Consolidated Financial Statements

2022

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

Contents

Endorsement and Statement by the Board of Directors and the CEO

Operations of the Group

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

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

Board of Directors and Corporate Governance

The Board of Directors of Festi has established rules of procedure whereby it endeavours to comply with the "Guidelines on corporate governance" issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers on 1 July 2021. The guidelines are accessible on the website www.leidbeiningar.is.

The Board of Directors consists of three males and two females. The Board of Directors reached a termination agreement with the Company’s CEO, Eggert Þór Kristófersson, who ended employment at the end of July 2022. It was agreed with Magnús Kr. Ingason, CFO, to act temporarily as the CEO. A new CEO, Ásta S. Fjeldsted, started employment at the beginning of September 2022. She went on maternity leave at the beginning of November 2022 but will be back to work at the end of March 2023. Magnús Kr. Ingason acts as the CEO during that time.

Further information about the Board of Directors and corporate governance can be found in the appendix Statement of Corporate Governance, which accompanies the annual financial statements.

Operations in 2022

The Group´s operating revenue for the year 2022 amounted to ISK 123,785 million (2021: ISK 101,502 million) and increased by 22.5% between years. Operating profit before depreciation, amortisation and changes in value for the year 2022 amounted to ISK 10,020 million (2021: ISK 10,118 million) and decreased by 1.0% between years. According to the statement of profit or loss and other comprehensive income, the profit for the year amounted to ISK 4,082 million (2021: ISK 4,972 million) and total comprehensive income for the year ISK 4,044 million (2021: ISK 6,557 million). The Group´s equity at year-end amounted to ISK 34,460 million (2021: ISK 33,910 million), including share capital in the nominal value of ISK 308 million. Reference is made to the statement of changes in equity regarding changes in equity during the year. The Group´s equity ratio at year-end was 36.9% (2021: 39.4%).

In connection with the publication of its annual financial statements for the year 2021, the Company released on 9 February 2022 an earnings forecast for the year 2022, where projected EBITDA was ISK 9,000 – 9,400 million. The Company increased its earnings forecast three times during the year, last in connection to the publication of the financial results for Q3, to ISK 10,000 – 10,400 million. The actual EBITDA for the year amounted to ISK 10,020 million, which is considerably better than the amount assumed in the first earnings forecast for the year. Increased business activities of all subsidiaries explain the better EBITDA but also optimisation was achieved in various areas, which resulted in lower cost per unit. Furthermore, in the initial forecast it was not assumed an ISK 464 million profit from oil and currency hedges, as well as repayment from the State of overcharged duties, as per Note 32, in total of ISK 432 million, which are recognised in the annual financial statements. On the other hand, the effects of retrospective salary increases in the amount of ISK 200 million were not expected when the last earning forecast of the year was released.

The year was marked by a sharp increase in world market prices for raw materials, which lead to increased turnover and decrease of margin level, especially from the fuel part of the operations. Furthermore, inflation increased in international markets, which lead to rising product prices. Prices are expected to remain high in commodity markets while war rages in Ukraine, along with possible disruptions to supply chains. The full-time equivalent number of employees was 1,269 and the employee gender ratio (male/female) was 60/40. Festi has a strong financial position and the Company is well prepared to address the challenges ahead.

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

The Company's Board of Directors proposes that a dividend of ISK 3 per share of nominal value be paid during the year 2023 or approximately ISK 923 million.

Shareholders

The Company´s shareholders at the end of the year were 1,268, compared to 1,037 at the beginning of the year and thus their number increased by 231 during the year. Following are the Company's 20 largest shareholders at year-end:

	Share capital in thousands of ISK	Share capital in %	Change from 2021 in %
Lífeyrissjóður starfsmanna ríkisins, A- og B-deild	42,055	13.7%	-1.0%
Lífeyrissjóður verzlunarmanna	33,280	10.8%	0.2%
Gildi - lífeyrissjóður	29,640	9.6%	-0.2%
Brú Lífeyrissjóður starfsmanna sveitarfélaga	27,004	8.8%	2.3%
Birta lífeyrissjóður	21,826	7.1%	1.2%
Almenni lífeyrissjóðurinn	14,404	4.7%	-0.1%
Stapi lífeyrissjóður	14,217	4.6%	-0.1%
Festa - lífeyrissjóður	12,592	4.1%	1.5%
Frjálsi lífeyrissjóðurinn	11,279	3.7%	0.1%
Söfnunarsjóður lífeyrisréttinda	9,263	3.0%	0.1%
Lífeyrissjóður starfsmanna Reykjavíkurborgar	7,346	2.4%	0.6%
Lífsverk lífeyrissjóður	7,119	2.3%	-0.2%
Vanguard	6,752	2.2%	2.2%
Stormtré ehf	6,101	2.0%	0.1%
Kjálkanes ehf	6,000	2.0%	0.4%
Sjávarsýn ehf	5,503	1.8%	0.1%
Brekka Retail ehf	5,000	1.6%	0.0%
Íslandssjóðir	4,924	1.6%	-0.6%
Landsbréf	3,327	1.1%	-1.3%
Sjóvá-Almennar tryggingar hf	2,909	0.9%	-0.4%
	270,541	88.0%	4.8%
Other shareholders	36,959	12.0%	-4.8%
	307,500	100.0%	

Share capital and Articles of Association

The Company’s listed share capital amounted to ISK 313 million at the end of the year and it was decreased by ISK 11 million during the year by redemption of treasury shares. Outstanding at year-end 2022 were ISK 308 million shares (2021: ISK 316 million) and the Company owned 5,000 thousand own shares at year end. All share capital is in one class and all shareholders enjoy the same rights. At the Company’s Annual General Meeting on 22 March 2022 it was agreed to authorise the Company to repurchase up to 10% of the nominal amount of outstanding shares in accordance with Chapter VIII of the Act no. 2/1995 on Limited Liability Companies. The Company purchased a total of 8,618 thousand shares during the year, about 2.7% of total share capital as part of the Company’s dividend policy, see Note 23. 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 23 March 2021 (as per Note 23). An extension for this authorisation will be requested at the Company’s Annual General Meeting next March.

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

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

Non-financial information

Festi hf. is a public interest entity. According to the Act on Annual Accounts, the Company shall provide information necessary to assess its development, scope, position and influence in relation to environmental, social and personnel matters, its human rights policies, how it counteracts corruption and briberies in addition to a concise description of its business model, and more. In order to describe the current status of its social responsibilities the Company has for the past few years issued a report on non-financial parameters in accordance with Nasdaq´s ESG guidelines. The publication of the report is among other things, in order to enable Festi to assess its standing on these matters as a Group, based on an accepted methodology. The policies and results of the Company with respect to these matters are described in the appendix to the annual 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 Act on Annual Accounts.

According to the best of our knowledge, in our opinion the consolidated annual financial statements give a true and fair view of the operating performance of the Group for the year 2022, its assets, liabilities and financial position as at 31 December 2022, and changes in cash and cash equivalents during the year 2022.

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

The Board of Directors and the CEO of Festi hf. have today discussed the Company's consolidated annual financial statements for the year 2022 and confirm them by means of their signatures. The Board of Directors and the CEO propose that the Annual General Meeting of the Company approves the consolidated annual financial statements.

Kópavogur, 8 February 2023.

Board of Directors of Festi hf.

Guðjón Karl Reynisson, Chairman

Sigurlína Ingvarsdóttir, Vice-Chairman

Hjörleifur Pálsson

Magnús Júlíusson

Margrét Guðmundsdóttir

CEO

Magnús Kr. Ingason

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Festi hf.

Opinion

We have audited the Consolidated Financial Statements of Festi hf. for the year ended December 31, 2022 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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Festi hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements of 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 14.9 billion and the trademarks of Krónan and Elko amount to ISK 3.1 billion. 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. No impairment loss has been recognized for intangible assets. The trademark is amortized over 20 years. Further information about goodwill and trademarks can be found in notes 13 and 14 in the Consolidated Financial Statement.	In our audit of the valuation of goodwill and trademarks, we and our valuation experts have examined the company's management impairment test. We examined the methodology used in the impairment test and its consistency with prior year. In our audit of the impairment test, we performed the following work: • Assessed the company's valuation model and its reliability. • Assessed the assumptions in the management's budget that are used in calculations in the impairment test and whether they are appropriate. • Reviewed of assumptions for expected future growth after the forecast period. • Reviewed of variances from previous years budget. • Assessed the discount rate for each unit. • We reviewed whether the methodology used in the impairment test was in accordance with International Financial Reporting Standards (IFRSs) and assessed the adequacy of the disclosures for goodwill and trademarks.

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INDEPENDENT AUDITORS' REPORT, contd.:

Key Audit Matters	How the matter was addressed in our audit
Valuation of real estate	
Real estate of the Group amounts to ISK 33 billion and are classified on the balance sheet among property & equipment and investment properties. The investment properties that are part of Festi fasteignir ehf., subsidiary of Festi hf., are those that are leased to third parties. Investment properties are 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 2021. 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.

Other information

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT, contd.:

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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.

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT, contd.:

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the consolidated financial statements of Festi hf. we performed procedures to be able to issue an opinion on whether the consolidated financial statements of Festi hf. for the year 2022 with the file name "5493005OLOCYXGTC7E83-2022-12-31-en.zip" is prepared, in all material respects, in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag relating torequirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the consolidated financial statements in XHTML format and iXBRL markup.

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

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

In our opinion, the consolidated financial statements of Festi hf. for the 2022 with the file name "5493005OLOCYXGTC7E83-2022-12-31-en.zip " is prepared, in all material respects, in compliance with the ESEF Regulation.

Deloitte was appointed auditor of Festi hf. by the general meeting of shareholders on 22. March 2022. Deloitte have been elected since the annual general meeting 2019.

Kópavogur, 8. February 2023

Deloitte ehf.

