

# N1's profit for the third quarter of 2017 in the amount of ISK 963 million

## Main results

- Earnings before interest, taxes, depreciation and amortisation (EBITDA) for Q3 2017 amounted to ISK 1,409 million compared to ISK 1,472 million for the same quarter of 2016
- Gross profit from sales of goods decreased by 2.8% in Q3 2017, mainly due to unfavourable development in the international market price of fuel
- Development in the international market price of fuel had a positive effect during Q3 of 2017
- Sale of petrol and diesel fuel increased by 0.4% as compared to the previous year
- Highway traffic increased by 8.0% in Q3 2017 as compared to the same quarter of 2016
- At the end of Q3 2017 equity amounted to ISK 13,461 million and equity ratio was 46.4%

ISK thousand	3Q 2017	3Q 2016	Change	% change	9M 2017	9M 2016	Change	%Change
<b>Income Statement</b>								
Gross profit	3,497,459	3,402,907	94,552	2,8%	8,598,446	8,520,502	77,944	0,9%
Other operating income	92,546	91,344	1,202	1,3%	294,035	279,238	14,797	5,3%
EBITDA	1,409,305	1,472,431	-63,126	-4,3%	2,698,564	2,949,942	-251,378	-8,5%
EBIT	1,161,172	1,291,178	-130,006	-10,1%	1,965,139	2,418,250	-453,111	-18,7%
EBT	1,183,438	1,297,660	-114,222	-8,8%	1,978,496	2,335,078	-356,582	-15,3%
Profit for the period	962,697	1,071,893	-109,196	-10,2%	1,628,845	1,903,321	-274,476	-14,4%
<b>Statement of Financial Position</b>								
Inventories					3,145,858	2,731,101	414,757	15,2%
Trade receivables					3,261,162	3,106,694	154,468	5,0%
Interest bearing liabilities					8,000,000	6,370,000	1,630,000	25,6%
Cash and cash equivalents					3,083,269	3,867,222	-783,953	-20,3%
Net interest bearing liabilities					4,951,866	2,578,988	2,372,878	92,0%
<b>Statement of Cash Flows</b>								
Cash flows from operating activities	1,030,904	2,763,982	-1,733,078	-62,7%	2,260,090	3,540,108	-1,280,018	-36,2%
Investing activities	-1,778,032	-218,580	-1,559,452	713,4%	-1,951,267	-713,480	-1,237,787	173,5%
Financing activities	1,416,575	-152,915	1,569,490	-1026,4%	475,354	-1,435,385	1,910,739	-133,1%
Cash and cash equiv. at the end of the period	3,083,269	3,867,222	-783,953	-20,3%	3,083,269	3,867,222	-783,953	-20,3%
<b>Key indicators</b>								
EBITDA/gross profit	40,3%	43,3%	-3,0%	-6,9%	31,4%	34,6%	-3,2%	-9,4%
Equity ratio					46,4%	39,6%	6,8%	0,17172
Salaries/gross profit	31,7%	30,3%	1,4%	4,5%	39,0%	36,3%	2,7%	7,5%
Earning per share	3,85	3,06	0,79	25,7%	6,52	5,44	1,08	19,9%
Return on equity					17,2%	33,2%	-16,0%	-48,2%
Investments	-1,781,116	-280,149	-1,500,967	-535,8%	-2,185,383	-866,313	-1,319,070	152,3%
Inventory turnover	8,99	9,72	-0,73	-7,5%	7,67	8,40	-0,73	-8,7%

## Operations in the third quarter

ISK thousand	3Q 2017	3Q 2016	Change	% change	9M 2017	9M 2016	Change	% change
<b>Income Statement</b>								
Gross profit	3.497.459	3.402.907	94.552	2,8%	8.598.446	8.520.502	77.944	0,9%
Other operating income	92.546	91.344	1.202	1,3%	294.035	279.238	14.797	5,3%
Salaries and other personnel expenses	-1.109.297	-1.032.601	76.696	7,4%	-3.352.918	-3.090.346	262.572	8,5%
Sales and distribution expenses	-620.178	-593.785	26.393	4,4%	-1.610.079	-1.576.566	33.513	2,1%
Other operating expenses	-451.225	-395.433	55.792	14,1%	-1.230.920	-1.182.885	48.035	4,1%
EBITDA	1.409.305	1.472.431	-63.126	-4,3%	2.698.564	2.949.943	-251.379	-8,5%

EBITDA for Q3 2017 was in the amount of ISK 1,409 million compared to ISK 1,472 million for Q3 2016. The cost of aquisition of Festi was ISK 52 million in Q3 2017 and ISK 10 million in Q2 2017 or total of ISK 62 million. The increase in gross profit of sales is for the most part attributable to favourable development in world market price of oil. Contractual salary increases were the main reason for an increase in salaries and other personnel expenses in Q3 2017 compared to the same period in 2016 as well as an increase in the number of staff. Increase in other operating expenses is mainly related to the cost of aquisition of Festi.

