple and lean operations, which results in low costs.

We have a disruptive scalable retail model that drives efficiency and cost leadership. This model is a result of a large unit store format, controlled value chain, efficient logistics, centralized purchasing and a fully integrated IT system resulting in a low cost operating structure, which allows us to offer products at low prices. We have, and strive to maintain, lower operating expenses than all the competitors. This is achieved by XXL's scale, integrated value chain and a continuous focus on costs. The Group exercises tight control over store-level expenses, central warehouse expenses, real estate costs and corporate overhead. The cost consciousness and low cost base is critical to XXL as it enables XXL to meet competition by delivering price leadership. Moreover, it has enabled XXL to have higher EBITDA margin than its Nordic competitors over time.

Products
XXL aims to offer a full assortment of branded goods for a wide range of sports and outdoor activities. The product range includes branded goods from more than 400 suppliers, including well-known international brands and strong national brands. Our product ranges are tailored to meet national brand preferences and local conditions at the best prices. We compare our prices to competitors on a daily basis and seek to offer customers the best prices at all times. The Group has a high degree of overlap in product ranges in the stores, but there are certain local and national differences in products and brand offerings due to demand and trends. The range of products available in XXL's stores and on the websites is based upon market development, customer preferences and our understanding of evolving customer needs.

XXL strives to offer a full range of equipment and clothing for almost all sports and outdoor activities. The Group pays close attention to the performance of each product and product category and makes continuous adjustments to the product range. The purchase department centrally decides the product assortments, quantities and price for the products. The Group purchases branded goods from an extensive list of major sporting goods suppliers.

XXL also offers a limited range of products under private labels to complement the branded product range, mainly for brand insensitive products with relatively low price points. Around 7% of the operating revenues in 2016 related to sales of private label goods.

The products are organized into seven product categories to match the stores-in-store model and the E-commerce offering.

1. Sports, health & fitness covers sports equipment and sportswear for a number of sports including football, golf, water sports, racket sports and ice hockey to mention a few. It also covers fitness equipment like treadmills and rowing machines, as well as food supplements and nutrition.

2. Shoes include all types of sports-related and outdoor shoes and offer a variety of technical performance capabilities, including different levels of support, waterproofing and temperature control. XXL also offers a wide range of shoes accessories.

3. Sportswear is a wide assortment of clothes for men, women and children for outerwear, casual wear, sportswear and technical gear and swimwear to name some. XXL's sportswear selection has performance attributes such as waterproofing and temperature control.

4. Outdoor stocks a wide range of products to cater for fishing, wilderness living and camping, such as tents, lavvos, sleeping bags, backpacks, cooking equipment, GPS and maps as well as climbing gear and equipment for horses and dogs.

5. Hunting includes firearms and ammunition, clothes, binoculars, optics, knives and axes.

6. Skis & Bikes is the product category with the most seasonal fluctuations. This category covers skis and ski accessories, such as shoes, poles, clothes and other equipment needed for cross-country and downhill skiing as well as snowboarding. On bikes the Group offers both high-end and everyday bikes for children, women and men as well as bike equipment such as helmets, shoes, spare parts and clothes. The Group sells a wide range of bikes such as hybrid bikes, mountain bikes, city bikes and electric bikes.

7. Sportstech was introduced to some stores in 2016 and will be rolled out to all stores during 2017. This category covers products that connect technology and sports/outdoor activities including sport watches, action cameras, drones, GPS, earplugs and headphones, portable loudspeakers, sunglasses, pulse meters, power banks and cycle computers.

Services
Due to the Group's scale and highly efficient logistics setup, XXL is able to offer low prices and a price promise. If a product is found at a lower price within 30 days of purchase from XXL, the customer is entitled to a refund of the difference. XXL also have a 100 percent satisfaction guarantee in Norway and Finland of which a customer who is not satisfied with a product may exchange it for another product within the same product category within 30 days of purchase. In addition unused products with receipt may be exchanged or fully refunded within 100 days of purchase (up to 365 days in Sweden). Keeping costs low is critical for XXL to be able to maintain its price strategy of having the lowest prices at all times.

In addition each store has its own work shop for services and maintenance of products like ski preparations, boot fitting and bicycle overlook. This builds loyalty and good customer experienced and currently XXL is working on building an environmental friendly work shop solution.

Marketing
XXL recognizes the value of powerful marketing and has adopted an aggressive marketing strategy with an aim to be the dominant force across targeted channels. The marketing activities mainly focus on smart marketing across channels to build brand awareness, increase customer loyalty, attract new customers and facilitate entry into new markets with new stores. Marketing activities principally relate to the promotion of XXL's stores and websites. We employ a range of marketing tools with direct marketing through weekly printed and digital newsletters as the backbone of the marketing strategy. We also use newspaper ads, TV-commercials and different digital marketing. The distribution channels for XXL marketing material is under change and XXL will focus more on digital marketing channels in addition to the existing channels. XXL uses multiple digital channels to drive traffic to the stores and websites search engine marketing, internet ad placement, social media, email marketing such as weekly newsletters and personalization/retargeting through CRM initiatives.

Sourcing and purchasing
XXL operates with a category focused purchasing model across countries. The Group's purchasing managers have full responsibility and discretionary power over their product category, including negotiations with suppliers. The purchasing manager is responsible for all products in his/her category throughout the value chain, also covering marketing and providing input on in-store placement. This makes the purchasing process efficient and flexible, enabling XXL to adapt to trends and meet demand for new products.

To ensure that the Group's product offerings are tailored to local market conditions and demand, the Group's purchasing managers regularly meet with the Group's vendors, review trade sales and evaluate merchandise offered by other sports retailers. In addition, they frequently gather feedback and new product reviews from store management and employees, as well as reviews submitted by the Group's customers.

XXL purchases goods from suppliers inside and outside the EU. The Group's purchasing vehicles are XXL Grossist Norge AS for Norway and XXL Europe GmbH for countries outside Norway. All of the purchases of the Group are made by one of these two companies. Merchandise is sold by XXL Grossist Norge AS to XXL Sport & Villmark AS for further distribution to Norwegian stores and online sales in Norway, and similar sold by XXL Europe GmbH to XXL Sport & Vildmark AB in Sweden, XXL Sport and Outdoors OY in Finland and XXL Sports & Outdoor ApS in Denmark. The Group's private label products are produced by manufacturers abroad, mainly in Asia.

Logistics and distribution

The Group has two central warehouses, one at Gardermoen Norway (outside EU) and one in Orebro Sweden (inside EU). The Norwegian warehouse serves the Norwegian market, the Swedish serves Sweden, Finland and Denmark and has capacity of serving the first steps of entry into new European markets. Both warehouses are equipped with state of the art robotics (Autostore) which allow them to operate in an efficient and cost effective way. In addition XXL has developed customized order packing and shipping processes tailored to meet the specific requirements of the e-commerce business.

XXL has centralized inventory management which employs a customized min-max system for in-store inventory levels to enable high inventory turnover and optimal in-store inventory levels. The central inventory management system performs continuous in-store inventory checks and redefines the min-max levels when needed.

We use third party transport providers to deliver stock to the warehouses and stores with one day delivery from the central warehouse to most of the stores.

IT-systems

XXL has one key operating IT-system, Axapta, for management of supply chain, warehouse, e-commerce operations, stores financial, accounting and payroll systems. The IT infrastructure of XXL is designed to be able to access real-time data from any store or channel. The network infrastructure is fully integrated and allows for quickly and cost-efficiently adding of new stores to the network. XXL has further incorporated reporting tools that allow comprehensive monitoring of business performance and benchmarking, which is critical to management's ability to drive strong store level performance.

In 2016 the ERP-system was upgraded for all our operations and is ready for expansion to new markets in 2017.

Competitive landscape

XXL is currently serving the Norwegian, Swedish and Finnish and porting goods markets with an omni-channel offering through large unit stores and e-commerce. In addition XXL launched e-commerce services in Denmark in 2016. XXL is offering a full range of sporting equipment and apparel at the best prices and focusing on branded products. The competitors consist primarily of focused sporting goods chains, independent specialty stores and to a lesser extent general department stores as well as online retailers. In each market, the four largest retailers have a combined market share of more than 50 per cent.

The most prevalent structure in the Nordic market is companies operating under a franchise or buying union structure, where a local merchant operates a store and owns the operating company, while a central sports chain owns the brand and has a central warehouse and marketing function. Examples of these structures are G-Sport, Intersport and Sport 1 in Norway, Team Sportia and Intersport in Sweden, Intersport in Finland and Denmark. Chains primarily relying on a franchising structure typically also have, to a varying degree, some stores operated by the chain.

Less prevalent in the Nordic market are stores that are operated by a single company, such as XXL and Stadium in Sweden. In these cases the store manager is an employee of the chain company and the sports chain owns the operations of the individual stores. These chains have the benefit of having integrated value chains and flexibility to plan for optimal execution across the full store network.

In addition to the sports chains, there are a number of independent sports retailers and specialist stores that operate a single store or a small number of stores. Because of the advantage being part of a larger system or buying group in terms of supplier terms, the number of independent stores and specialist stores has been declining for some time. In recent years, more producers have established stand-alone wholly owned brand stores.

A number of discount and general retailers offer a range of sporting goods in addition to other general merchandise, and in many cases offer a wide range of products across the full spectrum of sport categories. Key players in the Nordics include Coop, Prisma and Citymarket.

With the rise of e-commerce, a number of pure online players focusing on sporting goods have emerged, including players that have started up in the Nordic market, including Sportamore and Outnorth. Typically also the sport retail chains operate with an e-commerce platform. In addition there are general online retailers that offer selected sporting goods as part of their assortment such as e-Bay, Amazon and Zalando.

Drivers and trends
The Nordic sporting goods markets are driven by a number of factors and trends. The most important are:

- *General economic factors such as development of disposable income and consumer confidence*.

  The Nordic economies are all among the most prosperous in the world as measured by GDP per capita. OECD forecasts that the Norwegian, Swedish and Finnish economies will show GDP growth rates in the period 2015-2020. The economy of Norway has shown recent weakness with the turmoil in the global oil and gas industry and the spillover to oil related industries. Unemployment rate is expected to raise the next couple of years, but from very low levels. The Swedish economy is considered to remain strong with low unemployment rates as well as expectations for growth in private consumption. The economy in Finland is still weak with unemployment rate above 10 per cent. XXL believes that the strategy of offering attractive value to consumers has made the business resilient in the face of adverse macroeconomic conditions, as consumers become more price-sensitive, which have strengthened our position relative to competitors. The entry into Finland serves as a good example of this.

- *Health, wellness and physical activity trends.*

  The Nordic populations have always been perceived as physically active and sports are part of the Nordic everyday life. We believe health and wellness is a key trend and an increased wish among the consumers to identify them with an active lifestyle. Consequently, strong public promotion of, and a positive attitude towards, health and fitness is observable in all the Nordic markets.

  Technology is also evolving into the sports industry and the market is experiencing increased demand of goods related to sports technology products and connected devices.

  Environmental friendly solutions are also in strong demand. Electric bicycle is a good example and is used also as a way of commuting, adopted to a broad range of users and saves the environment.

- *More interest in equipment-focused sports.*

  Many of the most popular amateur sport competitions are equipment intensive such as bicycling, skiing and triathlons. We have seen a more sophisticated demand for a wider range of specialized products among consumers. The new generation of amateur, professional and aspiring athletes has affected the traditional market for such merchandise through its strong purchasing power and preferences for high quality. Technology is also becoming more important with products such as sport watches, GPS, heart rate monitors, wearable technology and cameras.

- *Weather and seasonal patterns.*

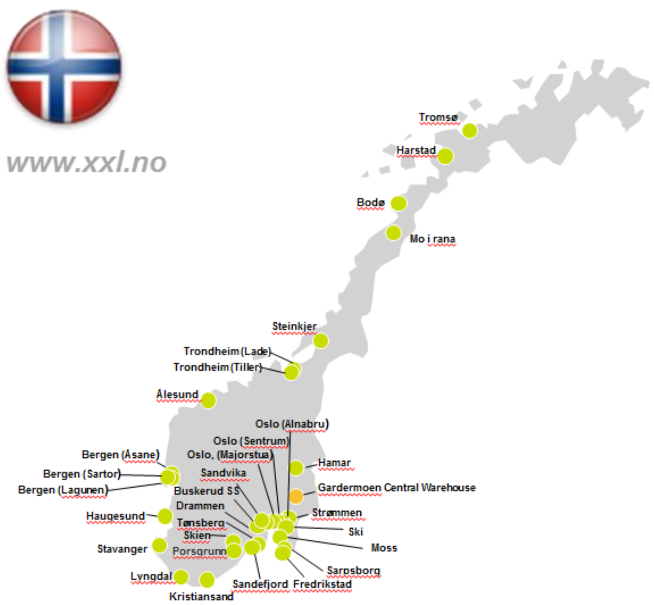
  Given the popularity of both winter and summer sports, the Nordic countries have a clear four season sporting environment which is a key characteristic affecting the sporting goods market. The demand for sports retail merchandise, and consequently the required store inventory, changes dependent on the time of the year. Although the local weather can impact local sales, the overall sales across the Nordic region are more resilient as weather conditions typically vary considerably within each country. The fully integrated model of XXL with a central purchasing function is to some extent less exposed to these seasonal and geographical variations, as we have the ability of shifting merchandise to the regions with the highest demand.

- *Fashion trends and retail industry fragmentation.*

  Several of the categories we sell are heavily influenced by fashion trends and are increasingly becoming lifestyle products for the consumers. Sports shoes and sportswear are the clearest examples. The industry is expanding into products traditionally sold by specialist fashion and shoe retailers as well as other categories such as health & wellness and home products.

The Norwegian market

XXL opened the first store in Norway in 2001, growing to 31 stores at the end of 2016 and revenues of NOK 4.2 billion for 2016. XXL's market share in 2016 increased to 28 per cent, according to Sportsbransjen AS.



The very strong market growth from 2003 to 2010 of approximately 8.4 per cent CAGR slowed down in 2010 and from 2010 to 2013 the market grew by a more modest 1.8 per cent CAGR. The market increased again in 2014-2016 with growth of 5.2 per cent in 2014, 7.3 per cent in 2015 and 6.6 per cent in 2016 respectively, according to Sportsbransjen AS.

The sports retail industry has experienced a long-term trend of declining number of stores characterized by an increase in chain formation, high growth online and a reduction in independent stores. We believe this trend has been driven by the changing industry dynamics that resulted in part from XXL's introduction of large unit store concepts, which led competitors to also establish larger stores at the expense of more traditional store formats. Online the market experiences establishments of many smaller pure players specializing to a larger extent on different niches.

The Swedish market

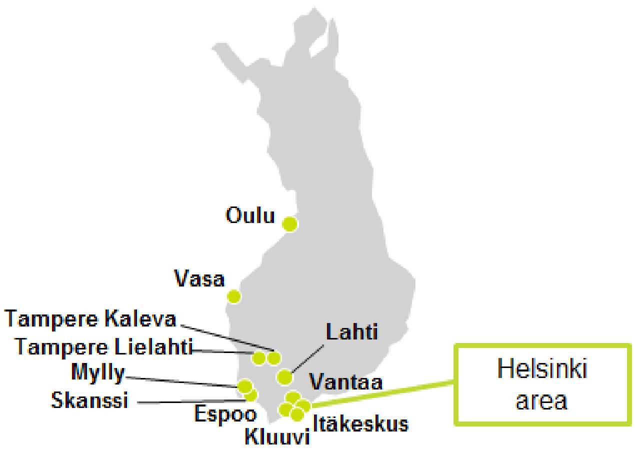
In 2010 XXL started in Sweden and currently has 22 stores. To date we have captured a significant share of the market and our total revenues for 2016 in Sweden amounted to NOK 2.5 billion, a growth rate of 21 per cent.

Based on the official numbers provided by the Swedish industry association Sportfack, the Swedish sports retail market has experienced an expansion the last ten years. In 2016 the market growth was 5.3 per cent according to HUI Research.

The Finnish market
XXL opened the first store Tammisto, Helsinki, in April 2014 as part of the strategy to build on the successful entry into Sweden and extend the XXL concept to new markets. XXL are developing a solid presence in the Finnish market with currently 11 stores and E-commerce.

The market has increased since 2011 despite a contraction of the overall Finnish economy, showing superior performance compared to many other retail sectors. In 2016 the market grew by 3.7 per cent. XXL has been the key growth driver in the market and had a growth of 36 per cent in 2016.

www.xxl.fi



The Danish market
XXL entered the Danish market in late May 2016 by opening of a website offering only and by utilizing the existing infrastructure in the Group. Four dedicated employees in Copenhagen are exalting the brand and perception in the market every day, supported by the rest of the XXL organization. Logistics, delivery times and back offices functions have surpassed expectations. XXL has seen a positive revenue development during the year with good improvements in traffic and conversion rates on the website.

The Danish market is very fragmented with many players and a high degree of pure online players. The Danish sports market has also experienced a sound growth over the last years.

www.xxl.dk

The Austrian market
In 2016 XXL signed the first two lease agreements for store openings in Austria and will open the first stores in late 2017. The market is characterized by many small sports stores, spread all over the country and connected together through franchise models or buying unions. The sporting goods market has experienced a good recent growth trend, especially driven by a good winter season in 2016/2017. Market estimates consider the total market to be around EUR 2 billion and the sporting spending per capita is on Swedish level. XXL recognizes the Austrian consumer as brand focused and service minded and believes the market is attractive also because of the four distinctive seasons.

Strategy

Vision and mission
The vision of XXL is to be the paradise for people interested in sports, outdoors and wildlife.

The mission of XXL is to be a leading European sports retailer for branded sports, outdoors and wilderness products at the best prices.

