



N1 hf.

Condensed Consolidated Interim Financial Statements

1 January to 30 September 2017

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

N1 hf.
Dalvegur 10-14

201 Kópavogur

Reg. No. 540206-2010

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Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of N1 hf. for the period from 1 January to 30 September 2017 have been prepared in accordance with the International Financial Reporting Standard for interim financial reporting, IAS 34. The consolidated interim financial statements have neither been audited nor reviewed by the Company's auditors.

The Company's operating revenue for the first nine months of the year amounted to ISK 26,761 million and increased by 2.2% compared to the same period the previous year. According to the statement of comprehensive income, profit from the Company's operations for the period amounted to ISK 1,629 million. However, when taking into account translation difference due to the operation of a foreign associated company the Company's total comprehensive income amounts to ISK 1,639 million. The Company's equity at the end of the period amounted to ISK 13,461 million including share capital in the amount of ISK 250 million.

In December 2016 the Board of Directors of N1 decided to change the Company's organisation as from 1 January 2017 to better reflect results from operations and real estate activities. As a result the Company now presents operating segment disclosures. Concurrently the Company's Board of Directors decided to transfer investments to a subsidiary and to prepare next steps in its development. There will be three segments, i.e. Operations, Real estate and Investments. Operations and Real estate will continue as a part of N1 and therefore not be transferred to subsidiaries.

On 7 September N1 purchased the real estate at Klettagarðar 13 from FAST-2 ehf. At year-end 2012 N1 had sold FAST ehf. the asset but concurrently entered into a ten year lease agreement according to which N1 had a call option for the asset, exercisable after five years and again ten years as from the date of sale. The repurchase price was an index-adjusted selling price. The real estate is 8,926 square meters and mainly used as a warehouse by the Company, but also as a retail store for the Company's corporate clients. The asset's purchase price var ISK 1,653 million, corresponding to a 7.3% return on the investment. As a result of the purchase, assuming no other changes, the Company's EBITDA increases by ISK 90 million and cash flows from operating activities by ISK 120 million on an annual basis.

On 3 October 2017 a purchase agreement was signed for N1's acquisitions of all share capital in Festi hf. The Purchase agreement was based on a letter of intent signed by N1 hf. and SF V slhf. on 9 June this year, where the principal terms of the transaction and results of a due diligence procedure were specified.

Festi specialises in managing retail business and operates 27 stores under the brand names of Krónan, ELKO, Nóatún, Kjarval and Kr. The company also owns and operates Bakkinn warehouse hotel. Festi owns 18 real estates that are rented out, both to its stores and third parties, the total square meters of which are 71,500. The total turnover of Festi for the operating year ended on 28 February 2017, was in excess of ISK 39 billion.

According to the purchase agreement enterprise value of Festi is assumed to be ISK 37.9 billion. However, the final purchase price of share capital will depend on the company's level of debt on 28 February 2018, i.e. at the end of the current financial year. Estimated EBITDA for the current operating year is estimated to approximately ISK 3,340 million. Thereof, EBITDA of Festi's operating companies is assumed to be ISK 2,125 million and ISK 1,215 million due to Festi's real estate operations. The company's enterprise value is subject to change if the financial performance of the operating companies turn out to be different from that assumed. If those companies' total EBITDA for the financial year ending on 28 February 2018, turns out to be higher than ISK 2,125 million, the purchase price will increase, however not by more than ISK 1 billion, the maximum being reached if EBITDA is equal or higher than ISK 2,250 million. If the companies' total EBITDA turns out to be lower than ISK 2,050 million the purchase price will decrease, however not by more than ISK 1 billion, the maximum decrease being reached if total EBITDA turns out to be equal to or lower than ISK 1,925 million. As previously announced N1's management estimate the Company's EBITDA to be in the range of ISK 3,500 to 3,600 million for the year 2017, excluding expenses related to the acquisition of Festi. Therefore EBITDA of the combined entities for the current operating year, excluding expenses related to the acquisition of Festi, is estimated to be in the range of ISK 6,840 to 6,940 million. The aforementioned figures do not include synergy related to the combination, which is estimated to be in the range of ISK 500 to 600 million.

