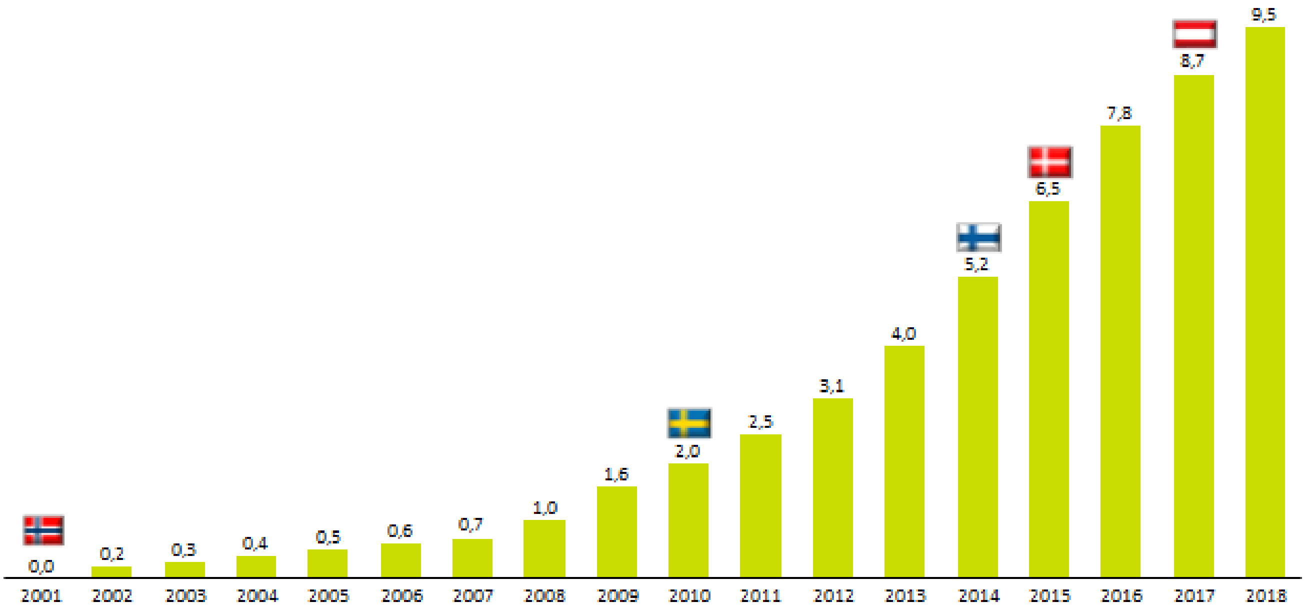
XXL ASA
ANNUAL REPORT 2018

Revenue Growth

(NOK Billion)



Content

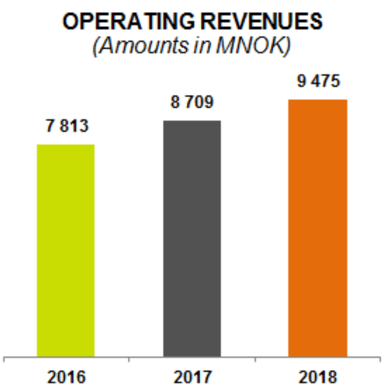
HIGHLIGHTS

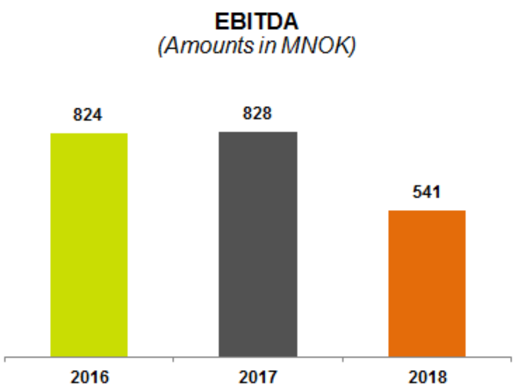
- Total revenues of NOK 9 475 million (NOK 8 709 million)
- Opened 7 new stores
- E-commerce growth of 38 per cent
- EBITDA of NOK 541 million (NOK 828 million)
- Net income of NOK 237 million (NOK 512 million)

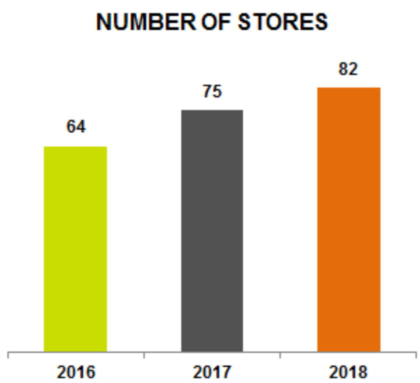
2018
Growth

Revenue **+9%**

EBITDA **-35%**







KEY FIGURES

(Amounts in NOK million)	FY 2018 Audited	FY 2017 Audited
GROUP		
Revenues	**9 475**	**8 709**
Growth (%)	***8,8 %***	***11,5 %***
Gross profit[4]	**3 536**	**3 443**
Gross margin (%)	***37,3 %***	***39,5 %***
OPEX % [7]	***31,6 %***	***30,0 %***
EBITDA[2]	**541**	**828**
EBITDA margin (%)	***5,7 %***	***9,5 %***
Operating Income	**352**	**668**
Operating Income margin	***3,7 %***	***7,7 %***
Net Income	**237**	**512**
**Basic Earnings per share (NOK)	**1,72**	**3,70**
**Average number of shares (1 000 shares)	**137 969**	**138 328**
Cash provided by operating activities	**460**	**490**
Like for like revenue growth[3]	**-0,3 %**	**0,5 %**
Number of stores at period end	**82**	**75**
New stores in the period	**7**	**11**

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

KEY FIGURES

(Amounts in NOK million)	FY 2018 Audited	FY 2017 Audited
SEGMENT		
Norway		
Operating revenue	4 642	4 434
Growth (%)	*4,7 %*	*6,8 %*
Gross profit[4]	1 841	1 868
Gross margin (%)	39,7 %	42,1 %
OPEX % [7]	23,2 %	21,8 %
EBITDA[2]	765	902
EBITDA margin (%)	*16,5 %*	*20,3 %*
Number of stores at period end	36	32
New stores in the period	4	1
Sweden		
Operating revenue	2 679	2 631
Growth (%)	*1,8 %*	*6,4 %*
Gross profit[4]	980	1 003
Gross margin (%)	36,6 %	38,1 %
OPEX % [7]	30,3 %	29,8 %
EBITDA[2]	168	219
EBITDA margin (%)	*6,3 %*	*8,3 %*
Number of stores at period end	27	26
New stores in the period	1	4
Finland		
Operating revenue	1 714	1 494
Growth (%)	*14,7 %*	*28,7 %*
Gross profit[4]	600	532
Gross margin (%)	35,0 %	35,6 %
OPEX % [7]	29,3 %	28,3 %
EBITDA[2]	99	110
EBITDA margin (%)	*5,8 %*	*7,3 %*
Number of stores at period end	15	15
New stores in the period	-	4

(Amounts in NOK million)	FY 2018 Audited	FY 2017 Audited
SEGMENT		
Denmark		
Operating revenue	77	52
Growth (%)	*49,3 %*	*87,8 %*
Gross profit[4]	12	10
Gross margin (%)	16,1 %	19,4 %
OPEX % [7]	28,8 %	36,0 %
EBITDA[2]	-10	-9
EBITDA margin (%)	*-12,8 %*	*-16,6 %*
Austria		
Operating revenue	363	98
Growth (%)	*269,8 %*	
Gross profit[4]	102	31
Gross margin (%)	28,2 %	31,2 %
OPEX % [7]	47,4 %	64,8 %
EBITDA[2]	-70	-33
EBITDA margin (%)	*-19,2 %*	*-33,7 %*
Number of stores at period end	4	2
New stores in the period	2	2
HQ & logistics		
EBITDA[2]	-412	-361
EBITDA margin (% of Group revenues)	*-4,3 %*	*-4,1 %*

CEO comment

XXL is all about people – customers and employees are the foundation of the XXL eco system. Our employees are meeting our customers everyday with passion and enthusiasm as specialists in their field. Retail is changing fast and more than ever before XXL needs to adapt by innovations and inspirations. New technology and data usage serve as great opportunities for more efficient working processes and enhanced customer experience, leading to improved profits over time.

2018 showed a challenging year for XXL leading to reduced profits and negative returns for all our shareholders. We are sorry and disappointed. I will assure you that we are doing our outmost to correct our mistakes and get the operations back on track.

During the recent years XXL has gained a market leading position in E-commerce in the Nordics showing almost 50 per cent annual growth since the year of the IPO in 2014. Although E-commerce is gradually becoming a larger part of the business our store base is still the fundament and serve as a solid profit base. All our like-for-like stores were profitable in 2018 despite a challenging year. We see that we have a solid growth online also when we open up new stores, proving the strength of the XXL omni-channel concept.

XXL is a paradise for sports, with broad assortment of branded goods at the best prices, in the largest stores in the market and online, where our employees serve with high competence as specialists in their field. Combined this makes up the XXL Eldorado, a formula that has been a game changer in Nordic sports retail the last decades. However, retail is changing faster than ever and we see a continued migration of traffic from stores to online. XXL has a unique set-up for this with a highly scalable base of 82 stores with online inventory in prime locations where people live, an E-commerce platform with high volume traffic and scaled for growth, logistics with robotics and automation, stores to be used as pick-up, return and service points, digital instore infrastructure, same business culture everywhere. In this context, omni-channeling, XXL needs to stay in the forefront with innovations and inspirations as the specialist sports retailer offering the best products and services that our customers demands. This obsession has first priority in all we do. We will strengthen our concept further by utilizing technological opportunities to be inspiring, frictionless and up to date.

We will create the best instore experience for our customers by automation, queue free and frictionless experience, immediate collect, return points, value added services, product show room and human interaction. These will serve as important efficiency tools for our employees. We will introduce online assortment available in stores and vice versa. We are soon to launch a new automated self service pick-up concept that will significantly reduce handling costs in store and improve the customer experience related to collect at store services.

XXL will drive like-for-like growth by introducing new E-commerce sales initiatives and a broader assortment, utilizing data collection and segmented and personalized customer communication. We want to use algorithms and machine learning to create more segmented and personalized marketing. We have developed a new CRM model that gives us a single point of view of the customer for all channels. We then use customer behavior data as input to segment the automated digital customer communication. A new cloud based AI and data science platform will automate and improve our product recommendations online driving relevancy and after sales. All landing pages are now personalized based on user behavior and sales transaction history (cookie based). This improves relevance for the customers and also enhances the efficiency for our technical department.

We will fine tune the store roll out plan going forward by focusing on new store openings in larger city areas where we are already present. This will maximize the scale benefits from shared marketing and personnel training. We are also testing out downsizing some stores.

At the same time we will protect the gross margin even though we see that market dynamics and mix effects will work in the opposite direction. We will do so by improving the supply chain with AI and machine learning, risk sharing in the value chain and improved shipment and delivery processes. It is all about being more fact and data driven in the replenishment and buying processes. We have started using

RFiD for outbound deliveries, which has improved flow of goods and tracing of parcels. We will evaluate this as a tool to strengthen our inventory and stock control in the stores. All these digital initiatives are giving benefits for the XXL omni-channel model.

We aim at transforming XXL into an omni-channel champion suited for the future competitive retail environment. Strong growth online and increased transparency will put pressure on both growth in the stores and gross margins. We acknowledge that our low cost position is the key competitive advantage and that the winners over time will have to utilize a significantly lower cost base. The long term ambition is to reduce the OPEX percentage towards 25 per cent. Our starting point is the lowest and most flexible OPEX in the industry – same IT system everywhere, all stores built up the same way, identical organizational set-up everywhere, sharing marketing for stores and online, one HQ with support functions for all channels with further potential for automation and scale in administration and logistics. Strong improvement in working capital over time will facilitate delivering on the dividend policy of distributing 40-50 per cent of annual net income to the shareholders.

