



N1 hf.

Financial Statements 2013

N1 hf.
Dalvegur 10-14
201 Kópavogur

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 2013

The Company's operating revenue for the year 2013 amounted to ISK 58,488 million (2012: 60,258) and decreased by 2.9% between years. Profit before depreciation, amortisation and finance items amounted to ISK 1,783 million (2012: 2,650) and decreased by 32.7% between years. Profit before depreciation, amortisation and finance items without one-off expense due to the Company's listing on NASDAQ OMX Iceland and the sale of Bílanaust ehf. amounted to ISK 2,155 million. According to the income statement and statement of comprehensive income, the profit for the year amounted to ISK 670 million (2012: 1,161) but total comprehensive income for the year 637 million (2012: 1,191). The Company's equity at year end amounted to ISK 15,152 million (2012: 14,514), including share capital in the nominal value of ISK 1,000 million. Reference is made to the statement of changes in equity regarding changes of equity during the year.

Full time equivalent units at year end was 600 in the year 2013 (2012: 663).

On 19 December 2013, the Company's share capital was listed in NASDAQ OMX Iceland. Framtakssjóður Íslands and Íslandsbanki sold 28% of the Company's share capital in the tender.

The Company's Board of Directors proposes that dividend in the amount of ISK 1,650 million be paid to shareholders in the year 2014.

Shareholders

At the end of the year the Company's shareholders were 5,164 compared to 63 at the beginning of the year. Following are the Company's 20 biggest shareholders at year end.

| | |
|---------------------------------------|-------|
| Framtakssjóður Íslands slhf. | 20.9% |
| Lífeyrissjóður verzlunarmanna | 10.0% |
| Íslandsbanki hf. | 6.1% |
| Stafir lífeyrissjóður | 6.0% |
| Almenni lífeyrissjóðurinn | 5.0% |
| Sameinaði lífeyrissjóðurinn | 4.3% |
| Gildi - lífeyrissjóður | 4.0% |
| Stapi lífeyrissjóður | 3.5% |
| A.C.S safnreikningur I | 3.4% |
| Söfnunarsjóður lífeyrisréttinda | 2.2% |
| MP banki hf. | 2.0% |
| Júpítar - Innland hlutabréf | 1.9% |
| Festa - lífeyrissjóður | 1.8% |
| Íslandssjóðir hf, Úrval innlend | 1.6% |
| Helgafell ehf. | 1.6% |
| Lífeyrissjóður Verkfræðinga | 1.5% |
| Landsbankinn hf. | 1.3% |
| Landsýn ehf | 1.3% |
| Arion banki hf. | 1.3% |
| Lífeyrissjóður Vestmannaeyja | 1.1% |

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.

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

Corporate governance

The Board of Directors of N1 hf. has established rules of procedure for the Board wherein it endeavours to comply with the "Guidelines on corporate governance" issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers issued in March 2012. The guidelines are available on the website of the Iceland Chamber of Commerce www.vi.is. The Company complies with the guidelines in main respect but has though not deemed it necessary to appoint a nomination committee. Furthermore, the statement of corporate governance does neither include an analysis of environmental or social factors, nor does it include information on the Board's performance evaluation. Further information on the Board of Directors and corporate governance is included in the Chapter Corporate Governance as appendix to the Company's financial statements.

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 2013, its assets, liabilities and financial position as at 31 December 2013, and changes in cash and cash equivalents during the year 2013.

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 2013 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, 26 February 2014

The Board of Directors of N1 hf.

Margrét Guðmundsdóttir
Chairman of the Board

Helgi Magnússon

Kristín Guðmundsdóttir

Hreinn Jakobsson

Kristinn Pálmason

CEO

Egbert 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 2013, 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 2013, its financial position as at 31 December 2013 and change in cash flows for the year 2013 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 26 February 2014

Ernst & Young ehf.

Jóhann Unnsteinsson
State Authorised Public Accountant

Income Statement and Statement of Comprehensive Income for the Year 2013

| | Notes | 2013 | 2012 |
|---|-------|-----------------------|-------------------------|
| Sales | 8 | 58,122,174 | 60,060,785 |
| Cost of goods sold | | (48,994,783) | (50,287,017) |
| Gross profit | 9 | 9,127,391 | 9,773,768 |
| Other operating income | | 365,987 | 197,492 |
| Salaries and other personnel expenses | 10 | (3,788,840) | (4,056,706) |
| Sales and distribution expenses | 12 | (2,021,189) | (1,841,658) |
| Other operating expenses | 13 | (1,900,013) | (1,422,669) |
| | | <u>(7,710,042)</u> | <u>(7,321,033)</u> |
| Profit before depreciation, amortisation and finance items | | 1,783,336 | 2,650,227 |
| Depreciation and amortisation | 14 | (716,039) | (941,413) |
| Operating income | | 1,067,297 | 1,708,814 |
| Finance income | 15 | 292,105 | 277,628 |
| Finance expenses | 15 | (631,465) | (713,482) |
| Effect of associates | 20 | 99,501 | 74,849 |
| Change in fair value of shares | 21 | 156,899 | 48,642 |
| | | <u>(82,960)</u> | <u>(312,363)</u> |
| Profit before income tax | | 984,337 | 1,396,451 |
| Income tax | 16 | (314,264) | (235,591) |
| Profit for the year | | <u>670,073</u> | <u>1,160,860</u> |
| Other comprehensive (expenses) income items recognised directly in equity, but will later be recognised in the income statement: | | | |
| Translation difference arising from operations of a foreign associate | | (32,167) | 29,824 |
| Total other comprehensive (expenses) income for the year | | <u>(32,167)</u> | <u>29,824</u> |
| Total comprehensive income for the year | | <u><u>637,906</u></u> | <u><u>1,190,684</u></u> |
| Basic and diluted earnings per share in Icelandic krona | 17 | 0.67 | 1.16 |

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

Balance Sheet 31 December 2013

| | Notes | 2013 | 2012 |
|---|-------|-------------------|-------------------|
| Assets | | | |
| Intangible assets | 18 | 400,285 | 460,484 |
| Property, plant and equipment | 19 | 9,720,947 | 10,589,982 |
| Shares in associates | 20 | 1,377,860 | 1,310,526 |
| Shares in other companies | 21 | 286,422 | 131,549 |
| Deferred tax asset | 22 | 0 | 227,426 |
| Bonds | | 20,495 | 77,889 |
| Non-current assets | | <u>11,806,009</u> | <u>12,797,856</u> |
| Inventories | 23 | 4,317,801 | 5,955,441 |
| Trade receivables | 24 | 3,150,385 | 4,208,932 |
| Receivables from related parties | | 47,557 | 23,290 |
| Property, plant and equipment classified as held for sale | 19 | 948,142 | 0 |
| Other short-term receivables | 25 | 509,073 | 2,275,553 |
| Cash and cash equivalents | | 6,019,414 | 2,507,505 |
| Current assets | | <u>14,992,372</u> | <u>14,970,721</u> |
| Total assets | | <u>26,798,381</u> | <u>27,768,577</u> |
| Equity | | | |
| Share capital | 26 | 1,000,000 | 1,000,000 |
| Share premium | | 11,865,427 | 11,865,427 |
| Statutory reserve | | 250,000 | 0 |
| Revaluation reserve | | 413,237 | 443,752 |
| Translation difference | | (29,135) | 3,031 |
| Retained earnings | | 1,652,313 | 1,201,725 |
| Total equity | | <u>15,151,842</u> | <u>14,513,935</u> |
| Liabilities | | | |
| Payable to credit institutions | 27 | 6,580,000 | 7,253,333 |
| Deferred tax liability | 22 | 45,439 | 0 |
| Prepaid income | | 241,689 | 295,200 |
| Non-current liabilities | | <u>6,867,128</u> | <u>7,548,533</u> |
| Income tax payable | | 41,399 | 220,332 |
| Payable to the Icelandic State | 28 | 2,413,362 | 2,588,252 |
| Payable to credit institutions | 27 | 350,000 | 566,667 |
| Trade payables | | 1,187,579 | 910,374 |
| Payable to related parties | | 134,449 | 47,224 |
| Prepaid income | 29 | 235,676 | 243,407 |
| Other short-term liabilities | 30 | 416,946 | 1,129,853 |
| Current liabilities | | <u>4,779,411</u> | <u>5,706,109</u> |
| Total liabilities | | <u>11,646,539</u> | <u>13,254,642</u> |
| Total equity and liabilities | | <u>26,798,381</u> | <u>27,768,577</u> |

