Skeljungur hf.

Consolidated Financial Statements
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.

Skeljungur hf.
Borgartún 26
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Kt. 590269 -1749

Contents

Endorsement by the Board of Directors and the CEO

The Consolidated Financial Statements of Skeljungur hf. (the "Company" or "Skeljungur") for the financial year 2020 comprise the Company and its subsidiaries (Group) and are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act. The main activities of the Company are import, sale and distribution of oil in addition to lubricants, chemical products and fertilizers and various kinds of trade in other commodities, both in retail and wholesale. The Company operates in two geographical markets, in Iceland and the Faroe Islands.

The principal financial risks affecting the Group are: credit risk, liquidity risk and market risk. Market risk consists of interest rate risk, price risk and currency risk. Further reference is made to Note 32 concerning the risk management of the Group and the coverage of financial numbers linked to the principal risk factors.

In connection with the preparation of the Financial Statements, the Company has established internal controls and manages risk with appropriate segregation of duties and well-defined responsibilities. Processes are in place to ensure monitoring of income registration, operating costs and other factors influencing the Financial Statements of the Company.

The Group's total revenues in 2020 amounted to ISK 41.203 million (2019: ISK 51.181 million) and profit amounted to ISK 791 million (2019: ISK 1.409 million). According to the consolidated statement of financial position the Group's total assets at 31.12.2020 amounted to ISK 25.503 million (2019: ISK 24.461 million) and liabilities amounted to ISK 15.582 million (2019: ISK 14.638 million). Total equity amounted to ISK 9.921 million (2019: ISK 9.823 million) and equity ratio was 39% (2019: 40%). Full time employees at year end were 408 (2019: 406).

Impact of Covid19 on the Operations of the Group

The COVID-19 pandemic had a substantial impact on the operations of the Group this year, especially in Iceland, where demand fell substantially between years, and is the most significant explanation of decreased sales and results of the Group between years. The decrease in sales and gross profit is amongst other things reflected in fewer visits of foreign tourists, a decreased number of cruse liners etc. The measures of the Group's management have primarily involved ensuring the safety of employees and customers concurrently with ensuring business continuity to minimize the disruption of service to customers. The Companies of the Group play an important role in securing transport in Iceland and the Faroe Islands and that resources reach the countries and therefore the utmost care is needed in our operations.

The Companies of the Group did not make use of the remedies offered by the authorities regarding participation in payroll expenses during the notice period, related to lowered work proportion and other remedies to help Companies which suffered setbacks due to the pandemic.

According to the assessment of the Board of Directors and management the Group is well prepared to meet the challenging environment related to Covid 19, whether considering the way customers are served, financial or liquidity position. The impact on the Company's operations is further discussed in the Section about non-financial information.

Other items

At the beginning of March Skeljungur hf. acquired all the shares in Langholt ehf. and 26 Fasteign ehf. The impact of the acquisition on the operations and finances of the Group is insignificant.

In November Skeljungur hf. acquired all the shares in Port I ehf., the holding company of Dælan ehf. and Löður ehf, subject to the approval of the Icelandic Competition Authority. At the signature date of the Financial Statements the Icelandic Competition Authority has not authorized the acquisition.

Endorsement by the Board of Directors and the CEO

Share capital

The Company's share capital amounted to 1,986 milllion at the end of the year. According to the voting rights in Skeljungur hf, 1 ISK shall carry one vote. The share capital is all in one share class which is registered at Nasdaq Iceland and all shareholders have the same rights. At year end the share capital is owned by 640 shareholders but were 1,127 at the beginning of the year. The ten largest shareholders at year end were:

Shareholder	Nominal value of share in million	Share
Strengur hf.	499	25,80%
Strengur Holding ehf.	235	12,12%
Gildi - lífeyrissjóður	200	10,34%
Frjálsi lífeyrissjóðurinn	163	8,44%
Birta lífeyrissjóður	138	7,12%
Festa - lífeyrissjóður	100	5,18%
Lífsverk lífeyrissjóður	73	3,79%
Stapi lífeyrissjóður	67	3,46%
Stefnir - ÍS 15	55	2,85%
Stefnir - ÍS 5	44	2,25%
Ten largest shareholders total	**1.575**	**81,36%**
Other shareholders	361	18,64%
Total outstanding shares	**1.936**	**100,00%**
Shares owned by Skeljungur	50	
Total shares as in articles of association	**1.986**	

At the Annual General Meeting of Skeljungur on 5 March 2020 the Board of Directors of the Company was granted the authorisation to purchase its own shares at a nominal price of up to 10% of the share capital. The re-purchase plan of the Company was announced on 18 March 2020 and on its basis 49,641,892 shares in the Company had been purchased at the year end 2020, corresponding to 2.5% of the total share capital of the Company. In other respects, referral is made to the Financial Statements concerning changes in the equity of the Group.

On 5 March 2020, the Annual General Meeting of Skeljungur hf. passed a motion to decrease the equity of the Company from a nominal price of ISK 2,152,031,847 to a nominal price of ISK 1,985,675,666, by invalidating a nominal price of ISK 166,356,181 of the Company's own shares.

On 5 March 2020, the Annual General Meeting of Skeljungur hf. passed a motion to pay dividend to shareholders amounting to ISK 600 million. Dividend was paid on 2 April 2020.

The Board of Directors proposes payment of a dividend to shareholders in 2021, in respect of the operating year 2020, amounting to ISK 350 million. According to the adopted dividend policy of the Company the plan is to pay 30-50% of earnings yearly to shareholders in the form of a dividend payment or re-purchase of shares. The Board of Directors of the Company will submit a proposal to change the Dividend Policy for the re-purchase of own shares amounting to up to 10% of the nominal price of issued share capital and the cancelling of the company´s own shares.

Corporate governance

The Board of Directors and Management of Skeljungur put great emphasis on the Company adhering to good corporate governance. In the mind of the Board and Management, good corporate governance is a foundation for trust and efficiency and thus strengthens the relationship between all of the Company´s stakeholders. The Company strives to adhere to the Iceland Chamber of Commerce (ICC), SA Business Iceland and Nasdaq Iceland´s Guidelines on Corporate Governance (accessible on ICC´s website www.vi.is). The Board has also established Rules of Procedure that are to a great extent based on the aforementioned guidelines and are among other things meant to define the purview of the Board and the CEO in more detail.

Endorsement by the Board of Directors and the CEO

Corporate governance, contd.:
The Board of Skeljungur comprises two women and three men and the Company fulfils legal requirements regarding gender ratios of the Company´s board.

Further information regarding the Board and its corporate governance is in the annex Corporate Governance Statement, which is enclosed with the Financial Statements.

Non-financial information reporting
Skeljungur wants to show responsibility, as a participant in the community. Skeljungur has compiled information necessary to evaluate the Company´s development, scope, status and effects in relation to environmental, social and employee matters, along with the Company´s policy regarding human rights and the Company´s counteractions against corruption and bribery. The information is in an annex enclosed with the Financial Statements.

Statement of the Board of Directors and CEO
To the Board of Directors´ and the CEO´s best knowledge the Consolidated Financial Statements give a fair view of the operating results in the year 2020, its assets and financial position at 31 December 2020 and changes in cash flow in 2020. It is also the opinion of the Board of Directors and the CEO that the Financial Statements give a fair view of the development and progress of the Group's operations and position and that they describe the main risk factors and uncertainty that the Company faces. According to the Board of Directors´ and the CEO´s best knowledge the Consolidated Financial Statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in Icelandic laws and rules applicable to Financial Statements of listed companies.

The Board of Directors and the CEO of Skeljungur hf. have reviewed and hereby confirm the Consolidated Financial Statements for 2020 by means of their signatures. The Board of Directors and the CEO propose to the Annual General Meeting the approval of the Consolidated Financial Statements.

Reykjavík, 4 February 2021.

The Board of Directors

Jón Ásgeir Jóhannesson,
chairman

Birna Ósk Einarsdóttir

Elín Jónsdóttir

Dagný Halldórsdóttir

Þórarinn Arnar Sævarsson

CEO

Árni Pétur Jónsson

Independent auditor's report

To the Board of Directors and Shareholders of Skeljungur hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Skeljungur hf. ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of 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 European Union and additional disclosure requirements for listed companies in Iceland.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

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 the Group 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 consolidated financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were first appointed as auditors by the Annual General Meeting on April 16, 1982. We have been re-appointed by resolutions passed by the annual general meeting uninterrupted since then.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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 the audit
Valuation of goodwill Goodwill must be tested annually for impairment in order to confirm that carrying amount is not less than discounted estimated future cash flow of the relevant cash generating unit. Evaluation of the Company's goodwill is a key audit matter in the audit of the consolidated financial statements since these are large parts of total assets. Furthermore, there are inherent uncertainties in management's plans regarding among other things price levels, changes in volumes, changes in prices and other management assumptions which are used in discounting future cash flows of the relevant cash generating units and due to how sensitive the impairment test is for changes in assumptions. Information on impairment tests performed on goodwill is in note 17. Further information on accounting policies is in note 5.	We in cooperation with our valuation experts evaluated the assumptions used by management in calculating value of goodwill in each cash generating unit. This work included among other things: • Management calculation model was tested at its functionality evaluated. • Key assumptions for projected cash flows and operating plans for the next five years were tested. This work entailed an evaluation of key assumptions regarding income, operating expenses, contribution margin and investments for the projected period. • Assumptions relating to projected future growth following the projected period were evaluated. • In reviewing the reliability of operating and cash flow plans, among other things deviations from previous years' plans were taken into account. • WACC for each cash generating unit was reviewed. • Management key assumptions were compared to external and internal data. • We reviewed notes to the financial statements and verified that information required in accounting policies were included.

Independent Auditor's Report

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union and additional disclosure requirements for listed companies in Iceland, and for such internal control as they determine 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, the Board of Directors and CEO are responsible for assessing the Group'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 they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole 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 judgment and maintain professional skepticism 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 the Group'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 Group'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 Group to cease to continue as a going concern.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements, contd.:

- 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 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 The Board of Directors and audit committee 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 The Board of Directors and audit committee 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.

From the matters communicated with The Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the consolidated 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.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and CEO accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Matthías Þór Óskarsson.

Reykjavík, 4. February 2021

KPMG ehf.

Consolidated Income Statement 2020

	Notes	2020	2019
Sales	8.	41.203	51.181
Cost of goods sold	9.	(31.748)	(42.477)
Gross profit		**9.454**	**8.703**
Other income	10.	323	243
Salaries and salary related expenses	11.	(4.047)	(2.788)
Sales and distribution expenses	12.	(2.407)	(2.159)
Other operating expenses	13.	(647)	(577)
		(7.101)	(5.525)
Profit before depreciation and financial items (EBITDA)		**2.676**	**3.422**
Depreciation of operating assets	19.	(1.307)	(1.093)
Operating profit before financial items (EBIT)		**1.369**	**2.329**
Financial income	15.	130	29
Financial expenses	15.	(431)	(460)
		(301)	(430)
Share of loss from associated companies	22.	(88)	(132)
Profit before income tax		**980**	**1.767**
Income tax expense	16.	(188)	(358)
Profit for the year		**791**	**1.409**
Net earnings for the year attributable to:			
Owners of the Company		759	1.372
Non-controlling interest		32	37
		791	**1.409**
Earnings per share:			
Earnings per ISK one of share capital and diluted share capital	28.	0,39	0,68
Diluted earnings per each ISK one of share capital	28.	0,39	0,68

The notes on pages 14-40 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income 2020

	Notes	2020	2019
Profit for the year		**791**	**1.409**
Other comprehensive income that will be reclassified to profit or loss:			
Translation difference of associates and subsidiaries		652	104
Translation difference of net investment hedge		(478)	(47)
Income tax relating to net investment hedge		96	9
		269	66
Total comprehensive income		**1.060**	**1.475**
Total comprehensive income for the year attributable to:			
Owners of the Company		1.002	1.439
Non-controlling interest		58	36
		1.060	**1.475**

The notes on pages 14-40 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as of 31.12.2020

	Notes	31.12.2020	31.12.2019
Non-current assets			
Goodwill	17.	3.947	3.545
Other intangible assets	18.	682	647
Operating assets	19.	11.264	10.813
Leasing assets	19.	1.682	1.486
Shares in associated companies	22.	521	409
Long term receivables	23.	29	0
Non-current assets		18.125	16.900
Current assets			
Inventories	24.	2.705	3.313
Trade receivables	25.	3.145	3.608
Other receivables	26.	229	133
Market equities		223	0
Cash and cash equivalents		1.078	506
Current assets		7.378	7.561
Total assets		**25.503**	**24.461**
Equity			
Share capital		1.936	1.986
Share premium		3.210	3.210
Restricted equity		1.565	1.597
Retained earnings		2.958	2.837
Total equity attributable to equity holders of the Company	27.	9.670	9.629
Non-controlling interest		252	193
Total equity		9.921	9.823
Liabilities			
Deferred tax liability	29.	392	403
Lease liabilities	30.	1.608	1.392
Loans and borrowings	31.	5.705	5.481
Non-current liabilities		7.705	7.276
Current liabilities			
Loans and borrowings	31.	2.370	503
Trade payables		2.448	2.851
Current maturities of long-term debt	31.	531	544
Current maturities of lease liabilities	30.	212	208
Related party debt	35.	4	16
Taxes for the year	16,29	208	326
Other current liabilities	32.	2.105	2.914
Current liabilities		7.877	7.362
Total liabilities		15.582	14.638
Total equity and liabilities		**25.503**	**24.461**

The notes on pages 14-40 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity 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
IFRS 16 transition							(106)	(106)	0	(106)
Corrected shareholders' equity 1.1.2019	2.053	3.210	459	1	(1.116)	1.476	2.659	8.741	157	8.898
Profit for the year							1.372	1.372	37	1.409
Other earnings					66			66	(1)	66
Total comprehensive income					66	0	1.372	1.438	36	1.475
Reserve for profit in subs. and associates					(53)	722	(669)	0		0
Purchased own shares	(67)						(483)	(549)		(549)
Contribution to statutory reserve			42				(42)	0		0
Balance at 31 December 2019	1.986	3.210	501	1	(1.103)	2.198	2.837	9.630	193	9.823
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 year							759	759	32	791
Other comprehensive income					269			269	26	295
Total comprehensive income					269	0	759	1.028	58	1.087
Reserve for profit in subs. and associates						833	(833)	0		0
Dividend from subsidiaries						(1.133)	1.133	0		0
Allocated dividends							(600)	(600)		(600)
Exercised stock options				(1)			(4)	(4)		(4)
Purchased own shares	(50)						(334)	(384)		(384)
Balance at 31 December 2020	1.936	3.210	501	1	(834)	1.898	2.958	9.670	252	9.921

The notes on pages 14-40 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows 2020

	Note	2020	2019
Cash flows from operating activities:			
Profit for the period		791	1.409
Adjustments:			
Depreciation and impairment	19.	1.307	1.093
Profit (loss) from associated companies	22.	88	132
Financial income and financial expenses	15.	274	402
Gain on sale of assets		(5)	(6)
Income tax	16.	188	357
Cash flow from operations less interest and Income taxes		2.644	3.386
Changes in operating assets and liabilities:			
Inventories, change		723	1.432
Trade and other receivables, change		642	805
Trade and other payables, change		(1.495)	(207)
		(130)	2.030
Cash generated from operating activities before interest and taxes		2.514	5.417
Interest income received		32	29
Interest expenses		(424)	(438)
Taxes paid		(310)	(435)
Cash generated from operating activities		1.812	4.573
Investing activities			
Investment in operating assets	19.	(1.071)	(711)
Proceeds from sale of operating assets		126	27
Investment in shares in subsidiaries		(101)	(47)
Investment in associated companies		(196)	(45)
Market equities		(126)	0
Dividend from associated companies		0	44
Securities, change		(23)	16
Net cash used in investing activities		(1.391)	(716)
Financing activities			
Purchase of own shares		(384)	(549)
Instalments of long-term liabilities		(2.023)	(2.480)
New long-term liabilities		1.258	1.945
Paid dividends		(600)	0
Payables to associated companies		0	16
Cash from subsidiaries		1	78
Short-term borrowing, change		1.849	(3.188)
Net cash used in financing activities		101	(4.178)
Net increase / (decrease) in cash and cash equivalents		522	(321)
Cash and cash equivalents at the beginning of the year		506	818
Effects of movements in exchange rates on cash held		50	10
Cash and cash equivalents at the end of period		1.078	506
Investing activities not affecting cash flows:			
Investment in operating assets		0	219
Increase in trade receivables		0	(219)

The notes on pages 14-40 are an integral part of these consolidated financial statements.

Notes

1. **Reporting entity**
Skeljungur hf. (the "Company") is a 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, sale and distribution of oil in addition to lubricants, chemical products and fertilizer and various kinds of trade in other commodities, both in retail and wholesale. In addition, lending, operation of real estates, vessels, service stations and other activity or participation in business activities in accordance with decisions made by the Board of Directors. The Group operates in two geographical areas, in Iceland and the Faroe Islands. In Iceland the Company operates under the brand names Skeljungur, Orkan and Kvikk and runs 65 fuel stations and 4 oil depots. The subsidiary P/F Magn operates in the Faroe Islands and runs 11 retail and fuel stations around the Faroe Islands in addition to running 2 oil depots and specialiesing in environmentally friendly central heating solutions. The companies' customer base comes from all sectors of the communities.

2. **Basis of accounting**
The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in Icelandic laws and rules applicable to financial statements of listed companies.

The Board of Directors of Skeljungur hf. approved and authorised publication of the consolidated financial statements on 4 February 2021.

The consolidated financial statements are based on cost accounting except that forward contracts are measured at fair value.

3. **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.

4. **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.

Estimates and underlying assumptions are reviewed on an ongoing basis. The effect of changes are entered in the periods that the changes are made and in subsequent periods if the change also affects those periods.

Information about significant areas of estimates and judgments made in applying accounting policies that have significant effect on the amounts recognised in the consolidated financial statements is in note 17 regarding measurement of the recoverable amounts of cash generating units containing goodwill.

a. **Determination of fair values**
A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

To the extent possible the Group uses market information in determining fair values but if such information is not available management's evaluation is used. If information from a third party is used, such as prices from brokers or valuation services, in determining fair values then management uses the information to support their result that the evaluation fulfills requirements of IRFSs, including the level in the fair value hierarchy in which such valuations should be classified.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

a. Determination of fair values, contd.:

- Level 1; quoted prices in active markets for identical assets or liabilities.
- Level 2; assumptions based on other than quoted prices included in Level 1 that can be acquired for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3; assumptions for value of the asset or liability that are not based on observable market data.

Further information about the assumptions made in measuring fair values is included in note 17 intangible assets and in note 33 risk management.

Market equities are comprised of listed equities and are valued at mark-to-market price (fair value).

5. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except for the policies introduced in note 5q on IFRS Leases.

a. Basis for consolidation

i) Merger of entities

The Group accounts for merger of entities using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any profit on a beneficial purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Share of other shareholder, which are considered non-controlling, is measured at its proportionate share of the recognised amount of the identifiable net assets at the acquisition date.

ii) Subsidiaries

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

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated on consolidation. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Company's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iv) Associates

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, including transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates according to equity method. If share in loss exceeds book value of the associate the book value is moved to zero and further loss not recognised unless the Group has accepted guarantee for the associate or financed it. If profit incurs in later periods the Group does not recognise its profit until accumulated loss has been met.

b. Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to Icelandic krona at the foreign exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies are recognised at the foreign exchange rate at the reporting date. Foreign exchange differences arising from translation of assets and liabilities are recognised in the consolidated statement of comprehensive income.

Subsidiaries with different functional currency than ISK

Monetary assets and liabilities of foreign operations are translated to Icelandic krona at the exchange rate at the reporting date. Transactions are translated at the average exchange rate of the year. Exchange differences arising from the translation to Icelandic krona are recognised as a separate line item in the statement of comprehensive income. The cash flow is translated to Icelandic krona using the average exchange rate of the year. When foreign operation is sold, in full or in part, related exchange difference is recognised in the income statement.

The Group applies hedge accounting for exchange rate differences arising from translation of foreign operations' financial statements from the foreign currency's functional currency into the parent company's functional currency. To the extent that hedging is effective, the exchange rate difference for financial liabilities, which is defined by hedge accounting for investments in foreign operations, is recognized among other comprehensive income and, consequently, a translation difference among equity. Another exchange difference due to the financial liability is recognized in the income statement. When a hedged investment is sold or discontinued, the relevant amount is reclassified by a translation difference to the income statement as part of the gain or loss on the sale or discontinued operation.

c. Revenue

(i) Sold goods and services

Revenue from the sale of fuel and other goods are recognised upon delivery of the goods. Invoices are issued monthly to largest customers with credit and credit terms are between 20-40 days.

(ii) Other income

Other income comprises commissions, gain on sale of assets, rental income and other income. Other income is recognised upon delivery of goods or services. Rental income is recognised in the income statement on a straight-line basis over the rental period.

d. Expenses

(i) Cost of goods sold

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

(ii) Lease payments

Payments under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

e. Employee benefits

(i) Defined contribution plans

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

(ii) Share option agreements

The fair value of employees' share option rights is measured at the date of the agreement and recognised among salaries and salary related expenses in the period the employees earn the share option rights. The amount is offset in a separate item in equity. Annual charge is adjusted taking into account the number of earned share option rights. The fair value of employees' share option rights is measured using the Black-Scholes formula. Measurement inputs include share price of the instrument, expected volatility in rate of exchange, duration of the agreements, expected dividends, and risk-free interest rate (based on government bonds).

f. Finance income and finance expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

Finance costs comprises interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets other than trade receivables.