We believe there is a positive correlation between being a sustainable company and doing profitable business. In 2018 XXL further strengthened the sustainability work and we will continue to reduce our impact on the environment through profitable initiatives. We have now installed our first three solar electricity plants on the rooftop on three stores, the change to LED-lights in all stores in the Group is finalized and we have commenced a total new energy mapping in all Swedish stores. All these projects serve as good examples of projects that are contributing to good energy- and cost savings over time. We have also improved the XXL framework for product safety and control to stay in front on new legislations in this respect. Further the cooperation with labor and welfare organizations has been strengthened ending up with a record high 142 new recruitments to new fulltime positions in XXL in 2018 through this system. In 2018 our plastic bag project really started to bear fruits. Throughout the year the surplus from the project generated around NOK 2.5 million transferred to the XXL Children's Foundation. On short notice XXL decided to donate 5,000 sleeping bags to the refugees at the Moria camp on Lesvos, Greece. XXL teamed up with Médicins Sans Frontiéres together with Bring to make sure the distribution, quality and security of the project was taken care of in the best possible way. By doing sustainable business we believe XXL could be an even more cost efficient and streamlined company with additional competitive advantages in the industry.

For the year 2018 XXL delivered a growth of 9 per cent to NOK 9.5 billion. E-commerce contributed with a solid growth of 38 per cent offset by negative like-for-like growth in the stores. Overall the year had a positive start with good winter conditions but was negatively impacted by a long and warm summer and autumn season and by poor internal campaign execution in the fourth quarter. The latter also hampered the overall profitability development significantly and the year ended at a net income of NOK 237 million (NOK 512 million in 2017). Despite the significantly lower results than expected the cash flow was on par with last year. However, we are delivering very disappointing results and we are sorry. Let me be the first to say that this is purely in the hands of the management team, we are solely and together responsible for the results and we are doing our outmost to correct our mistakes by actions and adjustments. Some have already started to give good effects. Internally we call it back to basic into the future. Short term it is about resetting the mindset of the organization, focusing on profits and not only sales. We have strengthened routines and authorizations and are back to structure, quality and simplicity. The long term strategy plan stays firm and is well-founded with the Board and in the management team. All members in the management team have their own long term strategic projects to deliver on. They are committed to this plan, which is also shared widely within the organization. XXL stays united as a family and are all focused and highly motivated to delivering on the plan of making XXL an omni-channel champion.

Tolle Grøterud
CEO

Historical milestones

XXL has quickly grown to be a leading distribution channel for sports, outdoors and wilderness in Europe 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, Finland in 2014, Denmark in 2016 and Austria in 2017 with a concept that became a game changer in the sports retail market. 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
2018	Launched online offering for sports teams and a new online sales site www.louds.no

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.

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 maximize customer satisfaction. Technology is the basis for further success in the changing retail landscape leading to many opportunities to embrace. Big data, artificial intelligence and automatization processes will strengthen 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 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 and to constantly innovate and stay ahead of the market development. 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 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, always closer to the customer than a pure online offering. In 2018 XXL rolled out a new omni-channel stock solution in all markets, making all XXL stock available at all channels at all times. During the year the algorithms that control gross margins, products to be sold, price limits and which location to be used has been strengthened. This omni stock solution has improved the sold out situations and broadened the available assortment and is optimizing the value chain over time.

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. In 2018 XXL also introduced a new sales site for women athleisure wear called louds.no as well as sales to sports clubs and teams online. The revenue contribution from E-commerce for the Group in 2018 corresponded to 16.3 per cent. Many initiatives have been introduced during the year to improve the user experience and increase sales. XXL has introduced personalization features and segmentation

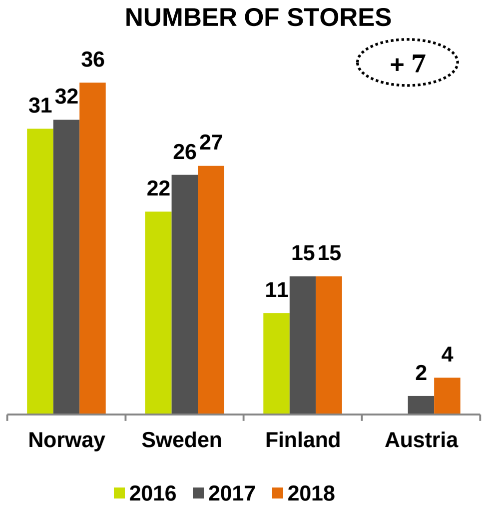
solutions on the landing pages and in the newsletters, fully automated. This improves the relevancy and customer experience and enhances the efficiency for technical development. Further XXL has introduced a new media system and invested in new automated photo studios. The organization has been strengthened during the year with more technical architects and customer service personnel.

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 82 stores at the end of 2018, 36 stores in Norway, 27 stores in Sweden, 15 stores in Finland and 4 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 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 per cent of the operating revenues in 2018 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 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 experience 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 in Austria. 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 Õrebro 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.

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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 coming years. The economy of Norway has shown recent strength with higher oil prices and growth in the global oil and gas industry with spillover to oil related industries. The unemployment rate is expected to stay on low levels. However the recent strength has lead to expectations of increased interest rates going forward. Combined with significantly higher fuel and electricity prices this could impact the overall consumption going forward. The Swedish economy is considered to remain strong with healthy exports and foreign trades. The Swedish Riksbank has signaled its intention to start raising interest rates from the second half 2019. The economy in Finland is improving from years of weakness with industrial production picking up and with a stabilizing picture going forward. The unemployment rate is expected to improve 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 to some extent 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.

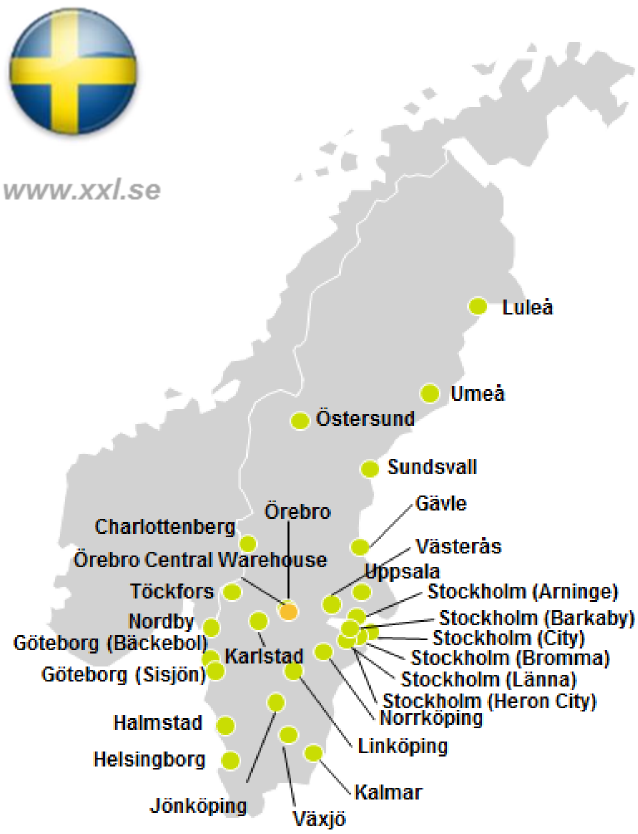
The Norwegian market

XXL opened the first store in Norway in 2001, growing to 36 stores and E-commerce at the end of 2018 and revenues of NOK 4.6 billion for 2018. XXL's market share in 2018 increased to 32 per cent, according to Sportsbransjen AS.

The market increased with above 5 per cent each year from 2014 to 2016, according to Sportsbransjen AS. The growth in 2017 was more modest but returned to a growth of around 3 per cent in 2018.

The Swedish market

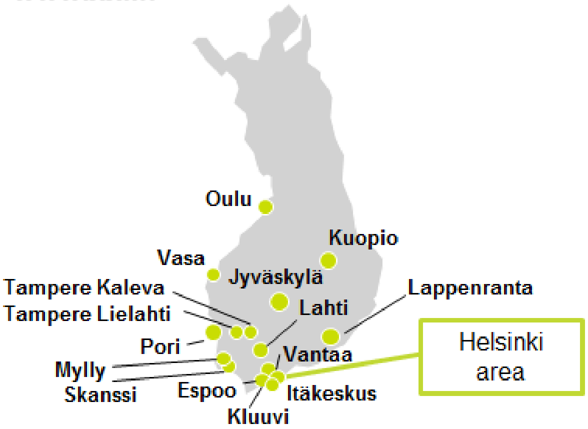
In 2010 XXL started in Sweden and currently has 27 stores and E-commerce, including three outlet stores located at the border between Sweden and Norway. To date we have captured a significant share of the market and our total revenues for 2018 in Sweden amounted to NOK 2.7 billion, a growth rate of 5 per cent in local currency. In 2018 the market growth was 2.2 per cent according to SCB.



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 2018 the market grew by 1.5 per cent. XXL has been the key growth driver in the market and had a growth of 12 per cent in 2018 in local currency.

www.xxl.fi

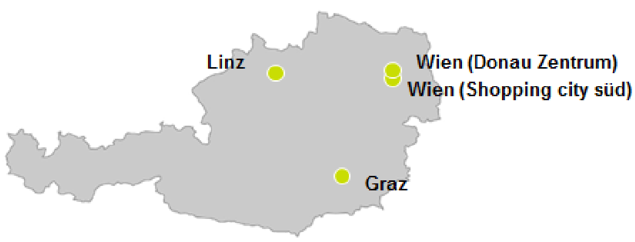


The Danish market
XXL entered the Danish market in late May 2016 by opening of a website offering only and by utilizing the existing infrastructure in the Group. XXL has seen a positive revenue development during the year with good improvements in traffic and conversion rates on the website. The Danish 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 and currently operates 4 stores. 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 good winter seasons. 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 and by having the customer in focus at all times. XXL aim at creating an omni-channel champion and should be perceived as

- The most attractive company for our employees
- The best and most efficient partner for our suppliers
- The most inspiring omni sports retailer for guests at all levels
- Will secure our shareholders a return on their investment
- Our ethical and environmental profile is fundamental for how we act

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
- Fine tuned store roll-out plan in existing markets
- Cost focus throughout the value chain
- Utilizing new technology and data
- Capturing new markets on the back of XXL's existing cost base and logistics

XXL has introduced an ambition of taking down the cost level in the Company towards 25 per cent of sales during a five year period. This will be done through a combination of growth and more efficiency in all cost lines. XXL will introduce several self-service solutions in the stores, increase automation in the supply chain also with the use of AI systems, create scale in the E-commerce operations and HQ functions, utilize CRM, personalization and segmentation to be more efficient in the marketing activities, renegotiate and reduce store space and achieve more flexible rent levels and collect and analyze customer data in all channels.

Expansion opportunities
XXL will at time evaluate the trend of E-commerce compared to opening of new stores and has lifted the bar in respect of revenue targets for new stores. XXL will also focus on opening new stores in the larger cities where we are already present with stores to be able to maximize the scale benefits in marketing sharing and personnel training. With the Group's cost control, uniform store layout and broad product ranges, XXL is in addition 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 2017.

Dividend policy
When proposing a dividend the Board of Directors will take into account legal restrictions, capital requirements and the overall financial position of the company. The Board of

Directors will make an overall assessment in order to secure the Company a healthy capital base both for daily operations and for future growth. The Board of Directors will target a pay-out ratio of 40-50 per cent of annual net income.

