Festi hf.
Consolidated Financial Statements 2018

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

Festi hf.
Dalvegur 10-14
201 Kópavogur

Reg. No. 540206-2010

Contents

Endorsement by the Board of Directors and the CEO

The main objective of Festi hf. ("the Company") is sale of fuel, goods and service to entities, groceries and related products, sale of electrical appliances and leasing of properties.

Acquisition of subsidiary

On 30 July 2018 the Icelandic Competition Authority approved the Company's acquisition of all share capital of Hlekkur (formerly Festi hf.). Following the acquisition, which was subject to certain conditions, Hlekkur became a subsidiary of the Company. Shareholders meeting on 25 September 2018 agreed to change the name of the parent N1 hf. to Festi hf., and the name of the subsidiary Festi hf. was changed to Hlekkur ehf.

Hlekkur ehf. and its subsidiaries operate grocery stores under the brands Krónan, Kr, Nóatún and Kjarval, electronic appliance stores under the brand name Elko, and Bakkinn warehouse. The acquisition date was 1 September 2018. The objective of the acquisition was optimisation of operations and improvement of customer services for both Companies. The purchase price was ISK 25,102 million. As part of the payment was in the form of new shares in Festi, the final purchase price was determined by the price of stocks in the Company at the acquisition date. After the transaction, former owners of Hlekkur ehf. own 24.1% of shares in the parent. For further informating regarding the acquisition, refer to note 4 to the consolidated financial statements.

Changes in compisition of the Board and Corporate Governance

Shareholders meeting on 25 September 2018 agreed to change the name of the parent N1 hf. to Festi hf. New Board members are Björgólfur Jóhannsson, Guðjón Karl Reynisson and Þórður Már Jóhannesson. Kristín Guðmundsdóttir and Margrét Guðmundsdóttir will continue as Board members. Margrét was re-elected as Chairman in a board meeting following the shareholders meeting, and Þórður Már Jóhannesson was elected as Vice Chairman. At the shareholders meeting a new competitive policy was approved, in accordance with art. 25 of the Company's settlement with the Competition Authority for the aforementioned acquisition of Hlekkur and its subsidiaries. A reviewed remuneration policy was approved as well as proposed rules for a nomination committee. The nomination committee consists of Sigrún Ragna Ólafsdóttir, Tryggvi Pálsson and Þórður Már Jóhannesson.

Operations in the year 2018

The Company´s operating revenue for the year 2018 amounted to ISK 58,932 million (2017: 35,050) and increased by 70.4% between years. Profit before depreciation, amortisation and finance items amounted to ISK 4,628 million for the year 2018 (2017: 3,535) and increased by 30.9% between years. According to the income statement and statement of comprehensive income, the profit for the year amounted to ISK 2,059 million (2017: 2,071) but total comprehensive income for the year ISK 2,092 million (2017: 1,990). The Company´s equity at year end amounted to ISK 25,970 million (2017: 13,812), including share capital in the nominal value of ISK 330 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 33.4% (2017: 49.1%).

Full time equivalent units was 1,724 in the year 2018 (2017: 545).

The Board of Directors recommends that no dividends will be paid in the year 2019.

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

Shareholders

At the end of the year the Company´s shareholdes were 915 compared to 1,158 at the beginning of the year. Following are the Company's 20 biggest shareholders at year end.

Stefnir	11.2%
Lífeyrissjóður verslunarmanna	10.1%
Gildi - lífeyrissjóður	8.9%
Lífeyrissjóður starfsmanna ríkisins, A-, B og S deild	7.9%
Lansdowne Icav Lansdowne Euro	6.1%
Birta lífeyrissjóður	5.1%
Almenni lífeyrissjóðurinn	4.8%
Wellington Trust Company	3.7%
Stapi lífeyrissjóður	3.6%
Landsbréf	3.5%
Global Macro funds (Eaton)	3.3%
Kvika banki hf	2.1%
Lífsverk lífeyrissjóður	2.0%
Helgafell ehf	2.0%
Sjóvá-Almennar tryggingar hf	1.9%
Festa - lífeyrissjóður	1.7%
Söfnunarsjóður lífeyrisréttinda	1.5%
Vátryggingafélag Íslands hf	1.5%
Brekka Retail ehf	1.3%
Brú Lífeyrissjóður starfs svei	1.2%

Share capital and Articles of Association

The Company's registered share capital at year-end amounted to ISK 330 million. Increase in 2018 amounted to ISK 80 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 Festi 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. 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 information

Festi hf. is a public interest entity. According to the Icelandic Financial Statements Act the Company shall provide information necessary to assess its development, position and influence in relation to environmental, social, personnel and human rights policies, how it opposes corroption and briberies in addition to a compact description of its business model, and more. GRI G4 "Core" report was issued for the year 2015 to explain the status of the company's social responisbility. In the report Festi will explain its position in these matters according to accepted standards. The policies and results of the Company in these matters are described in an appendix for non-financial information.

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

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
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 2018, its assets, liabilities and financial position as at 31 December 2018, and changes in cash and cash equivalents during the year 2018.

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 2018 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.

Kópavogur, 27 February 2019

Stjórn Festi hf.

Margrét Guðmundsdóttir
Formaður

Björgólfur Jóhannsson

Kristín Guðmundsdóttir

Guðjón Karl Reynisson

Þórður Már Jóhannesson

Forstjóri

Eggert Þór Kristófersson

Independent Auditor's Report

To the Board of Directors and shareholders of Festi hf.

Opinion

We have audited the consolidated financial statements of Festi hf. and it subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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 Annual Accounts 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 judgement, 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.

Why significant	How our audit addressed the Key Audit Matter
Accounting for acquisitions in Hlekkur ehf. and the purchase price allocation (PPA)	

At 30 July 2018 the Icelandic Competition Authority approved N1 hf.'s (hereafter Festi hf.) acquisition of all share capital of the company Festi hf. (hereafter Hlekkur ehf.) but the formal acquisition date was 1 September 2018. The total purchase price for all equity shares in Hlekkur ehf. amounted to ISK 25.102 million.
 	
The Group performed a purchase price allocation ("PPA") in accordance with International Financial Reporting Standards (IFRS) as disclosed in Note 4 to the consolidated financial statements. The Group was supported by external experts when performing the PPA.
 	
We have determined the accounting for acquisitions in Hlekkur ehf. and PPA to be a Key Audit Matter based on the quantitative materiality of the acquisition, the significant management judgement and estimates made in relation to the PPA.
 	
The Key Audit Matters that are subject to estimation and judgements are:
• Assessment of presumption used in fair value assessment of the acquired assets and liabilities.
• Assessment of value of brands
• Allocation of the goodwill to individually cash generating unit (CGUs)
	As part of our audit procedures an emphasis was on the following procedures to address this Key Audit Matter:
	
	• To obtain an understanding of the transaction we assessed the purchase agreement and presentation to shareholders in relation to the acquisition of Hlekkur ehf.
	• Assessed, with involvement of our internal specialists, a report from management where the purchase price allocation was outlined and supported but the report was prepared with assistance from external experts.
	• Assessed the methodology used for the PPA for acquired assets and liabilities.
	• Assess the competence and objectivity of external specialists the Group uses in the PPA.
	• Assessed the result of the PPA and key assumption used. As part of that work, among other procedures, we assessed:
	  ◦ the cash flow forecasts focusing on revenues and earnings before interest, tax depreciation and amortisation ('EBITDA')
	  ◦ the appropriateness of discount rates
	  ◦ the future growth rates assumptions of management
	  ◦ the assumptions used and compared it with external and internal evidence
	  ◦ the assumptions used in the model and compared it to comparable companies whilst considering the risk of management bias.
	
	For the goodwill resulting from the purchase price allocation, we assessed management's rationale regarding if more identifiable assets were in place or not.
	We assessed the adequacy of the disclosures in the consolidated financial statements and in accordance with IFRS.

Why significant	How our audit addressed the Key Audit Matter

Revaluation of real estate

Real estate of the Group, other than investment properties, are recognised at revalued cost as disclosed in Note 14 to the consolidated financial statements and book value at year end 2018 amounted to 28.061 million ISK, which amounts to 36% of the Group´s total assets.

The Group follows an internal policy for the revaluation of real estate for own use. The policy requires that a fair value estimate is performed if there are indications present that the difference between fair value and book value of the revalued assets exceed 20%. Fair value shall be determined at least every five years (refer to Note 14). The last revaluation of Festi hf.'s real estate was in 2016, but revaluation of real estates of Hlekkur ehf. was performed in 2018. Real estate of Hlekkur ehf. amounts to ISK 13.300 million or 47% of the total real estate of the Group.

Revaluation of real estates of the Group is evaluated from the cash flow forecasts which management presented with the assistance of external specialists.

Revaluation of real estate of the Group is a complicated process and depends on various uncertain assumptions by management and the financial impact is material to the consolidated financial statements. That is why revaluation of the Group's real estate is a Key Audit Matter.

For real estates of Festi hf., where the last revaluation was performed in the year 2016, we placed emphasis on assessing if there was indication that difference between fair value and book value was 20% or more. Our procedures focused on the following to respond to the Key Audit Matter, among others:

- We involved our internal specialists to assist us in evaluating the key valuation assumptions used by management which influence the revaluation of real estate the most at year end 2018.
- We assessed the assumption for change in weighted average cost of capital.
- We assessed changes in other assumptions like gross margin of fuel sales, rental price in the real estate market and operating cost of real estate.