The share capital acquisition is to be paid with 76,086,957 shares in N1 at price of 115 per share, each share being in the nominal value of ISK 1, and therefore corresponding to ISK 8,750 million, and via a new borrowing. Half of the aforementioned shares in N1 have a lock-up provision until 31 December 2018. However, the seller is allowed to resell the shares, with the aforementioned conditions attached, to the ultimate owner. In case of additional consideration payable, due to better financial performance of Festi hf., that payment is to be in the form of shares in N1 at a price of 115. Those shares would also be subject to the same lock-up provisions as specified above. The transaction is subject, among other, to shareholders' meeting approval of both companies as well as the approval of the Icelandic Competition Authority. If completed, the transaction is expected to be finalised in the second quarter of 2018.

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

Shareholders

At the end of the period the Company's shareholders were 1,495 compared to 1,699 at the beginning of the year. Following are the Company's ten biggest shareholders at the end of the period:

Lífeyrissjóður verslunarmanna	13,3%
Lífeyrissjóður starfsmanna ríkisins A-divison & B-divison	11,1%
Gildi - lífeyrissjóður	9,2%
Landsbréf - Úrvalsbréf	7,2%
Birta lífeyrissjóður	6,8%
Almenni lífeyrissjóðurinn	5,0%
The Wellington Trust Company	4,6%
Stapi lífeyrissjóður	4,6%
Kvika banki hf.	3,6%
Helgafell ehf.	2,8%

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of N1 hf. for the period from 1 January to 30 September 2017 are prepared in accordance with the International Financial Reporting Standard for interim financial reporting, IAS 34. According to our best knowledge it is our opinion that the consolidated interim financial statements give a fair view of the Company's assets, liabilities and financial position as at 30 September 2017 and operating results and changes in cash flows during the period from 1 January to 30 September 2017.

Furthermore, it is our opinion that the consolidated interim financial statements and the Endorsement by the Board of Directors and the CEO give a fair view of the Company's results, financial position and development and describe the main risk factors and uncertainty faced by the Company.

The Board of Directors and the CEO of N1 hf. have today discussed the Company's consolidated interim financial statements for the period from 1 January to 30 September 2017 and confirm them with their signatures.

Kópavogur, 25 October 2017

The Board of Directors of N1 hf.

Margrét Guðmundsdóttir

Helgi Magnússon

Kristín Guðmundsdóttir

Jón Sigurðsson

CEO

Þórarinn V. Þórarinsson

Eggert Þór Kristófersson

Statement of Comprehensive Income

1 January to 30 September 2017

	Notes	2017 1.7.-30.9.	2016 1.7.-30.9.	2017 1.1.-30.9.	2016 1.1.-30.9.
Sales	8	10.591.794	10.622.848	26.467.147	25.913.944
Cost of goods sold		(7.094.335)	(7.219.941)	(17.868.701)	(17.393.442)
Gross profit	9	3.497.459	3.402.907	8.598.446	8.520.502
Other operating income		92.546	91.344	294.035	279.238
Salaries and other personnel expenses		(1.109.297)	(1.032.601)	(3.352.918)	(3.090.346)
Sales and distribution expenses		(620.178)	(593.785)	(1.610.079)	(1.576.566)
Other operating expenses		(451.225)	(395.433)	(1.230.920)	(1.182.885)
		(2.180.700)	(2.021.819)	(6.193.917)	(5.849.797)
Profit before depreciation, amortisation and financial items.....		1.409.305	1.472.431	2.698.564	2.949.942
Depreciation and amortisation		(248.133)	(181.254)	(733.426)	(531.693)
Operating profit		1.161.172	1.291.178	1.965.139	2.418.250
Finance income		16.517	34.801	54.988	104.118
Finance expenses		(97.849)	(113.665)	(296.510)	(351.038)
Foreign currency difference		20.129	(25.076)	13.133	(17.480)
Share of profit from associates		82.778	111.900	237.483	195.375
Fair value changes of shares in other companies		689	(1.478)	4.263	(14.147)
		22.266	6.482	13.358	(83.172)
Profit before income tax		1.183.438	1.297.660	1.978.496	2.335.078
Income tax	10	(220.741)	(225.767)	(349.651)	(431.757)
Profit for the period		962.697	1.071.893	1.628.845	1.903.321
Other comprehensive income (expense) items recognised in equity but will later be reclassified to profit or loss:					
Translation difference arising from operations of a foreign associate		27.447	(31.164)	10.517	(46.190)
Total comprehensive income for the period		990.143	1.040.729	1.639.362	1.857.131
Basic and diluted earnings per share in ISK		3,85	3,06	6,52	5,44

Notes on pages 9 to 12 are an integral part of these interim financial statements.