XXL will continue to create shareholder value through

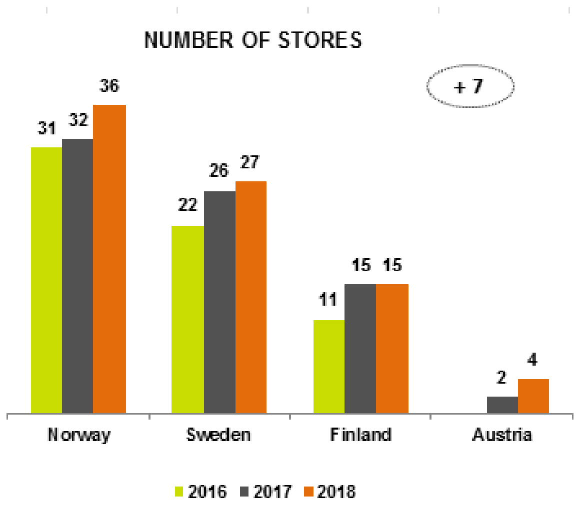
- Capitalizing on further growth
- Improving the efficiency of the operations
- Delivering solid financial results
- Committing to a sustainable business

Board of Directors' Report

XXL has during 2018 continued to strengthen the position as the leading sport retailer in the Nordic region. XXL opened 7 new stores in three different countries, and had strong growth on our E-commerce platform that proved the strength of the Omni-Channel strategy. 2018 however, was also a year characterized by difficult retail conditions, partly explained by increased E-commerce and heavy competition. This negatively influenced XXL, especially in the fourth quarter of 2018, where poor execution and campaign management resulted in a significant drop in gross margins and EBITDA. Relevant routines were improved to ensure that this will not occur again. Total operating revenue was NOK 9 475 million (NOK 8 709 million) equaling 9 per cent growth, and Net Income was NOK 237 million (NOK 512 million).

Growth development

XXL continued with store roll-outs in 2018, opening 7 new stores, ending at 82 in total. The like-for-like growth was negative 0.3 per cent, despite significant growth on E-commerce of 38 per cent. A strong first half of the year, driven by good winter conditions in Q1, was more than offset by negative like-for-like growth in second half of 2018. As a result of strong E-commerce growth, together with the negative growth in our stores, XXL has revised its plans of store openings going forward.

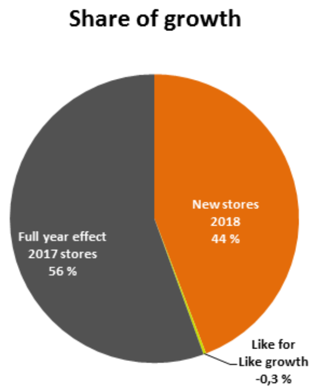


Trends

It is a clear change in retail. E-commerce as a sales channel is growing fast and gaining customers on behalf of physical stores. In 2018 XXL experienced a stronger shift than previously. Retail chains that do not have a good E-commerce platform to support the stores will continue to struggle going forward.

XXL believes that E-commerce will continue to increase its' share of sport retail. It is therefore of most importance for XXL to be in front of this development and invest significantly in the future platform. XXL believes that having the combination of E-commerce and stores is the future winning model and most convenient for the customers. A lot of the sporting goods are most convenient to shop online while some products need to be adjusted or fitted for best performance. Further, stores are much closer to the customers than a warehouse far away, or even in another country. For example, for XXL customers it is easy to swap sizes or even model in the nearest stores of products bought online. During 2018 XXL launched a number of activities to support the omni-channel strategy.

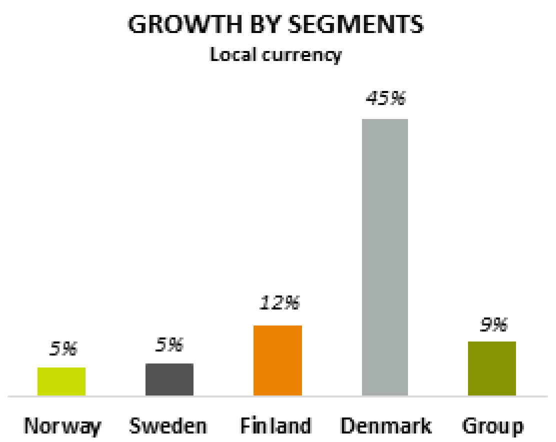
Even with a 38 per cent online growth, new stores equaled 100 per cent of XXL growth in 2018. This does not imply that XXL can open stores uncritical. XXL will be more careful opening new stores in the future as the trend is clear towards E-commerce.



Convenience is maybe the most important trend across all branches. Among sport product categories the most important trend change was the skin-tech skis for the winter season. With these 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. Further, tech recreation and for commuting activities. Further, tech products like sport watches developed good and the outdoor category was strong for the year as well.

Market conditions
The sales conditions were good during the first quarter of 2018, while the second and third quarter were impacted by limited demand and traffic to the stores, partly related to the very warm weather in the whole Nordic region. This affected the whole sporting goods industry, including XXL, resulting in high inventories and high campaign pressures during fourth quarter and consequently lower margins.

XXL delivered good performance in these conditions and gained market shares in all markets. The best known market figures are in Norway, Sweden and Finland. In Norway figures from "Sportsbransjen" (The Norwegian sports association) showed a market growth of 3.4 per cent for 2018 while XXL grew by 4.7 per cent. XXL's Market share grew from 29.5 per cent to 32.5 per cent and XXL strengthened its position as the biggest player in sport in Norway. Sweden figures from SCB (Statistics Sweden) showed a market growth of 2.2 per cent while XXL grew by 5.3 per cent (in local currency). In Finland, figures from TMA (Finnish Fashion and Sports Commerce Association) which represents about 75 per cent of the total market, showed a growth of 1.5 per cent while XXL grew by 11.5 per cent.



The competition between the players in the sport market is hard. Many competitors of XXL are experiencing negative growth which leads to increased price pressure in the market. Pure E-commerce players are not necessary in the market figures and they contribute to strengthen the price competition between all players, both stores and E-commerce. For the store market isolated different outlet concepts are taking market shares, ie Stadium Outlet and Sportshoppen in Sweden and Sport Outlet in Norway. They do also contribute to an increasing pressure on prices for sport equipment. XXL expects that some players will not survive the competition in the long run.

XXL's most important competitive advantage is to have the lowest cost of all competitors. In these market conditions mentioned above, we believe XXL has the best position.

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 2018 XXL had 36 stores in Norway, 27 in Sweden, 15 in Finland and 4 in Austria, as well as a central warehouse at Gardermoen (Norway) and Örebro (Sweden).

The working environment and the employees
The Group has 5 290 employees (incl. full- and part time) at year end 2018 (5 005 in 2017). Leave of absence due to illness totaled at 5.6 per cent of total working hours in the Group in 2018 (5.5 per cent in 2017). No incidences or reporting of work related accidents resulting in significant material damage or personal injury have 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 5 290 employees there are 2 508 female employees, which equals 47.4 per cent.

Sustainability report
As a leader in the retail industry of sporting goods XXL recognizes the moral commitment to help sustain the environment as well as 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.

In 2018 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.

The group increased the amount of recycled waste to 73 per cent in 2018. Out of the combustible waste 19 per cent is mostly wood and pallets, other biodegradable material, and only 8 per cent municipal solid waste. Increased recycling results in both lower cost and lower CO2 emissions. During the year XXL has done several pilot projects on circular models in order to give their products new life in the form of reused products or material recycling. The projects are planned to be improved and brought to a larger scale in 2019. XXL has implemented measures to reduce the use of unnecessary plastic packaging and increase the use of recycled material in both products and packaging. This is also a contribution to reduce the amount of waste and use of virgin raw materials. The shopping bags have been improved to contain 50 per cent recycled materials, and new measures ensure that the proportion of recycled material for future deliveries is up to 80 per cent. The energy mapping project has been completed and all shops has converted to LED technology reducing electricity consumption by 30 per cent compared to old technology lightning. In 2018 the first solar power plants was installed on rooftop of three Finnish stores. The project gives reduced cost in addition to renewable power to operate our facilities. This project will be expanded to a larger scale in the years to come.
The supplier assessment has been further strengthened in 2018. All suppliers are obliged to perform necessary tests and ensure their products meet XXL requirements, the so-called XXL-ER framework that we have developed internally. The internal framework has been expanded with three new documents concerning the strengthened Bisphenol A restriction, upcoming restriction for Phtalates in Electrical and electronic equipment and upcoming requirements for UFI code on chemical product labelling. The groups internal control system that monitors all aspects of our product value chain commenced both pre-purchase risk assessment, 93 in store internal control product audits, 99 pre-shipment inspections of a total of 260 purchasing orders (99 per cent from the groups own brands) and 104 on-site factory audits.

Retail business is changing. XXL needs to increase E-commerce sales but also make it more attractive to visit our stores. Highly competent and service minded employees are vital to customer satisfaction. XXL is growing fast and our goal is to offer same standard of training and build strong corporate culture in all countries. To secure this we have established task force training and appointed head trainers responsible of our programs. All courses have been redesigned and there have been created career paths according to job roles to secure quality training at all stages. Areas of priority are culture, sales, product and leadership training for the entire organization. The training facility called Camp XXL located in the Norwegian forest of Finnskogen has during 2018 been transformed into a modern conference center. The capacity has been increased to accommodate a total of 86 overnight participants. To lower cost and environmental impacts by reducing flights we have also established training facilities in all operating countries. Since 2010 XXL has been running a talent program and more than 50 per cent of those who have passed have been promoted. XXL has a strong partnership with the Norwegian Labor and Welfare Administration (NAV) in Norway and 142 candidates ended up with an employment contract in XXL during the year, making it a significant recourse for hiring new employees.

XXL implemented the new regulations on data protection (GDPR) in 2018. XXL is not aware of any complaints regarding breaches of customer privacy or any losses of customer data. XXL have not received any complaints from public authorities regarding loss of customer data.

The fee from plastic shopping bags gave a total surplus of more than NOK 2.5 million transferred to the XXL Children Foundation in 2018 in addition to reduce the amount of plastic waste generated from the business activities. This year XXL decided on short notice to donate 5000 sleeping bags to the Moria camp on Lesvos, Greece in cooperation with Bring and Doctors without boarders.

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/corporate/corporate-responsibility/

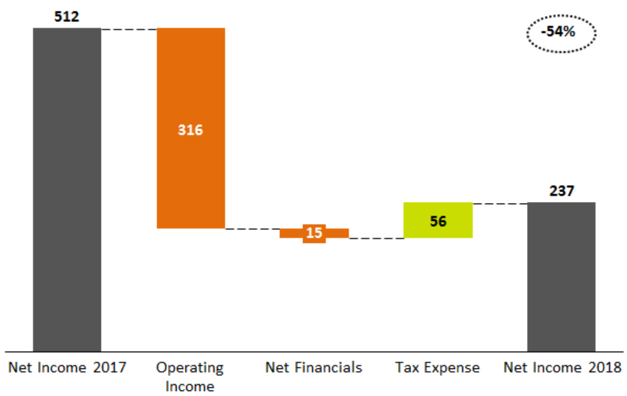
Corporate Governance
XXL's guidelines for Corporate Governance are in accordance with the Norwegian Code of Practice for Corporate Governance, dated 17 October 2018 as required for all listed companies on the Oslo Stock Exchange. Furthermore, the guidelines meet the disclosure requirements of the Norwegian Accounting Act and Securities Trading Act. The guidelines are included separately in this annual report

Consolidated Income statement
Total operating revenue in 2018 was NOK 9 475 million (NOK 8 709 million), a growth of 8.8 per cent. The drivers behind the growth are new stores opened in 2018 and full

year effects from stores that opened in 2017. The like-for-like growth was negative of 0.3 per cent. E-commerce is included in the like-for-like figure and continued to deliver strong growth of 37.6 per cent to NOK 1 548 million (NOK 1 125 million) for the year. The revenue contribution from E-commerce for the Group corresponded to 16.3 per cent in 2018 (12.9 per cent). The revenue growth for the year was overall positively impacted by good winter conditions but negatively impacted by a long and warm summer and autumn season.

Operating margin decreased from NOK 668 million in 2017 to NOK 352 million in 2018. The reduction was mainly explained by a weak Q4 driven by poor execution and campaign management, which resulted in a significant drop in gross margins. Also, continued roll out of stores in Austria affected the operating margin negatively in 2018. The operating margin decreased from 7.7 per cent to 3.7 per cent and is related to both lower gross margin and higher operating expenses. The increase in operating expenses is mainly related to the negative like-for-like growth impacting the scale benefits of the operations, costs of establishing XXL in Austria and increased costs in the HQ and Logistics segment.

The Group had net financial expenses of NOK 57 million in 2018 compared to NOK 42 million in 2017. The increase is mainly related to negative currency effects on intercompany items.



