Gresvig ASA

Annual Report 1998

Contents

Financial calendar 1999:

Report for the first quarter:	**7 May**
Report for the first half-year:	**19 August**
Report for the first nine months:	**11 November**
Preliminary annual results:	**9 March 2000**

Photo: Intramedia

Norway's leading group in the sports and leisure market

Gresvig ASA is the leading player in the Norwegian sports equipment market. Acquisitions and establishing new operations in Denmark and Poland have secured the group an international position.

The two competing chains in the Gresvig group – G-Sport and Intersport – hold 50 per cent of the Norwegian market for sports and leisure products. In Denmark, the group has secured about 23 per cent of the market through its commitment to Intersport. Gresvig's Intersport licences in Poland have laid the basis for a leading sports equipment chain.

Some 450 stores belong to Gresvig's two chains in Norway and abroad. Revenues for the group rose by 18 per cent in 1998 compared with the year before to NOK 1 946 million. This increase primarily reflects international expansion. The number of employees, converted to work/years, came to 794 at 31 December. Gresvig is listed on the Oslo Stock Exchange and has some 570 shareholders.

The group's core competencies are rational chain operation and effective flow of goods, along with marketing and broad promotion of its own and international branded products. Its three business areas are G-Sport, Intersport and SportDistribution.

G-Sport

This business area embraces the G-Sport Norge AS chain service centre and the G-Sport Norge Detalj AS retailing company with 27 directly-owned shops. Gross sales revenues came to NOK 1 172 million in 1998, or 60 per cent of group revenues.

G-Sport operates exclusively in Norway, where it ranks as the leading player in the sports and leisure sector with about 32 per cent of the market. The nationwide chain embraced 229 member shops at 31 December 1998.

Intersport

The business area embraces the group's Intersport operations in Norway and abroad. Activities in Norway comprise the Intersport AS chain service centre and the Intersport Detalj AS retailing company with 10 wholly- and six partly-owned shops. Intersport in Denmark embraces a majority shareholding in the Intersport Danmark AS chain service centre and the wholly-owned Intersport Detail AS and Kurt Larsen Sport Holding ApS retailing companies. In addition come the Intersport Polska Sp.z.o.o and Intersport Baltija SIA retailing companies.

Gross sales revenues in 1998 came to NOK 769 million, or 40 per cent of group revenues. The international part of Intersport accounts for NOK 284 million in sales, or 15 per cent of group revenues.

Intersport has roughly 18 per cent of the Norwegian market through the 141 member shops in this chain. The Danish chain service centre has 74 members. Three directly-owned shops and one shop operated on franchise terms have been opened in Poland.

SportDistribution

This business area acts as the central distribution unit for G-Sport and Intersport in Norway, ensuring an efficient flow of goods. It serves the roughly 370 Norwegian shops with about 20 000 different items per season. Through delivery quality and cost-effective operation, this central procurement, storage and transport unit aims to help improve profitability for chain members and the shareholders.

Plans call for the distribution unit to be concentrated from 1 July 1999 at a central warehouse in Askim south-east of Oslo. A good basis has been created for continued development of SportDistribution as a leading logistics company.

The operating year in brief

- Gresvig's two competing chains, G-Sport and Intersport, strengthened their market positions in Norway. However, the group's results were substantially weakened by writing down assets, provisions relating to the Polish involvement and lease obligations.
- A total of NOK 162.4 million was charged against income, but with no effect on liquidity. Higher operational and financial costs also had a negative effect. The loss after tax came to NOK 203.5 million, as against a profit of NOK 25.7 million in 1997.
- Gross sales revenues for the Gresvig group amounted to NOK 1 946 million, up by 18 per cent from 1997. G-Sport accounted for 60 per cent of revenues, Intersport in Norway for 25 per cent and international operations for 15 per cent.
- The Norwegian sports equipment market made little progress in the fourth quarter, with December proving particularly weak. G-Sport could report another good year, and the chain has about 32 per cent of the market. Intersport increased its market share from 16 to roughly 18 per cent.
- Kurt Larsen Sport Holding in Denmark was acquired with effect from 1 April. The two Danish retailing companies showed weak results, but are pursuing a reorganisation which will have a positive impact on performance.
- The Intersport Danmark chain service centre, owned 58.8 per cent by Gresvig, showed a profit. This chain has 74 members in Denmark and roughly 23 per cent of the Danish sports equipment market.
- Intersport Polska, the Polish retailing company, is in a time-consuming and costly start-up phase. Chain operation in Poland remains in its infancy, but Gresvig is becoming the country's leading sports equipment chain through Intersport. Various operational models are being considered for a continued commitment.
- Organisational measures and financial adjustments have been made by the new board and chief executive to put the company on a sounder footing. The board believes that a good foundation has been laid for profitable operation in coming years.

Key figures for the Gresvig group

(See definitions on page 31)

	1998	1997	1996
Average number of shares (million)	**7.6**	7.5	6.2
Earnings/(loss) per share	**(26.77)**	3.60	8.61
Price/earnings ratio (p/e)	**–**	24.42	11.96
Cash flow per share	**(4.35)**	10.04	11.98
Sales growth	**18%**	61%	12%
Development in results	**(596%)**	(46%)	(18%)
Net operating margin	**(8%)**	3.3%	8%
Equity ratio	**21.5%**	37.7%	41.1%
Return on equity	**(65.3%)**	8.2%	23%
Return on total assets	**(15.4%)**	8.7%	16.6%
Current ratio	**1.51**	1.86	2.19

Year of contrasts for the Gresvig group:

Strengthened market position – weaker results

The Gresvig group strengthened its position in the sports equipment market during 1998. Writing down assets produced an accounting loss.

Gresvig ASA experienced a year of contrasts in 1998. On the one hand, the group's two competing chains – G-Sport and Intersport – expanded their market shares in Norway. On the other hand, goodwill, accounts receivable and inventories have been substantially written down. In addition come provisions for operations and lease obligations.

About 80 per cent of the write-down in assets relates to the acquisition of Sport Holding AS in 1997 and the Intersport operations in Denmark during 1998. This marks an acknowledgement by the board that some parts in Sport Holding AS and the international expansion have failed to live up to expectations, and that prospects are considered more uncertain than when the acquisitions were made.

Gresvig's strategy is to develop markets and chain concepts. The basis for its international growth is to be the leading player in the Norwegian sports and leisure market. Acquiring Intersport in Norway and the commitment in Denmark and Poland represent a strategic positioning. The group's strength lies in its expertise with chain operation, leading marketing position and well-known brands.

After a detailed review of the group's operations and balance sheet in 1998 and measures initiated to achieve a more purposeful organisation of the group's chains, logistics and staff functions, Gresvig is better equipped to meet future opportunities and competition.

Market developments

G-Sport and Intersport in Norway accounted for roughly 85 per cent of the group's turnover in 1998. The sports and leisure segment of Norway's retail sector grew strongly in 1990-96, but has been more or less stable over the past two years with an estimated annual sales value of about NOK 7 billion in the retail stage. The last three months in the year are normally the best quarter. However, sales in the Norwegian sports equipment market declined for the fourth quarter of 1998 compared with the same period of earlier years.

The stagnation and fluctuations in the Norwegian market reflect climatic conditions such as low winter snowfalls over much of the country. A cold and rainy summer in eastern and southern Norway during 1998 reduced demand for sports and leisure products by comparison with a normal year.

Both G-Sport and Intersport increased their share of a stagnating market. G-Sport has about 32 per cent, while Intersport strengthened its position as the second largest chain with about 18 per cent – up from 16 per cent in 1997.

Gresvig has secured strategic positions in the Danish and Polish markets. The challenge is to benefit from the group's experience of chain operation while drawing on local partners with market know-how.

Sales and results

The group's operating revenues rose by 18 per cent in 1998 to NOK 1 946 million. Operating profit before writing down assets was NOK 10.7 million as against NOK 53.9 million in 1997. The general level of costs in the group increased faster than the growth in sales, partly as a result of lower fourth-quarter turnover in Norway, an expensive pay settlement, higher logistical costs and international expansion in 1998.

The book value of assets was written down by a total of NOK 162.4 million. Detailed reviews carried out in the third quarter of 1998 and at the end of the year built on new methods for quantifying bad debts and dead stock, while the accounting value of goodwill was reassessed. The write-downs have been carried out as follows:

- Goodwill in Intersport AS and Intersport Detalj AS in Norway, Intersport Detail AS in Denmark, Denmark's Kurt Larsen Sport Holding ApS and Intersport Polska has been written down by a total of NOK 121 million. The board found that achieved and expected results did not justify the goodwill assigned to these units.

- An additional provision of NOK 12 million for bad debts has been made in G-Sport Norge and Intersport, and bad debts charged against income totalled NOK 23 million at 31 December. The increased provision is based on an assessment of specific accounts receivable and the possible impact on chain members of interest rate unrest since the autumn of 1998.

- An additional provision of NOK 10 million has been made for dead stock, reflecting a more critical assessment by the board based on reducing the number of items and integrating inventories.

