



N1 hf.
Financial Statements 2012

N1 hf.
Dalvegur 10-14
201 Kópavogur

Reg. no. 540206-2010

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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 2012

The Company's operating revenue for the year 2012 amounted to ISK 60,258 million and increased by 9.8% between years. According to the income statement and statement of comprehensive income, the profit for the year amounted to ISK 1,173 million and total comprehensive income for the year amounted to ISK 1,203 million. The Company's equity at year end amounted to ISK 14,526 million including share capital in the nominal value of ISK 1,000 million.

Shareholders

At the end of the year the Company's shareholders were 63 compared to 66 at the beginning of the year. The following 3 shareholders hold 10% or more share in the Company:

Framtakssjóður Íslands slhf.	44.8%
Íslandsbanki hf.	25.3%
Lífeyrissjóður verzlunarmanna.....	10.0%

According to loan agreements, dividend may not be paid until the listing of the Company on a stock exchange, which is planned for the year 2013. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

Share capital and Articles of Association

The Company's registered share capital at year end amounted to ISK 1,000 million. All shares are in one class and the same rights are attached to all shares.

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

Corporate governance

The Board of Directors of N1 hf. has established working procedures for the Board aimed at complying with guidelines on corporate governance. In the working procedures 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, rules on eligibility of Board members to participate in decision making, hiring of the CEO, responsibilities of the Board and the CEO, supervisory obligations of the Board, rules on audit and the financial statements. The Audit Committee consists of three members, two of which are members of the Board of Directors of N1 hf. The Remuneration Committee consists of two members, one of which is the Chairman of the Board of Directors of N1 hf. In the year 2012, 17 Board meetings were held and 8 meetings in the Audit Committee. The majority of the Board and the Audit Committee attended all meetings.

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

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 2012, its assets, liabilities and financial position as at 31 December 2012, and changes in cash and cash equivalents during the year 2012.

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 the uncertainty faced by the Company.

The Board of Directors and the CEO of N1 hf. have today discussed the Company's financial statements for the year 2012 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, 27 February 2013

The Board of Directors of N1 hf.

Margrét Guðmundsdóttir
Chairman of the Board

Helgi Magnússon

Kristín Guðmundsdóttir

Hreinn Jakobsson

Þór Hauksson

CEO

Eggert Benedikt Guðmundsson

Independent Auditor's Report

To the Board of Directors and Shareholders of N1 hf.

We have audited the accompanying financial statements of N1 hf. for the year 2012, which comprise the income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement, information about significant accounting policies and other notes.

Responsibility of the Board of Directors and the CEO for the financial statements

The Board of Directors and the CEO are responsible for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The Board of Directors and the CEO are also responsible for the internal control which is necessary for the preparation and presentation of the financial statements, so that they are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility consists in the opinion that we express on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's profit for the year 2012, its financial position as at 31 December 2012 and change in cash flows for the year 2012 in accordance with International Financial Reporting Standards as adopted by the European Union.

Confirmation of the Report of the Board of Directors and the CEO

Pursuant to article 106, paragraph 1, item 5 of the Financial Statements Act no. 3/2006, we confirm that, to the best of our knowledge, the Report of the Board of Directors accompanying these financial statements includes the information required by the Financial Statements Act to be disclosed in that Report and not disclosed in the notes to the financial statements.

Kopavogur 27 February 2013

Ernst & Young ehf.

Jóhann Unnsteinsson
State Authorised Public Accountant

Income Statement and Statement of Comprehensive Income for the Year 2012

	Notes	2012	2011
Sales		60,060,785	54,701,389
Cost of goods sold		(50,287,017)	(45,293,796)
Gross profit	8	<u>9,773,768</u>	<u>9,407,593</u>
Other operating income		197,492	185,503
Salaries and other personnel expenses	9	(4,056,706)	(3,910,074)
Sales and distribution expenses	11	(1,841,658)	(1,683,950)
Other operating expenses	12	(1,422,669)	(1,890,951)
		<u>(7,321,033)</u>	<u>(7,484,975)</u>
Profit before depreciation, amortisation and finance items		2,650,227	2,108,121
Depreciation, amortisation and impairment loss	13	(941,413)	(2,808,550)
Operating income (loss)		1,708,814	(700,429)
Finance income	14	277,628	330,475
Finance expenses	14	(713,482)	(398,102)
Effect of associates	20	74,849	370,952
Change in fair value of shares	21	48,642	(961)
		<u>(312,363)</u>	<u>302,364</u>
Effect of financial restructuring	15	0	4,804,545
Profit before income tax		1,396,451	4,406,481
Income tax	16	(235,591)	129,753
Profit for the year		<u>1,160,860</u>	<u>4,536,234</u>
Other comprehensive Income (expenses)			
Translation difference arising from operations of a foreign associate		29,824	(26,792)
Other comprehensive income (expenses) for the year		<u>29,824</u>	<u>(26,792)</u>
Total comprehensive income for the year		<u><u>1,190,684</u></u>	<u><u>4,509,442</u></u>
Basic and diluted earnings per share in Icelandic krona	17	1.16	1.33

Notes on pages 10 to 32 are an integral part of these financial statements.

