N1 hf.

Financial Statements 2011

N1 hf.
Dalvegur 10-14
201 Kópavogur

Reg. no. 540206-2010

Contents

Report of the Board of Directors and the CEO

The objective of the Company is the 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 2011

The Company's operating revenue for the year 2011 amounted to ISK 54,701 million and increased by 19.4% between years. According to the income statement and statement of comprehensive income, the profit for the year amounted to ISK 4,536 million and total comprehensive income for the year amounted to ISK 4,509 million. Loss before income tax on the Company's core operations amounted to ISK 398 million but the Company's financial restructuring, which is further discussed here below, lead to the recognition of income in the amount of ISK 4,805 million. At year end, the Company's real estates were tested for impairment. The test was based on evaluation of the Company's operating value, based on management's assumptions, mainly with respect to future growth in revenue, operating margin and weighted average cost of capital. In the evaluation a five year forecast was used, and thereafter it was assumed fixed income increase and margin. The conclusion of the impairment test lead to an expense in the income statement in the amount of ISK 1,988 million and to a corresponding decrease in the carrying amount of real estates, see further note 19. The Company's equity at year end amounted to ISK 13,323 million including share capital in the nominal value of ISK 1,000 million.

Financial restructuring

The Company's financial restructuring was concluded with the signing of a free composition agreement at the Company's Annual General Meeting on 24 June 2011. The Company's creditors took over the Company as the share capital of previous shareholders was fully written off. According to the composition agreement, new share capital was issued with the nominal amount of ISK 1,000 million but with a fair value of ISK 14,000 million. One of the premises of the composition agreement was that the Company would purchase all real estates of Umtak fasteignafélag ehf. for the amount of ISK 9,500 million but the Company uses the real estates for its operations. The operating effect of the restructuring amounts to ISK 4,805 million and it is presented as a separate line item in the income statement. The Company's financial restructuring is further discussed in note 15 to the financial statements.

Shareholders

At the end of the year the Company's shareholders were 66 compared to 2 at the beginning of the year. Upon approval of the financial statements the shareholders number is 66, of which the following 3 shareholders hold more than a 10% share in the Company:

Arion banki hf.	39.0%
Íslandsbanki hf.	25.3%
Framtakssjóður Íslands slhf.	15.8%

According to loan agreements, dividend may not be paid until the listing of the Company on the stock market, 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 accounts.

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 that fact 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 following the restructuring of the Company aimed at complying with guidelines on good 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 others things provisions about 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 being members of the Board of Directors of N1 hf. The Remuneration Committee consists of two members, one of which being the Chairman of the Board of Directors of N1 hf. In the year 2011, 9 Board meetings were held and two meetings in the Audit Committee. The majority of the Board and the Audit Committee attended all meetings.

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 2011, its assets, liabilities and financial position as at 31 December 2011, and changes in cash and cash equivalents during the year 2011.

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 that the Company faces.

The Board of Directors and the CEO of N1 hf. have today discussed the Company's financial statements for the year 2011 and confirm them by means of their signatures. The Board of Directors and the CEO propose that the Annual General Meeting of the Company approves the financial statements.

Kopavogur, 23 March 2012

The Board of Directors of N1 hf.

Jóhann Hjartarson

Margrét Guðmundsdóttir

Kristín Guðmundsdóttir

Hreinn Jakobsson

Þór Hauksson

CEO

Hermann Guðmundsson

Independent Auditors' Report

To the Board of Directors and Shareholders of N1 hf.

We have audited the accompanying financial statements of N1 hf. for the year 2011, 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 2011, its financial position as at 31 December 2011 and change in cash flows for the year 2011 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 23 March 2012

Ernst & Young ehf.

Jóhann Unnsteinsson
State Authorised Public Accountant

Income Statement and Statement of Comprehensive Income for the Year 2011

	Notes	2011	2010 *
Sales		54.701.389	45.816.067
Cost of goods sold		(45.293.796)	(37.252.687)
Gross profit	8	9.407.593	8.563.380
Other operating income		185.503	193.248
Salaries and other personnel expenses	9	(3.910.074)	(3.644.849)
Sales and distribution expenses	11	(1.683.950)	(1.648.461)
Other operating expenses	12	(1.890.951)	(6.703.532)
		(7.484.975)	(11.996.841)
Profit (loss) before depreciation and finance items		2.108.121	(3.240.213)
Depreciation, amortisation and impairment loss	13	(2.808.550)	(4.991.764)
Operating loss		(700.429)	(8.231.977)
Finance income	14	330.475	823.016
Finance expenses	14	(398.102)	(1.132.715)
Change in fair value of shares	21	13.103	1.243
Effect of associates	20	356.888	(1.532.745)
		302.365	(1.841.201)
Effect of financial restructuring	15	4.804.545	(1.977.554)
Profit (loss) before income tax		4.406.481	(12.050.731)
Income tax	16	129.753	226.504
Profit (loss) for the year		4.536.234	(11.824.227)
Other comprehensive expense			
Translation difference arising from operations of a foreign associate		(26.792)	0
Other comprehensive expense for the year		(26.792)	0
Total comprehensive income (expense) for the year		4.509.442	(11.824.227)
Basic and diluted earnings (loss) per share in Icelandic krona	17	1,33	(1,97)

* Comparative figures have been changed in accordance with changed presentation, see note 3.