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

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Statement of Profit or Loss and Other Comprehensive Income for the year 2022

	Notes	2022	2021
Sale of goods and services	6	121,398,400	98,736,012
Cost of goods sold		(94,404,479)	(74,090,382)
Gross profit from sale of goods and services	7	26,993,921	24,645,630
Other operating income	6	2,386,294	2,316,371
Salaries and other personnel expenses	8	(13,456,082)	(11,658,879)
Other operating expenses	9	(5,904,633)	(5,185,508)
		(16,974,421)	(14,528,016)
Operating profit before depreciation, amortisation and changes in value (EBITDA)		10,019,500	10,117,614
Depreciation of property and equipment and leased assets and amortisation of intangible assets	11	(3,528,273)	(3,193,261)
Changes in value of investment property	17	216,042	736,006
Operating profit before finance items (EBIT)		6,707,269	7,660,359
Finance income	12	177,798	89,856
Finance costs	12	(2,407,533)	(1,956,700)
Foreign currency differences	12	4,614	66,952
Share of profit of associates	18	453,488	300,702
		(1,771,633)	(1,499,190)
Profit before income tax (EBT)		4,935,636	6,161,169
Income tax	27	(853,866)	(1,189,055)
Profit for the year		4,081,770	4,972,114
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Translation difference arising from operations of a foreign associate		25,723	(29,356)
Net change in fair value of investments in shares		59,436	0
Effective portion of changes in fair value of cash flow hedges, net of income tax		(122,434)	(6,988)
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of properties, net of income tax		0	1,621,320
Total other comprehensive income		(37,275)	1,584,976
Total comprehensive income for the year		4,044,495	6,557,090
Basic and diluted earnings per share in ISK	24	13.19	15.48

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

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Statement of Financial Position as at 31 December 2022

	Notes	2022	2021
Assets			
Goodwill	13	14,862,133	14,668,264
Other intangible assets	14	4,516,745	4,744,289
Property and equipment	15	34,815,148	32,544,092
Leased assets	16	8,012,354	6,155,337
Investment properties	17	6,478,617	6,100,291
Shares in associates	18	2,600,869	2,324,066
Shares in other companies		14,140	12,940
Long-term receivables	19	150,354	228,224
Non-current assets		71,450,360	66,777,503
Inventories	20	13,085,771	9,545,341
Trade receivables	29	5,960,168	4,757,286
Other short-term receivables	21	764,487	888,911
Cash and cash equivalents	22	2,112,137	4,002,716
Current assets		21,922,563	19,194,254
Total assets		93,372,923	85,971,757
Equity			
Share capital		307,500	316,118
Share premium		8,900,637	10,824,306
Other restricted equity		11,791,388	12,549,269
Retained earnings		13,460,578	10,220,702
Equity	23	34,460,103	33,910,395
Liabilities			
Loans from credit institutions	25	28,224,162	25,929,521
Lease liabilities	26	7,714,823	5,868,744
Deferred tax liability	27	6,000,840	5,590,021
Non-current liabilities		41,939,825	37,388,286
Loans from credit institutions	25	1,789,733	1,382,003
Lease liabilities	26	711,514	553,819
Trade payables		8,630,348	7,021,734
Other short-term liabilities	28	5,841,400	5,715,520
Current liabilities		16,972,995	14,673,076
Total liabilities		58,912,820	52,061,362
Total equity and liabilities		93,372,923	85,971,757

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

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Statement of Changes in Equity for the year 2022

	Share capital	Share premium	Other restricted equity: Statutory reserve	Revaluation reserve	Unrealised profit of subsidiaries and associates	Other restricted accounts	Retained earnings	Total equity
Year 2021								
Equity 1.1.2021	323,091	12,278,381	80,773	3,274,015	4,091,468	147,079	9,588,818	29,783,625
Profit for the year							4,972,114	4,972,114
Total other comprehensive income				1,621,320		(66,344)	30,000	1,584,976
Restricted due to subsidiaries and associates					3,470,315		(3,470,315)	0
Dissolution of revaluation of an associate				(9,734)			9,734	0
Dissolution of revaluation of property and equipment				(57,879)			57,879	0
	323,091	12,278,381	80,773	4,827,722	7,561,783	80,735	11,188,230	36,340,715
Transactions with shareholders:								
Purchased own shares	(6,973)	(1,454,075)						(1,461,048)
Transferred from statutory reserve			(1,744)				1,744	0
Dividend paid to shareholders (ISK 3 per share)							(969,272)	(969,272)
Equity 31.12.2021	316,118	10,824,306	79,029	4,827,722	7,561,783	80,735	10,220,702	33,910,395
Total other restricted equity						12,549,269		
Year 2022								
Equity 1.1.2022	316,118	10,824,306	79,029	4,827,722	7,561,783	80,735	10,220,702	33,910,395
Profit for the year							4,081,770	4,081,770
Total other comprehensive income						(96,711)	59,436	(37,275)
Restricted due to subsidiaries and associates					(533,244)		533,244	0
Dissolution of revaluation of an associate				(9,726)			9,726	0
Dissolution of revaluation of property and equipment				(116,046)			116,046	0
	316,118	10,824,306	79,029	4,701,950	7,028,539	(15,976)	15,020,924	37,954,890
Transactions with shareholders:								
Purchased own shares	(8,618)	(1,923,669)						(1,932,287)
Transferred from statutory reserve			(2,154)				2,154	0
Dividend paid to shareholders (ISK 5 per share)							(1,562,500)	(1,562,500)
Equity 31.12.2022	307,500	8,900,637	76,875	4,701,950	7,028,539	(15,976)	13,460,578	34,460,103
Total other restricted equity						11,791,388		

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

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Statement of Cash Flows for the year 2022

	Notes	2022	2021
Cash flows from operating activities			
Profit before depreciation, amortisation and changes in value (EBITDA)		10,019,500	10,117,614
Operating items not affecting cash flows:			
(Gain) loss on sale of property and equipment		(70,096)	(569,112)
Gain on sale of shares in companies		0	(3,933)
		9,949,404	9,544,569
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(3,495,166)	(1,877,079)
Trade and other short-term receivables, decrease (increase)		(1,069,973)	389,812
Trade and other short-term liabilities, increase		1,666,298	1,859,914
Changes in operating assets and liabilities		(2,898,841)	372,647
Interest received		173,621	88,037
Interest paid		(2,014,963)	(1,460,357)
Income tax paid		(602,078)	(252,941)
Net cash from operating activities		4,607,143	8,291,955
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(60,332)	0
Purchased intangible assets	14	(608,692)	(524,218)
Sold intangilble assets	14	20,291	0
Purchased property and equipment	15	(4,579,977)	(1,844,071)
Sold property and equipment	15	487,069	2,182,859
Purchase of investment properties	17	(585,341)	(13,027)
Sale of investment properties	17	384,994	2,115,736
Change in shares in companies		(5,200)	(68,181)
Dividend received		251,000	214,962
Long-term receivables, change		(67,736)	39,480
Net cash from (used in) investing activities		(4,763,924)	2,103,540
Cash flows from financing activities			
Dividend paid		(1,562,500)	(969,272)
Purchased own shares		(1,932,287)	(1,461,048)
New loans from credit institutions	25	3,960,000	0
Repayment of long-term loans from credit institutions	25	(1,593,965)	(4,088,804)
Repayment of lease liabilities	26	(678,576)	(469,573)
Short-term loans, change	25	0	(2,000,000)
Net cash used in financing activities		(1,807,328)	(8,988,697)
Increase (decrease) in cash and cash equivalents		(1,964,109)	1,406,798
Foreign currency difference on cash and cash equivalents		73,530	32,976
Cash and cash equivalents at the beginning of the year		4,002,716	2,562,942
Cash and cash equivalents at the end of the year		2,112,137	4,002,716
Investing and financing activities not affecting cash flows			
Purchase of shares in companies		(40,000)	(50,000)
Issued new share capital		40,000	0
New lease contracts and their remeasurement		(2,483,438)	(1,281,504)
New lease liabilities and their remeasurement		2,483,438	1,281,504
Trade and other short-term receivables		(118,000)	(174,000)
Other short-term liabilities		0	50,000
Sold property and equipment		40,500	174,000
Sold investment properties		77,500	0
New long-term loans		0	7,000,000
Repayment of long-term loans from credit institutions		0	(7,000,000)

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

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Notes

1. Operations of the Group

Festi hf. ("the Company" or "the Group") is an Icelandic limited liability company. The Group's headquarters are located at Dalvegur 10-14, Kópavogur, Iceland. The main operations of the Group consist of sale of fuel, goods and service to businesses, groceries and related products, sale of electronic equipment and leasing of buildings. These consolidated annual financial statements 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 annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and, as applicable, additional requirements of the Act on Annual Accounts.

The Board of Directors of Festi hf. approved the consolidated annual financial statements on 8 February 2023.

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

An overview of the Group's risk management is disclosed in a separate section (see Note 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 annual financial statements the accounting policies in a clear manner instead of repeating the actual text of paragraphs in IFRS. The following accounting standards are the most important ones for the Group:

Item	Notes	Standard
Operating segments	Note 4. *Operating segments*	IFRS 8
Revenue from sale of goods and services	Note 6. *Operating revenue*	IFRS 15
Impairment testing	Note 13. *Goodwill*	IAS 36
Fair value measurement of properties and investment properties	Notes 15. and 17. *Property and equipment and Investment properties*	IFRS 13
Lease contracts	Note 16. *Lease contracts*	IFRS 16

2.3. New IFRS accounting standards or changes to them.

The Group has applied the same accounting policies during the years 2021 and 2022.

A few new accounting standards become effective after 1 January 2023 that are allowed to be applied to prior periods. The company has not adopted them but the impact on the Company´s financial statements would be immaterial.

2.4. Going concern

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

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Notes, contd.:

2.5. Basis of measurement

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

2.6. Presentation and functional currency

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

EBITDA

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

EBIT

Profit before finance income and finance costs

EBT

Profit before income tax

2.7. Use of estimates and judgements

The preparation of the consolidated annual financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions, which affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Information about judgements applied and estimation uncertainty, as applicable, is disclosed in the notes about the individual accounting items. The following table specifies the items which are most challenging for the application of judgement and use of estimates by management:

Item	Notes	
Estimation of impairment of goodwill and other intangible assets	13. and 14.	Goodwill and other intangible assets
Estimation of fair value of revalued properties, their useful lives and residual values	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

3. Group entities

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, and it has right to, variable returns from its involvement with the entity and 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 annual financial statements include the following entities. All subsidiaries are directly or indirectly fully owned by the Parent Company, Festi.