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

Statement of Changes in Equity for the Year 2013

| | Share capital | Share premium | Statutory reserve | Revaluation reserve | Translation difference | Retained earnings | Total equity |
|---|------------------|-------------------|-------------------|---------------------|------------------------|-------------------|-------------------|
| Year 2012 | | | | | | | |
| Equity as at 1 January 2012 | 1,000,000 | 11,865,427 | 0 | 484,617 | (26,792) | 0 | 13,323,252 |
| Total comprehensive income for the year | | | | | 29,824 | 1,160,860 | 1,190,684 |
| Dissolution 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>0</u> | <u>443,752</u> | <u>3,032</u> | <u>1,201,725</u> | <u>14,513,936</u> |
| Year 2013 | | | | | | | |
| Equity as at 1 January 2013 | 1,000,000 | 11,865,427 | 0 | 443,752 | 3,032 | 1,201,725 | 14,513,936 |
| Total comprehensive income for the year | | | | | (32,167) | 670,073 | 637,906 |
| Contribution to statutory reserve | | | 250,000 | | | (250,000) | 0 |
| Dissolution of revaluation reserve of an associate | | | | (30,515) | | 30,515 | 0 |
| Equity as at 31 December 2013 | <u>1,000,000</u> | <u>11,865,427</u> | <u>250,000</u> | <u>413,237</u> | <u>(29,135)</u> | <u>1,652,313</u> | <u>15,151,842</u> |

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

Statement of Cash Flows for the Year 2013

| | Notes | 2013 | 2012 |
|---|-------|--------------|--------------|
| Cash flows from operating activities | | | |
| Profit before depreciation, amortisation and finance items | | 1,783,336 | 2,650,227 |
| Operating items not affecting cash flows: | | | |
| Gain on sale of property, plant and equipment | (| 8,082) | (73,988) |
| Prepaid income | (| 30,211) | (433) |
| | | 1,745,043 | 2,575,806 |
| Changes in operating assets and liabilities: | | | |
| Inventories, decrease (increase) | | 1,456,596 | (25,823) |
| Trade and other short-term receivables, decrease | | 1,477,767 | 145,282 |
| Trade and other short-term payables, decrease | (| 172,185) | (212,462) |
| Changes in operating assets and liabilities | | 2,762,178 | (93,003) |
| Interest income received | | 279,494 | 144,729 |
| Interest expense paid on short-term liabilities | (| 23,704) | (87,376) |
| Income tax paid | (| 220,332) | 0 |
| Cash flows from operating activities | | 4,542,679 | 2,540,156 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | (| 1,474,536) | (1,160,465) |
| Sale of property, plant and equipment | | 1,951,670 | 105,158 |
| Purchase of shares in other companies | (| 3,656) | 0 |
| Sale of shares in other companies | | 5,683 | 8,423 |
| Dividends received | 20 | 11,726 | 1,997 |
| Investing activities | | 490,887 | (1,044,887) |
| Cash flows from financing activities | | | |
| New long term loans from credit institutions | | 7,000,000 | 0 |
| Repayment of long-term loans | (| 7,890,000) | (566,667) |
| Interest expense paid on long term loans | (| 631,657) | (612,393) |
| Financing activities | | (1,521,657) | (1,179,060) |
| Net increase in cash and cash equivalents | | 3,511,909 | 316,209 |
| Cash and cash equivalents at the beginning of the year | | 2,507,505 | 2,191,296 |
| Cash and cash equivalents at the end of the year | | 6,019,414 | 2,507,505 |
| Investing and financing activities not affecting cash flows | | | |
| Purchase of operating assets | | 0 | (380,000) |
| Sale of operating assets | | 0 | 1,588,000 |
| Other short-term receivables | | 0 | (1,588,000) |
| Other short-term liabilities | | 0 | 380,000 |

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 26 February 2014.

b. Going concern

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

c. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for shares in other companies, derivatives and bonds, which are recognised at fair value.

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 23 on inventories and note 31 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. Change in presentation of the balance sheet

Presentation of obligations due to customer points and prepaid cards has been changed from the previous year. Customer points are now recognised as part of prepaid income among short term liabilities in the balance sheet, but were previously recognised among other short term liabilities in the balance sheet. The obligation due to prepaid cards is now classified as part of prepaid income among short term liabilities but was previously recognised among other short term liabilities in the balance sheet. Prepaid income due to Klettagarðar was previously recognised among other liabilities but is now recognised as part of prepaid income.

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. At year end there were no open forward exchange contracts. The company does not apply hedge accounting.

(ii) Foreign associates

The share of income of foreign associates is recognised at the average exchange rate of the year. The share of the equity is recognised at the exchange rate at the reporting date. Exchange differences arising from the translation to Icelandic Krona are recognised as a separate line item in the statement of comprehensive income. When a foreign associate is sold, partially or entirely, the related exchange difference is transferred to the income 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 and bonds are recognised at fair value through profit and loss. A financial instrument is classified as a financial instrument at fair value through profit and loss if it is held for trading or if it is designated as a financial instrument at fair value through profit and loss upon initial recognition. Financial instruments are designated at fair value through profit and loss if decisions regarding purchase and sale are based on their fair value. Financial assets at fair value through profit and loss are recognised at fair value in the balance sheet and fair value changes are recognised in the income statement. Direct transaction costs are recognised in the income statement when incurred. The Company's shares on other companies 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 as change in fair value of shares in the income statement and statement of comprehensive income but fair value changes of bonds are recognised as part of finance income.

Notes, contd.:

3. Significant accounting policies, contd.:

d. Financial instruments, contd.:

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

Loans and receivables

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

Cash and cash equivalents

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

Financial liabilities

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

(ii) Share capital

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

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

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 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.

Notes, contd.:

3. Significant accounting policies, contd.:

f. Property, plant and equipment, contd.:

(iii) Depreciation

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

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

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

(iv) Leased assets

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

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.

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

(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.

