

N1's profit for the second quarter of 2018 in the amount of ISK 696 million

Main results

- EBITDA for Q2 2018 amounted to ISK 1,108 million compared to ISK 778 million for the same quarter of 2017
- Gross profit from sales of goods increased by 16.1% in Q2 2018, mainly due to favourable development in world market price of oil
- Development in world market price of oil had positive impact in Q2 2018 compared to negative impact in Q2 2017
- Sale of petrol and diesel fuel decreased by 4.1% in Q2 2018 as compared to Q2 2017
- Highway traffic increased by 4.0% in Q2 2018 as compared to the same quarter of 2017
- At the end of Q2 2018 equity amounted to ISK 14,554 million and equity ratio was 47.5%

ISK thousand	2Q 2018	2Q 2017	Change	% change	6M 2018	6M 2017	Change	%Change
Income Statement								
Gross profit	3.244.834	2.795.744	449.090	16,1%	5.527.118	5.100.987	426.130	8,4%
Other operating income	123.584	98.732	24.853	25,2%	229.088	201.489	27.599	13,7%
EBITDA	1.076.975	768.254	308.721	40,2%	1.477.499	1.289.259	188.240	14,6%
EBIT	822.607	525.923	296.684	56,4%	975.262	803.967	171.295	21,3%
EBT	801.514	525.910	275.604	52,4%	890.245	795.059	95.186	12,0%
Profit for the period	671.692	441.205	230.487	52,2%	748.121	666.149	81.972	12,3%
Statement of Financial Position								
Inventories					4.027.628	3.166.299	861.329	27,2%
Trade receivables					3.760.622	3.242.427	518.194	16,0%
Interest bearing liabilities					9.100.000	7.100.000	2.000.000	28,2%
Cash and cash equivalents					3.318.979	2.394.175	924.804	38,6%
Net interest bearing liabilities					5.832.132	4.736.210	1.095.922	23,1%
Statement of Cash Flows								
Cash flows from operating activities	1.135.821	1.392.859	-257.038	-18,5%	969.789	1.229.186	-259.397	-21,1%
Investing activities	-111.957	-2.552	-109.405	4287,0%	-275.300	-173.235	-102.065	58,9%
Financing activities	-104.114	-845.466	741.352	-87,7%	-190.146	-941.221	751.075	-79,8%
Cash and cash equiv. at the end of the period	3.318.979	2.394.175	924.804	38,6%	3.318.979	2.394.175	924.804	38,6%
Key indicators								
EBITDA/gross profit	33,2%	27,5%	5,7%	20,8%	26,7%	25,3%	1,5%	5,8%
Equity ratio					47,5%	46,4%	1,1%	2,4%
Salaries/gross profit	38,1%	42,2%	-4,0%	-9,5%	42,2%	44,0%	-1,8%	-4,1%
Earning per share	2,79	1,76	1,03	58,3%	3,09	2,66	0,43	16,2%
Return on equity	0,0%	0,0%	0,0%	0,0%	10,6%	10,8%	-0,2%	-1,9%
Investments	-302.733	-203.836	-98.897	-48,5%	-473.314	-404.267	-69.047	-17,1%
Inventory turnover	8,45	7,81	0,64	8,2%	7,94	6,97	0,97	13,9%

Operations in the second quarter

ISK thousand	2Q 2018	2Q 2017	Change	% change	6M 2018	6M 2017	Change	% change
Income Statement								
Gross profit	3.244.834	2.795.744	449.090	16,1%	5.527.118	5.100.987	426.130	8,4%
Other operating income	123.584	98.732	24.853	25,2%	229.088	201.489	27.599	13,7%
Salaries and other personnel expenses	-1.237.296	-1.178.497	58.798	5,0%	-2.331.470	-2.243.621	87.849	3,9%
Sales and distribution expenses	-580.756	-567.463	13.293	2,3%	-1.048.081	-989.901	58.180	5,9%
Other operating expenses	-473.392	-380.261	93.131	24,5%	-899.156	-779.694	119.461	15,3%
EBITDA	1.076.975	768.254	308.721	40,2%	1.477.499	1.289.259	188.240	14,6%

EBITDA for Q2 2018 was in the amount of ISK 1,077 million compared to ISK 768 million for Q2 2017. The cost of the acquisition of Festi was ISK 31 million in Q2 2018 and 10 million in Q2 2017. The increase in gross profit is mainly due to positive development in world market price of oil in Q2 2018 compared to negative development in Q2 2017. Contractual salary increases were the main reason for an increase in salaries and other personnel expenses in Q2 2018 compared to the same period in 2017. Increase in other operating expenses is mainly related to the cost of the acquisition of Festi and increase in provision for receivables.

