N1 hf.

Consolidated Financial Statements 2017

N1 hf.
Dalvegur 10-14
201 Kópavogur

Reg. no. 540206-2010

This is a translation of the icelandic original. In the event of discrepancies between the Icelandic language version and any translation thereof, the Icelandic language version will prevail

Contents

Endorsement by the Board of Directors and the CEO

The objective of the Company is sale of fuel and lubricants in fixed, liquid and gaseous form, wholesale and retail, purchase, sale and ownership of securities, purchase, sale, ownership and operation of real estates and movable property, together with lending activities related to the Company's operations and other related operations.

Operations in the year 2017

The Company´s operating revenue for the year 2017 amounted to ISK 35,050 million (2016: 34,139) and increased by 2.7% between years. Profit before depreciation, amortisation and finance items amounted to ISK 3,535 million for the year 2017 (2016: 3,625) and decreased by 2.5% between years. According to the income statement and statement of comprehensive income, the profit for the year amounted to ISK 2,071 million (2016: 3,378) but total comprehensive income for the year ISK 1,990 million (2016: 7,177). The Company´s equity at year end amounted to ISK 13,812 million (2016: 12,572), including share capital in the nominal value of ISK 250 million. Reference is made to the statement of changes in equity regarding changes of equity during the year. The Company´s equity ratio at year end was 49.9% (2016: 49.1%).

Full time equivalent units was 545 in the year 2017 (2016: 532).

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, exerciseable 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 var ISK 1,653 millon. 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.

Acquisition 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 the same year, where the principal terms of the transaction and results of a due diligence procedure were specified. The transaction is subject, among other, to the approval of the Icelandic Competition Authority which is to announce its conclusions no later than 16 April 2018. If completed the date of acquisition is expected to be 1 July 2018. In note 35 to these financial statements further information on this transaction is disclosed, both with respect to the premises upon which the final purchase price is based and the operations of Festi

Shareholders

At the end of the year the Company´s shareholdes were 1,158 compared to 1,699 at the beginning of the year. Following are the Company's 20 biggest shareholders at year end.

Lífeyrissjóður verslunarmanna	13,3%
Lífeyrissjóður starfsmanna ríkisins A-deild og B-deild	11,1%
Gildi - lífeyrissjóður	9,3%
Lansdowne Icav Lansdowne Euro	8,1%
Landsbréf	6,8%
Wellington Trust Company	6,6%
Birta lífeyrissjóður	6,3%
Almenni lífeyrissjóðurinn	5,0%
Stapi lífeyrissjóður	3,9%
Kvika banki hf.	2,8%
Íslenski lífeyrissjóðurinn-Lífsbraut	2,8%
Helgafell ehf.	2,6%
Söfnunarsjóður lífeyrisréttinda	1,8%
Sjóvá-Almennar tryggingar hf.	1,6%
Hekla fagfjárfestasjóður	1,5%
Hofgarðar ehf.	1,4%
Landsbankinn hf.	1,0%
Júpíter - Innlend hlutabréf	0,9%
Pacific Select Fund-Global Abs	0,8%
Fagfjárfestasjóðurinn IHF	0,7%

Endorsement of the Board of Directors and the CEO, contd.:

Share capital and Articles of Association

The Company's registered share capital at year-end amounted to ISK 250 million. All shares are in one class and the same rights are attached to all shares.

Those who intend to candidate at the election of the Board of Directors of the Company must notify so in writing to the Board of Directors with at least five days notice before the beginning of the annual general meeting. The Company's Articles of Association can only be amended with the approval of 2/3 of votes cast in a lawfully called shareholders' meeting, provided that the intended amendment is thoroughly mentioned in the agenda to the meeting and what it consists of.

Corporate governance

The Board of Directors of N1 hf. has established rules of procedure for the Board wherein it endeavours to comply with the "Guidelines on corporate governance" issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, which was issued in revised edition in May 2015. The guidelines are available on the website of the Iceland Chamber of Commerce www.vi.is. Furthermore, the statement of corporate governance does neither include an analysis of environmental or social factors, nor does it include information on the Board's performance evaluation. Further information on the Board of Directors and corporate governance is included in the Chapter Corporate Governance as appendix to the Company's financial statements. The Company fulfils the gender requirements of the Icelandic Limited Liability Company Act. The Board of Directors consists of two women and three men.

Non-financial Reporting

N1 hf. is a public-interest entity. According to the Icelandic Financial Statements Act the Company shall disclose information regarding the Company´s position and development with respect to environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues in addition to a short description of the Company's business model. GRI G4 "Core" report was issued to explain the status of the companies social responisbility. The purpose of the issue is among other things to estimate N1´s position on those matters with reference to accepted standards thereon. The Company's policies and outcome of these matters are further discussed in an appendix non-financial reporting to these financial statements.

Statement by the Board of Directors and the CEO

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, as applicable, additional requirements of the Icelandic Financial Statements Act.

According to the best of our knowledge, in our opinion the consolidated financial statements give a true and fair view of the operating profit of the Company for the year 2017, its assets, liabilities and financial position as at 31 December 2017, and changes in cash and cash equivalents during the year 2017.

Furthermore, in our opinion the consolidated financial statements and the Endorsement of the Board of Directors and the CEO include a true and fair view of the development and results of the Company´s operations, its standing and describes the main risk factors and uncertainty that the Company faces.

The Board of Directors and the CEO of N1 hf. have today discussed the Company's consolidated financial statements for the year 2017 and confirm them by means of their signatures. The Board of Directors and the CEO propose that the Annual General Meeting of the Company approve the consolidated financial statements of the Company.

Kopavogur, 21 February 2018

The Board of Directors of N1 hf.

Margrét Guðmundsdóttir
Chairman of the Board

Helgi Magnússon

Kristín Guðmundsdóttir

Jón Sigurðsson

Þórarinn V. Þórarinsson

CEO

Eggert Þór Kristófersson

Independent Auditor's Report

Independent Auditor's Report

Opinion

We have audited the consolidated financial statements of N1 hf. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union and additional requirements in the Icelandic Act on Financial Statements, where applicable.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with international ethical standards for auditors (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Iceland, 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reversal of impairment and revaluation of properties

Real estate is recognised amongst fixed assets. Revalued real estate is recognised at fair value at year end 2016 and book value of real estate at year end 2017 amounted to 15 billion ISK, which amounts to 54% of the Group's total assets. At year end 2017 the Group's management assessed whether there was indication of material difference between book value and fair value of real estate. Revaluation of real estate is a complicated process and depends on various uncertain presumptions from management. That is why revaluation of the Group's real estate is a key audit matter.

Auditor's response

Our audit procedures were aimed at management's assessment of change in factors which cast most influence on the fair value of real estate at year end 2017. We assessed the presumptions for change in weighted average cost of capital. In addition, we assessed changes in other presumptions like gross margin of fuel sales, rental price in the real estate market and operating costs of real estate. Finally, we assessed whether or not the notes to the consolidated financial statements concerning real estate and its valuation were appropriate and in accordance with the International Financial Reporting Standards.

Further information on the revaluation methods and the assumptions are disclosed in notes 3e and 19 in the consolidated financial statements.

Other information in the Annual report of N1 hf. for the year 2017

Other information consists of the information included in N1 hf. 2017 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management and Board of Directors are responsible for the other information. The Annual Report had not been completed at the time of signature of this audit report, but we expect to receive it at a later date.

Independent Auditor's Report, contd.:

Other information in the Annual report of N1 hf. for the year 2017, contd.:

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

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

Responsibilities of the CEO and Board of Directors for the Consolidated Financial Statements

The Chief Executive Officer (CEO) and Board of Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and additional requirements in the Icelandic Act on Financial Statements, where applicable. The CEO and Board of Directors are responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors and the Auditing Committee are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the International Standards on Auditing (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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, 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 Group's internal control.

Independent Auditor's Report, contd.:

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements, contd.:

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 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 Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters we communicate with the board and the audit committee, we are required to determine those matters that were of most significance in our audit (i.e., Key Audit Matters). We describe those 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 the Board of Directors report

Pursuant to the legal requirements of Article 104, Paragraph 2 of the Icelandic Financial Statement Act no. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes all information required by the Icelandic Financial Statement Act.

Reykjavík, 21 February 2018

Ingunn H. Hauksdóttir
State Autohorised Public Accountant

Ernst & Young ehf.
Borgartún 30
105 Reykjavík

Income Statement and Statement of Comprehensive Income for the Year 2017

	Notes	2017	2016
Sales	8	34.608.441	33.767.896
Cost of goods sold		(23.268.296)	(22.566.538)
Gross profit	9	11.340.145	11.201.358
Other operating income		441.854	370.733
Salaries and other personnel expenses	10	(4.554.103)	(4.233.719)
Sales and distribution expenses	11	(2.058.608)	(2.078.594)
Other operating expenses	12	(1.633.923)	(1.634.933)
		(8.246.634)	(7.947.246)
Profit before depreciation, amortisation and finance items		3.535.365	3.624.845
Depreciation and amortisation	14	(1.006.889)	(773.088)
Reversal of impairment of real estates	19	0	1.323.492
		(1.006.889)	550.404
Operating income		2.528.476	4.175.249
Finance income	15	91.215	166.016
Finance expenses	15	(398.352)	(468.034)
Currency exchange gain (loss)		23.334	(1.921)
Effect of associates	20	274.905	295.952
Change in fair value of shares	21	4.115	(13.671)
		(4.783)	(21.659)
Profit before income tax		2.523.692	4.153.590
Income tax	16	(452.726)	(775.572)
Profit for the year		2.070.967	3.378.017
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Translation difference arising from operations of a foreign associate		11.092	(80.422)
Items that will not be reclssified to profit or loss:			
Revaluation of real estates (reversal)	19	(115.288)	4.849.765
Tax on revaluation of real estates	27	23.058	(969.953)
Total other comprehensive income		(81.139)	3.799.390
Total comprehensive income for the year		1.989.828	7.177.407
Basic and diluted earnings per share in Icelandic krona	17	8,28	9,74

Notes on pages 12 to 37 are an integral part of these financial statements.

