FESTI

Consolidated Financial Statements

2023

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

Contents

Endorsement and Statement by the Board of Directors and the CEO

Operations of the Group

Festi owns and operates companies which are leading in the food market, fuel and service station market and electronic equipment and smart devices market. Operation of properties, purchase and sale of securities are also part of the operations of the Group.

The parent company Festi (“the Company”) owns the subsidiaries Krónan, which operates grocery stores under the name Krónan, N1, which operates service stations for fuel and electricity sales and various facilities related to lubrication and motor vehicle services, ELKO, which is the largest electronic equipment store in the country, Festi fasteignir, which owns and operates the Group’s properties, and Bakkinn vöruhótel, which specialises in warehouse services and distribution.

Board of Directors and Corporate Governance

The Board of Directors of Festi has established rules of procedure whereby 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 on 1 July 2021. The guidelines are accessible on the website www.leidbeiningar.is.

The Board of Directors consists of three males and two females. The Company’s Annual General Meeting will be held next 6 March. Further information about the Board of Directors and Corporate Governance can be found in the appendix Statement of Corporate Governance, which accompanies these financial statements.

Operations during the year

The Group´s operating revenue for the year 2023 amounted to ISK 138,440 million (2022: ISK 123,785 million) and increased by 11.8% between years. Operating profit before depreciation, amortisation and changes in value for the year 2023 amounted to ISK 11,015 million (2022: ISK 10,020 million) and increased by 9.9% between years. According to the Statement of Profit or Loss and Other Comprehensive Income, the profit for the year amounted to ISK 3,438 million (2022: ISK 4,082 million) and total comprehensive income for the year ISK 3,429 million (2022: ISK 4,044 million). The Group´s equity at year-end amounted to ISK 35,842 million (2022: ISK 33,460 million), including share capital in the nominal value of ISK 301 million. Reference is made to the Statement of Changes in Equity regarding changes in equity during the year. The Group´s equity ratio at year-end was 37.3% (2022: 36.9%).

Operations during the year went well in a challenging operating environment. The impact of high global commodity prices continued as in the previous year, with a lower margin level, especially in the fuel part of the operations. The effects of high inflation and the general wage increases negotiated in the labour market had a major impact on all operating costs, which resulted in higher product prices for stores. We worked with suppliers and collaborators to counteract these effects as well as find ways to optimise. Prices are expected to remain high in commodity markets amid the war in Ukraine and at the end of the Mediterranean Sea, but inflation is expected to decrease as the year 2024 progresses.

In connection with the publication of its annual financial statements for the year 2022, the Company released on 8 February 2023 earnings forecast for the year 2023, where projected EBITDA was ISK 9,750 – 10,250 million. The Company increased its earnings forecast two times during the year, last in connection with the publication of the interim financial statements for Q3, to ISK 10,400 – 10,800 million. The actual EBITDA for the year amounted to ISK 11,015 million, which is considerably better than the amount assumed in the first earnings forecast for the year. Increased business in all subsidiaries explain the better EBITDA, especially in the convenience goods part of the Group, where sales increased significantly more than assumed in the budgets. There was also a quantity increase in sales and in-stores visits in all areas of the business. The management continued to place great emphasis on the reduction of all operating expenses through various measures, which also explains the much better operating result than assumed in the budgets.

On 13 July Festi signed under the purchase of all shares in Lyfja hf., which operates 45 pharmacies and branches around Iceland, as well as an online store and an app. Lyfja and its subsidiaries employ around 380 employees and the group's total turnover amounted to ISK 15 billion in 2022 and EBITDA around ISK 1.3 billion. The total purchase price amounts to ISK 7.8 billion, but the purchase is subject to approval by the Competition Authority, which is assessing the purchase. The conclusion is expected in the second quarter of 2024.

The full-time equivalent number of employees was 1,352 and increased by 6.5% between years. The average number of employees was 2,259 and the employee gender ratio (males/females) was 61/39. Management gender ratio (males/females) was 65/35. Festi has a strong financial position at year-end and the Company is well prepared to address the challenges ahead.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

The Company's Board of Directors proposes that a dividend of ISK 3 per share of nominal value be paid during the year 2024 or approximately ISK 904 million.

Shareholders

The Company´s shareholders at the end of the year were 1,191, compared to 1,268 at the beginning of the year, and thus their number decreased by 77 during the year. Following are the Company's 20 largest shareholders at year-end:

	Share capital in thousands of ISK	Share capital in %	Change from 2022 in %
Lífeyrissjóður starfsmanna ríkisins, A- og B-deild	40,949	13.6%	-0.1%
Lífeyrissjóður verzlunarmanna	33,282	11.0%	0.2%
Gildi - lífeyrissjóður	29,499	9.8%	0.2%
Brú Lífeyrissjóður starfsmanna sveitarfélaga	27,224	9.0%	0.3%
Birta lífeyrissjóður	17,378	5.8%	-1.3%
Stefnir	14,426	4.8%	4.8%
Almenni lífeyrissjóðurinn	14,404	4.8%	0.1%
Stapi lífeyrissjóður	14,001	4.6%	0.0%
Vanguard	10,277	3.4%	1.2%
Frjálsi lífeyrissjóðurinn	10,029	3.3%	-0.3%
Söfnunarsjóður lífeyrisréttinda	9,263	3.1%	0.1%
Festa - lífeyrissjóður	7,377	2.4%	-1.6%
Lífeyrissjóður starfsmanna Reykjavíkurborgar	7,346	2.4%	0.0%
Stormtré ehf	7,101	2.4%	0.4%
Brekka Retail ehf	6,000	2.0%	0.4%
Lífsverk lífeyrissjóður	5,523	1.8%	-0.5%
Kjálkanes ehf	4,674	1.6%	-0.4%
Arion banki hf	2,861	0.9%	0.6%
Íslenski lífeyrissjóðurinn - Lífsbraut	2,422	0.8%	0.0%
Kvika banki hf	1,981	0.7%	0.4%
	266,017	88.3%	4.3%
Other shareholders	35,237	11.7%	-4.3%
	301,254	100.0%	

Share Capital and Articles of Association

The Company’s listed share capital amounted to ISK 305 million at the end of the year and it was decreased by ISK 8 million during the year by redemption of treasury shares. Outstanding at year-end 2023 were ISK 301 million shares (2022: ISK 308 million) and the Company owned 3,246 thousand own shares at year-end. All share capital is in one class and all shareholders enjoy the same rights. At the Company’s Annual General Meeting which was held on 22 March 2023 it was agreed to authorise the Company to repurchase up to 10% of the nominal amount of outstanding shares in accordance with Chapter VIII of the Act no. 2/1995 on Limited Liability Companies. The Company purchased a total of 6,246 thousand shares during the year, about 2.1% of total share capital, as part of the Company’s dividend policy, see Note 22. The authorisation is valid for up to 18 months. By approving this proposal, a similar authorisation was cancelled, which was approved at the Company’s Annual General Meeting on 22 March 2022 (as per Note 22). An extension for this authorisation will be requested at the Company’s Annual General Meeting next March.

Those who intend to run for election for the Board of Directors of the Company must notify so in writing to the Board of Directors with at least ten-day 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 for the meeting and what it consists of.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Non-Financial Information

Festi hf. is a public interest entity. According to the Icelandic Act on Annual Accounts, the Company shall provide information necessary to assess its development, scope, status, and influence in relation to environmental, social and personnel matters, its human rights policies, how it counteracts corruption and briberies in addition to a concise description of its business model, and more. For the past few years, the Company has issued a sustainability report in accordance with Nasdaq's ESG guidelines. The publication of the report is, among other things, to enable Festi to share its non-financial parameters for the Group, based on accepted methodology. The policies and results of Festi with respect to these matters are described in the appendix to these annual financial statements on non-financial information. There is also the Group's disclosed information in accordance with the requirements of the EU Taxonomy, which entered into force on June 1, 2023, valid for the full fiscal year of 2023.

Statement by the Board of Directors and the CEO

The Company's consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, as applicable, additional requirements of the Icelandic Act on Annual Accounts.

According to the best of our knowledge, in our opinion the consolidated annual financial statements give a true and fair view of the operating performance of the Group for the year 2023, its assets, liabilities and financial position as at 31 December 2023, and changes in cash and cash equivalents during the year 2023.

Furthermore, in our opinion the consolidated annual financial statements and the Endorsement and Statement of the Board of Directors and the CEO give a true and fair view of the development and results of the Group´s operations, its standing and describes the main risk factors and uncertainty that the Group faces.

The Board of Directors and the CEO of Festi hf. have today discussed the Company's consolidated annual financial statements for the year 2023 and confirm them by means of their signatures. The Board of Directors and the CEO propose that the Annual General Meeting of the Company approves the consolidated annual financial statements.

Kópavogur, 7 February 2024.

Board of Directors of Festi hf.

Guðjón Karl Reynisson, Chairman

Sigurlína Ingvarsdóttir, Vice-Chairman

Hjörleifur Pálsson

Magnús Júlíusson

Margrét Guðmundsdóttir

CEO

Ásta S. Fjeldsted

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Festi hf.

Opinion

We have audited the Consolidated Financial Statements of Festi hf. for the year ended December 31, 2023 which comprise the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of Festi hf. as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Our opinion in this report on the consolidated financial statements is consistent with the content of the additional report that has been submitted to the parent company´s audit committee in accordance with the EU Audit Regulation 537/2014 Article 11.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Festi hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements of 2023. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in our audit
Impairment of goodwill and trademarks	
Goodwill amounts to ISK 14.9 billion and the trademarks of Krónan and Elko amount to ISK 3.1 billion. The value of goodwill and trademarks depend on key assumptions applied by the management on estimated future cash flow of cash-generating units, and other assumptions applied in the discounting rate used in the valuation of the estimated cash flow. The value of other goodwill depends on management's assumptions on fair value. Goodwill and trademarks are significant items in the consolidated balance sheet and depend on management's estimation and judgements. Due to the importance of the valuation and its magnitude, we consider goodwill and trademarks as key audit matter. No impairment loss has been recognized for intangible assets. The trademark is amortized over 20 years. Further information about goodwill and trademarks can be found in notes 13 and 14 in the Consolidated Financial Statement.	In our audit of the valuation of goodwill and trademarks, we and our valuation experts have examined the Company's management impairment test. We examined the methodology used in the impairment test and its consistency with prior year. In our audit of the impairment test, we performed the following work: • Assessed the company's valuation model and its reliability. • Assessed the assumptions in the management's budget that are used in calculations in the impairment test and whether they are appropriate. • Reviewed of assumptions for expected future growth after the forecast period. • Reviewed of variances from previous year's budget. • Assessed the discount rate for each unit. • We reviewed whether the methodology used in the impairment test was in accordance with International Financial Reporting Standards (IFRSs) and assessed the adequacy of the disclosures for goodwill and trademarks.

Consolidated Annual Financial Statements of Festi hf. 2023 6 Amounts are in thousands of ISK

INDEPENDENT AUDITORS' REPORT, contd.:

Key Audit Matters	How the matter was addressed in our audit
Valuation of properties	
Properties of the Group amounts to ISK 33 billion and are classified on the balance sheet among property & equipment and investment properties. The investment properties that are part of Festi fasteignir ehf., subsidiary of Festi hf., are those that are leased to third parties. Investment properties are recognised at fair value through profit or loss. The Group's properties, those not classified as investment properties, are carried at revalued amount. Revaluation is performed on a regular basis, when management assesses that its fair value has changed significantly. The estimation of the value is based on expected cash flow. The assets were revaluated at year-end 2021. Revaluation of the Company's properties is dependent on the management's assessment of the assumptions in the expected future cash flow and other assumptions used in discounting the estimated future cash flow. As the properties are significant item in the Company's balance sheet and its valuation is based on management estimation, we consider real estate as key audit matter. Further information regarding real estate, we refer to note 14 and 16 in the Consolidated Financial Statements.	In our audit of the real estate valuation, we, and our valuation experts have examined the management valuation. We examined the methodology used in the valuation and its consistency with prior year. In our audit of the valuation, we performed the following work: • Assessed the company's calculation model and its reliability. • Assessed the assumptions used in management's budget that are used in the calculations of the valuation and whether they are appropriate. • Assessed the assumptions and calculation of the discount rate (WACC) and compared it to market conditions. • We assessed the company's policies and processes concerning revaluation. • We have examined the valuation methodology was in accordance with IFRS. • We assessed whether the notes include all necessary information in accordance with accounting policies.

Other information

Management is responsible for the other information. The other information consists of the Endorsement and statement by the board of directors and the CEO, non-financial reporting, quarterly statements and corporate governance statement, which an appendix to the Consolidated Financial Statement.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding the Endorsement and statement by the board of directors and the CEO as stated below.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the Consolidated Financial Statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is responsible for assessing Festi hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Festi hf.'s financial reporting process.

INDEPENDENT AUDITORS' REPORT, contd.:

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit 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 Festi hf.'s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

In addition to our work as the auditors of Festi hf., Deloitte has provided the firm with permitted additional services such as consultation on accounting matters, other assurance engagements, consultation on finance matters.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT, contd.:

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the consolidated financial statements of Festi hf. we performed procedures to be able to issue an opinion on whether the consolidated financial statements of Festi hf. for the year 2023 with the file name "5493005OLOCYXGTC7E83-2023-12-31-en.zip" is prepared, in all material respects, in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the consolidated financial statements in XHTML format and iXBRL markup.

Management is responsible for preparing the consolidated financial statements in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag. This responsibility includes preparing the consolidated financial statements in a XHTML format in accordance with EU regulation 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the consolidated financial statements of Festi hf. for the 2023 with the file name "5493005OLOCYXGTC7E83-2023-12-31-en.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

Deloitte was appointed auditor of Festi hf. by Annual General Meeting of shareholders on 22. March 2023. Deloitte have been elected since the annual general meeting 2019.

Kópavogur, 7. February 2024

Deloitte ehf.

