



N1 hf.
Financial Statements 2016

N1 hf.
Dalvegur 10-14
201 Kópavogur

Reg. no. 540206-2010

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

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Endorsement by the Board of Directors and the CEO

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

Operations in the year 2016

The Company's operating revenue for the year 2016 amounted to ISK 34,139 million (2015: 49,411) and decreased by 30.9% between years. The decrease in operating revenue is mainly due to decrease in the world market price of fuel, disappointing capelin catch and Icelandair discontinuance of trading with the Company at year-end 2015. Profit before depreciation, amortisation and finance items amounted to ISK 3,625 million for the year 2016 (2015: 3,012) and increased by 20.4% between years. According to the income statement and statement of comprehensive income, the profit for the year amounted to ISK 3,378 million (2015: 1,860) but total comprehensive income for the year ISK 7,177 million (2015: 1,815). The Company's equity at year end amounted to ISK 12,572 million (2015: 7,731), including share capital in the nominal value of ISK 250 million. Reference is made to the statement of changes in equity regarding changes of equity during the year. The Company's equity ratio at year end was 49.1% (2015: 41.2%) and increased by 7.9% between years.

In 2011 impairment was recognised on the Company's real estates. During 2016 there were indicators that those assets were no longer impaired. Valuation based on value of the real estates as at year end 2016, was carried out by valuation specialists. The result of the valuation was that those assets were no longer impaired and that their current value were in excess of their carrying amount following reversal of the aforementioned impairment. The Company has decided to change its accounting policy with respect to those assets and apply the revaluation model as allowed under IFRS and therefore recognise its real estates at fair value. Due to this ISK 1,323 million were recognised in the income statement as reversal of impairment and ISK 4,850 million in other comprehensive income as revaluation in excess of impairment reversal. Further information regarding the valuation and assumptions applied are disclosed in note 19.

Full time equivalent units was 532 in the year 2016 (2015: 521).

The Company's Board of Directors proposes a dividend payment to shareholders in 2017 of ISK 750 million, which represents ISK 3.0 per share.

Organisational change

N1's Board of Directors have decided to change the Company's organisation as from 1 January 2017. The objective is to distinct between results from the Company's operations, on one hand, and its real estates on the other. In this endeavour the Company will present operating segments disclosures in its interim and annual financial statements as from the year 2017. Concurrently the Board of Directors has decided to establish a subsidiary whose purpose is to manage the Company's investments and prepare it for the next steps in its advancement. The Company will have three segments, i.e. Operations, Real Estate and Investment. Operations and the Company's real estates will be part of N1, i.e. not transferred to subsidiaries.

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

Shareholders

At the end of the year the Company's shareholders were 1,699 compared to 1,676 at the beginning of the year. Following are the Company's 20 biggest shareholders at year end.

Lífeyrissjóður verslunarmanna.....	14.2%
Lífeyrissjóður starfsmanna ríkisins A-division og B-division.....	12.7%
Gildi - lífeyrissjóður.....	9.2%
Birta lífeyrissjóður.....	8.1%
Landsbréf - Úrvalsbréf.....	5.8%
Almennir lífeyrissjóðurrinn.....	5.0%
Landsbankinn hf.....	4.7%
Helgafell ehf.....	4.2%
Stapi lífeyrissjóður.....	3.9%
Hekla fagfjárfestastjóður.....	3.2%
Söfnunarsjóður lífeyrisréttinda.....	2.5%
Hofgarðar ehf.....	2.2%
Landsbréf Öndvegisbréf.....	2.2%
Sjóvá-Almennar tryggingar hf.....	2.0%
Íslenski lífeyrissjóður Lífsbraut.....	2.0%
A.C.S safnreikningur I.....	1.2%
GAMMA: Equity Fund.....	0.9%
Landsbréf - LEQ UCITS ETF.....	0.7%
Íslenski lífeyrissjóðurinn - samtrygging.....	0.7%
Stefnir - ÍS 5.....	0.7%

Share capital and Articles of Association

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

The Company's share capital was decreased in the year in accordance with its policy of capital structure. In accordance with the decision of the annual general meeting, held on 21 November 2016, the nominal value of share capital was decreased from ISK 350 million to ISK 250 million, i.e. by ISK 100 million. Share premium was decreased by ISK 999 million and statutory reserve by 188 million, in total ISK 1,287 million. The total amount was paid to shareholders proportionally according to their shareholdings in the Company on 19 December 2016.

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

Corporate governance

The Board of Directors of N1 hf. has established rules of procedure for the Board wherein it endeavours to comply with the "Guidelines on corporate governance" issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, which was issued in revised edition in May 2015. The guidelines are available on the website of the Iceland Chamber of Commerce www.vi.is. The Company complies with the guidelines in main respect but has though not deemed it necessary to appoint a nomination committee. Furthermore, the statement of corporate governance does neither include an analysis of environmental or social factors, nor does it include information on the Board's performance evaluation. Further information on the Board of Directors and corporate governance is included in the Chapter Corporate Governance as appendix to the Company's financial statements. The Company fulfils the gender requirements of the Icelandic Limited Liability Company Act. The Board of Directors consists of two women and three men.

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

Non-financial Reporting

N1 hf. is a public-interest entity. According to changes made to the Icelandic Financial Statements Act in June 2016 such companies should disclose in their management report relevant and useful information on their policies, main risks and outcomes relating to environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues in addition to a short description of the Company's business model. The Company's policies and outcome of these matters are further discussed in the Non-Financial Reporting, see appendix to the financial statements.

Statement by the Board of Directors and the CEO

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

According to the best of our knowledge, in our opinion the financial statements give a true and fair view of the operating profit of the Company for the year 2016, its assets, liabilities and financial position as at 31 December 2016, and changes in cash and cash equivalents during the year 2016.

Furthermore, in our opinion the financial statements and the Report 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 financial statements for the year 2016 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 financial statements of the Company.

Kopavogur, 16 February 2017

The Board of Directors of N1 hf.

Margrét Guðmundsdóttir
Chairman of the Board

Helgi Magnússon

Kristín Guðmundsdóttir

Jón Sigurðsson

Þórarinn V. Þórarinnsson

CEO

Eggert Þór Kristófersson

Independent Auditor's Report

To the Board of Directors and Shareholders of N1 hf.

Independent Auditor's Report

Opinion

We have audited the financial statements of N1 hf., which comprise the statement of financial position as at December 31, 2016, and the income statement of other comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union and additional requirements in the Icelandic Act on Financial Statements.

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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these

Reversal of impairment and revaluation of properties

In 2011, N1 hf. recognised an impairment on properties for the amount of ISK 1,988 million. In 2016, there was objective evidence indicating that the impairment should be reversed and the company therefore performed a revaluation of the petrol stations and other properties at year end 2016. The revaluation is based on value in use. The conclusion from this revaluation was that the impairment was fully reversible and that the value of the properties did exceed their book value after reversal of the impairment. The reversal of impairment amounted to ISK 1,323 million.