Profit before tax was NOK 295 million (NOK 626 million) and Net income (Profit for the year) was NOK 237million (NOK 512 million). Basic earnings per share were NOK 1.72 (NOK 3.70).

Consolidated Balance Sheet and Cash Flow Statement
Total assets were NOK 7 662 million at the end of 2018 (NOK 7 695 million) which is a decrease of 0.4 per cent from 2017. Inventory per store (incl. E-commerce) was NOK 37.1 million (NOK 39.4 million) which is a decrease of 2.5 per cent. Total trade and other receivables were NOK 354 million (NOK 375 million) which is a decrease of 5.6 per cent. Trade payables were NOK 861 million (NOK 842 million) which is an increase of 2.3 per cent.

Net interest bearing debt was NOK 1 881 million (NOK 1 691 million). Net cash position was NOK 194 million (NOK 314 million). Adding available credit facilities, the liquidity reserve was NOK 695 million (NOK 798 million) at the end of 2018. Net interest bearing debt / EBITDA were 3.48x (2.0x). Due to the poor results XXL has been in positive dialogue with its lending consortium and proactively agreed on new covenants going forward. Dividend distribution and share buy backs will not occur prior to Q4 2019 at the earliest. XXL has clear ambitions of coming back to a dividend distribution and delivering on the dividend policy of at least distributing 40-50 per cent of net income annually to its shareholders.

Group equity was NOK 3 710 (NOK 3 846 million) resulting in an equity ratio of 48.4 per cent (50.0 per cent).

Cash flow provided by operating activities was NOK 460 million (NOK 490 million). The negative deviation relates mainly to lower profit before income tax partly offset by improved working capital.

Cash used for investing activities was NOK 243 million which is down by 61 million compared to 2017. The decrease was mainly related to fewer store openings in 2018 vs 2017.

Cash used by financing activities was NOK 337 million compared to cash provided of NOK 13 million in 2017. The difference is related to purchase of own shares and 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 5 new lease agreements for store openings in 2019 where of 2 in Sweden, 2 in Finland and 1 in Austria and aims for 6-7 new stores in total for 2019.

XXL presented a revised strategy plan in October 2018, and in line with this, XXL will continue to invest in new stores, E-commerce platform, existing stores, infrastructure and IT. Total CAPEX for XXL Group in 2019 is expected to be around NOK 200 million.

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

- Like-for-like growth of low single digits over time including E-commerce
- Competition and E-commerce growth to put pressure on Group gross margin over time
- Group OPEX% as percentage of total operating revenues to gradually trend down towards 25 per cent in a five year period starting from 2019
- Group EBITDA-margin stable around 2017 level as a result of lower gross margin and OPEX% over time. In Norway around 20 per cent, in Sweden and Finland low double digits, in Denmark and Austria high single digits

-New market entries affect both Group gross margin and Group EBITDA-margin in the establishing period of 1-3 years

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 preferences 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 is 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)

Due to the poor results XXL has been in positive dialogue with its lending consortium and agreed that dividend distribution and share buy backs will not occur prior to Q4 2019 at the earliest. The Board therefore proposes that the General Meeting issues an authorization to the Board of Directors to declare an extraordinary dividends if the financial situation allows it. XXL has clear ambitions of coming back to a dividend distribution and delivering on the dividend policy of at least distributing 40-50 per cent of net income annually to its shareholders.

Dividend payout	
Other equity	NOK 237 million
Total allocation	**NOK 237 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 2018 have 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, 23 April 2019
Board of Directors, XXL ASA

Øivind Tidemandsen
Chairman

Anders Misund
Board member

Adele Norman Pran
Board member

Ronny Blomseth
Board member

Anette Mellbye
Board member

Tolle Grøterud
Interim 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 17 October 2018. 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.

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, including the achievement of sustainable profitability for the stakeholders of XXL.

The Board of Directors set clear ambitions for the coming year in the budget process in December each year. Long term objectives, strategies and the risk profile are also evaluated once a year in connection with the work on strategy in October, or as necessary in connection with major events or structural changes during the year.

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 growth with dividend distribution over time. 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.

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 6 June 2018, the Board of Directors was granted authorization to increase the share capital of the Company by a maximum of NOK 2,781,921.20 representing up to 5 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 2019, but no longer than to 30 June 2019.

The Board of Directors has also been granted authorization to repurchase the Company's own shares within a total nominal value of NOK 2,781,921.20 corresponding to up to 5 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 2019, but no longer than 30 June 2019.

The two above mentioned authorizations must be view together so that the total utilization of both authorizations does not exceed 5 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 1,669,152.80 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 2019, but no longer than 30 June 2019.

In total XXL held 3,175,490 own shares at year end 2018, representing 2.28 per cent of the total outstanding shares in the Company.

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 2018. 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. Shares and negotiability

There are no provisions in the Company's Articles of Association that limit the right to own, trade or vote for shares in the Company. 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, members of the Nomination Committee, determines the remuneration of the members of the Board of Directors and the members of the Nomination Committee, 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) – NUES recommends that efforts should be made to make it possible to vote for individual candidates to the Board of Directors and the Nomination Committee. Elections are demanding because of the requirements of the composition of the Board of Directors including combined expertise, independence and gender requirements. The election is therefore organized such that the General Meeting votes on the Nomination Committee's overall recommendation.

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. Board of Directors – composition and independence
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 maximum two years, but a member may be re-elected. Chairman Øivind Tidemandsen has during the year taken up a more active role in XXL and is involved in some of the daily operations as an advisor.

The members of the Board of Directors are encouraged to own shares in the company. Currently four of the members have shares, please see note 3 in the consolidated financial statement for the overview of share ownership and detailed background of the members of the Board of Directors.

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 Adele Norman Pran (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 2018 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, 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 2018.

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 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 four 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 the 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 of which each member are entitled to a bonus of 50 percent of the respective employee's gross base salary. When exceeding the budget on certain levels the members of the Executive Management team are entitled to additional bonus and with a maximum bonus of up to 200 percent of the respective employee's gross base salary. Half of the amount after tax should be used to acquire shares in the Company with a restriction time of three years. The Group does not include bonus payments in the basis for calculation of holiday pay and pension.

In February 2018 the Group introduced a share incentive program for the Executive Management and key employees by granting share options to such persons. 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 Group has a defined contribution plan which covers all of the XXL's employees.

The guidelines to be presented at the Annual General Meeting 5 June 2019 are disclosed in note 3 in the consolidated financial statements. For information on salary and other benefits for 2018 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

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.

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.

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

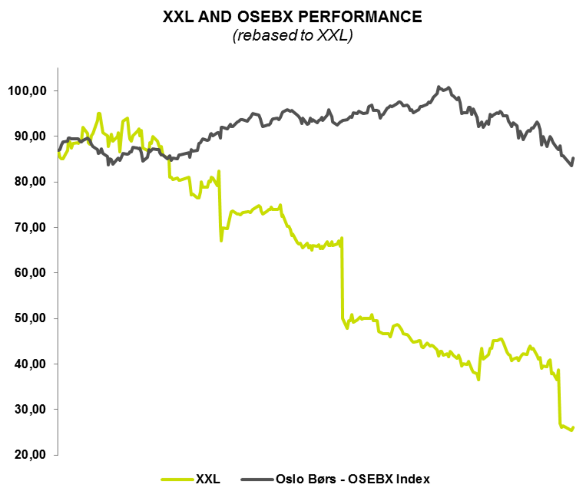
Financial calendar 2019:

- 24 April 2019 – Q1 2019 results
- 5 June 2019 – Annual General Meeting
- 19 July 2019 – Q2 2019 results
- 23 October 2019 – Q3 2019 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 85.00 and closed the year 2018 at NOK 26.10, giving a negative return of 68 per cent. XXL's market value as of year end 2018 was NOK 3.6 billion. The highest closing price was NOK 96.60 and the lowest was NOK 21.65. The average daily volume in 2018 was NOK 34.6 million or 670,215 shares. The Oslo Stock Exchange – OSEBX index – decreased by around 2 per cent in 2018.



Dividend policy

XXL ASA will over time 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

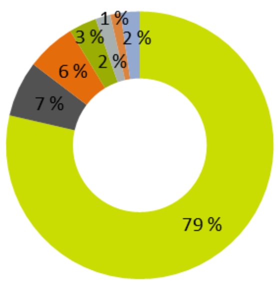
Shareholders

XXL ASA had on 31 December 2018 a total of 139,096,077 outstanding shares owned by 9,992 shareholders. Non-Norwegians amounted to 21.4 per cent of outstanding shares, with shareholders from United Kingdom representing 6.8 per cent and from the United States representing 5.9 per cent respectively of the outstanding shares. The largest shareholder was Dolphin Management AS (controlled by Chairman Øivind Tidemandsen) with 24.5 per cent.

Annual General Meeting 2019

XXL ASA's Annual General Meeting is scheduled for Wednesday 5 June 2019 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 4 June 2019 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 2018

Overview of the major shareholders of the Group as of 31.12.2018:	Total amount of shares	Ownership	Voting right
DOLPHIN MANAGEMENT AS	34 050 000	24,5 %	24,5 %
FERD AS	8 961 889	6,4 %	6,4 %
CITIBANK, N.A	6 750 000	4,9 %	4,9 %
ODIN NORDEN	5 476 413	3,9 %	3,9 %
FOLKETRYGDFONDET	4 238 176	3,0 %	3,0 %
VERDIPAPIRFONDET DNB NORGE (IV)	4 134 057	3,0 %	3,0 %
ARCTIC FUNDS PLC	3 803 772	2,7 %	2,7 %
J.P. MORGAN BANK S.A.	3 800 000	2,7 %	2,7 %
XXL ASA	3 175 490	2,3 %	2,3 %
STAMINA AS	2 834 566	2,0 %	2,0 %
ODIN NORGE	2 816 298	2,0 %	2,0 %
SUNDT AS	2 403 563	1,7 %	1,7 %
DANSKE INVEST NORSKE INSTIT. II.	2 041 919	1,5 %	1,5 %
GENI HOLDING AS	2 020 000	1,5 %	1,5 %
UNITED NATIONS JOINT STAFF PENSION	1 789 040	1,3 %	1,3 %
ROBERT IVERSEN HOLDING AS	1 336 341	1,0 %	1,0 %
VERDIPAPIRFONDET DNB NORGE SELEKTIV	1 279 364	0,9 %	0,9 %
ANDERS FJELD HOLDING AS	1 267 606	0,9 %	0,9 %
DNB NOR MARKETS, AKSJEHANDEL/ANALYSE	1 185 481	0,9 %	0,9 %
DANSKE INVEST NORSKE AKSJER INST.	1 078 550	0,8 %	0,8 %
Other	44 653 552	32,1 %	32,1 %
Sum	**139 096 077**	**100 %**	**100 %**

Consolidated financial statements - Group

Consolidated statement of total comprehensive income

XXL ASA

Amounts in NOK million	Note	2018	2017
Revenues	2	**9 475**	**8 709**
Direct cost of goods sold		5 938	5 265
Personnel expenses	3	1 615	1 416
Depreciation and amortization	4,5	189	159
Other operating expenses	6	1 380	1 201
Operating Income		**352**	**668**
Net financial expenses	18	-57	-42
Net Financial Income (Expense)		**-57**	**-42**
Income before tax		**295**	**626**
Income tax expense	7	58	114
Net income		**237**	**512**
Basic Earnings per share (NOK)	14	**1,72**	**3,70**
Diluted Earnings per share (NOK)	14	**1,72**	**3,65**
Statement of other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		9	4
Total other comprehensive income		**9**	**4**
Total comprehensive income		**246**	**516**