Consolidated Financial Statements of N1 hf. 2017 8 Amounts are in ISK thousand

Balance Sheet 31 December 2017

	Notes	2017	2016
Assets			
Intangible assets	18	214.987	258.165
Property, plant and equipment	19	16.940.226	15.773.467
Shares in associates	20	1.839.908	1.747.910
Shares in other companies	21	15.668	16.540
Bonds		120.914	58.151
Non-current assets		19.131.703	17.854.234
Inventories	22	2.840.403	3.026.753
Trade receivables	23	2.595.230	2.303.272
Receivables from related parties		152.147	14.843
Other short-term receivables	24	136.852	156.725
Cash and cash equivalents		2.800.082	2.266.435
Current assets		8.524.714	7.768.027
Total assets		27.656.418	25.622.261
Equity			
Share capital	25	250.000	250.000
Share premium		3.153.857	3.153.856
Other restricted equity		4.131.579	4.315.391
Retained earnings		6.276.344	4.852.702
Total equity		13.811.779	12.571.949
Liabilities			
Payable to credit institutions	26	8.000.000	6.500.000
Deferred tax liability	27	1.484.715	1.499.323
Prepaid income		0	151.056
Non-current liabilities		9.484.715	8.150.379
Income tax payable		444.276	512.383
Payable to the Icelandic State	28	2.058.077	2.046.570
Payable to credit institutions	26	0	508.905
Trade payables		1.066.927	895.995
Payable to related parties		113.198	201.623
Prepaid income	29	182.958	237.425
Other short-term liabilities	30	494.488	497.032
Current liabilities		4.359.923	4.899.933
Total liabilities		13.844.638	13.050.312
Total equity and liabilities		27.656.418	25.622.261

Notes on pages 12 to 37 are an integral part of these financial statements.

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Statement of Changes in Equity for the Year 2017

			Other restricted equity					
	Share capital	Share premium	Statutory reserve	Revaluation reserve	Unrealised profit of associated companies	Translation difference	Retained earnings	Total equity
Year 2017								
Equity as at 1 January 2017	250.000	3.153.857	62.500	4.122.522	295.951	(165.582)	4.852.702	12.571.949
Total comprehensive income for the year				(92.231)		11.092	2.070.967	1.989.828
Restricted due to associated companies					80.906		(80.906)	0
Dissolution of revaluation reserve of an associate				(23.725)			23.725	0
Dissolution of revaluation reserve of real estate				(159.836)			159.836	0
	250.000	3.153.857	62.500	3.846.730	376.857	(154.490)	7.026.324	14.561.778
Transactions with shareholders:								
Dividend to shareholders (ISK 3.0 per share)							(750.000)	(750.000)
Equity as at 31 December 2017	250.000	3.153.857	62.500	3.846.730	376.857	(154.490)	6.276.324	13.811.779
Year 2016								
Equity as at 1 January 2016	350.000	4.152.900	250.000	377.384	0	(85.175)	2.685.961	7.731.070
Total comprehensive income for the year				3.879.812		(80.422)	3.378.017	7.177.407
Restricted due to associated companies					295.951		(295.951)	0
Dissolution of revaluation reserve of an associate				(134.674)			134.674	0
	350.000	4.152.900	250.000	4.122.522	295.951	(165.582)	5.902.702	14.908.492
Transactions with shareholders:								
Dividend to shareholders (ISK 3.0 per share)							(1.050.000)	(1.050.000)
Decrease in share capital	(100.000)	(999.043)	(187.500)					(1.286.543)
Equity as at 31 December 2016	250.000	3.153.857	62.500	4.122.522	295.951	(165.582)	4.852.702	12.571.949

Notes on pages 12 to 37 are an integral part of these financial statements.

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Statement of Cash Flows for the Year 2017

	Notes	2017	2016
Cash flows from operating activities			
Profit before depreciation, amortisation and finance items		3.535.365	3.624.845
Operating items not affecting cash flows:			
(Gain) loss on sale of property, plant and equipment		(66.727)	5.800
Prepaid income		(20.141)	(30.211)
		3.448.497	3.600.434
Changes in operating assets and liabilities:			
Inventories, decrease (increase)		186.349	(422.745)
Trade and other short-term receivables, (increase)		(335.170)	(72.374)
Trade and other short-term payables, (decrease) increase		(449.127)	667.244
Changes in operating assets and liabilities		(597.948)	172.125
Interest income received		73.274	150.206
Interest expense paid on short-term liabilities		(35.650)	(17.952)
Income tax paid		(512.383)	(426.698)
Cash flows from operating activities		2.375.790	3.478.115
Cash flows from investing activities			
Purchase of intangible assets		(9.601)	(46.914)
Purchase of property, plant and equipment		(2.515.808)	(1.153.810)
Sale of property, plant and equipment		63.276	146.983
Dividends from associated companies		194.000	62.000
Investing activities		(2.268.133)	(991.741)
Cash flows from financing activities			
Decrease in share capital		0	(1.286.543)
Dividend paid		(750.000)	(1.050.000)
Repayment of long-term loans		0	(6.370.000)
New long term loans from credit institutions		1.500.000	6.500.000
Interest expense paid on long term loans		(357.399)	(491.373)
Financing activities		392.601	(2.697.916)
Net increase (decrease) in cash and cash equivalents.........................		500.258	(211.542)
Currency exchange gain on cash and cash equivalents		33.390	5.605
Cash and cash equivalents at the beginning of the year......................		2.266.435	2.472.372
Cash and cash equivalents at the end of the year		2.800.083	2.266.435

Notes on pages 12 to 37 are an integral part of these financial statements.

Consolidated Financial Statements of N1 hf. 2017 11 Amounts are in ISK thousand

Notes

1. Operations

N1 hf. („the Company") is an Icelandic limited liability company. The Company's headquarters are located at Dalvegur 10-14, Kopavogur. The objective of the Company is sale of fuel and lubricants in fixed, liquid and gaseous form, wholesale and retail, purchase, sale and ownership of securities, purchase, sale, ownership and operation of real estates and movable property, together with lending activities related to the Company's operations and other related operations. The consolidated financial statements of the Group consists of the Company and its subsidiary EGO ehf.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as applicable, additional requirements of the Icelandic Financial Statements Act.

The consolidated financial statements of N1 hf. were approved by the Board of Directors on 21 February 2018.

b. Going concern

Management has evaluated the Group's going concern. It is the opinion of management that its operations is ensured and that it is able to meet its obligations in the foreseeable future. Therefore, the financial statements are presented on a going concern basis.

c. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for shares in other companies and bonds, which are recognised at fair value. Furthermore, the Company´s real estates were revalued to fair value.

d. Presentation and functional currency

The consolidated financial statements are prepared and presented in Icelandic Krona (ISK), which is the Company's functional currency. All amounts have been rounded to the nearest thousand unless otherwise stated.

e. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions, which affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised in the period in which the estimate is changed and in those future periods which are affected by the

Information about important judgements that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed in note 3.e.(iv) regarding classification of leases, note 19 regarding revaluation of real estates, note 22 on inventories and note 31 on write down of trade receivables.

f. Changes in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3. Significant accounting policies

b. Associated companies

Associates are entities where the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting rights. Associated companies are accounted for using the equity method and are recognised initially at cost. The Company's investment includes the goodwill arising from the acquisition, if any, less impairment, if any. The Company's consolidated financial statements include the Company's share of profit and equity movements of associates from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has provided guarantees in respect of the associate or has financed it. Unrealised profit arising on transactions with associated companies is recognised as a reduction in their book value. Unrealised loss is recognised in the same way as unrealised profit, but only to the extent that there is no indication of impairment of these companies.

b. Foreign currencies

(i) Transactions in foreign currencies

Transactions in foreign currencies are translated to Icelandic Krona at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the reporting date. Exchange differences arising from transactions in foreign currencies are recognised in the income statement. At year end there were no open forward exchange contracts. The Company does not apply hedge accounting.

(ii) Foreign associates

The share of income of foreign associates is recognised at the average exchange rate of the year. The share of the equity is recognised at the exchange rate at the reporting date. Exchange differences arising from the translation to Icelandic Krona are recognised as a separate line item in the statement of comprehensive income. When a foreign associate is sold, partially or entirely, the related exchange difference is transferred to the income

c. Financial instruments

(i) Financial assets and financial liabilities

The Company's financial assets and liabilities comprise cash and cash equivalents, shares in other companies, bonds, trade and other receivables, borrowings and trade and other short-term payables.

Financial instruments are initially recognised at fair value. They are recognised at the transaction date, which is the date the Company becomes a party to the contractual provisions of the instrument. For financial instruments not recognised at fair value through profit and loss all direct transaction costs are taken into account upon initial recognition. After initial recognition the Company's financial instruments are recognised as follows.

Financial assets at fair value through profit and loss

Shares in other companies and bonds are recognised at fair value through profit and loss. A financial instrument is classified as a financial instrument at fair value through profit and loss if it is held for trading or if it is designated as a financial instrument at fair value through profit and loss upon initial recognition. Financial instruments are designated at fair value through profit and loss if decisions regarding purchase and sale are based on their fair value. Financial assets at fair value through profit and loss are recognised at fair value in the balance sheet and fair value changes are recognised in the income statement. Direct transaction costs are recognised in the income statement when incurred. Fair value changes of the shares are recognised under the line item change in fair value of shares in the income statement and statement of comprehensive income but fair value changes of bonds are recognised as part of finance income.

3. Significant accounting policies, contd.:

c. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value plus all related transaction costs. After initial recognition loans and receivables are recognised at amortised cost using the effective interest method, less impairment when appropriate. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand bank deposits and short-term securities on maturity within 90 days from date of purchase and which uncertainty with respect to value is insignificant.

Financial liabilities

The Company's financial liabilities are recognised at amortised cost using the effective interest method. They comprise borrowings, trade and other short-term payables.

(ii) Share capital

Share capital is classified as equity. Direct costs due to issue of share capital is recognised as reduction from equity, net of income tax effects.

Upon purchase of treasury shares the acquisition price, including direct costs, is recognised as reduction from equity. When treasury shares are sold the sale is recognised as increase in equity.

d. Intangible assets

(i) Software

Capitalised software licenses are recognised at cost less accumulated depreciation. Software is amortised on a straight line basis over 7 years.

(ii) Trademarks

Cost of procuring trademark is capitalised and amortised on a straight line basis over the estimated useful life, taking into account impairment if any, over maximum period of 20 years.

e. Property, plant and equipment

(i) Recognition and measurement

The Company´s real estates are recognised at revalued cost amount but other PPE at cost less accumulated depreciation and impairment.

When property, plant and equipment consists of parts which have different useful lives, the parts are separated and depreciated based on the useful life of each part.

The gain on sale of property, plant and equipment, which is the difference between their sale proceeds and carrying amount, is recognised in the income statement among other operating income and the loss on sale among other operating expenses.

