This Prospectus is published in relation to Skeljungur ***hf.'s application for all issued*** *shares in the Company to be admitted to trading on the Nasdaq Iceland regulated market as well as in relation to a public offering of 23.5 – 31.5% of issued shares in the Company.*

Subscriptions will be received from 12:00 GMT 28 November until 16:00 GMT 30 November 2016. Subscriptions shall be registered electronically on a special subscription form via the website of the Manager of the Offering, www.arionbanki.is. There are two subscription options, Order Book A and Order Book B. Order Book A will be for subscriptions with a value ranging from ISK 100,000 to ISK 10,000,000 purchase value at a price per Share ranging from ISK 6.1 – 6.9. All shares sold in Order Book A will be allocated at the same price which will be within the above price range. Order Book B is for subscriptions exceeding ISK 10,000,000 purchase price at a minimum price per Share of ISK 6.1. where the size of each subscription is only limited by the total supply in this Order Book. All Shares sold in Order Book B will be allocated at the same price which will be higher or equal to the aforementioned minimum price. The results of the Offering are expected to be published on 1 December 2016 and that Nasdaq Iceland will subsequently notify whether the Company's listing application will be approved. Information on allocation and payment instructions is expected to be available on 2 December and will be sent to individual investors the same day, however this could be at an earlier or later date. The due date and final due date of subscriptions is expected to be 7 December and Shares will be delivered upon full payment on the next business day thereafter. Nasdaq Iceland will publicly announce the first day of trading the Shares, which pursuant to the above information is expected to be 9 December 2016 the earliest.

Investments in equities involve inherent risks. The value of Shares in Skeljungur can increase as well as decrease which could lead to investors loosing part or all of their investment. Investors are urged to study all of the information contained in this Prospectus in order to adequately assess the risks involved and the suitability of the Shares as an investment option for themselves.

Skeljungur's application for all issued Shares to be admitted to trading on the regulated market, as well as the public offering of Shares in the Company are subject to the provisions of the Securities Transactions Act No. 108/2007 and derived secondary legislation. The level of disclosure in this Prospectus is in compliance with Annexes I, III and XXII to EC Commission Regulation EC/809/2004 that implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 003 and amendments thereto as well as the Nasdaq Iceland Issuer rules. This Prospectus has been prepared solely in the English language, and consists of three separate documents; a Summary, a Securities Note and a Share Registration Document. The Prospectus has been scrutinised and approved by the Financial Supervisory Authority-Iceland.

The distribution of this Prospectus and the Offering and subscription of the Shares in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase any of the Shares in any jurisdiction in which that would be considered unlawful. Accordingly, neither this Prospectus nor any advertisement or any other Offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

The date of this Prospectus is 14 November 2016

Listing Advisor Manager of the Offering

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Skeljungur

Summary

14 November 2016

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The Summary is made up of five sections marked A-E. The order of the sections is mandatory and each section consists of elements numbered from A.1-E.7.

The Summary is compiled in accordance with Annex XXII to EC Commission Regulation EC/809/2004 that implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 ("The Prospectus Directive") and amendments thereto, including the 2010 PD Amending Directive regarding information contained in prospectuses. The level of disclosure in the Summary follows the requirements set out in Annexes I and III of the aforementioned directive. The order of the elements in the tables may be non-sequential in cases where certain elements are not required according to Annexes I and III.

Even if the Summary should contain a certain element it is still possible that the element does not apply in the case of this particular Issuer or the securities being offered for sale and/or admitted to trading. In such a case a short description of the element is still included along with a comment stating „not applicable".

A. Introduction and warnings

Element	Description	Disclosure
A.1	Warning	This Summary should be read as an introduction to Skeljungur hf.'s („Skeljungur", „the Issuer", „the Company") Prospectus dated 14 November 2016 („the Prospectus"). Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under national legislation of the Member States, have to bear the cost of translating the Prospectus before the legal proceedings are initiated; and Civil liability attaches only to those persons who have tabled the Summary including any translation therof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	Agreed use of the Prospectus	This Prospectus was compiled in relation to an offering of Shares in Skeljungur to investors and the admittance of all Shares in Skeljungur to trading on the regulated market of the Nasdaq Iceland. The Prospectus was compiled so as to inform investors of the Company's operations and financials. The Prospectus may not be used for any other purpose than that described above.

B. Issuer

Element	Description	Disclosure
B.1	Legal and commercial name of the Issuer	The Issuer's name is Skeljungur hf. The Issuer's commercial name is Skeljungur.
B.2	Domicile and legal form of the Issuer	The Issuer's domicile is at Borgartún 26, 105 Reykjavík, Iceland. Skeljungur is a public limited liability company, incorporated according to Act No. 2/1995 respecting Public Limited Companies.
B.3	Operations	Skeljungur is an Icelandic oil company whose main purpose is the import, storage, distribution and sale of oil and oil related products, as well as retailing other products both in wholsale and retail. Also lending, operation of real estate, ships, depos and terminals as well as participation in other operations as resolved by the Board of Directors. Skeljungur's operations are in two geographic markets; Iceland and the Faroe Islands. Skeljungur is the parent company of four subsidiaries, most important of which is P/F Magn, based in the Faroe Islands. In addition, Skeljungur owns Tollvörugeymsla Skeljungs ehf., Bensínorkan ehf. and Íslenska Vetnisfélagið ehf. The latter two of which have limited operations. Skeljungur's purpose is to satisfy the energy needs of individuals and companies in an efficient and safe manner in harmony with the environment. Skeljungur's main objective is to maximise customers' value and convenience with satisfied employees, where safety and progress is pivotal.
B.4a	A description of the most significant recent trends affecting the Issuer and the industries in which it operates	Not applicable
B.5	Description of the Group	Skeljungur's group consists of Skeljungur (as the parent company), P/F Magn based in the Faroe Islands, and Bensínorkan ehf., Tollvörugeymsla Skeljungs ehf. and Íslenska Vetnisfélagið ehf., all based in Iceland. Skeljungur has four associated companies: Vegsauki ehf. (50%), Fjölver ehf. (33.3%), EAK (33.3%) and EBK (25%).
B.6	Largest shareholders	At the date of this Prospectus Skeljungur has two shareholders: SF IV slhf. ("SF IV") and SF IV GP ehf. ("SF IV GP"). SF IV holds all Shares but one. To the best of the Issuer's knowledge the above listed are the rightful owners of the Company. The Issuer is not aware that it is, whether directly or indirectly, under the control or influence of a party or parties other than those listed above. The Shares are all in one class and carry equal voting rights at shareholders' meetings.

Shareholder	Nominal value	Shareholdings
SF IV slhf.	2,099,582,120	99.99%%
SF IV GP ehf.	1	0.01%%
Total	2,099,582,120	100%

SF IV is a holding company in the ownership of 32 shareholders ("the Beneficial Owners") of the Shares in Skeljungur. Prior to the public offering ("the Offering") of the Shares, SF IV will decrease its share capital by handing down to the Beneficial Owners, in proportion to their holdings, the 1,606,180,322 Shares that SF IV has not committed to selling in the Offering. Therefore, at the time of the Offering, the Beneficial Owners will be direct holders of Shares in Skeljungur alongside SF IV.

The 20 largest shareholders in SF IV at the date of this Prospectus are as follows:

Shareholder	Shareholdings
SÍA II hf.	24.22%
Arion banki hf.	12.92%
Gildi – pension fund	9.30%
PB1 ehf.	8.18%
LSR pension fund A-branch	7.07%
Stefnir - ÍS 5 mutual fund	4.65%
Draupnir – Sigla ehf.	4.00%
Festa pension fund	3.49%
Stapi pension fund	3.49%
LSR pension fund B-branch	3.26%
Söfnunarsj. Lífeyrisréttinda pension fund	2.90%
Stefnir – Samval mutual fund	2.67%
Vátryggingafélag Íslands hf.	1.86%
Mars ehf.	1.78%
Sindrandi ehf.	1.29%
Kaskur ehf.	1.18%
Landstakkur ehf.	1.17%
Sjóvá-Almennar tryggingar hf.	1.16%
ET sjón ehf.	1.01%
Eignaval – Hlutabréf mutual fund	0.87%
Others (12)	3.49%
Total	100%

B.7	Key historical financial information	The consolidated financial statements for the years ended 2013, 2014 and 2015, as well as the nine month periods ended 30 September 2015 and 2016 respectively. P/F Magn was not a part of Skeljungur's consolidated financial statements in 2013.

Income statement

Amounts are in ISK million	2016 01.01.- 30.09. Reviewed	2015 01.01.- 30.09. Unaudited	2015 Audited	2014 Audited	2013 Audited
Sales	36,860	29,453	36,842	42,768	30,780
Cost of goods sold	(31,159)	(24,153)	(30,044)	(36,202)	(26,459)
Gross profit	**5,701**	**5,300**	**6,798**	**6,566**	**4,321**
Other income	105	201	236	248	451
Operating expenses	(3,505)	(3,194)	(4,360)	(4,039)	(2,837)
Earnings before depr. and fin. items	**2,302**	**2,307**	**2,675**	**2,775**	**1,934**
Impairment of goodwill					(250)
Depreciation of operating assets	(532)	(547)	(1,843)	(818)	(609)
Operating profit	**1,770**	**1,759**	**832**	**1,957**	**1,075**
Net financial expenses	(399)	(455)	(579)	(729)	(799)
Share of profit from assoc. companies	2	29	39	11	(7)
Profit before income tax	**1,373**	**1,333**	**292**	**1,239**	**268**
Income tax expense	(269)	(247)	(18)	(246)	(55)
Profit from continuing operations	**1,104**	**1,086**	**273**	**993**	**213**
Loss from discontinued operations	0	0		(422)	(159)

Balance sheet

Amounts are in ISK million	2016 30.09. Reviewed	2015 31.12. Audited	2014 31.12. Audited	2013 31.12. Audited
Assets				
Total non-current assets	13,706	14,012	15,733	11,877
Total current assets	6,400	4,394	5,691	4,566
Total assets	**20,106**	**18,406**	**21,424**	**16,443**
Equity				
Total equity	**7,201**	**7,478**	**8,097**	**5,530**
Liabilities				
Total non-current liabilities	5,230	5,939	7,750	6,966
Total current liabilities	7,675	4,989	5,577	3,947
Total liabilities	**12,905**	**10,928**	**13,327**	**10,914**
Total equity and liabilities	**20,106**	**18,406**	**21,424**	**16,443**

Cash flow statement

Amounts are in ISK million	**2016** 30.09. Reviewed	**2015** 30.09. Unaudited	**2015** Audited	**2014** Audited	**2013** Audited
Operating activities					
Net cash from operating activities	**1,605**	**1,948**	**2,535**	**2,252**	**784**
Net cash used in investing activities	**(769)**	**(368)**	**(905)**	**(283)**	**(342)**
Net cash from financing activities	**(901)**	**(1,792)**	**(1,889)**	**(1,493)**	**(965)**
(Decrease) increase in cash and cash equiv.	**(65)**	**(212)**	**(259)**	**476**	**(523)**
Effects of movements in exchange rates	(30)	(29)	(22)	(25)	7

Key ratios

	2016 9M Reviewed	**2015 9M** Unaudited	**2015** Audited	**2014** Audited	**2013** Audited
Operations					
Average margin (contribution margin/sales)	15.5%	18%	18.5%	15.4%	14.0%
EBITDA/gross profit	40.4%	43.5%	39.3%	42.3%	44.7%
EBIT/gross profit	31%	33.2%	12.2%	29.8%	24.9%
Salaries/gross profit	28.7%	28.3%	30.5%	29.5%	26.5%
Sales and distribution / gross profit	24.1%	25%	27.3%	25.8%	32.9%
Operating expenses/gross profit	61.5%	60.3%	64.1%	61.5%	65.7%
Return on equity	20.7%	27.6%	3.6%	9.4%	1.0%
Balance sheet					
Current ratio (curr. assets/current liabilities)	0.83	0.88	0.88	1.02	1.16
Quick ratio (curr. assets-inventory/current liabil.)	0.50	0.48	0.48	0.61	0.55
NIBD/EBITDA	2.50	2.46	2.46	2.81	3.88
Equity ratio (shareholders' equity/total capital)	35.8%	40.6%	40.6%	37.8%	33.6%
Internal value of share capital	3.4	3.0	3.0	3.0	3.1

B.8	Pro forma financial information	Not applicable
B.9	Profit forecast and estimates	Looking throughout 2016 and into 2017 Skeljungur estimates that Skeljungur's Group EBITDA will be in the range of ISK 2,650 to 2,850 million for 2016 and in the range ISK 2,400 to ISK 2,700 million for 2017. Capital expenses are estimated to be ISK 1,000 million in 2016 and range from ISK 750 to ISK 850 million in 2017. The main factors that can influence these estimates are the strengthening of the ISK against the DKK, the loss of large contracts for sale of jet fuel, cost increases (e.g. salaries), increased competition, continued economic growth and growth in tourism in Iceland. All but the last two are more likely to lower the estimates while continued growth in the economy and tourism would likely act to raise the estimates.

B.10	Qualifications in audit reports	The Company's statutory auditors have signed all audited and reviewed historical financial statements contained in the Prospectus without qualification.
B.11	Working capital	The Chairman of the Board and the Chief Executive Officer of Skeljungur, for and on behalf of the Issuer, declare that at the date of this Prospectus, Skeljungur has sufficient working capital to fulfil its requirements for the next 12 months thereafter.

C. The Securities

Element	Description	Disclosure
C.1	A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.	The securities offered for sale in the Offering are already issued Shares in Skeljungur. The Company's Board has submitted an application for all issued Shares in the Company to be admitted to trading on Nasdaq Iceland's regulated market. The Shares are all in one class and equal in all respects according to the Company's Articles of Association. Skeljungur's Shares are issued in accordance with Act No. 2/1995 respecting Public Limited Companies. The Shares are electronically registered at the Nasdaq CSD Iceland in accordance with Act No. 131/1997 on the Electronic Registration of Titles to Securities under the ticker SKEL and ISIN no. IS0000000503.
C.2	Currency of the securities issued	ISK
C.3	The number of shares issued and fully paid and issued but not fully paid. The par value per share, or that the shares have not par value.	Skeljungur's share capital amounts to ISK 2,099,582,121. The share capital is divided into an equal number of shares, each of nominal value 1 ISK. All issued shares have been fully paid and all shares are a part of the share capital.
C.4	A description of the rights attached to the securities.	All Shares have equal rights and no special rights are attached to any of the Shares. One vote is attached to each Share in the Company at shareholders' meetings. Shareholder's rights at any given time are subject to the Company's Articles of Association and applicable legislation.
C.5	A description of any restrictions on the free transferability of the securities.	Shares in the Company may be freely traded, transferred or pledged unless otherwise stipulated by law, including Act. 131/1997 on the Electronic Registration of Titles to Securities.

C.6	An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.	Skeljungur's Board has submitted an application for all issued Shares to be admitted to trading on Nasdaq Iceland's regulated market.
C.7	A description of dividend policy.	The Board of Directors of Skeljungur has adopted a dividend policy according to which it will propose a dividend and/or a share buy back in the level of 30-50% of net profit annually. When forming their proposal the Board takes into account and considers the risk policy in place, market conditions, the Company's liquidity needs, financial covenants and other possible factors that might limit payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend being proposed. A dividend was paid for fiscal years 2013 and 2014. Share capital was lowered in 2015 but no dividend was paid that year. Share capital was lowered again in 2016. It is not assumed that dividend will be paid for fiscal year 2016.

D. Risk factors

Element	Description	Disclosure
D.1	Key risks that are specific to the Issuer or its industry	Industry and operational risk Skeljungur, as other companies, is subject to general risk of operation. Such risk can be related to various factors in the Company's operation and cause direct or indirect losses. An example of such risk might be environmental and security factors, information technology, management of employees, the Company's reputation, as well as a risk that the Company's strategy or/and plans do not materialise. Furthermore, the operating assets are expensive and complicated and the Company is therefore subject to risk related to break down or/and disruption in their operation. Skeljungur operates within a sector which has specific risk related to global market price and demand for oil, demand for and supply of renewable energy sources as well as necessary permits for operation and location of gas stations. Any change in law, regulation, rules or government rulings can adversely affect the operation, profit or/and value of Skeljungur's Shares. An example of such might be further restrictions on fossil fuel or further requirements for alternative energy sources, revocation or denial of renewal for permits relating to terminals or gas stations, as well as tighter pollution prevention requirements.

		Financial risk Skeljungur is subject to multiple financial risks, including the price of oil, currency risk interest rate and funding risk, counterparty risk, inflation risk, insurance risk and tax risk. Legal risk Skeljungur's operation is subject to several sectorial laws on *e.g.* pollution prevention, safety and hygiene. In addition, the Icelandic Competition Authority has recently published preliminary findings of its market investigation into the fossil fuel market in Iceland. The Authority expects to publish its definitive findings around year-end 2016 or early 2017. In the Faroes competition authorities, Kappingareftirlitið, also published a report on the Faroese downstream oil market. No specific timeline has been published regarding the Faroese competition report. The Company strictly disputes the findings of both of the aforementioned reports and has filed reasoned comments with both ICA and the FCA, strictly disputing the assumptions, numbers, and calculations employed by both competition authorities as being seriously flawed and that the subsequent findings therefore cannot be relied upon nor be seen as justifying any sort of binding intervention in the market.
D.3	Key risks associated with the securities	Risk inherent to equity shares investments Equities are generally speaking considered a riskier investment than some other financial instruments *e.g.* bonds. Share prices can fluctuate more than bond prices and their value can drop to zero. In the event of the Company's liquidation, shareholders are last in line of receivership, collecting only that which is left when all other claims have been settled. Ownership and control Investors must take into account that the structure and composition of a company's shareholder base can be a risk factor. Investors should be aware that ownership of the Company can change very quickly and without notice. Market risk No assurance can be given with respect to the market price of Skeljungur's Shares once listed. Volatility thereto could among other be related to general supply and demand for equity shares. Liquidity risk The liquidity of the Shares is subject to fluctuations in response to factors such as actual or anticipated variations in the Company's operating results, changes in estimates or recommendations by financial analysts, currency exchange rates, regulatory developments, general market conditions and other factors. The results of the Offering taking place between 28 and 30 November 2016 mitigate this risk to some extent as it is expected to significantly increase the number of shareholders in the Company and thereby liquidity in the Shares.

		Liquidity risk is furthermore to some extent mitigated by market making agreements such as the ones the Company plans to enter into regarding the Shares. Dilution According to the Articles of Association shareholders shall have pre-emptive rights to purchase new Shares issued by the Company in proportion to their registered holdings. In the event of a share capital increase, existing investors would need to subscribe for new Shares in proportion to their existing holdings so as to not be diluted.

E. The Offering

Element	Description	Disclosure
E.1	The total net proceeds and an estimate of the total expenses relating to the Offering	A total of 493,401,798 Shares in Skeljungur are offered for sale in the Offering, with rights reserved to increase the number of offered Shares by up to 167,966,570 additional Shares. The total proceeds of the 493,401,798 Shares offered for sale in the Offering are a minimum of ISK 3,009.76 million based on the minimum price in the Offering. The total proceeds will increase to ISK 4,034.35 million based on the minimum price of the Offering, if the right to increase the Offering will be fully utilised. No costs will be imposed on investors in respect of their participation in the Offering by the Issuer, the Seller, the Listing Advisor or Manager of the Offering. Investors are urged to consider whether any costs or fees will be charged by other parties in connection with the Offering.
E.2a	Reasons for the Offer, use of proceeds and estimated net amount of the proceeds	The objective of the Seller in the Offering is firstly to enable the Issuer to meet the conditions set for distribution of Shares admitted to trading on the regulated market of Nasdaq Iceland and thereby facilitate increased liquidity of the Shares and creating a more diverse shareholder base; secondly the Seller is seeking to sell its asset at the best price; and thirdly to enable the Shares of the Company to become an ideal investment opportunity trading on the Nasdaq Iceland secondary market. The total proceeds of the 493,401,798 Shares offered for sale in the Offering are a minimum of ISK 3,009.76 million based on the minimum price in the Offering. The total proceeds will increase to ISK 4,034.35 million based on the minimum price of the Offering, if the right to increase the Offering will be fully utilised.
E.3	A description of the terms and conditions of the offer	The Offering described in this Prospectus is a public offering to Icelandic investors in accordance with Article 43 (1) of Act No. 108/2007 on Securities Transactions.