Þorsteinn Pétur Guðjónsson	Pétur Hansson
State Authorized Public Accountant	State Authorized Public Accountant

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Statement of Profit or Loss and Other Comprehensive Income for the year 2023

	Notes	2023	2022
Sale of goods and services	5	136,251,201	121,398,400
Cost of goods sold		(105,584,236)	(94,404,479)
Gross profit from sale of goods and services	6	30,666,965	26,993,921
Other operating income	5	2,188,839	2,386,294
Salaries and other personnel expenses	7	(15,440,292)	(13,456,082)
Other operating expenses	8	(6,400,028)	(5,904,633)
		(19,651,481)	(16,974,421)
Operating profit before depreciation, amortisation and changes in value (EBITDA)		11,015,484	10,019,500
Depreciation of property and equipment and leased assets and amortisation of intangible assets	10	(4,101,691)	(3,528,273)
Changes in value of investment property	16	138,893	216,042
Operating profit before finance items (EBIT)		7,052,686	6,707,269
Finance income	11	244,017	177,798
Finance costs	11	(3,544,491)	(2,407,533)
Foreign currency differences	11	(34,296)	4,614
Share of profit of associates	17	418,125	453,488
		(2,916,645)	(1,771,633)
Profit before income tax (EBT)		4,136,041	4,935,636
Income tax	26	(697,847)	(853,866)
Profit for the year		3,438,194	4,081,770
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Translation difference arising from operations of a foreign associate		(6,464)	25,723
Net change in fair value of investments in shares		0	59,436
Effective portion of changes in fair value of cash flow hedges, net of income tax		(3,077)	(122,434)
Total other comprehensive income		(9,541)	(37,275)
Total comprehensive income for the year		3,428,653	4,044,495
Basic and diluted earnings per share in ISK	23	11.31	13.19

The notes on pages 14 to 43 are an integral part of these annual financial statements

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Statement of Financial Position as at 31 December 2023

	Notes	2023	2022
Assets			
Goodwill	12	14,842,339	14,862,133
Other intangible assets	13	4,260,081	4,516,745
Property and equipment	14	35,778,736	34,815,148
Leased assets	15	8,096,618	8,012,354
Investment properties	16	6,646,805	6,478,617
Shares in associates	17	2,620,746	2,600,869
Shares in other companies		14,140	14,140
Long-term receivables	18	145,176	150,354
Non-current assets		72,404,641	71,450,360
Inventories	19	13,557,248	13,085,771
Trade receivables	28	5,984,828	5,960,168
Other short-term receivables	20	723,185	764,487
Cash and cash equivalents	21	3,362,212	2,112,137
Current assets		23,627,473	21,922,563
Total assets		96,032,114	93,372,923
Equity			
Share capital		301,254	307,500
Share premium		7,773,982	8,900,637
Other restricted equity		12,938,209	11,791,388
Retained earnings		14,828,910	13,460,578
Equity	22	35,842,355	34,460,103
Liabilities			
Loans from credit institutions	24	26,680,829	28,224,162
Lease liabilities	25	7,793,320	7,714,823
Deferred tax liability	26	6,185,105	6,000,840
Non-current liabilities		40,659,254	41,939,825
Loans from credit institutions	24	1,807,014	1,789,733
Lease liabilities	25	859,276	711,514
Trade payables		9,760,363	8,630,348
Other short-term liabilities	27	7,103,852	5,841,400
Current liabilities		19,530,505	16,972,995
Total liabilities		60,189,759	58,912,820
Total equity and liabilities		96,032,114	93,372,923

The notes on pages 14 to 43 are an integral part of these annual financial statements

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Statement of Changes in Equity for the year 2023

	Share capital	Share premium	Other restricted equity				Retained earnings	Total equity
			Statutory reserve	Revaluation reserve	Unrealised profit of subsidiaries and associates	Other restricted accounts		
Year 2022								
Equity 1.1.2022	316,118	10,824,306	79,029	4,827,722	7,561,783	80,735	10,220,702	33,910,395
Profit for the year							4,081,770	4,081,770
Total other comprehensive income				0		(96,711)	59,436	(37,275)
Restricted due to subsidiaries and associates					(533,244)		533,244	0
Dissolution of revaluation of an associate				(9,726)			9,726	0
Dissolution of revaluation of property and equipment				(116,046)			116,046	0
	316,118	10,824,306	79,029	4,701,950	7,028,539	(15,976)	15,020,924	37,954,890
Transactions with shareholders:								
Purchased own shares	(8,618)	(1,923,669)						(1,932,287)
Transferred from statutory reserve			(2,154)				2,154	0
Dividend paid to shareholders (ISK 5 per share)							(1,562,500)	(1,562,500)
Equity 31.12.2022	307,500	8,900,637	76,875	4,701,950	7,028,539	(15,976)	13,460,578	34,460,103
Total other restricted equity						11,791,388		
Year 2023								
Equity 1.1.2023	307,500	8,900,637	76,875	4,701,950	7,028,539	(15,976)	13,460,578	34,460,103
Profit for the year							3,438,194	3,438,194
Total other comprehensive income						(9,541)	0	(9,541)
Restricted due to subsidiaries and associates					1,293,875		(1,293,875)	0
Dissolution of revaluation of an associate				(14,709)			14,709	0
Dissolution of revaluation of property and equipment				(121,243)			121,243	0
	307,500	8,900,637	76,875	4,565,998	8,322,414	(25,517)	15,740,849	37,888,756
Transactions with shareholders:								
Purchased own shares	(6,246)	(1,126,655)						(1,132,901)
Transferred from statutory reserve			(1,561)				1,561	0
Dividend paid to shareholders (ISK 3 per share)							(913,500)	(913,500)
Equity 31.12.2023	301,254	7,773,982	75,314	4,565,998	8,322,414	(25,517)	14,828,910	35,842,355
Total other restricted equity						12,938,209		

The notes on pages 14 to 43 are an integral part of these annual financial statements

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Statement of Cash Flows for the year 2023

	Notes	2023	2022
Cash flows from operating activities			
Profit before depreciation, amortisation and changes in value (EBITDA)		11,015,484	10,019,500
Operating items not affecting cash flows:			
Gain on sale of property and equipment		(36,095)	(70,096)
Gain on sale of shares in companies		(1,756)	0
		10,977,633	9,949,404
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(471,477)	(3,495,166)
Trade and other short-term receivables, decrease (increase)		(23,056)	(1,069,973)
Trade and other short-term liabilities, increase		2,205,840	1,666,298
Changes in operating assets and liabilities		1,711,307	(2,898,841)
Interest received		217,133	173,621
Interest paid		(3,156,513)	(2,014,963)
Income tax paid		(335,938)	(602,078)
Net cash from operating activities		9,413,622	4,607,143
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		0	(60,332)
Purchased intangible assets	13	(523,223)	(608,692)
Sold intangilble assets	13	0	20,291
Purchased property and equipment	14	(3,462,154)	(4,579,977)
Sold property and equipment	14	196,259	487,069
Purchase of investment properties	16	(29,295)	(585,341)
Sale of investment properties	16	0	384,994
Change in shares in companies		1,756	(5,200)
Dividend received		391,784	251,000
Long-term receivables, change		29,052	(67,736)
Net cash from (used in) investing activities		(3,395,821)	(4,763,924)
Cash flows from financing activities			
Dividend paid		(913,500)	(1,562,500)
Purchased own shares		(1,132,901)	(1,932,287)
New loans from credit institutions	24	0	3,960,000
Repayment of long-term loans from credit institutions	24	(1,817,321)	(1,593,965)
Repayment of lease liabilities	25	(841,407)	(678,576)
Net cash used in financing activities		(4,705,129)	(1,807,328)
Increase (decrease) in cash and cash equivalents		1,312,672	(1,964,109)
Foreign currency difference on cash and cash equivalents		(62,597)	73,530
Cash and cash equivalents at the beginning of the year		2,112,137	4,002,716
Cash and cash equivalents at the end of the year		3,362,212	2,112,137
Investing and financing activities not affecting cash flows			
Purchase of shares in companies		0	(40,000)
Issued new share capital		0	40,000
New lease contracts and their remeasurement	15	(1,067,666)	(2,483,438)
New lease liabilities and their remeasurement	25	1,067,666	2,483,438
Trade and other short-term receivables		0	(118,000)
Sold property and equipment		0	40,500
Sold investment properties		0	77,500

The notes on pages 14 to 43 are an integral part of these annual financial statements

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1. Operations of the Group

Festi hf. ("the Company" or "the Group") is an Icelandic limited liability company. The Group's headquarters are located at Dalvegur 10-14, Kópavogur, Iceland. The main operations of the Group consist of sale of fuel, goods and service to businesses, groceries and related products, sale of electronic equipment and leasing of buildings. These consolidated annual financial statements consist of the annual financial statements of the Company and its subsidiaries. Further information about individual companies within the Group and their operations is disclosed in Note 3.

2. Basis of preparation

2.1. Statement of compliance with International Financial Reporting Standards

The Company's consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and, as applicable, additional requirements of the Icelandic Act on Annual Accounts.

The Board of Directors of Festi hf. approved the consolidated annual financial statements on 7 February 2024.

2.2. Presentation of accounting policies and other notes

Information about accounting policies is presented in the same notes as the applicable items. Management believes that such presentation provides a clearer view and improved context between accounting policies and financial information. As applicable, notes disclosing information that relate to both the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position are presented in conjunction, such as income from sale of goods and trade receivables on the one hand, and income tax expense and deferred tax on the other.

An overview of the Group's risk management is disclosed in a separate section (see Note 28). When relevant, cross references are made between notes regarding individual items and notes on risk management applicable to those same items. The Group endeavours to describe in these annual financial statements the accounting policies in a clear manner instead of repeating the actual text of paragraphs in IFRS. The following accounting standards are the most important ones for the Group:

Item	Notes	Standard
Operating segments	Note 4. *Operating segments*	IFRS 8
Revenue from sale of goods and services	Note 5. *Operating revenue*	IFRS 15
Impairment testing	Note 12. *Goodwill*	IAS 36
Fair value measurement of properties and investment properties	Notes 14. and 16. *Property and equipment and Investment properties*	IFRS 13
Lease contracts	Note 15. *Lease contracts*	IFRS 16

2.3. New IFRS accounting standards or changes to them.

The Group has applied the same accounting policies during the years 2022 and 2023.

The Group has adopted changes and improvements to accounting standards which are effective for reporting periods beginning on or after 1 January 2023. The effect of their adoption on these consolidated annual financial statements was immaterial. The Group has not adopted new or improved standards which have been issued but are not yet effective. Management’s assessment is that their adoption will not have material effects on the consolidated annual financial statements.

2.4. Going concern

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

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2. Basis of preparation, contd.:

2.5. Basis of measurement

The consolidated annual financial statements have been prepared on the historical cost basis, except for investment properties, securities, and derivative contracts, which are recognised at fair value, and properties, which are recognised at revalued cost.

2.6. Presentation and functional currency

The consolidated annual financial statements are prepared and presented in Icelandic krona (ISK), which is the Company's functional currency. All amounts are presented in thousands of Icelandic krona unless otherwise stated. Definitions in operations are as follows:

EBITDA

Profit before finance income and finance costs excluding depreciation, amortisation, and impairment.

EBIT

Profit before finance income and finance costs.

EBT

Profit before income tax

2.7. Use of estimates and judgements

The preparation of the consolidated annual financial statements in accordance with IFRS 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. Information about judgements applied and estimation uncertainty, as applicable, is disclosed in the notes about the individual accounting items. The following table specifies the items which are most challenging for the application of judgement and use of estimates by management:

Item	Notes	
Estimation of impairment of goodwill and other intangible assets	12. and 13.	Goodwill and other intangible assets
Estimation of fair value of revalued properties, their useful lives and residual values	14.	Property and equipment
Determination of lease term and discount rates used in the calculation of lease liabilities	15.	Lease contracts
Estimation of fair value of investment properties	16.	Investment property
Estimation of allowance for expected credit losses on trade receivables	28.	Risk management

3. Group entities

+Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, and it has right to, variable returns from its involvement with the entity and can affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Entities within the Group

The consolidated annual financial statements include the following entities. All subsidiaries are directly or indirectly fully owned by the Parent Company, Festi.

Notes, contd.:

3. Group entities, contd.:

Company	Activity
Festi hf.	Festi is a holding company that specialises in operating companies that are leading in the retail and fuel sale in Iceland. Festi's role is to support its operating companies in fulfilling customers´ demands so as to enable them to continue to be at the forefront in providing goods and services across the country. Festi provides its subsidiaries with supporting services, among other things in the area of finance, operations and business development.
Bakkinn vöruhótel ehf.	Bakkinn vöruhótel specialises in product storage, packaging, labelling and distribution of products for customers that elect to outsource their warehouse activities.
ELKO ehf.	ELKO specialises in selling household appliances and electronic equipment. The company operates stores in the capital region, Akureyri and at the Leifur Eiríksson International Airport in Keflavik, as well as an online shop.
Festi fasteignir ehf.	Festi fasteignir specialises in leasing of non-residential buildings to retail companies.
Krónan ehf.	Krónan is a retail company that operates convenience stores in Iceland. The company operates stores throughout the country under the brand name of Krónan and Smart shop with home deliveries.
Icelandic Food Company ehf.	Icelandic Food Company sepcialises in production of convenience goods sold in Krónan and N1. The company was purchased entirely at year-end 2022 and was included in Festi's consolidated annual financial statements from 1 January 2003.
Vínportið ehf.	Vínportið began its operations during the year 2022. The company specialises in imports and wholesales of alcohol to ÁTVR stores and to hotels and restaurants.
N1 ehf.	N1 specialises in wholesale and retail of fuel, operation of service stations, including tire and lubrication service stations around the country. The Company's service stations sell fuel in addition to refreshments and sale of various convenience goods. N1 Rafmagn ehf., a subsidiary of N1, was merged in to N1 from 1 January 2023, whereas the operations consist of puchases of electricity in the wholesale market and the retail sale to individuals and companies in Iceland.

Notes, contd.:

4. Operating segments

An operating segment is a component of the Group that engages in business activity from which it may earn revenue and incur expenses, including revenue and expenses relating to transactions with other segments of the Group. Segments are determined by the Company´s management, which regularly reviews the Group´s segments so as to decide upon how assets are allocated as well as to monitor their performance.

Operating results of segments, their assets and liabilities consist of items directly attributable to individual segments as well as those items which can be allocated to segment in a logical way. Capital expenditure of segments consist of the total cost of acquisition of property and equipment and intangible assets. Transactions between segments are priced on an arm's length basis.

The operating companies N1, Krónan and ELKO in the Group are individual operating segments and the Group´s other entities comprise the fourth segment. That segment consists of the operations of the Parent Company, Festi, Bakkinn vöruhótel and Festi fasteignir (see Note 3 for further information).

	N1	Krónan	ELKO	Other companies	Segments total
Year 2023					
External revenue	55,923,166	63,158,437	18,238,287	1,120,150	138,440,040
Intra-group revenue	343,927	1,401,060	15,064	7,102,925	8,862,976
Total segment revenue	56,267,093	64,559,497	18,253,351	8,223,075	147,303,016
Operating profit before depreciation, amortisation and changes in value (EBITDA) .	4,504,866	4,852,813	1,754,595	3,825,382	14,937,656
Segment depreciation and amortisation	(2,913,665)	(2,279,415)	(575,368)	(1,128,706)	(6,897,154)
Changes in value of investment properties				138,893	138,893
Operating profit of segments (EBIT)	1,591,201	2,573,398	1,179,227	2,835,569	8,179,395
Net finance costs	(990,165)	(401,487)	(153,924)	(3,183,812)	(4,729,388)
Share of profit of associates				418,125	418,125
Income tax	(111,283)	(426,661)	(205,075)	98,754	(644,265)
Profit for the year	489,753	1,745,250	820,228	168,636	3,223,867
31 December 2023					
Segment assets	28,253,585	22,639,293	6,753,306	38,385,930	96,032,114
Segment capital expenditure	1,400,328	995,295	259,585	1,359,464	4,014,672
Segment liabilities	18,289,593	17,537,219	4,806,961	19,555,986	60,189,759

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4. Operating segments, contd.:

	N1	Krónan	ELKO	Other companies	Segments total
Year 2022					
External revenue	54,258,822	51,331,851	16,949,926	1,244,095	123,784,694
Intra-group revenue	263,493	94,720	11,886	6,371,658	6,741,757
Total segment revenue	54,522,315	51,426,571	16,961,812	7,615,753	130,526,451
Operating profit before depreciation, amortisation and changes in value (EBITDA)	4,466,413	3,809,054	1,753,134	3,484,232	13,512,833
Segment depreciation and amortisation	(2,639,029)	(1,796,732)	(522,444)	(858,620)	(5,816,825)
Changes in value of investment properties				216,042	216,042
Operating profit of segments (EBIT)	1,827,384	2,012,322	1,230,690	2,841,654	7,912,050
Net finance costs	(886,137)	(443,494)	(116,665)	(2,181,205)	(3,627,501)
Share of profit of associates				453,488	453,488
Income tax	(196,088)	(285,553)	(223,111)	(109,594)	(814,346)
Profit for the year	745,159	1,283,275	890,914	1,004,343	3,923,691
31 December 2022					
Segment assets	28,164,773	21,282,635	5,982,596	37,942,919	93,372,923
Segment capital expenditure	1,223,767	1,734,923	534,053	2,281,267	5,774,010
Segment liabilities	18,069,914	16,708,194	4,307,821	19,826,891	58,912,820

Reconciliation of operating segments to revenue, profit and loss and other material items in the statement of profit or loss

Year 2023	Segments total	Eliminations	According to financial statements
Operating profit before depreciation, amortisation and changes in value (EBITDA)	14,937,656	(3,922,172)	11,015,484
Depreciation of property and equipment and leased assets and amortisation of intangible assets	(6,897,154)	2,795,463	(4,101,691)
Changes in value of investment property	138,893		138,893
Operating profit (EBIT)	8,179,395	(1,126,709)	7,052,686
Net finance costs	(4,729,388)	1,394,618	(3,334,770)
Share of profit of associates	418,125	0	418,125
Income tax	(644,265)	(53,582)	(697,847)
Profit for the year	3,223,867	214,327	3,438,194
Year 2022			
Operating profit before depreciation, amortisation and changes in value (EBITDA)	13,512,833	(3,493,333)	10,019,500
Depreciation of property and equipment and leased assets and amortisation of intangible assets	(5,816,825)	2,288,552	(3,528,273)
Changes in value of investment property	216,042		216,042
Operating profit (EBIT)	7,912,050	(1,204,781)	6,707,269
Net finance costs	(3,627,501)	1,402,380	(2,225,121)
Share of profit of associates	453,488		453,488
Income tax	(814,346)	(39,520)	(853,866)
Profit for the year	3,923,691	158,079	4,081,770

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Notes, contd.:

5. Operating income

Sale of goods and services

Sale of goods and services are recognised based on the fundamental principle of recognising revenue as or when control of goods and services is transferred to the customer.