Notes, contd.:

3. Group entities, cont.:

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

Notes, contd.:

4. Operating segments

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

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

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

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

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Notes, contd.:

4. Operating segments, contd.:

Year 2021	N1	Krónan	ELKO	Other companies	Segments total
External revenue	37,437,574	46,784,415	15,430,741	1,399,653	101,052,383
Intra-group revenue	317,796	39,714	13,640	5,868,089	6,239,239
Total segment revenue	37,755,370	46,824,129	15,444,381	7,267,742	107,291,622
Operating profit before depreciation, amortisation and changes in value (EBITDA)	4,207,902	3,937,720	1,719,866	3,738,122	13,603,610
Segment depreciation and amortisation	(2,456,059)	(1,514,085)	(484,893)	(1,115,306)	(5,570,343)
Changes in value of investment properties				736,006	736,006
Operating profit of segments (EBIT)	1,751,843	2,423,635	1,234,973	3,358,822	8,769,273
Net finance costs	(842,517)	(418,414)	(94,494)	(1,981,591)	(3,337,016)
Share of profit of associates				300,702	300,702
Income tax	(203,912)	(396,754)	(228,047)	(274,700)	(1,103,413)
Profit for the year	705,414	1,608,467	912,432	1,403,233	4,629,546
31 December 2021					
Segment assets	26,464,903	17,663,670	5,135,377	36,707,807	85,971,757
Segment capital expenditure	863,740	699,589	214,601	603,386	2,381,316
Segment liabilities	16,479,933	12,622,608	3,552,606	19,406,215	52,061,362

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

Year 2022	Segments total	Eliminations	According to financial statements
Operating profit before depreciation, amortisation and changes in value (EBITDA)	13,512,833	(3,493,333)	10,019,500
Depreciation of property and equipment and leased assets and amortisation of intangible assets	(5,816,825)	2,288,552	(3,528,273)
Changes in value of investment property	216,042		216,042
Operating profit (EBIT)	7,912,050	(1,204,781)	6,707,269
Net finance costs	(3,627,501)	1,402,380	(2,225,121)
Share of profit of associates	453,488	0	453,488
Income tax	(814,346)	(39,520)	(853,866)
Profit for the year	3,923,691	158,079	4,081,770

Year 2021			
Operating profit before depreciation, amortisation and changes in value (EBITDA)	13,603,610	(3,485,996)	10,117,614
Depreciation of property and equipment and leased assets and amortisation of intangible assets	(5,570,343)	2,377,082	(3,193,261)
Changes in value of investment property	736,006		736,006
Operating profit (EBIT)	8,769,273	(1,108,914)	7,660,359
Net finance costs	(3,337,016)	1,537,124	(1,799,892)
Share of profit of associates	300,702		300,702
Income tax	(1,103,413)	(85,642)	(1,189,055)
Profit for the year	4,629,546	342,568	4,972,114

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5. Acquisition of subsidiary

The Company acquired 45% of the shares in Icelandic Food Company ehf. on 30 December 2022 for ISK 61 million and had therefore acquired the company fully. The total purchase price for 100% shareholding was in the amount of ISK 136 million which was allocated to cash generating units in accordance with IFRS 3 Business Combinations.

The operations of Icelandic Food Company ehf. will be a part of the Group´s financial statements as from 1 January 2023, see note 18. The purchase price of the company is specified as follows:

Fair value of 55% of the shares, which were purchased perviously	74,637
Cash payment on 30 December 2022	135,704
Total acquisition price	210,341

The effects on the statement of financial position that was the fair value of assets and liabilities of Icelandic Food Company were assessed as at the acquisition date. Purchase price allocation of goodwill had not been finalised as at the date of approval of the financial statements. The fair value of assets and liabilities according to provisional purchase price allocation is specified as follows:

Intangible assets	4,715
Property and equipment	82,612
Lease assets	186,567
Long term receivables	8,636
Deferred tax assets	62,328
Inventories	45,264
Trade receivables and other short term receivables	60,327
Cash and cash equivalents	737
Interest bearing liabilities in subsidiaries	(168,500)
Lease liabilities	(198,911)
Other interest bearing liabilities	(12,716)
Trade and other short - term liabilities	(129,224)
Total net assets	(58,165)
Goodwill	193,869
Acquisition price	135,704

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 is transferred to the customer.

Lease income from properties

Properties leased to parties outside the Group are recognised as investment properties. Investment properties are properties held to earn rentals or for capital appreciation. Investment properties are recognised at fair value. Fair value changes of investment properties are presented separately in the statement of profit or loss, and therefore presented separately from lease income from those same assets. Further information about investment properties is provided in Note 17.

Other operating income

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

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6. Operating income, contd.:

Operating income is specified as follows:	2022	2021
Sale of goods and services:		
Convenience goods	56,852,066	51,860,754
Fuel and electricity	38,564,265	23,798,175
Electronic equipment	16,760,878	15,326,281
Sale of other goods and services	9,221,191	7,750,802
Total sale of goods and services	121,398,400	98,736,012
Other operating income:		
Lease income from properties	642,413	742,204
Warehouse services	365,809	394,047
Commissions	376,170	316,960
Gain on sale of property and equipment	70,096	569,112
Other operating income	931,806	294,048
Total other operating income	2,386,294	2,316,371
Total operating revenue	123,784,694	101,052,383

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

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

Gross profit from sale of goods and services is specified as follows:	2022	2021
Convenience goods	13,213,385	12,334,098
Fuel and electricity	5,711,465	5,233,813
Electronic equipment	4,317,780	3,984,579
Other goods and services	3,751,291	3,093,140
Total gross profit from sale of goods and services	26,993,921	24,645,630

8. Salaries and other personnel expenses

Salaries and other personnel expenses are specified as follows:	2022	2021
Salaries	10,479,770	9,182,394
Contributions to pension funds	1,335,079	1,160,710
Other salary-related expenses	1,009,110	811,287
Other personnel expenses	632,123	504,488
Total salaries and other personnel expenses	13,456,082	11,658,879
Average number of employees	2,087	1,956
Average full-time equivalent number of employees	1,269	1,176
Employee gender ratio (males/females)	60/40	61/39

Contributions to defined contribution pension plans

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

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

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Notes, contd.:

9. Other operating expenses

Other operating expenses are specified as follows:	2022	2021
Operating expenses of properties	1.750.758	1.518.830
Maintenance expenses	964.457	908.338
Sales and marketing expenses	1.523.149	1.217.354
Office and administrative expenses, including fees to auditors	455.242	417.226
Communication expenses	807.920	698.934
Insurance and claims expenses	149.911	200.902
Other expenses	242.658	204.580
Expenses due to acquisition of Hlekkur ehf. (see note 33)	10.538	19.344
Total other operating expenses	5.904.633	5.185.508

10. Fees to auditors of the Group and subsidiaries

Fees to auditors are specified as follows:	2022	2021
Audit of annual financial statements	50,450	63,485
Other services	2,072	454
Total fees to auditors	52,522	63,939

11. Depreciation and amortisation

Depreiciaton and amortisation are specified as follows:	2022	2021
Amortisation of intangible assets, as per Note 14	840,947	751,073
Depreciation of property and equipment, as per Note 15	1,874,337	1,896,455
Depreciation of leased assets, as per Note 16	812,989	545,733
Total depreciation and amortisation	3,528,273	3,193,261

12. Finance income and finance costs

Finance income is specified as follows:	2022	2021
Interest income on cash and cash equivalents	26,708	23,776
Interest income on receivables	149,090	62,146
Gain on sale of shares in companies	0	3,934
Dividend income	2,000	0
Total finance income	177,798	89,856

Finance costs are specified as follows:		
Interest expense and CPI-indexation on loans from credit institutions	1,927,556	1,609,516
Interest expense on lease liabilities	412,918	298,001
Other interest expense	67,059	49,183
Total finance costs	2,407,533	1,956,700

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12. Finance income and finance costs, contd.:

Foreign currency differences and assets and liabilities denominated in foreign currencies

Foreign currency differences arise from transactions in foreign currencies, predominantly USD. Transactions in foreign currencies are recognised at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are recognised at the exchange rate at year-end. The average ISK/USD exchange rate for the year 2022 was 135.46 (2021: 127.05) and the exchange rate at year-end 2022 was 142.04 (2021: 130.38).

13. Goodwill

The goodwill recognised in the consolidated annual financial statements resulted from the acquisition by the Company of Hlekkur and its subsidiaries in 2018, of Íslensk Orkumiðlun and the Krónan store located at Hallveigarstígur in Reykjavík in 2020 and the acquisition of Icelandic Food Company in 2022, which increased the carrying amount of goodwill allocated to grocery stores by ISK 194 million (see note 5). 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 part of the goodwill was allocated to grocery stores, electronic equipment stores and sale of electricity. The presentation of goodwill due to synergies and optimisation arising from acquisition of different retail companies has been changed and is now shown with each cash-generating unit.

Accounting policy

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

Impairment test at year-end 2022

Goodwill was tested for impairment at year-end 2022. According to the results of the test there was no indication of impairment. When testing for impairment the recoverable amount is estimated and the estimation was based on the value in use of cash-generating units. Value in use is calculated by discounting the estimated future cash flows of cash-generating units.

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

Year-end 2021	EBITDA-growth	Terminal-growth	Discount rate	Carrying amount at year-end
Grocery stores	9.2%	3.5%	8.7%	11,468,284
Electronic equipment stores	6.9%	3.5%	10.9%	2,772,179
Sale of electricity	3.4%	3.5%	9.9%	427,801
Total goodwill				14,668,264

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Notes, contd.:

14. Other intangible assets

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

Accounting policy

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

Other intangible assets are specified as follows:

	Trademarks	Trade agreements	Software	Total
Gross carrying amount				
Gross carrying amount 1.1.2021	3,801,716	194,027	1,747,562	5,743,305
Additions during the year	0	0	524,218	524,218
Sold and disposed of	(203,969)	(37,049)	(326,298)	(567,316)
Gross carrying amount 31.12.2021	3,597,747	156,978	1,945,482	5,700,207
Additions during the year	35,000	0	573,692	608,692
From acquired subsidiary	0	7,479	0	7,479
Sold and disposed of	(205,957)	(30,218)	(285,593)	(521,768)
Gross carrying amount 31.12.2022	3,426,790	134,239	2,233,581	5,794,610
Amortisation				
Accumulated amortisation 1.1.2021	179,979	5,000	586,988	771,967
Amortisation for the year	226,077	42,049	482,947	751,073
Sold and disposed of	(203,969)	(37,049)	(326,103)	(567,121)
Accumulated amortisation 31.12.2021	202,087	10,000	743,832	955,919
Amortisation for the year	228,400	35,218	577,329	840,947
From acquired subsidiary	0	2,763	0	2,763
Sold and disposed of	(205,957)	(30,218)	(285,587)	(521,762)
Accumulated amortisation 31.12.2022	224,530	17,763	1,035,574	1,277,867
Carrying amount				
Carrying amount 1.1.2021	3,621,737	189,027	1,160,574	4,971,338
Carrying amount 31.12.2021	3,395,660	146,978	1,201,652	4,744,289
Carrying amount 31.12.2022	3,202,260	116,476	1,198,008	4,516,745
Amortisation rates	5%	14%	20-33%	

15. Property and equipment

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

Accounting policy

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

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

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

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15. Property and equipment, contd.:

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

Depreciation

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

Properties	50 years
Other property and equipment	3 – 20 years

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

Revaluation of properties

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

Revaluation methods for properties

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

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

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

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

c. Inflation.

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

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

According to fair value measurement at year-end 2022 the difference between fair value and carrying amount of properties was less than the 10% benchmark and a revaluation of properties therefore not recognised for the year.

Notes, contd.:

15. Property and equipment, contd.:

Determination of fair value of properties

The Company´s measurement of the fair value of properties was determined with assistance from independent specialists. The fair value measurement is based on discounted cash flows of individual assets. The cash flow model applied is based on free cash flows, discounted by the weighted average cost of capital for individual assets (WACC). The projected cash flows in the model are up to 50 years. The return on equity is estimated using the CAPM (Capital Asset Pricing Model), which is based on risk-free inflation-adjusted interest rate with a premium added to reflect the risk of underlying operations. Interest rates on borrowings are estimated considering the general terms for interest rates which are offered in the market. It is assumed a debt ratio of 65% for the future and the expected weighted cost of investment (WACC) which is applied is in the range of 5.9% - 7.2% (weighted average 6.2%). The result of the fair value measurement was less than the 10% benchmark and a revaluation therefore not carried out.

