Festi hf.
Consolidated Financial Statements 2019

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

Festi hf.
Dalvegur 10-14
201 Kópavogur
Iceland

Reg. no. 540206-2010

Contents

Endorsement and Statement by the Board of Directors and the CEO

Operations of the Group

Festi owns and operates companies which are leading in the food market, fuel and service station market and electronic equipment and smart solutions market. Operation of real estate, purchase and sale of shares is also part of the operations of the Group.

The parent company Festi (“the Company”) owns the subsidiaries EGO ehf., which handles the Group’s investment and development projects, and Hlekkur ehf., which is a holding company around the Group’s operating companies. The subsidiaries of Hlekkur are: Krónan, which operates grocery stores under the names Krónan, Kr, Nóatún and Kjarval, N1, which operates service stations for fuel and energy sales and various facilities related to car services, ELKO, which is the largest electronic equipment store in the country, Festi fasteignir, which owns and operates the Group’s real estate, and Bakkinn vöruhótel, which specialises in warehouse services and distribution.

During the year 2018 the Company acquired the entire share capital of Hlekkur. The acquisition date was 1 September 2018. The operations and financial position of Hlekkur and its subsidiaries are included in the consolidated financial statements as from that date.

Board of Directors and Corporate governance

The Board of Directors of Festi hf. has established rules of procedure for the Board wherein it endeavours to comply with the "Guidelines on corporate governance" issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, which was issued in revised edition in May 2015. The guidelines are accessible on the website of the Iceland Chamber of Commerce, www.vi.is.

Björgólfur Jóhannsson resigned from the Company’s Board of Directors on 14 November 2019 when he became temporary CEO of Samherji. The Board decided to postpone the election of a new board member until the annual general meeting, which is to be held in March 2020. Currently there are two female and two male board members but according to the Company’s Articles of Association there should be five board members. Further information on the Board and corporate governance is included in the appendix on Corporate governance, which accompanies these financial statements.

Operations in 2019

The Group´s operating revenue for the year 2019 amounted to ISK 85,184 million (2018: ISK 58,932 million) and increased by 44.6% between years. For the most part the increase is due to the fact that Hlekkur and its subsidiaries were a part of the Group for the whole year 2019 but only for one third of the year 2018. Profit before depreciation, amortisation and value changes amounted to ISK 7,605 million for the year 2019 (2018: ISK 4,628 million) and increased by 64.3% between years. According to the statement of income and comprehensive income, the profit for the year amounted to ISK 2,796 million (2018: ISK 2,059 million) and total comprehensive income for the year ISK 2,850 million (2018: ISK 2,092 million). The Company´s equity at year end amounted to ISK 28,688 million (2018: ISK 25,970 million), including share capital in the nominal value of ISK 329 million. Reference is made to the statement of changes in equity regarding changes of equity during the year. The Company´s equity ratio at year end was 35.3% (2018: 33.4%).

The Company’s Board of Directors proposes that a dividend of ISK 2 per each nominal share will be paid, which is a total of ISK 659 million in the year 2020.

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

Shareholders

At the end of the year the Company´s shareholdes were 795 compared to 915 at the beginning of the year and thus their number decreased by 120 during the year. Following are the Company's 20 largest shareholders at year end:

	Share capital in ISK thousand	Share capital in %
The Pension Fund of Commerce	34.920	10,6%
Gildi Pension Fund	32.330	9,8%
The Pension Fund for State Employees - Divisions A, B and S	30.000	9,1%
Stefnir - ÍS 5, ÍS 15	23.671	7,2%
Lansdowne Icav Lansdowne Euro	19.619	6,0%
Stapi Pension Fund	18.629	5,7%
Birta Pension Fund	17.936	5,5%
Almenni Pension Fund	15.866	4,8%
Festa Pension Fund	10.177	3,1%
Sjóvá-Almennar Insurance hf	9.333	2,8%
Stormtré ehf	8.301	2,5%
Frjálsi Pension Fund	8.277	2,5%
Collection Fund of Pension Rights	8.270	2,5%
Landsbréf	8.203	2,5%
Lífsverk Pension Fund	7.794	2,4%
Arion bank ehf	7.210	2,2%
Vátryggingafélag Íslands hf	5.669	1,7%
Brú - The Pension Fund for Employees of Municipalities	5.064	1,5%
Brekka Retail ehf	4.345	1,3%
Sjávarsýn ehf	3.750	1,1%
	279.364	85,0%
Other shareholders	49.210	15,0%
	328.574	100,0%

The Company’s share capital amounted to ISK 330 million at the beginning and end of the year, whereof ISK 329 million were outstanding at year end 2019 (2018: ISK 330 million). The share capital is in one category and all shares enjoy the same rights. At the Company’s annual general meeting on 21 March 2019 the Company was granted authorisation to repurchase up to 10% of nominal amount of outstanding shares in accordance with Chapter VIII of the Act on limited liability companies no. 2/1995. The authorisation is valid for up to 18 months. By approving this proposal, a similar authorisation was cancelled which was approved at the Company’s annual general meeting on 19 March 2018. An extension for this authorisation will be requested at the Company’s annual general meeting in March this year.

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

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

Non-financial information

Festi hf. is a public interest entity. According to the Icelandic Financial Statements Act the Company shall provide information necessary to assess its development, position and influence in relation to environmental, social, personnel and human rights policies, how it counteracts corruption and briberies in addition to a concise description of its business model, and more. In order to describe the current status of its social responsibilities the Company has for the past few years issued a GRI G4 "Core" report on social responsibilities. As from the year 2018 a report has been issued on non-financial parameters in accordance with Nasdaq´s EGS guidelines, among other things, in order to enable Festi to assess its standing on these matters as a Group, based on accepted standards. The policies and results of the Company with respect to those matters are described in an appendix to the financial statements on non-financial information.

Statement by the Board of Directors and the CEO

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

According to the best of our knowledge, in our opinion the consolidated financial statements give a true and fair view of the operating profit of the Group for the year 2019, its assets, liabilities and financial position as at 31 December 2019, and changes in cash and cash equivalents during the year 2019.

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

The Board of Directors and the CEO of Festi hf. have today discussed the Company's consolidated financial statements for the year 2019 and confirm them by means of their signatures. The Board of Directors and the CEO propose that the Annual General Meeting of the Company approves the consolidated financial statements.

Kópavogur, 27 February 2020.

Board of Directors of Festi hf.

Margrét Guðmundsdóttir, Chairman
Þórður Már Jóhannesson, Vice-Chairman
Guðjón Karl Reynisson
Kristín Guðmundsdóttir

CEO

Eggert Þór Kristófersson

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Festi hf.

Opinion

We have audited the Consolidated Financial Statements of Festi hf. for the year ended December 31, 2019 which comprise the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of Festi hf. as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Festi hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements of 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 our audit
Impairment of goodwill and trademarks	
Goodwill amounts to ISK 14.1 billion and the trademarks of Krónan and Elko amount to ISK 3.7 billion. Goodwill and Trademarks arised in the acquisition of Hlekkur and its subsidiaries on 1. September 2018. The value of goodwill and trademarks for the grocery and electronic stores depend on key assumptions applied by the management on estimated future cash flow of cash-generating units, and other assumptions applied in the discounting rate used in the valuation of the estimated cash flow. The value of other goodwill depends on management's assumptions on fair value. Goodwill and trademarks are significant items in the consolidated balance sheet and depend on management's estimation and judgements. Due to the importance of the valuation and its magnitude, we consider goodwill and trademarks as key audit matter.	In our audit of the valuation of goodwill and trademarks, we and our valuation experts have examined the company's management impairment test. We examined the methodology used in the impairment test and its consistency with prior year. In our audit of the impairment test, we performed the following work: • Assessed the company's valuation model and its reliability. • Assessed the assumptions in the management's budget that are used in calculations in the impairment test and whether they are appropriate. • Reviewed of assumptions for expected future growth after the forecast period. • Reviewed of variances from previous years budget. • Assessed the discount rate for each unit.

No impairment loss has been recognized for intangible assets. The trademark is amortized over 20 years. Further information about goodwill and trademarks can be found in notes 13 and 14 in the Consolidated Financial Statement.	• We reviewed whether the methodology used in the impairment test was in accordance with International Financial Reporting Standards (IFRSs) and assessed the adequacy of the disclosures for goodwill and trademarks. • In this context, we reviewed the revised purchase price allocation in the acquisition of Hlekkur and its subsidiaries and changes in goodwill from the initial purchase price allocation that was performed in 2018.

Key Audit Matters	How the matter was addressed in our audit
Valuation of real estate	
Real estate of the Group amounts to ISK 34 billion and are classified on the balance sheet among property & equipment and investment properties. The investment properties that are part of Festi fasteignir ehf., subsidiary of Festi hf., are those that are leased to third parties. Investment properties are recognized at fair value through profit or loss. The Group's real estates, those not classified as investment properties, are carried at revalued amount. Revaluation is performed on a regular basis, when management assesses that its fair value has changed significantly. The estimation of the value is based on expected cash flow. The assets were revaluated at year-end 2016, in addition the assets were revaluated when Hlekkur ehf, and its subsidiaries were acquired on September 1st 2018. It is management estimation that there is no basis for revaluation at year-end 2019. Revaluation of the Company's real estate is dependent on the management's assessment of the assumptions in the expected future cash flow and other assumptions used in discounting the estimated future cash flow. As the real estate are significant item in the company's balance sheet and its valuation is based on management estimation, we consider real estate as key audit matter. Further information regarding real estate, we refer to note 15 and 17 in the Consolidated Financial Statements.	In our audit of the real estate valuation, we, and our valuation experts have examined the management valuation. We examined the methodology used in the valuation and its consistency with prior year. In our audit of the valuation, we performed the following work: • Assessed the company's calculation model and its reliability. • Assessed the assumptions used in management's budget that are used in the calculations of the valuation and whether they are appropriate. • Assessed the assumptions and calculation of the discount rate (WACC) and compared it to market conditions. • We assessed the company's policies and processes concerning revaluation. • We have examined the valuation methodology was in accordance with IFRS. • We assessed whether the notes include all necessary information in accordance with accounting policies.

INDEPENDENT AUDITOR’S REPORT, contd.

Other matters

The Consolidated Financial Statements of Festi hf. for the year 2018 were audited by Ernst & Young ehf. which expressed an unqualified opinion on those Consolidated Financial Statements in their report dated February 27, 2019.

Other information

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

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the 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 judgement and maintain professional scepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT, contd.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Festi hf.'s internal control.

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

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

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

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

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

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

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

Kópavogur, February, 27, 2020

Deloitte ehf.

Þorsteinn Pétur Guðjónsson
State Authorized Public Accountant

Rúnar Dór Daníelsson
State Authorized Public Accountant

Statement of Income and Comprehensive Income for the year 2019

	Notes	2019	2018
Sale of goods and services	6	85.183.658	58.931.554
Cost of goods sold	7	(64.888.432)	(45.227.149)
Gross profit from sale of goods and services		20.295.226	13.704.405
Other operating income	6	1.557.748	776.058
Salaries and other personnel expenses	8	(9.952.561)	(6.531.706)
Other operating expenses	9	(4.295.171)	(3.320.997)
		(12.689.984)	(9.076.645)
Operating profit before depreciation, amortisation and changes in value (EBITDA)		7.605.242	4.627.760
Depreciation of property and equipment and leased assets and amortisation of intangible assets	11	(2.697.694)	(1.398.806)
Changes in value of investment property	17	290.929	(10.239)
Operating profit (EBIT)		5.198.477	3.218.715
Finance income	12	173.221	151.968
Finance costs	12	(2.353.248)	(1.155.881)
Foreign currency differences	12	27.267	72.634
Share of profit of associates	18	384.829	204.875
Loss from sale of shares in companies	18	(59.714)	(15.796)
		(1.827.645)	(742.200)
Profit before income tax (EBT)		3.370.832	2.476.515
Income tax	27	(575.284)	(417.846)
Profit for the year		2.795.548	2.058.669
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Translation difference arising from operations of a foreign associate		(11.151)	33.297
Reversal of translation difference due to sale of shares		65.213	0
Total other comprehensive income		54.062	33.297
Total comprehensive income for the year		2.849.610	2.091.966
Basic and diluted earnings per share in ISK	24	8,49	7,44

The notes on pages 13 to 41 are an integral part of these financial statements

Consolidated Financial Statements of Festi hf. 2019 10 Amounts are in thousands of ISK

Statement of Financial Position as at 31 December 201

	Notes	2019	2018
Assets			
Goodwill	13	14.070.463	14.070.463
Other intangible assets	14	4.649.850	4.504.012
Property and equipment	15	31.433.757	32.418.877
Leased assets	16	3.862.182	0
Investment properties	17	7.354.468	8.751.774
Shares in associates	18	1.952.349	2.079.666
Shares in other companies		109.059	12.059
Long-term receivables	19	271.989	54.779
Non-current assets		63.704.117	61.891.630
Inventories	20	7.678.413	7.616.386
Trade receivables	30	3.756.324	3.684.511
Other short-term receivables	21	736.735	339.621
Cash and cash equivalents	22	5.368.754	4.266.925
Current assets		17.540.226	15.907.443
Total assets		81.244.343	77.799.073
Equity			
Share capital		328.574	329.574
Share premium		13.010.171	13.140.383
Other restricted equity		5.815.161	5.258.048
Retained earnings		9.534.338	7.241.841
Equity	23	28.688.244	25.969.846
Liabilities			
Loans from credit institutions	25	29.942.470	33.593.033
Lease liabilities	26	3.585.949	0
Deferred tax liability	27	4.270.952	3.938.773
Non-current liabilities		37.799.371	37.531.806
Loans from credit institutions	25	3.437.684	3.720.530
Lease liabilities	26	377.610	0
Trade payables		6.803.236	5.654.412
Other short-term liabilities	28	4.138.198	4.922.479
Current liabilities		14.756.728	14.297.421
Total liabilities		52.556.099	51.829.227
Total equity and liabilities		81.244.343	77.799.073