Statement of Financial Position as at 30 September 2017

	Notes	30.9.2017	31.12.2016
Assets			
Intangible assets		221.816	258.165
Property and equipment		17.069.817	15.773.467
Shares in associates		1.803.910	1.747.910
Shares in other companies		15.804	16.540
Bonds		31.578	58.151
Non-current assets		<u>19.142.925</u>	<u>17.854.234</u>
Inventories		3.145.858	3.026.753
Trade receivables		3.261.162	2.303.272
Receivables from related parties		110.111	14.843
Other short-term receivables	11	279.787	156.725
Cash and cash equivalents		3.083.269	2.266.435
Current assets		<u>9.880.188</u>	<u>7.768.027</u>
Total assets		<u><u>29.023.112</u></u>	<u><u>25.622.261</u></u>
Equity			
Share capital		250.000	250.000
Share premium		3.153.856	3.153.856
Other restricted equity		4.223.692	4.315.391
Retained earnings		5.833.764	4.852.702
Total equity		<u>13.461.312</u>	<u>12.571.949</u>
Liabilities			
Payable to credit institutions	12	6.500.000	6.500.000
Deferred tax liabilities	13	1.510.668	1.499.323
Deferred income	14	0	151.056
Non-current liabilities		<u>8.010.668</u>	<u>8.150.379</u>
Current tax		560.544	512.383
Payable to the Icelandic State		3.460.019	2.046.570
Payable to credit institutions	12	1.500.000	508.905
Trade payables		1.240.256	895.995
Payable to related parties		95.285	201.623
Deferred income		192.239	237.425
Other short-term liabilities		502.788	497.032
Current liabilities		<u>7.551.132</u>	<u>4.899.933</u>
Total liabilities		<u>15.561.800</u>	<u>13.050.312</u>
Total equity and liabilities		<u><u>29.023.112</u></u>	<u><u>25.622.262</u></u>

Notes on pages 9 to 12 are an integral part of these interim financial statements.

Statement of Changes in Equity 1 January to 30 September 2017

	Share Capital	Share premium	Other restricted equity			Translation reserve	Retained earnings	Total equity
			Statutory reserve	Revaluation reserve	Unrealised profit of associated companies			
1 January to 30 September 2017								
Equity 1.1.2017	250.000	3.153.856	62.500	4.122.522	295.951	(165.582)	4.852.702	12.571.949
Total comprehensive income for the period						10.517	1.628.845	1.639.362
Restricted due to associated companies					45.483	(45.483)		0
Dissolution of revaluation of an associated company				(26.359)			26.359	0
Dissolution of revaluation of property and equipment				(121.340)			121.340	0
Dividend paid (ISK 3.00 per share)							(750.000)	(750.000)
Equity 30.9.2017	250.000	3.153.856	62.500	3.974.822	341.434	(155.065)	5.833.764	13.461.312
1 January to 30 September 2016								
Equity 1.1.2016	350.000	4.152.900	250.000	377.384	0	(85.175)	2.685.961	7.731.070
Total comprehensive income for the period						(46.190)	1.903.321	1.857.131
Restricted due to associated companies					195.375	(195.375)		0
Dissolution of revaluation of an associated company				(36.311)			36.311	0
Dividend paid (ISK 3.00 per share)							(1.050.000)	(1.050.000)
Equity 30.9.2016	350.000	4.152.900	250.000	341.073	195.375	(131.365)	3.380.218	8.538.202

Notes on pages 9 to 12 are an integral part of these interim financial statements.