Lease income from properties

Properties leased to parties outside the Group are recognised as investment properties. Investment properties are properties held to earn rentals or for capital appreciation. Investment properties are recognised at fair value. Fair value changes of investment properties are presented separately in the statement of profit or loss, and therefore presented separately from lease income from those same assets. Further information about investment properties is provided in Note 16.

Other operating income

Income from leases, warehouse services, commissions, gain on sale of property and equipment, market grants and other income are presented in other operating income.

Operating income is specified as follows:	2023	2022
Sale of goods and services:		
Convenience goods	69,178,041	56,852,066
Fuel and electricity	38,849,064	38,564,265
Electronic equipment	18,060,761	16,760,878
Sale of other goods and services	10,163,335	9,221,191
Total sale of goods and services	136,251,201	121,398,400
Other operating income:		
Lease income from properties	695,563	642,413
Warehouse services	399,574	365,809
Commissions	496,834	376,170
Gain on sale of property and equipment	36,095	70,096
Other operating income	560,773	931,806
Total other operating income	2,188,839	2,386,294
Total operating revenue	138,440,040	123,784,694

6. Cost of goods sold and gross profit from sale of goods and services

Cost of goods sold consists of the purchase price as well as related transportation cost, excise tax, duties and distribution costs. Any decrease of inventories to net realisable value is expensed as part of cost of goods sold.

Gross profit from sale of goods and services is specified as follows:	2023	2022
Convenience goods	15,798,771	13,213,385
Fuel and electricity	6,273,218	5,711,465
Electronic equipment	4,609,161	4,317,780
Other goods and services	3,985,815	3,751,291
Total gross profit from sale of goods and services	30,666,965	26,993,921

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Notes, contd.:

7. Salaries and other personnel expenses

Salaries and other personnel expenses are specified as follows:	2023	2022
Salaries	12,104,458	10,479,770
Contributions to pension funds	1,557,217	1,335,079
Other salary-related expenses	1,088,323	1,009,110
Other personnel expenses	690,294	632,123
Total salaries and other personnel expenses	15,440,292	13,456,082
Average number of employees	2,259	2,087
Average full-time equivalent number of employees	1,352	1,269
Employee gender ratio (males/females)	61/39	60/40

Contributions 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 statement of profit or loss among salaries and salary-related expenses when incurred.

Information about salaries and benefits of the members of the Board of Directors and management is disclosed in Note 30 on related parties.

8. Other operating expenses

Other operating expenses are specified as follows:	2023	2022
Operating expenses of properties	2,008,362	1,750,758
Maintenance expenses	1,026,548	964,457
Sales and marketing expenses	1,545,384	1,523,149
Office and administrative expenses, including fees to auditors	528,250	455,242
Communication expenses	882,525	807,920
Insurance and claims expenses	103,210	149,911
Other expenses	305,749	253,196
Total other operating expenses	6,400,028	5,904,633

9. Fees to auditors of the Group

Fees to auditors are specified as follows:	2023	2022
Audit of annual financial statements	53,775	50,450
Other services	34,545	2,072
Total fees to auditors	88,320	52,522

10. Depreciation and amortisation

Depreciaton and amortisation are specified as follows:	2023	2022
Amortisation of intangible assets, as per Note 13	779,621	840,947
Depreciation of property and equipment, as per Note 14	2,338,668	1,874,337
Depreciation of leased assets, as per Note 15	983,402	812,989
Total depreciation and amortisation	4,101,691	3,528,273

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Notes, contd.:

11. Finance income and finance costs

Finance income is specified as follows:	2023	2022
Interest income on cash and cash equivalents	133,942	26,708
Interest income on receivables	106,319	149,090
Gain on sale of shares in companies	1,756	0
Dividend income	2,000	2,000
Total finance income	244,017	177,798

Finance costs are specified as follows:		
Interest expense and CPI-indexation on loans from credit institutions	2,986,147	1,927,556
Interest expense on lease liabilities	471,873	412,918
Other interest expense	86,471	67,059
Total finance costs	3,544,491	2,407,533

Foreign currency differences and assets and liabilities denominated in foreign currencies

Foreign currency differences arise from transactions in foreign currencies, predominantly USD. Transactions in foreign currencies are recognised at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are recognised at the exchange rate at year-end. The average ISK/USD exchange rate for the year 2023 was 137.98 (2022: 135.46) and the exchange rate at year-end 2023 was 136.20 (2022: 142.04).

12. Goodwill

The goodwill recognised in the consolidated annual financial statements resulted from the acquisition by the Company of Hlekkur and its subsidiaries during the year 2018, of Íslensk Orkumiðlun during the year 2020, of the Krónan store located at Hallveigarstígur in Reykjavík during the year 2020, and the acquisition of Icelandic Food Company during the year 2022, whereas goodwill decreased by ISK 20 million upon final settlement of the transactions during the year 2023. For the purpose of impairment testing, goodwill is allocated to the cash-generating units it relates to. Three cash-generating units were identified in the purchase price allocation and goodwill was allocated to grocery stores, electronic equipment stores and sale of electricity. The presentation of goodwill due to synergies and optimisation arising from acquisition of different retail companies has been changed and is now shown with each cash-generating unit.

Accounting policy

Goodwill is not amortised but tested annually for impairment or more often if there are any impairment indicators. When testing for impairment goodwill is allocated to the cash-generating units it relates to.

Impairment test at year-end 2023

Goodwill was tested for impairment at year-end 2023. According to the results of the test there was no indication of impairment. When testing for impairment the recoverable amount is estimated and the estimation was based on the value in use of cash-generating units. Value in use is calculated by discounting the estimated future cash flows of cash-generating units.

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12. Goodwill, contd.:

The following table specifies the key assumptions applied when estimating value in use. Estimated EBITDA-growth is the average growth for the next five years.

Year-end 2023	EBITDA-growth	Terminal-growth	Discount rate	Carrying amount at year-end
Grocery stores	7.5%	3.5%	10.9%	11,642,359
Electronic equipment stores	5.8%	3.5%	12.4%	2,772,179
Sale of electricity	3.7%	3.5%	12.4%	427,801
Total goodwill				14,842,339

Year-end 2022	EBITDA-growth	Terminal-growth	Discount rate	Carrying amount at year-end
Grocery stores	10.6%	3.5%	10.8%	11,662,153
Electronic equipment stores	5.9%	3.5%	12.4%	2,772,179
Sale of electricity	8.3%	3.5%	12.1%	427,801
Total goodwill				14,862,133

13. Other intangible assets

Other intangible assets consist of the trademarks of Krónan and Elko, trade agreements and software.

Accounting policy

The cost of purchased and acquired trademarks is capitalised and amortised on a straight-line basis over 20 years. The estimated useful life of trade agreements is 7 years. They are amortised on a straight-line basis. Capitalised software licenses are recognised at cost less accumulated amortisation. Software is amortised on a straight-line basis over 3-5 years.

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13. Other intangible assets, contd.:

Other intangible assets are specified as follows:

	Trademarks	Trade agreements	Software	Total
Gross carrying amount				
Gross carrying amount 1.1.2022	3,597,747	156,978	1,945,483	5,700,208
Additions during the year	35,000	0	573,692	608,692
From acquired subsidiary	0	7,479	0	7,479
Sold and disposed of	(205,957)	(30,218)	(285,593)	(521,768)
Gross carrying amount 31.12.2022	3,426,790	134,239	2,233,582	5,794,611
Additions during the year	0	3,028	520,195	523,223
Sold and disposed of	0	(4,726)	(152,754)	(157,480)
Gross carrying amount 31.12.2023	3,426,790	132,541	2,601,023	6,160,354
Amortisation				
Accumulated amortisation 1.1.2022	202,087	10,000	743,832	955,919
Amortisation for the year	228,400	35,218	577,329	840,947
From acquired subsidiary	0	2,763	0	2,763
Sold and disposed of	(205,957)	(30,218)	(285,587)	(521,762)
Accumulated amortisation 31.12.2022	224,530	17,763	1,035,574	1,277,867
Amortisation for the year	231,395	16,382	531,844	779,621
Sold and disposed of	0	(4,461)	(152,752)	(157,213)
Accumulated amortisation 31.12.2023	455,925	29,684	1,414,666	1,900,275
Carrying amount				
Carrying amount 1.1.2022	3,395,660	146,978	1,201,651	4,744,289
Carrying amount 31.12.2022	3,202,260	116,476	1,198,010	4,516,745
Carrying amount 31.12.2023	2,970,865	102,857	1,186,358	4,260,081
Amortisation rates	5%	14%	20-33%	

14. Property and equipment

The Group´s property and equipment consist of properties, vehicles, machinery and equipment, cabinetry, signs and supply tanks.

Accounting policy

The Group´s properties for own use, i.e. those which are not classified as investment properties, are recognised at revalued cost amount but other property and equipment at cost less accumulated depreciation and impairment, if any.

When property and equipment consist 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 and equipment, which is the difference between their sale proceeds and carrying amount, is recognised in the statement of profit or loss among other operating income and the loss on sale among other operating expenses.

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14. Property and equipment, contd.:

The cost of replacing single components of property 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 statement of profit or loss when incurred.

Depreciation

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

Properties ……………………………………………………………………………..…………………….………	50 years
Other property and equipment ...……………………………………………………………………………	3 – 20 years

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

Revaluation of properties

Revalued assets are recognised at the fair value on the date of revaluation. Fair value assessment is carried out on a regular basis, so as to ensure that their carrying amount does not deviate significantly from fair value. The increase in carrying amount due to revaluation is recognised in other comprehensive income, net of income tax. The revaluation reserve within equity is decreased via transfer to retained earnings, the amount each year being equal to the annual depreciation of revaluation recognised in profit or loss. If revaluation results in a decrease of carrying amount, the decrease is recognised in profit or loss, except to the extent that the decrease reverses a previous increase due to revaluation, in which case the downward revaluation is recognised in other comprehensive income.

Revaluation methods for properties

The Company recognises properties at revalued cost. A revaluation was carried out as at 31 December 2021. According to the revaluation method an entity shall assess if there are any indicators of there being a significant difference between fair value and carrying amount.

The Board of Directors of the Company has implemented a policy for the revaluation of property and equipment to fulfil the requirements for the application of the revaluation method for the carrying amount at any given time to not differ significantly from fair value. According to the policy, a fair value measurement must be performed if there are indications that the difference between fair value and carrying amount of revalued properties is in excess of the 10% benchmark of the Board of Directors. However, fair value shall be determined at least every five years. Every time a fair value assessment is performed, properties shall be measured at fair value regardless of the results of the assessment indicating that the difference in fair value and carrying amount is over or under the 10% benchmark. As part of the assessment various factors are considered but in particular the following:

a. Depreciation of revalued assets since they were last revalued.

b. Sales price of assets similar to those revalued by the Group, if such information is available.

c. Inflation.

d. Changes in official real estate value, if applicable as a benchmark for similar revalued assets of the Group.

e. The assumptions upon which revaluation is based, e.g. growth or decline in sales of goods and changes in discount rates due to changes in benchmark interest rates and / or risk margin.

The fair value measurement at year-end 2023 was within the 10% benchmark for the difference between fair value and carrying amount of properties, and therefore, a revaluation of properties was not recognised for the year.

14. Property and equipment, contd.:

Determination of fair value of properties

The Company´s measurement of the fair value of properties was determined with assistance from independent specialists. The fair value measurement is based on discounted cash flows of individual assets. The cash flow model applied is based on free cash flows, discounted by the weighted average cost of capital for individual assets (WACC). The projected cash flows in the model are up to 50 years. The return on equity is estimated using the CAPM (Capital Asset Pricing Model), which is based on risk-free inflation-adjusted interest rate with a premium added to reflect the risk of underlying operations. Interest rates on borrowings are estimated considering the general terms for interest rates which are offered in the market. It is assumed a debt ratio of 65% for the future and the expected weighted cost of investment (WACC) which is applied is in the range of 6.5% - 7.8% (weighted average 6.8%). The result of the fair value measurement was less than the 10% benchmark and a revaluation therefore not carried out.

Sensitivity analysis of fair value measurement at year-end 2023:

	Increase	Decrease
Increase / (decrease) of EBITDA from operations of properties by 5%	441,084	(441,084)
(Increase) / decrease of return on equity and interest rates by 1.0%-point	(932,128)	1,167,506

Property and equipment are specified as follows:

	Properties and land	Other property and equipment	Total
Cost or assessed value			
Cost 1.1.2022	30,116,945	10,347,365	40,464,310
Additions during the year	1,332,345	3,247,632	4,579,977
From acquired subsidiary	0	127,229	127,229
Sold and disposed of during the year	(498,541)	(588,014)	(1,086,555)
Cost or assessed value 31.12.2022	30,950,749	13,134,212	44,084,961
Additions during the year	1,099,251	2,362,903	3,462,154
Sold and disposed of during the year	(398,032)	(674,980)	(1,073,012)
Cost or assessed value 31.12.2023	31,651,968	14,822,135	46,474,103
Depreciation			
Accumulated depreciation 1.1.2022	4,145,989	3,774,227	7,920,216
Depreciation for the year	588,346	1,285,991	1,874,337
	0	44,618	44,618
Sold and disposed of during the year	(55,377)	(513,983)	(569,360)
Accumulated depreciation 31.12.2022	4,678,958	4,590,853	9,269,811
Depreciation for the year	668,444	1,670,224	2,338,668
Sold and disposed of during the year	(158,836)	(754,278)	(913,114)
Accumulated depreciation 31.12.2023	5,188,566	5,506,799	10,695,365

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14. Property and equipment, contd.:

	Properties and land	Other property and equipment	Total
Carrying amount			
Carrying amount 1.1.2022	25,970,956	6,573,138	32,544,094
Carrying amount 31.12.2022	26,271,791	8,543,359	34,815,148
Carrying amount 31.12.2023	26,463,402	9,315,336	35,778,736
Carrying amount excluding revaluation			
Carrying amount 1.1.2022	20,119,839	6,573,138	26,692,977
Carrying amount 31.12.2022	20,420,674	8,543,359	28,964,033
Carrying amount 31.12.2023	20,908,895	9,315,336	30,224,231
Depreciation rates	0 - 2%	5 - 33%	

The Company’s properties are pledged for debt which amounted to ISK 28,488 million at year-end 2023. Furthermore, there is an amount of ISK 2,880 million in VAT encumbrance on the Group's properties. This encumbrance is not recognised as a liability in the statement of financial position since it will only become payable if the properties would be used in operations which are exempt of VAT or if they are sold without the buyer taking over the encumbrance.

Insurance and official property value of property and equipment at year-end:	2023	2022
Official property value	23,908,454	23,843,970
Insurance value of real estate	34,990,120	29,925,050
Insurance value of machinery and equipment, cabinetry and vehicles	10,156,525	7,850,996

15. Lease contracts

A. The Group as lessee

The Group leases buildings, land, machinery and equipment for its operations and the lease contracts extend up to the year 2077. The contracts are with various parties and are indexed to the consumer price index or not indexed.

Accounting policies

At the inception date of a lease contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

At the commencement date of a lease contract, the Group recognises a leased asset and a lease liability in the statement of financial position. On that date or upon modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, the Group has elected not to recognise leased assets and lease liabilities for lease contracts whose lease term is 12 months or less and for lease contracts for which the underlying asset is of low value. Lease payments arising from these contracts are expensed in the income statement on a straight-line basis and included in other operating expenses.