Balance Sheet 31 December 2012

	Notes	2012	2011
Assets			
Intangible assets	18	460,484	520,683
Property, plant and equipment	19	10,589,982	11,114,506
Shares in associates	20	1,310,526	1,205,854
Shares in other companies	21	131,549	91,318
Deferred tax asset	22	227,426	242,685
Bonds		77,889	102,054
Non-current assets		<u>12,797,856</u>	<u>13,277,099</u>
Inventories	23	5,955,441	5,929,618
Trade receivables	24	4,208,932	4,297,163
Receivables from related parties		23,290	53,774
Other short-term receivables	25	2,275,553	578,356
Cash and cash equivalents		2,507,504	2,191,295
Current assets		<u>14,970,720</u>	<u>13,050,206</u>
Total assets		<u><u>27,768,576</u></u>	<u><u>26,327,304</u></u>
Equity			
Share capital	26	1,000,000	1,000,000
Share premium		11,865,427	11,865,427
Revaluation reserve		443,752	484,617
Translation difference		3,031	(26,792)
Retained earnings		1,201,725	0
Total equity		<u>14,513,935</u>	<u>13,323,252</u>
Liabilities			
Payable to credit institutions	27	7,253,333	7,820,000
Other obligations	28	0	244,146
Prepaid income		295,200	0
Non-current liabilities		<u>7,548,533</u>	<u>8,064,146</u>
Current tax		220,332	0
Payable to the Icelandic State	29	2,588,252	2,716,484
Payable to credit institutions	27	566,667	566,667
Trade payables	30	1,079,868	1,137,553
Payable to related parties		47,224	58,851
Other short-term liabilities	31	1,203,765	460,351
Current liabilities		<u>5,706,108</u>	<u>4,939,906</u>
Total liabilities		<u>13,254,641</u>	<u>13,004,052</u>
Total equity and liabilities		<u><u>27,768,576</u></u>	<u><u>26,327,304</u></u>

Notes on pages 10 to 32 are an integral part of these financial statements.

Statement of Changes in Equity for the Year 2012

	Notes	Share capital	Share premium	Revaluation reserve	Translation difference	(Accumulated deficit) retained earnings	Total equity
Year 2011							
Equity as at 1 January 2011		6,000,000		616,601		(11,802,791)	(5,186,190)
Write-off of share capital .....	(	6,000,000)				6,000,000	0
Issued new share capital		1,000,000	13,000,000				14,000,000
Profit for the year						4,536,234	4,536,234
Translation difference arising from operations of a foreign associate					(26,792)		(26,792)
Loss equalisation		(1,134,573)				1,134,573	0
Transfer of revaluation reserve of an associate				(131,984)		131,984	0
Equity as at 31 December 2011		<u>1,000,000</u>	<u>11,865,427</u>	<u>484,617</u>	<u>(26,792)</u>	<u>0</u>	<u>13,323,252</u>
Year 2012							
Equity as at 1 January 2012		1,000,000	11,865,427	484,617	(26,792)	0	13,323,252
Profit for the year						1,160,860	1,160,860
Translation difference arising from operations of a foreign associate					29,824		29,824
Transfer of revaluation reserve of an associate				(40,865)		40,865	0
Equity as at 31 December 2012		<u>1,000,000</u>	<u>11,865,427</u>	<u>443,752</u>	<u>3,032</u>	<u>1,201,725</u>	<u>14,513,936</u>

Notes on pages 10 to 32 are an integral part of these financial statements.

Statement of Cash Flows for the Year 2012

	Notes	2012	2011
Cash flows from operating activities			
Profit before depreciation, amortisation and finance items		2,650,227	2,108,121
Operating items not affecting cash flows:			
Obligation due to voluntary VAT registration of real estates .....	(	73,988)	218,000
Other items .....	(	433)	10,565
		2,575,806	2,336,686
Changes in operating assets and liabilities:			
Inventories, increase .....	(	25,823)	(947,820)
Trade and other short-term receivables, decrease (increase)		145,282	(571,540)
Trade and other short-term payables, (decrease) increase .....	(	212,462)	428,348
Changes in operating assets and liabilities	(	93,003)	(1,091,012)
Interest income received		144,729	127,963
Interest expense paid on short-term liabilities .....	(	87,376)	(94,760)
Cash flows from operating activities		2,540,156	1,278,877
Cash flows from investing activities			
Purchase of intangible assets		0	(4,124)
Purchase of property, plant and equipment .....	(	1,160,465)	(530,264)
Sale of property, plant and equipment		105,158	32,677
Purchase of shares in other companies		0	(7,052)
Sale of shares in other companies		8,423	1,500
Dividends received	20	1,997	32,769
Investing activities		(1,044,887)	(474,493)
Cash flows from financing activities			
Repayment of long-term loans .....	(	566,667)	(113,333)
Repayment of interest expense on long term loans .....	(	612,393)	(199,514)
Paid due to composition agreement		0	(33,500)
Financing activities		(1,179,060)	(346,347)
Net increase in cash and cash equivalents		316,209	458,037
Cash and cash equivalents at 1 January		2,191,295	1,733,258
Cash and cash equivalents at 31 December		2,507,504	2,191,295
Investing and financing activities not affecting cash flows			
Purchase of operating assets	15	(380,000)	(9,500,000)
Sale of operating assets		1,588,000	0
Other short-term receivables		(1,588,000)	0
Share capital decrease of an associate	20	0	417,000
Issued equity due to financial restructuring		0	14,000,000
New long-term loans		0	8,500,000
Settlement of long-term loans		0	(17,860,085)
Settlement of a subordinated loan from an associate		0	(417,000)
Other short-term liabilities		380,000	0

Notes on pages 10 to 32 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 the N1 hf. were approved by the Board of Directors on 27 February 2013.

b. Going concern

Management has evaluated the Company's going concern. It is the opinion of the management that its operations is ensured and that it is able to meet its obligation 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.

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 the changes.

Information about important judgements that have the most significant effect on the amounts recognised in the financial statements is disclosed in note 3.f.(iv) regarding classification of leases, note 19 on recoverable amount of real estates, note 20 on shares in associates, note 23 on inventories and note 32 on write down of trade receivables.

3. Significant accounting policies

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

a. Changes in classification of shares in other companies and presentation of the statement of cash flows

Classification of shares in two companies was changed from the previous year and now they are classified as associated companies whereas in prior year they were recognised as shares in other companies. Their carrying amount is ISK 22 million. Changed classification does not affect the Company's results, total assets or equity. Comparative figures have been changed accordingly. The presentation of the statement of cash flows has been changed from the previous year. The main change consists in that interest expenses paid on long term loans is now recognised among financing activities but was previously recognised among operating activities. It is the opinion of the Company's management that changed classification provides fairer view of origin and disbursement of cash flows.

