



Skeljungur hf.

Consolidated Financial Statements

1 January to 31. March 2020

These financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

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Endorsement by the Board of Directors and the CEO

The Consolidated Financial Statements of Skeljungur hf. (the “Company” or “Skeljungur”) for the period 1 January to 31 March 2020 include the Company and its subsidiaries (Group). The Condensed Consolidated Interim Financial Statements are prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Group’s Annual Consolidated Financial Statements.

Total operating revenue for the period 1 January to 31 March 2020 amounted to ISK 10.970 million (2019: 11.506 million) and profit for the period amounted to ISK 159 million (2019: 411 million). According to the Statement of Financial Position, the Group’s total assets amounted to ISK 26.630 million (2019: 24.461 million) and debt amounted to ISK 17.021 million (2019: 14.638 million). Total Equity amounted to ISK 9.609 million (2019: 9.823 million) and the equity ratio was 36% (2019: 40%).

At Skeljungur hf. Annual General Meeting on March 5th 2020, the Board of Directors were granted permission to repurchase shares in the Company for up to 10% of total shares. This repurchasing plan was announced on March 18th, and at the signature date of this Interim Financial Statement, total 24.820.946 shares have been bought, which constitutes 1,25% of total shares. Further information on changes to the Group’s equity is provided in notes to the Interim Financial Statement.

Skeljungur hf. Annual General Meeting held on March 5th 2020 agreed to decrease the Company’s share capital from ISK 2.152.031.847 in nominal value to ISK 1.985.675.666 in nominal value, through the cancellation of own shares in the nominal value of ISK 166.356.181.

It was agreed at the Annual General Meeting that Skeljungur would pay shareholders a dividend of 600 million ISK. The payment was executed on April 2nd 2020. Corresponding liability due to the dividend payment was posted in short term liabilities on the balance sheet for March 31st 2020.

The worldwide COVID-19 pandemic had considerable financial and operational impact on the Group for the latter part of the quarter. The full short- and long-term impact of the pandemic is still unknown. Focus of Skeljungur Board and management has been on limiting impact on employees and customers.

Companies within Skeljungur group play important role for transportation markets in Iceland and Faroe Islands, especially for ensuring healthy flow of goods to these countries. All actions and decisions have had the aim to ensure business continuity and minimize service disruptions.

It is the Board of Directors and management view, that the Skeljungur Group is in a strong position to handle coming challenges related to COVID-19, whether it is uninterrupted customer service, financial soundness or Group’s liquidity. Further information is provided in Note 13

The Board of Directors and the CEO of Skeljungur hf. hereby confirm the Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2020 by means of their signatures.

Reykjavik, 5 May 2020.

The Board of Directors

Jón Ásgeir Jóhannesson
chairman

Birna Ósk Einarsdóttir

Elín Jónsdóttir

Dagný Halldórsdóttir

Pórarinn Amar Sævarsson

CEO

Árni Pétur Jónsson

Consolidated Income Statement

1 January to 31 March 2020

	Notes	2020	2019
Sales	5	10.970	11.506
Cost of goods sold	6	(8.641)	(9.399)
Gross profit		2.329	2.107
Other income		48	41
Salaries and salary related expenses .....	(	999)	(606)
Sales and distribution expenses .....	(	596)	(494)
Other operating expenses .....	(	169)	(156)
	(	1.764)	(1.256)
Profit before depreciation and financial items (EBITDA)		614	892
Depreciation of operating assets .....	(	312)	(261)
Operating profit before financial items (EBIT)		302	631
Financial income		6	5
Financial expenses .....	(	88)	(116)
	(	82)	(111)
Share of loss from associated companies .....	(	17)	(12)
Profit before income tax		202	508
Income tax expense	7	(43)	(97)
Profit for the year		159	411
 Net earnings for the year attributable to:			
Owners of the Company		155	403
Non-controlling interest		5	8
		159	411
 Earnings per share:			
Earnings per ISK one of share capital and diluted share capital		0,08	0,20
Diluted earnings per each ISK one of share capital		0,08	0,20

