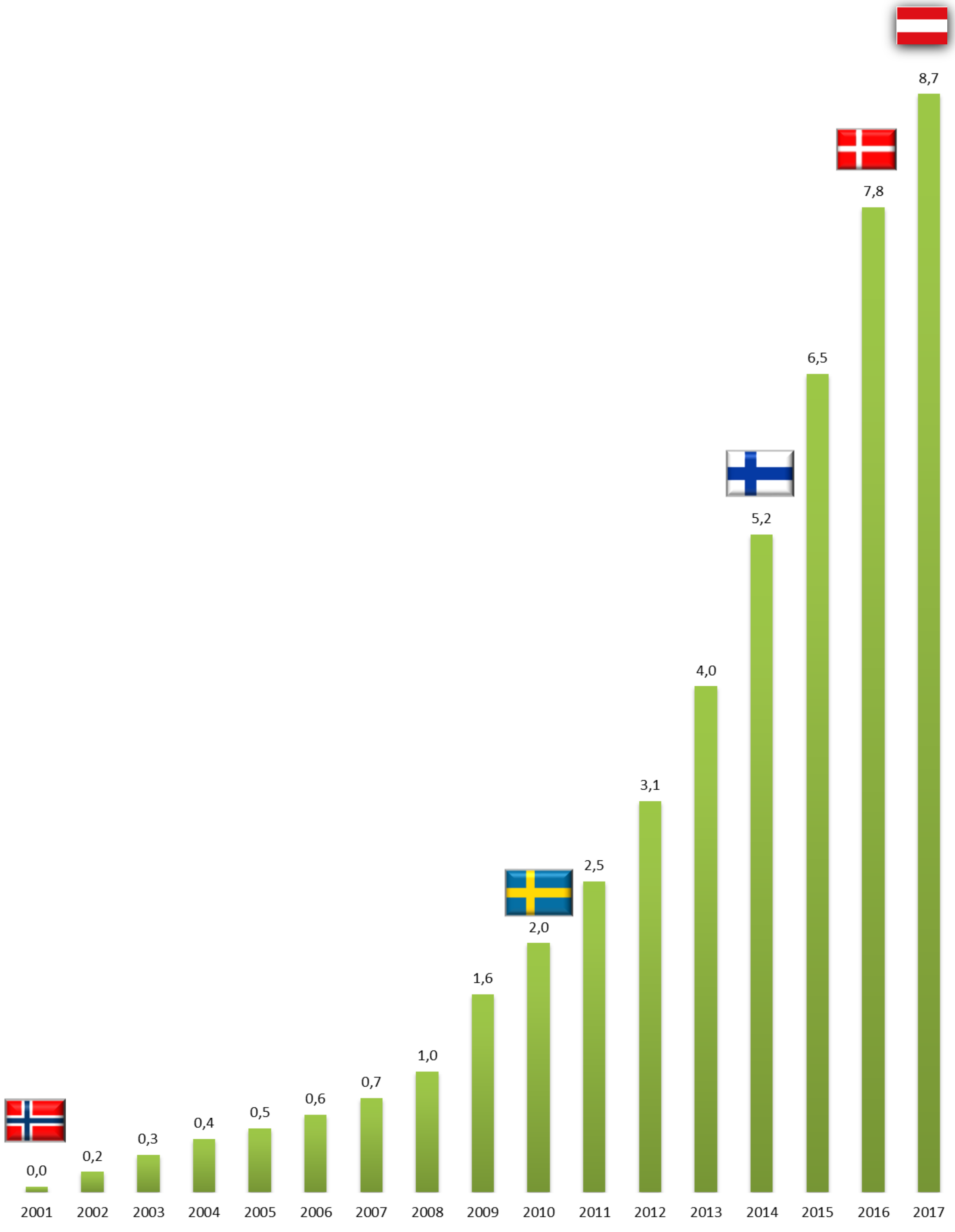
ALL SPORTS UNITED

XXL ASA
ANNUAL REPORT 2017

Revenue Growth

(NOK Billion)

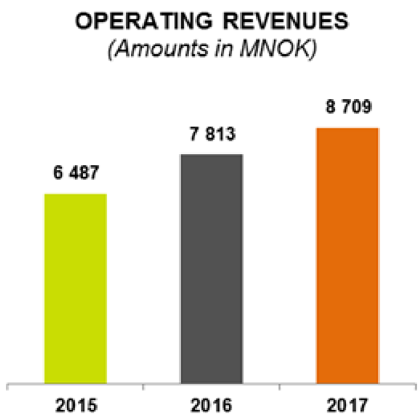


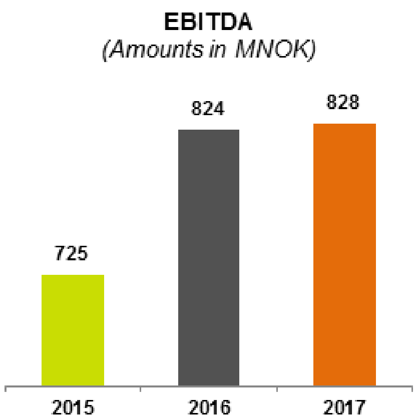
Content

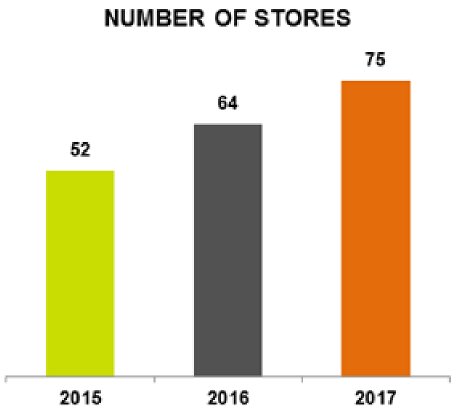
HIGHLIGHTS

- Total revenues of NOK 8 709 million (NOK 7 813 million)
- Opened 11 new stores
- E-commerce growth of 32 per cent
- Established operations in Austria
- EBITDA of NOK 828 million (NOK 824 million)
- Net income of NOK 512 million (NOK 516 million)

2017
Growth
Revenue **+12%**
EBITDA **+0%**







KEY FIGURES

(Amounts in NOK million)	FY 2017 Audited	FY 2016 Audited
GROUP		
Revenues	**8 709**	**7 813**
Growth (%)	***11,5 %***	***20,4 %***
Gross profit[4]	**3 443**	**3 119**
Gross margin (%)	***39,5 %***	***39,9 %***
OPEX %[7]	***30,0 %***	***29,4 %***
EBITDA[2]	**828**	**824**
EBITDA margin (%)	***9,5 %***	***10,5 %***
Operating Income	**668**	**697**
Operating Income margin	***7,7 %***	***8,9 %***
Net Income	**512**	**516**
**Basic Earnings per share (NOK)	**3,70**	**3,73**
**Average number of shares (1 000 shares)	**138 328**	**138 439**
Cash provided by operating activities	**490**	**31**
Like for like revenue growth[3]	**0,5 %**	**7,5 %**
Number of stores at period end	**75**	**64**
New stores in the period	**11**	**12**

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

KEY FIGURES

(Amounts in NOK million)	FY 2017 Audited	FY 2016 Audited
SEGMENT		
Norway		
Operating revenue	4 434	4 151
Growth (%)	*6,8 %*	*14,7 %*
Gross profit[4]	1 868	1 764
Gross margin (%)	42,1 %	42,5 %
OPEX %[7]	21,8 %	21,9 %
EBITDA[2]	902	857
EBITDA margin (%)	*20,3 %*	*20,6 %*
Number of stores at period end	32	31
New stores in the period	1	7
Sweden		
Operating revenue	2 631	2 474
Growth (%)	*6,4 %*	*21,0 %*
Gross profit[4]	1 003	959
Gross margin (%)	38,1 %	38,8 %
OPEX %[7]	29,8 %	28,4 %
EBITDA[2]	219	257
EBITDA margin (%)	*8,3 %*	*10,4 %*
Number of stores at period end	26	22
New stores in the period	4	2
Finland		
Operating revenue	1 494	1 161
Growth (%)	*28,7 %*	*40,8 %*
Gross profit[4]	532	392
Gross margin (%)	35,6 %	33,8 %
OPEX %[7]	28,3 %	30,3 %
EBITDA[2]	110	40
EBITDA margin (%)	*7,3 %*	*3,5 %*
Number of stores at period end	15	11
New stores in the period	4	3
Denmark		
Operating revenue	52	27
Growth (%)	*87,8 %*	
Gross profit[4]	10	3
Gross margin (%)	19,4 %	11,2 %
OPEX %[7]	36,0 %	57,9 %
EBITDA[2]	-9	-13
EBITDA margin (%)	*-16,6 %*	*-46,7 %*
Austria		
Operating revenue	98	-
Gross profit[4]	31	-
Gross margin (%)	31,2 %	-
OPEX %[7]	64,8 %	-
EBITDA[2]	-33	-
EBITDA margin (%)	*-33,7 %*	-
Number of stores at period end	2	-
New stores in the period	2	-
HQ & logistics		
EBITDA[2]	-361	-318
EBITDA margin (% of Group revenues)	*-4,1 %*	*-4,1 %*

CEO comment

XXL is all about people. Together all the XXL employees have created the most powerful business model in the sports retail industry. That is why we always say that XXL is all about people, people and people. However, the retail industry is in rapid change and the strongest will get stronger. From this transformation a lot of opportunities arise and they are to a large extent about technology. That is why we now say that XXL is all about people, people, people and technology. Together we created solid results in 2017, gained market shares in all markets, but most importantly we strengthened the omni-channel model of XXL. We introduced new features online and in the stores and there are many new initiatives to come also in 2018. I would like to thank all of you and reassure you that all these efforts make a good platform for further growth and fun in 2018.

2017 started off by several challenging seasons, with lack of snow and cold in the winter and with a late spring with low temperatures. However, the second half of the year showed more normal seasonality and XXL produced solid results. For the year XXL generated total revenues of NOK 8.7 billion, representing a growth of 12 per cent. The growth was driven by new stores and E-commerce and XXL gained market shares in all markets. The establishment of XXL in Austria was the single most important event in 2017.

On 29 August 2017 XXL opened its first store outside the Nordic markets, in the city of Vienna in Austria. This is an attractive market with four distinctive seasons, brand and service minded consumers and with a competitive landscape similar to the Nordic markets. On 9 October 2018 XXL opened its second store in Austria. Together with E-commerce, the two stores delivered almost NOK 100 million in sales in only four months of operation. E-commerce sales represented above 20 per cent of sales and logistics and support functions within the Group have worked efficiently. The launch of XXL in Austria proves the uniqueness of the XXL omni-channel concept. Austria is already contributing significantly to the growth of the Group and marks the first step of the European expansion of XXL. We have high ambitions and are delivering according to plan.

