N1 hf.

Financial Statements 2015

N1 hf.
Dalvegur 10-14
201 Kópavogur

Reg. no. 540206-2010

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Endorsement by the Board of Directors and the CEO

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

Operations in the year 2015

The Company´s operating revenue for the year 2015 amounted to ISK 49,411 million (2014: 57,458) and decreased by 14% between years.The decrease in operating revenue is mainly due to decrease in the world market price of fuel. Profit before depreciation, amortisation and finance items amounted to ISK 3,012 million for the year 2015 (2014: 2,668) and increased by 12.9% between years. According to the income statement and statement of comprehensive income, the profit for the year amounted to ISK 1,860 million (2014: 1,628) but total comprehensive income for the year ISK 1,815 million (2014: 1,617). The Company´s equity at year end amounted to ISK 7,731 million (2014: 11,259), including share capital in the nominal value of ISK 350 million. Reference is made to the statement of changes in equity regarding changes of equity during the year.

Full time equivalent units was 521 in the year 2015 (2014: 560).

The Company's Board of Directors proposes a dividend payment to shareholders in 2016 of ISK 1,050 million, which represents ISK 3.0 per share.

Shareholders

At the end of the year the Company´s shareholdes were 1,676 compared to 2,403 at the beginning of the year. Following are the Company's 20 biggest shareholders at year end.

Lífeyrissjóður verslunarmanna	14.2%
Gildi - lífeyrissjóður	9.6%
Lífeyrissjóður starfsmanna ríksins A-deild og B-deild	8.3%
Stafir lífeyrissjóður	5.8%
Almenni lífeyrissjóðurinn	5.0%
Landsbankinn hf.	4.4%
Helgafell ehf.	4.2%
Söfnunarsjóður lífeyrisréttinda	3.6%
Sameinaði lífeyrissjóðurinn	3.3%
Stapi lífeyrissjóður	2.8%
Íslandsbanki hf.	2.6%
Landsbréf Öndvegisbréf	2.4%
Landsbréf - Úrvalsbréf	2.3%
Hofgarðar ehf.	2.2%
Hekla fagfjárfestasjóður	2.1%
Festa - lífeyrissjóður	2.1%
GAMMA: Equity Fund	1.4%
Virðing safnreikningur	1.4%
Lífsverk lífeyrissjóður	1.3%
S8 ehf.	1.1%

Share capital and Articles of Association

The Company's registered share capital at year-end amounted to ISK 350 million. All shares are in one class and the same rights are attached to all shares.

The Company´s share capital was decrease twice during the year in accordance with its policy of capital structure. In accordance with the decision of the annual general meeting, held on 23 March 2015, the nominal value of share capital was decreased from ISK 700 million to ISK 470 million, i.e. by ISK 230 million. Share premium was decreased by ISK 2,729 million. The total amount of ISK 2,959 million was paid to shareholders proportionally according to their shareholdings in the Company on 8 May 2015. At a shareholder meeting held on 20 November a further decrease of share capital was agreed. The nominal value of share capital was subsequently decreased by ISK 120 million and share premium by ISK 1,424 millon. The total amount of ISK 1,544 millon was paid to shareholders proportionally according to their shareholdings in the Company on 18 December 2015. Thus, the total decrease of the nominal value of share capital during the year was ISK 350 million and total payments to shareholders ISK 4,503 million.

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

Share capital and Articles of Association, contd.:

At the annual general meeting on 23 March 2015, a proposal from the Board of Directors was approved authorizing the Company to acquire up to 10% of the Company´s total share capital. The authorization has not been exercised.

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

Corporate governance

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

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 2015, its assets, liabilities and financial position as at 31 December 2015, and changes in cash and cash equivalents during the year 2015.
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 2015 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, 17 February 2016

The Board of Directors of N1 hf.

Margrét Guðmundsdóttir
Chairman of the Board

Helgi Magnússon

Kristín Guðmundsdóttir

Jón Sigurðsson

Þórarinn V. Þórarinsson

CEO

Eggert Þór Kristófersson

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 2015, which comprise the income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and a summary of significant accounting policies and other explanatory 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 to enable 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 is to express an opinion 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 2015, its financial position as at 31 December 2015 and change in cash flows for the year 2015 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 the requirement of Paragraph 2 Article 104 of the Financial Statements Act no. 3/2006, we confirm to the best of our knowledge that the accompanying Report of the Board of Directors and the CEO includes all the information required by the Financial Statements Act that is not disclosed elsewhere in the financial statements.

Kopavogur, 17 February 2016

Ernst & Young ehf.

Jóhann Unnsteinsson
State Authorised Public Accountant

Income Statement and Statement of Comprehensive Income for the Year 2015

	Notes	2015	2014
Sales	8	49,018,433	56,960,198
Cost of goods sold		(38,849,914)	(47,355,478)
Gross profit	9	10,168,519	9,604,720
Other operating income		392,161	497,802
Salaries and other personnel expenses	10	(3,883,348)	(3,830,592)
Sales and distribution expenses	11	(2,268,324)	(2,135,611)
Other operating expenses	12	(1,397,160)	(1,467,970)
		(7,548,832)	(7,434,173)
Profit before depreciation, amortisation and finance items		3,011,848	2,668,349
Depreciation and amortisation	14	(716,539)	(747,196)
Operating income		2,295,309	1,921,153
Finance income	15	185,192	349,183
Finance expenses	15	(430,220)	(469,191)
Currency exchange gain		52,815	108,541
Effect of associates	20	178,743	93,802
Change in fair value of shares	21	0	6,282
		(13,470)	88,617
Profit before income tax		2,281,839	2,009,770
Income tax	16	(421,594)	(382,220)
Profit for the year		1,860,245	1,627,550
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		(45,225)	(10,815)
Total comprehensive income for the year		1,815,020	1,616,735
Basic and diluted earnings per share in Icelandic krona	17	3.39	1.67

Notes on pages 10 to 31 are an integral part of these financial statements.