The strategic focus is to create value to the shareholders and the community through capitalizing on further growth and improve the efficiency of the operations. The most important competitive advantage of XXL is the low cost position and a unique business culture based on the following nine core values

- Focus on results
- Enthusiasm
- Hard work
- Quality
- Punctuality
- Sobriety
- Justice
- Openness
- Helpfulness

Our business is based on trust and for the community to feel confident about XXL, where ethics and values must play a prominent role in all our operations. We believe that there is a positive correlation between being a sustainable company and doing profitable business.

Delivering growth and efficiency
Our strategy is to capitalize on the expected growth of the sports retail market and to improve the competitive position by taking advantage of the scalability of our operations.

XXL expects to sustain continued like-for-like growth and believes in a potential to grow further in Norway, Sweden, Finland and Denmark, both in respect of stores and E-commerce business. In addition, we believe that we have a strong potential to access physical and E-commerce markets in other European countries with similar consumer characteristics, climate and seasons. XXL's scalability is a critical factor in implementing these strategies, in terms of supply chain operations, IT systems and store concepts.

The strategy is to maintain and build on the Group's key strengths, including by:

- Continued store roll-out in existing markets
- Developing new initiatives to drive E-commerce and omni-channel platform
- Continued focus on XXL's customer proposition to drive like-for-like growth
- Focusing on cost throughout the value chain
- Focusing on improving profitability in Finland and Denmark
- Capturing new markets on the back of XXL's existing cost base and logistics

Expansion opportunities
XXL believe we may increase the store base in the Nordics to around 85 stores in total in the coming years. With the Group's cost control, uniform store layout and broad product ranges, XXL is able to take advantage of synergies during roll-outs with minimal incremental investments and costs at headquarters and central warehouses.

We have developed a rigorous process for entry into new countries which is based on a methodology with more than one thousand steps to be ticked off prior to a new market entry. The preparations for entry into new countries with stores take minimum two years from the market assessment and include site visits, lease negotiations and signing, building business case, Management and Board of Directors decisions and recruitment and training of store personnel. XXL's key criteria for such market entries are sports seasons (ideally four seasons markets), sporting goods spending per capita, competitive dynamics and most importantly XXL's ability to compete on cost and consequently on price.

XXL has identified the Alps region, with Austria, Switzerland and South Germany as possible new markets. The market assessment process is well under way. The ambition is to introduce the XXL concept, with stores and E-commerce, in Austria in late 2017.

Dividend policy
When proposing a dividend the Board of Directors will take into account legal restrictions, capital requirements and the overall financial position of the company. The Board of Directors will make an overall assessment in order to secure the Company a healthy capital base both for daily operations and for future growth. The Board of Directors will target a pay-out ratio of 40-50 per cent of annual net income.

XXL will continue to create shareholder value through
- Capitalizing on further growth
- Improving the efficiency of the operations
- Delivering solid financial results
- Committing to a sustainable business

By continuous focus on operational efficiency and maintaining a strong balance sheet, XXL is in a good position of capturing the growth opportunities that arise on the way to become a leading European sports retailer.

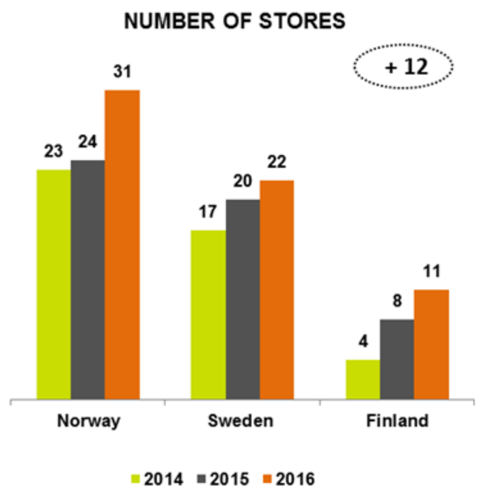
Board of Directors' Report

The growth story of XXL continued in 2016 with a record of 12 new stores for the year. In addition the E-commerce offering grew by 60 per cent compared to 2015, and is close to 11 per cent of Group sales. The growth in E-commerce is also including opening of a website in Denmark, contributing to XXL now being present in all four Nordic countries.

Total operating revenue was NOK 7 813 million (NOK 6 487 million) equaling 20 per cent growth, and Net Income was NOK 516 million (NOK 427 million) equaling 17 per cent growth. The Board of Directors proposes a dividend of NOK 2 per share, representing around 55 per cent of Net income.

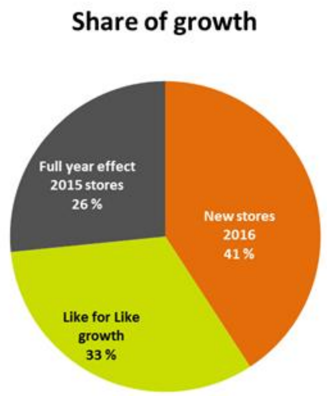
Growth development

The total growth for XXL in 2016 was 20 per cent, delivered by new stores, growth in existing stores and e-commerce. Within the growth development the e-commerce launch in Denmark and seven new stores in Norway should be highlighted. Being present in Denmark also means that XXL is present in all four Nordic countries. Further, seven new store openings in Norway in 2016 is a step up from having only one new store in 2014 and 2015 respectively. The Swedish store base increased by two stores and Finland by three stores. In total XXL delivered a record growth of 12 new stores in a year, ending at 64 stores in total.



Trends

The whole retail industry is in middle of a clear shift, from people shopping in physical stores to shopping online. Pure e-commerce players are growing much faster than traditional store players. Also for XXL, e-commerce is growing much faster than store growth, even when including opening 12 new stores during 2016. XXL believes that stores still will be attractive, but a strong e-commerce offering and acting as an omni-channel distributor will be required to maintain the position as a leading retailer. A significant share of the store customers are checking products and prices online before going to the store. The "touch and feel" experience is still important and having the opportunity to receive expert advises from experienced personnel in the stores will still be important. However, the shift is developing fast and XXL stores have to constantly improve and increase the product offering to continue delivering like for like growth.

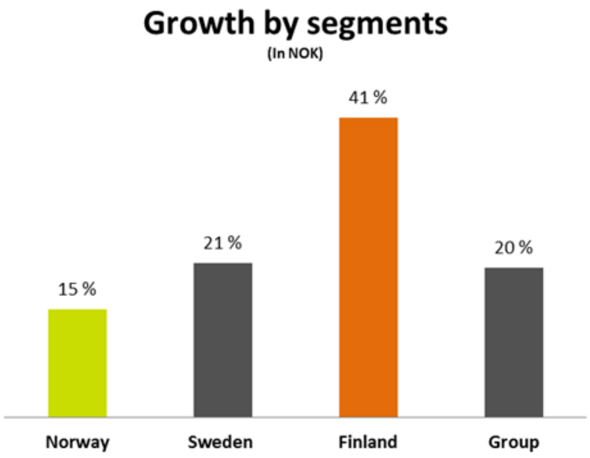


Being sporty has been considered important for many years, and there are no signs that this trend is declining. But we continuously see changes between different types of sport. For 2016 there was as an example a strong growth for randonee skiing, cross-fit training, triathlon and e-bikes. XXL follows changes in the trends constantly and are adjusting the purchases according to any changes in customer preferences. This is important to maintain and increase market shares and keeping too much inventory of untrendy products. The link between tech and sports are getting tighter which create a number of new business opportunities for XXL We are therefore building a tech department in every store to keep up with the technological development and to maintain like for like growth in the stores.

Market conditions
The market conditions in the Nordics have been stable in 2016. Hence, the change between physical stores and e-commerce is affecting the competitive landscape for sport equipment. The availability for checking products and prices have never been easier, and it is opening for more global competition than only the existing Nordic retail competitors. Being a small retailer without a sufficient e-commerce offering seems to be more difficult.

XXL revenues are affected by the weather conditions during the year. 2016 started very good with good snow conditions in January, but the rest of the quarter was more various. By the end of the year, November came with early winter conditions resulting in strong sales figures. However, December weather was poor resulting in challenging for this important period and the situation lasted into the beginning of 2017. XXL seeks to be less dependent of weather conditions and is adjusting the product offering according to this. As an example, selected stores have bikes all year around instead of just in the summer months. XXL has the advantage of having big stores with enough space to offer both skis and bikes in the winter season.

As in 2015 the economic growth was stronger in Sweden than in the other Nordic countries. On the positive side the economic situation in Finland seems to move from declining to a more stable situation. However, though naturally being impacted by the overall situation, the growth in the sport market did not fully reflect the macro economic growth. The sport retail market in Finland grew by 3.7 per cent, mostly driven by XXL with 35.4 per cent growth in local currency. When extracting XXL growth from the market growth, the competitors declined 1.7 per cent according to company estimates. Further the like for like growth for Finland was 5.2 per cent which was better than both competitor growth and market growth in total. In the Norwegian market the growth was 6.6 per cent according to the Norwegian sport association, "Sportsbransjen". The growth for XXL was 14.7 per cent. When excluding XXL growth from market growth the competitors grew by 3.4 per cent. The like for like growth in Norway ended at 4.9 per cent including some cannibalization. This means that the existing business for XXL grew more than the total growth for the competitors. In Sweden the sport market grew by 5.3 per cent according to HUI Research. The corresponding total growth for XXL in Sweden was 17.5 per cent, and the like for like growth was 7.2 per cent. The market figures from all comparable XXL markets confirm that XXL has outperformed all competition with both existing business and new business. XXL has gained market shares in all markets.



Organisation, Working Conditions and the Environment

Operation
XXL is a sport retail chain, with stores and e-commerce in Norway, Sweden and Finland, and pure e-commerce in Denmark. The Groups headquarter is in Oslo (Norway), but the Group also has an office in Stockholm (Sweden), Helsinki (Finland), Copenhagen (Denmark), Vienna (Austria), as well as a purchase department in Lucerne (Switzerland). By year end 2016 XXL had 31 stores in Norway, 22 in Sweden and 11 in Finland, as well as a central warehouse in Gardermoen (Norway) and Örebro (Sweden).

The working environment and the employees
The Group has 4 283 employees (incl. full- and part time) at year end 2016 (3 566 in 2015). Leave of absence due to illness was at 5.0 per cent of total working hours in the Group in 2016 (5.4 per cent in 2015). Reference index for Norway for 2016 is 6.3 per cent, which means that XXL is below average. No incidences or reporting of work related accidents resulting in significant material damage or personal injury occurred during the year.

Equal opportunities
The Group aims to be a workplace with equal opportunities and has included in its policies regulations to prevent gender discrimination regarding salary, promotion and recruiting.

The Discrimination Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin color, language, religion and faith. XXL is working actively, determined and systematically to encourage the act's purpose within the business through recruiting, salary and working conditions, promotion, development opportunities and protection against harassment.

The Group has traditionally recruited from environments equally dominated by both men and women. Out of the 4 283 employees in XXL, there are 1 874 female employees, constituting 43.8 per cent of total employees.

Sustainability report
XXL is a paradise for people with interests in sports, outdoors and wildlife and we should use the power of the brand to raise awareness and to lead the way in the industry on sustainability issues. The most important competitive advantage of XXL is the low cost position of the company and we believe there is a positive correlation between being a sustainable company and doing profitable business. As a leader in the retail industry of sporting goods XXL recognize the moral commitment to help sustain the natural environment but also the opportunity to influence and set standards of excellence. XXL defines corporate responsibility as achieving commercial profitability in a way that is consistent with fundamental ethical values and with respect for individuals, the environment and society.

In 2016 XXL focused on improving the key aspects of the sustainability work taking into account different stakeholder's views. XXL has worked on improving the efficiency in the distribution of goods by expanding the central warehouse capacity in the Group and by monitoring third parties that we use for transportation. XXL will continue to increase the recovery rates and reduce the amount of waste in general. We are currently developing a new version of the store concept and will include new recycling stations and waste solutions for the service points. When it comes to electricity use XXL has commenced the first projects of upgrading the store base in Norway to more efficient energy solutions. We will now also conduct a mapping of energy conservation plans for all our stores in Sweden. XXL expects significant energy consumption savings in upgraded stores over time.

On the supplier assessment side XXL further strengthened this work in 2016 by conducting more audit of suppliers and their production facilities, also preformed by independent third parties. XXL developed and implemented a new risk assessment scheme for all purchasers in the Group in 2016. All suppliers are obliged to perform necessary tests and ensure that their products meet XXL requirements, the so-called XXL-ER framework that we have developed internally. This was further strengthened during the year by including a policy on animal welfare. In addition XXL more specifically focused on personal protective equipment and hazardous substances by extensive internal controls and by implementation of a new online chemical database.

XXL is all about the employees and during the year the education and training initiatives have been further strengthened by introducing more courses at the Camp XXL, new leadership programs for all countries and departments. By doing so the Group secures learning and benchmarking across the whole organization. In 2016 we introduced Facebook Workplace as the new intranet of the Group, as one of the first companies in the World and as the first international sports retailer. This interactive solution enables the organization to be very interactive and responsive.

For the year 2016 XXL Children's Foundation donated USD 125,000 to "Projecto UERE" helping children in the favela of Maré in Rio, Brazil. They used the funds to food and medication deliveries, school supplies and books and were also able to employ four new teachers. The donations were handed over by the Brazilian soccer player Ronaldinho and some of the funds were also used to support and operate the UERE soccer team.

XXL is proud of being nominated best in class in the sport retail industry by Råd och Rön in Sweden on sustainability issues. The test was conducted in cooperation with International Consumer Research and Testing (ICRT) showing that XXL was best on European level as well.

The Group does not pollute the environment in any significant way. For more information on XXL's corporate responsibility and environmental work, see XXL's Sustainability Report on http://www.xxlasa.com/investor

Corporate Governance
XXL's guidelines for Corporate Governance are in accordance with the Norwegian Code of Practice for Corporate Governance, dated 30 October 2014 as required for all listed companies on the Oslo Stock Exchange. Furthermore, the guidelines meet the disclosure requirements of the Norwegian Accounting Act and Securities Trading Act. The guidelines are included separately in this annual report

Consolidated Income statement

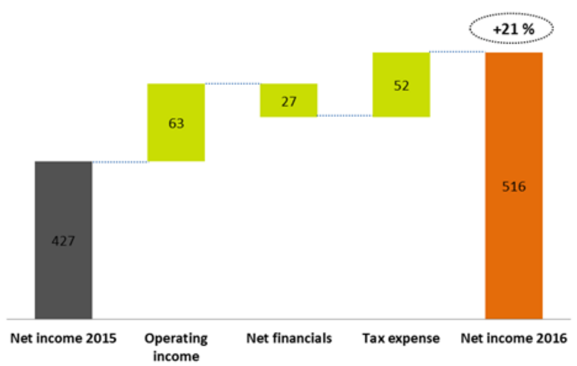
The growth in operating revenue for 2016 was 20.4 per cent to NOK 7 813 million (NOK 6 487 million). The growth is driven by 12 new stores opened in 2016, full year effects from stores that opened in 2015 and like-for-like growth of 7.5 per cent. All countries contributed to the growth with 14.7 per cent in Norway, 21.0 per cent in Sweden and 40.8 per cent in Finland. The revenue contribution from E-commerce for the Group corresponded to 10.9 per cent in 2016 compared to 8.2 per cent in 2015. E-commerce grew by 59.8 per cent compared to 20.4 per cent for the Group total. The establishment of the E-commerce business in Denmark that opened in May 2016 is included in the E-commerce growth numbers.

Operating income increased from NOK 634 million in 2015 to NOK 697 million in 2016. The operating margin decreased from 9.8 per cent to 8.9 per cent, where most of the decrease is related to higher operating expenses in per cent of revenue. The increase in operating expenses is related to more store openings, increased warehouse capacity and higher marketing expenses. Marketing expenses has increased because of higher effort in digital marketing in addition to the existing analogue marketing in newspapers and TV. XXL has during 2016 found the most efficient channels to focus on related to digital marketing and will adjust the total spending during 2017.

The Group had net financial expenses of NOK 55 million in 2016 compared to NOK 28 million in 2015. The increase is primarily related increased debt, amortization of amendment fees and currency effects on intercompany items.

Income before tax was NOK 642 million (NOK 606 million) and Net income (Profit for the year) was NOK 516 million (NOK 427 million). Basic earnings per share were NOK 3.73 (NOK 3.08).

Net income development



Consolidated Balance Sheet and Cash Flow Statement

Total assets were NOK 6 673 million at the end of 2016 (NOK 5 839 million) which is an increase of 14.3 per cent from 2015. The most important driver for the increase is the opening of twelve new stores during the year, investments in infrastructure and inventory growth in the existing stores. Inventory per store (Incl. e-commerce) was NOK 38.4 million (NOK 35.1 million) which is an increase of 9.4 per cent. The inventory level is too high and is a combination of lower December sales than expected and a total purchase volume too high. There are a lot of initiatives to reduce the inventory to a normalized level by the end of Q3 2017. However, the product categories with high inventory level had the best growth of all categories. The inventory continues to be healthy and where the challenging categories with particularly high inventory level are related to fourth quarter purchase. Total trade and other receivables were NOK 277 million (NOK 295 million) which is a decrease of 6.1 per cent.

Net interest bearing debt was NOK 1 499 million (NOK 1 037 million). Net cash position was NOK 115 million (NOK 87 million). Adding available credit facilities, the liquidity reserve was NOK 151 million (NOK 787 million) at the end of 2016. Net Interest Bearing Debt / EBITDA were 1.8x (1.4x). Group equity was NOK 3 608 (NOK 3 366 million) resulting in an equity ratio of 54.1 per cent (57.6 per cent).

Cash flow provided by operating activities was NOK 31 million (NOK 352 million). The most important reason for the decrease in cash flow is the inventory increase of NOK 777 million (NOK 531 million). This increase is due to twelve more stores and increased inventory in existing stores. Income tax paid increased by NOK 109 million to NOK 182 million, driven by increased profit but also the settlement with the Norwegian Tax Authorities resulting in a tax pay-out of 38 million.