Notes, contd.:

3. Significant accounting policies, contd.:

b. Associates

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.

c. 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. During the year 2012 the Company started to make forward exchange contract to decrease its foreign exchange risk related to USD. At year end there were no open forward exchange contracts. The company does not apply hedge accounting. Except from this the Company's objectives and policies with respect to risk management did not change from prior year.

(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 statement.

d. 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, 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 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. The Company's shares are not classified as held for trading but as financial assets designated as at fair value through profit and loss. Fair value changes of the shares are recognised under the item "Change in fair value of shares" in the income statement and statement of comprehensive income.

Notes, contd.:

3. Significant accounting policies, contd.:

d. Financial instruments, contd.:

(i) Financial assets and financial liabilities, contd.:

In the year 2012, the Company started to make foreign exchange contracts in order to reduce its currency risk. These are forward agreements on sale of USD to hedge against currency risk in that currency. At year end, the Company had no open foreign exchange contracts. The Company does not apply hedge accounting.

Other than the above, the Company's risk management objectives and policy in the year 2012 remain unchanged from the previous year.

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 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.

e. Intangible assets

(i) Trademarks

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

(ii) Software

Capitalised software licenses are recognised at cost less accumulated depreciation. Software is amortised on a straight line basis over 10 years.

f. Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is recognised as an asset 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.

Notes, contd.:

3. Significant accounting policies, contd.:

f. 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 as they 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 necessary.

(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 other short-term liabilities.

g. 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.

h. 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 previously expected.

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.

Notes, contd.:

3. Significant accounting policies, contd.:

h. Impairment, contd.:

(i) Financial assets, contd.:

An impairment is reversed if the reversal can be related objectively to an event that occurred after the impairment was recognised. It is not allowed to reverse impairment of goodwill.

(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.

i. Contribution to defined contribution pension plans

The Company pays fixed 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.

j. 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.

k. 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 so 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 granted points, 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 whereas 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 part of trade payables.

(iii) Other operating income

Other operating income comprises commissions, gain or loss 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.:

I. 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.

m. 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.f.(iv).

n. Finance income and finance expenses

Finance income comprises interest income on investments and dividend income. 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 transaction costs on borrowings. Foreign exchange differences are recognised net among finance income or finance expenses, as appropriate.

o. Income tax

Income tax expense 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 assets are reviewed at each reporting date and are reduced to the extent that it is considered that they will not be utilised.

p. Earnings per share

In the financial statements are presented basic and diluted earnings per share for ordinary shares in the Company. 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.

q. New standards and interpretations not yet effective

The Company has adopted all International Financial Reporting Standards, amendments to standards and interpretations adopted by the EU and that are effective for the periods covered by the financial statements. The Company has not adopted standards, amendments to standards or interpretations entering into effect after year end 2012, which are allowed to be adopted earlier. The expected impact of these standards on the Company's financial statements has not been determined.

Notes, contd.:

4. Determination of fair values

Shares in other companies are recognised at fair value. In addition, 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.

(iii) Payable to credit institutions and other financial liabilities

The fair value of payable to credit institutions, 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 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 shows the classification of the Company's financial assets and liabilities:

31 December 2012

	Designated at fair value	Loans and receivables	Other financial liabilities	Carrying amount
Assets:				
Cash and cash equivalents.....		2,507,504		2,507,504
Trade receivables.....		4,208,932		4,208,932
Receivables from related parties.....		23,290		23,290
Other short-term receivables.....		2,275,553		2,275,553
Bonds.....	77,889			77,889
Shares in other companies.....	131,549			131,549
	<u>209,438</u>	<u>9,015,279</u>		<u>9,224,717</u>
Liabilities:				
Payable to credit institutions.....			7,820,000	7,820,000
Payable to the Icelandic State.....			2,588,252	2,588,252
Trade payables.....			1,079,868	1,079,868
Payable to related parties.....			47,224	47,224
Other short-term liabilities.....			1,203,765	1,203,765
			<u>12,739,109</u>	<u>12,739,109</u>

Notes, contd.:

5. Financial assets and financial liabilities, contd.: 31 December 2011

	Designated at fair value	Loans and receivables	Other financial liabilities	Carrying amount
Assets:				
Cash and cash equivalents.....		2,191,295		2,191,295
Trade receivables.....		4,297,163		4,297,163
Receivables from related parties.....		53,774		53,774
Other short-term receivables.....		578,356		578,356
Bonds.....	102,054			102,054
Shares in other companies.....	91,318			91,318
	<u>193,371</u>	<u>7,120,588</u>		<u>7,313,959</u>
Liabilities:				
Payable to credit institutions.....			8,386,667	8,386,667
Payable to the Icelandic State.....			2,716,484	2,716,484
Trade payables.....			1,137,553	1,137,553
Payable to related parties.....			58,851	58,851
Other short-term liabilities.....			460,351	460,351
			<u>12,759,906</u>	<u>12,759,906</u>

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)
- * Operating risk

Here is disclosed information about the above risks, the Company's objectives, policies and processes for measuring and managing the 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. The Company's risk management policy was approved by the Board of Directors on 27 February 2013.

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 the Company's 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 43% (2011:39%) 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 19% (2011:14%).

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 entities which have a with good CIP rating at CreditInfo.

Notes, contd.:

6. Financial risk management, contd.:

Credit risk, contd.:

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 2012. The Company's management believes that it has sufficient liquidity to meet its obligations as they become due. The repayment period of long-term loans is 15 years. The Company also has access to a line of credit in the amount of ISK 3 billion for up to two years.

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.