Financial Statements of N1 hf. 2015 6 Amounts are in ISK thousand

Balance Sheet 31 December 2015

	Notes	2015	2014
Assets			
Intangible assets	18	316,689	362,338
Property, plant and equipment	19	9,166,834	9,328,575
Shares in associates	20	1,594,365	1,460,846
Shares in other companies	21	30,212	2,000
Bonds		67,896	48,009
Non-current assets		11,175,996	11,201,768
Inventories	22	2,604,007	3,134,257
Trade receivables	23	2,275,197	3,042,593
Receivables from related parties		20,663	27,776
Other short-term receivables	24	236,596	754,816
Cash and cash equivalents		2,472,372	4,629,100
Current assets		7,608,835	11,588,542
Total assets		18,784,831	22,790,310
Equity			
Share capital	25	350,000	700,000
Share premium		4,152,900	8,305,799
Statutory reserve		250,000	250,000
Revaluation reserve		377,384	391,831
Translation difference		(85,175)	(39,950)
Retained earnings		2,685,961	1,651,269
Total equity		7,731,070	11,258,949
Liabilities			
Payable to credit institutions	26	6,370,000	6,230,000
Deferred tax liability	27	263,333	271,285
Prepaid income		181,267	211,478
Non-current liabilities		6,814,600	6,712,763
Income tax payable		429,547	150,736
Payable to the Icelandic State	28	1,773,111	2,219,536
Payable to credit institutions	26	0	350,000
Trade payables		1,158,399	1,243,247
Payable to related parties		150,458	169,405
Prepaid income	29	225,464	256,477
Other short-term liabilities	30	502,182	429,197
Current liabilities		4,239,161	4,818,598
Total liabilities		11,053,761	11,531,361
Total equity and liabilities		18,784,831	22,790,310

Notes on pages 10 to 31 are an integral part of these financial statements.

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Statement of Changes in Equity for the Year 2015

	Share capital	Share premium	Statutory reserve	Revaluation reserve	Translation difference	Retained earnings	Total equity
Year 2014							
Equity as at 1 January 2014	1,000,000	11,865,427	250,000	413,237	(29,135)	1,652,313	15,151,842
Total comprehensive income for the year					(10,815)	1,627,550	1,616,735
Dividend to shareholders (ISK 1.65 per share)						(1,650,000)	(1,650,000)
Decrease in share capital	(300,000)	(3,559,628)					(3,859,628)
Dissolution of revaluation reserve of an associate				(21,406)		21,406	0
Equity as at 31 December 2014	700,000	8,305,799	250,000	391,831	(39,950)	1,651,269	11,258,949
Year 2015							
Equity as at 1 January 2015	700,000	8,305,799	250,000	391,831	(39,950)	1,651,269	11,258,949
Total comprehensive income for the year					(45,225)	1,860,245	1,815,020
Dividend to shareholders (ISK 1.20 per share)						(840,000)	(840,000)
Decrease in share capital	(350,000)	(4,152,899)					(4,502,899)
Dissolution of revaluation reserve of an associate				(14,447)		14,447	0
Equity as at 31 December 2015	350,000	4,152,900	250,000	377,384	(85,175)	2,685,961	7,731,070

Notes on pages 10 to 31 are an integral part of these financial statements.

Financial Statements of N1 hf. 2015 8 Amounts are in ISK thousand

Statement of Cash Flows for the Year 2015

	Notes	2015	2014
Cash flows from operating activities			
Profit before depreciation, amortisation and finance items		3,011,848	2,668,349
Operating items not affecting cash flows:			
Gain on sale of property, plant and equipment		(15,405)	(154,178)
Prepaid income		(30,211)	(30,211)
		2,966,232	2,483,960
Changes in operating assets and liabilities:			
Inventories, decrease		534,557	1,238,050
Trade and other short-term receivables, decrease		1,226,554	13,796
Trade and other short-term payables, decrease		(492,046)	(66,458)
Changes in operating assets and liabilities		1,269,065	1,185,388
Interest income received		180,600	342,780
Interest expense paid on short-term liabilities		(14,770)	(6,544)
Income tax paid		(150,736)	(47,037)
Cash flows from operating activities		4,250,391	3,958,547
Cash flows from investing activities			
Purchase of intangible assets		(49,432)	(48,903)
Purchase of property, plant and equipment		(487,065)	(395,642)
Sale of property, plant and equipment		90,754	1,081,987
Purchase of shares in other companies		(28,212)	0
Sale of shares in other companies		0	290,705
Dividends received		2,000	9,718
Investing activities		(471,955)	937,865
Cash flows from financing activities			
Decrease in share capital		(4,502,899)	(3,859,628)
Dividend paid		(840,000)	(1,650,000)
Repayment of long-term loans		(210,000)	(350,000)
Interest expense paid on long term loans		(415,737)	(467,740)
Financing activities		(5,968,636)	(6,327,368)
Net decrease in cash and cash equivalents		(2,190,200)	(1,430,956)
Currency exchange gain on cash and cash equivalents		33,472	40,642
Cash and cash equivalents at the beginning of the year		4,629,100	6,019,414
Cash and cash equivalents at the end of the year		2,472,372	4,629,100
Investing and financing activities not affecting cash flows			
Sale of property, plant and equipment		0	148,000
Receivable due to sale of property, plant and equipment		0	(148,000)

Notes on pages 10 to 31 are an integral part of these financial statements.