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

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Balance Sheet 31 December 2011

	Notes	31.12.2011	31.12.2010
Assets			
Intangible assets	18	520.683	576.758
Property, plant and equipment	19	11.114.506	3.864.125
Shares in associates	20	1.183.790	1.303.463
Shares in other companies	21	113.382	94.227
Deferred tax asset	22	242.685	112.932
Bonds		102.054	158.481
Non-current assets		13.277.099	6.109.986
Inventories	23	5.929.618	4.981.798
Trade receivables	24	4.297.163	3.519.021
Receivables from related parties		53.774	9.300
Other short-term receivables	25	578.356	543.318
Cash and cash equivalents		2.191.295	1.733.258
Current assets		13.050.206	10.786.695
Total assets		26.327.304	16.896.681
Equity			
Share capital	26	1.000.000	6.000.000
Share premium		11.865.427	0
Revaluation reserve		484.617	616.601
Translation difference		(26.792)	0
Retained earnings (accumulated deficit)		0	(11.802.791)
Total equity		13.323.252	(5.186.190)
Liabilities			
Subordinated loan from related party	27	0	395.516
Payable to credit institutions	28	7.820.000	0
Other obligations	29	244.146	60.485
Non-current liabilities		8.064.146	456.001
Payable to the Icelandic State	30	2.716.484	2.085.140
Payable to credit institutions	28	566.667	10.162.058
Bonds issue	28	0	7.446.288
Trade payables	31	1.137.553	964.255
Payable to related parties		58.851	324.517
Other short-term liabilities	32	460.351	644.612
Current liabilities		4.939.906	21.626.870
Total liabilities		13.004.052	22.082.871
Total equity and liabilities		26.327.304	16.896.681

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

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Statement of Changes in Equity for the Year 2011

	Notes	Share capital	Share premium	Statutory reserve	Revaluation reserve	Translation difference	Retained earnings (accumulated deficit)	Total equity
Year 2010								
Equity as at 1 January 2010		6.000.000		2.144	616.601		19.292	6.638.037
Loss of the year and total comprehensive expense							(11.824.227)	(11.824.227)
Reversal of contribution to statutory reserve				(2.144)			2.144	0
Equity as at 31 December 2010		6.000.000	0	0	616.601	0	(11.802.791)	(5.186.190)
Year 2011								
Equity as at 1 January 2011		6.000.000	0	0	616.601	0	(11.802.791)	(5.186.190)
Write-off of share capital	15	(6.000.000)					6.000.000	0
Issued new share capital	15	1.000.000	13.000.000					14.000.000
Profit for the year							4.536.234	4.536.234
Loss equalisation			(1.134.573)				1.134.573	0
Translation difference arising from operations of a foreign associate						(26.792)		(26.792)
Transfer of revaluation reserve of an associate					(131.984)		131.984	0
Equity as at 31 December 2011		1.000.000	11.865.427	0	484.617	(26.792)	0	13.323.252

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

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Statement of Cash Flow for the Year 2011

	Notes	2011	2010
Cash flow from operating activities			
Profit (loss) for the year		4.536.234	(11.824.227)
Operating items which do not affect cash flows:			
Depreciation and impairment	13	2.808.550	4.991.764
Effect of associates	20	(356.888)	1.532.745
Effect of financial restructuring	15	(4.804.545)	1.977.554
Income tax	16	(129.753)	(226.504)
Obligation due to voluntary registration of real estates		218.000	0
Inflation indexation of long-term loans		11.710	785.879
Other items		(14.248)	33.837
Working capital from (to) operation		2.269.059	(2.728.952)
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(947.820)	37.755
Trade and other short-term receivables, increase		(774.052)	(109.625)
Trade and other short-term payables, increase		532.176	884.513
Changes in operating assets and liabilities		(1.189.696)	812.643
Cash flows from (to) operating activities		1.079.363	(1.916.309)
Cash flows from investing activities			
Purchase of property, plant and equipment		(530.264)	(442.779)
Sale of property, plant and equipment		32.677	46.206
Purchase of intangible assets		(4.124)	0
Purchase of shares in other companies		(7.052)	(30.568)
Sale of shares in other companies		1.500	0
Dividends received	20	32.769	17.115
Cash flows to investing activities		(474.493)	(410.026)
Cash flows from financing activities			
New long-term loans		0	18.539
Repayment of long-term loans		(113.333)	(440.000)
Paid due to composition agreement		(33.500)	0
Receivable from/payable to related parties, change		0	2.682.356
Cash flows (to) from financing activities		(146.833)	2.260.895
Net increase (decrease) in cash and cash equivalents		458.037	(65.441)
Cash and cash equivalents at 1 January		1.733.258	1.798.699
Cash and cash equivalents at 31 December		2.191.295	1.733.258
Investing and financing activities not affecting cash flow			
New long-term loans		8.500.000	
Issued equity due to financial restructuring		14.000.000	
Settlement of long-term loans		(17.860.085)	
Purchase of real estates	15	(9.500.000)	
Settlement of a subordinated loan from an associate		(417.000)	
Share capital decrease of an associate	20	417.000	
Other information:			
Interest and inflation indexation expense		(294.274)	(985.213)
Interest and inflation indexation income		127.963	99.130