Currency risk

All of the Company's transactions denominated in foreign currencies create currency risk. In evaluating currency risk 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 59% (2011: 64%), USD 40% (2011: 34%) and other currencies 1% (2011: 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. The Company's long-term loan and its line of credit are not 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 are not a significant part of the balance sheet or 1.0% at year end 2012 (2011: 1.2%).

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 method 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.

Notes, contd.:

7. Segment reporting

In the year 2011, the Company began working on reclassifying its operating segments. The Company's operating segments were previously divided into corporate and consumers. Changed presentation of operating segments will be based on changed emphasis in reporting procedures to the Company's key management. Due to the restructuring of the Company towards the end of the year, where a certain part of the operation was transferred to a subsidiary, the work on reclassifying operating segments must be revised and therefore the Company does not present a statement of operating segments in these financial statements.

8. Gross profit

	2012	2011
Fuel	5,154,629	4,834,987
Other goods	4,619,139	4,572,606
Total gross profit	<u>9,773,768</u>	<u>9,407,593</u>

9. Salaries and other personnel expenses

Salaries	3,328,218	3,190,054
Contributions to pension funds	303,290	291,463
Other salary related expenses	310,618	320,866
Other personnel expenses	114,580	107,691
Total salaries and other personnel expenses	<u>4,056,706</u>	<u>3,910,074</u>

Number of employees in full time equivalent units	663	672
Full time equivalent units at year end	559	580

10. Fees to Company's auditors

Audit of the financial statements	13,973	10,890
Review of interim financial statements	2,477	6,049
Other services	510	0
Total fees to auditors	<u>16,960</u>	<u>16,939</u>

11. Sales and distribution expenses

Distribution expenses	1,312,263	1,193,886
Marketing expenses	264,804	326,169
Maintenance expenses	264,591	163,895
Total sales and distribution expenses	<u>1,841,658</u>	<u>1,683,950</u>

12. Other operating expenses

Office and administrative expenses	270,682	332,394
Operations of premises	397,613	368,661
Obligation due to voluntary registration of real estates	(73,988)	218,000
Lease expenses	230,644	225,855
Computer hardware and software	210,711	207,817
Write-off and impairment of trade receivables (see note 32)	66,575	96,791
Other expenses	320,432	441,433
Total other operating expenses	<u>1,422,669</u>	<u>1,890,951</u>

According to the creditors' agreement 2011 on the financial restructuring of the Company it was decided that lease in the amount of ISK 550 million should not be calculated on real estates that the Company leased from Umtak fasteignafélag ehf., from 1 January 2011 to 30 June 2011.

Notes, contd.:

13. Depreciation, amortisation and impairment loss

	2012	2011
Amortisation of intangible assets	60,199	60,199
Depreciation of property, plant and equipment	881,214	760,351
Impairment loss on property, plant and equipment	0	1,988,000
Total depreciation, amortisation and impairment loss	<u>941,413</u>	<u>2,808,550</u>

14. Finance income and finance expenses

Finance income is specified as follows:

Interest income on bank accounts	58,653	30,672
Interest income and inflation indexation on bonds	12,066	26,748
Interest income on receivables	76,279	63,975
Currency exchange gain	128,631	207,080
Dividend income	1,999	2,000
Total finance income	<u>277,628</u>	<u>330,475</u>

Finance expenses are specified as follows:

Interest expenses and inflation indexation	713,482	398,102
Total finance expenses	<u>713,482</u>	<u>398,102</u>

According to the creditors' agreement on the financial restructuring of the Company in 2011 it was decided that all interest bearing liabilities, except for a subordinated loan from a related party, should not bear interest from 1 January 2011 to 30 June 2011. Interest expenses that otherwise would have been incurred in the first six months of the year would have amounted to ISK 429 million. Inflation indexation and foreign exchange differences for the same period would have amounted to ISK 198 million.

15. Financial restructuring

The Company's financial restructuring was concluded with the signing of a free composition agreement on 24 June 2011. The Company's creditors took over the Company but the share capital of previous shareholders was fully written off. Settlement of debt through issue of equity was recognised in accordance with International Financial Reporting Standards, according to which equity, issued in order to settle debt, shall be recognised at fair value upon initial recognition. In the agreements between the Company and the creditors the fair value of equity amounted ISK 14.0 billion. The difference between the fair value of issued equity and other consideration on the one hand and the carrying amount of the settled debt on the other is recognised in the income statement. One of the premises for the composition agreement was that the Company would purchase all real estates of Umtak fasteignafélag ehf. and parallel thereto an irrevocable lease agreement with a term of 30 years from 1 January 2007 between Umtak fasteignafélag ehf. and the Company in the amount of ISK 1.1 billion was settled. During the period from 1 January 2011 to 30 June 2011 neither lease (see note 12) nor interest expenses were calculated on the loan agreements (see note 14) in accordance with the creditors' agreement from 7 April 2011. The financial effect of the financial restructuring is specified as follows:

	2012	2011
Purchase of real estates.....	0	9,500,000
New borrowings.....	0 (	8,500,000)
Paid with issue of share capital.....	0 (	14,000,000)
Settlement of liabilities.....	0	17,860,085
Operating effect of the financial restructuring.....	0	4,860,085
Other effects of the restructuring.....	0 (	55,540)
Total effect of the financial restructuring.....	<u>0</u>	<u>4,804,545</u>

Notes, contd.:

16. Income tax

Income tax in the income statements is specified as follows:	2012	2011
Income tax payable	220,332	0
Deferred income tax	15,259	(129,753)
	<u>235,591</u>	<u>(129,753)</u>

Effective income tax is specified as follows:

Profit before income tax		1,396,451		4,406,481
Income tax based on current tax rate	20.0%	279,290	20.0%	881,296
Non-deductible expenses	0.1%	1,888	2.5%	108,722
Non-taxable income	(1.8%)	(25,233)	(6.0%)	(265,461)
Reversal of write down of tax asset	0.0%	0	(11.7%)	(514,000)
Items not recognised in the income statement	(1.5%)	(20,254)	(8.4%)	(368,592)
Other changes	(0.0%)	(100)	0.6%	28,282
Effective income tax rate	16.9%	235,591	(2.9%)	(129,753)

17. Earnings per share

Basic earnings per share is the ratio of the profit attributable to the Company's shareholders and the weighted average number of ordinary shares outstanding, and shows the earnings per each ISK share. Diluted earnings per share are the same as basic earnings per share as the Company has neither entered into share option contracts nor issued bonds or taken loans convertible into shares.