		The Seller reserves the right to cancel the Offering if subscriptions are not received for all the offered Shares (not including the possible increase of the Offering) and will in such an event publish an announcement thereof alongside the announcement of the result of the Offering. The Seller will cancel the Offering if Nasdaq Iceland rejects the Issuer's application to have all Shares in the Company admitted to trading on the regulated market of Nasdaq Iceland or does not approve its application by 8 December 2016. The Seller also reserves the right to postpone the Offering, extend it or cancel it at any time up until Nasdaq Iceland announces that the Shares will be admitted to trading, if any events occur which the Seller believes may result in the Seller's objectives not being reached, such as factors concerning the Offering itself, the Issuer or the Seller, negative economic developments or adverse conditions in the securities market in Iceland Subscription period Subscriptions will be received from 12.00 GMT 28 November until 16.00 GMT 30 November 2016. No subscriptions will be accepted outside this time period. Issuer: *Skeljungur hf., ID No., 520269-1749* *Borgartún 26,* *105 Reykjavík* Seller: *SF IV slhf., ID No. 691211-2150* *Borgartún 19,* *105 Reykjavík* If the right to increase the number of Shares offered for sale in the Offering will be utilised the reference to "the Seller" will then also include: SÍA II and Arion Bank. *SÍA II slhf., ID No. 550512-26020* *Borgartún 19,* *105 Reykjavík* *Arion banki hf., ID No. 581008-0150* *Borgartún 19,* *105 Reykjavík* Listing Advisor: *Íslandsbanki Corporate Finance, ID No. 491008-0160,* *Kirkjusandur 2,* *155 Reykjavík* Manager of the Offering: *Arion banki Corporate Finance, ID No. 581008-0150,* *Borgartún 19,* *105 Reykjavík* Dealer: *Arion banki Securities Brokerage, ID No. 581008-0150,* *Borgartún 19,* *105 Reykjavík*

		Pricing and types of subscription Investors are invited to submit offerings in two Order Books. *Order Book A:* A total of 246,700,899 Shares, or 11.75% of issued share capital in Skeljungur, are offered for sale in Order Book A. Order Book A will be for subscriptions with a value ranging from ISK 100,000 to ISK 10,000,000. Order Book A will be for subscriptions ranging from ISK 6.1 – 6.9 price per Share. All shares sold in Order Book A will be allocated at the same price (Offering Price A) which will be within the above price range *Order Book B:* A total of 246,700,899 Shares, or 11.75% of issued share capital in Skeljungur, are offered for sale in Order Book B. Order Book B is for subscriptions with a value of more than ISK 10,000,000 and the size of each subscription is only limited by the aforementioned supply in this Order Book. Order Book B is for subscriptions which are a minimum of ISK 6.1 price per Share and no maximum price is specified by the Seller. All Shares sold in Order Book B will be allocated at the same price (Offering Price B) which will be higher or equal to the aforementioned minimum price. Subscriptions where a lower maximum price is specified will therefore be rejected. The Seller reserves the right to make changes to the above stated division between Order Books A and B with respect to the total size of each Order Book. Conditions for participation The Offering is marketed in Iceland. Participation in the Offering is open to persons (individuals as well as legal entities) holding an Icelandic identification number, provided that the person in question is legally competent to manage their financial affairs and has the power to decide over their financial estate, with restrictions that may be imposed by law. Non-residents as defined in Article 1 of the Foreign Exchange Act No. 87/1992 shall demonstrate to the Manager of the Offering that they are permitted to invest in the Shares. If this has not been satisfactorily done in the opinion of the Manager before the close of the subscription period, the subscription from the person in question will be rejected. Pursuant to Article 13(b)(3) of Act no. 87/1992 on Foreign exchange, cf. clause 20 of Rules No. 862/2016 and the list published by the Icelandic Central bank on 21 October 2016, a non-resident shall be deemed to have sufficiently demonstrated his/her permission to invest in the Shares in the Offering if he/she is able to demonstrate that the payment for his/her subscription will be made in Icelandic Kronas and will be debited to a bank account held in the name of the non-resident with an Icelandic financial institution. Subscriptions Subscriptions shall be registered electronically on a special subscription form (subscription website) which can be reached via the website of the Manager of the Offering, www.arionbanki.is. In order to submit a

		subscription investors have to register to the relevant Order Book A or B on the subscription website, through any of the following methods: a) electronic ID, b) user ID to Arion Bank's Online Bank, c) ID-no and password requested through the subscription web site and sent to the investor's online bank or d) ID-no and password obtained from the Manager of the Offering. All subscriptions are binding for the respective investor. Electronic confirmation from the subscription website is required as valid proof of subscription. The Seller and the Manager of the Offering reserve the right to demand confirmation of the investor's ability to pay and/or offered collateral for payment from investors in the case of subscriptions with a purchase price of ISK 10 million or higher. Subscriptions by financial institutions which offer asset management services Financial institutions which offer asset management services pursuant to Article 3 (6.c) of Act No. 161/2002 on Financial Undertakings are granted certain exemptions with respect to subscriptions and subscription forms in Order Book A. They are given the opportunity to submit subscriptions on behalf of investors on a special subscription form which can be obtained from the Manager of the Offering. Allocation and reduction of shares In the event that the combined number of Shares of valid subscriptions exceeds the number of Shares that the Seller decides to sell in the Offering, the Seller will allocate Shares to individual subscribers. > The main rule when allocating Shares in Order Book A is that subscriptions are assessed on the basis of price. Subscriptions in Order Book A will be reduced (in part or rejected) so that what remains are the subscriptions received with the highest price per Share, so that the combined number of Shares (based on the final Offering Price A) in all valid subscriptions in Order Book A after reduction is equal to the number of Shares which the Seller decides to offer investors who have subscribed for Shares in Order Book A. > The main rule when allocating shares in Order Book B is that subscriptions are assessed on the basis of price. Subscriptions in Order Book B will be reduced (in part or rejected) so that what remains are the subscriptions received with the highest price per Share, so that the combined number of Shares (based on the final Offering Price B) in all valid subscriptions in Order Book B after reduction is equal to the number of Shares which the Seller decides to offer investors who have subscribed for Shares in Order Book B. If subscriptions are reduced, in part or rejected, each reduction or rejection will be at the sole discretion of the Seller. Sole discretion means that the Seller is not obliged to reveal how the reduction or rejection was decided and the counterparty will not be given the opportunity to object to the decision or its application.

		Notification of the result The results of the Offering are expected to be published in the European Economic Area on 1 December 2016. Notification of allocation, payment instructions and settlement Investors will be informed of their individual allocation once the result of the Offering has been publicly announced and Nasdaq Iceland has announced the approval of the Issuer's application to have the Shares admitted to trading on the regulated market of Nasdaq Iceland. Information on allocation and payment instructions is expected to be available on 2 December 2016 and will be sent to individual investors the same day, however this could happen at an earlier or later date. The Manager of the Offering will send participants an e-mail containing information on allocation, to the e-mail address specified by the investor in the subscription process. Investors are responsible for ensuring that the e-mail address provided is valid and able to receive the necessary documentation. Payment instructions will be in the form of electronic invoices made out to the name and ID number of each investor allocated Shares in the Offering. Payment instructions will not be sent by regular post to participants. The final due date is two business days after the due date and is therefore expected to be on 7 December 2016. If any invoices for allocated Shares remain unpaid at 21:00 GMT on the final due date, they will be cancelled and invalidated. After the final due date, including after the close of banks on the final due date, investors will be unable to pay the purchase price in accordance with the payment instructions. The Seller will, without warning or notification, invalidate allocations which remain uncollected at the end of the final due date and is then entitled to retain Shares which have not been paid for or sell them to a third party at a price decided by the Seller. Shares will be delivered to the buyer when satisfactory payment has been received from the investor with delivery taking place on the next business day after payment has been received, at the latest.
E.4	Potential conflict of interest	Investors are advised of the following interests Íslandsbanki and Arion Bank have regarding Skeljungur: > The Corporate Finance division of Íslandsbanki was hired by the Company to oversee the process of getting the Shares admitted to trading on the regulated market of the Nasdaq Iceland. Íslandsbanki Corporate Finance accepts a fee for their services to the Company. > Íslandsbanki's FX Sales division provides foreign exchange trading services to Skeljungur. > The Corporate Finance division of Arion Bank was hired by SF IV to manage the Offering of Shares in Skeljungur taking place between 28 and 30 November 2016. This includes preparing a valuation of the Company, preparing and handling the execution of investor presentations, handling the execution of the Offering and advising on the

		allocation of the Shares based on the Offering results. The Corporate Finance division of Arion Bank accepts a fee from SF IV for the services provided. > Arion Bank's Corporate Banking division is a lender to Skeljungur and provides the Company with general banking services. > Arion Bank holds a 14.715% share in SF IV both directly (12.9%) and indirectly through its holdings in SÍA II slhf. which is the largest shareholder in SF IV. > Arion Bank and SÍA II are possible sellers of Shares in the Offering. Neither Íslandsbanki nor Arion Bank are under any obligation to evaluate whether participation in the Offering and purchase of the Shares is appropriate for investors. Investors participating in such transactions do not enjoy protection in accordance with Article 16 of the Securities Transactions Act. In accordance with Article 8 of the Securities Transactions Act, Íslandsbanki and Arion Bank respectively, have in place provisions for the treatment of potential conflicts of interest. Investors are advised to acquaint themselves with these provision on the banks' respective websites, http://islandsbanki.is/library/Skrar/hagsmunareglur.pdf (Icelandic only) and https://www.arionbanki.is/library/Skrar/Bankinn/Stjornarhaettir/Reglur-og-skilmalar/Hagsmunaarekstrar/2011-11-15__Hagsmuna%C3%A1rekstrar.pdf (Icelandic only).
E.5	Seller and lock-up agreements as applicable	The Seller is SF IV. Arion Bank and SÍA II reserve the right to increase the number of Shares offered for sale in the Offering, which if fully utilised would increase the size from 23.5% of issued share capital to 31.5% of issued share capital. No lock-up agreements regarding disposal of Shares will be in place for any shareholders following admittance to trading to the best knowledge of the Issuer.
E.6	Dilution	The Offering concerns already issued Shares in Skeljungur, therefore shareholders will not suffer a dilution of their holdings in respect to the Offering.
E.7	Expenses charged to investors	Neither the Issuer, the Seller, the Listing Advisor nor the Manager of the Offering will impose any cost on investors relating to the Offering or the admittance to trading.

Securities Note

14 November 2016

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1. Risk factors

Investments in equities involve inherent risks. The value of shares in Skeljungur (“the Shares”) can increase as well as decrease which could lead to investors loosing part or all of their investment.

Prospective investors should study all of the information contained in Skeljungur’s Prospectus, dated 14 November 2016, of which this Securities Note forms a part, in order to adequately assess the risks involved and the suitability of the Shares as an investment option for themselves. Investors are advised to properly evaluate their legal standing and any tax considerations involved with investments in the Shares and seek suitable independent counsel.

Prospective investors are encouraged to acquaint themselves with the risks and uncertainties presented in Chapter 1. *Risk factors* in Skeljungur’s Securities Note and Share Registration Document, both dated 14 November 2016. The Company considers these risk factors material for the effective assessment of the market risk associated with the Shares being offered for sale and admitted to trading. If any of the following risks were to materialise, individually or together with other circumstances, they could have a material and adverse effect on Skeljungur and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Shares, resulting in the loss of all or part of an investment in the Shares.

Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Company is unaware, may also impair the business and operations of the Company resulting in a change in the market price of the Shares.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on Skeljungur’s business, results of operations, cash flows, financial condition and/or prospects. The risks mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual risk factor for the Company would be misguiding, as the risk factors mentioned in the Securities Note may materialize to a greater or lesser degree.

The information in this chapter is presented as of the date of the Securities Note, unless otherwise noted, and is subject to change, completion or amendment without notice.

1.1. Risk inherent to equity share investments

Equities are generally speaking considered a riskier investment than some other financial instruments e.g. bonds. Share prices can fluctuate more than bond prices and their value can drop to zero. In the event of the Company’s liquidation, shareholders are last in line of receivership, collecting only that which is left when all other claims have been settled. Return on equity securities is dependent on dividend payments and the change in share price, i.e. the difference between the purchase price and the selling price of each share. Theoretically, the risk involved can be mitigated by investing in a portfolio of diverse investments and limiting the investments to companies that the investor either knows well or can study in detail. Investors can further severely reduce risk by limiting or avoiding the use of borrowings to fund share purchases. Nevertheless, the inherent risks of the equity markets cannot be fully avoided when investing in equity securities.

In some cases in the past, investing in equities has given better returns in the long run than investing in bonds. However, investors should note that investing in equities can also render lower returns than investing in bonds in the long run and even result in losses. Prospective investors should bear in mind that even though equities can provide a good return in general, there is always a risk that an investment in the shares of individual companies will decline in value. It is therefore recommended that prospective investors pay close attention to diversifying their risk and they are furthermore advised to seek assistance from experts, such as licensed financial institutions, to assist them in their assessment of the Shares as an investment option.

Investments in equities bear with them diverse risk. Examples of these risks are liquidity risk, counterparty- and market risk. Liquidity risk is the risk that investors are not able to dispose of certain shares when they so desire, or cannot dispose of them at a price deemed acceptable. This risk can be measured by the difference in the ask and bid rates of the relevant shares. Counterparty risk is the risk that a counterparty in any given transaction does not hold up his or her end of the contract upon settlement. Market risk is the risk of fluctuations in the market price of the Shares. Multiple events can lead to market price fluctuations, resulting in either an increase or decrease in share price. Many of such events are outside the control of a company's management.

Companies are dependent on the legal framework imposed by local authorities at any given time. Once their shares are admitted to trading on a regulated market companies are further subject to the laws and regulations pertaining to financial markets. Extensive or far reaching changes to that legal framework can negatively affect financial markets or cause turbulence resulting in fluctuations in the price of listed securities.

1.2. Market risk

Financial markets have from time to time experienced price and volume fluctuations, which have been unrelated to the operating performance or prospects of individual companies. Consequently, the market price, and liquidity of, the Shares may be materially adversely affected by general declines in the market or by declines in the market for similar securities. The aforementioned external factors are outside the control of the Company's Executive Management.

The Offering price of the Shares, as determined by investors in the Offering leading up to the admittance of the Shares to trading can be higher or lower than the market price as determined by investors in the secondary market. There is a risk that investors that purchase Shares in the Offering cannot liquidate their holdings at the Offering price, or a price higher than the Offering price, in the secondary market. There is also the risk that they cannot liquidate their holdings at all, despite being willing to do so at a discounted price.

1.3. Liquidity risk

The liquidity of the Shares is subject to fluctuations in response to factors such as actual or anticipated variations in the Company's operating results, changes in estimates or recommendations by financial analysts, currency exchange rates, regulatory developments, general market conditions and other factors. An example of this would be if a large shareholder needed, or decided to, liquidate his or hers entire holdings at once which would then significantly increase the supply of Shares which in turn would likely put downward pressure on their price.

Active market making in the Shares can act to mitigate liquidity risk. Despite such an effort there can be no guarantee issued that shareholders in Skeljungur will be able to dispose of their holdings at the price, or in the volume, desired in the secondary market. Liquidity risk is partially determined by the number of shareholders the Company will have after the completion of the Offering. For information on the outline of the market making agreements please refer to Chapter 5.3. *Market making*.

Attention is drawn to the fact that the Seller has reserved the right to cancel the Offering if it becomes clear that the objectives set out by the Seller will not be reached or if the Nasdaq Iceland does not approve the Company's listing application by 8 December 2016. If the Seller resolves to cancel the Offering all subscriptions submitted therein will be invalidated.

1.4. Ownership and control

Investors must take into account that the structure and composition of a company's shareholder base can be a risk factor. Large shareholders, by deciding to jointly apply their voting rights, may decide the vote on any given issue at shareholders' meetings. Such large shareholders further have the power to veto change of control or resolve to take actions that might materially adversely affect the share price of the Company. A large concentration of ownership by lead investors further decreases the free float of shares in the secondary market, thereby increasing liquidity risk.

At the date of this Securities Note there are only two shareholders in Skeljungur, SF IV slhf. ("SF IV") with 2,099,582,120 Shares and SF IV GP with 1 Share. SF IV is a holding company in the ownership of 32 individual shareholders ("the Beneficial Owners"). Prior to the Offering SF IV will decrease its share capital by handing down to the Beneficial Owners, in proportion to their holdings, the 1,606,180,322 Shares in Skeljungur that SF IV has not committed to sell in the Offering. Therefore, at the time of the Offering, the Beneficial Owners will be direct holders of Shares in Skeljungur alongside SF IV.

The largest shareholder in SF IV is SÍA II slhf. („SÍA II") with a 24.22% share. SÍA II will therefore be the largest single shareholder in Skeljungur once SF IV hands the Shares down. SÍA II is a private equity fund owned by institutional investors, some of which will also be direct shareholders in Skeljungur. SÍA II aims to sell its remaining Shares in Skeljungur and/or distribute them to its investors within 18 months of the Offering. As long as SÍA II remains a significant shareholder in Skeljungur, it will follow through its investment in Skeljungur and nominate a member to Skeljungur's Board of Directors. The shareholders' agreement in place between the shareholders of SF IV will lapse parallel with the Shares being admitted to trading. To the best of the Company's knowledge there exist no other shareholders' agreements regarding Shares in Skeljungur with the purpose of exerting joint influence on the Company. Neither is the Company aware of any agreements that may result in change of control of the Company.

Investors should nonetheless be aware that ownership of the Company can change very quickly and without notice.

Those investing in shares traded on the regulated market of Nasdaq Iceland are subject to the provisions of Act No. 108/2007 on Securities Transactions ("the Securities Transactions Act"), including but not limited to Chapter IX. on changes in significant ownership stakes (flagging) and Chapter X. on takeover bids. Taking into account the expected sale of Shares by the Seller, it is assumed that no shareholder will hold more than 25% of the total share capital in Skeljungur at the time of the Shares being admitted to trading on the regulated market of the Nasdaq Iceland.

Investors are advised to acquaint themselves with information on the Company's, as well as the Seller's, shareholders contained in Chapter 8. *Share Capital and Shareholders* in the Company's Share Registration Document, dated 14 November 2016.

1.5. Dilution

The issuance of new shares would dilute the ownership stake and voting rights attached to Shares held by existing shareholders. Should a shareholder's meeting resolve to increase the share capital in the Company with the issue of new shares existing investors would need to subscribe for new shares in proportion to their existing holdings so as to not be diluted by the aforementioned. Share capital increases could be resolved in order to finance new projects, unforeseen expenses or for other purposes that are deemed to preserve or increase the long term value of the Company. Investors are advised to consider that risk associated with the Shares might increase due to such new projects or investments taken on by the Company.

Share capital in the Company cannot be increased unless agreed by two thirds of votes cast at a shareholders' meeting as well as by the votes of holders of at least two thirds of the Shares represented at the respective meeting. According to the Articles of Association shareholders shall have pre-emptive rights to purchase new shares issued by the Company in proportion to their registered holdings. Exemptions from this are authorised, cf. Article 34 (3) of Act No. 2/1995 respecting public limited companies ("the Public Companies Act").

Investors are advised to acquaint themselves with information on rights associated with holdings in Shares contained in Chapter 5.4. *Priority and voting rights* in this Securities Note.

In the current Articles of Association ("the Articles") there is an authorisation for the Board of Directors to increase share capital by issuing up to 81,107,826 new shares or any number of shares that would equal no more than 3% of total nominal share capital. These new Shares may only be issued to fulfil the Company's obligation to its employees regarding an existing call option agreement. This Share increase is exempt from the aforementioned pre-emptive rights generally enjoyed by shareholders regarding the issuance of new shares. The authorisation lapses on 1 September 2019 to the extent it is then untapped. Information on the options agreement is contained in Chapter 1.3.9. *Call option agreements* in the Company's Share Registration Document, dated 14 November 2016.

1.6. Public offering and admittance to trading

An application has been filed by the Company to have all issued Shares admitted to trading on the regulated market of the Nasdaq Iceland, which if approved, will make the Company subject to the provisions of the Securities Transactions Act, along with derived secondary legislation as well as the Nasdaq Iceland's Rules for Issuers of Financial Instruments ("Issuer Rules"). Moreover the Company is subject to the Financial Supervisory Authority – Iceland's rules No. 1050/2012 on the treatment of insider information and regulation No. 630/2005 on insider information and market abuse. Any violation of the aforesaid Act, regulations based thereon or the Issuer Rules may have material effect on the Company's financial position and/or reputation. Infringement of the Issuer Rules may *inter alia* result in publicly announced reprimands, suspension of trading in the Shares, fines being levied on the Company or, if infringements are grievous or reoccurring, the permanent removal of the Shares from trading. Sanctions for violations of the Securities Transactions Act are governed by Chapter XV. Sanctions, of said Act and include fines and imprisonment for up to six years.

Investors are advised that if and when trading in the Shares commences shareholders will be subject to the following chapters of the of the Securities Transactions Act; Chapter IX. on changes in significant ownership stakes (flagging), Chapter X. on takeover bids and Chapter XI. on an offering summary.

The Offering and the application for admission to trading of the Shares is subject to Icelandic legislation as at the date of this Securities Note. Neither the Issuer, Íslandsbanki hf. ("Íslandsbanki") as the Listing Advisor nor Arion banki hf. ("Arion Bank") as Manager of the Offering, assume any liability for impacts due to amendments of laws or court decisions that may occur after the date of this Securities Note. However, if significant new information, material mistakes or inaccuracy relating to information in the Securities Note, likely to affect the assessment of the Shares, is discovered between the time the Prospectus is approved, as per Article 52 of the Securities Transactions Act, and the final closing of the Offering or, if applicable, the time when the Shares are admitted to trading, a supplement to the Prospectus will be prepared containing the changes and/or new information in question in accordance with Article 46 of said Act. The supplement shall be approved within seven working days and published in the same manner as the original Prospectus. The Summary and any translations thereof shall also be supplemented if necessary to take into account the new information included in the supplement. Investors who have already agreed to purchase or subscribe for Shares before the supplement is published shall have the right to withdraw their subscriptions for a period of at least two working days following the publication of the supplement.