Real estates were revalued to fair value at year end 2016. Fair value assessment is to be carried out on a regular basis, so as to ensure that their carrying amount does not deviate significantly from fair value. Increase in carrying amount due to revaluation is recognised in other comprehensive income. Revaluation reserve among equity is decreased via transfer to retained earnings, the amount each year being equal to the annual depreciation of revaluation recognised in profit or loss, since depreciation of real estate will increase due to the revaluation. If revaluation results in a decrease of book value the decrease is to be recognised in profit or loss except to the extent that the decrease reverses previous increase due to revaluation in which case the downward revaluation is recognised in other comprehensive income.

3. Significant accounting policies, contd.:

e. Property, plant and equipment, contd.:

(ii) Subsequent costs

Costs of replacing single components of property, plant and equipment is capitalised when it is considered likely that the benefits associated with the asset will flow to the Company and the costs can be measured reliably. The carrying amount of the replaced component is expensed. All other costs are expensed in the income statement when incurred.

(iii) Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost less estimated residual value. Depreciation is calculated on a straight line basis over the estimated useful lives of each component of property, plant and equipment. Estimated useful lives are specified as follows:

Real estates..........	33 years
Signs and tanks..........	10 - 20 years
Machines, tools, equipment and vehicles..........	5 - 15 years
Furnishings..........	6 - 7 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and changed if appropriate.

(iv) Leased assets

The Company is the lessee in leasing of real estates. The leasing contracts are classified as operating leases and therefore the real estates are not capitalised in the balance sheet. Lease payments are expensed in the income statement as they incur. In case of sale and leaseback where the sales price is higher than the carrying amount and fair value, recognition of gain on sale is deferred and recognised as reduction in lease expense over the lease term.

f. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out rule, and includes expenditure incurred in acquiring the inventories and in bringing them to the location and condition in which they are at the reporting date. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

g. Impairment

(i) Financial assets

At each reporting date it is assessed whether there is objective evidence of impairment of financial assets which are not measured at fair value. A financial asset is impaired if there is objective evidence that one or more events that occurred after initial recognition indicate that the estimated future cash flows of the asset is lower than previously expected.

The impairment loss on financial assets measured at amortised cost is the difference between, on the one hand, their carrying amount, and on the other hand, the present value of the estimated future cash flows discounted at the original effective interest rate. Individual significant financial assets are tested specifically for impairment. Other financial assets are classified together based on credit risk characteristics and each group is tested specifically for impairment.

Impairment is expensed in the income statement.

An impairment is reversed if the reversal can be related objectively to an event that occurred after the impairment was recognised.

3. Significant accounting policies, contd.:

g. Impairment, contd.:

(ii) Other assets

The carrying amount of other assets of the Company, except for inventories and tax asset, is reviewed at each reporting date to determine whether there are indications of their impairment. If there is any such indication the recoverable amount of the asset is estimated.

h. Contribution to defined contribution pension plans

The Company pays contributions to independent defined contribution pension funds due to its employees. The Company has no responsibility for the funds' obligations. Contributions are expensed in the income statement among salaries and salary related expenses when incurred.

i. Provisions

A provision is recognised when the Company has a legal or constructive obligation due to past events if it is likely that payment will be required and if it is possible to estimate the obligation reliably. Provisions are measured by discounting the estimated future cash flows using pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to individual provisions.

j. Revenue

(i) Sold goods and services

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the payment received or receivable, net of trade discounts and refunds. Revenue is recognised in the income statement when a significant portion of the risks and rewards of ownership are transferred to the buyer, it is probable that the consideration will be collected and the cost of sale and possible return of goods can be estimated reliably. Revenue is in general recognised upon delivery of the goods as the risk and rewards are in general transferred to the buyer when delivery occurs.

(ii) Customer points programme

The Company has a customer points programme where customers that have a N1-card accumulate points ("N1-points") when they buy goods from the Company. An N1-point is a valid currency with the Company, i.e. one point equals one Icelandic krona in all transactions with N1 hf. Furthermore, card holders are offered on regular basis the opportunity to multiply the value of their points with offers on certain products.

When a sale of goods includes the accumulation of customer points the consideration is allocated in such a way that the fair value of the points granted parallel to the sale is recognised as deferred revenue and it is not realised until the customers have utilised the points. When calculating the fair value of points granted, i.e. the part of the revenue from sale which is deferred, it is estimated how big a portion of the points will not be utilised since granted points which are not utilised expire in three years or if no points are used for one year. Obligation due to customer points granted is recognised as prepaid income among current liabilities.

(iii) Other operating income

Other operating income comprises commissions, gain on sale of assets, lease income and other income.

(iv) Operating lease income

The Company rents part of its premises to other companies under operating lease contracts. Lease income is recognised in the income statement on a straight line basis over the lease term under the line item other operating income.

3. Significant accounting policies, contd.:

k. Expenses

Cost of goods sold

Cost of goods sold consists of the purchase price of sold inventories together with the related transportation cost, excise tax and duties. Any decrease of inventories to net realisable value is recognised in cost of goods sold.

l. Operating lease expense

Operating lease payments are due to leasing of buildings. They are expensed among other operating expenses as they are incurred, taking into account deferral of gain on sale, when appropriate, see note 3.e.(iv).

m. Finance income and finance expenses

Finance income comprises interest income on investments, dividend income and fair value changes of bonds. Interest income is recognised in the income statement as it accrues based on effective interest. Dividend income is recognised in the income statement when the right to receive payment has been established.

Finance expenses comprise interest expenses and borrowing costs on borrowings and are recognised in accordance with the effective interest rate method. Foreign exchange differences are recognised net among finance income or finance expenses, as appropriate.

n. Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to operating items recognised directly in equity or in other comprehensive income, in which case the income tax is recognised together with those items.

Current tax is the income tax estimated to be payable next year in respect of the taxable income for the year, based on the tax rate at the reporting date, besides adjustments to tax payable in respect of previous years, if any.

Deferred tax is recognised using the balance sheet method in respect of temporary differences between, on the one hand, the carrying amounts of assets and liabilities in the financial statements and, on the other hand, their tax bases. The amount of deferred tax is based on the estimated realisation or settlement of the carrying amounts of assets and liabilities using the tax rate in effect at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that it is possible to utilise future profits against the asset. Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is considered that it will not be utilised.

o. Earnings per share

Basic and diluted earnings per share for ordinary shares in the Company are presented in the financial statements. Basic earnings per share is based on the weighted average number of effective shares during the year. No share option contracts have been made with employees nor have financial instruments been issued, such as convertible bonds, which could lead to dilution of earnings per share. Diluted earnings per share is therefore the same as basic earnings per share.

p. Subsidiaries:

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation:

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. N1´s subsidiary, EGO ehf., is an investment company. Its operations are still insignificant.

3. Significant accounting policies, contd.:

q. New standards, amendments to standards and interpretations

The Company has adopted all international financial reporting standards, interpretations and amendments to standards that have been endorsed by the EU, are relevant for the Company and are effective for the financial year 2017. The International Accounting Standards Board has issued the following standards that have not become effective.

IFRS 9 *Financial Instruments* replaces the existing rules in IAS 39 *Financial Instruments: Recognition and Measurement*. The standard becomes effective as from the year 2018. Based on current operations of the Company the standard is expected to have insignificant effect. However, if the Company´s operations change in the near future, e.g. by more focus on investment activities, the standard will have an impact on the Company´s recognition and measurement of financial instruments.

IFRS 15 *Revenue from Contracts with Customers* becomes effective as from the year 2018. The standard applies to sale of goods and services and establishes a single comprehensive framework for disclosure of information to users of the financial statements regarding the nature, amount, timing and uncertainty due to revenue and cash flows from contracts with customers. The Company has made an assessment of potential effect of the standard and it is deemed likely it will have little, if any, effect on its revenue recognition.

IFRS 16 *Leases,* replaces existing leases guidance and introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments in future periods. The lessee recognises in profit or loss amortisation of the right-of-ues asset and interest expense on the lease liability There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases. The standard becomes effective as from the year 2019. The potential effect of the standard on the consolidated financial statements has not been fully assessed but based on the Company´s current operating leases of premises and buildings at year-end the capitalised right-of-use asset could amount to approximately ISK 350 to 400 million with a corresponding amount recognised as a lease liability.

4. Determination of fair values

Shares in other companies and bonds are recognised at fair value. Furthermore, International Financial Reporting Standards require the disclosure of the fair values of financial assets and financial liabilities even though they are not recognised at fair value. Fair values have been determined for measurement and/or disclosure purposes according to the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes about the respective assets and liabilities.

(i) Shares in other companies

For a share in a company quoted in an active market the quoted market price at the reporting date is used. For unlisted shares the fair value is determined by using valuation models which are based on the carrying amount of the share of the companies' equity.

(ii) Trade and other receivables

The fair value of trade and other receivables, which is only determined for disclosure purposes, is the estimated future cash flows discounted at the market interest rate at the reporting date. Short-term receivables are however not discounted as the difference between their fair value and their carrying amount is insignificant.

4. Determination of fair values, contd.:

(iii) Payable to credit institutions and other financial liabilities

The fair value of payable to credit institutions is the estimated future cash flows discounted at the market interest rate at the reporting date. Interest on payables to credit institutions are at market rates. Therefore the difference between their book value and fair value is insignificant each period. Short-term payables are however not discounted as the difference between their fair value and their carrying amount is insignificant.

5. Financial assets and financial liabilities

Financial assets and liabilities are classified into certain categories. The classification of financial assets and financial liabilities affects how the respective financial instruments are measured after initial recognition. The classification of financial assets and financial liabilities of the Company and their measurement basis is specified as follows:

* Financial assets designated as at fair value through profit or loss are recognised at fair value
* Loans and receivables are recognised at amortised cost
* Other financial liabilities are recognised at amortised cost

The following table discloses the classification of the Company's financial assets and liabilities:

31 December 2017

	Designated at fair value	Loans and receivables	Other financial liabilities	Carrying amount
Assets:				
Cash and cash equivalents		2.800.082		2.800.082
Trade receivables		2.595.230		2.595.230
Receivables from related parties		152.147		152.147
Other short-term receivables		102.225		102.225
Bonds	120.914			120.914
Shares in other companies	15.668			15.668
	136.582	5.649.684		5.786.266
Liabilities:				
Payable to credit institutions			8.000.000	8.000.000
Payable to the Icelandic State			2.058.077	2.058.077
Trade payables			1.066.927	1.066.927
Payable to related parties			113.198	113.198
Other short-term liabilities			494.488	494.488
			11.732.690	11.732.690

31 December 2016

	Designated at fair value	Loans and receivables	Other financial liabilities	Carrying amount
Assets:				
Cash and cash equivalents		2.266.435		2.266.435
Trade receivables		2.303.272		2.303.272
Receivables from related parties		14.843		14.843
Other short-term receivables		77.227		77.227
Bonds	58.151			58.151
Shares in other companies	16.540			16.540
	74.692	4.661.776		4.736.468
Liabilities:				
Payable to credit institutions			7.008.905	7.008.905
Payable to the Icelandic State			2.046.570	2.046.570
Trade payables			895.995	895.995
Payable to related parties			201.623	201.623
Other short-term liabilities			497.032	497.032
			10.650.125	10.650.125

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6. Financial risk management

Overview

The following risks arise from the Company's financial instruments.