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Notes

1. Reporting entity

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

2. Basis of preparation

a. Statement of compliance

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

The financial statements of N1 hf. were approved by the Board of Directors on 17 February 2016.

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.e.(iv) regarding classification of leases, note 22 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. 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.

3. Significant accounting policies, contd.:

b. Foreign currencies

(i) Transactions in foreign currencies

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

(ii) Foreign associates

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

c. Financial instruments

(i) Financial assets and financial liabilities

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

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

Financial assets at fair value through profit and loss

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

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.

3. Significant accounting policies, contd.:

c. Financial instruments, contd.:

Financial liabilities

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

(ii) Share capital

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

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

d. Intangible assets

(i) Software

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

(ii) Trademarks

Cost of procuring 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.

e. 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.

(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.

3. Significant accounting policies, contd.:

e. Property, plant and equipment, contd.:

(iv) Leased assets

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

f. Inventories

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

g. Impairment

(i) Financial assets

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

h. Contribution to defined contribution pension plans

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

i. Provisions

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

3. Significant accounting policies, contd.:

j. Revenue

(i) Sold goods and services

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

(ii) Customer points programme

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

When a sale of goods includes the accumulation of customer points the consideration is allocated in such a way 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.

k. Expenses

Cost of goods sold

Cost of goods sold consists of the purchase price of sold inventories together with the related transportation cost, excise tax and duties.

l. Operating lease expense

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

m. Finance income and finance expenses

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

Finance expenses comprise interest expenses and borrowing costs on borrowings and recgnised according to effective interest rate. Foreign exchange differences are recognised net among finance income or finance expenses, as appropriate.

3. Significant accounting policies, contd.:

n. 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.

o. 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.

p. New standards and interpretations not yet effective

The Company has adopted all international financial reporting standards, interpretations and amendments to standards that have been endorsed by the EU, are relevant for the Company and are effective for the financial year 2015. The International Accounting Standards Board has issued a few new standards that have not become effective and are yet to be endorsed by the EU. The Company has not assessed the impact of those standards, if endorsed by the EU, on it´s financial statements in the future. The standards that are considered to have some potential impact on the Company´s financial statements in the future are IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

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.

(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.

4. Determination of fair values, contd.:

(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 2015	Designated at fair value	Loans and receivables	Other financial liabilities	Carrying amount
Assets:				
Cash and cash equivalents		2,472,372		2,472,372
Trade receivables		2,275,197		2,275,197
Receivables from related parties		20,663		20,663
Other short-term receivables		154,771		154,771
Bonds	67,896			67,896
Shares in other companies	30,212			30,212
	98,108	4,923,003		5,021,111
Liabilities:				
Payable to credit institutions			6,370,000	6,370,000
Payable to the Icelandic State			1,773,111	1,773,111
Trade payables			1,158,399	1,158,399
Payable to related parties			150,458	150,458
Other short-term liabilities			502,182	502,182
			9,954,150	9,954,150
31 December 2014				
Assets:				
Cash and cash equivalents		4,629,100		4,629,100
Trade receivables		3,042,593		3,042,593
Receivables from related parties		27,776		27,776
Other short-term receivables		479,552		479,552
Bonds	48,009			48,009
Shares in other companies	2,000			2,000
	50,009	8,179,021		8,229,030
Liabilities:				
Payable to credit institutions			6,580,000	6,580,000
Payable to the Icelandic State			2,219,536	2,219,536
Trade payables			1,243,247	1,243,247
Payable to related parties			169,405	169,405
Other short-term liabilities			429,197	429,197
			10,641,385	10,641,385

Financial Statements of N1 hf. 2015 16 Amounts are in ISK thousand

Notes, contd.:

6. Financial risk management

Overview

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

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

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 27% (2014: 44%) of the Company's trade receivables at year end is attributable to 30 of the Company's biggest customers. Thereof, receivable from the biggest customer was 3% (2014: 4%).

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.

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 2015. 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 13 years. In accordance with its provisions no repayments are due on the long-term loan until September 2020. Tthe Company also has access to a credit line for four years, ISK 2,5 billion and USD 25 million that together amount to ISK 4,5 billion in total.

Market risk

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

Price risk

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

6. Financial risk management, contd.:

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 60% (2014: 56%), USD 39% (2014: 42%) and other currencies 1% (2014: 2%).

Interest rate risk

The Company is exposed to cash flow interest rate risk due to changes in interest rates of floating rate financial liabilities. As stated before, the Company endeavours to ensure it always has sufficient liquidity to meet its liabilities as they become due. The Company's long-term loan and its line of credit are not indexed to inflation.

Other price risk

Other price risk which arises from financial instruments recognised at fair value is not material since the Company´s investments in other companies and bonds are not a significant part of the balance sheet or 0.5% at year end 2015 (2014: 0.2%).