The notes on pages 10-14 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

1 January to 31 March 2020

	Notes	2020	2019
Profit for the period		159	411
Other comprehensive income that will be reclassified to profit or loss:			
Translation difference of associates and subsidiaries		612	130
Translation difference of net investment hedge .....	(	445)	(88)
Income tax relating to net investment hedge		89	18
		256	60
Total comprehensive income		415	471
Total comprehensive income for the year attributable to:			
Owners of the Company		387	459
Non-controlling interest		28	12
		415	471

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Consolidated Statement of Financial Position as of 31.3.2020

	Notes	31.03.2020	31.12.2019
Non-current assets			
Goodwill		3.929	3.545
Other intangible assets		722	647
Operating assets		11.114	10.813
Leasing assets		1.486	1.486
Shares in associated companies		455	409
Long term receivables		20	0
Non-current assets		<u>17.726</u>	<u>16.900</u>
Current assets			
Inventories		2.972	3.313
Trade receivables		4.230	3.608
Other receivables		264	133
Cash and cash equivalents		1.440	506
Current assets		<u>8.905</u>	<u>7.561</u>
Total assets		<u>26.630</u>	<u>24.461</u>
Equity			
Share capital		1.979	1.986
Share premium		3.210	3.210
Restricted equity		1.853	1.597
Retained earnings		2.346	2.837
Total equity attributable to equity holders of the Company		<u>9.388</u>	<u>9.629</u>
Non-controlling interest		221	193
Total equity		<u>9.609</u>	<u>9.823</u>
Liabilities			
Deferred tax liability	8	357	403
Lease liabilities		1.375	1.392
Loans and borrowings	9	5.950	5.481
Non-current liabilities		<u>7.682</u>	<u>7.276</u>
Current liabilities			
Loans and borrowings	9	1.417	503
Trade payables		2.860	2.851
Current maturities of long-term debt	9	607	544
Current maturities of lease liabilities		232	208
Related party debt		11	16
Taxes for the year		60	326
Other current liabilities		3.552	2.914
Dividends payable		600	0
Current liabilities		<u>9.340</u>	<u>7.362</u>
Total liabilities		<u>17.021</u>	<u>14.638</u>
Total equity and liabilities		<u>26.630</u>	<u>24.461</u>

The notes on pages 10-14 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity 1 January to 31 March 2020

	Share capital	Share premium	Statutory reserve	Share option reserve	Translation difference	Reserve for profit from subsidiaries	Retained earnings	Total equity of the Company	Non controlling interest	Total Equity
2019										
Shareholders' equity 31. 12.2018	2.053	3.210	459	1	(1.116)	1.476	2.764	8.847	157	9.004
Profit for the period							403	403	8	411
Other earnings					56			56	4	60
Total comprehensive income					56	0	403	459	12	471
Reserve for profit in subs. and associates					(46)	378	(332)	0		0
Dividend from subsidiaries							(106)	(106)	(	106)
Contribution to statutory reserve			4				(4)	0		0
Balance at 31 March 2019	2.053	3.210	462	1	(1.106)	1.854	2.726	9.200	169	9.369
2020										
Shareholders' equity 31.12. 2019	1.986	3.210	501	1	(1.103)	2.198	2.837	9.629	193	9.823
Profit for the period							155	155	5	159
Other earnings					256			256	23	279
Total comprehensive income					256	0	155	411	28	439
Allocated dividends							(600)	(600)	(	600)
Purchased own shares	(7)						(46)	(53)	(	53)
Balance at 31 March 2020	1.979	3.210	501	1	(847)	2.198	2.346	9.388	221	9.609

The notes on pages 10-14 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows 1 January to 31 March 2020