Notes, contd.:

3. Significant accounting policies, contd.:

i. Contribution to defined contribution pension plans

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

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 granted points which are not utilised expire in three years or if no points are used for one year. Obligation due to customer points granted is recognised as prepaid income

(iii) Other operating income

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

(iv) Operating lease income

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

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.

Notes, contd.:

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

Finance expenses comprise interest expenses and borrowing costs on borrowings and recognised according to effective interest rate. 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 asset is reviewed at each reporting date and are reduced to the extent that it is considered that it 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

A few new standards and amendments to standards entered into effect on 1 January 2013 but did not have significant effect on the Company's financial statements. A few new standards and amendments to standards that have been adopted by the EU are effective for annual periods beginning on or after 1 January 2014, and have not been applied in preparing these financial statements. The adoption of these standards and amendments to standards is not expected to have significant effect on the Company's financial statements.

4. Determination of fair values

Shares in other companies and bonds 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.

Notes, contd.:

4. Determination of fair values, contd.:

(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. Interest on Payables to credit institutions are market rates. Therefore the difference between their book value and fair value is insignificant each period. Short-term payables are however not discounted as the difference between their fair value and their carrying amount is insignificant.

5. Financial assets and financial liabilities

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

* Financial assets designated as at fair value through profit or loss are recognised at fair value

* Loans and receivables are recognised at amortised cost

* Other financial liabilities are recognised at amortised cost

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

31 December 2013

| | Designated at fair value | Loans and receivables | Other financial liabilities | Carrying amount |
|---------------------------------------|-----------------------------|--------------------------|-----------------------------------|--------------------|
| Assets: | | | | |
| Cash and cash equivalents..... | | 6,019,414 | | 6,019,414 |
| Trade receivables..... | | 3,150,385 | | 3,150,385 |
| Receivables from related parties..... | | 47,557 | | 47,557 |
| Other short-term receivables..... | | 509,073 | | 509,073 |
| Bonds..... | 20,495 | | | 20,495 |
| Shares in other companies..... | 286,422 | | | 286,422 |
| | <u>306,917</u> | <u>9,726,429</u> | | <u>10,033,346</u> |
| Liabilities: | | | | |
| Payable to credit institutions..... | | | 6,930,000 | 6,930,000 |
| Payable to the Icelandic State..... | | | 2,413,362 | 2,413,362 |
| Trade payables..... | | | 1,187,579 | 1,187,579 |
| Payable to related parties..... | | | 134,449 | 134,449 |
| Other short-term liabilities..... | | | 416,946 | 416,946 |
| | | | <u>11,082,336</u> | <u>11,082,336</u> |

Notes, contd.:

5. Financial assets and financial liabilities, contd.: 31 December 2012

| | Designated at fair value | Loans and receivables | Other financial liabilities | Carrying amount |
|---------------------------------------|-----------------------------|--------------------------|-----------------------------------|--------------------|
| Assets: | | | | |
| Cash and cash equivalents..... | | 2,507,505 | | 2,507,505 |
| 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>9,015,280</u> | | <u>9,224,718</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..... | | | 910,374 | 910,374 |
| Payable to related parties..... | | | 47,224 | 47,224 |
| Other short-term liabilities..... | | | 1,129,853 | 1,129,853 |
| | | | <u>12,495,703</u> | <u>12,495,703</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

Following is 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 35% (2012: 43%) 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 4% (2012: 19%).

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

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

Notes, contd.:

6. Financial risk management, contd.:

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 2013. The Company's management believes that it is in a good position to meet its obligations as they become due. The repayment period of long-term loans is 20 years and loan term is 15 years. In addition to that the Company has access to a credit line for three years, ISK 1 billion and USD 25 million that together amount to ISK 3.9 million in total.

Market risk

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

Price risk

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

Currency risk

All of the Company's transactions denominated in foreign currencies create currency risk. In evaluating currency risk both payment risk and settlement risk is taken into account. The objective is to manage currency risk in order to best insure the Company's benefits. The major part of imports is purchase of oil, denominated in USD from foreign suppliers but the sale is in great part in ISK. Sales in ISK constitute 59% (2012: 59%), USD 40% (2012: 40%) and other currencies 1% (2012: 1%).

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 and bonds are not a significant part of the balance sheet or 1.1% at year end 2013 (2012: 1.0%).

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

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

8. Net sales

| | 2013 | 2012 |
|-----------------------|-------------------|-------------------|
| Fuel | 46,755,706 | 48,060,371 |
| Other goods | 11,366,468 | 12,000,414 |
| Total net sales | <u>58,122,174</u> | <u>60,060,785</u> |

Sale to one customer was in excess of 10.0% of the companies total sale for the year 2013 or 23.5% (2012: 20.3%).

9. Gross profit

| | | |
|--------------------------|------------------|------------------|
| Fuel | 4,973,098 | 5,154,629 |
| Other goods | 4,154,293 | 4,619,139 |
| Total gross profit | <u>9,127,391</u> | <u>9,773,768</u> |

10. Salaries and other personnel expenses

| | | |
|---|------------------|------------------|
| Salaries | 3,076,934 | 3,328,218 |
| Contributions to pension funds | 287,294 | 303,290 |
| Other salary related expenses | 309,311 | 310,618 |
| Other personnel expenses | 115,301 | 114,580 |
| Total salaries and other personnel expenses | <u>3,788,840</u> | <u>4,056,706</u> |

| | | |
|---|-----|-----|
| Number of employees in full time equivalent units | 600 | 663 |
| Full time equivalent units at year end | 489 | 559 |

Change in full time equivalent units is mainly explained by the sale of Bílanaust ehf., see note 36.

11. Fees to the Company's auditors

| | | |
|--|---------------|---------------|
| Audit of the financial statements | 10,528 | 13,973 |
| Audit of the interim financial statement | 9,296 | 0 |
| Review of interim financial statements | 0 | 2,477 |
| Other services | 3,510 | 510 |
| Total fees to auditors | <u>23,334</u> | <u>16,960</u> |

12. Sales and distribution expenses

| | | |
|---|------------------|------------------|
| Distribution expenses | 1,391,031 | 1,312,263 |
| Marketing expenses | 350,489 | 264,804 |
| Maintenance expenses | 279,669 | 264,591 |
| Total sales and distribution expenses | <u>2,021,189</u> | <u>1,841,658</u> |

Notes, contd.:

| 13. Other operating expenses | 2013 | 2012 |
|---|------------------|------------------|
| Office and administrative expenses | 520,562 | 270,682 |
| Operations of premises | 413,230 | 397,613 |
| Obligation due to voluntary registration of real estates | 0 (| 73,988) |
| Lease expenses | 251,922 | 230,644 |
| Computer hardware and software | 255,320 | 210,711 |
| Write-off and impairment of trade receivables (see note 31) | 25,636 | 66,575 |
| Other expenses | 433,343 | 320,432 |
| Total other operating expenses | <u>1,900,013</u> | <u>1,422,669</u> |

Other operating expenses in 2013 include one-off expenses due to the Company's listing on stock exchange and the sale of Bilanaust ehf., totally amounting of ISK 372 million.