The notes on pages 14 to 42 are an integral part of these financial statements

Consolidated Financial Statements of Festi hf. 2019 11 Amounts are in thousands of ISK

Statement of Changes in Equity for the year 2019

			Other restricted equity					
	Share capital	Share premium	Statutory reserve	Revaluation reserve	Unrealised profit of subsidiaries and associates	Translation reserve	Retained earnings	Total equity
Year 2019								
Equity 1.1.2019	329.574	13.140.383	82.393	3.654.287	1.642.559	(121.191)	7.241.841	25.969.846
Transferred from statutory reserve			(249)				249	0
Total comprehensive income for the year						54.062	2.795.548	2.849.610
Restricted due to subsidiaries and associates					756.624		(756.624)	0
Dissolution of revaluation of an associate				(20.808)			20.808	0
Dissolution of revaluation of property and equip.				(232.516)			232.516	0
	329.574	13.140.383	82.144	3.400.963	2.399.183	(67.129)	9.534.338	28.819.456
Transactions with shareholders:								
Purchase of own shares	(1.000)	(130.212)						(131.212)
Equity 31.12.2019	328.574	13.010.171	82.144	3.400.963	2.399.183	(67.129)	9.534.338	28.688.244
Total other restricted equity						5.815.161		
Year 2018								
Equity 1.1.2018	250.000	3.153.857	62.500	3.846.730	376.856	(154.490)	6.276.325	13.811.778
Contribution to statutory reserve			19.893				(19.893)	0
Total comprehensive income for the year						33.299	2.058.669	2.091.968
Restricted due to subsidiaries and associates					1.265.703		(1.265.703)	0
Dissolution of revaluation of an associate				(34.683)			34.683	0
Dissolution of revaluation of property and equip.				(157.760)			157.760	0
	250.000	3.153.857	82.393	3.654.287	1.642.559	(121.191)	7.241.841	15.903.746
Transactions with shareholders:								
Increase in share capital	79.574	9.986.526						10.066.100
Equity 31.12.2018	329.574	13.140.383	82.393	3.654.287	1.642.559	(121.191)	7.241.841	25.969.846
Total other restricted equity						5.258.048		

The notes on pages 14 to 42 are an integral part of these financial statements

Consolidated Financial Statements of Festi hf. 2019 12 Amounts are in thousands of ISK

Statement of Cash Flows for the year 2019

	Notes	2019	2018
Cash flows from operating activities			
Profit before depreciation, amortisation and finance items		7.605.242	4.627.760
Operating items not affecting cash flows:			
Gain on sale of property and equipment		(239.616)	(38.352)
		7.365.626	4.589.408
Changes in operating assets and liabilities:			
Inventories, increase		(62.027)	(1.614.020)
Trade and other short-term receivables, (increase)		(140.265)	(656.780)
Trade and other short-term liabilities, increase		580.967	762.138
Short-term loans from credit institutions, change		0	2.000.000
Changes in operating assets and liabilities		378.675	491.338
Interest received		168.707	161.674
Interest paid		(1.863.882)	(838.648)
Income tax paid		(492.702)	(578.665)
Net cash from operating activities		5.556.424	3.825.107
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	4	0	(12.261.852)
Purchase of intangible assets	13	(601.988)	(113.377)
Purchase of property and equipment	15	(1.601.211)	(1.571.285)
Sale of property and equipment	15	1.026.379	98.729
Purchase of investment properties	17	(54.557)	(30.513)
Sale of investment properties	17	1.742.792	0
Dividend received		194.000	120.000
Long-term receivables and securities, change		(227.710)	24.253
Net cash from (used in) investing activities		477.705	(13.734.045)
Cash flows from financing activities			
Purchase of own shares		(131.212)	0
Proceeds from new long-term loans from credit institutions	25	13.429.328	20.057.500
Repayment of long-term loans from credit institutions		(17.913.413)	(8.714.644)
Payment of the principal portion of lease liabilities	26	(345.804)	0
Net cash (used in) from financing activities		(4.961.101)	11.342.856
Increase in cash and cash equivalents		1.073.028	1.433.918
Effect of movements in exchange rates on cash held		28.801	32.925
Cash and cash equivalents at the beginning of the year		4.266.925	2.800.082
Cash and cash equivalents at the end of the year		5.368.754	4.266.925
Investing and financing activities not affecting cash flows			
Investment in a subsidiary		0	(10.066.100)
Sale of share capital		0	10.066.100
Trade and other short-term receivables		(325.495)	0
Long-term receivables and securities, change		325.495	0

The notes on pages 14 to 42 are an integral part of these financial statements

Consolidated Financial Statements of Festi hf. 2019 13 Amounts are in thousands of ISK

Notes

1. Operations of the Group

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

2. Basis of preparation

2.1 Statement of compliance with International Financial Reporting Standards

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

The Board of Directors of Festi hf. approved the consolidated annual financial statements on 27 February 2020.

2.2 Presentation of accounting policies and other notes

Accounting policies are presented along with financial information in the notes for the applicable items. Management believes that such presentation will provide a clearer view and improved context between accounting policies and financial information. As applicable, notes disclosing information that relate to both the Statement of Income and Comprehensive Income and the Statement of Financial Position are thus presented in conjunction, such as income from sale of goods and trade receivables on the one hand, and income tax expense and deferred tax on the other.

An overview of the Group's risk management is disclosed in a separate section (see note 29). When relevant, cross references are made between notes regarding individual items and notes on risk management applicable to those same items. The Group endeavors to describe in these financial statements the accounting policies in a clear manner and to avoid repeating the actual text of the IFRSs. The following accounting standards are the most important ones for the Group:

Item	Notes	Standard
Operating segments	Note 5. *Operating segments*	IFRS 8
Revenue from sale of goods and services	Note 6. *Operating revenue*	IFRS 15
Impairment testing	Note 13. *Viðskiptavild*	IAS 36
Fair value measurement of real estate and investment properties	Notes 15. and 17. *Property and equipment and Investment properties*	IFRS 13
Lease contracts	Note16. *Lease contracts*	IFRS 16

2.3 Change to accounting policies for lease contracts

IFRS 16 *Leases* became effective at the beginning of the year 2019 and replaced IAS 17 *Leases* and related interpretations. The Group has recognised lease contracts in accordance with IFRS 16 starting from 1 January 2019. Previously, the Group recognised lease contracts in accordance with IAS 17.

IFRS 16 introduces a single lease accounting model for lessees, according to which the lessee no longer classifies lease contracts as operating leases or finance leases. Instead, the lessee recognises in the statement of financial position for all lease contracts leased assets, representing its right to use the underlying assets, and lease liabilities, representing its obligation to make lease payments. The lessee recognises in the income statement depreciation of the leased assets and interest expense on the lease liabilities. However, the standard contains optional exemptions from this model for lease contracts whose lease term, determined in accordance with IFRS 16 rules, is 12 months or less and for lease contracts for which the underlying asset is of low value. Lessor accounting according to IFRS 16 is similar to the accounting according to IAS 17, according to which the lessor must continue to classify each lease contract as a finance lease or an operating lease.

Definition of a lease

According to previous accounting policies, the Group determined at the inception of a contract whether it was or contained a lease in accordance with the interpretation IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease in accordance with the new definition of a lease in IFRS 16. According to IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply IFRS 16 only to those contracts which were previously identified as lease contracts. Therefore, contracts which were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Accordingly, the definition of a lease under IFRS 16 was applied only to those contracts which were entered into or changed on or after 1 January 2019.

Consolidated Financial Statements of Festi hf. 2019 14 Amounts are in thousands of ISK

Notes, contd.:

2.3 Change to accounting policies for lease contracts, contd.:

Impact on the statement of financial position upon transition to IFRS 16 as at 1 January 2019

The leased assets and lease liabilities of the Group as a lessee arise from leases of buildings and land. When calculating the amounts of leased assets and lease liabilities, the lease term was determined as well as the incremental borrowing rate, since the rate implicit in the lease could not be readily determined. The determination of the incremental borrowing is based on various factors, in particular on the type of asset leased, its location and condition and the lease term. The weighted average incremental borrowing rate was determined as 5.5% - 7.0% for buildings and 5.0% - 7.7% for land.

Management also had to use judgement in determining the lease term, in particular in the case of contracts with no stated lease term and contracts which include extension and / or termination options. The lease term determined can be longer or shorter than the lease term explicitly stated in the contract. The weighted lease term for leases of both buildings and land was determined as 10 years.

The Group´s lease contracts for buildings and land were classified as operating leases until 1 January 2019 and therefore they were not recognised in the consolidated statement of financial position at year-end 2018. As disclosed in note 16 to the consolidated financial statements for the year 2018, the Group's obligations arising from these lease contracts amounted to ISK 4,992 million at year-end 2018. Upon transition to IFRS 16 those obligations were discounted and lease liabilities in the amount of ISK 3,702 million were recognised in the consolidated statement of financial position as at 1 January 2019.

Impact on the income statement due to the application of IFRS 16 during the year 2019

The following table shows the impact on the income statement due to the application of IFRS 16 during the year 2019.

	Amounts without the impact of IFRS 16	Impact of IFRS 16	Amounts in financial statements
Sale of goods and services	85.183.658		85.183.658
Cost of goods sold	(64.888.432)		(64.888.432)
Gross profit from sale of goods and services	20.295.226	0	20.295.226
Other operating income	1.557.748		1.557.748
Salaries and other personnel expenses	(9.952.561)		(9.952.561)
Other operating expenses	(4.865.439)	570.268	(4.295.171)
	(13.260.252)	570.268	(12.689.984)
Operating profit before depreciation, amortisation and changes in value (EBITDA)	7.034.974	570.268	7.605.242
Depreciation of property and equipment and leased assets and amortisation of intangible assets	(2.250.513)	(447.181)	(2.697.694)
Changes in value of investment property	290.929		290.929
Operating profit (EBIT)	5.075.390	123.087	5.198.477
Finance income	173.221		173.221
Finance costs	(2.128.784)	(224.464)	(2.353.248)
Foreign currency differences	27.267		27.267
Share of profit of associates	384.829		384.829
Loss from sale of shares in companies	(59.714)		(59.714)
	(1.603.181)	(224.464)	(1.827.645)
Profit before income tax	3.472.209	(101.377)	3.370.832
Income tax	(595.559)	20.275	(575.284)
Profit for the year	2.876.650	(81.102)	2.795.548

Consolidated Financial Statements of Festi hf. 2019 15 Amounts are in thousands of ISK

Notes, contd.:

2.3 Change to accounting policies for lease contracts, contd.:

Impact on the statement of cash flows due to the application of IFRS 16 during the year 2019

The following table shows the impact on the statement of cash flows due to the application of IFRS 16 during the year 2019.

	Amounts without the impact of IFRS 16	Impact of IFRS 16	Amounts in financial statements
Cash flows from operating activities			
Profit before depreciation, amortisation and finance items	7.034.974	570.268	7.605.242
Operating items not affecting cash flows:			
Gain on sale of property and equipment	(239.616)	0	(239.616)
	6.795.358	570.268	7.365.626
Changes in operating assets and liabilities	378.675	0	378.675
Interest received	168.707	0	168.707
Interest paid	(1.639.418)	(224.464)	(1.863.882)
Income tax paid	(492.702)	0	(492.702)
Net cash from operating activities	5.210.620	345.804	5.556.424
Cash flows from investing activities			
Net cash flows from investing activities	477.705	0	477.705
Net cash from investing activities	477.705	0	477.705
Cash flows from financing activities			
Payment of the principal portion of lease liabilities	0	(345.804)	(345.804)
Other net cash flows used in financing activities	(4.615.297)	0	(4.615.297)
Net cash used in financing activities	(4.615.297)	(345.804)	(4.961.101)
Increase in cash and cash equivalents	1.073.028	0	1.073.028

2.4 Going concern

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

2.5 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties, securities and derivative instruments, which are recognised at fair value. Furthermore, the Company´s real estate is revalued to fair value.

2.6 Presentation and functional currency

The consolidated financial statements are prepared and presented in Icelandic krona (ISK), which is the Company's functional currency. All amounts are presented in thousand of Icelandic krona unless otherwise stated.

2.7 Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions, which affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Information about judgement applied and estimation uncertainty that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed in the applicable notes. The following table specifies the most important items with respect to the application of judgement and use of estimates by the management:

Item	Notes	
Estimation of impairment of goodwill and other intangible assets	13. og 14.	Goodwill and other intangible assets
Estimation of fair value of revalued property, useful life of property and equipment and residual value	15.	Property and equipment
Determination of lease term and discount rates used in the calculation of lease liabilities	16.	Lease contracts
Estimation of fair value of investment properties	17.	Investment property
Estimation of allowance for expected credit losses on trade receivables	29.	Risk management

Consolidated Financial Statements of Festi hf. 2019 16 Amounts are in thousands of ISK

Notes, contd.:

2.8 Changes of the Group's structure and presentation of operating segments

At the beginning of 2019 operations of gas stations was transferred from Festi hf. to the operational company N1 ehf. and warehouse activities to Bakkinn Vöruhótel ehf. Both of the aforementioned companies are subsidiaries of Hlekkur ehf. The parent company, Festi hf., still owns the properties related to those activities. Following the acquisition of Hlekkur and its subsidiaries on 1 September 2018 a review of the Group´s operating segments presentation has been under way. That work has now been finalised and segment information presented from 1 January 2019 is more detailed than in the Company´s consolidated financial statements for the year 2018. The Group´s operating segments are based on internal reporting as presented to the Group´s key management personnel. Presentation of operating segments for the comparative year is based on previous segment breakdown since not all necessary information is available to present it in accordance with current segment breakdown.