In 2017 XXL has further strengthened the position in all the Nordic markets and crossed 30 per cent market share in Norway and 15 per cent both in Sweden and Finland. In Denmark XXL has a strong and enthusiastic team understanding the Danish market and they have delivered solid growth in 2017. However, XXL will evaluate to open stores in Denmark over time to also be present here with the full omni-channel concept.

During the year XXL improved the online sites by better mobile loading speeds, performance and security. We even opened a new front-end website in Russian for customers picking up goods in our Finnish stores. Lastly we implemented a new customer service system with faster response times, automatization and improved customer experience.

HQ and logistics represent the heart of XXL's well functioning value chain. In 2017 the focus has been on technology and new omni-channel solutions. We have strengthened the organization with several new recruitments to central functions including purchasers, technical system architects and IT-resources. Over time XXL will also evaluate to open a new central warehouse capacity in the heart of Europe.

We believe there is a positive correlation between being a sustainable company and doing profitable business. In 2017 XXL further strengthened the sustainability work in all the operations by more efficient energy and transport solutions. We are developing a detailed environmental requirements framework for all our suppliers to secure product safety and we enhanced the internal awareness of right code of conduct. Retail is undergoing significantly changes and XXL will exploit all the technological opportunities arising from this transformation. Initiatives related to improving the value chain and the omni-channel offering will be utilizing automatization, machine learning and big data usage. In this respect XXL is committed to have a clear data protection strategy fully aligned with international legislations. By doing so we believe XXL could be an even more cost efficient, streamlined and sustainable company with additional competitive advantages in the industry.

Improving the omni-channel experience will be the main priority also going forward by having all our customers in focus at all times. We will utilize new technological opportunities and improve the online user experience. XXL will continue to expand further, into new markets with online offerings and stores. We will open new stores but only as many as we have too, at good locations at the best destinations, where people live, in large European cities. Strong omni-channel thinking throughout the organization will secure like-for-like growth. Finally, the key competitive advantage of XXL is being the most efficient sporting goods retailer. Therefore we will as always focus on cost improvements.

Fredrik Steenbuch
CEO

Historical milestones

XXL has quickly grown to be the leading distribution channel for sports, outdoors and wilderness in the Nordics with the formula of cost efficient operations, broad product range, focus on branded goods and high degree of service. 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. The growth continues and in 2017 XXL opened its first stores in Austria using the same formula and format. This represented the most important milestone in 2017 and is the start of a journey to make XXL the largest sports retailer in Europe. Important historical milestones are listed below

2000	Founded by Øivind Tidemandsen
2001	The first XXL store was opened in central Oslo
2002	Norwegian webpage was launched
2007	Reached a 10 per cent market share (source: Sportsbransjen 2007) in Norway with 8 stores
2010	Private equity company EQT acquired a majority stake in XXL
2010	Opened the first three 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
2017	Crossed 30 per cent market share in Norway and above 15 per cent market share in both Sweden and Finland
2017	Opened the first two stores in Austria and launched Austrian website

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. The core objective revolves around customer satisfaction and cost consciousness and thereby maximization of the Group's profitability. 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 a leading sports retailer in Europe with stores and E-commerce in Norway, Sweden, Finland, Austria and Denmark. It is the largest among the major sports retailers in the Nordics and the fastest growing among the major sports retail chains in the World.

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. Technology is the basis for further success in the changing retail landscape leading to many opportunities to embrace. Data, artificial intelligence and automatization processes will strengthened the XXL value chain in the coming years.

Business model and value chain

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.

XXL operates a fully integrated value chain that facilitates simple and lean operations, which results in low costs. XXL owns all of the 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.

Omni-channel

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. 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 believe that the strong brand name and customer recognition offline is advantageous to the online offering and vice versa.

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. We look at all stores as local warehouses as well, always closer to the customer than a pure online offering. XXL has also developed an omni-channel customer service function for the XXL Group delivering faster response times, automatization and improved customer experience.

E-commerce operation

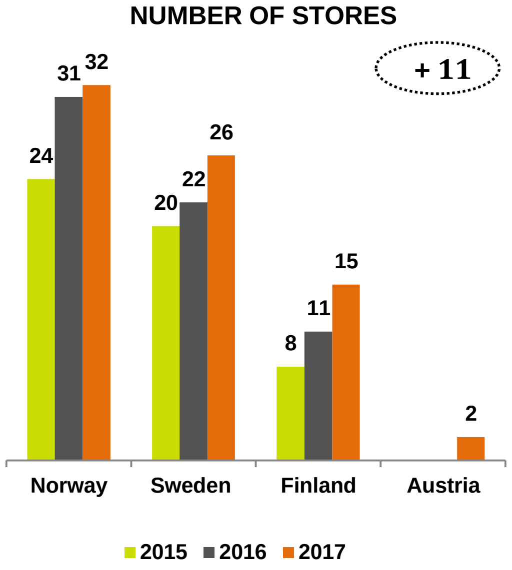
XXL's E-commerce operation currently consists of online websites in Norway, Sweden, Finland, Denmark and Austria with xxl.no, xxl.se, xxl.fi, xxl.dk and xxlsports.at respectively. The revenue contribution from E-commerce for the Group in 2017 corresponded to 12.9 per cent. Many initiatives have been introduced during the year to improve the user experience and increase sales. XXL has improved the mobile loading speed and performance, developed new retargeting solutions and analytical tools as well as enhanced shipping and return features. The organization has been strengthened during the year with more technical architects.

The websites are an extension of the XXL brand and work as platforms for sale 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. In the new store concept, launched with the establishment in Austria, XXL uses digital price tags. This allows for dynamic and flexible pricing and uses robotics to compare prices so that XXL is true to its price promise at all times.

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 was 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, Helsinki and Vienna, 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 75 stores at the end of 2017, 32 stores in Norway, 26 stores in Sweden, 15 stores in Finland and 2 in Austria.

Store development per country:



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, sportswear and shoes 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 2017 were 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 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. Keeping costs low is critical for XXL to be able to maintain its price strategy of having the lowest prices at all times. 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 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).

Each store has further 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. 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. XXL uses multiple digital channels to drive traffic to the stores and websites such as search engine marketing, internet ad placement, social media, email marketing such as weekly newsletters and personalization/retargeting through CRM initiatives. The marketing activities mainly focus on smart marketing across channels to build brand awareness, improve customer loyalty, attract new customers and increase sales.

Sourcing and purchasing

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, XXL Sports & Outdoor ApS in Denmark and XXL Sports & Outdoor GmbH. The Group's private label products are produced by manufacturers abroad, mainly in Asia.

XXL possess huge amount of data of which products that sells good and bad in each market and geography. To ensure that the Group's product offerings are tailored to local market conditions and demand, the purchasing managers regularly meet with the 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.

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, Denmark and Austria. Both warehouses are equipped with state of the art robotics (Autostore) which allows 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 and E-commerce delivery points.

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.

Competitive landscape

XXL is currently serving the Norwegian, Swedish, Finnish and Austrian sporting 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 sporting goods 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, Denmark and Austria. Chains primarily relying on a franchising structure typically also have, to a varying degree, some stores operated by the chain.

Less prevalent in the markets 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 include Coop, Prisma, Citymarket and Hervis/Spar.

With the rise of E-commerce, a number of pure online players focusing on sporting goods have emerged, including Sportamore in the Nordics or Outnorth in Europe. 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. The E-commerce market is also at the time being characterized by many niche players.

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 as well as the industrial transformation of sales over to online channels.

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, as well as Austria, are all among the most prosperous in the world as measured by GDP per capita. OECD forecasts that the Norwegian, Swedish, Finnish, Danish and Austrian 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. Housing market is also showing some weakness but unemployment rate is expected to stay on low levels. The Swedish economy is considered to remain strong with low unemployment rates. However the recent decline in the housing market has lead to more muted expectations for growth in private consumption going forward. The economy in Finland is improving from years of weakness with industrial production picking up. The unemployment rate is expected to improve significantly as well as expectations for a better outlook for overall consumer spending. Both Denmark and Austria show stable economic outlook trends.

  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.*

  We believe health and wellness is a key trend among the consumers and to identify themselves with an active lifestyle. Consequently, strong public promotion of, and a positive attitude towards, health and fitness is observable in all our 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, adapted 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, most of the markets XXL is exposed to have a clear four season sporting environment which is a key characteristic affecting the sporting goods market. The demand for sports retail merchandise changes dependent on the time of the year. Although the local weather can impact local sales, the overall sales across the regions 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.

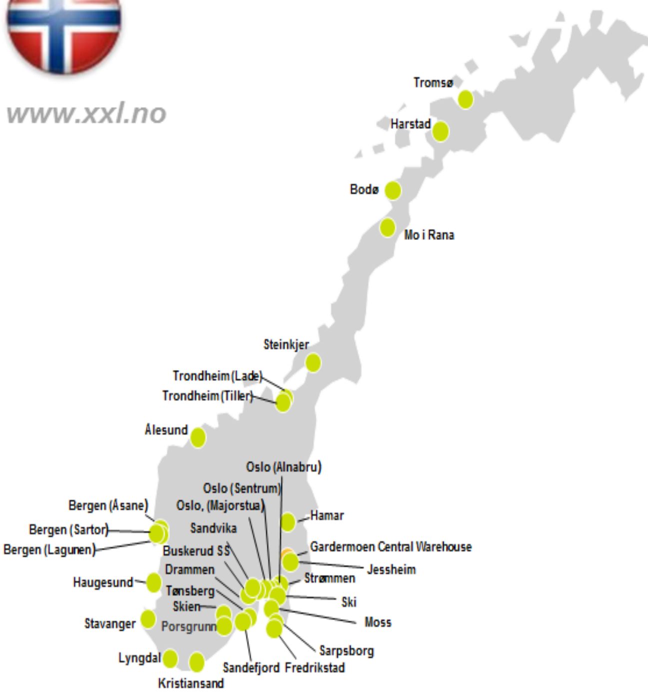
- *Fashion trends and retail industry fragmentation.*

  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 32 stores and E-commerce at the end of 2017 and revenues of NOK 4.4 billion for 2017. XXL's market share in 2017 increased to 28 per cent, according to Sportsbransjen AS.

