

Festi's profit for the fourth quarter of 2018 in the amount of ISK 327 million

Main results

- The operations of the subsidiary Hlekkur and its subsidiaries are included in Festi's group as from 1 September 2018 and is the main reason for increases in revenue and expenses in Q4 2018 compared to the same quarter of 2017
- Gross profit of companies in Hlekkur's group amounted to ISK 3,249 million, their EBITDA was ISK 1,148 million and profit ISK 357 million from 1 September to 2018 year-end.
- Festi's EBITDA for the year 2018, excluding acquisition-related cost due acquisition of Hlekkur, amounted to ISK 4,958 million compared to ISK 3,605 million for the year 2017.
- Gross profit of companies in Hlekkur's group amounted to ISK 2,492 million, their EBITDA was ISK 898 million and profit ISK 253 million in Q4 2018.
- Festi's EBITDA, excluding acquisition-related cost due acquisition of Hlekkur, amounted to ISK 1,630 million in Q4 2018 compared to ISK 844 million in Q4 2017.
- Gross profit from sale of goods increased by 100.2% in Q4 2018, mainly due to new entities of the Group as from 1 September.
- At the end of Q4 2018 equity amounted to ISK 25,970 million and equity ratio was 33.4%

ISK million	Q4 2018	Q4 2017	Change	% change	2018	2017	Change	%Change
Income Statement								
Gross profit	4.858	2.427	2.431	100,2%	13.704	9.988	3.716	37,2%
Other operating income	370	148	223	150,6%	776	442	334	75,6%
EBITDA	1.529	837	692	82,7%	4.628	3.535	1.092	30,9%
EBIT	919	563	356	63,2%	3.219	2.528	690	27,3%
EBT	383	545	-162	-29,7%	2.477	2.524	-47	-1,9%
Profit for the period	327	442	-115	-25,9%	2.059	2.071	-12	-0,6%
Statement of Financial Position								
Inventories					7.616	2.840	4.776	168,1%
Trade receivables					3.718	2.747	971	35,3%
Interest bearing liabilities					37.314	8.000	29.314	366,4%
Cash and cash equivalents					4.267	2.800	1.467	52,4%
Net interest bearing liabilities					33.165	5.238	27.927	533,1%
Statement of Cash Flows								
Cash flows from operating activities	-285	116	-401	-346,5%	4.314	2.376	1.938	81,6%
Investing activities	-719	-317	-402	126,9%	-13.734	-2.268	-11.466	505,5%
Financing activities	-1.055	-83	-972	1174,3%	10.854	393	10.462	2664,7%
Cash and cash equiv. at the end of the period	4.267	2.800	1.467	52,4%	4.267	2.800	1.467	52,4%
Key indicators								
EBITDA/gross profit	31,5%	34,5%	-3,0%	-8,7%	33,8%	35,4%	-1,6%	-4,6%
Equity ratio					33,4%	49,9%	-16,5%	-33,1%
Salaries/gross profit	53,7%	49,5%	4,2%	8,4%	47,7%	45,6%	2,1%	4,5%
Earning per share	1,00	1,77	-0,77	-43,5%	7,44	8,28	-0,84	-10,1%
Return on equity					11,0%	16,1%	-5,1%	-31,7%
Investments	-643	-330	-313	-95,0%	-1.571	-2.515	944	-37,5%
Inventory turnover	9,49	7,64	1,86	24,3%	9,04	7,62	1,42	18,6%

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Operations in the fourth quarter

ISK million	Q4 2018	Q4 2017	Change	% change	12M 2018	12M 2017	Change	% change
Income Statement								
Gross profit	4.858	2.427	2.431	100,2%	13.704	9.988	3.716	37,2%
Operating income and other operating income	370	148	223	150,6%	776	442	334	75,6%
Salaries and other personnel expenses	-2.607	-1.201	1.406	117,0%	-6.532	-4.554	1.978	43,4%
Sales and distribution expenses	-243	-176	67	38,1%	-958	-895	63	7,1%
Other operating expenses	-849	-361	488	135,4%	-2.363	-1.445	917	63,5%
EBITDA	1.529	837	692	82,7%	4.628	3.535	1.092	30,9%
EBITDA N1*	732	844	-112	-13,3%	3.809	3.605	204	5,7%

*EBITDA, excluding the cost related to the acquisition of Hlekk ehf.