Basic earnings and diluted earnings per share

	2012	2011
Profit for the year.....	1,160,860	4,536,234
Share capital at the beginning of the year.....	1,000,000	6,000,000
Write-off of share capital.....	0	(3,100,000)
Issue of new shares.....	0	516,667
Weighted average number of outstanding shares.....	<u>1,000,000</u>	<u>3,416,667</u>
Basic earnings and diluted earnings per share in ISK.....	1.16	1.33

18. Intangible assets

Intangible assets and amortisation is specified as follows:

	Software	Trademarks	Total
Total value			
Total value 1.1.2011	482,439	230,850	713,289
Additions during the year	4,124		4,124
Total value 31.12.2011	<u>486,563</u>	<u>230,850</u>	<u>717,413</u>
Total value 31.12.2012	486,563	230,850	717,413

Notes, contd.:

18. Intangible assets, contd.:

Intangible assets and amortisation is specified as follows, contd.:

	Software	Trademarks	Total
Amortisation			
Amortisation 1.1.2011	101,903	34,628	136,531
Amortisation for the year	48,657	11,542	60,199
Total amortisation 31.12.2011	150,560	46,170	196,730
Amortisation of the year	48,657	11,542	60,199
Total amortisation 31.12.2012	199,217	57,712	256,929
Carrying amount			
Carrying amount 1.1.2011	380,536	196,222	576,758
Carrying amount 31.12.2011	336,003	184,680	520,683
Carrying amount 31.12.2012	287,346	173,138	460,484
Amortisation rates	10%	5%	

19. Property, plant and equipment

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

	Real estates, signs and tanks	Furnishings, machines, tools and equipment	Total
Total value			
Total value 1.1.2011	2,548,282	3,489,421	6,037,703
Additions during the year	9,629,226	401,038	10,030,264
Reclassification of assets	(250,050)	250,050	0
Sold and disposed of during the year	(47,093)	(284,172)	(331,265)
Total value 31.12.2011	11,880,365	3,856,337	15,736,702
Additions during the year	1,127,872	412,592	1,540,464
Corrected total value due to previous years	0	49,489	49,489
Sold and disposed of during the year	(1,200,467)	(136,238)	(1,336,705)
Total value 31.12.2012	11,807,770	4,182,180	15,989,950
Depreciation and impairment			
Depreciated 1.1.2011	310,498	1,863,080	2,173,578
Depreciation for the year	269,567	490,784	760,351
Impairment loss	1,988,000	0	1,988,000
Reclassification of assets	(22,219)	22,219	0
Sold during the year	(49,975)	(249,759)	(299,733)
Total depreciation 31.12.2011	2,495,872	2,126,324	4,622,196
Depreciation for the year	502,306	378,908	881,214
Corrected depreciation due to previous years	0	49,489	49,489
Sold and disposed of during the year	(24,423)	(128,508)	(152,931)
Total depreciation 31.12.2012	2,973,755	2,426,213	5,399,968
Carrying amount			
Carrying amount 1.1.2011	2,237,784	1,626,341	3,864,125
Carrying amount 31.12.2011	9,384,493	1,730,013	11,114,506
Carrying amount 31.12.2012	8,834,015	1,755,967	10,589,982
Depreciation rates	3-10%	6-20%	

Notes, contd.:

19. Property, plant and equipment, contd.:

At year end 2011, the Company's real estates were tested for impairment which lead to recognition of impairment in the amount of ISK 1,988 million. The impairment was recognised in the income statement. Detailed information on the impairment test, results and possible reversal of impairment in later periods are disclosed in the Company's financial statements for the year 2011 which can be accessed on the Company's website, www.n1.is. There were no indications of further impairment on the Company's real estates or other items of property, plant and equipment in the year 2012.

During the year the Company sold its real estate at Klettagarðar 13 and estimated gain on sale amounts to ISK 328 million, taken into account the Company's obligation of improving the properties. Parallel to the sale the Company rented the real estate back on a 10 year lease term with the option to purchase the property after 5 years and at the end of the lease term at a projected sales value. The lease contract is classified as operating lease. As the sales value was in excess of the property's fair value the difference between the sales value and the fair value is recognised on a straight line basis over the lease term of the asset. Deferred gain on sale is recognised among liabilities as prepaid income, ISK 295 million among long term liabilities and ISK 33 million among other short term liabilities.

Insurances and valuation of assets

Insurance value and value for taxation of property, plant and equipment amounted at year end:

	2012	2011
Value for taxation of real estates	5,187,446	5,215,625
Value for fire insurance of real estates	8,775,137	9,026,696
Insurance value of tools, equipment and furnishings	2,394,138	2,155,699
Insurance value of inventories	3,300,665	3,188,000

The associate Ólíudreifing 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 Company has pledged all its real estates as collateral for a syndicated bank loan from Arion banki hf. and Íslandsbanki hf. and the Company may not according to provisions of the loan agreement pledge other property, plant and equipment.

The Company has a line of credit with Íslandsbanki hf. in the amount of ISK 3,019 million and inventories and trade receivables in the amount of ISK 3,586 million are pledged as collateral for the line of credit. The Company has not utilised the line of credit at year end 2012.