Statement of Cash Flows 1 January to 30 September 2017

	Notes	2017 1.1.-30.9.	2016 1.1.-30.9.
Cash flows from operating activities			
Profit before depreciation, amortisation and financial items		2.698.564	2.949.942
Operating items not affecting cash flows:			
(Gain) loss on sale of operating assets .....	(	11.286)	737
Deferred income .....	(	20.141)	(22.658)
		2.667.138	2.928.021
Changes in operating assets and liabilities:			
Inventories, change .....	(	119.106)	(127.094)
Trade and other receivables, change .....	(	1.098.986)	(938.913)
Trade and other payables, change		1.078.573	1.716.418
Changes in operating assets and liabilities	(	139.519)	650.411
Interest income received		42.175	69.059
Paid interest expense on short-term liabilities .....	(	19.561)	(4.882)
Paid income tax .....	(	290.144)	(102.501)
Cash flows from operating activities		2.260.090	3.540.108
Cash flows from investing activities			
Purchase of intangible assets .....	(	2.951)	(44.131)
Purchase of property and equipment .....	(	2.182.432)	(866.313)
Sale of property and equipment		42.115	134.963
Dividend received		192.000	62.000
Investing activities	(	1.951.267)	(713.480)
Cash flows from financing activities			
Dividend paid .....	(	750.000)	(1.050.000)
Short term loan		1.500.000	0
Paid interest expense on long-term loans from credit institutions .....	(	274.646)	(385.385)
Financing activities		475.354	(1.435.385)
Change in cash and cash equivalents		784.177	1.391.243
Currency exchange difference on cash and cash equivalents		32.658	3.607
Cash and cash equivalents at the beginning of the year		2.266.435	2.472.372
Cash and cash equivalents at the end of the period		3.083.269	3.867.222

Notes on pages 9 to 12 are an integral part of these interim financial statements.

Notes

1. Reporting entity

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

In the interim financial statements information about the Group is presented for the first time in 2017. The Group consists of N1 and its subsidiary, EGO ehf. The subsidiary is to be an investment company. However, its operations had not yet begun as at the end of third quarter of 2017. All comparative figures are those of the parent company's interim and annual financial statements, since the parent company was the only entity of the Group during 2016.

2. Statement of compliance

The consolidated interim financial statements of N1 hf. have been prepared in accordance with the International Financial Reporting Standard for interim financial reporting, IAS 34. The condensed consolidated interim financial statements of the company do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company for the year ended 31 December 2016.

The Board of Directors of N1 hf. approved the consolidated interim financial statements on 25 October 2017.

3. Significant accounting policies

The consolidated interim financial statements are prepared based on the same accounting policies as the Company's annual financial statements for the year 2016. The Company's annual financial statements are available at the Company's headquarter and on its website; www.n1.is as well as at the homepage of NASDAQ OMX Iceland hf.'s website; www.nasdaqomxnordic.com

4. Presentation and functional currency

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

5. Use of estimates and judgements

The preparation of consolidated interim financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

6. Seasonality

The Company's operations are generally more extensive during the second and third quarters of the year than in the first and fourth quarters. Therefore the carrying amounts of the Company's operating assets and liabilities are generally lower at the end of the first and fourth quarters than at the end of the second and third quarters.

Notes, contd.:

7. Operating segments

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

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

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

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

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

First nine months	Real estate	Operations	Inter-segment revenue	Total
Sales and other operating income		26.467.147		26.467.147
Other revenue	1.396.334	294.035	(1.396.334)	294.035
Total segment revenue	<u>1.396.334</u>	<u>26.761.182</u>	<u>(1.396.334)</u>	<u>26.761.182</u>
Total operating expenses	(272.955)	(25.185.997)	1.396.334	(24.062.618)
Segment EBITDA	1.123.379	1.575.185	(0)	2.698.564
Segment depreciation and amortisation	(412.869)	(320.557)	0	(733.426)
Effect of associates	0	237.483		237.483
Operating result of segments	<u>710.510</u>	<u>1.492.111</u>	<u>(0)</u>	<u>2.202.621</u>
Net finance expenses				(224.125)
Income tax				(349.651)
Profit for the period				<u>1.628.845</u>
30.9.2017				
Segment assets	15.114.146	10.825.697	0	25.939.843
Unallocated assets				3.083.269
Total assets				<u>29.023.112</u>
Unallocated liabilities				15.561.800
Capital expenditure	1.888.893	296.490	0	2.185.383
Depreciation and amortization	412.869	320.557	0	733.426

Notes, contd.:

8. Sales	2017		2016	
	1.1.-30.9.		1.1.-30.9.	
Fuel.....	18.201.336		17.818.755	
Other goods.....	8.265.811		8.095.189	
Total sales.....	<u>26.467.147</u>		<u>25.913.944</u>	