2.9 Change in classification of operating expenses

Following the Company´s acquisition of Hlekkur classification of certain operating expenses has been changed. The amended classification was made to harmonise the classifications of operating expenses in the Group. Comparative figures have been restated in accordance with new classification, which has no impact on net results of the Group, its assets, liabilities, equity or cash flows. The most significant change is that distribution expense is now recognised as part of cost of goods sold, but was previously recognised among sales- and distribution expenses.

2.10 Changes in presentation of interest payments in the statement of cash flows

Presentation of interest payments in the statement of cash flows has been changed. Interest payments on long-term loans from credit institutions are now presented as part of operating activities but were previously presented among financing activities. Therefore, interest paid in the statement of cash flows now include both interest paid on short-term liabilities and long-term liabilities. Furthermore, for the year 2019 this line item also includes interest payments on lease liabilities due to the application of IFRS 16 (see note 12). Presentation of comparative amounts for the previous year has been changed accordingly. Management believes that this change in presentation of interest paid on long-term loans from credit institutions provides a better view with respect to origination and use of cash and cash equivalents in the statement of cash flows.

3. Group entities

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right 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 subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

Entities within the Group

The consolidated financial statements include the following entities. All subsidiaries are directly or indirectly fully owned by the parent company, Festi. Information regarding the acquisition of Hlekkur in 2018 is disclosed note 4.

Company	Activity
Festi hf.	Festi is a holding company that specialises in operating companies that are leading in the retail and fuel markets in Iceland. Festi's role is to support its operational companies in fulfilling customers´ needs so as to enable them to continue to be at the forefront in providing goods and services across the country. Festi provides its subsidiaries with supporting services, such as financial, operating and business development services.
Ego ehf.	Ego is an investment company for the Group´s development investments.
Hlekkur ehf.	Hlekkur ehf. is a holding company specialising in investments in convenience stores and other companies related to retail.
Bakkinn vöruhótel ehf.	Bakkinn vöruhótel specialises in product storage, packing, labeling and distribution of products for customers that elect to outsource their warehouse activities.
Elko ehf.	Elko is an electronic equipment retail store which operates stores in the capital region and at Keflavik Airport as well as an online shop.
Festi fasteignir ehf.	Festi fasteignir specialises in leasing of non-residential real estate to retail companies.
Krónan ehf.	Krónan is a retail company that operates convenience stores in Iceland. The company operates stores throughout the country under the brand names of Krónan, Kr., Kjarval and Nóatún.
N1 ehf.	N1 specialises in wholesale and retail of fuel, operation of service stations including tire and lubrication service stations around the country. The Company's service stations sell fuel in addition to refreshments and sale of various convenience goods.

Consolidated Financial Statements of Festi hf. 2019 17 Amounts are in thousands of ISK

Notes, contd.:

4 Acquisition of subsidiary

On 30 July 2018 the Icelandic Competition Authority (ICA) approved Festi´s (then named N1) acquisition of all share capital of Hlekkur hf. (then named Festi) subject to certain conditions. Hlekkur then operated grocery stores under the brand names of Krónan, Kr, Nóatún and Kjarval, as well as the electrical appliance store ELKO and Bakkinn warehouse hotel. Detailed information regarding the acquisition is disclosed in note 4 to the Company´s consolidated financial statements for the year 2018, which are available on Festi´s homepage (www.festi.is).

The acquisition date was 1 September 2018 and the operations of Hlekkur and its subsidaries are included in these consolidated financial statements as from that date. Due to this comparative amounts for the year 2019 are not fully comparable to amounts for the year 2019. In the period from the acquisition date to year-end 2018 the total revenue of Hlekkur and its subsidiaries were in the l amount of ISK 15,422 million and EBITDA 1,148 million. In 2019 the total revenue of those companies amounted to ISK 50,966 million and EBITDA ISK 5,289 million.

5 Operating segments

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

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

The operating companies of Krónan, N1 and ELKO in the Group are individual operating segments and the Group´s other entities comprise the fourth segment. That segment consists of the operations of the parent company Festi, Hlekkur, Bakkinn Vöruhótel, Festi fasteignir and Ego (see note 3 for further information).

Revenue and expenses for the year 2088 consist of revenue and expenses of the Company and the subsidiary Ego for the whole year but revenue and expenses of Hlekkur and its subsidiaries as from 1 of September 2018, i.e. when those companies became members of the Group. The operating segment breakdown for the year 2018 is presented as in the financial statements for the year 2018 and therefore not comparable to the year 2019.

	N1	Krónan	ELKO	Other companies	According to the financial statements
Year 2019					
External revenue	38.108.123	36.226.980	11.125.810	1.280.493	86.741.406
Intra-group revenue	36.735	127.795	13.018	5.661.598	5.839.146
Total segment revenue	38.144.858	36.354.775	11.138.828	6.942.091	92.580.552
Operating profit before depreciation, amortisation and changes in value (EBITDA)	1.825.857	1.945.377	539.933	3.294.075	7.605.242
Segment depreciation and amortisation	(702.798)	(775.577)	(194.832)	(1.024.487)	(2.697.694)
Changes in value of investment properties				290.929	290.929
Operating profit of segments (EBIT)	1.123.059	1.169.800	345.101	2.560.517	5.198.477
Net finance costs	64.010	(164.601)	(26.564)	(2.025.605)	(2.152.760)
Share of profit of associates and loss from sale of shares				325.115	325.115
Income tax	(240.095)	(178.433)	(52.749)	(104.007)	(575.284)
Profit for the year	946.974	826.766	265.788	756.020	2.795.548
31 December 2019					
Segment assets	15.816.000	17.593.165	6.164.960	41.670.218	81.244.343
Segment capital expenditure	522.425	633.819	125.769	975.743	2.257.756
Segment liabilities	5.494.366	7.705.869	4.355.829	35.000.035	52.556.099

Consolidated Financial Statements of Festi hf. 2019 18 Amounts are in thousands of ISK

Notes, contd.:

5 Operating segments, contd.:

	Festi	Hlekkur	Real estate	Eliminations	According to the financial statements
Year 2018					
Sale of goods and services	43.512.852	15.422.448	0	(3.746)	58.931.554
Other operating income	402.546	104.991	2.686.709	(2.418.188)	776.058
Total segment revenue	43.915.398	15.527.439	2.686.709	(2.421.934)	59.707.612
Operating profit before depreciation, amortisation and changes in value (EBITDA)	1.811.796	699.607	2.116.357	0	4.627.760
Segment depreciation and amortisation	(468.183)	(303.981)	(626.642)		(1.398.806)
Changes in value of investment properties	0	0	(10.239)		(10.239)
Share of profit of associates	204.875				204.875
Operating profit of segments	1.548.488	395.626	1.479.476	0	3.423.590
Net finance costs					(947.075)
Income tax					(417.846)
Profit for the year					2.058.669
31. December 2018					
Segment assets	11.600.157	27.216.664	36.739.425		75.556.246
Unallocated assets					2.242.827
Total assets					77.799.073
Unallocated liabilities					51.829.227
Segment capital expenditure	517.464	375.339	822.372		1.715.175

Consolidated Financial Statements of Festi hf. 2019 19 Amounts are in thousands of ISK

Notes, contd.:

6. Operating income

Sale of goods and services

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

Income from lease of real estate

Real estate leased to parties outside the Group are classified as investment properties. An investment property is a real estate held to earn rentals or for capital appreciation or both. Investment properties are recognised at fair value. Fair value changes of investment properties are presented seperately in the income statement, and therefore presented separately from lease income from those same assets. For further information for investment properties, refer to note 17.

Other operating revenue

Revenue from warehouse activities, commissions, gain on sale of assets and other income are presented in other operating income.

Operating income is specified as follows:	2019	2018
Sale of goods and services:		
Convenience goods	39.882.359	14.881.760
Fuel	26.085.259	31.850.061
Electronic equipment	10.980.368	4.187.506
Sale of other goods and services	8.235.672	8.012.227
Total sale of goods and services	85.183.658	58.931.554
Other operating income:		
Lease income from leasing of real estate	772.595	268.520
Warehouse services	404.672	270.994
Other operating income	380.481	236.544
Total other operating income	1.557.748	776.058
Total operating revenue	86.741.406	59.707.612

7. Cost of goods sold

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

Gross profit from sale of goods and services is specified as follows:	2019	2018
Convenience goods	9.468.082	4.238.902
Fuel	5.249.402	5.350.887
Electronic equipment	2.629.783	860.498
Other goods and services	2.947.959	3.254.118
Total gross profit from sale of goods and services	20.295.226	13.704.405

Consolidated Financial Statements of Festi hf. 2019 20 Amounts are in thousands of ISK

Notes, contd.:

8. Salaries and other personnel expenses

	2019	2018
Salaries	7.754.427	5.229.666
Contributions to pension funds	1.003.596	603.801
Other personnel expenses	745.352	482.432
Annar starfsmannakostnaður	449.186	215.808
Total salaries and other personnel expenses	9.952.561	6.531.706
Average number of employees	1.872	944
Full time equivalent average units at year end	1.158	764
Employee gender ratio (male/female)	66/34	62/38

Contributions to defined contribution pension 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.

Information about salaries and benefits of the members of the Board of Directors and management is disclosed in note 31 on related parties.

9. Other operating expenses

Other operating expenses are specified as follows:

	2019	2018
Operating costs of real estate	1.668.760	1.206.819
Maintenance expenses	739.591	510.535
Sales and marketing expenses	696.145	504.067
Office and administrative expenses (incl. fees to auditors)	442.537	226.959
Communication expenses	475.664	446.189
Other expenses	201.572	96.545
Expenses due to acquisition of Hlekkur ehf. (see note 4 in the consolidated financial statements for the year 2018)	70.902	329.883
Total other operating expenses	4.295.171	3.320.997

10. Fees to auditors of the Group and subsidiaries

Fees to auditors are specified as follows:

Audit of annual financial statements	55.462	30.719
Review of interim financial statements	13.152	8.324
Other services	74.271	11.118
Total fees to auditors	142.885	50.161

11. Depreciation and amortisation

Amortisation of intangible assets, as per note 14	451.368	178.063
Depreciation of property and equipment, as per note 15	1.799.145	1.220.743
Depreciation of leased assets, as per note 16	447.181	0
Total depreciation and amortisation	2.697.694	1.398.806

Consolidated Financial Statements of Festi hf. 2019 21 Amounts are in thousands of ISK

Notes, contd.:

12. Finance income and finance costs

Finance income is specified as	2019	2018
Interest income on cash and cash equivalents	159.759	52.954
Interest income on long-term receivables	8.191	84.751
Interest income on other receivables	5.271	14.263
Total finance income	173.221	151.968

Finance costs are specified as follows:

Interest expense and CPI-indexation on loans from credit institutions	2.018.641	1.051.488
Interest expense on lease liabilities	224.464	0
Other interest expense	110.143	104.393
Total finance costs	2.353.248	1.155.881

Foreign currency differences and assets and liabilities denominated in foreign currencies

Foreign currency differences arise from transactions in foreign currencies, predominantly USD. Transactions in foreign currencies are translated to Icelandic krona at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the reporting date. The average ISK/USD exchange rate for the year 2019 was 122.94 (2018: 108.4) and the exchange rate at year end was 121.39 (2018: 116.3).

13. Goodwill

All goodwill in the consolidated financial statements is due to the Company´s acquisition of Hlekkur and its subsidiaries in 2018. For the purpose of impairment testing, goodwill is allocated to the cash-generating units it relates to. Three cash-generating units were identified in the purchase price allocation and goodwill was allocated to two of them, grocery and electronic equipment stores. Other goodwill is due to synergy and optimisation with respect to the acquisition of Hlekkur and allocated to the Group as a whole. Further information on the acquisition of Hlekkur and its subsidiaries, see note 4.

Goodwill was initially allocated on a provisional basis. Information was obtained subsequently which resulted in the Group having to change the initial allocation of goodwill. This change led to a decrease in the amount allocated to electronic equipment stores and to an increase in the amount allocated to the Group as a whole. This change in allocation from the initial provisional allocation had no impact on the income statement or statement of financial position of the Group.

The following table specifies the change in allocation of goodwill:

	Provisional allocation in 2018	Reallocation	Amounts according to 2019 financial statements
Grocery stores	6.028.119	0	6.028.119
Electronic equipment stores	2.328.558	(882.812)	1.445.746
The Group as a whole	5.713.786	882.812	6.596.598
Goodwill at the end of the year	14.070.463	0	14.070.463

Accounting policy

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

Impairment test at year-end 2019

Goodwill was tested for impairment at year-end 2019. According to the results of the test there was not an indication of impairment. When testing for impairment a recoverable amount is estimated. In case of grocery stores and electronics stores the testing was based on determining value in use of cash-generating units but for the Group as a whole the test was based on fair value less costs of disposal. Value in use is determined by discounting estimated future cash flows of the relevant cash-generating unit. Calculation of fair value less costs of disposal for the Group as a whole is based on the market value of the Group at year-end 2019 with control premium added to arrive at an estimated value of 100% shareholding. Control premium was estimated as 10% and costs of disposal as 1.5%.