Foreign currency gains and losses are reported on a net basis as finance income or finance expenses as appropriate.

g. Income tax

Income tax expense comprises current and deferred tax. It 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 in those items.

Current tax comprises the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

h. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

i. Intangible assets and goodwill

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries relates to the difference between original purchase price and share in equity on acquisition date. An impairment test is performed at least annually.

Software and customer relationships relating to a subsidiary that have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Regular repair and maintenance is expensed as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lifes, and is recognised in profit or loss. Goodwill is not amortised.

The estimated useful lifes for the current and comparative periods are as follows:

Software	10 years
Customer relationships	20 years

Amortisation methods, useful lifes and residual values are reviewed at each reporting date and adjusted if appropriate.

j. **Operating assets**

(i) **Recognition and measurement**

Operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost comprises of direct cost related to the purchase. Cost price of operating assets which the Group itself builds includes direct material, salary expenses and other direct cost related to the asset becoming ready to use and capitalised finance expenses. Purchased software which is necessary in order to operate the operating assets is capitalised as a part of the operating asset.

If significant parts of an item of operating asset have different useful lives, they are accounted for as separate items of operating assets.

Any gain or loss on disposal of an item of operating assets is recognised in profit or loss by comparing sale price and carrying amount of the asset and settled and then recognised in the income statement among other income or other expenses.

(ii) **Subsequent costs**

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) **Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each component of an item of operating assets. Land is not depreciated.

Operating assets are depreciated from the date they are installed and are ready for use, or in respect of internally constructed assets, from the date the asset is completed and ready for use.

The estimated useful lifes for the current and comparative periods are as follows:

Oil depots and real estates	11 - 50 years
Vehicles, machinery and equipment	4 - 13 years

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

k. **Lease Agreements**

At the beginning of a contract the Group assesses whether a contract or a part thereof involves a lease agreement. A contract is a lease agreement in part or in whole if it involves the right to control a specific asset for a specific period of time in exchange for remuneration. The Group's assessment whether a lease agreement involves the control of a specific asset is based on the definition of a lease agreement in IFRS 16.

(i) **The Group as a Lessee**

At the beginning or change of a contract which includes leasing the Group allocates the remuneration to each lease part on the basis of the individual price of each part. As concerns lease agreements for real estate, however, the Group has chosen not to distinguish the lease part from other parts of the contract and enters them as one lease agreement.

The Group enters a lease asset and a lease liability at the beginning of a lease agreement. The lease asset is originally recorded at cost price, which is the original amount of the lease liability taking into account lease payments which have been incurred before or on the commencement date of the contract, direct costs of the procurement of the lease asset and estimated costs of taking down and removing the asset or to restore the asset to its original state at the end of the lease agreement, deducting lease concessions which the Group has received.

(i) The Group as a Lessee, contd.:

The lease asset is depreciated linearly from the beginning to the end of the lease agreement, except when ownership is moved to the Group at the end of the lease period or if the cost price of the lease asset reflects that the Group will exercise its purchase options at the end of the lease period. In such instances the lease asset is depreciated during the property's utilisation time, which is determined by the same method used for other fixed assets of the Group. Furthermore, the value of a lease property is regularly decreased by its devaluation, if any, and corrected based on the re-evaluation of the lease liability.

A lease liability is originally recorded as the present value of unpaid lease payments on the start date of the lease agreement. The payments are computed to their present value by using the lease contract's inherent interest, if present. If not the Group uses the interest received on new loan capital. Normally the Group uses interest on new loan capital for calculation to the present value.

The Group determines interest on new loan capital by collecting interest data for different financing options and makes certain adjustments to reflect the terms of the lease agreement and the characteristics of the leased property.

Lease payments included in the determination of the amount of the lease liability include the following:
– Fixed payments, including lease payments which are by nature fixed;
– Variable lease payments, connected to interest or index, originally estimated on the basis of interest or index on the start date;
– Amounts of which payment is expected to be based on residual value insurance; and
– The acquisition price as per the terms of the lease agreement concerning purchase options, when the Group considers it very likely that it will exercise its purchase options, lease payments during optional extension periods, if the Group considers it very likely that it will exercise its extension rights, and payments due to the termination of the lease agreement before the end of the lease period, unless the Group considers it very likely that it will not exercise its termination rights.

The lease liability is recorded at the depreciated cost price by using the effective rate of interest method. It is re-assessed when there is a change of future lease payments due to index or interest, if there is a change of the Group's assessment of the amount expected to be paid based on residual value insurance, if the Group changes its assessment whether it will use the purchase option terms, rights to extension or to the termination of the lease agreement or when there is a change of the amount of the lease payment, which is by nature fixed.

When the lease liability is re-assessed in this way a corresponding amendment is made to the book value of the lease property or an amendment is recorded in the profit and loss account of the Group if the book value of the lease property has been depreciated to zero.

Lease assets which do not fulfil the definition of investment real estate are recorded amongst operating assets in the balance sheet whereas lease liabilities are included amongst interest-bearing loans.

Short-term lease agreements and lease agreements concerning insignificant assets

The Group chooses not to record lease assets and lease liabilities based on lease agreements concerning insignificant assets and short-term lease agreements, including for computer hardware. The Group linearly expenses lease payments based on these lease agreements during the lease period.

(ii) The Group as a Lessor

At the beginning or change of a contract which includes leasing the Group divides the remuneration between individual lease parts of the contract on the basis of their proportional individual price.

When the Group is the lessor a decision is made at the onset of the lease agreement whether it involves a financing lease agreement or an operating lease agreement.

When classifying the lease agreement, the Group makes a comprehensive assessment whether the lease agreement transfers the majority of the risk and benefit involved in the ownership of the underlying asset. If that is the result the lease agreement is a financing lease agreement, if not it is an operating lease agreement. Certain factors are a part of this assessment, for example whether the lease agreement extends to most of the economic lifetime of the asset.

(ii) The Group as a Lessor, contd.:

When the Group leases and then sub-leases an asset it enters its interests based on the original lease agreement on the one hand and the sub-lease agreement on the other hand. The Group classifies a sub-lease contract with reference to the lease asset pursuant to the original lease agreement and not with reference to the underlying asset. If the original lease agreement is a short-term lease agreement which the Group handles according to the exemption mentioned above the sub-lease agreement is an operating lease agreement.

If a contract involves a lease part and other unrelated parts the Group bases its allocation of remuneration to individual parts of the contract on IFRS 15.

Lease Agreements

The Group implements the requirements of IFRS 9 for de-listing and devaluation of the net assets of lease agreements. Furthermore, the Group regularly reviews the estimated uninsured residual value which is used to calculate the total investment of the Group in the lease agreement.

The Group linearly enters lease payments in relation to operating lease agreements over the lease period amongst other income in the profit and loss account.

In general, comparable accounting practices applied to the Group as a lessor during the comparison period as now apply according to IFRS 16, with the exception that a sub-lease agreement which the Group entered into in the current financial reporting period is classified as a financing lease agreement.

l. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

m. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or contractual obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance expenses.

n. Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and bank deposits on the date that they originate. All other financial assets including assets designated at fair value through profit or loss are recognised initially on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which the risks and rewards of ownership of the financial asset are substantially transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade receivables, other receivables and other short-term loans.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they originate. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or they expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities other than derivatives comprise loans and borrowings and trade and other payables.

(iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value in the statement of financial position and changes in fair value are recognised in profit or loss as part of cost of goods sold in the statement of comprehensive income. Derivatives used when purchasing oil is recognised in inventories but the business cost is recognised in cost of goods sold.

(iv) Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of share capital are recognised as a deduction from equity, after deducting tax.

Own shares acquired

When acquiring own shares the purchase price, including direct expenses, is recognised as decrease in equity. When own shares are sold or re-issued equity increases and profit or loss from the transaction are recognised through equity.

o. Impairment

(i) Non-derivative financial assets

Financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and this loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

In assessing collective impairment the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(ii) Other assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

p. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. It is the Group management's opinion is that the Group is only one operating segment. There are two geographical segments.

q. New standards and interpretations

A few new International Accounting Standards apply to fiscal years which start after 1 January 2020, but they may be applied prior to their entry into force. However, the Group has not implemented any new or amended accounting standards prior to their entry into force in the preparation of these Financial Statements.

New standards and amendments to the following standards and interpretations are not expected to have a substantial impact on the Financial Statements of the Group.

- COVID-19 related rental concessions (Amendment to IFRS 16).

-Fixed assets: Benefit before the start of planned use (Amendments to IAS 16).

- Reference to the concept framework of International Accounting Standards (Amendments to IRFS 3).

-The division of liabilities into long-term and short-term liabilities (Amendments to IAS 1)

- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance contracts

7. Geographic information

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

Year 2020

Income Statement	Iceland	Faroe Islands	Total
Total revenue	25.970	15.560	41.530
Inter-Group revenues	(327)	0	(327)
Revenues from 3rd party	25.643	15.560	41.203
Gross profit	5.557	3.897	9.454
EBITDA	1.168	1.509	2.676
EBIT	146	1.223	1.369

Financial Position			
Non-current assets	12.299	5.825	18.125
Current assets	4.197	3.182	7.378
Total assets	16.496	9.007	25.503
Long term liabilities	4.502	3.203	7.705
Current liabilities	5.275	2.602	7.877
Total liabilities	9.777	5.805	15.582

Year 2019

Income Statement	Iceland	Faroe Islands	Total
Total revenue	33.713	18.269	51.982
Inter-Group revenues	(802)	0	(802)
Revenues from 3rd party	32.911	18.269	51.181
Gross profit	5.367	3.337	8.703
EBITDA	1.976	1.445	3.422
EBIT	1.125	1.204	2.329

Financial Position			
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

8. Sales

Sales are specified as follows:	2020	2019
Fuel	32.105	45.928
Other goods	9.097	5.253
Total sales	41.203	51.181

Sales are attributable to the following products:

Gasoline and Diesel	16.910	21.988
Jet fuel	1.665	4.666
Marine fuel	10.753	15.462
Other Fuel	2.733	3.813
Other Products	9.142	5.253
Total sales	41.203	51.181

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9. Cost of goods sold

Cost of goods sold is specified as follows:

	2020	2019
Fuel	25.896	39.195
Other goods	5.852	3.282
Total cost of goods sold	31.748	42.477

10. Other income

Other income is specified as follows:

Rental income	201	83
Commission	9	18
Profit from sale of operating assets	4	4
Other income	109	138
Other income total	323	243

11. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

Salaries	3.224	2.323
Contribution to pension funds	403	259
Other salary-related expenses	420	206
Salaries and salary-related expenses total	4.047	2.788
Average number of full-time equivalents during the year	364	259
Full-time-equivalents at year end*	408	406

12. Sales and distribution expenses

Sales and distribution expenses are specified as follows:

Distribution expenses	1.095	989
Marketing expenses	559	454
Real estate expenses	753	716
Total sales and distribution expenses	2.407	2.159

13. Other operating expenses

Other operating expenses are specified as follows:

Office and administrative expenses	466	473
Real estate expenses	32	25
Information technology	149	80
Total other operating expenses	647	577

14. Fees to auditors

Fees to the Group's auditors are specified as follows:

Audit of financial statements	26	18
Review of interim financial statements	0	2
Other services	19	14
Total fees to auditors	45	33

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15. Financial income and expenses

Financial income is specified as follows:

	2020	2019
Interest income on bank accounts	1	5
Interest income from bonds	1	6
Interest income on receivables	32	18
Market equities, fair value changes	97	0
Financial income total	130	29

Financial expenes are specified as follows:

	2020	2019
Interest expenses	411	448
Currency exchange difference (income)	20	12
Financial expenses total	431	460
Net financial expenses	301	430

16. Income tax

Expensed income tax is specified as follows:

	2020	2019
Income tax payable	208	326
Deferred income tax	(20)	32
Expensed income tax	188	358

Effective income tax is specified as follows:

	2020		2019	
Profit before income tax		980		1.767
Income tax using the current tax rate	20,00%	196	20,00%	353
Effects of tax rates in foreign jurisdictions	2,18%	(21)	0,83%	(29)
Other items	(1,38%)	14	0,50%	33
Income tax in income statement	19,21%	188	20,24%	358

17. Intangible assets

An impairment test is performed at least annually. Assets were evaluated at fair value on acquisition date.

Goodwill is specified as follows:	2020	2019
Goodwill 1 January	3.545	3.333
Addition of goodwill in business combination	106	174
Translation difference	296	38
Goodwill 31 December	3.947	3.545

Impairment of goodwill

In performing impairment test the recoverable amount was evaluated based on utilisation value of the cash generating units (CGUs) which the goodwill is allocated to. Goodwill which has been generated in acquisition has been allocated to the relevant subsidiaries which are defined as the smallest distinguishable CGUs by the Group's management. Goodwill is allocated to each CGU as follows:

	Goodwill	
	2020	2019
Iceland	1.457	1.525
Faroe Islands	2.490	2.020
Total	3.947	3.545

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17. Intangible assets, contd.:

The recoverable amounts of cash-generating units was based on their value in use and was determined by discounting the future cash flows generated from the continuing use of the CGU. Cash flows were projected based CGU´s business plans prepared by management and confirmed by the Board of Directors.

The values assigned to the key assumptions represent management's assessment of future trends in the fuel industry and are based on both external sources and internal sources (historical data). Value in use was based on the following key assumptions:

	Iceland		Faroe Islands	
	2020	2019	2020	2019
Long term growth rate	2,5%	2,5%	0,5%	0,5%
Average gross profit growth	0,8%	1,6%	-3,0%	0,5%
Average EBITDA growth	5,0%	1,2%	-3,0%	0,5%
WACC	8,0%	8,4%	7,0%	7,0%
Debt leverage	60,0%	48,0%	50,0%	50,0%
Interest rate	4,7%	6,6%	2,3%	2,4%

Changes in WACC by +1% or EBITDA -5% would not cause an impairment in each CGU.

18. Other intangible assets

Other intangible assets belong to Magn P/F and are specified as follows:	Customer relationships	Software	Total
Other intangible assets 1.1.2019	391	300	691
Additions during the year	0	12	12
Depreciation for the year	(27)	(41)	(67)
Translation difference	8	6	14
Other intangible assets 31.12.2019	372	277	649
Additions during the year	0	10	10
Depreciation for the year	0	(46)	(46)
Translation difference	31	37	68
Other intangible assets 31.12.2019	403	279	682
Depreciation ratio	5%	10%	

19. Operating assets

Operating assets and their depreciation are specified as follows:

	Oil depots & real estate	Other assets	Total
Cost			
Balance 1 January 2019	14.880	2.904	17.784
Reclassification of assets	14	(14)	(0)
Additions during the year	538	725	1.263
Disposals during the year	(32)	(180)	(212)
Translation difference	68	55	123
Balance 31 December 2019	15.469	3.490	18.958
Additions during the year	697	390	1.087
Disposals during the year	(156)	(85)	(241)
Translation difference	380	228	608
Balance 31 December 2020	16.389	4.023	20.412

19. Operating assets, contd.:

Depreciation

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Depreciated 1 January 2019	5.716	1.683	7.399
Reclassification of assets	2	(2)	0
Depreciation for the year	604	265	868
Disposals during the year	(21)	(140)	(161)
Translation difference	22	17	39
Balance 31 December 2019	6.323	1.822	8.145
Depreciation for the year	614	352	966
Sold during the year	(48)	(67)	(115)
Translation difference	62	89	152
Balance 31 December 2020	6.951	2.196	9.148
Rental agreements			
Recognised on initial application, 1.1.2019	866	21	887
Adjustments for indexed leases	12	0	12
New or renewed leases	718	14	732
Depreciation	(136)	(12)	(147)
Translation difference	3	0	3
Balance at 31.12 2019	1.462	24	1.486
Adjustments for indexed leases	49	0	49
New or renewed leases	368	24	392
Depreciation	-258	-11	-269
Translation difference	24	0	24
Balance at 31.12 2020	1.646	36	1.682
Book value 1 January 2019	9.164	1.221	10.385
Book value 31 December 2019	9.145	1.668	10.813
Book value 31 December 2020	10.900	1.850	12.750
Depreciation ratios	2-9%	8 - 25%	
Estimated useful life	11 - 50 years	4 - 13 years	

Depreciation and impairment of assets are specified as follows:	**2020**	**2019**
Depreciation of intangible assets	77	67
Depreciation of operating assets and rental agreements	1.230	1.025
Total	1.307	1.093

Impairment testing of operating assets

An impairment test was performed at year end 2020 on the book value of the Company's oil depots in Iceland and they were classified as separate cash generating units as in the year 2019. It is the view of management and the Board of Directors that it is more prudent to test the standalone value of the oil depots in evaluating the book value of operating assets.

Based on the impairment test results, there is no impairment in the year.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management´s assessment of future trends in the relevant industries and have been based on historical data.

	2020	**2019**
Discount rate (WACC)	8,0%	8,4%
Future growth rate (nominal)	2,5%	2,5%
Average EBITDA growth rate (average of next five years)	3,0%	(6,5%)

The discount rate (WACC) conforms to market information at year end where debt leverage is 48% and market interest rate 6,6% for comparable companies.

Changes in WACC by +2% or EBITDA -5% would not cause an impairment.

20. Tax assessment value and insurance value of buildings

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The insurance value of the buildings in Iceland amounted to ISK 9,532 million at year end (2019: ISK 8,540 million). The tax assessment value of the buildings and land in Iceland amounted to ISK 3,995 million at year end (2019: ISK 4,019 million). The insurance value of vehicles, machinery and equipment in Iceland amounted to ISK 1,898 million at year end (2019: ISK 1,981 million).

There is no tax assessment on assets in Faroe Islands but the carrying value on buildings amounted to ISK 2,795 million at year end (2019: ISK 2,437 million). The insurance value of buildings and other assets amounted to ISK 3,382 million at the end of 2020 (2019: ISK 3,192 million).

21. Pledged assets

Skeljungur has signed pledge agreement with Íslandsbanki for part of its oil depots and real estate. Additionally, Íslandsbanki has a pledge in part of the inventories and bank accounts of Skeljungur.

Furthermore, Betri banki in the Faroe Islands has a pledge in shares in Magn and the Company has pledged its current assets in the amount of ISK 2,098 million and fixed assets in the amount of ISK 4,028 million.

22. Investments in associated companies

The Group's shares in associated companies are specified as follows:

		2020		2019	
	Share	Share in earnings	Book value	Share in earnings	Book value
EAK ehf., Iceland	33,3%	(35)	83	17	118
Fjölver ehf., Iceland	33,3%	0	10	(1)	9
EBK ehf, Iceland	25,0%	(24)	132	13	156
Vegsauki ehf., Iceland	50,0%	(0)	18	2	18
Wedo ehf, Iceland	16,9%	(44)	118	(170)	86
P/F Jarðhiti, Faroe Islands	20,0%	14	40	7	21
Other companies	25,0%	0	120	0	0
Investment in associated companies total		(89)	521	(132)	409

Financial Statements for the year 2020 for some of the associated companies were not available when the Consolidated Financial Statements for the Group were signed and in those cases the share in net profit was based on available drafts of the 2020 Financial Statements.

23. Long term receivables

Long term receivables are specified as follows:	2020	2019
Interest bearing long term receivables	56	15
Current maturities for long term receivables	(27)	(15)
Total long term receivables	29	0

24. Inventories

Inventories are specified as follows:

Fuel	1.564	2.377
Lubricating oils	328	316
Other inventories	812	620
Total inventories	2.705	3.313

The Company uses derivative contracts as hedging instruments in a fair value hedge of fluctuations in the market price of fuel. The aim of the hedging instruments is solely to limit the effect of fluctuations in oil prices on the consolidated financial statements. Usually, the derivative contracts are not for a longer period than 45 days. The profit or loss on the derivative contracts is recognised together with the hedged inventory and recognised in the income statement when the hedged inventory is sold.

25. Trade receivables

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Trade receivables are specified as follows:	2020	2019
Nominal value of trade receivables	3.340	3.768
Allowance for bad debt	(195)	(160)
Total trade receivables	3.145	3.608

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is explained in note 33.

26. Other receivables

Other receivables are specified as follows:

Receivables due from the government	89	44
Current maturities for long term receivables	42	1
Other receivables	21	10
Prepaid expenses	77	78
Total other receivables at year end	229	133

27. Equity

(i) Issued capital

Issued share capital, as stipulated in the Company’s articles of association, amounted to ISK 1,986 million (2019: ISK 2,152 million). One vote is attached to each share of one ISK in the Company. The Board of Directors has received permission to increase the share capital for up to ISK 811 thousand in order to fulfil obligations towards employees of Skeljungur and its subsidiaries regarding purchase of shares in the Company.

(ii) Share premium

Share premium represents excess of payment above nominal value that shareholders have paid for shares sold by the Company.

(iii) Statutory reserve

In accordance with the Icelandic Company Act, the Company must contribute an amount corresponding to 25% of the nominal value of share capital of the Company in statutory reserve, which cannot be distributed to shareholders as dividend. When contributing to the statutory reserve, 10% of the annual profit shall be allocated until 10% of the nominal value of share capital has been reached and following that 5% of the annual profit until 25% of the nominal value of share capital has been reached. There are no further requirements for contribution to statutory reserve.

(iv) Reserve for share options

On 9 November 2014, the Group granted the CEO and CFO of its subsidiary Magn in Faroe Islands share options that entitle them to purchase shares at the rate of 2.82. On 31 October 2017 the owners utilised 97% of the share purchase option. Remaining are rights to purchase 811,078 shares each in the company, but the rights are redeemable at termination of employment. According to the Company´s articles of association the Board of Directors has authorisation to issue new share capital to fulfil these obligations. A reserve has been made in equity to meet this obligation and cost related to these share options has been fully expensed.