www.xxl.no

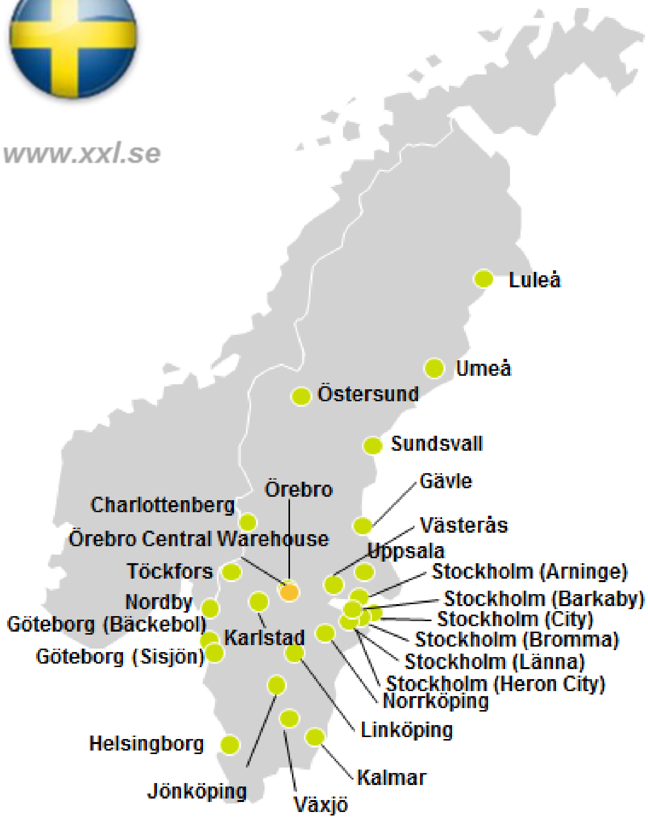


The market increased with above 5 per cent each year from 2014 to 2016, according to Sportsbransjen AS. Due to a challenging winter and spring season in 2017, the market growth was modest in 2017

The Swedish market

In 2010 XXL started in Sweden and currently has 26 stores and E-commerce, including three outlet stores located at the border between Sweden and Norway. To date we have captured a significant share of the market and our total revenues for 2017 in Sweden amounted to NOK 2.6 billion, a growth rate of 6 per cent. In 2017 the market growth was only 0.2 per cent according to HUI Research. 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 prior to 2017.

www.xxl.se

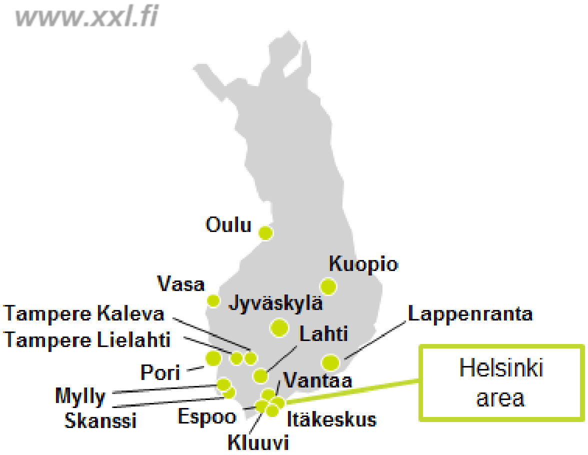


The Finnish market

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 15 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 2017 the market grew by 2.4 per cent. XXL has been the key growth driver in the market and had a growth of 29 per cent in 2017.

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. 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 2017 XXL opened the first two stores and its E-commerce offering in Austria. 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.

www.xxlsports.at

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, 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, Denmark and Austria, 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:

- Developing new initiatives to drive E-commerce and omni-channel platform
- Continued focus on XXL's customer proposition to drive like-for-like growth
- Continued store roll-out in existing markets
- Focusing on costs throughout the value chain
- Focusing on improving profitability in the operations over time
- 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 85-90 stores in total in the coming years. However, XXL will at time evaluate the trend of e-commerce compared to opening of new stores. 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 Switzerland and South Germany as potential new markets. The market assessment process is well under way and XXL established operations in Austria in late 2017 with a promising start.

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.

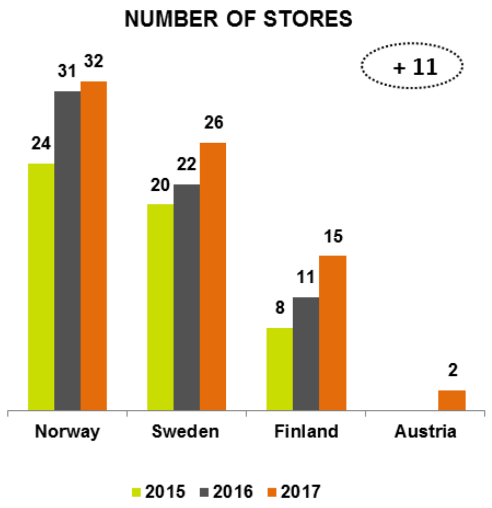
Board of Directors' Report

In 2017 XXL opened 11 new stores in four different countries. The most important event of the year was the opening of two stores and e-commerce in Austria. This is a significant step for XXL, going from a leading Nordic sport retailer to create a larger European sport chain. The 32 per cent increase in e-commerce sales in 2017 was another key event to secure future growth for XXL. We will continue to focus on the combination of e-commerce and stores taking advantage of the best from the two worlds, and to further accelerate a true omni-channel model.

Revenues for 2017 were NOK 8 709 million (NOK 7 813 million) equaling 12 per cent growth, and net income was NOK 512 million (NOK 516 million). The Board of Directors proposes a dividend of NOK 2 per share, representing around 54 per cent of net income.

Growth development

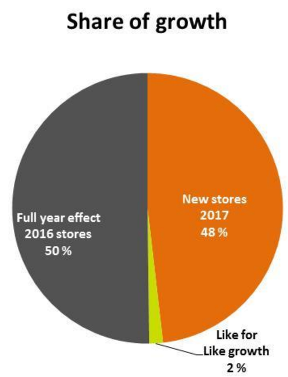
Most of the growth in 2017 was driven by opening 11 new stores and by the end of the year XXL operates 75 stores in Nordics and Austria. Like for like growth was 0.5 per cent and was driven by the growth of e-commerce of 32 per cent. First half of the year was difficult with a challenging winter season and a cold spring. Even with a good second half it was difficult for the existing stores to grow year over year. Regardless of the weather conditions, the growth figures explain the importance of having a strong e-commerce platform to build a long term growing Pan-European sport chain.



Trends

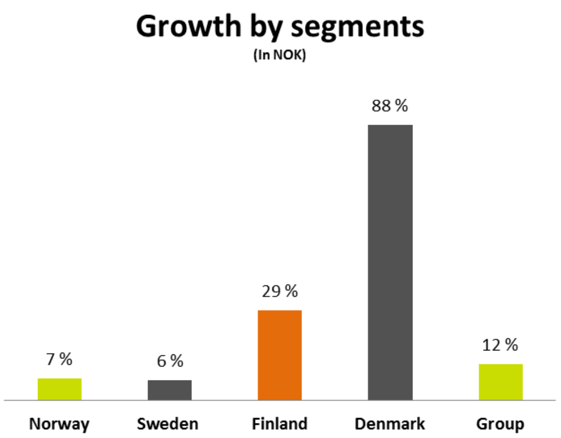
There is a clear trend shift in the retail industry. E-commerce as a sales channel is growing rapidly and stores are experiencing decreased sales. In 2017 XXL have seen a continuing growth in this trend. Stores or chains that do not have a good e-commerce offer will continue to struggle going forward.

XXL believes that this trend will continue and that e-commerce will take an even higher share of sport retail. This will be taken into consideration when deciding new stores. XXL will continue to be in front in this development and we are therefore investing significantly in the future platform. However, XXL believes that having the combination of e-commerce and stores is the winning business model. A lot of the sporting goods are most convenient to shop online while some products need to be adjusted or fitted for best performance. Physical stores are much closer to the customers than a warehouse far away. With XXL's omni channel concept our customers can use the nearest store to easily swap sizes or models for products bought online.



Convenience is maybe the most important trend across all industries. Among sport product categories the most important trend change the last two years has been the skin-tech skis for the winter season. With this type of skis there is no need for waxing and rinsing the skis which is very convenient for the users. For the summer season e-bikes continued to grow, both for recreation and for commuting activities. Furthermore, tech products like sport watches and drones are developing good and the outdoor and wilderness categories were strong for the year as well.

Market conditions
The sales conditions were difficult for all sport retail in the whole Nordics in first half of 2017, while second half was significantly better. However, XXL delivered strong performance in these conditions and took market shares in all markets. The best developed market statistics are present in Norway and Sweden. In Norway figures from "Sportsbransjen" (The Norwegian sports association) showed a market growth of only 0.7 % for 2017 while XXL grew by 6.8 %. XXL's market share grew from 27.6 % to 29.5 % and XXL is now the largest sport retailer in Norway, outgrowing all competitors. For Sweden figures from HUI Research showed a market growth of only 0.2 % while XXL grew by 8.4 % (in local currency). Also for Sweden, XXL is taking market shares.



The competition within the sport market is fierce. The increased share of pure e-commerce and outlet concepts push the traditional players and impacts both retail prices and market shares within the industry. This trend is considered to continue and we expect it to affect the competitive landscape in the years to come.

XXL's omni channel concept with the lowest cost, online as well as offline, is considered to be a significant competitive advantage in order to secure a profitable growth going forward.

Organization, Working Conditions and the Environment

Operation
XXL is a sport retail chain, with stores and e-commerce in Norway, Sweden, Finland and Austria, 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 2017 XXL had 32 stores in Norway, 26 in Sweden, 15 in Finland and 2 in Austria, as well as a central warehouse in Gardermoen (Norway) and Örebro (Sweden).

The working environment and the employees
The Group has 5 005 employees (incl. full- and part time) at year end 2017 (4 283 in 2016). Leave of absence due to illness totaled at 5.5 per cent of total working hours in the Group in 2017 (5.0 per cent in 2016). Reference index for Norway for 2017 is 5.7 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 Group of 5 005 employees there is 2 146 female employees, which equals 42.9 per cent.