Notes, contd.:

20. Shares in associates

Shares in associates are specified as follows:

Year 2012	Share	Nominal value	Carrying amount
Olíudreifing ehf.	60.0%	249,000	861,696
Malik Supply A/S, Denmark	49.0%	24,021	416,581
EAK ehf.	33.3%	6,000	17,274
Shares in four associates	-	1,340	14,975
Total shares in associates at year end			<u>1,310,526</u>
Change in the carrying amount of associates during the year:			
Carrying amount at the beginning of the year			1,205,854
Share of profit			74,849
Translation difference			29,824
Carrying amount at year end			<u>1,310,526</u>
Total assets of associates			5,956,249
Total liabilities of associates			3,850,521
Total revenue of associates			3,495,748
Total expenses of associates			3,370,896
Total profit of associates			<u>124,852</u>
Total share of profit of associates			<u>74,849</u>
Year 2011			
	Share	Nominal value	Carrying amount
Olíudreifing ehf.	60.0%	666,000	818,274
Malik Supply A/S, Denmark	49.0%	24,021	353,918
EAK ehf.	33.3%	6,000	17,024
Shares in four associates	-	3,340	16,638
Total shares in associates at year end			<u>1,205,854</u>
Change in the carrying amount of associates during the year:			
Carrying amount at the beginning of the year			1,311,463
Share of profit			432,454
Impairment			(61,502)
Dividend			(32,769)
Decrease in share capital			(417,000)
Translation difference			(26,792)
Carrying amount at year end			<u>1,205,854</u>
Total assets of associates			5,930,003
Total liabilities of associates			3,994,886
Total revenue of associates			3,200,883
Total expenses of associates			2,604,206
Total profit (loss) of associates			596,677
Total share of profit and loss of associates			<u>370,952</u>

Notes, contd.:

20. Shares in associates, contd.:

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 Olíudreifing ehf. 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 applies the equity method with respect to Olíudreifing ehf.

At year end 2011, an impairment test was performed on the Danish associate Malik Supply A/S, which lead to an expense in the amount of ISK 62 million and to a corresponding decrease in the carrying amount of the share.

21. Shares in other companies

Shares in other companies are specified as follows:

Year 2012	Share	Nominal value	Carrying amount
Icelandair Group hf.	0.3%	15,526	127,627
Shares in 13 other companies	-	-	3,922
Total shares in other companies at year end			<u>131,549</u>

Year 2011

Icelandair Group hf.	0.3%	15,526	78,097
Nýherji hf.	0.5%	1,981	10,814
Shares in 13 other companies	-	-	2,407
Total shares in other companies at year end			<u>91,318</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. Shares in Icelandair Group hf. and Nýherji hf. are listed on the Iceland Stock Exchange and their fair value at year end is based on their quoted market price. The fair value of shares in other companies is determined by using valuation models which are based on the carrying amount of the share of the companies' equity.

22. Tax asset

Tax asset is specified as follows by individual items:

	2012	2011
Asset		
Property, plant and equipment.....	193,438	273,697
Trade receivables.....	8,302	57,483
Deferred gain on sale.....	101,790	0
Other items.....	15,712	42,908
	<u>319,242</u>	<u>374,088</u>
Liability		
Intangible assets.....	60,861	62,555
Exchange difference.....	30,955	68,848
	<u>91,816</u>	<u>131,403</u>
Tax asset.....	<u>227,426</u>	<u>242,685</u>

Notes, contd.:

23. Inventories

Inventories at year end are specified as follows:	2012	2011
Fuel.....	3,654,720	3,138,630
Other goods.....	2,300,721	2,790,988
	<u>5,955,441</u>	<u>5,929,618</u>

During the year 2012 a write-down of inventories to net realisable value amounted to ISK 205 million (2011: ISK 61 million). The write-down was recognised as part of cost of goods solds. At year-end write-down of other goods amounts to ISK 338 million.

24. Trade receivables

Trade receivables are specified as follows at year end:	2012	2011
Nominal value of trade receivables.....	4,403,466	4,486,994
Bonds.....	71,892	87,296
Allowance for impairment.....	(266,426)	(277,127)
Carrying amount of trade receivables.....	<u>4,208,932</u>	<u>4,297,163</u>

Note 32 includes further information on impairment (write down) of trade receivables.

25 Other short-term receivables

Other short-term receivables at year end are specified as follows:	2012	2011
Prepaid expenses.....	264,699	190,287
VAT refund and other receivables from the Icelandic State.....	314,964	366,934
Unrealised sales value of real estates.....	1,588,000	0
Other short-term receivables.....	107,890	21,135
Total other short-term receivables.....	<u>2,275,553</u>	<u>578,356</u>

26 Equity

(i) Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 1,000 million. One vote is attached to each ISK one share 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, after taking into account loss equalisation amounting to 1.135 million, in excess of the nominal value of share capital.

(iii) Revaluation reserve

In the revaluation reserve is recognised the Company's share in the revaluation of real estates of associates.