| 14. Amortisation and depreciation | 2013 | 2012 |
|---|----------------|----------------|
| Amortisation of intangible assets | 60,199 | 60,199 |
| Depreciation of property, plant and equipment | 655,840 | 881,214 |
| Total amortisation and depreciation | <u>716,039</u> | <u>941,413</u> |

| 15. Finance income and finance expenses | 2013 | 2012 |
|---|----------------|----------------|
| Finance income is specified as follows: | | |
| Interest income on bank accounts | 198,038 | 58,653 |
| Interest income and fair value changes on bonds | 7,786 | 12,066 |
| Interest income on receivables | 71,973 | 76,279 |
| Currency exchange gain | 2,582 | 128,631 |
| Dividend income | 11,726 | 1,999 |
| Total finance income | <u>292,105</u> | <u>277,628</u> |

Finance expenses are specified as follows:

| | | |
|--|----------------|----------------|
| Interest expenses and inflation indexation | 631,465 | 713,482 |
| Total finance expenses | <u>631,465</u> | <u>713,482</u> |

Notes, contd.:

16. Income tax

| | | |
|--|----------------|----------------|
| Income tax in the income statements is specified as follows: | 2013 | 2012 |
| Income tax payable | 41,399 | 220,332 |
| Deferred income tax | 272,865 | 15,259 |
| | <u>314,264</u> | <u>235,591</u> |

Effective income tax is specified as follows:

| | | | | |
|---|----------|------------|----------|------------|
| Profit before income tax | | 984,337 | | 1,396,451 |
| Income tax based on current tax rate | 20.0% | 196,867 | 20.0% | 279,290 |
| Non-deductible expenses | 0.4% | 3,901 | 0.1% | 1,888 |
| Non-taxable income | (5.5%) | (53,725) | (1.8%) | (25,233) |
| Items not recognised in the income statement | | 2,823 | (1.5%) | (20,254) |
| Corrections of tax due to previous years | 16.6% | 163,777 | | |
| Other changes | 0.1% | 621 | (0.0%) | (100) |
| Effective income tax rate | 31.9% | 314,264 | 16.9% | 235,591 |

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 taken loans convertible into shares.

| | | |
|---|-------------|-------------|
| Basic earnings and diluted earnings per share | 2013 | 2012 |
| Profit for the year..... | 670,073 | 1,160,860 |
| Share capital | 1,000,000 | 1,000,000 |
| Basic earnings and diluted earnings per share in ISK..... | 0.67 | 1.16 |

18. Intangible assets

Intangible assets and amortisation is specified as follows:

| | Software | Trademarks | Total |
|-------------------------------------|-----------------|-------------------|--------------|
| Total value | | | |
| Total value 1.1.2012 | 486,563 | 230,850 | 717,413 |
| Total value 31.12.2012 | 486,563 | 230,850 | 717,413 |
| Total value 31.12.2013 | 486,563 | 230,850 | 717,413 |
| Amortisation | | | |
| Amortisation 1.1.2012 | 150,560 | 46,170 | 196,730 |
| Amortisation for the year | 48,657 | 11,542 | 60,199 |
| Total amortisation 31.12.2012 | 199,217 | 57,712 | 256,929 |
| Amortisation of the year | 48,657 | 11,542 | 60,199 |
| Total amortisation 31.12.2013 | 247,874 | 69,254 | 317,128 |
| Carrying amount | | | |
| Carrying amount 1.1.2012 | 336,003 | 184,680 | 520,683 |
| Carrying amount 31.12.2012 | 287,346 | 173,138 | 460,484 |
| Carrying amount 31.12.2013 | 238,689 | 161,596 | 400,285 |
| Amortisation rates | 10% | 5% | |

Notes, contd.:

19. Property, plant and equipment

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

| | Real estates, signs and tanks | Furnishings, machines, tools and equipment | Total |
|--|-------------------------------------|---|--------------|
| Total value | | | |
| Total value 1.1.2012 | 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 |
| Additions during the year | 305,913 | 788,624 | 1,094,537 |
| Sold and disposed of during the year | (401,037) | (555,269) | (956,306) |
| Reclassified as held for sale | (1,034,743) | 0 | (1,034,743) |
| Total value 31.12.2013 | 10,677,903 | 4,415,535 | 15,093,438 |
| Depreciation | | | |
| Depreciated 1.1.2012 | 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 during the year | (24,423) | (128,508) | (152,931) |
| Total depreciation 31.12.2012 | 2,973,755 | 2,426,213 | 5,399,968 |
| Depreciation for the year | 313,521 | 342,319 | 655,840 |
| Sold and disposed of during the year | (168,534) | (428,182) | (596,716) |
| Reclassified as held for sale | (86,601) | 0 | (86,601) |
| Total depreciation 31.12.2013 | 3,032,141 | 2,340,350 | 5,372,491 |
| Carrying amount | | | |
| Carrying amount 1.1.2012 | 9,384,493 | 1,730,013 | 11,114,506 |
| Carrying amount 31.12.2012 | 8,834,015 | 1,755,967 | 10,589,982 |
| Carrying amount 31.12.2013 | 7,645,762 | 2,075,185 | 9,720,947 |
| Depreciation rates | 3-10% | 6-20% | |

In December 2012, the Company sold its real estate at Klettagarðar 13 and the sales profit amounted to ISK 303 million, taken into account the Company's obligation of renovating the building. Parallel to the sale, the Company rented the real estate back for a term of 10 years with the priority right to purchase the property again after 5 years or at the end of the rental period at a projected sales price. The rental agreement is classified as operating lease agreement. As the sales value was in excess of the fair value of the property the difference between the sales value and the fair value is distributed linearly over the rental period of the property. Deferred sales profit at the end of the period is recognised as liability among prepaid income in the amount of ISK 242 million (year end 2012: ISK 295 million) among non-current liabilities and ISK 30 million (year end 2012: ISK 33 million) among current liabilities.

In November 2013, the Company accepted a purchase offer on the Company's real estate at Bíldshöfði 9, Reykjavík. The sale of the property is estimated to be finalized in the first half of the year 2014. The real estate is at year end 2013 classified as a real estate held for sale among current assets in the balance sheet and depreciation has ceased. The carrying amount of the property was not written down on the date of revaluation as the sales price according to the purchase offer is higher than the carrying amount.

Notes, contd.:

19. Property, plant and equipment, contd.:

Insurances and valuation of assets

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

| | 2013 | 2012 |
|---|-----------|-----------|
| Value for taxation of real estates | 5,154,676 | 5,187,446 |
| Value for fire insurance of real estates | 8,644,856 | 8,775,137 |
| Insurance value of tools, equipment and furnishings | 2,054,191 | 2,394,138 |
| Insurance value of inventories | 2,101,945 | 3,300,665 |

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 refinanced long-term loans and a line of credit with Íslandsbanki hf. at the end of September 2013. The line of credit amounts to ISK 1,000 million and USD 25 million. The Company has not utilised the line of credit.

Íslandsbanki hf. holds complete pledge in the Company's main real estates, inventories and trade receivables in the amount of ISK 15,290 million as collateral for long-term loans and the line of credit.