Revenue in the second quarter

Thousand of litres / sales of other goods in ISK thousand	2Q 2018	2Q 2017	Change	% change	6M 2018	6M 2017	Change	% change
Quantity sold - gasoline	13.556	15.631	-2.075	-13,3%	24.523	28.272	-3.749	-13,3%
Quantity sold - diesel fuel	26.089	25.710	379	1,5%	46.612	45.265	1.347	3,0%
Total quantity sold - excluding JET	53.907	58.670	-4.763	-8,1%	97.001	99.857	-2.856	-2,9%
Sales of other goods	2.949.467	2.876.095	73.372	2,6%	5.330.558	5.171.723	158.835	3,1%
Gross profit on sales of fuel	1.869.300	1.438.066	431.234	30,0%	3.086.029	2.670.189	415.840	15,6%
Gross profit on sales of other goods	1.375.535	1.357.678	17.857	1,3%	2.441.089	2.430.798	10.291	0,4%

Sales volume, excluding jet fuel, decreased by 8.1% in Q2 2018 compared to the same quarter in 2017. Sales volume of gasoline and diesel fuel decreased by 4.1% in Q2 2018 when compared to the same quarter for the year 2017. Increased gross profit on sale per liter in Q2 2018 is mainly due to price development in the international fuel market compared to Q2 2017 along with lower currency exchange rate of ISK against USD. The world market price of gasoline increased in Q2 2018 by 10.4% and price of diesel by 10.5% compared to a decrease of 9.8% in the price of gasoline and decrease of 7.0% in the price of diesel fuel in the same period of 2017. Sales of other goods increased by 2.6% in Q2 2018 compared to Q2 2017.

Operating expenses in the second quarter

ISK thousand	2Q 2018	2Q 2017	Change	% change
Salaries and other personnel expenses	-1.237.296	-1.178.497	58.798	5,0%
Sales and distribution expenses	-580.756	-567.463	13.293	2,3%
Other operating expenses	-473.392	-380.261	93.131	24,5%

In Q2 2018 the average number of employees in full time equivalent units decreased by 1.4% and was 547 compared to 555 in Q2 2017. Contractual salary increases are the main reasons for increase in salaries and other personnel expenses in Q2 2018 compared to the same period for the year 2017. Sales and distribution expenses was 2.3% higher in Q2 2018 than in the same quarter for the year 2017 due to increase in the sale of JET fuel. Other operating expenses was 24.5% higher in Q2 2018 than in Q2 2017, due to cost of the purchase of Festi which was ISK 31 million in Q2 2018 and 10 million in Q2 2017 and increase in provision for receivables.

Finance items

Finance income was higher in Q2 2018 than Q2 2017. Finance expenses were higher in Q2 2018 compared to Q2 2017 due to higher long-term borrowing. Currency exchange gain due to development of the USD exchange rate was in the amount of ISK 43 million in Q2 2018. During the second quarter of 2017 foreign exchange loss amounted to ISK 16 million. Share of profit from associates was ISK 29,1 million in Q2 2018 compared to ISK 105,0 million in Q2 2017.