(iv) Translation difference

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

(v) Retained earnings

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

Notes, contd.:

27. Payable to credit institutions

Interest bearing liabilities are specified as follows at year end:

	2012		2011	
	Interest rate	Carrying amount	Interest rate	Carrying amount
Non-indexed loan in ISK on floating interests.....	8.50%	7,820,000	7.05%	8,386,667
Current maturities.....		(566,667)		(566,667)
Total long-term liabilities.....		<u>7,253,333</u>		<u>7,820,000</u>

Maturities are specified as follows over the next years:

	2012	2011
Year 2012.....	0	566,667
Year 2013.....	566,667	566,667
Year 2014.....	566,667	566,667
Year 2015.....	566,667	566,667
Year 2016.....	566,667	566,667
Year 2017.....	566,667	566,667
Later.....	4,986,667	4,986,667
	<u>7,820,000</u>	<u>8,386,667</u>

28. Other obligations

Other obligations are specified as follows at year end:

	2012	2011
Obligation due to voluntary registration of real estates	0	218,000
Other obligations.....	0	26,146
Total other obligations.....	<u>0</u>	<u>244,146</u>

29. Payable to the State

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

30. Trade payables

Trade payable are specified as follows at year end:

	2012	2011
Trade payables.....	910,373	981,161
Obligation due to customer points granted.....	169,495	156,392
Total trade payables.....	<u>1,079,868</u>	<u>1,137,553</u>

31. Other short-term liabilities

Other short term liabilities are specified as follows at year end:

	2012	2011
Unpaid salaries and salary related expenses.....	177,510	134,237
Accrued vacation.....	239,338	236,429
Unpaid accrued interests.....	103,398	89,685
Prepaid income.....	221,038	0
Unpaid due to purchase of property, plant and equipment.....	380,000	0
Other short term liabilities.....	82,481	0
Total other short-term liabilities.....	<u>1,203,765</u>	<u>460,351</u>

Notes, contd.:

32. 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:

	2012	2011
Bonds.....	77,889	102,054
Trade receivables.....	4,208,932	4,297,163
Receivables from related parties.....	23,290	53,774
Other short-term receivables.....	2,010,854	388,069
Cash and cash equivalents.....	2,507,504	2,191,295
	<u>8,828,469</u>	<u>7,032,354</u>

Approximately 43% (2011:39%) of balances of trade receivables are with the 30 largest customers of the Company. Thereof, balance of the biggest customer was 19% (2011:14%).

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 2012			
Not due.....	3,600,120	(53,064)	3,547,056
Past due by 30 days or less.....	463,100	(20,956)	442,144
Past due by 31 - 120 days.....	215,363	(67,530)	147,833
Past due by more than 120 days.....	196,775	(124,876)	71,899
	<u>4,475,358</u>	<u>(266,426)</u>	<u>4,208,932</u>
Year 2011			
Not due.....	3,545,308	(50,022)	3,495,286
Past due by 30 days or less.....	534,589	(7,594)	526,995
Past due by 31 - 120 days.....	255,296	(67,602)	187,694
Past due by more than 120 days.....	239,097	(151,909)	87,188
	<u>4,574,290</u>	<u>(277,127)</u>	<u>4,297,163</u>

Impairment on trade receivables is specified as follows:

	2012	2011
Balance at the beginning of the year.....	277,127	351,711
Receivables written-off during the year.....	(77,276)	(171,375)
Expensed impairment during the year.....	66,575	96,791
Balance at year end.....	<u>266,426</u>	<u>277,127</u>

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

	Nominal value	Specific impairment	General write down	Carrying amount at year end
Year 2012				
Fishing industry.....	681,164	(45,165)	(7,862)	628,137
Transportation.....	1,135,452	(12,819)	(13,052)	1,109,581
Contractors.....	447,888	(70,062)	(5,139)	372,687
Other industries and individuals.....	2,084,574	(86,993)	(23,844)	1,973,737
Foreign sale.....	126,280	0	(1,490)	124,790
	<u>4,475,358</u>	<u>(215,039)</u>	<u>(51,387)</u>	<u>4,208,932</u>

Notes, contd.:

32. Financial instruments, contd.:

Year 2011	Nominal value	Specific impairment	General write down	Carrying amount at year end
Fishing industry.....	766,963	(36,515)	(10,968)	719,480
Transportation.....	942,101	(5,212)	(13,472)	923,417
Contractors.....	457,322	(49,623)	(6,540)	401,159
Other industries and individuals.....	2,098,680	(119,395)	(28,952)	1,950,333
Foreign sale.....	309,224	(2,127)	(4,323)	302,774
	<u>4,574,290</u>	<u>(212,872)</u>	<u>(64,255)</u>	<u>4,297,163</u>

Liquidity risk

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

Year end 2012	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Payable to credit institutions.....	1,219,386	1,170,518	3,219,957	6,906,389
Payable to the State.....	2,588,252			
Trade payables.....	1,079,868			
Payable to related parties.....	47,224			
Other short term liabilities.....	1,203,765			
	<u>6,138,495</u>	<u>1,170,518</u>	<u>3,219,957</u>	<u>6,906,389</u>

Year end 2011	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Payable to credit institutions.....	1,146,856	1,108,016	3,082,194	7,524,930
Payable to the State.....	2,716,484			
Trade payables.....	1,137,553			
Payable to related parties.....	58,851			
Other short term liabilities.....	460,351			
	<u>5,520,096</u>	<u>1,108,016</u>	<u>3,082,194</u>	<u>7,524,930</u>

The Company's long term loans contain covenants on financial conditions regarding equity ratio, solvency, investments and leverage. If financial conditions are not met the loan in question will fall due. Furthermore, the Company's leverage affects interest premium on a long term loan.

Foreign exchange risk

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

Year 2012	USD	EUR	Other currencies	Total
Bonds.....	0	0	33,360	33,360
Trade receivables.....	1,169,700	17,227	4,248	1,191,175
Cash and cash equivalents.....	1,186,923	220	1,655	1,188,798
Trade payables.....	(24,331)	(93,983)	(89,440)	(207,753)
Risk in balance sheet.....	<u>2,332,293</u>	<u>(76,536)</u>	<u>(50,178)</u>	<u>2,205,579</u>

Year 2011

Bonds.....	0	0	31,318	31,318
Trade receivables.....	1,120,906	21,502	186,450	1,328,859
Cash and cash equivalents.....	1,218,624	64,682	414	1,283,720
Trade payables.....	(9,584)	(151,111)	(114,950)	(275,645)
Risk in balance sheet.....	<u>2,329,946</u>	<u>(64,927)</u>	<u>103,233</u>	<u>2,368,252</u>

Notes, contd.:

32. Financial instruments, contd.:

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.