Sustainability report
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. We believe there is a positive correlation between being a sustainable company and doing profitable business.
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 2017 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 including using all stores as pick-up and return stations 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. In 2017 we introduced a new store concept with new recycling stations, new waste solutions for all service points and digital price tags. This allowed for significantly lower volumes of cardboards and paper tags in stores, saving both the environment, time spent on changing physical prices in the stores and in the end costs. During the year we also piloted the first recycling project of used goods by introducing a return service for old ski equipment. XXL started to take a fee on each shopping bag sold, resulting in a drop in volume of plastic shopping bags of around 30 per cent compared to 2016. When it comes to electricity use XXL has continued the project of upgrading the store base with more efficient energy solutions, including LED-lights installation. All upgraded stores have seen a reduction in energy usage of above 30 per cent. XXL will continue upgrading stores in the Group in the coming years.

On the supplier assessment side XXL further strengthened this work in 2017. 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 two new guides related to fitness and training equipment and bicycles. XXL has started to phase out products containing fluorides and as a first step stopped using fluorides with Perfluoroctanoic acid (PFOA) substances in all our service stations. Further we have introduced an internal ban of treated articles which sort under the regulation of biocidal treated articles including Triclosan, Benzalkoniumm Chloride, Silver and more. In 2017 we also implemented a new standard for buying where certain product groups require an approval by the XXL quality assurance team before orders can be placed by suppliers.

XXL is all about the employees and during the year the education and training initiatives have been further developed. By doing so the Group secures learning and benchmarking across the whole organization. 36 new talents have passed the XXL Talent training program and now in total around 130 employees in the Group have been enrolled on the program. We have strengthened the HSE work across the Group with courses for all store managers and safety representatives. Moreover XXL has broadened the cooperation with the Norwegian Labour and Welfare Administration (NAV) in Norway and 120 candidates ended up with an employment contract in XXL during the year. In 2017 XXL further improved the whistleblowing routine in the Group and raised awareness about it in the light of the #metoo campaign and focus on sexual harassment in the society.

XXL is ready to meet the new regulations on data protection (GDPR) that will be in place from May 2018 and is currently working on adopting a new data protection policy to all parts of the organization. For 2017 XXL is not aware of any complaints regarding breaches of customer privacy or any losses of customer data. XXL did not receive any complaints from public authorities regarding loss of customer data.

For the year 2017 XXL Children's Foundation donated another USD 100,000 to the project First Lady School building a school for children in Uganda in cooperation with the Norwegian four times world champion in women's boxing Cecilia Brækhus. As well the fund donated another USD 100,000 to "Projecto UERE" helping children in the favela of Maré in Rio, Brazil.

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

Corporate Governance

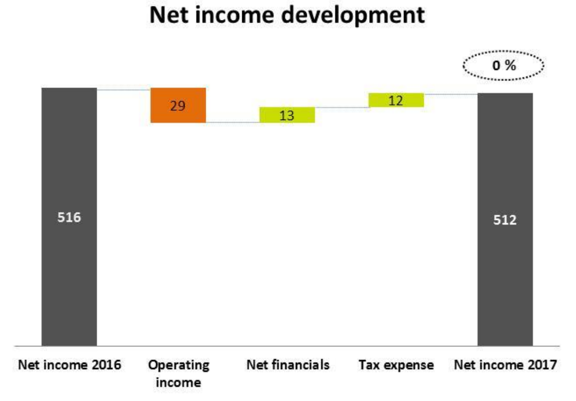
XXL's guidelines for Corporate Governance are in accordance with the Norwegian Code of Practice for Corporate Governance, dated 30 October 2014 as required for all listed companies on the Oslo Stock Exchange. Furthermore, the guidelines meet the disclosure requirements of the Norwegian Accounting Act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

Consolidated Income statement

The growth in operating revenue for 2017 was 11.5 per cent to NOK 8 709 million (NOK 7 813 million). The growth is mainly driven by opening of new stores with 11 new stores in 2017 and full year effects from stores that opened in 2016. Like-for-like growth was low at 0.5 per cent due to a difficult first half of the year. All countries contributed to the growth with 6.8 per cent in Norway, 6.4 per cent in Sweden and 28.7 per cent in Finland. Denmark grew by 87.8 % where 2017 was the first full year in operation. All growth figures in NOK. The revenue contribution from E-commerce for the Group corresponded to 12.9 per cent in 2017 compared to 10.9 per cent in 2016. E-commerce grew by 32.3 per cent compared to 11.5 per cent for the Group total.

Operating income decreased from NOK 697 million in 2016 to NOK 668 million in 2017. The reduction is due to the opening of XXL in Austria and a difficult first half of 2017 with negative growth on existing stores. The operating margin decreased from 8.9 per cent to 7.7 per cent and is related to both lower gross margin and higher operating expenses. The increase in operating expenses is mainly related to growth in number of stores and opening in Austria as a new country and region.

The Group had net financial expenses of NOK 42 million in 2017 compared to NOK 55 million in 2016. The decrease is related to currency effects on intercompany items.



Profit before tax was NOK 626 million (NOK 642 million) and Net income (Profit for the year) was NOK 512 million (NOK 516 million). Basic earnings per share were NOK 3.70 (NOK 3.73).

Consolidated Balance Sheet and Cash Flow Statement

Total assets were NOK 7 695 million at the end of 2017 (NOK 6 673 million) which is an increase of 15.3 per cent from 2016. The most important driver for the increase is related to growth with eleven new stores during the year, investments in infrastructure and inventory growth in the existing stores. Inventory per store (Incl. e-commerce) was NOK 39.4 million (NOK 38.4million) which is an increase of 2.6 per cent. Total trade and other receivables were NOK 375 million (NOK 277 million) which is an increase of 35.3 per cent. Trade payables were NOK 842 million (NOK 639 million) which is an increase of 31.8 per cent.

Net interest bearing debt was NOK 1 691 million (NOK 1 492 million). Net cash position was NOK 314 million (NOK 115 million). Adding available credit facilities, the liquidity reserve was NOK 798 million (NOK 151 million) at the end of 2017. Net Interest Bearing Debt / EBITDA was 2.0x (1.8x). Group equity was NOK 3 846 (NOK 3 608 million) resulting in an equity ratio of 50.0 per cent (54.1 per cent).

Cash flow provided by operating activities was NOK 490 million (NOK 31 million). The most important reason for the improved cash flow is reduced purchase of goods. Furthermore the accounts payable has increased by NOK 177 million (NOK 73 million). The increase of NOK 104 million is due to growth and timing differences. Income tax paid decreased by NOK 69 million to NOK 113 million, driven by lower tax rate and the settlement with the Norwegian Tax Authorities with a tax pay-out of 38 million in 2016.

Cash used for investing activities were NOK 304 million which is up by 65 million compared to 2016. The increase is due to refurbishing of two large stores in Norway, opening in Austria as a new country and more investments in IT and infrastructure.

Cash provided by financing activities was NOK 13 million compared to NOK 243 million in 2016. The decrease is driven by decreased 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 7 new lease agreements for store openings for 2018 where of 4 in Norway, 1 in Sweden and 2 in Austria. The aim for 2018 is 7-8 new stores in total.

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 2018. In addition XXL will refurbish/relocate 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 to be stable. In Norway at low 40's, high 30's in Sweden and between mid and high 30's in Finland.
- EBITDA-margin stable as a result of stable gross margins and operating expenses. In Norway at low 20's, in Sweden low double digits and in Finland high single digits.
- New market entries affect both Group gross margin and Group EBITDA margin in the establishing period of 1-3 years

The Austria 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 for buying and support. Hence, the start-up in Austria will have higher costs than the launch in Sweden, Finland and Denmark. CAPEX per store will be in the range of EUR 1.7-1.9 million and the average pay-back per store is estimated to 4-5 years including net working capital. The average pay-back time is after being some time in the market, following an establishing period. XXL expects between 15-20 stores in total in the Austrian market.

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 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 2016. 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 235 million
Total allocation	**NOK 512 million**

Responsibility Statement
We, The Board of Directors, confirm to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2017 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, 24 April 2018

Øivind Tidemandsen Chairman of the Board	Ronny Blomseth Board Member	Tore Valderhaug Board Member
Anette Mellbye Board Member	Anna Attemark Board Member	Fredrik Steenbuch CEO

Corporate governance at XXL ASA

1. Implementation and reporting on corporate governance
XXL believes 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.. 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 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 it has 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 6 June 2018.

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 7 June 2017, the Board of Directors was granted authorization to increase the share capital of the company by a maximum of NOK 1,662,590.40 representing up to 3 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 2018, but no longer than to 30 June 2018.

The Board of Directors has also been granted authorization to repurchase the company's own shares within a total nominal value of NOK 1,662,590.40 corresponding to up to 3 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 2018, but no longer than 30 June 2018.

The two above mentioned authorizations must be view together so that the total utilization of both authorizations does not exceed 3 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 1,662,590.40 corresponding to 3 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 2018, but no longer than 30 June 2018.

In total XXL held 318,000 own shares at year end 2017, representing 0.23 per cent of the total outstanding shares in the company. In March 2017, XXL bought in total 116,000 own shares, representing 0.08 per cent of the total outstanding shares in the company. All shares held by XXL is to cover for shares in relation to a restricted share unit program for employees

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 approaches 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 2017. 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 14 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 relate 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 three members, Ingar Solheim (chairman), Robert Iversen and Ottar Haugerud. 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) - none

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 three of the members 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 Ronny Blomseth. 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 2017 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 2017.

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 three of the board members 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. 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 and the third round in February 2017. This is in order to further strengthen the common interests with the shareholders. The options will vest 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 8.3 million, the second program was 8.5 million and the third 21.6 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 6 June 2018 are disclosed in note 3 in the consolidated financial statements. For information on salary and other benefits for 2017 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) – none

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 2018:

- 25 April 2018 – Q1 2018 results
- 6 June 2018 – Annual General Meeting
- 20 July 2018 – Q2 2018 results
- 24 October 2018 – Q3 2018 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 98.00 and closed the year 2017 at NOK 85.00, giving a negative return of 11 per cent including NOK 2.00 as dividend payment per share. XXL's market value as of year end 2017 was NOK 11.8 billion. The highest closing price was NOK 102.50 and the lowest was NOK 71.00. The average daily volume in 2017 was NOK 24.2 million or 277,000 shares. The Oslo Stock Exchange – OSEBX index – increased by around 19 per cent in 2017.