The management subsequently decided to change its accounting policy for petrol stations and other properties based on the fact that fair value would give a better true and fair value of the company's financial position than cost price less depreciation and impairment. The revaluation exceeds the reversal of impairment by ISK 4,850 million. The revaluation is complicated and is based on several management assumptions. Therefore, we consider the reversal of impairment and the revaluation of properties in N1 hf. to be a key audit matter in our audit of the financial statements 2016.

During our audit we ascertained that the above mentioned change in accounting policy is in accordance with the International Financial Reporting Standards. We reviewed the methodology used in the revaluation process, assessed the assumptions used and verified by sampling that the outcome of the revaluation was consistent with given assumptions. We compared the depreciation reports with the revaluation to test if all properties had been included in the revaluation. Finally, we confirmed that the company's arguments for changing the accounting policy and the assumptions for the fair value assessment were in accordance with the International Financial Reporting Standards.

Further information on the revaluation methods and the assumptions are disclosed in note 19 in the financial statements.

Independent Auditor's Report, contd.:

Other information in the Annual report of N1 hf. for the year 2016

Other information consists of the information included in N1 hf. 2016 Annual Report other than the financial statements and our auditor's report thereon. Management and Board of Directors are responsible for the other information. The Annual Report had not been completed at the time of signature of this audit report, but we expect to receive it at a later date.

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

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Icelandic Financial Statements Act 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 financial statements.

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

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report, contd.:

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

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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

From the matters we communicate with the board and the audit committee, we are required to determine those matters that were of most significance in our audit (i.e., Key Audit Matters). We describe those matters in our 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 of Article 104, Paragraph 2 of the Icelandic Financial Statement Act no. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes all information required by the Icelandic Financial Statement Act.

Reykjavík, 16 February 2017

Jóhann Unnsteinsson
State Authorised Public Accountant

Ernst & Young ehf.
Borgartún 30
105 Reykjavík

Income Statement and Statement of Comprehensive Income for the Year 2016

	Notes	2016	2015
Sales	8	33.767.896	49.018.433
Cost of goods sold		(22.566.538)	(38.849.914)
Gross profit	9	11.201.358	10.168.519
Other operating income		370.733	392.161
Salaries and other personnel expenses	10	(4.233.719)	(3.883.348)
Sales and distribution expenses	11	(2.078.594)	(2.268.324)
Other operating expenses	12	(1.634.933)	(1.397.160)
		(7.947.246)	(7.548.832)
Profit before depreciation, amortisation and finance items		3.624.845	3.011.848
Depreciation and amortisation	14	(773.088)	(716.539)
Reversal of impairment of real estates	19	1.323.492	0
		550.404	(716.539)
Operating income		4.175.249	2.295.309
Finance income	15	166.016	185.192
Finance expenses	15	(468.034)	(430.220)
Currency exchange (loss) gain		(1.921)	52.815
Effect of associates	20	295.952	178.743
Change in fair value of shares	21	(13.671)	0
		(21.659)	(13.470)
Profit before income tax		4.153.589	2.281.839
Income tax	16	(775.572)	(421.594)
Profit for the year		3.378.017	1.860.245
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Translation difference arising			
from operations of a foreign associate		(80.422)	(45.225)
Items that will not be reclassified to profit or loss:			
Revaluation of real estates	19	4.849.765	0
Tax on revaluation of real estates	27	(969.953)	0
Total other comprehensive income		3.799.390	(45.225)
Total comprehensive income for the year		7.177.407	1.815.020
Basic and diluted earnings per share in Icelandic krona	17	9,74	3,39

Notes on pages 13 to 36 are an integral part of these financial statements.

Balance Sheet 31 December 2016

	Notes	2016	2015
Assets			
Intangible assets	18	258.165	316.689
Property, plant and equipment	19	15.773.467	9.166.834
Shares in associates	20	1.747.910	1.594.365
Shares in other companies	21	16.540	30.212
Bonds		58.151	67.896
Non-current assets		<u>17.854.234</u>	<u>11.175.996</u>
Inventories	22	3.026.753	2.604.007
Trade receivables	23	2.303.272	2.275.197
Receivables from related parties		14.843	20.663
Other short-term receivables	24	156.725	236.596
Cash and cash equivalents		2.266.435	2.472.372
Current assets		<u>7.768.027</u>	<u>7.608.835</u>
Total assets		<u><u>25.622.261</u></u>	<u><u>18.784.831</u></u>
Equity			
Share capital	25	250.000	350.000
Share premium		3.153.856	4.152.900
Other restricted equity		4.315.391	542.209
Retained earnings		4.852.702	2.685.961
Total equity		<u>12.571.949</u>	<u>7.731.070</u>
Liabilities			
Payable to credit institutions	26	6.500.000	6.370.000
Deferred tax liability	27	1.499.323	263.333
Prepaid income		151.056	181.267
Non-current liabilities		<u>8.150.379</u>	<u>6.814.600</u>
Income tax payable		512.383	429.547
Payable to the Icelandic State	28	2.046.570	1.773.111
Payable to credit institutions	26	508.905	0
Trade payables		895.995	1.158.399
Payable to related parties		201.623	150.458
Prepaid income	29	237.425	225.464
Other short-term liabilities	30	497.032	502.182
Current liabilities		<u>4.899.933</u>	<u>4.239.161</u>
Total liabilities		<u>13.050.312</u>	<u>11.053.761</u>
Total equity and liabilities		<u><u>25.622.261</u></u>	<u><u>18.784.831</u></u>

Notes on pages 13 to 36 are an integral part of these financial statements.

Statement of Changes in Equity for the Year 2016

	Other restricted equity							Total equity
	Share capital	Share premium	Statutory reserve	Revaluation reserve	Unrealised profit of associated companies	Translation difference	Retained earnings	
Year 2016								
Equity as at 1 January 2016	350.000	4.152.900	250.000	377.384	0	(85.175)	2.685.961	7.731.070
Total comprehensive income for the year				3.879.812		(80.422)	3.378.017	7.177.407
Restricted due to associated companies					295.951		(295.951)	0
Dissolution of revaluation reserve of an associate				(134.674)			134.674	0
	350.000	4.152.900	250.000	4.122.522	295.951	(165.582)	5.902.702	14.908.492
<i>Transactions with shareholders:</i>								
Dividend to shareholders (ISK 3.0 per share) ..							(1.050.000)	(1.050.000)
Decrease in share capital	(100.000)	(999.043)	(187.500)					(1.286.543)
Equity as at 31 December 2016	250.000	3.153.857	62.500	4.122.522	295.951	(165.582)	4.852.702	12.571.949
Year 2015								
Equity as at 1 January 2015	700.000	8.305.799	250.000	391.831		(39.950)	1.651.269	11.258.949
Total comprehensive income for the year						(45.225)	1.860.245	1.815.020
Dissolution of revaluation reserve of an associate				(14.447)			14.447	0
	700.000	8.305.799	250.000	377.384	0	(85.175)	3.525.961	13.073.969
<i>Transactions with shareholders:</i>								
Dividend to shareholders (ISK 1.2 per share) ..							(840.000)	(840.000)
Decrease in share capital	(350.000)	(4.152.899)						(4.502.899)
Equity as at 31 December 2015	350.000	4.152.900	250.000	377.384	0	(85.175)	2.685.961	7.731.070

Notes on pages 13 to 36 are an integral part of these financial statements.