Notes 1 to 22 are an integral part of the Consolidated Financial Statements

Consolidated Statement of Financial Position – Assets

XXL ASA

ASSETS

Amounts in NOK million	Note	31.12.2018	31.12.2017
NONCURRENT ASSETS			
Intangible Assets			
Trademarks	5	198	198
Proprietary software	5	41	43
Software	5	12	12
Deferred tax asset	6	0	6
Goodwill	5	2 734	2 734
Total Intangible Assets		**2 985**	**2 994**
Property, Plant and Equipment			
Construction in progress	4	4	7
Machinery and equipment	4	75	105
Land and buildings	4	24	7
Transport and vehicles	4	1	1
Fixtures and fittings	4	804	737
Total Property, Plant and Equipment		**909**	**857**
Financial Assets			
Other investments	9	9	4
Total Financial Assets		**9**	**4**
Total Non-current Assets		**3 903**	**3 855**
CURRENT ASSETS			
Inventory			
Inventories	8	3 211	3 152
Total Inventory		**3 211**	**3 152**
Trade and Other Receivables			
Trade receivables	12	258	180
Other receivables	12,19	96	195
Total Trade and Other Receivables		**354**	**375**
Cash and Cash Equivalents			
Cash and equivalents	11	194	314
Total Cash and Cash Equivalents		**194**	**314**
Total Current Assets		**3 760**	**3 840**
Total Assets		**7 662**	**7 695**

Notes 1 to 22 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	31.12.2018	31.12.2017
SHAREHOLDERS' EQUITY			
Paid-in Capital			
Share capital	13	56	55
Share premium	13	2 697	2 806
Other paid in equity	13	37	23
Total Paid-in Capital	13	**2 790**	**2 885**
Retained Earnings			
Other equity		920	961
Total Retained Earnings		**920**	**961**
Total Shareholders' Equity		**3 710**	**3 846**
LIABILITIES			
Non-Current Liabilities			
Deferred tax liability	7	41	42
Non-Current interest bearing debt	20	1 081	1 089
Total Non-Current Liabilities		**1 122**	**1 132**
Current Liabilities			
Accounts payable		861	842
Current interest bearing debt	20	994	916
Tax payable	7	53	143
Public duties payable		385	326
Other current liabilities	16	538	491
Total Current Liabilities		**2 831**	**2 717**
Total Liabilities		**3 953**	**3 849**
Total Equity and Liabilities		**7 662**	**7 695**

Notes 1 to 22 are an integral part of the Consolidated Financial Statements

Oslo, 23 April 2019
Board of Directors, XXL ASA

Øivind Tidemandsen
Chairman

Anders Misund
Board member

Adele Norman Pran
Board member

Ronny Blomseth
Board member

Anette Mellbye
Board member

Tolle Grøterud
Interim CEO

Consolidated statement of cash flows

XXL ASA

Amounts in NOK million	Note	2018	2017
Operating Activities			
Income before tax		295	626
Income tax paid		-113	-113
Depreciation	4,5	189	159
Net financial expense		57	42
Changes in inventory		-89	-453
Changes in accounts receivable		21	-88
Changes in accounts payable		32	177
Other changes		68	140
Cash provided (used) by operating activities		**460**	**490**
Investing Activities			
Investment in fixed assets	4,5	-243	-304
Cash provided (used) by investing activities		**-243**	**-304**
Financing Activities			
Purchase of own shares/other equity transactions		-109	-11
Payments/proceeds on long/short term debt	20	86	341
Interest payments		-36	-40
Dividend		-276	-277
Cash provided (used) by financing activities		**-335**	**13**
Net Change in Cash and Cash Equivalents		**-117**	**199**
Cash and cash equivalents - beginning of year	11	314	115
Effect of foreign currency rate changes on cash and equivalents		-2	0
Cash and Cash Equivalents - End of Year		**194**	**314**

Notes 1 to 22 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 31.12.16	**55**	**2 817**	**14**	**718**	**3**	**3 608**
Net income 2017				512		512
Foreign currency rate changes					4	4
Transaction with owners:						
Purchase own shares	0	-11				-11
Employee share incentive programme			9			9
Dividend				-276		-276
Shareholders' Equity 31.12.17	**55**	**2 806**	**23**	**954**	**7**	**3 846**
Effect of IFRS 15 Implementation	-	-	-	-11	-	-11
Shareholders' Equity 01.01.18	**55**	**2 806**	**23**	**943**	**7**	**3 835**
Net income 2018				237		237
Foreign currency rate changes					9	9
Transaction with owners:						
Share options		-11				-11
Purchase of own shares		-150				-150
Issue of new shares	0	51				52
Employee share incentive programme			14			14
Dividend				-276		-276
Shareholders' Equity 31.12.18	**56**	**2 697**	**37**	**904**	**16**	**3 710**

Notes 1 to 22 are an integral part of the Consolidated Financial Statements

The share capital as of 31.12.2018 is 55.6 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 as well as Norwegian disclosure requirements pursuant to the Accounting Act.
The Consolidated Financial Statements have been prepared in accordance with the historical cost convention, modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through other comprehensive income or the income statement.
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 closing rates at the reporting date are recognized in the income statement. Non-monetary items are measured at historical cost translated using the exchange rates at the transaction date, except for non-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
The Group provides sporting goods and related equipment to its customers. Customers are individuals who shop at XXL stores and online.

Revenue is recognized when it transfers promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue excludes sales taxes, rebates, and trade discounts.
Each contract with a customer consist of one or more products, and each product or batch order of the same product constitute one performance obligation, since the customer can benefit from each good or batch on its own or together with other resources already available. The fixed transaction price, which represents the stand-alone selling price of each product, is separately stated for each product or batch of products within the contract.

Revenue from sales of goods is recognized at a point in time, when a Group entity has sold the product to the customer. Control of the good transfers immediately at the point of sale (retail) or delivery (internet sales). Payment within the retail sales channel takes place in the form of cash purchase or by the use of payment cards. Internet customers are invoiced either through debit/credit cards or through a 3. party provider (Klarna). Cash receivables through debit/credit cards or Klarna is included in the line item ‘Cash and equivalent’ in the consolidated balance sheet.

The Group's policy is to provide the customer with a right of return within 100 days. As a consequence, revenue is reduced by the right to return. The right to return goods is estimated based on historical information and is updated on a monthly basis. The liability is recognised in the line item Other short-term liabilities in the consolidated balance sheet.

Customers can also purchase gift cards. At the point of sales of the gift card, a liability is recognised. Revenue is recognised at the point in time when the gift card is redeemed. Management estimates the expected value of gift cards that will expire unused on a monthly basis. Based on the result of the evaluation and on historical information, the amount not expected to be redeemed is also recognized as revenue each month. The gift card liability is part of Other short-term liabilities in the consolidated balance sheet.

Changes in policy 2018
IFRS 15 was implemented from January 1st 2018, and the revenue for the comparative period is measured under IAS 18. Under IFRS 15 the group will make provisions for estimated returns. The effect is included in the equity opening balance as of January 1st 2018. Recognition of performance obligations are described under 'Changes in accounting' principles below and in disclosure note 22.

Interest income is reported on an accrual basis using the effective interest method

Income tax
Tax expense recognized in the income statement comprises the sum of changes in 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 difference between the proceeds and the carrying value of the assets is recognized as gain or loss.

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. See also separate reconciliation to operating leases under IFRS 16 on transition date 01.01.2019 in disclosure note 21.

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. Trade receivables includes supplier bonuses invoiced and credit sales in stores. Accrued supplier bonuses receivables at 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 to source goods for sale are recognized as inventory until the items are 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 tested for impairment annually, either individually or as part of a cash-generating unit.

Intangible assets with indefinite lives are not amortized. Management reviews annually to determine whether the indefinite life assumption can be justified. If not, a change to the predetermined useful life is made.

Brand/Trademark
Trademark allocated as part of the purchase price allocation in 2010 is capitalized and has 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
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has not applied hedge accounting.

Classification and measurement
Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on the Group's business model for managing the assets, and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. 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.

The following are the changes in the classification of the Group's financial assets:

Trade receivables and Cash and cash equivalents:
These instruments were previously classified as Loans and receivables, and are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortised cost.

There are no changes in classification and measurement for the Group's financial liabilities;

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 amortised cost.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit and loss are included within financial income or financial expenses.
For financial instruments not traded on an active market, an appropriate valuation method is used in order to determine the fair value. Such valuation techniques include using

recent arm's length market transactions between knowledgeable, willing parties, if available, and referencing the current fair value of another instrument that is substantially the same, as well as a discounted cash flow analysis or other valuation models.

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

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

Impairment of non-financial assets
Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is 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 measured at the lower of cost and net realizable value. Cost is reduced by any bonuses and cash discounts from suppliers. In the income statement, volume based market support is presented as a reduction of cost of goods sold, while sales support billed suppliers for joint marketing is presented as a reduction in marketing costs under other operating expenses. Any unused cash discounts deemed immaterial are not presented in the income statement 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. The Group reviews the aging distribution and movements in inventory to assess the provision for obsolescence.

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

Stockholder's equity

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

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

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

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

Changes in accounting policies
The following new and amended standards and interpretations have been implemented for the first time in 2018:

IFRS 15 – Revenue from contracts with customers

The Group adopted IFRS 15 from 01.01.2018. All adopted changes and effects for the Group are described in detail in disclosure note 22.

IFRS 9 – Financial Instruments

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, but which is not relevant for the Group. 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 Group does not apply hedge accounting.

The company has implemented IFRS 9 from 01.01.2018. The Company has no significant changes as a consequence of IFRS 9.

No other new or amended IFRS or IFRIC interpretations came into effect for the 2018 financial year that has a significant impact on the consolidated financial statements.

Other standards amendments and interpretations which are effective for the financial year beginning on 1 January 2019 that are material to the group are listed below:

IFRS 16 – Leases

The Group adopted IFRS 16 using the modified retrospective method 01.01.2019. Transition note for IFRS 16 for the Group can be found in disclosure note 21.

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.

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.
HQ & Logistics includes Group HQ costs, such as IT, Finance, Training and Administration. Also included is costs related to wholesalers and central warehouses.

01.01.2018 - 31.12.2018

Amounts in NOK million	Norway	Sweden	Finland	Denmark	Austria	HQ & Logistics	Total
Operating revenue	**4 642**	**2 679**	**1 714**	**77**	**363**		**9 475**
Gross profit[1]	1 841	980	600	12	102		3 536
EBITDA[2]	**765**	**168**	**99**	**-10**	**-70**	**-412**	**541**
Operating Income	**712**	**125**	**75**	**-10**	**-78**	**-472**	**352**

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**

[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	**2018**	**2017**
Wages, salaries	1 272	1 125
Social security costs	227	203
Pension expenses	73	62
Other benefits	44	27
Total	**1 615**	**1 416**
Average number of full time employees	3 220	2 764

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	3 084	772	121	62	**4 039**
Tolle Grøterud	Investor Relations / CEO	NOK	1 580	852	7	32	**2 470**

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 the 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 results before tax exceeding the budget of which each member are entitled to a bonus of 50 percent of the respective employee's gross base salary. When exceeding the budget on certain levels the members of the Executive Management team are entitled to additional bonus and with a maximum bonus of up to 200 percent of the respective employee's gross base salary. Half of the amount after tax should be used to acquire shares in the Company with a restriction time of three years. 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 implemented a share option program for its executive management and other key employees (as defined by the CEO) by granting share options to such persons in 2017 and 2018. There will be no new share option program in 2019.

Options
(Amounts in Thousands)

	2018	Weighted Average Exercise price (NOK)	2017	Weighted Average Exercise price (NOK)
Outstanding at the beginning of the period	**2 128**	**90,3**	**985**	**83,5**
Exercised	584	89,6	0	
Terminated	1 128		0	
Granted	1 057	88,2	1 142	91,2
Outstanding at the end of the period	**1 473**	**89,2**	**2 128**	**90,3**

Options held by Board of Directors and Executive Management:	Title	Outstanding at the beginning of the period	Outstanding at the end of the period
Tolle Grøterud	Chief Executive Officer / Investor Relations	133 853	133 948
Espen Terland	IT and Omni-channel Director	133 853	133 948
Anders Kjellèn	Retail Director	63 467	133 948
Tom Erik Kjønø	Purchasing Director	133 853	133 948
Harald Borgen	Director Wholesale	133 853	133 948
Options held by others		1 528 933	803 688

4. Program of restricted share units

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. Granted options in the period 2016 - 2018, are exercisable after three years, subject to the criteria described above, first time in Q1 2019
The next option grant ("the 2019 Plan") has taken place in February 2019. The participants have received options worth up to an average yearly salary. The strike price was 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.