2. Notice to investors

This Securities Note forms a part of the Company's Prospectus, dated 14 November 2016, which has been prepared in connection with an offering of Shares in Skeljungur ("the Offering") and an application for the admission of these Shares to trading on the regulated market of the Nasdaq Iceland Stock Exchange, as described herein.

For the definitions of terms used throughout this Prospectus, see Chapter 2.7. *Definitions and References* of this Securities Note.

The Prospectus has been prepared so as to provide information about Skeljungur, its business operations, financial standing and the rights attached to the Shares. Focus was placed on all representation material being put forth in a clear and concise manner, easily understood.

The level of disclosure is in compliance with Annexes I, III and XXII to EC Commission Regulation EC/809/2004 that implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 ("The Prospectus Directive") and amendments thereto, including the 2010 PD Amending Directive regarding information contained in prospectuses. The Prospectus Directive has been implemented into Icelandic law through the Icelandic Securities Transactions Act and derived secondary legislation. The Prospectus further complies with the Nasdaq Iceland Issuer Rules.

The Prospectus is published electronically at the Company's website, http://www.skeljungur.is/um-skeljung/fjarfestar and consists of three separate documents; a Summary, this Securities Note and a Share Registration Document, all dated 14 November 2016. Printed copies are available free of charge at the Company's registered offices at Borgartún 26, 105 Reykjavík, Iceland for up to twelve months post publication. This Prospectus has been prepared solely in the English language, however an Icelandic translation of the Summary has been prepared and made available to investors. The Icelandic language version of the Summary is an unofficial translation of the English original and in case of any discrepancies the English version shall prevail.

The Financial Supervisory Authority-Iceland ("FME") has scrutinised and approved the Prospectus on 14 November 2016. The approval and registration of the FME does not imply that the FME has controlled the accuracy or completeness of the included information and gives no guarantee to that effect. The approval by the FME only relates to the information included in accordance with the pre-defined disclosure requirements of the aforementioned Annexes.

Skeljungur has submitted an application for all of its Shares outstanding to be admitted to trading on the regulated market of Nasdaq Iceland. The Nasdaq Iceland requirement for share capital distribution of companies listed on the regulated market stipulates that at least 500 shareholders must hold shares in the value of ISK 100,000 each and that at least 25% of total shares outstanding must be in the hands of retail investors. The Company will meet the latter once its primary shareholder, holding company SF IV, has handed the Shares not sold by SF IV in the Offering down to the Beneficial Owners. The Company expects to meet the former following the Offering which will take place between 28 and 30 November 2016. For a detailed account of the conditions of the Offering, which is considered a public offering to Icelandic investors as per Article 43 of the Securities Transactions Act, the Company refers to Chapter 4. *Public Offering* in this Securities Note. Despite the Company being successful in meeting the share capital distribution requirements no guarantee can be given that Nasdaq Iceland will approve the Company's listing application. If the application is approved Nasdaq Iceland will publicly announce the first day of trading in Skeljungur's Shares with a minimum notice of one business day.

The distribution of this Prospectus and the Offering and subscription of the Shares in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase any of the Shares in any jurisdiction in which that would be considered unlawful. Accordingly, neither this Prospectus nor any advertisement or any other Offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. The Company requires persons in possession of this Prospectus to inform themselves about and to observe any such restrictions.

This Prospectus and the terms and conditions of the Offering as set out therein and any offers and sales of Shares hereunder shall be governed by and interpreted in accordance with Icelandic law. The courts of Iceland, with Reykjavík as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Offering or this Prospectus.

All sections of the Prospectus should be read in conjunction and as a whole. Special attention is drawn to the importance of investors reading and fully understanding the associated risks of investing in the Shares by familiarising themselves with the contents of Chapter 1. *Risk factors* in both the Securities Note and Share Registration Document. In making an investment decision prospective investors must rely on their own examination and analysis of Skeljungur and the terms of the Offering including the merits and risks involved. Investors are reminded that shares are risky investments that are based on expectations, not promises. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a subscription for the Shares. Neither the Issuer, the Seller nor Íslandsbanki or Arion Bank should be seen as making any promise of positive future operational results or an acceptable return on investment. Neither Íslandsbanki nor Arion Bank are under any obligation to evaluate whether participation in the Offering and purchase of the Shares is appropriate for investors. Investors participating in such transactions do not enjoy protection in accordance with Article 16 of the Securities Transactions Act.

Information in the Prospectus is based on circumstances and facts on the date it is signed, unless otherwise noticed. The Company has furnished the information in this Prospectus in order to provide a presentation of Skeljungur and to inform prospective investors about the Shares and the Offering. Unless otherwise explicitly stated, the source of information included in this Prospectus is the Company. Investors are encouraged to stay informed on all material either disclosed by or relevant to the Company post listing. The Company will fulfil its disclosure requirements through its subscription to the InPublic publishing toolas well as making disclosed material available on its website, http://www.skeljungur.is/um-skeljung/fjarfestar.

2.1. Statement by the Company

We, the undersigned, the Chairman of the Board of Directors and the Chief Executive Officer of Skeljungur hf., ID No. 590269-1749, Borgartún 26, 105 Reykjavík, Iceland, hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in the Securities Note dated 14 November 2016 is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 14 November 2016

For and behalf of the Board of Directors
Jón Diðrik Jónsson, Chairman of the Board

For and behalf of the Company
Valgeir M. Baldursson, CEO

2.2. Statement by the Seller

SF IV slhf. offers a total of 493,401,798 Shares in Skeljungur for sale in the Offering described in this Securities Note and Arion Bank and SÍA II reserve the right to increase the total number of Shares for sale in the Offering. We, the undersigned, the Chairmen of the Board of Directors of SF IV slhf., ID No. 691211-2150, and SÍA II slhf., ID No. 550512-2620, both domiciled at Borgartúni 19, 105 Reykjavík, Iceland and the Chief Executive Officer of Arion banki hf., ID No. 581008-0150, Borgartúni 19, 105 Reykjavík hereby respectively declare that, having taken all reasonable care to ensure that such is the case, the information contained in Chapter 4. *Public Offering* in this Securities Note dated 14 November 2016 is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 14 November 2016

For and on behalf of the Board of Directors of SF IV slhf.

Trausti Jónsson

Trausti Jónsson, Chairman of the Board

For and on behalf of the Board of Directors of SÍA II slhf.

Arnar Ragnarsson, Chairman of the Board

For and on behalf of Arion Bank.

Höskuldur H. Ólafsson, Chief Executive Officer

2.3. Statement by the statutory auditors

KPMG ehf., ID. No. 590975-0449, Borgartún 27, Reykjavík, Iceland ("KPMG"), has reviewed the condensed consolidated interim financial statements of Skeljungur for the nine month period ended 30 September 2016. Based on KPMG's review, KPMG believes that the condensed consolidated interim financial statements are prepared, in all material respect, in accordance with IAS 34 Interim Financial Reporting. The interim accounts for the nine months ended 30 September 2015 are condensed consolidated management interim financial statements and are neither audited nor reviewed by KPMG.

KPMG has audited the annual consolidated financial statements of Skeljungur for the years 2013, 2014 and 2015. KPMG hereby confirm that the consolidated financial statements of the Company for the aforementioned years give a true and fair view of the financial position of Skeljungur for the respective years ended 31 December and of its financial performance and its cash flow for the years then ended in accordance with the Icelandic Financial Statements Act No. 3/2006 for the year ended 2013 and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU for the years ended 2014 and 2015 and all subsequent periods. KPMG confirms that the information reproduced in this Securities Note, dated 14 November 2016, from the abovementioned consolidated financial statements of Skeljungur is consistent with their respective originals.

Reykjavík, 14 November 2016

On behalf of KPMG

Matthías Þór Óskarsson

Matthías Þór Óskarsson

Certified public accountant and member of The Institute of State Authorized Public Accountants in Iceland

Reynir Stefán Gylfason

Reynir Stefán Gylfason

Certified public accountant and member of The Institute of State Authorized Public Accountants in Iceland

2.4. Listing Advisor

Íslandsbanki has acted in the capacity of Listing Advisor in relation to the Shares of Skeljungur being admitted to trading on the regulated market of Nasdaq Iceland. Íslandsbanki has prepared the Prospectus in close co-operation with the Company's Executive Management and Board of Directors. The Prospectus is based on information provided by the Company, including financial and tax, legal and technical due diligence reports, audited and reviewed consolidated financial statements and unaudited consolidated interim management accounts.

Íslandsbanki has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is assumed by Íslandsbanki as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Company in connection with the admittance of the Shares to trading.

The financial and tax due diligence review was prepared by Deloitte ehf., ID No. 521098-2449, Smáratorg 3, 201 Kópavogur, Iceland.

The legal due diligence was prepared by Landslög slf., ID No. 450710-0830, Borgartún 26, 105 Reykjavík, Iceland with Advokatfelagið við Strond 4, and on their behalf Jógvan Páll Lassen, performing the legal due diligence review of subsidiary P/F Magn. Advokatfelagið's report was used as input into Landslög's due diligence report.

The technical due diligence was prepared by Verkís hf., ID No. 611276-0289, Ofanleiti 2, 103 Reykjavík, Iceland.

The financial and legal due diligence covered the period of the last three fiscal years, i.e. 2013, 2014 and 2015 and the materiality threshold was in the amount of ISK 20,000,000. The materiality threshold defines the benchmark used to determine if issues revealed in the due diligence review are considered to have a material impact on the Company's value or operations.

The due diligence reports will not be made public and are not intended to serve as guidance or recommendation to potential investors in relation to investing in the Shares.

2.5. Manager of the Offering

The Corporate Finance division of Arion Bank will act in the capacity of Manager of the Offering regarding the Offering of the Shares to investors as detailed in Chapter 4. *Public Offering* in this Securities Note, dated 14 November 2016. This includes preparing a valuation of the Company, preparing and handling the execution of investor presentations, handling the execution of the Offering and advising on the allocation of the Shares based on the Offering results.

2.6. Potential conflicts of interest

Investors are advised of the following interests Íslandsbanki and Arion Bank have regarding Skeljungur:

The Corporate Finance division of Íslandsbanki was hired by the Company to oversee the process of getting the Shares admitted to trading on the regulated market of the Nasdaq Iceland. Íslandsbanki Corporate Finance accepts a fee for their services to the Company, which include the compilation of the Company's Prospectus, dated 14 November 2016.

Íslandsbanki's FX Sales division provides foreign exchange trading services to Skeljungur.

The Corporate Finance division of Arion Bank was hired by SF IV to manage the Offering of Shares in Skeljungur taking place from 28 to 30 November 2016. This includes preparing a valuation of the Company, preparing and handling the execution of investor presentations, handling the execution of the Offering and advising on the allocation of the Shares based on the Offering results. The Corporate Finance division of Arion Bank accepts a fee from SF IV for the services provided.

Arion Bank's Corporate Banking division is a lender to Skeljungur and provides the Company with general banking services.

Arion Bank holds a 14.715% share in SF IV both directly (12.9%) and indirectly through its holdings in SÍA II which is the largest shareholder in SF IV.

Arion Bank and SÍA II are possible sellers of Shares in the Offering.

In accordance with Article 8 of the Securities Transactions Act, Íslandsbanki and Arion Bank respectively, have in place provisions for the treatment of potential conflicts of interest. Investors are advised to acquaint themselves with these provision on the banks' respective websites, http://islandsbanki.is/library/Skrar/hagsmunareglur.pdf (Icelandic only) and https://www.arionbanki.is/library/Skrar/Bankinn/Stjornarhaettir/Reglur-og-skilmalar/Hagsmunaarekstrar/2011-11-15__Hagsmuna%C3%A1rekstrar.pdf (Icelandic only).

Investors are advised to further acquaint themselves with the potential conflicts involving members of the Board of Directors of Skeljungur and Magn that can be seen in Chapter 6.5.2. *Statements and potential conflicts of interest* in the Share Registration Document, dated 14 November 2016.

2.7. Definitions and references

AGM	is a reference to the Annual General Meeting of Skeljungur in any given fiscal year.
Arion banki hf., Arion Bank and Manager of the Offering	is a reference to Arion banki hf., ID. 581008-0150, Borgartún 19, 105 Reykjavik, Iceland.
The Articles	is a reference to Skeljungur's Articles of Association, dated 16 September 2016.
The Beneficial Owners	is a reference to the shareholders of SF IV slhf. which at the date of this Securities Note is a holder of 99.99% of the issued share capital in Skeljungur.
The Board	is a reference to the Board of Directors of Skeljungur hf.
The Executive Management	is a reference to Skeljungur's daily management team as listed in Chapter 6.3. of the Company's Share Registration Document dated 14 November 2016.
The Capital Income Tax Act	is a reference to Act No. 94/1996 on Capital Income Tax.
DKK	is a reference to Danish Kronas, the legal tender of Denmark and the Faroe Islands.
FME	is a reference to the Financial Supervisory Authority – Iceland, Katrínartún 2, 105 Reykjavík, Iceland.
IFRS	is a reference to International Financial Reporting Standards as approved by the European Union according to Directive 1606/2002.
The Income Tax Act	is a reference to Act No. 90/2003 on Income Tax.
ISK	is a reference to Icelandic Kronas, the legal tender of Iceland.
Issuer Rules	is a reference to the Rules for Issuers of Financial Instruments issued by the Nasdaq Iceland
Íslandsbanki hf. and the Listing Advisor	is a reference to Íslandsbanki hf., ID. 491008-0160, Kirkjusandur 2, 155 Reykjavik, Iceland.
KPMG	is a reference to auditing firm KPMG ehf., ID. 590975-0449, Borgartún 27, 105 Reykjavík, Iceland.
The listing application	is a reference to Skeljungur's application for all issued Shares in Skeljungur to be admitted to trading on the regulated market of the Nasdaq Iceland.
Nasdaq CSD Iceland	is a reference to the Nasdaq CSD Iceland hf., ID No. 500797-3209, Laugavegur 182, 105 Reykjavík, Iceland.
Nasdaq Iceland and the Nasdaq Iceland Stock Exchange	is a reference to the Nasdaq Iceland ID. 681298-2829, Laugavegur 182, 105 Reykjavik, which operates Iceland's only regulated market.
The Offering	is a reference to the public offering of Shares in Skeljungur taking place between 28 and 30 November 2016.
Prospectus	is a reference to Skeljungur's Prospectus, dated 14 November 2016.
The Prospectus Directive	is a reference to Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003.
The Public Companies Act	is a reference to Act No. 2/1995 respecting Public Limited Companies with all subsequent amendments.

The Securities Note	is a reference to Skeljungur's Securities Note, dated 14 November 2016.
The Securities Transactions Act	is a reference to Act No. 108/2007 on Securities Transactions with all subsequent amendments.
The Seller	is a reference to SF IV slhf., ID 691211-2150, Borgartúni 19, 105 Reykjavík which will provide Shares for sale in the Offering. If the right to increase the number of Shares offered for sale in the Offering will utilised the reference "the Seller" will then also include Arion Bank (as defined in this Chapter 2.7. and SÍA II slhf., ID No. 550512-2620, Borgartúni 19, 105 Reykjavík, Iceland.
The Shares	is a reference to shares issued by Skeljungur hf.
Share Registration Document	is a reference to Skeljungur's Share Registration Document dated 14 November 2016.

Unless otherwise explicitly stated or clear from context. References to laws and secondary legislation should be construed as to include the original acts along with all amendments. Reference to laws other than that of Iceland is explicitly stated.

References to specific hours in the day shall be construed to mean the local time in Iceland, which is Greenwich Mean Time.

3. Working capital, capitalisation and indebtedness

The Chairman of the Board of Directors and the Chief Executive Officer of Skeljungur, for and on behalf of the Issuer, declare that at the date of this Securities Note the Company has sufficient working capital to fulfil its requirements for the next 12 months thereafter. The financial information contained in Table 1 below has been derived from the Company's reviewed consolidated interim financial statements for the nine month period ended on 30 September 2016. The Company's complete consolidated financial statements for the years 2013, 2014 and 2015, as well as for the nine month periods ended on 30 September 2015 and 2016 respectively, are accessible in Chapter 7. *Operational and financial review*, in the Company's Share Registration Document, dated 14 November 2016. As the Offering concerns already issued Shares in Skeljungur no proceeds will befall the Company in relation to the Offering.

There has been no significant change to the Company's financial or trading position since 30 September 2016.

Table 1: *Statement of capitalisation and indebtedness*

Amounts are in ISK thousand		*Amounts are in ISK thousand*	
Current debt		Liquidity	
Thereof guaranteed	0	Cash and cash equivalents	278,973
Thereof collateralised	2,323,840	Trade and other receivables	3,525,063
Thereof not guaranteed /collateralised	5,350,830		
Total current debt	7,674,670	Total liquidity	3,804,036
Non-current debt		Current liabilities	
Thereof guaranteed	0	Trade payables and other current liabilities	7,259,994
Thereof collateralised	4,629,784	Current maturities of non-current debt	414,676
Thereof not guaranteed /collateralised	600,475		
Total non-current debt	5,230,259	Total current liabilities	7,674,670
Equity		Non-current liabilities	
Share capital	2,099,582	Deferred tax liability	600,475
Share premium	3,052,440	Loans and borrowings	4,629,784
Retained earnings	2,049,196		
Total equity	7,201,218	Total non-current debt	5,230,259
Total capitalisation	20,106,147	Net debt	9,100,893

4. Public Offering

The public offering ("the Offering") described in this Securities Note is a public offering to Icelandic investors in accordance with Article 43 (1) of the Securities Transactions Act.

The Offering applies to already issued shares in Skeljungur held by SF IV. The Offering applies to 23.5% of issued Shares in the Company. The following Beneficial Owners, Arion Bank and SÍA II, reserve the right to increase the number of offered Shares as described in Chapter 4.1. *Size of Offering, pricing and types of subscription*, thereby bringing the Offering up to as much as 31.5% of issued Shares.

The subscription period will start at 12:00 GMT 28 November and end at 16:00 GMT 30 November 2016. The result of the Offering is expected to be published on 1 December and Nasdaq Iceland will subsequently give an answer to the Issuer's application to have the Shares admitted to trading on the regulated market of Nasdaq Iceland. Information on the allocation of Shares to investors in the Offering (i.e. confirmation or reduction of subscriptions) is expected to be sent to investors on 2 December, the final due date is set for 7 December and paid Shares will be delivered to the buyer at the latest one business day after payment is received. Pursuant to the above information the first expected day of trading the Shares on the regulated market of Nasdaq Iceland is 9 December 2016.

The objective of the Seller in this Offering is firstly to enable the Issuer to meet the conditions set for distribution of shares which are admitted to trading on the regulated market of Nasdaq Iceland and thereby facilitate increased liquidity of the Shares and creating a more diverse shareholder base; secondly the Seller is seeking to sell its asset at the best price; and thirdly to enable the Shares of the Company to become an ideal investment opportunity, trading on the Nasdaq Iceland secondary market.

The Seller reserves the right to cancel the Offering if subscriptions are not received for all the offered Shares (not including the possible increase of Shares in the Offering) and will in such an event publish an announcement thereof alongside the announcement of the result of the Offering. The Seller will cancel the Offering if Nasdaq Iceland rejects the Issuer's application to have all Shares in the Company admitted to trading on the regulated market of Nasdaq Iceland or does not approve its application by 8 December 2016. SF IV also reserves the right to postpone the Offering, extend it or cancel it at any time up until Nasdaq Iceland announces that the Shares will be admitted to trading, if any events occur which SF IV believes may result in the Seller's objectives not being reached, such as factors concerning the Offering itself, the Issuer or SF IV, negative economic developments or adverse conditions in the securities market in Iceland. If the Offering is cancelled pursuant to the above, all subscriptions for Shares in the Offering and allocations made on the basis thereof will consequently be invalidated. It will be publicly announced if the Offering is cancelled or if the Offering period is extended or postponed. If the Offering period is extended or postponed, a supplement to this Securities Note will be published explaining the change. All important new information, considered to have an impact on investors' assessment of the Shares, that has come to light since the confirmation of this Securities Note will also be published. The supplement shall be approved within seven working days and published in the same manner as the original Securities Note. In accordance with Article 46 of the Securities Transactions Act investors who have already agreed to purchase or subscribe for securities before the supplement is published shall have the right to withdraw their subscriptions for a period of at least two working days following the publication of the supplement.

The above dates assume that SF IV does not change the subscription period, that the processing of subscriptions does not take a shorter or longer time than the Seller expected and the Issuer's application to Nasdaq Iceland is responded to within the timeframe expected by the Seller.

The Offering is not underwritten. Neither the Issuer nor the Seller are aware that individual shareholders, Members of the Board or Executive Management team of the Company intend to subscribe for shares in the Offering or whether any investor intends to subscribe for more than 5% of the Offering.

4.1. Size of Offering, pricing and types of subscription

In this Offering SF IV intends to sell a total of 493,401,798 Shares in Skeljungur or 23.5% of issued share capital in the Issuer. Investors are offered two subscription options, Order Book A and Order Book B, which differ in terms of size of subscription, pricing and rules of allocation. A brief description follows in sections A and B below. However, for the full conditions of the Offering, investors must read Chapter 4. *Public Offering* of this Securities Note in its entirety.