Consolidated Financial Statements of Festi hf. 2019 22 Amounts are in thousands of ISK

13. Goodwill, contd.:

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

Year-end 2019	EBITDA-growth	Terminal growth	Discount rate	Carrying amount at year-end
Grocery stores	6,3%	3,0%	9,5%	6.028.119
Electronic equipment stores	7,8%	3,0%	10,1%	1.445.746
The Group as a whole	N/A	N/A	N/A	6.596.598
Total goodwill				14.070.463

Year-end 2018				
Grocery stores	3,5%	3,0%	13,9%	6.028.119
Electronic equipment stores	0,8%	3,0%	13,8%	2.328.558
The Group as a whole	3,0%	3,0%	11,7%	5.713.786
Total goodwill				14.070.463

14. Other intangible assets

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

Accounting policy

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

Other intangible assets are specified as follows:

	Trademarks	Trade agreements	Software	Total
Gross carrying amount				
Gross carrying amount 1.1.2018	230.850	0	641.413	872.263
Acquisition of Hlekkur ehf.	3.975.545	196.729	434.750	4.607.024
Additions during the year	0	0	113.377	113.377
Sold and disposed of	0	0	(364)	(364)
Gross carrying amount 31.12.2018	4.206.395	196.729	1.189.177	5.592.301
Additions during the year	2.000	25.000	574.988	601.988
Sold and disposed of	(66.259)	(117.836)	(688.277)	(872.372)
Gross carrying amount 31.12.2019	4.142.136	103.893	1.075.888	5.321.917
Amortisation				
Amortised 1.1.2018	115.422	0	541.853	657.275
Acquisition of Hlekkur ehf.	0	126.469	126.846	253.315
Amortisation for the year	77.802	9.368	90.893	178.063
Sold and disposed of	0	0	(363)	(363)
Amortised 31.12.2018	193.224	135.836	759.229	1.088.289
Amortisation for the year	215.505	31.704	204.159	451.368
Sold and disposed of	(66.259)	(125.636)	(675.694)	(867.589)
Amortised 31.12.2019	342.470	41.904	287.694	672.068
Carrying amount				
Carrying amount 1.1.2018	115.428	0	99.561	214.987
Carrying amount 31.12.2018	4.013.171	60.893	429.949	4.504.012
Carrying amount 31.12.2019	3.799.666	61.989	788.195	4.649.850
Amortisation rates	5%	14%	20-33%	

Consolidated Financial Statements of Festi hf. 2019 23 Amounts are in thousands of ISK

Notes, contd.:

15. Property and equipment

The Group´s property and equipment consists of real estate, vehicles, machinery and equipment, cabinetry, signs and supply tanks.

Accounting policy

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

When property and equipment consists of parts which have different useful lives, the parts are separated and depreciated based on the useful life of each part.

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

Costs of replacing single components of property, plant and equipment is capitalised when it is considered likely that the benefits associated with the asset will flow to the Group and the costs can be measured reliably. The carrying amount of the replaced component is expensed. All other costs are expensed in the income statement when incurred.

Depreciation

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

Real estate..	50 years
Other property and equipment..	3 - 20 years

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

Revaluation of real estate

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

Real estate revaluation methods

The Group´s real estate for own use are recognised at revalued cost amount. A revaluation was carried out on 31 December 2016. According to the revaluation method an entity shall assess if there are any indicators of there being a significant difference between fair value and carrying amount. At year-end 2019 there were no such indicators present.

The Board of Directors has implemented a policy for the revaluation of property and equipment to ensure that at any given time the carrying amount of revalued assets does not differ significantly from fair value. The policy demands that a fair value estimate is performed if there are indications present that the difference between fair value and carrying amount of revalued assets is or exceeds 20%. However, fair value shall be determined at least every five years. When fair value is estimated the carrying amount of revalued assets is set to their fair value, even if the difference between fair value and carrying amount at measurement date does not exceed the aforementioned 20% threshold.

Notes, contd.:

15. Property and equipment, contd.:

The Group annually checks for indications of difference in book value and fair value exceeding 20%. The Group takes various factors into account but in particular the following:
a. Depreciation of revalued assets since their last fair value measurement.
b. Sales price of assets similar to those revalued by the Group, if such information is available.
c. Inflation.
d. Changes in official real estate value, if applicable as a benchmark for similar revalued assets of the Group.
e. The assumptions upon which revaluation is based, e.g. growth (or decline) in sales of goods and chances in discount rates due to changes in benchmark interest rates and/or risk margin.

Property and equipment are specified as follows:

	Real estate	Other property and equipment	Total
Cost or assessed value			
Cost 1.1.2018	18.056.121	5.100.835	23.156.956
Acquisition of Hlekkur ehf.	13.027.681	3.784.314	16.811.995
Additions during the year	802.933	768.352	1.571.286
Sold and disposed of during the year	(44.193)	(221.746)	(265.939)
Cost or assessed value 31.12.2018	31.842.542	9.431.755	41.274.297
Additions during the year	588.995	1.012.216	1.601.211
Reclassification	(1.423.168)	1.423.168	0
Sold and disposed of during the year	(726.852)	(424.726)	(1.151.578)
Cost or assessed value 31.12.2019	30.281.517	11.442.413	41.723.930
Depreciation			
Depreciated 1.1.2018	3.047.482	3.169.245	6.216.727
Acquisition of Hlekkur ehf.	114.557	1.509.884	1.624.441
Depreciation for the year	629.461	591.282	1.220.743
Sold and disposed of during the year	(9.738)	(196.756)	(206.493)
Depreciated 31.12.2018	3.781.762	5.073.655	8.855.417
Depreciation for the year	576.457	1.222.688	1.799.145
Reclassification	(764.974)	764.974	0
Sold and disposed of during the year	(127.131)	(237.261)	(364.392)
Depreciated 31.12.2019	3.466.114	6.824.056	10.290.170
Carrying amount			
Carrying amount 1.1.2018	15.008.639	1.931.590	16.940.229
Carrying amount 31.12.2018	28.060.780	4.358.099	32.418.877
Carrying amount 31.12.2019	26.815.403	4.618.356	31.433.757
Depreciation rates	0-2%	5 - 33%	

The Company's real estate is pledged for debt which amounted to ISK 31,378 million at year end 2019. Furthermore, there is VAT encumbrance related to the Groups real estate for ISK 2,231 million. This encumbrance is not entered as a liability in the statement of financial position since it will only become payable if the real estate would be used in operations which are exempt of VAT or if it is sold without the buyer taking over the encumbrance.

Insurance and official real estate value of property and equipment at year-end:

	2019	2018
Official real estate value	21.759.644	21.174.668
Insurance value of real estate	29.920.114	29.178.884
Insurance value of machinery and equipment, cabinetry, and vehicles	6.136.984	5.532.219

Consolidated Financial Statements of Festi hf. 2019 25 Amounts are in thousands of ISK

16. Lease contracts

The Group has changed its accounting policy for lease contracts starting from the beginning of the year 2019. The impact of the changes to the accounting policies for lease contracts is further disclosed in note 2.3.

A. *The Group as lessee*

The Group leases buildings, land and equipment for its operations and the lease contracts extend up to the year 2033. The contracts are with various parties and are indexed to the consumer price index or not indexed.

Accounting policies

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

At the commencement date of a lease contract, the Group recognises a leased asset and a lease liability in the statement of financial position. On that date or upon modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, the Group has elected not to recognise leased assets and lease liabilities for lease contracts whose lease term, determined in accordance with IFRS 16 rules, is 12 months or less and for lease contracts for which the underlying asset is of low value. Lease payments arising from these contracts are expensed in the income statement on a straight-line basis and presented in the line item “Other operating expenses”.

The Group determines the lease term as the non-cancellable period of a lease contract together with periods covered by options to extend the lease if the Group is reasonably certain to exercise those options. If there are termination options for the contracts, which the Group is certain to exercise, then they are taken into consideration. Management uses its judgement to determine whether the Group is reasonably certain to exercise extension options or termination options. When making that determination management considers all relevant facts and circumstances that create an economic incentive for the Group.

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

Leased assets are subsequently measured in accordance with the cost model in IFRS 16. They are depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership to the Group at the end of the lease term or the cost of the leased assets reflects that the Group will exercise a purchase option of the underlying assets. In that case the leased assets are depreciated over the useful life of the underlying assets, which is determined on the same basis as those of property and equipment of the Group. The carrying amount of lease assets is reduced by impairment losses, when applicable, and adjusted for certain remeasurements of the carrying amount of lease liabilities.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date of the lease contracts, discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Group uses the incremental borrowing rate. The determination of the incremental borrowing rate is based on various factors, in particular on the types of assets leased, their location and condition and the lease term.

The lease payments included in the measurement of lease liabilities can be both fixed or variable that depend on an indices or rates. In the same way, extension options, which the Group is reasonably certain to exercise, and termination options, which the Group has decided to exercise, are taken into account.

Notes, contd.:

16. Lease contracts, contd.:

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

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

Leased assets are presented separately within non-current assets in the statement of financial position. Lease liabilities are presented separately in the statement of financial position and split into non-current and current portions. Depreciation of leased assets is presented in income statement under depreciation, as per note 11. Interest expense on lease liabilities is presented in income statement under finance costs, as per note 12.

Leased assets

Leased assets are specified as follows:

	Buildings	Land	Total
Carrying amount 1.1.2019	3.158.939	543.122	3.702.061
New lease contracts	516.622		516.622
Change due to remeasurement of lease liabilities	90.577	103	90.680
Depreciation for the year	(391.991)	(55.190)	(447.181)
Carrying amount 31.12.2019	3.374.147	488.035	3.862.182

B. *The Group as lessor*

The Group leases buildings to many parties. Revenue from those leases is included under other revenue, as per note 6.

17. Investment properties

Real estate used for rent to third parties and for capital appreciation are classified as investment properties.

Accounting policies

Investment properties are recognised at fair value at the reporting date. Valuation changes of those assets are recognised in profit or loss as they occur. Investment properties are not depreciated. Changes in fair value of investment properties are presented seperately in the statement of income and comprehensive income but lease income is presented in the line item “Other operating income“ , see further in note 6.

Determination of fair value of investment properties

Independent specialists assisted the Group in its fair value measurements for the years 2019 and 2018. Fair value measurement of investment properties is based on discounted cash flows of individual assets. The cash flow model applied is based on free cash flows to the Group, discounted by the weighted average cost of capital for individual assets (WACC). The forecast period applied in the model is 50 years. Required return on equity is based on the CAPM (Capital Asset Pricing Model), i.e. risk-free inflation adjusted interest rate with a premium added to reflect the risk of the underlying operations. Interest rates on borrowings are assessed based on general market rate of interest. A future debt ratio of 70% (2018: 70%) is assumed and the WACC applied is in the range of 5.8% - 7.0 (weighted average 6.2%).

Consolidated Financial Statements of Festi hf. 2019 27 Amounts are in thousands of ISK

17. Investment properties, contd.:

Estimated cash flows take into account current lease contracts and expected development of those. Each lease contract is analysed and relevant risk factors taken into account. Utilisation rate is estimated to be 95-96% subsequent to the lease contract expire date (2018: 95-99%). Estimated operating expenses are deducted from estimated rent income. With this methodology each asset of the Group is assessed as an independent unit. The inputs applied in the valuation model are based on operational experience of the Group as well as a forecast of development of key factors in the future.

In accordance with the results of the fair value measurement at year-end 2019 an increase in fair value of investment properties in the amount of ISK 291 million (2018: - ISK 10 million) was recognised in profit or loss.

Investment properties are specified as follows:

Acquired on 1 September 2018	8.731.500
Additions during the year	30.513
Fair value changes	(10.239)
Carrying amount 31 December 2018	8.751.774
Additions during the year	54.557
Sold during the year	(1.742.792)
Fair value changes	290.929
Carrying amount 31 December 2019	7.354.468

The fair value measurement of investment properties fall under level 3 in the fair value hierarchy of International Financial Reporting Standards since the valuation is based on significant inputs other than market information. Reasonable changes in key inputs, i.e. assumptions regarding financing cost and EBITDA, would have resulted in a different fair value estimation with the following impact on profit or loss:

Sensitivity analysis of fair value measurement at year-end 2019:	**Increase in ISK million**	**Decrease in ISK million**
Increase / (Decrease) of EBITDA from the properties´ operations by 5%	894	(894)
(Increase)/decrease of required return on equity and borrowings by 1.0% point	(960)	1.070
Sensitivity analysis of fair value measurement at year-end 2018:		
Increase / (Decrease) of EBITDA from the properties´ operations by 5%	769	(769)
(Increase)/decrease of required return on equity and borrowings by 1.0% point	(1.467)	1.883

18. Associates

The Group´s associates at year-end 2019 are 10, both domestic and foreign. The Group recognises its share of profit or loss of those associates.

Accounting policies

Associates are entities where the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting rights. Associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes the goodwill arising from the acquisition, if any, less impairment, if any. The Group's consolidated financial statements include the Group’s share of profit and equity movements of associates from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has provided guarantees in respect of the associate or has financed it. Unrealised profit arising on transactions with associated companies is recognised as a reduction in their book value. Unrealised loss is recognised in the same way as unrealised profit, but only to the extent that there is no indication of impairment of these companies.