Operating risk

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

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

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. Sales

	2015	2014
Fuel	38,701,718	46,792,675
Other goods	10,316,715	10,167,523
Total net sales	49,018,433	56,960,198

Sale to one customer was 22.9% of the companies total sale for the year 2015 (2014: 25.1%).

9. Gross profit

Fuel	5,632,286	5,278,548
Other goods	4,536,233	4,326,172
Total gross profit	10,168,519	9,604,720

Financial Statements of N1 hf. 2015 18 Amounts are in ISK thousand

10. Salaries and other personnel expenses

	2015	2014
Salaries	3,098,845	3,112,965
Contributions to pension funds	287,341	287,106
Other salary related expenses	370,500	301,399
Other personnel expenses	126,662	129,122
Total salaries and other personnel expenses	3,883,348	3,830,592
Number of employees in full time equivalent units	521	560
Full time equivalent units at year end	456	454

11. Sales and distribution expenses

Distribution expenses	1,702,775	1,499,711
Marketing expenses	256,597	301,122
Maintenance expenses	308,952	334,778
Total sales and distribution expenses	2,268,324	2,135,611

12. Other operating expenses

Office and administrative expenses	246,983	274,152
Operations of premises	414,612	432,989
Lease expense	277,080	276,359
Computer hardware and software	209,400	230,523
Write-off and impairment of trade receivables (see note 31)	(23,636)	22,181
Other expenses	272,721	231,766
Total other operating expenses	1,397,160	1,467,970

13. Fees to the Company´s auditor

Audit of the financial statements	12,429	11,187
Review of interim financial statements	2,538	1,994
Other services	2,071	1,739
Total fees to auditors	17,038	14,920

14. Amortisation and depreciation

Amortisation of intangible assets, see note 18	95,081	86,850
Depreciation of property, plant and equipment, see note 19	621,458	660,346
Total amortisation and depreciation	716,539	747,196

Financial Statements of N1 hf. 2015 19 Amounts are in ISK thousand

Notes, contd.:

15. Finance income and finance expenses

Finance income is specified as follows:

	2015	2014
Interest income on bank accounts	113,517	244,138
Interest income and fair value changes on bonds	23,733	24,575
Interest income on receivables	45,942	70,752
Dividend income	2,000	9,718
Total finance income	185,192	349,183

Finance expenses are specified as follows:

	2015	2014
Interest expenses	430,220	469,191
Total finance expenses	430,220	469,191

16. Income tax

Income tax in the income statements is specified as follows:

	2015	2014
Income tax payable	429,546	150,736
Deferred income tax	(7,952)	231,484
	421,594	382,220

Effective income tax is specified as follows:

		2015		2014
Profit before income tax		2,281,839		2,009,770
Income tax based on current tax rate	20.0%	456,368	20.0%	401,954
Non-deductible expenses	0.1%	1,375	0.1%	2,226
Non-taxable income	(1.6%)	(36,149)	(1.1%)	(21,960)
Effective income tax rate	18.5%	421,594	19.0%	382,220

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	2015	2014
Profit for the year	1,860,245	1,627,550
Share capital at the beginning of the year	700,000	1,000,000
Effect of decrease in share capital	(150,740)	(27,945)
Weighted-average of issued share capital	549,260	972,055
Basic earnings and diluted earnings per share in ISK	3.39	1.67

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18. Intangible assets

Intangible assets and amortisation is specified as follows:

	Software	Trademarks	Total
Total value			
Total value 1.1.2014	486,563	230,850	717,413
Additions during the year	48,903	0	48,903
Total value 31.12.2014	535,466	230,850	766,316
Additions during the year	49,432	0	49,432
Total value 31.12.2015	584,898	230,850	815,748
Amortisation			
Amortisation 1.1.2014	247,874	69,254	317,128
Amortisation for the year	75,308	11,542	86,850
Total amortisation 31.12.2014	323,182	80,796	403,978
Amortisation of the year	83,539	11,542	95,081
Total amortisation 31.12.2015	406,721	92,338	499,059
Carrying amount			
Carrying amount 1.1.2014	238,689	161,596	400,285
Carrying amount 31.12.2014	212,284	150,054	362,338
Carrying amount 31.12.2015	178,177	138,512	316,689
Amortisation rates	15%	5%	

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 1.1.2014	10,677,903	4,415,535	15,093,438
Additions during the year	42,483	353,159	395,642
Sold and disposed of during the year	(87,539)	(335,804)	(423,343)
Total value 31.12.2014	10,632,847	4,432,890	15,065,737
Additions during the year	180,013	307,052	487,065
Sold and disposed of during the year	(19,653)	(101,228)	(120,881)
Total value 31.12.2015	10,793,207	4,638,714	15,431,921
Depreciation			
Depreciated 1.1.2014	3,032,141	2,340,350	5,372,491
Depreciation for the year	265,365	394,981	660,346
Sold during the year	(21,559)	(274,116)	(295,675)
Total depreciation 31.12.2014	3,275,947	2,461,215	5,737,162
Depreciation for the year	263,388	358,070	621,458
Sold and disposed of during the year	(2,513)	(91,020)	(93,533)
Total depreciation 31.12.2015	3,536,822	2,728,265	6,265,087

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Carrying amount

Carrying amount 1.1.2014	7,645,762	2,075,185	9,720,947
Carrying amount 31.12.2014	7,356,900	1,971,675	9,328,575
Carrying amount 31.12.2015	7,256,385	1,910,449	9,166,834
Depreciation rates	3-10%	6-20%	

Insurances and valuation of assets

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

	2015	2014
Value for taxation of real estates	4,543,668	4,479,879
Value for fire insurance of real estates	7,331,898	7,093,384
Insurance value of tools, equipment and furnishings	2,071,971	2,045,911
Insurance value of inventories	2,173,669	2,134,827

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

Pledged assets

Íslandsbanki hf. holds complete pledge in the Company's main real estates, inventories and trade receivables in the amount of ISK 15,867 million as collateral for long-term loans and the line of credit.