(v) Translation difference

Translation difference comprises all foreign currency differences arising from the translation of the Group's proportionate share in certain subsidiaries and associates and due to hedging of net investments, but the aim of the hedge instrument is to decrease the foreign exchange difference effects due to share in the subsidiary Magn.

On 21 April 2017 the Company started to apply hedge accounting on net investments due to foreign exchange risk which arises between the functional currency of the subsidiary Magn P/F, in DKK, and the Company's functional currency, ISK. The Company's investment in Magn is hedged in part with the Company's borrowing in DKK, but the book value of the loan was DKK 133 million at year end. The Company has recognised the loan in full as hedge instrument due to foreign exchange risk arising out of the corresponding amount af net investment in Magn.

(v) Translation difference, contd.:

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The Company measures the functionality of the hedge in relation to the amount of the hedged net asset. In so far as the hedge is active, the translation difference due to the loan is recognised among other earnings and accumulates in hedge account among equity. The Company will not reclassify translation difference from equity to income statement if the Company will dispose of Magn. The Company recognised any inactivity, if any, immediately in the income statement. There was no inactivitiy in hedge of net investments for foreign exchange risk in the period.

(vi) Reserve for share in profit from subsidiaries and associated companies

Include profit from equity accounted investees (subsidiaries and associated companies), recognised in the income statement and exceeds dividends received from those companies or the dividend that has been decided to distribute, in a specific reserve within equity.

(vii) Retained earnings

Profit for the year is recognised as increase in retained earnings less contribution to the statutory reserve and dividend payments. Retained earnings can be distributed to the Company as dividend.

(viii) Dividend

The Board of Directors proposes that dividend of 350 million ISK, will be paid out to shareholders in the year 2021. The Board of Directors will make a proposal to the Annual General Meeting to repurchase own shares.

(viii) Capital management

The Company's Board of Directors' policy is to maintain a strong capital base to sustain future development of the business.

The Company has approved a dividend policy and the aim is to distribute annual dividend to shareholders corresponding to 30-50% of the profit in dividend payments or repurchase of shares. Prerequisite for dividend payment is that the Company remains financially strong, including taking into account cash as well as the Company's financing agreements allowing for such payments. The equity ratio was 38.9% at year end 2020 (2019: 40.2%).

There were no changes in the Group's approach to capital management during the year and the Group is not obligated to comply with external rules on minimum equity other than those required pursuant to covenants in its loan agreements.

28. Earnings per share

Basic and diluted earnings per share	2020	2019
Profit for the year (Owners of the company)	759	1.372
Weighted average number of ordinary shares		
Shares on 1 January	1.986	2.053
Effect of repurchases of own shares	(21)	(37)
Weighted average number of shares	1.965	2.015
Basic earnings per share	0,39	0,68
Diluted weighted average number of ordinary shares		
Shares on 1 January	1.986	2.053
Effect of repurchases of own shares	(21)	(37)
Effect of share option agreements	1	1
Weighted average number of shares	1.966	2.016
Diluted earnings per share	0,39	0,68

29. Deferred tax liability

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Deferred tax liability is specified as follows:	2020	2019
Deferred tax liability at the beginning of the year	403	671
Difference btw. estimated and imposed charges for the prev. year	42	(273)
Translation difference	58	3
Income tax due to changes in equity	(96)	(30)
Income tax expensed from continuing operations	192	357
Income tax payable	(207)	(326)
Deferred tax liability at year end	392	403

The Group´s deferred tax liability is attributable to the following items:

Operating assets	719	541
Intangible assets	71	69
Inventories	139	91
Trade receivables	(19)	(5)
Currency adjustments	(70)	(23)
Carryforward losses	(403)	(251)
Other items	(45)	(19)
Deferred tax liability at year end	392	403

At year-end 2020, the carryforward tax losses of group companies amounts to ISK 1,900 million. The loss is deductible against taxable income for ten years from its inception. The tax asset will start to expire at the end of 2021 but 88% of the loss will expire in the years 2025-2030.

30. Lease liabilities

The group rents office and commercial premesis. These lease agreements are mostly from 5 to 25 years with possibility of renewal in the end of the lease period. In addition the group rents vehicles and those agreements are ususally from 1 to 3 years with possibility of renewal in the end of the lease period.

Lease liabilities are specified as follows:

	2020	2019
Lease liability 1.1	1.600	958
Installments on lease liabilities	(242)	(135)
New lease agreements and adjustments for indexed leases	437	774
Translation difference	25	3
Lease liability 31.12.	1.820	1.600

Effects o leases in statement of comprehensive income is divided as follows:

Interest payments of lease liabilities	103	59
Depreciation of right-of-use assets	255	147

Maturity analysis:

Not later than 1 year	212	208
Later than 1 year and not later than 5 years	738	627
Later than 5 years	871	765
Total	1.820	1.600

31. Loans and borrowings

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This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 33.

	2020	2019
Interest bearing debt at 1.1.	6.527	9.652
New interest-bearing loans	3.107	1.945
Acquired interest-bearing loans from business acquisition	0	342
Repayment of interest-bearing loans	(1.792)	(5.532)
Changes du to financing activities	1.316	(3.246)
Translation difference	763	121
Other changes due to interest bearing debt	763	121
Interest bearing debt at 31.12.	8.606	6.527

Long-term debt

	2020	2019
Long-term debt in ISK	507	1.567
Long-term debt in foreign currencies	5.728	4.457
Total long-term debt, including current maturities	6.236	6.024
Current maturities	(531)	(544)
Total long-term interest bearing debt	5.705	5.481

Current debt

	2020	2019
Current maturities	531	544
Current bankloans	2.370	503
Interest bearing short-term debt	2.901	1.047
Total interest bearing loans and borrowings	8.606	6.527

Terms for interest bearing debt

		2020		2019	
Loans in foreign currencies:	Final due date	Average int. rate	Carrying amount	Average int. rate	Carrying amount
Long term loans in DKK	2028	2,5%	5.728	2,4%	4.457
Current loans in USD	2021	3,7%	264	5,2%	253
Current loans in DKK	2021	2,4%	0	2,4%	1
			5.992		4.711
Loans in ISK:					
Long-term loans	2029	3,4%	507	5,0%	1.567
Short-term loans	2021	2,9%	2.106	4,8%	249
			2.614		1.816
Total interest-bearing loans and borrowings			8.606		6.527

Aggregated annual maturities of long-term debt are specified as follows:	2020	2019
2020	0	544
2021	531	538
2022	539	536
2023	548	541
2024	557	547
2025	567	554
Subsequent	3.493	2.765
Long-term debt including current maturities	6.236	6.024

Loan agreements include various financial covenants the Group must comply with, such as equity, leverage and liquidity ratios. At year end, the Group was in full compliance with these financial covenants.

32. Other current liabilities

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Other current liabilities are specified as follows:	2020	2019
Payable to the government	1.453	2.248
Salary related expenses	531	444
Accrued interests	5	14
Other current liabilities	116	209
Other current liabilities total	2.104	2.914

33. Risk management

Overview

The Group's activities are exposed to financial risk consisting of credit risk, liquidity risk and market risk. Market risk consists of interest rate risk, oil price risk and currency risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors and CEO are leading the worth of developing strategy, setting goals and defining the Group's risk benchmarks, in addition to implementing effective internal controls. A risk management committee operates under the Board of Skeljungur. It is entrusted with confirming the effectiveness of internal controls within the Company. Risk management is carried out by management under policies approved by the Board of Directors. The aim of the Company is to manage risk efficiently and ensure awareness on transparency of risk management at all stages. The Company's risk management aims at risk being in proportion with risk appetite and policy of the Company and thus contribute to increased stability and long term profit.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk is influenced mainly by the individual characteristics of customers, in addition to the status of the industry the largest customers of the Company operate within, i.e. transportation, fishing industry and contractors. Approximately 63.4% (2019: 63.2%) of the Company's receivables are attributable to the 30 largest customers. In Magn it is approximately 50.2% (2019: 47.1%).

The Group establishes an allowance for impairment that represents an estimate of expected losses of trade and other receivables. The allowance includes both a specific allowance that relates to individually significant exposures, and a collective allowance. The collective loss allowance is determined based on historical data of payment statistics for similar receivables, age determination of receivables and economic conditions.

The Group has set a credit policy which aims at minimising risk bearing in mind financial position, credit rating and operations of individual customers, in addition to the status of the largest customer's industry sectors. All of the Group's customers have credit limits to their accounts which they cannot exceed.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Notes	2020	2019
Long term loans	23.	29	0
Trade receivables	25.	3.145	3.608
Other receivables	26.	229	133
Cash and cash equivalents		1.078	506
		4.481	4.248

Impairment

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The aging of trade receivables and impairment at the reporting date was as follows:

Year 2020	Nominal value	Impairment	Carrying amount
Neither past due nor impaired	2.656	0	2.656
Past due 0 - 30 days	399	(32)	368
Past due 31 - 60 days	71	(21)	50
Past due 61 - 90 days	162	(110)	52
Past due more than 90 days	51	(32)	19
	3.340	(195)	3.145
Year 2019			
Neither past due nor impaired	2.901	0	2.901
Past due 0 - 30 days	605	(35)	570
Past due 31 - 60 days	67	(15)	53
Past due 61 - 90 days	170	(94)	76
Past due more than 90 days	21	(13)	9
	3.765	(156)	3.608

Changes in the allowance for impairment in respect of trade receivables during the year was as follows:

	2020	2019
Balance at 1 January	156	136
Depreciated in the year	(16)	(39)
Impairment losses recognized	39	54
Translation difference	16	5
Balance at 31 December	195	156

Allowance for impairment is expensed with distribution cost in the income statement.

The Group´s trade receivables are specified as follows at year end by industries:

Year 2020	Nominal value	Specific write-down	General write-down	Carrying amount
Fishing industry	667	(8)	(8)	651
Transportation	785	(3)	(22)	761
Contractors and agriculture	1.317	(2)	(17)	1.298
Other industries and individuals	570	(80)	(55)	435
	3.340	(92)	(102)	3.145
Year 2019				
Fishing industry	851	(16)	(15)	820
Transportation	980	(30)	(4)	946
Contractors and agriculture	362	(18)	(4)	341
Other industries and individuals	1.571	(49)	(20)	1.502
	3.765	(113)	(43)	3.608

Other financial assets subject to credit risk are not impaired since risk of loss is not considered significant.

Liquidity risk

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Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The Groups liquidity was strong at year end 2020 and management considers that the Group is in a good position to meet its obligations when due. In addition to the current liabilities the Group has access to a credit line in the amount of ISK 3,790 million which will mature in 2022. At year end the Company had used ISK 2,370 million of the credit line.

Following are the contractual maturities of financial liabilities, including estimated interest payments:

	Booked value	Total payment	Within a year	After 1 - 3 years	After 3 - 5 years	Over 5 years
Year end 2020						
Interest bearing debt	8.606	9.548	695	3.738	1.363	3.752
Trade and other payables	4.556	4.556	4.556			
	13.162	14.104	5.251	3.738	1.363	3.752
Lease liabilities	1.820	2.216	212	554	371	1.079
Year end 2019						
Interest bearing debt	6.527	7.803	1.089	1.774	1.301	3.639
Trade and other payables	5.850	5.850	5.850	0	0	0
	12.377	13.653	6.939	1.774	1.301	3.639
Lease liabilities	1.600	1.913	208	337	290	1.077

Market risk

Market risk is the risk of changes in foreign exchange rates, oil prices and interest rates having affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Price risk

The Group is exposed to significant price risk due to changes in world market oil prices, which have fluctuated significantly in the past few years. The difference between purchase price and sale price can have direct effect on the Group's gross profit. Furthermore, high oil prices can in some instances decrease demand and thus effect earnings. The risk is reduced by means of specific agreements with the Group's largest customers. The Group also uses forward contracts in order to reduce price risk.

(ii) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than ISK. The currencies in which these transactions primarily are denominated are US Dollar (USD) and Euro (EUR). The major part of imports is purchase of oil, denominated in USD from foreign suppliers but the sales are in great part in ISK. Sales in ISK constitute 79.5% of total sales (2019: 68.7%), USD 19.1% (2019: 29.6%) and other currencies 1.4% (2019: 1.7%).

Magn is exposed to currency risk on sales and purchases that are denominated in a currencies other than DKK. The currency in which these transactions are primarily denominated is US Dollar (USD). The major part of imports are purchase of oil, denominated in USD from foreign suppliers, but the sales are in greater part in DKK. Sales in DKK constitute 77.7% of total sales (2019: 71.5%), USD 21.4% (2019: 27.9%) and other currencies 0.9% (2019: 0.6%).

(ii) Currency risk, contd.:

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Informationon effects of translation differences in relation to recalculation of accounts of foreign subsidiaries and associates is in note 27v, but this exposes the Company to a considerable risk. Translation difference is due to the operations of P/F Magn, Skeljungur's subsidiary, which functional currency is DKK.

The Group's exposure to foreign currency risk due to financial assets and liabilities at nominal value is as follows:

2020	USD	EUR	DKK	Other currencies
Receivables	519	0	6	0
Cash and cash equivalents	44	15	10	0
Loans and borrowings	(264)	0	0	0
Payables	(879)	(108)	(3)	(2)
Balance sheet risk	(580)	(93)	13	(1)

2019	USD	EUR	DKK	Other currencies
Receivables	807	16	0	0
Cash and cash equivalents	129	34	3	0
Loans and borrowings	(253)	0	0	0
Payables	(1.141)	(132)	(5)	(1)
Balance sheet risk	(458)	(82)	(2)	(0)

The following exchange rates were used during the year:

	Average exchange rate		End of year exchange rate	
	2020	2019	2020	2019
USD	135,27	122,65	127,21	121,10
EUR	154,52	137,30	156,10	135,83
DKK	20,73	18,39	20,98	18,18

Sensitivity analysis

A 10 percent strengthening of the ISK against the following currencies at 31 December would have increased (decreased) profit or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2019.

	Profit (loss)	
	2020	2019
USD	46	37
EUR	7	7
DKK	(1)	0

Interest rate risk

Exposure to interest rate risk involves the Group being negatively affected due to changes in interest rates. The Groups loans and borrowings are all on floating interests. The Groups interest bearing assets are on the other hand very limited and the Group is exposed to risk from an increase in interest rates. An increase in interest rates leads to an increase in financial items and cash flow risk. As is described in discussion on liquidity risk, the Group's approach to managing the risk is to always have sufficient liquidity to meets its liabilities.

The Group's long term borrowings are subject to variable interest rates. An increase or decrease of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity before income tax by ISK 86 million (2019: 65 million) due to effects of the Group's borrowings on floating interests. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2019.

Other market risk

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Other market risk is related to investments in bonds and shares and are considered insignificant.

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

- Loans and receivables are recognised at amortised cost.
- Other financial liabilities are recognised at amortised cost.

Financial assets and liabilities are classified as follows at book value:

2020	Loans and receivables	Other financial liabilities	Carrying amount
Trade receivables	3.145	0	3.145
Other receivables	229	0	229
Cash and cash equivalent	1.078	0	1.078
Total assets	4.481	0	4.481
Loans and borrowings	0	8.606	8.606
Lease liabilites	0	1.820	1.820
Trade payables	0	2.448	2.448
Other payables	0	2.105	2.105
Total liabilities	0	14.978	14.978

2019	Loans and receivables	Other financial liabilities	Carrying amount
Trade receivables	3.608	0	3.608
Other receivables	133	0	133
Cash and cash equivalent	506	0	506
Total assets	4.248	0	4.248
Loans and borrowings	0	6.527	6.527
Lease liabilites	0	1.600	1.600
Trade payables	0	2.851	2.851
Other payables	0	2.914	2.914
Total liabilities	0	13.893	13.893

Fair values
Trade and other receivables are not discounted at the market interest rate as the difference between their fair value and their carrying amount is insignificant. The fair value of payable to credit institutions, which is only determined for disclosure purposes, is the estimated future cash flows discounted at the market interest rate at the reporting date. Interest on payables to credit institutions are market rates. Therefore the difference between their book value and fair value is insignificant each period. Fair value liabilities falls under level 3 of the fair value hierarchy.

Derivative agreements made by the Group in order to hedge for foreign exchange risk or risk due to changes in world market oil prices are recognised at fair value and changes in fair value are recognised in the income statement among cost of sold goods. Fair value of derivatives agreements is insignificant at year end.

34. Operating lease

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Rental income
The Group leases premises to various parties. Some of the rental agreements are indeterminate but the lease term of other agreements are from 2 - 21 years. Rental income in the year 2020 amounted to ISK 201 million (2019: ISK 86 million). Most of the rental agreements are price indexed. Obligation of the lessees due to indeterminate agreements is only calculated for one year. Total obligations of lessees without taking into account future inflations is specified as follows.

	2020	2019
Within one year	113	89
After 1 - 5 years	138	171
After 5 years	37	0
Total	288	260

35. Related parties

Definition of related parties:

Shareholders, subsidiaries, associated companies, directors, keymanagers and companies in which they own majority of the shares are considered to be related parties. The transactions were carried out on an arm's length basis.

Transactions with associated companies	2020	2019
Purchased goods and services	120	186
Sold goods and services	13	23
Receivables at year end	18	3
Payables at year end	4	16

Salaries paid to the Board of Directors and managers

2020

Salaries and benefits is specified as follows:	Salaries	Contr. to pension funds	Shares at year end 2020*
Jón Ásgeir Jóhannesson, Chairman of the Board	8	1	734.116
Birna Ósk Einarsdóttir, Vice Chairman of the Board	6	1	0
Dagný Halldórsdóttir, Board member	4	1	1.250
Elín Jónsdóttir, Board member	3	0	0
Þórarinn Arnar Sævarsson, Board member	3	0	734.116
Jens Meinhard Rasmussen, Board member	2	0	0
Ata Maria Bærentsen, Board member	1	0	0
Hendrik Egholm, former CEO	43	0	0
*Árni Pétur Jónsson, CEO	49	13	0
*Other executives	164	24	0
Total salaries and benefits	284	40	1.469.483

**shares in thousands*

* Executives refers to a five-member Executive Board, of which one member started in September 2020. Bonus payments due to settlement of an older wage bonus system, for 2019 and 2020, together with wage-related payments are included in the amounts above as follows: The CEO received an ISK 4.1 million bonus payment for 2019 and will receive an ISK 3.7 million bonus payment for 2020. Executives were paid a total of ISK 10.9 million due to the settlement of an older wage bonus system, ISK 24.6 million as bonus payment for 2019 and will receive ISK 11.5 million as bonus payment for 2020.

Salaries paid to the Board of Directors and managers, contd.:

2019

Salaries and benefits is specified as follows:	Salaries	Contr. to pension funds	Shares at year-end 2019
Jón Diðrik Jónsson, Chairman of the board	2	0	0
Birna Ósk Einarsdóttir, Board member	5	1	0
Gunn Ellefsen, Board member	1	0	0
Jens Meinhard Rasmussen, Board member	11	1	0
Kjartan Örn Sigurðsson, Board member	1	0	0
Baldur Már Helgason, Board member	2	0	0
Ata Maria Bærentsen, Board member	4	0	0
Jón Ásgeir Jóhannesson, Vice Chairman of the Board	3	0	242.500
Þórarinn Arnar Sævarsson, Board member	3	0	183.000
Hendrik Egholm, CEO	62	0	1.644
Árni Pétur Jónsson, CEO	17	4	2.350
*Other executives	206	25	0
Total salaries and benefits	315	33	429.494

*Other executives covers 3 executive directors of divisions at Skeljungur and 2 former executive directors, which ceased working in 2019. Bonus payments and wage-related payments are included in these numbers.

The shares above include the shares of spouses, financially incompetent minors and financially competent individuals with the same legal domicile, together with shares owned by Companies which the Executives control.

No loans have been granted to the Members of the Board and the CEO of the Company.

36. Subsidiaries

The consolidated financial statements include the following subsidiaries:	Shares 2020	2019
Bensínorkan ehf., Iceland	100%	100%
Íslenska vetnisfélagið ehf., Iceland	90%	90%
Tollvörugeymsla Skeljungs ehf., Iceland	100%	100%
Barkur ehf, Iceland	66%	66%
Basko ehf, Iceland	100%	100%
26 Fasteign	100%	
Langholt	100%	
P/F Magn, Færeyjar	100%	100%
P/F Demich, Færeyjar	70%	70%

37. Other matters

The Icelandic Competition Authority's preliminary findings on whether there is need to take action against circumstances and conduct which are considered to impede competition, to the detriment of the public, was published on 30 November 2015. It should be noted that the examination was not directed specifically at the Company itself but rather at the fuel market as a whole. All parties connected to the fuel market were given the opportunity to submit their comments on the report and Skeljungur submitted its reasoned comments objecting to the conclusion, calculation methodology and the calculation criteria. With a letter dated 18 December 2020 the ICA confirmed that there will be no further intervention against Skeljungur on the basis of this market research. In the same letter the ICA confirmed the conclusion of other matters involving Skeljungur, most of which were related to the issues being examined in the market research. The ICA has thereby confirmed the conclusion of all regulatory issues involving Skeljungur hf. It must be noted, however, that Skeljungur's acquisition of all the shares in Port I ehf., the holding company of Dælan and Löður, are in process before the ICA.