* Credit risk
* Liquidity risk
* Market risk (price risk, currency risk and interest rate risk)

Following is information about the above risks, the Company's objectives, policies and processes for measuring and managing the risk as well as information regarding operating risk. Quantitative disclosures are included throughout the financial statements.

The Company's risk management objective is to minimise the risk it faces by analysing the risk, measure limits and control it.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises principally from trade receivables and other receivables.

Credit risk mainly depends on the age of trade receivables, the financial standing and operations of individual customers and the standing of the industries in which the Company's biggest customers operate, which are transportation, fishing industry and contractors. Approximately 30% (2016: 26%) of the Company's trade receivables at year end is attributable to 30 of the Company's biggest customers. Thereof, receivable from the biggest customer was 3% (2016: 3%).

The Company has established credit rules. All of the Company's customers with charge accounts have credit limits on their account which they cannot exceed. Legal entities must in general provide a self guarantee of the owner for an amount corresponding to supplies for two months. This does however not apply to bigger customers which have good credit rating at CreditInfo.

The Company establishes an allowance for estimated impairment on trade receivables and other receivables. The allowance includes both a specific allowance for individual customers and a collective allowance. The estimation of impairment from the collective allowance is based on historical loss experience, the age of receivables and general economic conditions.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objective is to always have sufficient liquidity to meet its payment obligations as they become due.

The Company´s liquidity position was strong at year end 2017. The Company's management believes that it is in a good position to meet its obligations as they become due. The repayment period of long-term loans is 20 years and loan term is 9 years. In accordance with its provisions no repayments are due on the long-term loan until November 2021, interest are paid monthly. The Company also has access to a one year line of credit, extendable to two years, in the amount of ISK 2.5 billion and USD 25 million, in total a maximum of close to ISK 4.5 billion.

Market risk

Market risk consists of price risk, interest rate risk and currency risk. The Company's objective is to manage and confine market risk within defined limits.

Price risk

The Company is exposed to significant price risk due to changes in world market oil price, which has fluctuated significantly in the past few years. Significant changes in the world market price are reflected in frequent price changes at the Company's service stations. The Company limits price risk by means of specific agreements with its largest customers.

6. Financial risk management, contd.:

Currency risk

All of the Company's transactions denominated in foreign currencies give rise to currency risk. In evaluating currency risk both payment risk and settlement risk is taken into account. The objective is to manage currency risk in order to best insure the Company's benefits. The major part of imports is purchase of oil, denominated in USD from foreign suppliers but the sale is in great part in ISK. Sales in ISK constitute 86% (2016: 87%), USD 13% (2016: 12%) and other currencies 1% (2016: 1%).

Interest rate risk

The Company is exposed to cash flow interest rate risk due to changes in interest rates of floating rate financial liabilities. As stated before, the Company endeavours to ensure it always has sufficient liquidity to meet its liabilities as they become due. Neither the Company's long-term loan nor its line of credit are indexed to inflation.

Other price risk

Other price risk, which arises from financial instruments recognised at fair value, is not material since the Company´s investments in other companies and bonds are not a significant part of the balance sheet, being 0.5% at year end 2017 (2016: 0.3%).

Operating risk

Operating risk is the risk of direct or indirect loss due to various factors in the Company's operations. Among the risk factors are employees' work, technology and methods applied.

In order to reduce operating risk, among other things, there has been established an appropriate segregation of duties, transactions on charge accounts and compliance with law are monitored and training of personnel. A part of operating risk management is the operation of the N1-school, where employees receive appropriate training relating to their work for the Company. Effective work procedures and rules on back-up of IT systems have been implemented. Furthermore, effective operating budgets and monthly statements are prepared for individual divisions and deviations from approved operating budgets are analysed.

7. Operating segments

The Company now presents operating segment information for the first time in 2017. An operating segment is a component of the Group that engages in business activity from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group. Segments are determined by the Company´s CEO, which regularly reviews the Group´s segments so as to decide upon how assets are allocated as well as to monitor their financial performance.

Operating results of segments, their assets and liabilities consist of items directly attributable to individual segments as well as those items which can be allocated in a logical way.

Capital expenditure of segments consist of the total cost of acquisition of operating and intangible assets.

Inter-segment pricing of goods and services is determined on an arm´s length basis.

Comparative figures are not presented since the necessary information is not available.

7. Operating segments, contd.:

The year 2017	Real estate	Operations	Inter-segment revenue	Total
Sales and other operating income		34.608.441		34.608.441
Other revenue	1.866.691	441.854	(1.866.691)	441.854
Total segment revenue	1.866.691	35.050.294	(1.866.691)	35.050.294
Total operating expenses	(365.875)	(33.015.746)	1.866.691	(31.514.930)
Segment EBITDA	1.500.816	2.034.548	0	3.535.365
Segment depreciation and amortisation	(561.909)	(444.979)	0	(1.006.889)
Effect of associates	0	274.905	0	274.905
Operating result of segments	938.907	1.864.475	0	2.803.381
Net finance expenses				(279.688)
Income tax				(452.726)
Profit for the year				2.070.968
31.12.2017				
Segment assets	15.008.637	9.847.699	0	24.856.336
Unallocated assets				2.800.082
Total assets				27.656.418
Unallocated liabilities				13.844.638
Capital expenditure	1.956.986	568.423	0	2.525.409
Depreciation and amortization	561.909	444.979	0	1.006.889

8. Sales

	2017	2016
Fuel	23.285.448	22.773.136
Other goods	11.322.993	10.994.760
Total net sales	34.608.441	33.767.896

Sale to the Company´s largest customer was below 5% in 2017 (2016: below 5%)

9. Gross profit

Fuel	6.102.802	6.189.185
Other goods	5.237.342	5.012.173
Total gross profit	11.340.145	11.201.358

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10. Salaries and other personnel expenses

	2017	2016
Salaries	3.543.656	3.343.625
Contributions to pension funds	378.679	323.082
Other salary related expenses	473.224	415.272
Other personnel expenses	158.545	151.740
Total salaries and other personnel expenses	4.554.103	4.233.719
Number of employees in full time equivalent units	545	532
Full time equivalent units at year end	507	502

11. Sales and distribution expenses

	2017	2016
Distribution expenses	1.351.971	1.335.173
Marketing expenses	311.132	321.875
Maintenance expenses	395.504	421.546
Total sales and distribution expenses	2.058.608	2.078.594

12. Other operating expenses

	2017	2016
Office and administrative expenses	258.625	301.962
Operations of premises	509.894	447.416
Lease expense	268.686	286.698
Computer hardware and software	217.127	258.819
Impairment of trade receivables (see note 31)	28.370	62.059
Other expenses	281.779	277.979
Expenses due to proposed purchase of Festi hf.	69.443	0
Total other operating expenses	1.633.923	1.634.933

13. Fees to the Company´s auditor

	2017	2016
Audit of the financial statements	13.414	12.659
Review of interim financial statements	2.981	2.926
Other services	0	1.181
Total fees to auditors	16.395	16.766

14. Amortisation and depreciation

	2017	2016
Amortisation of intangible assets, see note 18	52.779	105.438
Depreciation of property, plant and equipment, see note 19	954.110	667.650
Total amortisation and depreciation	1.006.889	773.088

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15. Finance income and finance expenses

Finance income is specified as follows:

	2017	2016
Interest income on bank accounts	43.763	97.578
Interest income and fair value changes on bonds	16.404	20.972
Interest income on receivables	31.048	47.466
Total finance income	91.215	166.016

Finance expenses are specified as follows:

	2017	2016
Interest expenses	398.352	468.034
Total finance expenses	398.352	468.034

16. Income tax

Income tax in the income statement is specified as follows:

	2017	2016
Income tax payable	446.344	512.383
Deferred income tax	6.382	263.190
	452.726	775.572

Effective income tax is specified as follows:

		2017		2016
Profit before income tax		2.523.692		4.153.590
Income tax based on current tax rate	20,0%	504.739	20,0%	830.718
Non-deductible expenses	0,1%	1.881	0,1%	4.045
Non-taxable income	(2,2%)	(53.910)	(1,4%)	(59.191)
Other changes	0,0%	16	0,0%	0
Effective income tax rate	17,9%	452.726	18,7%	775.572

17. Earnings per share

	2017	2016
Profit for the year	2.070.967	3.378.017
Share capital at the beginning of the year	250.000	350.000
Effect of decrease in share capital	0	(3.288)
Weighted-average of issued share capital	250.000	346.712
Basic and diluted earnings per share in ISK	8,28	9,74

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Notes, contd.:

18. Intangible assets

Intangible assets and amortisation is specified as follows:

	Software	Trademarks	Total
Total value			
Total value 1.1.2016	584.898	230.850	815.748
Additions during the year	46.914	0	46.914
Total value 31.12.2016	631.812	230.850	862.662
Additions during the year	9.601	0	9.601
Total value 31.12.2017	641.413	230.850	872.263
Amortisation			
Amortisation 1.1.2016	406.721	92.338	499.059
Amortisation for the year	93.895	11.542	105.437
Total amortisation 31.12.2016	500.616	103.880	604.496
Amortisation of the year	41.237	11.542	52.779
Total amortisation 31.12.2017	541.853	115.422	657.276
Carrying amount			
Carrying amount 1.1.2016	178.177	138.512	316.689
Carrying amount 31.12.2016	131.195	126.970	258.165
Carrying amount 31.12.2017	99.559	115.428	214.987
Amortisation rates	15%	5%	

19. Property, plant and equipment

Property, plant and equipment, and depreciation is specified as follows:

	Real estates	Furnishings, machines, tools and equipment	Total
Cost or revalued amounts			
Total cost value 1.1.2016	10.793.207	4.638.714	15.431.921
Additions during the year	525.036	628.774	1.153.810
Reclassification	169.357	(169.357)	0
Sold and disposed of during the year	(14.577)	(160.091)	(174.668)
Revaluation	4.849.765	0	
Cost or revalued amounts 31.12.2016	16.322.788	4.938.040	21.260.828
Additions during the year	1.956.986	397.697	2.354.683
Sold and disposed of during the year	(108.365)	(234.902)	(343.267)
Revaluation reversed due to impairment loss	(115.288)	0	(115.288)
Cost or revalued amounts 31.12.2017	18.056.121	5.100.835	23.156.955
Depreciation			
Depreciated 1.1.2016	3.536.822	2.728.265	6.265.087
Depreciation for the year	283.766	383.884	667.650
Reversal of impairment	(1.323.492)	0	(1.323.492)
Reclassification	41.018	(41.018)	0
Sold or disposed of during the year	(14.577)	(107.308)	(121.885)
Total depreciation 31.12.2016	2.523.537	2.963.823	5.487.361
Depreciation for the year	561.909	392.201	954.110
Sold and disposed of during the year	(37.964)	(186.779)	(224.743)
Total depreciation 31.12.2017	3.047.483	3.169.245	6.216.728

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19. Property, plant and equipment, contd.:

	Real estates	Furnishings, machines, tools and equipment	Total
Carrying amount			
Carrying amount 1.1.2016	7.256.385	1.910.449	9.166.834
Carrying amount 31.12.2016	13.799.251	1.974.217	15.773.467
Carrying amount 31.12.2017	15.008.638	1.931.590	16.940.226
Carrying amount without revaluation			
Carrying amount 1.1.2016	7.256.385	1.910.449	9.166.834
Carrying amount 31.12.2016	8.949.486	1.974.217	9.600.210
Carrying amount 31.12.2017	10.473.955	1.768.795	8.870.844
Depreciation rates	3-5%	6-20%	

As specified in note 3.e.(i) the Group´s real estates are accounted for in accordance with the revaluation method. A revaluation to fair value was carried out at the end of 2016. According to the revaluation method an entity is to assess at the reporting date whether there is an indication that the carrying amount of revalued assets are materially different from their fair value. At year-end 2017 the Company, with assistance from external experts, reviewed whether any such indications were present. According to the review such indicater where not present.

Impairment test at year-end 2016 the recoverable amount of those assets were estimated. Recoverable amount is the higher of value in use and fair value less cost to sell. Assessment of value in use was based on management assessment of operations and investments for the next five years and weighted average cost of capital (WACC) which was estimated by the Company´s experts. Subsequent to the five year forecast period a constant gross profit margin and increase in revenue is assumed in line with general price changes.

Following are the key assumption used in calculation of value in use at year-end 2016:

Annual increase of profit margin during the forecast period is estimated to be in align with price increases as forecast by the Central Bank of Iceland, i.e. annual inflation of 2.5%-3.0%.

Annual growth of profit margin after the forecast period is assumed to be 2.5%, i.e. the same as the Central Bank´s inflation target, which is close to the inflation premium on non-indexed market bonds in the long term.

EBITDA/profit margin ratio is assumed to be 31.3% during the forecast period, which is a very small decrease from the year 2016 when it was 32.4%.

Weighted average cost of capital (WACC) is estimated as 9.4% by the Company´s experts.

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19. Property, plant and equipment, contd.:

The fair value estimation of real estates at year-end is categorised as a level 3 assessment according to the fair value hierarchy of International Financial Reporting Standards since it is to a large extent based on assumptions other than market information. A change in key inputs applied in determination of fair value, i.e. assumptions regarding capital cost and EBITDA, would have had the following effective on the amounts recognised in other comprehensive income:

Sensitivity of fair value assessment at year-end 2016	Increase	Decreas
Increase / (decrease) of EBITDA from operations of real estates of 5%	769	(769)
(Increase) / decrease of capital cost of equity and interest by 1.0%-point	(1.467)	1.883

Insurances and valuation of assets

Insurance value and value for taxation of property, plant and equipment is specified as follows at year end:

	2017	2016
Value for taxation of real estates	7.148.170	4.990.538
Value for fire insurance of real estates	8.279.013	7.649.722
Insurance value of tools, equipment and furnishings	2.465.383	2.456.898
Insurance value of inventories	2.668.799	2.216.858

The associate Olíudreifing ehf. insures the part of liquid inventory in its possession. Those inventories are part of inventories in the Company's balance sheet but are not included in the above insurance value.

Pledged assets

Landsbankinn hf. holds complete pledge in the Company's main real estates, inventories and trade receivables in the amount of ISK 12,408 million as collateral for long-term loans and the line of credit. There were no breaches of the Company´s loan covenants during the period or at year-end.

The line of credit amounts to ISK 2,500 million and USD 25 million, however to the maximum amount of ISK 4,500 million. The line of credit was not utilised at year end 2017.

20. Shares in associates

Shares in associates are specified as follows:

Year 2017	Share	2017	2016
Olíudreifing ehf.	60%	1.288.534	1.295.576
Malik Supply A/S, Denmark *	49%	469.926	397.223
EAK ehf	33%	60.204	33.861
Shares in four associates	-	21.230	21.234
Total shares in associates at year end		1.839.909	1.747.910

*The nominal value of shares in Malik Supply A/S is in DKK

Change in the carrying amount of associates during the year:		
Carrying amount at the beginning of the year	1.747.910	1.594.365
Share of profit	274.905	295.952
Dividend	(194.000)	(62.000)
Translation difference	11.093	(80.422)
Carrying amount at year end	1.839.909	1.747.910

Consolidated Financial Statements of N1 hf. 2017 27 Amounts are in ISK thousand

20. Shares in associates, contd.:

Following are the financial information of associated companies Olíudreifing ehf. and Malik Supply A/S. The information is based on their annual financial statements by taking into account the unamortized premium paid upon acquisition of the share in Malik Supply A/S.

Olíudreifing ehf.

The Company owns 60% share in Olíudreifing ehf. The Company has not control over Olíudreifing ehf. which is therefore not a subsidiary of the Company. This is because the Competition Authority decided that the company should have board members independent from N1 hf. However the Company´s operations have significant influence on the operations of Olíudreifing ehf. Accordingly the Company accounts for its ownership interest according to the equity method. The financial statements of Olíudreifing ehf. are prepared in accordance with the Icelandic Financial Statements Act.

	2017*	2016*
Non-current assets	3.196.762	3.572.853
Current assets	1.248.511	1.029.097
Non-current liabilities	(1.650.524)	(1.832.705)
Current liabilities	(647.195)	(609.955)
Net asset (100%)	2.147.554	2.159.290
Carrying amount of the share (60%)	1.288.534	1.295.576
Income (100%)	3.669.557	3.678.775
Profit (100%)	326.734	421.296
Share in total comprehensive income (60%)	196.040	252.778

* Draft of Financial Statements

Malik Supply A/S

Malik Supply A/S was founded in 1989 to service the international fleet of trawlers on the waters of Greenland and in the North Atlantic ocean with oil, lubricants and other products. N1 sells Malik fuel oil sold to major fisheries in Greenland. The financial statements of Malik Supply A/S are prepared in accordance with the Danish Financial Statements Act.

	2017*	2016
Non-current assets	713.982	776.615
Current assets	3.999.512	3.535.122
Non-current liabilities	(284.090)	(269.414)
Current liabilities	(3.690.208)	(3.437.539)
Net asset (100%)	739.195	604.784
Fair value adjustment	107.720	100.879
Carrying amount of the share (49%)	469.925	397.223
Income (100%)	749.300	627.467
Profit (100%)	105.435	60.853
Share in total comprehensive income (49%)	51.663	29.818

* Draft of Financial Statements

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Notes, contd.:

21. Shares in other companies

Shares in other companies are specified as follows:

	2017	2016
Shares in two unlisted companies	15.668	16.540

Shares in other companies are recognised at fair value. Fair value changes are recognised in the income statement as change in fair value of shares. Received dividend is recognised among finance income.

22. Inventories

Inventories at year end are specified as follows:	2017	2016
Fuel	1.582.122	1.729.934
Other goods	1.258.281	1.296.819
Total inventories	2.840.403	3.026.753

Write-down of fuel decreased by ISK 3 million during the year 2017 but write down of other goods by ISK 37 million. In 2016 write down of fuel decreased by ISK 15 million but write of other goods decreased by ISK 28 million.

23. Trade receivables

Trade receivables are specified as follows at year end:

Nominal value of trade receivables	2.745.873	2.425.402
Bonds	26.640	31.708
Allowance for impairment	(177.283)	(153.838)
Carrying amount of trade receivables	2.595.230	2.303.272

Note 31 includes further information on impairment (write down) of trade receivables.

24. Other short-term receivables

Other short-term receivables at year end are specified as follows:	2017	2016
Prepaid expenses	34.627	76.185
VAT refund and other receivables from the Icelandic State	64.021	44.780
Other short-term receivables	38.204	35.760
Total other short-term receivables	136.852	156.725

Consolidated Financial Statements of N1 hf. 2017 29 Amounts are in ISK thousand

25. Equity

(i) Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 250 million. One vote is attached to each share of ISK one in the Company. Shareholders in the Company have the right to receive dividends in proportion to their shareholding upon dividend distribution.

(ii) Share premium

Share premium consists of contributions by shareholders in excess of the nominal value of share capital, after taking into account loss equalisation amounting to ISK 1,135 million and a decrease of ISK 8,712 million due to decrease of share capital from 2014 to 2016.

(iii) Statutory reserve

In accordance with Act on Public Limited Companies, companies are to retain a portion of their income for the year in a statutory reserve, up to the limit of the reserve being in the amount of 25% of the nominal value of share capital.

(iv) Revaluation reserve

The Company's real estates revaluation as well as its share in the revaluation of real estates of an associate is recognised in revaluation reserve. The revaluation is dissolved in accordance with annual depreciation of the revaluation in the income statement. Dissolution of the revaluation is recognised in retained earnings.

(v) Unrealised profit of associated companies

If share of profit of subsidiaries or associates is in excess of dividends received from those companies, or the dividend that has been decided to distribute, the difference is to be transferred from retained earnings to a restricted reserve among equity. If a company´s shareholding in its subsidiary or associated company is sold or written off the aforementioned reserve is to be dissolved via transfer to retained earnings or accumulated deficit, as applicable.