The Group determines the lease term as the non-cancellable period of a lease contract together with periods covered by options to extend the lease if the Group is reasonably certain to exercise those options. If there are termination options for the contracts, which the Group is certain to exercise, then they are taken into consideration.

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15. Lease contracts, contd.:

Leased assets are initially measured at cost, which comprises the initial amount of the lease liability, plus any lease payments made at or before the commencement date, plus initial direct costs and an estimate of costs of the Group to dismantle and remove the underlying asset or the restore the underlying asset or the site on which it is located at the end of the lease contract, less any lease incentives received.

Leased assets are subsequently measured in accordance with the cost model. They are depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership to the Group at the end of the lease term or the cost of the leased assets reflects that the Group will exercise a purchase option of the underlying assets. In that case the leased assets are depreciated over the useful life of the underlying assets, which is determined on the same basis as those of property and equipment of the Group. The carrying amount of leased assets is reduced by impairment losses, when applicable, and adjusted for certain remeasurements of the carrying amount of lease liabilities.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date of the lease contracts, discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Group uses the incremental borrowing rate.

The lease payments included in the measurement of lease liabilities can be both fixed or variable that depend on an indices or rates.

Variable lease payments that depend on sales or usage of underlying assets are not included in the measurement of lease liabilities, except to the extent that they are accrued and unpaid at the reporting date. Variable lease payments that depend on sales or usage of underlying assets are expensed in the income statement as they accrue and included in the line other operating expenses.

Subsequent to initial recognition, the carrying amount of lease liabilities is increased by interest expense and decreased by lease payments made. Furthermore, the carrying amount is remeasured when there is a change in future lease payments arising from changes in indices or rates, in the estimate of the amount expected to be payable by the Group under residual value guarantees, or when appropriate, changes in the assessment of whether it is reasonably certain that purchase options or extension options will be exercised, or termination options will not be exercised. When the carrying amount of lease liabilities is remeasured in this way, the corresponding adjustment is made to the carrying amount of leased assets or recognised in income statement if the carrying amount of leased assets has been reduced to zero.

Leased assets are presented separately within non-current assets in the statement of financial position. Lease liabilities are presented separately in the statement of financial position and split into non-current and current portions. Depreciation of leased assets is presented in income statement under depreciation, as per Note 10. Interest expense on lease liabilities is presented in income statement under finance costs, as per Note 11.

Leased assets

Leased assets are specified as follows:

	Buildings	Land	Other	Total
Carrying amount 1.1.2022	4,825,500	1,074,083	255,754	6,155,337
New lease contracts and change to existing contracts	1,694,485	15,593	70,177	1,780,255
From acquired subsidiary	186,568	0	0	186,568
Change due to remeasurement of lease liabilities	717,424	(25,484)	11,243	703,183
Depreciation for the year	(723,603)	(22,321)	(67,065)	(812,989)
Carrying amount 31.12.2022	6,700,374	1,041,871	270,109	8,012,354
New lease contracts and change to existing contracts	143,494	78,648	281,446	503,588
Change due to remeasurement of lease liabilities	532,987	1,491	29,600	564,078
Depreciation for the year	(825,631)	(26,974)	(130,797)	(983,402)
Carrying amount 31.12.2023	6,551,224	1,095,036	450,358	8,096,618

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15. Lease contracts, contd.:

B. The Group as lessor

The Group leases buildings to many parties. The revenue from the leases is included in other revenue. The contractual lease payments are specified as follows for the next years:

Lease revenues are specified as follows:	2023	2022
Year 2023	-	652,214
Year 2024	740,637	644,391
Year 2025	636,421	565,181
Year 2026	418,404	379,575
Year 2027	411,237	374,080
Year 2028	395,914	359,930
Due later	1,021,268	916,196
Rental income total	3,623,881	3,239,353

16. Investment properties

Properties intended for rent to third parties and for capital appreciation are classified as investment properties.

Accounting policies

Investment properties are recognised at fair value at the reporting date. Valuation changes of those assets are recognised in profit or loss in the period in which they occur. Investment properties are not depreciated. Changes in fair value of investment properties are presented separately in the statement of profit or loss but lease income is presented as other operating income.

Determination of fair value of investment properties

The Company´s measurements of fair value for the years 2023 and 2022 were determined with assistance from independent specialists. The measurement of investment properties is based on discounted cash flows of individual assets. The cash flow model applied is based on free cash flows to the Group, discounted by the weighted average cost of capital for individual assets (WACC). The projected cash flows in the model are up to 50 years. The return on equity is estimated using the CAPM (Capital Asset Pricing Model), which is based on risk-free inflation-adjusted interest rate with a premium added to reflect the risk of underlying operations. Interest rates on borrowings are estimated considering the general terms for interest rates which are offered in the market. It is assumed a debt ratio of 65% (2022:65%) for the future and the expected weighted cost of investment (WACC) which is applied is in the range of 6.5% - 7.7% (weighted average 6.6%) (2022: 5.8% - 7.0% and weighted average 5.9%).

Estimated cash flows are based on lease income from existing lease contracts and their expected development. Each lease contract is assessed, and relevant risk factors are considered. Utilisation rate is estimated to be 95-96% after a lease contract expires (2022: 95-96%). Estimated operating expenses are deducted from estimated lease income. In this way each asset of the Company is assessed as an independent unit. The inputs of the valuation model are based on amounts experienced in the operations of the Company as well as on a forecast of the development of key factors in the future.

The conclusion of the measurement at year-end 2023 was an increase in the value of investment properties in the amount of ISK 139 million (2022: ISK 216 million), which is recognised in the statement of profit or loss. Direct operating expenses of investment properties amounted to ISK 433 million for the year 2023 (2022: ISK 365 million).

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16. Investment properties, contd.:

Investment properties are specified as follows:

Carrying amount at 1 January 2022	6,100,291
Additions during the year	585,341
Sold during the year	(423,057)
Fair value change	216,042
Carrying amount at 31 December 2022	6,478,617
Additions during the year	29,295
Fair value change	138,893
Carrying amount at 31 December 2023	6,646,805

The fair value measurement of investment properties falls under level 3 in the fair value hierarchy of International Financial Reporting Standards since the valuation is based on significant inputs other than market information. If the key inputs of the fair value measurement, i.e. the assumptions regarding financing cost and EBITDA, were changed, it would change the fair value changes recognised in the statement of profit or loss as specified in the following table:

Sensitivity analysis of fair value measurement at year-end 2023:	Increase	Decrease
Increase / (decrease) of EBITDA from operations of properties by 5%	332,340	(332,340)
(Increase) / decrease of return on equity and interest rates by 1.0%-point	(844,140)	1,144,804

Sensitivity analysis of fair value measurement at year-end 2022:	Increase	Decrease
Increase / (decrease) of EBITDA from operations of properties by 5%	295,417	(295,417)
(Increase) / decrease of return on equity and interest rates by 1.0%-point	(811,362)	1,137,442

17. Associates

The Company had seven associates at year-end 2023, both domestic and foreign. The Company recognises in the annual financial statements its share of profit or loss of those associates.

Accounting policies

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. Associates 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 annual financial statements include the Company's share of profit or loss 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.

The share of profit or loss of foreign associates is recognised at the average exchange rate of the year. The share in 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 profit or loss.

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17. Associates, contd.:

Ownership in associates and share of profit or loss

The Group's share in profit or loss of associates amounted to ISK 418 million in 2023 (2022: ISK 453 million).

Ownership in associates is specified as follows:

	Ownership	2023	2022
Olíudreifing ehf.	60.0%	1,436,759	1,524,820
Malik Supply A/S, Danmörku	24.9%	799,568	726,168
EAK ehf.	33.3%	161,010	125,483
EBK ehf.	25.0%	162,021	152,077
Shares in associates - 3 companies (2022: 3)	-	61,388	72,321
Total shares in associates at the end of the year		2,620,746	2,600,869

Change in the carrying amount of associates during the year:

	2023	2022
Carrying amount at the beginning of the year	2,600,869	2,324,066
Share of profit	418,125	453,488
Dividend	(391,784)	(251,000)
Purchase of shares	0	48,591
Translation difference	(6,464)	25,724
Carrying amount at the end of the year	2,620,746	2,600,869

It was announced on 1 December 2023 that Festi hf. and Olís ehf. have jointly initiated an assessment of the strategy and future possibilities with respect to their ownership in Olíudreifing ehf., EAK ehf. and EBK ehf. This entails the evaluation of the possibility of a changed ownership, as applicable in cooperation with other shareholders of the companies, with the aim to maximise shareholder value, simplify ownership and at the same time ensure a favourable future development of their infrastructure. It is expected that the conclusions of the initial assessment will be available by mid-year 2024.

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

Olíudreifing ehf.

The Company owns 60% share in Olíudreifing ehf. The Company does not have control over Olíudreifing ehf., which is therefore not classified as a subsidiary of the Company. This is because the Competition Authority decided that the company should have board members independent from N1 ehf. However, N1 ehf.´s business has 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 Act on Annual Accounts and the established accounting rules.

	2023*	2022*
Non-current assets	3,800,179	3,731,812
Current assets	1,166,089	1,397,377
Non-current liabilities	(1,630,453)	(698,994)
Current liabilities	(941,216)	(1,888,829)
Net assets (100%)	2,394,599	2,541,366
Carrying amount at year-end (60%)	1,436,759	1,524,820
Revenue (100%)	5,472,110	5,258,672
Profit (100%)	353,233	510,921
Share in total comprehensive income (60%)	211,940	306,553

* Draft annual financial statements

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Notes, contd.:

17. Associates, contd.:

Malik Supply A/S

Malik Supply A/S was founded in 1989 to service fleet of trawlers on the waters of Greenland and in the North Atlantic Ocean with oil, lubricants, and other products. N1 sells Malik fuel which it sells to major fisheries in Greenland. The financial statements of Malik Supply A/S are prepared in accordance with the Danish Act on Annual Accounts and the established accounting rules.

	2023*	2022*
Non-current assets	1,318,017	1,202,661
Current assets	6,063,493	8,652,172
Non-current liabilities	(717,457)	(753,764)
Current liabilities	(3,721,025)	(6,455,785)
Net assets (100%)	2,943,029	2,645,284
Share in equity	731,479	657,476
Premium	68,088	68,692
Carrying amount at year-end (24.9%)	799,568	726,168
Revenue (100%)	69,495,414	84,623,072
Profit (100%)	513,574	626,469
Share in total comprehensive income (24.9%)	127,647	155,707

* Draft annual financial statements

18. Long-term receivables

The Company’s long-term receivables are denominated both in Icelandic and Danish krona.

Long-term receivables are specified as follows:	Interest rates	Outstanding at year-end	
		2023	2022
Receivables from related parties in Danish krona	10%/10%	100,985	131,807
Other receivables in Danish krona	4%/4%	22,755	22,058
Other receivables in Icelandic krona	0%/0%	21,436	26,436
		145,176	180,301
Current portion		0	(29,947)
Total long-term receivables		145,176	150,354

The maturity analysis of long-term receivables are specified as follows:

	2023	2022
Year 2023	-	29,947
Due in 2028 and later	145,176	150,354
Total long-term receivables	145,176	180,301

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19. Inventories

The Group's inventories consist of convenience goods, fuel, electronic equipment and inventory related to the Company's lubrication and motor vehicle services.

Accounting policy

Inventories are valued 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.

Purchases of goods during the year are specified as follows:	2023	2022
Inventories at beginning of year	13,085,771	9,545,341
Purchases during the year	106,055,713	97,944,909
Expensed inventories	(105,584,236)	(94,404,479)
Inventories at year-end	13,557,248	13,085,771

Inventories at year-end are specified as follows:	2023	2022
Convenience goods	4,142,097	3,847,980
Fuel	4,559,287	4,379,250
Electronic equipment	2,677,617	2,839,860
Other goods	2,178,247	2,018,681
Total inventories	13,557,248	13,085,771
Insurance value of inventories	12,830,855	12,323,278

Inventories are pledged as security for the Company's line of credit, which was not utilised at year-end 2023. The write-down of inventories amounted to ISK 556 million at year-end 2023 (2022:491) and increased by ISK 65 million during the year (2022: increase by ISK 50 million).

20. Other short-term receivables

Other short-term receivables at year-end are specified as follows:	2023	2022
Prepaid expenses	231,303	193,783
Receivables from the Icelandic State	150,005	125,718
Receivable due to sale of property and equipment	0	118,000
Receivables from related parties	6,644	14,434
Market value of forward contracts	0	15,730
Current portion of long-term receivables	0	29,947
Other short-term receivables	335,233	266,875
Total other short-term receivables	723,185	764,487

21. Cash and cash equivilents

Cash and cash equivalents at year-end are specified as follows:	2023	2022
Bank accounts	2,154,883	2,043,475
Cash	106,225	68,662
Marketable securities	1,101,104	0
Total cash and cash equivalents	3,362,212	2,112,137

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22. Equity and capital management

Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 305 million and was decreased by ISK 8 million during the year. One vote is attached to each share of ISK one in the Company. Shareholders in the Company have the right to receive dividends in proportion to their shareholding upon dividend distribution. Costs directly associated with issue of share capital are deducted from equity. Purchase price of treasury shares, including direct costs associated, are deducted from equity. Equity is increased upon the sale of treasury shares. In accordance with the authorisation granted by the annual general meetings of Festi hf. on 22 March 2023 and 22 March 2022, the Company continued to purchase own shares during the year 2023. The Company purchased a total of ISK 6.2 million shares in nominal amount at the average share price of 181.4 for a total of ISK 1,133 million or 2.0% of the outstanding share capital. The Company owns 3.2 million own shares or 1.1% at year-end 2023.

Share premium

Share premium consists of the difference between the nominal value of share capital and the amount of paid-in share capital at any given time, less the premium on acquisition of own shares.

Statutory reserve

In accordance with the Act on Limited Liability Companies, companies are required to retain a certain percentage of their profit 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.

Revaluation reserve

The revaluation of the Group's properties as well as its share in the revaluation of properties of an associate is recognised in the revaluation reserve. The revaluation is dissolved in accordance with annual depreciation of the revaluation in the statement of profit or loss. Dissolution of the revaluation is recognised in retained earnings.

Unrealised profit of subsidiaries and associates

If the share of profit of subsidiaries and associates which is recognised in the statement of profit or loss is in excess of the dividends received from them, or the dividends that has been decided to distribute, the difference is to be transferred from retained earnings to a restricted reserve among equity. If a company’s shareholding in its subsidiary or associate is sold or written off the reserve is to be dissolved via transfer to retained earnings or accumulated deficit, as applicable.

Translation reserve

Translation reserve consists of exchange differences arising from the translation into Icelandic krona of the financial statements of a foreign associate.

Retained earnings

Profit (loss) for the year is recognised as an increase (decrease) in retained earnings. Dividend payments are recognised as a decrease in retained earnings. Dissolution of revaluation is recognised as an increase in retained earnings. The amount of unrealised profit of subsidiaries and associates in excess of dividend payments is recognised in the restricted reserve as a decrease in retained earnings.

Capital management and dividends

The Board of Directors of Festi has established a policy on the capital structure and dividend payments, according to which dividend payments to shareholders or purchase of own shares should amount to at least 50% of the profit for each year. Furthermore, objectives are that EBITDA should be 35% of gross profit, the ratio net interest bearing liabilities / EBITDA less than 3.5 and equity ratio should be in the range of 30 - 35%. The Company´s loan covenants require a minimum equity ratio of 25%. The equity ratio at year-end 2023 was 37.3% (year-end 2022: 36.9%).