Statement of Cash Flows for the Year 2016

	Notes	2016	2015
Cash flows from operating activities			
Profit before depreciation, amortisation and finance items		3.624.845	3.011.848
Operating items not affecting cash flows:			
Loss (gain) on sale of property, plant and equipment		5.800	(15.405)
Prepaid income .....	(	30.211)	(30.211)
		<u>3.600.434</u>	<u>2.966.232</u>
Changes in operating assets and liabilities:			
Inventories, (increase) decrease .....	(	422.745)	534.557
Trade and other short-term receivables, (increase) decrease .....	(	72.374)	1.226.554
Trade and other short-term payables, increase (decrease)		667.244	(492.046)
Changes in operating assets and liabilities		<u>172.125</u>	<u>1.269.065</u>
Interest income received		150.206	180.600
Interest expense paid on short-term liabilities .....	(	17.952)	(14.770)
Income tax paid .....	(	426.698)	(150.736)
Cash flows from operating activities		<u>3.478.115</u>	<u>4.250.391</u>
Cash flows from investing activities			
Purchase of intangible assets .....	(	46.914)	(49.432)
Purchase of property, plant and equipment .....	(	1.153.810)	(487.065)
Sale of property, plant and equipment		146.983	90.754
Purchase of shares in other companies		0	(28.212)
Dividends from associated companies		62.000	2.000
Investing activities	(	<u>991.741)</u>	<u>(471.955)</u>
Cash flows from financing activities			
Decrease in share capital .....	(	1.286.543)	(4.502.899)
Dividend paid .....	(	1.050.000)	(840.000)
Repayment of long-term loans .....	(	6.370.000)	(210.000)
New long term loans from credit institutions		6.500.000	0
Interest expense paid on long term loans .....	(	491.373)	(415.737)
Financing activities	(	<u>2.697.916)</u>	<u>(5.968.636)</u>
Net decrease in cash and cash equivalents.....	(	211.542)	(2.190.200)
Currency exchange gain on cash and cash equivalents		5.605	33.472
Cash and cash equivalents at the beginning of the year		<u>2.472.372</u>	<u>4.629.100</u>
Cash and cash equivalents at the end of the year		<u>2.266.435</u>	<u>2.472.372</u>

Notes on pages 13 to 36 are an integral part of these financial statements.

Notes

1. Reporting entity

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

2. Basis of preparation

a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements of N1 hf. were approved by the Board of Directors on 16 February 2017.

b. Going concern

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

c. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for shares in other companies, derivatives and bonds, which are recognised at fair value. Furthermore, the Company's real estates were revalued to fair value at year end 2016.

d. Presentation and functional currency

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

e. Use of estimates and judgements

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

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

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

f. Changes in accounting policies

The Company has changed its accounting policies regarding real estates. Those assets are now revalued to fair value but were previously recognised at amortised cost, taking any impairment into account. In management's view revalued amounts more appropriately reflects the Company's financial position at year end than amortised cost. More information regarding the financial impact of these changes are disclosed in note 19.

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

Notes, contd.:

3. Significant accounting policies

b. Associated companies

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

b. Foreign currencies

(i) Transactions in foreign currencies

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

(ii) Foreign associates

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

c. Financial instruments

(i) Financial assets and financial liabilities

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

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

Financial assets at fair value through profit and loss

Shares in other companies and bonds are recognised at fair value through profit and loss. A financial instrument is classified as a financial instrument at fair value through profit and loss if it is held for trading or if it is designated as a financial instrument at fair value through profit and loss upon initial recognition. Financial instruments are designated at fair value through profit and loss if decisions regarding purchase and sale are based on their fair value. Financial assets at fair value through profit and loss are recognised at fair value in the balance sheet and fair value changes are recognised in the income statement. Direct transaction costs are recognised in the income statement when incurred. Fair value changes of the shares are recognised under the line item change in fair value of shares in the income statement and statement of comprehensive income but fair value changes of bonds are recognised as part of finance income. Derivative contracts, entered into to hedge foreign currency risk or risk due to changes in the world market price of oil, are recognised as trading assets. They are recognised at fair value and fair value changes recognised in cost of goods sold.

Notes, contd.:

3. Significant accounting policies, contd.:

c. Loans and receivables

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

Cash and cash equivalents

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

Financial liabilities

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

(ii) Share capital

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

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

d. Intangible assets

(i) Software

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

(ii) Trademarks

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

e. Property, plant and equipment

(i) Recognition and measurement

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

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

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

Real estates were revalued to fair value at year end 2016. Fair value assessment is to be carried out on a regular basis, so as to ensure that their carrying amount does not deviate significantly from fair value. Increase in carrying amount due to revaluation is recognised in other comprehensive income. Revaluation reserve among equity is decreased via transfer to retained earnings, the amount each year being equal to the annual amortisation of revaluation recognised in profit or loss, since amortisation 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.

Notes, contd.:

3. Significant accounting policies, contd.:

e. Property, plant and equipment, contd.:

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

(iv) Leased assets

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

f. Inventories

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

g. Impairment

(i) Financial assets

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

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

Impairment is expensed in the income statement.

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

Notes, contd.:

3. Significant accounting policies, contd.:

g. Impairment, contd.:

(ii) Other assets

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

h. Contribution to defined contribution pension plans

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

i. Provisions

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

j. Revenue

(i) Sold goods and services

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

(ii) Customer points programme

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

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

(iii) Other operating income

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

(iv) Operating lease income

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

Notes, contd.:

3. Significant accounting policies, contd.:

k. Expenses

Cost of goods sold

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

l. Operating lease expense

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

m. Finance income and finance expenses

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

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

n. Income tax

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

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

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

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

o. Earnings per share

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

Notes, contd.:

3. Significant accounting policies, contd.:

p. New standards, amendments to standards and interpretations

The Company has adopted all international financial reporting standards, interpretations and amendments to standards that have been endorsed by the EU, are relevant for the Company and are effective for the financial year 2016. The International Accounting Standards Board has issued the following standards that have not

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

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

IFRS 16 *Leases*, replaces existing leases guidance and introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments in future periods. The lessee recognises in profit or loss amortisation of the right-of-ues asset and interest expense on the lease liability There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases. If Endorsed by the EU, the standard will presumably become effective as from the year 2019. The potential effect of the standard has not been fully assessed but based on the Company's current operating leases of premises and buildings at year-end the capitalised right-of-use asset could amount to approximately ISK 1,100 to 1,200 million with the same amount recognised as a lease liability.