A. A total of 246,700,899 Shares, or 11.75% of issued share capital in Skeljungur, are offered for sale in Order Book A. Order Book A will be for subscriptions ranging from ISK 100,000 to ISK 10,000,000 purchase value. Order Book A will be for subscriptions ranging from ISK 6.1 – 6.9 price per Share. All shares sold in Order Book A will be allocated at the same price (Offering Price A) which will be within the above price range. Subscriptions where a lower maximum price is specified will therefore be rejected. In the event of oversubscription, subscriptions in Order Book A will be reduced proportionally by up to 75%, however in such a way that the Seller will try not to reduce subscriptions under ISK 500,000 purchase value and flat rate reductions will be applied to the highest subscriptions if this proves insufficient. The Offering Price in Order Book A will not be higher than the Offering Price in Order Book B.

B. A total of 246,700,899 Shares, or 11.75% of issued share capital in Skeljungur, are offered for sale in Order Book B. Order Book B is for subscriptions exceeding ISK 10,000,000 purchase value and the size of each subscription is only limited by the aforementioned supply in this Order Book. Order Book B is for subscriptions which are a minimum of ISK 6.1 price per Share and no maximum price is specified by the Seller. All Shares sold in Order Book B will be allocated at the same price (Offering Price B) which will be higher or equal to the aforementioned minimum price. Subscriptions where a lower maximum price is specified will therefore be rejected.

The Seller reserves the right to make changes to the above stated division between Order Books A, and B with respect to the total size of each Order Book. The following Beneficial Owners, Arion Bank and SÍA II, reserve the right to increase the number of offered Shares in the Offering by 8% of total issued Shares, which would bring the maximum total Shares in the Offering up to 31.5% of total issued Shares, or to a total of 661,368,368 Shares, and decide how the increase will be distributed between Order Book A and B. The decision on the final size of the Offering and the distribution between Order Book A and B will be made upon allocation, provided that demand warrants the increase with respect to both price and volume.

The total proceeds of the 493,401,798 Shares offered for sale in the Offering are a minimum of ISK 3,009.76 million based on the minimum price in the Offering. The total proceeds will increase to ISK 4,034,35 million based on the minimum price of the Offering, if the right to increase the Offering will be fully utilized.

Table 2: *Size and division of the Offering*

	% of issued Shares	No. of Shares	Price range/ minimum	Value based on min. price
Order Book A (subscriptions ISK 0.1 - 10 million)	11.75%	246,700,899	ISK 6.1 - 6.9 per Share	ISK 1,504,875,484
Order Book B (subscriptions > ISK 10 million)	11.75%	246,700,899	ISK 6.1 per Share	ISK 1,504,875,484
Size	**23.50%**	**493,401,798**		**ISK 3,009,750,968**
Potential increase of the Offering	8%	167,966,570	ISK 6.1 per Share	ISK 1,024,596,077
Maximum possible size of Offering	**31.50%**	**661,368,368**		**ISK 4,034,347,045**

4.2. Issuer

Skeljungur hf.

ID Number:	590269-1749
Registered offices:	Borgartún 26, 105 Reykjavík, Ísland
Phone:	+354 444 3000
Web address:	http://www.skeljungur.is

4.3. Seller

SF IV slhf.

ID Number:	691211-2150
Registered offices:	Borgartún 19, 105 Reykjavík, Iceland.
Phone:	+354 444 7400
Web address:	n/a

If the right to increase the number of Shares in the Offering will be utilised the reference to " the Seller" will include all three; SF IV, SÍA II and Arion Bank.

SÍA II slhf.

ID Number:	550512-2620
Registered offices:	Borgartún 19, 105 Reykjavík, Iceland.
Phone:	+354 444 7400
Web address:	n/a

Arion banki hf.

ID Number:	581008-0150
Registered offices:	Borgartún 19, 105 Reykjavík, Iceland.
Phone:	+354 444 7000
Web address:	http://www.arionbanki.is

4.4. Listing advisor

Íslandsbanki Corporate Finance

ID Number:	491008-0160
Registered offices:	Kirkjusandur 2, 155 Reykjavík, Iceland
Phone:	+354 440 4000
Web address:	http://www.islandsbanki.is

4.5. Manager of the Offering

Arion Bank Corporate Finance

ID Number:	581008-0150
Registered offices:	Borgartúni 19, 105 Reykjavík, Iceland
Phone:	+354 444 7000
Web address:	http://www.arionbanki.is
E-mail addess:	skeljungur-utbod@arionbanki.is

4.6. Dealer

Arion Bank Securities Brokerage

ID Number:	581008-0150
Registered offices:	Borgartúni 19, 105 Reykjavík, Iceland
Phone:	+354 444 7000
Web address:	http://www.arionbanki.is
E-mail address:	hlutabrefamidlun@arionbanki.is

4.7. Technical assistance with regards to Order Book A

Arion Bank Securities services

ID Number:	581008-0150
Registered offices:	Borgartún 19, 105 Reykjavík, Iceland
Phone:	+354 440 4900
Web address:	http://www.arionbanki.is
E-mail address:	skeljungur-utbod@arionbanki.is

4.8. Investors

The Offering is marketed in Iceland. Participation in the Offering is open to persons (individuals as well as legal entities) holding an Icelandic identification number, provided that the person in question is legally competent to manage their financial affairs and has the power to decide over their financial estate, with restrictions that may be imposed by law.

The above conditions stipulate that if the person's estate has been declared bankrupt and such proceedings have not been completed before the end of the subscription period, that person may not participate in the Offering.Persons who are not otherwise legally competent to manage their financial affairs may not participate in the Offering.

Non-residents as defined in Article 1 of the Foreign Exchange Act No. 87/1992[1] shall demonstrate to the Manager of the Offering that they are permitted to invest in the securities offered in the Offering. If this has not been satisfactorily done in the opinion of the Manager of the Offering before the close of the subscription period, the subscription from the person in question will be rejected[2].

The Offering is not directed at or marketed to any investors domiciled outside Iceland and consequently Shares are not offered for sale in jurisdictions where public offerings such as this are contingent on the competent authorities of that jurisdiction having received a prospectus issued by the Issuer in connection with the Offering, or where such offerings would be subject to further requirements than the approval of the Icelandic regulators of the Issuer's Prospectus in connection with the Offering. Investors domiciled outside of Iceland who nevertheless subscribe for Shares in the Offering will be deemed to have taken part in the Offering within Iceland and by doing so will be deemed to have forfeited any and all objections they might otherwise have.

Employees of Íslandsbanki that are subject to the bank's Rules on employee trading in financial instruments and currencies, dated 3 April 2014, are allowed to participate in the Offering provided that they have obtained prior permission from Íslandsbanki's compliance officer and are otherwise

[1] A non-resident is an individual residing abroad irrespective of nationality, a company, institution, fund or other legal person domiciled abroad, a foreign state or state enterprise, as well as a business enterprise under foreign control. An individual is deemed resident abroad if he has legal domicile abroad or domicile there as defined in the Act on Legal Domicile. A legal person is regarded as being domiciled abroad if registered as domiciled abroad or if the legal person's articles of association state its residence abroad.

[2] Pursuant to Article 13(b)(3) of Act no. 87/1992 on Foreign exchange, cf. clause 19 of Rules No. 862/2016 and the list published by the Icelandic Central bank on 21 October 2016, a non-resident shall be deemed to have sufficiently demonstrated his/her permission to invest in the Shares in the Offering if he/she is able to demonstrate that the payment for his/her subscription will be made in Icelandic Kronas and will be debited to a bank account held in the name of the non-resident with an Icelandic financial institution.

in compliance with the aforementioned Rules. Should a supplement to the Company's Prospectus be called for during the subscription period, employees of Íslandsbanki's Corporate Finance are prohibited from subscribing to Shares until the supplement has been lawfully published.

Arion Bank's employees, and related persons may participate in the Offering, subject to Arion Bank's rules on dealing for personal account and the following conditions:

- They are only permitted to participate in Order Book A;
- They do not have permission to specify a maximum price in their subscription (and subscriptions are then considered to be at the final Offering price A) and;
- Such subscriptions should be submitted before 16:00 GMT on the first day of the subscription period of the Offering, 28 November 2016.

Investors are made aware that the Seller reserves the full right to reject some or all of the subscriptions submitted in the Offering (including offers from individual investors in part or in full), without further explanation or reasoning, see Chapter *4.11. Allocation and reduction of subscriptions in event of oversubscription*. The Seller reserves the right to reject subscriptions from persons who have not made payment for allocated Shares in public offerings previously managed by the Manager of the Offering described in this Securities Note.

4.9. Subscription period, registering subscriptions and size benchmarks

Subscriptions will be received from 12:00 GMT 28 November until 16:00 GMT 30 November 2016. No orders will be accepted after the subscription period has finished (unless the Seller specifically decides to postpone the Offering or to extend it and in such cases a supplement to the Issuer's Prospectus or a new prospectus will be published, as applicable).

Subscriptions shall be registered electronically on a special subscription form (subscription website) which can be reached via the website of the Manager of the Offering, www.arionbanki.is. Subscriptions will not be accepted in any other format. The subscription form will be available in English and Icelandic.

The maximum size of subscriptions in Order Book A is restricted to Shares with a purchase value of ISK 10,000,000 and the minimum size of subscriptions in Order Book A is restricted to Shares with a purchase value of ISK 100,000. The minimum size of subscriptions in Order Book B is a purchase value of ISK 10,000,001 and the maximum size of subscriptions in Order Book B is restricted to 11.75% of issued share capital in the Issuer.

Investors are permitted to submit a composite subscription with up to four subscriptions in Order Book A. By submitting a composite subscription investors can submit subscriptions at different prices. No restrictions are to the number of subscriptions permitted in Order Book B, other than those resulting from the maximum and minimum subscription. Each subscription must be for at least the minimum subscription in the relevant Order Book. The total subscriptions in a composite subscription can be equal to the maximum subscription in the relevant Order Book. Investors are permitted to submit subscriptions in both Order Book A and B without disqualifying other subscriptions.

All subscriptions are binding for the respective investor. Investors are not entitled to cancel or change a subscription which they have confirmed and delivered in the Offering. Subscriptions must be confirmed by the investors themselves or a person who has the required authority or power of attorney from the investor. A person completing a subscription on the basis of power of attorney shall, should the power of attorney not be recognized by the principal, be deemed to have delivered the subscription in his/her own name.

In order to submit a subscription investors have to register to the relevant Order Book A or B on the subscription website, through any of the following user ID:

1. Electronic ID on a smartphone; or
2. User ID to Arion's Online Bank; or

3. ID-No. or password which was requested through the subscription website and will be sent as a digital document to the investor's online bank account, which may be in any Icelandic retail bank; or

4. ID-No. and password which can be obtained from the Manager of the Offering by signing a witnessed application for a password or by any other method of verification which the Manager of the Offering considers satisfactory.

Electronic confirmation from the subscription website is required as valid proof of subscription. Such confirmation will appear at the end of the registration process and also sent to the e-mail address provided by the investor.

Investors must specify the account operator (bank or other organization with a membership agreement with the Nasdaq CDS Iceland) which they wish to use to receive the Shares upon settlement.

When subscribing, investors specify the purchase price of the Shares they wish to buy in the Offering. The purchase value of subscriptions is rounded down to the nearest whole Share as the purchase price is calculated as a multiple of the number of whole Shares and the price per Share.

According to the subscription form investors declare that:

- They have agreed to the terms of the Offering as set out in this Securities Note and read the information in the Issuer's Prospectus of which this Securities Note forms a part;
- They are not considered to be non-resident and are not owned by a non-resident in part or in full, or have confirmed to the Manager of the Offering in a satisfactory manner that their participation in the Offering does not violate Icelandic law;
- They have read and understood the information on Arion Bank's and Íslandsbanki's rules on conflicts of interest, see information in this Securities Note, and they are aware of the conflicts of interest specified in the Securities Note;
- They have been informed in the Securities Note, that their subscription will be deemed to be a request for a service regarding execution only, as per Article 16 (4) of the Securities Transactions Act and that neither Arion Bank nor Íslandsbanki are obliged to assess whether participating in the Offering and buying Shares in the Issuer is suitable for the investor and the investor does not enjoy protection in accordance with Article 16 of the Securities Transactions Act.

Investors can obtain information on the Offering and the subscription website for Order Book A from Arion Bank's Securities services. Investors can obtain this information by phone or e-mail between 9:00 GMT and 16:00 GMT during the subscription period. The phone number and e-mail address can be found in Chapter 4.7. *Technical Assistance with Regards to Order Book A*. Investors can contact the Manager of the Offering by e-mail or phone. The phone number and e-mail address of the Manager of the Offering is contained in Chapter 4.5. *Manager of the Offering* and in Chapter 4.6. *Dealer*.

Financial institutions which offer asset management services pursuant to Article 3 (6.c) of Act No. 161/2002 on Financial Undertakings are granted certain exemptions with respect to subscriptions and subscription forms in Order Book A. They are given the opportunity to submit subscriptions on behalf of investors on a special subscription form which can be obtained from the Manager of the Offering. A precondition for such a subscription is that the Manager has received a satisfactory statement from a financial institution, on a form that can be obtained from the Manager, stating that it has the required authority or power of attorney from the investor in accordance with authority provided in a valid asset management agreement with the investor and a statement saying that the financial institution guarantees the payment of the purchase price. The financial institution shall specify in such subscriptions whether it wants to receive a bill for the price paid by the investor or whether it wants the price paid to be deposited into the custody account of the investor at Arion Bank. It is a precondition of the latter alternative that the investor has a custody account at Arion Bank. Financial institutions can contact the Manager of the Offering by e-mail or phone, see information in Chapter 4.5. *Manager of the Offering*.

4.10. Confirmation of ability to pay and/or collateral for payment

The Seller and the Manager of the Offering reserve the right to demand confirmation of the investor's ability to pay and/or collateral for payment from investors in the case of subscriptions with a purchase price of ISK 10 million or higher. If the investor does not agree to this demand from the Manager of the Offering before the close of the subscription period or before the end of any other deadline set by the Manager of the Offering up until the announcement of the result of the Offering or allocation of Shares, the Manager of the Offering reserves the right to invalidate the subscription of the investor, in part or in full.

The Manager of the Offering has sole discretion to decide whether confirmation of ability to pay and/or collateral is sufficient. Sole discretion means that the Manager of the Offering will assess each confirmation separately and is not obliged to reveal how the decision was made and the counterparty will not be given the opportunity to object to the decision or its application. An example of confirmation of ability to pay could be confirmation from a financial institution of funding. An example of sufficient collateral could be a pledge in a deposit account or a securities account, or a guarantee from a financial institution. Collateral is cancelled when the subscription is paid promptly and correctly in accordance with payment instructions or if the subscription is rejected.

4.11. Allocation and reduction of Shares in case of oversubscription

At the end of the subscription period the Seller will have sole discretion to decide the price at which Shares will be sold in the Offering including, firstly Offering Price A at which all Shares allocated to investors in Order Book A will be sold and secondly Offering Price B at which all Shares allocated to investors in Order Book B will be sold. Subscriptions which specify a lower maximum price per Share than the final Offering Price in the relevant Order Bookwill be rejected. When allocating the Shares the objective of the Offering will be taken into account, i.e. encouraging increased liquidity of Shares and creating a more diverse shareholder base, selling the asset at the best price for the Seller, and enabling a good secondary market in the Shares.

A. In Order Book A investors submit subscriptions which specify the requested total purchase price. Investors can make the subscription conditional on the final Offering Price in Order Book A not exceeding a specific maximum price per Share, specified by the investor on the subscription form. If no maximum price is specified, or if the final Offering Price in Order Book A is the same or lower as the specified maximum price the subscription will be considered to be made at the final Offering Price A, decided by the Seller. If the final Offering Price A exceeds the maximum price specified by the investor, the subscription will be invalidated.

B. In Order Book B investors shall submit subscriptions specifying the total purchase price and the maximum price per Share. If the final Offering Price B exceeds the maximum price specified by the investor, the subscription will be invalidated.

In the event that the combined number of Shares of valid subscriptions exceeds the number of Shares that the Seller decides to sell in the Offering, the Seller will allocate Shares to individual subscribers after the following reductions have been made:

- The main rule when allocating Shares in Order Book A is that subscriptions are assessed on the basis of price. Subscriptions in Order Book A will be reduced (in part or rejected) so that what remains are the subscriptions received with the highest price per Share, so that the combined number of Shares (based on the final Offering Price A) in all valid subscriptions in Order Book A after reduction is equal to the number of Shares which the Seller decides to offer investors who have subscribed for Shares in Order Book A.
- If reductions as described above are not sufficient, then the remaining subscriptions in Order Book A will be reduced by up to 75% of the original subscription, with the exception that proportional reduction will not be applied to subscriptions of ISK 500,000 purchase value or lower and proportional reductions on higher subscriptions will not result in a reduction to a

value lower than ISK 500,000. If further reductions are made, the maximum subscriptions in Order Book A will be further reduced (by flat rate reductions) until the combined number of Shares in all valid subscriptions in Order Book A after the reduction is equal to the number of Shares the Seller decides to offer investors who have subscribed for Shares in Order Book A, so that with the flat rate reduction the maximum allocation in Order Book A can be lower than ISK 500,000 purchase value. The Offering Price in Order Book A will not be higher than the Offering Price in Order Book B.

- The main rule when allocating shares in Order Book B is that subscriptions are assessed on the basis of price. Subscriptions in Order Book B will be reduced (in part or rejected) so that what remains are the subscriptions received with the highest price per Share, so that the combined number of Shares (based on the final Offering Price B) in all valid subscriptions in Order Book B after reduction is equal to the number of Shares which the Seller decides to offer investors who have subscribed for Shares in Order Book B.
- The Seller reserves the right to reject individual subscriptions in Order Book A and/or B, in part or in full, for other reasons than those specified in the above rules on reductions.
- Proportional reduction will not be applied to subscriptions submitted by full-time employees of Skeljungur (including subsidiares) in the amount of ISK 3 million purchase value or less. Proportional reductions applied to subscriptions from the aforementioned persons that exceed ISK 3 million will not lead to their subscriptions being reduced below ISK 3 million purchase value.
- If subscriptions are reduced, in part or rejected, each reduction or rejection will be at the sole discretion of the Seller. Sole discretion means that the Seller is not obliged to reveal how the reduction or rejection was decided and the counterparty will not be given the opportunity to object to the decision or its application.

4.12. Notification of the results of the Offering

The results of the Offering are expected to be published in the European Economic Area on 1 December 2016. This date is based on the assumption that the Seller does not make any changes to the subscription period and the processing of subscriptions does not take a shorter or longer time than the Seller expects. Nasdaq Iceland will subsequently announce the final decision on the Issuer's application to have the Shares admitted to trading on the regulated market of Nasdaq Iceland.

4.13. Notification of allocation, payment instructions and settlement of transactions

Investors will be informed of their individual allocation once the result of the Offering has been publicly announced and Nasdaq Iceland has announced the approval of the Issuer's application to have the Shares admitted to trading on the regulated market of Nasdaq Iceland. Information on allocation and payment instructions is expected to be available on 2 December and will be sent to individual investors the same day, however this could be at an earlier or later date. The above dates assume that the Seller does not change the subscription period, the processing of subscriptions does not take a shorter or longer time than the Seller expected and the Issuer's application to Nasdaq Iceland is responded to within the timeframe expected by the Seller.

The Manager of the Offering will send participants an e-mail containing information on allocation and payment instructions regarding allocated Shares when the above mentioned announcements have been made public. The information will be sent to the e-mail address specified by the investor in the subscription process. Investors are responsible for ensuring that the e-mail address provided is valid and able to receive the necessary documentation.

Payment instructions will be in the form of electronic invoices made out to the name and ID number of each investor allocated Shares in the Offering. The invoices can be paid in any Icelandic retail bank. The Manager of the Offering will send the invoices to the online bank account of the investor's choosing. The expected date of the invoices' availability is 2 December 2016, although the timing will depend on when the information on allocation and payment instructions is made available and could therefore be at an earlier or later date.

Payment instructions will not be sent by regular post to participants. Payment will not be accepted by any other means than those stated in the payment instructions.

The defined trading date for the allocated Shares is expected to be 2 December 2016, although the timing will depend on when the information on allocation and payment instructions is made available and could therefore be at an earlier or later date. The due date and final due date for the purchase price will be two business days after the defined trading date of the Offering and is therefore expected to be on 7 December 2016. Payment shall be made at the latest before the closing time of banks in Iceland on the final due date. Note that the general opening hours of banks and other financial institutions is until 16:00 GMT on weekdays and that after 16:15 GMT it is not possible to make a payment exceeding ISK 10,000,000, however lower payments are possible via online banks until 21:00 GMT, provided that the amount is below other limits which may apply.

A receipt for the transaction and payment will be sent to each investor once sufficient payment has been received from the relevant person. Sufficient payment is when the investor in question has made payment, in full, at the right time in accordance with the payment instructions from the Manager of the Offering.