In addition, provisions totalling NOK 19.4 million were made in connection with the involvement in Latvia, Intersport's retailing business in Norway and future obligations relating to Intersport's main warehouse in Drammen near Oslo. This brings total write-downs and provisions to NOK 162.4 million. The substantial acquisitions in 1997 and early 1998 were primarily financed by borrowing. Combined with expansion, the increase in capital tied up in inventories and the general rise in interest rates, this meant that financial expenses rose from NOK 14.6 million in 1997 to NOK 42 million. The loss before tax thereby came to NOK 197.9 million for 1998, as against a profit of 39.9 million the year before.

Ordinary operations in the group generated a cash flow of NOK 40 million, compared with NOK 74.8 million in 1997.

After tax and elimination of minority interests, the net loss came to NOK 203.5 million. This corresponds to a loss per share of NOK 26.77. Net profit for 1997 amounted to NOK 25.8 million, giving earnings of NOK 3.60 per share.

The board is not satisfied with this result.

Sparebanken NOR became the group's principal banker in 1998. New loan agreements incorporating specific requirements under covenant for the group's results, balance sheet and shareholders' equity have been concluded. Results for 1998 mean that some of these requirements were not fulfilled, but the board does not consider that this will be significant for future financing.

Balance sheet

Liquidity has been affected by excess inventory and the high value of receivables. The measures initiated to free up capital will improve liquidity.

The book value of shareholders' equity in Gresvig ASA totalled NOK 215 million at 31 December, corresponding to an equity ratio of 21 per cent. This ratio was 37.7 per cent a year earlier. The group's net interest-bearing debt totalled NOK 494 million, an increase of NOK 48 million from 31 December 1997.

Inventory was being turned over 4.8 times per year in G-Sport Norge AS at 31 December 1998, as against 4.9 a year earlier. The corresponding figures for Intersport AS were 3.5 and 3.4. Accounts receivable by the group totalled NOK 193.7 million at 31 December as against NOK 218.3 million the year before. The average debtor turnover period at 31 December 1998 was 40 days, compared with 41 days a year earlier.

Business areas

G-Sport: The G-Sport business comprises the G-Sport Norge AS chain service centre and the G-Sport Norge Detalj AS retailing company.

G-Sport Norge AS achieved gross sales revenues of NOK 1 000 million in 1998, on a par with the year before. Operating profit improved again, from NOK 71.1 million to NOK 77.8 million. Purchasing loyalty, which expresses how large a proportion of purchases by chain members are made via Gresvig, remained at a high level of roughly 80 per cent.

G-Sport Norge Detalj AS had gross sales revenues of NOK 385 million, an increase of seven per cent from 1997. This growth primarily reflects acquisitions. Operating profit came to NOK 7.7 million, compared with NOK 16.8 million the year before.

Intersport: Intersport's Norwegian operations comprise the Intersport AS chain service centre and the Intersport Detalj AS retailing company.

Intersport AS reported gross sales revenues of NOK 450.4 million in 1998, a 13.8 per cent increase from the year before. Operating profit came to NOK 5.9 million, as against NOK 10.1 million

Photo: Scanpix

in 1997. Purchasing loyalty among the members continued to strengthen. While these shops purchased 51 per cent of their goods from the chain service centre in 1996, this proportion had risen to 60 per cent in the following year and topped 65 per cent in 1998.

Intersport Detalj AS had gross sales revenues of NOK 72.8 million in 1998, an increase of 44 per cent from the year before. The operating loss rose from NOK 6.2 million in 1997 to NOK 8.8 million.

Intersport outside Norway: The group's international operations comprise a 58.8 per cent shareholding in Denmark's Intersport Danmark AS chain service centre, the wholly-owned Intersport Detail AS and Kurt Larsen Sport Holding ApS retailing companies in Denmark, and the Intersport Polska Sp.z.o.o and Intersport Baltija SIA retailing companies. The commitment has been affected by establishment and start-up costs and by market investments charged in their entirety against income. Overall, the international operations had gross sales revenues of NOK 284 million in 1998 and an operating loss of NOK 12.9 million.

Intersport Danmark AS reported gross sales revenues of NOK 101.8 million in 1998 and an operating profit of NOK 3.9 million. The directly-owned retailing businesses in Denmark achieved gross sales revenues of NOK 176.5 million but showed an operating loss of NOK 6.9 million. Measures have been initiated to improve operational efficiency in the Danish retailing businesses by coordinating administrative, logistical and information technology functions.

Intersport Polska had gross sales revenues of NOK 27 million and an operating loss of NOK 10.9 million. Four shops have been established in Poland.

Goodwill relating to the Polish business has been written down in its entirety in the 1998 accounts. Intersport Baltija, which administers Gresvig's Intersport licences for Latvia and Lithuania, has opened two shops in Riga.

SportDistribution: The group's central distribution unit serves the roughly 370 member shops in the Norwegian G-Sport and Intersport chains. This business area is responsible for ensuring reliable delivery and a cost-effective flow of goods from manufacturer to chain member, and thereby for contributing to profitability for the shops. Costs in SportDistribution proved excessive in 1998.

Organisation

Guttorm Bjerkeli Johansen took over as president and CEO on 1 July 1998 in succession to Gyrd Skråning. Organisational changes were made to the executive management team in November 1998.

The group's Intersport operations in Norway and abroad have been assembled under the leadership of Morten Vinje, previously president of G-Sport Norge AS. Executive vice president Geir Billing was appointed to run G-Sport Norge AS. In February 1999, Bjørn Hildan took over the newly-created post of executive vice president for corporate staff functions. The role of Gresvig ASA within the group will be enhanced through a purposeful commitment to chain operation and directly-owned shops, rational flow of goods, profitable business development, cost-effective operation and optimal allocation of group resources to maximise results and contribute to value creation for the group's shareholders.

At 31 December 1998, the group had the equivalent of 794 full-time employees as against 766 the year before. Cooperation with employees and their unions remained good in 1998.

Year 2000

The group has worked actively to limit possible Year 2000 (Y2K) problems in the information technology area. Software developed for the group has been reviewed and improved to make it Y2K compliant. Standard software will be upgraded with new versions from suppliers. No special problems or high IT costs are expected to arise from the transition to 2000.

The environment

Operations by the Gresvig group have little impact on the external environment. Great emphasis is placed on ensuring that the business causes the smallest possible environmental burden.

The group is concerned to make a contribution through measures which can reduce the general environmental burden attributable to goods transport. Environmental considerations get priority wherever they are compatible with cost-effective operation. At 31 December, no official orders for environmental action had been issued against the group.

Shareholders

There were no significant changes in Gresvig's shareholder structure during the year. The largest shareholder is Steen & Strøm ASA, with 31.41 per cent.

Board and management give great weight to maintaining a good dialogue with shareholders and financial markets in Norway and abroad. Making all price-relevant information available to the market will ensure that the share price reflects the underlying value of the company.

Details of the company's shareholders and related information are provided on pages 20-23.

Board of directors

A new board of directors was elected by the annual general meeting in April 1998. Harald Tyrdal and Svein Wilhelmsen were replaced by Svein Eskedal and Marius Varner. Peter Ruzicka served as chairman of the board until December 1998, when he was replaced by Mr Eskedal.

See note 8 for details of the remuneration of elected officers and the president.

Coverage of net loss

The parent company, Gresvig ASA, incurred a net loss of NOK 124 069 000 for 1998. The following allocations are proposed by the board to cover this loss:

Photo: Bård Ek

The board of Gresvig ASA. From left: Dag Fossheim, Thor Jensegg, Svein Eskedal, Peter Ruzicka and Erik Bøhler. Marius Varner, who is also a director, was not present when this picture was taken.

Figures in NOK 1 000	
From distributable equity	(83 785)
From legal reserve	(36 984)
Group contribution received	(3 300)
Total	**(124 069)**

Prospects

A detailed review of the group's balance sheet and operational status by a new board and chief executive set its stamp on 1998. Organisational changes were made and several measures initiated to manifest the advantages of bringing two competing chains together in a single group. Improved coordination of the product range and more efficient logistical functions – procurement, warehousing and distribution – are important areas of focus which will provide better results.

Existing and planned measures to enhance results are expected to show positive effects in 1999.

Gresvig ASA is well placed to re-emerge as a profitable player in the sports and leisure market. Directly-owned shops and the members of the group's two chains have roughly 50 per cent of the market in Norway, and Gresvig has also gained access to a growth potential through Intersport abroad.

G-Sport, which accounts for roughly 60 per cent of the group's sales revenues, is expected to make steady progress. Intersport should develop positively in Norway.

In the Danish market, the group will focus on measures to improve results within the present volume of business.

The commitment to Poland, now in its third operational year, will continue to be characterised in 1999 by investment and build-up. A satisfactory operating result is unlikely for 1999, and the group is considering alternative models for continuing this involvement.

Optimal utilisation of the group's overall resources and development opportunities form part of this assessment. As a result of such evaluations, the group has decided to wind up its involvement in Latvia and Lithuania.

Board and management are focusing on action plans aimed at market and customers, and on effective integration of administrative functions and cost-effective operation of the group's businesses. Given that important steps have been taken to restructure and rationalise the business, the board takes an optimistic view of future developments in the group.

In the board's view, no circumstances have occured since 1 January 1999 which affect its assessment of the group's position.