20. Shares in associates

Shares in associates are specified as follows:

| Year 2013 | Share | Nominal value | Carrying amount |
|--|-------|------------------|--------------------|
| Ólíudreifing ehf. | 60.0% | 249,000 | 941,703 |
| Malik Supply A/S, Denmark * | 49.0% | 24,021 | 399,111 |
| EAK ehf | 33.3% | 6,000 | 20,062 |
| Shares in four associates | - | 1,340 | 16,984 |
| Total shares in associates at year end | | | <u>1,377,860</u> |

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

Change in the carrying amount of associates during the year:

| | |
|--|------------------|
| Carrying amount at the beginning of the year | 1,310,526 |
| Share of profit | 99,501 |
| Translation difference | (32,167) |
| Carrying amount at year end | <u>1,377,860</u> |

| | |
|---------------------------------------|-----------|
| Total assets of associates | 5,704,692 |
| Total liabilities of associates | 3,166,419 |

| | |
|------------------------------------|-------------------|
| Total revenue of associates | 18,449,400 |
| Total expenses of associates | <u>18,263,269</u> |
| Total profit of associates | <u>186,131</u> |

| | |
|---|---------------|
| Total share of profit of associates | <u>99,501</u> |
|---|---------------|

Notes, contd.:

20. Shares in associates, contd.:

| 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> |

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

Change in the carrying amount of associates during the year:

| | |
|--|------------------|
| Carrying amount at the beginning of the year | 1,205,853 |
| 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 (loss) of associates | <u>124,852</u> |

| | |
|--|---------------|
| Total share of profit and loss of associates | <u>74,849</u> |
|--|---------------|

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

21. Shares in other companies

Shares in other companies are specified as follows:

| Year 2013 | Share | Nominal value | Carrying amount |
|---|-------|---------------|-----------------|
| Icelandair Group hf. | 0.3% | 15,526 | 282,580 |
| Shares in 13 other companies | | | 3,842 |
| Total shares in other companies at year end | | | <u>286,422</u> |

Year 2012

| | | | |
|---|------|--------|----------------|
| 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> |

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 Tryggingamiðstöðin hf. are listed on the NASDAQ OMX Iceland 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.

Notes, contd.:

22. Deferred tax asset (liability)

Deferred tax asset (liability) is specified as follows by individual items:

| | 2013 | 2012 |
|--|-----------|---------|
| Asset | | |
| Property, plant and equipment..... | 0 | 193,438 |
| Trade and other receivables..... | 40,284 | 8,302 |
| Deferred gain on sale..... | 3,574 | 101,790 |
| Other items..... | 0 | 15,712 |
| | 43,858 | 319,242 |
| Liability | | |
| Property, plant and equipment..... | 4,756 | 0 |
| Intangible assets..... | 69,983 | 60,861 |
| Unrealised currency exchange difference..... | 14,558 | 30,955 |
| | 89,297 | 91,816 |
| Deferred tax asset (liability)..... | (45,439) | 227,426 |

23. Inventories

Inventories at year end are specified as follows:

| | 2013 | 2012 |
|------------------------|-----------|-----------|
| Fuel..... | 2,820,532 | 3,654,720 |
| Other goods..... | 1,497,269 | 2,300,721 |
| Total inventories..... | 4,317,801 | 5,955,441 |

In the year 2013, decrease in the write-down of other goods amounted to ISK 147 million but in the year 2012 the write-down was increased by ISK 205 million. The change is mainly explained by sale of inventories to Bílanaust ehf. See note 36. The income was recognised among cost of goods sold. At year end, write-down of other goods amounted to ISK 191 million (2012: ISK 338 million).

24. Trade receivables

Trade receivables are specified as follows at year end:

| | 2013 | 2012 |
|---|-----------|-----------|
| Nominal value of trade receivables..... | 3,309,542 | 4,403,466 |
| Bonds..... | 85,474 | 71,892 |
| Allowance for impairment..... | (244,631) | (266,426) |
| Carrying amount of trade receivables..... | 3,150,385 | 4,208,932 |

Note 31 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:

| | 2013 | 2012 |
|--|---------|-----------|
| Prepaid expenses..... | 74,017 | 264,699 |
| VAT refund and other receivables from the Icelandic State..... | 364,040 | 314,964 |
| Unrealised sales price of real estates..... | 0 | 1,588,000 |
| Other short-term receivables..... | 71,016 | 107,890 |
| Total other short-term receivables..... | 509,073 | 2,275,553 |

Notes, contd.:

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

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

(iv) Statutory reserve

In accordance with Icelandic company act, statutory reserve consists of an amount corresponding to 25% of the nominal value of share capital of the company. This amount can not be distributed to shareholders as dividend.

(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. Dissolution of revaluation is recognised as increase in retained earnings.

(vi) Capital management

The Board of Directors of N1 has established a policy on the Company's capital structure and dividend payments. According to the policy the Board of Directors will propose to annual general meetings that at least 50% of the profit for each year be paid to shareholders as dividend. Furthermore, the Company aims at an equity ratio in excess of 40%. The Company's loan agreements do not include provisions that restrict dividend payments but there is a requirement of at least 35% equity ratio. At year end 2013, the Company's equity ratio was 56.6%

27. Payable to credit institutions

Interest bearing liabilities are specified as follows at year end:

| | 2013 | | 2012 | |
|--|---------------|------------------|---------------|------------------|
| | Interest rate | Carrying amount | Interest rate | Carrying amount |
| Non-indexed loan in ISK on floating interests..... | 7.00% | 6,930,000 | 8.50% | 7,820,000 |
| Current maturities..... | | (350,000) | | (566,667) |
| Total long-term liabilities..... | | <u>6,580,000</u> | | <u>7,253,333</u> |

Maturities are specified as follows over the next years:

| | 2013 | 2012 |
|----------------|------------------|------------------|
| Year 2013..... | - | 566,667 |
| Year 2014..... | 350,000 | 566,667 |
| Year 2015..... | 350,000 | 566,667 |
| Year 2016..... | 350,000 | 566,667 |
| Year 2017..... | 350,000 | 566,667 |
| Year 2018..... | 350,000 | 566,667 |
| Later..... | <u>5,180,000</u> | <u>4,420,000</u> |
| | <u>6,930,000</u> | <u>7,820,000</u> |

Notes, contd.:

28. 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.

29. Prepaid income

Prepaid income is specified as follows at year end:

| | 2013 | 2012 |
|---------------------------|----------------|----------------|
| Points programme..... | 164,858 | 169,495 |
| Prepaid cards..... | 39,200 | 33,572 |
| Klettagarðar 13..... | 30,211 | 33,052 |
| Other prepaid income..... | 1,407 | 7,288 |
| Total prepaid income..... | <u>235,676</u> | <u>243,407</u> |

30. Other short-term liabilities

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

| | 2013 | 2012 |
|--|----------------|------------------|
| Unpaid salaries and salary related expenses..... | 122,812 | 177,510 |
| Accrued vacation..... | 214,033 | 239,338 |
| Unpaid accrued interests..... | 79,503 | 103,398 |
| Provision to development in Klettagarðar..... | 0 | 180,698 |
| Unpaid due to purchase of property, plant and equipment..... | 0 | 380,000 |
| Other short term liabilities..... | 598 | 48,909 |
| Total other short-term liabilities..... | <u>416,946</u> | <u>1,129,853</u> |

31. Financial instruments

Credit risk

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

| | 2013 | 2012 |
|---------------------------------------|------------------|------------------|
| Bonds..... | 20,495 | 77,889 |
| Trade receivables..... | 3,150,385 | 4,208,932 |
| Receivables from related parties..... | 47,557 | 23,290 |
| Other short-term receivables..... | 435,055 | 2,010,854 |
| Cash and cash equivalents..... | 6,019,414 | 2,507,505 |
| | <u>9,672,906</u> | <u>8,828,470</u> |

Approximately 35% (2012: 43%) of balances of trade receivables are with the 30 largest customers of the Company. Thereof the largest trade receivable was 4% (2012: 19%).