37. Other matters, contd.:

Consolidated Financial Statements of Skeljungur hf. 2020 39 Amounts are in millions

In November 2020, Skeljungur hf. acquired all the shares in Port I ehf., the holding company of Dælan ehf. and Löður ehf. The acquisition is subject to several criteria and reservations, i.a. the approval of the Icelandic Competition Authority. The acquisition price which Skeljungur will pay is in the range of ISK 910 - 1.150 million. At the signature date of the Financial Statements the Icelandic Competition Authority has not authorized the acquisition.

In January 2021, a decision was made to participate in the increase of share capital in the affiliated company Wedo ehf. This involves an additional investment amounting to ISK 227.5 million and Skeljungur's share will be 25% after the increase of share capital.

On 20 January 2020 the Board of Directors decided to initiate proceedings against the Icelandic State (the Transport Compensation Fund) to apply for reimbursement of invalid payments made by Skeljungur to the Transport Compensation Fund. Skeljungur calls for refunding amounting to ISK 448 million. Skeljungur considers these fees invalid and therefore calls for refunding of the fees which the Transport Compensation Fund has excessively levied upon Skeljungur. These fees were based on the provisions of Act No. 103/1994 on the Compensation for Transport Costs of Oil Products. The basis of Skeljungur's case is that the provisions of the aforementioned Act did not fulfil the constitutional requirements for fully authorized tax levying pursuant to Articles 40 and 77 of the Constitution. The principal hearing of the case will take place on 10 February 2021.

38. Financial Ratios

The Group's key ratios are as follows:

	2020	2019
Operations:		
Gross profit as proportion to sales	22,9%	17,0%
EBITDA / gross profit	28,3%	39,3%
EBIT / gross profit	14,5%	26,8%
Salaries / gross profit	42,8%	32,0%
Sales and distribution / gross profit	25,5%	24,8%
Operating expenses / gross profit	75,1%	63,5%
Return on equity	8,1%	15,0%
Balance Sheet:		
Current ratio - Current assets / current liabilities	0,94	1,03
Quick ratio - (Current assets - inventory) / current liabilities	0,59	0,58
NIBD/EBITDA	2,73	1,76
Equity ratio - Shareholders' equity / total assets	38,9%	40,2%
Internal value of share capital - Total equity / Share capital	5,1	4,9

Consolidated Financial Statements of Skeljungur hf. 2020 40 Amounts are in millions

Quarterly Overview
Unaudited

	Q1	Q2	Q3	Q4	2020	Q1	Q2	Q3	Q4	2019
Sales	10.970	9.433	11.642	9.157	41.203	11.506	13.356	15.143	11.934	51.939
Cost of goods sold	(8.641)	(7.148)	(8.983)	(6.977)	(31.748)	(9.399)	(11.237)	(12.712)	(9.888)	(43.236)
Gross profit	**2.329**	**2.285**	**2.659**	**2.181**	**9.454**	**2.107**	**2.119**	**2.431**	**2.046**	**8.703**
Other income	48	81	81	112	323	41	38	82	82	243
Salaries and salary related expenses	(999)	(1.031)	(944)	(1.073)	(4.047)	(606)	(710)	(612)	(861)	(2.788)
Sales and distribution expenses*	(596)	(566)	(609)	(636)	(2.407)	(494)	(531)	(539)	(595)	(2.159)
Operating expenses*	(169)	(137)	(149)	(192)	(647)	(156)	(136)	(125)	(160)	(577)
	(1.764)	(1.733)	(1.703)	(1.901)	(7.101)	(1.256)	(1.377)	(1.275)	(1.616)	(5.525)
EBITDA	**614**	**633**	**1.038**	**391**	**2.676**	**892**	**780**	**1.238**	**512**	**3.422**
Depreciation and impairment of operating assets	(312)	(331)	(331)	(333)	(1.307)	(261)	(268)	(264)	(299)	(1.093)
EBIT	**302**	**302**	**707**	**58**	**1.369**	**631**	**511**	**974**	**213**	**2.329**
Financial income	6	8	4	112	130	5	10	7	8	29
Financial expenses	(88)	(110)	(108)	(125)	(431)	(116)	(122)	(134)	(88)	(460)
	(82)	(101)	(104)	(13)	(301)	(111)	(112)	(127)	(80)	(430)
Share of profit from associated companies	(17)	(53)	(19)	1	(88)	(12)	(29)	(58)	(34)	(132)
Profit before income tax	**202**	**147**	**584**	**46**	**980**	**508**	**370**	**788**	**100**	**1.767**
Income tax expense	(43)	(33)	(113)	1	(188)	(97)	(75)	(163)	(23)	(358)
Profit for the period	**159**	**114**	**470**	**48**	**791**	**411**	**295**	**626**	**77**	**1.409**
Other comprehensive income that will be reclassifed to profit or loss:										
Translation differene of associates and subsidiaries	612	23	222	(206)	652	130	135	(199)	38	104
Translation difference of net investment hedge	(445)	(9)	(151)	127	(478)	(88)	(104)	159	(15)	(47)
Income tax relating to net investment hedge	89	2	30	(25)	96	18	21	(32)	3	9
	256	16	101	(104)	269	60	52	(72)	26	66
Total comprehensive (loss) income	**415**	**130**	**572**	**(57)**	**1.060**	**471**	**347**	**554**	**103**	**1.475**

1. Skeljungur's governance environment

The Board of Directors and management of Skeljungur hf. emphasise management of the Company's activities in accordance with good corporate governance. Good corporate governance, in the view of the Board of Directors and management, is the foundation for both trust and management accountability, which contribute to good decision making and good relations among the Board, employees and other stakeholders of the Company,

The rules and regulations regarding corporate governance on which Skeljungur relies in its activities are laid down in Act no. 2/1995 on limited liability companies, Act no. 108/2007 on securities transactions, Nasdaq Iceland hf.'s Rules for issuers of financial instruments ,[1] the 5th edition of the guidelines of the Iceland Chamber of Commerce, Business Iceland (SA) and Nasdaq Iceland on Corporate Governance,[2] in addition to various rules originating in the Company itself, such as its Articles of Association, the rules of procedure of the Board of Directors and its subcommittees, the Board's Code of Conduct, the Company's Remuneration Policy, Social Responsibility Policy and other policies, all of which can be accessed on the Company's website,[3] and in the Company's non-financial information statements.

Skeljungur was in compliance in 2020 with the guidelines published by the Chamber of Commerce and other entities and other governance regulations, internal and external, except for one deviation. According to section 1.1.1 in the Guidelines, the board shall when organising the AGM, it shall do so in a manner that allows shareholders to exercise their decision-making powers and express their opinions. It shall, for instance, be made possible for shareholders to participate in the AGM by electronic means, including the possibility to vote without being physically present. It has not been possible for Skeljungur's shareholders to participate in shareholder meetings by electronic means (through remote voting), and no decision has been made to alter this arrangement. So far, shareholders have not given the company any indication that they need or wish to have the ability to vote at shareholder meetings by electronic means, but the company will re-evaluate if such wishes or needs are expressed.

2. Principal features of the work of the Board of Directors over the operating year

2.1. Extraordinary year of operation

It is safe to say that the work of the Board of Directors was marked by two unusual tasks over the operating year: on the one hand the impact of the COVID-19 pandemic and, on the other hand, the take-over bid made by Strengur hf. for the Company's shares.

As in the case of most business managers around the world, the COVID-19 pandemic had a major impact on the work and practices of the Board; however, a performance evaluation conducted with an external consultant, which is described in further detail in sections 2.2. and 6.2., revealed that the Board was generally satisfied with the actions and activities of the Company in response to COVID-19, but for obvious reasons, the time of the Board and management was largely spent on responses to the pandemic.

Then, on 8 November 2020, an announcement was made of proposed co-operation and a take-over bid by the company Strengur hf. for all the shares in Skeljungur; two of five Board members are directly linked to Strengur. They did not take any part in the work of the Board relating to the take-over bid. The bid was made on 6 December, and the effective period of the take-over bid ended on 4 January 2021. According to paragraph 2 of Article 104 of the Act on Securities Transactions no. 108/2007, the Board is not permitted, from the time that a decision on a take-over bid is made public until the results of the bid have been made public, to make any decisions that may influence the bid except with the prior approval of the shareholders' meeting.

For obvious reasons, these tasks had an impact on the normal functions of the Board of Directors, including the review of the Company's governance policy, which is described in Section 2.2, or the formulation of the Company's strategy and future vision. Nevertheless, the governance review has mostly been completed,

[1] http://business.nasdaq.com/list/Rules-and-Regulations/European-rules/nasdaq-iceland/index.html

[2] https://www.vi.is/files/%C3%BAtg%C3%A1fa/sk%C3%BDrslur/leidbeiningar_um_stjornarhaetti_fyrirtaekja.pdf

[3] https://www.skeljungur.is/stefnur-reglur

although work on strategic planning has been delayed, with completion now scheduled within the next months

2.2. Development and strengthening of good governance over the year

In last year's corporate governance statement it was noted that the governance was under review with external consultants with the objective of charting and defining roles, authority and accountability at the group level. Great emphasis has been placed on strengthening and reinforcing good governance in the Company.

Work on mapping and reviewing the Company's governance was begun in 2019 by the consulting company Strategía, and a work plan was made on continuing work on the governance review. Among other things, the Articles of association of the Company, Remuneration Policy and Corporate governance statement were specifically reviewed, in addition to the non-financial disclosures in the annual financial statement. There were some delays in the work early in 2020 resulting from the COVID-19 pandemic and the take-over bid, as noted in Section 2.1, but the Board of Directors placed great emphasis on updating Skeljungur's corporate governance policy in the second half of 2020 and early 2021.

An important element of the corporate governance review was a detailed performance evaluation of the Board of Directors and Chief Executive Officer that was conducted in December 2020. The performance evaluation was conducted by Helga Hlín Hákonardóttir, legal counsel and consultant at Strategía, by means of confidential discussions with each and every Board member. The performance evaluation was designed, among other things, to gather information on the viewpoints of the Board members regarding the current corporate governance of the Company, the proposals for improvements to governance practices that had been made, and any other opinions that Board members might have. The performance evaluation proved to be an important element in the final drafting and approval of changes in corporate governance – and, in particular, a common understanding and policy of the Board members regarding Skeljungur's corporate governance.

The main conclusions of the performance evaluation were that despite the challenging working environment, e.g. due to COVID-19 and the take-over bid, co-operation and procedures of the Board have been very good - and trust has been created in members' co-operation within the Board.

Detailed information on the conclusions of the performance evaluation is provided in Section 6.2.

Following a review of the performance evaluation of the Board, the Secretary of the Board, who has overseen the work with the consultant on mapping and auditing of corporate governance, was instructed to draw up an implementation plan in consultation with the Chairman of the Board on corrective actions proposed by Strategía's consultant following the performance evaluation. The final implementation of the improvements would be carried out in consultation with external consultants, as applicable, and individual improvement tasks would be placed before the Board as the implementation proceeded. The Board of Directors proposed that the implementation of these projects should be concluded before the Company's annual general meeting in 2021.

Further information on the improvement tasks that have been completed is included below:.

2.3. Corporate governance at the group level, changes

Considerable time went into the mapping and review of Skeljungur's group-level corporate governance. This work is still ongoing and will be completed once the reviewed strategy and future vision are available; the following are the principal improvements that have been completed:

- A specific job description was prepared for Skeljungur's Chief Executive Officer relating, among other things to his/her role, authority to act and accountability for governance at the group level.
- Amendments were made to the articles of association of P/F Magn and the board of directors of that company, with the CEO of Skeljungur taking a seat on the board of directors of the company along with two other independent members. Previously, the same board of directors had served for Skeljungur and P/F Magn.
- PF/Magn's articles of association were amended with the effect that certain decisions now require the approval of all members of the board.

- The organisation and corporate governance of Basko were mapped and reviewed following the acquisition of that company. For this purpose the Chairman of the Board of Directors of Skeljungur temporarily took a seat on the board of directors of Basko in accordance with a decision of the Board until it could be decided what the Company's strategy would be regarding the organisation and governance of Basko within the Skeljungur consolidation. Subsequently, the Board of Directors of Skeljungur hf. made the decision to merge the operation of Basko with Skeljungur hf., with the effect that the company will not be operated as an independent business unit.
- The scope of application of Skeljungur's Remuneration Policy, which was approved at the annual general meeting of 2020, applies at the group level, and the Board of Directors followed up on its implementation so that all the companies within the consolidation would harmonise their procedures and bonuses in line with the Remuneration Policy. In other respects reference is made to the report on the execution of the Remuneration Policy, to be included in the announcement of the 2021 annual general meeting.

2.4. Rules of procedure of the Board of Directors, update

The rules of procedure of the Board of Directors were reviewed and updated in line with other changes that the Board decided to make regarding the organisation and corporate governance of the Company. The principal changes made related to the following:

- The rules of procedure were simplified, and, among other things, the provisions of current law and provisions relating to the job description of the Chief Executive Officer were deleted from the rules, and at the same time a separate and detailed job description was drawn up for the CEO;
- Role of the Chairman of the Board updated and clarified;
- Duties of individual Board members defined in greater detail;
- Role and procedures of sub-committees of the Board defined in greater detail;
- Provisions on announcements of meetings and keeping minutes were updated;
- Provisions relating to powers of decision and voting were updated;
- Provisions relating to the approval and proposal for changes in the secretary's minutes were set out in greater detail;
- Provisions relating to the registration of interests were set out in greater detail as regards the following:
  - Definitions of related parties to the Board and CEO were set out specifically;
  - The secretary of the Board of Directors was assigned the task of analysing potential conflict of interests prior to Board meetings;
  - Responses and procedures in handling potential conflict of interests defined in detail;
  - At the beginning of each meeting of the Board an entry is made in the minutes regarding the independence of the Board of Directors and CEO.
- Provisions concerning relations with shareholders were updated and made more detailed;
- An annex on the reception of new Board members was updated and made more detailed.

2.5. Reviewed Board portal

Concurrently with the review of the Board's procedures and performance evaluation, emphasis was placed on improving the access of the Board to its documents. The secretary of the Board of Directors was assigned the task of setting up a new Board portal; the new and improved portal was set up and taken into use on 23 December 2020.

2.6. Sub-committees of the Board of Directors, update

In line with the review of the Board's rules of procedure and the updating of provisions relating to sub-committees, the rules of procedure of the Audit Committee and Remuneration Committee were reviewed.

New rules of procedure of the **Audit Committee** were approved on 11 January 2021. The principal changes made to the rules relate to the following:

- The presentation of the rules of procedure was clarified;

- The role of the Audit Committee was updated in compliance with the current provisions of Article 108 (b) of the Act on annual accounts. Among other things, the role of the Board of Directors in reviewing and implementing auditors' recommendations was clarified;
- The Audit Committee was assigned a more detailed role in risk management, the tasks of the Risk Committee were transferred to the Audit Committee, the CEO and the Risk Manager, but the Rick Policy is the responsibility of the CEO and the Executive Board, as further discussed below;
- Provisions were established relating to the communications and gathering of information by the committee;
- Reporting by the committee to the Board was specifically defined;
- Provisions were added relating to the procedures of the committee, and in other respects reference was made to the rules of procedure of the Board of Directors.

New rules of procedure of the **Remuneration Committee** were approved on 20 January 2021. The principal changes made to the rules relate to the following:

- The presentation of the rules of procedure was clarified;
- The role of the Remuneration Committee was reviewed, among other things in line with the Company's current Remuneration Policy. Among other things, the Remuneration Committee was assigned the task of reviewing annual workplace audits;
- Provisions were established relating to the communications and gathering of information by the committee;
- Reporting by the committee to the Board was specifically defined;
- Provisions were added relating to the procedures of the committee, and in other respects reference was made to the rules of procedure of the Board of Directors.

The tasks of the **Risk Committee** , which had been composed of the CEO, CFO, COO, CCO and the HSEQ manager of Skeljungur, were transferred to the Audit Committee and the HSEQ manager of Skeljungur, with the review of the Company's Risk Policy. The CEO, Executive Board and risk manager were assigned the task of implementing a Risk Policy for Skeljungur's operations – along with reviews of certain matters and reporting of information to the Audit Committee.

At the same time, the Audit Committee was assigned a more detailed role in monitoring the arrangement and effectiveness of the Risk Policy. Skeljungur's new Risk Policy is discussed in further detail in Section 2.10.

2.7. Chief Executive Officer's job description

Concurrently with the review of the rules of procedure of the Board of Directors and the performance evaluation of the Board of Directors, provisions relating to the role, authority to act and accountability of the CEO were transferred to a separate job description, instead of including those factors in the rules of procedure of the Board of Directors. A separate job description was drafted for the CEO reflecting Skeljungur's reviewed corporate governance and the performance evaluation of the Board of Directors and CEO. The job description was approved on 20 January 2021, and, among other things, it lays down the following:

- Role of the CEO;
- Qualifications of the CEO;
- General responsibilities;
- General authority of the CEO;
- Extraordinary and major decisions that the CEO is required to bring before the Board of Directors;
- Regular reporting to the Board of Directors;
- Ad hoc reporting to the Board of Directors.

2.8. Skeljungur's rules on the Company signature, update

In the course of mapping and reviewing the roles and authorities within Skeljungur, the Company's rules on signatory powers were reviewed and updated, and new rules on the Company signature took effect on 5 May 2020.

2.9. Skeljungur's strategic planning

A great deal of work has been done on reviewing the strategies and future vision of Skeljungur in the course of the year; however, this work was delayed as a result of COVID-19, as noted in Section 2.1. The work is well under way, and the hope is that it will be possible to present to the Board of Directors the draft of a new strategy and future vision for the Company within the next months.

Certain internal policies of the Company have also been under review concurrently with the mapping and review of the Company's organisation and corporate governance and improved non-financial reporting. The objective of this review is, among other things, to clarify and sharpen structure and governance, but also to reflect the following objectives of the Company's new Code of Conduct:

> We intend to set measurable goals in the Company's strategic planning, based, among other things, on the goal of reducing the negative impact of the Company and increasing the positive impact of the Company on its stakeholders. To this end, we intend to know and measure the results of each policy.

Work will continue on reviewing Skeljungur's internal policies when the new comprehensive strategy and future vision have been completed.

2.10. Risk Policy, update

An important element of reviewing Skeljungur's corporate governance related to the arrangement of the Company's risk management, i.e. defining the Risk Policy, risk appetite, risk categories and objectives of risk management by defining the risk criteria of individual risk categories. The organisation in the implementation, review and monitoring of the effectiveness of the implementation of risk management was strengthened significantly over the operating year. The following are the principal changes made in the Company's Risk Policy, which was approved on 11 January 2021:

- The scope of application of the Risk Policy was defined, with the policy applicable for Skeljungur and the companies that are not engaged in independent operations and are managed by Skeljungur's managers;
- The Risk Policy was defined, along with the risk appetite;
- The CEO was assigned the task of submitting proposals regarding the risk appetite and risk criteria for individual risk categories;
- The tasks of the Risk Committee, were transferred to the Audit Committee, CEO and the Risk Manager
- The CEO, Executive Board and risk manager were assigned the task of implementing a Risk Policy for Skeljungur's operations – along with reviews of certain matters and reporting to the Audit Committee;
- The Audit Committee was assigned a more detailed role in monitoring the arrangement and effectiveness of the Risk Policy.

Work will continue on implementing Skeljungur's Risk Policy when the new comprehensive strategy and future vision have been completed.

2.11. Code of Conduct, update

A new Code of Conduct was approved by the Board of Directors on 27 January 2021. The Code of Conduct will subsequently be presented to employees for comment, and may be subject to amendment based on the comments received, after which they will be submitted once again to the Board of Directors for final approval.

The Code of Conduct was simplified to a significant degree, and provisions and the links of individual sections to internal policies and rules of the Company elaborating individual policy areas in further detail were given a sharper focus. One of the principal objectives of the new Code of Conduct in fact relates to strategic planning, as stated in the Code:

> We intend to set measurable goals in the Company's strategic planning, based, among other things, on the aim of reducing the negative impact of the Company and increasing the positive impact of the Company on its stakeholders. To this end, we intend to know and measure the results of each strategy.

This objective will be reflected in the ongoing review of Skeljungur's internal policies, where the emphasis will be on clarity, measurable targets and performance measurements in line with the above goals of the Code of Conduct and the purpose and aims of non-financial disclosures in the Company's annual financial statement.

The scope of application of the Code of Conduct was clarified, and the Code now extends to the Board of Directors, the Board's sub-committees and the employees of all companies where Skeljungur holds a 50% share. The Code of Conduct also extends to business partners of the Company, in that they are used for reference in selecting and renewing contracts with contractors, consultants, suppliers, franchisees and other partners of the Company.

Special emphasis was placed on identifying individual stakeholders of the Company and focusing on reporting and communications with such stakeholders.

Last, but not least, a detailed process was laid down for employees in the event of any reason to suspect any violations of the Code of Conduct or other policies, rules or current procedures within the Skeljungur consolidation.

3. Continuing work on strategic planning and implementation of better corporate governance

The implementation of the new corporate governance approved by the Board of Directors at its meeting on 20 December 2020 is mostly completed, but, as noted above, the corporate governance at the group level will continue to be reviewed and the new Code of Conduct will be presented to employees for comments.

Also, the internal policies of the Company will be reviewed and updated, as applicable, in line with the Company's new strategy. Other regulatory framework relating to governance will also be reviewed and updated where necessary.

4. Internal control and risk management

4.1. Board of Directors

It is the role of the Board of Directors, with the CEO, to take the lead in strategic planning, setting goals and defining risk parameters for the Company, both for the short and long term, and to establish an efficient system of internal controls. Among other things, the arrangement of internal controls needs to be formal and documented, and its effectiveness needs to be verified regularly.