4. Determination of fair values

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

(i) Shares in other companies

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

(ii) Trade and other receivables

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

Notes, contd.:

4. Determination of fair values, contd.:

(iii) Payable to credit institutions and other financial liabilities

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

5. Financial assets and financial liabilities

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

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

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

31 December 2016

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

31 December 2015

Assets:				
Cash and cash equivalents.....		2.472.372		2.472.372
Trade receivables.....		2.275.197		2.275.197
Receivables from related parties.....		20.663		20.663
Other short-term receivables.....		154.771		154.771
Bonds.....	67.896			67.896
Shares in other companies.....	30.212			30.212
	<u>98.108</u>	<u>4.923.003</u>		<u>5.021.111</u>
Liabilities:				
Payable to credit institutions.....			6.370.000	6.370.000
Payable to the Icelandic State.....			1.773.111	1.773.111
Trade payables.....			1.158.399	1.158.399
Payable to related parties.....			150.458	150.458
Other short-term liabilities.....			502.182	502.182
			<u>9.954.150</u>	<u>9.954.150</u>

Notes, contd.:

6. Financial risk management

Overview

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

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

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

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

Credit risk

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

Credit risk mainly depends on the age of trade receivables, the financial standing and operations of individual customers and the standing of the industries in which the Company's biggest customers operate, which are transportation, fishing industry and contractors. Approximately 26% (2015: 27%) of the Company's trade receivables at year end is attributable to 30 of the Company's biggest customers. Thereof, receivable from the biggest customer was 3% (2015: 3%).

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

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

Liquidity risk

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

The Company's liquidity position was strong at year end 2016. The Company's management believes that it is in a good position to meet its obligations as they become due. The repayment period of long-term loans is 20 years and loan term is 10 years. In accordance with its provisions no repayments are due on the long-term loan until November 2021, interest are paid monthly. The Company also has access to a one year line of credit, extendable to three years, in the amount of ISK 2.5 billion and USD 25 million, however to the maximum amount of ISK 4.5 billion in total.

Market risk

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

Price risk

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

Notes, contd.:

6. Financial risk management, contd.:

Currency risk

All of the Company's transactions denominated in foreign currencies give rise to currency risk. In evaluating currency risk both payment risk and settlement risk is taken into account. The objective is to manage currency risk in order to best insure the Company's benefits. The major part of imports is purchase of oil, denominated in USD from foreign suppliers but the sale is in great part in ISK. Sales in ISK constitute 87% (2015: 59%), USD 12% (2015: 39%) and other currencies 1% (2015: 2%).

Interest rate risk

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

Other price risk

Other price risk, which arises from financial instruments recognised at fair value, is not material since the Company's investments in other companies and bonds are not a significant part of the balance sheet, being 0.3% at year end 2016 (2015: 0.5%).

Operating risk

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

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

7. Segment reporting

Internal reporting to the Company's key management is based on both classification of sale by products and sale by divisions, which are corporate division and consumer division. However, a significant part of sale to the corporate division's customers is from the consumer division and therefore the operation of the two divisions is intertwined. Therefore, it is the opinion of the Company's management that despite the division into corporate and consumer division there is only one operating segment within the Company. Notes 8 and 9 specify sale and gross profit by products.

8. Sales

	2016	2015
Fuel	22.773.136	38.701.718
Other goods	10.994.760	10.316.715
Total net sales	<u>33.767.896</u>	<u>49.018.433</u>

Sale to the Company's largest customer was below 5% in 2016 but 22.9% of total sale in the year 2015.

9. Gross profit

Fuel	6.189.185	5.632.286
Other goods	5.012.173	4.536.233
Total gross profit	<u>11.201.358</u>	<u>10.168.519</u>

Notes, contd.:

	2016	2015
10. Salaries and other personnel expenses		
Salaries	3.343.625	3.098.845
Contributions to pension funds	323.082	287.341
Other salary related expenses	415.272	370.500
Other personnel expenses	151.740	126.662
Total salaries and other personnel expenses	<u>4.233.719</u>	<u>3.883.348</u>
Number of employees in full time equivalent units	532	521
Full time equivalent units at year end	502	490
11. Sales and distribution expenses		
Distribution expenses	1.335.173	1.702.775
Marketing expenses	321.875	256.597
Maintenance expenses	421.546	308.952
Total sales and distribution expenses	<u>2.078.594</u>	<u>2.268.324</u>
12. Other operating expenses		
Office and administrative expenses	301.962	246.983
Operations of premises	447.416	414.612
Lease expense	286.698	277.080
Computer hardware and software	258.819	209.400
Impairment of trade receivables (see note 31)	62.059	(23.636)
Other expenses	277.979	272.721
Total other operating expenses	<u>1.634.933</u>	<u>1.397.160</u>
13. Fees to the Company's auditor		
Audit of the financial statements	12.659	12.429
Review of interim financial statements	2.926	2.538
Other services	1.181	2.071
Total fees to auditors	<u>16.766</u>	<u>17.038</u>
14. Amortisation and depreciation		
Amortisation of intangible assets, see note 18	105.438	95.081
Depreciation of property, plant and equipment, see note 19	667.650	621.458
Total amortisation and depreciation	<u>773.088</u>	<u>716.539</u>

Notes, contd.:

15. Finance income and finance expenses

	2016	2015
Finance income is specified as follows:		
Interest income on bank accounts	97.578	113.517
Interest income and fair value changes on bonds	20.972	23.733
Interest income on receivables	47.466	45.942
Dividend income	0	2.000
Total finance income	<u>166.016</u>	<u>185.192</u>

Finance expenses are specified as follows:

Interest expenses	468.034	430.220
Total finance expenses	<u>468.034</u>	<u>430.220</u>

16. Income tax

	2016	2015
Income tax in the income statement is specified as follows:		
Income tax payable	512.383	429.547
Deferred income tax	263.190	(7.953)
	<u>775.572</u>	<u>421.594</u>

Effective income tax is specified as follows:

Profit before income tax	4.153.589	2.281.839
Income tax based on current tax rate	20,0% 830.718	20,0% 456.368
Non-deductible expenses	0,1% 4.045	0,1% 1.375
Non-taxable income	(1,4%) (59.191)	(1,6%) (36.149)
Effective income tax rate	<u>18,7% 775.572</u>	<u>18,5% 421.594</u>

17. Earnings per share

	2016	2015
Profit for the year.....	<u>3.378.017</u>	<u>1.860.245</u>
Share capital at the beginning of the year.....	350.000	700.000
Effect of decrease in share capital.....	(3.288)	(150.740)
Weighted-average of issued share capital.....	<u>346.712</u>	<u>549.260</u>
Basic and diluted earnings per share in ISK.....	9,74	3,39

Notes, contd.:

18. Intangible assets

Intangible assets and amortisation is specified as follows:

	Software	Trademarks	Total
Total value			
Total value 1.1.2015	535.466	230.850	766.316
Additions during the year	49.432	0	49.432
Total value 31.12.2015	584.898	230.850	815.748
Additions during the year	46.914	0	46.914
Total value 31.12.2016	631.812	230.850	862.662
Amortisation			
Amortisation 1.1.2015	323.182	80.796	403.978
Amortisation for the year	83.539	11.542	95.081
Total amortisation 31.12.2015	406.721	92.338	499.059
Amortisation of the year	93.895	11.542	105.438
Total amortisation 31.12.2016	500.616	103.880	604.497
Carrying amount			
Carrying amount 1.1.2015	212.284	150.054	362.338
Carrying amount 31.12.2015	178.177	138.512	316.689
Carrying amount 31.12.2016	131.196	126.970	258.165
Amortisation rates	15%	5%	