Notes, contd.:

31. Financial instruments, contd.:

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 2013 | | | |
| Not due..... | 2,454,727 | (50,052) | 2,404,675 |
| Past due by 30 days or less..... | 543,550 | (39,144) | 504,406 |
| Past due by 31 - 120 days..... | 215,385 | (26,646) | 188,739 |
| Past due by more than 120 days..... | 181,354 | (128,789) | 52,565 |
| | <u>3,395,016</u> | <u>(244,631)</u> | <u>3,150,385</u> |
| 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> |

Impairment on trade receivables is specified as follows:

| | 2013 | 2012 |
|--|----------------|----------------|
| Balance at the beginning of the year..... | 266,426 | 277,127 |
| Receivables written-off during the year..... | (47,431) | (77,276) |
| Expensed impairment during the year..... | 25,636 | 66,575 |
| Balance at year end..... | <u>244,631</u> | <u>266,426</u> |

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

| | Nominal value | Specific write-down | General write-down | Carrying amount at year end |
|---------------------------------------|------------------|---------------------|--------------------|-----------------------------|
| Year 2013 | | | | |
| Fishing industry..... | 737,428 | (41,722) | (9,598) | 686,108 |
| Transportation..... | 140,506 | (28,690) | (1,829) | 109,987 |
| Contractors..... | 402,385 | (86,547) | (5,237) | 310,601 |
| Other industries and individuals..... | 1,897,905 | (43,483) | (24,703) | 1,829,719 |
| Foreign sale..... | 216,792 | 0 | (2,822) | 213,970 |
| | <u>3,395,016</u> | <u>(200,442)</u> | <u>(44,189)</u> | <u>3,150,385</u> |
| 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.:

31. Financial instruments, contd.:

Liquidity risk

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

| Year end 2013 | Within a year | 1 - 2 years | 3 - 5 years | Over 5 years |
|-------------------------------------|----------------------|--------------------|--------------------|---------------------|
| Payable to credit institutions..... | 746,086 | 725,670 | 2,054,509 | 7,180,862 |
| Payable to the State..... | 2,413,362 | | | |
| Trade payables..... | 1,187,579 | | | |
| Payable to related parties..... | 134,449 | | | |
| Other short term liabilities..... | 416,946 | | | |
| | <u>4,898,422</u> | <u>725,670</u> | <u>2,054,509</u> | <u>7,180,862</u> |

| 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..... | 910,374 | | | |
| Payable to related parties..... | 47,224 | | | |
| Other short term liabilities..... | 1,129,853 | | | |
| | <u>5,895,089</u> | <u>1,170,518</u> | <u>3,219,957</u> | <u>6,906,389</u> |

The Company's long term loans contain covenants on financial conditions regarding equity ratio, liquidity ratio and leverage. If financial conditions are not met the loan in question will fall due.

Currency risk

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

| Year 2013 | USD | EUR | Other currencies | Total |
|--------------------------------|----------------|------------------|-------------------------|----------------|
| Bonds..... | 0 | 0 | 31,143 | 31,143 |
| Trade receivables..... | 494,700 | 19,841 | 49,173 | 563,714 |
| Cash and cash equivalents..... | 309,672 | 716 | 853 | 311,241 |
| Trade payables..... | (239,337) | (61,025) | (92,444) | (392,806) |
| Risk in balance sheet..... | <u>565,035</u> | <u>(40,468)</u> | <u>(11,275)</u> | <u>513,292</u> |

| 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>(50,177)</u> | <u>2,205,579</u> |

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.

| | 2013 | 2012 |
|-----------------------|------------------|-------------------|
| USD..... | (56,504) | (233,229) |
| EUR..... | 4,047 | 7,654 |
| Other currencies..... | 1,128 | 5,018 |
| Total..... | <u>(51,329)</u> | <u>(220,558)</u> |

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

Notes, contd.:

31. Financial instruments, contd.:

Interest rate risk

An interest increase at the reporting date by one percentage (100 basis points) would decrease results before income tax by ISK 69 million (2012: 78) 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.

32. Operating lease

Rental obligation

The Company rents premises from various parties and the total obligation in relation thereto amounts to ISK 1.948 million until the year 2020 (2012: 2,053). Future rent payments, without taking into account future inflation, are specified as follows at year end:

| | 2013 | 2012 |
|------------------------|------------------|------------------|
| Within one year..... | 300,928 | 282,945 |
| After 1 - 5 years..... | 931,973 | 991,877 |
| After 5 years..... | 714,657 | 777,820 |
| Total..... | <u>1,947,558</u> | <u>2,052,642</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 2013 amounted to ISK 161 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.

| | 2013 | 2012 |
|------------------------|----------------|----------------|
| Within one year..... | 158,715 | 180,612 |
| After 1 - 5 years..... | 239,837 | 222,739 |
| After 5 years..... | 116,867 | 134,115 |
| Total..... | <u>515,419</u> | <u>537,466</u> |

33. Related parties

Definition of related parties

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

Transactions with associated companies

Transactions with associated companies are specified as follows:

| | 2013 | 2012 |
|------------------------------------|-----------|-----------|
| Purchased goods and services | 1,192,785 | 1,152,289 |
| Sold goods and services..... | 1,542,294 | 935,009 |
| Bonds..... | 34,301 | 44,918 |
| Receivables at year end..... | 46,405 | 22,076 |
| Payables at year end..... | 134,449 | 47,224 |

Transactions with significant shareholders

The Company has a long term loan from Íslandsbanki hf. and the remaining balance on the loan at year end amounted to ISK 6,930 million (2012: 3,050).

| | | |
|---|---------|-----------|
| Interest income from shareholders..... | 10,123 | 33,066 |
| Interest expenses to shareholders..... | 322,275 | 697,221 |
| Services sold to shareholders..... | 12,364 | 12,215 |
| Receivable from shareholders at year end..... | 1,152 | 1,214 |
| Deposits with shareholders at year end..... | 966,667 | 2,500,897 |

Notes, contd.:

33. Related parties, contd.:

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

| | 2013 | 2012 | Shares at year end 2013 |
|--|----------------|----------------|----------------------------|
| Margrét Guðmundsdóttir, Chairman of the Board..... | 7,720 | 4,800 | 12,054 |
| Helgi Magnússon, Board member..... | 3,320 | 1,500 | 1,425,000 |
| Hreinn Jakobsson, Board member..... | 4,400 | 3,300 | 36,162 |
| Kristín Guðmundsdóttir, Board member..... | 4,400 | 3,300 | 24,108 |
| Þór Hauksson, former Board member *..... | 3,863 | 3,000 | |
| Kristinn Pálmason, Board member *..... | 1,985 | 0 | |
| Jóhann Hjartarson, former Chairman of the Board..... | 0 | 3,849 | |
| Jóhannes Karl Sveinsson, former Board member..... | 0 | 1,200 | |
| Eggert Benedikt Guðmundsson, CEO..... | 51,700 | 19,372 | 326,797 |
| Eggert Þór Kristófersson, Head of Finance Division..... | 31,462 | 26,466 | 660,130 |
| Ingunn Sveinsdóttir, Head of Customer Services..... | 25,658 | 23,644 | |
| Hinrik Örn Bjarnason, Head of Corporate Services..... | 21,813 | 0 | 261,437 |
| Hermann Guðmundsson, former CEO..... | 0 | 39,825 | |
| Total salaries and benefits of the Board of Directors and management..... | <u>156,321</u> | <u>130,256</u> | <u>2,745,688</u> |

* Paid to Framtakssjóður Íslands slhf. due to board membership of Þór Hauksson and Kristinn Pálmason, its employees.