Oslo, 3 March 1999
The board of directors of Gresvig ASA

Svein Eskedal
(chairman)

Peter Ruzicka

Dag Fossheim
(elected by the employees)

Erik Bøhler

Thor Jensegg
(elected by the employees)

Marius Varner

Guttorm B Johansen
(president and CEO)

Income statement 1.1 - 31.12

GRESVIG ASA (parent company)					GRESVIG GROUP		
1996	1997	**1998**	*Note*	*Amounts in NOK 1 000*	**1998**	1997	1996
				OPERATING REVENUES			
975 270	1 134 699	**2 344**		Gross sales revenues	**1 946 455**	1 626 432	1 014 389
(115 805)	(126 490)	**–**		Sales revenue reductions	**(121 795)**	(122 257)	(115 805)
859 466	1 008 209	**2 344**		Net sales revenues	**1 824 660**	1 504 175	898 584
91 651	103 525	**151 574**		Other operating revenues	**114 374**	138 449	87 712
951 117	**1 111 734**	**153 918**		**Net operating revenues**	**1 939 034**	**1 642 624**	**986 296**
				OPERATING COSTS			
682 891	810 255	**2 096**		Cost of goods sold	**1 381 908**	1 175 555	682 051
72 079	89 436	**63 363**	*8*	Payroll and related costs	**221 871**	156 528	87 447
105 956	130 033	**57 848**		Other operating costs	**291 227**	205 196	120 976
979	4 730	**8 500**	*4*	Bad debts	**23 324**	9 246	1 183
11 840	15 797	**5 737**	*1*	Ordinary depreciation	**28 521**	22 492	12 746
5 678	8 421	**6 102**	*1*	Goodwill depreciation	**23 587**	19 715	6 493
–	–	**128 000**	*1*	Write-down shares/goodwill	**121 000**	–	–
879 422	**1 058 672**	**271 646**		**Total operating costs**	**2 091 438**	**1 588 733**	**910 896**
71 694	**53 062**	**(117 728)**		**Operating profit/(loss)**	**(152 404)**	**53 891**	**75 400**
				FINANCIAL INCOME/EXPENSES			
8 364	9 899	**1 353**		Financial income	**15 184**	11 693	8 592
(8 733)	(19 990)	**(16 340)**		Financial expenses	**(57 591)**	(26 305)	(9 626)
(369)	(10 091)	**(14 987)**		Net financial expenses	**(42 407)**	(14 613)	(1 034)
–	–	**–**	*3*	Share of profit/(loss) in assoc companies	**(3 092)**	611	–
71 325	42 971	**(132 715)**		Profit/(loss) before tax	**(197 903)**	39 889	74 365
(19 454)	(7 808)	**8 646**	*13*	Tax expenses	**(4 528)**	(12 865)	(20 976)
51 871	35 163	**(124 069)**		Profit/(loss) before minority interests	**(202 431)**	27 025	53 389
–	–	**–**		Minority interests	**(1 126)**	(1 246)	–
51 871	**35 163**	**(124 069)**		**Net profit/(loss) for the year**	**(203 557)**	**25 779**	**53 389**
				Distribution of funds			
5 187	3 516	**(36 984)**		To/from legal reserves	**–**	–	–
(627)	–	**–**		From reversal fund	**–**	–	–
12 400	11 262	**–**		Dividend	**–**	–	–
32 861	18 385	**(83 785)**		To/from distributable equity	**–**	–	–
2 050	2 000	**(3 300)**		Group contribution paid/received	**–**	–	–
51 871	**35 163**	**(124 069)**		**Total**	**–**	**–**	**–**

Balance sheet
at 31 December

GRESVIG ASA (parent company)					GRESVIG GROUP		
1996	1997	**1998**	*Note*	*Amounts in NOK 1 000*	**1998**	1997	1996
37 756	30 367	**56**	*10*	Cash and bank deposits	**29 235**	56 429	61 520
119 529	128 819	**–**	*4*	Accounts receivable	**180 809**	179 897	122 462
284	–	**–**	*3*	Shares	**5 241**	15 901	8 509
9 398	11 991	**1 106**		Other current receivables	**19 484**	22 572	10 603
23 182	20 747	**156 242**		Inter-company receivables	**–**	–	–
192 144	197 302	**–**		Inventories	**415 918**	364 501	224 394
382 293	**389 226**	**157 404**		**Total current assets**	**650 687**	**639 299**	**427 488**
54 586	350 222	**364 845**	*2*	Shares in subsidiaries	**–**	–	–
1 209	1 202	**26**	*3*	Other shares and securities	**3 313**	11 212	1 209
9 284	14 856	**9 267**		Sundry long-term receivables	**17 495**	21 409	12 790
1 791	1 740	**0**		Deferred tax benefit	**0**	1 740	1 791
3 500	6 762	**–**		Intangible assets	**7 075**	6 762	3 500
98 528	90 107	**50 525**	*1*	Goodwill	**215 547**	305 027	123 901
41 554	47 922	**20 736**	*1*	Other fixed assets	**105 906**	89 905	45 610
210 452	**512 812**	**445 399**		**Total fixed assets**	**349 336**	**436 054**	**188 800**
592 745	**902 037**	**602 803**		**TOTAL ASSETS**	**1 000 023**	**1 075 353**	**616 289**
15 854	77 079	**87 821**	*10*	Bank overdraft	**193 251**	105 134	15 854
24 825	29 833	**2 460**		Payroll withhold tax, soc security, VAT	**51 411**	48 875	29 113
14 424	6 250	**4 633**		Taxes payable	**13 853**	9 073	19 314
53 494	29 738	**–**		Accounts payable	**67 739**	80 217	61 245
55 107	69 912	**167 997**		Other current liabilities	**104 940**	89 358	56 952
12 400	11 262	**–**		Dividend	**434**	11 262	12 400
176 104	**224 075**	**262 911**		**Total current liabilities**	**431 628**	**343 920**	**194 878**
151 118	254 519	**35 486**		Long-term debt	**330 963**	301 297	152 102
700	700	**–**		Guarantee obligations	**700**	700	700
8 908	10 386	**–**	*13*	Deferred tax	**0**	5 465	8 736
6 396	6 213	**7 392**	*11*	Accrued pension liabilities	**7 957**	6 213	6 396
167 122	**271 818**	**42 878**		**Total long-term liabilities**	**339 620**	**313 675**	**167 934**
–	–	**–**		Minority interests	**14 102**	12 053	0
343 226	**495 893**	**305 789**		**Total liabilities**	**785 350**	**657 596**	**362 812**
31 000	37 540	**38 256**	*12*	Share capital	**38 256**	37 540	31 000
153 118	284 820	**258 758**		Legal reserve	**–**	–	–
65 401	83 784			Distributable equity	**–**	–	–
–	–	**–**		Other equity	**176 417**	368 164	222 477
249 519	**406 144**	**297 014**		**Total shareholders' equity**	**214 673**	**405 704**	**253 477**
592 745	**902 037**	**602 803**		**TOTAL LIABILITIES AND EQUITY**	**1 000 023**	**1 075 353**	**616 289**
160 854	366 124	**–**	*6*	Mortgages	**474 600**	408 800	164 441
51 940	51 940	**61 500**	*5*	Guarantee liabilities	**64 200**	53 940	51 240
–	–	**–**	*7,9*	Other	**–**	–	–

Cash flow statement

GRESVIG ASA (parent company)			GRESVIG GROUP	
1997	**1998**	*(Amounts in NOK 1 000)*	**1998**	1997
		Cash flow from operations		
42 961	**(138 441)**	Profit/(loss) before tax	**(197 902)**	39 891
(12 917)	**(6 250)**	Taxes paid	**(9 073)**	(17 807)
28	–	Gain/(loss) on sale of fixed assets	–	28
24 218	**11 839**	Ordinary depreciation	**52 904**	42 531
–	**128 000**	Write-down of fixed assets	**121 000**	–
–	**197 302**	Change in inventories	**(51 417)**	–
–	**(19 072)**	Change in accounts receivable	**5 595**	–
–	**(29 738)**	Change in accounts payable	**(7 151)**	–
–	–	Increase in inventory, receivables and payables through acquisitions	–	(141 791)
10 091	**–**	Financial items	–	14 613
(41 154)	**47 594**	Change in other accrual accounting items, etc	**(4 841)**	(24 566)
23 227	**191 234**	**Net cash flow from operations**	**(90 885)**	**(87 101)**
		Cash flow from investment		
737	**100 981**	Cash provided by sales of fixed assets	**11 271**	737
(15 115)	**(6 235)**	Cash applied to investment in fixed assets	**(101 904)**	(260 903)
(295 636)	**(199 927)**	Cash provided by sales of shares and interests in other companies	**21 872**	–
(5 562)	–	Cash applied to investment in shares, etc	**(3 444)**	(9 918)
–	–	Cash applied to other investments	–	(8 704)
(315 576)	**(105 181)**	**Net cash flow from investment**	**(72 205)**	**(278 788)**
		Cash flow from financing		
–	**(201 255)**	Reduction of long-term debt	–	–
–	**(29 833)**	Reduction of current debt	–	–
103 410	–	Addition to long-term debt	**117 515**	149 195
61 225	**114 348**	Addition to current debt	**18 003**	89 280
(2 000)	–	Group contribution paid/received	–	–
134 725	**11 638**	Cash provided by increase in equity	**11 638**	134 725
(12 400)	**(11 262)**	Dividend paid	**(11 262)**	(12 400)
284 960	**(116 364)**	**Net cash flow from financing**	**135 894**	**360 800**
(7 389)	**(30 311)**	Net change in cash and cash equivalents	**(27 196)**	(5 089)
37 756	**30 367**	Cash and cash equivalents at 1 Jan 98	**56 431**	61 520
30 367	**56**	Cash and cash equivalents at 31 Dec 98	**29 235**	56 431

General accounting principles

Consolidation principles

The group accounts embrace Gresvig ASA and all subsidiaries in which Gresvig ASA owns more than 50 per cent of the voting shares and/or companies in which it has a dominant influence, and include the following wholly-owned subsidiaries:

- G-Sport Norge AS with subsidiaries
- Sport Holding AS with subsidiaries
- Kurt Larsen Sport Holding ApS
- Gresvig Service AS
- Gresvig Invest AS
- Gresvig Distribusjon AS

Internal revenues and inter-company balances have been eliminated in the accounts. Similarly, internal gains in inventory have been eliminated. Shares in subsidiaries have been eliminated in accordance with the purchase method. Differences between the purchase price for shares in the subsidiaries and the book value of net assets at the time of purchase have been analysed and allocated to the relevant assets. The portion of the excess purchase price which cannot be allocated to purchased assets is classified as goodwill and depreciated over its expected economic lifetime.