As noted earlier, the strategy and future vision of Skeljungur are being reviewed, and following the review the Company's organisation chart will be reviewed to ensure that it will support their implementation and that governance is updated as needed.

4.2. Audit Committee

The Company does not have an internal auditor; instead, the Company's external auditors conduct focused audits of specific procedures. An Audit Committee works under the Board of Directors whose tasks include the following, according to the provisions of Article 108 b of the Annual Accounts Act:

a) supervision of work processes in the preparation of financial statements;
b) supervision of the arrangement and effectiveness of the Company's internal control and other supervisory functions;
c) supervision of the auditing of the annual financial statement and consolidated financial statement;

d) submission of a recommendation to the Board of Directors on the choice of auditor or auditing firm;
e) assessment of the independence of the auditors or auditing firm and supervision of other tasks of the auditors or auditing firm.

The Audit Committee is also responsible for reviewing and assessing the quality of financial information and the arrangement of reporting information by management and auditors. The Committee annually reviews the Auditor's report on his/her work and independence and material matters that have emerged in the course of the audit. The Committee shall also follow up on the implementation of the recommendations contained in the auditor's report. Furthermore, the Audit Committee shall review the Risk Policy, risk appetite, risk criteria and the organisation and effectiveness of risk management in accordance with the Company's Risk Policy and submit recommendations to the Board of Directors regarding changes, where warranted.

4.3. Risk Policy

According to Skeljungur's newly approved Risk Policy, the Company's policy is defined as follows:

- Skeljungur's risk derives from a number of possible events that may prevent the Company from achieving its objectives;
- The Company's risk management takes account of all risk categories, e.g. in the areas of finance, operation, environment and quality;
- The Company's actions on risk management are designed to define, assess, measure and manage risk in the Company's operations in accordance with its risk appetite and risk criteria, as defined by the Board of Directors from time to time.

The Chief Executive Officer is responsible for the implementation of Skeljungur's Risk Policy and risk management in the day-to-day operation of the Company and reports on the usefulness and effectiveness of the Risk Policy to the Board of Directors. Skeljungur's executive directors are responsible for the implementation of the Risk Policy, risk assessment and risk management in the divisions that they manage.

The Risk Manager works across the departments/divisions of the Company and ensures harmonised execution of the Policy. The Risk Manager shall annually prepare a work programme approved by the Chief Executive Officer following consultation with the Executive Board and the Audit Committee. The Risk Manager shall ensure that risk categories, risk appetite and risk criteria are defined following consultation with the Executive Board and the Audit Committee.

Finally, the Executive Board of Skeljungur has a variety of roles regarding advice, follow-up and review of the effectiveness of the Risk Policy, risk appetite and risk criteria for the Audit Committee and Board of Directors.

Work will continue on reviewing and finishing the details of Skeljungur's Risk Policy, including the Risk Policy at group level and with reference to the conclusion of work on the Company's new Strategy and future vision.

5. Skeljungur's subsidiaries

Skeljungur owns nine subsidiaries: seven in Iceland (Bensínorkan ehf., Íslenska vetnisfélagið ehf., Tollvörugeymsla Skeljungs ehf., Barkur ehf., Basko ehf., 26 fasteign ehf. (Baulan) and Langholt ehf. (Baulan)), and two in the Faroe Islands (P/F Magn and P/F Demich). Subsidiaries are entities controlled by the Group.

The Group's corporate governance is currently being reviewed with outside counsel in order to define roles and responsibilities at group level; this work will continue in the coming year, as further detailed in Section 2.3.

Employees who serve on the boards of directors of Skeljungur's subsidiaries or associated companies are not paid remuneration for such work.

The operations of **P/F Magn in the Faroe Islands** were extensive in 2020. The auditing of Magn's financial accounts is subject to the laws and rules that apply in the Faroe Islands. The chairman of the board of directors of Magn is Jens Meinhard; Ata Maria Bærentsen and Árni Pétur Jónsson, CEO of Skeljungur, also serve on the board of directors of the company. Finn Jakobsen is the CEO of the company. Jens Meinhard and Ata Maria are independent of the company and large shareholders and receive remuneration for their work on the board, but Árni Pétur receives no remuneration. Further details on employment terms will be provided in the report of the Board of Directors on the implementation of the Remuneration Policy in preparation for the annual general meeting of 2021. Further details of the operation of Magn are included in the Section on non-financial reporting.

Skeljungur acquired **Basko hf**, which owns and operates retail outlets, in September 2019. The organisation and governance of Basko were mapped in the course of the year, and the Chairman of the Board of Directors of Skeljungur took a temporary seat on the board in accordance with a decision of the Board, pending a decision on a future strategy for Basko. The Board of Directors of Skeljungur has made a decision to merge the operation of Basko with Skeljungur, with the effect that the company will not be operated as an independent business unit. The chairman of the board of directors is Jón Ásgeir Jóhannesson, Árni Pétur Jónsson, Skeljungur CEO, is a member of the board, and Ólafur Þór Jóhannesson, Skeljungur COO, is an alternate member. None of them receives remuneration for their service on the board of directors. Further details of the operation of Basko are included in the Section on non-financial reporting.

Both Magn and Basko are subject to Skeljungur's Remuneration Policy.

Barkur ehf. is an oil barge providing bunkering services in the Port of Reykjavík The chairman of the board of Barkur is Bragi Már Valgeirsson, and Már Erlingsson, Skeljungur's COO, is the managing director. Neither of them receives special remuneration for their positions held with Barkur. Further details of the operation of Barkur are included in the Section on non-financial reporting.

Bensínorkan ehf. has no current operations and its sole assets are the lot and pumps located at Austurströnd 7, Seltjarnarnes. The board of directors consist of only one member, Gróa Björg Baldvinsdóttir, Skeljungur's Chief Counsel, and Ólafur Þór Jóhannesson, Skeljungur's CFO, is the managing director. Neither of them receives special remuneration for their positions held with Bensínorkan. The Board of Directors of Skeljungur has made a decision to merge the operation of Bensínorkan with Skeljungur, with the effect that the company will not be operated as an independent business unit. See further information on Bensínorkan in the section on non-financial information.

Íslenska Vetnisfélagið ehf. operates hydrogen service stations. The chairman of the board of directors of Íslenska vetnisfélagið is Már Erlingsson, COO of Skeljungur; other members of the board are Martin Borum Pedersen, CFO of Nel Hydrogen A/S and Bergsteinn Hjörleifsson, Chief Technical Officer of Skeljungur. Bergsteinn is also the managing director of the company. None of them receive specific remuneration in respect of their positions at Íslenska vetnisfélagið. See further information on Íslenska Vetnisfélagið's operation in the section on non-financial information.

Tollvörugeymslan ehf. operates a customs warehouse and has a service agreement in place with Skeljungur. The board of directors consist of only one member, Gróa Björg Baldvinsdóttir, Skeljungur's Chief Counsel, and Már Erlingsson, Skeljungur's COO, is the managing director. Neither of them receives special remuneration for their positions held with Tollvörugeymslan. See further information about Tollvörugeymslan's operation in the section on non-financial information.

The ownership of **26 fasteign ehf. and Langholt ehf.** arises out of Skeljungur's acquisition of *Baulan*, a service centre in Borgarfjörður (West Iceland) in March 2020. The former company administers the real estate on the property, while the latter administers the retail operations. The boards of directors of both companies consist of only one member, Árni Pétur Jónsson, Skeljungur's CEO, and Ólafur Þór Jóhannesson, Skeljungur's CFO, is the managing director. Neither of them receives special remuneration for their positions held with the companies. The Board of Directors of Skeljungur has made a decision to merge the operation of 26 fasteign ehf. and Langholt ehf. with Skeljungur, with the effect that the company will not be operated as an independent business unit. See further information about the operation of the companies in the section on non-financial information.

6. Constitution

Skeljungur's Articles of Association do not provide for the election of a supervisory board, which under paragraph 3 of Article 73 of the Companies Act shall, if established, monitor the Board of Directors' and CEO's management of the Company's affairs and submit a recommendation to the Company's Annual General Meeting as to whether the annual financial statement should be approved and the proposals of the Board of Directors regarding the disposition of retained earnings accepted. No such committee has been established in the Company.

6.1. Board of Directors of Skeljungur hf.

Each year, Skeljungur elects five members to serve on the Board of Directors of the Company. According to article 24 of the Company's Articles of Association, the Board of Directors is the Company's supreme authority between shareholders' meetings and shall oversee all the affairs of the Company, take responsibility for them and ensure that the organisation and operation of the Company are at all times in good and proper order. Furthermore, the Board of Directors shall oversee that the Company's accounting and use the Company's funds are under proper control.

The principal elements of the work of the Board of Directors over the operating year is discussed in detail in Chapter 2 above.

6.2. Board performance evaluation

The Board of Directors reviewed and approved new rules of procedure during the course of its term, which can be accessed on the Company's website. The Board evaluates the performance of the Company as a whole each year, and also its own functions, composition, and practices, as well as the work of sub-committees and the performance of the CEO and other day-to-day management. The Board also evaluates the progress made by the Company regularly over the year to ensure that the progress is consistent with the Company's established goals. To this end, the Board of Directors conducted a detailed performance evaluation in 2020, administered by Helga Hlín Hákonardóttir, attorney at law and consultant at Strategía.

The Strategía consultant reviewed the conclusions of the evaluation with the Board of Directors at a Board meeting on 16 December 2020; managers were not present at the review. The Strategía consultant also reviewed the conclusions of the performance evaluation with the Company's Nomination Committee.

The main conclusions of the performance evaluation were that despite the challenging working environment, e.g. due to COVID-19 and the take-over bid made by Strengur hf., with which two Board members have relations, co-operation and procedures of the Board have been very good - and trust has been created in members' collaboration within the Board.

The results of the performance evaluation of the Board of Directors, sub-committees and CEO were in other respects as follows, together with the principal improvement projects that the Board agreed to undertake following the performance evaluation:

- The knowledge of individual Board members of the operation and operating environment of the Company is very good;
- Arrangements regarding stakeholders and joint interests are good;
    - Decision made to review the Code of Conduct of the Company, including provisions on stakeholders and safeguards against corruption and bribery;
    - Decision made to elaborate further and strengthen provisions of the Board of Directors' rules of procedure regarding independence and conflicts of interests and procedure in the event of potential conflicts of interests;
- The role and functions of the Board are very clear;
    - Decision to transfer the tasks of the Risk Committee the Audit Committee, CEO and the Risk Manager;
    - Decision made to focus on approving a new strategy and future vision for the Company;
- Division of labour within the Board of Directors and outside the Board good and clear
    - Decision made to discontinue the Risk Committee and transfer its role to the Audit Committee;

  - Decision made to continue the review of governance at the group level;
  - Decision made to prepare a job description for the CEO;
- The procedures of the Board of Directors are very good and in line with the rules of procedure;
  - Decision made to update the Board of Directors' Rules of procedure in general based on changes in procedures in governance;
  - Decision made to review the work programme of the Board of Directors;
  - Decision made to introduce a new information portal for the Board of Directors;
- Composition and collaboration of the Board of Directors very good;
  - Decision made to continue to emphasise confidence and trust in the co-operation within the Board of Directors.

6.3. Information concerning Board members

Board of Directors of Skeljungur hf.:

JÓN ÁSGEIR JÓHANNESSON, CHAIRMAN OF THE BOARD OF DIRECTORS, FIRST TOOK A SEAT ON THE BOARD IN 2019

Year of birth:	1968
Education:	Graduated from the Commercial college of Iceland (Verzlunarskóli Íslands).
Principal occupation:	Investor.
Professional Career:	Founder of Bónus, CEO and Chairman of Hagar and later Baugur Group. Extensive management experience, e.g. for Iceland foods and Magazin du Nord, as well as many other Icelandic companies. Independent investor and advisor.
Other positions of trust:	The chairman of the Board of Directors of Strengur hf. and Strengur Holding hf. Alternate member of the board of directors of 365 miðlar hf. and agent for Apogee ehf.
Holdings in Skeljungur:	365 hf. and other related companies own a 38% share in Strengur Holding ehf. Strengur Holding ehf. holds a 100% share in Strengur ehf. Strengur ehf. owns 969,152,089 shares in Skeljungur, which corresponds to a 48.81% share in Skeljungur, or 50.06% of the vote when shares held by the Company itself have been deducted. 365 hf. is owned by Jón Ásgeir's wife, Ingibjörg Pálmadóttir.
Posts for Skeljungur:	Chairman of the Board of Directors of Skeljungur and chairman of the board of directors of Basko retailers, a Skeljungur subsidiary. Chairman of Skeljungur's Remuneration Committee.
Relevant affiliations:	RES II ehf. holds 523,290 Shares in Skeljugur hf. RES II ehf. is related to Strengur hf. and Strengur Holding ehf. through board membership, as the same board member is a member of the board of Strengur hf., Strengur Holding ehf. and RES II ehf.

In the opinion of the Skeljungur Nomination Committee Jón Ásgeir Jóhannesson is independent of the Company and its day-to-day management, but not of large shareholders in the Company, according to the definition of independence in the ICC corporate governance guidelines.

BIRNA ÓSK EINARSDÓTTIR, VICE-CHAIRMAN OF THE BOARD OF DIRECTORS, FIRST TOOK A SEAT ON THE BOARD IN 2015

Year of birth:	1976
Education:	B.Sc. Business Administration, Reykjavík University, 2001, M.Sc. Strategic Management, University of Iceland, 2008, AMP (Advanced Management Program), IESE Business School, 2015.
Principal occupation:	Chief Commercial Officer at Icelandair.
Professional Career:	Various specialist and management roles at Síminn hf. since 2001, including the posts of public relations officer, EVP of recruitment, management consultant, EVP of project management and marketing, Head of consumer sales, EVP of product management and innovation, EVP of sales and services. EVP of Marketing and Business development at Landsvirkjun 2017-2018. EVP of Customer Experience, and prior to that strategic planning and business development for Icelandair 2018-2019.
Other positions of trust:	None.

Holdings in Skeljungur:	None.
Posts for Skeljungur:	Board functions and service on Skeljungur's Audit Committee.
Relevant affiliations:	None.

In the opinion of the Skeljungur Nomination Committee Birna Ósk Einarsdóttir is independent of the Company, its day-to-day management and large shareholders in the Company, according to the definition of independence in the ICC corporate governance guidelines.

ELÍN H. JÓNSDÓTTIR, BOARD MEMBER, FIRST TOOK A SEAT ON THE BOARD IN 2020

Year of birth:	1966
Education:	Cand. Jur. in law from the University of Iceland, 1993, LL.M. from Duke University in the U.S.A., 1996, and certification in securities trading, 2006. MBA from the Commercial College of Stockholm, 2018.
Principal occupation:	Dean of the Bifröst University School of Law.
Professional Career:	Lawyer at the Financial Supervisory Authority, 2001-2005. Managing director of the Arev Securities company, 2005-2009. Head of Icelandic State Financial Investments, 2010- 2012. Consultancy and directorships, 2012-2014. Managing director of Íslandsbanki's Assets management division in 2014-2017. Has served on a number of company boards, including as Chairman of the Board of Borgun 2018-2020 and as Charmain of the Board of Tryggingamiðstöðin hf. [insurance company] and Reginn hf. [real estate company] in 2012-2014.
Other positions of trust:	Vice Chairman of the Board of directors of Borgun hf. and Chairman of the Board of Directors of Arnrún íbúðarfélag hses., the building company of the Women's Shelter.
Holdings in Skeljungur:	None.
Posts for Skeljungur:	Board functions and service on Skeljungur's Remuneration Committee.
Relevant affiliations:	None.

In the opinion of the Skeljungur Nomination Committee Elín H. Jónsdóttir is independent of the Company, its day-to-day management and large shareholders in the Company, according to the definition of independence in the ICC corporate governance guidelines.

DAGNÝ HALLDÓRSDÓTTIR, BOARD MEMBER, FIRST TOOK A SEAT ON THE BOARD IN 2020

Year of birth:	1958
Education:	B.Sc. in electrical engineering, Washington State University, 1982, M.Sc. in electrical engineering, supplementary degree in computer sciences, University of Minnesota, 1984. Has attended numerous specialist courses in the course of the years in fields such as telecommunications, information technology, business operation and management, and passed the fit and proper assessment of the Financial Supervisory Authority for membership of the board of directors of ISB Holding.
Principal occupation:	Self-employed.
Professional Career:	Founder and Managing Director of Skíma hf., 1994-2000. Assistant Director of Íslandssími hf. (now Vodafone), 2000-2002. Assistant Director of Neyðarlínan ohf. (emergency call service), 2005-2011. Founder and managing director of DH Samskipti ehf. (FinTech), 2011-2017. Has served on a number of corporate committees, councils and boards of directors, including the board of Advania MobilePay ehf. (FinTech) 2017-2018, chairman of the board of ISB Holding ehf., 2013-2016 and vice-chairman 2011-2013,vice-chairman of the board of Kaffitár ehf. 2004-2014.
Other positions of trust:	None.
Holdings in Skeljungur:	None.
Posts for Skeljungur:	Board funtions, service on Skeljungur's Remuneration Committee and Audit Committee.
Relevant affiliations:	None.

In the opinion of the Skeljungur Nomination Committee Dagný Halldórsdóttir is independent of the Company, its day-to-day management and large shareholders in the Company, according to the definition of independence in the ICC corporate governance guidelines.

ÞÓRARINN ARNAR SÆVARSSON, BOARD MEMBER, FIRST TOOK A SEAT ON THE BOARD IN 2019

Year of birth:	1969
Education:	Licensed Real Estate Agent. Graduated from the Icelandic School of engineers (Vélskóli Íslands) and the Icelandic Ship Management School (Skipstjórnarskólinn), and flight training.
Principal occupation:	Chairman of the Board of Kaldalón hf., Certified Realtor, regional manager at RE/MAX Iceland.
Professional Career:	Fourteen years of experience in the fisheries sector. Near twenty years' experience in the real estate market relating to acquisition, sale and development of real estate. Investment projects in consulting firms, innovation companies and technology companies. Establishment of real estate chains, both in Iceland and abroad. Þórarinn and partners is a franchisee of RE/MAX Iceland, and a board member of that company. Owner of the company Loran ehf.
Other positions of trust:	Chairman of the Board of Directors of Kaldalón hf. and Fjölblendir ehf. On the board of directors of Remax Iceland, Loran ehf., RPF ehf., IREF ehf., Einbýli ehf., Strengur Holding ehf., Strengur hf., Steinsteypan ehf., Iceland Rent ehf. and Smárahvammur ehf.
Holdings in Skeljungur:	Þórarinn holds 100% of the shares in the company Loran ehf. Loran ehf. holds 50% of the shares in RPF ehf. RPF ehf. holds a 24% share in Strengur Holding ehf. which holds 100% of the shares in Strengur ehf. Strengur ehf. owns 969,152,089 shares in Skeljungur, which corresponds to a 48.81% share in Skeljungur, or 50.06% of the vote when shares held by the Company itself have been deducted.
Posts for Skeljungur:	Member of the Board of Directors of Skeljungur and Skeljungur's Nomination Committee.
Relevant affiliations:	RES II ehf. holds 523,290 Shares in Skeljugur hf. RES II ehf. is related to Strengur hf. and Strengur Holding ehf. through board membership, as the same board member is a member of the board of Strengur hf., Strengur Holding ehf. and RES II ehf.

In the opinion of the Skeljungur Nomination Committee Þórarinn Arnar Sævarsson is independent of the Company, and its day-to-day management, but not independent of large shareholders in the Company, according to the definition of independence in the ICC corporate governance guidelines.

6.4. Procedures of the Board of Directors

According to the rules of procedure of the Board of Directors, the Chairman of the Board is the spokesman for the Board and represents the Board in the affairs of the Company, e.g. vis-a-vis the CEO, employees and shareholders pursuant to further applicable rules. According to the newly approved Code of Conduct, the Company emphasises good relations with stakeholders, and for this purpose a communications plan will be set up as a framework for relations with the principal stakeholders, such as shareholders, customers, employees etc.

Formal relations between the Board and shareholders take place at shareholders' meetings. However, shareholders may at any time submit comments and questions to the Board by e-mailing stjorn@skeljungur.is, which is monitored by the Board's secretary, who notifies the Board of all suggestions or questions from shareholders; the Board of Directors then supervises responses to such suggestions and questions. Prior to the annual general meeting, the largest shareholders in the Company (shareholders holding 1% or more in the Company) are invited to attend a formal meeting with the Chairman and Vice-chairman of the Board of Directors. These meetings took place on 13 and 15 January 2021. The meetings were attended by a secretary, who summarised comments, recommendations and other matters that emerged at the meeting. The Board subsequently jointly reviewed comments.

Investors can at any time send comments and questions to the Board of Directors using the e-mail address fjarfestar@skeljungur.is. The CEO and CFO take delivery of e-mail messages sent to this address and communicate to the Board the messages that fall within the purview of the Board of Directors.

6.5. Meetings of the Board of Directors and minutes

Minutes of meetings of the Board are detailed and kept in compliance with guidelines on corporate governance. With the amendments made to the rules of procedure of the Board last year, additions were made to the provisions on registration of interests of Board members at meetings of the Board. In addition, it is now required that a declaration should be noted in all minutes from those attending the meetings regarding the qualification of the Board and CEO to discuss and address items on the agenda of the meeting. However, the secretary of the Board of Directors shall review the register of Board members' interests prior to calling meetings of the Board of Directors and making documents available in the Board's portal. In instances where there may be interests of Board members with links to items on the agenda of a meeting, the Board member in question leaves the meeting and has no access to documents relating to the matter until, as applicable, the matter has been closed as further decided by the Board of Directors.