19. Property, plant and equipment

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

	Real estates	Furnishings, machines, tools and equipment	Total
Cost or revalued amounts			
Total cost value 1.1.2015	10.632.847	4.432.890	15.065.737
Additions during the year	180.013	307.052	487.065
Sold and disposed of during the year	(19.653)	(101.228)	(120.881)
Total cost value 31.12.2015	10.793.207	4.638.714	15.431.921
Additions during the year	525.036	628.774	1.153.810
Reclassification	169.357	(169.357)	0
Sold and disposed of during the year	(14.577)	(160.091)	(174.668)
Revaluation	4.849.765	0	4.849.765
Cost or revalued amounts 31.12.2016	16.322.788	4.938.040	21.260.828
Depreciation			
Depreciated 1.1.2015	3.275.947	2.461.215	5.737.162
Depreciation for the year	263.388	358.070	621.458
Sold during the year	(2.513)	(91.020)	(93.533)
Total depreciation 31.12.2015	3.536.822	2.728.265	6.265.087
Depreciation for the year	283.766	383.884	667.650
Reversal of impairment	(1.323.492)	0	(1.323.492)
Reclassification	41.018	(41.018)	0
Sold and disposed of during the year	(14.577)	(107.308)	(121.885)
Total depreciation 31.12.2016	2.523.538	2.963.823	5.487.361

Notes, contd.:

19. Property, plant and equipment, contd.:

	Real estates	Furnishings, machines, tools and equipment	Total
Carrying amount			
Carrying amount 1.1.2015	7.356.900	1.971.675	9.328.575
Carrying amount 31.12.2015	7.256.385	1.910.449	9.166.834
Carrying amount 31.12.2016	13.799.251	1.974.217	15.773.467
Carrying amount without revaluation			
Carrying amount 1.1.2015	7.356.900	1.971.675	9.328.575
Carrying amount 31.12.2015	7.256.385	1.910.449	9.166.834
Carrying amount 31.12.2016	7.625.994	1.974.217	9.600.210
Depreciation rates	3-10%	6-20%	

In 2011 impairment expense was recognised on the Company's real estates in the amount of ISK 1,988 million. The assumptions on which the impairment test was based are disclosed in the Company's financial statements for the year 2011 which are available on the Company's homepage. In 2016 there were indicators that the assets were no longer impaired. Valuation experts valued the real estates as at year-end 2016. The result of the valuation was that the aforementioned impairment was no longer present and furthermore that the value of the assets were above their carrying amount subsequent to the impairment reversal.

Reversal of impairment recognised in profit or loss was in the amount of ISK 1,323 million. That amount is ISK 665 million lower than the amount expensed as impairment in 2011, since the carrying amount of previously impaired assets, following impairment reversal, shall not be higher than it would have been if no impairment had been recognised. Some of the assets on which impairment was recognised have been sold.

By the impairment test at year-end 2016 the recoverable amount of the assets were estimated. Recoverable amount is the higher of value in use and fair value less cost to sell. Assessment of value in use was based on management assessment of operations and investments for the next five years and weighted average cost of capital (WACC) which was estimated by the Company's experts. Subsequent to the five year forecast period a constant gross profit margin and increase in revenue is assumed in line with general price changes. Fair value less cost to sell, which was higher than value in use, was estimated by reference to the stock exchange market price of N1, the Company's liabilities and its cash and cash equivalents.

The Company has decided to change its accounting policy and apply the revaluation model allowed under IFRS. Therefore the real estates were revalued to fair value. Fair value, to the extent that it is in excess of carrying amount of the real estates subsequent to impairment reversal, is recognised in other comprehensive income. At year-end ISK 4,850 million was recognised in other comprehensive income as revaluation. The Company's total equity increased by ISK 3,880 million due to the revaluation.

Notes, contd.:

19. Property, plant and equipment, contd.:

Following are the key assumption used in calculation of value in use:

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

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

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

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

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

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

Insurances and valuation of assets

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

	2016	2015
Value for taxation of real estates	4.990.538	4.543.668
Value for fire insurance of real estates	7.649.722	7.331.898
Insurance value of tools, equipment and furnishings	2.456.898	2.071.971
Insurance value of inventories	2.216.858	2.173.669

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

Pledged assets

The line of credit amounts to ISK 2,500 million and USD 25 million, however to the maximum amount of ISK 4,500 million. The Company has utilised the line of credit at year end to the amount of ISK 509 million.

Landsbankinn hf. holds complete pledge in the Company's main real estates, inventories and trade receivables in the amount of ISK 12,196 million as collateral for long-term loans and the line of credit.

Notes, contd.:

20. Shares in associates

Shares in associates are specified as follows:

Year 2016	Share	2016	2015
Olíudreifing ehf.	60.0%	1.295.576	1.104.989
Malik Supply A/S, Denmark *	49.0%	397.223	443.312
EAK ehf	33.33%	33.861	28.779
Shares in four associates	-	21.234	17.285
Total shares in associates at year end		<u>1.747.910</u>	<u>1.594.365</u>

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

Change in the carrying amount of associates during the year:

Carrying amount at the beginning of the year		1.594.365	1.460.846
Share of profit		295.952	178.743
Dividend .....	(	62.000)	0
Translation difference .....	(	80.422)	(45.225)
Carrying amount at year end		<u>1.747.910</u>	<u>1.594.365</u>

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

Olíudreifing ehf.

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

	2016*	2015*
Non-current assets	3.572.853	3.465.157
Current assets	1.029.097	862.277
Non-current liabilities	(1.832.705)	(1.939.613)
Current liabilities	(609.955)	(546.173)
Net asset (100%)	<u>2.159.290</u>	<u>1.841.648</u>
Carrying amount of the share (60%)	<u>1.295.576</u>	<u>1.104.989</u>
Income (100%)	3.678.775	3.409.156
Profit (100%)	421.296	198.229
Share in total comprehensive income (60%)	252.778	118.937

* Draft of Financial Statements

Notes, contd.:

20. Shares in associates, contd.:

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.

	2016	2015*
Non-current assets	776.615	657.598
Current assets	3.535.122	1.964.597
Non-current loans	(269.414)	(379.228)
Current loans	(3.437.539)	(1.602.156)
Net asset (100%)	<u>604.784</u>	<u>640.811</u>
Fair value adjustment	100.879	129.315
Carrying amount of the share (49%)	<u>397.223</u>	<u>443.312</u>
Income (100%)	627.467	737.014
Profit (100%)	60.853	109.295
Share in total comprehensive income (49%)	29.818	53.554

* Draft of Financial Statements

21. Shares in other companies

Shares in other companies are specified as follows:

	2016	2015
Shares in two unlisted companies	<u>16.540</u>	<u>30.212</u>

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

22. Inventories

Inventories at year end are specified as follows:

	2016	2015
Fuel.....	1.729.934	1.323.487
Other goods.....	<u>1.296.819</u>	<u>1.280.520</u>
Total inventories.....	<u>3.026.753</u>	<u>2.604.007</u>

Write-down of fuel decreased by ISK 15 million during the year 2016 but write down of other goods by ISK 28 million. In 2015 write down of other goods increased by ISK 7 million.