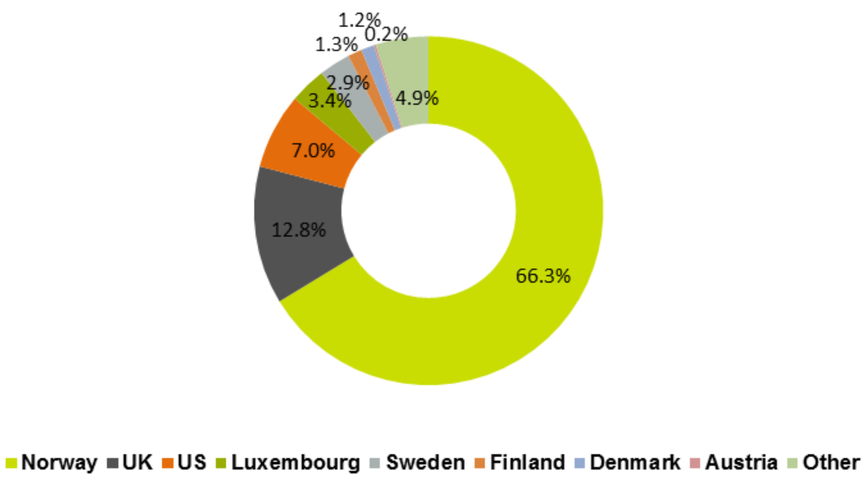
Dividend policy
XXL ASA will target a dividend pay-out of at 40-50 per cent of the Group's annual net income. When proposing a dividend the Board of Directors will take into account legal restrictions, capital requirements and the overall financial position of the company. The Board of Directors will 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 2017, which is the same amount as for 2016. This represents around 56 per cent of the normalized profit for 2017 and amounts to NOK 277 million in total.

Shareholders
XXL ASA had on 31 December 2017 a total of 138,512,123 outstanding shares owned by 6,359 shareholders. Non-Norwegians amounted to 33.7 per cent of outstanding shares, with shareholders from United Kingdom representing 12.8 per cent and from the United States representing 7.0 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 2018
XXL ASA's Annual General Meeting is scheduled for Wednesday 6 June 2018 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 5 June 2018 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).

GEOGRAPHICAL SHAREHOLDER DISTRIBUTION



LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2017

Overview of the major shareholders of the Group as of 31.12.2017:	Total amount of shares	Ownership	Voting right
DOLPHIN MANAGEMENT	33 500 000	24,2 %	24,2 %
FOLKETRYGDFONDET	6 073 076	4,4 %	4,4 %
JPMORGAN CHASE BANK S/A LENDING	3 829 822	2,8 %	2,8 %
CITIBANK N.A S/A THREAD - EUROPEA	3 767 733	2,7 %	2,7 %
ODIN NORDEN	3 470 347	2,5 %	2,5 %
ODIN NORGE	2 816 298	2,0 %	2,0 %
STAMINA AS	2 624 566	1,9 %	1,9 %
GENI HOLDING AS	2 518 439	1,8 %	1,8 %
UBS AG LONDON A/C CLIENT	2 474 316	1,8 %	1,8 %
VERDIPAPIRFONDET DNB	2 050 745	1,5 %	1,5 %
FERD AS	2 022 890	1,5 %	1,5 %
J.P.MORGAN SECURITIES JJPMORGAN SEC PLC	2 022 375	1,5 %	1,5 %
DANSKE INVEST NORSKE C/O DANSKE CAPITAL	1 921 919	1,4 %	1,4 %
KLP AKSJENORGE	1 914 074	1,4 %	1,4 %
SUNDT AS	1 803 866	1,3 %	1,3 %
GOLDMAN SACHS SECURITY CLIENT	1 641 003	1,2 %	1,2 %
JPMORGAN CHASE BANK, JPMCB SWED FUND	1 615 486	1,2 %	1,2 %
STATE STREET BANK S/A SSB CLIENT OMNIBUS	1 614 292	1,2 %	1,2 %
STATE STREET BANK A/C CLIENT OMNIBUS	1 521 136	1,1 %	1,1 %
SCHRODER INTERNATIONAL FUND	1 387 616	1,0 %	1,0 %
Other	57 922 124	41,8 %	41,8 %
Sum	**138 512 123**	**100 %**	**100 %**

Consolidated financial statements - Group

Consolidated statement of total comprehensive income

XXL ASA

Amounts in NOK million	Note	2017	2016
Revenues	2	**8 709**	**7 813**
Cost of goods sold		5 265	4 694
Personnel expenses	3	1 416	1 240
Depreciation and amortization	4,5	159	127
Other operating expenses	6	1 201	1 055
Operating Income		**668**	**697**
Net financial income (expense)	18	-42	-55
Net Financial Income (Expense)		**-42**	**-55**
Income before tax		**626**	**642**
Income tax expense	7	114	126
Net income		**512**	**516**
Basic Earnings per share (NOK)	14	**3,70**	**3,73**
Diluted Earnings per share (NOK)	14	**3,65**	**3,70**
Statement of other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		4	3
Total other comprehensive income		**4**	**3**
Total comprehensive income		**516**	**518**

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

Consolidated Statement of Financial Position – Assets

XXL ASA

ASSETS

Amounts in NOK million	Note	31.12.2017	31.12.2016
NON-CURRENT ASSETS			
Intangible Assets			
Trademarks	5	199	195
Proprietary software	5	43	47
Software	5	12	10
Deferred tax asset	6	6	0
Goodwill	5	2 734	2 734
Total Intangible Assets		**2 994**	**2 987**
Property, Plant and Equipment			
Construction in progress	4	7	5
Machinery and equipment	4	105	52
Land and buildings	4	7	8
Transport and vehicles	4	1	1
Fixtures and fittings	4	737	615
Total Property, Plant and Equipment		**857**	**681**
Financial Assets			
Other investments	9	4	2
Total Financial Assets		**4**	**2**
Total Non-current Assets		**3 855**	**3 670**
CURRENT ASSETS			
Inventory			
Inventories	8	3 152	2 610
Total Inventory		**3 152**	**2 610**
Trade and Other Receivables			
Trade receivables	12	180	186
Other receivables	12,19	195	91
Total Trade and Other Receivables		**375**	**277**
Cash and Cash Equivalents			
Cash and equivalents	11	314	115
Total Cash and Cash Equivalents		**314**	**115**
Total Current Assets		**3 840**	**3 003**
Total Assets		**7 695**	**6 673**

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

Consolidated Statement of Financial Position – Equity and Liabilities

XXL ASA

EQUITY AND LIABILITIES

Amounts in NOK million	Note	31.12.2017	31.12.2016
SHAREHOLDERS' EQUITY			
Paid-in Capital			
Share capital	13	55	55
Share premium		2 806	2 817
Other paid in equity		23	14
Total Paid-in Capital		**2 885**	**2 886**
Retained Earnings			
Other equity		961	722
Total Retained Earnings		**961**	**722**
Total Shareholders' Equity		**3 846**	**3 608**
LIABILITIES			
Non-Current Liabilities			
Deferred tax liability	7	42	51
Long term interest bearing debt	20	1 089	1 051
Total Non-Current Liabilities		**1 132**	**1 102**
Current Liabilities			
Accounts payable		842	639
Short term interest bearing debt	20	916	563
Tax payable	7	143	123
Public duties payable		326	255
Other current liabilities	16	491	383
Total Current Liabilities		**2 717**	**1 963**
Total Liabilities		**3 849**	**3 065**
Total Equity and Liabilities		**7 695**	**6 673**

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

Oslo, 24 April 2018

Øivind Tidemandsen
Chairman of the Board

Ronny Blomseth
Board Member

Tore Valderhaug
Board Member

Anette Mellbye
Board Member

Anna Attemark
Board Member

Fredrik Steenbuch
CEO

Consolidated statement of cash flows

XXL ASA

Amounts in NOK million	Note	2017	2016
Operating Activities			
Income before tax		626	642
Income tax paid		-113	-182
Depreciation	4,5	159	127
Changes in inventory		-453	-777
Changes in accounts receivable		-88	14
Changes in accounts payable		177	73
Net financial expense		42	19
Other changes		140	115
Cash provided (used) by operating activities		**490**	**31**
Investing Activities			
Investment in fixed assets	4,5	-304	-239
Cash provided (used) by investing activities		**-304**	**-239**
Financing Activities			
Proceeds from new long-term / short-term debt		341	549
Interest paid		-40	-19
Purchase of own shares/other equity transaction		-11	-9
Dividend		-277	-277
Cash provided (used) by financing activities		**13**	**243**
Net Change in Cash and Cash Equivalents		**199**	**36**
Cash and cash equivalents - beginning of year	11	115	87
Effect of foreign currency rate changes on cash and equivalents		0	-8
Cash and Cash Equivalents - End of Year		**314**	**115**

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

Consolidated statement of Changes in Equity

XXL ASA

Amounts in NOK million	Share Capital	Share premium	Other Paid in Equity	Other Equity	Foreign Currency Rate Changes	Total Shareholders' Equity
Shareholders' Equity 31.12.15	**55**	**2 827**	**4**	**479**	**1**	**3 366**
Net income 2016				516		516
Foreign currency rate changes					3	3
Transaction with owners:						
Employee share incentive program			9			9
Dividend				-277		-277
Purchase own shares	0	-9				-9
Shareholders' Equity 31.12.16	**55**	**2 817**	**14**	**718**	**3**	**3 608**
Net income 2017				512		512
Foreign currency rate changes					4	4
Transaction with owners:						
Employee share incentive program			9			9
Dividend				-276		-276
Purchase own shares	0	-11				-11
Shareholders' Equity 31.12.17	**55**	**2 806**	**23**	**954**	**7**	**3 846**

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

Dividend of NOK 2 per share proposed for FY17.

The share capital as of 31.12.2017 is 55.4 million NOK

Notes to the financial statements

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 beginning 1 January 2017 or later, as well as Norwegian disclosure requirements pursuant to the Accounting Act per 31 December 2017.
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, including goodwill, 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 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 recognizes 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. When selling to the end user, the Group's policy is to give the customer the right of return within 100 days.
IFRS15 will be implemented from January 1st 2018. Under IFRS15 the group will make provisions for estimated returns. The effect will be included in the equity opening balance as of January 1st 2018 and is estimated to an adverse effect of approximately 5 million NOK.

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. When unused gift cards are past their validity, any outstanding balance are taken as income.

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.

Fixed assets
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.

The following useful lives are applied:

Buildings: 20 years
Machinery and equipment: 5-10 years
Inventory and vehicles: 5-10 years

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), less an allowance for impairment. 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 research 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 not amortized but tested for impairment annually, either individually or as part of a cash-generating unit. 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 undefined 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. Software is depreciated over three years. 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 amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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. Any unused cash discounts deemed immaterial are not presented in the statement of comprehensive income under financial expense. Inventory cost is recognized based on weighted average cost.
Spare parts are held in balance sheet and charged to the P&L when used. Provisions on own product are recognized in balance sheet and expensed as COGS when the products are sold

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.