(vi) Translation difference

Translation difference consists of exchange difference arising from the translation of the financial statements of a foreign associate.

(vii) Retained earnings

Profit (loss) for the year is recognised as increase (decrease) of retained earnings. Dividend payments are recognised as reduction of retained earnings. Dissolution of revaluation is recognised as increase in retained earnings.

(viii) Capital management and dividends

The Board of Directors of N1 has established a policy on the Company's capital structure and dividend payments according to which at least 50% of the profit for each year is to be paid to shareholders as dividend. However, if the Company acquires Festi, as planned, the Group´s financial structure will change and its equity ratio decrease. Based on that, and taking into account loan covenants regarding equity ratio, the board of Directors proposes that no dividends will be paid to shareholders in 2018.

26. Payable to credit institutions

Interest bearing liabilities are specified as follows at year end:

	2017		2016	
	Interest rate	Carrying amount	Interest rate	Carrying amount
Non-indexed loan in ISK on floating interests............	5,1%	8.000.000	6.8%	6.500.000
Short-term loan in USD..		0	4.3%	508.905
Total long-term liabilities...		8.000.000		7.008.905

Maturities for long-term liabilities are specified as follows over the next years:

	2017	2016
Year 2021..	68.000	55.250
Year 2022..	408.000	331.500
Later..	7.524.000	6.113.250
	8.000.000	6.500.000

Following is a reconciliation of interest-bearing liabilities for the year 2017:

	Long-term loan	Short-term loan	Total
Balance 1.1.2017...	6.500.000	508.905	7.008.905
Repayments...	0	(508.905)	(508.905)
New long-term liability...	1.500.000	0	1.500.000
Balance 31.12.2017..	8.000.000	0	8.000.000

Repayments of the short-term loan are classified as operating activities in the statement of cash flows.

27. Deferred tax liability

Deferred tax liability is specified as follows by individual items:

Asset		
Trade and other receivables..	4.496	5.289
Inventories...	1.660	6.686
	6.156	11.975
Liability		
Property, plant and equipment...	1.464.297	1.479.109
Intangible assets..	23.592	28.940
Unrealised currency exchange difference..	2.983	3.265
	1.490.872	1.511.314
Deferred tax liability...	1.484.715	1.499.339

Consolidated Financial Statements of N1 hf. 2017 31 Amounts are in ISK thousand

Notes, contd.:

28. Payable to the State

Payable to the Icelandic State consists of unpaid value added tax and duties in customs, oil tax, fuel tax, carbon tax and other taxes.

29. Prepaid income

Prepaid income is specified as follows at year end:	**2017**	**2016**
Points programme	134.416	158.004
Prepaid cards	48.543	49.210
Unrealised profit on sale of Klettagarðar 13	0	30.211
Total prepaid income	182.958	237.425

At year-end 2012 N1 sold the real estate at Klettagarðar 13 to FAST-2 ehf. and concurrently entered into a lease agreement for the asset, according to which N1 had a call option exerciseable five years and again ten years as from the date of sale, the pruchase price being index-adjusted selling price. In September 2017 N1 exercised its call option and purchased the real estate at Klettagarðar 13 from FAST-2. The purchase price was ISK 1,653 million.

30. Other short-term liabilities

Other short term liabilities are specified as follows at year end:	**2017**	**2016**
Unpaid salaries and salary related expenses	178.521	197.560
Accrued vacation	268.187	244.476
Unpaid accrued interests	38.134	32.831
Other short term liabilities	9.646	22.165
Total other short-term liabilities	494.488	497.032

31. Financial instruments

Credit risk

The Company's maximum possible loss due to financial assets with inherent credit risk is their carrying amount, which is specified as follows at year end:

Bonds	120.914	58.151
Trade receivables	2.595.230	2.303.272
Receivables from related parties	152.147	14.843
Other short-term receivables	102.225	77.227
Cash and cash equivalents	2.800.082	2.266.435
	5.770.598	4.719.928

Approximately 30% (2016: 26%) of balances of trade receivables are with the 30 largest customers of the Company. Thereof the largest trade receivable was 3% (2016: 3%).

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31. Financial instruments, contd.:

Age analysis of trade receivables and impairment loss

The age of trade receivables at year end is specified as follows:

Year 2017	Nominal value	Write-down	Carrying amount
Not due	2.076.640	(59.764)	2.016.876
Past due by 30 days or less	430.165	(29.407)	400.758
Past due by 31 - 120 days	116.033	(23.256)	92.777
Past due by more than 120 days	149.675	(64.856)	84.819
	2.772.513	(177.283)	2.595.230
Year 2016			
Not due	1.897.550	(64.620)	1.832.930
Past due by 30 days or less	341.761	(50.682)	291.079
Past due by 31 - 120 days	115.025	(12.844)	102.181
Past due by more than 120 days	102.774	(25.692)	77.082
	2.457.110	(153.838)	2.303.272

Impairment on trade receivables is specified as follows:	2017	2016
Balance at the beginning of the year	153.838	105.730
Receivables written off during the year	(4.925)	(13.951)
Impairment (impairment reversal) during the year	28.370	62.059
Balance at year end	177.283	153.838

The Company's trade receivables are specified as follows at year end by clients:

Year 2017	Nominal value	Specific write down	General write down	Carrying amount at year end
Fishing industry	372.261	(9.951)	(4.778)	357.532
Transportation	309.600	(15.456)	(3.973)	290.171
Contractors	398.881	(28.321)	(5.119)	365.441
Other industries and individuals	1.481.487	(87.973)	(19.013)	1.374.501
Foreign sale	210.284	0	(2.699)	207.585
	2.772.513	(141.701)	(35.582)	2.595.230
Year 2016				
Fishing industry	369.205	(11.990)	(5.969)	351.246
Transportation	271.416	(10.449)	(4.388)	256.579
Contractors	370.548	(39.805)	(5.991)	324.752
Other industries and individuals	1.292.309	(51.869)	(20.893)	1.219.547
Foreign sale	153.632	0	(2.484)	151.148
	2.457.110	(114.113)	(39.725)	2.303.272

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31. Financial instruments, contd.:

Liquidity risk

The following table shows an overview of when the Company's contractual future payments on liabilities fall due. The payment flow includes estimated future interests where appropriate.

Year end 2017	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Payable to credit institutions	403.722	409.614	1.692.752	8.851.413
Payable to the Icelandic State	2.058.077			
Income tax payable	444.276			
Trade payables	1.066.927			
Payable to related parties	113.198			
Other short term liabilities	494.488			
	4.580.687	409.614	1.692.752	8.851.413

Year end 2016	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Payable to credit institutions	910.133	398.713	1.252.342	8.122.829
Payable to the Icelandic State	2.046.570			
Income tax payable	512.383			
Trade payables	895.995			
Payable to related parties	201.623			
Other short term liabilities	497.032			
	5.063.736	398.713	1.252.342	8.122.829

The Company's long term loan contains covenants on financial conditions regarding equity ratio, liquidity ratio and leverage. If financial conditions are not met the loan falls due.

Currency risk

The Company's exposure to foreign exchange risk is specified as follows at year end:

Year 2017	USD	EUR	Other currencies	Total
Bonds	0	0	91.606	91.606
Trade receivables	276.629	345	4.614	281.588
Cash and cash equivalents	173.716	3.332	3.835	180.883
Trade payables	(2.508)	(67.449)	(228.078)	(298.035)
Risk in balance sheet	447.837	(63.772)	(128.023)	256.042

Year 2016	USD	EUR	Other currencies	Total
Bonds	0	0	23.486	23.486
Trade receivables	195.870	45	3.960	199.875
Cash and cash equivalents	111.693	3.905	1.655	117.253
Trade payables	(655)	(48.759)	(101.917)	(151.331)
Short-term loan	(508.905)	0	0	(508.905)
Risk in balance sheet	(201.998)	(44.808)	(72.816)	(319.622)

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31. Financial instruments, contd.:

Sensitivity analysis

A 10% strengthening of the ISK against the following currencies at year end would have increased (decreased) the Company's results before income tax by the following amounts.

	2017	2016
USD	(44.784)	20.200
EUR	6.377	4.481
Other currencies	12.802	7.282
Total	(25.605)	31.963

A 10% weakening of the ISK against the above mentioned currencies at year end would have the same effect in the opposite direction.

Interest rate risk

An interest increase at the reporting date by one percentage (100 basis points) would decrease results before income tax by ISK 80 million (2016: 65) due to effects of the Company's borrowings on floating interests. The calculation is based on operating effect on annual basis. A decrease by one point would have the same effect in the opposite direction.

32. Operating lease

Rental obligation

The Company rents premises from various parties until the year 2052. Future rent payments, without taking into account future inflation, are specified as follows at year end:

	2017	2016
Within one year	286.728	350.806
After 1 - 5 years	39.938	580.937
After more than 5 years	61.198	322.393
Total	387.864	1.254.136

32. Operating lease, contd.:

Rental income

The Company rents premises to various parties. Some of the rental agreements are indeterminate but the lease term of other agreements are from 1 - 15 years. Most of the rental agreements are price indexed. Total obligation of lessees without taking into account future inflation is specified as follows. Obligation of lessees due to indeterminate agreements is only calculated for one year.

	2017	2016
Within one year	154.799	147.474
After 1 - 5 years	238.044	272.086
After 5 years	118.497	141.654
Total	511.340	561.214

Consolidated Financial Statements of N1 hf. 2017 35 Amounts are in ISK thousand

33. Related parties

Definition of related parties

The Company's related parties are significant shareholders, associated companies, Board members and management personnel and close family members.

Transactions with associated companies

Transactions with associated companies are specified as follows:

Purchased goods and services	1.240.162	1.200.382
Sold goods and services	502.200	380.430
Bonds	91.606	23.486
Receivables at year end	14.843	14.843
Payables at year end	113.198	201.622

Salaries and benefits of the Board of Directors and management is specified as follows:

	2017	**2016**	**Shares at year end 2017**
Margrét Guðmundsdóttir, Chairman of the Board	8.900	8.265	3.014
Helgi Magnússon, Board member	6.429	5.963	3.598.955
Kristín Guðmundsdóttir, Board member	4.800	4.470	6.028
Jón Sigurðsson, Board member	4.440	4.110	6.525.970
Þórarinn V. Þórarinsson, Board member	4.800	4.470	3.014
Eggert Þór Kristófersson, CEO	70.475	58.434	90.000
Four managing directors	140.228	122.220	38.170
Total salaries and benefits of the Board of Directors and management	240.072	207.932	10.265.151

Included in the above shares are shares of spouses, financially dependent children and independent parties with same legal residence, and shares owned by companies controlled by members of the management as well as companies owned by these individuals.