23. Trade receivables

Trade receivables are specified as follows at year end:

Nominal value of trade receivables.....	2.425.402	2.331.699
Bonds.....	31.708	49.228
Allowance for impairment.....	(153.838)	(105.730)
Carrying amount of trade receivables.....	<u>2.303.272</u>	<u>2.275.197</u>

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

Notes, contd.:

24. Other short-term receivables

Other short-term receivables at year end are specified as follows:	2016	2015
Prepaid expenses.....	76.185	81.825
VAT refund and other receivables from the Icelandic State.....	44.780	53.213
Other short-term receivables.....	35.760	101.558
Total other short-term receivables.....	<u>156.725</u>	<u>236.596</u>

25. Equity

(i) Share capital

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

(ii) Share premium

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

(iii) Statutory reserve

In accordance with Act on Public Limited Companies, companies are to retain a portion of their income for the year in a statutory reserve, up to the limit of the reserve being in the amount of 25% of the nominal value of share capital. Concurrently with decrease of share capital in December 2016 this reserve was decreased and it is now in the amount of 25% of the nominal value of share capital. Previously the reserve was well in excess of that ratio due to decrease in share capital in prior years without a corresponding decrease of the reserve.

(iv) Revaluation reserve

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

(v) Unrealised profit of associated companies

In June 2016 the Icelandic parliament passed a law on changes to the Icelandic Annual Accounts Act. One of the changes made to the act relates to income from equity accounted investees whereby it is required that an amount corresponding to any share of income from associated companies or subsidiaries in excess of dividends received from those companies, or the dividend that has been decided to distribute, is to be transferred 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. The changes to the act are retrospective since the effective date is 1 January 2016. ISK 296 million has been transferred from retained earnings to this restricted reserve due to share of profit of associates for the year 2016.

(vi) Translation difference

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

(vii) Retained earnings

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

Notes, contd.:

25. Equity, contd.:

(viii) Capital management

The Board of Directors of N1 has established a policy on the Company's capital structure and dividend payments. According to the policy the Board of Directors will propose to annual general meetings that at least 50% of the profit for each year be paid to shareholders as dividend. Furthermore, the Company aims at an equity ratio of approximately 40%. The Company's loan agreements require a minimum equity ratio of 30%. At year-end 2016 the Company's equity ratio was 49.1%

26. Payable to credit institutions

Interest bearing liabilities are specified as follows at year end:

	2016		2015	
	Interest rate	Carrying amount	Interest rate	Carrying amount
Non-indexed loan in ISK on floating interests.....	6.8%	6.500.000	7.1%	6.370.000
Short-term loan in USD.....	4.3%	508.905		0
Total long-term liabilities.....		7.008.905		6.370.000

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

	2016	2015
Year 2020.....	0	140.000
Year 2021.....	55.250	0
Later.....	6.444.750	6.230.000
	6.500.000	6.370.000

27. Deferred tax liability

Deferred tax liability is specified as follows by individual items:

Asset

Inventories.....	6.686	18.979
	6.686	18.979

Liability

Property, plant and equipment.....	1.479.109	221.387
Intangible assets.....	28.940	43.035
Unrealised currency exchange difference.....	3.265	14.278
Trade receivables.....	(5.289)	3.612
	1.506.025	282.312
Deferred tax liability.....	1.499.323	263.333

28. Payable to the State

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

29. Prepaid income

Prepaid income is specified as follows at year end:

	2016	2015
Points programme.....	158.004	160.344
Prepaid cards.....	49.210	34.909
Unrealised profit on sale of Klettagarðar 13.....	30.211	30.211
Total prepaid income.....	237.425	225.464

Notes, contd.:

30. Other short-term liabilities

Other short term liabilities are specified as follows at year end:	2016	2015
Unpaid salaries and salary related expenses.....	197.560	172.372
Accrued vacation.....	244.476	234.417
Unpaid accrued interests.....	32.831	74.122
Oil contract.....	0	17.011
Other short term liabilities.....	22.165	4.260
Total other short-term liabilities.....	<u>497.032</u>	<u>502.182</u>

31. Financial instruments

Credit risk

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

Bonds.....	58.151	67.896
Trade receivables.....	2.303.272	2.275.197
Receivables from related parties.....	14.843	20.663
Other short-term receivables.....	77.227	154.771
Cash and cash equivalents.....	2.266.435	2.472.372
	<u>4.719.928</u>	<u>4.990.899</u>

Approximately 26% (2015: 27%) of balances of trade receivables are with the 30 largest customers of the Company. Thereof the largest trade receivable was 3% (2015: 3%).

Age analysis of trade receivables and impairment loss

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

	Nominal value	Write-down	Carrying amount
Year 2016			
Not due.....	1.897.550	(64.620)	1.832.930
Past due by 30 days or less.....	341.761	(50.682)	291.079
Past due by 31 - 120 days.....	115.025	(12.844)	102.181
Past due by more than 120 days.....	102.774	(25.692)	77.082
	<u>2.457.110</u>	<u>(153.838)</u>	<u>2.303.272</u>
Year 2015			
Not due.....	1.689.878	(39.069)	1.650.809
Past due by 30 days or less.....	388.974	(30.111)	358.863
Past due by 31 - 120 days.....	224.575	(12.274)	212.301
Past due by more than 120 days.....	77.500	(24.276)	53.224
	<u>2.380.927</u>	<u>(105.730)</u>	<u>2.275.197</u>

Impairment on trade receivables is specified as follows:	2016	2015
Balance at the beginning of the year.....	105.730	147.887
Receivables written off during the year.....	(13.951)	(18.521)
Impairment (impairment reversal) during the year.....	62.059	(23.636)
Balance at year end.....	<u>153.838</u>	<u>105.730</u>

Notes, contd.:

31. Financial instruments, contd.:

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

	Nominal value	Specific write down	General write down	Carrying amount at year end
Year 2016				
Fishing industry.....	369.205	(11.990)	(5.969)	351.246
Transportation.....	271.416	(10.449)	(4.388)	256.579
Contractors.....	370.548	(39.805)	(5.991)	324.752
Other industries and individuals.....	1.292.309	(51.869)	(20.893)	1.219.547
Foreign sale.....	153.632	0	(2.484)	151.148
	<u>2.457.110</u>	<u>(114.113)</u>	<u>(39.725)</u>	<u>2.303.272</u>
Year 2015				
Fishing industry.....	463.520	(9.416)	(7.689)	446.415
Transportation.....	295.927	(5.540)	(4.909)	285.478
Contractors.....	201.177	(18.085)	(3.337)	179.755
Other industries and individuals.....	1.306.872	(33.194)	(21.678)	1.252.000
Foreign sale.....	113.431	0	(1.882)	111.549
	<u>2.380.927</u>	<u>(66.235)</u>	<u>(39.495)</u>	<u>2.275.197</u>

Liquidity risk

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

	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Year end 2016				
Payable to credit institutions.....	910.133	398.713	1.252.342	8.122.829
Payable to the Icelandic State.....	2.046.570			
Income tax payable.....	512.383			
Trade payables.....	895.995			
Payable to related parties.....	201.623			
Other short term liabilities.....	497.032			
	<u>5.063.736</u>	<u>398.713</u>	<u>1.252.342</u>	<u>8.122.829</u>
Year end 2015				
Payable to credit institutions.....	452.273	452.273	1.563.506	8.836.368
Payable to the Icelandic State.....	1.773.111			
Income tax payable.....	429.547			
Trade payables.....	1.158.399			
Payable to related parties.....	150.458			
Other short term liabilities.....	502.182			
	<u>4.465.970</u>	<u>452.273</u>	<u>1.563.506</u>	<u>8.836.368</u>

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

Notes, contd.:

31. Financial instruments, contd.:

Currency risk

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

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

Year 2015

Bonds.....	0	0	27.759	27.759
Trade receivables.....	302.430	1.200	13.128	316.758
Cash and cash equivalents.....	250.603	597	581	251.781
Trade payables.....	(274.606)	(56.835)	(99.958)	(431.399)
Risk in balance sheet.....	278.427	(55.038)	(58.490)	164.899

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.