Cash used for investing activities were NOK 239 million which is up by 77 million compared to 2015. The increase is due to opening more stores than in 2015 and more investments in IT and infrastructure.

Net change in cash and cash equivalents was NOK 36 million compared to negative NOK 135 million in 2015. The increase is driven by increased usage of credit facilities.

Going Concern

In accordance with Norwegian accounting regulations, the Board of Directors confirms that the prerequisites of a going concern have been met in the presentation of the annual financial statements.

Outlook

XXL has signed 10 new lease agreements for store openings for 2017 where of 1 in Norway, 4 in Sweden, 3 in Finland and 2 in Austria. The aim for 2017 is 10-12 new stores in total.

Regarding Austria both of the stores are in Vienna, giving synergies to marketing cost. The opening will be in late 2017, and in addition XXL will launch an E-commerce offering together with the first store. It will also be added a local team for buying and support to establish XXL in the new area consisting of at least five employees. This organization will be scaled for the whole DACH-region (Germany, Austria and Switzerland). CAPEX per store will be in the range of EUR 1.7 -1.9 million and an average pay-back per store of 4-5 years. The average pay-back time is calculated after being 3 years in the market. Average sale per store is expected to be around EUR 12 million, while the gross margin and EBITDA-profile will be as in Sweden over time when excluding for the build up of a centralized organization. Hence, the start-up in Austria will have higher costs than the launch in Sweden, Finland and Denmark. XXL expects between 15-20 stores in total in the Austrian market.

To continue the growth strategy, in stores and E-commerce, in new markets and existing markets, XXL will invest in infrastructure, IT and training facilities. These investments are expected to be in the range of NOK 70-90 million for 2017. In addition XXL will refurbish at least two stores with CAPEX in the range of two new stores.

The Group maintains the following long term objectives (on full year basis):

- Like-for-like growth of mid-single digits over time including E-commerce
- Gross margins: In Norway at low 40's, high 30's in Sweden and between mid and high 30's in Finland. Due to the demanding macro in Finland the lift to high 30's may take longer time than in Sweden
- EBITDA-margins: In Norway at low 20's, in Sweden low double digits and in Finland high single digits. Due to the demanding macro in Finland the lift to high single digits may take longer time than in Sweden.
- Both gross margin and EBITDA-margin for the Group will be negatively affected by the establishment in new markets.

Risks

Financial risk

XXL uses bank loans and existing cash flow from operating activities as its main source of funding to secure capital for the growth. For commercial hedging purposes, the Group uses derivatives. XXL does not apply hedge accounting or use any financial instruments, including derivatives, for trading purposes. Procedures for risk management are approved by the Board. The main financial risks that the Group is exposed to are interest rate risk, liquidity risk, currency risk and credit risk. The Group's management regularly evaluates these risks and establishes guidelines for how they are handled.

Credit risk

The Group is mainly exposed to credit risk for trade and other receivables. The Group mitigates its exposure to credit risk by ensuring that all parties requiring credit, such as customers, are approved and subject to a credit check. The Group does not have significant credit risk associated with a single counterparty or counterparties which can be viewed as a Group due to similar credit risk. The Group has policies in place to ensure that sales are made to customers who have not had significant problems with payment and the outstanding amount does not exceed the established credit limits. Maximum risk exposure is represented by the carrying amount of the financial assets in the balance sheet. The Group considers its maximum risk exposure to be the carrying amount of accounts receivable.

Interest risk

The Group is exposed to interest rate risk through its financial activities. The interest-bearing debt has floating rates, which means it is affected by changes in interest rates. The purpose of the Group's interest rate risk management is to reduce interest costs and at the same time keep the volatility of future interest payments within acceptable limits.

Market risk

The Group faces substantial competition in the sports retail industry from a wide range of different concepts, including pure online players. Actions taken by competitors, as well as actions taken by the Group to maintain the competitiveness and reputation, will continue to put pressure on the pricing strategy, net sales growth and profitability.

Customer tastes and trends in the sports and outdoor equipment market are volatile and tend to change rapidly. The business of the Group is dependent upon being able to anticipate, identify and respond to changing trends and customer preferences. If not, the sales may be lower than predicted and faced with an increased amount of unsold inventory. This could lead to the need of more promotional sales and may also impact the XXL brand image and customer recognition.

The business is subject to seasonal peaks and the Group must actively manage the purchase of inventory. Sports retail in general are also to some extent affected by periods of abnormal, severe and unseasonal weather conditions, such as unfavorable snow conditions. The efficient logistics of the Group provides for the ability to rapidly switch from winter to summer assortment. The XXL concept is dynamic and less dependent on perfect seasonal conditions.

The Group believes it is well-positioned with regards to relative price offerings in the markets, but consumer spending on sporting and outdoor goods may be adversely impacted by economic conditions such as consumer confidence, interest and tax rates, employment level, salary and wage levels, general business conditions, consumer credit and housing, energy and food costs.

Allocation of net income (Group)
The Board of Directors proposes a dividend of NOK 2 per share, equal to the dividend from 2015. The dividend equals 54 per cent of net income. XXL maintain however it's policy of dividend pay-out ratio in the range of 40 to 50 per cent of Net Income.

Dividend payout	NOK 277 million
Other equity	NOK 239 million
Total allocation	**NOK 516 million**

Responsibility Statement
We, The Board of Directors and CEO, confirm to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2016 has been prepared in accordance with current applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the Group taken as a whole, as well that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the Group, together with a description of the principal risks and uncertainties facing the entity and the Group.

Oslo, 25 April 2017

Øivind Tidemandsen
Chairman of the Board

Ronny Blomseth
Board Member

Mernosh Saatchi
Board Member

Tore Valderhaug
Board Member

Fredrik Steenbuch
Managing Director

Anna Birgitta Attemark
Board Member

Corporate governance at XXL ASA

1. Implementation and reporting on corporate governance
XXL believe that good corporate governance contributes to the best possible value creation and trustworthiness over time for all shareholders, the capital markets and for other key stakeholders. As a result, XXL is committed to maintaining high standards of corporate governance. In order to secure strong and sustainable corporate governance, it is important to ensure good and healthy business practices, reliable financial reporting and an environment of compliance with legislation and regulations across the XXL Group.

XXL has governance documents setting out principles for how business should be conducted. These apply to all XXL units. The XXL governance regime is approved by the Board of Directors, which has the overall supervision for corporate responsibility at XXL and ensures that the Group implements sound corporate governance principles. The Board of Directors revises the governance documents on a yearly basis.

The Norwegian Corporate Governance Board has for companies listed on the Oslo Stock Exchange issued the Norwegian Code of Practice for Corporate Governance (the “Code of Practice”). The Code of Practice is available on www.nues.no and was last amended on 30 October 2014. XXL comply with the Code of Practice. Details are included in this report with section numbers that refer to the Code of Practice’s articles. XXL’s corporate governance policy is based on the Code of Practice, and as such is designed to establish a basis for good corporate governance, to support achievement of the Group’s core objectives on behalf of our shareholders, including the achievement of sustainable profitability for the shareholders of XXL.

Deviation from the Code of Practice (NUES) - none

2. Business - XXL’s objectives and activities
XXL believes good corporate governance involves openness and trustful cooperation between all stakeholders in the Group – the owners, the Board of Directors and the executive management, employees, customers, suppliers, creditors, public authorities, capital markets and society in general.

By pursuing the principles of corporate governance, approved by the Board of Directors of XXL, the Board of Directors and executive management shall contribute to achieving the following objectives:

- Openness – communication with the interest groups of XXL shall be based on openness in issues relevant to the evaluation of the development and position of the company.
- Independence – the relationship between the Board of Directors, the executive management and the owners shall be based on independence. Independence shall ensure that decisions are made on an unbiased and neutral basis.
- Equal treatment – one of XXL’s prime objectives is equal treatment and equal rights for all shareholders.
- Control and management – good control and corporate governance mechanisms shall contribute to achieving predictability and reducing the level of risks for owners and other interest groups.

The development of, and improvements in, the company’s corporate governance principles are an on-going and important process that the Board of Directors focuses on.

XXL’s vision is to be a paradise for people interested in sports, outdoors and wildlife. This is reflected in the Section 3 of the Articles of Association, which reads “The Company’s business operation is trade business within sport and wilderness products and other business operations that are naturally related therewith. The business can be conducted by the company itself, by subsidiaries or through participation in, or in cooperation with, others”.

XXL needs to interact in an open and responsible way with all the relevant stakeholders to be able to create a profitable business over time. Our corporate governance policies are designed in order to be true to this commitment.

Deviation from the Code of Practice (NUES) - none

3. Equity and dividends
The company’s equity is considered to be at a level appropriate to XXL’s objectives, strategy and risk profile. XXL believe we have the capacity of combining strong growth with dividend distribution. When proposing a dividend the Board of Directors will take into account legal restrictions, capital requirements and the overall financial position of the company. The Board of Directors will make an overall assessment in order to secure the Company a healthy capital base both for daily operations and for future growth. The Board of Directors will target a pay-out ratio of 40-50 per cent of annual net income. Dividend payments are subject to approval by the Annual General Meeting, the next to be held at 7 June 2017.

Authorization to increase the share capital of the company will be restricted to defined purposes and will in general be limited in time to no longer than the time of the next Annual General Meeting. If the authorization is for different purposes, the company will present the authorizations to the shareholders as separate items. Authorizations to acquire own shares will also be restricted to defined purposes and if the acquisition is for several purposes, the company will present the authorization as separate items to the shareholders. Such authority will state the maximum and minimum amount payable for the shares and applies for no longer than the time of the next Annual General Meeting.

The aggregate nominal value of treasury shares acquired by the company must not exceed 10 percent of the total outstanding shares in the company.

In the Annual General Meeting held on 3 June 2016, the Board of Directors was granted authorization to increase the share capital of the company by a maximum of NOK 1,200,000 representing up to 2.17 per cent of the current share capital. The purpose of the authorization is to secure delivery of shares under the company's share incentive program. The authorization is valid until the Annual General Meeting in 2017, but no longer than to 30 June 2017.

The Board of Directors has also been granted authorization to repurchase the company's own shares within a total nominal value of NOK 1,200,000 corresponding to up to 2.17 per cent of the company's share capital. The main purpose of the authorization is to acquire own shares in order to use such shares in connection with XXL's share incentive schemes. To the extent the shares are not required for the share incentive program after all, the shares shall be deleted in connection with a later reduction of the registered share capital. The maximum amount that can be paid for each share is NOK 500 and the minimum is NOK 1. The authorization is valid until the Annual General Meeting in 2017, but no longer than 30 June 2017.

The two above mentioned authorizations must be view together so that the total utilization of both authorizations does not exceed 2.17 per cent of the company's share capital.

Further, the Board of Directors has been granted authorization to repurchase the company's own shares within a total nominal value of NOK 1,662,144 corresponding to 3.00 per cent of the company's share capital. Shares in XXL acquired in accordance with this authorization are planned used as consideration, in full or in part, in connection with acquisition of other businesses. The maximum amount that can be paid for each share is NOK 500 and the minimum is NOK 1. The authorization is valid until the Annual General Meeting in 2017, but no longer than 30 June 2017.

In total XXL held 202,000 own shares at year end 2016, representing 0.15 per cent of the total outstanding shares in the company. In March 2015, XXL bought in total 105,000 own shares, representing 0.08 per cent of the total outstanding shares in the company. This is to cover for shares in relation to a restricted share unit program for employees in XXL which vest in March 2018 (the 2015 incentive plan). In March 2016, XXL bought in total 97,000 own shares, representing 0.07 per cent of the total outstanding shares in the company. This is to cover for shares in relation to a restricted share unit program for employees in XXL which vest in February 2019 (the 2016 incentive plan).

Deviation from the Code of Practice (NUES) - none

4. Equal treatment of shareholders and transactions with close associates

Equal treatment of all our shareholders is core in how XXL approach corporate governance. The company has only one class of shares and all provide equal rights in the company. Each of the shares carries one vote and is freely transferable. All shareholders are entitled to attend, speak, vote and deliver items to the agenda for General Meetings, which is the highest authority in the company.

Where the Board of Directors resolves to carry out an increase in the share capital and waive the pre-emptive rights of the existing shareholders on the basis of a mandate granted to the Board of Directors, an explanation will be publicly disclosed in an announcement to the stock exchange in connection with the increase of the share capital.

There have been no significant transactions between the company and closely related parties in 2016. If XXL should enter into agreements or transactions with closely related parties within the company, or with companies in which a leading director or leading employee of XXL or close associates of these have a material direct or indirect interest, the agreements or transactions will immediately be notified to the Board of Directors. Any such agreements or transactions must be approved by the Board of Directors and be publicly disclosed if required. In the event of an agreement or transaction between the company and closely related parties, the Board of Directors will arrange for an independent valuation overview from an independent third party, unless the agreement or transaction requires an approval of the General Meeting.

XXL has established instructions for handling inside information, rules for primary insiders and insider trading which is closely monitored.

Any transaction the company carries out in its own shares will be carried out either through the stock exchange or at prevailing market prices if carried out in any other way. Such transaction will be publicly disclosed in a stock exchange announcement immediately.

For further information on closely related transactions, please see note 10 in the consolidated financial statements.

Deviation from the Code of Practice (NUES) - none

5. Freely negotiable shares

The Articles of Association do not provide for any restrictions on the transfer of shares, or a right of first refusal for the company. Share transfers are not subject to approval by the Board of Directors.

Deviation from the Code of Practice (NUES) - none

6. General meetings

Through the General Meeting, shareholders exercise supreme authority in the company. In accordance with Norwegian law, the Annual General Meeting of shareholders is required to be held each year on or prior to 30 June. Norwegian law requires that written notice of Annual General Meetings, setting forth the time of the venue and the agenda, to be sent to all shareholders with a known address no later than 21 days before the Annual General Meeting, unless the Articles of Association stipulates a longer deadline, which is not currently the case for the company.

Apart from the Annual General Meeting, Extraordinary General Meetings of shareholders may be held if the Board of Directors considers it necessary. An Extraordinary General Meeting must also be convened if, in order to discuss a specified matter, the auditor or shareholders representing at least 5 per cent of the share capital demands this in writing. The requirements for notice and admission to the Annual General Meeting also apply to Extraordinary General Meetings. However, the Annual General Meeting of a Norwegian public limited company may with a majority of at least two-thirds of the aggregate number of votes cast as well as at least two-thirds of the share capital represented at a General Meeting resolve that Extraordinary General Meetings may be convened with a fourteen days notice period until the next Annual General Meeting provided that the company has procedures in place allowing shareholders to vote electronically.

According to the Articles of Association, documents relating matters to be dealt with by the company's General Meeting, including documents which by law shall be included in or attached to the notice of the General Meeting, do not need to be sent to shareholders if such documents have been made available on the company's website. A shareholder may nevertheless request that documents which relates to matters to be dealt with at the General Meeting, are sent to him/her.

A shareholder may vote at the General Meeting either in person or by proxy appointed at their own discretion. In accordance with the requirements of the Norwegian Securities Trading Act, the company will include the proxy form with the notice of General Meetings. All of the company's shareholders who are registered in the register of shareholders maintained with the VPS as of the date of the General Meeting, or who have otherwise reported and documented ownership to shares, are entitled to participate at General Meetings, without any requirement of pre-registration. The company's Articles of Association does, however, include a provision requiring shareholders to pre-register in order to participate at General Meetings. The deadline for pre-registration cannot expire earlier than three days prior to the General Meeting. The shareholders may cast their votes in writing, including through electronic communication, in a period prior to the General Meeting. The Board of Directors can establish specific guidelines for such advance voting. The established guidelines must be stated in the notice of the General Meeting.

The chairman of the Board of Directors, the chairman of the nomination committee, the chairman of the audit committee, the chairman of the remuneration committee, the Group CEO and CFO as well as the auditor will under normal circumstances be present at the General Meeting in person.

The General Meeting elects the members of the Board of Directors, determines the remuneration of the members of the Board of Directors, approves the annual accounts and the annual report, including distribution of dividend, and any other matters which are referred to the General Meeting by law or the Articles of Association.

Decisions that shareholders are entitled to make under the Norwegian law or the company's Articles of Association may be made by a simple majority of the votes cast. In the case of elections or appointments, the person(s) who receive(s) the greatest number of votes cast are elected. The General Meeting will normally vote separately on each candidate for election for the Board of Directors or the nomination committee. Certain decisions, including resolutions to waive preemptive rights to subscribe in connection with any share issue in the company, to approve a merger or demerger of the company, to amend the Articles of Association, to authorize an increase or reduction in the share capital, to authorize an issuance of convertible loans or warrants by the company or to authorize the Board of Directors to purchase shares and hold them as treasury shares or to dissolve the company, must receive the approval of at least two-third of the aggregate number of votes cast as well as at least two-third of the share capital represented at a General Meeting. Norwegian law further requires that certain decisions, which have the effect of substantially altering the rights and preferences of any shares or class of shares, receive the approval by the holders of such shares or class of shares as well as the majority required for amending the Articles of Association. Decisions that would reduce the rights of some or all of the company's shareholders in respect of dividend payments or other rights to assets or restrict the transferability of the shares, require that at least 90 percent of the share capital represented at the General Meeting in question vote in favor of the resolution, as well as the majority required for amending the Articles of Association. There are no quorum requirements that apply to the General Meetings.

The minutes from the General Meeting will be posted on the company's website no later than 15 days after the General Meeting was held, but generally as soon as possible after the end of the meeting. Information that a General Meeting has been held will also be made public through a stock exchange announcement as soon as possible after the end of the meeting.