	2020	2019
Cash flows from operating activities:		
Profit for the period	159	411
Adjustments:		
Depreciation and impairment	312	261
Profit (loss) from associated companies	17	12
Financial income and financial expenses	75	107
Gain on sale of assets	(5)	(1)
Income tax	43	97
Cash flow from operations less interest and Income taxes	602	887
Changes in operating assets and liabilities:		
Inventories, change	442	614
Trade and other receivables, change	(446)	(1.029)
Trade and other payables, change	97	682
	93	267
Cash generated from operating activities before interest and taxes	695	1.154
Interest income received	6	5
Interest expenses	(72)	(112)
Taxes paid	(43)	(47)
Cash generated from operating activities	586	1.000
Investing activities		
Investment in operating assets	(181)	(100)
Proceeds from sale of operating assets	103	2
Investment in shares in subsidiaries	(101)	0
Investment in associated companies	(60)	0
Cash acquired on consolidation	0	(3)
Securities, change	(20)	(7)
Net cash used in investing activities	(259)	(108)
Financing activities		
Purchase of own shares	(53)	0
Instalments of long-term liabilities	(223)	(105)
New long-term liabilities	0	624
Payables to associated companies	(38)	(4)
Cash from subsidiaries	2	0
Short-term borrowing, change	878	(1.658)
Net cash used in financing activities	566	(1.144)
Net increase / (decrease) in cash and cash equivalents	892	(251)
Cash and cash equivalents at the beginning of the year	506	818
Effects of movements in exchange rates on cash held	41	11
Cash and cash equivalents at the end of period	1.440	579

The notes on pages 10-14 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Reporting entity

Skeljungur hf. (the "Company") is an Icelandic limited liability company domiciled in Iceland. The address of the Company's registered office is at Borgartun 26, Reykjavik. The Consolidated Financial Statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates.

The main activities of the Company are import, storage, sale, and distribution of oil and oil related products. In addition, the Company sells chemical products, fertilizer and various commodity products. Skeljungur's main geographical areas of operations are Iceland and the Faroe Islands. The Company is also active in the North Atlantic region as provider of ship bunkering, both via own depots and from partners in the neighbouring countries. In Iceland, Skeljungur owns and operates 65 gas stations and 4 oil depots. In the Faroe Island the company owns and operates 11 retail stations and 2 oil depots. In both countries the customer base is a wide variety of sectors and industries, both in B2B and B2C. Skeljungur owns the brand names Orkan in Iceland and Magn in the Faroe Islands.

2. Basis of preparation

a. Statement of compliance with International Financial Reporting Standards

The Group's interim financial statements are prepared according to IFRS as adopted by the EU for interim financial reporting, IAS 34 and additional requirements in the Icelandic Financial Statement Act.

The condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 2019, which is available at the Company's website; www.skeljungur.is

The Board of Directors of Skeljungur confirmed the Group's interim financial statements on 5. May 2020.

b. Significant accounting policies

The interim financial statements are prepared based on the same accounting policies as the Group's annual financial statements for the year 2019 except for new standards on leases, IFRS 16 as further described in note 12.

c. Presentation and functional currency

The consolidated financial statements are presented in Icelandic krona (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest million except when otherwise indicated.

d. Management's use of judgements and estimates

In preparing these consolidated financial statements in accordance with IFRSs, management has made judgements, estimates and assumptions that effect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

e. Seasonality

The Group's operations are generally more extensive during the second and third quarters of the year than in the first and fourth quarters. Therefore the carrying amounts of the Group's operating assets and liabilities are generally lower at the end of the first and fourth quarters than at the end of the second and third quarters.

Notes, contd.:

3. Changes to the Group

Skeljungur hf. bought all shares in Langholt ehf. and 26 Fasteign ehf. Impact on Company's operations and balance sheet will be insignificant.

4. Geographic Information

The geographic information below shows the Group by the companies' countries of domicile.

Year 2020

Income Statement 01.01. - 31.3.

	Iceland	Faroe Islands	Total
Total revenue	7.125	3.840	10.965
Inter-Group revenues	5	0	5
Revenue	7.130	3.840	10.970
Gross profit	1.501	828	2.329
EBITDA	308	305	614
EBIT	59	242	302

Balance Sheet 31.3.