No loans have been granted to Board members or the CEO of the Company.

Transaction with other related parties

Transactions with other related parties were insignificant during the periods covered by the financial statements. Such transactions were carried out on an arm's length basis.

Transactions with employees

The Company has provided loans to its employees due to general purchase of goods in the amount of ISK 12 million at year-end 2017 (2016: ISK 15 million). Other liabilities of employees amounted to ISK 1 million at year-end (2016: ISK 1 million).

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Notes, contd.:

34. Ratios

The Company's key ratios are specified as follows:

	2017	2016
Income statement		
Turnover rate of inventories at the end of the period: utilisation of goods / weighted average inventories	7,62	8,02
Sales days in trade receivables: weighted average trade receivables / goods and services sold	30	29
Profit before depreciation, amortisation and finance items / gross profit	31,2%	32,4%
Salaries and salary related expenses / gross profit	40,2%	37,8%
Sales and distribution cost / gross profit	18,2%	18,6%
Other operating expenses / gross profit	14,4%	14,6%
Balance sheet		
Current ratio: current assets / current liabilities	1,96	1,59
Liquidity ratio: (current assets - inventories) / current liabilities	1,30	0,97
Leverage: Net interest bearing liabilities / EBITDA	1,38	1,10
Equity ratio: Equity / total capital	49,9%	49,1%
Return on equity: Return of the year / weighted average equity	16,1%	39,2%

35. Planned acquisition of Festi

A purchase agreement for N1´s acquisition of all share capital of Festi hf. was signed 3 October 2017. The Icelandic Competition Authority is currently reviewing the planned acquisition. 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. Total turnover of Festi for the operating year ended on 28 February 2017 was in excess of ISK 39 billion. According to the agreement the total value of Festi is in the amount of ISK 37.9 billion. However the final purchase price will be based of the company´s liability position as at the end of the current financial year, 28 February 2018. According to budget it is assumed that EBITDA for the current financial year will be in the amount of ISK 3,340 million, of which ISK 2,125 million is due to Festi's operating companies but ISK 1,215 million related to its real estate activities. The total value of Festi is subject to changes, based on results of its operating companies. If those companies' EBITDA, for the financial year ending on 28 February 2018, turns out to be in excess of ISK 2,125 million the purchase price is to increase, however not by more than ISK 1 billion, the cap being reached if EBITDA turns out to be equal to or higher than ISK 2,250 million. If the aforementioned companies´ EBITDA turns out to be lower than ISK 2,050 million the purchase price is to decrease, however by no more than ISK 1 billion, that limit becoming effective in the case of EBITDA being equal to or lower than ISK 1,925 million. N1´s EBITDA for the year 2017, excluding costs related to the acquisition

36. Other issues

In June 2013 the Icelandic Competition Authority announced that it had decided to initiate market research on the Icelandic fossil fuel market. This is a new form of research, which includes consideration of a need for action against circumstances or conduct that prevents, restricts or adversely affects competition to the detriment of the public. Thus, the Competition Authority's investigation is not specifically aimed at the Company but the fuel market as a whole. The Competition Authority's report on preliminary findings was issued in November 2015. All interested parties in the fossil fuel market have submitted their opinion regarding the report and following that the Competition Authority conducted an open meeting where the various opinions were discussed. Subsequently the Competition Authority issued several opinions which were aimed at governmental entities in addition to that interested market entities were invited to comment on the potential results of the market research. The Competition Authority has implied that the market research will be delayed due to that it is currently investigating two mergers related to the fuel market. The market research will be suspended while they are investigated. The Competition Authority has pointed out that these mergers may have an effect on the results of the market research.

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Quarterly Statement - unaudited

The company´s operating results for the year 2017 by quarters

	Q1	Q2	Q3	Q4	2017 Total
Sales	6.977.970	8.897.383	10.591.794	8.141.294	34.608.441
Cost of goods sold	(4.672.727)	(6.101.639)	(7.094.335)	(5.399.595)	(23.268.296)
Gross profit	2.305.243	2.795.744	3.497.459	2.741.699	11.340.145
Other operating income	102.757	98.732	92.546	147.819	441.854
Salaries and other personnel expenses	(1.065.124)	(1.178.497)	(1.109.297)	(1.201.185)	(4.554.103)
Sales and distribution expenses	(422.438)	(567.463)	(620.178)	(448.529)	(2.058.608)
Other operating expenses	(399.433)	(380.261)	(451.225)	(403.003)	(1.633.923)
	(1.886.995)	(2.126.222)	(2.180.700)	(2.052.717)	(8.246.634)
Profit before depreciation, amortisation and finance items	836.801	836.801	1.409.305	836.801	3.535.365
Depreciation and amortisation	(242.962)	(242.331)	(248.133)	(273.463)	(1.006.889)
	(242.962)	(242.331)	(248.133)	(273.463)	(1.006.889)
Operating income	593.839	594.469	1.161.172	563.338	2.528.476
Finance income	25.189	13.282	16.517	36.226	91.215
Finance expenses	(97.171)	(101.491)	(97.849)	(101.841)	(398.352)
Currency exchange gain (loss)	9.201	(16.197)	20.129	10.201	23.334
Effect of associates	49.723	104.982	82.778	37.422	274.905
Change in fair value of shares	4.163	(588)	689	(149)	4.115
	(8.895)	(13)	22.266	(18.141)	(4.783)
Profit before income tax	584.944	594.457	1.183.438	545.197	2.523.693
Income tax	(44.205)	(84.705)	(220.741)	(103.075)	(452.726)
Profit for the period.................................	540.739	509.751	962.697	442.122	2.070.967
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from operations of a foreign associate	6.185	(23.115)	27.447	575	11.092
Items that will not be reclssified to profit or loss:					
Revaluation of real estates (reversal)	0	0	0	(115.288)	(115.288)
Tax on revaluation of real estates	0	0	0	23.058	23.058
Total other comprehensive income	6.185	(23.115)	27.447	(91.655)	(81.139)
Total comprehensive income for the period	231.129	418.090	990.143	350.467	1.989.828
Basic and diluted earnings per share in Icelandic krona	0,90	1,76	3,85	1,77	8,28

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Quarterly statement - unaudited

The company´s operating results for the year 2016 by quarters:

	Q1	Q2	Q3	Q4	2016 Total
Sales	6.442.818	8.848.278	10.622.848	7.853.952	33.767.896
Cost of goods sold	(4.363.990)	(5.809.511)	(7.219.941)	(5.173.096)	(22.566.538)
Gross profit	2.078.828	3.038.767	3.402.907	2.680.856	11.201.358
Other operating income	92.503	95.391	91.344	91.495	370.733
Salaries and other personnel expenses	(996.604)	(1.061.141)	(1.032.601)	(1.143.373)	(4.233.719)
Sales and distribution expenses	(428.978)	(553.803)	(593.785)	(502.028)	(2.078.594)
Other operating expenses	(372.120)	(415.332)	(395.433)	(452.048)	(1.634.933)
	(1.797.702)	(2.030.276)	(2.021.819)	(2.097.448)	(7.947.246)
Profit before depreciation, amortisation and finance items	373.629	1.103.882	1.472.431	674.902	3.624.845
Depreciation and amortisation	(173.017)	(177.422)	(181.254)	(241.396)	(773.088)
Reversal of impairment of real estates	0	0	0	1.323.492	1.323.492
	(173.017)	(177.422)	(181.254)	1.082.096	550.404
Operating income	200.612	926.460	1.291.178	1.756.999	4.175.249
Finance income	42.262	27.055	34.801	61.897	166.016
Finance expenses	(118.903)	(118.470)	(113.665)	(116.996)	(468.034)
Currency exchange gain	(689)	8.285	(25.076)	15.559	(1.921)
Effect of associates	21.189	62.286	111.900	100.577	295.952
Change in fair value of shares	0	(12.669)	(1.478)	475	(13.671)
	(56.141)	(33.513)	6.482	61.513	(21.659)
Profit before income tax	144.471	892.947	1.297.660	1.818.511	4.153.590
Income tax	(24.976)	(181.014)	(225.767)	(343.815)	(775.572)
Profit for the period	119.495	711.933	1.071.893	1.474.697	3.378.017
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from operations of a foreign associate	(1.929)	(15.026)	(3.621)	(59.846)	(80.422)
Items that will not be reclssified to profit or loss:					
Revaluation of real estates	0	0	0	4.849.765	4.849.765
Tax on revaluation of real estates				(969.953)	(969.953)
Total other comprehensive income	(1.929)	(15.026)	(3.621)	3.819.966	3.799.390
Total comprehensive income for the period	117.566	696.907	1.068.272	5.294.662	7.177.406
Basic and diluted earnings per share in Icelandic krona	0,34	2,03	1,57	4,33	9,74

Consolidated Financial Statements of N1 hf. 2017 39 Amounts are in ISK thousand

Statement of Corporate Governance

Board of Directors and corporate governance

The Board of Directors

Corporate governance of N1 is laid down in rules of procedures for the Board, the Company‘s Articles of Association and the Act on Public Limited Companies No. 2/1995. The current rules of procedures for the Board were approved on a Board meeting at 9 April 2013. The rules are based on provisions in Article 70, paragraph 4 in the Act on Public Limited Companies No. 2/1995 and Article 17, paragraph 2 of the Company‘s Articles of Association. The Company‘s Articles of Association describe the Company’s objective, its share capital, shareholders meetings, board of directors, CEO, accounting and audit. The current policy on terms of employment for N1 was approved by the Annual General Meeting on 23 March 2015. The policy applies to the terms of employment for members of the Board, CEO and senior management of the Company.

The Company’s rules of procedures for the Board, Articles of Association and policy on terms of employment are accessible on the Company’s website, www.n1.is/fjarfestatengsl. N1 complies with the Guidelines on Corporate Governance, 5th edition 2015, issued by the Icelandic Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers, in all instances except for the following;

• The Board of Directors of N1 has not appointed a nomination committee.

• The Statement of Corporate Governance does not include an analysis of environmental and social factors needed to understand the development, success and position of the Company.

• The Statement of Corporate Governance does not include information on main points affecting the appraisal of the Board’s success.