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

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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 the 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 23 March 2012.

b. Going concern

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

c. *Basis of measurement*

The financial statements have been prepared on the historical cost basis, except for shares in other companies 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 are disclosed in note 19 on recoverable amount of real estates, note 20 on shares in associates and note 33 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. Changed presentation of the income statement and statement of comprehensive income

The presentation of some expense items in the income statement and the statement of comprehensive income have been changed from the previous year. Lease expenses are now recognised among other operating expenses but were previously recognised as a separate line item, following the Company's purchase from Umtak fasteignafélag ehf. of real estates used in its operations (see note 15). Marketing expenses are now a part of sales and distribution expenses but were previously recognised among other operating expenses. Furthermore, salaries and other personnel expenses are now presented as a separate line item but were previously recognised among sales and distribution expenses. Impairment of goodwill was previously recognised among financial restructuring but is now recognised among depreciation, amortisation and impairment loss. Write down of a receivable from the parent company was previously recognised among financial restructuring but is now recognised among other operating expenses.

3. Significant accounting policies, contd.:

a. Changed presentation of the income statement and statement of comprehensive income, contd.:

Fair value changes of derivatives were in the previous year recognised among interest expenses but are now recognised among financial restructuring and foreign exchange gain is therefore recognised among finance income. Finally, the presentation of finance income and expenses has been changed to the effect that they are now presented on a gross basis instead of having previously been presented on a net basis. It is the opinion of the Company's management that the changed presentation gives a more fair view of the Company's operations. The changed presentation of the aforementioned items does not affect the profit for the year 2010. The changed presentation of comparative figures for the year 2010 is specified as follows:

Year 2010	According to financial statements 2010	Change	According to financial statements 2011
Salaries and other personnel expenses	0	(3.644.849)	(3.644.849)
Sales and distribution expenses	(5.021.893)	3.373.433	(1.648.461)
Other operating expenses	(4.110.400)	(2.593.132)	(6.703.532)
Lease expenses	(996.867)	996.867	0
Depreciation, amortisation and impairment loss	(507.008)	(4.484.756)	(4.991.764)
Net finance income (expenses)	(2.878.456)	2.878.456	0
Finance income	0	823.016	823.016
Finance expenses	0	(1.132.715)	(1.132.715)
Change in fair value of shares	0	1.243	1.243
Effect of financial restructuring	(5.759.990)	3.782.436	(1.977.554)
	(19.274.615)	0	(19.274.615)

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.

(ii) Foreign associates

The share of profit 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.

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3. Significant accounting policies, contd.:

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, 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 as they 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.

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 with average time to maturity shorter than 90 days.

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) Goodwill

Goodwill arose on the acquisition and merger of various companies under the name of N1 hf. due to the difference between the purchase price and the share of their equity at acquisition date. Goodwill is not amortised but it is tested annually for impairment. The Company's entire goodwill was expensed in the year 2010 (see note 18). No goodwill was recognised at year end 2010 or 2011.

(ii) 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.

3. Significant accounting policies, contd.:

e. Intangible assets contd.:

(iii) 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.

(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.

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.

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 as they 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.

(iii) 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.

(iv) Other operating income

Operating income comprises commissions, gain or loss on sale of assets, lease income and other income.

l. 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 because of leasing buildings. The payments are expensed among other operating expenses as they are incurred.

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 on borrowings and inflation indexation. 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 or receivable next year in respect of the taxable income or loss 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. Segment reporting

An operating segment is a component of the Company which can earn revenue and incur expenses with its business activities, including revenue and expenses from transactions with other segments of the company. Segments are determined by the Company's CEO, which reviews regularly the Company's segments in order to decide how its assets are allocated to segments and to assess their performance.

Operating profit of segments, their assets and liabilities comprise of items which can be attributed directly to each segment and those items that can be allocated to segments in a rational manner.

Segment capital expenditure is the total cost incurred to acquire property, plant and equipment and intangible assets.

The pricing of goods and services sold between segments is determined as if the transactions were between unrelated parties.

r. 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 2011, which are allowed to be adopted earlier. The expected impact of these standards on the Company's financial statements has not been determined.

4. Determination of fair values

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

According to the International Accounting Standard IAS 39 *Financial Instruments: Recognition and Measurement*, financial assets and financial 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 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 2011	**Designated as 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
Receivable from related parties.................................		53.774		53.774
Other short-term receivables.....................................		578.356		578.356
Bonds..	102.054			102.054
Shares in other companies..	113.382			113.382
	215.435	7.120.588		7.336.023
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
			12.759.906	12.759.906

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5. Financial assets and financial liabilities, contd.:

31 December 2010	Designated as at fair value	Loans and receivables	Other financial liabilities	Carrying amount
Assets:				
Cash and cash equivalents		1.733.258		1.733.258
Trade receivables		3.519.021		3.519.021
Receivable from related parties		9.300		9.300
Other short-term receivables		543.318		543.318
Bonds	158.481			158.481
Shares in other companies	94.227			94.227
	252.708	5.804.897		6.057.605
Liabilities:				
Payable to credit institutions			10.162.058	10.162.058
Payable to the Icelandic State			2.085.140	2.085.140
Bonds issue			7.446.288	7.446.288
Subordinated loan from related party			395.516	395.516
Trade payables			964.255	964.255
Payable to related parties			324.517	324.517
Other short-term liabilities			644.612	644.612
			22.022.386	22.022.386

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 is working on the development of a new risk and investment policy and the aim is to finalise it before mid year 2012.