Sensitivity analysis of fair value measurement at year-end 2022:

	Increase	Decrease
Increase / (decrease) of EBITDA from operations of properties by 5%	459,102	(459,102)
(Increase) / decrease of return on equity and interest rates by 1.0%-point	(1,028,796)	1,297,447

Property and equipment are specified as follows:

	Properties and land	Other property and equipment	Total
Cost or assessed value			
Cost 1.1.2021	30,417,256	10,310,894	40,728,150
Additions during the year	417,952	1,426,119	1,844,071
Revaluation during the year	2,026,649	0	2,026,649
Reclassification	(707,871)	707,871	0
Sold and disposed of during the year	(2,037,041)	(2,097,519)	(4,134,560)
Cost or assessed value 31.12.2021	30,116,945	10,347,365	40,464,310
Additions during the year	1,332,345	3,247,632	4,579,977
From acquired subsidiary	0	127,229	127,229
Sold and disposed of during the year	(498,541)	(588,014)	(1,086,555)
Cost or assessed value 31.12.2022	30,950,749	13,134,212	44,084,961
Depreciation			
Accumulated depreciation 1.1.2021	3,875,037	4,555,732	8,430,769
Depreciation for the year	703,145	1,193,310	1,896,455
Reclassification	(27,439)	27,439	0
Sold and disposed of during the year	(404,754)	(2,002,254)	(2,407,008)
Accumulated depreciation 31.12.2021	4,145,989	3,774,227	7,920,216
Depreciation for the year	588,346	1,285,991	1,874,337
From acquired subsidiary	0	44,618	44,618
Sold and disposed of during the year	(55,377)	(513,983)	(569,360)
Accumulated depreciation 31.12.2022	4,678,958	4,590,853	9,269,811

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15. Property and equipment, contd.:

	Properties and land	Other property and equipment	Total
Carrying amount			
Carrying amount 1.1.2021	26,542,219	5,755,162	32,297,381
Carrying amount 31.12.2021	25,970,956	6,573,138	32,544,092
Carrying amount 31.12.2022	26,271,791	8,543,359	34,815,148
Carrying amount excluding revaluation			
Carrying amount 1.1.2021	22,645,404	5,755,162	28,400,566
Carrying amount 31.12.2021	20,119,839	6,573,138	26,692,977
Carrying amount 31.12.2022	20,420,674	8,543,359	28,964,033
Depreciation rates	0 - 2%	5 - 33%	

The Company's properties are pledged for debt which amounted to ISK 30,014 million at year-end 2022. Furthermore, there is an amount of ISK 2,370 million in VAT encumbrance on the Group's properties. This encumbrance is not recognised as a liability in the statement of financial position since it will only become payable if the properties would be used in operations which are exempt of VAT or if they are sold without the buyer taking over the encumbrance.

Insurance and official property value of property and equipment at year-end:	2022	2021
Official property value	23,843,970	20,453,662
Insurance value of real estate	29,925,050	27,364,384
Insurance value of machinery and equipment, cabinetry and vehicles	7,850,996	6,306,187

16. Lease contracts

A. The Group as lessee

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

Accounting policies

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

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

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

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16. Lease contracts, contd.:

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

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

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

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

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

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

Leased assets are presented separately within non-current assets in the statement of financial position. Lease liabilities are presented separately in the statement of financial position and split into non-current and current portions. Depreciation of leased assets is presented in income statement under depreciation, as per Note 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	Other	Total
Carrying amount 1.1.2021	3,939,778	1,260,346	219,442	5,419,566
New lease contracts	1,622,220	0	76,143	1,698,363
Change due to remeasurement of lease liabilities	(259,416)	(166,616)	9,173	(416,859)
Depreciation for the year	(477,082)	(19,647)	(49,004)	(545,733)
Carrying amount 31.12.2021	4,825,500	1,074,083	255,754	6,155,337
New lease contracts	1,694,485	15,593	70,177	1,780,255
Taken over due to acquisition of subsidiary	186,568	0	0	186,568
Change due to remeasurement of lease liabilities	717,424	(25,484)	11,243	703,183
Depreciation for the year	(723,603)	(22,321)	(67,065)	(812,989)
Carrying amount 31.12.2022	6,700,374	1,041,871	270,109	8,012,354

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16. Lease contracts, contd.:

B. The Group as lessor

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

	2022	2021
Year 2022	-	599,916
Year 2023	652,214	585,585
Year 2024	644,391	574,727
Year 2025	565,181	550,762
Year 2026	379,575	421,499
Year 2027	374,080	334,282
Due later	1,276,126	1,085,056
Rental income total	3,891,567	3,551,911

17. Investment properties

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

Accounting policies

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

Determination of fair value of investment properties

The Company´s measurements of fair value for the years 2022 and 2021 were determined with assistance from independent specialists. The measurement of investment properties is based on discounted cash flows of individual assets. The cash flow model applied is based on free cash flows to the Group, discounted by the weighted average cost of capital for individual assets (WACC). The projected cash flows in the model are up to 50 years. The return on equity is estimated using the CAPM (Capital Asset Pricing Model), which is based on risk-free inflation-adjusted interest rate with a premium added to reflect the risk of underlying operations. Interest rates on borrowings are estimated considering the general terms for interest rates which are offered in the market. It is assumed a debt ratio of 65% (2021:65%) for the future and the expected weighted cost of investment (WACC) which is applied is in the range of 5.8% - 7.0% (weighted average 5.9%) (2021: 5.4% - 6.6% and weighted average 5.5%).

Estimated cash flows are based on lease income from existing lease contracts and their expected development. Each lease contract is assessed and relevant risk factors are taken into account. Utilisation rate is estimated to be 95-96% after a lease contract expires (2021: 95-96%). Estimated operating expenses are deducted from estimated lease income. In this way each asset of the Company is assessed as an independent unit. The inputs of the valuation model are based on amounts experienced in the operations of the Company as well as on a forecast of the development of key factors in the future.

The conclusion of the measurement at year-end 2022 was an increase in the value of investment properties in the amount of ISK 216 million (2021: ISK 736 million), which is recognised in the statement of profit or loss. Direct operating expenses of investment properties amounted to ISK 365 million for the year 2022 (2021: ISK 444 million).

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17. Investment properties, contd.:

Investment properties are specified as follows:

Carrying amount at 1 January 2021	7,466,994
Additions during the year	13,027
Sold during the year	(2,115,736)
Fair value change	736,006
Carrying amount at 31 December 2021	6,100,291
Additions during the year	585,341
Sold during the year	(423,057)
Fair value change	216,042
Carrying amount at 31 December 2022	6,478,617

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

Sensitivity analysis of fair value measurement at year-end 2022:	Increase	Decrease
Increase / (decrease) of EBITDA from operations of properties by 5%	(295,417)	295,417
(Increase) / decrease of return on equity and interest rates by 1.0%-point	(811,362)	1,137,442
Sensitivity analysis of fair value measurement at year-end 2021:		
Increase / (decrease) of EBITDA from operations of properties by 5%	(305,015)	305,015
(Increase) / decrease of return on equity and interest rates by 1.0%-point	(877,444)	1,258,152

18. Associates

The Company had seven associates at year-end 2022, both domestic and foreign. The Company recognises in the annual financial statements its share of profit or loss of those associates.

Accounting policies

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

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

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Notes, contd.:

18. Associates, contd.:

Ownership in associates and share of profit or loss

On 30 December 2022 the Company acquired 45% of the shares in Icelandic Food Company ehf. (IFC), for ISK 61 million, which thereby became fully owned, see note 5. IFC was established in 2019 and Festi owned 40% of the shares in the company at that time. The company specialises in production of convenience goods that are sold in Krónan and N1 stores. The shareholding increased to 55% at the beginning of the year 2022, following a financial restructuring. Since Festi did not have control over IFC during the year 2022 it is not classified as a subsidiary during 2022. The Group's share in profit or loss of associates amounted to ISK 453 million in 2022 (2021: ISK 301 million).

Ownership in associates is specified as follows:

	Ownership	2022	2021
Olíudreifing ehf.	60.0%	1,524,820	1,449,267
Malik Supply A/S, Danmörku	24.9%	726,168	515,451
EAK ehf.	33.3%	125,483	109,101
EBK ehf.	25.0%	152,077	133,921
Shares in associates - 3 companies (2021: 4)	-	72,321	116,326
Total shares in associates at the end of the year		2,600,869	2,324,066

Change in the carrying amount of associates during the year:

	2022	2021
Carrying amount at the beginning of the year	2,324,066	2,149,682
Share of profit	453,488	300,702
Dividend	(251,000)	(214,962)
Purchase of shares	48,591	118,000
Translation difference	25,724	(29,356)
Carrying amount at the end of the year	2,600,869	2,324,066

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

Olíudreifing ehf.

The Company owns 60% share in Olíudreifing ehf. The Company 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 ehf. 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 Act on Annual Accounts and the established accounting rules.

	2022*	2021*
Non-current assets	3,731,812	3,799,487
Current assets	1,397,377	1,255,232
Non-current liabilities	(698,994)	(1,834,473)
Current liabilities	(1,888,829)	(804,801)
Net assets (100%)	2,541,366	2,415,445
Carrying amount at year-end (60%)	1,524,820	1,449,267
Revenue (100%)	5,258,672	4,088,140
Profit (100%)	510,921	389,246
Share in total comprehensive income (60%)	306,553	233,548

* Draft annual financial statements

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18. Associates, contd.:

Malik Supply A/S

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

	2022*	2021*
Non-current assets	1,202,661	1,123,618
Current assets	8,652,172	6,976,459
Non-current liabilities	(753,764)	(516,022)
Current liabilities	(6,455,785)	(5,779,446)
Net assets (100%)	2,645,284	1,804,608
Share in equity	657,476	448,529
Premium	68,692	66,922
Carrying amount at year-end 24.9%	726,168	515,451
Revenue (100%)	84,623,072	52,537,477
Profit (100%)	626,469	250,643
Share in total comprehensive income 24.9%	155,707	62,296

* Draft annual financial statements

19. Long-term receivables

The Company's long-term receivables are denominated both in Icelandic and Danish krona. Following is an analysis of the Company´s long-term receivables.