EBITDA for Q4 2018 was in the amount of ISK 1,529 million compared to ISK 837 million for Q4 2017. The cost of the acquisition of Hlekk was ISK 101 million in Q4 2018 and 7 million in Q4 2017. Festi's EBITDA, excluding results of the subsidiary Hlekkur and acquisition-related cost amounted to ISK 732 million in Q4 2018 compared to ISK 844 million in Q4 2017. World market prices on oil had a negative effect on profits in Q4 2018, but the effects were positive in Q4 2017.

Revenue in the fourth quarter

Thousand of litres / sales of other goods in ISK million	Q4 2018	Q4 2017	Change	% change	2018	2017	Change	% change
Quantity sold - gasoline	10.686	11.499	-813	-7,1%	51.842	57.848	-6.006	-10,4%
Quantity sold - diesel fuel	22.839	22.072	767	3,5%	101.346	98.757	2.589	2,6%
Total quantity sold - excluding JET	48.358	46.345	2.014	4,3%	214.068	225.000	-10.932	-4,9%
Sales of other goods	14.990	3.057	11.933	390,3%	27.081	11.323	15.759	139,2%
Gross profit on sales of fuel	1.044	1.098	-54	-4,9%	5.351	4.954	397	8,0%
Gross profit on sales of other goods	3.813	1.329	2.484	187,0%	8.354	5.035	3.319	65,9%

Sales volume, excluding jet fuel, increased by 4.3% in Q4 2018 compared to the same quarter in 2017 due to increased sales to fisheries and industry. Sales volume of gasoline and diesel fuel decreased by 0.1% in Q1 2018 when compared to the same quarter for the year 2017. A change in composition of fuel sales explains for the most part a decrease in gross profit per liter in Q4 2018 when compared to Q4 2017. World market prices on oil also had a negative effect on profits in Q4 2018, but the effects were positive in Q4 2017. Sales of other goods increased by 415.7% in Q4 2018 compared to Q4 2017, with revenue of companies in Hlekkur's group amounting to ISK 11,840 million in Q4 2018.

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Operating expenses in the fourth quarter

ISK million	Q4 2018	Q4 2017	Change	% change
Salaries and other personnel expenses	-2.607	-1.201	1.406	117,0%
Sales expenses	-243	-176	67	38,1%
Other operating expenses	-849	-361	488	135,4%

As previously mentioned the operations of Hlekkur's group is included in Festi's group as from 1 September. That is the main reason for increases in expenses in Q4 2018 as compared to Q4 of 2017. Expenses related to the acquisition amounted to ISK 101 million in Q4 2018 compared to ISK 7 million in Q4 2017.

Finance items

ISK million	Q4 2018	Q4 2017	Change	% Change
Finance income	83	36	47	128,6%
Finance expenses	-674	-102	572	561,6%
Foreign currency difference	24	10	14	137,2%
Share of profit from associates	31	37	-7	-18,4%
Total	-536	-18	-518	2857,0%

Finance income increases in Q4 2018 because of higher cash balance with Hlekkur becoming a part of the Group. Finance expenses were higher in Q4 2018 than Q4 2017 due to increases in long-term borrowings related to the acquisition of Hlekkur.

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Statement of financial position

ISK million	2018	2017	Change	% Change
Goodwill	14.070	0	14.070	
Other intangible assets	4.504	215	4.289	1995,0%
Properties	32.419	16.940	15.479	91,4%
Investment properties	8.752	0	8.752	
Inventories	7.616	2.840	4.776	168,1%
Trade receivables	3.718	2.747	971	35,3%
Cash and cash equivalents	4.267	2.800	1.467	52,4%
Net interest bearing liabilities	33.165	5.238	27.927	533,1%
Equity ratio	33,4%	49,9%	-16,5%	-33,1%
Inventory turnover	9,04	7,62	1,42	18,6%

Assets and liabilities increase due to acquisition of Hlekkur's group. Purchase price allocation has been completed. However, if new information becomes evident within one year from the acquisition date regarding the position of assets and / or liabilities at the acquisition date the purchase price allocation could change. Goodwill amounted of ISK 14,070 million, other intangible assets to ISK 4,046 million. Other intangible assets are brand names of the acquired companies and have a finite useful life of 20 years. At 2018 year-end properties and equipment amounted to ISK 32,419 million, investment properties to ISK 8,752 million, net interest bearing liabilities were in the amount of ISK 33,165 million and equity ratio 33.4%.