	2012	2011
USD.....	(233,229)	(232,995)
EUR.....	7,654	6,493
Other currencies.....	5,018	(10,323)
Total.....	<u>(220,558)</u>	<u>(236,825)</u>

A 10% weakening of the ISK against the above mentioned currencies at year end would have 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 78 million 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 percentage would have the same effect in the opposite direction.

33. Operating lease

Rental obligation

The Company rents premises from various parties and the total obligation in relation thereto amounts to ISK 2,053 million until the year 2020 (2011: ISK 1,077 million until the year 2020). Future rent payment are specified as follows at year end:

	2012	2011
Within one year.....	282,945	233,108
After 1 - 5 years.....	991,877	696,353
After 5 years.....	777,820	147,280
Total.....	<u>2,052,642</u>	<u>1,076,741</u>

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 - 17 years. Rental income in the year 2012 amounted to ISK 148 million. Estimated rental income in the year 2013 amounts to ISK 181 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.

	2012	2011
Within one year.....	180,612	144,302
After 1 - 5 years.....	222,739	257,944
After 5 years.....	134,115	186,740
Total.....	<u>537,466</u>	<u>588,986</u>

Notes, contd.:

34. Related parties

Definition of related parties

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

Transactions with associated companies

The following related party transactions are stated in the income statement and the balance sheet:

	2012	2011
Purchased services	1,152,289	1,573,520
Sold services.....	935,009	695,869
Bonds.....	44,918	32,094
Receivables at year end.....	22,076	53,003
Payables at year end.....	47,224	58,851

Transactions with significant shareholders

The Company has a long term loan from Íslandsbanki hf. and the remaining balance on the loans at year end amounted to ISK 3,050 million. During the year, the Company purchase the real estate at Klettagarðar 13 from Íslandsbanki hf. at the purchase value of ISK 950 million of which ISK 380 million is still unpaid and is recognised among other short term liabilities at year end.

Interest income from shareholders.....	33,066	24,358
Interest expenses to shareholders.....	697,221	348,787
Services sold to shareholders.....	12,215	11,303
Receivable from shareholders at year end.....	1,214	771
Deposits with shareholders at year end.....	2,500,897	2,185,191

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

Margrét Guðmundsdóttir, Chairman of the Board.....	4,800	1,800
Helgi Magnússon, Board member.....	1,500	0
Hreinn Jakobsson, Board member.....	3,300	1,800
Kristín Guðmundsdóttir, Board member.....	3,300	1,800
Þór Hauksson, Board member *.....	3,000	0
Jóhann Hjartarson, former Chairman of the Board.....	3,849	3,600
Jóhannes Karl Sveinsson, former Board member.....	1,200	1,800
Einar Sveinsson, former Chairman of the Board.....	0	2,400
Benedikt Jóhannesson, former Board member.....	0	1,200
Gunnlaugur M. Sigmundsson, former Board member.....	0	1,200
Halldór Jóhannsson, former Board member.....	0	1,200
Jón Benediktsson, former Board member.....	0	1,200
Eggert Benedikt Guðmundsson, CEO.....	19,372	0
Hermann Guðmundsson, former CEO.....	39,825	33,553
Managing Directors, four.....	84,106	77,746
Total salaries and benefits of the Board of Directors and management.....	<u>164,252</u>	<u>129,299</u>

* Paid to Framtakssjóður Íslands slhf due to board membership of Þór Hauksson, Chairman of the fund.

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

Notes, contd.:

34. Related parties, contd.:

Transactions with other related parties

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

Transactions with employees

The Company has provided loans to its employees due to general purchase of goods in the amount of ISK 31 million at year end 2012 (2011: ISK 38 million). Other liabilities of employees with the Company amounted to ISK 24 million at year end (2011: ISK 34 million).

35. Obligations and guarantees

The Company has pledged all its real estates as collateral for a syndicated bank loan from Arion banki hf. and Íslandsbanki hf. and the Company may not according to provisions of the loan agreement pledge other property, plant and equipment.

The Company has a line of credit with Íslandsbanki hf. in the amount of ISK 3,019 million and inventories and trade receivables in the amount of ISK 3,586 million are pledged as collateral for the line of credit. The line of credit was not in use at year-end.

The Company's rental obligation amounted to ISK 2,053 million at year end 2012, see note 33.

36. Ratios

The Company's key ratios are specified as follows:

	2012	2011
Income statement		
Turnover rate of inventories at the end of the period: utilisation of goods / inventories at year end.....	8.44	7.64
Sales days in trade receivables: trade receivables at year end / goods and services sold.....	26	29
Profit (loss) before depreciation, amortisation and finance items / gross profit.....	27.1%	22.4%
Salaries and salary related expenses / gross profit.....	41.5%	41.6%
Sales and distribution cost / gross profit.....	18.8%	17.9%
Other operating expenses / gross profit.....	14.6%	20.1%
Balance sheet		
Current ratio: current assets / current liabilities.....	2.62	2.64
Liquidity ratio: (current assets - inventories) / current liabilities.....	1.58	1.44
Leverage: Net interest bearing liabilities / EBITDA.....	2.04	2.98
Solvency: Free cash flow / total payment on long term loan.....	1.25	2.00
Equity ratio: Equity / total capital.....	52.3%	50.6%
Return on equity: Return of the year / weighted average balance of equity.....	8.3%	111.5%

37. Subsequent events

Towards year end, the Board of Directors of N1 hf. decided to sell some of the Company's specialty shops, selling spare parts and accessories for cars and operating equipment, to a subsidiary. The subsidiary, Bílanaust ehf., started its operation in January 2013. It is estimated that the turnover of Bílanaust ehf. will be around ISK 2,200 million. The opening balance sheet of Bílanaust ehf. amounted to ISK 1,131 million.