## Revenue in the third quarter

Thousand of litres / sales of other goods in ISK thousand	3Q 2017	3Q 2016	Change	% change	9M 2017	9M 2016	Change	% change
Quantity sold - gasoline	17.767	19.637	-1.870	-9,5%	46.349	47.545	-1.196	-2,5%
Quantity sold - diesel fuel	31.033	28.992	2.041	7,0%	76.685	70.539	6.146	8,7%
Total quantity sold - excluding JET	78.101	76.982	1.119	1,5%	178.655	185.469	-6.813	-3,7%
Sales of other goods	3.094.088	3.080.903	13.184	0,4%	8.265.811	8.095.189	170.621	2,1%
Gross profit on sales of fuel	2.075.508	1.973.014	102.494	5,2%	4.745.697	4.826.496	-80.799	-1,7%
Gross profit on sales of other goods	1.421.951	1.429.892	-7.942	-0,6%	3.852.749	3.694.005	158.743	4,3%

Sales volume, excluding jet fuel, increased by 1.5% in Q3 2017 compared to the same quarter for the previous year. Sales volume of gasoline and diesel fuel increased by 0.4% in Q3 2017 when compared to the same quarter for the year 2016. Increased gross profit on sale per liter in Q3 2017 is mainly due to price development in the international fuel market. Increase in sale of gasoline and diesel fuel was less than expected due to increased competition in the consumer market. The world market price of gasoline decreased in Q3 2017 by 5.8% and price of diesel by 21.1%, compared to an increase by 3.0% in the price of gasoline and diesel fuel in the same period of 2016. Sale of other goods increased by 0.4%, in Q3 2017 compared to Q3 2016.

The Board of Directors of Flutningsjöfnunarsjóður (Transport Cost Equalisation Board) has, at the request of the Icelandic Competition Authority, decided that sales figures will no longer be made available to the oil companies. Therefore, market share information is no longer available for the Company.

## Operating expenses in the third quarter

ISK thousand	3Q 2017	3Q 2016	Change	% change
Salaries and other personnel expenses	-1.109.297	-1.032.601	76.696	7,4%
Sales and distribution expenses	-620.178	-593.785	26.393	4,4%
Other operating expenses	-451.225	-395.433	55.792	14,1%

In Q3 2017 the average number of employees in full time equivalent units was 602 compared to 597 in Q3 2016. Contractual salary increases are the main reasons for increase in salaries and other personnel expenses in Q3 2017 compared to the same period for the year 2016. Sales and distribution expenses was 4.4% higher in Q3 2017 than in the same quarter for the year 2016. Other operating expenses was 14.1% higher in Q3 2017 than in Q3 2016, due to cost of for the purchase of Festi which was ISK 52 million in Q3 2017 and ISK 10 million in Q2 2017 or ISK 62 million.

## Finance items

Due to a decrease in cash and cash equivalents position and lower interest on deposits, finance income was lower in Q3 2017 than in the same period for the previous year. Finance expenses were lower in Q3 2017 than Q3 2016 due to a decrease of interest rate on a long-term borrowing. Currency exchange gain due to development of the USD exchange rate was in the amount of ISK 20 million in Q3 2017. During the third quarter of 2016 foreign exchange loss amounted to ISK 25 million. Results of associates decreased between Q3 of 2017 and 2016.

ISK thousand	3Q 2017	3Q 2016	Change	% Change
Finance income	16.517	34.801	-18.284	-52,5%
Finance expenses	-97.849	-113.665	-15.816	-13,9%
Foreign currency difference	20.129	-25.076	45.205	-180,3%
Share of profit from associates	82.778	111.900	-29.122	-26,0%
Valuation changes of shares in	689	-1.478	2.167	-146,6%
Total	22.266	6.482	15.784	243,5%

## Statement of financial position

ISK thousand	9M 2017	9M 2016	Change	% Change
Inventories	3.145.858	2.731.101	414.757	15,2%
Trade receivables	3.261.162	3.106.694	154.468	5,0%
Interest bearing liabilities	8.000.000	6.370.000	1.630.000	25,6%
Cash and cash equivalents	3.083.269	3.867.222	-783.953	-20,3%
Net interest bearing liabilities	4.951.866	2.578.988	2.372.878	92,0%
Equity ratio	46,4%	39,6%	6,8%	17,2%
Inventory turnover	7,67	8,4	-0,73	-8,7%

Inventories increased by 15% between Q3 2016 and Q3 2017 mainly due to increase in price in the international fuel market. Cash and cash equivalents decreased by 20.3% between Q3 2016 and Q3 2017. Investments in Q3 2017 were in the amount of ISK 1,778 million after taking into account the proceeds from sale of operating assets. Net interest bearing liabilities were lower at end of September 2017 compared to same time of 2016. N1 purchased Klettagarðar 13 for ISK 1,650 million, which was financed with a short term loan amounting to ISK 1,500 million.

## N1's acquisitions of Festi

On 3 October 2017 a purchase agreement was signed for N1's acquisitions of all share capital in Festi hf. The Purchase agreement was based on a letter of intent signed by N1 hf. and SF V slhf. on 9 June this year, where the principal terms of the transaction and results of a due diligence procedure were specified.