23. Earnings per share

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

	2023	2022
Profit for the year	3,438,194	4,081,770
Share capital at the beginning of the year	307,500	316,118
Effect of changes in share capital	(3,463)	(6,757)
Weighted-average of outstanding shares	304,037	309,361
Basic and diluted earnings per share in ISK	11.31	13.19

24. Loans from credit institutions

All loans from credit institutions are denominated in Icelandic krona. The balance of the loans at year-end is secured by pledge in the properties of the Company. The loans are specified as follows:

	2023	2022
Long-term loans		
Balance at the beginning of the year	28,224,162	25,929,521
Repayments	(1,817,321)	(1,593,965)
New loans	0	3,960,000
From acquired subsidiiary	0	12,716
Expensed borrowing costs	16,449	12,633
CPI-indexation	274,820	310,987
Change in current portion	(17,281)	(407,730)
Balance at year-end	26,680,829	28,224,162
Short-term loans		
Current portion of long-term loans	1,807,014	1,789,733
Balance at year-end	1,807,014	1,789,733
Total loans from credit institutions	28,487,843	30,013,895

	Weighted rates for the year		Outstanding at year-end	
	2023	2022	2023	2022
Non-indexed loans on floating interest rates	9.9%	5.3%	24,952,417	26,532,580
CPI-indexed loans on floating interest rates	2.5%	2.4%	3,535,426	3,481,315
Total loans from credit institutions			28,487,843	30,013,895

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24. Loans from credit institutions, contd.:

The maturities of the loans are specified as follows:	2023	2022
Year 2023	-	1,789,733
Year 2024	1,807,014	1,790,002
Year 2025	7,649,460	7,632,823
Year 2026	1,809,770	1,792,758
Year 2027	1,809,953	1,792,941
Year 2028	1,611,636	1,594,624
Due for payment onwards	13,800,010	13,621,014
Total loans from credit institutions	28,487,843	30,013,895

25. Lease liabilities

The Group leases buildings, vehicles and equipment, with duration of contracts until the year 2077. Most of the lease contracts are CPI-indexed.

Lease liabilities are specified as follows:	2023	2022
Carrying amount at the beginning of the year	8,426,337	6,422,563
New lease contracts	503,588	1,780,255
From acquired subsidiary	0	198,911
Increase due to indexation of lease payments	564,078	703,183
Payment of lease liabilities during the year	(841,407)	(678,575)
Total lease liabilities	8,652,596	8,426,337
Current portion	(859,276)	(711,514)
Total non-current portion of lease liabilities	7,793,320	7,714,823

The maturity analysis of lease liabilities is specified as follows at year-end:

	2023	2022
Year 2023	-	711,514
Year 2024	859,276	749,319
Year 2025	915,771	773,159
Year 2026	869,501	749,690
Year 2027	833,540	728,811
Year 2028	660,715	574,670
Due for payment onwards	4,513,793	4,139,174
Total	8,652,596	8,426,337

All lease liabilities are denominated in Icelandic krona.

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25. Lease liabilities, contd.:

Impact of lease liabilities in income statement are as follows:	2023	2022
Depreciation of lease assets	983,402	812,989
Interest expensed on lease liabilities	471,873	412,918

Lease expenses due to lease contracts not capitalised are specified as follows:

Property rent	276,733	182,276
Other rent payments	8,299	4,260

The impact of lease contracts in the statement of cash flows is specified as follows:

Paid due to lease contracts, principal and interest	1,313,280	1,091,493

26. Income tax

Accounting policy

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to 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 is reduced to the extent that it is considered that it will not be utilised.

Income tax recognised in the statement of profit or loss is specified as follows:

		2023		2022
Profit before income tax		4,136,041		4,935,636
Income tax based on current tax rate	20.0%	827,208	20.0%	987,127
Non-deductible expenses	0.1%	3,947	0.4%	19,304
Non-taxable income	(0.6%)	(24,352)	(0.4%)	(20,948)
Share of profit of associates	(2.0%)	(83,625)	(1.8%)	(90,698)
Other changes	(0.6%)	(25,331)	(0.8%)	(40,920)
Effective income tax rate	16.9%	697,847	17.3%	853,866

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26. Income tax, contd.:

Deferred tax liability relates to individual items at year-end as follows:

	2023	2022
Property and equipment and investment properties	5,555,462	5,408,886
Intangible assets	716,475	613,469
Lease contracts	(111,195)	(80,328)
Trade receivables	39,649	49,841
Inventories	32,289	49,504
From acquired subsidiary	0	(62,328)
Other items	(47,575)	21,796
Deferred tax liability	6,185,105	6,000,840

27. Other short-term liabilities

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

	2023	2022
Unpaid salaries and salary-related expenses	1,759,066	1,707,176
Other unpaid taxes (VAT, tariffs, oil charge, gasoline charge, carbon charge)	3,186,586	2,832,319
Unpaid income tax	524,171	350,019
Obligation due to goods in transit	742,848	291,132
Unpaid accrued interest	235,076	151,867
Deferred income	248,616	210,562
Other short-term liabilities	407,489	298,325
Total other short-term liabilities	7,103,852	5,841,400

28. Risk management

Following is information about the Group‘s risks, objectives, policies and processes for measuring and managing the risk as well as information regarding operating risk. The Company’s risk management objective is to minimise the risk it faces by analysing the risk, measuring it and controlling it.

Overview

The following risks arise from the Group's financial instruments:

- Credit risk
- Liquidity risk
- Market risk (price risk and interest rate risk)
- Currency risk
- Operating risk

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 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 24% (2022: 22%) of the balance of trade receivables at year-end is attributable to 30 of the Company's biggest customers. Thereof, receivable from the biggest customer was 3% (2022: 3%).

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28. Risk management, contd.:

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 personal guarantee of the owner for an amount corresponding to supplies for two months. This does however not apply to bigger customers which have good credit rating at CreditInfo.

The Group recognises an allowance for expected credit losses on trade receivables and other receivables. The estimation of the allowance is based on historical loss experience, the age of receivables, current economic conditions, and future prospects.

The Company's trade receivables at year-end are specified as follows:	2023	2022
Credit card receivables	1,968,375	1,541,152
Other trade receivables	4,016,453	4,419,016
Total trade receivables	5,984,828	5,960,168

Age analysis of trade receivables and impairment loss

Year 2023	Nominal amount	Loss allowance	Carrying amount	Allowance ratio
Not yet due	5,885,816	(95,039)	5,790,777	1.6%
Past due by 30 days or less	160,927	(2,892)	158,035	1.8%
Past due by 31 - 120 days	36,824	(3,536)	33,288	9.6%
Past due by more than 120 days	61,561	(58,833)	2,728	95.6%
	6,145,128	(160,300)	5,984,828	2.6%
Year 2022				
Not yet due	5,748,015	(56,987)	5,691,028	1.0%
Past due by 30 days or less	150,013	(7,703)	142,310	5.1%
Past due by 31 - 120 days	55,321	(7,035)	48,286	12.7%
Past due by more than 120 days	128,419	(49,875)	78,544	38.8%
	6,081,768	(121,600)	5,960,168	2.0%

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations that will be settled with cash or other financial assets. The Group’s objective is to always have sufficient liquidity to meet its payment obligations as they become due.

The Group's liquidity position at year-end 2023 was strong. The Group’s management considers that the Group is capable to meet its financial obligations as they become due. The weighted-average repayment period of the Group’s long-term loans is about 11 years and all loans are prepayable during the loan term. The Group also has access to a line of credit for up to next 8 months for a maximum amount of ISK 3,000 million. No amount was drawn at year-end 2023.

Further information about the Group's financial liabilities is disclosed in Note 29 about financial instruments.

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.

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28. Risk management, contd.:

Price risk

An important market risk of the Company is price risk due to changes in the oil price in the world market, which has been very volatile in the past years. The price risk is reduced by means of specific agreements with the largest customers of the Company but also by the Parent Company entering into derivative contracts to hedge part of the price risk arising from purchases of oil. The contracts have maturities of up to several months, whereas the oil price is fixed in foreign currency and they cover the part of the Group's oil purchases which is not hedged with specific agreements. The contracts are settled in cash and are presented in the statement of profit or loss as part of the cost of oil to which they relate. The loss from oil hedges amounted to ISK 63 million during the year (2022: gain of ISK 464 million). The fair value of forward contracts recognised in restricted reserves in equity amounted to ISK 3 million at year-end 2023 (2022: ISK 1 million).

Interest rate risk

The Group is exposed to cash flow interest rate risk due to changes in interest rates of floating rate financial liabilities. In order to diversify the risk, the Company's financing is a mix of non-indexed and CPI-indexed loans.

An increase in interest rates at the reporting date by one percentage point (100 basis points) would decrease profit or loss before income tax by ISK 285 million (2022: ISK 300 million) due to effects on the borrowings of the Company at floating interest rates. The calculation is based on operating effect on an annual basis. A decrease by one percentage point would have the same effect but in the opposite direction.

Currency risk

All of the Company's transactions denominated in foreign currencies give rise to currency risk. In evaluating currency risk both payment risk and settlement risk is considered. The objective is to manage currency risk in order to best insure the Company's benefits. The major part of imports is purchase of goods for resale from foreign suppliers denominated in USD and EUR, but the sale is for the most part in ISK. Sales in ISK constitute 96% (2022: 96%), USD 3% (2022: 3%) and other currencies 1% (2022: 1%).

Assets and liabilities denominated in foreign currencies at year-end are specified as follows:

Year 2023	USD	EUR	Other Currenceies	Total
Long-term receivables	0	0	123,740	123,740
Trade receivables	173,747	47,480	181,673	402,900
Cash and cash equivalents	211,939	4,603	95,819	312,361
Trade liabilities	(63,744)	(161,910)	(1,163,782)	(1,389,436)
Risk in the statement of financial position	321,942	(109,827)	(762,550)	(550,435)

Year 2022	USD	EUR	Other Currenceies	Total
Long-term receivables	0	0	123,918	123,918
Trade receivables	429,520	149,809	83,985	663,314
Cash and cash equivalents	272,505	25,343	14,585	312,433
Trade liabilities	(53,063)	(279,217)	(585,814)	(918,094)
Risk in the statement of financial position	648,962	(104,065)	(363,326)	181,571

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28. Risk management, contd.:

Sensitivity analysis

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

	2023	2022
USD	32,194	64,896
EUR	(10,983)	(10,407)
Other currencies	(76,255)	(36,333)
Total	(55,044)	18,157

A 10% weakening of the ISK against these currencies would have the same effect but in the opposite direction.

Operating risk

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

In order to reduce operating risk, among other things, there has been established an appropriate segregation of duties and transactions on charge accounts and compliance with laws are monitored. Furthermore, effective training activities are performed with the objective of giving the necessary training to all employees 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 and deviations from approved budgets are analysed.

29. Financial instruments and fair value

Assets at fair value

Securities are recognised at fair value. The fair value estimate is categorised in level 3 of the fair value hierarchy, since the information about their fair value is based on the Company's own assumptions. The properties are recognised at revalued cost. This entails that their fair value is determined regularly to ensure that at any given time it does not differ significantly from their book value. Further information about the remeasurement of properties is disclosed in Note 14. Investment properties are recognised at fair value. Further information about their fair value is disclosed in Note 16.

Loans from credit institutions and other financial liabilities

The fair value of loans from credit institutions is the estimated future cash flows discounted at the market interest rate at the reporting date. The loans from credit institutions are on market interest rates and therefore the difference between their carrying amount and fair value is insignificant at any given time. Short-term liabilities are not discounted as the difference between their fair value and their carrying amount is insignificant.

Financial assets and financial liabilities are classified into certain categories. The classification of financial assets and financial liabilities affects how financial instruments are measured after initial recognition. The classification of financial assets and financial liabilities of the Group and their measurement basis are specified in the following table.

The Group's financial assets and financial liabilities include cash and cash equivalents, shares in other companies and long-term receivables, trade and other receivables, derivative contracts, borrowings, trade payables and certain other current liabilities.

Financial instruments are initially recognised at fair value. They are recognised at the transaction date, which is the date the Group 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.

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29. Financial instruments and fair value, contd.:

Classification of financial instruments and their measurement basis

The following table shows the classification of the Group's financial instruments and their measurement basis.

Financial instrument	Classification	Carrying amount at year-end 2023	Carrying amount at year-end 2022
Cash and cash equivalents	Financial assets at amortised cost	3,362,212	2,112,137
Trade and other receivables classified as financial instruments, including receivables from related parties	Financial assets at amortised cost	6,476,710	6,530,872
Shares in other companies	Fair value	14,140	14,140
Long-term receivables	Financial assets at amortised cost	145,176	150,354
Loans from credit institutions	Financial liabilities at amortised cost	28,487,843	30,013,895
Trade and other short-term liabilities classified as financial instruments	Financial liabilities at amortised cost	16,615,599	14,261,186

Financial conditions

In the loan agreements there is the condition that the Group’s equity ratio must always be higher than 25% at the end of each operating year. The equity ratio was 37.3% at year-end 2023 (year-end 2022: 36.9%) and the condition was fulfilled.

Maturity analysis

The following table shows when the future payments of the Group's financial liabilities and income tax become due. The cash flow includes estimated future interest payments where appropriate.

Year-end 2023	**Within a year**	**After 1 - 3 years**	**After 3 - 5 years**	**After more then 5 years**
Loans from credit institutions	4,625,978	13,773,365	6,543,821	18,077,797
Lease liabilities	1,334,635	2,514,944	2,034,201	6,567,062
Trade payables	9,760,363			
Payable to the Icelandic State	3,186,586			
Current tax liability	524,171			
Other short-term liabilities	3,144,479			
	22,576,212	16,288,309	8,578,022	24,644,859

Year-end 2022				
Loans from credit institutions	2,994,945	11,594,905	5,080,914	17,187,418
Lease liabilities	1,176,677	2,258,516	2,044,242	6,844,808
Trade payables	8,630,348			
Payable to the Icelandic State	2,832,319			
Current tax liability	350,019			
Other short-term liabilities	2,448,500			
	18,432,808	13,853,421	7,125,156	24,032,226

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Notes, contd.:

30. Related parties

Definition of related parties

The Company's related parties are associates, members of the Board of Directors and management, their close family members and companies owned by them.

Transactions with related companies

Transactions with related companies are specified as follows:	2023	2022
Purchased goods and services	2,594,010	3,040,895
Sold goods and services	896,442	912,864
Interest revenue from receivables	10,659	12,465
Long-term receivables at year-end	100,985	131,807
Short-term receivables at year-end	6,212	14,434
Trade receivables at year-end	103,324	149,480

Board of Directors and key management personnel

The salaries and benefits of the members of the Board of Directors and key management personnel for their work for the Group and the nominal amount of their shareholding at year-end is specified as follows:

2023	Salary	Benefits	Performance-based salary	Nominal amount of shares at year-end
Board of Directors				
Guðjón Karl Reynisson, Chairman of the Board of Directors	10,929			609,391
Sigurlína Ingvarsdóttir, Vice-Chairman	8,486			
Hjörleifur Pálsson, Board member	6,293			40,000
Magnús Júíusson, Board member	6,053			215,861
Margrét Guðmundsdóttir, Board member	4,757			178,014
Key management personnel				
Ásta S. Fjeldsted, CEO	53,097	6,300	14,400	96,000
Eggert Þór Kristófersson, former CEO	35,092	2,522	12,900	
Five managing directors	144,097	11,468	29,032	500,000
Two former managing directors	32,112	2,749	17,550	74,902
Total	300,916	23,039	73,882	1,714,168

2022	Salary	Benefits	Performance-based salary	Nominal amount of shares at year-end
Board of Directors				
Guðjón Karl Reynisson, Chairman of the Board of Directors	12,125			609,391
Sigurlína Ingvarsdóttir, Vice-Chairman	3,776			
Hjörleifur Pálsson, Board member	2,805			40,000
Magnús Júíusson, Board member	2,694			215,861
Margrét Guðmundsdóttir, Board member	7,469			178,014
Ástvaldur Jóhannesson, former Board member	1,724			
Kristín Guðmundsdóttir, former Board member	1,306			26,757
Sigrún Hjartarsdóttir, former Board member	1,860			
Þórey G. Guðmundsd., former Board member	3,341			
Þórður Már Jóhannesson, former Chairman	209			5,000,000
Key management personnel				
Ásta S. Fjeldsted, CEO	39,445	4,293	9,000	96,000
Eggert Þór Kristófersson, former CEO	64,857	3,704	12,600	
Five managing directors	165,723	13,179	32,801	574,902
Total	307,334	21,176	54,401	6,740,925

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30. Related parties, contd.:

The number of shares includes shares owned by spouses and companies controlled by members of the Board of Directors and key management personnel.