The line of credit amounts to ISK 2,500 million and USD 25 million. The Company has not utilised the line of credit at year end, however to the maximum amount of ISK 4,500 million.

20. Shares in associates

Shares in associates are specified as follows:

Year 2015	Share	Nominal value	Carrying amount
Olíudreifing ehf.	60.0%	249,000	1,104,989
Malik Supply A/S, Denmark *	49.0%	24,021	443,312
EAK ehf	33.3%	6,000	28,779
Shares in four associates	-	3,340	17,285
Total shares in associates at year end			1,594,365

*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	1,460,846
Share of profit	178,743
Translation difference	(45,225)
Carrying amount at year end	1,594,365

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20. Shares in associates, contd.:

Year 2014

	Share	Nominal value	Carrying amount
Olíudreifing ehf.	60.0%	249,000	973,050
Malik Supply A/S, Denmark *	49.0%	24,021	446,509
EAK ehf.	33.3%	6,000	23,628
Shares in four associates	-	3,340	17,659
Total shares in associates at year end			1,460,846

*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	1,377,860
Share of profit	93,802
Translation difference	(10,815)
Carrying amount at year end	1,460,846

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

Olíudreifing ehf.

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

	2015*	2014*
Non-current assets	3,465,157	3,419,556
Current assets	862,277	617,898
Non-current liabilities	(1,939,613)	(1,952,370)
Current liabilities	(546,173)	(441,665)
Net asset (100%)	1,841,648	1,643,419
Fair value adjustment of property	0	13,001
Carrying amount of the share (60%)	1,104,989	973,050
Income (100%)	3,409,156	3,035,494
Profit (100%)	198,229	37,131
Share in total comprehensive income (60%)	118,937	22,279

* Draft of Financial Statements

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Notes, contd.:

20. Shares in associates, contd.:

Malik Supply A/S

Malik Supply A/S was founded in 1989 to service the international fleet of trawlers on the waters of Greenland and in the North Atlantic ocean with oil, lubricants and other products. N1 sells Malik fuel oil sold to major fisheries in Greenland. The financial statements of Malik Supply A/S are prepared in accordance with the Danish Financial Statements Act.

	2015	2014*
Non-current assets	657,598	280,142
Current assets	1,964,597	1,414,390
Non-current loans	(379,228)	(263,428)
Current loans	(1,602,156)	(820,407)
Net asset (100%)	640,811	610,697
Fair value adjustment	129,315	147,267
Carrying amount of the share (49%)	443,312	446,509
Income (100%)	737,014	294,748
Profit (100%)	109,295	125,614
Share in total comprehensive income (49%)	53,554	61,551

* Draft of Financial Statements

21. Shares in other companies

Shares in other companies are specified as follows:

	2015	2014
Shares in other companies	30,212	2,000

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

22. Inventories

Inventories at year end are specified as follows:

	2015	2014
Fuel	1,323,487	1,924,571
Other goods	1,280,520	1,209,686
Total inventories	2,604,007	3,134,257

23. Trade receivables

Trade receivables are specified as follows at year end:

Nominal value of trade receivables	2,331,699	3,172,050
Bonds	49,228	18,430
Allowance for impairment	(105,730)	(147,887)
Carrying amount of trade receivables	2,275,197	3,042,593

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

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24 Other short-term receivables

Other short-term receivables at year end are specified as follows:	2015	2014
Prepaid expenses	81,825	275,264
VAT refund and other receivables from the Icelandic State	53,213	325,389
Other short-term receivables	101,558	154,163
Total other short-term receivables	236,596	754,816

25 Equity

(i) Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 350 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 in excess of the nominal value of share capital, after taking into account loss equalisation amounting to ISK 1,135 million and a decrease of ISK 7,713 million due to decrease of share capital in 2014 and 2015.

(iii) Statutory reserve

In accordance with Act on Public Limited Companies, companies are to retain a portion of its income for the year in a statutory reserve, up to the limit of the reserve being in the amount of 25% of the nominal value of share capital. The Company´s statutory reserve is in excess of that limit since it is 71.4% of the nominal value of share capital at year-end 2015. This is due decrease in share capital in the years 2015 and 2014 without a corresponding decrease of this reserve.