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

Consolidated Financial Statements of Festi hf. 2019 28 Amounts are in thousands of ISK

Notes, contd.:

18. Associates, contd.:

Ownership in associates and share of profit or loss

The Group's share in profit or loss of associates amounted to ISK 385 million in 2019 (2018: ISK 205 million). Ownership in associates is specified as follows:

	Ownership	2019	2018
Olíudreifing ehf.	60,0%	1.301.870	1.318.664
Malik Supply A/S, Danmörku	24%/49%	329.396	532.964
EAK ehf.	33,3%	120.627	76.379
EBK ehf.	25,0%	157.672	140.120
Shares in associates - 6 companies (2018: 3)	-	42.784	11.525
Total shares in other associates at year-end		1.952.349	2.079.666

Change in the carrying amount of associates during the year:

	2019	2018
Carrying amount at the beginning of the year	2.079.666	1.839.908
Share of profit	384.829	204.875
Dividends	(194.000)	(120.000)
Purchase of shares	13.000	121.571
Sale of shares	(385.208)	0
Translation difference	54.062	33.312
Carrying amount at the beginning of the year	1.952.349	2.079.666

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

Olíudreifing ehf.

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

	2019*	2018*
Non-current assets	3.858.820	3.728.786
Current assets	947.585	1.003.754
Non-current liabilities	(1.943.534)	(1.897.355)
Current liabilities	(693.088)	(639.170)
Net assets (100%)	2.169.783	2.196.015
Carrying amount at year-end (60%)	1.301.870	1.318.664
Revenue (100%)	3.857.217	3.739.337
Profit (100%)	223.768	250.218
Share in total comprehensive income (60%)	134.261	150.131

* Draft annual financial statements

Consolidated Financial Statements of Festi hf. 2019 29 Amounts are in thousands of ISK

Notes, contd.:

18. Associates, contd.:

Malik Supply A/S

Malik Supply A/S was founded in 1989 to service the international fleet of trawlers on the waters of Greenland and in the North Atlantic ocean with oil, lubricants and other products. N1 sells Malik fuel oil sold to major fisheries in Greenland. The financial statements of Malik Supply A/S are prepared in accordance with the Danish Financial Statements Act. In December the Company sold a 25% share in the company for ISK 385 million. Loss on sale, in the amount of ISK 60 million, was recognised in income statement.

	2019*	2018*
Non-current assets	962.717	839.147
Current assets	4.289.182	3.234.229
Non-current liabilities	(610.873)	(498.581)
Current liabilities	(3.563.101)	(2.782.753)
Net assets (100%)	1.077.926	792.042
Share in equity	267.910	388.101
Premium	61.486	144.863
Carrying amount at year-end 24%/49%	329.396	532.964
Revenue (100%)	1.248.112	850.594
Profit (100%)	260.366	68.955
Share in total comprehensive income (49%)	127.579	33.788

* Draft annual financial statements

19. Long-term receivables

The Group's long-term receivables are denominated in both Icelandic and Danish krona. Receivables from related parties in the amount of ISK 112.5 million are convertible into share capital of the corresponding company at a certain conversion ratio at any time during the loan period. The following is an analysis of the Group´s long-term receivables.

	Interest rate at year-end 2019	Outstanding amounts at year end 2019	2018
Receivables from related parties in Danish krona	10,0%	118.059	54.779
Other receivables in Danish krona	4,0%	18.235	0
Receivables from related parties in Icelandic krona	8,0%	112.500	0
Other receivables in Icelandic krona	0,0%	75.000	0
		323.794	54.779
Current portion		(51.805)	0
Total long-term receivables		271.989	54.779

The maturities of long-term receivables are specified as follows:

	2019	2018
Year 2020	51.805	54.779
Year 2021	37.500	0
Year 2022	125.000	0
Due for payment onwards	109.489	0
Total long-term receivables	323.794	54.779

Consolidated Financial Statements of Festi hf. 2019 30 Amounts are in thousands of ISK

Notes, contd.:

20. Inventories

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

Accounting policy

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

Inventories at year end are specified as follows:	2019	2018
Fuel	2.053.553	2.711.481
Convenience goods	2.418.191	1.998.327
Electronic equipment	1.857.870	1.584.229
Other goods	1.348.799	1.322.349
Total inventories	7.678.413	7.616.386
Insurance value of inventories	6.348.614	5.430.836

Inventories are pledged as security for liabilities with an outstanding amount of ISK 2,002 million at year-end 2019. The write-down of inventories at year-end 2019 amounted to ISK 387 million and increased by ISK 33 million during the year. The write-down of inventories increased during the year 2018 by ISK 152 million.

21. Other short-term receivables

Other short-term receivables at year end are specified as follows:	2019	2018
Prepaid expenses	11.236	97.689
Receivables from the Icelandic State	226.772	101.292
Receivables from related parties	14.065	33.836
Receivable due to sale of shares in a company	325.495	0
Current portion of long-term receivables	51.805	0
Other short-term receivables	107.362	106.804
Total short-term receivables	736.735	339.621

22. Cash and cash equivalents

Cash and cash equivalents at year end are specified as follows:	2019	2018
Bank accounts	5.346.499	4.244.196
Cash	15.462	16.209
Market securities	6.793	6.520
Total cash and cash equivalents	5.368.754	4.266.925

Consolidated Financial Statements of Festi hf. 2019 31 Amounts are in thousands of ISK

23. Equity and capital management

Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 330 million. One vote is attached to each share of ISK one in the Company. Shareholders in the Company have the right to receive dividends in proportion to their shareholding upon dividend distribution. Costs directly associated with issue of share capital are deducted from equity. Purchase price of treasury shares, including direct costs associated, are deducted from equity. Equity is increased upon the sale of treasury shares. In accordance with the authorisation granted by the annual general meeting of Festi hf. on 21 March 2019, the Company started to purchase own shares in November 2019. The Company purchased ISK 1.0 million in nominal amount at the share price of 130.95 or 0.3% of the outstanding share capital.

Share premium

Share premium consists of the difference between the nominal value of share capital and the amount of paid-in share capital at any given time. Share premium was decreased during the years 2014 to 2016 by a total amount of ISK 8,847 million due to loss equalisation and decrease of share capital.

Statutory reserve

In accordance with Act on Public Limited Companies, companies are to retain a portion of their income for the year in a statutory reserve, up to the limit of the reserve being in the amount of 25% of the nominal value of share capital.

Revaluation reserve

The revaluation of the Group's real estate as well as its share in the revaluation of real estate of an associate is recognised in the revaluation reserve. The revaluation is dissolved in accordance with annual depreciation of the revaluation in the income statement. Dissolution of the revaluation is recognised inretained earnings.

Unrealised profit of subsidiaries and associates

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

Translation reserve

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

Retained earnings

Profit (loss) for the year is recognised as an increase (decrease) in retained earnings. Dividend payments are recognised as a decrease in retained earnings. Dissolution of revaluation is recognised as an increase in retained earnings.

Capital management and dividends

The Board of Directors of Festi have established a policy on the capital structure and dividend payments, according to which dividend payments to shareholders or purchase of own shares should amount to at least 50% of the profit for each year. The Board has also established a policy that EBITDA should be 35% of gross profit, net interest bearing liabilities should be 3.5 x EBITDA and equity ratio should be between 30 - 35%. The Group´s loan covenants require a minimum equity ratio of 25%. The equity ratio at year-end 2019 was 35.3% (year-end 2018: 33.4%).

Notes, contd.:

24. Earnings per share

Basic and diluted earnings per share for ordinary shares in the Company are presented in the financial statements. Basic earnings per share is based on the weighted average number of effective shares during the year. No share option contracts have been made with employees nor have financial instruments been issued, such as convertible bonds, which could lead to dilution of earnings per share. Diluted earnings per share is therefore the same as basic earnings per share.

	2019	2018
Profit for the year	2.795.548	2.058.669
Share capital at the beginning of the year	329.574	250.000
Effect of changes in share capital	(126)	26.594
Weighted-average of issued shares	329.448	276.594
Basic and diluted earnings per share in ISK	8,49	7,44

25. Loans from credit institutions

All loans from credit institutions are denominated in Icelandic krona. The loans are secured by pledge in real estate and inventories. The loans are specified as follows:

	2019	2018
Long-term loans		
Balance at the beginning of the year	33.593.033	8.000.000
Repayments	(17.913.413)	(8.714.644)
New loans	13.429.328	20.336.970
Assumed loans	0	13.485.569
Amortisation of borrowing costs	31.610	18.289
CPI-indexation	516.622	472.184
Change in current portion	285.290	(5.335)
Balance at the end of the year	29.942.470	33.593.033
Short-term loans		
Current portion of long-term loans	1.435.240	1.720.530
Short-term loans from bank	2.002.444	2.000.000
Balance at the end of the year	3.437.684	3.720.530
Total loans from credit institutions	33.380.154	37.313.563

	Interest rate at year-end 2019	Outstanding amounts at year end 2019	2018
Non-indexed loans on floating interest rates	4,0%	9.312.383	14.562.642
CPI-indexed loans on fixed interest rates	-	0	11.878.253
CPI-indexed loans on floating interest rates	3,3%	22.065.327	8.872.668
Short-term loan on floating interest rates	4,0%	2.002.444	2.000.000
Total loans from credit institutions		33.380.154	37.313.563

Consolidated Financial Statements of Festi hf. 2019 33 Amounts are in thousands of ISK

25. Loans from credit institutions, contd.:

The maturities of the loans are specified as follows:

	2019	2018
Year 2019	-	3.720.456
Year 2020	3.437.684	1.733.483
Year 2021	1.436.647	1.744.282
Year 2022	1.438.054	1.692.671
Year 2023	1.439.461	1.101.644
Year 2024	1.440.868	1.103.250
Due for payment onwards	24.187.440	26.217.777
Total loans from credit institutions	33.380.154	37.313.563

26. Lease liabilities

The Group has changed its accounting policy for lease contracts starting from the beginning of the year 2019. The impact of the changes to the accounting policies for lease contracts is further disclosed in note 2.3 and the accounting policies in note 16.

Lease liabilities are specified as follows:

Carrying amount 1.1.2019	3.702.061
New lease contracts	516.622
Increase due to indexation of lease payments	90.680
Payment of lease liabilities during the year	(345.804)
Total lease liabilities	3.963.559
Current portion	(377.610)
Total non-current portion of lease liabilities	3.585.949

The maturity analysis of lease liabilities is specified as follows at year-end 2019:

Year 2020	377.610
Year 2021	400.181
Year 2022	415.415
Year 2023	403.932
Year 2024	425.612
Due for payment onwards	1.940.809
Total	3.963.559

All lease liabilities are denominated in Icelandic krona.

27. Income tax

Accounting policy

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to operating items recognised directly in equity or in other comprehensive income, in which case the income tax is recognised together with those items.

Current tax is the income tax estimated to be payable next year in respect of the taxable income for the year, based on the tax rate at the reporting date, besides adjustments to tax payable in respect of previous years, if any.

Deferred tax is recognised using the balance sheet method in respect of temporary differences between, on the one hand, the carrying amounts of assets and liabilities in the financial statements and, on the other hand, their tax bases. The amount of deferred tax is based on the estimated realisation or settlement of the carrying amounts of assets and liabilities using the tax rate in effect at the reporting date.

Consolidated Financial Statements of Festi hf. 2019 34 Amounts are in thousands of ISK

27. Income tax, contd.:

A deferred tax asset is recognised only to the extent that it is probable that it is possible to utilise future profits against the asset. Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is considered that it will not be utilised.

Income tax recognised in income statement

The income tax in income statement is specified as follows:		2019		2018
Profit before income tax		3.370.832		2.476.515
Income tax based on current tax rate	20,0%	674.166	20,0%	495.303
Non-deductible expenses	0,5%	16.036	0,2%	4.356
Non-taxable income from shares	(2,3%)	(76.966)	(1,7%)	(40.975)
Other changes	(1,1%)	(37.953)	(1,6%)	(40.838)
Effective income tax rate	17,1%	575.284	16,9%	417.846

Deferred tax liability

The deferred tax liability is specified as follows by individual items at year end:	2019	2018
Property and equipment and investment properties...	4.236.404	3.123.132
Intangible assets	47	807.850
Other items..	34.501	7.791
Deferred tax liability..	4.270.952	3.938.773

28. Other short-term liabilities

Other financial instruments and other short-term liabilities are specified as follows at year-end:

	2019	2018
Unpaid salaries and salary related expenses	934.448	1.110.661
Unpaid accrued interest	89.045	118.019
Unpaid income tax...	420.488	595.668
Other unpaid taxes (VAT, tariffs, oil charge, gasoline charge, carbon charge)	2.287.675	2.306.564
Other short-term liabilities..	406.542	791.567
Total other short-term liabilities..	4.138.198	4.922.479

29. Risk management

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

Overview

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

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

Consolidated Financial Statements of Festi hf. 2019 35 Amounts are in thousands of ISK

Notes, contd.:

29. Risk management, contd.:

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. The Group's credit risk arises principally from trade receivables and other receivables.

Credit risk mainly depends on the age of trade receivables, the financial standing and operations of individual customers and the standing of the industries in which the Group's biggest customers operate, which are transportation, fishing industry and contractors. Approximately 22% (2018: 23%) of the Group's trade receivables at year end is attributable to 30 of the Group's biggest customers. Thereof, receivable from the biggest customer was 3% (2018: 3%).

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

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

The Group's receivables at year end are specified as follows:	2019	2018
Credit card receivables	635.103	668.496
Other trade receivables	3.121.221	3.016.015
Total trade receivables	3.756.324	3.684.511

Age analysis of trade receivables and impairment loss

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

Year 2019	Nominal amount	Loss allowance	Carrying amount	Allowance ratio
Not yet due	2.804.473	(100.625)	2.703.848	3,6%
Past due by 30 days or less	719.248	(50.141)	669.107	7,0%
Past due by 31 - 120 days	292.748	(30.612)	262.136	10,5%
Past due by more than 120 days	148.528	(27.295)	121.233	18,4%
	3.964.997	(208.673)	3.756.324	5,3%
Year 2018				
Not yet due	3.007.822	(44.869)	2.962.953	1,5%
Past due by 30 days or less	538.163	(24.801)	513.362	4,6%
Past due by 31 - 120 days	104.528	(30.561)	73.967	29,2%
Past due by more than 120 days	228.084	(93.855)	134.229	41,1%
	3.878.597	(194.086)	3.684.511	5,0%

Liquidity risk

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

The Group's liquidity position was strong at year-end 2019. The Group’s management considers that the Group is capable to meet its financial obligations as they become due. The weighted-average repayment period of the Group’s long-term loans is about 13 years and all loans are prepayable during the loan term. The Group also has access to lines of credit for up to 20 months for a maximum amount of ISK 3,000 million, of which ISK 2,000 were drawn at year-end 2019.