Deviation from the Code of Practice (NUES) - none

7. Nomination committee

XXL has established a nomination committee pursuant to the Articles of Association and shall consist of two or three members who are shareholders or representatives of shareholders. The majority shall be independent of the Board of Directors and the executive management. The members of the nomination committee, including the chairman, are elected by the General Meeting for a term of two years. Currently the nomination committee consists of two members, Ingar Solheim (chairman) and Robert Iversen. Since February 2017 Robert Iversen has been a director in XXL ASA and a part of the executive management team. The nomination committee will propose appropriate amendments to its composition in connection with the Annual General Meeting in XXL ASA scheduled for 7 June 2017. The nomination committee shall give recommendations for the election of shareholder elected members of the Board of Directors, remuneration to the members of the Board of Directors including remuneration for subcommittees, the election of members to the nomination committee and remuneration to the members of the nomination committee. The General Meeting may adopt instructions for the nomination committee.

XXL has established an instruction for the nomination committee, which includes recommendations for the tasks described above. When nominating members to the Board of Directors, the nomination committee should look at competence and diversity, legal requirements, independence from the executive management and any significant business associates, at least two of the members should be independent of company's principal shareholders and that members of the executive management should not be members of the Board of Directors. Remuneration of the Board of Directors should take into account the responsibility of the Board of Directors and that the proposal is suited to the character and time commitment of the tasks it carries out. The recommendations from the nomination committee will be explained. The nomination committee must look actively to the shareholders and anchor the recommendation with the company's largest shareholders. It must ensure that information is made available on the company's website of any deadlines for proposing candidates or making suggestions to the nomination committee regarding elections of members to the Board of Directors and nomination committee. The recommendations should be given together with the notice of the General Meeting.

Deviation from the Code of Practice (NUES) - Since February 2017 Robert Iversen has been a director in XXL ASA and a part of the executive management team. The nomination committee will propose appropriate amendments to its composition in connection with the Annual General Meeting in XXL ASA scheduled for 7 June 2017.

8. Corporate assembly and composition and independence of the Board of Directors

XXL's Board of Directors shall consist of a minimum of three and a maximum of seven members. The Board of Directors is responsible for the management of the company, including appointment of the CEO to assume the daily management of the company. The composition of the Board of Directors in XXL ASA is in compliance with the independence requirements meaning that the majority of the shareholder elected members of the Board of Directors is independent of the company's executive management and material business contacts. At the same time more than two of the elected members of the Board of Directors are independent of the company's main shareholders, meaning shareholders holding more than 10 percent of the total outstanding shares in the company. In the company's view all the members of the Board of Directors are independent from the executive management and material business contacts. Chairman Øivind Tidemandsen controls the largest shareholder of the company. Members of the executive management should not be a member of the Board of Directors. Currently, no executive manager is a board member. The term of office for members of the Board of Directors is one year, with the exception of the chairman who is elected for two years, but a member may be re-elected.

The members of the Board of Directors are encouraged to own shares in the company. Currently all members except for Tore Valderhaug have shares, please see note 13 in the consolidated financial statement for the overview of share ownership.

XXL ASA has no corporate assembly.

Deviation from the Code of Practice (NUES) - none

9. The work of the Board of Directors

The conduct of the Board of Directors follows the adopted Board of Directors' rules of procedure, which states that the board members should perform their duties in a loyal manner, attending to the interests of the company. The Board of Directors prepares within 31 January each year a plan for the ordinary meetings for such year. The Board of Directors will meet several times a year and it will host additional meetings when required due to special circumstances. Between meetings, the chairman and the CEO have frequent contact on current matters and update the board members accordingly. The board meetings ensure that the Group's activities are organized in a prudent manner, maintaining systems, procedures and a corporate culture that promote high ethical conduct and in compliance with legal and regulatory requirements. Each board meeting includes a briefing by the CEO and a review of the latest financial development by the CFO. The Board of Directors keeps itself informed of the financial position of the company to ensure that the corporate accounts and asset management are subject to satisfactory controls.

The chairman of the Board of Directors ensures that board members are kept informed, convene and chair the board meetings and ensure that the matters are handled in accordance with applicable law and procedures. In the case of the chairman's absence, the Board of Directors elects a board member to chair the meeting. If the chairman of the Board of Directors is, or has been, personally involved in matters of material significance to the company, such matters will be chaired by some other member of the Board of Directors.

The Board of Directors has established a remuneration committee and an audit committee. The remuneration committee shall have at least two members of the Board of Directors and comprises for the time being of two members, Øivind Tidemandsen (chairman) and Ronny Blomseth. The primary purpose of the remuneration committee is to assist the Board of Directors in performing its duty relating to determining the compensation to the executive management. The remuneration committee reports and makes recommendations to the Board of Directors, but the Board of Directors retains responsibility for implementing such recommendations. The audit committee shall compose of at least two members of the Board of Directors and the current members are Tore Valderhaug (chairman) and Mernosh Saatchi. The primary purposes of the audit committee are to act as a preparatory and advisory committee for the Board of Directors in questions concerning accounting, audit and finance. The audit committee monitors the financial reporting process and internal control, reviews the independent auditor's qualifications and independence and the Group's compliance with applicable legal and regulatory requirements. The audit committee reports and makes recommendations to the Board of Directors, but the Board of Directors retains responsibility for implementing such recommendations.

The Board of Directors carries out an annual evaluation of its performance. The evaluation report for the year 2016 has been presented to the nomination committee.

Deviation from the Code of Practice (NUES) - none

10. Risk management and internal control
The Board of Directors supervises the daily management and the activities and risks of the company in general. XXL's risk management and internal control are an integral part of all daily business activities and are integrated in the business planning processes and corporate strategy. The day-to-day risk management is placed on the business segments and governed by the executive management team.

The Board of Directors carries out separate reviews of the most important risk exposures. The audit committee monitors on an ongoing basis the risk and control related to the financial situation including review and implementation of accounting principles and policies and monitors the effectiveness of the company's internal control, internal audit and risk management system. The audit committee has full access to all books, record and personnel of the Group, as well as the external auditor of the company. Instructions for the CEO's responsibilities and duties have been implemented by the Board of Directors to clarify the powers and responsibilities between the Board of Directors and the executive management team. The CEO has the right to represent the company within the adopted budget and is responsible for implementing the resolutions adopted by the Board of Directors. It is the CEO's responsibility that the company's book keeping and accounting are performed in accordance with the law and that the management of company's assets is conducted safely. The Board of Directors ensures that the CEO uses proper and effective management and control systems, including systems for risk management. The internal control systems also encompass the company's corporate values, ethical guidelines and corporate social responsibility.

XXL operates internationally and is exposed to various financial risks such as currency risk, interest rate risk, liquidity risk and credit risk. The CFO has the day to day responsibility for managing activities related to this. In order to manage foreign currency risk exposure, XXL hedge approximately 50 per cent of its purchases. The Group is exposed to interest rate risk through its financial activities. The interest-bearing debt has floating rates, which means it is affected by changes in interest rates. The purpose of the Group's interest rate risk management is to reduce interest costs and at the same time keep the volatility of future interest payments within acceptable limits. The Group constantly monitors the interest rate level and uses derivatives to adjust the effective interest rate exposure when necessary. XXL monitors liquidity flows, short- and long-term, through reporting and forecasting, that better control the liquidity risk. The management of credit risk related to trade and other receivables is handled as part of business risk, and is continuously monitored by XXL's finance department. The Group mitigates this risk by ensuring that all parties requiring credit, such as customers, are approved and subject to credit check. Policies are in place to ensure that sales are made with customers who have not had significant problems with payment and the outstanding amount does not exceed the established credit limits. XXL has agreements with third parties related to recoverability of trade receivables from online sales and supplier bonuses.

In order to comply with the arm's length principle as stated in applicable standards and laws and to maintain good control, XXL has established transfer pricing policy. The main purpose of this policy is to ensure that all significant intra group transactions are priced in accordance with the arm's length principle and relevant domestic tax regimes. It ensures a simple, coherent and logical transfer pricing methodology, and consistency and transparency on how the intra group prices are set and tested. It further minimizes the risk of double taxation and conflicts with the tax authorities and captures any relevant and significant issues and need for revisions.

The Group's accounting unit is responsible for the preparation of the financial statements and to ensure that they are in accordance with applicable laws, regulations and adopted accounting policies. The CFO and the controller functions are responsible for reporting to the Board of Directors and the executive management, as well as planning and coordinating the business plan process. The finance department prepares financial reporting and provides a set of procedures and processes detailing the requirements with which the local reporting units must comply. The Group has established processes and a variety of control measures that will ensure quality assurance in the financial reporting. The Group is reporting to the Board of Directors on a monthly basis. Several controls are established such as reconciliation, segregation of duties, management review and authorization. All monthly and quarterly reports are analyzed and assessed relative to budgets, forecasts, trends and the long-term business plan. The executive management comments on the financial results on a quarterly basis and the results are announced to the Oslo Stock Exchange.

The external auditor provides a description of the main elements in the audit, including opinions on internal control related to financial reporting. XXL is subject to a yearly external statutory audit.

XXL Board of Directors has also implemented ethical procedures in the company, subject to all employees and the members of the Board of Directors. These documents contain the basic principles of business practice, personal conduct, roles and responsibilities, covering topics including employee relations, anti-corruption, health, environment, human rights, anti-discrimination, handling business information, conflicts of interest, fair competition, money laundering.

Please also see the Sustainability report for 2016.

Deviation from the Code of Practice (NUES) - none

11. Remuneration of the Board of Directors
The remuneration of the Board of Directors will be proposed by the nomination committee and approved by the Annual General Meeting. The remuneration is a fixed annual fee and is not linked to the company's performance. It reflects the responsibility, qualifications, time commitment and complexity of the company's activities in general and also separate fees for participation in committees of the Board. Members are not granted share options and none of them (or any company associated with such member) have specific assignments for the company in addition to their duties as board members except for the chairman Øivind Tidemandsen. XXL is required to have individual licenses to sell firearms for all stores in which firearms and ammunition are sold. The Group's applications for licenses in Norway are made by XXL Sport & Villmark AS with the chairman Øivind Tidemandsen being registered as the individual responsible person. This duty is carried out on a non-pay basis and is known for all the other members of the Board of Directors. Currently all the board members except Tore Valderhaug have shares in the company.

For more information please see note 3 in the consolidated financial statements.

Deviation from the Code of Practice (NUES) - none

12. Remuneration of executive personnel
XXL Board of Directors has established a remuneration committee with a set of instructions for the committee to follow. The committee acts as preparatory and advisory body to the Board of Directors in relation to the company's remuneration of executive management. The Board of Directors determines the remuneration of the CEO based on a proposal from the remuneration committee and approves the general terms of the company's incentive plans for executive management and key employees. The CEO determines the compensation to other members of XXL's executive management.

In accordance with the Norwegian Public Limited Companies Act, a statement related to the determination of salary and other benefits for the executive management will be prepared by the Board of Directors. The statement will be presented to the Annual General Meeting for voting and the statement will also be a separate appendix in the notice to the Annual General Meeting.

The Board of Directors has established guidelines for the remuneration to the CEO and members of the executive management. It is a policy to offer competitive remuneration based on current market standards, company and individual performance. The remuneration consists of a basic salary element combined with a performance based bonus program. The executive management participates in the company's insurances and is entitled to certain other elements like benefits upon termination, car, internet access and phone expenses. Executives on expatriate contracts have various other costs covered by the company. The annual salary adjustment for employees in Norway forms the basis for the XXL's executive management salary development. Members of the executive management do not receive separate remuneration for board membership in XXL subsidiaries.

The Group has established a bonus scheme for the executive management, which is based on results before tax exceeding the budget and individual targets (personal or professional development). Maximum bonus under the scheme is 50 percent of the respective employee's gross base salary. Bonus with regards to results exceeding budget is paid with NOK 50,000 per NOK 1,175,000 exceeding budget up to a maximum of 40 percent of the employee's gross base salary. Bonus relating to individual targets is calculated on the basis of the parameter awarded the different achieved targets, up to a maximum of 10 percent of the employee's gross base salary. The Group does not include bonus payments in the basis for calculation of holiday pay and pension.

In March 2015 the Group introduced the first share incentive program for the executive management and key employees by granting share options to such persons. The second round of share option grants was commenced in February 2016. This is in order to further strengthen the common interests with the shareholders. The options will vest after three years after grant, subject to key performance criteria being met and that the holder at the time of exercise is employed in the Group. The key performance criterion is equal to all and is an absolute EBITDA-target as defined by the future business plan. The theoretical value of the first share option program was NOK 8.25 million and the second program was 8.5 million, calculated according to the Black-Scholes model.

The Group has a defined contribution plan which covers all of the XXL's employees.

The guidelines to be presented at the Annual General Meeting 7 June 2017 are disclosed in note 3 in the consolidated financial statements. For information on salary and other benefits for 2016 for the executive management see note 3 in the consolidated financial statements. For additional information about the pension plans see note 3 in the consolidated financial statements.

Deviation from the Code of Practice (NUES) – XXL ASA provide details on the salary for the CEO only and not for the rest of the executive management team

13. Information and communications
XXL's communication with the financial market is based on openness and equal treatment of all shareholders. Investor Relations is a high priority and the Board of Directors has established an Investor Relations policy to build trust and awareness in the investor community. The XXL corporate website (www.xxlasa.com) includes an updated financial calendar, financial reports, announcements, contact details and other Investor Relations information. XXL regularly hosts meetings with investors and analysts, participates on investor conferences and arranges regular presentations and roadshows worldwide. To ensure all stakeholders have equal access to information at the same time, important events affecting the company are reported immediately to the Oslo Stock Exchange in accordance with applicable legislation and also at the same time on XXL's corporate website.

Deviation from the Code of Practice (NUES) - none

14. Take-overs
In accordance with the Norwegian Securities Trading Act and the Code of Practice, the Board of Directors has adopted guiding principles for how to act in the event of a take-over bid. The Board of Directors will not seek to hinder or obstruct any takeover bids. In a take-over process, the Board of Directors and executive management each have an individual responsibility to ensure that the company's shareholders are treated equally and that there are no unnecessary interruptions to the company's business activities. The Board of Directors will ensure that the shareholders have sufficient information and time to assess the offer and will not undertake any actions intended to give shareholders or others an unreasonable advantage at the expense of other shareholders.

Information about agreements entered into between the company and the bidder that are material to the market's evaluation of the bid will be publicly disclosed no later than at the same time as the announcement that the bid will be made is published. Any agreements with the bidder that acts to limit the company's ability to arrange other bids for company's shares will only be entered into where the Board of Directors believes it is in the common interest of the company and its shareholders.

If a take-over offer is made, the Board of Directors will obtain a valuation from an independent expert. On this basis, the Board of Directors will issue a statement making a recommendation as to whether shareholders should accept the offer or not. The valuation from the independent expert will be disclosed at the same time.

Deviation from the Code of Practice (NUES) - none

15. Auditor
The external auditor participates in meetings with the audit committee or the Board of Directors when matters falling within the scope of the external auditors responsibilities are considered. The external auditor provides to the audit committee a description of the main elements of the audit for the preceding financial year, including in particular the elements that caused the most discussions with the executive management and material weaknesses uncovered related to internal controls of the financial reporting process and proposals for improvement. The auditor participates in meetings of the Board of Directors and the audit committee that approves financial statements. Once a year the Board of Directors holds a meeting with the auditor and no member of the executive management participate.

Norwegian laws and regulations stipulate the type of non-audit services that external auditors can perform for XXL. The Board of Directors has established guidelines with respect to the use of the auditor by the company's executive personnel for services other than the audit. The Annual General Meeting is informed about the company's engagement and remuneration of the auditor and for fees paid to the auditor for services other than the annual audit. Details are disclosed in note 3 to the consolidated financial statements.

Deviation from the Code of Practice (NUES) - none

The XXL share and shareholder information

The XXL share should be an attractive investment opportunity, providing competitive returns to the owners, both through dividends and by increasing the value of the equity through positive developments in the operations over time.

XXL is committed to maintaining a consistent dialogue with the shareholders and potential investors. The communication with the financial market is based on openness and equal treatment of all shareholders. Good relations with the investor community contribute to building trust and reducing cost of capital. XXL gives high weight to providing accurate, clear, relevant, comprehensive and up-to-date information about the Company through stock exchange announcements, interim reports, annual reports, general meetings, presentations and meetings with investors and analysts.

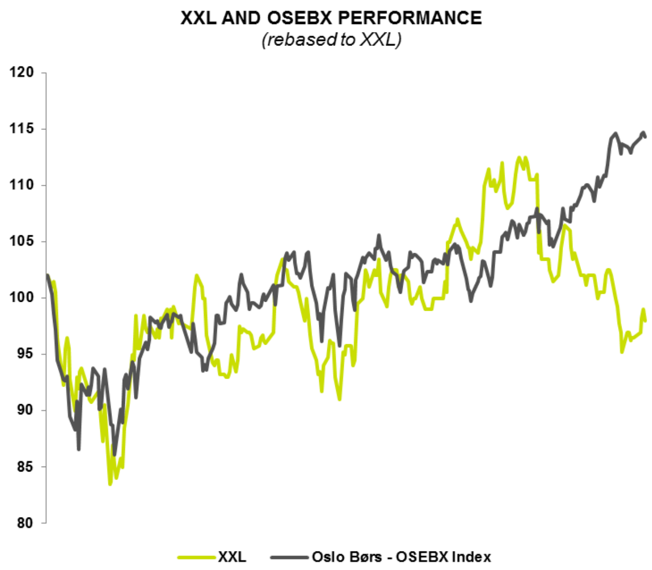
Extensive information about the Investor Relations policies and the XXL share could be found on www.xxlasa.com/investor

Financial calendar 2017:

- 26 April 2017 – Q1 2017 results
- 7 June 2017 – Annual General Meeting
- 21 July 2017 – Q2 2017 results
- 25 October 2017 – Q3 2017 results

The quarterly results presentations and the Annual General Meeting take place at the XXL head office, Alna Center, Strømsveien 245, Oslo.