For real estates of Hlekkur ehf. Group, where the last revaluation was performed in 2018, our procedures focused on the following to respond to the Key Audit Matter, among others:

- We involved our internal specialists to assist us in assessing the methodology which was used in revaluation of real estate, among other things we reviewed if the method that the Group uses is in accordance with IFRS and if the method is appropriate in revaluation of real estate.
- Assess the competence and objectivity of external specialists the Group uses in revaluation of real estate.
- Assessed the result of the valuation of real estates in Hlekkur ehf. and key assumption used. As part of that work, among other procedures we assessed:
    - the cash flow forecasts focusing on:
        - Rental price in the real estate market
        - Operating cost of real estate
    - the appropriateness of discount rates
    - the future growth rates assumptions of management
    - the assumptions used and compared it to external and internal data
    - the assumptions used in the model and compared it to comparable companies whilst considering the risk of management bias.

We assessed the adequacy of the disclosures in the consolidated financial statements and in accordance with IFRS.

Other information in the Annual Report of Festi hf. for the year 2018

Other information consists of the information included in Festi hf. 2018 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, be we expect to receive it at a later date.

Our opinion on the consolidated 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 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 International Financial Reporting Standards, as adopted by the European Union and additional requirements in the Icelandic Act on Annual Accounts, Act on Financial Undertakings and rules on accounting for credit institutions, where applicable.

The CEO and Board of Directors are responsible for such internal control that management determines is necessary to enable the preparation of the 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 is responsible for overseeing the Group's consolidated 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 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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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.

- 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 consolidated 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 communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the Key Audit Matters. We describe these 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 consolidated financial statements includes the information required by the Icelandic Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

Reykjavík, 27 February 2019

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Ingunn H. Hauksdóttir
State Authorised Public Accountant

Ernst & Young ehf.
Borgartúni 30
105 Reykjavík

Statement of income and comprehensive Income for the year 2018

	Note	2018	2017
Sales	6	58.931.554	34.608.441
Cost of goods sold	7	(45.227.149)	(24.620.267)
Gross profit		13.704.405	9.988.173
Other operating income		776.058	441.854
Salaries and other personnel expenses	8	(6.531.706)	(4.554.103)
Sales and distribution expenses	9	(958.383)	(895.190)
Other operating expenses	10	(2.362.614)	(1.445.369)
		(9.852.703)	(6.894.663)
Profit before depreciaton, amortisation and fair value changes		4.627.760	3.535.365
Depreciation and amortisation	11	(1.398.806)	(1.006.889)
Fair value changes of investment properties	15	(10.239)	0
Operating profit		3.218.715	2.528.476
Finance income	16	151.968	91.215
Finance expenses	16	(1.155.881)	(398.352)
Foreign currency difference		72.634	23.334
Share of profit from associates	17	204.875	274.905
Fair value changes of shares in other companies	16	(15.796)	4.115
		(742.200)	(4.783)
Profit before income tax		2.476.515	2.523.693
Income tax	18	(417.846)	(452.726)
Profit for the period		2.058.669	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		33.297	11.092
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment	14	0	(115.288)
Income tax from revaluation of property and equipment		0	23.058
Other comprehensive income total		33.297	(81.139)
Total comprehensive income		2.091.967	1.989.828
Basic and diluted earning per share in ISK	24	7,44	8,28

Notes on pages 15 to 43 are an integral part of these consolidated financial statements.

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Statement of Financial Position as at 31 December 2018

	Note	2018	2017
Assets			
Goodwill	12	14.070.463	0
Other intangible assets	13	4.504.012	214.987
Property and equipment	14	32.418.877	16.940.226
Investment properties	15	8.751.774	0
Shares in associates	17	2.079.666	1.839.908
Securities		66.838	136.582
Non-current assets		61.891.630	19.131.704
Inventories	7	7.616.386	2.840.403
Trade receivables	6	3.718.347	2.747.377
Other short-term receivables	16	305.786	136.852
Cash and cash equivalents		4.266.925	2.800.082
Current assets		15.907.443	8.524.714
Total assets		77.799.073	27.656.418
Equity			
Share capital		329.574	250.000
Share premium		13.140.383	3.153.857
Other restricted equity		5.258.048	4.131.579
Retained earnings		7.241.841	6.276.344
Total equity		25.969.846	13.811.779
Liabilities			
Payable to credit institutions	16	33.593.033	8.000.000
Deferred tax liabilities	18	3.938.773	1.484.715
Non-current liabilities		37.531.807	9.484.715
Current tax		595.668	444.276
Payable to the Icelandic State	16	2.306.564	2.058.077
Payable to credit institutions	16	3.720.530	0
Trade payables		5.654.412	1.180.125
Other short-term liabilities	16	2.020.246	677.446
Current liabilities		14.297.421	4.359.924
Total liabilites		51.829.227	13.844.639
Total equity and liabilities		77.799.073	27.656.418

Notes on pages 15 to 43 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Festi hf. 2018 11 Amounts in thousands of ISK

Statement of Changes in Equity for the year 2018

	Share Capital	Share premium	Statutory reserve (Other restricted equity)	Revaluation reserve (Other restricted equity)	Unrealised profit of subsdiraries and associated company (Other restricted equity)	Translation reserve (Other restricted equity)	Retained earnings	Total equity
Year 2018								
Equity at 1.1.2018	250.000	3.153.857	62.500	3.846.730	376.856	(154.490)	6.276.325	13.811.779
Contribution to statutory reserve			19.893				(19.893)	0
Total comprehensive income for the period						33.297	2.058.669	2.091.967
Restricted due to subsidiaries and associates					1.265.703		(1.265.703)	0
Dissolution of revaluation of an associate				(34.683)			34.683	0
Dissolution of revaluation of PPE				(157.760)			157.760	0
	250.000	3.153.857	82.393	3.654.286	1.642.560	(121.193)	7.241.841	15.903.745
Transactions with shareholders:								
Issued share capital	79.574	9.986.526						10.066.100
Equity at 31.12.2018	329.574	13.140.383	82.393	3.654.286	1.642.560	(121.193)	7.241.841	25.969.846
Other restricted reserves total						5.258.047		
Year 2017								
Equity at 1.1.2017	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 period				(92.231)		11.092	2.070.967	1.989.828
Restricted due to subsidiaries and associates					80.905		(80.905)	0
Dissolution of revaluation of an associate				(23.725)			23.725	0
Dissolution of revaluation of PPE				(159.836)			159.836	0
	250.000	3.153.857	62.500	3.846.730	376.856	(154.490)	7.026.325	14.561.778
Transactions with shareholders								
Dividends paid to shareh. (3,0 ISK per share)							(750.000)	(750.000)
Equity at 31.12.2017	250.000	3.153.857	62.500	3.846.730	376.856	(154.490)	6.276.325	13.811.779
Other restricted reserves total						4.131.596		

Notes on pages 15 to 43 are an integral part of these consolidated financial statements.

Amounts in thousands of ISK

Statement of Cash Flows for the year 2018

	Note	2018	2017
Cash flows from operating activities			
Profit before depreciation, amortisation and net finance expenses		4.627.760	3.535.365
Operating items not affecting cash flows:			
Gain on sale of operating assets		(38.352)	(66.727)
Deferred income		0	(20.141)
		4.589.407	3.448.497
Changes in operating assets and liabilities:			
Inventories, change		(1.614.020)	186.349
Trade and other receivables, change		(656.780)	(335.170)
Trade and other payables, change		762.137	(449.144)
Short-term liabilities with credit institutions		2.000.000	0
Changes in operating assets and liabilities		491.337	(597.965)
Interest income received		161.674	73.274
Interest paid on short-term borrowings		(350.139)	(35.650)
Paid income tax		(578.665)	(512.383)
Cash flows from operating activities		4.313.616	2.375.790
Cash flows from investing activities			
Purchase of shares in a subsidiary, net of cash acqured		(12.261.852)	0
Purchase of intangible assets		(113.377)	(9.601)
Purchase of property and equipment		(1.571.285)	(2.515.808)
Sale of property and equipment		98.729	63.276
Purchase / additions to investment properties		(30.513)	0
Dividend received		120.000	194.000
Sale of shares in other companies		24.253	0
Investing activities		(13.734.044)	(2.268.133)
Cash flows from financing activities			
Dividend paid		0	(750.000)
Repayment of loans from credit institutions		(8.714.644)	0
New long-term borrowings		20.057.500	1.500.000
Interest expense paid on long-term loans from credit institutions		(488.509)	(357.399)
Financing activities		10.854.347	392.601
Increase in cash and cash equivalents		1.433.919	500.258
Currency exchange difference on cash and cash equivalents		32.924	33.390
Cash and cash equivalents at the beginning of the year		2.800.082	2.266.435
Cash and cash equivalents at the end of the year		4.266.925	2.800.082

Notes on pages 15 to 43 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Festi hf. 2018 13 Amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

Notes

1. Operations of the Group

Festi hf. („the Group“, previously „N1 hf.“) is an Icelandic limited liability company. The Company's headquarters are located at Dalvegur 10-14, Kópavogur. The main objective of the Company is sale of fuel, goods and service to entities, groceries and related products, sale of electrical appliances and leasing of properties. The consolidated financial statements of the Group consists of the Company and its subsidiaries, referred to together as the Group and individually as a Group entity.

2. Basis of preparation

Presentation of accounting policies and other notes

Accounting policies are presented along with financial information in the notes for the applicable items. Management believes that such presentation will provide a clearer view and improved context between accounting policies and financial information. Notes for Statement of Comprehensive income and Statement of Financial Position are presented in conjunction where such presentation is deemed appropriate, for example income from sale of goods is presented with trade receivables and income tax expense is presented with deferred tax.