The Board of Directors of N1 is the highest authority in the Company’s affairs between shareholders meetings and is responsible for its operations. Communication between the Board and shareholders is at shareholders meetings. Members of the Board are independent in their work and do not accept direct instructions from shareholders in the Company or other stakeholders. Members of the Board must also observe confidentiality in performing their duties and are not allowed to provide information to shareholders concerning the Company’s finances or operations unless it is presented by the Board.

The Board of Directors of N1 hf. consists of five directors appointed for a one year term at the Annual General Meeting. Margrét Guðmundsdóttir is the Chairman of the Board and has been on the Company's Board since 2011 and as Chairman since 2012. Kristín Guðmundsdóttir has been on the Board since 2011, Helgi Magnússon since 2012, Jón Sigurðsson since 2014 and Þórarinn V. Þórarinsson since 2015. The Board of Directors of N1 hf consists of two women an three men and therefore complies with provisions of law on gender ratio which entered into effect on 1 September 2013. Members of the Board have diverse education and extensive professional experience.

Those who intend to candidate at the election of the Board of Directors of the Company must notify so in writing to the Board of Directors with at least five days notice before the beginning of the Annual general meeting. The Company's Articles of Association can only be amended with the approval of 2/3 of votes cast in a lawfully called shareholders' meeting, provided that the intended amendment is thoroughly mentioned in the agenda to the meeting and what it consists of.

Statement of Corporate Governance, continued

Corporate governance

The Board of Directors has laid down rules of procedures for the Board which are reviewed on annual basis. In the rules of procedure the competences of the Board and its purview with respect to the CEO are defined. The procedures contain among other things provisions on the appointment of Board members, communication with shareholders, calling of meetings and order, minutes of meetings and their content, rules on Board members' obligation of confidentiality and secrecy and rules on eligibility of Board members to participate in decision making. The Board elects a Chairman and Vice Chairman for the Board in addition to appointing members of sub-committees. Board meetings shall be called as often as necessary but no less than once every month. Board meetings are held at the headquarters of N1 at Dalvegur 10-14, 201 Kópavogur, and the Chairman of the Board directs the meetings. The CEO attends Board meetings and may at the meetings discuss matters and present motions, unless otherwise decided by the Board in specific matters. The Company's Board of Directors among others determines the CEO's terms of employment and meets regularly with the Company's auditors. The Board of Directors has appointed an audit committee and a remuneration committee.

Corporate governance, contd.:

To ensure that the Company's financial statements are in accordance with International Financial Reporting Standards the Company places emphasis on carefully defined responsibilities, appropriate separation of tasks and regular reporting and transparency in the operation. The process of monthly reporting and review for individual divisions is an important factor in the control on return and other key aspects of the operation. Monthly statements are prepared and presented to the Company's Board of Directors. The Company has established work procedures to ensure control in income recognition, operating expenses and other items affecting the Company's operation. Risk management is reviewed on regular basis in order to reflect changes in market conditions and the Company's operation. With personnel training and work procedures the Company aims at maintaining disciplined control where all employees are aware of their role and responsibilities. Operating risk is addressed by monitoring transactions and compliance with law. The Board of Directors has established equity management policy to ensure strong equity position and support stable future operating development.

All members of the Board of Directors have provided personal information to enable an evaluation of their qualification for membership on the Board of Directors in other companies, shareholding in the Company, whether directly or indirectly through related parties, and possible conflict of interest. All Board members are independent of both the Company and the large shareholders.

Remuneration committee

The Board of Directors has appointed a remuneration committee. The role of the Remuneration Committee is to provide guidance to the Board of Directors regarding employment terms for Board members and management and advise on the Company's remuneration policy, which shall be reviewed every year and presented to the Company's annual general meeting. Furthermore, the committee shall monitor that employment terms of executive management is in accordance with the Company's remuneration policy and report thereon to the Board of Directors on annual basis in relation to the annual general meeting. The Remuneration Committee shall consist of two members appointed by the Company's Board of Directors. Other of two of the members shall be independent from the Company and its day-to-day managers. Neither the CEO nor other employees may be a member of the Remuneration Committee. Independent Board members may be a member of the Remuneration Committee. Committee members should preferably have experience and knowledge of the criteria and customs that relate to the determination of the employment terms of managers. The Rules of Procedure of the committee shall state on its main tasks. The committee consists of Margrét Guðmundsdóttir, Chairman, Jón Sigurðsson and Helgi Magnússon.

Statement of Corporate Governance, continued

Audit committee

The Board of Directors of N1 hf. has appointed an Audit Committee in accordance with provisions of the Financial Statements Act. The committee must consist of at least three members and the majority of the members shall be independent from N1. The committee shall be appointed for a one year term at the first Board meeting following the annual general meeting. Majority of committee members shall be members of the Board of Directors of N1 and the chairman of the committee shall be appointed by the Company's Board of Directors. Committee members must have qualifications and experience in accordance with the activities of the Committee, and at least one member must have sufficient expertise in the field of accounting or auditing. Employment terms of committee members shall be decided at the annual general meeting. The committee shall monitor and check the auditing of the Company’s financial statements and assess the auditors' work to ensure further safety and quality of work methods during the audit. According to the committee's rules of procedure two Board members shall be appointed to the committee in addition to one external expert. The committee shall meet at least four times a year and additional meetings shall be called when deemed necessary by the chairman. The committee consists of Kristín Guðmundsdóttir, board member, Þórarinn V. Þórarinsson, board member and María Sólbergsdóttir, auditor and Chairman of the committee.

Audit committee, contd.:

The audit committee´s tasks are as follows:
• To monitor the financial reporting process.
• To monitor the organisation and effectiveness of N1´s internal control, risk management and other control procedures.
• To monitor the external audit of N1´s financial statements.
• To make recommendation to the Board of Directors regarding selection of auditors or audit firm.
• To evaluate the independence of external auditors or audit firm and monitor other tasks performed by them.

Investment committee

The Board of Directors has appointed an Investment Committee. Its purpose is to provide the Board with analysis and recommendations regarding investments. The committee consists of Jón Sigurðsson, Chairman and Eggert Kristófersson.

Executive Board

The executive board of N1 comprises key senior management personnel where each managing director is responsible for a certain section towards the CEO.

It should be noted that members of the executive board of N1 do not have share option agreements with the Company. There are no conflicts of interest between members of the executive board and the Company’s main customers, competitors or large shareholders.

In the year 2017, 19 Board meetings were held, 8 meetings in the Audit Committee and 3 meetings in the Remuneration committee. The majority of the Board, the Audit Committee and the Remuneration committee attended all meetings. The audit committee calls meetings with the Company's auditors on regular basis and auditors attend Board meetings when reviewed or audited financial statements are discussed.

Statement of Corporate Governance, continued

The Company´s values, code of conduct and social responsibility policy

N1´s values are:

• Respect - we respect our staff members, customers and our community.
• Simplicity - we are clear and focused in all our work.
• Energy - we are positive, certain and leading in our affairs.

It is the Company´s policy to be leading in the future. That includes being socially responsible. Concurrently to the issue of the financial statements a social report will be issued in accordance to Global Reporting Initiative. N1 endeavours to minimise the environmental impact of its operations by applying disciplined and accepted measures. On 19 June 2015 N1 became the first oil company to be granted VR´s certificate of equal salary. That confirms that the Company´s employees working comparable jobs are not being discriminated against in determination of their salaries. Every year a number of non-profit organisations and individuals ask the Company for financial support for their good causes. N1 put emphasis on preventitive measures and sport activities.

N1´s code of conduct was approved on 27 January 2015. These are accessible on the Company´s website.

Main components of internal control and the Company´s risk management

Observation of the main risks faced by the Company is an integral and ongoing part of the Company´s day to day operations, and is intended to secure its operational continuity and minimise risk.

The main factors of internal control and risk management are reviewed by the Board of Directors annually.

The Company does not have an internal auditor. However, the Company´s auditors carry out limited reviews of its processess.

Shareholders

The Company is a limited liability company. Information regarding its largerst shareholders is disclosed on its homepage, www.n1.is.

Non-Financial Reporting

About N1
N1 is a leading Icelandic retail and service company. N1 operates up to two hundred service stations around the country. In addition N1 operates a chain of garages with tyre- and lubrication services along with minor repairs.

Society
Social responsibility is very important to N1. We have improved social responsibility through the supply chain by various ways in all departments of the company. Social responsibility is increasingly important factor in the operation of N1 and covers all aspects of the operations. Various fields fall under the term, such as environmental issues, codes of conduct, fair practices, communal activity, development and relations with the society. We focus on working according to international certified standards and approved methods.

Environment
N1‘s climate objectives are to reduce emission of greenhouse gases and carbon offset all flights and use of own vehicles, in addition to reducing unsorted waste by 2% per year. We show the environment respect and strive to offer environmentally friendly goods and services. We do our best to inflict as little harm as possible to the environment by the Company's operations and adhere to accepted standards regarding the environment, quality, safety and health. Nineteen of N1's business units are certified pursuant to the ISO 14000 standard on environmental management in accordance with certificate no. 10 from Vottun hf.

Employees
N1 has adapted human resource policy and is aware of that one of the most important resource of the company are the employees, their knowledge and skills. N1 was first granted VR´s certificate of equal salary in 2015 and still holds that certification. seeks to attract and keep qualified and reliable personnel. N1 provides good and encouraging work environment, promotes and strengthen the employees by effective training and development. It is important that employees knows the role, policy and values of the company, that results in better performance. The human resource policy of N1 is available to all empolyees on the intranet.

Anti-corruption and bribery policy
We respect the impact that the company has on the society. We know that the reputation of N1 is one of the most valuable asset of the company. Code of conducts that apply to all activities of the company and all employees and its board of directors, as well as contractors, that perform tasks for the company. The code of conduct are available on the company's website, www.n1.is.

Status and performance
GRI G4 "Core" report was issued for the year 2015 to explain the status of the companies social responisbility. The purpose of the issue is among other things to estimate N1´s real position on those matters with reference to accepted standards thereon. Assessment of the current situation makes the company better to set realistic and measurable goals, but also to collect and communicate information on the activities related to social responsibility in a transparent way. The methodology of GRI (Global Reporting Initiative) is used worldwide by close to 12,000 companies and institutions that have issued over 29,000 GRI reports. The report is available on the website www.n1.is. For the second year in a row a GRI report, now for the year 2017, will be issued with the annual report. N1 received Creditinfo´s special award for social responsibility concurrently with N1´s award as an outstanding company for the year 2017.