	2016	2015
USD.....	20.200 (	27.843)
EUR.....	4.481	5.504
Other currencies.....	7.282	5.849
Total.....	31.963 (	16.490)

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

Interest rate risk

An interest increase at the reporting date by one percentage (100 basis points) would decrease results before income tax by ISK 65 million (2015: 64) due to effects of the Company's borrowings on floating interests. The calculation is based on operating effect on annual basis. A decrease by one point would have the same effect in the opposite direction.

32. Operating lease

Rental obligation

The Company rents premises from various parties and the total obligation in relation thereto amounts to ISK 1,254 million until the year 2058. Future rent payments, without taking into account future inflation, are specified as follows at year end:

	2016	2015
Within one year.....	350.806	319.997
After 1 - 5 years.....	580.937	748.357
After more than 5 years.....	322.393	406.156
Total.....	1.254.136	1.474.510

Notes, contd.:

32. Operating lease, contd.:

Rental income

The Company rents premises to various parties. Some of the rental agreements are indeterminate but the lease term of other agreements are from 1 - 15 years. Rental income in the year 2016 amounted to ISK 155 million (2015: ISK 148 million). Most of the rental agreements are price indexed. Total obligation of lessees without taking into account future inflation is specified as follows. Obligation of lessees due to indeterminate agreements is only calculated for one year.

	2016	2015
Within one year.....	147.474	155.582
After 1 - 5 years.....	272.086	297.860
After 5 years.....	141.654	142.488
Total.....	<u>561.214</u>	<u>595.930</u>

33. Related parties

Definition of related parties

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

Transactions with associated companies

Transactions with associated companies are specified as follows:

Purchased goods and services	1.200.382	1.433.822
Sold goods and services.....	380.430	469.458
Bonds.....	23.486	27.759
Receivables at year end.....	14.843	20.663
Payables at year end.....	201.622	150.458

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

	2016	2015	Shares at year end 2016
Margrét Guðmundsdóttir, Chairman of the Board.....	8.265	7.590	3.014
Helgi Magnússon, Board member.....	5.963	5.513	5.598.955
Kristín Guðmundsdóttir, Board member.....	4.470	4.125	6.028
Jón Sigurðsson, Board member.....	4.110	3.795	10.525.970
Þórarinn V. Þórarinsson, Board member.....	4.470	3.150	3.014
Guðmundur Arnar Óskarsson, former Board member.....	0	975	0
Eggert Þór Kristófersson, CEO.....	58.434	43.806	163.399
Eggert Benedikt Guðmundsson, former CEO*.....	0	87.252	0
Four managing directors.....	122.220	105.171	95.072
Total salaries and benefits of the Board of Directors and management.....	<u>207.932</u>	<u>261.377</u>	<u>16.395.452</u>

* Salaries expensed in 2015 include salaries during the term of notice to end of March 2016.

Notes, contd.:

33. Related parties

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

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

Transaction with other related parties

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

Transactions with employees

The Company has provided loans to its employees due to general purchase of goods in the amount of ISK 15 million at year-end 2016 (2015: ISK 16 million). Other liabilities of employees amounted to ISK 687 thousand at year-end (2015: ISK 483 thousand).

34. Ratios

The Company's key ratios are specified as follows:

	2016	2015
Income statement		
Turnover rate of inventories at the end of the period: utilisation of goods / weighted average inventories	8,02	12,03
Sales days in trade receivables: weighted average trade receivables / goods and services sold.....	29	25
Profit before depreciation, amortisation and finance items / gross profit.....	32,4%	29,6%
Salaries and salary related expenses / gross profit.....	37,8%	38,2%
Sales and distribution cost / gross profit.....	18,6%	22,3%
Other operating expenses / gross profit.....	14,6%	13,7%
Balance sheet		
Current ratio: current assets / current liabilities.....	1,59	1,79
Liquidity ratio: (current assets - inventories) / current liabilities.....	0,97	1,18
Leverage: Net interest bearing liabilities / EBITDA.....	1,10	1,14
Equity ratio: Equity / total capital.....	49,1%	41,2%
Return on equity: Return of the year / weighted average equity.....	39,2%	19,9%

35. Other issues

In June 2013 the Icelandic Competition Authority announced that it had decided to initiate market research on the Icelandic fuel market. This is a new form of research, which includes consideration of a need for action against conditions or conduct that prevent, restrict or adversely affect competition to the detriment of the public. The study does not focus specifically on the Company itself, but the fuel market as a whole. On 30 November 2015 the Icelandic Competition Authority issued a report on its preliminary findings regarding its research on the Icelandic fuel market. Stakeholders had the opportunity to respond, i.e. comment on the report. The Company's response was sent on 16 March 2016. At present it is not known when the conclusions of the market research are expected.

Quarterly Statement - unaudited

The company's operating results for the year 2016 by quarters

	Q1	Q2	Q3	Q4	2016 Total
Sales	6.442.818	8.848.278	10.622.848	7.853.952	33.767.896
Cost of goods sold	(4.363.990)	(5.809.511)	(7.219.941)	(5.173.096)	(22.566.538)
Gross profit	2.078.828	3.038.767	3.402.907	2.680.856	11.201.358
Other operating income	92.503	95.391	91.344	91.495	370.733
Salaries and other personnel expenses	(996.604)	(1.061.141)	(1.032.601)	(1.143.373)	(4.233.719)
Sales and distribution expenses	(428.978)	(553.803)	(593.785)	(502.028)	(2.078.594)
Other operating expenses	(372.120)	(415.332)	(395.433)	(452.048)	(1.634.933)
	<u>(1.797.702)</u>	<u>(2.030.276)</u>	<u>(2.021.819)</u>	<u>(2.097.448)</u>	<u>(7.947.246)</u>
Profit before depreciation, amortisation and finance items	373.629	1.103.882	1.472.431	674.902	3.624.845
Depreciation and amortisation	(173.017)	(177.422)	(181.254)	(241.396)	(773.088)
Reversal of impairment of real estates	0	0	0	1.323.492	1.323.492
	<u>(173.017)</u>	<u>(177.422)</u>	<u>(181.254)</u>	<u>1.082.096</u>	<u>550.404</u>
Operating income	200.612	926.460	1.291.178	1.756.999	4.175.249
Finance income	42.262	27.055	34.801	61.897	166.016
Finance expenses	(118.903)	(118.470)	(113.665)	(116.996)	(468.034)
Currency exchange gain (loss)	(689)	8.285	(25.076)	15.559	(1.921)
Effect of associates	21.189	62.286	111.900	100.577	295.952
Change in fair value of shares	0	(12.669)	(1.478)	475	(13.671)
	<u>(56.141)</u>	<u>(33.513)</u>	<u>6.482</u>	<u>61.513</u>	<u>(21.659)</u>
Profit before income tax	144.471	892.947	1.297.660	1.818.511	4.153.589
Income tax	(24.976)	(181.014)	(225.767)	(343.815)	(775.572)
Profit for the period	119.495	711.933	1.071.893	1.474.697	3.378.017
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from operations of a foreign associate	(1.929)	(15.026)	(3.621)	(59.846)	(80.422)
Items that will not be reclassified to profit or loss:					
Revaluation of real estates	0	0	0	0	4.849.765
Tax on revaluation of real estates					(969.953)
Total other comprehensive income	<u>(1.929)</u>	<u>(15.026)</u>	<u>(3.621)</u>	<u>(59.846)</u>	<u>3.799.390</u>
Total comprehensive income for the period	117.566	696.907	1.068.272	1.414.850	7.177.406
Basic and diluted earnings per share in Icelandic krona	0,34	2,03	1,57	4,25	9,74