Share performance
The XXL share started the year at a price of NOK 102.00 and closed the year 2016 at NOK 98.00, giving a negative return of 2 per cent including NOK 2.00 of dividend payment per share. XXL's market value as of year end 2016 was NOK 13.6 billion. The highest closing price was NOK 112.50 and the lowest was NOK 83.50. The Oslo Stock Exchange – OSEBX index – increased by around 12 per cent in 2016. The average daily volume in 2016 was NOK 20.7 million or 210,000 shares.

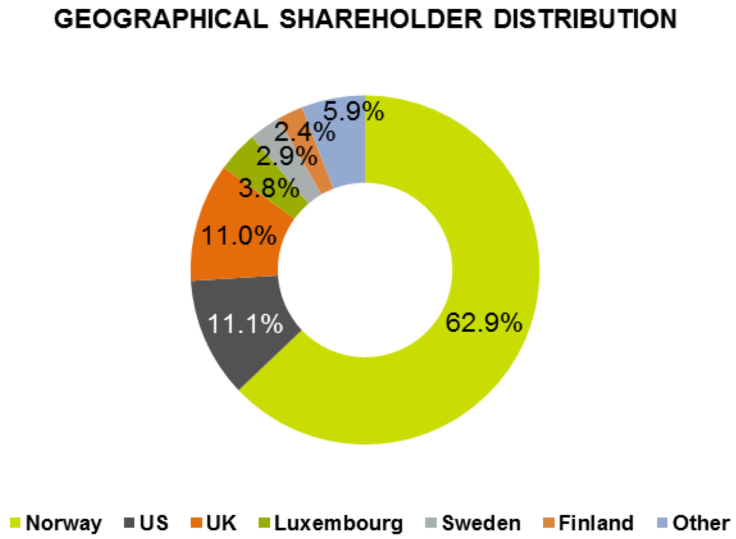


Dividend policy
XXL ASA will target a dividend pay-out of at 40-50 per cent of the Group's annual net income. When proposing a dividend the Board of Directors will take into account legal restrictions, capital requirements and the overall financial position of the company. The Board of Directors will make an overall assessment in order to secure the Company with a healthy capital base both for daily operations and for future growth.

Due to the strong financial position of the Company the Board of Directors propose to the Annual General Meeting a dividend of NOK 2.00 for the financial year 2016, which is the same amount as for 2015. This represents around 54 per cent of the normalized profit for 2016 and amounts to NOK 277 million in total.

Shareholders
XXL ASA had on 31 December 2016 a total of 138,512,123 outstanding shares owned by 4,484 shareholders. Non-Norwegians amounted to 37.1 per cent of outstanding shares, with shareholders from the United States representing 11.1 per cent and from United Kingdom representing 11.0 per cent respectively of the outstanding shares. The largest shareholder was Dolphin Management AS (controlled by COB Øivind Tidemandsen) with 24.2 per cent.

Annual General Meeting 2017
XXL ASA's Annual General Meeting is scheduled for Wednesday 7 June 2017 at 09.00 CET at the XXL head office, Alna Center, Strømsveien 245, Oslo. Attendance either in person or by proxy should be registered within 6 June 2017 at 15.00 CET. Shareholders may register by submitting a registration form or electronically on www.xxlasa.com or at the Norwegian Central Securities Depository investor services website (VPS – www.vps.no).



LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2016

Overview of the major shareholders of the Group as of 31.12.2016:	Total amount of shares	Ownership	Voting right
DOLPHIN MANAGEMENT	33 500 000	24,2 %	24,2 %
FOLKETRYGDFONDET	7 713 280	5,6 %	5,6 %
GOLDMAN SACHS SECURITY CLIENT	4 344 979	3,1 %	3,1 %
J.P. MORGAN CHASE BANK A/C US RESIDENT	3 389 509	2,4 %	2,4 %
STAMINA AS	3 289 566	2,4 %	2,4 %
J.P. MORGAN CHASE BANK A/C OPPENHEIMER	3 055 077	2,2 %	2,2 %
ODIN NORDEN	2 737 847	2,0 %	2,0 %
GENI HOLDING AS	2 518 439	1,8 %	1,8 %
J.P. MORGAN CHASE BANK NORDEA TREATY ACCOUNT	2 303 511	1,7 %	1,7 %
VERDIPAPIRFONDET DNB	1 902 874	1,4 %	1,4 %
DANSKE INVEST NORSKE C/O DANSKE CAPITAL	1 879 119	1,4 %	1,4 %
JP MORGAN CHASE BANK SECURITIES JJPMORGAN SEC PLC	1 865 665	1,3 %	1,3 %
STATE STREET BANK S/A SSB CLIENT	1 755 790	1,3 %	1,3 %
STATE STREET BANK A/C CLIENT	1 515 115	1,1 %	1,1 %
VERDIPAPIRFONDET HANDELSBANKEN NORGE	1 500 000	1,1 %	1,1 %
ODIN NORGE	1 456 173	1,1 %	1,1 %
GLG CONTINENTAL EUROPE	1 448 875	1,0 %	1,0 %
SUNDT AS	1 400 346	1,0 %	1,0 %
KLP AKSJENORGE	1 364 802	1,0 %	1,0 %
J.P. MORGAN CHASE BANK NORDEA TREATY ACCOUNT	1 417 630	1,0 %	1,0 %
Other	58 153 526	42,0 %	42,0 %
Sum	**138 512 123**	**100 %**	**100 %**

Consolidated financial statements - Group

Consolidated statement of total comprehensive income

Amounts in NOK million	Note	2016	2015
Revenues	2	**7 813**	**6 487**
Cost of goods sold		4 694	3 908
Personnel expenses	3	1 240	991
Depreciation and amortization	4,5	127	91
Other operating expenses	6	1 055	863
Operating Income		**697**	**634**
Net financial expenses	18	-55	-28
Net Financial Income (Expense)		**-55**	**-28**
Income before tax		**642**	**606**
Income tax expense	7	126	179
Net income		**516**	**427**
Basic Earnings per share (NOK)	14	**3,73**	**3,08**
Diluted Earnings per share (NOK)	14	**3,70**	**3,07**
Statement of other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		3	0
Total other comprehensive income		**3**	**0**
Total comprehensive income		**518**	**427**

Notes 1 to 20 are an integral part of the Consolidated Financial Statements

Consolidated Statement of Financial Position – Assets

Amounts in NOK million	Note	31.12.2016	31.12.2015
NONCURRENT ASSETS			
Intangible Assets			
Trademarks	5	195	191
Proprietary software	5	47	24
Software	5	10	10
Goodwill	5	2 734	2 734
Total Intangible Assets		**2 987**	**2 959**
Property, Plant and Equipment			
Construction in progress	4	5	8
Machinery and equipment	4	52	54
Land and buildings	4	8	8
Transportation and vehicles	4	1	1
Fixtures and fittings	4	615	499
Total Property, Plant and Equipment		**681**	**569**
Financial Assets			
Other investments	9	2	0
Total Financial Assets		**2**	**0**
Total Noncurrent Assets		**3 670**	**3 529**
CURRENT ASSETS			
Inventory			
Inventories	8	2 610	1 928
Total Inventory		**2 610**	**1 928**
Trade and Other Receivables			
Trade receivables	12	186	78
Other receivables	12,19	91	217
Total Trade and Other Receivables		**277**	**295**
Cash and Cash Equivalents			
Cash and equivalents	11	115	87
Total Cash and Cash Equivalents		**115**	**87**
Total Current Assets		**3 003**	**2 310**
Total Assets		**6 673**	**5 839**

Notes 1 to 20 are an integral part of the Consolidated Financial Statements

Consolidated Statement of Financial Position – Equity and Liabilities

Amounts in NOK million	Note	31.12.2016	31.12.2015
SHAREHOLDERS' EQUITY			
Paid-in Capital			
Share capital		38	48
Share premium		2 834	2 834
Other paid in equity		14	4
Total Paid-in Capital		**2 887**	**2 886**
Retained Earnings			
Other equity		721	480
Total Retained Earnings		**721**	**480**
Total Shareholders' Equity		**3 608**	**3 366**
LIABILITIES			
Non-Current Liabilities			
Deferred tax liability	7	51	61
Long term interest bearing debt	20	1 051	1 116
Total Non-Current Liabilities		**1 102**	**1 177**
Current Liabilities			
Accounts payable		639	578
Short term interest bearing debt	20	563	8
Tax payable	7	123	193
Public duties payable		255	228
Other current liabilities	16	383	289
Total Current Liabilities		**1 963**	**1 295**
Total Liabilities		**3 065**	**2 473**
Total Equity and Liabilities		**6 673**	**5 839**

Notes 1 to 20 are an integral part of the Consolidated Financial Statements

Oslo, 25 April 2017

Øivind Tidemandsen
Chairman of the Board

Ronny Blomseth
Board Member

Mernosh Saatchi
Board Member

Tore Valderhaug
Board Member

Fredrik Steenbuch
Managing Director

Anna Birgitta Attemark
Board Member

Consolidated statement of cash flows

Amounts in NOK million	Note	2016	2015
Operating Activities			
Income before tax		642	606
Income tax paid		-182	-73
Depreciation	4,5	127	91
Changes in inventory		-777	-531
Changes in accounts receivable		14	-11
Changes in accounts payable		73	124
Interest paid		19	42
Amortisation of capitalised transaction costs		7	8
Fair value movement of financial derivatives	20	1	-1
Prepayments of financial leases	17	-8	-11
Changes in other assets and liabilities		115	108
Cash provided (used) by operating activities		**31**	**352**
Investing Activities			
Investment in fixed assets	4,5	-239	-162
Proceeds from disposal of financial assets		0	1
Cash provided (used) by investing activities		**-239**	**-161**
Financing Activities			
Repayment of long-term debt		0	-787
Proceeds from new long-term / short-term debt		549	787
Interest paid		-19	-42
Purchase of own shares/other equity transaction		-9	-8
Dividend		-277	-277
Cash provided (used) by financing activities		**243**	**-326**
Net Change in Cash and Cash Equivalents		**36**	**-135**
Cash and cash equivalents - beginning of year	11	87	222
Effect of foreign currency rate changes on cash and equivalents		-8	0
Cash and Cash Equivalents - End of Year		**115**	**87**

Notes 1 to 20 are an integral part of the Consolidated Financial Statements

Consolidated statement of Changes in Equity

Amounts in NOK million	Share Capital	Share premium	Other Paid in Equity	Other Equity	Foreign Currency Rate Changes	Total Shareholders' Equity
Shareholders' Equity 31.12.14	**55**	**2 834**	**0**	**329**	**1**	**3 219**
Net income 2015				427		427
Foreign currency rate changes					0	0
Transaction with owners:						0
Employee share incentive program			4			4
Dividend				-277		-277
Purchase own shares	-8					-8
Shareholders' Equity 31.12.15	**48**	**2 834**	**4**	**479**	**1**	**3 366**
Net income 2016				516		516
Foreign currency rate changes					3	3
Transaction with owners:						
Employee share incentive program			10			10
Dividend				-277		-277
Purchase own shares	-9					-9
Shareholders' Equity 31.12.16	**38**	**2 834**	**14**	**718**	**3**	**3 608**

Notes 1 to 20 are an integral part of the Consolidated Financial Statements

Dividend of NOK 2 per share proposed for FY16.

The share capital as of 31.12.2016 is 55.4 million NOK

Notes to the financial statements

Note 1 Accounting policies

The Consolidated Financial Statements for XXL ASA ("the Group") are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and required for the financial year , as well as Norwegian disclosure requirements pursuant to the Accounting Act .
The Consolidated Financial Statements have been prepared in accordance with the historical cost convention, modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through equity or the statement of income.
The Consolidated Financial Statements are prepared using uniform accounting policies for like transactions and events under similar conditions.

Functional and presentation currency
Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in the statement of income. Non-monetary items are not translated at year-end and are measured at historical cost translated using the exchange rates at the transaction date), except for no-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

The presentation and functional currency is NOK. Group entities with a functional currency other than NOK are translated at the closing rate at the reporting date for balance sheet items, and at transaction rate for income and expenses. Monthly average rates are used as an approximation for transaction rates. Exchange differences are charged/credited to other comprehensive income and recognized in the currency translation reserve in equity.

Basis of consolidation
The Consolidated Financial Statements include the parent company XXL ASA and all of its subsidiaries. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies.

All transactions and balances between Group companies are eliminated at consolidation, including unrealized gains and losses on transactions between Group companies.

Subsidiaries
Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.
The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognised amounts of acquiree’s identifiable net assets.

Revenue recognition
Revenue is recognized when it is probable that transactions will generate future economic benefits that will flow to the entity and the revenue can be reliably estimated. It is measured at the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.
Sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods. Payment for retail sales is usually in the form of cash or credit card payment.
Interest income is reported on an accrual basis using the effective interest method.

Internet Sales
Sale of goods over the Internet is recognized when the product is sold to the customer, which is when the goods are shipped. All sales are settled by credit card.

Gift cards
Revenue from gift cards are recognized when redeemed or if it is unused for 12 months.

Income tax
Tax expense recognized in the statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.
Current income tax assets and/or liabilities comprise those obligations to, or claim from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. The calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Based on these evaluations, provisions for anticipated tax payments are made, as necessary.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that they will be utilized against future taxable income, based on the Group's forecast of future operating results which are adjusted for significant non-taxable income and expenses.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Share-based payments
Share-based compensation benefits are provided to employees via the share option plan and an employee share scheme. Information relating to these schemes is set out in note 3.

Employee options
The fair value of options granted under the share option plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Social security contributions payable in connection with an option grant are considered an integral part of the grant itself.

Property, Plant and Equipment
Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. When assets are sold or disposed of, the carrying value of the accounts and any gain or loss is recognized.
The cost of fixed assets is the purchase price including taxes and expenses directly attributable to preparing the asset for use. Expenditures incurred after the asset has been put into operation, such as ongoing maintenance, are expensed, while other expenses that are expected to generate future economic benefits are capitalized.

Depreciation is recognized on a straight-line basis to write down the cost less estimated residual value of buildings and equipment.

Material residual value estimates and estimates of useful life are updated as required, but at least annually. Gains or losses arising from the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in the income statement within other income or other operating expenses.

Construction in progress is classified as a fixed asset and is recognized at cost until the asset is commissioned. Construction in progress is not depreciated until the asset is placed into service.

Leased assets
Capital leases
The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Group is a lessee in this type of arrangement, the related asset is recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a capital liability. Direct costs relating to the lease are included in the asset's cost.
In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

Operating leases
All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Goodwill
Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is calculated as the sum of the consideration and the book value of non-controlling interest and the fair value of previously owned shares, minus net value of identifiable assets and liabilities at the acquisition date. Goodwill is not amortized, but is tested annually for impairment. Goodwill is carried at cost less accumulated impairments losses. In connection with impairment testing, goodwill is allocated to the related cash-generating units or groups of cash generating units.

Trade and other receivables
Trade and other receivables are initially recognized at the original invoice amount (fair value). Supplier bonuses receivables not yet received as the end of reporting period are included as other receivables.

Warehouse costs
Warehouse and storage cost are recognized as other operating expenses. Transportation and related costs are recognized as inventory until the items is sold.

Intangible assets
Acquired intangible assets are capitalized on the basis of the costs incurred to acquire and put the asset into use. Intangible assets acquired in a business combination that qualify for separate recognition are recognized as intangible assets at their fair values.

Expenditure on the initial phase of projects to develop new customized software for IT and telecommunication systems is recognized as an expense as incurred.
All intangible assets, including capitalized internally developed software, are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date.
Intangible assets with indefinite useful lives are tested for impairment annually, either individually or as part of a cash-generating unit.
Intangible assets with indefinite lives are not amortized. Management reviews annually to determine whether the indefinite life assumption can be justified. If not, a change to the predetermined useful life is made.

Brand/Trademark
Trademark allocated as part of the purchase price allocation in 2010 is capitalized and has indefinite useful life.

Software - acquired and developed
Expenses related to the purchase of new software are capitalized as an intangible asset if these costs are not part of the original hardware cost. Expenses incurred due to service or maintenance are expensed unless the changes in the software increase the future economic benefits of the software.

Financial instruments
Financial instruments are classified into the following categories:
Fair value through profit or loss (FVTPL), held-to-maturity (HTM), loans and receivables, available-for-sale (AFS) and other liabilities.
The Group has financial instruments in the following categories: loans and receivables, fair value through profit or loss and other financial liabilities.
Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet the criteria conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into category FVTPL. Assets in this category are measured at fair value with gains or losses recognized in profit or loss.

Financial guarantee contracts are measured at the higher of the provisions as described by IAS 37 “Provisions, contingent liabilities and contingent assets” and IAS 18 “Revenue,” unless the contracts qualify for and are designated as instruments at FVTPL.
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment.

Financial liabilities that do not fall into the category of held for trading and are not designated at fair value through profit and loss are classified as other liabilities. Other liabilities, along with loans and receivables, are measured at amortized cost.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit and loss are included within financial income or financial expenses.
For financial instruments not traded on an active market, an appropriate valuation method is used in order to determine the fair value. Such valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, and referencing the current fair value of another instrument that is substantially the same, as well as a discounted cash flow analysis or other valuation models.

An analysis of financial instruments and their fair value measurement can be found in note 19.

FX derivatives used to secure purchases in foreign currency are measured at fair value and recognized in the P&L.

Impairment of non-financial assets
Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Inventories
Inventories are stated at the lower of cost and net realizable value. Cost is reduced by any bonuses and cash discounts from suppliers. In the statement of income, volume based market support is presented as a reduction of cost of goods sold, while sales support billed suppliers for marketing service is presented as a reduction in marketing costs under other operating expenses. Inventory cost is recognized based on weighted average cost.

Cash and cash equivalents
Cash includes cash in hand and bank deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash with a maximum term of three months. Funds originally bound for more than three months are not included in cash and cash equivalents.
Bank overdrafts are presented in the statement of cash flows less cash and cash equivalents.