If any invoices for allocated Shares remain unpaid at 21:00 GMT on the final due date, they will be cancelled and invalidated. After the final due date, including after the close of banks on the final due date, investors will be unable to pay the purchase price in accordance with the payment instructions. The Seller will, without warning or notification, invalidate allocations which remain uncollected at the end of the final due date and is then entitled to retain Shares which have not been paid for or sell them to a third party at a price decided by the Seller. However, if the Seller is unable to sell the unpaid Shares to another person at the same or higher price than they were allocated in the Offering, the Seller reserves the right to demand that the investor to whom the Shares were originally allocated pay the difference between the sale value of the Shares without the investor being entitled to any compensation in the form of Shares or other valuables. The Seller reserves the right not to invalidate unpaid subscriptions and to collect allocations which are not paid satisfactorily and in such case penalty interest from the final due date in addition to the Seller's collection costs are added to the purchase price of the uncollected Shares. If payment is not made at the correct time (i.e. on the final due date at the latest) and in the correct manner (i.e. in full compliance with the payment instructions) the debt may be collected, through Icelandic courts if applicable, in accordance with the principles of Icelandic contract law.

Shares will be delivered to the buyer when satisfactory payment has been received from the investor with delivery taking place on the next business day after payment has been received, at the latest. Shares will be delivered electronically via the Nasdaq CSD Iceland and the Manager of the Offering will ask the account operator nominated by the investor in the subscription, to receive the Shares and deposit them in a custody account held by the investor with the account operator.

If the investor does not own a custody account with the custodian specified in the subscription, Arion Bank will open a custody account in the name of the investor at Arion Bank (and at the Nasdaq CSD Iceland) so that it is possible to receive the investor's Shares in accordance with the above and the Bank reserves the right to collect a fee from the investor for storing the Shares as per Arion Bank's list of fees and charges, which can be found on its website, https://www.arionbanki.is/english/individuals/information/rates/[3]. The investor will not be able to trade or move the Shares delivered into the custody account opened as described above in their name unless they have already provided the material and information requested by Arion Bank to open a custody account.

[3] Found in Icelandic on the Bank's Icelandic language website through https://www.arionbanki.is/bankinn/almennar-upplysingar/verdskra/.

The Manager of the Offering is responsible for collection and the settlement of all transactions of the Seller in connection with the Offering. No special costs will be imposed on the investor in respect of the transaction by the Seller, the Manager of the Offering, the Listing Advisor or Issuer. Investors are urged to consider whether any costs or fees will be charged by other parties in connection with the transaction.

5. Information on the Shares and admittance to trading

5.1. The admittance of Shares in Skeljungur to trading

The Board of Directors of Skeljungur have submitted an application for all Shares in the Company to be admitted to trading on the regulated market of the Nasdaq Iceland. Following the FME's scrutiny and approval of the Prospectus, Nasdaq Iceland will conduct a final review of the Company's application and make its conclusion public in the European Economic Area. The Company believes it satisfies all of the requirements for admission to trading pursuant to the Issuer Rules with the exception of the requirement on share capital distribution. If admitted to trading the Shares' ticker symbol in the trading system of the Nasdaq Iceland will be SKEL.

To satisfy Nasdaq Iceland's requirements of share capital distribution, an adequate number of the Company's shares must be held by retail investors and the total number of shareholders must be adequate. According to the Issuer Rules companies having at least 500 shareholders holding shares in market value around or exceeding ISK 100,000 will, all else equal, be considered to fulfill the requirement regarding the number of shareholders. Additionally, 25% of the total number of shares within the same class needs to be in public hands. At the date of this Securities Note there are only two shareholders in Skeljungur, SF IV and SF IV GP. SF IV is a holding company in the ownership of the Beneficial Owners of Shares in Skeljungur. Prior to the Offering the Beneficial Owners will have become direct holders of the 1,606,180,322 Shares in Skeljungur that SF IV has not committed to sell in the Offering, in proportion to their holding. Thus the Company will already have fulfilled the requirement of having more than 25% of the Shares in public hands.

One of the main objectives of the Offering is to satisfy the requirements on the minimum number of shareholders holding Shares with a market value of around ISK 100,000. Given that the Company fulfills those requirements, it is expected, although no guarantee can be given to that effect, that Nasdaq Iceland will admit the Shares to trading on their regulated market. If the Shares will be admitted to trading, the first day of trading in Skeljungur's Shares will be announced by the Nasdaq Iceland with a minimum of one business day's notice.

Skeljungur bears all cost associated with the admittance of the Shares to trading. The total cost borne by the Company is estimated to be ISK 72.9 million and consists of a fee to the Listing Advisor, costs associated with the scrutiny and approval of the Prospectus, the Nasdaq Iceland listing fees, fees to the Due Diligence advisors along with other cost directly associated with the admittance to trading. The Seller bears all costs associated with the marketing and selling of the Shares.

5.2. Market making

The Company will enter into market making agreements with two financial institutions who will, according to those contracts, place bids and offers in the Shares of the Company for a certain amount with a fixed spread between bid and offer price. At the time of this Securities Note the agreements have not been signed.

The Company expects similar terms on each market making contract where each market maker will have bid and offers amounting to at least 1,500,000 shares each in place at any given time, and each market maker is obliged to trade up to a maximum of 10,500,000 shares per day. Furthermore, one or more market making agreements might include a mechanism which would adjust downward the number of shares in bid and offers if the market value of bid and offers would exceed a specific market value.

Maximum spread between bid and ask offers is 1.5% and deviation from the last intraday transaction price shall not exceed 3%. If the intraday price change is more than 10%, the spread may be increased to a maximum of 3%.

The agreements have no specified end-date but can be terminated on behalf of either party with one month's notice. Skeljungur will publicly announce the signing of market making agreements, which will take place prior to the listing of the Shares.

5.3. Share capital

The total issued share capital of Skeljungur is ISK 2,099,582,121 in nominal value, divided into an equal number of shares, each with a nominal value of ISK 1. The Company's share capital consists of a single class of shares and each issued share carries equal rights according to the Company's Articles of Association. The Shares are issued in ISK in accordance with the Public Companies Act.

The Shares are electronically registered at the Nasdaq CSD Iceland in accordance with Act No. 131/1997 on the Electronic Registration of Titles to Securities. The ISIN number of the Shares is IS0000000503. The Shares are registered in book-entry form under the name and Icelandic ID No. of the relevant shareholders or their nominees. The electronic share registry is considered lawful proof of ownership of Shares in the Company. Dividends and announcements shall at any given time be sent to the party registered as the owner of the respective Shares in the Company's share registry.

Shareholder rights are subject to the Company's Articles of Association and Icelandic legislation in effect at any given time.

5.4. Priority and voting rights

One vote is attached to each Share in the Company at shareholders' meetings. Shares in the Company may be freely traded, transferred or pledged unless otherwise stipulated by law.

In accordance with Article 34 of the Public Companies Act shareholders enjoy pre-emptive rights to all new Shares in proportion to their existing shareholdings. That notwithstanding a shareholders' meeting may resolve to waive such pre-emptive rights. Such a resolution can only be passed by the same proportion of votes needed to amend the Company's Articles of Association.

In accordance with Article 93 of the Public Companies Act a company's Articles of Association may only be amended at a lawful Annual General Meeting or extraordinary shareholders' meeting, provided that the notice of the meeting clearly indicates that such an amendment is proposed and outlines the main substance of the amendment. An amendment is valid only if it has the support of at least 2/3 of the votes cast and the support of shareholders controlling at least 2/3 of the share capital represented at the respective meeting, providing always that no other proportion of votes is required by the Articles of Association or statutory law.

The following amendments to the Articles of Association can only be passed with the consensus of all shareholders, cf. Article 94 of the Public Companies Act:

i. Reducing dividends or other payments to shareholders,
ii. Increasing shareholders' obligations to the Company,
iii. Limiting shareholders' freedom to exercise the rights afforded to them in conjunction with their shareholdings, cf. Articles 22 and 23 of the Public Companies Act, or if shareholders are forced to accept redemption of their shares without the dissolution of the Company.

5.5. Dividends

The payment of dividends shall be resolved at the Annual General Meeting ("AGM") based on a proposal from the Board of Directors. The AGM must be held before the end of April each year. The AGM decides the payment date which must be within six months of the AGM. The AGM moreover decides the ex-date. The Annual General Meeting shall, as applicable, also resolve the treatment of losses following a proposal from the Board of Directors.

The right to dividend payments are afforded to the registered shareholders as at the record date, i.e. three days post the declaration date (the date of the AGM). Shareholders are solely responsible for making sure that their residence is correctly entered into the Company's share registry.

Dividends may be claimed at the Company's registered offices for up to four years post the payment date, after which they lapse and can be lawfully retained by the Company.

The Board of Directors of Skeljungur has adopted a dividend policy according to which it will propose a dividend and/or a share buy back in the level of 30-50% of net profit annually. When forming its proposal the Board takes into account and considers the risk policy in place, market conditions, the Company's liquidity needs, financial covenants and other possible factors that might limit payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend being proposed. In the period 1 January 2013 to 30 September 2016 the Company paid dividends twice, in 2013 (ISK 125 million) and 2014 (ISK 550 million), and lowered share capital twice, in 2015 (ISK 201,337,337 nominal value) and 2016 (ISK 402,674,728 nominal value).

The Company is subject to restrictions on dividend payments in accordance with the provisions of the Public Companies Act. According to Article 99 (1) of said Act, the Company is only authorised to allocate profit as dividends in accordance with (i) approved annual accounts for the immediate past fiscal year, (ii) profit brought forward from previous years and (iii) distributable reserves, after deduction of (a) any uncovered losses and (b) moneys which, according to law or the Articles of Association, shall be contributed to a reserve fund or for other use.

Moreover, the Company is bound by covenants concerning dividend payments stipulated in loan agreements as applicable. According to Skeljungur's current loan agreements with Arion Bank the Company cannot pay dividends unless the following conditions are fully met:

i. No payments according to any loan agreements entered into by the Company or any of the subsidiaries within the Group are past due;
ii. The financial conditions set by the loan agreement are complied with;
iii. The Company's equity ratio maintains a minimum of 30% post dividend payment;
iv. The profits paid out are not the result of a one-off sale of fixed assets, due to the revaluation of assets or due to a change in accounting procedures.

The Company will follow Nasdaq Iceland's proposals on dividend payments, which is that trading in the Shares exclusive of dividends begins the business day immediately following the day the dividend proposal is approved and that payment of dividends will be made no later than 30 days after the record date. With the exception of dividend payments, shareholders are not entitled to any of the Company's profits.

It should be noted that according to Act No. 87/1992 on Foreign Exchange, dividends can only be transferred offshore if their source is profits from regular, continuing operations, *i.e.* they can not be proceeds from the sale of assets or a share capital decrease.

5.6. Mandatory takeover bids

If the Shares will be admitted to trading on the regulated market of Nasdaq Iceland, the Company will be subject to the provisions of Chapter X. of the Securities Transactions Act, legislation that is based on Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids. According to Article 100 (1) of the Securities Transactions Act, any party that, directly or indirectly, acquires control of the Company, is obligated to make other shareholders of the Company a takeover bid within four weeks of acquisition. The offer price must at minimum match the highest price paid for the Shares by the acquirer or his/her partners during the previous six months.

Control of the Company in this respect refers to a party, and any party acting in concert with him/her, has acquired:

i. In total at least 30% of the voting rights in the Company;
ii. The right to control at least 30% of the voting rights in the Company by virtue of an agreement with other shareholders;
iii. The right to appoint or dismiss the majority of the members of the Company's Board of Directors.

At the date of this Securities Note, SF IV, holds 99.99% of the Company's issued share capital. As discussed in Chapter 1.4. *Ownership and control* SF IV will hand all Shares, less those committed to be offered for sale in the Offering, down to the Beneficial Owners prior to the Offering. As a result SF IV will not hold any Shares in Skeljungur at the time of the admittance to trading.

It should be pointed out that any party, or parties, in control of Skeljungur at the time of the Shares being admitted to trading are not under an obligation to make a mandatory takeover bid, cf. Article 100 (7) of the Securities Transactions Act. This is contingent on that party or parties not subscribing for an increased share in the Company in the Offering. If however that party or parties sell off part of their share and increase it again at a later date such a transaction would evoke a mandatory takeover bid on his/their behalf.

The Company would like to reiterate that because SF IV will have handed its Shares in Skeljungur down to the Beneficial Owners prior to the Offering a mandatory takeover bid can only be evoked if any of the Beneficial Owners acquire more than 30% of Shares in Skelungur, cf. Article 100 (1) of the Securities Transactions Act, unless two or more shareholders have previously agreed on the joint exercise of their Shares. To the extent known by the Company no such agreements are in place that will be valid after the admittance of the Shares to trading.

5.7. Redemption provisions

According to Skeljungur's Articles of Association, shareholders are not obligated to accept their Shares being redeemed, except as stipulated by law.

Under Article 24 of the Public Companies Act, a shareholder holding more than 90% of a company's share capital and controlling an equivalent proportion of its voting rights may decide, in conjunction with the board of directors of the company, that other shareholders in the company be subject to a mandatory redemption of their shares. Correspondingly, each individual minority shareholder may demand redemption from the shareholder.

Article 110 of the Securities Transactions Act stipulates the same provisions on redemption. The Article states that if the offering party and parties acting in concert with said party acquire more than 9/10 of the share capital or voting rights in the target company, the offering party and board of the company may jointly decide that other shareholders shall be subject to redemption of their shares. The same right is afforded to the minority shareholders in such cases, i.e. the minority shareholders may demand that their shares be redeemed. Article 110 of the Securities Transactions Act applies from the day the shares of a company are admitted to trading on a regulated market and remains in effect as long as the shares are listed.

5.8. Dissolution or merger of the Company

Any decision to merge or dissolve the Company shall be resolved by a shareholders' meeting as per Article 31 of Skeljungur's Articles of Association. To pass, such a resolution needs the same proportion of votes needed to amend the Company's Articles. The same shareholders' meeting shall, in case of dissolution, resolve how to dispose of its assets and pay off its debt as stipulated by Chapter XIII. of the Public Companies Act.

5.9. Tax issues

The taxation of income from investments in shares is dependent on current tax legislation at any given time, which is subject to change. What follows is a discussion of the main aspects of current tax legislation. The discussion is not exhaustive and investors are encouraged to familiarise themselves with all changes and revisions to the tax legislation and seek outside expert counsel of any and all specific tax issues relevant for them, such as potential tax consequences of investing in the Shares, including the effects of foreign legislations and double taxation treaties Iceland has made with other countries.

Skeljungur will not withhold any tax, deductions or other public levies in relation to trading in the Shares other than those stipulated by the provisons of Act No. 94/1996 on Capital Income Tax ("the Capital Income Tax Act"), Act No. 90/2003 on Income Tax ("the Income Tax Act") and Act No. 45/1987 on the Deduction of Public Levies at source, in addition to other legislation in effect or that may be passed in the future.

5.9.1. Taxation on dividend payments

The Company is obligated to withhold tax on dividend payments to individuals and legal entities in Iceland, in accordance with provisions of Article 3 (2) and Article 5 (4) of the Capital Income Tax Act. The current tax rate of capital income in Iceland is 20% at the date of this Securities Note. Skeljungur is further obligated to withhold tax on dividend payments to non-residents. As in the case of Iceland the capital income tax rate of non-residents is 20%.

For income tax purposes most taxable legal entities, such as limited liability companies, may declare a deemed deduction of the same amount as the dividend received on their tax returns, cf. Article 31 (9) of the Income Tax Act. Consequently there will be no effective taxation of dividend income of such companies. If the withheld tax is higher than the levied tax, the difference will be refunded upon assessment of tax returns.

At the date of this Securities Note the capital income tax rate of non-resident legal entities is 18%. If a non-resident legal entity is registered in a country within the European Economic Area it enjoys the same deduction rights as enjoyed by domestic legal entitites and have been described above.

Double taxation treaties may contain provisions of exemptions from withholding tax, or provisions for lowering the tax rate. Iceland has made double taxation treaties with about 30 countries. The treaties are generally in accordance with a model taxation treaty from OECD (OECD Model Tax Convention on Income and on Capital). Reference is made to the website of the Icelandic Ministry of Finance for details on existing double taxation treaties.

Investors are further advised that movement of funds across borders in relation to dividend payments derived from share capital decreases or dissolution of a company are not authorised as per Article 13 (j), of Act No. 87/1992 on Foreign Exchange.

5.9.2. Taxation on profit from the sale or disposal of shares

Capital gains constitute taxable income according to the Income Tax Act. The current tax rate is 20%. Upon the sale or other disposal of shares, the shareholders' average acquisition costs for all shares of the same class and type will be used as the tax base on which the capital gain of the sale/disposal is calculated.

Capital gains from the sale of shares by individuals not residing in Iceland are taxable in Iceland according to the Income Tax Act. For individuals the tax rate is 20% and for foreign legal entities the tax rate is 18%, unless existing treaties contain provisions to the contrary. However, non-resident legal entities within the European Economic Area can deduct from their income, any gains from the sale or other disposals of shares.

Individuals can deduct losses from the sale of one share class from the profits from the sale of other shares. The profit and loss must however occur within the same calendar year. Losses from the sale of shares cannot be carried forward and offset against future capital gains from the sale of shares. In the case of legal entities, capital gains from the sale or disposal of shares are taxable income according to the Income Tax Act. However, said Act permits limited liability companies to deduct from their income any gains from sale or other disposals of shares.

The Icelandic version of the Summary to this prospectus is an unofficial translation of the English original and in case of any discrepancies between the versions the English one shall prevail.

Distribution of the unoffical translation of the Summary is subject to limitations in certain jurisdictions. Please see information important to investors on p. 20 and 21.

Share Registration Document

14 November 2016

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1. Risk factors

Skeljungur hf., ("Skeljungur", "the Company", or "the Issuer" as relevant) is an Icelandic oil company whose main purpose is the import, storage, distribution and sale of oil and oil related products. Skeljungur is the parent company of several subsidiaries (together "the Group"), most important of which is P/F Magn ("Magn"), based in the Faroe Islands. In 2015, Magn's operations accounted for 30.8% of the Company's gross profit and 46.8% of EBIT[1]. In light of Magn's importance to the Group's results of operations the company is more extensively covered throughout this Share Registration Document than would typically be the case with subsidiaries.

With the noted exception of the sale of heating oil for households and the operations of the gas station convenience stores, at Magn, the operations in Iceland and the Faroe Island are similar in terms of their operations and service offerings.

What follows in this Chapter 1 *Risk factors* is a description of the risks and uncertainties that Skeljungur believes are material to the Company's operations and the industry in which it operates. Unless otherwise explicitly stated or clear from context these risks and uncertainties apply to Skeljungur and Magn alike.

An investment in shares involves inherent risk. Before making an investment decision with respect to Shares in Skeljungur ("the Shares") investors should carefully consider the risk factors and all information contained in this Share Registration Document, and the Securities Note dated the same, including the financial statements and related notes.

An investment in the Shares is suitable only for investors who understand the risks associated with this type of investment and that, by investing in the Shares, they could lose all or part of their investment. The fact that certain negative events associated with a given risk factor did not occur in the past does not mean that the risks and uncertainties described herein should not be considered prior to making an investment decision in respect of the Shares.

If any of the following risks were to materialise, individually or together with other circumstances, they could have a material and adverse effect on Skeljungur and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Shares, resulting in the loss of all or part of an investment in the Shares.

Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Company is unaware, may also impair the business and operations of the Company. These risks and uncertainties could have a material adverse impact on the business, income, profits, assets, liquidity and share price of the Company.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on Skeljungur's business, results of operations, cash flows, financial condition and/or prospects. The risks mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual risk factor for the Company would be misguiding, as the risk factors mentioned in the Share Registration Document may materialize to a greater or lesser degree.

The information in this chapter is presented as of the date of the Share Registration Document, unless otherwise noted, and is subject to change, completion or amendment without notice.

1.1. Risk related to the industry

1.1.1. Industry

Demand for and prices of oil is cyclical and closely correlated with general economic activity around the globe. The Company will, in the future, continue to be exposed to a possible economic downturn or recession, either globally or in one or more of the Company's main markets. Furthermore, the development of alternative energy options may also have a considerable impact on the Company. For further details on alternative energy sources please refer to Chapter 1.1.4. *Alternative energy sources*.

[1] Excluding impairment on Skeljungur's Iceland based terminals made at year-end 2015.

1.1.2. Customer markets

In general, the demand for the Company's products and services is sensitive to overall economic conditions in the operating markets. In the Faroe Islands however, the demand for heating oil has proven to be rather stable and in large parts less affected by the economic cycle. That being said, the house heating part of the business can be affected by competition from substitute technologies, *i.e.* alternative energy sources (see Chapter 1.1.3. *Competitors* and 1.1.4. *Alternative energy sources* for details).

The markets and sectors in which Skeljungur operates differ substantially in their importance to the Company's results of operation. Some are a high volume - lower margin business and vice versa. Some are highly cyclical and others less so. Nonetheless, all of them carry risk that, if realised, may impact the Company's financial condition, results of operation, reputation and/or prospects.

1.1.3. Competitors

Skeljungur faces strong competition in its fields of operation. Skeljungur currently identifies four companies as its main competitors in sales. These are N1, Olís and Atlantsolía in Iceland and P/F Effo in the Faroe Islands, which all operate in the same markets. Those companies provide services and products, partly or wholly, almost identical or very similar to the offerings of the Company. Moreover, Magn faces competition with its convenience stores from multiple operators ranging from small kiosks to larger supermarkets with extended opening hours.