Holdings in associated companies in which the group has a significant interest (20-50 per cent) are treated/recorded in accordance with the equity method.

The group owns shares in G-Sport stores through the Gresvig Invest AS subsidiary. These companies are not consolidated into the group accounts. The shares are recorded at cost.

These companies have been acquired to secure G-Sport's position, and the aim is to sell them to new operators in the relatively near future. At 31 December, the company owned shares in four limited companies which represented one store in operation and three in which assets/liabilities had been transferred to the new management.

Criteria for revenue recognition

Goods delivered during the accounting period have been recognised as sales revenues.

Cash discounts

Cash discounts on sales are recorded as a reduction in sales revenues, while cash discounts on purchases are recorded as a reduction in the cost price of the goods.

Classification

Assets which are to be held or used on a long-term basis as well as receivables falling due longer than 12 months from the end of the accounting year are classified as fixed assets. Other assets are classified as current. Liabilities falling due longer than 12 months after the end of the accounting year are classified as long-term. Other liabilities are classified as current.

Assets and liabilities in foreign currency

Current assets and liabilities denominated in foreign currencies are recorded at the exchange rate prevailing at 31 December 1998.

Inventory

The inventory is recorded at the lower of cost price or expected net realised value.

Fixed assets

Fixed assets are recorded in the balance sheet at historical cost less accumulated straight-line depreciation. Fixed assets are depreciated by the straight-line method over the expected economic lifetime of the asset at the following rates:

- Vehicles 15-25%
- Machinery, furniture and fixtures 20-25%
- Goodwill 7-20%

Gains on sales of fixed assets are recorded as other operating revenues, and losses as operating costs.

Pension liabilities

Gresvig ASA has a collective pension plan with a life insurance company for its employees. In addition come pension plans for some employees which are financed from operations.

These pension plans are accounted for in accordance with the Norwegian Accounting Standard for Pension Costs. This standard requires the company's pension plans to be treated as defined benefit plans. Pension liabilities are estimated at the present value of future pension benefits earned at 31 December. Future pension benefits are calculated on the basis of estimated salary at the time of retirement. Pension funds are assessed at expected market value at 31 December. Net pension liabilities, adjusted for unamortised estimated differences, are recorded as long-term debt. Net pension liabilities for the period are recorded in the income statement as payroll and related costs. The impact of changes to the pension plans is allocated over the remaining earnings period. The following assumptions were used in the calculation:

- Discount rate 7.0%
- Pay adjustments 3.3%
- Pension regulation 2.5%
- Voluntary termination 1.5%
- Expected yield 7.0%

Deferred tax/deferred tax benefit

Deferred tax liability is calculated on the basis of temporary differences between book and tax values at 31 December. Positive and negative temporary differences which reverse in the same period are netted. A nominal tax rate of 28 per cent is applied in Norway, and national tax rates in other countries. A deferred tax benefit related to pension liabilities is recorded in the balance sheet to the extent that it does not exceed the deferred tax liability. Tax expenses in the income statement include taxes payable as well as change in deferred tax.

Cash flow statement

The cash flow statement has been prepared in accordance with the indirect method. Cash and cash equivalents include cash and bank deposits.

Major events of the year

Gresvig reached agreement with Kurt Larsen in March 1998 on acquiring all interests in Kurt Larsen Sport Holding ApS. This agreement has been consolidated into the accounts with effect from 1 April 1998.

The acquisition embraces eight well-established Intersport shops in Denmark, mainly located on the island of Funen.

These outlets have subsequently been integrated operationally with the other 10 directly-owned Intersport stores in Denmark.

A restructuring process has been initiated with the aim of achieving substantial savings by coordinating common functions such as accounting, personnel, information technology and not least logistics.

The group's 75 per cent shareholding in G-Sport Strandtorget has not been consolidated into the group accounts in earlier years because it was expected that the assets would be sold to new operators in the relatively near future. Following the acquisition of additional operations, however, this entity has become a new core area for the group and now embraces seven G-Sport shops in the Mjøsa area of eastern Norway.
For that reason, this sub-group has been consolidated in the Gresvig group accounts with effect from 1 January 1998.

Note 1 – Fixed assets

PARENT COMPANY

(Amounts in NOK 1 000)	**Vehicles/machinery/ furniture**	**Buildings**	**Goodwill**	**Total**
Cost price 1 Jan 98	92 762	8 096	118 896	219 754
Additions	5 482	753		6 235
Disposals at cost	64 261	3 240	33 480	100 981
Cost price 31 Dec 98	33 983	5 609	85 416	125 008
Accumulated depreciation	17 949	907	34 891	53 747
Book value 31 Dec 98	16 034	4 702	50 525	71 261
Depreciation for the year	5 387	350	6 102	11 839

GROUP

(Amounts in NOK 1 000)	**Vehicles/machinery/ furniture**	**Buildings**	**Goodwill**	**Total**
Cost price 1 Jan 98	134 837	16 683	345 926	497 446
Additions	39 988	6 875	55 107	101 970
Disposals at cost	11 271			11 271
Cost price 31 Dec 98	163 554	23 558	401 033	588 145
Accumulated depreciation	77 789	3 416	185 486	266 691
Book value 31 Dec 98	85 765	20 142	215 547	321 454
Depreciation for the year	26 622	1 899	144 587	173 108

NOK 16.9 million of the NOK 102 million in the year's additions for the group related to assets gained through the acquisition of Kurt Larsen Sport Holding ApS during April. Additional goodwill from the same acquisition came to NOK 33.4 million for the group.

Other additions consisted largely of new investment or furniture/fittings in retail operations: NOK 7.8 million in G-Sport Norge Detalj, NOK 8.3 million through the take-over of the G-Sport Strandtorget group and NOK 5.5 million for opening shops in Intersport Polska.

Substantial sums were otherwise invested by the parent company in computer hardware (NOK 2.9 million) and furniture/fittings (NOK 1.8 million), primarily as part of efforts to adjust the group to new operating conditions.

The shop computer system for G-Sport stores has been financed through a long-term leasing/credit agreement over five years. Both investment and liability are included in the company's balance sheet and the costs will be reflected as depreciation and financial expenses.

This computer system is sub-leased to chain members on normal commercial terms, and will be sold to members when the lease expires.

Goodwill added in 1998 refers to the acquisition of retail stores in Norway and Denmark. The Danish share relates primarily to excess value arising from the acquisition of Kurt Larsen Sport Holding. In Norway, the additional goodwill refers to the acquisition of additional shops in G-Sport and Intersport. In the G-Sport case, this relates to the acquisition of outlets from limited companies previously owned by Gresvig Invest. On the Intersport side, one new shop has been acquired.

Goodwill arising from these acquisitions will be significant for a long time, and is expected to have a lifetime similar to other goodwill arising in the group from the acquisition of retail operations – in other words, a remaining economic life of roughly 12 years.

Investment in and sale of fixed assets – group:

	Vehicles/machinery/ furniture		**Goodwill**		**Total**	
(Amounts in NOK 1 000)	Investment	Sale	Investment	Sale	Investment	Sale
1991	8 028				8 028	
1992	9 491	630			9 491	630
1993	4 249	628	5 272		9 521	628
1994	20 848	448	49 085		69 933	448
1995	12 789	826	2 239		15 028	826
1996	31 029	1984	85 489		116 458	1984
1997	60 062	28	200 841		260 903	28
1998	46 863	11 271	55 107		101 970	11 271

Note 2 – Shares/interests in subsidiaries

(Amounts in NOK 1 000)	**Number**	**Par value**	**Book value**
G-Sport Norge AS	75 000	1 000	150 455
Sport Holding AS	11.4 mill	7.50	167 636
Kurt Larsen Sport Holding ApS	125	1 000	46 550
Gresvig Service AS	100	1 000	104
Gresvig Invest AS	50	1 000	50
Gresvig Distribusjon AS	50	1 000	50
Total			364 845

Note 3 – Shares/interests in other companies

The company held the following shares at 31 December 1998:

(Amounts in NOK 1 000)	**Number**	**Par value (NOK)**	**Book value**
Karlstad Sport AS	220	1 000	2 300
G-Sport Rune AS	160	1 000	160
G-Sport Tromsø AS	50	1 000	1 140
Sportsforum AS	551	1 000	1 621
Other shareholdings			20
Total current holdings			**5 241**
Intersport International C			383
Intersport Asker AS	100	1 000	100
*)Intersport Morenen AS	350	1 000	689
*)Intersport Sandnes AS	3000	100	1 002
*)Intersport Sarpsborg AS	1 000	1 000	(546)
G-Sport Biri AS	50	1 000	7
*)IS Sjølyst AS	750	1 000	360
*)IS Speider Sport AS	1 000	500	(315)
*)IS Sentrum II ANS	34		(979)
Other shareholdings			2 613
Total long-term			**3 314**
Total shares/bonds			**8 555**
**) Of which shares in associated companies:*			
Group's valuation 31 Dec 97			*8 722*
Share of 1998 results			*(3 092)*
Group's valuation 31 Dec 98			*5 630*

Shares are recorded in the balance sheet at the lower of historical cost and actual value.