Stockholder's equity
Foreign currency rate changes
The translation reserve is comprised of foreign currency rate changes arising from the translation of financial statements of the Group's foreign entities into NOK.
Exchange differences on monetary items (assets or liabilities) which are in reality part of a company's net investment in a foreign entity are also included in the translation reserve.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.
A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and an assessment of all possible outcomes and the accompanying probabilities.

Contingent liabilities and assets
In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized.
A contingent asset is not recognized in the financial statements but disclosed in notes if it is probable that the benefit will flow to the Group.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that make strategic decisions.

Changes in accounting policies

No new or amended IFRS or IFRIC interpretations came into effect for the 2016 financial year that has a significant impact on the consolidated financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company:
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact

IFRS 15 Revenue from Contracts with Customers, effective from January 1, 2018, applies to all contracts with customers except for: leases within the scope of IAS 17 Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; insurance contracts within the scope of IFRS 4

Insurance Contracts; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The IFRS 15 has not been adopted early by the Company, but the Company has started to evaluate the effects of IFRS 15. Expected implementation method is modified retrospective with an adjustment to the opening balance of retained earnings in the period of initial application.

The Company expects no material effect of IFRS 15.

IFRS 16 'Leases' specifies how to recognize, measure, present and disclose leases. The new standard is effective for annual reporting periods beginning on or after January 1, 2019, with early application permitted but only if the entity is also applying IFRS 15, Revenue from contracts with customers. IFRS 16 replaces IAS 17, IFRIC 4, SIC 15 and SIC 27.

The Group has both operational and financial lease agreements. For more details, see note 17.

Under IFRS 16 leases are capitalized by recognizing the present value of the lease payments and showing them as lease assets and liability. This includes also most of the leases that is today classified as operational. IFRS 16 has not been adopted early by the Company. The Company has started to analyze the effects of IFRS 16 and expect material effects for balance sheet, cash-flow and P&L.

Significant management judgment in applying accounting policies

When preparing the Consolidated Financial Statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill and trademark

The Group tests for impairment of goodwill and trademark as necessary, or at a minimum annual. The recoverable amount of cash-generating units is based on the value-in-use calculation. These calculations require the use of estimates (note 5).

Inventories

The Group reviews the aging distribution and movements in inventory to assess the provision for obsolescence. This calculation requires the use of estimates and judgement. The Group use aging distribution, stock movements and fashion development to assess inventory obsolescence.

Note 2 Operating Segments

The Group's business is the sale of sports and leisure equipment and leisure events. The Group's sales are made primarily from the Group's stores in Norway, Sweden and Finland and E-commerce in Denmark. The Company's performance is reviewed by the chief operating decision maker as four reportable geographical segments, and in addition HQ & Logistics. Internet sale is included in each geographic segment.

01.01.2016 - 31.12.2016

Amounts in NOK million	Norway	Sweden	Finland	Denmark	HQ & Logistics	Total
Operating revenue	**4 151**	**2 474**	**1 161**	**27**	**0**	**7 813**
Gross profit[1]	1 764	959	392	3	0	3 119
EBITDA[2]	**857**	**257**	**40**	**-13**	**-318**	**824**
Operating Income	**819**	**224**	**27**	**-13**	**-360**	**697**

01.01.2015 - 31.12.2015

Amounts in NOK million	Norway	Sweden	Finland	Denmark	HQ & Logistics	Total
Operating revenue	**3 617**	**2 045**	**825**	**0**	**0**	**6 487**
Gross profit[1]	1 529	783	268	0	0	2 579
EBITDA[2]	**763**	**188**	**19**	**0**	**-244**	**725**
Operating Income	**735**	**161**	**10**	**0**	**-272**	**634**

[1]Gross profit represent operating revenue less cost of goods sold

[2]Our EBITDA represents operating income plus depreciation and amortization

Note 3 Employee remuneration

Employee benefit expenses	2016	2015
Wages, salaries	971	788
Social security costs	179	135
Pension expenses	46	41
Other benefits	44	27
Total	**1 240**	**991**

Average number of full time employees	2 412	2 111

Executive management remuneration
Amounts in NOK 1000

The following benefits were provided to the senior management:

Name	Title	Currency	Salary	Bonus	Other	Pension	Total remuneration
Fredrik Steenbuch	Chief Executive Officer	NOK	3 128	1 544	106	22	**4 798**

Remuneration report:

1. Guidelines
The Board of Directors has established guidelines for the remuneration to the members of the executive management. It is a policy of the company to offer the executive management competitive remuneration based on current market standards, company- and individual performance. The remuneration consists of a basic salary element combined with a performance based bonus program as set forth below. The executive management participates in the company's insurances and is entitled to certain fringe benefits such as free newspaper, car and phone.
The remuneration committee is a sub-committee of the Board of Directors and its objective is to act as a preparatory and advisory body in relation to the Company's remuneration of executive management and to ensure thorough and independent preparation of matters in relation to compensation of executive personnel.

2. Bonus program
The Group has established a bonus scheme for the executive management, which is based on (i) results before tax exceeding the budget and (ii) individual targets (personal or professional development). Maximum bonus under the scheme is 50% of the respective employee's gross base salary. Bonus with regards to results exceeding budget is paid with NOK 50,000 per NOK 1,175,000 exceeding budget up to a maximum of 40% of the employee's gross base salary. Bonus relating to individual targets is calculated on the basis of the parameter awarded the different achieved targets, up to a maximum of 10% of the employee's gross base salary. The Group does not include bonus payments in the basis for calculation of holiday pay and pension.

3. Share option program
In order to strengthen the common interests between the executive management and other key employees and the shareholders of the company, the Board of Directors has resolved to implement a share option program for its executive management and other key employees (as defined by the CEO) by granting share options to such persons.
The next option grant ("the 2018 Plan") will take place after the Q4 2017 results in late February/early March 2018. The participants will receive options worth up to an average yearly salary. The strike price will be equal to the volume weighted average price in the market the five trading days after the Q4 2017 results presentation. The options are exercisable after three years, subject to a key performance criteria (EBITDA-target according to business plan) being met and subject to the holder at the time of exercise is employed in the company. Total profit through the exercise of the option is capped at six times the average yearly salary at the time of exercise. If the profit exceeds this limit, the number of shares to be issued will be reduced accordingly.

Options

Amounts in NOK 1000	2016	2015
Outstanding at the beginning of the period	**626**	**0**
Exercised	0	0
Terminated	-70	0
Granted	430	626
Outstanding at the end of the period	**985**	**626**
Average exercise price (NOK)	83,5	76,1
Option program expensed for the year	9 627	4 315

4. Program of restricted share units

In order to further align the interests of the company and the employees and its shareholders, and to motivate the employees to contribute materially to the success and profitability of XXL, the Board of Directors has resolved to implement a program of Restricted Share Units ("RSUs"). This program will also enable the company to attract and retain such employees. The next RSU grant ("the 2018 Plan") will take place after the Q4 2017 results in late February/early March 2018 and will be related to individual contributions to XXL, position in the organization, competence, employment duration and the importance for XXL. Allocations are based on individual accomplishments. XXL has developed allocation levels according to different positions within the company, with some flexibility on individual adjustments and with the possibility of internal benchmarking. Each director in the executive management team proposes their recommendations to the CEO who commence the final allocation. The allocation price will be equal to the volume weighted average price in the market the five trading days after the Q4 2017 results presentation. The RSUs are exercisable after three years subject to the holder at the time of exercise is employed in the company.

Board of directors remuneration

Amounts in NOK 1000

Name	Title	Fee	Total remuneration
Øivind Tidemandsen	Chairman of the Board	400	**400**
Tore Valderhaug	Board member	310	**310**
Ronny Blomseth	Board member	250	**250**
Mernosh Saatchi	Board member	290	**290**
Ingrid Osmundsen	Board member	250	**250**
Anna Birgitta Attemark	Board member	250	**250**
Anders Misund	Former board member (resigned in 2015)	125	**125**
Robert Iversen	Election Commitee	50	**50**
Ingar Solheim	Election Commitee	75	**75**

There are no loans or guarantees to the Managing Director or other related parties.
The Managing Director and the Board do not have any agreement for compensation upon termination or change of employment / directorship.

Pension

The Group is required to have a compulsory pension in accordance with the Norwegian Accounting Act §7-30a. The Group has a pension plan that fulfills this requirement, which covers all employees and is a defined contribution plan.

Audit Fees

Divided by type of service (exclusive of VAT)

(figures in NOK 1 000)	2016	2015
Statutory audit	1 960	2 012
Tax related services	0	55
Other services	148	61
Total fees	**2 108**	**2 128**

Note 4 Property, Plant and Equipment

	Land and buildings	Transport and vehicles	Machinery and equipment	Fixtures and fittings	Construction in progress	Total
Balance 01.01.15	**10**	**2**	**114**	**554**	**3**	**684**
Additions	0	1	20	120	8	149
Disposals/transfer to other category of fixed assets	0	-1	-3	5	-3	-2
Net exchange differences	0	0	3	29	0	32
Balance 31.12.15	**10**	**2**	**134**	**708**	**8**	**862**
Accumulated depreciation pr. 01.01.15	-2	-1	-57	-150	0	-209
Disposals	0	0	0	2	0	3
Depreciation	0	0	-22	-59	0	-82
Net exchange differences	0	0	-1	-3	0	-4
Accumulated depreciation pr. 31.12.15	-3	-1	-80	-209	0	-293
Carrying amount pr. 31.12.15	**8**	**1**	**54**	**499**	**8**	**569**
Balance 01.01.16	**10**	**2**	**134**	**708**	**8**	**862**
Additions	0	0	32	177	5	214
Reclassification of fixed assets*	0	0	0	63	0	63
Disposals (-) / transfer to oth. cat. of fixed assets (+/-)	0	0	0	0	-8	-8
Net exchange differences	0	0	-7	-26	0	-33
Balance 31.12.16	**11**	**2**	**159**	**922**	**5**	**1 099**
Accumulated depreciation pr. 01.01.16	-3	-1	-80	-209	0	-293
Disposals	0	0	0	0	0	0
Depreciation	0	0	-27	-75	0	-103
Reclassification of fixed assets*	0	0	0	-24	0	-24
Net exchange differences	0	0	0	2	0	2
Accumulated depreciation pr. 31.12.16	-3	-1	-107	-307	0	-418
Carrying amount pr. 31.12.16	**8**	**1**	**52**	**615**	**5**	**681**

* Investment contributions from landlords are reclassified from fixed assets to debt. P&L effect as reduction of rent over the lease period

	Land and buildings	Transport and vehicles	Machinery and equipment	Fixtures and fittings	Construction in progress	Total
Useful life	20 years	5 years	3-5 years	10 years		
Depreciation method	Straight-line	Straight-line	Straight-line	Straight-line	None	
Capital leases included in fixed assets				30		**30**
Depreciation on capital leases				5		**5**
Lease period				2014-2023		

See note 17 Leases for additional information on capital and operating leases.

Note 5 Intangible assets

	Goodwill	Trademarks	Proprietary software	Software	Total
Balance 01.01.2015	**2 878**	**201**	**30**	**24**	**3 132**
Additions	0	0	13	2	**14**
Disposals	0	0	0	0	**0**
Balance 31.12.2015	**2 878**	**201**	**42**	**25**	**3 147**
Accumulated amortization pr. 01.01	-144	-10	-9	-14	**-177**
Disposals	0	0	0	0	**0**
Amortization	0	0	-9	-2	**-10**
Accumulated amortization pr. 31.12	-144	-10	-18	-15	**-188**
Carrying amount pr. 31.12.2015	**2 734**	**191**	**24**	**10**	**2 959**
Balance 01.01.2016	**2 878**	**201**	**42**	**25**	**3 147**
Additions	0	4	39	2	**45**
Disposals	0	0	0	0	**0**
Balance 31.12.2016	**2 878**	**206**	**81**	**27**	**3 192**
Accumulated amortization pr. 01.01	-144	-10	-18	-15	**-188**
Disposals	0	0	0	0	**0**
Amortization	0	0	-16	-2	**-18**
Accumulated amortization pr. 31.12	-144	-10	-34	-17	**-205**
Carrying amount pr. 31.12.2016	**2 734**	**195**	**47**	**10**	**2 987**
Useful life	Indefinite	Indefinite*	5 years	3-5 years	
Amortization method			Straight-line	Straight-line	

Trademark

*Trademark allocated as part of the purchase price allocation in 2010 (190 mNOK) and additions are capitalized and has indefinite life. Trademark is not amortized due to XXL's extensive spending on commercials and advertising, keeping the brand awerness growing.The value of trademark is tested annually for impairment.
The carriyng value is allocated to the group of cash generating units comprised of the shops in Norway (part of the operating segment Norway). The impairment assessment of trademark is included in the goodwill impairment test. See below.

Software - acquired and developed

Expenses related to the purchase of new software are capitalized as an intangible asset if these costs are not part of the original hardware cost. Software is depreciated over 3 years. Expenses incurred due to service or maintenance are expensed unless the changes in the software increase the future economic benefits of the software.

Goodwill

The Group's booked goodwill per 31 December 2016 is NOK 2 734 million. This amount is related to the acquisitions of XXL Sport og Villmark AS in 2010. The carriyng value is allocated to the group of cash generating units comprised of the shops in Norway (part of the operating segment Norway). Goodwill is evaluated by management and monitored based on the performance on a operating segment level. The recoverable amount of each operating segment is calculated based on a value in use method.
Goodwill is not amortized, but tested annually for impairment.

The present value of the expected cash flows of each segment was determined using a discount rate of 5.24%, after tax. This is based on a risk free interest rate of 1.34%, plus a risk premium of 5%. The risk is based on observations of similar companies.
The recoverable amount of each segment was determined based on the following estimates:
• Future sales are estimates based on budget and long term plans
• Long-term average growth rate is set at 1.5%
• Today's cost as a percentage of income is considered to reflect future projections
• For goodwill testing, management has used a 5 year period with a terminal value growth rate beyond this period of 1.5%
• Risk-free interest rate is the 10-year government bond yield
• Beta Value is based on figures from comperable international companies listed on the stock exchange

No impairment of goodwill was necessary in 2015 or 2016.

Cash Generating Units (CGUs)

Shops in Norway	**2016**	**2015**
Goodwill	2 734	2 734
Trademark	195	191
Impairment	0	0

Sensitivity		
Discount rate after tax	5,24 %	5,17 %
Increase in the discount rate before possible impairment of goodwill	4,8 p.p	8,0 p.p
Decrease in gross margin before possible impairment of goodwill	7,7 p.p	12,5 p.p

Note 6 Other operating expenses

Other operating expenses by nature	2016	2015
Leasing and other cost of premises	491	405
Marketing expenses	419	341
Other operating expenses (incl. IT licenses, maintenance, legal fees and other)	145	118
Sum	**1 055**	**863**

Note 7 Tax

Income tax expense for the year

Tax expense for the year	2016	2015
Tax payable in Norway	103	182
Tax payable in Finland	0	2
Tax payable in Switzerland	13	6
Tax payable in Denmark	0	0
Change in deferred tax	-10	10
Exchange rate effect/other	20	-21
Total income tax expense	**126**	**179**
Effective tax rate	***20 %***	***30 %***

Current tax payable		
Tax payable in Norway	103	182
Tax payable in Finland	0	2
Tax payable in Switzerland	20	9
Tax payable in Denmark	0	0
Total tax payable in the balance sheet	**123**	**193**

Explanation of difference between Norwegian statutory tax rate of 25% and the effective tax rate

Income before tax	**642**	**606**
25 % tax of income before tax	161	164
Permanent differences (25%)	0	-1
Accrual for settlement of tax dispute	0	38
Differences in tax rates amongst the Group and other	-34	-22
Income tax expense	**126**	**179**

Specification of temporary differences

Asset (-)/liability	2016	2015	Change
Fixed and intangible assets	102	59	-44
Accounts receivable	-2	-3	-1
Inventories	-118	-106	11
Accrued expenses	-11	-14	-3
Trademark	190	190	0
Fixed assets Sweden	120	162	43
Amortization of loan expenses	6	9	3
Financial derivatives	2	2	0
Interest limitation rules	0	-20	-20
Total temporary differences	**289**	**279**	**-11**
Loss carryforward	0	0	0
Basis for deferred tax	289	279	-11
Deferred tax in the balance sheet	**51**	**61**	**-10**

Deferred tax assets (-) / liabilities are presented net for the Norwegian entities.
Tax rate in Norway is 25% for 2016 and will be 24% from 1 January 2017. Deferred tax in Norway has therefore been calculated with 24%.
Tax rate in Sweden is 22% for 2016, tax rate in Finland is 20% in 2016, tax rate in Switzerland is 8.6% in 2016.

Note 8 Inventories

	2016	2015
Goods purchased for resale	2 593	1 895
Goods in transit	32	42
Reserve for inventory obsolescence	-15	-9
Total inventories	**2 610**	**1 928**

Note 9 Investment in subsidiaries

The Group has an ownership interest in the following subsidiaries:

Subsidiaries	Year of incorporation	Business location	Ownership percentage
XXL Sport & Villmark AS	2000	Oslo	100 %
XXL Grossist Norge AS	2000	Oslo	100 %
XXL Adventure AS	2002	Oslo	100 %
XXL Sport og Vildmark AB	2005	Stockholm	100 %
XXL Sports & Outdoor OY	2013	Helsinki	100 %
XXL Sports & Outdoor ApS	2016	Copenhagen	100 %
XXL Sports & Outdoor Gmbh	2016	Wien	100 %
XXL Europe Holding Sarl	2013	Luxembourg	100 %
XXL All Sports United Sarl	2013	Luxembourg	100 %
XXL Europe Gmbh	2013	Luzern	100 %
XXL Online Gmbh	2013	Luzern	100 %
Level2Invest AS*	2016	Oslo	100 %

Investments in subsidiaries are consolidated in the Consolidated Financial Statements.
* Level2Invest AS is considered immaterial and is therefore not consolidated in the Consolidated Financial Statements.