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 but also from 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 39% (2010:36%) of the Company's trade receivables is attributable to 30 of the Company's biggest customers. Thereof, receivable from the biggest customer was 14% (2010:12%).

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.

Financial Statements of N1 hf. 2011 17 Amounts are in ISK thousand

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.

Following the financial restructuring of the Company, its interest bearing liabilities decreased by ISK 17.6 billion. The Company's liquidity position was strong at year end 2011. The Company's management believes that it has sufficient liquidity to meet is 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 three 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 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 Company's transactions 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 in USD from foreign suppliers but the sale is in great part in ISK. Sales in ISK constitute 64%, USD 34% and other currencies 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 0.4% at year end 2011 (2010: 0.6%).

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 estimates are analysed.

7. Segment reporting

In the year 2011 the work on redefining the Company's operating segments began. The Company's segments were previously divided into corporations and consumers. The new presentation of segment reporting will be based on the changed emphasis in reporting by the Company's key management personnel. It is estimated that the redefinition of segments will be finalised during the year 2012. Therefore, the Company does not disclose segment information in these financial statements.

8. Gross profit

	2011	2010
Fuel	4.834.987	4.179.219
Other goods	4.572.606	4.384.161
Total gross profit	9.407.593	8.563.380

9. Salaries and other personnel expenses

Salaries	3.190.054	2.952.726
Contributions to pension funds	291.463	268.968
Other salary related expenses	320.866	319.050
Other personnel expenses	107.691	104.105
Total salaries and other personnel expenses	3.910.074	3.644.849
Number of employees in full time equivalent units	621	664
Full time equivalent units at year end	580	563

10. Fees to Company´s auditors

Audit of the financial statements	10.890	7.979
Review of interim financial statements	6.049	0
Other services	0	765
Total fees to auditors	16.939	8.745

11. Sales and distribution expenses

Distribution expenses	1.193.886	1.226.489
Marketing expenses	326.169	271.416
Maintenance expenses	163.895	150.556
Total sales and distribution expenses	1.683.950	1.648.461

12. Other operating expenses

Office and administrative expenses	332.394	294.672
Operations of premises	368.661	359.283
Obligation due to voluntary registration of real estates	218.000	0
Lease expenses	225.855	996.867
Computer hardware and software	207.817	205.070
Write-off and impairment of trade receivables (see note 33)	96.791	4.556.012
Other expenses	441.433	291.628
Total other operating expenses	1.890.951	6.703.532

According to the creditors' agreement 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.

Financial Statements of N1 hf. 2011 19 Amounts are in ISK thousand

13. Depreciation, amortisation and impairment loss

	2011	2010
Amortisation of intangible assets	60.199	58.632
Depreciation of property, plant and equipment	760.351	448.376
Impairment loss on property, plant and equipment	1.988.000	0
Impairment loss on goodwill	0	4.484.756
Total depreciation, amortisation and impairment loss	2.808.550	4.991.764

14. Finance income and finance expenses

Finance income is specified as follows:		
Interest income on bank accounts	30.672	34.781
Interest income and inflation indexation on bonds	26.748	4.025
Interest income on receivables	63.975	165.144
Currency exchange gain	207.080	618.566
Dividend income	2.000	500
Total finance income	330.475	823.016
Finance expenses are specified as follows:		
Interest expenses and inflation indexation	398.102	1.132.715
Total finance expenses	398.102	1.132.715

According to the creditors' agreement on the financial restructuring of the Company 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 428.5 million. Inflation indexation and foreign exchange differences for the same period would have amounted to ISK 197.9 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:

	2011	2010
Settlement of derivative contracts	0	(1.977.554)
Purchase of real estates	9.500.000	0
New borrowings	(8.500.000)	0
Paid with issue of share capital	(14.000.000)	0
Settlement of liabilities	17.860.085	0
Operating effect of the financial restructuring	4.860.085	(1.977.554)
Other effects of the restructuring	(55.540)	0
Total effect of the financial restructuring	4.804.545	(1.977.554)

Financial Statements of N1 hf. 2011 20 Amounts are in ISK thousand

16. Income tax

The Company's effective income tax rate in the year was (2.9%) (2010: 1.9%).