In addition to the aforementioned, the U.S. retail chain Costco has made public their plans to open a store in Iceland in 2017 and along with it a gas station. It is Costco's stated objective to offer the most competitive oil prices in any operating market. Further, Icelandic retail chain Kaupás has disclosed that it has taken steps toward opening gas stations at some of their store locations although no detailed time line has been released.

Moreover, Skeljungur faces competition from companies which operate across the North-Atlantic region regarding the sale of oil to national as well as international vessels. Apart from the margin offered on oil, this market is impacted by a string of other services and factors that are outside the Company's control. In addition changes to international shipping routes, relocation of fishing strains and political issues could affect the market.

In the storage and distribution operations Skeljungur's main Iceland based competitor is Olíudreifing, a company which is co-owned by N1 and Olís.

In the house heating segment, Magn's main competitor is P/F Effo which has the same product offering and approximately 50% market share. Competition also rises from companies that offer other alternatives such as plumbing companies that specialise in electricity driven heating pumps. Concerning the latter the Faroese government has announced ambitious plans to convert house heating on the Islands to sustainable clean energy sources. Please refer to Chapter 1.1.4. *Alternative energy sources* for details.

Skeljungur further competes with various wholesalers in the foodstuff, raw material and fertilizer sectors. Increased competition can *inter alia* lead to lower margins, higher marketing costs, increased capital expenditure and/or a lower market share which could ultimately materially affect the Company's profitability, operations or prospects.

The Icelandic Competition Authority has implied that Skeljungur enjoys a joint dominating position together with N1 and Olís in the Icelandic oil market. In the Faroe Islands the Faroese Competition Authorities has stated that Magn enjoys this position along with Effo. For further details see Chapter 1.4.2. *Competition cases*.

1.1.4. Alternative energy sources

As the call for measures to combat climate change gets more pronounced Skeljungur will, as indeed all oil companies world-wide, face substantial impact by the appeal for and development of alternative energy options. The main question is how fast this will develop. These changes could lead to Skeljungur adapting its current business model which would bring both challenges as well as new business opportunities. This development might negatively impact the Company´s business prospects and profitability.

The European Union ("EU") has passed binding legislation to ensure the EU meets its climate and energy targets for the year 2020, among them a target for a 20% cut in greenhouse gas emissions. Many countries in the EU have put in place incentive measures to encourage its citizens to opt for non-fossil fuel burning vehicles such as free emission cars. Icelandic companies are bound by EU legislation through the European Economic Area Agreement.

Although timing of changes is estimated to differ between modes of transportation, the projection from The Icelandic National Energy Authority is that in the next 10–25 years oil will in part, progressively give way to alternative energy sources[2].

More aggressive free emission energy targets, legislation or changes in consumer behaviour, e.g. an increase in sales of free emission cars, is expected to negatively impact Skeljungur's results of operation, business strategy and prospects. Moreover, newer model vehicles, vessels and aircrafts are significantly more fuel efficient and the driving range of hydrogen and plug-in hybrid vehicles is increasing, making them a more attractive alternative for e.g. city driving.

The Icelandic government has introduced a parliamentary resolution on energy conversion. The resolution aims at reducing the use of fossil fuel by increasing the proportion of domestic renewable energy sources, through various incentives[3]. The objective is to increase the proportion of alternative energy sources in land transportation from the current 6% to 30% and from 0.1% to 10% for marine transportation by the year 2030. The current objective of reaching a 10% for land transportation by 2020 remains in place.

Skeljungur is vigilant in its monitoring of this progress and has invested in and is developing its platform for adding further alternative energy sources to its product offering. Skeljungur recently established a subsidiary, the Icelandic Hydrogen Company (Íslenska Vetnisfélagið) whose purpose will be the operation of hydrogen stations. See Chapter 5.2.2. *Íslenska Vetnisfélagið* for details.

In the Faroe Islands the government has announced intentions for all energy used for heating and transportation in the Faroes should come from clean energy by the year 2030. In addition, the public electricity company, SEV, has an ambitious goal for the increase of clean-electricity producing installations, which might carry with them a government subsidy, to prepare for the government's 2030 vision.

While this would drastically alter Magn's current business model, the 2030 is a vision which is very ambitious. Although an increase in the conversion from oil based house heating to electricity based house heating should be expected in the coming years it is difficult to estimate how quick the transition will be. This will depend on both the subsidies offered and the availability of skilled labour to do the installations. Almost all existing houses in the Faroes are fitted with oil-based house heating devices and are not well fitted for heating pumps which impedes the transition. The exception being district heating in selected areas of Tórshavn and to some extent new houses.

Magn is currently working on expanding the company's product portfolio to include alternative energy solutions, such as house heating products and services as well as hydrogen based fuels at the service stations.

1.1.5. SERVICE STATION AND OTHER OPERATION LOCATIONS

Skeljungur, as well as other oil companies, is highly depended on the locations of its operations. The Company leases the plots used for its service stations and terminals from both local municipalities and private parties. If these agreements are not renewed when they expire it would mean that the Company would need to shut down operations in the respective locations which could have adverse effect on its sales volume and gross profit, besides the operational costs of shutting down. The magnitude of the impact would depend on the exact location in question and the proximity of other service stations. As of the date of this Share Registration Document the Company has never been denied a renewal of a plot lease agreement.

[2] See the full report on the Icelandic National Energy Authority's web page http://www.orkustofnun.is/media/orkusparnefnd/eldsneyti/OS_Eldsneytisspa_2016-2050.pdf

[3] See the full proposal at http://www.althingi.is/altext/145/s/1405.html.

The City of Reykjavík has pushed for a reduction in the number of service stations for some time although no concrete action plan has been set. Further, it is Reykjavík City council's expressed wish that the terminals in Örfirisey be relocated. The lease agreement is however with Associated Icelandic Ports (Faxaflóahafnir) which has expressly stated that it wishes to maintain harbour related operations in this area[4]. In the Faroes, a similar discussion has taken place regarding Magn's terminals in Tórshavn. No decision has been made and there is an expressed wish by the local municipality to maintain industry in the harbour area, which is in fact being generously expanded at present. Both Skeljungur's and Magns's current lease agreements for the respective plots expire in 2030. Should renewal of either lease agreement be denied it could translate to increased costs and investments for the Company[5]. The Company cannot speculate as to what will be the respective lessors' position at the time of renewal. Additionally, the lease agreement for the Company's location at Skemmuvegur in Kópavogur will expire on 12 March 2017. However, Bensínorkan, Skeljungur's subsidiary, holds pre-emptive rights to the lease of the plot upon expiration of the agreement.

1.2. Risk related to Skeljungur's operations

1.2.1. Environmental safety issues

There is a risk that the Company's products, terminals, tanks and other real estate and/or transportation equipment will cause pollution of air, soil or waters. Human errors, bad weather conditions, marine disasters, fire, explosions or collisions are examples of events that could be a cause for such misfortunes.

Accidents, if realised, could bring with it substantial cost, as well as loss of reputation, and thereby have a significant adverse effect on the activity, financial status or results of the Company. While many of the aforementioned events are outside the scope of the Company's control the Company aims to minimize the risk of human errors by proper training and continuing education of employees. The Company further has in-house Safety Committees, written formal work processes and disaster recovery plans in place. The Company's operations are subject to official authorisation and strict operating licenses. Moreover the Company's assets and buildings are subject to scrutiny and routine inspections from public health authorities as well as the respective environmental authorities .

Magn is ISO 9001, 14001, and 18001 certified in all areas of operation and at all addresses. Audits are annual and are performed by an accredited international certification body DNV GL. In addition Magn is an Achilles and F-Pal certified company[6] which requires Magn to make certain commitments regarding risk management. Furthermore, all of Magn's oil terminals are certified by the Faroese Environmental Authorities. As such, Magn is subject to numerous internal and external audits and documentation demands based on strict international standards.

The Company is insured against damages to the extent deemed prudent and possible. Nonetheless, no guarantee can be made that insurance payments will in all cases fully compensate for incurred damages. Factors that may influence this are policy holder deductibles, possible exemptions from payment of damages or limits of liability. Consequently the Company could in some instances be liable for costs associated with damages or losses, e.g. insurance policies regarding pollution accidents exclude liability for costs from fines, which in case of sea pollution in the Faroes are extremely high[7], or penalties that could be levied against the Company as a result.

1.2.2. Information technology and operating systems

The Company's operations are dependent on IT and other operating systems. Failure or disruption to IT or management systems, whether internal or external, could affect the Company's ability to

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[4] The Capital Region Fire Department has further endorsed this location, citing that according to their analytics Örfirisey is favourable for these rather precarious operations.

[5] According to the lease agreement for the plot in Örfirisey the lessor, Associated Icelandic Ports, is liable to pay the fair value of any real estate and/or other operational assets situated on the land to Skeljungur if the lease is terminated. If a settlement cannot be reached regarding the fair value of the assets the matter shall be determined by a court appointed assessor.

[6] These are joint qualification systems to the international oil industry. Achilles refers to the Norwegian shelf and F-Pal refers to the UK shelf.

[7] As Magn cannot insure against such fines the Company has built extensive tank yards around its terminals as a pre-emptive precautionary measure.

carry out its business operations and services to its customers. Many factors that can cause such systems to fail are outside the Company's control. Skeljungur makes every effort to minimise the risk of disruption with the aim of securing the Company's business continuity. The Company has implemented a security policy, whose enforcement is prescribed by a safety manual. Although Skeljungur in Iceland is not ISO certified the policy bases its roots in security standard ISO/IEC 27001 which stipulates the requirements for information security management. Magn is ISO 9001, 14001, 18001 certified and thereby adheres to the guidelines set out in the standards.

Among measures that the Company has in place are documented procedures regarding access to information and operating systems, the back-up and storing of data, remote access via virtual private network clients and the disposal of confidential or otherwise sensitive material. Virus protection for all computers and servers are centrally managed, internet connectivity is secured by firewalls and web security gateways, and all services open for external usage are secured by an application firewall. Servers are hosted in specialised on-site server rooms equipped with cooling and fire-extinguishing systems, security and back-up power generators. Some operating systems are hosted with third-parties with expertise in the respective system. All critical servers and systems are monitored and routinely backed up. Data is subject to continuous monitoring with defined parameters for flagging deviations in order to ensure timely interventions in case of failure or break-down. At Magn applications and data servers, as well as the network infrastructure, are hosted, operated, and maintained by Faroese Telecom/Formula. Their data environment is certified by ISO 27001 and under strong scrutiny by external auditors.

A thorough systems risk assessment is performed annually on all key service and information systems. Further internal audits on *inter alia* access clearance levels and the implementation of procedural rules, are performed. In Iceland these audits are performed to the standard of ISO 19011. Magn hosts its servers and data with external ISO 27001 certified third-party vendors.

1.2.3. KEY PERSONNEL

In order to secure necessary competence to carry out its business strategy the Company is reliant on key members of management and other employees. There is no assurance that these employees will stay with Skeljungur. In order to reduce the risk of losing key employees some measures have been implemented, including a bonus scheme, which amongst other things offers an incentives based salary for management based on the financial results of the Company. The bonus scheme applies to a total of eight of the Group's Executive Management as well as three other members of Magn's senior management team. For further discussion on the bonus scheme reference is made to Chapter 6.3.1. *Terms of employment of Executive Management* in this Share Registration Document.

Furthermore, the Company actively manages its information systems to keep know-how within the Company. Employment contracts with certain key employees contain non-compete clauses, in effect for up to 18 months after their resignation/redundancy. The CEO and CFO of Magn have been granted call options for shares in the Company. See further in Chapter 1.3.9. *Call option agreements*.

1.2.4. MATERIAL CONTRACTS

Skeljungur has entered into a number of contracts with its customers. The trade volumes under each contract are not necessarily guaranteed. There can be no assurance that the Company will be able to renew its existing customer contracts and/or establish new customer contracts, or that any such future contracts will be on equal terms as the current ones. The Company's results of operation are not dependent on any single customer contract.

Skeljungur has number of contracts with oil suppliers. Although the supply of oil is central to the Company's operations, due to the nature and fierce competition in the international oil market, these contracts can be expected to be replaced without causing significant interruptions to the Company's services.

In 2014 Skeljungur in Iceland signed a 10-year contract with Rekstrarfélag TíuEllefu ehf. ("10-11") whereby the latter leases the retail space, along with associated tangible assets, in twelve of Skeljungur's key location service stations for the operation of convenience stores under the 10-11 brand. If 10-11 fails to honour its obligations[8] or if the contract is terminated Skeljungur could be forced to resume the operations of these convenience stores. While there is financial loss risk associated with such an event, the main affect would be on the organisational structure, operations and current business strategy of the Company.

In Iceland, Skeljungur has an agreement in place with Icelandic Tank Storage ("ITS") and Olíudreifing ("ODR") whereby gains access to ITS's terminals in Helguvík, and ODR's terminals in Ísafjörður and Grundarfjörður. Additionally, the Skeljungur and ODR jointly operate the premises in which terminals in Örfirisey and Vestmannaeyjar are located. Should these agreements be terminated or otherwise made subject to restrictions, e.g. by conditions imposed by the Icelandic Competition Authority, the Company's competitive position could be compromised which in turn could have adverse effect on its results of operations.

Similarly, Magn has an exchange agreement with its competitor Effo, whereby both companies are granted access to each other's terminals. Should this agreement be terminated it would result in high investments in new terminals for Magn.

The Company would like to point out that some of Magn's customer contracts, most commonly with local fishing companies, are informal contracts. Moreover, contracts regarding spot sales, where the bid is exclusively on price and the best price wins, are by nature informal. Although the Company feels it is prudent to point this out it does not consider either practice a distinct risk to its operations.

1.2.5. REPUTATION

The Company is subject to risk regarding bad publicity, be it through direct actions of the Company itself or indirectly due to the actions of an employee or employees. Further Skeljungur's or Magn's reputations could be tarnished by the action of a third party such as suppliers, e.g. in cases of defective or contaminated merchandise. Should the Company receive bad publicity due to its business practices, non-compliance to law or unethical conduct it could have material adverse effect on the Company, its operations, profitability and prospects. To mitigate such risk the Company has implemented a Code of Conduct and Social Responsibility that applies to all board members and employees of Skeljungur in Iceland. While Magn has not implemented a written code of conduct, the company's operations are subject to the strict criteria of their ISO 9001, 14001 and 18001 certificates as well as a thoroughly documented Health, Safety, Environment and Quality ("HSEQ") statements as a part of their HSEQ Management System, accessible to all on the company' intranet, that *inter alia* addresses proper conduct expected from Magn´s employees.

In the Faroe Islands dividend payments to foreign owners have negative connotations. The same goes for increasing debt on Faroese foreign-owned companies or subsidiaries with the express purpose of benefitting the overseas parent company or owners. If such practices would lead to a deteriaration of Magn's reputation there is a risk that customers would choose to stop doing business with the company. This could ultimately result in Magn's results of operation being negatively affected.

The Company may from time to time engage outside expert consultants to provide advice in order to avoid bad publicity and/or mitigate negative effect in this respect.

1.2.6. STRATEGIC AND BUSINESS PLANNING

The markets on which Skeljungur competes are subject to constant change, the direction and intensity of which depend on many factors. Thus, the Company's future status, market position, income and profit depends on its ability to design and implement a good strategy as well as on the conditions and trends of the market. This may include identifying and developing suitable opportunities; negotiating favourable contract terms; acquiring properties or businesses and successfully integrate them into operations; arranging financing, when needed; and complying with legal regulations. There can be no assurance that the Company will succeed in adapting to market conditions and/or making correct choices for its business strategy. Failure to do so may negatively impact Company's profitability, operations and/or prospects.

[8] The contract provides an exit possibility for 10-11 in 2019 if there are considered to have been material adverse changes to the operating environment at that point in time.

1.2.7. TERMINALS AND OTHER INFRASTRUCTURE

Skeljungur is dependent on specialised tangible fixed assets in its operations. Large scale terminals, storage tanks and pumps are vital for the Company and any malfunction or breakdown could be negative for Skeljungur. Moreover, these assets are subject to operating licenses and strict pollution prevention regulations which, in case of non-compliance, could result in limits or restrictions being put to their use. Extended disruption to the operation of the aforementioned could negatively impact the Company's reputation, business, prospects and profitability.

Skeljungur has implemented a detailed inspection and maintenance schedule, that in Magn's case are in part dictated by their ISO certificate guidelines, in order to minimise the risk of disruptions to this important part of its operations.

1.2.8. WORKPLACE SAFETY

Skeljungur is exposed to a wide range of health and safety risks that could, if realised, result in adverse effect on the Company's operations and/or reputation. Transportation of oil and related products can be hazardous and technical integrity or operational failures, natural disasters or other occurrences can result in: oil spills, soil, water or air contamination, blowouts, fires and equipment failure or even loss of life, among other things.

Leaks or spills from the transportation of oil could represent a significant risk to people, as well as the environment. Operations and transportation are subject to adverse weather conditions and accidents. Transportation of any hazardous material such as oil are subject to restrictions or termination by government authorities based on safety, environmental or other considerations.

Safety and security of the Company´s employees is a priority within the Company. Safety mainly concerns health and safety at the workplace and safe operations. Security mainly concerns avoiding external interruption, criminal activity and protecting the security of employees, customers and the Company's equipment, properties and facilities. The Company can become liable for any accidents or claims that can be related to lack of safety or security in its daily operations.

To mitigate the aforesaid risk employees of the Company get relevant training, workplace safety brochures are issued and systematically maintained and seminars for employees in relation to work place safety and work procedures are regular and mandatory. The Company's respective security departments monitor this risk and have in place an emergency response plan to ensure workplace safety and crisis management plans are in place to deal with emergencies.

Magn has three separate safety groups in place, one for each of the following: administration, distribution and retail. All safety groups meet quarterly and subsequently report the findings and suggestions to Magn's Safety Board, which is made up of a representative from each group, the Operational Manager and chaired by the CEO. The Safety Board also meets quarterly. All safety group and Board meetings follow strict agendas. Magn has further implemented a web/app-based reporting system to facilitate instant notifications of incidences, safety breaches, accidents and suggestions on safety improvements. The system is accessible to all employees at all times. Magn's contingency plans follow the guidelines set out by the relevant ISO standards.

1.2.9. COLLECTIVE WAGE AGREEMENTS AND SALARY EXPENSES

Salaries and salary related expenses are the Company's single largest expense item. The majority of the Company's employees, in both geographical locations, are unionised. Each union has its own agreement on salaries and benefits with the Company which are renegotiated every two to five years. Skeljungur, as any other company in Iceland and the Faroes, is exposed to the risk that renegotiations of collective wage agreements will result in labour disruptions or strikes. If strikes are enacted, that could severely limit the Company's level of operations and in a worst case scenario halt it completely. Such a situation, if prolonged, would have material adverse effect on the Company's results of operation and financial position.

1.3. Risk related to financial considerations

1.3.1. Oil price risk

Skeljungur is sensitive to fluctuations in the world market price of oil. For the Company the risk is mainly derived from potential differences in the purchase price versus the sales price of oil to customers, directly affecting the Company's gross profit. Rising oil prices further brings risk of decreased demand, as customers are more likely to use less oil with rising prices. It is impossible to forecast future oil prices or availability of oil with any level of certainty. Fluctuation in world oil prices are based on events outside of the Company's control.

Generally speaking the Company is most exposed to price risk when inventory is high. The risk management policy Skeljungur has in place therefore aims at keeping inventory as low as acceptable. The Company is exposed to price risk for all inventory that is unsold from one price period to another In the B2B market the company to a large extent mitigates price risk by applying the same terms in its sales contracts as it does in purchasing. In Iceland the Company uses forward contracts to mitigate price risk for any inventory that is expected to be unsold from one period to another. In the Faroe Islands hedging instruments are not used to limit price risk, however oil is purchased on the averge price per month which helps to mitigate this risk. Oil deliveries are generally smaller and more frequent and turnover higher resulting in lower average inventory levels, limiting the need for hedging.

Finally the Company would like to point out that fluctuations in oil prices affects the Company's working capital position at any given time. A higher price equals higher working capital and vice versa. For a more detailed coverage of this risk please see Chapter 1.3.4. *Liquidity risk and access to credit* and 1.3.5. *Credit risk*.

1.3.2. Currency risk

Skeljungur's is exposed to currency risk in two forms, transaction risk and translation risk. Skeljungur's operating currency is the Icelandic Krona ("ISK") and the main transaction risk that Skeljungur faces is due to buying and selling of oil, which market price is denominated in United States Dollar ("USD"). The transaction risk is the exchange rate risk associated with the time delay between buying oil and until it is sold and settled with customers. Inventory is entered into accounts in ISK and is sold on a First in, First Out ("FIFO") basis. An unfavourable exchange rate development could therefore affect the Company's gross profit, results of operation and equity.

Translation exposure is the risk that a company's equities, assets, liabilities or income dominated in foreign currency will change in value as a result of exchange rate changes. This is a substantial risk for Skeljungur mainly since Magn prepares its financial statement in Danish Krona ("DKK") and must be translated into ISK for the preparation of the consolidated group financial statements. Since exchange rates can dramatically fluctuate in a short period of time this creates substantial currency risk for Skeljungur.