Long term receivables are specified as follows:	Interest rates	Outstanding at year-end	
		2022	2021
Receivables from related parties in Danish krona	10%/10%	131.807	128.412
Other receivables in Danish krona	4%/4%	22.058	21.490
Receivables from related parties in Icelandic krona	7%	0	120.832
Other receivables in Icelandic krona	0%/0%	26.436	30.000
		180.301	300.734
Current portion		(29.947)	(72.510)
Total long-term receivables		150.354	228.224

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

Year 2022	-	72.510
Year 2023	29.947	102.500
Due in 2027 and later	150.354	125.724
Total long-term receivables	180.301	300.734

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Notes, contd.:

20. Inventories

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

Accounting policy

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

Purchase of goods during the year are specified as follows:	2022	2021
Inventories at beginning of year	9,545,341	7,668,263
Purchase of good during the year	97,944,909	75,967,460
Expensed inventories	(94,404,479)	(74,090,382)
Inventories at year-end	13,085,771	9,545,341

Inventories at year-end are specified as follows:	2022	2021
Convenience goods	3,847,980	3,080,438
Fuel	4,379,250	2,599,583
Electronic equipment	2,839,860	2,282,174
Other goods	2,018,681	1,583,146
Total inventories	13,085,771	9,545,341
Insurance value of inventories	12,323,278	10,489,709

Inventories were pledge as security for liabilities that were fully repaid in 2021. The write-down of inventories amounted to ISK 491 million at year end 2022 (2021:441) and increased by ISK 50 million during the year (2021: reduced by 93).

21. Other short-term receivables

Other short-term receivables at year-end are specified as follows:	2022	2021
Prepaid expenses	193,783	82,132
Receivables from the Icelandic State	125,718	117,663
Receivable due to sale of property and equipment	118,000	174,000
Receivables from related parties	14,434	13,410
Market value of forward contracts	15,730	152,740
Current portion of long-term receivables	29,947	72,510
Other short-term receivables	266,875	276,456
Total other short-term receivables	764,487	888,911

22. Cash and cash equivalents

Cash and cash equivalents at year-end are specified as follows:	2022	2021
Bank accounts	2,043,475	3,954,802
Cash	68,662	47,914
Total cash and cash equivalents	2,112,137	4,002,716

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23. Equity and capital management

Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 313 million and was decreased by ISK 11 million during the year. One vote is attached to each share of ISK one in the Company. Shareholders in the Company have the right to receive dividends in proportion to their shareholding upon dividend distribution. Costs directly associated with issue of share capital are deducted from equity. Purchase price of treasury shares, including direct costs associated, are deducted from equity. Equity is increased upon the sale of treasury shares. In accordance with the authorisation granted by the annual general meetings of Festi hf. on 22 March 2022 and 23 March 2021, the Company continued to purchase own shares during the year 2022. The Company purchased a total of ISK 8.6 million shares in nominal amount at the average share price of 224.2 for a total of ISK 1,932 million or 2.7% of the outstanding share capital. The Company owns 5.0 million own shares or 1.6% at year-end 2022.

Share premium

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

Statutory reserve

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

Revaluation reserve

The revaluation of the Group's 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 statement of profit or loss. Dissolution of the revaluation is recognised in retained earnings.

Unrealised profit of subsidiaries and associates

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

Translation reserve

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

Retained earnings

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

Capital management and dividends

The Board of Directors of Festi has established a policy on the capital structure and dividend payments, according to which dividend payments to shareholders or purchase of own shares should amount to at least 50% of the profit for each year. Furthermore, objectives are that EBITDA should be 35% of gross profit, the ratio net interest bearing liabilities / EBITDA less than 3.5 and equity ratio should be in the range of 30 - 35%. The Company´s loan covenants require a minimum equity ratio of 25%. The equity ratio at year-end 2022 was 36.9% (year-end 2021: 39.4%).

Notes, contd.:

24. Earnings per share

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

	2022	2021
Profit for the year	4,081,770	4,972,114
Share capital at the beginning of the year	316,118	323,091
Effect of changes in share capital	(6,757)	(1,798)
Weighted-average of outstanding shares	309,361	321,293
Basic and diluted earnings per share in ISK	13.19	15.48

25. Loans from credit institutions

All loans from credit institutions are denominated in Icelandic krona. During the year the Company took a new loan in the amount of ISK 4,000 million in order to pay back in full its line of credit. The balance of the loans at year-end is secured by pledge in the properties of the Company. The loans are specified as follows:

	2022	2021
Long-term loans		
Balance at the beginning of the year	25,929,521	29,074,806
Repayments	(1,593,965)	(11,088,804)
New loans	3,960,000	7,000,000
From acquired subsidiiary	12,716	0
Expensed borrowing costs	12,633	141,880
CPI-indexation	310,987	709,868
Change in current portion	(407,730)	91,771
Balance at year-end	28,224,162	25,929,521
Short-term loans		
Current portion of long-term loans	1,789,733	1,382,003
Balance at year-end	1,789,733	1,382,003
Total loans from credit institutions	30,013,895	27,311,524

	Interest rates at year-end		Outstanding at year-end	
	2022	2021	2022	2021
Loans on floating interest rates	5.3%	2.4%	26,532,580	23,739,246
Short-term loan on floating interest rates	2.4%	3.0%	3,481,315	3,572,278
Total loans from credit institutions			30,013,895	27,311,524

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25. Loans from credit institutions, contd.:

The maturities of the loans are specified as follows:	2022	2021
Year 2022	-	1,382,003
Year 2023	1,789,733	1,382,186
Year 2024	1,790,002	1,382,369
Year 2025	7,632,823	7,226,611
Year 2026	1,792,758	1,389,991
Year 2027	1,792,941	1,390,174
Due for payment onwards	15,215,638	13,158,190
Total loans from credit institutions	30,013,895	27,311,524

26. Lease liabilities

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

Lease liabilities are specified as follows:

Carrying amount at the beginning of the year	6,422,563	5,610,632
New lease contracts	1,780,255	1,698,363
From acquired subsidiary	198,911	0
Increase due to indexation of lease payments	703,183	(416,859)
Payment of lease liabilities during the year	(678,575)	(469,573)
Total lease liabilities	8,426,337	6,422,563
Current portion	(711,514)	(553,819)
Total non-current portion of lease liabilities	7,714,823	5,868,744

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

Year 2022	-	553,819
Year 2023	711,514	557,450
Year 2024	749,319	565,654
Year 2025	773,159	585,575
Year 2026	749,690	561,075
Year 2027	728,811	546,380
Due for payment onwards	4,713,844	3,052,610
Total	8,426,337	6,422,563

All lease liabilities are denominated in Icelandic krona.

The impact of lease contracts in the statement of profit or loss is as follows:

	2022	2021
Deprecation of lease assets	812,989	545,733
Interest expensed on lease liabilities	412,918	298,001

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

Real estate rent	182,276	67,858
Other rent payments	4,260	6,175

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26. Lease liabilities, contd.:

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

Payments due to lease contracts	1,091,493	767,574

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 items recognised directly in equity or in other comprehensive income, in which case the income tax is recognised together with those items.

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

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

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

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

		2022		2021
Profit before income tax		4,935,636		6,161,169
Income tax based on current tax rate	20.0%	987,127	20.0%	1,232,234
Non-deductible expenses	0.4%	19,304	0.0%	843
Non-taxable income	(2.3%)	(111,646)	(1.0%)	(60,140)
Other changes	(0.8%)	(40,919)	0.3%	16,118
Effective income tax rate	17.3%	853,866	19.3%	1,189,055

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

	2022	2021
Property and equipment and investment properties	5,408,886	5,114,858
Intangible assets	613,469	433,865
Lease contracts	(80,328)	(53,445)
Trade receivables	49,841	25,288
Inventories	49,504	14,599
From acquired subsidiary	(62,328)	0
Other items	21,796	54,856
Deferred tax liability	6,000,840	5,590,021

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28. Other short-term liabilities

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

	2022	2021
Unpaid salaries and salary-related expenses	1,707,176	1,326,378
Other unpaid taxes (VAT, tariffs, oil charge, gasoline charge, carbon charge)	2,832,319	2,682,535
Unpaid income tax	350,019	680,785
Unpaid accrued interest	151,867	82,923
Deferred income	210,562	241,059
Other short-term liabilities	589,457	701,840
Total other short-term liabilities	5,841,400	5,715,520

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 Company’s risk management objective is to minimise the risk it faces by analysing the risk, measuring it and controlling it.

Overview

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

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises principally from trade receivables and other receivables.

Credit risk mainly depends on the age of trade receivables, the financial standing and operations of individual customers and the standing of the industries in which the Company's biggest customers operate, which are transportation, fishing industry and contractors. Approximately 22% (2021: 24%) of the balance of trade receivables at year-end is attributable to 30 of the Company's biggest customers. Thereof, receivable from the biggest customer was 3% (2021: 3%).

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

The Group recognises an allowance for expected credit losses on trade receivables and other receivables. The estimation of the allowance is based on historical loss experience, the age of receivables, current economic conditions and future prospects. At year-end a new contract was entered into with a payment processor which shortens the collection of credit card receivables. This explains the decrease in credit card receivables between the years.

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29. Risk management, contd.:

The Company's trade receivables at year end are specified as follows:	2022	2021
Credit card receivables	1,541,152	1,527,147
Other trade receivables	4,419,016	3,230,139
Total trade receivables	5,960,168	4,757,286

Age analysis of trade receivables and impairment loss

Year 2022	Nominal amount	Loss allowance	Carrying amount	Allowance ratio
Not yet due	5,748,015	(56,987)	5,691,028	1.0%
Past due by 30 days or less	150,013	(7,703)	142,310	5.1%
Past due by 31 - 120 days	55,321	(7,035)	48,286	12.7%
Past due by more than 120 days	128,419	(49,875)	78,544	38.8%
	6,081,768	(121,600)	5,960,168	2.0%
Year 2021				
Not yet due	4,530,100	(56,490)	4,473,610	1.2%
Past due by 30 days or less	191,979	(8,537)	183,442	4.4%
Past due by 31 - 120 days	43,958	(6,761)	37,197	15.4%
Past due by more than 120 days	158,649	(95,612)	63,037	60.3%
	4,924,686	(167,400)	4,757,286	3.4%

Liquidity risk

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

The Group's liquidity position at year-end 2022 was strong. The Group’s management considers that the Group is capable to meet its financial obligations as they become due. The weighted-average repayment period of the Group’s long-term loans is about 12 years and all loans are prepayable during the loan term. The Group also has access to lines of credit for up to next 8 months for a maximum amount of ISK 4,000 million. No amount was drawn at year-end 2022.

Further information about the Group's financial liabilities is disclosed in Note 31 about financial instruments.

Market risk

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

Price risk

An important market risk of the Company is price risk due to changes in the oil price in the world market, which has been very volatile in the past years. The price risk is reduced by means of specific agreements with the largest customers of the Company but also by the Parent Company entering into derivative contracts to hedge part of the price risk arising from purchases of oil. The contracts have maturities of up to several months, whereas the oil price is fixed in foreign currency and they cover the part of the Group’s oil purchases which is not hedged with specific agreements. The contracts are settled in cash and are presented in the statement of profit or loss as part of the cost of oil to which they relate. The gain from oil hedges amounted to ISK 464 million during the year (2021: gain of ISK 532 million). The fair value of derivatives recognised in restricted reserves in equity amounted to ISK 1 million at year-end 2022 (2021: ISK 122 million).