An overview of risk management is presented in a seperate chapter (see note 21). The Group describes the accounting policies in conjuction with each note in the aim of providing enhanced understanding of each accounting area. The Group focuses on describing the accounting choices made within the framework of the prevailing IFRS policy and acoids repaeating the actual text of the standard. Refer to the table below to see the note in which each accounting policy is listed an for the relevant and material IFRS standard:

Item	Notes	Standards
Income from goods and services	Note 6. *Operating income and trade receivables*	IFRS 15
Operating segments	Note 5. *Operating segments*	IFRS 8
Fair value estimate for real estate and investment properties	Note 14. *Property and equipment*	IFRS 13
Impairment test	Note 12. *Goodwill*	IAS 36
Purchase price allocation	Note 4. *Business combinations*	IFRS 3

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 Board of Directors of Festi hf. approved the consolidated financial statements on 27 February 2019.

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 harmonise 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

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties, securities and derivative instruments which are recognised at fair value. Furthermore, the Company´s real estates were revalued to fair value.

Consolidated Financial Statements of Festi hf. 2018 15 Amounts are in thousands of ISK

Notes, contd.

2. Basis of preperation (contd.)

Presentation- and functional currency

These consolidated financial statements are prepared and presented in Icelandic krona (ISK) which is the Company's functional currency. All amounts are presented in thousand of Icelandic krona unless otherwise stated.

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.

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. Information about important judgements that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed in the applicable notes, as described in the table below.

Estimation uncertainty	Note	
Fair value estimate of revalued property, useful life of property and equipment and residual value	14	Property and equipment
Recoverable amount of goodwill and other intangible assets	12.	Goodwill
Revaluation of real estate	15.	Investment properties
Allowance for bad debt	6.	Operating income and trade receivables

3. Consolidated entities

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.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Subsidiaries

The consolidated financial statements include the following entities. All subsidiaries are directly or indirectly owned by the parent Festi. For information regarding business combinations in 2018, refer to note 4.

Notes, contd.

3. Consolidated entities (contd.)

Company	Main activities
Festi hf.	Festi is a holding company that specialises in running companies that are leading in the retail and fuel markets in Iceland. Festi aims to help and support its subsidiaries to remain front running in providing goods and services across the country. Festi provides its subsidiaries with supporting services, such as financial, operating and business development services.
................Ego ehf.	Ego ehf. is an investment company designed to hold the Company's investments and future developments in that field.
................Hlekkur ehf.	Hlekkur ehf. is a holding company specialising in investments in convenience stores and other companies related to retail trade.
......................Krónan ehf.	Krónan ehf. is a retail company that operates convenience stores in Iceland. The compnay operates Krónan and Kr. stores in the capital region as well as other areas of the country.
......................Elko ehf.	The company is an electronics retail store which operates stores in the capital region, in Keflavik Airport as well as an online shop.
......................Festi fasteignir ehf.	The company leases non-residential real estate.
......................Bakkinn vöruhótel ehf.	Bakkinn vöruhótel ehf. specialises in product storage, packing, labeling and distribution of products for its customers that elect to outsorce their warehouse activities, partially or fully.

4. Business combinations

On 30 July 2018 the Icelandic Competition Authority (ICA) approved N1´s acquisition of all share capital of Festi hf. subject to certain conditions. Festi (now named Hlekkur) 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 was 1 September 2018. Festi and its subsidiaries are included in these consolidated financial statements as from that date. In September the name of the parent company was changed from N1 to Festi but the name of the subsidiary from Festi to Hlekkur. The companies´s new names are hereafter used in this note.
During the period from the acquisition date to the end of the year total turnover of Hlekkur and its subsidiaries was in the amount of ISK 15,422 million and their EBITDA in the amount of ISK 1,148 million.

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 when fully obtained, 12 to 18 months subsequent to the acquisition date.

ICA´s conditions

ICA´s main conditions related to N1's acquisition of Festi are as follows:

1. New resellers are to get improved access to wholesale of liquid fuel.
2. Better access to the service of Olíudreifing ehf.
3. Sale of five self-service stations to new and independent parties in the fuel market. More specifically, three self-service fuel stations currently operated under the brand name of Dælan, located at Fellsmúli and Staldrið in Reykjavík and at Hæðarsmári 8 in Kópavogur, and two stations operated under the brand name of N1, at Salavegur in Kópavogur and Vatnagarðar in Reykjavík.
4. Sale of the grocery store of Kjarval located at Hella.

Notes, contd.

4. Business combinations (contd.)

Following the settlement agreement an independent specialist was to be appointed, the role of whom is to follow up on and monitor the procedures and instructions specified in the settlement.

Acquisition price, its payment and financing

The acquisition was financed with borrowings, on one hand, and issue of new share capital of Festi on the other. Futhermore, Festi used some of its current cash to finance part of the acquisition. Festi issued 79,573,913 shares to the previous shareholders of the subsidiary. The final purchase price was determined by the market price of the Company´s share as at the acquisition date, being 126.5 per share. The total purchase price was in the amount of ISK 25,102 million. Following is a breakdown of the purchase price.

Cash payment	15.036.000
Paid by issue of new share capital of Festi hf.	10.066.100
Total purchase price for Hlekkur ehf.	25.102.100

By the transaction the former shareholders of the subsidiary Hlekkur acquired 24.1% of all shares in the parent company Festi. Half of those new shares are subject to lock-up provisions, as sale of them is prohibited to year-end 2018.

In addition to the purchase price, direct acquisition-related cost in the amount ISK 330 million has been expensed in 2018 (2017: ISK 69 million). The cost has been expensed in profit or loss.

Identifiable assets and liabilities acquired

According to International Financial Reporting Standards an acquirer is required to carry out a purchase price allocation at the acquisition date, i.e. determine the fair value of identifiable assets and liabilities of the acquired company. The 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 liabilties at the acquisiton date the purchase price allocation could change.

The following table specifies the fair value of acquired assets and liabilities of Hlekkur and its subsidiary according to the purchase price allocation.

Property and equipment	15.495
Investment properties	8.732
Intangible assets	4.046
Shares in other companies	32
Inventories	3.162
Trade receivables	565
Other short-term receivables	99
Cash and cash equivalents	2.774
Loans from credit institutions	(15.702)
Deferred tax liabilities	(2.484)
Trade payables	(4.363)
Current tax payable	(256)
Other short-term liabilities	(1.068)
Fair value of identifiable asset acquired less identifiable liabilities assumed	11.032
Goodwill	14.070
Purchase price	25.102

Goodwill

The excess of purchase price over fair value of identifiable assets acquired less identifiable liabilities assumed is recognised as goodwill. Goodwill is not amortised but tested annually for impairment or more often if there is an indication of impairment.

Consolidated Financial Statements of Festi hf. 2018 18 Amounts are in thousands of ISK

4. Business combinations (contd.)

Goodwill arising from the acquisition of Hlekkur and its subsidiaries is due to estimated synergy related to optimisation with respect to purchasing, operating, distribution and salary expenses. Furthermore, goodwill of individual cash-generating units are related to personnel, processes and estimated future benefit of the units. Goodwill arising from acquisition is not tax-deductible.

Purchase price allocation, contd.

Fair value assessment of revalued assets and goodwill are based on the following assumptions:

Assets acquired	Changes in value and assumptions upon which purchase price allocation is based
Property and equipment	According to fair value assessment at the acquisition date of 1 September 2018 fair value of Hlekkur´s real estates and premises is ISK 3,051 million higher than their carrying amount. Fair value of equipment is estimated to be close to carrying amount and was therefore not estimated. Fair value of real estates and premises was estimated in accordance with the International Financial Reporting Standard IFRS 13 Fair Value Measurement. The fair value assessment of those assets fall under level 3 in the fair value hierarchy. The fair value assessment is based on discounted cash flows using fixed prices. Future revenue from assets is estimated based on current lease agreements and estimated market lease prices after the expiration of current lease agreements. A full utilisation of real estates is not assumed. Furthermore, it is assumed in the estimation of revenue that a part of lease revenue will not be collected. The most significant expenses in the cash flows assessment are property tax, maintenance, insurance premiums and administrative costs. Property tax is based on rateable value for the year 2019 and municipalities´ rate of levy for the year 2018. Other expense items are estimated based on common benchmarks applied in the real estate market. The estimated cash flows from assets is discounted based on estimated weighted average cost of capital (WACC). Required rate of return on equity is based on market rate of return on government backed market debt securities, risk premium for the real estate market and a specific risk premium for individual properties. A 30% equity ratio is assumed. The assessment of real rate of return on debt is based on estimated interest term for individual real estate assets. Hlekkur´s real estates and premises for own use will be recognised applying the revaluation model in Festi´s consolidated financial statements, as Festi´s real estates and premises are recognised. Other fixed tangible non-current assets of Festi will be recognised at amortised cost. Deferred tax is recognised due to the difference between fair value and carrying amount.
Investment property	Some of Hlekkur´s real estates are leased out to third parties and recognised as investment properties in Festi´s consolidated financial statements. Investment properties are recognised at fair value through profit or loss. According to fair value assessment the fair value of investment properties is ISK 390 million lower than carrying amount at the acquisition date. Fair value of investment properties was assessed applying the same valuation model as for the assessment of fair value of real estate and premises of assets for own use. Deferred tax will be recognised due to the difference between fair value and carrying amount of investment properties.
Goodwill	Goodwill is the excess of purchase price over fair value of identifiable acquired assets and liabilities. Goodwill arising from the acquisition of Hlekkur and its subsidiaries is due to estimated synergy related to optimisation with respect to purchasing, operating, distribution and salary expenses. Furthermore, goodwill of individual cash-generating units are related to personnel, processes and estimated future benefit of the units. Goodwill arsing from acquisition is not tax-deductible. Goodwill is not amortised but will be tested annually for impairment.

Notes, contd.