The Company manages its currency risk with the aim of keeping a balance between assets and liabilities in foreign currency, albeit with some margin of tolerance. The Company is currently in the process of refinancing all of its debt with the object of lowering borrowing costs and limiting exposure to assets denominated in foreign currency, where the equity in Magn is the single largest unhedged asset denominated in DKK. Finally, in this respect, in Iceland, the Company has a USD denominated credit line with Arion Bank which is drawn upon as necessary, both for funding purposes as well as for hedging current assets. While Magn does not have a USD denominated credit line the company has a USD account where all USD cash inflow is placed and from where USD invoices are paid, thus mitigating exposure to the USD. For further details on financing and capital structure please refer to Chapter 7.1.1. *Capital structure*. As at 30 September 2016 the carrying amount of Skeljungur's debt denominated in foreign currency was ISK 1,418 million, 41.7% in USD and 58.3% DKK.

1.3.3. Interest rate risk

Skeljungur is affected by interest rate movements in cases where assets and liabilities carry variable rates as well as when negotiating the refinancing of maturing debt. A hike in interest rates would cause a subsequent increase in Skeljungur's cost of capital and could have a material adverse effect on the Company's business, financial condition and results of operation. The Company's holdings in interest bearing assets, as at 30 September 2016, were ISK 311 million.

As at the date of this Share Registration Document all of the Company's debt, including its subsidiaries, carries variable rates. The Company is currently in the process of refinancing all of its debt with the objective of decreasing borrowing costs and expects to conclude the matter by year-end or early 2017. If the refinancing goes through and is approved as proposed the Company's cost of capital is estimated to lower by approximately ISK 110 - 140 million on an annual basis. For further details on financing and capital structure please refer to Chapter 7.1.1. *Capital structure*.

Interest rates are dependent on a number of factors beyond Skeljungur's control, including inflation and monetary policy in the jurisdictions in which the Company operates.

1.3.4. LIQUIDITY RISK AND ACCESS TO CREDIT

Skeljungur is exposed to liquidity risk, *i.e.* the risk that it will be unable to meet its financial obligations as they fall due. Skeljungur maintains a stable position of liquid assets and utilises credit lines to meet fluctuations in operations.

For oil companies, such as Skeljungur, the common, and sometimes extreme, fluctuations in the world market price of oil have direct and immediate implications for liquidity. When oil prices rise the need for liquidity correspondingly increases since more capital gets tied up in working capital. Moreover, the Company's business is seasonal in nature with inventory and receivables peaking in the summer months (Iceland only). Possession of or access to sufficient liquidity is therefore of particular relevance to the Company's day-to-day operations. The Company's current loan agreements in Iceland grant the Company an option, subject to conditions being met, to roll over its financing and thereby extending the duration of the existing loans, for periods of two to three years at a time, until 2022 and 2034 respectively.

Access to credit lines at acceptable rates will ultimately depend on a number of factors, among them the general conditions in capital and credit markets and Skeljungur's creditworthiness. If either of these deteriorate to the point of necessary credit facilities being harder to come by and/or the cost of borrowings rising significantly it could affect the Company's results of operationand even going concern.

As of 30 September 2016, the Group held ISK 279 million in cash and cash equivalents as well as had access to credit lines as follows: ISK 3,000 million (whereof ISK 1,318 were drawn), USD 5.5 million (whereof USD 5.2 million was drawn) and DKK 65 million (whereof zero was drawn).

1.3.5. CREDIT RISK

Skeljungur is exposed to the risk that counterparties fail to meet their contractual obligations with the Company. Credit risk arises from credit exposures with customer account receivables as well as from financial investments, derivative financial instruments and deposits with financial institutions. If a counterparty fails to honour its obligation, such a loss could impact Skeljungur's cash flow and results.

Skeljungur employs risk mitigation tools to lessen or control credit risk both on a counterparty and group level. Both Skeljungur and Magn assign exposure limits, monitored and reported regularly, to all sales, trading and financial counterparties. All new counterparties have to be vetted and approved as per the respective approved credit policies. Any and all decisions on credit limits must appropriately correspond with collaterals or guarantees given. In Iceland exposure to any single counterparty or related parties cannot exceed 8% of equity. At Magn all outstanding credit to customers with due credit higher than DKK 10,000 are discussed on an individual basis and appropriate action for each of these is decided at weekly credit meetings chaired by the CEO.

In sales to international vessels, where billing and credit is administered by Magn[9], the Company makes use of credit insurance to the extent possible and prudent in an effort to mitigate its direct exposure.

[9] Please see Chapter 5.3.3. *Activities in the Faroe Islands* for the structure of this part of the Company's operations.

In Iceland, Skeljungur makes allowances for expected loss of trade receivables based on the total amount of overdue trade receivables at the end of each month. In Iceland the Company's largest sector exposure is to fisheries, transport, airlines, and contractors. In the Faroes, Magn bases provisions for loss on individual assessment of customers that have reached a certain balance with the company.

1.3.6. Inflation risk

Inflation generally increases the price of goods, services, commodities and salaries. In Iceland the practice of linking tariff and debt to the consumer price index (index-linking) is widespread. All operations and hence fixed and variable expenses of the Company are subject to inflation to a certain level. Similarly, the Company's rental and service agreements with customers in Iceland are almost without exception index-linked.

The cost of borrowing with variable rates can rise with inflation as inflation can act to raise interest rates. The Company cannot provide assurance that it would be able to meet such increases in expenses with higher prices. Other things being constant, inflation negatively impacts the purchasing power of the Company's customers which could cause a reduction in consumer spending.

As of 30 September 2016 all of the Company's interest bearing debt was non index-linked and carried variable rates.

1.3.7. Tax risk

The Company is subject to taxation by Icelandic and Faroese tax authorities. The Company is exposed to the general risk that the tax regime for public limited companies in the respective countries could change and that such changes might be detrimental to the Company's operations and profitability. The retail price of oil is largely made up of taxes and levies that, in Iceland, have significantly increased in wake of the financial crisis in 2008. Tax increases directly affect pricing as well as customer demand for oil both of which could negatively impact the Company's profitability.

The Company is not aware of any outstanding tax issues that could materially affect its financial position. The Company is further not aware of it, or any company within the Group, being the subject of a tax audit. As with all other companies, there is a possibility that the Company's tax returns could be subject to audit at a later point in time as per reigning laws and regulations. Tax authorities are authorised to re-determine levied taxes for up to five (Faroes) or six (Iceland) fiscal years. There could arise a situation where the Company and tax authorities disagree on how to interperate tax legislation.

If any tax authority successfully challenges the Company's operational structure, inter-company pricing policies or related party transactions, or if the Company loses a material tax dispute in any country or any tax challenge of the Company's tax payments is successful, the effective tax rate on its earnings could increase and the Company's financial position could be materially adversely affected.

1.3.8. Insurance risk

The Company's business is subject to various perils, including mechanical failure, total loss and/or damages to terminals, tanks, pumps or transportation equipment, cargo damages, and business interruption due to natural, human or political circumstances and labour strikes.

Almost all oil purchased by the Skeljungur in Iceland is purchased under In Tank Transfer ("ITT")[10] terms whereby the supplier is responsible for the inventory until it is delivered to the Company. Most of the oil purchased by Magn in the Faroe Islands is transported under Cost, Insurance and Freight ("CIF"). In 2016, Magn had one contract that is conducted under Free On Board ("FOB") terms whereby the Company has the liability for the oil during shipping. The contract in question was for a period of one year after which it will be put up for tender. At the date of this Share Registration Document, Magn does not know if it will continue to service this client.

[10] Under these terms the supplier owns the oil during transport and within Skeljungur's bonded warehouse until it is purchased by Skeljungur.

The Company is insured against damages and/or losses to the extent deemed prudent and possible. These include but are not limited to third party liability, fires, aviation fuelling and grounding liability, business interruption, labour accidents and directors & officers liability insurance, including special liability insurance in connection with the forthcoming public offering (IPO insurance). Insurance needs and coverage are monitored and reviewed annually. Situations may arise where the insurance policies held by the Company do not cover the necessary repair or replacements costs, e.g. in the case of ocean pollution levied fines cannot be insured against, only clean-up costs. The loss of earnings while vital assets are being repaired or replaced, as well as the actual cost of these repairs or clean-ups, would negatively impact the Company's results of operations. Moreover, the Company may not be able to get comparable insurance coverage at competitive rates in the future.

Both Skeljungur and Magn commission annual reviews and analysis of their insurance needs which are partly conducted by an independent insurance expert.

1.3.9. CALL OPTION AGREEMENTS

Call option agreements for Shares in the Company have been granted to the CEO and CFO of Magn ("the Option Holders"). The contracts entitle the Option Holders to purchase up to 27,035,941 Shares in Skeljungur each. The number of shares is fixed. When the option was granted the price was ISK 2.82345. The option is subject to the Option Holders being employees of the Company at the exercise date.

The option can be exercised at the end of two pre-defined periods. Period 1 is from the agreement's start date, 11 September 2014, up to and including 12 September 2017. During that time the Option Holders are entitled to purchase 26,224,863 Shares in Skeljungur, or 97% of the total allotted number of Shares under the agreement. Period 2 is from 13 September 2017 up to and including the date the Option Holders' employment with the Company is terminated. During that period the Option Holders are entitled to purchase 811,078 Shares in Skeljungur, or the remaining 3% of the total allotted number of Shares under the agreement. The Option Holders are only entitled to exercise the option for period 2 if the Option Holders have previously exercised the option for period 1.

According the Issuer's Articles of Association the Board of Directors is authorised to increase share capital to fulfil the aforementioned obligation. Skeljungur has already accounted for all expenses that will fall due in relation to these agreements if the Option Holders decide to exercise their options. If the Board resolves to issue the new Shares they will be handed over to the Option Holders in lieu of payment in accordance whith the abovementioned terms. If the option is called by either or both Option Holders it will dilute the share capital in the Company by the corresponding amount of Shares.

If the Option Holders are, for reasons stipulated by law or regulations regarding insider trading, prevented from exercising the options within the aforementioned exercise period, Period 1 shall be automatically extended and expire on the date when such rules no longer prevent such a transaction.

The rights conferred under the agreement are non-transferable and subject to certain restrictions.

1.4. Legal and regulatory risk

1.4.1. APPLICABLE LAWS, REGULATIONS AND LICENCES

The Company is subject to various laws and regulations. Changes to these laws or the introduction of new laws could have impact on how the Company continues to conduct its business and adversely affect the Company's financial outcome. Key legislation and sectorial law that applies to the Company's operations in Iceland are e.g:

- Act No. 46/1980 on Conditions, Health, Hygiene and Safety at Work,
- Act No. 2/1995 on Public Limited Companies,
- Act No. 22/1994 on the Control of Feed, Fertilizer and Seed,
- Act No. 103/1994 on Equalisation of Distribution Cost for Oil,
- Act No. 7/1998 on Hygiene and Pollution Control,
- Act No. 33/2004 on Measures to Protect Against Ocean Pollution,
- Act No. 87/2004 on Oil Tax and Mileage Fee,
- Act No. 40/2013 on Renewable Energy in Transportation in Iceland and,

- the Chemicals Act No. 61/2013.

Magn is subject to Faroese laws and regulations. Key legislation and sectorial law that applies to Magn's operations are e.g:

- Act No. 23/1986 on the Faroese Food, Veterinary and Environmental Agency,
- Act No. 141/1985 The Danish Law of the Sea,
- Act No. 134/1988 on Protection of the Environment,
- Act No. 75/1992 on environmental tax on lubricating oil,
- Act No. 179/1992 on Fuel Oil Tax,
- Act No. 70/2000 on Health and Safety at Work
- Act No. 59/2005 on Protection of the marine environment
- Act No. 58/2010 on provisions and,
- Act No. 61/2012 on Emergency preparedness

Please note that neither of the above lists are exhaustive.

This Share Registration Document, and indeed the Prospectus of which it forms a part, is prepared in anticipation of the Company's application for the Shares to be admitted to trading on the Nasdaq Iceland's regulated market. Should the application be successful the Company will consequently become subject to Icelandic securities regulations, *i.e.* the Securities Transactions Act No. 108/2007 ("the Securities Transactions Act"), associated government regulations and rules as well as the rules for Issuers published by the Nasdaq Iceland. Any violation of these provisions may have a financial impact on the Company. Serious breaches may result in penalties and/or the Nasdaq Iceland halting or permanently suspending trading in the Shares. Should the Company violate the relevant rules its reputation could be tarnished, financing options could be jeopardised and as a result the price of Skeljungur's Shares could suffer.

1.4.2. COMPETITION CASES

On 30 November 2015 the Icelandic Competition Authority ("ICA" and "the Authority") published preliminary findings of its market investigation into the fossil fuel market in Iceland. The investigation was pre-emptive, as per section C of Article 16 of the Icelandic Competition Act No. 44/2005 ("the Competition Act").

According to the report ICA is of the opinion that there are strong signs of tacit collusion in the fossil fuel market in Iceland that impedes competition, keeps prices high and is harmful to the public. The report also discusses ways in which such conduct may be counteracted.

On 17 June 2016 the administration of the Faroese Competition Authorities ("FCA" and "Kappingareftirlitið"), published a report on the Faroese oil market. Its key findings are that the Faroese market is a duopoly and that competition is limited. Kappingareftirlitið claims that as a result of this, customers overpay for oil. Furthermore, Kappingareftirlitið claims that the oil companies have excessively high returns, citing as their reference, among other things, price developments in Scandinavia and the EU, and financial statement analysis of the Faroese oil companies compared with similar companies in Denmark and Sweden.

The Company strictly disputes the findings of both of the aforementioned reports and has filed reasoned comments with both ICA and the FCA, strictly disputing the assumptions, numbers, and calculations employed by both competition authorities as being seriously flawed and that the subsequent findings therefore cannot be relied upon nor be seen as justifying any sort of binding intervention in the market. The Company provides documentation that stipulates that oil prices in the respective markets are competitive and in some cases lower than that of larger countries, e.g. Denmark. The Company also reiterates that the geographical position of the respective countries and difference in interest rates makes the operations more expensive than in Scandinavia and on the European mainland. Moreover, both markets, Iceland and the Faroese, are very small making it hard to reach the economies of scale enjoyed by larger retailers. Finally, in the case of Magn, is argued that the demerger from the historical parent companies, Shell international (and Statoil for Effo), has brought with it less favorable business terms for the Faroese companies.

Skeljungur and Magn alike state that they organise and conduct their business in every aspect according to existing laws and regulations. The submitted arguments notwithstanding, it is impossible for Skeljungur and Magn to predict the final outcome, actions or interventions suggested or imposed by the ICA/FCA based on the aforesaid investigations. There can be no assurance given that the actions of the competition authorities will not prove detrimental to the Company's operations or gross profit.

The Company reiterates that the above excerpt is subjective and by no means constitutes an exhaustive coverage of the reports' contents. Investors are encouraged to familiarize themselves with the reports, and related rebuttals[11], and form an independent opinion of their coverage.

On 21 September 2016 the Icelandic Competition Authority hosted an open meeting to discuss the findings of their report. According to a news release published on their website[12] that same day the Authority will as a result further analyse their findings, *inter alia* taking into consideration the viewpoints presented at the meeting. The Authority expects to publish its definitive findings around year-end 2016 or early 2017.

Rulings or exemptions by the competition authorities concerning the Company

As at the date of this Share Registration Document Skeljungur in Iceland is party, directly or indirectly, to the following Decisions granting conditional exemptions from provisions of the Competition Act.

Decision No. 28/2014

Skeljungur is authorized to lease the retail space in several of the Company's service stations to Rekstrarfélag Tíu Ellefu ehf. for the operation of convenience stores under the lessee's brand name, 10-11.

Decision No. 2/2014

SF IV slhf. is authorized to buy and own all shares in Skeljungur hf.

Decision No. 24/2013

The Icelandic Ministry for the Environment was granted an exemption regarding the co-operation of companies that collect and dispose of waste oils, until 30 November 2018.

ICA has further temporarily granted the Company the following three authorisations :

1. The joint operation of a storage tank with Ísfélag Vestmannaeyja hf. (Valid until the completion of the market research.)
2. The access to an oil terminal owned by ODR in Ísafjörður. (Valid until the completion of the market research.)
3. The permission to service the customers of competitors N1 and Olís at airports around Iceland. (Valid until 1 June 2017, regardless of the completion of the market research.)

Apart from Decisions No. 28/2014 and 2/2014, the aforementioned exemptions are all subject to review and possibly renewed applications based on the findings of ICA's market research. As at the date of this Share Registration Document there has been no change to the status of these exemptions. In addition Skeljungur will most likely submit further requests for exemptions after the ICA´s research is completed, in relation to Skeljungur´s joint ownership of properties with Olíudreifing ehf., and related matters.[13]

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[11] The ICA report can be accessed through http://www.samkeppni.is/media/skyrslur-2015/Frummatsskyrsla-leidrett-22.12.15.pdf and the Company's reasoned comments can be accessed through http://www.samkeppni.is/media/skyrslur-2015/Skeljungur_sjonarmid-um-frummatsskyrslu.pdfhttp://www.samkeppni.is/media/skyrslur-2015/Skeljungur_sjonarmid-um-frummatsskyrslu.pdf and the appendix can be accessed here http://www.samkeppni.is/media/skyrslur-2015/Skeljungur_fylgiskjal_ryni-a-frummatsskyrslu.pdf. The FCA report can be accessed through http://www.kapping.fo/fo/kunning/fragreidingar/fragreidingar-hja-kappingareftirlitinum/ with Magn's reasoned comments being accessible through https://d1d6zxt0xmx99c.cloudfront.net/media/1796/svar-til-kappingareftirliti%C3%B0-fr%C3%A1-magn.pdf with the appendix accessible here https://d1d6zxt0xmx99c.cloudfront.net/media/1797/rockets-feathers-analysis-for-the-faroese-downstream-oil-market_v100-2.pdf.

[12] See http://www.samkeppni.is/utgafa/frettir/nr/2841.

[13] Skeljungur and Olíudreifing submitted a joint request for an exemption in 2007. The request was never processed by the ICA which closed the case in 2014 with remarks to re-apply for an exemption, if deemed necessary, upon completion of the market research.

In the Faroe Islands, as indeed in most jurisdictions other than Iceland, a different structure is in place regarding business transactions between competitors. There, the Competition Authorities are informed of such transactions but no formal exemptions are applied for. Magn has informed the Faroese Competition Authorities of the exchange agreement that the company has in place with Effo.

1.4.3. DISPUTES AND LITIGATION

The Company may at any given time find itself involved in some form of litigation that might adversely affect its financial position. As at the date of this Share Registration Document the Company declares that it is not involved in any legal disputes nor has it been involved in any such dispute in the past twelve months that have had or may in future have significant effects on the Company's financial position or profitability.

The Company believes that it organises and conducts its business in all aspects according to existing applicable laws and regulations. In cases where disputes arise the Company has at hand in-house legal counsel and may also, from time to time, seek outside legal advice as deemed necessary.

1.4.4. CAPITAL CONTROLS

Capital controls ("the Controls") are currently in place in Iceland which severely limits transactions involving foreign currency authorized to be undertaken by Icelandic companies. Transactions in foreign currency in relation to the import of goods and services are permanently excused from the Controls thus Skeljungur does not require any exemption in relation with its continued operations.

On 21 October 2016 the Icelandic Parliament passed an amendment to Act No. 87/1992 on Foreign Exchange that includes meaningful steps to lift the Controls. It is impossible for the Company to assess the impact of the lifting process on the Icelandic economy, the listed exchange rate of the ISK and thereby the Company's market and operations.

1.4.5. TRADEMARKS

The Company owns a number of registered trademarks, some of which have been in use for over 60 years. A valuable reputation is attached to some of the trademarks. Any misfortune, whether associated with service, suppliers' disruption or external shocks by nature or otherwise, could damage the Company's reputation and diminish the value of these trademarks.

1.4.6. LOAN COVENANTS

Skeljungur is party to loan agreements that include covenants and/or default event conditions that legally bind the Company. Should the Company at any time be in breach of these covenants or conditions, or become unable to fulfil them, lenders may be allowed to rescind these agreements which might have financial consequences for the Company.

The Company's current long-term loan agreements contain covenants[14] stipulating levels of indebtedness and equity which, if violated, may result in the respective loan to be in default and due for immediate payment. Cross-default clauses might then be triggered that could further exacerbate the situation. All of Skeljungur's assets, including the shares in Magn, are pledged to the Company's lenders under existing loan agreements. As of the date of this Share Registration Document the Company is in full compliance with all loan covenants.

The Company feels it is prudent to point out that the standard commitment period for loans in the Faroese is 14 days. That being said it is highly unusual and extremely rare that Faroese banks call a loan on a 14 days' notice. The Company enjoys a good relationship with its lenders and does not consider this standard clause to be a particular risk although no guarantees can be given to that effect. The carrying amount of debt that is subject to the 14 day call notice is ISK 827 million as at 30 September 2016. Refinancing currently being negotiated with the Faroese bank will have a three year commitment period. Please see Chapter 7.1.1. *Capital structure* for details.