Non-current assets	11.930	5.796	17.726
Current assets	6.005	2.900	8.905
Total assets	17.935	8.695	26.630
Long term liabilities	5.824	1.858	7.682
Current liabilities	6.884	2.456	9.340
Total liabilities	12.708	4.314	17.021

Year 2019

Income Statement 01.01. - 31.3.

	Iceland	Faroe Islands	Total
Total revenue	7.211	4.996	12.207
Inter-Group revenues	(701)	0	(701)
Revenue	6.510	4.996	11.506
Gross profit	1.189	918	2.107
EBITDA	386	506	892
EBIT	180	450	631

Balance Sheet 31.12.

Non-current assets	11.813	5.087	16.900
Current assets	5.179	2.383	7.561
Total assets	16.991	7.469	24.461
Long term liabilities	5.608	1.668	7.276
Current liabilities	5.209	2.153	7.362
Total liabilities	10.817	3.821	14.638

5. Sales

Sales are specified as follows:

	2020 1.1. - 31.3.	2019 1.1. - 31.3.
Fuel	8.617	10.118
Other goods	2.353	1.388
Total sales	10.970	11.506

Notes, contd.:

5. Sales (cont.)	2020	2019
Sales are attributable to the following products:	1.1. - 31.3.	1.1. - 31.3.
Gasoline and Diesel	4.317	5.647
Jet fuel	774	617
Marine fuel	2.574	2.722
Other Fuel	952	1.133
Other Products	2.353	1.388
Total sales	<u>10.970</u>	<u>11.506</u>

6. Cost of goods sold

Cost of goods sold is specified as follows:

Fuel	7.156	8.508
Other goods	1.485	891
Total cost of goods sold	<u>8.641</u>	<u>9.399</u>

7. Income tax

Expensed income tax is specified as follows:

Income tax payable	60	101
Deferred income tax	(13)	(4)
Expensed income tax	<u>47</u>	<u>97</u>

Effective income tax is specified as follows:

	1.1.- 31.3.2020		1.1.- 31.3.2019	
Profit before income tax		202		508
Income tax using the corporate tax rate	20,00%	40	20,00%	102
Effects of tax rates in foreign jurisdictions	2,23% (	5)	1,63% (	8)
Other items	(3,41%)	7	(0,78%)	4
Income tax in Income Statement	<u>18,81%</u>	<u>43</u>	<u>20,84%</u>	<u>97</u>

8. Deferred tax liability

Deferred tax liability is specified as follows:

Deferred tax liability at the beginning of the year	403	671
Deferred tax asset of a subsidiary sold	5 (	273)
Translation difference	75	3
Income tax due to change in equity	(89)	(30)
Income tax expensed from continuing operations	23	357
Income tax payable	(60)	(326)
Deferred tax liability at period/year end	<u>357</u>	<u>403</u>

Notes, contd.:

8. Deferred tax liability (cont.)	31.3.2020	31.12.2019
The Group's deferred tax liability is attributable to the following items:		
Operating assets	541	541
Intangible assets	69	69
Inventories	75	91
Trade receivables	(5)	(5)
Currency adjustments according to Icelandic tax laws	(38)	(23)
Consolidation of new subsidiary	(251)	(251)
Other items	(34)	(19)
Deferred tax liability at period/year end	357	403

9. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost.

	31.3.2020			31.12.2019	
	Final due date	Average Interest rate	Carrying amount	Average Interest rate	Carrying amount
Loans in foreign currency:					
Loans in DKK	2028	2,4%	4.962	2,4%	4.457
Current loans in USD	2021	4,0%	95	5,2%	253
Current loans in DKK	2021	2,4%	374	2,4%	1
			5.431		4.711
Loans in ISK:					
Non-indexed loans in ISK	2029	4,9%	1.596	5,5%	1.567
Current loans in ISK	2021	3,8%	949	5,7%	249
			2.544		1.816
Total interest-bearing loans			7.975		6.527

Aggregated annual maturities of long-term debt are specified as follows:	31.3.2020
1.4.2020 - 1.4.2021	607
2.4.2021 - 1.4.2022	609
2.4.2022 - 1.4.2023	615
2.4.2023 - 31.3.2024	621
1.4.2024 - 1.4.2025	627
Later	3.478
Long-term debt including current maturities	6.558

10. Hedge accounting

Starting from 2017 the Group applied net investment hedge accounting to foreign currency differences arising between the functional currency of its Faroe Islands subsidiary (DKK), Magn and the Company's functional currency (ISK).