4. Business combinations (contd.)

Other intangible assets

Purchase price allocation related to the acquisition of Hlekkur is in accordance with IFRS 3. The date of acquisition was 1 September 2018. Four cash-generating units were defined. Excess price was allocated to two of them, i.e. electrical appliance storess and grocery stores. No intangible assets were defined related to real estate and warehouse operations. Two identifiable intangible assets were defined, the brand names of Krónan and Elko, and their fair value was assessed in accordance with IFRS 13 Fair Value Measurement. The method of relief from royalty was applied in determinating fair value of brand names. Intangible assets are recognised at amortised cost and deferred tax recognised due to the different between fair value and carrying amount.

5. Operating segments

An operating segment is a component of the Group that engages in business activity from which it may earn revenue and incur expenses, including revenue and expenses relating to transactions with other segments 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.

Transactions between segments are priced on an arm's-length basis.

Following the acquisition of Hlekkur, a review of the Group´s segments is currently under way. The work has not been concluded but it could change the presentation of segments might change in the future. Current presentation is based on internal management report.

The Group´s three operating segments are the following:

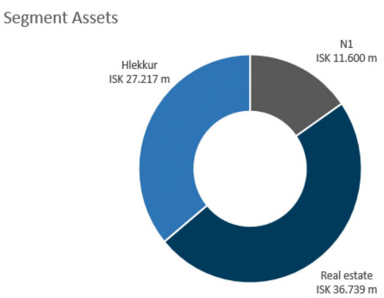
1) N1 includes operations of the companies comprising the Group before the acquisition of Hlekkur.

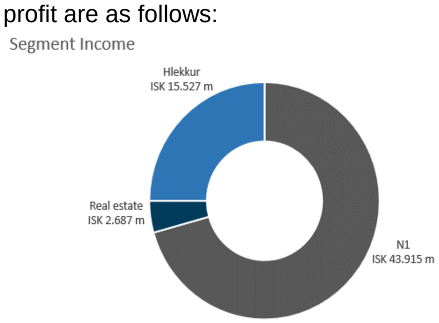
2) Hlekkur consists of the operation of grocery stores, electrical appliance stores and other operations of Hlekkur and its subsidiaries.

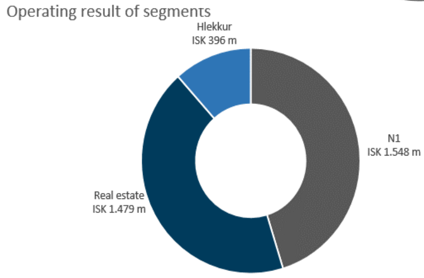
3) Real estate consists of the operations of real estate of Festi hf. and the subsidiary Hlekkur ehf., Festi fasteignir ehf.

Revenue and expenses for the year 2018 include the revenue and expenses of the parent company and the subsidiary Ego for the whole period but revenue and expenses of Hlekkur and its subsidiaries as from 1 September 2018, i.e. when those companies became a part of the Group.

Information on segment assets, income and pre-tax profit are as follows:







Operating segment statement is presented on page 42.

Notes, contd.

6. Operating income and trade receivables

Sale of goods and services

IFRS 15 applies to sale of goods and services. It includes a comprehensive framework the purpose of which is to provide information on the nature, amounts, timing and uncertainty related to revenue and cash flows from contracts with customers. According to the five step revenue recognition model of IFRS 15 revenue recognition is to reflect transfer of goods and services to customers and thereby transfer of control to the customer. The IFRS 15 revenue model differs from previous rules under which revenue recognition was based on transfer of risk and rewards. IFRS 15 did not impact the interim financial statements except that more detailed breakdown of revenue compared to previous consolidated financial statements is presented. Due to the nature of the Group's revenue, there is little uncertainty related to the timing or amounts of revenue recognition. Revenue is generally recognised when goods or services are delivered to the customer.

Income from lease of real estate

Real estate lease to parties outside the Group are recognised as investment properties. An investment property is real estate held to earn rentals or for capital appreciation or both. Investment properties are measured at fair value. Fair value changes of investment properties are presented seperately in the income statment, and therefor not presented with lease income from those same assets. For further information for investment properties, refer to note 15.

Other operating income

Commission income, gain from the sale of assets and other income are presented in the line item other operating income.

The Group's operating income is itemised as follows:

a. Festi	2018	2017
Fuel	31.850.061	23.285.448
Other goods	11.659.046	11.322.993
Total income	43.509.106	34.608.441
Hlekkur and subsidiaries		
Convenience goods	11.234.942	
Electronics	4.187.506	
	15.422.448	
Real estate		
Lease income	268.520	0
Other operating income		
Other operating income	507.538	441.854
Total operating income	59.707.611	35.050.295
Breakdown of Festi's revenue:		
Fishing industry	4.700.859	3.269.996
Transportation	6.582.793	1.432.756
Contractors	2.769.640	2.319.684
Foreign sale	3.288.181	3.208.430
Other industries and individuals	26.167.634	24.377.575
	43.509.106	34.608.441
Gross profit		
Fuel	5.350.887	4.953.587
Other goods	8.353.518	5.034.585
Total gross profit	13.704.405	9.988.172

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6. Operating income and trade receivables (contd.)

New accounting standard for financial instruments

IFRS 9 Financial instruments became effective on 1 January 2018. The standard requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The standard also introduces new classification and measurement requirments for financial assets. Classification of the Group's financial instruments is described in note 16. Impact of the application of IFRS 9 on the consolidated financial statements was immaterial, but impairment on financial assets will be recognised in a more timely manner.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group'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 Group's biggest customers operate, which are transportation, fishing industry and contractors. Approximately 41% (2017: 30%) of the Group's trade receivables at year end is attributable to 30 of the Group's biggest customers. Thereof, receivable from the biggest customer was 5% (2017: 5%).

The Group has established credit rules. All of the Group'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 Group establishes an allowance for estimated impairment on trade receivables and other receivables. The estimation of impairment from the collective allowance is based on historical loss experience, the age of receivables and general economic conditions.

Trade receivables are specified as follows:	2018	2017
Trade receivables, gross value...	3.851.591	2.745.873
Bonds..	27.006	26.640
Allowance for doubtful debt..	(194.086)	(177.283)
Book value of trade receivables and bonds..	3.684.511	2.595.230
Receivables from related	33.836	152.147
Total trade receivables	3.718.347	2.747.377

Age analysis of trade receivables and impairment loss

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

Year 2018	Gross value	Allowance	Book value	Expected credit loss rate
Not due	3.007.822	(44.869)	2.962.953	1,5%
Past due by 30 days or less	538.163	(24.801)	513.362	4,6%
Past due by 31-120 days	104.528	(30.561)	73.967	29,2%
Past due by more than 120 days	228.084	(93.855)	134.229	41,1%
	3.878.597	(194.086)	3.684.511	5,0%
Year 2017				
Not due	2.076.640	(59.764)	2.016.876	2,9%
Past due by 30 days or less	430.165	(29.407)	400.758	6,8%
Past due by 31-120 days	116.033	(23.256)	92.777	20,0%
Past due by more than 120 days	149.675	(64.856)	84.819	43,3%
	2.772.513	(177.283)	2.595.230	6,4%

Consolidated Financial Statements of Festi hf. 2018 22 Amounts are in thousands of ISK

Notes, contd.

6. Operating income and trade receivables (contd.)

Trade receivables are specified as follows at year end by industries:

Year 2018	Gross value	Allowance	Book value at year-end
Fishing industry	423.469	(16.042)	407.427
Transportation	528.628	(21.592)	507.036
Contractors	562.385	(45.151)	517.234
Other industries and individuals	2.118.910	(107.983)	2.010.927
Foreign sale	245.205	(3.318)	241.887
Total	3.878.597	(194.086)	3.684.511

Year 2017	Gross value	Allowance	Book value at year-end
Fishing industry	372.261	(14.729)	357.532
Transportation	309.600	(19.429)	290.171
Contractors	398.881	(33.440)	365.441
Other industries and individuals	1.481.487	(106.986)	1.374.501
Foreign sale	210.284	(2.699)	207.585
Total	2.772.513	(177.283)	2.595.230

7. Cost of goods sold and inventories

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.

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.

Inventories at year end are specified as follows:	2018	2017
Fuel	2.711.481	1.582.122
Other goods	4.904.905	1.258.281
Total inventories	7.616.386	2.840.403

Write-down of fuel increased by ISK 67 million during the year 2018 but write down of other goods decreased by ISK 85 million. In 2017 write down of fuel decreased by ISK 3 million but write down of other goods decreased by ISK 37 million.

Consolidated Financial Statements of Festi hf. 2018 23 Amounts are in thousands of ISK

Notes, contd.

8. Salaries and other personnel expenses

	2018	2017
Salaries	5.229.666	3.543.656
Contributions to pension funds	603.801	378.679
Other salary related expenses	482.432	473.224
Other personnel expenses	215.808	158.545
Total salaries and other personnel expenses	6.531.706	4.554.103
Number of employees in full time equivalent units	1.724	545
Full time equivalent units at year end	1.048	507

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.

Salaries and benefits of management is specified as follows:

	2018			
	Salaries	**Benefits**	**Incentive based payments**	**Total**
Eggert Þór Kristófersson, CEO	46.937	3.368	11.400	61.705
Five members of executive management	120.898	11.946	21.050	153.894

Salaries are for the year 2018, but incentive based payments are for the year 2017.

	2017			
	Salaries	**Benefits**	**Incentive based payments**	**Total**
Eggert Þór Kristófersson, CEO	45.733	3.742	21.000	70.475
Five members of executive management	103.680	12.548	24.000	140.228

Salaries are for the year 2017, but incentive based payments are for the year 2016.