Effective income tax is specified as follows:		2011		2010
Profit (loss) before income tax		4.406.481		(12.050.731)
Income tax based on current tax ratio	20,0%	881.296	18,0%	(2.169.132)
Effect of changes in income tax ratio		0	0,1%	(11.293)
Non-deductible expenses	2,5%	108.722	(12,4%)	1.491.724
Non-taxable income	(6,0%)	(265.461)	0,0%	(404)
(Reversal) write down of tax asset	(11,7%)	(514.000)	(4,3%)	514.000
Items not recognised in the income statement	(8,4%)	(368.592)		0
Other changes	0,6%	28.282	0,4%	(51.399)
Effective income tax	(2,9%)	(129.753)	1,9%	(226.504)

17. Earnings (loss) per share

Basic earnings (loss) 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 what are the earnings per each ISK share. Diluted earnings (loss) per share are the same as basic earnings (loss) per share as the Company has neither entered into share option contracts nor issued bonds or taken loans convertible into shares.

Basic earnings (loss) and diluted earnings (loss) per share	2011	2010
Profit (loss) for the year	4.536.234	(11.824.227)
Share capital at the beginning of the year	6.000.000	6.000.000
Write-off of share capital	(3.100.000)	0
Issue of new shares	516.667	0
Weighted average number of outstanding shares	3.416.667	6.000.000
Basic earnings (loss) and diluted earnings (loss) per share in ISK	1,33	(1,97)

18. Intangible assets

Intangible assets, their impairment and amortisation is specified as follows:

	Software	Trademarks	Goodwill	Total
Total value				
Total value 1.1.2010	469.837	230.850	4.484.756	5.185.443
Additions during the year	12.601			12.601
Derecognised due to impairment			(4.484.756)	(4.484.756)
Total value 31.12.2010	482.438	230.850	0	713.289
Additions during the year	4.124			4.124
Total value 31.12.2011	486.562	230.850	0	717.413
Amortisation and impairment				
Amortisation 1.1.2010	54.814	23.085		77.899
Impairment loss			4.484.756	4.484.756
Amortisation for the year	47.089	11.543		58.632
Derecognised due to impairment			(4.484.756)	(4.484.756)

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18. Intangible assets, contd.:

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

	Software	Trademarks	Goodwill	Total
Total amortisation 31.12.2010	101.903	34.628	0	136.531
Amortisation of the year	48.657	11.542		60.199
Total amortisation and impairment 31.12.2011	150.560	46.170	0	196.730
Carrying amount				
Carrying amount 1.1.2010	415.023	207.765	4.484.756	5.107.544
Carrying amount 31.12.2010	380.535	196.222	0	576.758
Carrying amount 31.12.2011	336.002	184.680	0	520.683
Amortisation ratios	10%	5%	-	

19. Property, plant and equipment

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

	Real estates, signs and tanks	Furnishings, machines, tools and equipment	Total
Total value			
Total value 1.1.2010	2.402.008	3.307.396	5.709.404
Additions during the year	240.274	252.701	492.975
Sold and disposed of during the year	(94.000)	(70.676)	(164.676)
Total value 31.12.2010	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
Depreciation and impairment			
Depreciated 1.1.2010	215.965	1.560.926	1.776.891
Sold during the year	(2.000)	(49.689)	(51.689)
Depreciation for the year	96.533	351.843	448.376
Total depreciation 31.12.2010	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
Carrying amount			
Carrying amount 1.1.2010	2.186.043	1.746.470	3.932.513
Carrying amount 31.12.2010	2.237.784	1.626.341	3.864.125
Carrying amount 31.12.2011	9.384.493	1.730.013	11.114.506
Depreciation ratios	3%	5-20%	

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19. Property, plant and equipment, contd.:

In the year 2011, the Company purchased, in accordance with the agreement on the Company's financial restructuring, the real estates of Umtak ehf. (see note 15).

At year end, the Company's real estates were tested for impairment. The test was based on evaluation of the Company's operating value, based on management's assumptions, mainly with respect to future growth in revenue, operating margin and weighted average cost of capital. In the evaluation a five year forecast was used, but thereafter it was assumed fixed income increase and margin. The conclusions of the impairment test lead to an expense in the income statement in the amount of ISK 1,988 million and to a corresponding decrease in the carrying amount of real estates.

The key assumptions used in the evaluation are specified as follows:
Annual revenue growth during the forecast period in the range from 2.9 to 10.0%.
Annual revenue growth after the forecast period of 1.8%.
EBITDA as proportion of margin during the forecast period in the range from 27.2 to 32.0%.
Weighted average cost of capital of 13.6% (WACC).

Management believes that the assumptions on which the test is based are viable. The calculation is sensitive to changes in the key assumptions on which the evaluation is based.

If the EBITDA-ratio within the forecast period would be 1.0% higher than estimated in the impairment test, future growth 0.5% higher and weighted average cost of capital 0.5% lower no impairment would have incurred. If the EBITDA-ratio within the forecast period would have been 1.0% lower than estimated in the impairment test, future growth 0.5%lower and weighted average cost of capital 0.5% higher impairment would have been ISK 1,702 million higher.

If the Company's operation will be more successful in the next years than assumed in the test and evidence will come forth indicating that the impairment has reversed in part or in full it will be reversed to the same extent. Reversal of impairment would be recognised in the income statement. The reversal of impairment will however never exceed the carrying amount of the relevant real estates that would have been determined at the time the reversal occurs had no impairment loss occurred. In other words, it must be taken into account that depreciation would have been higher if no impairment occurred.