Note 4 – Accounts receivable

Accounts receivable for the group are recorded at nominal value less a provision for bad debts of NOK 22.6 million, as against NOK 10.9 million in 1997.

Specification of bad debts – group:

(Amounts in NOK 1 000)	**1998**	1997
Actual losses	**11 621**	6 283
Change in provision	**11 703**	2 963
Loss recorded in the accounts	**23 324**	9 246

Note 5 – Guarantee liabilities

The group has provided security for bank overdraft facilities and certificate loans as well as for leases with chain members. A provision of NOK 700 000 – unchanged from 1997 – has been made for possible losses related to these commitments.

Note 6 – Mortgages

Mortgage bonds have been issued to the company's banks as security for its overdraft facilities and debts secured by mortgage. The total nominal value of these bonds is NOK 2 783.9 million, including NOK 2 666 million in bonds held by Sparebanken Nor, the group's principal banker.

Mortgages:

(Amounts in NOK mill)	**Inventory**	**Accounts receivable**	**Leases**	**Total**
Nominal value mortgage bonds	1 499.0	1 268.0	16.9	2 783.9
Book value pledged assets	299.1	143.9	27.6	470.6
Book value mortgage debt				474.6
Bank overdraft facilities				387.3

Note 7 – Significant lease agreements

Own operational sites:

(Amounts in NOK 1 000)	**Number**	**Term**	**Annual rent**
Norway:			
Central facility G-Sport	1	13 yrs	12 800
Central facility Intersport	1	2 yrs	8 500
Own stores G-Sport	26	1–5 yrs	26 098
Own stores Intersport	13	1–10 yrs	12 364
Sub-lettings	2	1–3 yrs	1 862
Denmark:			
Central facility Intersport	1	2 yrs	980
Own stores Intersport	17	1–8 yrs	14 001
Poland:			
Own stores Intersport	7	1–9 yrs	8 440

Note 8 – Remuneration

The group changed its president and chief executive officer during 1998.

Remuneration paid to the former president came to NOK 506 456. The newly-appointed president received NOK 990 014. The company operates bonus schemes for senior executives which depend on the financial results achieved. The president is due a bonus of NOK 350 000 for the 1998 operating year, to be paid in 1999. Subject to specified conditions, the president is entitled to a severance payment equivalent to 2.5 times his annual salary.

Directors' fees totalled NOK 380 000 for 1998. The auditor received NOK 185 000 for regular audit work, and NOK 423 000 for consultancy.

Gresvig ASA has made an unsecured loan of NOK 1 240 570 to the president. The president owns 20 900 shares in the company. In addition, the president and chairman have purchased options in the open market for 100 000 shares apiece. None of the directors are shareholders in the company.

Note 9 – Financial instruments – off balance sheet

The company held purchase agreements/forward contracts at 31 December 1998 for hedging future purchases in equivalent currencies and at fixed payment dates. The income/expense is accrued and classified in the same manner as the corresponding balance sheet items. Contracts all fall due during the first half of 1999 and total:

(Amounts in whole 1 000)

USD	200	equalling	NOK	1 480
USD	8 000	equalling	DKK	52 471

Note 10 – Bank deposits/overdraft facilities

The group has restricted funds related to employee payroll tax withholding.
Bank guarantees have been given to the respective local authorities for the correct payment of these taxes.

(Amounts in million)		
Gresvig ASA	NOK	310
Intersport Danmark	DKK	35
Intersport Danmark Detail	DKK	30
Intersport Polska	USD	4

Note 11 – Pensions

The group's insurance plan financed from operations covers six people.
The funded pension plan includes 196 employees and 18 pensioners.

Net pension costs for the period:

(Amounts in NOK 1 000)	**1998**	1997
Service cost during the year	**2 970**	951
Interest cost	**618**	608
Expected return on pension assets	**(384)**	(384)
Net amortisation	**(285)**	284
Net pension cost	**2 919**	1 459

Reconciliation of pension liabilities and pension funds against the amount recorded in the balance sheet:

(Amounts in NOK 1 000)	**1998**	1997
Projected benefit obligations (at net present value)	**21 357**	11 786
Pension fund at expected market value	**(9 191)**	(4 682)
Net pension liability before actuarial loss	**12 166**	7 104
Unrecognised net actuarial loss	**(4 209)**	(891)
Accrued pension liability	**7 957**	6 213

Note 12 – Shareholders' equity

The group's share capital consist of 7 651 818 shares at NOK 5.00 per share.

Changes in shareholders' equity: *(Amounts in NOK 1 000)*	**Share capital**	**Other equity**	**Total**
Parent company:			
Shareholders' equity 1 Jan 98	37 540	368 605	406 145
Share issue of Apr 98	716	10 921	11 637
Net profit/(loss) for the year		(124 069)	(124 069)
Group contribution received		3 300	3 300
Dividend			
Shareholders' equity 31 Dec 98	38 256	258 757	297 013
Group:			
Shareholders' equity 1 Jan 98	37 540	368 165	405 705
Share issue of Apr 98	716	10 921	11 637
Net profit/(loss) for the year		(203 556)	(203 556)
Dividend		0	0
Change in minority/currency		887	887
Shareholders' equity 31 Dec 98	38 256	176 417	214 673

Note 13 – Taxes

(Amounts in NOK 1 000)	**1998**	1997
Profit/(loss) before taxes, parent company	**(132 715)**	42 971
Group contribution paid/received	**3 300**	(2 000)
Permanent differences	**(90)**	(13 082)
Change in temporary differences	**(115 364)**	(5 569)
Taxable profit	**–**	22 320
Nominal tax rate	**28%**	28%
Taxes payable	**–**	6 249
Change in deferred tax liability/benefit	**(8 646)**	1 559
Tax expenses	**(8 646)**	7 808
Group tax expenses include:		
Taxes payable	**8 253**	7 573
Change deferred tax liability/benefit	**(3 725)**	5 292
Adjustment to taxes for earlier years		(15)
Tax expenses	**4 528**	12 865
Temporary differences 31 Dec (group):		
Total current items	**(42 962)**	(21 816)
Total long-term items	**42 105**	52 058
Deferred tax loss	**(34 590)**	(10 841)
Net temporary differences	**(35 447)**	19 401
Calculated deferred tax liability/benefit	**–**	5 465
Deferred tax benefit related to pension liabilities:		
Pension liabilities	**7 957**	6 213
Calculated tax benefit	**–**	1 740

AUDITOR'S REPORT FOR 1998 *(translation from the original Norwegian version)*

To the annual general meeting of Gresvig ASA

We have audited the annual report and accounts of Gresvig ASA for 1998 which show a loss for the year of NOK 124 069 000 for the parent company and a consolidated loss for the year of NOK 203 557 000. The annual report and accounts, which comprise the board of Directors' report, profit and loss account, balance sheet, funds flow statement notes to the accounts and consolidated accounts, are presented by the company's board of Directors and its president.

Our responsibility is to examine the company's annual report and accounts, its accounting records and other related matters.

We have conducted our audit in accordance with relevant laws, regulations and Norwegian generally accepted auditing standards. We have performed those audit procedures which we have considered necessary to confirm that the annual report and accounts are free of material misstatements. We have examined, on a test basis, the evidence supporting the accounts and assessed the accounting principles applied, the estimates made by management, and the content and presentation of the annual report and accounts. To the extent required by Norwegian generally accepted auditing standards, we have reviewed the company's internal control and the management of its financial affairs.

The board of Directors' proposal for the settlement of the loss and equity transfers for the year is in accordance with the requirements of the Norwegian Public Limited Companies Act.

In our opinion, the annual report and accounts have been prepared in accordance with the requirements of the Norwegian Companies Act and present fairly the financial position of the company and of the group at 31 December 1998 and the result of its operations for the financial year, in accordance with Norwegian generally accepted accounting principles.

Oslo, 3 March 1999
DELOITTE & TOUCHE

Jan A. Hovdan

Jan A Hovdan
State authorized public accountant (Norway)

Share price will reflect asset value

Gresvig ASA is concerned to maintain a good dialogue with its shareholders, potential investors, analysts, stockbrokers and financial markets in Norway and abroad.

The aim is to ensure that the share price reflects the underlying value of the group by making all price-relevant information available to the market.