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29. Risk management, contd.:

Interest rate risk

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

An increase in interest rates at the reporting date by one percentage point (100 basis points) would decrease profit or loss before income tax by ISK 300 million (2021: ISK 273 million) due to effects on the borrowings of the Company at floating interest rates. The calculation is based on operating effect on an annual basis. A decrease by one percentage point would have the same effect but in the opposite direction.

Currency risk

All of the Company's transactions denominated in foreign currencies give rise to currency risk. In evaluating currency risk both payment risk and settlement risk is taken into account. The objective is to manage currency risk in order to best insure the Company's benefits. The major part of imports is purchase of goods for resale from foreign suppliers denominated in USD and EUR, but the sale is for the most part in ISK. Sales in ISK constitute 96% (2021: 97%), USD 3% (2021: 2%) and other currencies 1% (2020: 1%).

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

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

Árið 2021	USD	EUR	Other Currenceies	Total
Long-term receivables	0	0	120,724	120,724
Trade receivables	326,387	22,115	67,544	416,046
Cash and cash equivalents	225,894	12,336	220,862	459,092
Trade liabilities	(10,045)	(180,367)	(734,344)	(924,756)
Risk in the statement of financial position	542,236	(145,916)	(325,214)	71,106

Sensitivity analysis

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

	2022	2021
USD	64,896	54,224
EUR	(10,407)	(14,592)
Other currencies	(36,333)	(32,521)
Total	18,157	7,111

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

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29. Risk management, contd.:

Operating risk

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

In order to reduce operating risk, among other things, there has been established an appropriate segregation of duties and transactions on charge accounts and compliance with laws are monitored. Furthermore, effective training activities are performed with the objective of giving the necessary training to all employees relating to their work for the Company. Effective work procedures and rules on back-up of IT systems have been implemented. Furthermore, effective operating budgets and monthly statements are prepared and deviations from approved budgets are analysed.

30. Financial instruments and fair value

Assets at fair value

Securities are recognised at fair value. The fair value estimate is categorised in level 3 of the fair value hierarchy, since the information about their fair value is based on the Company's own assumptions. The properties are recognised at revalued cost. This entails that their fair value is determined regularly to ensure that at any given time it does not differ significantly from their book value. Further information about the remeasurement of properties is disclosed in Note 15. Investment properties are recognised at fair value. Further information about 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 financial liabilities are classified into certain categories. The classification of financial assets and financial liabilities affects how financial instruments are measured after initial recognition. The classification of financial assets and financial liabilities of the Group and their measurement basis are specified in the following table.

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

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

Classification of financial instruments and their measurement basis

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

Financial instrument	Classification	Carrying amount at year-end 2022	Carrying amount at year-end 2021
Cash and cash equivalents	Financial assets at amortised cost	2,112,137	4,002,716
Trade and other receivables classified as financial instruments, including receivables from related parties	Financial assets at amortised cost	6,530,872	5,564,065
Shares in other companies	Fjáreignir á afskrifuðu kostnaðarverði	14,140	12,940
Long-term receivables	Financial assets at amortised cost	150,354	228,224
Loans from credit institutions	Financial liabilities at amortised cost	30,013,895	27,311,524
Trade and other short-term liabilities classified as financial instruments	Financial liabilities at amortised cost	14,261,186	12,496,195

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30. Financial instruments and fair value, contd.:

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 36.9% at year-end 2022 (year-end 2021: 39.4%) and the condition was fulfilled.

Maturity analysis

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

Year-end 2022	**Within a year**	**After 1 - 3 years**	**After 3 - 5 years**	**After more then 5 years**
Loans from credit institutions	2,994,945	11,594,905	5,080,914	17,187,418
Lease liabilities	1,176,677	2,258,516	2,044,242	6,844,808
Trade payables	8,630,348			
Payable to the Icelandic State	2,832,319			
Current tax liability	350,019			
Other short-term liabilities	2,448,500			
	18,432,808	13,853,421	7,125,156	24,032,226

Year-end 2021				
Loans from credit institutions	2,566,909	4,586,253	9,980,124	16,694,480
Lease liabilities	900,780	1,696,166	1,589,874	5,537,354
Trade payables	7,021,734			
Payable to the Icelandic State	2,682,535			
Current tax liability	680,785			
Other short-term liabilities	2,111,141			
	15,963,884	6,282,419	11,569,998	22,231,834

31. Related parties

Definition of related parties

The Company'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 specified as follows:	**2022**	**2021**
Purchased goods and services	3,040,895	2,215,364
Sold goods and services	912,864	297,210
Interest revenue from receivables	12,465	15,212
Long-term receivables at year-end	131,807	249,245
Short-term receivables at year-end	14,434	13,410
Trade receivables at year-end	149,480	232,609

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31. Related parties, contd.:

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:

2022	Salary	Benefits	Performance-based salary	Number of shares at year-end
Board of Directors				
Guðjón Karl Reynisson, Chairman of the Board of Directors	12,125			609,391
Sigurlína Ingvarsdóttir, Vice-Chairman	3,776			
Hjörleifur Pálsson, Board member	2,805			40,000
Magnús Júíusson, Board member	2,694			215,861
Margrét Guðmundsdóttir, Board member	7,469			178,014
Ástvaldur Jóhannesson, former Board member	1,724			
Kristín Guðmundsdóttir, former Board member	1,306			26,757
Sigrún Hjartarsdóttir, former Board member	1,860			
Þórey G. Guðmundsd., former Board member	3,341			
Þórður Már Jóhannesson, former Chairman	209			5,000,000
Key management personnel				
Ásta S. Fjeldsted, CEO	39,445	4,293	9,000	96,000
Eggert Þór Kristófersson, former CEO	64,857	3,704	12,600	0
Five managing directors	165,723	13,179	32,801	574,902
Total	307,334	21,176	54,401	6,740,925
2021				
Board of Directors				
Guðjón Karl Reynisson, Chairman of the Board of Directors	7,685			609,391
Margrét Guðmundsdóttir, Vice-Chariman	5,787			83,014
Kristín Guðmundsdóttir, Board member	5,772			6,028
Þórey G. Guðmundsdóttir, Board member	5,502			
Þórður Már Jóhannesson, former Chairman	13,323			5,000,000
Key management personnel				
Eggert Þór Kristófersson, CEO	50,548	4,116	4,200	600,000
Five managing directors	173,926	16,682	8,529	384,902

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

	2022	2021
Key management personnel gender ratio (males/females)	66/34	83/17

Transactions with other related parties

There are no shareholders with significant influence at year-end 2022. Companies controlled by members of the Board of Directors and key management personnel are five at year-end 2022 and they were defined as related parties. Transactions with them during both years 2022 and 2021 were very immaterial and they consist of normal sales and purchases and the pricing in such transactions is comparable to other transactions of Group companies.

Transactions with employees

The Group has granted loans to its employees due to general purchase of goods and the receivables amounted to ISK 8 million at year-end 2022 (2021: ISK 8 million). Other liabilities of employees towards the Company amounted to ISK 5 million at year-end (2021: ISK 1 million).

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Notes, contd.:

32. Litigation and other claims

At year-end 2018 the Revenue and Customs authority ruled that Festi had incorrectly classified certain fuel deliveries for custom purposes during the years 2013 – 2018. Based on that, the Revenue and Customs authority re-determined import duties for these deliveries for the years 2015 – 2018 and the Company paid around ISK 110 million including surcharges and penalty interests. The Company disagreed with this decision and appealed the case to the Internal Revenue Board, which ruled in favour of the Company and the money was repaid by mid-year 2022, which is the final decision in this case.

In 2020, ELKO initiated a litigation at the District Court against the inspection fees levied by the Icelandic State for the import of electronic equipment during the years 2016 – 2020. The District Court ruled the case in ELKO’s favour in November 2020, where ELKO´s claims were accepted entirely. The State decided to appeal the case to the Court of Appeal, which confirmed the District Court’s ruling in March 2022. Based on that, ELKO got repaid ISK 42 million, including repayment of legal costs and penalty interest, which is the final decision in this case.

The Company initiated a court case against the State, following the rulings of the Court of Appeal from last May in the cases of Atlantsolía and Skeljungur regarding the repayment of overpaid levy to the Transportation Equalisation Fund and demanded the repayment of the same levy from the Icelandic State. The levy was not deemed to benefit from a sufficient legal basis as its imposition was carried out. The Icelandic State agreed to repay the illegal levy in accordance with the mentioned precedent ruling. The total repayment amounted to ISK 390 million, including surcharges and penalty interest, which is the final decision in this case.

33. Other matters

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

34. Financial ratios

The Group's key financial ratios

Operations	2022	2021
Turnover rate of inventories		
Utilisation of goods / average balance of inventories during the year	7.6	8.2
Sales days in trade receivables:		
Average balance of trade receivables during the year / goods and services sold	15.9	18.9
Profit before depreciation, amortisation and finance items / gross profit	37.1%	41.1%
Salaries and salary related expenses / gross profit	49.8%	47.3%
Other operating expenses / gross profit	21.9%	21.0%
Financial position		
Current ratio: current assets / current liabilities	1.29	1.31
Liquidity ratio: (current assets - inventories) / current liabilities	0.52	0.66
Leverage: net interest bearing liabilities excluding leaese liabilities / EBITDA	2.78	2.30
Equity ratio: equity / total capital	36.9%	39.4%
Return on equity: profit for the year / average balance of equity	11.9%	15.6%

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Quarterly Statement – unaudited

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

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

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Quarterly Statement – unaudited

The Group´s operations for the year 2021 is specified by quarters as follows:

	Q1	Q2	Q3	Q4	2021 Total
Sale of goods and services	20,917,226	24,326,416	27,063,982	26,428,388	98,736,012
Cost of goods sold	(15,773,505)	(18,220,853)	(20,189,203)	(19,906,821)	(74,090,382)
Gross profit from sale of goods and serv.	5,143,721	6,105,563	6,874,779	6,521,567	24,645,630
Other operating income	455,018	603,412	534,144	723,797	2,316,371
Salaries and other personnel expenses	(2,817,658)	(3,016,679)	(2,752,260)	(3,072,282)	(11,658,879)
Other operating expenses	(1,276,106)	(1,233,879)	(1,311,155)	(1,364,368)	(5,185,508)
	(3,638,746)	(3,647,146)	(3,529,271)	(3,712,853)	(14,528,016)
Operating profit before depreciation, amortisation and changes in value (EBITDA)	1,504,975	2,458,417	3,345,508	2,808,714	10,117,614
Depreciation and amortisation	(728,794)	(714,239)	(754,370)	(995,858)	(3,193,261)
Changes in value of investment properties	(64,123)	22,695	434,678	342,756	736,006
Operating profit (EBIT)	712,058	1,766,873	3,025,816	2,155,612	7,660,359
Finance income	17,941	21,691	22,328	27,896	89,856
Finance costs	(440,128)	(612,266)	(385,076)	(519,230)	(1,956,700)
Foreign currency differences	17,229	(8,416)	18,004	40,135	66,952
Share of profit of associates	45,221	80,787	166,978	7,716	300,702
	(359,737)	(518,204)	(177,766)	(443,483)	(1,499,190)
Profit before income tax (EBT)	352,321	1,248,669	2,848,050	1,712,129	6,161,169
Income tax	(62,993)	(206,147)	(562,071)	(357,844)	(1,189,055)
Profit for the period	289,328	1,042,522	2,285,979	1,354,285	4,972,114
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	(27,140)	(5,021)	14,164	(11,359)	(29,356)
Revaluation of properties, net of income tax	0	0	0	1,621,320	1,621,320
Changes in fair value of cash flow hedges	150,934	43,118	(68,418)	(132,622)	(6,988)
Total other comprehensive income	123,794	38,097	(54,254)	1,477,339	1,584,976
Total comprehensive income for the period	413,122	1,080,619	2,231,725	2,831,624	6,557,090
Basic and diluted earnings per share in ISK	0.91	3.21	7.10	4.26	15.48