The Board of Directors was qualified to make decisions at the meetings of the year in all matters except for two types of business. On the one hand, in the case of business involving Icelandair, Birna Ósk invariably left the meetings, did not participate in discussions or decisions, and had no access to documents regarding the business in question for reasons of her management position with Icelandair. On the other hand there were matters relating to the report of the independent Board members relating to the take-over bid made by Strengur hf. to Skeljungur's shareholders, as Jón Ásgeir Jóhannesson and Þórarinn Arnar Sævarsson had interests in the matter in the understanding of paragraph 6 of Article 104 of the Act on securities transactions. They did not participate in the writing of the Board's report, had no access to documents and invariably left the meetings when those matters were on the agenda.

The number of meetings and attendance by Board members and members of sub-committees at meetings over the operating year were as follows:

- The Board held 21 meetings from the annual general meeting of 2020 up to and including 4 February 2021, when the annual financial statement of the Company was approved. All the meetings were fully attended except for one.
- Skeljungur's Audit Committee met 9 times from its appointment after the annual general meeting of 2020 up to and including 4 February 2021. All the meetings were fully attended.
- Skeljungur's Remuneration Committee met 5 times from its appointment after the annual general meeting of 2020 up to and including 4 February 2021. All the meetings were fully attended.
- Skeljungur's Risk Committee met 7 times as of 28 January until the tasks of the Risk Committee were transferred to the Audit Committee, CEO and the Risk Manager, with the new Risk Policy and rules of procedure of the Audit Committee approved by the Board of Directors in January 2021. All the meetings were fully attended. As revealed in Section 6.6.4, the committee did not in fact operate as a sub-committee of the Board of Directors, as it was composed of employees of the Company rather than Board members. For obvious reasons, therefore, no account is provided of Board members' attendance of those meetings in the table below.

The table below shows the attendance at meetings of the Board of Directors and committees.

Board Member	Period	Board of Directors	Audit Committee	Remuneration Committee
Jón Ásgeir Jóhannesson	5.3.2020-4.2.2021	21		5
Birna Ósk Einarsdóttir	5.3.2020-4.2.2022	20	9	
Dagný Halldórsdóttir	5.3.2020-4.2.2023	21	9	5
Elín H Jónsdóttir	5.3.2020-4.2.2024	21		5
Þórarinn Arnar Sævarsson	5.3.2020-4.2.2025	21		

6.6. Sub-committees:

Three sub-committees of the Board of Directors functioned in the past year of operation, in addition to the Nomination Committee, which is a sub-committees of shareholders.

6.6.1. Nomination Committee

The role of the Nomination Committee is to nominate candidates for Skeljungur's Board of Directors. According to its rules of procedure its aim is to establish a transparent and clear procedure for the nomination of Board members at the Company´s Annual General Meeting. The procedure is intended to enable shareholders to make a more informed decision regarding the election of candidates to the Board of Directors. Two external and independent persons, one with experience of recruitment and the other versed in the law, shall be elected annually at the AGM to serve on the committee for a term of one year. The third committee member is nominated by the Board of Directors.

At the AGM 2020 shareholders elected the following candidates to the committee: Katrín S. Ólafsdóttr, CEO of Hagvangur, and Sigurður Kári Árnason, Head of Legal Affairs at the Icelandic Ministry of Health. The Board of Skeljungur appointed Þórarinn Arnar Sævarsson, Board member, to serve on the committee. Katrín and Sigurður are both independent of the Company, its day-to-day management and large shareholders in the Company, according to the definition of independence in the ICC corporate governance guidelines. Þórarinn, on the other hand, as the owner of companies holding shares in Skeljungur, has interests and is therefore dependent on large shareholders, in the understanding of the cited guidelines.

At the first meeting of the committee, Sigurður Kári was elected as the chairman of the committee. At the time of confirmation of this Corporate Governance Statement, the committee has met eight times in order to prepare a proposal for the Annual General Meeting in 2020, normally without the presence of the Board member, depending on the matters to be addressed at the meetings. All meetings were fully attended by the external members, but for obvious reasons, the member appointed by the Board attended only two meetings. Attention is drawn to the amendments of the rules of procedure of the Nomination Committee approved at the 2020 annual general meeting of the Company, with the amendments providing for significantly reduced involvement of the Board Member in the Nomination Committee. The objective of these changes was to emphasise the independence of the committee in its work. The committee has met both with members of the Board of Directors of the Company, the CEO and shareholders and candidates. The rules of procedure of the committee can be accessed on Skeljungur's website.[4]

6.6.2. Audit Committee

The Audit Committee is a subcommittee of the Board of Directors of Skeljungur and is, as such, appointed by the Board for a term of one year at the first Board meeting following the AGM. According to its rules of procedure, its objective is to seek to ensure the quality of financial statements and other financial information, and the independence of auditors. The Audit Committee is required to function in accordance with Icelandic laws and regulations and good corporate governance.

The functions of the Audit Committee are the following:

a) supervision of work processes in the preparation of financial statements;
b) supervision of the arrangement and effectiveness of the Company's internal control and other supervisory functions;
c) supervision of the auditing of the annual financial statement and consolidated financial statement;
d) submission of a recommendation to the Board of Directors on the choice of auditor or auditing firm;
e) assessment of the independence of the auditors or auditing firm and supervision of other tasks of the auditors or auditing firm.

The Audit Committee is also responsible for reviewing and assessing the quality of financial information and the arrangement of reporting information by management and auditors. The committee annually reviews the Auditor's report on his/her work and independence and material matters that have emerged in the course of the audit. The Committee shall also follow up on the implementation of the recommendations contained in the auditor's report.

The Audit Committee also reviews the Risk Policy, risk appetite, risk criteria and the organisation and effectiveness of risk management in accordance with the Company's Risk Policy and submits recommendations to the Board of Directors regarding changes, where warranted.

[4] http://www.skeljungur.is/um-skeljung/stjornarhaettir/stefnur-og-reglur/

In the operating year of 2020-2021, the committee was composed of the Board members Birna Ósk Einarsdóttir and Dagný Halldórsdóttir. Sigrún Guðmundsdóttir, certified public accountant, also served on the committee. Birna Ósk was elected chairman of the committee. They are all independent of the Company, its day-to-day management and large shareholders in the Company, as well as the Company's auditors. The committee met nine times, in addition to meetings with the Board, with all meetings fully attended. The committee also met with the Company's external auditors and the Chief Financial Officer. The rules of procedure of the committee can be accessed on Skeljungur's website.[5]

6.6.3. Remuneration Committee

The Remuneration Committee is also a subcommittee of the Board of Directors of Skeljungur and is, as such, appointed by the Board for a term of one year at the first Board meeting following the AGM. According to its rules of procedure, the committee's aim is to increase efficiency, establish clear procedures and improve the governance of the Board of Directors regarding remuneration matters in the Company.

The functions of the Remuneration Committee are the following:

- Review of the Remuneration Policy;
- Preparation of reports and proposals to the AGM regarding the Remuneration Policy;
- Conclusion of contracts with the CEO and other management that reports to the Board;
- Monitoring of the implementation of, and deviations from, the Remuneration Policy;
- Risk management in relation employment terms;
- Evaluation of own work;
- Review of workplace analyses.

In the operating year of 2020-2021 the committee was composed of Dagný Halldórsdóttir, Jón Ásgeir Jóhannesson and Elín Jónsdóttir, Board members. Dagný and Elín are both independent of the Company, its day-to-day management and major shareholders. Jón Ásgeir is independent of the Company and its day-to-day management, but not its major shareholders. Jón Ásgeir was elected chairman of the committee. The committee met five times over the year, in addition to meetings and communications with other parties. All the meetings of the committee were fully attended. The rules of procedure of the committee can be accessed on Skeljungur's website.[6]

6.6.4. Risk Committee

The Risk Committee is a sub-committee, but does not in fact function as a sub-committee of the Board of Directors of Skeljungur, as it is composed of the CEO, CFO, COO and HSEQ manager. According to the rules of procedure of the committee its primary function is to verify the effectiveness of risk management within the Company. The meetings of the committee constitute a forum for discussion of matters relating to risks faced by the Company and their trends.

Seven meetings were held in the last operating year. Discussions revolved around defined risk factors and the individual divisions provided the committee with information relating to risk. All the meetings of the committee were fully attended.

The tasks of the Risk Committee were entrusted to the Audit Committee, CEO and Risk Manager, as recounted above, concurrently with the approval of a new Risk Policy and a review of the rules of procedure of the Audit Committee.

6.7. Executive Board:

The CEO has charge of the day-to-day operation of the Company, and in this respect he or she shall observe policy and instructions of the Board of Directors. The role, responsibility and authority of the CEO is further specified in the job description approved by the CEO and the Board of Directors in January 2021.

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[5] See link above.

[6] See link above.

Árni Pétur Jónsson, CEO, b. in 1966. Árni was hired on August 2019 as CEO of the Company. Árni is a member of the boards of directors of the companies Hái Klettur ehf. and Hlíðarendi ses., and an alternate member of the board of directors of Ippon ehf. He also holds board positions in Skeljungur's subsidiaries and associated companies. As for other positions of trust, Árni sits on the board of Hái Klettur ehf., is the chairman of the board of Valur Football Club and sits on the board of Hlíðarendi ses. In addition, Árni is an alternate on the board of Ippon ehf. Árni has a Cand. Oecon degree from the University of Iceland. Earlier, Árni was CEO of Tíu Ellefu (10/11), Iceland and Basko. Prior to that he was CEO of Vodafone and Teymi hf. and managing director at Olís and Hagar. Árni owns no shares in the Company. As for other The Company has made no stock option contract with him. He has no affiliations with the Company´s principal customers, competitors or shareholders holding more than a 10% share in the Company.

Skeljungur's Executive Board meets on a weekly basis. Further information on the members of the Company's Executive Board:

Már Erlingsson, Vice-CEO and COO, b. 1969. Már was appointed to the executive Board of Skeljungur in June 2009, but had been working for the Company since 2006, first as Chief Procurement Executive and currently as Vice-CEO and COO. Már holds other positions of trust within the Company as board member in the Company's subsidiaries. Már has a M.Sc. degree in engineering from DTU in Copenhagen. Previously, Már was mayor of the municipality of Tálknafjörður in East Iceland. Már owns no shares in the Company. The Company has made no stock option contract with him. Már has no affiliations with the Company´s principal customers, competitors or shareholders holding more than a 10% share in the Company.

Gróa Björg Baldvinsdóttir, Head of legal and Compliance at Skeljungur, b. 1985. Gróa was appointed to the executive Board of Skeljungur in November 2019, but had been employed at Skeljungur since 2017 as General Counsel and deputy Compliance Officer. Gróa holds other positions of trust within the Company as board member in the Company's subsidiaries. Gróa has a BA and MA degree in law from Reykjavík University and a licence to practice law before the district courts. Earlier, Gróa worked as a District Court Attorney at Landslög law firm (2011-2017). Gróa owns no shares in the Company. The Company has made no stock option contract with her. Gróa has no affiliations with the Company´s principal customers, competitors or shareholders holding more than a 10% share in the Company.

Karen Rúnarsdóttir, Head of Consumer Sales, b. 1974. Karen was appointed to Skeljungur's Executive Board in September 2020. Karen holds other positions of trust within the Company as board member in the Company's subsidiaries. Karen holds a B.Sc. degree in business administration. She previously worked as head of digital solutions and marketing at Lyfja [pharmaceutical company], 2019-2020. Karen's work has included positions as head of marketing at the Krónan food market chain 2015-2019, managing director of Zara in Iceland, 2002-2006, and with Íslandsbanki, 2006-2015. The Company has made no stock option contract with Karen. Karen has no affiliations with the Company´s principal customers, competitors or shareholders holding more than a 10% share in the Company.

Ólafur Þór Jóhannesson, Chief Financial Officer, b. 1972. Ólafur was appointed to Skeljungur's Executive Board in November 2019 when he was hired by the Company. Ólafur holds other positions of trust within the Company as board member in the Company's subsidiaries. Ólafur holds a Cand. Oecon degree in business from the University of Iceland and is a certified public accountant. Ólafur has been an independent consultant since 2018, in addition to serving on various company boards. Prior to that he held the position of CFO and Vice-CEO of Basko ehf., from 2012-2018. Ólafur was the CEO of Miðengi ehf. in 2010-2012. Ólafur owns no shares in the Company. The Company has made no stock option contract with him. Ólafur has no affiliations with the Company´s principal customers, competitors or shareholders holding more than a 10% share in the Company.

Þórður Guðjónsson, CSO, b. 1973. Þórður was appointed to Skeljungur's Executive Board in October 2017 when he was hired by the Company. Þórður holds a B.Sc. degree in business from Bifröst University and has a diploma in coaching. Previously, Þórður was head of business management and sales to customers at Síminn, from 2014. Þórður owns no shares in the Company. The Company has made no stock option contract with him. Þórður has no affiliations with the Company´s principal customers, competitors or shareholders holding more than a 10% share in the Company.

7. Social responsibility and Skeljungur's Code of Conduct

The Board of Directors of Skeljungur has established a corporate social responsibility policy for the Company. The Policy concerns Skeljungur's principal stakeholders, who include society as a whole, the environment, partners and suppliers, customers and Skeljungur's own human resources. By establishing its policy on corporate responsibility Skeljungur is expressing its desire to show responsibility as a participant in society and promote a more healthy economy.

The Board of Directors has also adopted a Code of Conduct as a further guideline for relations with stakeholders for use in the day-to-day operations of the Company and companies in which Skeljungur controls a 50% share or more. The Code of Conduct will be presented to employees, and may be modified following the presentation.

The purpose of the Code of Conduct is to ensure that the Company's business is conducted with integrity and that the reputation of the Company, employees and stakeholders is held in respect. The Company's stakeholders are defined and the Code entails promises concerning social responsibility, human rights, the environment, sustainable development and employees. The Code also addresses integrity in business in various forms, competition, insider trading, safeguarding of confidential information and personal privacy, safeguarding of assets and data and communications and disclosure of information.

The Code also provides for responses and processes when employees have reason to suspect that the laws, Code of Conduct, policies, rules or current guidelines on governance in Skeljungur have been violated.

Skeljungur's internal policies will be reviewed in the light of the new Code of Conduct this year for purposes of harmonisation and in the light of the new strategy and future vision. The Group's corporate governance is also being reviewed with outside consultants, and this includes, among other things, a demarcation of the scope of individual policies at the group level.

8. Policy on diversity

From the Company´s perspective, diversity of skills and viewpoints of Board members and management will result in a better understanding of the Company and its affairs. Diversity enables the Board and management to challenge conventional opinions and decisions and facilitates the introduction and implementation of innovative ideas. Diversity also widens management horizons, thereby supporting the successful management of the Company.

Skeljungur has not established an independent written policy on diversity, but the above viewpoints are reflected in various ways in the Company's procedures and policies. To give an example, a Nomination Committee has been appointed which has among its objectives to ensure that the Board commands a wide range of skills, experience and knowledge. Furthermore, the Company´s Personnel Policy provides for means for the Company to implement diversity in its business activities. The rules of procedure of the Board of Directors also provide for a performance evaluation which extends, among other things, to the composition of the Board; and in December 2020 the Board carried out a detailed performance evaluation, which included a review of its composition. See further how the Company supports diversity in the section on non-financial information in the annual financial report.

9. Decisions and judgments that concern Skeljungur

Over the past five years, the Company has been involved in three judicial and administrative decisions:

On 15 December 2020, the Data Protection Authority issued a ruling in Case no. 2020010702 to the effect that Skeljungur's handling of an electronic mail box at the end of employment with the Company had not been in compliance with Act No. 90/2018 on personal privacy and the processing of personal data and Rules No. 837/2006 on electronic surveillance.[7]

[7] https://www.personuvernd.is/urlausnir/medferd-skeljungs-hf.-a-tolvupostholfi-starfsmanns-vid-starfslok

On 4 February 2016 a final judgment was passed by the Supreme Court in Case No. 272/2015, initiated by the competition authorities against the oil companies, relating to an alleged violation of the Competition Act in the years before 2001.[8]

In the Consumer Agency's decision no. 45/2015 Skeljungur's advertisement of its Orkulykill (tag for fuel purchases) was found to be in violation of Act no. 57/2005 on the surveillance of unfair business practices and market transparency.[9]

So approved by the Board of Directors of Skeljungur hf. on 4 February 2021

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[8] https://www.haestirettur.is/default.aspx?pageid=347c3bb1-8926-11e5-80c6-005056bc6a40&id=7a62d4ca-e42a-4d48-83c3-32168652d129

[9] http://www.neytendastofa.is/library/Files/Neytendarettarsvid/akvardanir/%C3%81kv2015_45.pdf

I. Diligence Procedures

Skeljungur defines its goals and approach to corporate social responsibility on the international standard ISO 26000, guidance on social responsibility.

Policies and rules presented in this disclosure have been approved by the Board of Skeljungur.

Non-financial information is collected from Skeljungur's registration systems. The head of each department within the Company must record all deviations that occur in their operations, for example, accidents, damage, bullying, harassment, tips and complaints. The information is then collected at the beginning of each year by the responsible parties for each issue across the Company. These parties include the chief quality and security officer, chief operational officer, human resource manager, general counsel, chief purchasing officer, chief distribution officer, and the marketing manager. The parties responsible for the issues are also members of the Corporate Social Responsibility Committee. Information and data concerning Skeljungur's subsidiaries are also requested from the responsible contact/heads of that Company. Once the information is complete, this document is reviewed and verified by the Risk Committee and the Board of Directors of Skeljungur to the best of its ability.

Statistics relating to non-financial information in 2020 were compiled in co-operation with Klappir Core. Klappir's environmental software is used to ensure traceability, transparency and efficiency in collecting and communicating information relating to environmental matters. Information regarding fuel consumption, electricity consumption, and use of hot and cold water is gathered automatically. The origin of the data is traceable from the supplier to Klappir Core.

The key performance indicators that Klappir Core applies reflect the EU guidance that Nasdaq Iceland and Nasdaq Nordic issued in March 2017. The guidance is based on recommendations from the United Nations' Sustainable Stock Exchange Initiative and the World Federation of Exchange. Reference is also made to the criteria of the GRI Standard (Global Reporting Initiative, GRI100-400) and the Reporting Principles, P1-10, of the United Nation Global Compact, UNGC.

Further information and key performance indicators are included in Skeljungur's Corporate Social Responsibility Report, which is accessible on Skeljungur's website.

II. Skeljungur's business model

Skeljungur is a diversified energy Company. Its main aspiration, according to its Articles of Association, consists of the importation, sale and distribution of fuel for transportation and machinery, in addition to lubricants, chemical products, fertilizer and trade in various other commodities, both in retail and wholesale. In addition, the Company's business consists of credit activities, operation of real estate, vessels, service stations, and other activities or involvement in accordance with decisions made by the Board of Directors.

The Company operates in two geographical markets: in Iceland and the Faroe Islands. This overview of non-financial information applies mainly to the Company's Icelandic operations, as policies and non-financial key performance indicators have not been streamlined between Iceland and the Faroe Islands, but work is on-going to review Skeljungur´s governance on a consolidated basis.

Skeljungur owns nine subsidiaries: P/F Magn and P/F Demich, which operates in the Faroe Islands, Baskó, Tollvörugeymsla Skeljungs ehf., Barkur ehf., Íslenska vetnisfélagið ehf. and Bensínorkan ehf. Bensínorkan ehf., 26 fasteign ehf. and Langholt ehf.

Skeljungur's business enterprises can be divided into five main categories:

- Energy sources: hydrogen, methane, fossil fuel, oil, and related products
- Real estate, depots and distribution
- Retail operations
- Real-estate leasing
- Other product offerings

Skeljungur: Skeljungur distributes fuel to companies that do not have the opportunity to access fuel at our service stations, e.g. to the fishing industry, airlines and to contractors on-site. Skeljungur's customers can rely on the Company's 90 years of experience in delivering fuel quickly and safely.

Skeljungur operates 65 fuel stations under Orkan's brand in Iceland, including ten multi-energy stations which, in addition to fossil fuels, sell hydrogen, methane or electric charge for vehicles. Orkan has been a leading force in the Icelandic fuel market when it comes to low prices, since the establishment of Orkan in 1994. At Orkan there are three low price no-frills stations, where customers are offered the lowest fuel price in the country unconditionally, which means that no discount tag, membership card or any other system of loyalty is needed to enjoy the benefits. These low price no-frills Orkan stations are currently located on Dalvegur, Reykjavíkurvegur and Mýrarvegur, Akureyri. Orkan stations are located all around the country, thus ensuring Orkan´s tag-holders a low price around the country.

The Orkan tag provides a gradual discount on the quantity purchased. Orkan's customers can also contribute to various charities and sports clubs every time they buy fuel by linking their Orkan tag to that cause. Orkan´s environmentally minded customers can use part of their discounts to offset their fuel purchases with the Orkan tag through the Wetlands Fund, with Skeljungur being the first Icelandic oil company to offer the option to directly offset the fuel purchases at the pump.

Skeljungur also operates four depots and the Company has its own distribution system.

Basko: Basko operates 12 Kvikk stores at Orkan's gas stations as well as three 10-11 stores, one store under the name Kvosin, as well as three Extra stores one in Barónstígur on at Akureyri, and another in Keflavík. Extra is a new concept where the focus is on providing Costco products. At any given time Extra offers at least twenty Costco products at Costco prices. In total, Basko has 19 convenience stores that emphasize good location, good access, long opening hours, and a product selection that is tailored to the needs of those who are on the go and want or need to grab something quick. The stores in Akureyri and in Keflavik are larger in square meters and the product selection is much broader. Both stores are very well located and open around the clock.