Further information about the Group's financial liabilities is disclosed in note 30 about financial instruments.

Consolidated Financial Statements of Festi hf. 2019 36 Amounts are in thousands of ISK

29. Risk management, contd.:

Market risk

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

Price risk

An important market risk of the Group is price risk due to changes in world market oil price, which has fluctuated significantly in the past few years. The Group limits price risk by means of specific agreements with its largest customers but also by to the Parent Company entering into derivative contracts to hedge part of the price risk arising from the purchase of oil. The contracts have one or two months maturities, the oil price is fixed in foreign currency and they cover the part of the Group’s oil purchases which is unhedged. The contracts are settled net in cash.

Interest rate risk

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

An increase in interest rates at the reporting date by one percentage point (100 basis points) would decrease profit before income tax by ISK 334 million (2018: ISK 373 million) due to effects on the Group's borrowings at floating interest rates. The calculation is based on operating effect on an annual basis. A decrease by one percentage point would have the same effect but in the opposite direction.

Currency risk

All of the Group's transactions denominated in foreign currencies give rise to currency risk. In evaluating currency risk both payment risk and settlement risk is taken into account. The objective is to manage currency risk in order to best insure the Group's benefits. The major part of imports is purchase of goods for resale from foreign suppliers denominated in USD and EUR, but the sale is for the most part in ISK. Sales in ISK constitute 94.1% (2018: 88.5%), USD 5.3% (2018: 10.8%) and other currencies 0.6% (2018: 0.6%).

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

Year 2019	USD	EUR	Other currencies	Total
Long-term receivables	0	0	136.294	136.294
Trade receivables	282.478	53.655	101.440	437.573
Cash and cash equivalents	241.254	52.052	143.388	436.694
Trade liabilities	(399.051)	(195.960)	(440.881)	(1.035.892)
Risk in the statement of financial position	124.681	(90.253)	(59.759)	(25.331)

Year 2018	USD	EUR	Other currencies	Total
Bonds	0	0	26.151	26.151
Trade receivables	420.785	30	87.543	508.358
Cash and cash equivalents	468.137	8.792	82.091	559.020
Trade liabilities	(5.167)	(128.356)	(426.776)	(560.299)
Risk in the statement of financial position	883.755	(119.534)	(230.991)	533.230

Consolidated Financial Statements of Festi hf. 2019 37 Amounts are in thousands of ISK

29. Risk management, contd.:

Sensitivity analysis

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

	2019	2018
USD	12.468	88.376
EUR	(9.025)	(11.953)
Other currencies	(5.976)	(23.099)
Total	(2.533)	53.323

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

Operating risk

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

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

30. Financial instruments and fair value

Assets at fair value

Securities are at fair value. The fair value estimate is categorised in level 3 of the fair value hierarchy, since the information about their fair value is based on own assumptions. Securities are an immaterial part of the Group’s assets. The Group's real estate is recognised according to the revaluation model. This entails that their fair value is determined regularly to ensure that book value does not differ significantly from fair value at any given time. Further information about the fair value measurement of real estate is disclosed in note 15. Investment properties are recognised at fair value. Further informationabout their fair value is disclosed in note 17.

Loans from credit institutions and other financial liabilities

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

Financial assets and 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 Group and their measurement basis are specified in the table below.

The Group's financial assets and liabilities include cash and cash equivalents, securities (shares in other companies and bonds), trade and other receivables, derivatives, borrowings, trade payables and certain other current liabilities.

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

Consolidated Financial Statements of Festi hf. 2019 38 Amounts are in thousands of ISK

30. Financial instruments, contd.:

Classification and measurement basis of financial instruments

The following table shows the classification of the Group's financial instruments, their measurement basis and where gains and losses arising from them are recognised in the income statement.

Financial instrument	Classification according to IFRS 9	Carrying amount at year-end 2019	Carrying amount at year-end 2018
Cash and cash equivalents	Financial assets at amortised cost	5.368.754	4.266.925
Trade and other receivables classified as financial instruments, including receivables from related parties	Financial assets at amortised cost	4.493.059	4.024.132
Long-term receivables	Financial assets at amortised cost	323.794	54.779
Loans from credit institutions	Financial liabilities at amortised cost	33.380.154	37.313.563
Trade and other short-term liabilities classified as financial instruments	Financial liabilities at amortised cost	10.941.434	10.576.891

Financial conditions

In the loan agreements there is the condition that the Group’s equity ratio must always be higher than 25% at the end of each operating year. The equity ratio was 35.3% at year-end 2019 (year-end 2018: 33.4%) and the condition was fulfilled.

Maturity analysis

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

Year-end 2019	**Within a year**	**After 1 - 3 years**	**After 3 - 5 years**	**After more then 5 years**
Loans from credit institutions	2.564.543	4.975.668	4.774.896	28.444.866
Lease liabilities	590.034	1.168.037	1.090.745	2.193.727
Current tax liability	420.488			
Payable to the Icelandic State	2.287.675			
Trade payables	6.803.236			
Other short-term liabilities	1.430.035			
	14.096.011	6.143.705	5.865.641	30.638.593

Year-end 2018				
Loans from credit institutions	5.203.489	3.153.243	8.576.386	30.134.453
Current tax liability	595.668			
Payable to the Icelandic State	2.306.564			
Trade payables	5.654.412			
Other short-term liabilities	2.020.247			
	15.780.381	3.153.243	8.576.386	30.134.453

Consolidated Financial Statements of Festi hf. 2019 39 Amounts are in thousands of ISK

Notes, contd.:

31. Related parties

Definition of related parties

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

Transactions with related companies

Transactions with related companies are speficied as follows:	**2019**	**2018**
Purchased goods and services	1.812.411	2.068.666
Sold goods and services	290.598	429.675
Interest revenue from long-term receivables	8.191	0
Long-term receivables at year end	230.559	26.151
Short-term receivables at year end	14.065	33.836
Trade receivables at year end	186.219	628.618

Board of Directors and key management personnel

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

2019	**Salary**	**Benefits**	**Performance-based salary**	**Number of shares at year end**
Board of Directors				
Margrét Guðmundsdóttir, Chairman of the Board of Directors	10.047			22.014
Þórður Már Jóhannesson, Vice-Chairman	10.188			4.345.463
Björgólfur Jóhannsson, member of the Board	4.936			80.000
Guðjón Karl Reynisson, member of the Board	5.028			349.391
Kristín Guðmundsdóttir, member of the Board	5.388			6.028
Key management personnel				
Eggert Þór Kristófersson, CEO	46.968	3.031	23.400	90.000
Six managing directors	167.386	14.434	40.279	43.670
Total	249.941	17.465	63.679	4.936.566

2018	**Salary**	**Benefits**	**Performance-based salary**	**Number of shares at year end**
Board of Directors				
Margrét Guðmundsdóttir, Chairman of the Board of Directors	9.687			3.014
Þórður Már Jóhannesson, Vice-Chairman	2.140			4.345.463
Björgólfur Jóhannsson	1.320			80.000
Guðjón Karl Reynisson	1.230			349.391
Helgi Magnússon	5.208			161.760
Jón Sigurðsson	5.634			6.525.970
Kristín Guðmundsdóttir	5.203			6.028
Þórarinn V. Þórarinsson	3.883			3.014
Key management personnel				
Eggert Þór Kristófersson, CEO	46.937	3.368	11.400	90.000
Five managing directors	120.898	11.946	21.050	43.670
Total	202.140	15.314	32.450	11.608.310

The numbers above include shares owned by their spouses and companies controlled by the members of the Board of Directors and key management personnel.

	2019	**2018**
Key management personnel gender ratio (male/female)	71/29	67/33

Consolidated Financial Statements of Festi hf. 2019 40 Amounts are in thousands of ISK

31. Related parties, contd:

Transactions with other related parties

There are no shareholders with significant influence at year-end 2019. Companies controlled by members of the Board of Directors and key management personnel are nine at year-end 2019 and they were defined as related parties. Transactions with them during the years 2019 and 2018 are very insignificant and they consist of normal sales and purchases and the pricing in such transactions is comparable to other transactions of Group companies.

Transactions with employees

The Group has granted loans to its employees due to general purchase of goods in the amount of ISK 8.2 million at year-end 2019 (2018: ISK 12.0 million). Other liabilities of employees amounted to ISK 1.2 million at year end (2018: ISK 1.4 million).

32. Litigation and other claims

The Internal Revenue Board ruled at the end of 2018 that Festi had incorrectly customs classified certain shipments of fuel in the years 2013 up to and including 2018. Subsequently, the Tax authorities redetermined in December 2019 import levies of these shipments for the years 2013 and 2014 and the Company has paid approximately ISK 30 million with premium and penalty interest because of this. Also, it was announced that redetermination for the same products was under review for the years 2015 to 2018. The Company has estimated additional costs in this respect at a maximum of ISK 60 million.

Festi does not agree with this conclusion and has decided to appeal the decision to the courts. Consequently, nothing has been recognised in the financial statements because of this case.

33. Other matters

In June 2013 the Icelandic Competition Authority announced that it had decided to initiate market research on the Icelandic fuel market. This is a new form of research, which includes consideration of a need for action against circumstances or conduct that prevents, restricts or adversely affects competition to the detriment of the public. Thus, the Competition Authority’s investigation is not specifically aimed at the Company but the fuel market as a whole. The Competition Authority’s report on preliminary findings was issued in November 2015. Market participants have submitted their opinions regarding the report and following that the Competition Authority conducted an open meeting where the various opinions were discussed. Subsequently, the Competition Authority issued several opinions which were aimed at governmental entities in addition to that market participants were invited to comment on the potential results of the market research. The research was postponed while the merger of N1 hf. and Festi hf. and the merger of Hagar hf. with Olíuverzlun Íslands hf. and DGV ehf. was under discussion.

Festi hf. reached a settlement with the Icelandic Competition Authority on 30 July 2018 concerning the Company’s purchase of the company Hlekkur hf. According to the settlement, Festi committed among other things to selling five self-service stations in the capital area in addition to the brand name Dælan. On 14 February 2019 Festi reached an agreement on the sale of Dælan and certain fiveself-service stations, which was approved by the Icelandic Competition Authority. The self-service stations were delivered on 28 February 2019.

Furthermore, Festi should according to the settlement sell the grocery store Kjarval in Hella. An agreement was reached about the sale, but it was not delivered due to resistance from the landlord of the real estate in Hella. Festi then reached an agreement on the sale of the grocery store Krónan in Hvolsvöllur. In February 2020 the municipality Rangárþing eystra declined to sublease the lease agreement which means that this sales agreement will not be fulfilled. Thus, Festi has initiated discussions with the Icelandic Competition Authority regarding its reaction to this situation. Festi has satisfied all the other conditions in the settlement.

Notes, contd.:

34. Financial ratios

The Group's key financial ratios

Operations	2019	2018
Turnover rate of inventories		
Utilisation of goods / average balance of inventories during the year	8,6	9,0
Sales days in trade receivables:		
Average balance of trade receivables during the year / goods		
and services sold	15,2	22,0
Profit before depreciation, amortisation and finance items / gross profit...............	37,5%	33,8%
Salaries and salary related expenses / gross profit	49,0%	47,7%
Other operating expenses / gross profit	21,2%	24,2%
Financial position		
Current ratio: current assets / current liabilities...	1,19	1,11
Liquidity ratio: (current assets - inventories) / current liabilities.............................	0,67	0,58
Leverage: net interest bearing liabilities / EBITDA...	4,20	7,14
Equity ratio: equity / total capital..	35,3%	33,4%
Return on equity: profit for the year / average balance of equity...........................	10,2%	11,0%

Consolidated Financial Statements of Festi hf. 2019 42 Amounts are in thousands of ISK

Quarterly Statement - unaudited

The Group´s operations for the year 2019 is specified by quarters as follows:

	Q1	Q2	Q3	Q4	2019 Total
Sale of goods and services	18.229.601	21.390.870	24.091.734	21.471.453	85.183.658
Cost of goods sold	(13.998.768)	(16.342.543)	(18.447.709)	(16.099.412)	(64.888.432)
Gross profit from sale of goods and serv. .	4.230.833	5.048.327	5.644.025	5.372.041	20.295.226
Other operating income	372.102	639.352	411.795	134.499	1.557.748
Salaries and other personnel expenses	(2.290.652)	(2.587.889)	(2.371.105)	(2.702.915)	(9.952.561)
Other operating expenses	(983.060)	(1.207.386)	(1.067.327)	(1.037.398)	(4.295.171)
	(2.901.610)	(3.155.923)	(3.026.637)	(3.605.814)	(12.689.984)
Operating profit before depreciation, amortisation and finance items (EBITDA)	1.329.223	1.892.404	2.617.388	1.766.227	7.605.242
Depreciation and amortisation	(721.493)	(623.476)	(541.279)	(811.446)	(2.697.694)
Changes in value of investment properties ...	(45.092)	(72.189)	62.325	345.885	290.929
Operating profit (EBIT)	562.638	1.196.739	2.138.434	1.300.666	5.198.477
Finance income	19.285	15.652	43.793	94.491	173.221
Finance cost	(617.678)	(653.470)	(536.243)	(545.857)	(2.353.248)
Foreign currency differences	36.478	17.258	24.271	(50.740)	27.267
Share of profit of associates	60.203	84.645	139.213	100.768	384.829
Loss from sale of shares in companies	0	0	0	(59.714)	(59.714)
	(501.712)	(535.915)	(328.966)	(461.052)	(1.827.645)
Profit before income tax	60.926	660.824	1.809.468	839.614	3.370.832
Income tax	(9.320)	(111.315)	(329.843)	(124.806)	(575.284)
Profit for the period	51.606	549.509	1.479.625	714.808	2.795.548
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from the operations of a foreign associate .	(231)	39.743	(33.187)	(17.476)	(11.151)
Reversal of translation difference due to sale of shares	0	0	0	65.213	65.213
Total other comprehensive income	(231)	39.743	(33.187)	47.737	54.062
Total comprehensive income	51.375	589.252	1.446.438	762.545	2.849.610
Basic and diluted earnings per share in ISK	0,15	1,67	4,49	2,18	8,49