	2023	2022
Key management personnel gender ratio (males/females)..	67/33	67/33

Transactions with other related parties

There are no shareholders with significant influence at year-end 2023. Companies controlled by members of the Board of Directors and key management personnel are five at year-end 2023 and they were defined as related parties. Transactions with them during both years 2023 and 2022 were very immaterial and they consist of normal sales and purchases and the pricing in such transactions is comparable to other transactions of Group companies.

Transactions with employees

The Group has granted loans to its employees due to general purchase of goods and the receivables amounted to ISK 7 million at year-end 2023 (2022: ISK 8 million). Other liabilities of employees towards the Company amounted to ISK 3 million at year-end (2022: ISK 5 million).

31. Other matters

Festi hf. (then N1 hf.) made a settlement with the Competition Authority on 30 July 2018 because of the acquisition by the Company of Hlekkur hf. (then Festi hf.). According to the settlement, Festi committed, among other things, to selling five self-service stations within the Capital Region and the convenience store Kjarval located in Hella. The settlement also included behavioural conditions. In December 2020 the Competition Authority announced it would initiate an investigation on potential breaches of the settlement by Festi and requested information and further explanations from the Company regarding several aspects, to which the Company answered at the time.

Festi received on 20 December 2023 an objection document from the Competition Authority in which it was explained that the Authority's preliminary assessment was that Festi has breached several terms of the articles of the settlement, and also referred to presumed breaches of article 19, as per article 17 of the Icelandic Competition Act no. 44/2005. Festi must submit its comments, further explanations, and documents before 15 February 2024, which Festi will do. The Company's assessment is still that the conditions of the settlement have been fulfilled but as of now it is not possible to assess what the conclusions of the investigation will be or when they will be available.

32. Financial ratios

The Group's key financial ratios

Operations	2023	2022
Turnover rate of inventories		
Utilisation of goods / average balance of inventories during the year	7,6	7,6
Sales days in trade receivables:		
Average balance of trade receivables during the year / goods and services sold	13,3	15,9
Profit before depreciation, amortisation and finance items / gross profit	35,9%	37,1%
Salaries and salary related expenses / gross profit	50,3%	49,8%
Other operating expenses / gross profit	20,9%	21,9%
Financial position		
Current ratio: current assets / current liabilities	1,21	1,29
Liquidity ratio: (current assets - inventories) / current liabilities	0,52	0,52
Leverage: net interest bearing liabilities excluding leaese liabilities / EBITDA	2,28	2,78
Equity ratio: equity / total capital	37,3%	36,9%
Return on equity: profit for the year / average balance of equity	10,0%	11,9%

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Quarterly Statement – unaudited

The Group´s operations for the year 2023 is specified by quarters as follows:

	Q1	Q2	Q3	Q4	2023 Total
Sale of goods and services	29,483,531	34,199,250	37,333,780	35,234,640	136,251,201
Cost of goods sold	(23,256,243)	(26,442,925)	(28,759,114)	(27,125,954)	(105,584,236)
Gross profit from sale of goods and serv.	6,227,288	7,756,325	8,574,666	8,108,686	30,666,965
Other operating income	496,934	517,711	534,774	639,420	2,188,839
Salaries and other personnel expenses	(3,672,552)	(4,137,590)	(3,676,304)	(3,953,846)	(15,440,292)
Other operating expenses	(1,650,753)	(1,574,932)	(1,528,514)	(1,645,829)	(6,400,028)
	(4,826,371)	(5,194,811)	(4,670,044)	(4,960,255)	(19,651,481)
Operating profit before depreciation, amortisation and changes in value (EBITDA)	1,400,917	2,561,514	3,904,622	3,148,431	11,015,484
Depreciation and amortisation	(943,764)	(945,090)	(990,573)	(1,222,264)	(4,101,691)
Changes in value of investment properties	15,546	86,131	(89,030)	126,246	138,893
Operating profit (EBIT)	472,699	1,702,555	2,825,019	2,052,413	7,052,686
Finance income	27,255	42,053	86,251	88,458	244,017
Finance costs	(817,897)	(893,273)	(901,923)	(931,398)	(3,544,491)
Foreign currency differences	23,989	4,288	(52,680)	(9,893)	(34,296)
Share of profit of associates	122,064	49,771	258,568	(12,278)	418,125
	(644,589)	(797,161)	(609,784)	(865,111)	(2,916,645)
(Loss) profit before income tax (EBT)	(171,890)	905,394	2,215,235	1,187,302	4,136,041
Income tax	80,825	(167,351)	(399,140)	(212,181)	(697,847)
(Loss) profit for the period	(91,065)	738,043	1,816,095	975,121	3,438,194
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from the operations of a foreign associate	(17,887)	1,769	(63,406)	73,060	(6,464)
Effective portion of changes in fair value of cash flow hedges, net of income tax	30	(2,903)	(20,797)	20,593	(3,077)
Total other comprehensive income	(17,857)	(1,134)	(84,203)	93,653	(9,541)
Total comprehensive income for the period	(108,922)	736,909	1,731,892	1,068,774	3,428,653
Basic and diluted earnings per share in ISK	(0.30)	2.43	5.96	3.22	11.31

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Quarterly Statement – unaudited, contd.:

The Group´s operations for the year 2022 is specified by quarters as follows:

	Q1	Q2	Q3	Q4	2022 Total
Sale of goods and services	24,571,564	29,936,064	35,146,484	31,744,288	121,398,400
Cost of goods sold	(18,837,445)	(22,610,643)	(28,083,005)	(24,873,386)	(94,404,479)
Gross profit from sale of goods and serv.	5,734,119	7,325,421	7,063,479	6,870,902	26,993,921
Other operating income	430,759	481,679	801,265	672,591	2,386,294
Salaries and other personnel expenses	(3,006,224)	(3,407,827)	(3,306,926)	(3,735,105)	(13,456,082)
Other operating expenses	(1,409,284)	(1,488,724)	(1,491,306)	(1,515,319)	(5,904,633)
	(3,984,749)	(4,414,872)	(3,996,967)	(4,577,833)	(16,974,421)
Operating profit before depreciation, amortisation and changes in value (EBITDA)	1,749,370	2,910,549	3,066,512	2,293,069	10,019,500
Depreciation and amortisation	(807,881)	(868,619)	(913,390)	(938,383)	(3,528,273)
Changes in value of investment properties	9,746	(32,856)	65,241	173,911	216,042
Operating profit (EBIT)	951,235	2,009,074	2,218,363	1,528,597	6,707,269
Finance income	28,988	34,256	86,905	27,649	177,798
Finance costs	(442,817)	(572,441)	(714,671)	(677,604)	(2,407,533)
Foreign currency differences	(28,037)	59,021	85,861	(112,231)	4,614
Share of profit of associates	62,998	105,939	215,629	68,922	453,488
	(378,868)	(373,225)	(326,276)	(693,264)	(1,771,633)
Profit before income tax (EBT)	572,367	1,635,849	1,892,087	835,333	4,935,636
Income tax	(96,569)	(300,654)	(329,651)	(126,992)	(853,866)
Profit for the period	475,798	1,335,195	1,562,436	708,341	4,081,770
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from the operations of a foreign associate	(19,268)	(11,968)	7,932	49,027	25,723
Change in fair value of investments in shares	0	0	0	59,436	59,436
Effective portion of changes in fair value of cash flow hedges, net of income tax	(89,498)	(23,474)	1,191	(10,653)	(122,434)
Total other comprehensive income	(108,766)	(35,442)	9,123	97,810	(37,275)
Total comprehensive income for the period	367,032	1,299,753	1,571,559	806,151	4,044,495
Basic and diluted earnings per share in ISK	1.35	4.45	5.10	2.29	13.19

Consolidated Annual Financial Statements of Festi hf. 2023 45 Amounts are in thousands of ISK

Statement of Corporate Governance

Board of Directors and Corporate Governance

Festi ("Festi" or "the Company") complies with the Guidelines on Corporate Governance, revised edition from 1 July 2021, issued by the Icelandic Chamber of Commerce, Nasdaq Iceland and the Confederation of Icelandic Employers. The Guidelines are available on www.leidbeiningar.is

The corporate governance of Festi is laid down in the rules of procedure of the Board of Directors, the Company‘s Articles of Association and the Act on Public Limited Companies No. 2/1995. The rules of procedure of the Board of Directors were most recently reviewed at a Board meeting on 24 January 2024. The rules are based on provisions in Article 70, paragraph 5 in the Act on Public Limited Companies No. 2/1995 and Article 18, paragraph 4 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 remuneration policy for Festi was approved by the Annual General Meeting on 22 March 2023. The policy applies to the terms of employment for the members of the Board of Directors, the CEO and the senior management of the Company.

The Company's rules of procedure for the Board of Directors, Articles of Association and information regarding the remuneration policy are accessible on the Company's website, www.festi.is/cc/stjornarhættir. The Company's highest authority is with its shareholders. The Annual General Meeting of shareholders shall be held no later than by the end of August each year. The Board of Directors has the highest authority in the Company's affairs between shareholders meetings and is ultimately responsible for its operations. The Board of Directors executes an appraisal of its performance annually. Communication between the Board and shareholders takes place at shareholders meetings. Members of the Board are independent in their work and do not accept 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 of Directors.

According to the Articles of Association of Festi, the Board of Directors of the Company shall consist of five Board members appointed annually at the Annual General Meeting. According to the conclusion of the Annual General Meeting from 22 March 2023, the Board of Directors consists of: Guðjón Reynisson, Hjörleifur Pálsson, Magnús Júlíusson, Margrét Guðmundsdóttir and Sigurlína V Ingvarsdóttir. The Board of Directors now consists of three men and two women. Therefore, the Company complies with the provisions of the Act on Public Limited Companies on gender ratios which entered into effect on 1 September 2013. Members of the Board have diverse education and extensive business experience.

The Annual General Meeting will be held on 6 March 2024. 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 10 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 as well as what it consists of.

The Board of Directors has laid down rules of procedure for the Board which are reviewed on an annual basis. In the rules of procedure the competences of the Board and its purview with respect to the CEO are defined. The rules contain, among other things, provisions on the appointment of Board members, communication with shareholders, calling of meetings and quorum, 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 a Vice-Chairman for the Board in addition to appointing members of sub-committees. Board meetings shall be called as often as necessary but in general no less than eight times per year. Board meetings are held at the headquarters of Festi hf. at Dalvegur 10-14, 201 Kópavogur. 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 determines among other things 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. The Nomination Committee of the Company operates according to a mandate granted by the Annual General Meeting.

All members of the Board of Directors have provided personal information in order to enable an evaluation of their qualification for membership on the Board. The information includes board membership in other companies, shareholding in the Company, whether directly or indirectly through related parties, and possible conflict of interest. Four Board members are independent of both the Company and the large shareholders but, according to The Guidelines of Corporate Governance issued 1 July 2021, one Board member is dependent.

Statement of Corporate Governance, contd.:

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 Company's 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 senior management is within the framework of the Company's remuneration policy and report thereon to the Board of Directors on an annual basis in relation to the Annual General Meeting. The Board of Directors shall appoint three members to the Remuneration Committee and they shall all be independent from the Company. Neither the CEO nor other employees 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 employment terms of the members of the Committee shall be decided at the Annual General Meeting. The rules of procedure of the Board of Directors shall stipulate the tasks of the Committee. The Committee consists of Hjörleifur Pálsson - Chairman of the Committee, Guðjón Karl Reynisson and Margrét Guðmundsdóttir.

Audit committee

The Board of Directors of Festi hf. has appointed an Audit Committee in accordance with provisions of the Icelandic Financial Statements Act. The Committee must consist of at least three members and the majority of the members shall be independent from Festi and its day-to-day managers. The Committee shall be appointed for a one-year term at the first Board meeting following the Annual General Meeting. 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 the audit of the Company’s financial statements and evaluate the performance of the auditor to ensure further safety and quality of work methods during the audit. The Chairman of the Committee calls for meetings at his own initiative or upon request from other members of the Committee but no less than four times a year. The Committee consists of Magnús Júlíusson, member of Board, Sigurlína Ingvarsdóttir, member of the Board, and Björgólfur Jóhannsson, Chairman of the Committee.

The Audit Committee´s tasks are as follows:

• To monitor the financial reporting process.

• To monitor the structure and effectiveness of Festi´s internal control, risk management and other control procedures.

• To monitor the external audit of Festi´s financial statements.

• To make recommendation to the Board of Directors regarding the selection of auditors or audit firm.

• To evaluate the independence of external auditors or the audit firm and monitor other tasks performed by them.

Nomination committee

The Nomination committee bases its work on the Company’s Articles of Association and rules of procedure in accordance with resolution of the Annual General Meeting. The committee consists of three members appointed for one year at a time. Two members are elected at the Company´s Annual General Meeting but the third one is appointed by the Board of Directors and is one of the Board members, directly after the Annual General Meeting. The principle shall be that a committee member appointed by the Board shall not be a Board member of the Company. The Nomination Committee has an advisory role regarding the election of Board members and presents its recommendations to the shareholder meeting where Board members are scheduled to be appointed. The Nomination Committee presents a reasoned proposal for the election of Board members, taking into account their competency, experience and knowledge with regards to the Guidelines on Corporate Governance and the results of the Board's performance appraisal. The committee's proposal shall be in accordance with provisions of the Act on Limited Liability Companies and the Company's Articles of Association regarding the appointment of the Board of Directors.

Statement of Corporate Governance, contd.:

The Nomination Committee's recommendations shall be aimed at the Board composition of diverse knowledge and experience that will serve well for setting the Company´s policies and for monitoring the business environment of the Company at any given time. The Nomination Committee shall conduct its work with the overall interests of all the shareholders of the Company in mind.

The Nomination Committee consists of Sigrún Ragna Ólafsdóttir, Chairman of the Committee, Ólafur Arinbjörn Sigurðsson and Tryggvi Pálsson. Any queries are received through email, tilnefningarnefnd@festi.is.

Investment Committee

The Board of Directors appointed an Investment Committee, which operated until the Company's Annual General Meeting which was held on 22 March 2023. The Committee consisted of Guðjón Reynisson, Chairman of the Board of Directors, Ásta S. Fjeldsted, the CEO and Magnús Kr. Ingason the CFO.

During the year 2023, the Board of Directors held 19 meetings, the Audit Committee 6 meetings and the Remuneration Committee 6 meetings. The majority of members of the Board of Directors, the Audit Committee, the Remuneration Committee attended all meetings. The Audit Committee calls meetings with the Company's auditors on a regular basis and auditors attend Board meetings when reviewed or audited financial statements are discussed.

The Board of Directors of Festi

Guðjón Reynisson, Chairman of the Board of Directors

Guðjón Reynisson holds an MBA from the University of Iceland from 2002 and completed Operational- and Business Studies from Endurmenntunarstofnun Háskóla Íslands in 1999. Guðjón graduated with an athletic education degree from Íþróttakennaraskóli Íslands in 1986. Currently, Guðjón is an independent investor and a member of the Board of Directors. Between 2008 and 2017 he was the CEO of Hamleys of London. Between 2003 and 2007 Guðjón was the executive director of 10-11 convenience stores. Prior to that, from 1998 to 2003, he was the executive director of sales at Tal. Guðjón has been a member of the Board of Directors of Festi since 2014, and the Board's Chairman since 2022; board member of Kvika banki since 2018, and of Securitas since 2018. Guðjón is independent of the Company, its day-to-day managers, and major shareholders.

Sigurlína Invarsdóttir, Vice-Chairman of the Board of Directors

Sigurlína Invarsdóttir, holds a B.Sc degree in Industrial Engineering from the University of Iceland. Currently she works as an independent advisor in her own company, Ingvarsdottir ehf. and a member of its board. Additionally, she is an investor in Behold VC, where she is one of the owners. The fund invests in Nordic Countries in computer games companies in the early stages of their development. Between 2006 and 2020 Sigurlína worked as a manager in computer game manufacturing in Iceland, Sweden, Canada and the USA. Earlier she worked as a pharmaceutical development project manager in Actavis and in business development, and also implementing new technical solutions at Hagar. Sigurlína is the Chairman of the Boards of Directors of Carbon Recycling International and Solid Clouds and in addition she is also a board member of Eyrir Vöxtur, along with other Icelandic and foreign computer games companies. Sigurlína became a Board member of Festi in July 2022. She is independent of the Company, its day-to-day managers, and major shareholders.