9. Gross profit	2017		2016	
	1.1.-30.9.		1.1.-30.9.	
Fuel.....	4.745.697		4.826.496	
Other goods.....	3.852.749		3.694.005	
Total gross profit.....	<u>8.598.446</u>		<u>8.520.502</u>	

10. Income tax	Income tax in profit or loss is specified as follows:			
	2017		2016	
	1.1.-30.9.		1.1.-30.9.	
Profit before income tax		1.978.496		2.335.078
Income tax based on current tax rate	20,0%	(395.699)	20,0%	(467.016)
Non-deductible expenses	0,1%	(1.433)	0,2%	(3.817)
Non-taxable income on shares	(2,4%)	47.497	(1,7%)	39.075
Other items	0,0%	(16)	0,0%	0
Effective income tax	<u>17,7%</u>	<u>(349.651)</u>	<u>18,5%</u>	<u>(431.757)</u>

11. Other short-term receivables

Other short-term receivables are specified as follows:

	30.9.2017	31.12.2016
Prepaid expenses.....	122.994	76.185
VAT refund and other receivables from the Icelandic State.....	117.030	44.780
Other short-term receivables.....	39.763	35.760
Total other short-term receivables.....	<u>279.787</u>	<u>156.725</u>

12. Payable to credit institutions

Interest bearing borrowings are specified as follows:

	30.9.2017		31.12.2016	
	Interest rate	Book value	Interest rate	Book value
Non-indexed loan in ISK on floating interests....	6,8%	6.500.000	6,8%	6.500.000
Short-term loan in USD.....		0	4,3%	508.905
Short-term loan in ISK.....	5,4%	1.500.000		0
Total payable to credit institutions.....		<u>8.000.000</u>		<u>7.008.905</u>

Loan maturities are specified as follows over the next years:

	30.9.2017	31.12.2016
Year 2021.....	55.250	55.250
Subsequent.....	6.444.750	6.444.750
Total payable to credit insitutions.....	<u>6.500.000</u>	<u>6.500.000</u>

Notes, contd.:

13. Deferred tax liabilities

Deferred tax liabilities at the end of the period are specified as follows:

	30.9.2017	31.12.2016
Assets		
Trade receivables and other short-term receivables.....	0	5.289
Inventories.....	6.284	6.686
	<u>6.284</u>	<u>11.975</u>
Liabilities		
Property and equipment.....	1.485.934	1.479.109
Intangible assets.....	24.482	28.940
Trade receivables and other short-term receivables.....	3.846	0
Unrealised foreign exchange rate difference.....	2.690	3.265
	<u>1.516.952</u>	<u>1.511.314</u>
Deferred tax liabilities.....	1.510.668	1.499.323

14. Deferred income

At year-end 2012 N1 sold the real estate at Klettagarðar 13 to FAST-2 ehf. and concurrently entered into a lease agreement for the asset, according to which N1 had a call option exercisable five years and again ten years as from the date of sale, the purchase price being index-adjusted selling price. In September 2017 N1 exercised its call option and purchased the real estate at Klettagarðar 13 from FAST-2. The purchase price was ISK 1,653 million. Deferred gain on sale, in the amount of ISK 161 million, was deducted from the acquisition cost.

15. Ratios

The Company's key ratios:

	2017	2016
	1.1.-30.9.	1.1.-30.9.
Statement of comprehensive income		
Inventory turnover: cost of goods sold * / average inventories of the period.....	7,67	8,40
Sales days in trade receivables: average trade receivables of the period / goods and services sold *.....	30	29
Profit before depreciation, amortisation and financial items / gross profit.....	31,4%	34,6%
Salaries and other personnel expenses / gross profit.....	39,0%	36,3%
Sales and distribution expenses / gross profit.....	18,7%	18,5%
Other operating expenses / gross profit.....	14,3%	13,9%
	30.9.2017	31.12.2016
Statement of Financial Position		
Current ratio: Current assets / current liabilities.....	1,31	1,59
Liquidity ratio: (Current assets - inventories) / current liabilities.....	0,89	0,97
Leverage: Net interest bearing liabilities ** / EBITDA***.....	1,29	1,10
Equity ratio: Equity / total capital.....	46,4%	49,1%
Return on equity: Profit for the period * / average equity for the period.....	17,2%	39,2%

* Operating figures are calculated on annual basis.

** Average net interest bearing liabilities for the last 12 months.

*** EBITDA for the last 12 months.