Note 10 Related party transactions

The Group's related parties include its key management, members of the board and majority shareholders.
The Board members represent 24.4% of the shares (voting rights) in the Group. None of the Board members have been granted loans or guarantees. Furthermore, none of the Board members are included in the Group's pension or bonus plans.

Note 11 Cash and cash equivalents

Cash and equivalents include the following items:

	2016	2015
Bank deposits (restricted)*	28	23
Deposits	7	1
Cash	28	23
Bank accounts (unrestricted)	52	41
Total cash and cash equivalents	**115**	**87**
Unused overdraft	151	700

The Group has created a cash-pool owned by XXL Sport og Villmark AS.
The Group has undrawn credit facilities with DnB/Nordea for NOK 151 million per year-end 2016 (2015: NOK 700 million).
*Restricted cash comprises of employee tax witheld

Note 12 Trade and other receivables

	2016	2015
Trade receivables, gross	187	81
Allowance for credit losses	-1	-3
Trade receivables 31.12	**186**	**78**

Changes in allowance for credit losses

Beginning balance	**-3**	**-4**
Amounts written off (uncollectible)	0	2
Recovery of written off items	-1	0
Change in the allowance	1	0
Allowance for credit loss expense	**1**	**2**
FX effect reserve balance sheet/profit or loss	1	1
Ending balance 31.12	**-1**	**-3**

The table below shows the aging analysis of trade receivables per 31.12

Year	Total	Not yet due	>30 days	>60 days	>90 days
2016	187	156	16	0	15
2015	81	60	12	2	7

All of the Group's trade and other receivables have been reviewed for indicators of impairment and an allowance for credit losses has been reserved for amounts which are considered uncollectable.

Other receivables

Accrued supplier bonus	77	136
Prepaid expenses	3	5
Other receivables	11	76
Other receivables 31.12	**91**	**217**

Note 13 Share capital and shareholder information

The share capital of XXL is NOK 55,404,849.20 consisting of 138,512,123 shares with a par value of NOK 0.40 each.

Overview of the major shareholders of the Group as of 31.12.2016:	Total amount of shares	Ownership	Voting right
DOLPHIN MANAGEMENT	33 500 000	24,2 %	24,2 %
FOLKETRYGDFONDET	7 713 280	5,6 %	5,6 %
GOLDMAN SACHS SECURITY CLIENT	4 344 979	3,1 %	3,1 %
J.P. MORGAN CHASE BANK A/C US RESIDENT	3 389 509	2,4 %	2,4 %
STAMINA AS	3 289 566	2,4 %	2,4 %
J.P. MORGAN CHASE BANK A/C OPPENHEIMER	3 055 077	2,2 %	2,2 %
ODIN NORDEN	2 737 847	2,0 %	2,0 %
GENI HOLDING AS	2 518 439	1,8 %	1,8 %
J.P. MORGAN CHASE BANK NORDEA TREATY ACCOUNT	2 303 511	1,7 %	1,7 %
VERDIPAPIRFONDET DNB	1 902 874	1,4 %	1,4 %
DANSKE INVEST NORSKE C/O DANSKE CAPITAL	1 879 119	1,4 %	1,4 %
JP MORGAN CHASE BANK SECURITIES JJPMORGAN SEC PLC	1 865 665	1,3 %	1,3 %
STATE STREET BANK S/A SSB CLIENT	1 755 790	1,3 %	1,3 %
STATE STREET BANK A/C CLIENT	1 515 115	1,1 %	1,1 %
VERDIPAPIRFONDET HANDELSBANKEN NORGE	1 500 000	1,1 %	1,1 %
ODIN NORGE	1 456 173	1,1 %	1,1 %
GLG CONTINENTAL EUROPE	1 448 875	1,0 %	1,0 %
SUNDT AS	1 400 346	1,0 %	1,0 %
KLP AKSJENORGE	1 364 802	1,0 %	1,0 %
J.P. MORGAN CHASE BANK NORDEA TREATY ACCOUNT	1 417 630	1,0 %	1,0 %
Other	58 153 526	42,0 %	42,0 %
Sum	**138 512 123**	**100 %**	**100 %**

All shares have been fully paid.

Shares held by Board of Directors and Executive Management:	Title	Amount of options	Options costs	Amount of shares
Fredrik Steenbuch	Chief Executive Officer	70 386	596 090	3 289 566
Øivind Tidemandsen	Chairman of the Board			33 500 000
Tore Valderhaug	Board member			0
Ronny Blomseth	Board member			231 266
Mernosh Saatchi	Board member			10 775
Anna Birgitta Attemark	Board member			1 724
Anders Fjeld	Chief Operating Officer	70 386	596 090	1 354 079
Krister Pedersen	Chief Financial Officer	70 386	596 090	280 000
Espen Terland	Chief Information Officer	70 386	596 090	145 919
Janicke Blomsnes	Director Sweden	70 386	596 090	19 466
Toni Stigzelius	Director Finland	70 386	596 090	70 000
Tommi Jylhä-Vuorio	Director E-commerce	70 386	596 090	20 192
Tom Erik Kjønø	European Purchase Director	70 386	596 090	389 901
Geir Nilsen	Director Logistics	70 386	596 090	2 518 439
Tolle Grøterud	Investor Relations	70 386	596 090	24 137
Harald Borgen	Director Wholesale	70 386	596 090	65 162
Lars Rugaas	Nordic Purchase Director	70 386	596 090	43 812
Jarle Bråten	Marketing Director			5 000

Note 14 Earnings per share

	2016	2015
Total profit	**516**	427
Weighted average number of ordinary shares in issue	**138 512 123**	138 512 123
Total number of outstanding shares incl. share options	**139 497 527**	139 137 788
Adjustment for:		
Effect share options	**1 019 296**	625 665
Weighted number of ordinary shares in issue for diluted earnings per share	**139 531 419**	139 137 788
Basic Earnings per share (in NOK)	**3,73**	3,08
Diluted Earnings per share (in NOK)	**3,70**	3,07

Reconciliation weighted average number of ordinary shares

	2016	2015
Number of shares opening	**138 512 123**	**138 512 123**
Share issue	**0**	0
Share consolidation	**0**	0
Share capital reduction	**0**	0
Share issue private placement	**0**	0
Share issue private placement	**0**	0
Share issue Initial public offering	**0**	0
Number of shares closing	**138 512 123**	138 512 123
Weighted average	**138 512 123**	138 512 123
Effect share option	**1 019 296**	625 665
Basic Earnings per share (in NOK)	**3,73**	**3,08**
Diluted Earnings per share (in NOK)	**3,70**	**3,07**

See note 3 for future option programs.

Note 15 Security and guarantees

XXL ASA has a total loan engagement of NOK 1 544 million with DnB and Nordea bank as of December 2016, consisting of a Term Loan of NOK 1 044 million and a Revolving Credit Facility of NOK 500 million in which NOK 0 millions are available. The loans are secured by a negative plede from the participants

Note 16 Other short term liabilities

	2016	2015
Credit notes / gift cards customers	108	92
Accrued salary and bonus	58	59
Accrued holiday pay	101	86
Accrued investment contributions from landlords	54	0
Other short term accruals	75	52
Total other short term liabilities	**396**	**289**

Note 17 Leases

Operating leases

The Group has office and warehouse buildings under operating leases in Norway, Sweden, Finland and Switzerland.
The calculation of the lease payment is based on a standard rental period, as specified in the individual contracts. The agreements contain assumptions about index rates.
The calculation does not take into account any changes in the liabilities associated with this type of adjustment.

Commitments

Shops/offices/central warehouse	2016	2015
Under 1 year	517	436
1 to 5 years	2 047	1 518
After 5 years	1 537	1 158
Total commitments relating to operating leases	**4 100**	**3 112**

Net lease payments are recognized in profit or loss	356	291
Excl. joint costs, etc.		
Other operating lease expenses (company cars/trucks, etc.)	8	7

Capital leases

The Group's assets under capital leases includes furnishings, machinery and equipment. The lease periods are up to 5 years.

Assets under capital leases are as follows:	2016	2015
Furnishing stores	8	8
Machinery and equipment central warehouse	49	43
Total cost	**56**	**51**
Accumulated depreciation furnishings	-8	-8
Accumulated depreciation machinery and equipment	-16	-11
FX effect assets under capital lease	-6	-3
Net carrying amount	**27**	**30**

Summary of gross future minimum lease payments:	2016	2015
Under 1 year	14	8
1 to 5 years	13	28
After 5 years	0	0
Total gross future minimum lease payments	**27**	**34**

Summary of net future minimum lease payments:	2016	2015
Under 1 year	13	7
1 to 5 years	14	26
After 5 years	0	0
Total net future minimum lease payments	**27**	**33**

Of which:		
- short-term debt	13	7
- long-term debt	14	26

Note 18 Other financial income and other financial expenses

	2016	2015
Realized foreign exchange gains	186	33
Unrealized foreign exchange gains	179	108
Other financial income	1	0
Total financial income	**366**	**141**

Interest expenses bank loans	20	26
Other interest expenses	7	5
Unrealized foreign exchange losses	322	45
Realized foreign exchange losses	54	73
Other financial expenses	18	21
Total financial expenses	**421**	**170**
Net financial expenses	**-55**	**-28**

Note 19 Financial instruments

Financial risk

The Group uses financial instruments such as bank loans. The purpose of these financial instruments is to raise capital for investments that are necessary for the Group's business. In addition, the Group has financial instruments such as accounts receivable, accounts payable, etc. which are directly related to its daily operations. For commercial hedging purposes, the Group uses derivatives. The Group does not apply hedge accounting. The Group does not use financial instruments, including derivatives, for trading purposes. Procedures for risk management are approved by the Board. The financial risks that the Group is exposed to are interest rate risk, liquidity risk, currency risk and credit risk. The Group's management regularly evaluates these risks and establishes guidelines for how they are handled.

Credit risk

The Group is mainly exposed to credit risk for trade and other receivables. The Group mitigates its exposure to credit risk by ensuring that all parties requiring credit, such as customers, are approved and subject to a credit check. The Group does not have significant credit risk associated with a single counterparty or counterparties which can be viewed as a Group due to similar credit risk. The Group has policies in place to ensure that sales are made to customers who have not had significant problems with payment and the outstanding amount does not exceed the established credit limits.
Maximum risk exposure is represented by the carrying amount of the financial assets in the balance sheet. The Group considers its maximum risk exposure to be the carrying amount of accounts receivable and accrued income (see note 12).

Market risk - interest rate sensitivity

The Group is exposed to interest rate risk through its financial activities. The interest-bearing debt has floating rates, which means it is affected by changes in interest rates. The purpose of the Group's interest rate risk management is to reduce interest costs and at the same time keep the volatility of future interest payments within acceptable limits. The Group constantly monitors the interest rate level and uses derivatives to adjust the effective interest rate exposure when necessary.

The following table illustrates the sensitivity of the Group to potential interest rate changes.
The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates.

Interest rate sensitivity	Changes in interest rates in basis points	Effect on profit before tax (NOK 1 000)	Effect on equity (NOK 1 000)
2016	+50	-7 720	-5 790
	-50	7 720	5 790
2015	+50	-5 500	-4 015
	-50	5 500	4 015

The average effective interest rate of financial instruments were as follows:

	2016	2015
Overdraft	2,7 %	2,7 %
Bank syndicate	2,00 %	2,34 %
Capital leases	2,00 %	2,10 %

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's strategy for managing liquidity risk is to maintain sufficient liquid funds at all times to meet its financial obligations, both under normal and extraordinary circumstances, without risking unacceptable losses or damaging its reputation. The Group has large fluctuations related to restricted working capital due to seasonality and the timing of deliveries and payments.

Market risk - foreign currency sensitivity

Exposures to currency exchange rates arise from the Group's overseas purchases, which are primarily denominated in SEK, USD and EUR.

The following table shows currencey effect on the Group's profit and equity if the exchange rates fluctuate with +/- 10% measured against NOK:

		2016		2015	
Foreign currency sensitivity	**Changes in currency**	**Effect on profit before tax (NOK 1 000)**	**Effect on equity (NOK 1 000)**	**Effect on profit before tax (NOK 1 000)**	**Effect on equity (NOK 1 000)**
EUR	+10%	-28 800	-21 600	-17 200	-12 556
	-10%	28 800	21 600	17 200	12 556
SEK	+10%	-11 700	-8 775	-21 700	-15 841
	-10%	11 700	8 775	21 700	15 841
USD	+10%	22 200	16 650	22 000	16 060
	-10%	-22 200	-16 650	-22 000	-16 060

Furthermore, the carrying amount of its net investments in foreign companies fluctuates in Norwegian kroner compared to the local relevant currencies. Profit after tax for the Group is also affected by changes in exchange rates, as the results of foreign companies are translated into Norwegian kroner at the weighted average exchange rate for the period. The Group hedges its foreign currency in the form of forward contracts. Hedge accounting has not been applied. The contracts are settled continuously throughout the year and if the contract extends over the period end, it is recognized in the financial statements at fair value.

Determination of fair value

The carrying amount of cash and cash equivalents and bank overdrafts is fair value. Similarly, the carrying amount of accounts receivable and accounts payable approximates fair value as the impact of discounting is not significant.
The fair value of capital leases is calculated as the present value of estimated cash flows discounted at the interest rate applicable for the corresponding assets and liabilities at the balance sheet date.

The fair value of long-term debt is similar to the par value plus accrued interest.

The fair value of interest rate swaps is determined using the forward exchange rate at the balance sheet date.

The fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy has the following levels:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following categories of financial instruments are measured at fair value as of 31 December 2016.

Assets/Liabilities carried at fair value	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss			
FX derivatives		2	
Total	**0**	**2**	**0**

The following categories of financial instruments are measured at fair value as of 31 December 2015.

Liabilities carried at fair value	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss			
FX derivatives		2	
Total	**0**	**2**	**0**

Classification of financial assets and liabilities

The Group has the following classification of financial assets and liabilities. See note 1 for a description of the various categories.

Financial instruments	2016	2015
Loans and receivables		
Trade receivables	186	78
Other receivables	77	136
Cash and cash equivalents	115	87
Total current financial assets	**379**	**301**
At fair value through profit or loss		
FX derivatives	2	2
Total financial assets (+) / liabilities (-) at fair value through profit or loss	**2**	**2**
Other Liabilities at amortised cost		
Bank loan	1 044	1 092
Capital lease	27	29
Other non-current debt	0	3
Accounts payable and other short-term debt	1 202	578
Total other financial liabilities	**2 273**	**1 702**

Capital management policy and equity

The main objective of the Group's capital management is to ensure that the Group maintains strong credit ratings and thus affordable financing terms that are reasonable in relation to its activities. The Group manages its capital structure and makes necessary changes to it based on a current assessment of the financial condition of the business and prospects in the short and medium term.

Net debt is defined as interest-bearing debt (short and long), less cash.
Equity includes all capital and reserves, paid and earned.

	2016	2015
Interest bearing debt	1 614	1 124
Cash	-115	-87
Net debt	**1 499**	**1 037**
Equity	3 608	3 366
Total equity and net debt	**5 107**	**4 403**

Note 20 Interest bearing debt

Long term liabilities due > 1 year	2016	2015
Bank loan	1 044	1 100
- Amortisation of transaction costs of bank loan	-6	-9
Capital lease	13	21
Other non-current debt	0	3
Sum long term	**1 051**	**1 116**

Short term liabilities due < 1 year	2016	2015
Capital lease	14	8
Credit Facility	549	0
Sum short term	**563**	**8**
Total interest bearing debt	**1 614**	**1 124**

The fair value of current and non-current debt approximately their carrying amount.

The Group has a long-term loan from a consortium of banks consisting of NORDEA BANK NORGE ASA and DNB BANK ASA amounting to NOK 1.54 billion as of 31 December 2016. The interest rate related to the bank loan is based on NIBOR, STIBOR and EURIBOR plus a margin contingent of the Groups leverage ratio (EBITDA/Net Debt). As of 31 December 2016 the margin is 1.15% The margin on the loan is regulated in the loan agreement and is adjusted quarterly in accordance with the loan terms.

The Group is measured on the following covenants as of 31 December 2016: Leverage ratio and Interest cover. As of 31 December 2016 all covenants are met with good margin.

The bank loans are denominated in NOK, SEK and EUR.