RSU	2018	2017
Outstanding at the beginning of the period	**281 856**	**167 744**
Exercised	86 310	0
Terminated	29 567	4 087
Granted	75 138	118 199
Outstanding at the end of the period	**241 117**	**281 856**

	2018	2017
RSU & Option program expensed for the year	**15 032**	**10 648**

Board of directors

Name	Title	Nationality	Born	Year elected	Professional background
Øivind Tidemandsen	Chairman of the Board	Norwegian	1961	2014	Øivind Tidemandsen is the founder of XXL. He has also founded or otherwise been instrumental in the build up of other Norwegian retail groups, including the electric home appliance retail group Elkjøp AS and the home furniture groups Living and Home & Cottage. He is a significant shareholder of the electric home appliance retail group POWER International AS and the home furniture group Home & Cottage AS. Øivind Tidemandsen is a Norwegian citizen and resides in Norway.
Ronny Blomseth	Board member	Norwegian	1968	2014	Ronny Blomseth is CEO of POWER International AS. Mr. Blomseth has a degree in economics from the Norwegian Business School BI. Before joining POWER, Mr. Blomseth was CEO of Elkjøp Nordic AS. Ronny Blomseth is a Norwegian citizen and resides in Norway.
Annette Melbye	Board member	Norwegian	1971	2017	Anette Mellbye is currently self-employed. Mellbye has worked in the Schibsted group since 1998. During the recent years she has built and led Aftenposten Mobil. Mellbye has a degree in political science from the University in Oslo and from London School of Economics. Anette Mellbye is a Norwegian citizen, and resides in Norway.
Adele B. Norman Pran	Board member	Norwegian	1970	2018	Adele Bugge Norman Pran is currently working as an independent consultant. She has broad experience from private equity and has worked 12 years as CFO and partner for Herkules Capital. Prior to joining Herkules Capital Pran worked for PWC Deals focusing on large Norwegian and international companies within a wide range of industries. Pran has experience with due diligence work and structuring company transactions. Pran holds a degree in law from the University of Oslo, and a master in accounting and auditing from NHH. She has also studied advanced mathematics at Harvard University and has an International Baccalaureate from United World College, Atlantic College. Adele Bugge Norman Pran is a Norwegian citizen, and resides in Norway.
Anders Misund	Board member	Norwegian	1973	2018	Anders Misund is Head of EQT Partners in Norway. Prior to joining EQT Partners, Misund was at TH Global plc as Executive VP of M&A and Partner in a management buy-out. He has also worked with business development as Executive VP in Kværner ASA and in Corporate Finance at Alfred Berg. Misund was a board member of XXL from 2010 to 2016. Anders Misund graduated with a M. Sc in Business Administration from the Norwegian School of Economics and Business Administration majoring in finance, with exchange studies at the MBA program on the J.L. Graduate School of Management at Northwestern University. He is a Norwegian citizen, and resides in Norway.

Board of directors overview
Amounts in NOK 1000

Name	Title	Number of shares in XXL ASA	Attendance Board meetings	Attendance Audit Committee	Total remuneration
Øivind Tidemandsen	Chairman of the Board	34 050 000	7/7		**400**
Tore Valderhaug	Former board member and Chairman audit committee (resigned in 2018)	0	3/7	2/4	**310**
Ronny Blomseth	Board and audit committee member	231 266	7/7	3/4	**290**
Annette Mellbye	Board member	0	7/7		**250**
Anna Birgitta Attemark	Former board member (resigned in 2018)	1 724	3/7		**250**
Adele B. Norman Pran	Board member and Chairman audit committee (new in 2018)	5 000	4/7	2/4	**0**
Anders Misund	Board member (new in 2018)	13 575	4/7		**0**
Ottar Haugerud	Election Committee	0			**50**
Robert Iversen	Election Committee	1 336 341			**50**
Ingar Solheim	Election Committee	0			**150**

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)	**2018**	**2017**
Statutory audit	2 759	2 092
Tax related services	0	0
Other services	565	59
Total fees	**3 325**	**2 150**

Note 4 Property, Plant and Equipment

	Land and buildings	Transport and vehicles	Machinery and equipment	Fixtures and fittings	Construction in progress	Total
Balance 01.01.17	**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**
Balance 01.01.18	**11**	**3**	**251**	**1 153**	**7**	**1 424**
Additions	18	0	39	157	4	218
Reclassification of fixed assets*	0	0	-23	21	0	-2
Disposals (-) / transfer to oth. cat. of fixed assets (+/-)	0	0	0	-15	-7	-23
Net exchange differences	0	0	-8	-7	0	-14
Balance 31.12.18	**28**	**3**	**259**	**1 309**	**4**	**1 604**
Accumulated depreciation pr. 01.01.18	-3	-2	-146	-416	0	-566
Disposals	0	0	0	13	0	13
Depreciation	-1	0	-42	-117	0	-160
Reclassification of fixed assets*	0	0	0	0	0	0
Net exchange differences	0	0	4	15	0	19
Accumulated depreciation pr. 31.12.18	-4	-2	-184	-505	0	-695
Carrying amount pr. 31.12.18	**24**	**1**	**75**	**804**	**4**	**909**

* 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				2		**2**
Depreciation on capital leases				-8		**-8**
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 01.01.2017	**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**
Balance 01.01.2018	**2 878**	**209**	**99**	**31**	**3 216**
Additions	**0**	**0**	**24**	**2**	**25**
Disposals	**0**	**0**	**0**	**0**	**0**
Balance 31.12.2018	**2 878**	**209**	**123**	**32**	**3 242**
Accumulated amortization pr. 01.01	**-144**	**-11**	**-56**	**-19**	**-230**
Disposals	**0**	**0**	**0**	**0**	**0**
Amortization	**0**	**0**	**-25**	**-2**	**-28**
Accumulated amortization pr. 31.12	**-144**	**-11**	**-82**	**-21**	**-257**
Carrying amount pr. 31.12.2018	**2 734**	**198**	**41**	**12**	**2 985**

[1]not including deferred tax

	Goodwill	Trademarks	Proprietary software	Software	Total
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 is capitalized and has indefinite life. Trademark is not amortized due to XXL's extensive spending on commercials and advertising, keeping the brand awareness 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 2018 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 6.55%, after tax. This is based on a risk free interest rate of 1.83%, 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 2.0%
• 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 2.0%
• Risk-free interest rate is the 10-year government bond yield
• Beta Value is set at 1.1 and is based on figures from comparable international companies listed on the stock exchange,

No impairment of goodwill was necessary in 2017 or 2018.

Cash Generating Units (CGUs)

Shops in Norway	**2018**	**2017**
Goodwill	2 734	2 734
Trademark	195	195
Impairment	0	0

Sensitivity		
Discount rate after tax	6,55 %	5,30 %
Increase in the discount rate before possible impairment of goodwill	2,2 p.p	3,7 p.p
Decrease in gross margin before possible impairment of goodwill	4.0 p.p	5,4 p.p

Note 6 Other operating expenses

Other operating expenses by nature	2018	2017
Leasing and other cost of premises	663	572
Marketing expenses	528	467
Other operating expenses (incl. IT licenses, maintenance, legal fees and other)	188	162
Sum	**1 380**	**1 201**

Note 7 Tax

Income tax expense for the year

Tax expense for the year	2018	2017
Tax payable in Norway	40	102
Tax payable in Finland	1	5
Tax payable in Switzerland	8	18
Tax payable in Denmark	1	0
Tax payable in Sweden	0	7
Tax payable in Austria	1	0
Change in deferred tax	4	-15
Exchange rate effect/other	3	-3
Total income tax expense	**58**	**114**
Effective tax rate	***20 %***	***18 %***

Current tax payable		
Tax payable in Norway	40	100
Tax payable in Finland	1	2
Tax payable in Switzerland	10	31
Tax payable in Denmark	1	0
Tax payable in Sweden	0	10
Tax payable in Austria	1	0
Total tax payable in the balance sheet	**53**	**143**

Explanation of difference between Norwegian statutory tax rate of 23% and the effective tax rate

Income before tax	**295**	**626**
23 % tax of income before tax	68	150
Permanent differences (23%)	-1	2
Accrual for settlement of tax dispute	0	0
Effect of change of tax rate	-2	-8
Differences in tax rates amongst the Group and other	-7	-30
Income tax expense	**58**	**114**

Specification of temporary differences

Asset (-)/liability	2018	2017	Change
Fixed and intangible assets	113	116	3
Accounts receivable	-4	-6	2
Inventories	-113	-139	26
Accrued expenses	-38	-27	-11
Trademark	190	190	0
Fixed assets Sweden	149	155	-6
Amortization of loan expenses	5	4	1
Financial derivatives	0	1	0
Interest limitation rules	0	0	0
Total temporary differences	**303**	**293**	**-10**
Loss carryforward	0	-23	23
Basis for deferred tax	303	270	33
Deferred tax liability in the balance sheet	**41**	**42**	**-2**
Deferred tax asset in the balance sheet	**0**	**-6**	**6**

Deferred tax assets (-) / liabilities are presented net for the Norwegian entities.
Tax rate in Norway is 23% for 2018 and will be 22% from 1 January 2019. Deferred tax in Norway has therefore been calculated with 22%.
Tax rate in Sweden is 22% for 2018, tax rate in Finland is 20% in 2018, tax rate in Switzerland is 8.6% in 2018.

Note 8 Inventories

	2018	2017
Goods purchased for resale	3 237	3 156
Goods in transit	11	16
Reserve for inventory obsolescence	-37	-21
Total inventories	**3 211**	**3 152**

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.
XXL holds through Johanna AS a 33.3% ownership in Kygo Life AS. The bookvalue of the investment is 9 MNOK.

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 24.7% 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:

	2018	2017
Bank deposits (restricted)*	0	0
Deposits	5	23
Cash	39	35
Bank accounts (unrestricted)	150	255
Total cash and cash equivalents	**194**	**314**
Unused overdraft	200	200
Unused credit facility	300	300

The Group has 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 2018 (2017: NOK 500 million).
*Restricted cash comprises of employee tax withheld. In addition employee tax withheld is covered by a bank guarantee, up to NOK 40 million.

Note 12 Trade and other receivables

	2018	2017
Trade receivables, gross	271	190
Allowance for credit losses	-13	-10
Trade receivables 31.12	**258**	**180**

Changes in allowance for credit losses

	2018	2017
Beginning balance	**-10**	**-1**
Amounts written off (uncollectible)	5	0
Recovery of written off items	0	0
Change in the allowance	-8	-9
Allowance for credit loss expense	**-4**	**-9**
FX effect reserve balance sheet/profit or loss	0	0
Ending balance 31.12	**-13**	**-10**

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

Year	Total	Not yet due	>30 days	>60 days	>90 days
2018	271	242	20	5	4
2017	190	177	7	1	4

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

	2018	2017
Accrued supplier bonus	40	145
Prepaid expenses	9	15
Other receivables	47	35
Other receivables 31.12	**96**	**195**

Note 13 Share capital and shareholder information

The share capital of XXL is NOK 55,638,430.80 consisting of 139,096,077 shares with a par value of NOK 0.40 each.