IFRS 16 Leases

IFRS 16 will supersede the current lease guidance and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for lessees. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and replaced by a model where the right-of-use asset and a corresponding liability have to be recognized for all leases (i.e. all on balance sheet) except for short term leases and leases of low value assets. The nature of expenses related to those leases will now change because the companies will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Accounting treatment for lessors will be similar as under the current standard, and they will continue to distinguish between operating and finance leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group has estimated the impact of the adoption based on the information currently available on operating leases, lease period and incremental borrowing rates at 2018 year end. The Group estimates that it will recognized additional lease liabilities of ISK 3,8 billion and a right-of-use asset in the same amount as at 1 January 2019. The estimated effects on the the income statement in 2019 is a decrease in lease expense by ISK 486 million, increase in depreciation in the amount of ISK 395 million and an increase of 192 million for interest expense. These amounts

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is subject to changes when the Group finalizes its implementation of the standard in the year 2019. The EBITDA forecast below has been adjusted for the estimated effects described above.

Change in classification of operating expenses

Following the acquisition of Hlekkur, classification of certain operating expenses has been changed. The amended presentation is aimed to harmonize the classifications of operating expenses in the Group. Comparative figures have been restated in accordance with new classification, which has no impact on net results of the Group, nor its assets, liabilities, equity or cash flows. The most significant change is that distribution expense is now presented with the line item cost of goods sold, but was previously presented with sales- and distribution expenses.

Future outlook in Festi's operations and estimated EBITDA for the year 2019

- Business from tourists is expected to be similar to that of 2018
- Uncertainty is around the impacts of wage agreements on the Company, however it is clear that any work stoppage will have negative effect on the Group's business
- Weakening of the Icelandic Krona in recent months has effected EBITDA forecast for 2019. It is difficult to direct price increases from suppliers in to the price of goods
- Business from capelin season less than expected in the Group's budget
- Turmoil in oil markets and ISK foreign exchange rate could cause fluctuations in gross profit and working capital position

EBITDA for the year 2019 is assumed to be in the range of ISK 7,400 – 7,700 million, excluding expenditures related to the acquisition of Hlekkur, which have mostly been realised. The forecast is based on the assumptions of oil price being relatively stable and the exchange rate of USD/ISK close to 120. The Company's operations are seasonal and most of its EBITDA are related to the second and third quarters. Estimated impact of IFRS 16 implementation is decrease in lease expenses by ISK 486 million in 2019, which has been factored into the EBITDA forecast for 2019. For further information on the IFRS 16 impact assessment can be found above.

Shareholders

- The Company's market capitalisation was ISK 38,1 billion as at 2018 year end
- General meeting will be held at 10:00 on 21 March
- The Board of Festi will recommend to the general meeting that no dividends will be paid out of 2018 net results, which supports the Company's capital management policy.

Meeting on Thursday 28 February 2019

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An open meeting for market participants and shareholders will be held on Thursday 28 February 2019 at Festi'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 Festi website: <http://festi.is/fjarfestar/fjarhagsupplysingar/> as well as on the company news section on Nasdaq OMX Iceland hf.'s webpage.

Financial calendar

- Annual Financial Statements for the year 2018: 27 February 2019
- Annual general meeting 2019: 21 March 2019
- Interim Financial Statements Q1 2019: 20 May 2019
- Interim Financial Statements Q2 2019: 28 August 2019
- Interim Financial Statements Q3 2019: 6 November 2019
- Annual Financial Statements for the year 2019: 27 February 2020
- Annual general meeting 2020: 19 March 2020

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