The following table shows the maturity schedule of the Group's financial liabilities based on undiscounted contractual payments. In cases where the other party can demand early redemption, the amount is included in the earliest period payment that can be demanded. If liabilities are redeemed on demand, they are included in the first column:

31.12.2016 **Remaining period**

Financial liabilities	Under 1 year	1-2 years	2-3 years	3-4 years	More than 5	Total
Bank loan	549	0	1 044	0	0	1 593
Interest on bank loan	30	30	15	0	0	75
Capital lease	14	13	0	0	0	27
Current financial liabilities	1 240	0	0	0	0	1 240
Total	**1 833**	**43**	**1 059**	**0**	**0**	**2 935**

31.12.2015 **Remaining period**

Financial liabilities	Under 1 year	1-2 years	2-3 years	3-4 years	More than 5	Total
Bank loan	0	0	0	1 100	0	1 100
Interest on bank loan	26	26	26	13	0	90
Capital lease	8	8	8	5	0	30
Current financial liabilities	1 287	0	0	0	0	1 287
Total	**1 321**	**34**	**34**	**1 118**	**0**	**2 506**

Financial statements – XXL ASA

Statement of income

Figures are stated in NOK million	Note	2016	2015
Personnel expenses	2	12	5
Other operating expenses		3	7
Total Operating Expenses		**15**	**12**
Operating Income		**-15**	**-12**
Interest income	6	0	62
Other financial income	5	750	0
Total Financial Income		**750**	**62**
Interest expense		12	33
Interest expense to group companies	6	4	0
Other financial expense		4	2
Total Financial Expense		**19**	**35**
Net Financial Income (Expense)		**731**	**28**
Income Before Income Taxes		**716**	**16**
Incomes Taxes	3	104	43
Net Income		**612**	**-27**
Allocation of Net Income			
Other paid-in equity		612	-27
Total allocated		**612**	**-27**

Balance sheet – Assets

Figures are stated in NOK million	Note	31.12.2016	31.12.2015
NONCURRENT ASSETS			
Intangible assets			
Deferred tax asset	3	0	5
Total intangible assets		**0**	**5**
Financial Assets			
Investment in subsidiaries	4	3 162	3 162
Loan to group company	5	0	0
Total Financial Assets		**3 162**	**3 162**
Total Noncurrent Assets		**3 163**	**3 167**
CURRENT ASSETS			
Other receivables		810	785
Total Other Receivables		**810**	**785**
Cash and Cash Equivalents			
Cash and equivalents	7	0	0
Total Cash and Cash Equivalents		**0**	**0**
Total Current Assets		**810**	**785**
Total Assets		**3 973**	**3 952**

Balance sheet – Equity and Liabilities

Figures are stated in NOK million	Note	31.12.2016	31.12.2015
SHAREHOLDERS' EQUITY			
Paid-in Capital			
Share capital	8,10	38	48
Share premium	8,10	2 848	2 838
Total Paid-in Capital		**2 886**	**2 886**
Retained Earnings			
Other equity	10	189	-147
Total Retained Earnings		**189**	**-147**
Total Shareholders' Equity		**3 075**	**2 740**
LIABILITIES			
Non-Current Liabilities			
Deferred tax liabilities	3	2	292
Interest bearing debt	9	294	0
Total Non-Current Liabilities		**295**	**292**
Short-term Debt			
Accounts payable		1	0
Current debt		500	0
Tax payable	3	98	58
Other short-term debt	5	3	862
Total Short-term Debt		**602**	**921**
Total Liabilities		**898**	**1 212**
Total Equity and Liabilities		**3 973**	**3 952**

Oslo, 25 April 2017

Øivind Tidemandsen
Chairman of the Board

Ronny Blomseth
Board Member

Mernosh Saatchi
Board Member

Tore Valderhaug
Board Member

Fredrik Steenbuch
Managing Director

Anna Birgitta Attemark
Board Member

Statement of Cash Flow

Figures are stated in NOK million	2016	2015
Operating Activities		
Income before income taxes	716	16
Tax payable	-58	-60
Changes in accounts payable	0	-1
Changes in other assets and liabilities	-872	521
Cash provided (used) by operating activities	**-214**	**475**
Investing Activities		
Received Group Contribution	0	596
Cash provided (used) by investing activities	**0**	**588**
Financing Activities		
Purchase own shares	-9	-8
Payments on long-term debt	0	-1 087
Proceeds from new long-term debt	0	300
Proceeds from new short-term debt	500	0
Dividend	-277	-277
Cash provided (used) by financing activities	**214**	**-1 064**
Net Change in Cash and Cash Equivalents	**0**	**0**
Cash and cash equivalents - beginning of year	0	0
Cash and Cash Equivalents - End of Year	**0**	**0**

Notes to the financial statements

Note 1 Accounting policies

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Classification and valuation of balance sheet items
Assets intended for long term ownership or use have been classified as fixed assets. Assets expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle have been classified as current assets. Receivables are classified as current assets if they are expected to be realised within twelve months after the transaction date. Similar criteria apply to liabilities.
Current assets are valued at the lower of cost and fair value. Short term liabilities are reflected at nominal value.
Fixed assets are carried at historical cost. Fixed assets are written down to net realisable value if a value reduction occurs which is not expected to be temporary. Except for accruals, long term liabilities are reflected in the balance sheet at nominal value on the establishment date. Accruals are discounted to present value if the time value of money is material.

Revenue recognition
Revenue from the sale of goods is recognized upon delivery (transaction date). Services are recognized as they are performed.

Foreign currency
Foreign currency transactions are translated into Norwegian kroner using the exchange rate prevailing at the date of the transaction (spot exchange rate), while monetary items denominated in foreign currencies are translated at the rate per the balance sheet date.

Trade receivables
Trade and other receivables are recorded at their nominal value less a provision for losses.

Tax
Tax expense in the income statement includes the change in the deferred tax asset. Deferred tax is calculated at 24% based on the temporary differences between accounting and tax values, as well as any tax loss carryforwards at the end of the financial year. Taxable and non-taxable temporary differences that reverse or may reverse in the same period are offset. Recognition of the deferred tax asset on net deductible temporary differences that are not offset and carried forward is based on estimated future earnings. If a deferred tax asset that can be recognized, it is classified in the balance sheet.

Deposits
Receivable/payable cash pooling arrangements are classified as balances with group companies.

Note 2 Employee remuneration

The Company had no employees in 2016.
There were no loans or guarantees given to the Managing Director, Chairman of the Board or other related parties.
Description of the option program is disclosed in note 3 in the Group Consolidated Financial Statements.

Board of directors remuneration *(figures in NOK thousand)*

Name	**Title**	Fee	**Total remuneration**
Øivind Tidemandsen	Chairman of the Board	400	**400**
Tore Valderhaug	Board member	310	**310**
Ronny Blomseth	Board member	250	**250**
Mernosh Saatchi	Board member	290	**290**
Ingrid Osmundsen	Board member	250	**250**
Anna Birgitta Attemark	Board member	250	**250**
Anders Misund	Former board member (resigned in 2015)	125	**125**
Robert Iversen	Election Commitee	50	**50**
Ingar Solheim	Election Commitee	75	**75**

Audit fees *(figures in NOK thousand)*
Divided by type of service (exclusive of VAT)

	2016	**2015**
Statutory audit	288	255
Other services	0	24
Total fees	**288**	**279**

Note 3 Tax

Income tax expense for the year

Basis for tax payable	**2016**	**2015**
Income before tax	716	16
Permanent differences	-300	2
Change in temporary differences	-5	6
Interest limitation rules	-20	0
Basis for tax payable	**391**	**23**
Tax payable in the statement of income	**98**	**6**
Accrual tax dispute	0	52
Tax payable in the balance sheet	**98**	**58**
Tax expense for the year		
Tax payable	98	58
Other	0	-14
Change in deferred tax	6	-1
Total tax expense	**104**	**43**
Explanation for why tax is not 25% of income before tax		
25 % tax of income before tax	179	4
Permanent differences (25%)	-75	1
Accrual tax dispute	0	38
Expected tax expense	**104**	**43**
Effective tax rate	15 %	276 %

Specification of temporary differences

Asset (-)/liability	***Change***	**2016**	**2015**
Amortization of loan expenses	*-1*	6	5
Accruals	*-4*	0	-4
Interest limitation rules	*-20*	0	-20
Total temporary differences		**6**	**-19**
Basis for deferred tax assets/liability		6	-19
Deferred tax assets (+) / liability (-) in the balance sheet		**-2**	**5**
Reconciliation change in deferred tax			
Change in deferred tax in balance sheet		6	-5
Change in deferred tax in tax expense		6	-1

Tax rate in Norway is 25% for 2016 and will be 24% from 1 January 2017. Deferred tax in Norway has therefore been calculated with 24%.

Note 4 Investment in subsidiaries

The Company has an ownership interest in the following subsidiary:

	Year of acquisition	Business location	Ownership percentage	Equity (100%) 31.12.2016	Net income (100%) 31.12.2016	Book value 31.12.2016
XXL Sport og Villmark AS	2015*	Oslo	100 %	357	65	3 162

The investment is booked using the cost method.
*The subsidiary Gigasport AS was merged into parent XXL ASA in 2015. XXL Sport og Villmark is now directly owned by XXL ASA.

Note 5 Balances with group companies

The Company has the following receivables and liabilities with group companies:

Liabilities	2016	2015
Other short term debt	3	4
Cash pool arrangement	0	856
Total liabilities	**3**	**859**

Receivables	0	0
Other short-term receivables from group companies	0	771
Cash pool arrangement	60	0
Group contribution	750	0
Total receivables	**810**	**771**

Note 6 Related party transactions

Management remuneration is included in note 2 and intercompany balances are discussed in note 5.

The Company's transactions with related parties are as follows:

Interest income	2016	2015
XXL Sport og Villmark AS	0	62
Total interest income	**0**	**62**

Interest expense	2016	2015
Cash pool interest expense	4	7
Total interest expense	**4**	**7**

Note 7 Cash and cash equivalents

Cash and cash equivalents include the following items:

	2016	2015
Deposits	0	0
Total cash and equivalents	**0**	**0**

The Company is a part of a cash pool arrangement with XXL Sport and Villmark AS.
The Company's share of the cash pool is NOK 60 million per the balance sheet date.
The Cash pool is classified as other short-term receivables in the balance sheet.

Note 8 Share capital and shareholder information

The share capital of XXL is NOK 55,404,849.20 consisting of 138,512,123 shares with a par value of NOK 0.40 each.

Overview of the major shareholders of the Group as of 31.12.2016:

J.P. MORGAN CHASE BANK NORDEA TREATY ACCOUNT	Total amount of shares	Ownership	Voting right
DOLPHIN MANAGEMENT	33 500 000	24,2 %	24,2 %
FOLKETRYGDFONDET	7 713 280	5,6 %	5,6 %
GOLDMAN SACHS SECURITY CLIENT	4 344 979	3,1 %	3,1 %
J.P. MORGAN CHASE BANK A/C US RESIDENT	3 389 509	2,4 %	2,4 %
STAMINA AS	3 289 566	2,4 %	2,4 %
J.P. MORGAN CHASE BANK A/C OPPENHEIMER	3 055 077	2,2 %	2,2 %
ODIN NORDEN	2 737 847	2,0 %	2,0 %
GENI HOLDING AS	2 518 439	1,8 %	1,8 %
J.P. MORGAN CHASE BANK NORDEA TREATY ACCOUNT	2 303 511	1,7 %	1,7 %
VERDIPAPIRFONDET DNB	1 902 874	1,4 %	1,4 %
DANSKE INVEST NORSKE C/O DANSKE CAPITAL	1 879 119	1,4 %	1,4 %
JP MORGAN CHASE BANK SECURITIES JJPMORGAN SEC PLC	1 865 665	1,3 %	1,3 %
STATE STREET BANK S/A SSB CLIENT	1 755 790	1,3 %	1,3 %
STATE STREET BANK A/C CLIENT	1 515 115	1,1 %	1,1 %
VERDIPAPIRFONDET HANDELSBANKEN NORGE	1 500 000	1,1 %	1,1 %
ODIN NORGE	1 456 173	1,1 %	1,1 %
GLG CONTINENTAL EUROPE	1 448 875	1,0 %	1,0 %
SUNDT AS	1 400 346	1,0 %	1,0 %
KLP AKSJENORGE	1 364 802	1,0 %	1,0 %
J.P. MORGAN CHASE BANK NORDEA TREATY ACCOUNT	1 417 630	1,0 %	1,0 %
Other	58 153 526	42,0 %	42,0 %
Sum	**138 512 123**	**100 %**	**100 %**

Shares held by Board of Directors, Chief Executive Officer and Executive Management:

	Title	Amount of shares
Fredrik Steenbuch (Stamina AS)	Chief Executive Officer	3 289 566
Øivind Tidemandsen (Dolphin Management AS)	Chairman of the Board	33 500 000
Tore Valderhaug	Board member	0
Ronny Blomseth	Board member	231 266
Mernosh Saatchi	Board member	10 775
Anna Birgitta Attemark	Board member	1 724

Note 9 Long-term liabilities and receivables

Long term liabilities
The Company has restructured loan to bank DnB.

Long term debt bank debt	300 276
Amortization borrowing costs	-6 292
Sum	**293 984**

Note 10 Shareholder's equity

Changes in shareholder's equity	Share capital	Share premium	Retained earnings	Total equity
Shareholder's equity 01.01.16	**48**	**2 838**	**-147**	**2 740**
Net income for the year			612	612
Dividend			-277	-277
Purchase own shares	-9			-9
Employee share incentive program		10		10
Shareholder's equity 31.12.16	**38**	**2 848**	**189**	**3 075**

Disclaimer

This report includes forward-looking statements which are based on our current expectations and projections about future events. All statements other than statements of historical facts included in this notice, including statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditures, projected costs and our plans and objectives for future operations, including our plans for future costs savings and synergies may be deemed to be forward-looking statements. Words such as “believe,” “expect,” “anticipate,” “may,” “assume,” “plan,” “intend,” “will,” “should,” “estimate,” “risk” and similar expressions or the negatives of these expressions are intended to identify forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. You should not place undue reliance on these forward-looking statements. In addition any forward-looking statements are made only as of the date of this notice, and we do not intend and do not assume any obligation to update any statements set forth in this notice.

Footnotes/Definitions
Non – GAAP Measures
Certain financial measures and ratios related thereto in this quarterly report, including growth, gross profit, gross margin, EBIT, EBIT margin, EBITDA, EBITDA margin, working capital and net interest bearing debt (collectively, the “Non-GAAP Measures”), are not specifically defined under IFRS or any other generally accepted accounting principles. These measures are presented in this quarterly report because they are among the measures used by Management to evaluate the cash available to fund ongoing, long-term obligations and they are frequently used by other interested parties for valuation purposes or as a common measure of the ability of a company to incur and meet debt service obligations. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, and you should not consider such items as alternatives to profit for the year, total operating revenues, operating income or any other performance measures derived in accordance with IFRS, and they may be different from similarly titled measures used by other companies.

[1] **EBIT**
Our EBIT represents operating income.
[2] **EBITDA**
Our EBITDA represents operating income plus depreciation.
[3] **Like for Like**
Like for Like include comparable stores and E-commerce. Comparable stores are stores that have been open all months of the current year and all months of the previous year. Stores that have been relocated or significantly expanded are excluded from Like for Like stores.
[4] **Gross profit**
Gross profit represents operating revenue less cost of goods sold.
[5] **Working capital**
Working capital consists of accounts receivables, accounts payables, inventory, other receivables and other current liabilities.
[6] **Net interest bearing debt**
Net interest bearing debt is defined as total other long-term debt and short-term borrowings less cash and cash equivalents
[7] **OPEX**
OPEX is defined as other operating expenses including personnel expenses, but excluding depreciation and amortization
[8] **Inventory per store**
Total inventory divided on number of stores and number of E-commerce markets at end of period

To the General Meeting of XXL ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of XXL ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and

- The financial statements of the group, which comprise the balance sheet as at 31 December 2016 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.

- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill (See also page 42 “Significant management judgement in applying accounting policies” and page 47 “Note 5 Intangible assets”).	
The goodwill balance of NOK 2 734 million is subject to annual impairment review required by IFRS. No impairment was booked in 2016. We consider goodwill to be a Key Audit Matter due to the level of judgements made by management when performing their impairment review. Valuation of goodwill and the corresponding impairment tests are complex and require judgement from management related to future revenue, costs and level of reinvestment needed.	We obtained management’s impairment review. The review includes documentation about how management assessed cash generating units (CGUs). We satisfied ourselves that the impairment review contained the elements required by IFRS. We tested the mathematical accuracy of the impairment model. We challenged management’s assumptions on future revenue, costs and level of reinvestment. Our assessment included using historical financial data, future budgets approved by management and other obtainable market information such as relevant benchmarks for growth. We evaluated the discount rate used by management by comparing its composition to empirical data for future interest rates, relevant risk premium and debt ratio. Key assumptions used were benchmarked against external data and our own internal data, including examining management’s sensitivity analysis. Based on our audit procedures we found management’s assumptions to be reasonable.

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Inventories

(See also page 42 "Significant management judgement in applying accounting policies" and page 49 "Note 8 Inventories").

Inventory amounts to NOK 2 610 million in the Financial Statements.

Inventory is carried at the lower of cost and net realizable value. The valuation of inventory at net realizable value involves judgements made by management. The judgements are based on factors such as historical levels of obsolescence, management's considerations regarding the current stock profile, expected development in fashion and planned marketing campaigns, age distribution and movements in inventory.

We focus on this due to the importance of inventory to the business and the judgement involved in deciding net realizable value.

We have reviewed management's policy for assessing the valuation of inventory. We have verified management's assertions through a combination of audit procedures including reviewing documents that support management's assessment, challenging management's assumptions, observe the inventory and performing analysis.

We were present at several of the stocktakings that takes place within the business, both in stores and in the central warehouses. In addition to the physical count, this allowed us to make our own observations of obsolete, damaged or aging inventory.

Our procedures included reviewing that management apply their valuation policies consistently year on year. To challenge management's assessment, we obtained an overview of the ageing profile of inventory, including the historical loss rate in various inventory groups. We also considered the historical accuracy of provisioning. Finally, we considered the adequacy of Financial Statements disclosures.

The results of our testing were satisfactory and we concur that the level of inventory provisions are appropriate.

Supplier bonuses

(See also page 38 "Note 1 Accounting policies").

The Group recognises a reduction in cost of sales as a result of expected supplier rebates. Management's judgements include estimation of total sales and supplier bonuses per supplier based on the underlying agreements. The estimate requires a detailed understanding of the contractual arrangements and accurate understanding of source data to ensure a complete and accurate calculation.

We focus on this because of the importance of these agreements and the significance of the judgements to the amounts involved.

We obtained management's calculation of estimated supplier bonuses. We read and understood a sample of supplier agreements to obtain an understanding of key terms in these agreements.

Our audit procedures included testing of completeness and accuracy of inputs to the calculations. To challenge management on the assumed volumes in the estimates we looked at, among other things, purchase volumes, sales volumes and details from the agreements and historical accuracy. Further, we tested the recoverability of invoiced supplier bonuses including the supplier bonus accruals.

The results of our testing were satisfactory.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 25 April 2017
PricewaterhouseCoopers AS

Eivind Nilsen
State Authorised Public Accountant