Hjörleifur Pálsson, member of the Board of Directors

Hjörleifur graduated from the University of Iceland in 1988 and holds a Cand. Oecon. degree. He became a certified public accountant in 1989 and worked as an accountant until 2001. He held the CFO position in Össur hf. from 2001 to 2013. From 2013 Hjörleifur has been a board member of various companies and today he is a board member, Chairman of the Audit Committee, and a board member of Remuneration Committee in Lotus Pharmaceutical Co. Ltd., which is listed on the share exchange in Taiwan. He is also a board member of Ankra ehf., a board member of Brunnur vaxtarsjóður slhf. and a board member of Brandr Global ehf. Hjörleifur is the Chairman of Remuneration Committee of Icelandair Group hf., the Chairman of the Audit Committee of Harpa ráðstefnu og tónlistarhúss ohf. and a member of the Audit Committee of Landsbankinn hf. Hjörleifur was for many years the Chairman of the Board of Directors and University Council of Reykjavík University and, among other things, he is a former chairman of the Board of Directors of Sýn hf. Hjörleifur became a Board member of Festi in July 2022. Hjörleifur is independent of the Company, its day-to-day managers, and major shareholders.

Statement of Corporate Governance, contd.:

Magnús Júlíusson, member of the Board of Directors

Magnús holds an M.Sc. degree in Sustainable Energy Engineering from KTH Royal Institute of Technology in Stockholm and a B.Sc degree in High Tech Engineering from Reykjavík University. Magnús held the position of CEO and was co-founder of Stika umhverfislausnir ehf., a software company in the field of environmental solutions. Earlier Magnús was assistant to the Higher Education, Science and Innovation Minister. In 2017 he established Íslenska Orkumiðlun ehf., specialising in electricity sales for the public electricity market, which Festi purchased in March 2020. Then Magnús became responsible for the Energy division of N1 until the end of 2021. From 2014 to 2015 he worked as a specialist in electricity supervision with Orkustofnun and from 2015 to 2016 he worked as an energy broker with Orka náttúra. From 2013 Magnús has also been a part time lecturer in Business Administration at Reykjavík University. Magnús is a board member at Rio Tinto in Iceland. Magnús was a member of a committee responsible for shaping long term energy strategy for Iceland, including vision and guidelines for Iceland in energy affairs until 2050. Magnús became a Board member of Festi in July 2022. Magnús is dependent of the Company, day-to-day managers, and major shareholders.

Margrét Guðmundsdóttir, member of the Board of Directors

Margrét holds a Cand. oecon. degree in Business Administration from the University of Iceland, Cand. merc. degree from Copenhagen Business School and an Executive education from CEDEP/Insead in France. Margrét held the position of CEO of Icepharma hf., during the period from 2005 to 2016. Before that she was an executive director at Skeljungur from 1995 to 2005, executive director at Kuwait Petroleum (Danmark) A/S from 1986 to 1995 and the office director at Dansk ESSO, later Statoil, between 1982 and 1986. She was the deputy CEO of AIESEC International Brussel from 1978 to 1979. Margrét is a board member of Eignarhaldsfélagið Lyng ehf., Eimskip hf., Hekla hf., Hekla Fasteignir ehf. and Paradís ehf. Margrét was the chairman of European Surgical Trade Association from 2011 to 2013 and sat on the Association's board of directors from 2009 to 2015. She was the chairman of the Icelandic Federation of Trade between 2009 and 2013, a board member of Reiknistofa bankanna from 2010 to 2011 and from 2016 to 2018, a board member of ISAVIA from 2017 to 2018 and a board member of SPRON from 2008 to 2009. Additionally, Margrét has been a board member of Skýrr hf., Frigg hf., Q8 A/S in Denmark and Dansk Institut for Personaleradgivning. Margrét started as member of the Board of Directors of N1 in 2011, the Chairman of the Board of Directors from 2012, which later became Festi, until March 2020. She is independent of the Company, day-to-day managers, and major shareholders.

Executive Board of Festi

The Executive Board is composed of the CEO and five managing directors of the Company, whereby each managing director is responsible for a certain division under the CEO. The Company's CEO, Ásta S. Fjeldsted, was on maternity leave from the beginning of November 2022, but returned to work on 17 March 2023. Magnús Kr. Ingason, CFO, served as CEO during the specified period.

Ásta Sigríður Fjeldsted, CEO

Ásta Sigríður is a Mechanical Engineer with an M.Sc. degree from DTU, Technical University of Denmark. Between the years 2007 to 2012 she worked for IBM in Denmark and Össur hf. the orthopaedic manufacturer, both in France and Iceland. From 2012 to 2017 she worked for the consulting firm McKinsey & Company, at both its offices in Tokyo and Copenhagen. From 2017 she worked as the Secretary-General of Iceland Chamber of Commerce. Ásta Sigríður held the position of CEO of Krónan from 2020 and became CEO of Festi in September 2022. Ásta Fjeldsted is a member of the Corporate Advisory Council of the Icelandic National Committee for UNICEF and is a board member at Transition Labs.

Other members of the Executive Board

Magnús Kristinn Ingason, CFO and COO

Guðrún Aðalsteinsdóttir, CEO of Krónan

Óðinn Árnason, CEO of Festi fasteignir

Óttar Örn Sigurbergsson, CEO of ELKO

Ýmir Örn Finnbogason, CEO of N1

Statement of Corporate Governance, contd.:

According to the Company’s Articles of Association, it is the role of the Board of Directors to hire the CEO and decide the terms on the employment contract. The Board of Directors and CEO are responsible for the governance of the Company.

It should be noted that members of the Executive Board of Festi 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.

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

Monitoring the main risks faced by the Company is an integral and ongoing part of the Company´s day-to-day operations intended to secure its operational continuity and minimise risk. Risk management is integrated in the day-to-day operation of the Company.

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 segregation of duties and regular reporting and transparency in its operations. The process of monthly reporting and review for individual divisions is an important factor in the controls for earnings 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 controls for income recognition, operating expenses and other items affecting the Company's operation. Risk management is reviewed on a regular basis in order to reflect changes in market conditions and the Company's operation. Through personnel training and work procedures the Company aims at maintaining disciplined controls where all employees are aware of their roles and responsibilities. Operating risk is addressed by monitoring transactions and compliance with law. The Board of Directors has established an equity management policy to ensure a strong equity position and to support stability in the future development of the Company´s operations.

The main components 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 external auditors carry out limited reviews of its processes.

Company's Shareholders

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

Non-Financial Information – ESG

Festi's Business Model

Festi is a holding company that owns and operates companies which are leading in the food market, fuel and service station market, and electronic equipment and smart device market. Operation of properties, purchase and sale of securities are also part of the Group's operations. The Parent Company, Festi, owns the subsidiaries Krónan, which operates grocery stores under the name Krónan, N1, which operates service stations for fuel and charging of electric vehicles as well as various facilities related to lubrication and motor vehicle services, ELKO, which is the largest electronic equipment store in the country, Festi fasteignir, which owns and operates the Group's properties, and Bakkinn vöruhótel, which specialises in in warehouse services and distribution. Festi's Executive Board is made up of the Group's CEO and managing directors, and Festi's representatives also make up the subsidiary companies' boards**.**

Festi has defined its mission, values and future vision, which are used as guiding lights in everyday work and decision-making.

Mission: Manage investments, support value creation and create new opportunities.

Values: Value – Cooperation – Trust

Vision: We are leading, reliable and sustainable. We add value, satisfaction and increase quality of life.

Festi services all companies of the Group in various ways and thus achieves optimisation due to size and increased quality through standardisation of work procedures and coordination of processes. In addition, the Company provides its operating companies with the necessary support to be able to consistently be at the forefront of service and product offerings, all over the country. The services are in the field of finance, information technology, human resources, quality, safety and sustainability, as well as operation and maintenance of the Group's properties.

Summary of the Group's non-financial policies

Board of Directors' Code of Conduct

Board of Directors' Working Procedures

Code of Conduct

Code of Conduct for Suppliers and Service providers

Equal Pay Policy

Equality Policy

Human Resource Policy

Information Security Policy (In-house policy)

Investor Relations Policy

Privacy Policy (In-house policy)

Policy and response plan against bullying, harassment and violence

Remuneration Policy

Sustainability Policy

The Group's policies, other than in-house policies, can be accessed on the Company's website. In addition to the above-mentioned policies, Festi's operating companies have independent policies that can be found in their sustainability reports.

Non-Financial Information, contd.:

Sustainability policy of Festi and its operating companies

The policy‘s purpose is to serve as a guide to more sustainable operations for the Group. The policy lays the foundation for the Group's vision and strategic priority of having sustainability as a guiding principle in all decision making regarding its future growth. Additionally, the policy supports the UN Sustainable Development Goals the Company the company puts emphasis on, specifically the goals on gender equality (5), decent work and economic growth (8), reduced inequalities (10), responsible consumption and production (12) and climate action (13).

Nasdaq's internationally recognised guidelines for environmental, social and corporate governance (ESG) factors lay the foundations of the policy, but the policy and its objectives are reviewed annually, published on Festi's website and presented to management and employees.

Environmental factors

Festi and its operating companies are aware of the impact of their operations on the environment and strive to minimise their negative impact as much as possible. Festi and its operating companies are all members of Festa, the Centre for Corporate Social Responsibility and Sustainability, and have all signed Festa's and the City of Reykjavík's Climate Declaration on reducing greenhouse gas emissions and minimising negative environmental impacts through targeted actions.

Amongst other things, the Group emphasizes responsible use of resources, reducing waste, increasing the availability of environmentally friendly products and services, managing indirect emissions of greenhouse gases from operations (in addition to direct emissions) as well as reducing them, mapping and responding to sustainability risks, improving employee education and having a positive impact on the supply chain.

In addition to minimising the impact on the environment from direct operations, the Company is working on a project in certified afforestation on the land of Fjarðarhorn in Hrútafjörður, which is carried out according to the requirements of Skógarkolefni's quality system. It is estimated that in the next 50 years, the carbon sequestration of Festi associated with this project will amount to about 70,000 tons of $CO2$. In this regard, it is also relevant to mention that in recent years the Company has offset measured emissions from its activities with purchased carbon units.

Social factors

It is important for Festi and its operating companies to be desirable workplaces that attract and retain qualified and dependable staff. Emphasis is placed on equality in the workplace as well as objective and fair communication but the Group does not tolerate any form of bullying, violence or harassment and has put in place a response plan related to those matters. Every effort is made to ensure the satisfaction, safety and well-being of employees with good workplace conditions as well as regular training and career development. Workplace analyses are regularly carried out to measure well-being at the workplace, and the development of customer satisfaction is also monitored in various ways. Festi operates a zero-accident policy, which means that no accidents are acceptable. Safety and occupational safety courses are held annually to promote safety and health awareness among employees, together with lectures related to health, communication and well-being in the workplace. Festi cooperates with Siðferðisgáttin (the Ethics Gateway), which gives the Group's employees the possibility to report, in a safe way to a third party, if they are subjected to unwanted behaviour or experience discomfort in the workplace.

All companies in the Group are equal pay certified according to the ÍST 85:2012 standard and the requirements of the Directorate of Equality. It confirms that at the Company's employees who do the same or equally valuable work are not discriminated against in pay. Festi and its operating companies have implemented Velferðarpakki (the Welfare Package), which attempts a holistic approach to the well-being of employees. The objective is to increase the quality of life, promote improved mental and physical health, and reduce the likelihood of illness and absenteeism due to illness among the Group's employees.

Festi and its operating companies support and respect the protection of international human rights in accordance with Icelandic laws as well as the United Nations Declaration of Human Rights in all of their activities. The Group respects the United Nations Convention on the Rights of the Child and rejects all human rights violations such as forced and slave labour, including child slavery.

Non-Financial Information, contd.:

Corporate Governance

Festi and its operating companies are aware of the impact they have on society through their activities and place great emphasis on practicing healthy business practices in every respect. With the new Code of Conduct for Suppliers and Service Providers, the Company will also try to have a positive influence on the supply chain to conduct more responsible and sustainable production and business, practice healthy business practices and fight against any form of corruption.

Festi is a limited liability company registered on the Iceland Stock Exchange and follows the approved guidelines for corporate governance, issued by the Icelandic Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers. In addition, the Group prepares its financial statements according to International Financial Reporting Standards (IFRS). Festi hf.'s Code of Conduct applies to all activities of Festi and its operating companies, all employees as well as contractors who carry out tasks for the Group. In addition, both the Board of Director’s Code of Conduct and the Board of Directors’ Working Procedures apply, which also include procedures for assessing reputational risk and conflicts of interest. More information about the Company's governance can be found in the Statement of Corporate Governance within these financial statements.

Objectives and progress

The Group has set forth defined objectives related to environmental factors, social factors and corporate governance, which are reviewed annually. A more detailed coverage of the objectives may be found in the Company's annual and sustainability report. There you can also find the Group's Sustainability Statement, which is prepared in collaboration with Klappir grænar lausnir hf. Festi's sustainability and annual report for the year 2023 will be published in connection with the Company's Annual General Meeting on March 6.

During the second half of the year, Reitun carried out an ESG sustainability assessment of Festi where Festi received a grade of B2 or 76 points out of a possible 100, improving by 1 point year-on-year. The assessment gives an account of how companies stand in environmental and social factors and corporate governance. Festi is above average in all categories and moved up a category in social factors. Examples of success achieved in the field of sustainability in 2023 are for instance, that a multidisciplinary sustainability committee was established, which meets regularly and works toward e.g. increased in-house sustainability knowledge and awareness. There was also an increased focus on sustainability risks within the Group, the Code of Conduct for Suppliers and Service Providers was implemented, the involvement of the Board of Directors and Executive Committee on the topic of sustainability increased and gender ratios in the Executive Committee were equalised.

Sustainability risks

At least twice a year, an assessment of the main risk factors in the Group's operations is updated. The assessment is carried out for each operating unit and by relevant members of management at each company. In 2023, the focus on sustainability risk was increased by deliberating it as an independent risk category. The main results and changes in the Group's risk assessment are presented to Festi's audit committee twice a year.

Sustainability risks vary greatly depending on the operations of the operating companies, but the greatest risk is related to the sale of fossil fuels at N1. The Company also evaluates this risk as an opportunity and intends to be a leading player in Iceland’s energy exchange by helping companies and individuals switch from fossil fuels to green energy sources. Examples of supporting projects that are well underway include the installation of fast charging stations all over the country and various innovative and collaborative projects, e.g. in improving the electric charging infrastructure of Iceland and increasing access to green energy sources in the country.

Non-Financial Information, contd.:

Due diligence process

The Group relies on sustainability software from the company Klappir Grænar Lausnir for sustainability accounting and monitoring of all the necessary data, but most data is collected automatically. The Group emphasises increasing transparency and systematically improving sustainability information. A step in that journey is that Festi's Sustainability Report for 2023 will be assured with limited assurance by Deloitte ehf., for the second year in a row. This is not a legal requirement, but with this, Festi receives an assessment and confirmation of the reliability of data and information related to the Group's sustainability performance. In addition, it is relevant to mention that the Company's financial statements are audited by an external auditor, presented to Festi's Audit Committee and approved by the Company's Board of Directors and shareholders at the Company’s Annual General Meeting.

More information related to the Company's sustainability journey can be found in the Annual and Sustainability Report for 2023, which will be published in the beginning of March 2024 and will then be available on Festi's website, www.festi.is. Festi's subsidiaries will also publish more detailed information on their sustainability performance, goals and emphasis for the year in reports on their websites.

EU Taxonomy reporting

EU Taxonomy regulation entered into force in Iceland on 1 June 2023 with Act. no. 25/2023 on Sustainable Finance Disclosure Regulation (SFDR) and taxonomy for sustainable investments. The Act applies from 1 January 2023 for the entire fiscal year 2023.