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 2017 financial year that has a significant impact on the consolidated financial statements.

Annual improvements from 2010-2012 changed IFRS 8 and requires disclosure of the judgements made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported. As XXL don't disclose segment assets, there is no significant change in 2017.

The amendments of IAS 19 means that the employees share of the annual pension premium hereafter reduces pension expenses as the employee's share amounts to a fixed percentage of salary.

Amendment to IAS 32, 'Financial instruments:Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Other standards amendments and interpretations which are effective for the financial year beginning on 1 January 2017 are not material to the group. Adoption of IFRS 10, 11 and 12 are not relevant on these financial statements.

<u>Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company</u>:
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements.
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 has not been implemented. The Company does not foresee any significant changes as a consequence of IFRS9.

IFRS 15 Revenue from Contracts with Customers 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.

IFRS 15 has not been adopted early by the Company. The Company has estimated the effect on equity as of January 1st 2018 of approximately negative 11 MNOK.

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.

IFRS16 has not been adopted early by the Company. The impact will be significant. Currently we expect to implement IFRS16 using the modified retrospective method. Under IFRS16 the present value of the lease liability will be recorded as a liability with a corresponding right of use asset value.
The discount rate to be used has not yet been determined The right of use asset value will be depreciated over the lease period. The profit & loss will be impacted by a reduction in operating expenses and increase in depreciation. However, due to the discount rate effect, the increased depreciation will be lower than the reduction in operating expense, thus improving EBIT.
The potential effects on the balance sheet and profit & loss are shown in note 17.

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 annually (note 5). 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 in part.

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, Finland, Austria and E-commerce in Denmark. The Company's performance is reviewed by the chief operating decision maker as five reportable geographical segments, and in addition HQ & Logistics. Internet sale is included in each geographic segment.

01.01.2017 - 31.12.2017

Amounts in NOK million	Norway	Sweden	Finland	Denmark	Austria	HQ & Logistics	Total
Operating revenue	**4 434**	**2 631**	**1 494**	**52**	**98**		**8 709**
Gross profit[1]	1 868	1 003	532	10	31		3 444
EBITDA[2]	**900**	**219**	**110**	**-9**	**-33**	**-361**	**826**
Operating Income	**854**	**183**	**90**	**-9**	**-34**	**-416**	**668**

01.01.2016 - 31.12.2016

Amounts in NOK million	Norway	Sweden	Finland	Denmark	Austria	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**

[1]Gross profit represent operating revenue less cost of goods sold
[2]Our EBITDA represents operating income plus depreciation and amortization

Note 3 Personnel expenses

Employee benefit expenses	2017	2016
Wages, salaries	1 125	971
Social security costs	203	179
Pension expenses	62	46
Other benefits	27	44
Total	**1 416**	**1 240**

Average number of full time employees	2 764	2 412

Executive management remuneration
Amounts in 1000 of currency

The following benefits were provided to the senior management:

Name	Title	Currency	Salary	Bonus	Other	Pension	Total remuneration
Fredrik Steenbuch	Chief Executive Officer	NOK	3 130	1 544	99	21	**4 794**

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 1,300,000 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 2019 Plan”) will take place after the Q4 2018 results in late February/early March 2019. 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 2018 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	**2017**	**2016**
Outstanding at the beginning of the period	**985**	**626**
Exercised	0	0
Terminated	0	-70
Granted	1 142	430
Outstanding at the end of the period	**2 128**	**985**
Average exercise price (NOK)	88,8	83,5

Options held by Board of Directors and Executive Management:	**Title**	**Outstanding at the beginning of the period**	**Outstanding at the end of the period**
Fredrik Steenbuch	Chief Executive Officer	70 386	133 853
Anders Fjeld	Chief Operating Officer	70 386	133 853
Krister Pedersen	Chief Financial Officer	70 386	133 853
Espen Terland	Chief Information Officer	70 386	133 853
Janicke Blomsnes	Director Sweden	70 386	133 853
Toni Stigzelius	Director Finland	70 386	133 853
Tommi Jylhä-Vuorio	Director E-commerce	70 386	133 853
Tom Erik Kjønø	European Purchase Director	70 386	133 853
Geir Nilsen	Director Logistics	70 386	133 853
Tolle Grøterud	Investor Relations Director	70 386	133 853
Harald Borgen	Director Wholesale	70 386	133 853
Lars Rugaas	Nordic Purchase Director	70 386	133 853
Jarle Bråten	Director Marketing	0	63 467
Patrick Verwilligen	Director Austria	0	63 467
Options held by others		140 772	394 642

[1]of the outstanding options as of the end of period, a total of 401 559 have been terminated after 31 December 2017

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 2019 Plan") will take place after the Q4 2018 results in late February/early March 2019 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 2018 results presentation. The RSUs are exercisable after three years subject to the holder at the time of exercise is employed in the company.

RSU	2017	2016
Outstanding at the beginning of the period	**167 744**	**82 609**
Exercised	0	0
Terminated	4 087	12 360
Granted	118 199	97 495
Outstanding at the end of the period	**281 856**	**167 744**

	2017	2016
RSU & Option program expensed for the year	**10 648**	**9 627**

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	Former board member (resigned in 2017)	150	**150**
Anna Birgitta Attemark	Board member	250	**250**
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)	2017	2016
Statutory audit	2 092	1 960
Tax related services	0	0
Other services	59	148
Total fees	**2 150**	**2 108**

Note 4 Property, Plant and Equipment

	Land and buildings	Transport and vehicles	Machinery and equipment	Fixtures and fittings	Construction in progress	Total
Balance 01.01.16	**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**
Balance 01.01.17	**11**	**2**	**159**	**922**	**5**	**1 099**
Additions	0	1	58	219	7	284
Reclassification of fixed assets*	0	0	22	-19	0	3
Disposals (-) / transfer to oth. cat. of fixed assets (+/-)	0	0	0	0	-5	-5
Net exchange differences	0	0	12	31	0	43
Balance 31.12.17	**11**	**3**	**251**	**1 153**	**7**	**1 424**
Accumulated depreciation pr. 01.01.17	-3	-1	-107	-307	0	-418
Disposals	0	0	0	0	0	0
Depreciation	0	0	-33	-100	0	-134
Reclassification of fixed assets*	0	0	0	0	0	0
Net exchange differences	0	0	-6	-9	0	-14
Accumulated depreciation pr. 31.12.17	-3	-2	-146	-416	0	-566
Carrying amount pr. 31.12.17	**7**	**1**	**105**	**737**	**7**	**857**

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

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				18		**18**
Depreciation on capital leases				9		**9**

Lease period	2014-2019

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

Note 5 Intangible assets

	Goodwill	Trademarks	Proprietary software	Software	Total
Balance 01.01.2016	**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**
Balance 01.01.2017	**2 878**	**206**	**81**	**27**	**3 192**
Additions	**0**	**3**	**18**	**3**	**24**
Disposals	**0**	**0**	**0**	**0**	**0**
Balance 31.12.2017	**2 878**	**209**	**99**	**31**	**3 216**
Accumulated amortization pr. 01.01	**-144**	**-10**	**-34**	**-17**	**-205**
Disposals	**0**	**0**	**0**	**0**	**0**
Amortization	**0**	**0**	**-23**	**-2**	**-24**
Accumulated amortization pr. 31.12	**-144**	**-11**	**-56**	**-19**	**-230**
Carrying amount pr. 31.12.2017	**2 734**	**198**	**43**	**12**	**2 987**

[1]not including deferred tax

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 2017 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 5.3%, after tax. This is based on a risk free interest rate of 0.3%, 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 2016 or 2017.

Cash Generating Units (CGUs)

Shops in Norway	**2017**	**2016**
Goodwill	2 734	2 734
Trademark	195	195
Impairment	0	0
Sensitivity		
Discount rate after tax	5,30 %	5,24 %
Increase in the discount rate before possible impairment of goodwill	3,7 p.p	4,8 p.p
Decrease in gross margin before possible impairment of goodwill	5,4 p.p	7,7 p.p

Note 6 Other operating expenses

Other operating expenses by nature	2017	2016
Leasing and other cost of premises	572	491
Marketing expenses	467	419
Other operating expenses (incl. IT licenses, maintenance, legal fees and other)	162	145
Sum	**1 201**	**1 055**

Note 7 Tax

Income tax expense for the year

Tax expense for the year	2017	2016
Tax payable in Norway	102	103
Tax payable in Finland	5	0
Tax payable in Switzerland	18	13
Tax payable in Denmark	0	0
Tax payable in Sweden	7	0
Tax payable in Austria	0	0
Change in deferred tax	-15	10
Exchange rate effect/other	-3	0
Total income tax expense	**114**	**126**
Effective tax rate	***18 %***	***20 %***

Current tax payable		
Tax payable in Norway	100	103
Tax payable in Finland	2	0
Tax payable in Switzerland	31	20
Tax payable in Denmark	0	0
Tax payable in Sweden	10	0
Tax payable in Austria	0	0
Total tax payable in the balance sheet	**143**	**123**

Explanation of difference between Norwegian statutory tax rate of 24% and the effective tax rate

Income before tax	**626**	**642**
24 % tax of income before tax	150	161
Permanent differences (24%)	2	0
Accrual for settlement of tax dispute	0	0
Effect of change of tax rate	-8	0
Differences in tax rates amongst the Group and other	-30	-34
Income tax expense	**114**	**126**

Specification of temporary differences

Asset (-)/liability	2017	2016	Change
Fixed and intangible assets	116	102	-13
Accounts receivable	-6	-2	-4
Inventories	-139	-118	-21
Accrued expenses	-27	-11	-16
Trademark	190	190	0
Fixed assets Sweden	155	120	35
Amortization of loan expenses	4	6	-3
Financial derivatives	1	2	-1
Interest limitation rules	0	0	0
Total temporary differences	**293**	**289**	**-4**
Loss carryforward	-23	0	-23
Basis for deferred tax	270	289	-19
Deferred tax liability in the balance sheet	**42**	**51**	**-9**
Deferred tax asset in the balance sheet	**-6**	**0**	**-6**

Deferred tax assets (-) / liabilities are presented net for the Norwegian entities.
Tax rate in Norway is 24% for 2017 and will be 23% from 1 January 2018. Deferred tax in Norway has therefore been calculated with 23%.
Tax rate in Sweden is 22% for 2017, tax rate in Finland is 20% in 2017, tax rate in Switzerland is 8.6% in 2017.