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Statement of Corporate Governance

Board of Directors and Corporate Governance

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

The corporate governance of Festi is laid down in the rules of procedure of the Board of Directors, the Company‘s Articles of Association and the Act on Public Limited Companies No. 2/1995. The current rules of procedure of the Board of Directors were approved at a Board meeting on 4 May 2022. The rules are based on provisions in Article 70, paragraph 5 in the Act on Public Limited Companies No. 2/1995 and Article 18, paragraph 4 of the Company‘s Articles of Association. The Company‘s Articles of Association describe the Company's objective, its share capital, shareholders meetings, Board of Directors, CEO, accounting and audit. The current remuneration policy for Festi was approved by the Annual General Meeting on 22 March 2022. The policy applies to the terms of employment for the members of the Board of Directors, the CEO and the senior management of the Company.

The Company's rules of procedure for the Board of Directors, Articles of Association and information regarding the remuneration policy are accessible on the Company's website, www.festi.is/cc/stjornarhættir. The Company's highest authority is with its shareholders. The Annual General Meeting of shareholders shall be held no later than by the end of August each year. The Board of Directors has the highest authority in the Company's affairs between shareholders meetings and is ultimately responsible for its operations. The Board of Directors executes an appraisal of its performance annually. Communication between the Board and shareholders takes place at shareholders meetings. Members of the Board are independent in their work and do not accept instructions from shareholders in the Company or other stakeholders. Members of the Board must also observe confidentiality in performing their duties and are not allowed to provide information to shareholders concerning the Company's finances or operations unless it is presented by the Board of Directors.

According to the Articles of Association of Festi, the Board of Directors of the Company shall consist of five Board members appointed annually at the Annual General Meeting. The Board of Directors called a shareholders meeting on 14 July 2022 where a new Board was elected. At that meeting three new members were elected: Hjörleifur Pálsson, Magnús Júlíusson og Sigurlína Ingvarsdóttir. At the same time, Ástvaldur Jóhannsson, Sigrún Hjartardóttir and Þórey G. Guðmundsdóttir stepped down from the Board. The Board of Directors now consists of three men and two women. Therefore, the Company complies with the provisions of the Act on Public Limited Companies on gender ratios which entered into effect on 1 September 2013. Members of the Board have diverse education and extensive professional experience.

The Annual General Meeting will be held on 22 March 2023. 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 5 days notice before the beginning of the Annual General Meeting. The Company's Articles of Association can only be amended with the approval of 2/3 of votes cast in a lawfully called shareholders' meeting, provided that the intended amendment is thoroughly mentioned in the agenda to the meeting as well as what it consists of.

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

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

Statement of Corporate Governance, contd.:

Remuneration committee

The Board of Directors has appointed a Remuneration Committee. The role of the Remuneration Committee is to provide guidance to the Board of Directors regarding employment terms for Board members and Company's management and advise on the Company's remuneration policy, which shall be reviewed every year and presented to the Company's Annual General Meeting. Furthermore, the Committee shall monitor that employment terms of senior management is within the framework of the Company's remuneration policy and report thereon to the Board of Directors on an annual basis in relation to the Annual General Meeting. The Board of Directors shall appoint three members to the Remuneration Committee. Two of three 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 Hjörleifur Pálsson - Chairman of the Committee, Guðjón Karl Reynisson and Margrét Guðmundsdóttir.

Audit committee

The Board of Directors of Festi hf. has appointed an Audit Committee in accordance with provisions of the 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. The 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 the audit of the Company’s financial statements and evaluate the performance of the auditor to ensure further safety and quality of work methods during the audit. According to the Committee's rules of procedure two Board members shall be appointed to the Committee in addition to an 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 Magnús Júlíusson member of Board, Sigurlína Ingvarsdóttir, member of the Board, and Björgólfur Jóhannsson, Chairman of the Committee.

The Audit Committee´s tasks are as follows:

• To monitor the financial reporting process.

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

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

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

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

Nomination committee

The Nomination committee bases its work on the Company’s Articles of Association, rules of procedure and the Act on Public Limited Companies. The committee consists of three members appointed for one year at a time. Two members are elected at the Company´s Annual General Meeting but the third one is appointed by the Board of Directors and is one of the Board members, directly after the Annual General Meeting. The Nomination Committee has an advisory role regarding the election of Board members and presents its recommendations to the shareholder meeting where Board members are scheduled to be appointed. The Nomination Committee presents a reasoned proposal for the election of Board members, taking into account their competency, experience and knowledge with regards to the Guidelines on Corporate Governance and the results of the Board's performance appraisal. The committee's proposal shall be in accordance with provisions of the Act on Limited Liability Companies and the Company's Articles of Association regarding the appointment of the Board of Directors.

Statement of Corporate Governance, contd.:

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

The Nomination Committee consists of Sigrún Ragna Ólafsdóttir, Chairman of the Committee, Tryggvi Pálsson and Margrét Guðmundsdóttir, a Board member. Any queries are received through email, 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 Guðjón Reynisson, Chairman of the Board of Directors, Ásta S. Fjeldsted, the CEO and Magnús Kr. Ingason the CFO.

During the year 2022, the Board of Directors held 20 meetings, the Audit Committee 9 meetings and the Remuneration Committee 3 meetings. The majority of members of the Board of Directors, the Audit Committee, the Remuneration Committee attended all meetings. The Audit Committee calls meetings with the Company's auditors on a regular basis and auditors attend Board meetings when reviewed or audited financial statements are discussed.

The Board of Directors of Festi

Guðjón Reynisson, Chairman of the Board of Directors

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

Sigurlína Invarsdóttir, Vice-Chairman of the Board of Directors

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

Hjörleifur Pálsson, member of the Board of Directors

Hjörleifur graduated from the University of Iceland in 1988 and holds a Cand. Oecon. degree. He became a certified public accountant in 1989 and worked as an accountant until 2001. He held the CFO position in Össur hf. from 2001 to 2012. He is a member of Investment Committee in Akur fjárfestingar slhf., a board member of Brunn Vaxtarsjóður slhf. and is a board member, Chairman of the Audit Committee and a board member of Remuneration Committee in Lotus Pharmaceutical Co. Ltd. in Taiwan. He is also a board member of Ankra ehf., a board member of the Icelandic National Committee for UNICEF, Chairman of Remuneration Committee of Icelandair Group hf., a member of Audit Committee of Landsbankinn and Harpa ráðstefnu og tónlistarhúss ohf. Hjörleifur is a former chairman of Sýn and Reykjavík University and has been a board member of many other companies. He sat for some time on the board and executive management of Confederation of Icelandic Enterprise and has been actively involved in the work within The Icelandic Chamber of Commerce in preparing Guidelines on Corporate Governance. Hjörleifur became a Board member of Festi in July 2022. Hjörleifur is independent of the Company, its day-to-day managers, and major shareholders.

Magnús Júlíusson, member of the Board of Directors

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

Margrét Guðmundsdóttir, member of the Board of Directors

Margrét holds a Cand. oecon. degree in Business Administration from the University of Iceland, Cand. merc. degree from Copenhagen Business School and an Executive education from CEDEP/Insead in France. Margrét held the position of CEO of Austurbakki, later Icepharma hf., during the period from 2005 to 2016. Before that she was an executive director at Skeljungur from 1995 to 2005, executive director at Kuwait Petroleum (Danmark) A/S from 1986 to 1995 and the office director at Dansk ESSO, later Statoil, between 1982 and 1986. She was the deputy CEO of AIESEC International Brussel from 1978 to 1979. Margrét is the vice-chairman of the Board of Directors in Eimskipafélags Íslands hf. and is also a board member of Eignarhaldsfélagið Lyng ehf., 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 between 2009 and 2013, a board member of Reiknistofa bankanna from 2010 to 2011 and from 2016 to 2018, a board member of ISAVIA from 2017 to 2018. Additionally, Margrét has been a board member of various companies both in Iceland and Denmark. Margrét started as member of the Board of Directors of N1 in 2011, which later became Festi, and in 2012 she became the Chairman of the Board of Directors of Festi until March 2020. She is independent of the Company, day-to-day managers, and major shareholders.

Executive Board of Festi

The Executive Board is composed of the CEO and five managing directors of the Company, whereby each managing director is responsible for a certain division under the CEO. The Board of Directors and Eggert Þór Kristófersson reached a settlement regarding termination of his employment as of the end of July 2022. Magnús Kr. Ingason, the CFO, was contracted to act as temporary CEO from that date. The new CEO, Ásta S. Fjeldsted was hired and she started at the beginning of September 2022. She went on maternity leave at the beginning of November 2022 but will be back to work at the end of March 2023. Magnús Kr. Ingason serves as a CEO during that time.

Ásta Sigríður Fjeldsted, CEO

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

Other members of the Executive Board

Magnús Kristinn Ingason, CFO
Kolbeinn Finnsson, managing director of Operations
Guðrún Aðalsteinsdóttir, CEO of Krónan
Hinrik Bjarnason, CEO of N1
Óttar Örn Sigurbergsson, CEO of ELKO

Statement of Corporate Governance, contd.:

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

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

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

Festi's values are:
Value -Cooperation -Trust

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

The Company's policy is to be a leader for the future, which includes being socially responsible. When the financial statements are issued, a sustainability report will be concurrently issued in accordance with the ESG Reporting Guide 2.0. Festi endeavours to minimise the environmental impact of its operations by relentlessly applying disciplined and accepted measures. All companies in the Group have granted a certificate of equal salary in accordance with the ÍST 85:2012 standard and requirement of the Office of Equality. The certificate confirms that Company employees working comparable jobs are not being discriminated against in determining their salaries. Every year a number of non-profit organisations and individuals ask the Company for financial support for their good causes. Festi puts emphasis on preventative measures and sport activities. Festi´s code of conduct was approved on 4 May 2022. The code of conduct is accessible on the Company website.

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

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

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

The main components of internal control and risk management are reviewed by the Board of Directors annually.The Company does not have an internal auditor. However, the Company´s external auditors carry out limited reviews of its processes.