The Group's investment in Magn is hedged by a DKK-denominated bank borrowing of the Company with a carrying amount as at 30th September 2019 of DKK 166 million. The Group has designated the entire borrowing as a hedging instrument against the foreign currency risk arising from the corresponding amount of the total net investment in Magn.

The Group measures the effectiveness of the hedge based on the amount of the net assets hedged. To the extent that the hedge is effective, foreign currency differences arising on the translation of the entire bank borrowing designated as the hedging instrument are recognised in other comprehensive income and accumulated in the hedge reserve. The Group will reclassify these foreign currency differences from equity to profit or loss upon disposal of Magn. The Group recognises any ineffectiveness in profit or loss immediately. No ineffectiveness arose from this net investment hedge during the reporting period.

Notes, contd.:

11. Subsidiaries

The consolidated financial statements include the following subsidiaries:

	Shares	
	31.3.2020	31.12.2019
Bensínorkan ehf., Reykjavík	100%	100%
Tollvörugeymsla Skeljungur ehf., Reykjavík	100%	100%
P/F Magn, Faroe Islands	100%	100%
Basko ehf., Reykjavík	100%	100%
Langholt ehf	100%	0%
26 Fasteign ehf	100%	0%
Íslenska vetnisfélagið ehf.	90%	90%
P/F Demich, Faroe Islands	70%	70%
Barkur ehf, Reykjavík	67%	67%

12. Financial Ratios

The Group's key ratios are as follows:

	2020	2019
	1.1. - 31.3.	1.1. - 31.3.
Operations:		
Average margin - contribution margin / sales	21,2%	18,3%
EBITDA / gross profit	26,3%	42,3%
EBIT / gross profit	12,9%	29,9%
Salaries / gross profit	42,9%	28,8%
Sales and distribution / gross profit	25,6%	23,4%
Opex / gross profit	75,7%	59,6%
Return on equity	6,7%	19,0%
	31.3.2020	31.12.2019
Balance Sheet:		
Current ratio - Current assets / current liabilities	0,95	1,03
Quick ratio - (Current assets - inventory) / current liabilities	0,64	0,58
NIBD/EBITDA (TTM)	2,08	1,76
Equity ratio - Shareholders' equity / total capital	36,1%	40,2%
Internal value of share capital	4,9	4,9

13. Effects of COVID-19

The worldwide COVID-19 pandemic had considerable financial and operational impact on the Group for the latter part of the quarter. The full short- and long-term impact of the pandemic is still unknown. Focus of Skeljungur Board and management has been on limiting impact on employees and customers. Companies within Skeljungur group play important role for transportation markets in Iceland and Faroe Islands, especially for ensuring healthy flow of goods to these countries. All actions and decisions have had the aim to ensure business continuity and minimize service disruptions.

Parallel to this quarters reporting, an impact analysis has been made for possible impact of COVID-19 for operations and financial soundness of the Group. Part of Skeljungur's operation in Iceland has experienced significant drop in performance due to less tourism activities in coming months, less international air traffic and general economic uncertainty. Operations in Faroe Islands is to far lesser degree dependent on tourism and the exchange rate between Danish Krona and Icelandic Krona has evolved favourably for the Group's income performance.

Overall impact of COVID-19 is uncertain over next few months but Skeljungur Board and management keep close eye on the situation and how it develops. It is the Board of Directors and management view, that the Skeljungur Group is in a strong position to handle coming challenges related to COVID-19, whether it is uninterrupted customer service, financial soundness or the Group's liquidity.