Overview of the major shareholders of the Group as of 31.12.2018:	**Total amount of shares**	**Ownership**	**Voting right**
DOLPHIN MANAGEMENT AS	34 050 000	24,5 %	24,5 %
FERD AS	8 961 889	6,4 %	6,4 %
CITIBANK, N.A	6 750 000	4,9 %	4,9 %
ODIN NORDEN	5 476 413	3,9 %	3,9 %
FOLKETRYGDFONDET	4 238 176	3,0 %	3,0 %
VERDIPAPIRFONDET DNB NORGE (IV)	4 134 057	3,0 %	3,0 %
ARCTIC FUNDS PLC	3 803 772	2,7 %	2,7 %
J.P. MORGAN BANK S.A.	3 800 000	2,7 %	2,7 %
XXL ASA	3 175 490	2,3 %	2,3 %
STAMINA AS	2 834 566	2,0 %	2,0 %
ODIN NORGE	2 816 298	2,0 %	2,0 %
SUNDT AS	2 403 563	1,7 %	1,7 %
DANSKE INVEST NORSKE INSTIT. II.	2 041 919	1,5 %	1,5 %
GENI HOLDING AS	2 020 000	1,5 %	1,5 %
UNITED NATIONS JOINT STAFF PENSION	1 789 040	1,3 %	1,3 %
ROBERT IVERSEN HOLDING AS	1 336 341	1,0 %	1,0 %
VERDIPAPIRFONDET DNB NORGE SELEKTIV	1 279 364	0,9 %	0,9 %
ANDERS FJELD HOLDING AS	1 267 606	0,9 %	0,9 %
DNB NOR MARKETS, AKSJEHANDEL/ANALYSE	1 185 481	0,9 %	0,9 %
DANSKE INVEST NORSKE AKSJER INST.	1 078 550	0,8 %	0,8 %
Other	44 653 552	32,1 %	32,1 %
Sum	**139 096 077**	**100 %**	**100 %**

All shares have been fully paid.

Note 14 Earnings per share

	2018	**2017**
Net income	**237**	512
Weighted average number of ordinary shares in issue	**137 969 167**	**138 327 726**
Number of shares outstanding	139 096 077	138 512 123
Total number of outstanding shares incl. share options	140 569 505	140 426 935
Adjustment for:		
Effect share options	241 117	1 965 058
Weighted number of ordinary shares in issue for diluted earnings per share	**138 210 284**	**140 292 784**
Basic Earnings per share (in NOK)	**1,72**	**3,70**
Diluted Earnings per share (in NOK)	**1,72**	**3,65**

Reconciliation weighted average number of ordinary shares

	2018	2017
Number of shares opening	**138 299 123**	**138 415 123**
Share issue	583 954	0
Share purchases	2 857 490	116 000
Transfer of shares RSU	105 000	0
Number of shares closing	135 920 587	138 299 123
Weighted average	137 969 167	138 327 726
Effect share option	241 117	1 965 058
Basic Earnings per share (in NOK)	**1,72**	**3,70**
Diluted Earnings per share (in NOK)	**1,72**	**3,65**

See note 3 for future option programs.

Note 15 Security and guarantees

XXL ASA has a total loan engagement of NOK 2 386 millions with DNB and Nordea as of December 2018, consisting of a Term Loan of NOK 1 086 million and a Revolving Credit Facility of NOK 1 300 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

	2018	2017
Credit notes / gift cards customers	139	133
Accrued salary and bonus	56	52
Accrued holiday pay	138	127
Accrued investment contributions from landlords	87	87
Other short term accruals	118	92
Total other current liabilities	**538**	**491**

Note 17 Leases

Operating leases
The Group has office and warehouse buildings under operating leases in Norway, Sweden, Finland, Austria 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 takes into account all known factors at the time of the measurement. Total commitments are not discounted.

Commitments Amounts in MNOK
Amounts in MNOK

Shops/offices/central warehouse/trucks/company cars	**2018**	**2017**
Under 1 year	582	474
1 to 5 years	2 013	1 930
After 5 years	1 273	1 536
Total commitments relating to operating leases	**3 868**	**3 941**

Share of committments in excess of minimum lease are 57 million as of 31.12.2018.
IFRS 16 was implemented from January 1st 2019. The present value of the lease liability is recorded as a liability, using the simplified transition approach, with a corresponding right of use asset value in the opening balance for 2019. The transition effects and implementation method is further described in disclosure note 21.

Net lease payments are recognized in profit or loss	456	406
Contingent Rental cost	6	3
Excl. joint costs, etc.		
Other operating lease expenses (company cars/trucks, etc.)	10	9

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:	**2018**	**2017**
Furnishing stores	8	8
Machinery and equipment central warehouse	49	49
Total cost	**56**	**56**
Accumulated depreciation furnishings	-10	-10
Accumulated depreciation machinery and equipment	-30	-23
FX effect assets under capital lease	2	-6
Net carrying amount	**19**	**18**

Summary of gross future minimum lease payments:	**2018**	**2017**
Under 1 year	1	16
1 to 5 years	0	2
After 5 years	0	0
Total gross future minimum lease payments	**1**	**18**

Summary of net future minimum lease payments:	**2018**	**2017**
Under 1 year	1	16
1 to 5 years	0	2
After 5 years	0	0
Total net future minimum lease payments	**1**	**18**

Of which:		
- short-term debt	1	16
- long-term debt	0	2

Note 18 Other financial income and other financial expenses

	2018	2017
Other financial income	1	2
Net realized / unrealized foreign exchange gains	0	11
Total financial income	**1**	**12**

Interest expenses bank loans	36	34
Other interest expenses	7	8
Other financial expenses	15	13
Net realized / unrealized foreign exchange losses	1	0
Total financial expenses	**58**	**54**
Net financial expenses	**-57**	**-42**

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)
2018	+50	-10 020	-7 875
	-50	10 020	7 875
2017	+50	-9 048	-6 876
	-50	9 048	6 876

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

	2018	2017
Overdraft	1,04 %	1,86 %
Bank syndicate	2,33 %	2,30 %
Capital leases	1,80 %	1,80 %

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:

Foreign currency sensitivity	Changes in currency	2018 Effect on profit before tax (NOK 1 000)	2018 Effect on equity (NOK 1 000)	2017 Effect on profit before tax (NOK 1 000)	2017 Effect on equity (NOK 1 000)
EUR	+10%	9 100	7 007	25 000	19 000
	-10%	-9 100	-7 007	-25 000	-19 000
USD	+10%	-59 966	-46 173	-74 000	-56 240
	-10%	59 966	46 173	74 000	56 240

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 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 2018.

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

The following categories of financial instruments are measured at fair value as of 31 December 2017.

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	2018	2017
Loans and receivables		
Trade receivables	258	180
Other receivables	40	145
Cash and cash equivalents	194	314
Total current financial assets	**493**	**639**
At fair value through profit or loss		
FX derivatives	0	1
Total financial assets (+) / liabilities (-) at fair value through profit or loss	**0**	**1**
Other Liabilities at amortised cost		
Bank loan	1 086	1 094
Capital lease	0	18
Other non-current debt	0	0
Accounts payable and other short-term debt	769	1 740
Total other financial liabilities	**1 855**	**1 809**

Capital management policy and equity

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

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

Equity includes all capital and reserves, paid and earned.

	2018	2017
Interest bearing debt	2 075	2 005
Cash	-194	-314
Net debt	**1 881**	**1 692**
Equity	3 710	3 846
Total equity and net debt	**5 590**	**5 537**

Note 20 Interest bearing debt

Long term liabilities due > 1 year	2018	2017
Bank loan	1 086	1 094
- Amortisation of transaction costs of bank loan	-6	-6
Capital lease	1	2
Other non-current debt	0	0
Sum long term	**1 081**	**1 089**

Short term liabilities due < 1 year	2018	2017
Capital lease	0	16
Credit Facility	994	900
Sum short term	**994**	**916**
Total interest bearing debt	**2 075**	**2 005**

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 2.4 billion as of 31 December 2018. 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 2018 the margin is 1.40% 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 2018: Leverage ratio and Interest cover. As of 31 December 2018 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:

31.12.2018 — **Remaining period**

Financial liabilities	Under 1 year	1-2 years	2-3 years	3-4 years	More than 5	Total
Bank loan	994	0	1 086			2 080
- Amortisation of transaction costs of bank loan			-6			-6
Interest	50	26	26			102
Capital lease		1				1
Total	**1 044**	**27**	**1 106**	**0**	**0**	**2 177**

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
Interest	48	26				74
Capital lease	16	2				18
Total	**960**	**1 120**	**0**	**0**	**0**	**2 079**

Reconciliation of interest bearing debt	2018	2017
Total Opening Balance	**2 005**	**1 614**
Proceeds from new short-term debts	100	350
Payment on capital lease	-17	-9
Amortisation of transaction cost of bank loan	0	4
FX effects on bank loans	-13	47
Total Closing Balance	**2 075**	**2 005**

Note 21 Transition note IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term ("right-of-use asset"). The standard includes a number of optional practical expedients related to recognition and initial application. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from previous accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Effective 1 January 2019 the Group adopted IFRS 16 using the modified retrospective approach and accordingly comparative information has not been restated.

A summary of the changes and practical expedients applied is presented below:

Determining whether a contract is or contains a lease
On the transition to IFRS 16, the Group elected to not reassess whether a contract is, or contains a lease, as a practical expedient. The Group applied IFRS 16 only to contracts that were previously identified as leases. The Group's contracts that were not previously identified as leases were not reassessed for whether they contain a lease.

Specific software provider
For the IFRS 16 project, the Group has used a specific software provider for registering contracts and measuring implementation effects. The software will be used also for measurement subsequent to initial recognition.

The Group as a lessee
The Group previously classified leases as a finance lease if it transferred substantially all the risks and rewards incidental to ownership to the Group.

Leases previously classified as operating leases under IAS 17
At the date of initial application of IFRS 16, the Group recognised a lease liability for leases previously classified as operating leases after IAS 17 in accordance with the transition requirements. The Group measured the lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 1 January 2019.

The Group also recognised right-of-use assets on a lease-by-lease basis measured at either:
- Its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using it's incremental borrowing rate at the 1 January 2019, or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group has applied the following practical expedients to leases previously classified as operating leases at the date on initial application:

- Exemption for short-term leases (defined as 12 months or less)
- Exemption for low value assets. The Group has applied the threshold level of NOK equivalent of 5 000 USD.
- Excluded any initial direct costs from the measurement of the right-of-use asset
- Applied hindsight when determining the lease term for contracts containing options. Contracts with extension options that expire within the strategy period of the Group have been assessed qualitatively whether the option will be exercised or not.
- Variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs. This includes variable rent above minimum rent.

Discount rate
In setting the discount rate, the incremental borrowing rate for the Group as a lessee is derived using the following model;

- Relevant borrowing rate (relevant Interbank Offering Rate + applicable Margin). Multicurrency loan.

  Adjusted for;
  - Lease term (the Group has adjusted for contractual differences in length)
  - Security (adjusting relevant borrowing rate for ratio of secured/unsecured debt)
  - Economic environment (adjustment if loan is in different currency than the lease liability)

With this approach the Group has obtained a matrix of borrowing rates that can be matched with matrix of lease liabilities based on geography (currency) and length.

Leases previously classified as finance leases under IAS 17
For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 was determined to be the carrying amount of the lease asset and lease liability at the date if initial application of IFRS 16.

IFRS 16 impact on the consolidated financial statements

On transition to IFRS 16, the Group recognised MNOK 3 195 in right-of-use assets and MNOK 3 195 million as lease liabilities. There was no impact for the Group to the opening balance of retained earnings at transition.

The impact on the date of initial application is further presented below.

Reconciliation of lease commitments to lease liabilities	**01.01.2019**
Finance lease liabilities at 31 December 2018	1
+/- Short-term lease exemptions	-1
Non-cancellable operating lease commitments at 31 December 2018	3 868
- Lease commitments in excess of minimum lease	57
+ Property tax and insurance considered as part of lease-component under IFRS 16	108
+ Extension options reasonably certain to be exercised	0
- Termination options reasonably certain to be exercised	0
- Practical expedient related to short-term leases	0
- Practical expedient related to low-value leases	0
- Discounting using the incremental borrowing rate	724
Lease liabilities recognised at initial application	**3 195**
The weighted average incremental borrowing rate applied:	2,87 %
Right-of-use assets recognised at initial application	**3 195**

Note 22 Transition note IFRS 15 – Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has identified the following performance obligations affected by IFRS 15 implementation in 2018:

Returns from customers

The Group has an extensive return policy for the customers. The Group estimates that a share of goods sold are returned within the return policy period. The effect of estimated returns is booked as a reduction of revenue and related cost of goods sold, and the obligation towards the customers are classified as current liabilities in the balance sheet.