Share capital

Gresvig ASA had a share capital of NOK 38 255 905 at 31 December 1998, divided into 7 651 181 shares with a nominal value of NOK 5.00 each.

The company's share capital was increased in 1994 from NOK 22 801 000 to NOK 31 000 000 through a public issue which formed part of preparations for a listing on the Oslo Stock Exchange. The company was quoted on this exchange for the first time on 2 May 1994.

Following authorisation by the annual general meeting, the share capital was increased in April 1997 to NOK 37 540 280 through a private placement directed at the shareholders in Sport Holding AS. This issue related to Gresvig's acquisition of all the shares in Sport Holding.

A further share issue followed in connection with the acquisition of Kurt Larsen Sport Holding ApS in Denmark during April 1998. Part of the purchase price took the form of Gresvig shares, and the share capital after this issue came to NOK 38 255 905.

Voting rights/restrictions on ownership

Gresvig has only one category of share. Each share carries one vote at the general meeting. The company's articles of association place no restriction on the number of shares which may be owned or voted by a single shareholder.

Shareholder history

Gresvig has a history as a solid family-owned company. From its creation in 1901 until 1990, it was wholly owned by the Gresvig family.

In 1990, Kjell Inge Røkke and Bjørn Rune Gjelsten acquired a majority holding in Gresvig via their Sport Invest Inc company in Seattle, USA, under an agreement with Aksel Gresvig, who was chairman at the time.

The remaining shares in Gresvig were acquired by Sport Invest Inc in 1991. From then until 1994, the company was a wholly-owned subsidiary of Sport Invest Inc. In March 1994, the owner of Gresvig sold 540 000 of the shares and expanded the share capital through a public placement of 1 639 000 new shares at an issue price of NOK 54 each. This secured Gresvig NOK 90.2 million in new equity capital and increased the number of shares in the company to 6.2 million, owned by about 2 000 shareholders.

These transactions reduced the Sport Invest/Resource Group International Inc (RGI) holding in the company from 100 per cent to 64.84.

RGI reduced its holding in Gresvig to 50.33 per cent during 1995 and sold out of the company altogether in December 1996.

A private placement directed at the shareholders of Sport Holding AS was implemented in April 1997, involving 1 308 056 new shares at an issue price of NOK 113. This issue formed part of the payment for shares in Sport Holding AS, which give Gresvig control over Intersport in Norway and the Intersport licences for Poland and the Baltic states.

Dividend policy

Dividend policy has a high priority in Gresvig's overall and financial strategies.

The Gresvig board's long-term objective is to pay a dividend which corresponds to 30-50 per cent of net profit for the year. However, the board is unable to propose a dividend for 1998, given the results achieved by the group after substantial write-downs. A dividend of NOK 1.50 per share, corresponding to 43.5 per cent of the group's net profit, was paid for fiscal 1997.

Risk regulation

Risk regulation per share at 1 January 1999 is put at NOK 2.07. The historical risk amount since the company secured its listing on the Oslo Stock Exchange has been:

1 January 1995: ....(NOK 2.51)
1 January 1996: .... NOK 4.83
1 January 1997: .... NOK 5.70
1 January 1998: .... NOK 3.27

Share price

The Gresvig share performed worse than the Oslo Stock Exchange all-share index during 1998. A major contributory factor was poor financial results for Intersport, particularly in Denmark after the acquisition of Sport Holding AS and Kurt Larsen Sport Holding ApS. A natural degree of caution towards the company has been registered after an announcement was made to the Oslo Stock Exchange and the shareholders about the substantial write-downs in goodwill, inventories and accounts receivable.

Trading in Gresvig shares was low during 1998 by comparison with earlier years. Roughly 3.5 million shares were traded, as against more than 13 million in 1997. At 1 January 1998, the share price stood at NOK 90. It had declined to NOK 47 at 31 December. The highest price of NOK 106 was attained on 13 May 1998, while the low point for the year was NOK 42 at 22 December.

The company had a stock market value of NOK 360 million at 31 December 1998. Since 1 January 1999, trading has been limited and the share price has remained low – fluctuating between NOK 45-52. The share traded for NOK 52 on the Oslo Stock Exchange at 24 March 1999.

Investor relations

All price-relevant information must be made available if the share price is to reflect the underlying value of Gresvig. The company therefore regularly publishes details of developments through interim and annual reports. Quarterly accounts are normally published about six-seven weeks after the end of the relevant period.

Registry of securities and registered enterprise numbers

The Gresvig share is registered in the Norwegian Registry of Securities (VPS) under the number ISIN NO 000 3046401, with Sparebanken Nor as the account manager. Gresvig's registered enterprise number is 937 905 645. Its ticker code on the Oslo Stock Exchange is GRE.

Shareholders

Gresvig had 571 shareholders at 31 December 1998, as against 579 at 1 January. The 20 largest shareholders owned 6 162 689 shares, corresponding to 80.5 per cent of the share capital. Foreigners held 15.1 per cent of the shares.

The largest shareholders in Gresvig at 31 December 1998:

Shareholder	No of shares	Percentage
Steen & Strøm ASA	2 403 867	31.41
RBS Trust Bank	595 535	7.78
Storebrand Livsforsikring	572 100	7.47
Storebrand Skadeforsikring	507 600	6.63
Varner Finans	295 400	3.86
Verdipapirfondet AVA	275 800	3.60
Storebrand AMS	222 800	2.91
Verdipaprifondet AVA	165 300	2.16
Gjensidige Invest	145 000	1.89
Kurt Larsen	143 125	1.87
RBS Trust Bank	136 204	1.78
Gjensidige Livsforsikring	117 600	1.53
Veripapirfondet AVA	110 000	1.43
Opplysningsvesenets Fond	85 518	1.11
NKL	81 700	1.06
Vår Livsforsikring	80 000	1.04
Skandinaviska Enskilda	68 000	0.88
Storebrand Norge	55 000	0.71
ABC Eiendom	53 940	0.70
Bank of NT Butterfield	48 200	0.62

Shareholders by size at 31 December 1998:

Number of shares	Shareholders	Percentage
1–50	35	0.01
51–100	51	0.06
101–1000	306	1.47
1001–10 000	115	5.36
10 001–100 000	51	18.74
Over 100 000	13	74.37

Key share-related figures	1998	1997	1996	1995	1994
Earnings/(loss) per share (NOK)	**(26.77)**	3.60	8.61	10.70	8.31
Dividend per share (NOK	**0**	1.50	2.00	5.00	3.00
Pay-out ratio (%)	**-**	43.5	23.2	46.7	24.0
Share price at 31 Dec (NOK)	**47**	88	103	96	80

Development of the share price 2 Jan 97–24 Mar 99:

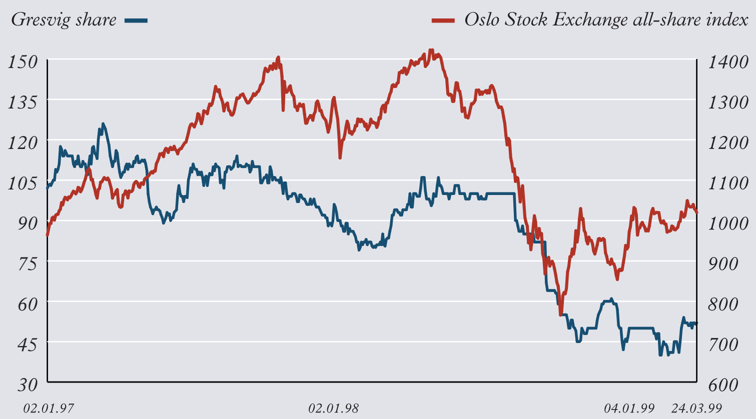

Photo: Bård Ek

We're going for GOLD

Gresvig showed its market muscle during 1998. Our two competing chains, G-Sport and Intersport, succeeded in securing half the Norwegian sport and leisure market.

The year outside Norway was characterised by expansion in Poland and by the acquisition of shops and a clear-up in Denmark.

In the short term, the acquisition of Sport Holding (Intersport) in 1997 and international expansion have cost much energy. Board and management were forced to acknowledge in 1998 that results achieved and expected could not justify the valuations on which the acquisitions rested. That is the principal reason why we have written down asset values by just over NOK 160 million. Although this has no impact on our liquidity, it is a clear result of dearly-bought experience.

Our shareholders have had to bear the brunt in 1998. After peaking at NOK 106 in May, the price of the Gresvig share fell to NOK 47 at 31 December. This decline has occurred even though G-Sport, the core of the "old" Gresvig, continued its profitable growth. Put simply, unfulfilled expectations and declining confidence have cost NOK 60 100 per share.

As the newly-appointed chief executive, I can see four obvious factors which made a strong contribution to the short-term lack of success for our growth strategy. They are:

- inadequate plans for coordinating G-Sport and Intersport
- an immature organisational structure for handling growth and internationalisation
- inadequate solutions for integrating IT and logistics
- underestimating the information needed to achieve effective restructuring.

These are some of the key issues which are now being tackled. We have put a clear-up year behind us, and are now in a working year. Active efforts will produce improved results and economies of scale. We will be a long-term, leading and profitable player in the sports and leisure market.

We all have opportunities to succeed, and this will be identified through performance assessments. The goal in both business and sport is to be the winner. For us, the aim is to become a little better every day. We are going for gold.