Quarterly statement - unaudited

The company's operating results for the year 2015 by quarters:

	Q1	Q2	Q3	Q4	2015 Total
Sales	9.877.310	13.543.378	15.884.465	9.713.280	49.018.433
Cost of goods sold	(7.894.389)	(10.686.001)	(12.879.468)	(7.390.056)	(38.849.914)
Gross profit	1.982.921	2.857.377	3.004.997	2.323.224	10.168.519
Other operating income	101.111	92.511	87.874	110.665	392.161
Salaries and other					
personnel expenses	(992.287)	(975.936)	(910.690)	(1.004.435)	(3.883.348)
Sales and distribution expenses	(486.823)	(595.406)	(723.880)	(462.215)	(2.268.324)
Other operating expenses	(335.617)	(374.383)	(348.258)	(338.902)	(1.397.160)
	<u>(1.814.727)</u>	<u>(1.945.725)</u>	<u>(1.982.828)</u>	<u>(1.805.552)</u>	<u>(7.548.832)</u>
Profit before depreciation, amortisation and finance items	269.305	1.004.163	1.110.043	628.337	3.011.848
Depreciation and amortisation	(174.714)	(175.904)	(177.776)	(188.145)	(716.539)
Operating income	94.591	828.259	932.267	440.192	2.295.309
Finance income	49.908	41.143	21.089	73.052	185.192
Finance expenses	(100.685)	(102.635)	(111.928)	(114.972)	(430.220)
Currency exchange gain	55.976	(4.426)	(9.458)	10.723	52.815
Effect of associates	55.118	25.451	74.861	23.313	178.743
	60.317	(40.467)	(25.436)	(7.884)	(13.470)
Profit before income tax	154.908	787.792	906.831	432.308	2.281.839
Income tax	(20.333)	(152.855)	(166.622)	(81.784)	(421.594)
Profit for the period	134.575	634.937	740.209	350.524	1.860.245
Other comprehensive income					
Translation difference arising from operations of a foreign associate	(24.783)	606	(3.621)	(17.427)	(45.225)
Total comprehensive income for the period	109.792	635.543	736.588	333.097	1.815.020
Basic and diluted earnings per share in Icelandic krona	0,19	1,11	1,57	0,77	3,39

Statement of Corporate Governance

Board of Directors and corporate governance

The Board of Directors

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

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

- The Board of Directors of N1 has not appointed a nomination committee.
- The Statement of Corporate Governance does not include an analysis of environmental and social factors needed to understand the development, success and position of the Company.
- The Statement of Corporate Governance does not include information on main points affecting the appraisal of the Board's success.

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

The Board of Directors of N1 hf. consists of five directors and one reserve director appointed for a one year term in the Annual General Meeting. Margrét Guðmundsdóttir is the Chairman of the Board and has been on the Company's Board since 2011 and as Chairman since 2012. Kristín Guðmundsdóttir has been on the Board since 2011, Helgi Magnússon since 2012, Jón Sigurðsson since 2014 and Þórarinn V. Þórarinnsson since 2015. The Board of Directors of N1 hf consists of two women and 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 a every month. Board meetings are held at the headquarters of N1 at Dalvegur 10-14, 201 Kopavogur, 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.

Statement of Corporate Governance, continued

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. Helgi Magnússon is not regarded as being independent of the large shareholders in the Company. All other 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 three members appointed by the Company's Board of Directors. The majority of the members shall be independent from the Company and its day-to-day managers. Neither the CEO nor other employees may be a member of the Remuneration Committee. Independent Board members may be a member of the Remuneration Committee. Committee members should preferably have experience and knowledge of the criteria and customs that relate to the determination of the employment terms of managers. The Rules of Procedure of the committee shall state on its main tasks. The committee consists of Margrét Guðmundsdóttir, Chairman, Jón Sigurðsson and Helgi Magnússon.

Audit committee

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

Statement of Corporate Governance, continued

Audit committee, contd.:

The audit committee's tasks are as follows:

- To monitor the financial reporting process.
- To monitor the organisation and effectiveness of N1's internal control, risk management and other control procedures.
- To monitor the external audit of N1's financial statements.
- To make recommendation to the Board of Directors regarding selection of auditors or audit firm.
- To evaluate the independence of external auditors or audit firm and monitor other tasks performed by them.

Executive Board

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

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

In the year 2016, 13 Board meetings were held, 8 meetings in the Audit Committee and 4 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.

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

N1's values are:

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

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

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

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

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

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

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

Shareholders

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

Non-Financial Reporting

About N1

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

Society

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

Environment

N1 is an environmentally conscious company, seeking to offer environmentally friendly products and services. We are dedicated to minimize the environmental impact of our operations and we have adapted formal environmental-, quality-, safety- and health standards.

Employees

N1 has adapted human resource policy and is aware of that one of the most important resource of the company are the employees, their knowledge and skills. N1 seeks to attract and keep qualified and reliable personnel. N1 provides good and encouraging work environment, promotes and strengthen the employees by effective training and development. It is important that employees knows the role, policy and values of the company, that results in better performance. The human resource policy of N1 is available to all employees on the intranet.

Anti-corruption and bribery policy

We respect the impact that the company has on the society. We know that the reputation of N1 is one of the most valuable asset of the company. The company approved code of conduct on the 27th of January 2015, that apply to all activities of the company and all employees and its board of directors, as well as contractors, that perform tasks for the company. The code of conduct are available on the company's website, www.n1.is.

Status and performance

GRI G4 "Core" report was issued for the year 2015 to explain the status of the companies social responsibility. The purpose of the issue is among other things to estimate N1's real position on those matters with referene to accepted standards thereon. Assessment of the current situation makes the company better to set realistic and measurable goals, but also to collect and communicate information on the activities related to social responsibility in a transparent way. The methodology of GRI (Global Reporting Initiative) is used worldwide by over 9,000 companies and institutions that have issued over 23,000 GRI reports. The report is available on the website www.n1.is. GRI report for the year 2016 will be issued parallel with the annual report.