9. Sales and distribution expenses

	2018	2017
Marketing expenses	314.594	311.132
Sales expenses	189.473	111.992
Maintenance expenses	454.316	472.066
Total sales and distribution expenses	958.383	895.190

10. Other operating expenses

	2018	2017
Office and administrative expenses	307.550	258.625
Operations of premises	868.107	509.894
Lease expense	338.712	268.686
Computer hardware and software	280.924	217.127
Impairment of trade receivables (see note 6)	27.624	28.370
Fees to the Company´s auditor (see breakdown below)	50.161	16.395
Other expenses	159.653	76.830
Expenses due to acquisition of Festi hf. (see note 4)	329.883	69.443
Total other operating expenses	2.362.614	1.445.369

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10. Other operating expenses (contd.)

Fees to the Company's auditor

Audit of the financial statements	30.719	13.414
Review of interim financial statements	8.324	2.981
Other services	11.118	0
Total fees to auditors	50.161	16.395

11. Depreciation and amortisation

	2018	2017
Amortisation of intangible assets	178.064	52.779
Depreciation of property and equipment	1.220.743	954.110
Total depreciation and amortisationnnn	1.398.807	1.006.889

Description of accounting policies for depreciation and amortisation, see notes 13 and 14.

12. Goodwill

The goodwill recorded in the consolidated financial statements is due to the acquisition of Hlekkur and its subsidiaries in the year 2018. For the purpose of impairment testing goodwill is allocated to the cash-generating units it relates to. Three cash-generating units were detected in purchase price allocation and goodwill was allocated to two of them, grocery and electronics. Other goodwill is due to estimated synergy related to optimisation with respect to the acquisiton of Hlekkur. Further information on the acquisition of Hlekkur and its subsidiaries, see note 4.

Impairment test at 2018 year end

At 2018 year the Group assessed the recoverable amount of goodwill and determined that the cash-generating units suffered no impairment loss. The recoverable amount was based on value in use which uses cash flow projections for the cash-generating units. For impairment testing purposes, goodwill was allocated to the cash-generating units it relates to.

The table below specifies the allocation of goodwill and key assumptions for the value in use estimate. Estimated EBITDA growth is an average for the next five years.

	EBITDA-growth	Future growth	WACC	Book value at year-end
Grocery	3,5%	3,0%	13,9%	6.028.119
Electronics	0,8%	3,0%	13,8%	2.328.558
Hlekkur	3,0%	3,0%	11,7%	5.713.786
Total goodwill				14.070.463

Consolidated Financial Statements of Festi hf. 2018 25 Amounts are in thousands of ISK

Notes, contd.

13. Other intangible assets

Other intangible assets are software, trademarks and customer agreements.

Accounting policy

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

Cost and amortisation of intangible assets is as follows:

	Software	Trademarks	Customer agreements	Total
Cost				
Cost at 1.1.2017	631.812	230.850	0	862.662
Additions	9.601	0	0	9.601
Cost at 31.12.2017	641.413	230.850	0	872.263
Acquired in business combination (Hlekkur)	434.751	3.975.545	196.729	4.607.025
Additions	113.377	0	0	113.377
Disposals	(364)	0	0	(364)
Cost at 31.12.2018	1.189.177	4.206.395	196.729	5.592.301
Amortisation				
Amortised at 1.1.2017	500.616	103.880	0	604.496
Amortisation for the year	41.237	11.542	0	52.779
Amortised at 31.12.2017	541.853	115.422	0	657.276
Acquired in business combination (Hlekkur)	126.846	0	126.469	253.315
Amortisation for the year	90.894	77.802	9.368	178.064
Disposal	(364)	0	0	(364)
Amortised at 31.12.2018	759.229	193.224	135.836	1.088.290
Book value				
Book value 1.1.2017	131.196	126.970	0	258.166
Book value 31.12.2017	99.561	115.428	0	214.987
Book value 31.12.2018	429.948	4.013.171	60.893	4.504.012
Amortisation rates	15-50%	5%	5%	

Consolidated Financial Statements of Festi hf. 2018 26 Amounts are in thousands of ISK

Notes, contd.

14. Property and equipment

Property and equipment includes real estate, machinery and equipment, signs and supply tanks.

Accounting policy

The Group´s real estates for own use, i.e. those not classified as investment properties, are recognised at revalued cost amount but other property and equipment at cost less accumulated depreciation and impairment.

When property 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 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.

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 Group 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.

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 estate...	20 - 100 years
Other property and equipment...	5 - 20 years

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

Revaluation of real estate

Revalued real estate are recorded at the fair value on the date of revaluation. 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.

Revaluation methods

The Group's assets were revalued on 31 December 2016. At each reporting date, management assesses weather indications of impairment exist, and if fair value of revalued assets differs significantly from their book value.

The Board of Directors has implemented a policy for the revaluation of property and equipment to ensure that at any given time the book value of revalued assets does not differ significantly from fair value. The policy demands that a fair value estimate is performed if there are indications present that the difference between fair value and book value of revalued assets exceeds 20%. Fair value shall be determined at least every five years. When fair value is estimated the book value of revalued assets is set to their fair value, even if the difference between fair value and book value at measurement date does not exceed the 20% threshold.

The Group annually checks for indications of difference in book value and fair value exceeding 20%. The Group looks to, among other things, the following:

a. Depreciation of revalued assets from their last fair value measurement.

b. Sales price of assets similar to those revalued by the Group, if such information is available.

c. Inflation.

d. Changes in official real estate value, if they can be used as a benchmark for similar vevalued assets of the Group.

e. Other assumptions used in the revaluation, incuding growth (or decline), sale of goods and changes in WACC related to basic interest rates and / or risk margin.

In relation to the purchase price allocation following the acquisition of Hlekkur in the second half of 2018, the Group performed a fair value estimate on real estates of Hlekkur and its subsidiaries. The fair value estimate was performed with the assistance of independent experts.

Consolidated Financial Statements of Festi hf. 2018 27 Amounts are in thousands of ISK

Notes, contd.

14. Property 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. Key assumptions used in the estimate are WACC and EBITDA. An increase in WACC and / or a decrease in EBITDA would lead to a lower fair value estimate of real estate, in the same way a decrease in WACC and / or increased EBITDA would lead to a higher fair value estimate.

Property and equipment

Cost and depreciation of property and equipment is as follows:

	Real estate	Other property and equipment	Total
Cost or market value			
Cost at 1.1.2017	16.322.788	4.938.040	21.260.828
Additions	1.956.986	397.697	2.354.683
Disposals	(108.365)	(234.902)	(343.267)
Revaluation (reversed)	(115.288)	0	(115.288)
Cost or market value at 31.12.2017	18.056.121	5.100.835	23.156.956
Acquired in business combination (Hlekkur)	13.027.681	3.784.314	16.811.995
Additions	802.934	768.352	1.571.286
Disposals	(44.193)	(221.746)	(265.939)
Cost or market value at 31.12.2018	31.842.542	9.431.755	41.274.297
Depreciation			
Depreciation at 1.1.2017	2.523.537	2.963.823	5.487.360
Depreciation for the year	561.909	392.201	954.110
Disposals	(37.964)	(186.779)	(224.743)
Total depreciaton at 31.12.2017	3.047.482	3.169.245	6.216.728
Acquired in business combination (Hlekkur)	114.557	1.509.884	1.624.441
Depreciation for the year	629.461	591.282	1.220.743
Disposals	(9.738)	(196.756)	(206.493)
Total depreciaton at 31.12.2018	3.781.762	5.073.655	8.855.418
Book value			
Book value 1.1.2017	13.799.251	1.974.217	15.773.468
Book value 31.12.2017	15.008.639	1.931.590	16.940.226
Book value 31.12.2018	28.060.780	4.358.100	32.418.877
Book value without revaluation			
Book value 1.1.2017	8.949.486	1.974.217	10.923.703
Book value 31.12.2017	10.473.955	1.768.795	12.242.750
Book value 31.12.2018	24.994.656	8.004.126	32.998.782
Depreciation rates	1-5%	5-20%	

Insurance and official real estate value at year-end:	2018	2017
Official real estate value	21.174.668	7.148.170
Insurance value of real estate	29.178.884	8.279.013
Insurance value of other property and equipment	5.532.219	2.465.383
Insurance value of inventories	5.430.836	2.668.799

Consolidated Financial Statements of Festi hf. 2018 28 Amounts are in thousands of ISK

Notes, contd.

15. Investment properties

Accounting policies

Investment properties are recognised at fair value at the reporting date. Changes in valuation of those assets are recognised in profit or loss as they occur. Investement properties are not amortised. Changes in fair value of investement properties are presented seperately in the statement of profit or loss but lease income is presented in the line item O*ther operating income* , see further in note 6.

Changes in book value

Acquired on 1 September 2018	8.731.500
Additions	30.513
Fair value change	(10.239)
Balance at 31 December 2018	8.751.774

Investment properties relate to the acquisition of Hlekkur and its subsidiaries. The acquisition date was 1 September 2018. Prior to that there were no investment properties in the Group's accounts.

Lease income

The Group leases premises to various parties. Some of the lease agreements are indeterminate but the lease term of other agreements are from 1 - 15 years. Most of the lease 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.

	2018	**2017**
Within one year	873.168	154.799
After 1 - 5 years	2.371.752	238.044
After 5 years	1.251.857	118.497
Total	4.496.777	511.340

Consolidated Financial Statements of Festi hf. 2018 29 Amounts are in thousands of ISK

16. Financial instruments

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 Group and their measurement basis is specified as follows in the table below. As described in note 5, IFRS 9 *Financial instruments* became effective on 1 January 2018. It had an immaterial affect on the Group's consolidated financial statements. However, categories of financial instruments differ from those of IAS 39 *Financial instruments: Recognition and measurement* that was in effect for the comparative period.

The Group's financial assets and liabilities include cash and cash equivalents, securities (shares in other companies and bonds), trade and other receivables, derivatives, borrowings, trade payables and other current liabilities.