(iv) 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) 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 of approximately 40%. The Company's loan agreements require a mininum equity ratio of 35%. At year-end 2015 the Company's equity ratio was 41.2%

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26. Payable to credit institutions

Interest bearing liabilities are specified as follows at year end:

	2015		2014	
	Interest rate	Carrying amount	Interest rate	Carrying amount
Non-indexed loan in ISK on floating interests	7.10%	6,370,000	6.90%	6,580,000
Current maturities		0		(350,000)
Total long-term liabilities		6,370,000		6,230,000

Maturities are specified as follows over the next years:	2015	2014
Year 2015	-	350,000
Year 2016	0	350,000
Year 2017	0	350,000
Year 2018	0	350,000
Year 2019	0	350,000
Year 2020	140,000	350,000
Later	6,230,000	4,480,000
	6,370,000	6,580,000

27. Deferred tax liability

Deferred tax liability is specified as follows by individual items:

Asset		
Inventories	18,979	12,258
	18,979	12,258
Liability		
Property, plant and equipment	221,387	209,517
Intangible assets	43,035	56,274
Unrealised currency exchange difference	14,278	14,644
Trade receivables	3,612	3,108
	282,312	283,543
Deferred tax liability	263,333	271,285

28. Payable to the State

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

29. Prepaid income

Prepaid income is specified as follows at year end:

Points programme	160,344	167,206
Prepaid cards	34,909	59,060
Klettagarðar 13	30,211	30,211
Total prepaid income	225,464	256,477

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30. Other short-term liabilities

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

	2015	2014
Unpaid salaries and salary related expenses	172,372	123,288
Accrued vacation	234,417	222,884
Unpaid accrued interests	74,122	74,409
Oil contract	17,011	0
Other short term liabilities	4,260	8,616
Total other short-term liabilities	502,182	429,197

31. Financial instruments

Credit risk

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

Bonds	67,896	48,009
Trade receivables	2,275,197	3,042,593
Receivables from related parties	20,663	27,776
Other short-term receivables	154,771	479,552
Cash and cash equivalents	2,472,372	4,629,100
	4,990,899	8,227,030

Approximately 27% (2014: 44%) of balances of trade receivables are with the 30 largest customers of the Company. Thereof the largest trade receivable was 3% (2014: 4%).

Age analysis of trade receivables and impairment loss

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

Year 2015	Nominal value	Write-down	Carrying amount
Not due	1,689,878	(39,069)	1,650,809
Past due by 30 days or less	388,974	(30,111)	358,863
Past due by 31 - 120 days	224,575	(12,274)	212,301
Past due by more than 120 days	77,500	(24,276)	53,224
	2,380,927	(105,730)	2,275,197
Year 2014			
Not due	2,327,405	(43,418)	2,283,987
Past due by 30 days or less	424,292	(25,621)	398,671
Past due by 31 - 120 days	308,281	(23,811)	284,470
Past due by more than 120 days	130,503	(55,038)	75,465
	3,190,481	(147,888)	3,042,593

Impairment on trade receivables is specified as follows:

	2015	2014
Balance at the beginning of the year	147,887	244,631
Receivables written-off during the year	(18,521)	(118,925)
Expensed impairment during the year	(23,636)	22,181
Balance at year end	105,730	147,887

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31. Financial instruments, contd.:

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

Year 2015	Nominal value	Specific write-down	General write-down	Carrying amount at year end
Fishing industry	463,520	(9,416)	(7,689)	446,415
Transportation	295,927	(5,540)	(4,909)	285,478
Contractors	201,177	(18,085)	(3,337)	179,755
Other industries and individuals	1,306,872	(33,194)	(21,678)	1,252,000
Foreign sale	113,431	0	(1,882)	111,549
	2,380,927	(66,235)	(39,495)	2,275,197

Year 2014				
Fishing industry	768,054	(25,052)	(9,667)	733,335
Transportation	106,113	(15,986)	(1,336)	88,791
Contractors	314,568	(29,717)	(3,959)	280,892
Other industries and individuals	1,572,983	(36,976)	(19,798)	1,516,209
Foreign sale	428,763	0	(5,397)	423,366
	3,190,481	(107,731)	(40,157)	3,042,593

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 2015	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Payable to credit institutions	452,273	452,273	1,563,506	8,836,368
Payable to the Icelandic State	1,773,111			
Trade payables	1,158,399			
Payable to related parties	150,458			
Other short term liabilities	502,182			
	4,036,423	452,273	1,563,506	8,836,368

Year end 2014				
Payable to credit institutions	793,558	769,408	2,163,324	6,845,746
Payable to the Icelandic State	2,219,536			
Trade payables	1,243,247			
Payable to related parties	169,405			
Other short term liabilities	429,197			
	4,854,943	769,408	2,163,324	6,845,746

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.

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Notes, contd.:

31. Financial instruments, contd.:

Currency risk

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

Year 2015	USD	EUR	Other currencies	Total
Bonds	0	0	27,759	27,759
Trade receivables	302,430	1,200	13,128	316,758
Cash and cash equivalents	250,603	597	581	251,781
Trade payables	(274,606)	(56,835)	(99,958)	(431,399)
Risk in balance sheet	278,427	(55,038)	(58,490)	164,899

Year 2014	USD	EUR	Other currencies	Total
Bonds	0	0	30,372	30,372
Trade receivables	835,790	13,092	10,900	859,782
Cash and cash equivalents	333,875	857	3,180	337,912
Trade payables	(269,966)	(44,258)	(94,994)	(409,218)
Risk in balance sheet	899,699	(30,309)	(50,542)	818,848

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.