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

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

Transaction with other related parties

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

Transactions with employees

The Company has provided loans to its employees due to general purchase of goods in the amount of ISK 21 million at year end 2013 (2012: ISK 31 million). Other liabilities of employees with the Company amounted to ISK 2 million at year end (2012: ISK 24 million).

34. Obligations and guarantees

The Company refinanced long-term loans and a line of credit with Íslandsbanki hf. at the end of September 2013. The line of credit amounts to ISK 1,000 million and USD 25 million. The Company has not utilised the line of credit.

Íslandsbanki hf. holds complete pledge in the Company's main real estates, inventories and trade receivables in the amount of ISK 15,290 million as collateral for long-term loans and the line of credit.

The Company's rental obligation amounted to ISK 1,948 million at year end 2013, see note 32.

Notes, contd.:

35. Ratios

The Company's key ratios are specified as follows:

| | 2013 | 2012 |
|---|-------|-------|
| Income statement | | |
| Turnover rate of inventories at the end of the period: utilisation of goods / inventories at year end..... | 11.35 | 8.44 |
| Sales days in trade receivables: trade receivables at year end / goods and services sold..... | 20 | 26 |
| Profit (loss) before depreciation, amortisation and finance items / gross profit..... | 19.5% | 27.1% |
| Salaries and salary related expenses / gross profit..... | 41.5% | 41.5% |
| Sales and distribution cost / gross profit..... | 22.1% | 18.8% |
| Other operating expenses / gross profit..... | 20.8% | 14.6% |
| Balance sheet | | |
| Current ratio: current assets / current liabilities..... | 3.14 | 2.62 |
| Liquidity ratio: (current assets - inventories) / current liabilities..... | 2.23 | 1.58 |
| Leverage: Net interest bearing liabilities / EBITDA..... | 0.56 | 2.04 |
| Solvency: Free cash flow / total payment on long term loan..... | 3.36 | 1.25 |
| Equity ratio: Equity / total capital..... | 56.5% | 52.3% |
| Return on equity: Return of the year / weighted average balance of equity..... | 4.5% | 8.3% |

36. Other issues

At the beginning of the year 2013, the Company's operation pertaining to sale of spare parts and other related goods was transferred to a separate company, Bílanaus ehf., which was fully owned by N1 hf. Assets sold at the beginning of the year to Bílanaust ehf. amounted to ISK 1,005 million, thereof inventories amounted to ISK 724 million. The effect thereof on N1 hf.'s EBITDA was insignificant. In N1 hf.'s Board meeting on 7 May 2013 a purchase agreement with Efstasund Holding ehf. was signed on the sale of Bílanaust ehf. Other operating expenses in the year 2013 consist of a one-time-only cost due to the listing of the Company on stock market and the sale of Bílanaust, a total amount of ISK 372 million.

In June 2013, the Competition Authority announced that it had decided to initiate a market research on the Icelandic fuel market. The research is carried out in a new form consisting in reviewing whether actions must be taken against circumstances or conduct which prevent, limit or have negative effect on competition for the general public. The Competition Authority's research is therefore not specifically centred upon the Company itself but the fuel market as a whole. It is estimated that the research will be concluded at year end 2014. The research did neither affect the operation nor the financial standing of N1 in the year 2013.

Statement of Corporate Governance

Board of Directors and corporate governance

The Board of Directors

The Board of Directors of N1 exercises the supreme authority in the Company's affairs between shareholders' meetings and is responsible for its operation. Communication between the Board of Directors and shareholders takes place in shareholders' meetings. Members of the Board of Directors of the Company are independent from the Company in carrying out their tasks and do not take instructions from shareholders of the Company or other interested parties. Members of the Board of Directors are also bound to confidentiality in their tasks and do not provide information to shareholders on the Company's operation unless such information is disclosed in the context of the Board.

The Board of Directors of N1 hf. consists of five directors and one reserve director appointed for a one year term in the Annual General Meeting. Margrét Guðmundsdóttir is the Chairman of the Board and has been on the Company's Board since 2011 and as Chairman since 2012. Kristín Guðmundsdóttir and Hreinn Jakobsson have been on the Board since 2011 and Helgi Magnússon since 2012. Kristinn Pálmason is Vice Chairman of the Board and was elected on the Board in the year 2013. The Board of Directors of N1 hf consists of two women and three men and therefore complies with provisions of law on gender ratio which entered into effect on 1 September 2013. Members of the Board have diverse education and extensive professional experience.

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

Corporate governance

The Board of Directors has laid down rules of procedures for the Board which are reviewed on annual basis. In the rules of procedure the competences of the Board and its purview with respect to the CEO are defined. The procedures contain among other things provisions on the appointment of Board members, communication with shareholders, calling of meetings and order, minutes of meetings and their content, rules on Board members' obligation of confidentiality and secrecy and rules on eligibility of Board members to participate in decision making. The Board elects a Chairman and Vice Chairman for the Board in addition to appointing members of sub-committees. Board meetings shall be called as often as necessary but no less than once a every month. Board meetings are held at the headquarters of N1 at Dalvegur 10-14, 201 Kopavogur, and the Chairman of the Board directs the meetings. The CEO attends Board meetings and may at the meetings discuss matters and present motions, unless otherwise decided by the Board in specific matters. The Company's Board of Directors among others determines the CEO's terms of employment and meets regularly with the Company's auditors. The Board of Directors has appointed an audit committee and a remuneration committee.

To ensure that the Company's financial statements are in accordance with International Financial Reporting Standards the Company places emphasis on carefully defined responsibilities, appropriate separation of tasks and regular reporting and transparency in the operation. The process of monthly reporting and review for individual divisions is an important factor in the control on return and other key aspects of the operation. Monthly statements are prepared and presented to the Company's Board of Directors. The Company has established work procedures to ensure control in income recognition, operating expenses and other items affecting the Company's operation. Risk management is reviewed on regular basis in order to reflect changes in market conditions and the Company's operation. With personnel training and work procedures the Company aims at maintaining disciplined control where all employees are aware of their role and responsibilities. Operating risk is addressed by monitoring transactions and compliance with law. The Board of Directors has established equity management policy to ensure strong equity position and support stable future operating development.