Insurances and valuation of assets

Insurance value and value for taxation of property, plant and equipment amounted at year end:	**2011**
Value for taxation of real estates	5.215.625
Value for fire insurance of real estates	9.026.696

	2011	**2010**
Insurance value of tools, equipment and furnishings	2.155.699	1.916.371
Insurance value of inventories	3.188.000	2.998.000

The associate Olíudreifing 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 3,000 million and inventories and trade receivables in the amount of ISK 3,300 million are pledged as collateral for the line of credit. The Company has not utilised the line of credit.

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20. Shares in associates

Shares in associates are specified as follows:

Year 2011	Share	Nominal value	Carrying amount
Olíudreifing ehf.	60,0%	666.000	818.274
Malik Supply A/S	49,0%	24.021	353.918
KAR ehf.	50,0%	10.000	0
Shares in three associates	-	1.340	11.598
Total shares in associates at year end			1.183.790

Change in the carrying amount of associates during the year:	
Carrying amount at the beginning of the year	1.303.463
Share of profit	418.390
Dividend	(32.769)
Impairment	(61.502)
Decrease in share capital	(417.000)
Translation difference	(26.792)
Carrying amount at year end	1.183.790
Total assets of associates	5.853.382
Total liabilities of associates	3.960.793
Total revenue of associates	27.058.917
Total expenses of associates	26.474.206
Total profit (loss) of associates	584.711
Total share of profit and loss of associates	356.888

Year 2010	Share	Nominal value	Carrying amount
Olíudreifing ehf.	60,0%	249.000	948.444
Malik Supply A/S	49,0%	24.021	334.704
Shares in four associates	-	11.340	20.315
Total shares in associates at year end			1.303.463

Change in the carrying amount of associates during the year:	
Carrying amount at the beginning of the year	2.843.323
Share of profit	(1.532.745)
Purchase	10.000
Dividend	(17.115)
Carrying amount at year end	1.303.463
Total assets of associates	5.780.956
Total liabilities of associates	3.654.259
Total revenue of associates	21.167.143
Total expenses of associates	26.892.274
Total profit (loss) of associates	(5.725.131)
Total share of profit and loss of associates	(1.532.745)

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20. Shares in associates, contd.:

The Company owns 60% share in Olíudreifing ehf. The Company however has no board member in Olíudreifing ehf. The Company has not control over Olíudreifing ehf. according to provisions of the International Accounting Standard on subsidiaries IAS 28. This is because the Competition Authority decided that the company should have board members independent from N1 hf. The Company has however significant influence in respect of the operations of Olíudreifing ehf. and it applies accordingly the equity method in recognising its share in the company.

At year end 2011, Olíudreifing ehf. paid dividend to the Company in the amount of ISK 417 million, which was allocated to pay up a subordinated loan from 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 2011	Share	Nominal value	Carrying amount
Icelandair Group hf.	0,3%	15.526	78.098
Nýherji hf.	0,5%	1.981	10.814
EAK ehf.	33,3%	6.000	17.024
Shares in 14 other companies at year end	-	-	7.447
Total shares in other companies at year end			113.382

Year 2010	Share	Nominal value	Carrying amount
Icelandair Group hf.	0,3%	15.526	48.908
Nýherji hf.	0,5%	1.981	13.864
Metan hf.	14,9%	7.000	7.532
EAK ehf.	33,3%	6.000	6.000
Shares in 14 other companies	-	-	17.923
Total shares in other companies at year end			94.227

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:

	31.12.2011	31.12.2010
Asset		
Property, plant and equipment	273.697	0
Trade receivables	57.483	31.635
Tax loss carryforward	0	410.953
Other items	42.908	0
	374.088	442.588
Liability		
Property, plant and equipment	0	186.070
Intangible assets	62.555	59.556
Exchange difference	68.848	74.151
Other items	0	9.879
	131.403	329.656
Tax asset	242.685	112.932

Financial Statements of N1 hf. 2011 25 Amounts are in ISK thousand

23. Inventories

Inventories at year end are specified as follows:

	2011	2010
Fuel	3.138.630	2.262.620
Other goods	2.790.988	2.719.178
	5.929.618	4.981.798

24. Trade receivables

Trade receivables are specified as follows at year end:

	2011	2010
Nominal value of trade receivables	4.486.994	3.739.992
Bonds	87.296	130.740
Write down due to trade receivables which can be lost	(277.127)	(351.711)
Carrying amount of trade receivables	4.297.163	3.519.021

Note 33 includes further information on impairment (write down) on trade receivables.

25. Other short-term receivables

Other short-term receivables at year end are specified as follows:

	2011	2010
Prepaid salaries	7.934	5.657
Prepaid expenses	182.353	75.224
VAT refund and other receivables from the Icelandic State	366.934	431.030
Other short-term receivables	21.135	31.407
Total other short-term receivables	578.356	543.318

26. Equity

(i) Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 1,000 million compared to ISK 6,000 million at year end 2010. 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, taken into account loss equalisation, in excess of the nominal value of share capital.

(iii) Translation difference

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

(iv) Revaluation reserve

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

(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.