G Gresvig offers people experiences and sporting leisure time in an environment-friendly way. Our core values are:

O Outstanding performer for efficient flow of goods, right choice of products, market understanding and application of information technology.

L Long-term in our approach to creating good relations with consumers, dealers, employees, suppliers, partners and shareholders

D Delivering profitability at every stage – because this gives financial freedom of action and creates the basis for a forward-looking commitment.

We are judged every day by consumers, dealers, employees, suppliers, partners and players on the Oslo Stock Exchange. In the competition for attention, experience and reputation, our clear aim is to be an aggressive and leading player which actively develops and expands the sport and leisure market through new, attractive and profitable concepts.

Active sport and leisure for all

G-Sport is Norway's leading sport and leisure chain, which actively develops and expands the market through new and profitable concepts.

The G-Sport business areas comprises the G-Sport Norge AS chain service centre and the G-Sport Detalj Norge AS retailing company with 27 directly-owned shops.

G-Sport has 229 chain members, with an overall market share of roughly 32 per cent. Its distinguishing characteristic is a nationwide chain of shops offering active sport and leisure for all. The business area has 278 employees, with retailing responsible for 200 work/years.

The market

Norway's sports equipment market has been stable over the past two years, with sales worth just under NOK 7 billion on an annual basis. That corresponds to roughly NOK 1 450 per capita, a high level for consumption of sports equipment in an international context. Developments in recent years indicate that demand is relatively insensitive to business cycle fluctuations. Local climatic conditions make a considerable impact on demand.

The trend in this sector is that specialist shop chains are taking market share from independent sports equipment outlets. At 31 December 1998, chains controlled just under 90 per cent of Norway's sports and leisure market. Despite this strong tendency towards chain formation, the general level of profitability in the sports equipment sector is below the retailing average. This reflects high overheads and the failure so far to extract economies of scale from the current restructuring of the sector.

Figures from the ACNielsen market analysis institute show that the average sports equipment store in Norway has annual sales of NOK 7 million, the equivalent of 3.8 full-time employees and just under 250 square metres of sales space.

G-Sport is taking a lead in developing chain concepts and efficient distribution. The profitability of shops belonging to its chain is therefore generally above the average for this sector.

Operations in 1998

G-Sport achieved gross sales revenues of NOK 1 172 million in 1998, which is roughly on a par with the year before.

Sales through G-Sport Norge totalled NOK 1 100 million, a decline of three per cent from 1997. This reflects measures undertaken by chain members in 1998 to reduce their inventories. In addition, the number of shops in the chain fell from 238 in 1997 to 229. Ten completely new stores joined the chain in 1998, while 19 withdrew or were wound up.

Purchasing loyalty, which expresses how large a proportion of purchases by chain members are made via Gresvig, remained at a high and stable level of just over 80 per cent. Products and product categories such as sports (running and club sports), outdoor/shooting, fishing, winter sports and leisure wear all saw a growth in sales of five per cent or more during 1998. On the other hand, sales declined by roughly 10 per cent for bicycles and also contracted for water sports.

G-Sport Norge Detalj reported gross sales revenues of NOK 385 million in 1998, an increase of seven per cent from the year before. This increase primarily reflects shop acquisitions. A process has been launched to concentrate the retailing company's business on operating large stores.

Prospects

Measures have been adopted by G-Sport to strengthen its competitive position. The chain aims to provide the best combination of price and quality. G-Sport is the market leader offering the "number one" product in each main segment. Its shops will present a uniform image to the market, and customers must feel a sense of recognition in every G-Sport shop.

Norwegian sports equipment sales are expected to increase by two-three per cent in 1999. Through stable membership and higher turnover, the aim is to expand G-Sport's market share to 33 per cent over the year.

Standardised campaign products and packages of goods will be designed to be attractive to customers, shops and the chain service centre.

Development of G-Sport as the leading player with expertise in this specialised sector will continue.

Priority will be given in 1999 to training managers and shop sales staff. A purposeful commitment to expertise and further development of the chain concept – not least "shop-in-shop" solutions – will lay the basis for long-term profitable growth in the sports and leisure market.

Key figures G-Sport

(see definitions on page 31)

	G-Sport chain service centre			G-Sport retail		
NOK mill	**1998**	1997	1996	**1998**	1997	1996
Gross sales revenues	**1 000.0**	1 033.9	888.6	**384.7**	359.7	234.4
Gross margin	**24.9%**	24.7%	26.5%	**40.1%**	40.1%	39.5%
Operating profit	**77.1**	71.8	68.4	**7.7**	16.7	11.8
Operating margin	**7.7%**	6.9%	7.7%	**2.0%**	4.7%	5.0%

The group's international bridgehead

Intersport is the world's largest sports equipment chain, with some 4 000 stores. Gresvig holds the Norwegian Intersport licence and has international operations in Denmark and Poland.

The Intersport business area embraces the Intersport AS chain service centre and Intersport Detalj AS with 10 wholly- and six partly-owned shops in Norway. On the international side, the business covers a 58.8 per cent shareholding in the Intersport Danmark AS chain service centre as well as full ownership of Intersport Detail AS with 18 directly-owned stores – including Kurt Larsen Sport Holding ApS – and the Intersport licence in Poland. Intersport Polska embraces three directly-owned shops and one operated on franchise terms.

The group's Intersport entities were brought together under one management in the autumn of 1998 to improve coordination and achieve a unified focus. In Norway, Intersport increased its market share from 16 to 18 per cent during the year. The chain has 141 member shops. Intersport Danmark AS has 74 members and about 23 per cent of the market.

Intersport had the equivalent of 357 full-time employees, including 203 in the non-Norwegian companies.

The market

Intersport has confirmed its position as a strong player in the Norwegian sports and leisure market. Only Gresvig's competing G-Sport chain is larger. The Intersport business is particularly strong in northern and mid Norway, and in some of the southern counties.

Today's trend in the Norwegian sports equipment market is that the average customer has less interest in competitive sports than before. Health, experience and relaxation are key motivations which determine demand for categories of product. Intersport experienced its strongest growth during 1998 in textiles and leisure wear.

In terms of sales, the Danish sports equipment market is roughly half the size of Norway's. This is in part because virtually no bicycles are now sold through Danish sports shops. The establishment of sports and leisure chains in Poland, which has 40 million inhabitants, is in its infancy. Roughly five-six million Poles are thought to have a purchasing power comparable with the Scandinavian average.

Operations in 1998

Overall gross sales revenues for Intersport in 1998 came to NOK 760 million, an increase of 24 per cent from the year before. Operations in Norway accounted for 64 per cent of these revenues. The international Intersport commitment is in a time-consuming and costly start-up phase.

Sales by the Intersport chain service centre came to NOK 450.4 million, up by 14 per cent from 1997. The number of chain members rose from 133 to 141 over the year. Purchasing loyalty among the shops continued to improve, reaching just under 65 per cent in 1998.

Intersport Detalj in Norway reported gross sales revenues of NOK 72.8 million, an increase of 42 per cent from 1997.

Gresvig's Intersport operations outside Norway are expanding. Gross sales revenues came to NOK 101.8 million for Intersport Danmark and NOK 176.5 million for the wholly-owned retailing operations in Denmark. Results for Intersport Detail were very weak, and an improved performance will be sought for both Danish companies. Extensive efforts have been launched to reduce costs, make logistics functions more efficient and ensure better supervision of operations in the directly-owned shops.

Intersport Polska completed its first full operating year with gross sales revenues of NOK 27 million. Operations in Poland are characterised by market investments.

Photo: Intramedia

Prospects

Intersport has initiated an action plan to manifest profitable growth. This will be achieved through measures to promote sales in existing shops, a commitment to expanding the number of Norwegian chain members by 10 per cent, improved packages of goods, better agreements with suppliers and close supervision of shop operation.

Making chain operation more efficient has priority both in Norway and abroad. A process has been launched to achieve a different ownership structure for the wholly- and partly-owned stores.

Intersport's results will again be unsatisfactory in 1999.

Key figures Intersport

(see definitions on page 31)

	Intersport chain service centre			Intersport retail			Intersport outside Norway		
NOK mill	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
Gross sales revenues	**450.4**	395.8	310.5	**72.8**	50.5	34.5	**284.0**	195.3	–
Gross margin	**13.4%**	13.3%	23.1%	**33.0%**	32.2%	33.9%	**31.0%**	34.5%	–
Operating profit/(loss)	**5.9**	8.3	8.5	**(8.8)**	(6.2)	(8.3)	**(12.9)**	0.9	–
Operating margin	**1.3%**	2.1%	2.7%	**(12.1%)**	(12.2%)	(24.0%)	**(4.5%)**	0.5%	–

A centre for efficient supply of goods

SportDistribution is the group's central distribution unit for the roughly 370 G-Sport and Intersport shops in Norway.

This business area embraces the logistics function for Gresvig's Norwegian operations. SportDistribution is responsible for ensuring reliable delivery and a cost-effective flow of goods from manufacturer to chain members and dealers.

Plans call for the central G-Sport and Intersport warehouses to be united under a single roof on 1 July 1999. Since the acquisition of Sport Holding in 1997, the number of warehouses has thereby been reduced from three to one. In addition comes management of an external warehouse for bicycles. The central warehouse at Askim will produce economies of scale and improved results in 1999.