Financial instruments are initially recognised at fair value. They are recognised at the transaction date, which is the date the Group 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.

Classification and measurement of financial instruments

Classification, measurement basis and book value at year end of the Group's financial instruments is presented in the table below.

Year 2018 Financial instrument	Classification in accordance with IFRS 9	Book value at year end
Cash and cash equivalents	Financial assets at amortised cost	4.266.925
Trade and other receivables, including receivables from related parties	Financial assets at amortised cost	4.024.132
Bonds	Financial assets at fair value through other	66.838
Payable to credit institutions	Financial liabilities at amortised cost	37.313.563
Trade and other payables categorised as financial liabilities	Financial liabilities at amortised cost	7.519.102

Year 2017	Classification in accordance with IAS 39			
	Designated at fair value through profit or loss	**Loans and receivables - at amortised cost**	**Other liabilities - at amortised cost**	**Book value at year end**
Financial 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 current 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
Financial 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 current liabilities			494.488	494.488
			11.732.690	11.732.690

Consolidated Financial Statements of Festi hf. 2018 30 Amounts are in thousands of ISK

Notes, contd.

16. Financial instruments (contd.)

Income and expenses from financial instruments

Finance income and expenses

Finance income is specified as follows:

	2018	2017
Interest income from cash and cash equivalents	52.954	43.763
Interest income from bonds	84.751	16.404
Interest income from receivables	14.263	31.048
Total finance income	151.968	91.215

Finance expense is specified as follows:

	2018	2017
Interest expense	1.155.881	398.352
Total finance expense	1.155.881	398.352

Exchange rate difference and assets and liabilities in foreign currencies

Exchange rate difference is derived from transactions in foreign currencies, predominantly USD. 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. Average ISK/USD exchange rate for the year was 108,4 and the year end exchange rate was 116,3.

Assets and liabilities in foreign currencies

At year end assets and liabilities in foreign currencies are specified as follows:

Year 2018	USD	EUR	Other currencies	Total
Bonds	0	0	26.151	26.151
Trade receivables	420.785	30	87.543	508.358
Cash and cash equivalents	468.137	8.792	82.091	559.020
Trade payables	(5.167)	(128.356)	(426.776)	(560.299)
Risk in statement of financial position	883.755	(119.534)	(230.991)	533.230

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 statement of financial position	447.837	(63.772)	(128.023)	256.042

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.

	2018	2017
USD	88.376	(44.784)
EUR	(11.953)	6.377
Other currencies	(23.099)	12.802
Total	53.323	(25.605)

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

Consolidated Financial Statements of Festi hf. 2018 31 Amounts are in thousands of ISK

Notes, contd.

16. Financial instruments (contd.)

Other current receivables

At year end other current receivables are specified as follows:

Prepaid expenses	97.689	34.627
VAT refund and other receivables from the Icelandic State	101.292	64.021
Other current receivables	106.805	38.204
Total other current receivables	305.786	136.852

Payable to credit institutions

In September 2018, related to financing of the acquisition of the subsidiary Hlekkur ehf., all long-term borrowings of the parent company were refinanced. A long-term borrowing in the amount of ISK 8.0 billion was settled and new borrowings made. The borrowing are secured by pledge in real estate and inventories. Following is a breakdown of borrowings from credit institurions as at 30 September 2018. Payable to credit institutions are specified as follows. All the loans are denominated in ISK.

	31.12.2018		31.12.207	
	Interest rate	Book value	Interest rate	Book value
Non-indexed loan on floating interests	5.5%	1.344.500	5.1%	8.000.000
Indexed loan on fixed interests	3.9%	11.610.538		0
Indexed loan on floating interest	3.8%	8.507.995		0
Long-term portion total		21.463.033		8.000.000
Current maturities of long-term loans		1.720.530		0
Short-term loan	5.3%	2.000.000		0
Current portion total		3.720.530		0
Payable to credit institutions total		25.183.563		8.000.000

Maturities of loans are specified as follows:

	31.12.2018	31.12.2017
Year 2019	1.720.456	0
Year 2020	1.733.483	0
Year 2021	1.744.282	68.000
Year 2022	1.692.671	408.000
Year 2023	1.101.644	408.000
Susequent	27.321.027	7.116.000
Payable to credit institutions total	35.313.563	8.000.000

Following is a reconciliation of interest-bearing liabilities for the year 2018:

	Long-term loan	Short-term loan	Total
Year 2018			
Balance 1.1.2018	8.000.000	0	8.000.000
Repayments	(8.714.644)	0	(8.714.644)
New long-term liability	20.057.500	2.000.000	22.057.500
Acquired in business combination (Hlekkur)	13.485.569	0	13.485.569
Capitalised transaction cost expensed	18.289		
Indexation	472.184	0	472.184
Reclassified to current liabilities	(5.335)	0	(5.335)
Balance at 31.12.2018	33.313.563	2.000.000	35.295.274

Consolidated Financial Statements of Festi hf. 2018 32 Amounts are in thousands of ISK

Notes, contd.

16. Financial instruments (contd.)

Year 2017

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		1.500.000
Balance at 31.12.2017	8.000.000	0	8.000.000

Loan covenants

The loan agreement requires an equity ratio of at least 25% for the Group at the end of each year. At 2018 year end the ratio was 33.4% and the requirement therefor fulfilled.

Repayments of short-term loans are classified with operating activities in the statement of cash flows.

Liquidity risk

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

2018 year-end	Within a year	1 - 2 years	3 - 5 years	Later than 5 years
Payable to credit institutions	5.203.489	3.153.243	8.576.386	30.134.453
Income tax payable	595.668			
Payable to the Icelandic State	2.306.564			
Trade payables	5.654.412			
Other current liabilities	1.864.690			
	15.624.824	3.153.243	8.576.386	30.134.453

2017 year-end	Within a year	1 - 2 years	3 - 5 years	Later than 5 years
Payable to credit institutions	403.722	409.614	1.692.752	8.851.413
Income tax payable	444.276			
Payable to the Icelandic State	2.058.077			
Trade payables	1.180.125			
Other current liabilities	494.488			
	4.580.688	409.614	1.692.752	8.851.413

Interest rate risk

An interest increase at the reporting date by one percentage (100 basis points) would decrease results before income tax by ISK 373 million (2017: 80 million) due to effects of the Group'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.

Payable to the Icelandic 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.

Other current liabilities

Other current liabilities at year end are specified as follows:

	2018	2017
Unpaid salaries and salary related expenses	1.110.661	446.707
Unpaid accrued interest	118.019	38.134
Other current liabilities	634.300	9.646
Other current liabilities total	2.020.246	677.446

Consolidated Financial Statements of Festi hf. 2018 33 Amounts are in thousands of ISK

Notes, contd.

16. Financial instruments (contd.)

Deferred income

Deferred income at year end are specified as follows:

	2018	2017
Points programme	114.659	134.416
Prepaid cards	40.897	48.543
Deferred income total	155.556	182.959

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.

Obligations under operating leases

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

	2018	2017
Within one year	492.331	286.728
After 1 - 5 years	2.013.090	39.938
After more than 5 years	2.486.607	61.198
Total	4.992.029	387.864

Obligations under operating lease are off-balance sheet. From 1 January 2019 the Group will implement a new standard on lease accounting, IFRS 16 Leases. The standard requires that all lease liabilities, with limited exceptions, will be recognised in the statement of financial position. For further information on the affect of IFRS 16, refer to note 25.

Provisions

A provision is recognised when the Group 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.

Consolidated Financial Statements of Festi hf. 2018 34 Amounts are in thousands of ISK

Notes, contd.

17. Investments in associates

Accounting policy

Associates are entities where the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group 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 Group's investment includes the goodwill arising from the acquisition, if any, less impairment, if any. The Group's consolidated financial statements include the Group'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 Group'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 Group 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.

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 statement.

Shares in associates

The Group's share in profit or loss of associates amounted to 205 million ISK in the year 2018 (2017: 275 million). Shares in associates are specified as follows:

	Share	2018	2017
Olíudreifing ehf.	60,0%	1.318.664	1.288.534
Malik Supply A/S, Denmark	49,0%	532.964	469.926
EAK ehf.	33,3%	76.379	60.204
Shares in three associates	-	151.660	21.230
Shares in associates at year end		2.079.666	1.839.908

Change in the carrying amount of associates during the year:

	2018	2017
Carrying amount at the beginning of the year	1.839.908	1.747.910
Share in profit or loss	204.875	274.905
Dividends received	(120.000)	(194.000)
Purchased shares	121.571	0
Translation difference	33.297	11.092
Carrying amount at the end of the year	2.079.666	1.839.908

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 unamortised 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.

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17. Investments in associates (contd.)

	2018*	2017*
Non-current assets	3.728.786	3.196.762
Current assets	1.003.754	1.248.511
Non-current liabilities	(1.897.355)	(1.650.524)
Current liabilities	(639.170)	(647.195)
Net asset (100%)	2.196.015	2.147.554
Carrying amount of the share (60%)	1.318.664	1.288.534
Income (100%)	3.739.337	3.669.557
Profit (100%)	250.218	326.734
Share in total comprehensive income (60%)	150.131	196.040

* 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.

	2018*	2017*
Non-current assets	839.147	713.982
Current assets	3.234.229	3.999.512
Non-current liabilities	(498.581)	(284.090)
Current liabilities	(2.782.753)	(3.690.208)
Net asset (100%)	792.042	739.195
Fair value adjustment	144.863	107.720
Carrying amount of the share (49%)	532.964	469.925
Income (100%)	850.594	749.300
Profit (100%)	68.955	105.435
Share in total comprehensive income (49%)	33.788	51.663

* Draft of Financial Statements

18. Income tax

Accounting policy

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.