Statement of Corporate Governance, continued

Board of Directors and corporate governance, continued

Audit committee

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

Remuneration committee

The Board of Directors has appointed a remuneration committee. The role of the Remuneration Committee is to provide guidance to the Board of Directors regarding employment terms for Board members and management and advise on the Company's remuneration policy, which shall be reviewed every year and presented to the Company's annual general meeting. Furthermore, the committee shall monitor that employment terms of executive management is in accordance with the Company's remuneration policy and report thereon to the Board of Directors on annual basis in relation to the annual general meeting. The Remuneration Committee shall consist of three members appointed by the Company's Board of Directors. The majority of the members shall be independent from the Company and its day-to-day managers. Neither the CEO nor other employees may be a member of the Remuneration Committee. Independent Board members may be a member of the Remuneration Committee. Committee members should preferably have experience and knowledge of the criteria and customs that relate to the determination of the employment terms of managers. The Rules of Procedure of the committee shall state on its main tasks. The committee consists of Margrét Guðmundsdóttir, Chairman, Kristinn Pálmason and Helgi Magnússon.

In the year 2013, 13 Board meetings were held, 9 meetings in the Audit Committee and 3 meetings in the Remuneration committee. The majority of the Board, the Audit Committee and the Remuneration committee attended all meetings. The audit committee calls meetings with the Company's auditors on regular basis and auditors attend Board meetings when financial accounts are discussed.

Quarterly Statement - unaudited

The company's operating results for the year 2013 by quarters

| | Q1 | Q2 | Q3 | Q4 | 2013 Total |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Sales | 12,782,866 | 14,941,044 | 17,833,219 | 12,565,045 | 58,122,174 |
| Cost of goods sold | (10,935,330) | (12,727,014) | (14,782,619) | (10,549,820) | (48,994,783) |
| Gross profit | <u>1,847,536</u> | <u>2,214,030</u> | <u>3,050,600</u> | <u>2,015,225</u> | <u>9,127,391</u> |
| Other operating income | 104,192 | 95,558 | 77,326 | 88,911 | 365,987 |
| Salaries and other personnel expenses | (873,881) | (1,010,178) | (943,083) | (961,698) | (3,788,840) |
| Sales and distribution expenses | (431,952) | (549,756) | (612,117) | (427,364) | (2,021,189) |
| Other operating expenses | (367,006) | (462,459) | (411,460) | (659,088) | (1,900,013) |
| | <u>(1,672,839)</u> | <u>(2,022,393)</u> | <u>(1,966,660)</u> | <u>(2,048,150)</u> | <u>(7,710,042)</u> |
| Profit before depreciation, amortisation and finance items .. | <u>278,889</u> | <u>287,195</u> | <u>1,161,266</u> | <u>55,986</u> | <u>1,783,336</u> |
| Depreciation and amortisation | (184,949) | (160,091) | (174,811) | (196,188) | (716,039) |
| Operating income | <u>93,940</u> | <u>127,104</u> | <u>986,455</u> | <u>(140,202)</u> | <u>1,067,297</u> |
| Finance income | 46,505 | 64,200 | 106,887 | 74,513 | 292,105 |
| Finance expenses | (191,722) | (155,439) | (158,046) | (126,258) | (631,465) |
| Effect of associates | 48,598 | 21,305 | 60,051 | (30,453) | 99,501 |
| Change in fair value of shares | 43,901 | 30,249 | 38,595 | 44,154 | 156,899 |
| | <u>(52,718)</u> | <u>(39,685)</u> | <u>47,487</u> | <u>(38,044)</u> | <u>(82,960)</u> |
| Profit (loss) before income tax | <u>41,222</u> | <u>87,419</u> | <u>1,033,942</u> | <u>(178,246)</u> | <u>984,337</u> |
| Income tax | 9,973 | (10,001) | (351,162) | 36,926 | (314,264) |
| Profit (loss) for the period | <u>51,195</u> | <u>77,418</u> | <u>682,780</u> | <u>(141,320)</u> | <u>670,073</u> |
| Other comprehensive income (expenses) | | | | | |
| Translation difference arising from operations of a foreign associate | (28,700) | 4,532 | 6,900 | (14,899) | (32,167) |
| Total other comprehensive (expenses) income of the period | <u>(28,700)</u> | <u>4,532</u> | <u>6,900</u> | <u>(14,899)</u> | <u>(32,167)</u> |
| Total comprehensive income for the period | <u>22,495</u> | <u>81,950</u> | <u>689,680</u> | <u>(156,219)</u> | <u>637,906</u> |
| Basic and diluted earnings per share in Icelandic krona | 0.05 | 0.08 | 0.68 | (0.14) | 0.67 |

Quarterly statement - unaudited

The company's operating results for the year 2012 by quarters

| | Q1 | Q2 | Q3 | Q4 | 2012 Total |
|--|------------------|------------------|------------------|------------------|------------------|
| Sales | 12,419,380 | 16,307,498 | 18,021,131 | 13,312,776 | 60,060,785 |
| Cost of goods sold | (10,185,652) | (13,757,457) | (15,022,569) | (11,321,339) | (50,287,017) |
| Gross profit | 2,233,728 | 2,550,041 | 2,998,562 | 1,991,437 | 9,773,768 |
| Other operating income | 45,934 | 54,697 | 47,208 | 49,653 | 197,492 |
| Salaries and other personnel expenses | (947,930) | (1,052,413) | (999,979) | (1,056,384) | (4,056,706) |
| Sales and distribution expenses | (396,126) | (470,831) | (542,999) | (431,702) | (1,841,658) |
| Other operating expenses | (361,326) | (389,971) | (447,571) | (223,801) | (1,422,669) |
| | (1,705,382) | (1,913,215) | (1,990,549) | (1,711,887) | (7,321,033) |
| Profit before depreciation, amortisation and finance items .. | 574,280 | 691,523 | 1,055,221 | 329,203 | 2,650,227 |
| Depreciation and amortisation | (177,256) | (183,129) | (379,043) | (201,985) | (941,413) |
| Operating income | 397,024 | 508,394 | 676,178 | 127,218 | 1,708,814 |
| Finance income | 88,042 | 33,245 | 39,699 | 116,642 | 277,628 |
| Finance expenses | (148,493) | (183,966) | (192,020) | (189,003) | (713,482) |
| Effect of associates | 16,990 | 7,621 | 41,824 | 8,414 | 74,849 |
| Change in fair value of shares | 46,578 | (2,246) | 7,247 | (2,937) | 48,642 |
| | 3,117 | (145,346) | (103,250) | (66,884) | (312,363) |
| Profit before income tax | 400,141 | 363,048 | 572,928 | 60,334 | 1,396,451 |
| Income tax | (68,508) | (70,554) | (104,578) | 8,049 | (235,591) |
| Profit for the period | 331,633 | 292,494 | 468,350 | 68,383 | 1,160,860 |
| Other comprehensive income (expenses) Translation difference arising from operations of a foreign associate | 25,821 | (27,632) | 4,284 | 27,351 | 29,824 |
| Total other comprehensive (expenses) income of the period | 25,821 | (27,632) | 4,284 | 27,351 | 29,824 |
| Total comprehensive income for the period | 357,454 | 264,862 | 472,634 | 95,734 | 1,190,684 |
| Basic and diluted earnings per share in Icelandic krona | 0.33 | 0.29 | 0.47 | 0.07 | 1.16 |