The market

Gresvig's strong market position builds on attractive chain concepts, leading local dealers, the best range of products for consumers and efficient supply of goods. The key to success in a fashion-conscious sports sector is to offer the right products at the right time to the right consumers. About 80 per cent of the items carried have a shelf life of just one season.

By European standards, the group has a substantial infrastructure for supplying goods to specialist shops. Gresvig ranks as Norway's third largest importer of retail products from overseas ports, with an overall annual volume corresponding to roughly 1 200 containers. More than 70 per cent of these goods originate from manufacturers in the Far East.

Orders secured at trade fairs five months or more before products are delivered to chain members account for about 60 per cent of the group's sales revenues. The delivery cycle for sports equipment is long and complicated. That makes logistics a critical success factor for Gresvig.

Operations in 1998

Inventories in Norway are owned by the G-Sport Norge and Intersport chain service centres. SportDistribution's gross revenues of NOK 88 million in 1998 represent earnings from warehousing, goods handling and transport to customers as well as operating revenues from external users.

The aim of the business is to contribute to the profitability of members and shareholders by maintaining an efficient supply chain with low costs. A focus on the whole value chain – from ordering through to delivery – will make the use of SportDistribution's systems simple and comprehensible.

Operations in 1998 were affected by restructuring after running-in problems the year before with the new SattStore 2000 inventory management system at Askim. Continuous quality measurements in 1998 show that SportDistribution has regained the confidence over delivery quality traditionally enjoyed by Gresvig. Picking errors in the warehouse are now down to 0.25 per thousand of the total number of order lines, which is extremely low.

Logistic costs in 1998 ended at the same level as in 1997, although a substantial reduction had been budgeted. The cost overruns reflect the fact that more warehouses than expected were operated in 1998. The Intersport warehouse in Drammen was reopened in September to handle winter items, for instance. That proved an inconvenient and costly operation. During the second half of the year, IBM's Solution 1 was implemented as the joint system for G-Sport and Intersport. The transition from two logistic systems to a single main solution provides an important platform for improving operational efficiency.

Prospects

SportDistribution is pursuing an action plan which aims to cut operational costs from just over six per cent of chain service centre revenues handled by the warehouse in 1998 to four per cent. This reduction reflects reduced area costs and higher productivity.

While the flow of goods will meet chain requirements, the number of inventory items is being harmonised with the central warehouse's capacity of roughly 17 000 different items. The aim is to define 4 000 common items for the group's two competing chains, with G-Sport and Intersport each having about 6 500 special items for their respective chains. Modifications to the SattStore 2000 inventory management system will make handling of pre-sold products more efficient through "cross docking". Introducing electronic systems using bar codes is under consideration.

Gresvig's value-chain thinking involves a focus on simplicity for dealers and chain members. The simplest approach is that all goods are purchased via shop computer systems – in other words, through a single channel – and that the goods are delivered on time, in one consignment and with a single invoice. Shop computer systems, which are integrated in chain service centre management systems, represent a substantial saving for members in terms of inventory management, purchasing routines and checking of goods received. The aim in the long term is for the group to control 100 per cent of the flow of goods to the dealers. Ninety-eight per cent of G-Sport's dealers have a shop computer system, while about 30 per cent of the Intersport dealers are linked to this solution.

Systems developed in 1998 make it possible to determine the gross margin at item number and product category levels. This will make it easy in 1999 to identify unprofitable items and product categories. The aim for 1999-2000 is to reduce picking time per order line from 4.2 to 3.4 minutes and to increase order line value to NOK 900. That will reduce warehouse labour costs by 30 per cent.

Photo: Sjøberg Billedbyrå

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Photo: Intramedia

Definitions

Gross sales revenues
Sales revenues excluding VAT before income reductions.

Gross margin
Gross sales revenues less cost of goods sold divided by gross sales revenues.

Operating profit/loss
Net operating revenues less total operating costs*)
**) Before allocation of the parent company's management fee. Will be changed from 1999.*

Operating margin
Operating profit/loss divided by gross sale revenues.

Average number of shares
Number of shares at the end of each quarter, divided by the number of quarters.

Net earnings/(loss) per share
Profit/loss before extraordinary items and after tax divided by the average number of shares.

Price/earnings ratio (p/e)
The share price at 31 December divided by earnings/loss per share.

Cash flow per share
Profit/loss before extraordinary items less taxes payable plus depreciation divided by the average number of shares.

Percentage sales growth
The percentage change in gross sales revenues.

Development in results
Percentage change in profit/loss before tax.

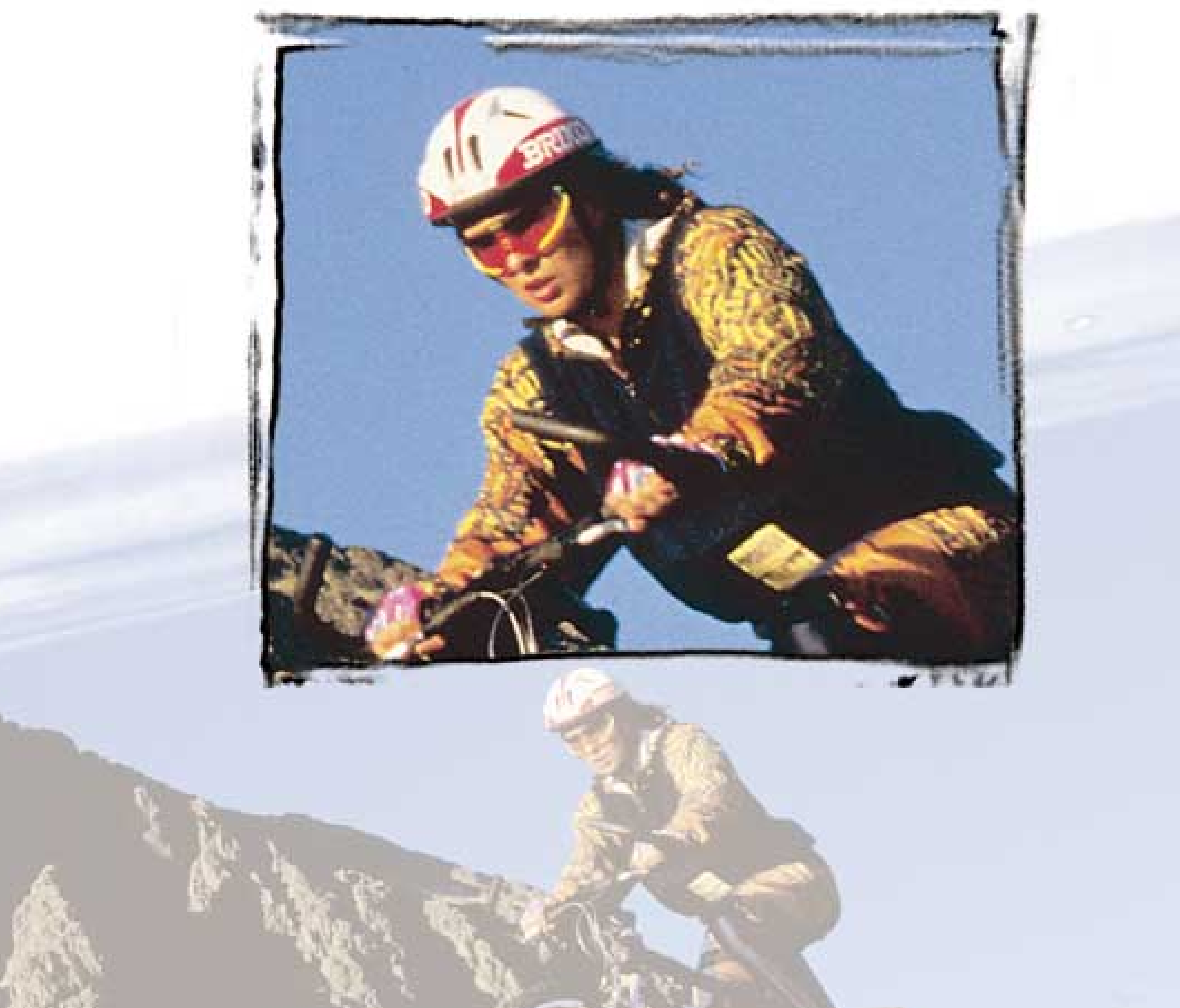
Net operating margin
Operating profit as a percentage of gross sales revenues.

Equity ratio
Shareholders' equity divided by total assets.

Return on equity
Profit/loss before extraordinary items and after tax divided by average shareholders' equity.

Return on total assets
Profit/loss before extraordinary items and after tax, plus financial expenses, divided by average total assets.

Current ratio
Current assets divided by current liabilities.



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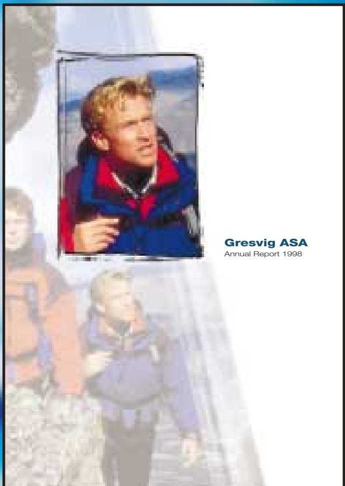
Gresvig



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