Company's Shareholders

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

Non-Financial Information

Non-Financial Information ESG

The comprehensive Sustainability strategy of Festi ("Festi" or "the Company") and its operating subsidiaries was confirmed unaltered at the company's Executive Board meeting in July 2022. Its purpose is to serve as a guiding light for the Group's sustainable operations. Strategic priorities are to enhance positive impacts on society and the local community with sustainability as a guiding principle in all decision making towards social, environmental and climate impacts, as well as respect for human rights and governance at any given time. It contains key metrics as well as timed and measurable objectives with respect to environmental, social, and governance (ESG) aspects in the Group's operations. Additionally, the Company has chosen to focus on and support the UN Sustainable Development Goals, specifically the goals on gender equality (5), decent work and economic growth (8), reduced inequalities (10), responsible consumption and production (12) and climate action (13).

In 2022, identifying climate-related risks and opportunities was initiated using the Task Force on Climate-Related Financial Disclosures (TCFD) and first steps were taken in analysing the Group's activities based on the EU Taxonomy. Further developments will be made in accordance with main regulations and directives expected from the authorities in the coming years. Assessments of all the main risk factors in the Group's operations are updated bi-annually for all subsidiaries, performances assessed, and new targets established. All the Group's companies have established contingency plans for a potential imminent threat. They contain action plans and procedures for different threats in all regions of the country and consider, for example, natural disasters, power outages, influenza outbreaks, and the closure of quarantine zones.

As part of its sustainability statements, the Group includes a report on non-financial information and metrics in accordance with Nasdaq's 2020 criteria on environmental, social, and corporate governance factors which relies on the sustainability software from Klappir Green Solutions for measurements. Festi has conjointly used the sustainability software from BravoEarth to manage its sustainability policies and actions in the field of sustainability. The Group focuses on increasing transparency and systematically improving sustainability-related disclosure.

In Festi's 2022 Sustainability Report, Deloitte ehf. provides a third party opinion with limited assurance on the Group's sustainability disclosure, where preparations for the limited assurance began in mid-2022. There is no legal requirement but with the previously mentioned, Festi wanted to receive a review and confirmation on the reliability of data and information related to the group's sustainability. Deloitte's limited assurance will also benefit the Group for the upcoming EU CSRD for large and/or listed companies, expected to take effect in the next two years, which will provide a legal requirement for independent third-party assurance.

ESG Risk Assessment

For the past three years, Reitun has prepared a report on the ESG risk assessment of Festi. The purpose is to evaluate and analyse how Festi performs in a few selected but important ESG factors. These risks, of varying degrees of weighted importance, are assessed based on sustainability management and performance. Festi's overall ESG rating for 2022 was 75 points, ranked as B2, an improvement of three point from the previous year. Three of the group's operating companies, Festi, ELKO, and N1 Electricity received Creditinfo's recognition as Outstanding Companies in 2022.

Corporate Social Responsibility and Environmental Issues

One of Festi's policy priorities is to have a positive impact on society and the local environment in which it operates by having sustainability as a guiding light in all decision-making. Social responsibility is an important part of this trajectory. The company's policy is to respect the environment, minimise its environmental impact from operations and seek to offer environmentally friendly products and services.

The companies operate in accordance with issued operating licenses and make an effort to have their social responsibility efforts visible. All Krónan grocery stores are Nordic Swan Ecolabel certified. Eighteen of N1's service stations are certified by Vottun hf. according to the ISO 14001 environmental management standard. Eleven N1 tyre workshops are certified Michelin Quality Dealer by the Danish-based SCA auditor. Bakkinn in Klettagarðar and the lubrication services are certified by Exxon Mobil. N1's strategy is to lead the future of sustainable energy transition, with 22% of last year's energy sales being electricity.

Non-Financial Information, contd.:

Corporate Social Responsibility and Environmental Issues, contd.:

Festi and its operating subsidiaries are all members of Festa, the Centre for Corporate Social Responsibility and Sustainability, and have all signed Festa's and the City of Reykjavík's Climate Declaration on reducing greenhouse gas emissions and minimising negative environmental impacts through targeted actions.

The Group‘s sustainability policy sets out environmental, climate, and waste management issues and discusses, among other things, the importance of minimising negative environmental impacts from its operations and reducing greenhouse gas emissions. In relation to the environmental and climate-related objectives of the Sustainability Policy, the Group's carbon neutrality target will be set up in the coming months in line with the Science Based Targets initiative (SBTi) including an assessment on whether to apply for assurance. During that process, the focus will be on analysing as much as possible of overall carbon footprint, including the value chain of Festi and its' operating subsidiaries, as well as measures to reduce emissions.

Responsible carbon offsetting is an important part of the sustainability strategy and is embodied in the roadmap towards the Group's carbon neutrality by 2035. The company has measured the defined direct and indirect greenhouse gas emissions from daily operations of its operating subsidiaries since 2018. The Group's emissions accounting is compiled in Klappir Green Solutions hf.'s system, where a gap-analysis is performed and evaluated by their sustainability experts. The carbon footprint is calculated in accordance with the principles of the Greenhouse Gas Protocol methodology and will be verified by independent party in Festi's 2022 Sustainability Report. There was a considerable increase in tCO2eq emissions between 2021 and 2022 and emissions are only expected to continue rising with improved and more detailed measurements of the Group's indirect emissions under scope 3. Up to now, Festi has purchased uncertified carbon offsets on a yearly basis to offset the measured direct greenhouse gas emissions of the Group.

In 2021, Festi became the first company in Iceland to commit to registering its carbon sequestration in the Icelandic Climate Registry in accordance with the requirements of the Skógarkolefni quality system by signing a project agreement with the Icelandic Climate Registry and Skógrækt, The project officially began in 2022 with soil preparation, fencing work, trail construction and planting of 90 thousand plants of almost 500 thousand tree plants that will be planted in certified afforestation on the land of Fjarðarhorn in Hrútafjörður in the coming years. The project is transparent, measurable and will be confirmed and certified by an independent party. This will make it possible to activate the units and count against the Group's emissions. It is estimated that over the next 50 years, Festi's carbon sequestration associated with this project will amount to 70.000 tonnes of CO2eq, which comprises about 85% of the Group's expected emissions from operations of Festi and its subsidiaries over the same period.

Environmental incidents are defined as one of the main risks in the Group's operations. There are many preventive responses to pollution incidents. Fuel tanks are regularly checked, and continuously connected monitoring devices are used to detect immediate abnormalities. An accident occurred in Hofsós in 2019 when a fuel tank was pierced during cleaning, but no such incidents occurred in 2022. Cleaning measures due to the leak from the fuel tank in Hofsós have been ongoing since 2020 in accordance with instructions from the Environment Agency of Iceland. Measurements have been made of soil pollution monthly and clean-up measures have been effective given that pollution was negligible at the end of 2022.

Every year several NGOs, institutions and individuals turn to the Group seeking support for good causes. Festi focuses on supporting causes on preventive actions and sports activities,

Human Resources

Festi‘s and its subsidiaries goal is to attract and retain qualified trustworthy employees. This strategy involves creating a positive and motivating work environment for employees as well as empowering and supporting them through purposeful training and career development. Emphasis is placed on the employees' knowledge of their respective company's role and responsibility, policy, and values, in order to achieve greater success. Festi and its subsidiaries harmonise their equal pay system in accordance with IST 85: 2012 and the criteria of the Office of Equality for equal salary. The equal pay certification is carried out by ICert sf., an accredited body in this field. The Group has laid down an Employee and Equal Pay Policy which reflects the fact that amongst the company's most essential resources are its employees, their knowledge, and skills.

Festi and all its operating subsidiaries carry out an annual workplace analysis to assess employees' overall satisfaction and wellbeing. The results are assessed against the Group's goals, then compared to previous years whilst also being compared between Festi's operating subsidiaries. The results of the Group's overall work satisfaction survey in 2022 measured at 4.08 (out of 5) which is a slight increase from the previous year.

Non-Financial Information, contd.:

Human Resources, contd.:

Festi has a zero-accident policy, meaning no accidents are acceptable. Safety and occupational safety courses are held annually to promote and strengthen the safety and health awareness of employees. Courses and educational lectures are related to, among other things, first aid, fire safety, chemicals and chemical products, quality-, environment- and security issues, responses to robbery and theft, threatening behaviour, and wastage, as well as lectures on health, discrimination, bullying and harassment. Risk analyses have been carried out and updated annually for all stores and service centres of the Group in collaboration with the insurance company VÍS.

A big step was taken towards a holistic approach regarding the welfare of employees through the implementation of Festi and its subsidiaries' welfare package. The package's objective is to increase employees' quality of life of, contribute to improved mental and physical health, and reduce the risk of illness and absence due to illness. The package offers permanent employees a variety of personalised services and ensures that their needs are being met where their tasks take place. To name a few, these include but are not limited to psychological and welfare services, sports grants, an Ethics Platform, retirement courses, trauma counselling, nutritionist, and social workers.

In 2019, Festi and its subsidiaries were the first to sign a contract with the Ethics Platform Hagvangur. The aim of the co-operation is, among other things, to promote a good and healthy workplace culture. By doing so, the Group reduces the risk of losing valuable staff, reduces the likelihood of lawsuits and bad reputation, and demonstrates strong corporate governance practices. The Ethics Platform provides employees the opportunity to communicate safely to third parties should they be exposed to unwanted behaviour or experience any form of distress in their workplace. Festi and its subsidiaries have established policies and response plans against bullying, harassment, and violence in the workplace, whereas under no circumstances will issues going beyond the framework of normal communication and behaviour be tolerated. The Group has also dedicated its day-to-day operations to follow the agreement against bullying, harassment, and violence from the Confederation of Icelandic Employees.

Anti-Corruption and Bribery Policy

Festi and its subsidiaries are aware of their impact on society as a whole and focus on pursuing healthy business practices since their reputation is amongst their most valuable assets. The Code of Conduct applies to Festi and all its subsidiaries, all their employees, its Board of Directors, as well as contractors who carry out tasks for the Group. Festi's Code of Conduct was last updated in February 2022. Last year, a special Code of Conduct for the Board of Directors of Festi was laid down to cover all the Group's operations. These Codes of Conduct are available on the Group's website.

In accordance with the Act on the Protection of Whistle-blowers the following emails are active: uppljostrun@festi.is, uppljostrun@bakkinn.is, uppljostrun@elko.is, uppljostrun@kronan.is, uppljostrun@n1.is. The Company's privacy representative receives all notifications submitted through these emails.

Anyone can submit suggestions to the Company through Festi's website, www.festi.is. All feedback is filed, managed, and referred to the responsible party.

Additional information on Festi's Sustainability Policy and Sustainability Risk Management can be found in the unaudited Annual and Sustainability Report for 2022, published in March 2022 and made available on Festi's website, www.festi.is. Further details on sustainability-related performances, objectives, and priorities of each of Festi's subsidiaries in 2022 can be found in reports on their respective websites.