Consolidated Financial Statements of Festi hf. 2018 36 Amounts are in thousands of ISK

Notes, contd.

18. Income tax (contd.)

Income tax expense

Income tax in the income statement is specified as follows:		2018		2017
Profit before tax		2.476.515		2.523.693
Income tax based on current tax rate	20,0%	495.303	20,0%	504.739
No-deductible expenses	0,2%	4.356	0,1%	1.881
Non-taxable income	(1,7%)	(40.975)	(2,1%)	(53.910)
Other changes	(1,6%)	(40.838)	0,0%	16
Effective income tax rate	16,9%	417.846	17,9%	452.726

Deferred tax liability

Deferred tax liability is specified as follows by individual items:

Plant and equipment and investment properties...	3.123.132	1.464.297
Intangible assets...	807.850	23.592
Unrealised currency exchange difference..	7.791	(3.174)
Deferred tax liability..	3.938.773	1.484.714

19. Equity and capital management

Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 330 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. Costs directly associated with issue of share capital are deducted from equity. Purchase price of treasury shares, including direct costs associated, are deducted from equity. Equity is increased upon the sale of treasury shares.

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.

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.

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.

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.

Translation reserve

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

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.

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Notes, contd.

19. Equity and capital management (contd.)

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. The Board has also established a policy that EBITDA will be 35% of gross profit, net interest bearing debt will be 3.5% * EBITDA and equity ratio will be 30-35%. Loan covenants require a mininum of 25% equity ratio. At 2018 year end the equity ratio was 33.4%.

20. 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	**2018**	**2017**
Purchased goods and services	2.068.666	1.240.162
Sold goods and services	429.675	502.200
Bonds	26.151	91.606
Receivables at year end	33.836	152.147
Payables at year end	628.618	113.198

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

	2018	**2017**	**Shares at 2018 year end**
Margrét Guðmundsdóttir, Chairman of the BOD	9.687	8.900	3.014
Þórður Már Jóhannesson, Vice Chairman from 01.10.18	2.140	0	4.345.463
Björgólfur Jóhannsson, Board member from 01.10.2018	1.320	0	80.000
Guðjón Karl Reynisson, Board member from 01.10.18	1.230	0	349.391
Kristín Guðmundsdóttir, Board member	5.203	4.800	6.028
Helgi Magnússon, Board member until 30.09.2018	5.208	6.429	161.760
Jón Sigurðsson, Board member until 30.09.2018	5.634	4.440	6.525.970
Þórarinn V. Þórarinsson, Board member until 30.09.2018	3.883	4.800	3.014
Eggert Þór Kristófersson, CEO	61.705	70.475	90.000
Five managing directors	153.894	140.228	43.670
Total salaries and benefits for the BOD and management	249.904	240.072	11.608.310

Transactions 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 2018 (2017: ISK 12 million). Other liabilities of employees amounted to ISK 1.4 million at year-end (2017: ISK 1 million).

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21. Risk management

Overview

The following risks arise from the Group'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 Group’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.

Liquidity risk

The Group's liquidity position was strong at 2018 year end. Management considers that the Group is capable to meet its financial obligations as they fall due. The Group has access to a credit facility in the amount of ISK 3 billion (USD 25 million) for the next year with an option of extending to two years.

Further information on the Groups financial liabilities, see note 16.

Market risk

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

Currency risk

All of the Group'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 Group's benefits. The major part of imports is purchase of goods for resale from foreign suppliers denominated in USD and EUR, but the sale is for the most part in ISK. Sales in ISK constitute 88,5% (2017: 87%), USD 10,8% (2017: 12%) and other currencies 0,6% (2017: 1%).

Interest rate risk

The Group is exposed to cash flow interest rate risk due to changes in interest rates of floating rate financial liabilities. As stated before, the Group endeavours to ensure it always has sufficient liquidity to meet its liabilities as they become due. The Group's long-term loans are both inflation indexed and non-indexed and its line of credit is non-indexed.

Notes, contd.

21. Risk management (contd.)

Price risk

The Group 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 Group's service stations. The Group limits price risk by means of specific agreements with its largest customers and by using derivative instruments to limit part of its price risk for the purchase of oil (see further in note 16).

The Group applies derivative contracts to manage risks due to fluctuations in oil price. The contracts have one or two month maturities and provide the Group with fixed oil prices in foreign currencies. Such contracts are only made for part of the Groups oil purchases. The contracts are cash settled.

Operating risk is the risk of direct or indirect loss due to various factors in the Group'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.

22. Determination of fair value

Financial assets at fair value

Securities are recorded at fair value. Fair value estimate for securities is in level 3 of the fair value hierarchy, as it is not based on readily available market information of fair value for same, or similar financial instruments. Securities are an immaterial part of the Group's total assets. The Group's real estate are meaured according to the revaluation model. Their fair value is determined regularly to ensure that book value does not differ significantly from fair value at any given time. For further information on revaluation of real estate, refer to note 14. Investment properties are recorded at fair value, see further in note 15.

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.

23. Ratios

The Group's key ratios are specified as follows:

	2018	**2017**
Income statement		
Turnover rate of inventories at the end of the period:		
Utilisation of goods / weighted average inventories..	9,04	8,06
Sales days in trade receivables:		
Weighted average trade receivables / goods and services sold.......................	22	30
Profit before depreciation, amortisation and finance items / gross profit.........	33,8%	35,4%
Salaries and salary related expenses / gross profit..	47,7%	45,6%
Sales and distribution cost / gross profit...	7,0%	9,0%
Other operating expenses / gross profit..	17,2%	14,5%
Balance sheet		
Current ratio: current assets / current liabilities..	1,11	1,96
Liquidity ratio: (current assets - inventories) / current liabilities.........................	0,58	1,30
Leverage: Net interest bearing liabilities / EBITDA...	3,52	1,38
Equity ratio: Equity / total capital..	33,4%	49,9%
Return on equity: Return of the year / weighted average equity.......................	11,0%	16,1%

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24. 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.

	2018	2017
Profit for the year	2.058.669	2.070.967
Share capital at the beginning of the year	250.000	250.000
Effect of decrease in share capital	26.594	0
Weighted-average of issued share capital	276.594	250.000
Basic and diluted earnings per share in ISK	7,44	8,28

25. New standards in issue that are not effective

IFRS 16 Leases is effective for annual periods beginning on or after January 1, 2019. When it becomes effective IFRS 16 will supersede the current lease guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC 15 Operating lease - Incentives and SIC 27 Evaluating the Substance of Transactions involving the Legal Form of a Lease.

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. 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 by lessees (i.e. all on balance sheet) except for short term leases and leases of low value assets. Furthermore, extensive disclosures are required by IFRS 16.

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 recognised 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 recognise additional lease liabilities of ISK 3,8 billion and a right-of-use asset in the same amount as at 1 January 2019. The amount is subject to changes when the Group finalises its implementation of the standard in the year 2019.

26. Other matters

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.

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Operating segments 2018

	N1	Hlekkur	Real estate	Inter segment transactions	Total
Year 2018					
Operating income (breakdown in note 6)	43.512.852	15.422.448	0	(3.746)	58.931.554
Other income	402.546	104.991	2.686.709	(2.418.189)	776.058
Total segment income	43.915.399	15.527.439	2.686.709	(2.421.935)	59.707.612
Total segment operating expenses	(42.103.603)	(14.827.832)	(570.351)	2.421.935	(55.079.852)
EBITDA	1.811.796	699.607	2.116.358	0	4.627.760
Depreciation and amortisation	(468.183)	(303.981)	(626.643)	0	(1.398.806)
Fair value change of investment properties	0	0	(10.239)	0	(10.239)
Share of profit or loss of associates	204.875	0	0	0	204.875
Operating profit for segments	1.548.489	395.625	1.479.476	0	3.423.590
Net finance expenses					(947.075)
Income tax					(417.846)
Profit for the year					2.058.669
31 December 2018					
Segment assets	11.600.157	27.216.664	36.739.425	0	75.556.246
Unallocated assets					2.242.828
Total assets					77.799.073
Unallocated liabilities					51.829.227
Capital expenditure	517.464	375.339	822.372	0	1.715.175
Depreciation and amortisation	(468.183)	(303.981)	(626.643)	0	(1.398.806)

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Operating segments 2017

	N1	Hlekkur	Real estate	Inter segment transactions	Total
Year 2017					
Operating income (breakdown in note 6)	34.608.441	0	0	0	34.608.441
Other income	441.854	0	1.866.691	(1.866.691)	441.854
Total segment income	35.050.295	0	1.866.691	(1.866.691)	35.050.294
Total segment operating expenses	(33.015.746)	0	(365.875)	1.866.691	(31.514.930)
EBITDA	2.034.549	0	1.500.816	0	3.535.365
Depreciation and amortisation	(444.979)	0	(561.909)	0	(1.006.889)
Share of profit or loss of associates	274.905	0	0	0	274.905
Operating profit for segments	1.864.475	0	938.907	0	2.803.381
Net finance expenses					(279.688)
Income tax					(452.726)
Profit for the year					2.070.968
31 December 2017					
Segment assets	9.847.699	0	15.008.637	0	24.856.336
Unallocated assets					2.800.082
Total assets					27.656.418
Unallocated liabilities					13.844.638
Capital expenditure	568.423	0	1.956.986	0	2.525.409
Depreciation and amortisation	(444.979)	0	(561.909)	0	(1.006.889)

Consolidated Financial Statements of Festi hf. 2018 43 Amounts are in thousands of ISK