Festi specialises in managing retail business and operates 27 stores under the brand names of Krónan, ELKO, Nóatún, Kjarval and Kr. The company also owns and operates Bakkinn warehouse hotel. Festi owns 18 real estates that are rented out, both to its stores and third parties, the total square meters of which are 71,500. The total turnover of Festi for the operating year ended on 28 February 2017, was in excess of ISK 39 billion.

According to the purchase agreement enterprise value of Festi is assumed to be ISK 37.9 billion. However, the final purchase price of share capital will depend on the company's level of debt on 28 February 2018, i.e. at the end of the current financial year. Estimated EBITDA for the current operating year is estimated to approximately ISK 3,340 million. Thereof, EBITDA of Festi's operating companies is assumed to be ISK 2,125 million and ISK 1,215 million due to Festi's real estate operations. The company's enterprise value is subject to change if the financial performance of the operating companies turn out to be different from that assumed. If those companies' total EBITDA for the financial year ending on 28 February 2018, turns out to be higher than ISK 2,125 million, the purchase price will increase, however not by more than ISK 1 billion, the maximum being reached if EBITDA is equal or higher than ISK 2,250 million. If the companies' total EBITDA turns out to be lower than ISK 2,050 million the purchase price will decrease, however not by more than ISK 1 billion, the maximum decrease being reached if total EBITDA turns out to be equal to or lower than ISK 1,925 million. As previously announced N1's management estimate the Company's EBITDA to be in the range of ISK 3,500 to 3,600 million for the year 2017, excluding expenses related to the acquisition of Festi. Therefore EBITDA of the combined entities for the current operating year, excluding expenses related to the acquisition of Festi, is estimated to be in the range of ISK 6,840 to 6,940 million. The aforementioned figures do not include synergy related to the combination, which is estimated to be in the range of ISK 500 to 600 million.

The share capital acquisition is to be paid with 76,086,957 shares in N1 at price of 115 per share, each share being in the nominal value of ISK 1, and therefore corresponding to ISK 8,750 million, and via a new borrowing. Half of the aforementioned shares in N1 have a lock-up provision until 31 December 2018. However, the seller is allowed to resell the shares, with the aforementioned conditions attached, to the ultimate owner. In case of additional consideration payable, due to better financial performance of Festi hf., that payment will be in the form of shares in N1 at a price of 115. Those shares would also be subject to the same lock-up provisions as specified above. The transaction is subject, among other, to shareholders' meeting approval of both companies as well as the approval of the Icelandic Competition Authority. If completed, the transaction is expected to be finalised in the second quarter of 2018.

### **N1's purchased Klettagarðar 13**

On 7 September N1 purchased the real estate at Klettagarðar 13 from FAST-2 ehf. At year-end 2012 N1 had sold FAST ehf. the asset but concurrently entered into a ten year lease agreement according to which N1 had a call option for the asset, exercisable after five years and again ten years as from the date of sale. The repurchase price was an index-adjusted selling price. The real estate is 8,926 square meters and mainly used as a warehouse by the Company, but also as a retail store for the Company's corporate clients. The asset's purchase price was ISK 1,653 million, corresponding to a 7.3% yield. As a result of the purchase, assuming no other changes, the Company's EBITDA increases by ISK 90 million and cash flows from operating activities by ISK 120 million on an annual basis.

### **Future outlook in N1's operations and estimated EBITDA for the year 2017**

- Increase in the number of foreign tourists expected to continue in 2017
- Increase in domestic operating expenses, even if inflation rate is moderate, will have an impact on operations in competitive markets such as the one in which the Company operates
- Turmoil in oil markets will cause fluctuations in gross profit and working capital position.

EBITDA forecast for the year 2017 is unchanged. EBITDA is assumed to be in range of ISK 3,500 – 3,600 million, excluding expenditures related to the planned acquisition of Festi hf.

The forecast is based on the assumptions of oil price being relatively stable and the exchange rate of USD/ISK close to 105. The Company's operations are seasonal and most of its EBITDA are related to the second and third quarters.

**Shareholders**

- The Company's market capitalisation was ISK 27.7 billion as at the end of September 2017
- A shareholders meeting will be held at company's headquarters Dalvegur at 16:00 on 26 October 2017, where it will be proposed that the Company acquires all share capital of Festi hf. and the share capital of N1 increased.

**Meeting on Thursday 26 October 2017**

An open meeting for market participants and shareholders will be held on Thursday 26 October 2017 at N1's headquarters at Dalvegur 10-14 in Kópavogur (3rd floor). Eggert Kristófersson, the Company's CEO, will present the Company's results and answer questions. The meeting will start at 8:30. A light breakfast is available from 8:00. Presentations will be available following the meeting on N1's website: <http://www.n1.is/um-n1/fjarfestar/> as well as on the company news section on Nasdaq OMX Iceland hf.'s webpage.

**Financial calendar**

- Annual Financial Statements for the year 2017: 21 February 2018
- Annual general meeting 2018: 21 March 2018
- For further information please contact Eggert Kristófersson, CEO ([eggert@n1.is](mailto:eggert@n1.is)) and Pétur Hafsteinsson, CFO, ([petur@n1.is](mailto:petur@n1.is)).