The aim of the regulation is to define which business activities are considered environmentally sustainable based on the technical assessment criteria set out in the delegated regulation 2021/2139 as well as to promote transparency in sustainability information. For companies to be considered environmentally sustainable within the meaning of the regulation, they must meet the criteria for environmentally sustainable economic activity according to Article 3 of the regulation. First, the economic activity must make a substantial contribution to one or more environmental objectives, while at the same time it may do no significant harm to other goals. It must be carried out in accordance with minimum safeguards and finally comply with technical screening criteria.

The environmental objectives are six: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. Assessment criteria for climate change mitigation and adaptation have been implemented by delegated regulation 2021/2139. Business activities carried out there are subject to information disclosure requirements in Iceland, but the delegated regulation 2023/2486 on other environmental objectives entered into force within the EU in 2023 and is awaiting implementation in Iceland.

Companies are required to disclose the percentage of turnover, capital expenditure and operating expenses for the most recent operating period on eligible activities, that is, activities covered by the EU Taxonomy regulation. Similarly, the same key performance indicators must be disclosed for activities that meet all the criteria of the regulation and are considered to be aligned activities or environmentally sustainable. In Iceland, the regulation applies to companies subject to non-financial information disclosure requirements according to article 66d in the Icelandic Annual Accounts Act no. 3/2006 and Festi is among them.

Festi’s eligible activities covered by EU Taxonomy

Festi began its review by comparing the Company's activities to the technical assessment criteria already disclosed based on the environmental objective of climate change mitigation and adaptation to climate change. Festi's core business is retail, which currently does not fall under the technical assessment criteria. During the assessment of the activities, it was found that categories 1.1. Afforestation, 4.9. Transmission and distribution of electricity, 6.4. Operation of personal mobility devices, cycle logistics, 6.6. Freight transport services by road, 7.1. Construction of new buildings, 7.2. Renovation of existing buildings, 7.3. Installation, maintenance and repair of energy efficient equipment and 7.7. Acquisition and ownership of buildings fall under the environmental objective of climate change mitigation and are related to the activities of Festi or its subsidiaries.

Non-Financial Information, contd.:

Environmentally sustainable activities according to the regulation

A substantial contribution

For an activity to be considered aligned and thereby meet the requirements of the EU Taxonomy regulation to be environmentally sustainable, it must make a substantial contribution and do no significant harm, in addition to meeting minimum safeguards. The requirements are detailed and it is clear that if companies want to disclose in good conscience that the objectives are met and pass inspection, a considerable amount of preparation has to have taken place.

Aligned activities that Festi considers to meet the criteria for being environmentally sustainable are as follows:

1.1. Afforestation

Festi has an afforestation project in Fjarðarhorn in Hrútafjörður. The project follows the methodology and standards of Skógarkolefni, which was compared with the requirements of the EU Taxonomy regulation and confirmed that the methodology meets the requirements of the technical assessment criteria when it comes to a substantial contribution.

4.9. Transmission and distribution of electricity

Construction and operation of N1 charging stations for electric vehicles, but N1 operates both home charging stations and fast charging stations all over the country.

6.4. Operation of personal mobility devices, cycle logistics

ELKO sales of electric scooters, where the driving force comes from a combination of a zero-emission engine and users physical movement.

7.3. Installation, maintenance and repair of energy efficient equipment

LED bulbs in Krónan, ELKO and N1 stores are classified as installation and replacement of energy-efficient light sources.

As a class A energy efficiency certificate is required according to EU directive 2010/31 to determine a significant contribution for the categories: *construction of new buildings, renovation of existing buildings, and acquisition and ownership of buildings*, it was not possible to go further with those elements. This is due to the fact that Iceland has a total exemption from the implementation of the directive and it has not been implemented into Icelandic law. As a result, no energy efficiency certificates are issued for buildings in Iceland, making it impossible to determine primary energy needs based on the directive. Since requirements related to energy efficiency are the only requirements set forth for the environmental sustainability of these categories, it is impossible for Icelandic companies to demonstrate environmentally sustainable activities in these categories.

It was not possible to meet the requirements of the regulation in the category of *freight transport services by road*, even though the Company operates zero-emission cars. The requirements of the regulation regarding tires are such that it is very difficult to meet the safety requirements in Icelandic conditions.

Do no significant harm

Climate change adaptation and mitigation

Changes in climatic conditions because of climate change will affect all infrastructure. Festi conducted a climate risk and vulnerability assessment on the activities that are defined as aligned and has evaluated the main climate risks related to the activities. Similarly, the Company has identified which adaptation solutions are in place and where improvements are needed. Furthermore, a risk assessment has been conducted by Skógarkolefni on Festi's afforestation project that is considered to meet the requirements of the EU Taxonomy regulation.

Sustainable use and protection of water and marine resources

The criteria for sustainable use and protection of water and marine resources is related to the EU Water Framework directive where strain on water resources shall be defined. The body of water on Stórisandur is the body of water that is closest to Fjarðarhorn and is related to activity 1.1. Afforestation. The body of water is groundwater and is considered to have an adequate quantitative status of water, however the chemical status of the body of water has not been analysed. Other business activities of Festi that are classified as environmentally sustainable are not required to fulfil the requirements of sustainable use and protection of water and marine resources.

Non-Financial Information, contd.:

Transition to a circular economy

The transition to a circular economy applies to the transmission and distribution of electricity and the operation of personal mobility devices. A waste management plan that ensures reuse is in place for both categories.

Pollution prevention and control

No significant harm is permitted in pollution prevention and pollution prevention control in relation to afforestation and the transmission and distribution of electricity. Pesticides are not used in Icelandic forestry and the use of fertiliser is in accordance with Icelandic law. Requirements related to the transmission and distribution of electricity are not applicable since those requirements are not related to charging stations for electric vehicles.

Protection and restoration of biodiversity and ecosystems

This requirement also applies to afforestation and the transmission and distribution of electricity. The cultivation plan of the forestry project in Fjarðarhorn fulfils and explains the requirements that apply to afforestation. Before charging stations are installed it is examined whether permits from public authorities are required and ensured that the instalment fulfils all applicable law and regulations, such as civil engineering structure law, law on environmental impact assessment etc.

Minimum safeguards

Article 18 of the taxonomy regulation prescribes the minimum safeguards where the OECD guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, including the principles set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work are considered. The Sustainable Finance Forum has identified core subjects in accordance with these requirements: *human rights, corruption and bribery, taxation and fair competition.*

The Sustainability Policy, the Codes of Conduct for the Board of Directors and employees as well as the Human Resource Policy lay the foundation to ensure Festi follows the minimum safeguards in accordance with the EU Taxonomy regulation. In addition, Festi operates in accordance with Icelandic tax law and labour law which takes into account the UN's Convention on the Rights of the Child and the Act of the Child no. 73/2003. Further information on the Company's policies on the core subjects can be found as a part of the Group's non-financial information in these financial statements.

Festi is aware that further work is needed when it comes to ensuring the minimum safeguards, such as due diligence on human rights in accordance with OECD's definition, in addition to further requirements of EU legislation that relates to disclosures on human rights. The Group will continue to put emphasis on those factors in the near future.

Key performance indicators

The following methodology is used for the calculation of the key performance indicators of turnover, capital expenditure and operating expenditure for eligible activities. The European Union has published guidelines for the calculation of key performance indicators in delegated regulation 2021/2178. It is possible that requirements or methodology will change as the regulation is updated and that can affect the future calculations for Festi, also if it turns out that the Company's activities fit better with other environmental objectives than those that have already been published.

The Group's financial statements are prepared in accordance with IFRS as is disclosed in Note 2 in the annual financial statements. The calculation of key performance indicators is disclosed on a consolidated basis where internal transactions have been eliminated to avoid double counting. The following methodology was used in the calculation of key performance indicators, turnover, capital expenditure and operating expenditure, that are disclosed hereafter in tables on p. 59, 60 and 61.

As previously mentioned, the core operation of Festi is retail, but that sector has not yet been included in the technical screening criteria of the EU Taxonomy regulation. For that reason, only a small part of the Group's turnover, capital expenditure and operating expenditure is eligible in accordance with the taxonomy regulation.

Non-Financial Information, contd.:

Turnover

The proportion of turnover in accordance with the definition of the taxonomy regulation includes income that is entered in accordance with paragraph 82A of IAS 1. Total turnover in accordance with the definition is in accordance with the Group's total turnover for the year 2023 as it is presented in note 5 in the consolidated financial statements, in total 138,440 m. ISK. There of 2.8% is from activities that are taxonomy eligible, and the proportion of sustainable activities is the same, or 2.8% in categories 4.9. Transmission and distribution of electricity and 6.4. Operation of personal mobility devices, cycle logistics. Proportions are presented in table for turnover on p. 59.

Capital expenditure

Capital expenditure has been allocated to eligible activities in accordance with the EU Taxonomy regulation. According to article 8 of the taxonomy regulation capital expenditure entails additions to tangible and intangible assets during the financial year considered before depreciation, amortisation, and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. Investments including new leases amounted to a total of 4,489 m. ISK in 2023 in accordance with additions during the year in note 13, 14 and 15 in the consolidated financial statements. There of 26.1% is from aligned activities and 5.5% from sustainable activities in activities 1.1. Afforestation, 4.9. Transmission and distribution of electricity and 7.3. Installation, maintenance, and repair of energy efficient equipment. The main reason for the difference between the proportion of activities that are aligned with the taxonomy regulation and sustainable activities is the impossibility for Icelandic companies to present sustainable operations for the activities construction of new buildings, renovation of existing buildings and the acquisition and ownership of buildings as mentioned before. Proportions of capital expenditures are presented in a table for capital expenditures on p. 60.

Operational expenditure

The taxonomy regulation's definition of operational expenditure is narrower than the general accounting definition. Operational expenditure are direct non-capitalised costs that relate to research and development, building renovation measures, short-term leasing, maintenance and repair and any other direct expenditures relating to the day-to-day servicing of assets of property, plant, and equipment by the undertaking or third party to whom activities are outsourced, that are necessary to ensure the continued and effective functioning of such an asset. Operation expenditure according to this definition amounted to ISK 1,043 million during the year 2023 and was due to maintenance and repairs. There of 7.4% is from aligned activities and 2.6% from sustainable activity in 1.1. Afforestation, 4.9. Transmission and distribution of electricity and 7.3. Installation, maintenance, and repair of energy efficiency equipment. Proportions are presented in a table for operational expenditures on p. 61.

Turnover

Economic Activities (1)	Code (2)	Absolute turnover (3)	Proportion of Turnover (4)	Substantial Contribution Criteria: Climate Change Mitigation (5)*	Climate Change Adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Biodiversity and ecosystems (10)	DNSH criteria ('Does Not Significantly Harm'): Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Pollution (14)	Circular Economy (15)	Biodiversity (16)	Minimum Safeguards (17)	Taxonomy aligned proportion of total turnover, year N (18)**	Taxonomy aligned proportion of turnover, year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
Text	*#*	*ISK, thousands*	*%*	*%*	*%*	*%*	*%*	*%*	*%*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*%*	*%*	*E*	*T*
A. TAXONOMY-ELIGIBLE ACTIVITIES			**2.8%**																	
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Afforestation	1.1	0	0.0%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	0.0%	NA		
Transmission and distribution of electricity	4.9	3,711,448	2.7%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	2.7%	NA	E	
Operation of personal mobility devices, cycle logistics	6.4	103,855	0.1%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	0.1%	NA		
Installation, maintenance and repair of energy efficient equipment	7.3	0	0.0%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	0.0%	NA	E	
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**3,815,303**	**2.8%**	**2.8%**	**0%**	**0%**	**0%**	**0%**	**0%**	Já	Já	Já	Já	Já	Já	Já	**2.8%**	NA	**0.0%**	**0%**
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Freight transport services by road	6.6	902	0.0%																	
Construction of new buildings	7.1	0	0.0%																	
Renovation of existing buildings	7.2	0	0.0%																	
Acquisition and ownership of buildings	7.7	0	0.0%																	
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**902**	**0.0%**																	
Total (A.1+A.2)		**3,816,205**	**2.8%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities		**134,623,835**	**97.2%**																	
Total (A+B)		**138,440,040**	**100%**																	

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CapEx

				Substantial Contribution Criteria						DNSH criteria ('Does Not Significantly Harm')										
Economic Activities (1)	Code (2)	Absolute CapEx (3)	Proportion of CapEx (4)	Climate Change Mitigation (5)*	Climate Change Adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Biodiversity and ecosystems (10)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Pollution (14)	Circular Economy (15)	Biodiversity (16)	Minimum Safeguards (17)	Taxonomy aligned proportion of total CapEx, year N (18)**	Taxonomy aligned proportion of turnover, year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
Text	*#*	*ISK, thousands*	*%*	*%*	*%*	*%*	*%*	*%*	*%*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*%*	*%*	*E*	*T*
A. TAXONOMY-ELIGIBLE ACTIVITIES			**26.1%**																	
A.1. CapEx of environmentally sustainable activities (Taxonomy-aligned)																				
Afforestation	1.1	35,382	0.8%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	0.8%	NA		
Transmission and distribution of electricity	4.9	166,735	3.7%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	3.7%	NA	E	
Operation of personal mobility devices, cycle logistics	6.4	0	0.0%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	0.0%	NA		
Installation, maintenance and repair of energy efficient equipment	7.3	43,468	1.0%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	1.0%	NA	E	
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**245,585**	**5.5%**	**5.5%**	**0%**	**0%**	**0%**	**0%**	**0%**	Já	Já	Já	Já	Já	Já	Já	**5.5%**	NA	**4.7%**	**0%**
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned)																				
Freight transport services by road	6.6	64,810	1.4%																	
Construction of new buildings	7.1	592,724	13.2%																	
Renovation of existing buildings	7.2	99,427	2.2%																	
Acquisition and ownership of buildings	7.7	170,123	3.8%																	
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**927,084**	**20.7%**																	
Total (A.1+A.2)		**1,172,669**	**26.1%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Capex of Taxonomy-non-eligible activities		**3,316,296**	**73.9%**																	
Total (A+B)		**4,488,965**	**100%**																	

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OpEx

Economic Activities (1)	Code (2)	Absolute OpEx (3)	Proportion of OpEx (4)	Substantial Contribution Criteria						DNSH criteria ('Does Not Significantly Harm')										
				Climate Change Mitigation (5)*	Climate Change Adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Biodiversity and ecosystems (10)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Pollution (14)	Circular Economy (15)	Biodiversity (16)	Minimum Safeguards (17)	Taxonomy aligned proportion of total OpEx, year N (18)**	Taxonomy aligned proportion of turnover, year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
Text	*#*	*ISK, thousands*	*%*	*%*	*%*	*%*	*%*	*%*	*%*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*%*	*%*	*E*	*T*
A. TAXONOMY-ELIGIBLE ACTIVITIES			**7.4%**																	
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Afforestation	1.1	102	0.0%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	0.0%	NA		
Transmission and distribution of electricity	4.9	20,445	2.0%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	2.0%	NA	E	
Operation of personal mobility devices, cycle logistics	6.4	0	0.0%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	0.0%	NA		
Installation, maintenance and repair of energy efficient equipment	7.3	6,397	0.6%	100%	0%	0%	0%	0%	0%	Já	Já	Já	Já	Já	Já	Já	0.6%	NA	E	
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**26,944**	**2.6%**	**2.6%**	**0%**	**0%**	**0%**	**0%**	**0%**	Já	Já	Já	Já	Já	Já	Já	**2.6%**	NA	**2.6%**	**0%**
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Freight transport services by road	6.6	21,857	2.1%																	
Construction of new buildings	7.1	0	0%																	
Renovation of existing buildings	7.2	26,755	3%																	
Acquisition and ownership of buildings	7.7	1,531	0%																	
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**50,143**	**4.8%**																	
Total (A.1+A.2)		**77,087**	**7.4%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
OpEx of Taxonomy-non-eligible activities		**965,969**	**92.6%**																	
Total (A+B)		**1,043,056**	**100%**																	

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