ISK thousand	2Q 2018	2Q 2017	Change	% Change
Finance income	16.436	13.282	3.154	23,7%
Finance expenses	-107.128	-101.491	5.637	5,6%
Foreign currency difference	42.686	-16.197	58.883	-363,5%
Share of profit from associates	29.142	104.982	-75.840	-72,2%
Valuation changes of shares in other companies	-2.228	-588	-1.640	278,7%
Total	-21.093	-13	-21.080	164.688,9%

Statement of financial position

ISK thousand	2Q 2018	2Q 2017	Change	% Change
Inventories	4.027.628	3.166.299	861.329	27,2%
Trade receivables	3.760.622	3.242.427	518.194	16,0%
Interest bearing liabilities	9.100.000	7.100.000	2.000.000	28,2%
Cash and cash equivalents	3.318.979	2.394.175	924.804	38,6%
Net interest bearing liabilities	5.832.132	4.736.210	1.095.922	23,1%
Equity ratio	47,5%	46,4%	1,1%	2,4%
Inventory turnover	7,94	6,97	0,97	13,9%

Inventories increased by 27.2% between Q2 2017 and Q2 2018 mainly due to increase in price in the international fuel market and an increase in the sale of JET fuel. Cash and cash equivalents increased by 38.6% between Q2 2017 and Q2 2018 but no dividends were paid in 2018 due to acquisition of Festi. Investments in Q2 2018 were in the amount of ISK 395 million after taking into account the proceeds from sale of operating assets.

N1's acquisition of Festi

On 30 July 2018 the Icelandic Competition Authority (ICA) approved N1's acquisition of all share capital of Festi hf. subject to certain conditions in a settlement agreement approved by N1 and ICA. Festi operates grocery stores under the brand names of Krónan, Kr, Nóatún and Kjarval, as well as the electrical appliance store ELKO and Bakkinn warehouse hotel. The date of acquisition will be 1 September 2018. From that time Festi and its subsidiaries will be included in N1's consolidated financial statements.

The objective of the acquisition is operational optimisation and subsequently more robust and better service for customers of both companies. Significant changes have, and will continue, to take place in those markets in which the companies operate. Annual synergy of the acquisition are in the range of ISK 500 to 600 million. Synergy effect will be obtained in the next 12 to 18 months.

Future outlook in N1's operations and estimated EBITDA for the year 2018

- Increase in the number of tourist has had less impact than expected at the beginning of the year.
- Increase in domestic operating expenses, even if inflation rate is moderate, will have an impact on operations in competitive markets such as the one in which the Company operates
- Turmoil in oil markets and ISK foreign exchange rate could cause fluctuations in gross profit and working capital position.

Taking into account the results of Q2 2018 and the available information on expected results of Q3 2018 the EBITDA forecast for the year 2018 has been increased by ISK 100 million. EBITDA is assumed to be in range of ISK 3,600 – 3,800 million, excluding expenditures related to the acquisition of Festi hf.

The forecast is based on the assumptions of oil price being relatively stable and the exchange rate of USD/ISK close to 107. The Company's operations are seasonal and most of its EBITDA are related to the second and third quarters.

According to budget for the financial year ending on 28 February 2019 total turnover of Festi is assumed to be ISK 43,000 million and EBITDA to be ISK 3,350 million.

Shareholders

- The Company's market capitalisation was ISK 27.8 billion as at the end of June 2018
- A shareholder meeting will be held at the Company's headquarters at 10 o'clock on 25 September. The agenda consists of a proposal for a new remuneration policy for the Company, a proposal for rules regarding a nomination committee in the Board of Directors' policy and a proposal for a new competition policy for the Company.

Meeting on Thursday 30 August 2018

An open meeting for market participants and shareholders will be held on Thursday 30 August 2018 at N1's headquarters at Dalvegur 10-14 in Kópavogur (3rd floor). Eggert Kristófersson, the Company's CEO, will present the Company's results and answer questions. The meeting will start at 8:30. A light breakfast is available from 8:00. Presentations will be available following the meeting on N1's website: <http://www.n1.is/um-n1/fjarfestar/> as well as on the company news section on Nasdaq OMX Iceland hf.'s webpage.

Financial calendar

- Q3 Interim Financial Statements: 28 November 2018
- Annual Financial Statements for the year 2018: 27 February 2019
- Annual general meeting 2019: 21 March 2019

For further information please contact Eggert Kristófersson, CEO (eggert@n1.is) or Pétur Hafsteinsson, CFO, (petur@n1.is).