	2015	2014
USD	(27,843)	(89,970)
EUR	5,504	3,031
Other currencies	5,849	5,054
Total	(16,490)	(81,885)

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

Interest rate risk

An interest increase at the reporting date by one percentage (100 basis points) would decrease results before income tax by ISK 64 million (2014: 66) 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 1,474 million until the year 2020. Future rent payments, without taking into account future inflation, are specified as follows at year end:

	2015	2014
Within one year	319,997	304,774
After 1 - 5 years	748,357	862,368
After 5 years	406,156	551,351
Total	1,474,510	1,718,493

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32. Operating lease, contd.:

Rental income

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

	2015	2014
Within one year	155,582	135,464
After 1 - 5 years	297,860	267,767
After 5 years	142,488	191,896
Total	595,930	595,127

33. Related parties

Definition of related parties

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

Transactions with associated companies

Transactions with associated companies are specified as follows:

Purchased goods and services	1,433,822	1,220,866
Sold goods and services	469,458	424,161
Bonds	27,759	30,372
Receivables at year end	20,663	27,776
Payables at year end	150,458	169,405

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

	2015	2014	Shares at year end 2015
Margrét Guðmundsdóttir, Chairman of the Board	7,590	7,320	4,219
Helgi Magnússon, Board member	5,513	4,808	7,838,537
Kristín Guðmundsdóttir, Board member	4,125	3,900	8,438
Jón Sigurðsson, Board member	3,795	1,300	14,736,356
Þórarinn V. Þórarinsson, Board member	3,150		4,219
Guðmundur Arnar Óskarsson, former Board member	975	2,925	
Hreinn Jakobsson, former Board member	0	975	
Kristinn Pálmason, former Board member **	0	875	
Eggert Þór Kristófersson, CEO	43,806	33,827	228,759
Eggert Benedikt Guðmundsson, former CEO*	87,252	55,886	114,379
Guðný Rósa Þorvarðardóttir, Head of Customer Serivice	14,104		
Ingunn Sveinsdóttir, Head of Customer Services	18,172	25,962	
Hinrik Örn Bjarnason, Head of Corporate Services	30,178	25,164	121,663
Pétur Hafsteinsson, Head of Finance Division	18,386		4,575
Total salaries and benefits of the Board of Directors and management	237,046	162,942	23,061,145

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

** Paid to Framtakssjóður Íslands slhf. due to board membership of Kristinn Pálmason, its employee.

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33. Related parties, condt.:

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

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

Transaction with other related parties

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

Transactions with employees

The Company has provided loans to its employees due to general purchase of goods in the amount of ISK 16 million at year end 2015 (2014: ISK 17 million).

34. Ratios

The Company's key ratios are specified as follows:

	2015	2014
Income statement		
Turnover rate of inventories at the end of the period: utilisation of goods / weighted average inventories	12.03	12.13
Sales days in trade receivables: weighted average trade receivables / goods and services sold	25	25
Profit (loss) before depreciation, amortisation and finance items / gross profit	29.6%	27.8%
Salaries and salary related expenses / gross profit	38.2%	39.9%
Sales and distribution cost / gross profit	22.3%	22.2%
Other operating expenses / gross profit	13.7%	15.3%
Balance sheet		
Current ratio: current assets / current liabilities	1.79	2.40
Liquidity ratio: (current assets - inventories) / current liabilities	1.18	1.75
Leverage: Net interest bearing liabilities / EBITDA	1.14	0.60
Equity ratio: Equity / total capital	41.2%	49.4%
Return on equity: Return of the year / weighted average balance of equity	19.9%	11.9%

35. Other issues

In June 2013 the Icelandic Competition Authority announced that it had decided to initiate market research on the Icelandic fuel market. This is a new form of research, which includes consideration of a need for action against conditions or conduct that prevent, restrict or adversely affect competition to the detriment of the public. The study does not focus specifically on the Company itself, but the fuel market as a whole. On 30 November 2015 the Icelandic Competition Authority issued a report on its preliminary findings regarding its research on the Icelandic fuel market. The Company has to give its comments on the report no later than 11 March 2016.

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Statement of Corporate Governance

Board of Directors and corporate governance

The Board of Directors

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

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

• The Board of Directors of N1 has not appointed a nomination committee.

• The Statement of Corporate Governance does not include an analysis of environmental and social factors needed to understand the development, success and position of the Company.

• The Statement of Corporate Governance does not include information on main points affecting the appraisal of the Board's success.

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

The Board of Directors of N1 hf. consists of five directors and one reserve director appointed for a one year term in the Annual General Meeting. Margrét Guðmundsdóttir is the Chairman of the Board and has been on the Company's Board since 2011 and as Chairman since 2012. Kristín Guðmundsdóttir has been on the Board since 2011, Helgi Magnússon since 2012, Jón Sigurðsson since 2014 and Þórarinn V. Þórarinsson since 2015. The Board of Directors of N1 hf consists of two women an 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.

Statement of Corporate Governance, continued

Board of Directors and corporate governance, continued

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.

All members of the Board of Directors have provided personal information to enable an evaluation of their qualification for membership on the Board of Directors in other companies, shareholding in the Company, whether directly or indirectly through related parties, and possible conflict of interest. Helgi Magnússon is not regarded as being independent of the large shareholders in the Company. Helgi is the alternate Chairman of the Board of Directors of Lífeyrissjóður verslunarmanna, which owns 14.2% of the share capital of the Company. All other Board members are independent of both the Company and the large shareholders.