Consolidated Financial Statements of Festi hf. 2019 43 Amounts are in thousands of ISK

Quarterly Statement - unaudited

The Group´s operations for the year 2018 by quarters is specified as follows:

	Q1	Q2	Q3	Q4	2018 Total
Sale of goods and services	7.983.187	10.931.549	17.486.413	22.530.405	58.931.554
Cost of goods sold	(5.993.878)	(8.073.436)	(13.487.094)	(17.672.741)	(45.227.149)
Gross profit from sale of goods and serv.	1.989.309	2.858.113	3.999.319	4.857.664	13.704.405
Other operating income	105.504	123.584	176.608	370.362	776.058
Salaries and other personnel expenses	(1.094.175)	(1.237.296)	(1.593.094)	(2.607.141)	(6.531.706)
Other operating expenses	(600.115)	(667.427)	(961.584)	(1.091.871)	(3.320.997)
	(1.588.786)	(1.781.139)	(2.378.070)	(3.328.650)	(9.076.645)
Operating profit before depreciation, amortisation and finance items (EBITDA)	400.523	1.076.974	1.621.249	1.529.014	4.627.760
Depreciation and amortisation	(247.869)	(254.368)	(308.227)	(588.342)	(1.398.806)
Changes in value of investment properties	0	0	10.951	(21.190)	(10.239)
	(242.962)	(254.368)	(297.276)	(609.532)	(1.409.045)
Operating profit (EBIT)	157.561	822.606	1.323.973	914.575	3.218.715
Finance income	23.278	16.436	29.434	82.820	151.968
Finance cost	(102.724)	(107.128)	(272.209)	(673.820)	(1.155.881)
Foreign currency differences	(13.781)	42.686	19.535	24.194	72.634
Share of profit of associates	29.518	29.142	115.691	30.524	204.875
Loss from sale of shares in companies	(214)	(2.228)	(13.353)	(1)	(15.796)
	(63.923)	(21.092)	(120.902)	(536.283)	(742.200)
Profit before income tax	88.732	801.514	1.203.071	383.198	2.476.515
Income tax	(12.303)	(129.822)	(220.018)	(55.703)	(417.846)
Profit for the period	76.429	671.692	983.053	327.495	2.058.669
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from the operations of a foreign associate	(15.428)	9.609	20.830	18.286	33.297
Total other comprehensive income	(15.428)	9.609	20.830	18.286	33.297
Total comprehensive income	61.001	681.301	1.003.883	345.781	2.091.966
Basic and diluted earnings per share in ISK	0,31	2,69	3,16	1,00	7,44

Consolidated Financial Statements of Festi hf. 2019 44 Amounts are in thousands of ISK

Statement of Corporate Governance

Board of Directors and Corporate Governance

Festi complies with the Guidelines on Corporate Governance, 5th edition 2015, issued by the Icelandic Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers.

Corporate governance of Festi is laid down in rules of procedures for the Board of Directors, the Company‘s Articles of Association and the Act on Public Limited Companies No. 2/1995. The current rules of procedures for the Board of Directors were approved on a Board meeting at 30 April 2019. The rules are based on provisions in Article 70, paragraph 4 in the Act on Public Limited Companies No. 2/1995 and Article 17, paragraph 2 of the Company‘s Articles of Association. The Company‘s Articles of Association describe the Company’s objective, its share capital, shareholders meetings, Board of Directors, CEO, accounting and audit. The current remuneration policy for Festi was approved by the Annual General Meeting on 21 March 2019. The policy applies to the terms of employment for members of the Board of Directors, CEO and senior management of the Company.

The Company’s rules of procedures for the Board of Directors, Articles of Association and policy on terms of employment are accessible on the Company’s website, www.festi.is/fjarfestatengsl. The Company’s highest authority is with its shareholders. The Annual General Meeting of shareholders shall be held by the end of August each year. The Board of Directors is the highest authority in the Company’s affairs between shareholders meetings and is responsible for its operations. The Board of Directors executes an appraisal of performance annually. Communication between the Board and shareholders is at shareholders meetings. Members of the Board are independent in their work and do not accept direct instructions from shareholders in the Company or other stakeholders. Members of the Board must also observe confidentiality in performing their duties and are not allowed to provide information to shareholders concerning the Company’s finances or operations unless it is presented by the Board of Directors.

According to the Articles of Association, the Board of Directors of Festi shall consist of five directors appointed for a one year term at the Annual General Meeting. The Board of Directors consists now of two women and two men after the resignation of a Board member in November 2019. The Company complies with the provisions of law on gender ratio which entered into effect on 1 September 2013. Members of the Board have diverse education and extensive professional experience.

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

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

Statement of Corporate Governance, contd.

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

All members of the Board of Directors have provided personal information to enable an evaluation of their qualification for membership on the Board of Directors in other companies, shareholding in the Company, whether directly or indirectly through related parties, and possible conflict of interest. All Board members are independent of both the Company and the large shareholders.

Remuneration committee

The Board of Directors has appointed a Remuneration Committee. The role of the Remuneration Committee is to provide guidance to the Board of Directors regarding employment terms for Board members and Company's management and advise on the Company's remuneration policy, which shall be reviewed every year and presented to the Company's Annual General Meeting. Furthermore, the Committee shall monitor that employment terms of senior management is within the framework of the Company's remuneration policy and report thereon to the Board of Directors on annual basis in relation to the Annual General Meeting. The Board of Directors shall appoint two members in the Remuneration Committee. One of two members shall be independent from the Company and its day-to-day managers. Neither the CEO nor other employees may be a member of the Remuneration Committee. Independent Board members may be members of the Remuneration Committee. Committee members should preferably have experience and knowledge of the criteria and customs that relate to the determination of the employment terms of managers. The employment terms of the members of the Committee shall be decided at the Annual General Meeting. The Rules of Procedure of the Board of Directors shall stipulate the tasks of the Committee. The committee consists of Margrét Guðmundsdóttir, Chairman of the Board of Directors, and Guðjón Karl Reynisson.

Audit Committee

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

- To monitor the financial reporting process.
- To monitor the organisation and effectiveness of Festi´s internal control, risk management and other control procedures.
- To monitor the external audit of Festi´s financial statements.
- To make recommendation to the Board of Directors regarding selection of auditors or audit firm.
- To evaluate the independence of external auditors or audit firm and monitor other tasks performed by them.

Statement of Corporate Governance, contd.

Nomination Committee

Festi has appointed a Nomination Committee, elected at the shareholders meeting. The committee has an advisory role regarding the election of Board members. The nomination committee's recommendations are aimed at a Board composition with diverse knowledge and experience that will serve well for setting Company policies and for monitoring the business environment of the Company at any given time.

The Nomination Committee consists of three members that are appointed for a one year term. Majority of committee members are independent from the Company and its day-to-day managers. The same guidelines are applied in assessing the independence of committee members as for assessing the independence of Board members, issued by the Icelandic Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers on Corporate Governance (hereafter referred to as "Guidelines on Corporate Governance"). At least one committe member shall be independent from large shareholders.

The Nomination Committee has an advisory role regarding the election of Board members and presents its recommendations to shareholder meetings were Board members are scheduled to be appointed. The committee shall conduct its work with the general interest of the Company in mind.

The Nomination Committe presents a reasoned proposal for election of Board members, taking into account their competency, experience and knowledge with regards to Guidelines on Corporate Governancee and the results of the Board's appraisals. The proposal shall be in accordance with applicable laws and the company's articles of assocation regarding the Board of Directors.

The Nomination Committee consists of Sigrún Ragna Ólafsdóttir, Chairman, Tryggvi Pálsson and Þórður Már Jóhannesson, Vice-Chairman of the Board of Directors. Any queries are received through e-mail, tilnefningarnefnd@festi.is

Investment Committee

The Board of Directors has appointed an Investment Committee. Its purpose is to provide the Board with analysis and recommendations regarding investments. The committee consists of Þórður Már Jóhannesson, Vice-Chairman of the Board of Directors and Eggert Kristófersson, CEO.

During the year 2019, the Board of Directors held 16 meetings, the Audit Committee 14 meetings and the Remuneration Committee 6 meetings. The majority of the Board of Directors, the Audit Committee and the Remuneration Committee attended all meetings. The Audit Committee calls meetings with the Company's auditors on regular basis and auditors attend Board meetings when reviewed or audited financial statements are discussed.

Statement of Corporate Governance, contd.

The Board of Directors of Festi

Margrét Guðmundsdóttir, Chairman of the Board of Directors
Margrét held the position of CEO of Austurbakki, later Icepharma hf. during the period from 2005 to 2016. Priorly she was an executive director at Skeljungur from 1995 to 2005, executive director at Kuwait Petroleum (Danmark) A/S from 1986 to 1995 and the office director at Dansk ESSO, later Statoil from 1982 to 1986. She was the deputy CEO of AIESEC International Brussel from 1978 to 1979. Margrét is the acting CEO of Eignarhaldsfélagið Lyng ehf. and is a member of the company's executive committee. Further, Margrét is a member of the Board of Director at Hekla hf., Hekla Fasteignir ehf. and Paradís ehf. She was the chairman of European Surgical Trade Association from 2011 to 2013 and sat on the Association's Board of Directors from 2009 to 2015. She was the chairman of the Icelandic Federation of Trade and was the member of the Board of Directors at Reiknistofa bankanna from 2010 to 2011 and 2016 to 2018, ISAVIA 2017 to 2018 and SPRON 2008 to 2009. Margrét has also been a member of the board of the following companies: Skýrr hf. Frigg hf., Q8 A/S in Denmark and Dansk Institut for Personalerådgivning. Margrét has been a member of the Board of Directors of N1 from 2011 and has been chairman since 2012. Margrét holds a Cand. oecon. degree in Business Administration from the University of Iceland, Cand. merc. degree from Copenhagen Business School and an Executive education from CEDEP Insead in France.

Þórður Már Jóhannesson, Vice-Chairman of the Board of Directors
Þórður Már was the CEO of Straumur Fjárfestingabanki from 2001 to 2006 where he lead the founding and build of the company. Between 1996 and 2001 he was employed at Kaupþing. Since 2006 he has been involved in personal investments. In year 2014 his company invested in Festi and subsequently Þórður Már became a leading shareholder of the company. Þórður Már has been a member of the Board of Direcors of various companies during recent years which include among others Olíufélagið, Sölumiðstöð Hraðfrystihúsanna and at Festi as Chairman of the Board of Directors at Festi fasteignir and Höfðaeignir from 2014 to 2018. Þórður Már became a member of the Board of Directors of Festi in 2018.

Guðjón Reynisson, member of the Board of Directors
Guðjón is an independent investor and a member of Board of Directors. Between 2008 and 2017 he was the CEO of Hamleys of London. He lead the sales process of the company in years 2011 to 2012 and again in 2015 to 2016. Between 2003 and 2007 Guðjón was the executive director of 10-11 convenience stores. Prior to that from 1998 to 2003 he was the executive director of sales at Tal. He has been a member of the Board of Directors of Kvika banki since 2018 and in Festi (Hlekkur) from 2014 and subsequently Festi from 2018. Guðjón holds an MBA from the University of Iceland from 2002 and completed Operating- and business studies from Endurmenntunarstofnun Háskóla Ísland in year 1999. Guðjón graduated with an Athletic education degree from Íþróttakennaraskóli Íslands in 1986.

Kristín Guðmundsdóttir, member of the Board of Directors
Kristín is the acting CEO of KG slf. In year 2011 she was the CEO of Skipti and prior to that she was the CFO of Skipti / Síminn between 2004 and 2010 and as the CFO of Grandi haf. from 1994 to 2002. Kristín was an executive at Íslandsbanki and Iðnaðarbankinn for a number of years. Kristín has set on various Boards of Directors. She was the chairman of the Board of Directors at Sparisjóður Vestmannaeyja from 2011 to 2013, a member of the board at: Míla ehf from 2007 to 2011, Síminn 2007 to 2011, Straumur fjárfestingabanki from 2013 to 2015, Kvika banki from 2015 to 2016 and 2018. She has also been a member of the Board of Directors of the following companies: Skjá miðlar, Fasteignafélagið Jörfi, Sjóminjasafnið, Farsímagreiðslur, Straumur, Verslunarráð Íslands, Verðbréfaskráning Íslands, Lífeyrissjóður verkstjóra. She is a member of the Board of Driectors at; Farice from 2013, Rvk Studios from 2015, Eyrir Venture Management from 2020 and Eyrir Ventures from 2019 and is a deputy member of the Board of Directors at Kviku banka. She is a member of the investment committee at Eyrir sprotar from 2015. Kristín was the president of Rótarý Reykjavík Miðborg from 2013 to 2014 and a member of the Board of Directors at Golfsambands Íslands from 2013. Kristín began her Board of Director role at N1 in 2011 and became a member of the Board of Directors at Festi in year 2018. Kristín holds a Cand. oecon. degree in Business Administration from the University of Iceland.