Price guarantee

The Group has a price guarantee towards the customers. The guarantee gives the customers right to obtain cash back if the same product is sold at a lower price at any of the Groups competitors. The Group estimates that a share of the revenue is subject for price guarantee. The effect of estimated price guarantee is booked as a reduction of revenue and the obligation towards the customers are classified as current liabilities in the balance sheet. The performance obligation related to price guarantee starts upon delivery and expires 30 days after the sale of goods.

Bike services

The Group has a three year free bike service policy included in the selling price for bikes. The Group estimates separately the price of free bike service and the effect is booked as a reduction of revenue and the obligation towards the customers are classified as current liabilities in the balance sheet. The performance obligation for free bike service starts upon delivery and is recognized yearly over the service period.

The Group adopted IFRS 15 using the modified retrospective method. The effects of adopting IFRS 15 are presented below:

Implementation effects IFRS 15		Effect on income statement 2018	Opening Balance 2018*
Price guarantee**	Revenue	-2	-2
Return of goods**	Revenue	0	-13
Return of goods**	Cost of goods sold	0	8
Bike guarantee**	Revenue	1	-4
Total		**-1**	**-11**
Total performance obligations classified as current liabilities		**12**	**11**

*The implemtentation effect of NOK 11 million are booked against Equity 01.01.2018
**All customer guarantees are classified as contract liabilities in accordance with IFRS 15

Financial statements – XXL ASA

Statement of income

XXL ASA

Figures are stated in NOK million	Note	2018	2017
Personnel expenses	2	2	2
Other operating expenses		16	8
Total Operating Expenses		**19**	**10**
Operating Income		**-19**	**-10**
Interest income	6	0	1
Other financial income	5	126	349
Interest income group companies		4	0
Total Financial Income		**130**	**350**
Interest expense		24	22
Interest expense to group companies	6	5	3
Other financial expense		6	5
Total Financial Expense		**35**	**31**
Net Financial Income (Expense)		**95**	**319**
Income Before Income Taxes		**76**	**310**
Tax expense	3	18	74
Net Income		**59**	**235**
Allocation of Net Income			
Other paid-in equity		59	235
Total allocated		**59**	**235**

Balance sheet – Assets

XXL ASA

ASSETS

Figures are stated in NOK million	Note	31.12.2018	31.12.2017
NONCURRENT ASSETS			
Intangible assets			
Deferred tax asset	3	0	0
Total intangible assets		**0**	**0**
Financial Assets			
Investment in subsidiaries	4	3 199	3 185
Loan to group company	5	0	0
Total Financial Assets		**3 199**	**3 185**
Total Noncurrent Assets		**3 199**	**3 185**
CURRENT ASSETS			
Other receivables	5	693	945
Total Other Receivables		**693**	**945**
Cash and Cash Equivalents			
Cash and equivalents	7	0	0
Total Cash and Cash Equivalents		**0**	**0**
Total Current Assets		**693**	**945**
Total Assets		**3 892**	**4 130**

Balance sheet – Equity and Liabilities

XXL ASA

EQUITY AND LIABILITIES

Figures are stated in NOK million	Note	31.12.2018	31.12.2017
SHAREHOLDERS' EQUITY			
Paid-in Capital			
Share capital	8,10	56	55
Share premium	8,10	2 697	2 806
Total Paid-in Capital		**2 753**	**2 862**
Retained Earnings			
Other equity	10	-17	187
Total Retained Earnings		**-17**	**187**
Total Shareholders' Equity		**2 735**	**3 048**
LIABILITIES			
Non-Current Liabilities			
Deferred tax liabilities	3	1	1
Interest bearing debt	9	295	294
Total Non-Current Liabilities		**296**	**295**
Short-term Debt			
Accounts payable		4	2
Current debt		800	700
Tax payable	3	17	75
Public duties payable		-1	-1
Other short-term debt	5	41	11
Total Short-term Debt		**860**	**787**
Total Liabilities		**1 157**	**1 082**
Total Equity and Liabilities		**3 892**	**4 130**

Oslo, 23 April 2019
Board of Directors, XXL ASA

Øivind Tidemandsen
Chairman

Anders Misund
Board member

Adele Norman Pran
Board member

Ronny Blomseth
Board member

Anette Mellbye
Board member

Tolle Grøterud
Interim CEO

Statement of Cash Flow

XXL ASA

Figures are stated in NOK million	2018	2017
Operating Activities		
Income before income taxes	76	310
Tax payable	-75	-98
Changes in accounts payable	2	1
Changes in other assets and liabilities	282	-125
Cash provided (used) by operating activities	**286**	**88**
Financing Activities		
Purchase own shares	-109	-11
Proceeds from new short-term debt	100	200
Dividend	-276	-276
Cash provided (used) by financing activities	**-286**	**-88**
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 per cent 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 2018.
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	Former board member (resigned in 2018)	310	**310**
Ronny Blomseth	Board member	290	**290**
Annette Melbye	Board member	250	**250**
Adele B. Norman Pran	Board member (new in 2018)	0	**0**
Anders Misund	Board member (new in 2018)	0	**0**
Anna Birgitta Attemark	Former board member (resigned in 2018)	250	**250**
Ottar Haugerud	Election Commitee	50	**50**
Robert Iversen	Election Commitee	50	**50**
Ingar Solheim	Election Commitee	150	**150**

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

	2018	**2017**
Statutory audit	560	435
Other services	328	0
Total fees	**888**	**435**

Note 3 Tax

Income tax expense for the year

Basis for tax payable	**2018**	**2017**
Income before tax	76	310
Permanent differences	0	0
Change in temporary differences	-1	3
Interest limitation rules	0	0
Basis for tax payable	**75**	**312**
Tax payable in the statement of income	**17**	**75**
Taxable income	**75**	**312**
Tax payable in the balance sheet	**17**	**75**
Tax expense for the year		
Tax payable	17	75
Change in deferred tax	1	-1
Total tax expense	**18**	**74**
Explanation for why tax is not 23% of income before tax		
23 % tax of income before tax	18	74
Permanent differences (23%)	0	1
Changes in deferred tax du to changes in tax rate	0	0
Expected tax expense	**18**	**75**
Effective tax rate	23 %	24 %

Specification of temporary differences

Asset (-)/liability	***Change***	**2018**	**2017**
Amortization of loan expenses	*-1*	5	4
Total temporary differences		**5**	**4**
Basis for deferred tax assets/liability		5	4
Deferred tax assets (+) / liability (-) in the balance sheet		**-1**	**-1**
Reconciliation change in deferred tax			
Change in deferred tax in balance sheet		0	-1
Change in deferred tax in tax expense		0	-1

Tax rate in Norway is 23% for 2018 and will be 22% from 1 January 2019. Deferred tax in Norway has therefore been calculated with 22%.

Note 4 Investment in subsidiaries

The Company has an ownership interest in the following subsidiary:

	Year of acquisition	**Business location**	**Ownership percentage**	**Equity (100%) 31.12.2018**	**Net income (100%) 31.12.2018**	**Book value 31.12.2018**
XXL Sport og Villmark AS	2015*	Oslo	100 %	438	38	3 199

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	2018	2017
Other short term debt	26	0
Cash pool arrangement	0	0
Accounts payables	4	0
Total liabilities	**30**	**0**

Receivables	2018	2017
Other short-term receivables from group companies	0	0
Cash pool arrangement	567	595
Group contribution	126	350
Total receivables	**693**	**945**

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	2018	2017
XXL Sport og Villmark AS	4	0
Total interest income	**4**	**0**

Interest expense	2018	2017
Cash pool interest expense	5	3
Total interest expense	**5**	**3**

Note 7 Cash and cash equivalents

Cash and cash equivalents include the following items:

	2018	2017
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 55,638,430.80 consisting of 139,096,077 shares with a par value of NOK 0.40 each.

Overview of the major shareholders of the Group as of 31.12.2018:

DOLPHIN MANAGEMENT AS	34 050 000	24,5 %
FERD AS	8 961 889	6,4 %
CITIBANK, N.A	6 750 000	4,9 %
ODIN NORDEN	5 476 413	3,9 %
FOLKETRYGDFONDET	4 238 176	3,0 %
VERDIPAPIRFONDET DNB NORGE (IV)	4 134 057	3,0 %
ARCTIC FUNDS PLC	3 803 772	2,7 %
J.P. MORGAN BANK S.A.	3 800 000	2,7 %
XXL ASA	3 175 490	2,3 %
STAMINA AS	2 834 566	2,0 %
ODIN NORGE	2 816 298	2,0 %
SUNDT AS	2 403 563	1,7 %
DANSKE INVEST NORSKE INSTIT. II.	2 041 919	1,5 %
GENI HOLDING AS	2 020 000	1,5 %
UNITED NATIONS JOINT STAFF PENSION	1 789 040	1,3 %
ROBERT IVERSEN HOLDING AS	1 336 341	1,0 %
VERDIPAPIRFONDET DNB NORGE SELEKTIV	1 279 364	0,9 %
ANDERS FJELD HOLDING AS	1 267 606	0,9 %
DNB NOR MARKETS, AKSJEHANDEL/ANALYSE	1 185 481	0,9 %
DANSKE INVEST NORSKE AKSJER INST.	1 078 550	0,8 %
Other	44 653 552	32,1 %
Sum	**139 096 077**	**100 %**

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

	Title	Amount of shares
Tolle O. R. Grøterud	Chief Executive Officer / Investor Relations	48 137
Øivind Tidemandsen (Dolphin Management AS)	Chairman of the Board	34 050 000
Adele Bugge Norman Pran	Board member	5 000
Ronny Blomseth	Board member	231 266
Anders Misund	Board member	13 575
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	-4 858
Sum	**295 418**

Note 10 Shareholder's equity

Changes in shareholder's equity	Share capital	Share premium	Retained earnings	Total equity
Shareholder's equity 01.01.18	**55**	**2 806**	**187**	**3 048**
Net income for the year			59	59
Dividend			-276	-276
Share options		-11	14	3
Share issue	0	51		52
Purchase own shares		-150		-150
Shareholder's equity 31.12.18	**56**	**2 697**	**-17**	**2 735**

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

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 2018, and the statement of income, statement of cash flows 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 2018 and consolidated statement of total comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows 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 2018, 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 2018, 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 2018 financial statements. In this light, our areas of focus have been the same in 2018 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 2018. 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 45 "Significant management judgement in applying accounting policies" and page 51 "Note 5 Intangible assets" where management explains how they account for goodwill and their impairment test.	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 also tested the mathematical accuracy of the impairment model. We challenged management's assumptions on future revenues, 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 in note 5 and found them appropriate. Based on our audit procedures we found management's assumptions to be reasonable.
Inventories	
Inventory amounts to NOK 3 211 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 45 "Significant management judgement in applying accounting policies" and page 53 "Note 8 Inventories" where	We reviewed management's policy for assessing the valuation of inventory. We verified management's assertions through a combination of audit procedures including reviewing documents that support management's assessment, challenging management's assumptions, observed the inventory and performed analysis. We have been present at several stocktakings, 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 ageing inventory. Our procedures included reviewing that management applies valuation policies consistently year on year. To challenge management's assessment, we obtained an overview of the ageing profile of the inventory, including the historical loss rate in various inventory groups. We also considered the historical accuracy of provisioning. Finally, we considered the adequacy of the financial statements disclosures.

management explains how they account for inventories.	We assessed the information in note 8 and found it appropriate. The results of our testing were satisfactory.
Supplier bonuses	
The Group recognised a reduction in cost of sales as a result of expected supplier rebates. Management used judgement to estimate total sales and supplier bonuses per supplier based on the underlying agreements. The estimate required detailed understanding of the contractual arrangements and accurate understanding of source data to ensure a complete and accurate calculation. We focused on this because of the significance management judgement have in arriving on estimated supplier bonuses and the inherent effect the judgement have on cost of sales. See page 41 "Note 1 Accounting policies" where management explains the basis for their accounting for Supplier bonuses.	We obtained management's calculation of estimated supplier bonuses. We read and understood a sample of supplier agreements to gain 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, 23 April 2019

PricewaterhouseCoopers AS

Vidar Lorentzen

State Authorised Public Accountant