Note 8 Inventories

	2017	2016
Goods purchased for resale	3 156	2 593
Goods in transit	16	32
Reserve for inventory obsolescence	-21	-15
Total inventories	**3 152**	**2 610**

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 %
1st Class AS *	2017	Oslo	100 %

Investments in subsidiaries are consolidated in the Consolidated Financial Statements.
* Level2Invest AS and 1st Class 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:

	2017	2016
Bank deposits (restricted)*	0	28
Deposits	23	7
Cash	35	28
Bank accounts (unrestricted)	255	52
Total cash and cash equivalents	**314**	**115**
Unused overdraft	200	151
Unused credit facility	300	0

The Group has created a cash-pool owned by XXL Sport og Villmark AS.
The Group has undrawn credit facilities and overdraft with DnB/Nordea for NOK 500 million per year-end 2017 (2016: NOK 151 million).
*Restricted cash comprises of employee tax witheld (2016). For 2017 employee tax withheld is covered by bank guarantee, up to NOK 40 million.

Note 12 Trade and other receivables

	2017	2016
Trade receivables, gross	190	187
Allowance for credit losses	-10	-1
Trade receivables 31.12	**180**	**186**

Changes in allowance for credit losses

Beginning balance	**-1**	**-3**
Amounts written off (uncollectible)	0	0
Recovery of written off items	0	-1
Change in the allowance	-9	1
Allowance for credit loss expense	**-9**	**1**
FX effect reserve balance sheet/profit or loss	0	1
Ending balance 31.12	**-10**	**-1**

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

Year	Total	Not yet due	>30 days	>60 days	>90 days
2017	190	177	7	1	4
2016	187	156	16	0	15

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	145	77
Prepaid expenses	15	3
Other receivables	35	11
Other receivables 31.12	**195**	**91**

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 31.12.2017:	Total amount of shares	Ownership	Voting right
DOLPHIN MANAGEMENT	33 500 000	24,2 %	24,2 %
FOLKETRYGDFONDET	6 073 076	4,4 %	4,4 %
JPMORGAN CHASE BANK S/A LENDING	3 829 822	2,8 %	2,8 %
CITIBANK N.A S/A THREAD - EUROPEA	3 767 733	2,7 %	2,7 %
ODIN NORDEN	3 470 347	2,5 %	2,5 %
ODIN NORGE	2 816 298	2,0 %	2,0 %
STAMINA AS	2 624 566	1,9 %	1,9 %
GENI HOLDING AS	2 518 439	1,8 %	1,8 %
UBS AG LONDON A/C CLIENT	2 474 316	1,8 %	1,8 %
VERDIPAPIRFONDET DNB	2 050 745	1,5 %	1,5 %
FERD AS	2 022 890	1,5 %	1,5 %
J.P.MORGAN SECURITIES JJPMORGAN SEC PLC	2 022 375	1,5 %	1,5 %
DANSKE INVEST NORSKE C/O DANSKE CAPITAL	1 921 919	1,4 %	1,4 %
KLP AKSJENORGE	1 914 074	1,4 %	1,4 %
SUNDT AS	1 803 866	1,3 %	1,3 %
GOLDMAN SACHS SECURITY CLIENT	1 641 003	1,2 %	1,2 %
JPMORGAN CHASE BANK, JPMCB SWED FUND	1 615 486	1,2 %	1,2 %
STATE STREET BANK S/A SSB CLIENT OMNIBUS	1 614 292	1,2 %	1,2 %
STATE STREET BANK A/C CLIENT OMNIBUS	1 521 136	1,1 %	1,1 %
SCHRODER INTERNATIONAL FUND	1 387 616	1,0 %	1,0 %
Other	57 922 124	41,8 %	41,8 %
Sum	**138 512 123**	**100 %**	**100 %**

All shares have been fully paid.

Note 14 Earnings per share

	2017	2016
Net income	**512**	516
Weighted average number of ordinary shares in issue	**138 327 726**	138 439 041
Total number of outstanding shares incl. share options	**140 426 935**	139 497 527
Adjustment for:		
Effect share options	1 965 058	1 019 296
Weighted number of ordinary shares in issue for diluted earnings per share	**140 292 784**	139 458 337
Basic Earnings per share (in NOK)	**3,70**	3,73
Diluted Earnings per share (in NOK)	**3,65**	3,70

Reconciliation weighted average number of ordinary shares

	2017	2016
Number of shares opening	**138 415 123**	**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
Share purchases	**116 000**	97 000
Number of shares closing	**138 299 123**	138 415 123
Weighted average	**138 327 726**	138 439 041
Effect share option	**1 965 058**	1 019 296
Basic Earnings per share (in NOK)	**3,70**	**3,73**
Diluted Earnings per share (in NOK)	**3,65**	**3,70**

See note 3 for future option programs.

Note 15 Security and guarantees

XXL ASA has a total loan engagement of NOK 2 293 millions with DNB and Nordea as of December 2017, consisting of a Term Loan of NOK 1 093 million and a Revolving Credit Facility of NOK 1 200 million in which NOK 300 millions are available. The loans are secured by a negative pledge from the participants

Note 16 Other short term liabilities

	2017	2016
Credit notes / gift cards customers	133	108
Accrued salary and bonus	52	58
Accrued holiday pay	127	101
Accrued investment contributions from landlords	87	54
Other short term accruals	92	62
Total other short term liabilities	**491**	**383**

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	2017	2016
Under 1 year	474	517
1 to 5 years	1 930	2 047
After 5 years	1 536	1 537
Total commitments relating to operating leases	**3 941**	**4 100**

IFRS16 will be implemented from January 1st 2019. The present value of the lease liability will be recorded as a liability,using the modified retrospective method, with a corresponding right of use asset value in the opening balance for 2019. Currently we estimate the effect to be, depending on % discount rate (between 5,5% and 3,5%) used and contractual future lease payments per 31st December 2017, as between 3 100 million NOK and 3 450 million NOK.
The right of use asset value will be depreciated over the lease period. The profit & loss will be impacted by a reduction in operating expenses and increase in depreciation. However, due to the discount rate effect the increased depreciation will be lower than the reduction in operating expense, thus improving EBIT. Depending on the discount rate used, the effect can be from 25 million NOK to 55 million NOK.

Net lease payments are recognized in profit or loss	409	356
Excl. joint costs, etc.		
Other operating lease expenses (company cars/trucks, etc.)	9	8

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:	2017	2016
Furnishing stores	8	8
Machinery and equipment central warehouse	49	49
Total cost	**56**	**56**
Accumulated depreciation furnishings	-10	-8
Accumulated depreciation machinery and equipment	-23	-16
FX effect assets under capital lease	-6	-6
Net carrying amount	**18**	**27**

Summary of gross future minimum lease payments:	2017	2016
Under 1 year	16	14
1 to 5 years	2	13
After 5 years	0	0
Total gross future minimum lease payments	**18**	**27**

Summary of net future minimum lease payments:	2017	2016
Under 1 year	16	13
1 to 5 years	2	14
After 5 years		0
Total net future minimum lease payments	**18**	**27**
Of which:		
- short-term debt	16	13
- long-term debt	2	14

Note 18 Other financial income and other financial expenses

	2017	2016
Realized foreign exchange gains	81	186
Unrealized foreign exchange gains	644	179
Other financial income	2	1
Total financial income	**727**	**366**

Interest expenses bank loans	34	20
Other interest expenses	8	7
Unrealized foreign exchange losses	686	322
Realized foreign exchange losses	29	54
Other financial expenses	13	18
Total financial expenses	**768**	**421**
Net financial expenses	**-42**	**-55**

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)
2017	+50	-9 048	-6 876
	-50	9 048	6 876
2016	+50	-7 720	-5 790
	-50	7 720	5 790

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

	2017	2016
Overdraft	1,86 %	2,69 %
Bank syndicate	2,30 %	2,00 %
Capital leases	1,80 %	2,00 %

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 USD and EUR. However, as a wholesale entity is operating in EUR, the EUR exposure is limited

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

		2017		2016	
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%	25 000	19 000	28 000	21 000
	-10%	-25 000	-19 000	-28 000	-21 000
USD	+10%	-74 000	-56 240	-67 000	-48 000
	-10%	74 000	56 240	67 000	48 000

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 2017.

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

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

Liabilities carried at fair value	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss			
FX derivatives		1	
Total	**0**	**1**	**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	2017	2016
Loans and receivables		
Trade receivables	180	186
Other receivables	145	77
Cash and cash equivalents	314	115
Total current financial assets	**639**	**379**
At fair value through profit or loss		
FX derivatives	1	2
Total financial assets (+) / liabilities (-) at fair value through profit or loss	**1**	**2**
Other Liabilities at amortised cost		
Bank loan	51	1 044
Capital lease	18	27
Other non-current debt	0	0
Accounts payable and other short-term debt	1 740	1 202
Total other financial liabilities	**1 809**	**2 273**

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

Net debt is defined as interest-bearing debt (short and long), less cash.

Equity includes all capital and reserves, paid and earned.