Quarterly Statement - unaudited

The Group´s operating results for the year 2018 by quarters

	Q1	Q2	Q3	Q4	2018 Total
Sales	7.983.187	10.931.549	17.486.413	22.530.405	58.931.554
Cost of goods sold	(5.993.878)	(8.073.436)	(13.487.094)	(17.672.741)	(45.227.149)
Gross profit	1.989.309	2.858.113	3.999.319	4.857.664	13.704.405
Other operating income	105.504	123.584	176.608	370.362	776.058
Salaries and other personnel expenses	(1.094.175)	(1.237.296)	(1.593.094)	(2.607.141)	(6.531.706)
Sales and distribution expenses	(190.993)	(218.261)	(306.474)	(242.656)	(958.383)
Other operating expenses	(409.121)	(449.166)	(655.110)	(849.217)	(2.362.614)
	(1.694.289)	(1.904.723)	(2.554.678)	(3.699.014)	(9.852.703)
Profit before depreciation, amortisation and finance items	400.524	1.076.974	1.621.249	1.529.012	4.627.760
Depreciation and amortisation	(247.869)	(254.368)	(308.227)	(588.342)	(1.398.806)
Fair value change of investm. properties	0	0	10.951	(21.190)	(10.239)
Operating profit	152.655	822.606	1.323.973	919.480	3.218.715
Finance income	23.278	16.436	29.434	82.820	151.968
Finance expenses	(102.724)	(107.128)	(272.209)	(673.820)	(1.155.881)
Currency exchange gain (loss)	(13.781)	42.686	19.535	24.194	72.634
Effect of associates	29.518	29.142	115.691	30.524	204.875
Change in fair value of shares	(214)	(2.228)	(13.353)	(1)	(15.796)
	(63.923)	(21.092)	(120.902)	(536.283)	(742.200)
Profit before income tax	88.732	801.514	1.203.071	383.198	2.476.515
Income tax	(12.303)	(129.822)	(220.018)	(55.703)	(417.846)
Profit for the period	76.429	671.692	983.053	327.495	2.058.669
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from operations of a foreign associate	(15.428)	9.609	20.830	18.286	33.297
Other comprehensive income	(15.428)	9.609	20.830	18.286	33.297
Total comprehensive income	61.001	681.301	1.003.883	345.781	2.091.967
Basic and diluted earnings per share in Icelandic Krona	0,31	2,69	3,16	1,00	7,44

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Quarterly Statement - unaudited

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

	Q1	Q2	Q3	Q4	2018 Total
Sales	6.977.970	8.897.383	10.591.794	8.141.294	34.608.441
Cost of goods sold	(4.917.454)	(6.450.623)	(7.537.557)	(5.714.634)	(24.620.267)
Gross profit	2.305.243	2.446.761	3.054.237	2.426.660	9.988.173
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	(215.915)	(270.584)	(232.945)	(175.746)	(895.190)
Other operating expenses	(361.229)	(328.157)	(395.236)	(360.747)	(1.445.369)
	(1.886.995)	(1.777.238)	(1.737.478)	(1.737.678)	(6.894.663)
Profit before depreciation, amortisation and finance items	521.005	768.254	1.409.305	836.800	3.535.365
Depreciation and amortisation	(242.962)	(242.331)	(248.133)	(273.463)	(1.006.889)
Operating profit	278.044	525.923	1.161.172	563.337	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	269.148	525.910	1.183.438	545.196	2.523.693
Income tax	(44.205)	(84.705)	(220.741)	(103.075)	(452.726)
Profit for the period	224.944	441.205	962.697	442.122	2.070.967
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
Other comprehensive income	6.185	(23.115)	27.447	(91.655)	(81.139)
Total comprehensive income	231.129	418.090	990.143	350.466	1.989.828
Basic and diluted earning per share in Icelandic Krona	0,90	1,76	3,85	1,77	8,28

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Statement of Corporate Governance

Board of Directors and corporate governance

The Board of Directors

Corporate governance of Festi 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 Festi (formerly 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.Festi.is/fjarfestatengsl. Festi 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 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 Festi 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 Festi 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, Bjorgólfur Jóhannsson, Guðjón Karl Reynisson and Þórður Már Jóhannesson were appointed as Board members in 2018. The Board of Directors of Festi 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.

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 Festi hf. 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 and Guðjón Karl Reynisson.

Audit committee

The Board of Directors of Festi 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 Festi. 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 Festi 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, Björgólfur Jóhannsson, board member and María Sólbergsdóttir, auditor and Chairman of the committee.

Statement of Corporate Governance (contd.)

Audit committee, contd.:

The audit committee´s tasks are as follows:
• To monitor the financial reporting process.
• To monitor the organisation and effectiveness of Festi´s internal control, risk management and other control procedures.
• To monitor the external audit of Festi´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.

Nomination committee

Festi has appointed a nomination committee that has an advisory role regarding the election of Board members. The nomination committee's recommendations are aimed at a Board composition with diverse knowledge and experience that will serve well for setting Company policies and for monitoring the business environment of the Company at any given time.

The Nomination Committee consists of three members that are appointed for a one year term. Majority of committee members are independent from the Company and its day-to-day managers. The same guidelines are applied in assessing the independence of committee members as for assessing the independence of Board members, issued by the Icelandic Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers on Corporate Governance (hereafter referred to as "Guidelines on Corporate Governance"). At least one committe member shall be independent from large shareholders.

The Nomination Committee has an advisory role regarding the election of Board members and presents its recommendations to shareholder meetings were Board members are scheduled to be appointed. The committee shall conduct its work with the general interest of the Company in mind.

The Nomination Committe presents a reasoned proposal for election of Board members, taking into account their competency, experience and knowledge with regards to Guidelines on Corporate Governancee and the results of the Board's appraisals.

The Nomination Committee consists of Sigrún Ragna Ólafsdóttir chairman, Tryggvi Pálsson and Þórður Már Jóhannesson. Any queries are received through e-mail, tilnefningarnefnd@festi.is

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 Þórður Már Jóhannesson, Chairman and Eggert Kristófersson.

Executive Board

The executive board of Festi 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 Festi 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 2018, 18 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 (contd.)

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

Festi´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. Festi endeavours to minimise the environmental impact of its operations by applying disciplined and accepted measures. On 19 June 2015 Festi 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. Festi put emphasis on preventitive measures and sport activities.

Festi´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.Festi.is.

Non-Financial Reporting

Operations of Festi

Festi is a holding company that specialises in running companies that are leading in the retail and fuel markets in Iceland. Festi aims to help and support its subsidiaries to remain front running in providing goods and services across the country. Festi hf. is listed on the mainmarket of NASDAQ OMX Iceland and has diversified ownership.
Festi has real estate in total of 140.000 square meters which are an important part of the Company's policies. Festi provides its subsidiaries with supporting services, such as financial, operating and business development services. The operating subsidiaries are:
N1 has 95 gas stations and 29 service stations that offer food and healthy snacks under the brand name Nesti. N1 also runs 11 lubrication and tyre garages. All of the tyre garages have quality assurances by Michelin. In addition, N1 has six corporate stores around the country.
Krónan runs 23 convenience stores under the brand names Krónan and Kr. Their objective is to provide a wide variety of products at low prices to its customers. Krónan also operates the convenience stores Kjarval and Nóatún in Austurver, which accentuate good services.
Elko is the largest elecronics retail chain in the country and operates five stores, including an online store. Elko's objective is to offer quality brand names in electronics at low prices. Its supply agreement with Elkjöp helps to provide the lowest prices in electronics in Iceland.
Bakkinn is a warehouse that specialises in storage and distribution. Bakkinn accentuates efficent services and accuracy in processes.

Society

It is Festi's policy to be a future leader in its markets and social responsibility plays a part in that. Social responsibility is very important to Festi. Festi and its subsidiaries have worked on increasing 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 Festi 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

Entities of Festa - a center for socal responsibility have in various ways reduced their environmental footprint with systematic seperation of waste and other procedures. The objectives of the entities will be published in the first half of 2019, with reference to the climate protection goals signed by Festa and the city of Reykjavik in November of 2015.
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.
Krónan has launched the campaign "Í alvöru" which aims at reducing the use of plastic bags in its convenience stores. By using energy efficient equipment in new buildings and renovations of Krónan stores, it is estimated that energy consumption will be reduced by 25-50%. Krónan is also working on projects aiming at reducing food waste, and reduced such waste in its stores by 53% in the first year alone. Next steps include environmentally friendly packaging and discontinuing the use of plastic bags entirely.

Employees

Festi and its subsidiaries have 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. The companies have a certificate of equal salary in accordance with IST 85:2012 issued by BSI in Iceland for N1, but Vottun hf. has issued certificate no. 85-3 for Krónan, Nóatún, Elko and Bakkinn. The Group will work towards coordination in 2019. Festi seeks to attract and keep qualified and reliable personnel by providing good and encouraging work environment and promoting and strengthening the employees by effective training and development. It is important that employees know the role, policy and values of the company, that results in better performance.

Non-Financial Reporting (contd.)

Anti-corruption and bribery policy

We respect the impact that the company has on the society. We know that the reputation of Festi and its subsidiaries is one of the most valuable asset of the company. Code of conducts that apply to all activities of the Group 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.Festi.is. The code of conducts is under review and will be published in the first half of 2019.

Status and performance

GRI G4 "Core" report was issued for the year 2015 to explain the status of the company's 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. Now there has been a change of course and the Company's plans to issue a report for non-financial measures for 2018 in accordance with EGS guidance from Nasdaq for companies such as Festi, based on information currently available, and publish with its annual report. In 2019 Festi will sign the UN Global Compact. in Q1 of 2019 the Group will start its work for each of its entities to develop their own goals for social responsibility and align with the United Nations Sustainable Development Goals. N1 was one of 104 companies that signed the climate protection goals of Festa and the city of Reykjavík in November 2015, and the goals of consolidatied entities will, among other things, build on that.
N1 received Creditinfo´s special award for social responsibility concurrently with N1´s award as an outstanding company for the year 2017.