Statement of Corporate Governance, contd.

Executive Board of Festi

The Executive Board is comprised of the CEO and five managing directors of the Company, whereby each managing director is responsible for a certain division towards the CEO.

Eggert Þór Kristófersson, CEO
Eggert was employed as a consultant in personal service at VÍB hf. from 1995 to 1997. He acted as the executive director for sales and service at Lánasýslu ríkisins from 1997 to 1999 and Íslandsbanki hf. from 2000 to 2007, first as being responsible for bond positions and later as the managing director of Islandsbanki's investment funds. During the year 2008 Eggert acted as director of asset management at Glitnir bank in Iceland and in Finland but a year later he joined the investment company Sjávarsýn ehf., where he acted as the CEO. Eggert was the acting CFO of N1 from 2011 and took over as CEO of N1 in February 2015. Eggert is the Chairman of the Board of Directors at Malik Supply A/S and Nordic Marine Oil where Festi holds a 24% share and the Chairman of the Board of Directors in Festi‘s subsidiaries. He holds a Cand. oecon. degree from the accounting department at the University of Iceland and is a certified securities trader.

Gestur Hjaltason, CEO of ELKO
Gréta María Grétarsdóttir, CEO of Krónan
Hinrik Bjarnason, CEO of N1
Kolbeinn Finnsson, COO
Magnús Kristinn Ingason, CFO

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

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

Festi´s values, code of conduct and policy on social responsibility

Festi’s values are:
Value
Efficiency
Trust

The Company’s policy is to be a leader for the future, which includes being socially responsible. Concurrently to the issue of the financial statements, a social report will be issued in accordance to ESG Reporting Guide 2.0 from February 2020. Festi endeavours to minimise the environmental impact of its operations by relentlessly applying disciplined and accepted measures. On 19 June 2015 Festi was granted VR´s certificate of equal salary which all subsidiaries of Festi have been granted in accordance with the ÍST 85:2012 standard. The certificate confirms that the Company´s employees working comparable jobs are not being discriminated against in determination of their salaries. Every year a number of non-profit organisations and individuals ask the Company for financial support for their good causes. Festi put emphasis on preventative measures and sport activities.

Festi´s code of conduct was approved on 27 February 2020. These are accessible on the Company´s website.

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

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

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

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

Company's Shareholders

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

Non-Financial Information

Festi's operations

Festi is a holding company that specialises in operating companies that are leading in the retail of convenience goods and fuel markets and energy in Iceland through its' subsidiaries Krónan, ELKO, N1, Festi fasteignir and Bakkinn vöruhótel.

Festi is listed on the main stock exchange of NASDAQ OMX Iceland and has diversified ownership.

Festi aims to help and support its subsidiaries to remain front running in providing goods and services across the country.

The company's policy is to be a future leader in its markets and social responsibility plays a part in that. Festi hf.'s policy provides a roadmap towards the future and it is implemented through continuous development of strategic and improvement projects which support the progress of its subsidiaries. Festi strives to minimize environmental externalities from its operations through organized and recognised efforts.

Festi's values are value, efficiency and trust which are reflected in the Company's goals. The goal of Festi is to manage the group's investments in a value enhancing manner and to support a value realization of operating entities within the group through efficient infrastructure services and thus facilitating a collective long term value creation within the group. Festi hf. reports and communicates to the public and investors. The interest of shareholders and, depending on situation, stakeholders are considered when potential investments are evaluated. Investment cases are evaluated on a case by case basis and, depending on the situations, potential synergies through improved efficiency / productivity in infrastructure services are considered. The aim of Festi hf.'s investment strategy is to be a trustworty investment and owner.

Festi is currently working on an enterprise risk assessment in co-operation with KPMG. The assessment will partly be built on a risk assessment developed for N1 in year 2018 and will cover all the key risk elements in operations, competitive environment and unforeseen risk. Each element will be analysed with a cause and effect method and mitigating measures and processes will be developed to minimize the defined risk exposure.

Festi's daily operations is divided into operating of infrastructure services for the group's operating entities and investment operations. The tasks associated with Festi's operation include the group's IT, finance, including daily treasury and financing, human resources, the operations of real estate, as well as quality management and security operations. The executive committee of Festi is an integrated part of the management team of the Group's operating entities. As such the executive committee of Festi participates in monthly management meetings of its subsidiaries and make up the Board of Directors of subsidiaries.

Festi hf.'s subsidiaries

N1 which was redefined during the year as the group's energy sales arm. N1's policy is to be a leader in the transition to alternative energy use of vehicles in Icelandic transportation. Festi will support this goal through investments. During the year N1 acquired the operations and assets of Hleðsla and invested in shares in Íslensk orkumiðlun. The future outlook and objectives of these investments will be further reported on in the year 2020. N1 operates 68 fuel service stations, 11 electricity service stations in co-operation with ON and one methane service station for vehicles. 27 of the service stations offer refreshments and healthy snacks under the brand name Nesti. N1 also runs 11 lubrication and tyre garages. All of the tyre garages have quality assurances by Michelin. In addition, N1 operates six corporate stores and 52 maritime fuel pumps around the country.

Krónan is a discount super market which emphasizes on fresh produce. Krónan runs 22 convenience stores under the brand names Krónan and Kr. Their objective is to provide a wide variety of products at low prices to its customers. Krónan also operates two Kjarval convenience stores and a Nóatún store in Austurver, which accentuate good services. Two Krónan stores have been awarded the Swan Ecolabel environmental certificate, the first certificates of convenience stores in Iceland.

Non-Financial Information, contd.

Elko is the largest electronics retail chain in the country and operates five stores, including an online store. Elko's objective is to offer quality brand names in electronics at low prices. Its supply agreement with Elkjöp helps to provide the lowest prices in electronics in Iceland.

Bakkinn vöruhótel are warehouses that specialise in storage and distribution. Bakkinn accentuates efficent services and accuracy in all processes.

Festi hf.'s subsidiaries, contd.

Festi owns and operates the group's real estates and it is the company's objective that the emphasis of real estate investments shall be profitability and/or support to the core operation of the Group.

Society

It is Festi's policy to be a future leader in its markets and social responsibility plays a part in that. Festi and its subsidiaries are all members to Festa – A center for social responsibility.

Annually a variety of NGOs, associations and individuals seek a support from the company. Festi emphasizes on supporting preventive measures and sports activities.

Social responsibility is very important to Festi. Festi and its operating companies have worked on increasing social responsibility through the supply chain by various means in all departments of the companies. Social responsibility is an increasingly important factor in the operation of Festi and covers all aspects of the Gropu´s operations. Various fields fall under the term, such as environmental issues, codes of conduct, fair practices, communal activity, and development and relations with the society. We focus on working according to international certified standards and approved methods.

For the second consecutive year Festi hf. has engaged in activities to neutralize Scope 1 emissions of its operations and that of its subsidiaries according to ESG sustainability reporting. The Nasdaq ESG guidance in Iceland and the Nordics from March 2017 is applied in the reporting. The guidance is developed in accordance with recommendations provided in year 2015, by the United Nation, the Sustainable Stock Exchange Initiative and a working group of the World Federations of Exchange. The report is produced by employees and experts in applicable divisions of Festi hf. and its subsidiaries with assistance from Klappir. The report is not audited by a third party. The report covers the entire operation of Festi and its subsidiaries in the year 2019.

Emission settlements are provided through Klappir's online solution in accordance with the following information; quantity of airline flights by employees, fuel litres from N1 accounting system, data on waste produced from applicable waste management companies and data on energy and water usage from applicable utilities. The origin of the data sources can be traced to service providers in Klappir's data management system.

A further discussion on these elements will be provided in the annual report which will provide a specific discussion on Krónan's and N1's ESG standards as well as the Group's.

Environment

The company's policy is to treat the environment with respect, minimize negative externalities and seek to provide environmentally friendly products and services.

The annual report for 2019 will provide a disclosure of the goals and KPI of the companies. In the disclosure the following will be discussed as a reference point; the signing of N1 of the Climate treaty of Festa and the City of Reykjavík in 2015 and the Sustainable Development Goals of the United Nations.

Entities of Festi have in various ways reduced their environmental footprint with systematic separation of waste and other procedures.

Non-Financial Information, contd.

Two Krónan stores received a Swan Ecolabel certificate in year 2019 and were in the process the first convenience stores in Iceland to receive the certificate. The initiative “For real” was continued during the year. The initiative aims at reducing food waste, providing healthier products to customers and aims at Swan Ecolabel accredidation of all Krónan stores. Through the application of energy saving equipment in new real estate and the refurbishment of existing Krónan stores the energy consumptions is estimated to decrease by 25-50%. The next steps are more environmentally friendly packaging, product selection and the removal of all plastic shopping bags from stores.

N1‘s policy is to be a leader in the energy transition in Icelandic transportation and to do its best to inflict as little harm as possible to the environment in the Company’s current operations. In order to minimize the risk of the operation it is important to adhere to accepted standards regarding the environment, quality, safety and health which have been implemented in the processes of N1. Eleven electricity charging stations have been installed in N1 locations throughout the country in co-operation with ON. Eighteen of N1’s business units are certified pursuant to the ISO 14001 standard on environmental management in accordance with certificate number 10 from Vottun hf.

In co-operation with the international company Replace, ELKO is receiving used electronic equipment. The co-operation entails ELKO purchasing used electric devices and reselling them to Replace for recycles or resale. All defective or unsellable electric devices in the phone- and computer section of ELKO are also sold internationally for recycling. The company also has an active commuting policy for employees.

All companies within the Group are active in organising waste management through separation of plastics, paper, cans and bottles.

N1’s and Krónan’s environmental policies can be found on the companies’ websites, www.n1.is and www.kronan.is.

Employees

Festi seeks to attract and keep qualified and reliable personnel by providing good and encouraging work environment and promoting and strengthening the employees by effective training and development. It is important that employees know the role, policy and values of the company, which results in better performance.

Festi operating companies have received the certificate of equal salary in accordance with IST 85:2012 and the criteria of the Ministry of Wellfare regarding equal salary. Festi (formerly N1 hf.) receive VR’s certificate of equal salary on June 19 2015. The certificated ensures the operating companies do not discriminate employees in terms of salary based on gender or other factors. Furthermore, the certificate ensures the process for salary decisions is up to standards. The certificates are issued by BSI in Iceland for N1 but Vottun hf. issued certificated number 85-3 to Krónan, Nóatún, ELKO and Bakkinn. The operating entities have implemented an employee- and equal pay policy which reflect the fact that one of the most important resource of the company are the employees, their knowledge and skills. The equal salary goal of the companies’ are defined in the implementation plan of the equal salary system of each company.

During the year, Festi and its subsidiaries were the first companies to enter into contract with Siðferðisgáttin. The objective of Siðferðisgáttin is to provide employees of companies and institution a platform to report to an independent party any unwanted behaviour at a workplace or if they experience any indisposition during their employment. A presentation of the initiative was provided mid year 2019 and information regarding it is present at all of Festi’s and its subsidiaries' locations.

Health promotion is an important aspect of the wellbeing of employees. All permanent employees are have the right of an annual ISK 20,000 reimbursement of fitness expenses. In addition, Festi and its subsidiaries have a contract with Heilsuvernd for the logging of illnesses and health related advisory for employees.

Non-Financial Information, contd.

Satisfied employees are the foundation for outstanding services. In co-operation with Gallup, Festi and its subsidiaries perform an annual workplace analysis with the objective of increasing employee satisfaction. The results of the 2019 analysis gave positive results for Festi and its subsidiaries. The results are used to increase the wellbeing of the companies' employees through organized measures. The results will be further disclosed in the 2019 annual report.

One of the goals of human resources is to increase the e-learning in order to provide better access to the Group's employees throughout the country, a key element in the on boarding process of new employees. Through these measures we believe that the Group's employees become more valuable and employee turnover ratio will decrease.

Anti-corruption and bribery policy

We respect the impact that the Company has society. We know that the reputation of Festi and its subsidiaries is one of the most valuable asset of the Company. Code of conducts, approved on February 27, that apply to all activities of the Group and all employees and its board of directors, as well as contractors, that perform tasks for the Company. The code of conduct are available on the Company's website, www.Festi.is.

Status and performance

A separate report on non-financial performance indicators will be issued in accordance with the Nasdaq guidance on ESG. The aim is to improve communication on the factual standing of social responsibilities of Festi and its subsidiaries. The report will cover the entire Group with the respect to available information and it will be published parallel to the annual report of 2019. The report will include the companies' goals in social responsibilities and their link to the Sustainable Development Goals of the United Nations as well as the climate treaty of Festa and city of Reykjavík from 2015.

Krónan was the recipient of Kuðungurinn, an award for environmental initiatives presented by the Ministry of Environment and Natural resources, for efforts related to the environment. Furthermore, it received a special award on the Enterprise Day of the Environment for the best initiative related to the environment. Krónan's managing director received the Commerce Award of Viðskiptablaðið and Frjáls verslun for the year 2019. Krónan also received a recognition from the Icelandic satisfaction measure as having the most satisfied customers in super markets and was the highest rated retailer in Iceland.

Bakkinn vöruhótel, ELKO, Krónan and N1 received Creditinfo´s special award, outstanding company, for the year 2019.

Further information on the Group's non-financial information can be found in the annual report of 2019.