Remuneration committee

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

Audit committee

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

The audit committee´s tasks are as follows:
• To monitor the financial reporting process.
• To monitor the organisation and effectiveness of N1´s internal control, risk management and other control procedures.
• To monitor the external audit of N1´s financial statements.
• To make recommendation to the Board of Directors regarding selection of auditors or audit firm.
• Evaluate the independence of external auditors or audit firm and monitor other tasks performed by them.

Executive Board

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

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

In the year 2015, 13 Board meetings were held, 8 meetings in the Audit Committee and 4 meetings in the Remuneration committee. The majority of the Board, the Audit Committee and the Remuneration committee attended all meetings. The audit committee calls meetings with the Company's auditors on regular basis and auditors attend Board meetings when reviewed or audited financial statements are discussed.

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

N1´s values are:
• Respect - we respect our customers and our community.
• Simplicity - we are clear and focused in all our work.
• Energy - we are positive, certain and leading in our affairs.

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

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

Statement of Corporate Governance, continued

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

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

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

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

Shareholders

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

Quarterly Statement - unaudited

The company´s operating results for the year 2015 by quarters

	Q1	Q2	Q3	Q4	2015 Total
Sales	9,877,310	13,543,378	15,884,465	9,713,280	49,018,433
Cost of goods sold	(7,894,389)	(10,686,001)	(12,879,468)	(7,390,056)	(38,849,914)
Gross profit	1,982,921	2,857,377	3,004,997	2,323,224	10,168,519
Other operating income	101,111	92,511	87,874	110,665	392,161
Salaries and other personnel expenses	(992,287)	(975,936)	(910,690)	(1,004,435)	(3,883,348)
Sales and distribution expenses	(486,823)	(595,406)	(723,880)	(462,215)	(2,268,324)
Other operating expenses	(335,617)	(374,383)	(348,258)	(338,902)	(1,397,160)
	(1,814,727)	(1,945,725)	(1,982,828)	(1,805,552)	(7,548,832)
Profit before depreciation, amortisation and finance items	269,305	1,004,163	1,110,043	628,337	3,011,848
Depreciation and amortisation	(174,714)	(175,904)	(177,776)	(188,145)	(716,539)
Operating income	94,591	828,259	932,267	440,192	2,295,309
Finance income	49,908	41,143	21,089	73,052	185,192
Finance expenses	(100,685)	(102,635)	(111,928)	(114,972)	(430,220)
Currency exchange gain	55,976	(4,426)	(9,458)	10,723	52,815
Effect of associates	55,118	25,451	74,861	23,313	178,743
Change in fair value of shares	0	0	0	0	0
	60,317	(40,467)	(25,436)	(7,884)	(13,470)
Profit (loss) before income tax	154,908	787,792	906,831	432,308	2,281,839
Income tax	(20,333)	(152,855)	(166,622)	(81,784)	(421,594)
Profit (loss) for the period	134,575	634,937	740,209	350,524	1,860,245
Other comprehensive income (expenses)					
Translation difference arising from operations of a foreign associate	(24,783)	606	(3,621)	(17,427)	(45,225)
Total comprehensive income (expense) for the period	109,792	635,543	736,588	333,097	1,815,020
Basic and diluted earnings per share in Icelandic krona	0.19	1.11	1.57	0.77	3.39

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Quarterly statement - unaudited

The company´s operating results for the year 2014 by quarters

	Q1	Q2	Q3	Q4	2014 Total
Sales	11,325,242	15,679,254	18,270,698	11,685,004	56,960,198
Cost of goods sold	(9,568,050)	(12,998,295)	(15,188,038)	(9,601,095)	(47,355,478)
Gross profit	1,757,192	2,680,959	3,082,660	2,083,909	9,604,720
Other operating income	89,781	134,951	88,682	184,388	497,802
Salaries and other personnel expenses	(947,484)	(993,426)	(929,634)	(960,048)	(3,830,592)
Sales and distribution expenses	(425,631)	(620,146)	(625,346)	(464,488)	(2,135,611)
Other operating expenses	(353,397)	(408,805)	(364,236)	(341,532)	(1,467,970)
	(1,726,512)	(2,022,377)	(1,919,216)	(1,766,068)	(7,434,173)
Profit before depreciation, amortisation and finance items	120,461	793,533	1,252,126	502,229	2,668,349
Depreciation and amortisation	(179,200)	(170,513)	(174,056)	(223,427)	(747,196)
Operating income	(58,739)	623,020	1,078,070	278,802	1,921,153
Finance income	86,908	82,956	63,059	116,260	349,183
Finance expenses	(122,513)	(118,002)	(117,821)	(110,855)	(469,191)
Currency exchange gain	(12,026)	16,220	65,099	39,248	108,541
Effect of associates	12,854	14,673	61,610	4,665	93,802
Change in fair value of shares	(4,805)	(12,685)	3,795	19,977	6,282
	(39,582)	(16,838)	75,742	69,295	88,617
Profit (loss) before income tax	(98,321)	606,182	1,153,812	348,097	2,009,770
Income tax	21,074	(119,480)	(218,611)	(65,203)	(382,220)
Profit (loss) for the period	(77,247)	486,702	935,201	282,894	1,627,550
Other comprehensive income (expenses)					
Translation difference arising from operations of a foreign associate	(8,675)	(3,394)	(3,621)	4,875	(10,815)
Total comprehensive income (expense) for the period	(85,922)	483,308	931,580	287,769	1,616,735
Basic and diluted earnings per share in Icelandic krona	(0.08)	0.49	0.94	0.28	1.67

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