	2017	2016
Interest bearing debt	2 005	1 614
Cash	-314	-115
Net debt	**1 692**	**1 499**
Equity	3 846	3 608
Total equity and net debt	**5 537**	**5 107**

Note 20 Interest bearing debt

Long term liabilities due > 1 year	2017	2016
Bank loan	1 094	1 044
- Amortisation of transaction costs of bank loan	-6	-6
Capital lease	2	13
Other non-current debt	0	0
Sum long term	**1 089**	**1 051**

Short term liabilities due < 1 year	2017	2016
Capital lease	16	14
Credit Facility	900	549
Sum short term	**916**	**563**
Total interest bearing debt	**2 005**	**1 614**

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 2.30 billion as of 31 December 2017. 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 2017 the margin is 1.35% 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 2017: Leverage ratio and Interest cover. As of 31 December 2017 the company is compliant with all covenants under the loan facilities

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:

31.12.2017 **Remaining period**

Financial liabilities	Under 1 year	1-2 years	2-3 years	3-4 years	More than 5	Total
Bank loan	900	1 094				1 994
- Amortisation of transaction costs of bank loan	-4	-2				-6
Capital lease	16	2				18
Total	**912**	**1 093**	**0**	**0**	**0**	**2 005**

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
- Amortisation of transaction costs of bank loan	-4	-6	0	0	0	-10
Capital lease	18	13	0	0	0	31
Total	**563**	**57**	**1 059**	**0**	**0**	**1 614**

Reconciliation of interest bearing debt	
Total per 31.12.2016	**1 614**
Net changes in credit facility and overdraft	350
Net changes in capital lease	-9
Amortisation of transaction cost of bank loan	4
FX effects on bank loans	47
Total per 31.12.2017	**2 005**

Financial statements – XXL ASA

Statement of income

XXL ASA

Figures are stated in NOK million	Note	2017	2016
Personnel expenses	2	2	12
Other operating expenses		8	3
Total Operating Expenses		**10**	**15**
Operating Income		**-10**	**-15**
Interest income	6	1	0
Other financial income	5	349	750
Total Financial Income		**350**	**750**
Interest expense		22	12
Interest expense to group companies	6	3	4
Other financial expense		5	4
Total Financial Expense		**31**	**19**
Net Financial Income (Expense)		**319**	**731**
Income Before Income Taxes		**310**	**716**
Tax expense	3	74	104
Net Income		**235**	**612**
Allocation of Net Income			
Other paid-in equity		235	612
Total allocated		**235**	**612**

Balance sheet – Assets

XXL ASA

ASSETS

Figures are stated in NOK million	Note	31.12.2017	31.12.2016
NONCURRENT ASSETS			
Intangible assets			
Deferred tax asset	3	0	0
Total intangible assets		**0**	**0**
Financial Assets			
Investment in subsidiaries	4	3 185	3 175
Loan to group company	5	0	0
Total Financial Assets		**3 185**	**3 175**
Total Noncurrent Assets		**3 185**	**3 175**
CURRENT ASSETS			
Other receivables	5	945	812
Total Other Receivables		**945**	**812**
Cash and Cash Equivalents			
Cash and equivalents	7	0	0
Total Cash and Cash Equivalents		**0**	**0**
Total Current Assets		**945**	**812**
Total Assets		**4 130**	**3 987**

Balance sheet – Equity and Liabilities

XXL ASA

EQUITY AND LIABILITIES

Figures are stated in NOK million	Note	31.12.2017	31.12.2016
SHAREHOLDERS' EQUITY			
Paid-in Capital			
Share capital	8,10	55	55
Share premium	8,10	2 806	2 817
Total Paid-in Capital		**2 862**	**2 872**
Retained Earnings			
Other equity	10	187	217
Total Retained Earnings		**187**	**217**
Total Shareholders' Equity		**3 048**	**3 089**
LIABILITIES			
Non-Current Liabilities			
Deferred tax liabilities	3	1	2
Interest bearing debt	9	294	294
Total Non-Current Liabilities		**295**	**295**
Short-term Debt			
Accounts payable		2	1
Current debt		700	500
Tax payable	3	75	98
Other short-term debt	5	11	3
Total Short-term Debt		**787**	**602**
Total Liabilities		**1 082**	**898**
Total Equity and Liabilities		**4 130**	**3 987**

Oslo, 24 April 2018

Øivind Tidemandsen Chairman of the Board	Ronny Blomseth Board Member	Tore Valderhaug Board Member
Anette Mellbye Board Member	Anna Attemark Board Member	Fredrik Steenbuch CEO

Statement of Cash Flow

Figures are stated in NOK million	**2017**	**2016**
Operating Activities		
Income before income taxes	310	716
Tax payable	-98	-58
Changes in accounts payable	1	0
Changes in other assets and liabilities	-125	-872
Cash provided (used) by operating activities	**88**	**-214**
Financing Activities		
Purchase own shares	-11	-9
Proceeds from new short-term debt	200	500
Dividend	-276	-277
Cash provided (used) by financing activities	**-88**	**214**
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.

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.

Deposits
Receivable/payable cash pooling arrangements are classified as balances with group companies.
All figures are stated in NOK million unless otherwise stated.

Note 2 Personnel expenses

The Company had no employees in 2017.
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/audit committee	310	**310**
Ronny Blomseth	Board member	250	**250**
Mernosh Saatchi	Board member	150	**150**
Anna Birgitta Attemark	Board member	250	**250**
Robert Iversen	Election Commitee	50	**50**

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

	2017	**2016**
Statutory audit	435	288
Other services	0	0
Total fees	**435**	**288**

Note 3 Tax

Income tax expense for the year

Basis for tax payable	**2017**	**2016**
Income before tax	310	716
Permanent differences	0	-300
Change in temporary differences	3	-5
Interest limitation rules	0	-20
Basis for tax payable	**312**	**391**
Tax payable in the statement of income	**75**	**98**
Tax payable in the balance sheet	**75**	**98**
Tax expense for the year		
Tax payable	75	98
Other	0	0
Change in deferred tax	-1	6
Total tax expense	**74**	**104**
Explanation for why tax is not 24% of income before tax		
24 % tax of income before tax	74	179
Permanent differences (25%)	1	-75
Expected tax expense	**75**	**104**
Effective tax rate	24 %	15 %

Specification of temporary differences

Asset (-)/liability	***Change***	**2017**	**2016**
Amortization of loan expenses	*3*	4	6
Accruals	*0*	0	0
Interest limitation rules	*0*	0	0
Total temporary differences		**4**	**6**
Basis for deferred tax assets/liability		4	6
Deferred tax assets (+) / liability (-) in the balance sheet		**-1**	**-2**
Reconciliation change in deferred tax			
Change in deferred tax in balance sheet		-1	6
Change in deferred tax in tax expense		-1	6

Tax rate in Norway is 24% for 2017 and will be 23% from 1 January 2018. Deferred tax in Norway has therefore been calculated with 23%.

Note 4 Investment in subsidiaries

The Company has an ownership interest in the following subsidiary:

	Year of acquisition	**Business location**	**Ownership percentage**	**Equity (100%) 31.12.2017**	**Net income (100%) 31.12.2017**	**Book value 31.12.2017**
XXL Sport og Villmark AS	2015*	Oslo	100 %	420	63	3 185

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	2017	2016
Other short term debt	0	3
Cash pool arrangement	0	0
Total liabilities	**0**	**3**

Receivables	0	0
Other short-term receivables from group companies	0	0
Cash pool arrangement	595	60
Group contribution	350	750
Total receivables	**945**	**810**

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	2017	2016
XXL Sport og Villmark AS	0	0
Total interest income	**0**	**0**

Interest expense	2017	2016
Cash pool interest expense	3	4
Total interest expense	**3**	**4**

Note 7 Cash and cash equivalents

Cash and cash equivalents include the following items:

	2017	2016
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 595 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 31.12.2017:

DOLPHIN MANAGEMENT	33 500 000	24,2 %
FOLKETRYGDFONDET	6 073 076	4,4 %
JPMORGAN CHASE BANK S/A LENDING	3 829 822	2,8 %
CITIBANK N.A S/A THREAD - EUROPEA	3 767 733	2,7 %
ODIN NORDEN	3 470 347	2,5 %
ODIN NORGE	2 816 298	2,0 %
STAMINA AS	2 624 566	1,9 %
GENI HOLDING AS	2 518 439	1,8 %
UBS AG LONDON A/C CLIENT	2 474 316	1,8 %
VERDIPAPIRFONDET DNB	2 050 745	1,5 %
FERD AS	2 022 890	1,5 %
J.P.MORGAN SECURITIES JJPMORGAN SEC PLC	2 022 375	1,5 %
DANSKE INVEST NORSKE C/O DANSKE CAPITAL	1 921 919	1,4 %
KLP AKSJENORGE	1 914 074	1,4 %
SUNDT AS	1 803 866	1,3 %
GOLDMAN SACHS SECURITY CLIENT	1 641 003	1,2 %
JPMORGAN CHASE BANK, JPMCB SWED FUND	1 615 486	1,2 %
STATE STREET BANK S/A SSB CLIENT OMNIBUS	1 614 292	1,2 %
STATE STREET BANK A/C CLIENT OMNIBUS	1 521 136	1,1 %
SCHRODER INTERNATIONAL FUND	1 387 616	1,0 %
Other	57 922 124	41,8 %
Sum	**138 512 123**	**100 %**

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

	Title	Amount of shares
Fredrik Steenbuch (Stamina AS)	Chief Executive Officer	2 624 566
Øivind Tidemandsen (Dolphin Management AS)	Chairman of the Board	33 500 000
Tore Valderhaug	Board member	0
Ronny Blomseth	Board member	231 266
Anna Birgitta Attemark	Board member	1 724
Anette Mellbye	Board member	0

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	-6 195
Sum	**294 081**

Note 10 Shareholder's equity

Changes in shareholder's equity	Share capital	Share premium	Retained earnings	Total equity
Shareholder's equity 01.01.17	**55**	**2 817**	**217**	**3 089**
Net income for the year			235	235
Dividend			-276	-276
Share options			11	11
Purchase own shares	0	-11		-11
Shareholder's equity 31.12.17	**55**	**2 806**	**187**	**3 048**

Footnotes/Definitions

Alternative Performance Measures (APM)
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**
EBIT represents operating income.
[2)] **EBITDA**
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 margin**
Gross profit represents operating revenue less cost of goods sold. Gross margin is gross profit in per cent of revenue
[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

Pictures
All pictures in this report is with and by XXL employees

pwc

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 2017, and the income statement 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 consolidated statement of financial position as at 31 December 2017 and consolidated statement of total comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement 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 2017, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017, 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, including 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 and the Group 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.

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.

The Groups business activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or other events that qualified as new Key Audit Matters for our audit of the 2017 financial statements. In this light, our areas of focus have been the same in 2017 as the previous year.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill	
The goodwill balance of NOK 2 734 million is subject to annual impairment review required by IFRS. No impairment was booked in 2017. 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. See page 42 "Significant management judgement in applying accounting policies" and page 48 "Note 5 Intangible assets".	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. Finally, we considered the adequacy of Financial Statements disclosures. Based on our audit procedures we found management's assumptions to be reasonable.
Inventories	
Inventory amounts to NOK 3 152 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. See page 42 "Significant management judgement in applying accounting policies" and page 50 "Note 8 Inventories"	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 observing 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	
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. See page 38 "Note 1 Accounting policies".	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 includes all the information in the annual report, 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 in accordance with law and regulations, including fair presentation of the financial statements of the parent company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group 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. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the group use 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.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 and the Group'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 or the Group'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 or the Group 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 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.

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 in the statements on Corporate Governance and other information in the annual report 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 and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 24 April 2018

PricewaterhouseCoopers AS

Eivind Nilsen

State Authorised Public Accountant