Skeljungur acquired all of Basko's share capital at the end of November 2019. Work on implementing Skeljungur's policies and rules in Basko's operations are well on their way. Skeljungur's Board of Directors has decided to merge Basko's operation with Skeljungur, which means that the company will not be operated as an independent business unit, see further clarification In the Company's Corporate Governance Statement.

P/F Magn: Magn distributes fuel to companies, fishing industry and to contractors on-site. Magn also operates 11 retail stores and gas stations across the Faroe Islands, emphasizing good service and a wide range of products on offer. Magn is leading in the Faroe Islands in the sale of fuel for residential heating. In the Faroe Islands, the vast majority of real estate is heated with oil. Magn offers a full range of services to homes and businesses, where customers only need to register at Magn to keep their houses warm, without any further action required. Following Magn's acquisition of the company P / F Demich, which specializes in environmentally friendly central heating solutions, Magn will be able to offer complete solutions in the field of central heating, regardless of which energy source the customer chooses. Magn also operates two supply depots. Magn operates with high level standards and is certified according to ISO 9001 for Quality Management, ISO 14001 for Environmental Management and OHSAS 18001 for Occupational Health and Safety. In addition, the Company complies with ISO 27001 as regards information security management. All the international management standards are certified by independent certification bodies and audited once or twice a year. The Company has also obtained Achilles, FPAL and EPIM qualifications, which is renewed regularly, thereby meeting fundamental quality and safety requirements that international companies in the oil industry impose on their partners. The company is under audit by DNV GL every year. The company is unique for having all its oil depots classified as having an environmental certification by the Faroese National Environment Agency.

Magn is also leading in the transition to green energy with the strategic decision to supply renewable energy. The company has secured the license to build and operate a wind farm in Flatnahagi, Faroe Islands, representing a maximum of 64 GWh annually. The energy produced will be sold to SEV, electricity company owned by municipalities.

The subsidiaries **Tollvörugeymsla Skeljungs ehf.** (customs warehouse for oil storage), **Barkur ehf.** (oil barge to service vessels), **Íslenska vetnisfélagið ehf.** (hydrogen station) are operating under the same high-level standards and policies as Skeljungur ehf.

Barkur: Barkur ehf. is an oil barge for bunkering service in the port of Reykjavík. Barkur is equipped with powerful pumping equipment that will enable Skeljungur to service customers even better with faster and safer fuel delivery. Barkur is a very convenient bunkering, flexible and offers the possibility to serve ships at the same time as landing or loading which speeds up all service.

Over the year 2020, the oil barge delivery business model has been proven with a combination of financial returns and a reduction of the GHG emissions through the significant decrease of just under 520 oil tank truck trips around the capital. The total number of oil deliveries by tank trucks was 28.365 in 2020.

Barkur has an ISM certification. ISM stands for "International safety management code" an international standard for safe ship management and pollution prevention. The standard is published by the International Maritime Organization (IMO). The standard is in thirteen sections. Barkur also has ISO 9001 quality management system certification, ISO 14001 certification for environmental management system, and ISO 45001 certification for health and safety at the workplace.

Íslenska vetnisfélagið: Íslenska Vetnisfélagið ehf. is a venture relating to participation in the Hydrogen Mobility Europe 2 programme run by the EU. Íslenska vetnisfélagið operates three hydrogen service stations. The activity of Íslenska vetnisfélagið ehf has been low due to necessary maintenance work and security upgrades. More information on the Vetnis project can be found under the section on CSR/community.

Tollvörugeymslan: Tollvörugeymsla skeljungs ehf. operates a customs warehouse and has a service agreement in place with Skeljungur. The company has no operations and owns no assets.

Bensínorkan: Bensínorkan ehf. has no current operations and its sole assets are the lot and pumps located at Austurströnd 7, in Seltjarnarnes and a lot at Strandgata 15 in Neskaupstaður (East Iceland).

26 fasteign ehf. and Langholt ehf: Are real estate companies related to Skeljungur´s acquisition of Baulan Service Center in Borgarfjörður, Skeljungur acquired the companies in March 2020. 26 Fasteign keeps track of real estate on the plot, but the latter of business operations. The operations are being reviewed and work on imlementing policies and rules are well on their way.

Skeljungur's role is to meet the energy needs of individuals and enterprises in an efficient and secure manner in harmony with the environment. Skeljungur's main objective is to maximize customer value and convenience through services provided by satisfied employees, where safety and progress are key factors. Skeljungur serves over 60 thousand customers, individuals and enterprises alike.

Skeljungur's values are:

- **Reliability**: Our service is reliable, and we earn trust through integrity and quality. We emphasize the safety of people and the environment.
- **Efficiency**: Efficiency and prudence characterise all our operations. We are continuously working on improving and creating customer value.
- **Drive:** We are driven by initiative, and we are unafraid of experimenting. We work together to secure Skeljungur's leadership.

Review of the markets and trends

The Company is mainly operating in the energy sector and is facing two challenges. On the one hand satisfying the growing energy needs fuelled by the strong Icelandic economic growth, dynamism of the tourism and the fishing industries. On the other hand the Company is committed to contributing to the path of decarbonization, in accordance with the decision taken in COP, Paris 2015.

Thus, the Company's business model is influenced by five factors :

- **the political and legal factors:** new laws and regulations and changes in the competitive landscape such as additional taxes, and new standards,
- **the environmental factors:** effects of climate change, for example focusing on decreasing GHG emissions,
- **the economics factors:** such as the shift to renewable energy, or tourism. COVID-19 had a huge impact on society as a whole in 2020, particularly on tourism, and thereby on Skeljungur's operations. The hope is that the tourist sector will recover and gradually regain its strength in 2021,
- **the social factors:** demographic trends with the influx of new consumers and their behaviour, i.e. their need for simplicity and speed. This factor is particularly relevant for the retail operations facing an increase of on-line food purchases, or the consideration of factors beyond price (e.g. experience, sustainability) and sharing economy,
- **the technological factors:** alternative energy sources, digitalization.

III. Principal operational risks

Operational Risks

The principal risks in Skeljungur's operations relating to environmental, social, and human resource matters, concern safety and the environment.

The principal products that Skeljungur trades in derive from fossil fuel. The reception, storage, distribution and sale of fossil fuels entails a risk of fire, traffic, environmental, and pollution accidents. Skeljungur responds to this risk through the use of a quality control system, under which these risk factors are analysed, and procedures devised based on best practice with the objective of reducing risk.

Among the processes used to carry out risk management are the ambitious training courses for new employees who work in our depots and in distribution. An instructional video is also used to review the most common work processes. Fire and first aid courses are held annually. Inventory and distribution staff attend a security meeting three mornings a week. The security meetings cover safety, driving, and weather conditions. All accidents are discussed at a meeting the very next morning, so colleagues are informed of what happened and a discussion takes place on how to prevent a similar accident from happening again.

Skeljungur also has policies in place on risk management, the environment, safety, and quality, in order to respond to these risks.

External risks

In addition to the internal operational risks, the Company is exposed to a broad range of external and strategic risks in relation to environmental, social, employment, human rights, and anti-corruption/bribery matters. These risks may impact the Company directly or its supply chain.

International Trade	
Main risk events	Political and social instability in countries where the fuel is produced can threaten delivery security.
Mitigating measures	Good flow of information, collaboration and communication.

Evolution in Legislation	
Main risk events	Possible changes in legislation and regulations that are relevant to the Company's domestic and international operations, with potential impact on corporate profitability.
Mitigating measures	Monitoring legislative and regulatory framework evolution in order to simplify/mitigate impacts on business and enable the Company to respond swiftly and confidently.

Climate Change	
Main risk events	Possibility of change in scenario/climate conditions which may generate physical risks (extreme weather events, floods, rising sea level, increased volcanic activity) and connected to energy transition (legislative, market, technological and reputational risks) on the Company's businesses in the short, medium and long term.
Mitigating measures	Supply of environmentally friendly energy sources. Commitment into carbon footprint offset actions. Diversification regarding the development of alternative energy sources. Enhanced employee knowledge and training in the Company's risk, environment, security, and quality policies.

Pandemics and natural disasters	
Main risk events	External environmental and social factors, such as pandemics and natural disasters, which may impact the operation and performance of the Company.
Mitigating measures	Preventive measures and contingency plans, employee training, insurance and alternative distribution channels.

Stakeholders	
Main risk events	Breakdown in relationships/communications with local and international stakeholders, litigation, and consequences to the brand.

Mitigating measures	Establishment of an internal policy on social responsibility based on honest communication and dialogue transparency.

Technology	
Main risk events	General technological breakthroughs, e.g., in renewable sources of energy for vehicles and ships.
Mitigating measures	Development of general technical developments, e.g., multi-energy refill stations.

Energy transition	
Main risk events	Fossil fuel is on its way out and since sales of fossil fuels are currently the Company's principal source of revenue, this trend represents one of the Company's main external risks.
Mitigating measures	Monitor closely the trends and knowledge in the energy market and increase the diversity of the Company's revenue sources.

Risk Management

During the year, a special risk committee was operating. The Committee serves as a forum for the discussion of risk-related matters, where risk is analysed, and conclusions are reviewed. The Risk committee considers all types of risk, including environmental, social, human resource, human rights and anti-corruption and bribery. The Committee meets at least quarterly and discusses the principal risk factors that have been analysed, and their possible responses. Management and employees appear before the Committee to report on the risk factors for which the committee is responsible. The Committee submits an annual report to Skeljungur's Audit Committee. During the year, the tasks of the Risk Committee were transferred to the audit committee as well as the CEO, Executives and Risk Manager with the approval of a new risk policy and audit policy.

Skeljungur systematically manages its business operations based on a quality control system, that includes a quality manual, and a risk analysis of work and procedures. The system is intended to ensure that the goals laid down in Skeljungur's policies will be achieved, that all undertakings of the Company and services that the Company provides meet stakeholder quality requirements and expectations at all times, decreasing the possibility of incidents that could have a negative effect on the Company´s image, finance, health, safety and environment.

Risk Management Policy

This policy on risk and risk management is established by the Board of Directors of the Company.

The policy describes the framework for Skeljungur's risk management. The aim is to manage risk in an efficient manner and ensure awareness of risk management, and its transparency, at all levels, from the Board of Directors down to individual employees.

The Policy in full length is accessible on Skeljungur´s Website.

Quality Policy

Skeljungur's goal is that all undertakings of the Company and services that the Company provides meet stakeholder quality requirements and expectations at all times. Skeljungur seeks to ensure that its customers receive safe, professional and efficient services.

To ensure that Skeljungur achieves its goals regarding quality the Company will observe a quality system that will:

- promote achievement of the goals set out in Skeljungur's policies
- include planned procedures that reflect the Company's operations and ensure a smooth work flow
- ensure responses to deviations and continuous improvement
- comply with requirements of law and regulations
- fulfil requirements regarding internal and external audits
- ensure that the Company always has well educated and trained staff with expertise, skills, ambition and initiative in their work
- promote satisfaction and well-being among employees, giving them an opportunity to adopt new skills and new methods to communicate information and knowledge

This policy shall be accessible on Skeljungur's website.

Skeljungur set a goal for the year 2020 of obtaining five operating units certified according to ISO 9001 in addition to the certification of Örfirisey. The goal was achieved. In addition, the environmental management system also received certification for five operational units based on the ISO 14001 environmental standard.

In 2020, the Skeljungur's Quality Management System received certification on five operating units according to the ISO 9001 standard. The operating units that share the certification are fuel distribution in Vestmannaeyjar, Akureyri, Eskifjordur and Ísafjörður. The oil supply station in Örfirisey received the certification in 2019 and was re-certified in December 2020. The ISO 9001 standard contains basic requirements for quality systems.

In 2020, Skeljungur also received an environmental management system of five operational units certified based on the international environmental standard ISO 14001. The operating units are fuel distribution in Örfirisey, Vestmannaeyjar, Akureyri, Eskifjordur and Ísafjörður.

Most of the operations of Skeljungur's business units have been entered in the quality manual, including operations, oil supply stations, distribution, sales and human resources.

Crisis management plan in response to pandemics and natural disasters

Skeljungur has implemented a crisis management plan in response to pandemics and natural disasters. The plan assists the Skeljungur management team in responding to and dealing with consequences of pandemics and global natural disasters that would threaten lives, assets, or the environment. This plan defines a scheme and execution of actions that Skeljungur will respond to when crises defined by the Department of Civil Protection and Emergency Management occur. The plan defines roles and responsibilities of the management team, and provide guidelines for the emergency responses that may need to be implemented at various stages. The Company's operations may be restricted in times of crisis, and part of the workforce may not be able to come to work for various reasons, such as natural disasters, confinement to bed, or temporary quarantine. The goal of this plan is to guarantee rapid and prompt responses from management when crises occur whether they are local or national, so as to guarantee employee safety, maintain basic company operations, and minimize fallout. The following will be implemented:

- Define key actors and their alternates.
- Define important actors and their surrogates.
- Define actors that are responsible for the plan.
- Guarantee employee safety with regards to the crisis that occurs.
- Guarantee uninterrupted company operations with regards to the threat level defined by the Department of Civil Protection and Emergency Management.
- Define how to guarantee basic operations for public interest.
- Ensure correct responses according to requests due to public safety from the Office of the Chief of Police.
- Keep employees well informed and provide essential instructions.

The threat levels are:

1. **Uncertainty Phase** – Be prepared
2. **Alert Phase** – Increased threat
3. **Emergency/Distress Phase** – Situation is dire

At each threat level a defined response is activated in accordance with requests due to public safety from the Office of the Chief of Police. Uninterrupted operations are guaranteed with a plan of action that is defined for each department and implemented at each stage. A special emergency plan is in place for the distribution of fuel in the event that fuel needs to be distributed between quarantine zones in order to maintain fuel accessibility in all parts of the country. The response to Covid-19 were, and still are, in accordance with "Crisis Management Plan in response to pandemics and natural disasters" VER-0033, which is the responsibility of, and owned by, the CEO of the Company.

The plan was very well implemented and followed in 2020, and no group infections occurred within our ranks. Employees have managed to adapt to changes in their work environments, and have found solutions that enable them to carry out their daily duties, and therefore managed to maintain uninterrupted operations.

IV. Stakeholders

Skeljungur attaches importance to the activities and business of the Company being conducted with integrity and our customers' reputation, and our own, are held in respect. Skeljungur's principal stakeholders are the following:

Customers, including consumers and the consumer market	Shareholders	Board Directors and employees	Partners and suppliers	Creditors
Regulatory authorities	Society	The environment	The media	The legislator

Skeljungur's stakeholders include those who safeguard the interests of the above parties Reference is made to Skeljungur's Code of Conduct for further details.

One of the Company's obligations is to generate a return for its owners on their investment.

Profitability is also a prerequisite for the business and thus the jobs created by the Company. We therefore promise to work diligently to create profitability through efficient and cost-effective operations, taking into account all stakeholders.

Skeljungur has a good relationship with the city authorities. The company stepped forward with measures to meet the compact neighbourhood development.

V. Communications

Skeljungur has a special **Communication Policy**, the goal of which is to ensure efficient communications with all stakeholders, such as customers, employees, the stock market, investors, and the media. We want information about the Skeljungur's operations to be accessible and easily understood, to ensure that all stakeholders can understand our operations and the reasons underlying the decisions we make.

Source: Skeljungur´s Communication Policy

Communication Policy

The goal of this policy is to ensure efficient communications with all the principal stakeholders of the Company, including customers, employees, market participants, investors and the media, and to increase the Company's visibility.

We will take the initiative in communicating, and we will respond to all requests for information promptly and effectively. We want information about the Skeljungur's operations to be accessible and easily understood to ensure that all stakeholders can understand our operations and the reasons underlying the decisions we make.

We encourage honest communication and dialogue, both internally and externally, and we will speak frankly. We will not leave our actions to speak for themselves alone; we will talk about them and speak for them.

Customers | We inform our customers about goods and services that meet their needs. We listen to customers, make it easier for them to voice their concerns and we take them seriously.

Employees | We encourage open and frank exchanges of ideas and opinions in the workplace. We speak openly and we show each other respect. We communicate information about our operations to our employees as promptly as permitted by law.

Investors | We want to ensure a thorough understanding among all market participants of our operations and performance. We will make every effort to clarify our policies and vision, as well as Skeljungur's challenges and opportunities and industry trends.

Media | We encourage media coverage of the Company and we provide the media with all the assistance they need. We accept all requests for interviews. We do not shy away from addressing difficult issues.

We choose positive and constructive language in our communications. We will observe privacy laws and laws on insider information and the disclosure obligations of listed companies.

This policy shall be accessible on Skeljungur's website.

At Skeljungur and Orkan´s service center, there are seven employees. The service center is open from 8:15 – 16:00 Mondays to Thursdays, but on Fridays it closes at 15:15. In 2020, our customer service representatives answered 28.447 customer inquiries over the phone. Our goal is that all inquiries received electronically will be answered within four hours.

We continue to work on improving our communication with our employees. At the end of 2020 we conducted a survey asking how we could better communicate with and inform our employees. The survey revealed that, in general employees are satisfied with the information between departments and from managers. The survey also showed that staff prefer to receive general information through Workplace.

Subsequently, amendments were made to WP to simplify information from managers on projects and progresses. It was also decided to increase the number of CEO and executive meetings with employees, where the focus and expectations for the foreseeable future will be discussed. Furthermore, quarterly financial reporting meetings are also repeated on the same day for all Skeljungur employees.

VI. Social Responsibility

Skeljungur has established a comprehensive policy on Social Responsibility. The policy defines Skeljungur's social stakeholders and describes in brief the Company's approach towards them. The approach is further defined in more specific policies that are focused on each respective stakeholder group.

Skeljungur is a diversified energy company with a long and successful history that fulfils the needs of individuals and businesses in harmony with the environment. Skeljungur's Corporate Social Responsibility Policy seeks to integrate economic, social and environmental matters into the general practices of the Company. With its Corporate Social Responsibility Policy, Skeljungur aims to secure benefits from its operations for all stakeholders. Skeljungur endeavours to show responsible behaviour towards the community through transparency in all its disclosures. The social responsibility policy shall be accessible on Skeljungur's website.

Source: Skeljungur´s Corporate Social Responsibility Policy

Skeljungur's Corporate Social Responsibility Policy rests on five main pillars:

Human Resources

Skeljungur endeavours to have satisfied and qualified employees that possess both the skills and knowledge needed to carry out tasks using clear procedures and disciplined methods. Our employees are involved in developing and improving work procedures and perform in the spirit of fairness and equality.

*Skeljungur has implemented a **Human Resource Policy**, which covers job satisfaction, education, health, family life and diversity. The Company also has a **Safety and Security Policy** an **Equal Rights Policy** and a **GDPR policy**. These policies shall be accessible on Skeljungur's website.*

Source: Skeljungur´s Corporate Social Responsibility Policy

Human Resource Policy

Human resources are the Company's most important asset. We have our employees' best interest at heart and strive to be at the forefront when it comes to their rights, safety and work environment.

Skeljungur aims to recruit enthusiastic, competent people who show initiative and ambition in their work and actively participate in constantly making the Company better. Skeljungur seeks to offer outstanding customer service and we want to have on board satisfied employees who possess knowledge of the Company's products and take pleasure in providing Skeljungur's customers with outstanding service.

Working Environment – The well-being of employees and their capacity for work depend on a number of factors, inside and outside the workplace. Skeljungur strives to offer its employees a good working environment. The Company attempts to promote a good balance between work and family life and respects its employees' family situation. Support from management, encouragement and regular feedback form a part of creating a good working environment, along with internal support among employees themselves. Employees are encouraged to engage in constructive communication and exhibit mutual respect. Skeljungur has equal pay certification. Gender equality is essential in the determination of salaries. For further information we refer to the Company's Equal Rights Policy. The policy also covers bullying, gender-related violence and gender-based and sexual harassment.

Education and training – Employee safety at work is one of Skeljungur's most important goals. Skeljungur therefore puts great effort into educational courses for employees that contribute to safety in the workplace. Handling energy sources is delicate matter, and new employees who are directly involved in handling energy sources as a part of their work must therefore, without exception, receive targeted training. The Company also offers other courses designed to ensure that employees have the knowledge necessary for them to be able to carry out their work as well as courses designed to promote advancement in the workplace. Managers are required to attend to employees' education needs, which should be evaluated in the course of regular employee interviews.

Health - Skeljungur encourages employees to lead a healthy lifestyle, both physically and mentally. Employees shall be able to apply for financial support for engagement in sports and other activities relating to their health. The Company offers its staff health checks and measures for the prevention of sickness. The Company regularly offers lectures and hosts other events focusing on exercise, nutrition or mental well-being.

Diversity - Diversity in the skills and perspectives of management and employees contributes to a better understanding of the Company and its affairs. Diversity enables management and employees to challenge conventional opinions and decisions and clears the path for the introduction and implementation of innovative ideas. Diversity also broadens management horizons, thereby supporting the successful management of the Company.

A nomination committee has been appointed which has as its role and main task to ensure that the Board of Directors commands a broad range of competencies, experience and knowledge. The Company also has in place a gender equality policy, which provides for specific analyses of gender issues and resulting action plans. Job advertisements are not gender-biased and gender ratios are observed in recruitment procedures. Job-related decisions must be based on relevant qualifications, merit, performance and other work-related factors. The Company will not tolerate any discrimination. Furthermore, employees undertake to respect one another and differences in perspectives, and to understand the value of diversity.