27. Subordinated loan from related party

The subordinated loan from a related party was settled at year end 2011.

Financial Statements of N1 hf. 2011 26 Amounts are in ISK thousand

28. Payable to credit institutions and bond issue

Interest bearing liabilities are specified as follows at year end:

	2011		2010	
	Interest rate	Carrying amount	Interest rate	Carrying amount
Non-indexed loan in ISK on floating interests............	7,05%	8.386.667	-	0
Indexed loan in ISK on fixed interests.......................	-	0	6,50%	7.446.288
Forward agreements and other loans in foreign currency..	-	0	-	10.162.058
Subordinated loan..	-	0	5,0%	395.516
		8.386.667		18.003.862
Current maturities..		(566.667)		(17.608.346)
Total long term liabilities...		7.820.000		395.516

Maturities are specified as follows over the next years:	31.12.2011	31.12.2010
Year 2011..	0	17.608.346
Year 2012..	566.667	0
Year 2013..	566.667	395.516
Year 2014..	566.667	0
Year 2015..	566.667	0
Year 2016..	566.667	0
Later...	4.986.667	0
	7.820.000	18.003.862

The above table discloses contractual maturities on loans at year end individually. For comparative figures for the year 2010 it must be kept in mind that the Company's borrowings changed considerably in the year 2011 following financial restructuring (see note 15).

29. Other obligations

Other obligations are specified as follows at year end:

	2011	2010
Obligation due to voluntary registration of real estates	218.000	0
Other obligations...	26.146	60.485
Total other obligations..	244.146	60.485

30. 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.

31. Trade payables

Trade payable are specified as follows at year end:

	2011	2010
Trade payables..	981.161	822.606
Obligation due to customer points granted...	156.392	141.649
Total trade payables...	1.137.553	964.255

32. Other short term liabilities

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

	2011	2010
Unpaid salaries and salary related expenses..	134.237	114.879
Accrued vacation..	236.429	234.242
Unpaid accrued interests..	89.685	285.239
Other short term liabilities..	0	10.252
Total other short term liabilities..	460.351	644.612

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33. 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:

	2011	2010
Bonds	102.054	158.481
Trade receivables	4.297.163	3.519.021
Receivables from related parties	53.774	9.300
Other short term receivables	388.069	543.318
Cash and cash equivalents	2.191.295	1.733.258
	7.032.354	5.963.378

Approximately 39% (2010:36%) of balances of trade receivables are with the 30 largest customers of the Company. Thereof, balance of the biggest customer was 14% (2010:12%).

Age analysis of trade receivables and impairment loss

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

Year 2011	Nominal value	Write-down	Carrying amount
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
	4.574.290	(277.127)	4.297.163
Year 2010			
Not due	2.937.595	(45.533)	2.892.062
Past due by 30 days or less	391.110	(6.062)	385.048
Past due by 31 - 120 days	196.752	(63.049)	133.703
Past due by more than 120 days	345.275	(237.067)	108.208
	3.870.732	(351.711)	3.519.021

Impairment on trade receivables is specified as follows:	2011	2010
Balance at the beginning of the year	351.711	414.926
Receivables written-off during the year	(171.375)	(4.619.227)
Expensed impairment during the year	96.791	4.556.012
Balance at year end	277.127	351.711

In the year 2010 the Company incurred a loss on receivable from the former parent company of N1 hf. In the amount of ISK 4,320 million.

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

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
	4.574.290	(212.872)	(64.255)	4.297.163

Financial Statements of N1 hf. 2011 28 Amounts are in ISK thousand

33. Financial instruments, contd.:

Year 2010

	Nominal value	Specific Impairment	General write down	Carrying amount at year end
Fishing industry	584.313	(11.842)	(9.057)	563.414
Transportation	709.629	(1.969)	(10.999)	696.661
Contractors	522.438	(133.124)	(8.098)	381.216
Other industries and individuals	1.907.620	(143.363)	(29.274)	1.734.983
Foreign sale	146.732	(1.711)	(2.274)	142.747
	3.870.732	(292.009)	(59.702)	3.519.021

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 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
Trade payables	1.137.553			
Payable to the State	2.716.484			
Payable to related parties	58.851			
Other short term liabilities	460.351			
	5.520.096	1.108.016	3.082.194	7.524.930

Year end 2010	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Payable to credit institutions	10.162.058			
Subordinate loan from related party			395.516	
Bond issue	7.446.288			
Trade payables	964.255			
Payable to the State	2.085.140			
Payable to related parties	324.517			
Other short term liabilities	644.612			
	21.626.870	0	395.516	0

The above table shows an overview of the Company's contractual payment terms at the end of both years. As for the year 2010, it must be kept in mind that the Company's borrowings changed considerably in the year 2011 following financial restructuring (see note 15). However, it is not expected that the timing of payment flow in the above table or the amounts will deviate significantly from the amounts stated therein based on estimated future cash flow at year end 2011. It must however be kept in mind that the table is based on interests on loans with floating interests as stated at the reporting date. Future fluctuation in interest rates on these loans will affect the amounts of interest payments.

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.