This Human Resource Policy and the Company's Equal Rights Policy and Safety and Security Policy shall be accessible on Skeljungur's website.

Skeljungur had 87 full time employees in 2020, as compared to 89 employees in 2019. Employee turnover was 16%. 9 employees left the Company, of which two went into retirement.

Skeljungur regularly conducts employee surveys, where the following parameters are reviewed: employee quality and relations; job satisfaction; empowerment; support from management; performance demands; clarity of future vision; interest, respect and loyalty, and education and training. The scale used is 1-5, broken down as follows: 1 - 3.69 (strongly disagree – disagree – neither agree nor disagree) is average or below average, 3.7 - 4.19 (agree) is good and 4.2 - 5 (strongly agree) is very good. Results below 3.7 is a call for action.

In 2020 employee surveys were conducted on three separate occasions. The overall results were on average 4.0. In comparison, the overall result in 2019 was on average 4.0. Two surveys were conducted in 2019. Skeljungur´s goal for 2021 is to maintain these results at 4,3 or higher. A score in the range of 4,2-5 is a score of excellence.

In 2020 Skeljungur paid 7.5 million ISK for education for its employees, according to the Company's accounts, as compared to 7.8 million in 2019. The courses related, for example, to the continued training for drivers, fire prevention, first aid, and management.

In 2020 Skeljungur paid 200 thousand ISK for various events related to employees' health, according to the Company's accounts, and about 300 thousand ISK for wholesome nutritional snacks. There was a significant decrease between years do to employees working from home because of precautions to do with Covid.

Gender equality

Gender Equality Policy
Equality, where people are judged by their capabilities and performance, is an inseparable part of the Company's culture. Discrimination is not tolerated.
All Skeljungur's employees deserve to be treated with respect. Bullying, gender-based violence or gender-based or sexual harassment will not be tolerated. The Company has in place a contingency plan to deal with such cases. Management is responsible for creating a working environment which is not conducive to bullying, gender-based violence or gender-based or sexual harassment. If such circumstances arise, management is required to act in accordance with the contingency plan.
Skeljungur has in place an equal rights plan, in compliance with Act no. 10/2008 on the equal status and equal rights of women and men. The purpose of the equal rights plan is to ensure gender equality and that everyone has equal opportunities to use their talents and strengths on the job, regardless of gender. The plan involves salaries, job development, balance of family and work life, bullying, gender-based violence and gender-based and sexual harassment. Every year the Company's compliance with this policy shall be evaluated and an action plan made if necessary.
When determining salaries, management must not discriminate based on gender. Employees must receive equal pay for equal work and work of equal value. Equal pay means that wages are determined in the same manner for women and men. Criteria that form the basis for the determination of salaries should not be biased based on gender. This applies equally to job performance and other earned entitlements. Employees at Skeljungur are always permitted to disclose their wage terms.
This policy shall be accessible on Skeljungur's website.

In 2017 Skeljungur became the seventh Icelandic company to receive equal pay certification.

Skeljungur has set a goal that the gender pay gap should not exceed 3%.

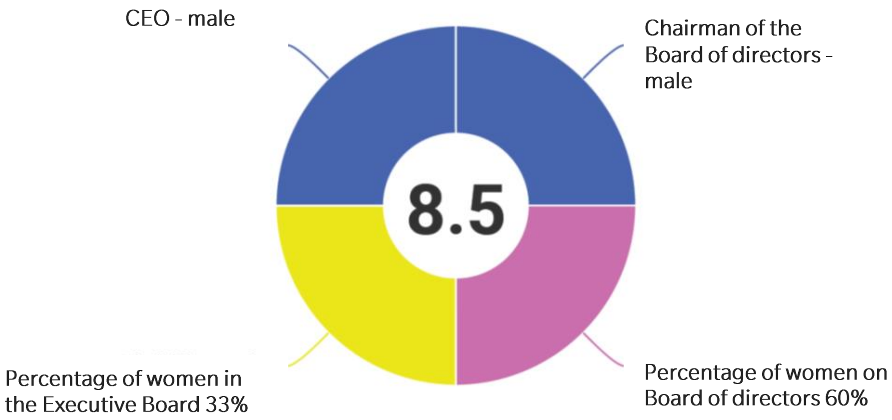
The target was reached in 2020 and the unexplained gender pay gap was 0,7%, favouring men. In 2019, the unexplained gender pay gap was 4,2%, favouring men. The gap was partly to do with wrong job classification .

The ratio of CEO salaries and bonus payments to Skeljungur´s median salary in 2020 was 5,3. This means that the CEO had 5 times higher salary and bonus payments than the median salary.

No cases of bullying, gender-based violence or gender-based or sexual harassment were reported in 2019 nor 2020.

There are three women and two men on Skeljungur's board of directors. Employees are 16 women and 71 men.

On 31 October 2018 the Vice-CEO of Skeljungur signed a declaration drafted by the Association of Women Business Leaders in Iceland stating the goal that in 2027 the ratio of women and men in executive management in Iceland should be 40/60
At year-end, Skeljungur had an 8.5 in the GEMMAQ gender scale, which targets the percentage of women in board and as Executives.
In the beginning of the year 2020 Skeljungur had a grade of 7.



Safety

Safety and Security Policy

Safety and working environment issues are an integral part of Skeljungur's operations. Skeljungur has a zero-accident vision, with the goal of no injuries from work-related accidents at Skeljungur. Skeljungur strives to continually improve its procedures and working environment with the aim of making the Company a safe and accident-free workplace.

Skeljungur seeks to ensure the safety of employees in the following ways:

- We comply with the provisions of all applicable laws and regulations.
- We carry out risk assessments for different jobs.
- We work in accordance with work procedures based on best practice.
- We provide guidance and training to employees.
- We try to raise awareness among employees about safety and environmental issues.
- We make the same demands on everyone working for Skeljungur.
- We document all accidents and deviations in our operations, as well as suggestions for improvements, and we conduct analyses and set clear goals for improved results.
- We report on our performance regarding safety matters.
- We praise employees for improvements in safety matters.

Due to the nature of the Company's business operations there is an inseparable link between the Company's safety matters and the environment. Skeljungur endeavours to work in harmony with the environment and has established an Environmental Policy for this purpose.

Data security is important in Skeljungur's operations. The Company places great emphasis on ensuring data security and ensuring the highest level of security in the processing of personal data. To this end, Skeljungur has adopted a Data Protection Policy.

This policy, as well as the Environmental Policy and Data Protection Policy, shall be accessible on Skeljungur's website.

Data Protection

Skeljungur systematically manages its safety issues through a quality assurance system and a quality assurance manual, which contains risk analysis of work and work processes, according to the Skeljungur quality assurance policy. The Skeljungur Privacy Policy is available on the company website.

It is Skeljungur's goal that all operations shall be accident free and that no accidents that would cause employee absence due to injury should occur.

We did not achieve that goal. Three accidents occurred in 2020 that caused a total of 54 days of employee absence due to injury. All accidents were considered minor. For comparison, there were two accidents that caused injury in 2019.

Customer

With a focus on efficiency, reliability and dynamism, Skeljungur has created a strong infrastructure and a reliable team where customer service is paramount. We are focused on offering our customers clear options and quality services. Skeljungur handles all its customers with respect and trust. We believe that by listening to our customers we acquire knowledge. Our guiding principles are that conducting business with Skeljungur should be simple and convenient.

*Skeljungur has adopted an **Ethics Code**, which lays down details on business integrity, relations with customers, competition, and conflicts of interest. In compliance with standards on Corporate Social Responsibility, Skeljungur also has in place an **Anti-Corruption and Bribery Policy** and a **Data Protection Policy**. These policies and the Business Ethics Code shall be accessible on Skeljungur's website.*

Source: Skeljungur´s Corporate Social Responsibility Policy

Anti-Corruption and Bribery Policy
It is Skeljungur's promise to its suppliers, partners and customers to conduct business in an honest and ethical manner.
We will uphold all laws and regulations and general principles of ethics and adhere to the Business and Ethics Code set by the Company at any time. We do not accept or offer anything that can be categorised as a bribe. We do not trade with parties suspected of money laundering. All Skeljungur's transactions shall be recorded in the Company's accounts in accordance with accepted rules and regulations and be subject to auditing. We avoid conflicts of interest between our personal finances and the Company's business.
This policy has been detailed further in Skeljungur's Ethics code. The Code emphasizes the importance of integrity and fairness in business and states that Skeljungur expects the same from those who do business with the Company. The Code shall be accessible on Skeljungur's website.
This Policy shall be accessible on Skeljungur's website.

No incidents regarding corruption and bribery occurred in 2020 and 2019.

Partners and suppliers

We observe fairness in our relations with the Company's partners and suppliers. We emphasise that both parties should profit from co-operation. We work on the assumption that the Company's partners share our core values. This perspective will affect our selection of business partners.

Source: Skeljungur´s Corporate Social Responsibility Policy

Skeljungur has adopted an Ethics Code, which lays down details on business integrity, relations with customers, competition, and conflicts of interest. In compliance with standards on Corporate Social Responsibility, Skeljungur also has in place an Anti-Corruption and Bribery Policy and a Data Protection Policy. These policies and the Ethics Code shall be accessible on Skeljungur's website

The Company is screening its suppliers on severals angles including the business ethics and commitment to engage in the transition to low-carbon energy. Two of its main suppliers have achieved A- and B ratings by the non-profit Carbon Disclosure Project for their climate action.

The Company also has a long-established partnership with its largest fuel supplier. This international company, based in Northern Europe, has a clear strategy to combine safety with responsible operations, and of providing energy in a responsible way. They also operate with high standards and practices and have been rated AAA by MSCI ESG Ratings.

Another of Skeljungur's largest suppliers that sell petrol and diesel additives are the third most sustainable company according to the Global 100 index.

In 2020, no accidents were reported regarding fuel delivery to the Company´s storage tanks.

See the policy on combating corruption and bribery above. Skeljungur's Code of Conduct is accessible on the Company's website.

Respect for Human Rights

Skeljungur is committed to respecting human rights and are therefore supporting, among other things, **social responsibility policy, human resources policy, gender equality policy, environmental policy** and **security policy**, as well as **ethical codes**. Human rights are defined as the rights of all people regardless of local circumstances or personal characteristics. Human rights apply to all cultures, ideologies and religions. Human rights include respect for others and for themselves. Human rights are rights we need to live as human beings. Skeljungur emphasizes the equal opportunity of all Company employees, that everyone receives appropriate job training and the possibility of attending courses or continuing education. Collaboration and communication with trade unions are always respected.

Safety and occupational health are also covered by human rights, which is a major part of Skeljungur's operations. It is our intention that the workplace is safe in every sense.

Source: Skeljungur´s Human resource Policy, gender equality policy and the Icelandic Human Rights Centre.

Human Rights Policy
Skeljungur's business operations take place in a country where human rights have a high priority and people's rights are to a large extent protected by law. Skeljungur is committed to fulfilling all requirements of law and regulations concerning human rights issues and to being a leading company in this regard. The Company welcomes diversity in society and among its employees and will not tolerate any discrimination, harassment or bullying of any kind. The Company's ambition is to ensure that the workplace is safe in every sense.
Skeljungur also seeks to ensure that the Company does not do business with parties that do not respect human rights. Skeljungur will not tolerate, and opposes, forced labour, human trafficking and child labour.
This human rights policy applies to all the Company's activities, and to achieve its objectives the Company has in place a Social Responsibility Policy, a Human Resources Policy, a Gender Equality Policy, an Environmental Policy and a Safety and Security Policy, as well as a Business and Ethics Code.
These policies shall be accessible on Skeljungur's website.

In order to avoid conducting business with parties who do not respect human rights, Skeljungur includes, in many of its contracts, a termination clause concerning these matters. Clauses to this effect will be included in all of Skeljungur's contracts as of 1 March 2019. No contracts were terminated in 2020 on these grounds.

No incidents of human rights violations were reported in 2020.

We strive to know our suppliers and partners. We familiarize ourselves with their business practices, as well as corporate social responsibility policies.

Environment

Skeljungur systematically addresses matters relating to health, safety and the environment. Skeljungur and its employees constantly strive to improve results in this regard. The Company aims for compliance with all applicable environmental laws and regulations. We offer our customers environmentally sound options that limit environmental impact in all regards. Skeljungur participates in community projects that promote the prevention of negative effects on the environment.

Source: Skeljungur´s Corporate Social Responsibility Policy

Skeljungur has special policies regarding environmental matters and safety and security which, in Skeljungur's area of operations, directly concern the environment. These policies shall be accessible on Skeljungur's website.

Environmental Policy

Skeljungur constantly endeavours to mitigate any environmental impact that the Company's operations may have, among other things by monitoring developments and innovation in environmental matters and integrating them into the Company's business. The Company complies with legal requirements and regulations regarding environmental issues and exceeds requirements where possible. Skeljungur is determined to be at the forefront of Icelandic companies when it comes to environmental matters.

Skeljungur strives to:

- Increase the environmental awareness of its employees and society as a whole
- Protect and nurture the environment
- Reduce greenhouse gas emissions
- Utilise materials and energy in a sound manner
- Reduce generated waste
- Increase access to unpackaged solutions
- Increase the use and availability of environmentally friendly products, including renewable energy sources

This Policy shall be accessible on the Skeljungur's website.

Skeljungur has set itself the goal of getting our operations certified according to the international environmental standard ISO 14001 in 2020. The goal was achieved , five units have now been certified.

In 2020, Skeljungur invested in sustainability for ISK 48.009.937, compared to ISK 37.919.940 in 2019. This was mainly an investment in hydrogen stations (ISK 40.266.899). The hydrogen stations are discussed in more detail in the section below on society.

It is Skeljungur's goal that no environmental damage will occur in the Company's operations. The greatest risk of environmental damage is with oil supply. Clear processes are in place for such jobs designed to reduce the risk of environmental damage. Skeljungur will respond promptly if oil is released into the environment, countermeasures will be carried out and authorities and others concerned be provided with all pertinent information.

In 2020, Skeljungur employees carried out 28.365 deliveries with cars, oil barges and directly from the oil storage facility. Seven leakage incidents were recorded in 2020. All leakage incidents during the year were classified as minor and none as environmentally damaging as there was no contaminated soil in any of the cases.

Skeljungur has carbon offsets all of its operations in Iceland since 2018 through the Wetland Fund. Carbon dioxide emissions in 2020 were 1,310 tonnes, compared with 1.576 the year before. This is a 17 % reduction from 2019.

In 2018, Skeljungur began using oil barges to supply fuel to ships. By using the barge, which accommodates a significant amount in each trip, the Company managed to reduce the number of oil tanker truck trips around the city by roughly 1,5 trips per day, or by 520 trips in 2020, compared to 1,000 trips in 2019.

In 2019 Skeljungur signed the Climate declaration from Festa and Reykjavík City.

Skeljungur has set itself the goal of reducing the Company's fuel consumption by 10% by 2025. Skeljungur´s fuel consumption was reduced by 14 % between 2019 and 2020. This is partly due to the Covid epidemic but also due to the renewal of the fleet of oil tanker trucks and the improvement and streamlining of distribution systems. Total reduction since 2018 is 16%.

The proportion of renewable energy in the business was 66,8% compared to 69,2% the previous year. The main source of energy was Geothermal energy.

The total amount of waste exported to recycling stations in 2020 was 317 tonnes where the proportion of sorted waste was 85,3%. That is compared to 267 tonnes in 2019 where the proportion of sorted waste was 75,2%.

Regarding the goals of raising environmental awareness, reducing greenhouse gas emissions, and increasing the use and availability of renewable energy sources, reference is also made to the CSR social component. See below.

Community

Skeljungur sees as its duty to society to limit, to the extent possible, the negative footprint that the Company leaves. At the same time, Skeljungur seeks to maximize its positive impact and thereby create shared value for the Company, society, and the environment. One of the most urgent challenges faced by today's generation concerns the climate. Skeljungur has decided to use its resources to support causes directly related to climate matters.

In 2019 Skeljungur re-evaluated its vision and policy on corporate social responsibility with the mission of decreasing to the greatest extent possible the Company's negative footprint. The focus of Skeljungur's Corporate Social Responsibility Policy is now on climate and environmental matters, subjects that affect us all. We believe that our full focus will lead to significant accomplishments in the projects we promote.

Source: Skeljungur´s Corporate Social Responsibility Policy

UN Sustainable Development Goals

Skeljungur intends to pursue the United Nations' global goals in a targeted manner in its activities. Emphasis will be placed on four of the goals: goal 7 for sustainable energy, goal 13 for climate action, goal 14 for life in water and goal 15 for life on land. The goals that the company has chosen are related to all the company's activities and therefore the company's work towards them can maximize its positive impact on the environment.

Some of Skeljungur's Climate projects include the following:

Three major projects were launched based on this strategy in the years 2018-2020.

Restoring the wetlands - The Wetlands Fund: Skeljungur is one of the founders of the Wetlands Fund, which was established in 2018. The Fund's purpose is to restore wetlands in co-operation with landowners, the state, municipalities, enterprises, organisations, and individuals.

Two thirds of all known greenhouse gas emissions in Iceland stem from drained wetlands. However, only 15% of the drained wetlands are in agricultural use. By restoring wetlands, which is done by filling up ditches, we can stop the emissions almost immediately. This is a simple, cheap but very effective way to reduce the emission of greenhouse gasses using a process recognised by the Intergovernmental Panel on Climate Change. This is where we can take great strides in reducing greenhouse gas emissions.

Skeljungur carbon offsets all the Company's operations in Iceland through the recovery of wetlands, through the Wetlands Fund.

Ready, offset, go: In 2019, Skeljungur became the first oil company in Iceland to offer its customers the option to offset their fuel purchases at the Company through Orkan tag in a simple and convenient way. Thus, tag and card holders can give away part of their discounts and utilize carbon offsets. A discount that exceeds the cost of carbon offsetting pr. litre, will of course, go into the customer's pocket. All tag and card holders of Orkan are able to register for the carbon offset system directly at Orkan's pumps or on the website: https://www.orkan.is/orkan/jafnadu-thig/
The project received huge interest and approval. 15 months after the initiative started more than 6,600 customers had registered in the carbon offset system at Orkan. Orkan Costumers have offset for the total amount of 21.659.629 kr.

With these measures, Skeljungur seeks to promote environmental awareness and facilitate the actions of individuals to have a direct impact on environmental and climate issues.

Orkan's multi-energy refill stations: *Skeljungur launched the country's first multi-fuel station at Miklabraut, where hydrogen, methane and electricity are supplied as well as fossil fuels. Previously, the Company operated two hydrogen stations, as well as six electric charge stations. The energy transition is thus a direct part of the Company's operations. In mid-2019, there were glitches in the equipment in one hydrogen station operating abroad, using the same equipment that Skeljungur had purchased. For safety reasons, the decision was made by Skeljungur's management to close its hydrogen stations until the safety and reliability of the stations was assured. A station hardware upgrade was completed in 2020 and operational capabilities of all stations is now fully restored.*

Hydrogen is a key factor regarding changes in energy consumption when we look at the utilisation of our natural resources and the energy system as a whole. There is increasing emphasis on the use of renewable energy sources in the world, such as wind, hydro and solar power. The timing of the production, however, cannot be completely controlled by humans, as it depends on natural forces. Furthermore, the time of production does not necessarily go hand in hand with consumption needs, for example when the wind blows during the night. Because of this discrepancy there is a great demand for storing electricity.

Experts have concluded that storing energy in the form of hydrogen instead of in batteries is a favourable solution. Hydrogen is a means of storage of renewable energy which would otherwise go to waste. In Iceland, the electricity producers can therefore use the nights to produce hydrogen, which can then be used in transportation. That way we make better use of natural resources, and the need to utilise more and more natural resources to meet the energy demand of the future decreases.

In addition, the range of normal hydrogen vehicles is much greater than that of normal electric vehicles, and hydrogen cars do not need charging as they can be refuelled at a hydrogen refuelling station in 3-5 minutes. Hydrogen cars therefore enable people who need to *drive longer distances or for a longer time, and people who do not have access to charging stations, to drive a zero-emission car. Hydrogen thus relieves the pressure of the need for a better electricity infrastructure for electric cars.*

Hydrogen is a renewable energy source. Hydrogen cars are zero emission cars. The only emission from a hydrogen car is water.

Summary of actions linked with SDGs

Actions	UN Sustainable Development Goals
Community contribution programs for tag holders to various charities and sports clubs, by linking the tag to that cause.	3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 5 GENDER EQUALITY; 10 REDUCED INEQUALITIES; 13 CLIMATE ACTION
Being certified ISO 9001 in 2020 on quality management system. Being certified ISO 14001 on environmental management system	1 NO POVERTY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 14 LIFE BELOW WATER; 13 CLIMATE ACTION; 7 AFFORDABLE AND CLEAN ENERGY; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 8 DECENT WORK AND ECONOMIC GROWTH
Equal Pay Certification	5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH
Restoring the wetlands - The Wetlands Fund, being one of the founders. The Company is doing carbon offsets of its operations in Iceland, and offers the option for its customers to offset their fuel purchases using their tags and cards.	13 CLIMATE ACTION; 15 LIFE ON LAND; 14 LIFE BELOW WATER
Orkan runs 10 multi-energy refill stations. Energy sources include fossil fuels, hydrogen, methane and electricity.	7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 13 CLIMATE ACTION
The vast majority of our communication with the investors are in Icelandic and in English.	8 DECENT WORK AND ECONOMIC GROWTH

ESG report and other CSR material can be found here, on Skeljungur's website.