Financial Statements of N1 hf. 2011 29 Amounts are in ISK thousand

33. Financial instruments, contd.:

Foreign exchange risk

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

Year 2011	USD	EUR	Other currencies	Total
Trade receivables	1.120.906	21.502	186.450	1.328.859
Trade payables	(9.584)	(151.111)	(114.950)	(275.645)
Bonds	0	0	31.318	31.318
Cash and cash equivalents	1.218.624	64.682	414	1.283.720
Risk in balance sheet	2.329.946	(64.927)	103.233	2.368.252

Year 2010	USD	EUR	Other currencies	Total
Trade receivables	777.523	8.914	65.723	852.160
Trade payables	(4.731)	(139.786)	(120.572)	(265.089)
Bonds	0	56.897	0	56.897
Cash and cash equivalents	158.782	1.012	1.389	161.183
Risk in balance sheet	931.574	(72.963)	(53.460)	805.151

Sensitivity analysis

A 10% strengthening of the ISK against the following currencies at year end would have increased (decreased) the Company's return before income tax by the following amounts.

	2011	2010
USD	(232.995)	(93.157)
EUR	6.493	7.296
Other currencies	(10.323)	5.346
Total	(236.825)	(80.515)

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 83.9 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.

34. Operating lease

Rental obligation

The Company rents premises from various parties and the total obligation in relation thereto amounts to ISK 1,076 million until the year 2020 (2010: ISK 1,614 million until the year 2020). Future rent payment are specified as follows at year end:

	2011	2010
Within one year	233.108	294.330
After 1 - 5 years	696.353	1.027.273
After 5 years	147.280	293.045
Total	1.076.741	1.614.647

Financial Statements of N1 hf. 2011 30 Amounts are in ISK thousand

34. Operating lease, contd.:

Rental income

The Company rents premises to various parties. Some of the rental agreements are indeterminate but the lease term of other agreements are from 1 - 18 years. Rental income in the year 2011 amounted to ISK 144 million. Estimated rental income in the year 2012 amounts to ISK 144 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.

	2011	2010
Within one year	144.302	97.874
After 1 - 5 years	257.944	294.033
After 5 years	186.740	194.015
Total	588.986	585.922

35. Related parties

Definition of related parties

The Company's related parties are shareholders, associated companies, Board members, Managing Directors, 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:

	2011	2010
Purchased services from associated companies	1.222.379	1.306.050
Sold services to associated companies	707.172	699.659
Rental fee paid to former associated company (Umtak fasteignafélag ehf.)	0	776.309
Bond on related party	32.094	0
Receivables from related parties at year end	53.774	9.300
Payable to related parties at year end	58.851	324.517

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

	2011	2010
Jóhann Hjartarson, Chairman of the Board	3.600	0
Margrét Guðmundsdóttir, Board member	1.800	0
Kristín Guðmundsdóttir, Board member	1.800	0
Hreinn Jakobsson, Board member	1.800	0
Jóhannes Karl Sveinsson, Board member	1.800	0
Einar Sveinsson, former Chairman of the Board	2.400	4.800
Benedikt Jóhannesson, former Board member	1.200	2.400
Gunnlaugur M. Sigmundsson, former Board member	1.200	2.400
Halldór Jóhannsson, former Board member	1.200	2.400
Jón Benediktsson, former Board member	1.200	2.400
Hermann Guðmundsson, CEO	33.553	31.651
Managing Directors, four in the year 2011 (2010: five)	77.746	91.696
Total salaries and benefits of the Board of Directors and management	129.299	137.747

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

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.

Financial Statements of N1 hf. 2011 31 Amounts are in ISK thousand

35. Related parties, contd.:

Transactions with employees

The Company has provided loans to its employees due to general purchase of goods in the amount of ISK 38 million at year end 2011 (2010: ISK 44.5 million). Other liabilities of employees with the Company amounted to ISK 33.8 million at year end (2010: ISK 44.3 million).

36. 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 3,000 million and inventories and trade receivables in the amount of ISK 3,300 million are pledged as collateral for the line of credit. The Company has not used the line of credit.

The Company's rental obligation amounted to ISK 1,076 million at year end 2011.

37. Ratios

The Company's key ratios are specified as follows:

	2011	2010
Income statement		
Turnover rate of inventories at the end of the period: utilisation of goods / inventories at year end	7,64	7,48
Sales days in trade receivables: trade receivables at year end / goods and services sold	29	28
Profit (loss) before depreciation, amortisation and finance items / gross profit	22,4%	(37,8%)
Salaries and salary related expenses / gross profit	41,6%	42,6%
Sales and distribution cost / gross profit	17,9%	19,3%
Other operating expenses / gross profit	20,1%	78,3%
Balance sheet		
Current ratio: current assets / current liabilities	2,64	0,50
Liquidity ratio: (current assets - inventories) / current liabilities	1,44	0,27
Leverage: Net interest bearing liabilities / EBITDA	2,98	(2,69)
Solvency: Free cash flow / total payment on long term loan	1,51	-
Equity ratio: Equity / total capital	50,6%	(30,7%)
Return on equity: Return of the year / weighted average balance of equity	111,5%	(1.628,9%)

Financial Statements of N1 hf. 2011 32 Amounts are in ISK thousand