[14] NIBD/EBITDA must be lower than 4,5 and the equity ratio must be above 20%. The covenants are calculated annually, based on the previous years' results. There are no covenants in Eik banki's loan to Magn. Eik is Magn's sole lender.

1.4.7. POLITICAL RISK

Changes in the legislative, political, governmental or economic framework in the jurisdictions in which the Company operates can impact operations. This in particular applies to changes in monetary, including exchange rate, policy, tax regimes and environmental laws. Moreover, changes in zoning or city and municipality planning could negatively affect the Company's operations. In the Faroes there is a current discussion to introduce new environmental policies that would bring with them tax-rebates to homes that implement non-oil heating devices, in an effort to increase the ratio of alternative energy in household heating. In Iceland, the Parliament has resolved that economic incentives be put in place to encourage people to convert to alternative energy operated vehicles to a greater extent (see discussion on this in Chapter 1.1.4. *Alternative energy sources*). No decision has been made but if realised it could negatively impact Magn's household heating business.

Apart from the above, and the previously described steps to ease the capital controls in Iceland, the Company is not aware of any other pending legislative changes which would concern the Company as of the date of this Share Registration Document.

2. Information important to investors

This Share Registration Document forms a part of the Company's Prospectus, dated 14 November 2016, which has been prepared in connection with a public offering of Shares in Skeljungur ("the Offering") and an application for the admission of these Shares to trading on the regulated market of the Nasdaq Iceland Stock Exchange, as described herein.

For the definitions of terms used throughout this Prospectus, see Chapter 2.2. *Definitions and References* of this Share Registration Document.

The Prospectus has been prepared so as to provide information about Skeljungur, its business operations and financial standing. The level of disclosure is in compliance with Annexes I, III and XXII to EC Commission Regulation EC/809/2004 that implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 ("The Prospectus Directive") and amendments thereto, including the 2010 PD Amending Directive regarding information contained in prospectuses. The Prospectus Directive has been implemented into Icelandic law through the Icelandic Securities Transactions Act and derived secondary legislation. The Prospectus further complies with the Nasdaq Iceland Issuer rules.

The Prospectus is published electronically at the Company's website, http://www.skeljungur.is/um-skeljung/fjarfestar and consists of three separate documents; a Summary, a Securities Note and this Share Registration Document, all dated 14 November 2016. Printed copies are available free of charge at the Company's registered offices at Borgartún 26, 105 Reykjavík, Iceland for up to twelve months post publication. This Prospectus has been prepared solely in the English language, however an Icelandic translation of the Summary has been prepared and made available to investors. The Icelandic language version of the Summary is an unofficial translation of the English original and in case of any discrepancies the English version shall prevail

The Financial Supervisory Authority-Iceland ("FME") has scrutinised and approved the Prospectus on 14 November 2016. The approval and registration of the FME does not imply that the FME has controlled the accuracy or completeness of the included information and gives no guarantee to that effect. The approval by the FME only relates to the information included in accordance with the pre-defined disclosure requirements of the aforementioned Annexes.

Skeljungur has submitted an application for all of its Shares outstanding to be admitted to trading on the regulated market of Nasdaq Iceland. The Nasdaq Iceland requirement for share capital distribution of companies listed on the regulated market stipulates that at least 500 shareholders must hold shares in the value of ISK 100,000 each and that at least 25% of total shares outstanding must be in the hands of retail investors[15]. At the time of the Offering the Company will already meet the latter as the principal shareholder, SF IV slhf. ("SF IV"), will by then have handed all Shares in Skeljungur, less those committed to be offered for sale in the Offering, down to its shareholders ("the Beneficial Owners"). The Company expects to meet the former requirement following the Offering which will take place between 28 and 30 November 2016. For a detailed account of the conditions of the Offering, which is considered a public offering to Icelandic investors as per Article 43 of the Securities Transactions Act, the Company refers to its Securities Note, dated 14 November 2016. Despite the Company being successful in meeting the share capital distribution requirements no guarantee can be given that Nasdaq Iceland will approve the Company's listing application. If the application is approved Nasdaq Iceland will publicly announce the first day of trading in Skeljungur's Shares with a minimum notice of one business day.

The distribution of this Prospectus and the Offering and subscription of the Shares in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase any of the Shares in any jurisdiction in which that would be considered unlawful. Accordingly, neither this Prospectus nor any advertisement or any other Offering material

[15] Retail investor in this respect refers to investors that are neither insiders, nor considered financially related parties to an insider, the parent company or its subsidiaries. Retail investors may further not own more than 10% of the total outstanding shares in the Company nor be party to a lock-up agreement concerning their holdings in the Company.

may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. The Company requires persons in possession of this Prospectus to inform themselves about and to observe any such restrictions.

This Prospectus and the terms and conditions of the Offering as set out therein and any offers and sales of Shares hereunder shall be governed by and interpreted in accordance with Icelandic law. The courts of Iceland, with Reykjavík as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Offering or this Prospectus.

All sections of the Prospectus should be read in conjunction and as a whole. Special attention is drawn to the importance of investors reading and fully understanding the associated risks of investing in the Shares by familiarising themselves with the contents of Chapter 1 *Risk factors* in both the Securities Note and Share Registration Document. In making an investment decision, prospective investors must rely on their own examination, and analysis of Skeljungur and the terms of the Offering, including the merits and risks involved. Investors are reminded that shares are risky investments that are based on expectations, not promises. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a subscription to the Shares. Neither the Company as the Issuer nor Íslandsbanki hf. ("Íslandsbanki") as the Listing Advisor or Arion banki hf. ("Arion Bank") as Manager of the Offering should be seen as making any promise of positive future operational results or an acceptable return on investment. Neither Íslandsbanki nor Arion Bank are under any obligation to evaluate whether participation in the Offering and purchase of the Shares is appropriate for investors. Investors participating in such transactions do not enjoy protection in accordance with Article 16 of the Securities Transactions Act.

Information in the Prospectus is based on circumstances and facts on the date it is signed, unless otherwise noticed. The Company has furnished the information in this Prospectus in order to provide a presentation of Skeljungur and to inform prospective investors about the Shares and the Offering. Unless otherwise explicitly stated, the source of information included in this Prospectus is the Company. If significant new information, material mistakes or inaccuracy relating to information in the Prospectus, which could affect the assessment of the Shares, is discovered between the time the Prospectus is approved, as per Article 52 of the Securities Transactions Act, and the final closing of the Offering or, if applicable, the time when the Shares are admitted to trading, a supplement to the Prospectus shall be prepared containing the changes and/or new information in question in accordance with Article 46 of said Act. The supplement shall be approved within seven working days and published in the same manner as the original Prospectus. The Summary and any translations thereof shall also be supplemented if necessary to take into account the new information included in the supplement. Investors who have already agreed to purchase or subscribe to the Shares before the supplement is published shall have the right to withdraw their subscriptions for at least two working days following the publication of the supplement.

If the Company's application for the Shares to be admitted to trading is approved the Company will be subject to the ongoing disclosure requirements stipulated in Chapters VII. and VIII. of the Securities Transactions Act as well as the Nasdaq Iceland Issuer rules. Investors are encouraged to stay informed on all material either disclosed by or relevant to the Company post listing. The Company will fulfil its disclosure requirements through its subscription to the inPublic publishing tool, as well as making disclosed material available on its website, http://www.skeljungur.is/um-skeljung/fjarfestar.

2.1. Potential conflict of interest

Investors are advised of the following interests Íslandsbanki, as the Listing advisor, and Arion Bank, as Manager of the Offering, have regarding Skeljungur.

The Corporate Finance division of Íslandsbanki was hired by the Company to oversee the process of getting the Shares admitted to trading on Nasdaq Iceland's regulated market. Íslandsbanki Corporate Finance accepts a fee for their services to the Company, which include the compilation of the Company's prospectus, dated 14 November 2016.

Íslandsbanki's FX Sales division provides foreign exchange trading services to Skeljungur.

The Corporate Finance division of Arion Bank was hired by SF IV to oversee the Offering of Shares in Skeljungur taking place between 28 and 30 November 2016. This includes preparing a valuation of the Company, preparing and handling the execution of investor presentations, handling the execution of the Offering and advising on the allocation of the Shares based on the Offering results. The Corporate Finance division of Arion Bank accepts a fee from SF IV for the services provided.

Arion Bank's Corporate Banking division is a lender to Skeljungur and provides general banking services to the Company.

Arion Bank holds a 14.715% share in SF IV both directly (12.9%) and indirectly through its holdings in SÍA II slhf. ("SÍA II") which is the largest shareholder in SF IV.

Arion Bank and SÍA II are possible sellers of Shares in the Offering.

In accordance with Article 8 of the aforementioned Act, Íslandsbanki and Arion Bank respectively have in place provisions for the treatment of potential conflicts of interest. Investors are advised to acquaint themselves with these provision on the banks' respective websites, http://islandsbanki.is/library/Skrar/hagsmunareglur.pdf (Icelandic only) and https://www.arionbanki.is/library/Skrar/Bankinn/Stjornarhaettir/Reglur-og-skilmalar/Hagsmunaarekstrar/2011-11-15__Hagsmuna%C3%A1rekstrar.pdf (Icelandic only).

Investors are advised to further acquaint themselves of the listed potential conflicts involving members of the Board of Directors of Skeljungur and Magn. See Chapter 6.5.2. *Statements and potential conflicts of interest* for details.

2.2. Definitions and references

In this Share Registration Document the below shall be construed so as to have the following meaning unless otherwise explicitely stated or clear from context.

AGO	is a reference to diesel used for automobiles (stands for Automotive Gas & Oils).
Alternative energy sources or options	is a collective reference to a range of energy options other than fossil fuel which include, but may not be limited to, wind, solar, and electric power as well as hydrogen and methane.
Arion banki hf., Arion Bank and Manager of the Offering	is a reference to Arion banki hf., ID. 581008-0150, Borgartún 19, 105 Reykjavik.
The Articles	is a reference to Skeljungur's Articles of Association, dated 16 September 2016.
The Board	is a reference to the Board of Directors of Skeljungur hf.
B2B	is a reference to the Business to Business oil markets in Iceland and the Faroe Islands
B2C	is a reference to the Business to Consumer oil markets in Iceland and the Faroe Islands
COGS	is a reference to Cost Of Goods Sold.
CIF	is a reference to Cost Insurance Freight a trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier.
DKK	is a reference to Danish Kronas, the legal tender of Denmark and the Faroe Islands.
EBIT	is a reference to Earnings Before Interest and Tax.
EBITDA	is a reference to Earnings Before Interest, Taxes, Depreciation and Amortization.

Effo and P/F Effo	is a reference to P/F Effo, Óðinshædd 3, FO-110 Tórshavn, Faroe Islands.
Executive Management	is a reference to the individuals detailed in Chapter 6.3. *Executive Management* in this Share Registration Document.
Gasoline	is a reference to automotive fuel.
Gross margin	is a reference to the Company's total sales revenue minus its cost of goods sold (COGS).
House heating oil and heating oil	is a reference to a type of gas oil used to power heating boilers in the Faroe Islands.
ICA and the Icelandic Competition Authority	is a reference to the Icelandic Competition Authority, ID. 410705-0600, Borgartúni 26, 105 Reykjavík.
IFO	is a reference to Intermediate Fuel Oil used to power ships and vessels
IFRS	is a reference to International Financial Reporting Standards as approved by the European Union according to Directive 1606/2002.
ISK	is a reference to Icelandic Kronas, the legal tender of Iceland.
ISO	is a reference to the International Organization for Standardization which is an independent, non-governmental international organization that develops and publishes international standards.
Issuer Rules	is a reference to the Rules for Issuers of Financial Instruments issued by the Nasdaq Iceland.
ITT	is a reference to In Tank Transfer, terms under which the supplier owns the oil in a company's terminals up to the point it is pumped to tank trucks or other vehicles used to deliver to the end customer.
Íslandsbanki and the Listing Advisor	is a reference to Íslandsbanki hf., ID. 491008-0160, Kirkjusandur 2, 155 Reykjavik.
Jet and jet oil	is a reference to jet oil used to power aircraft.
KPMG	is a reference to auditing firm KPMG ehf., ID. 590975-0449, Borgartún 27, 105 Reykjavík.
MDO	is a reference to Marine Diesel Oil used to power ships and vessels
MGO	is a reference to Marine Gas Oil used to power ships and vessels
Nasdaq Iceland and the Nasdaq Iceland Stock Exchange	is a reference to the Nasdaq Iceland ID. 681298-2829, Laugavegur 182, 105 Reykjavik, which operates Iceland's only regulated market.
Mts	is a reference to metric tonnes
NIBD	is a reference to Net Interest Bearing Debt *i.e.* interest bearing liabilities minus cash and cash equivalents.
NIBD/EBITA	is a reference to the ratio between Net Interest Bearing Debt and Earnings Before Interest, Taxes, Depreciation and Amortization at a given point in time. The ratio gives the investor the approximate amount of time that would be needed to pay off all debt, ignoring the factors of interest, taxes, depreciation and amortization.
The Offering	is a reference to the offering of Shares in Skeljungur taking place between 28 and 30 November 2016.
Oil	is a reference to oil and oil products derived from crude oil.
Opex	is a reference to Operating Expenses.
Option holders	is a reference to the CEO and CFO of Magn in their capacity as beneficieries of share options in Skeljungur.

Prospectus	is a reference to Skeljungur's Prospectus, dated 14 November 2016.
The Securities Note	is a reference to Skeljungur's Securities Note, dated 14 November 2016.
SF IV	is a reference to SF IV slhf., ID 691211-2150, Borgartún 19, 105 Reykjavík which will provide Shares for sale in the Offering.
The Shares	is a reference to shares issued by Skeljungur hf.
Share Registration Document	is a reference to Skeljungur's Share Registration Document dated 14 November 2016.
Terminals	is a reference to the Company's large scale oil tanks and storage facilities including all relevant pipes, pumps and infrastructure.
YoY	is a reference to Year on Year, *i.e.* a comparison from a point in time of one year to the same point in time in the following year.

2.3. Company's statement

We, the undersigned, the Chairman of the Board of Directors and the Chief Executive Officer of Skeljungur hf., ID No. 590269-1749, registered office at Borgartún 26, 105 Reykjavík, Iceland, hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in the Share Registration Document dated 14 November 2016 is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 14 November 2016,

Jón Diðrik Jónsson

Chairman of the Board of Directors

and

Valgeir Matthías Baldursson

Chief Executive Officer

2.4. Statutory auditor's statement

KPMG ehf., ID. No. 590975-0449, Borgartún 27, Reykjavík, Iceland ("KPMG"), has reviewed the condensed consolidated interim financial statements of Skeljungur for the nine month period ended 30 September 2016. Based on KPMG's review, KPMG believes that the condensed consolidated interim financial statements are prepared, in all material respect, in accordance with IAS 34 Interim Financial Reporting. The interim accounts for the nine months ended 30 September 2015 are condensed consolidated management interim financial statements and are neither audited nor reviewed by KPMG.

KPMG has audited the annual consolidated financial statements of Skeljungur for the years 2013, 2014 and 2015. KPMG hereby confirm that the financial statements of the Company for the aforementioned years give a true and fair view of the financial position of Skeljungur for the respective years ended 31 December and of its financial performance and its cash flow for the years then ended in accordance with the Icelandic Financial Statements Act No. 3/2006 for the year 2013 and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU for the years 2014 and 2015. KPMG confirms that the information reproduced in this Share Registration Document, dated 14 November 2016, from the abovementioned consolidated financial statements of Skeljungur is consistent with their respective originals.

Reykjavík, 14 November 2016

On behalf of KPMG

Matthías Þór Óskarsson

Matthías Þór Óskarsson

Certified public accountant and member of The Institute of State Authorized Public Accountants in Iceland

Reynir Stefán Gylfason

Reynir Stefán Gylfason

Certified public accountant and member of The Institute of State Authorized Public Accountants in Iceland

2.5. The Listing Advisor

Íslandsbanki has acted in the capacity of Listing Advisor in relation to the Shares of Skeljungur being admitted to trading on the regulated market of Nasdaq Iceland. Íslandsbanki has prepared the Prospectus in close co-operation with the Company's Executive Management and Board of Directors. The Prospectus is based on information provided by the Company, including financial and tax, legal and technical due diligence reports, audited consolidated financial statements and unaudited interim management accounts.

Íslandsbanki has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is assumed by Íslandsbanki as to the accuracy or completeness of the information contained in this document or any other information provided by the Company in connection with the admittance of the Shares to trading.

The financial and tax due diligence review was prepared by Deloitte ehf., ID No. 521098-2449, Smáratorg 3, 201 Kópavogur, Iceland.

The legal due diligence was prepared by Landslög slf., ID No. 450710-0830, Borgartún 26, 105 Reykjavík, Iceland with Advokatfelagið við Strond 4, and on their behalf Jógvan Páll Lassen, performing the legal due diligence review of subsidiary P/F Magn. Advokatfelagið's report was used as input into Landslög's due diligence report.

The technical due diligence was prepared by Verkís hf., ID No. 611276-0289, Ofanleiti 2, 103 Reykjavík, Iceland.

The financial and legal due diligence covered the period of the last three fiscal years, *i.e.* 2013, 2014 and 2015 and the materiality threshold was in the amount of ISK 20,000,000. The materiality threshold defines the benchmark used to determine if issues revealed in the due diligence review are considered to have a material impact on the Company's value or operations.

The due diligence reports will not be made public and are not intended to serve as guidance or recommendation to potential investors in relation to investing in the Shares.

2.6. Manager of the Offering

The Corporate Finance division of Arion Bank will act in the capacity of Manager of the Offering of the Shares to investors as detailed in the Company's Securities Note, dated 14 November 2016. This includes preparing a valuation of the Company, preparing and handling the execution of investor presentations, handling the execution of the Offering and advising on the allocation of the Shares based on the Offering results.

2.7. Documents on display

For a period of twelve months from the date of issue of this Share Registration Document, the following documents are available for viewing at the Company's headquarters, or electronically from the Company's website www.skeljungur.is/um-skeljung/fjarfestar:

- The Summary, Securities Note and Share Registration Document all dated 14 November 2016.
- The Company's Articles of Association, dated 16 September 2016.
- The Company's audited consolidated financial statements in respect of the year ended 31 December 2015.
- The Company's audited consolidated financial statements in respect of the year ended 31 December 2014.
- The Company's audited consolidated financial statements in respect of the year ended 31 December 2013.
- The Company's unaudited condensed consolidated management accounts in respect of the nine months ended 30 September 2015.
- The Company's reviewed condensed consolidated interim financial statements in respect of the nine months ended 30 September 2016.

2.8. Third party information

The Company confirms that where third party information has been used in the Prospectus, the information has been accurately reproduced and the source of such information has been identified. As far as the Company is aware and able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

3. Selected financial information

The information contained below has been derived from the Company's audited financial statements for the years 2013, 2014 and 2015. The financial statements for the years 2014 and 2015 were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU and corresponds with the interpretations of the International Accounting Standards Board. The consolidated financial statements for the year 2013 were prepared in accordance with national accounting standards as per the Icelandic Financial Statements Act No. 3/2006[16].

The Company's consolidated annual financial statements for the fiscal years 2013 to 2015 have been audited by KPMG. The interim consolidated financial statements for the nine months ended 30 September 2016 have been reviewed by KPMG while the corresponding accounts for the nine months ended 30 September 2015 are interim consolidated management accounts that have neither been audited nor reviewed. The audited full consolidated financial statements are included in Chapter 7. *Operational and financial review* and should be read in conjunction with the financial information.

Percentages in the tables have been rounded and accordingly may not add up to 100%. In addition, certain financial data has been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data. All 2013 figures are exclusive of Magn.

3.1. Income statement

Amounts are in ISK million	**2016** 01.01.-30.09. Reviewed	**2015** 01.01.-30.09. Unaudited	**2015** Audited	**2014** Audited	**2013** Audited
Sales	36,860	29,453	36,842	42,768	30,780
Cost of goods sold	(31,159)	(24,153)	(30,044)	(36,202)	(26,459)
Gross profit	**5,701**	**5,300**	**6,798**	**6,566**	**4,321**
Other income	105	201	236	248	451
Operating expenses	(3,505)	(3,194)	(4,360)	(4,039)	(2,837)
Earnings before depr. and fin. items	**2,302**	**2,307**	**2,675**	**2,775**	**1,934**
Impairment of goodwill					(250)
Depreciation of operating assets	(532)	(547)	(1,843)	(818)	(609)
Operating profit	**1,770**	**1,759**	**832**	**1,957**	**1,075**
Net financial expenses	(399)	(455)	(579)	(729)	(799)
Share of profit from assoc. companies	**2**	**29**	**39**	**11**	**(7)**
Profit before income tax	**1,373**	**1,333**	**292**	**1,239**	**268**
Income tax expense	(269)	(247)	(18)	(246)	(55)
Profit from continuing operations	**1,104**	**1,086**	**273**	**993**	**213**
Loss from discontinued operations	0	0		(422)	(159)
Profit for the period	**1,104**	**1,086**	**273**	**571**	**55**
Foreign operation currency translations differences	(381)	(334)	(368)	(38)	(111)
Foreign currency translations differences reclassified to P&L	(0)	(25)	(25)	0	0
Profit for the period	**723**	**727**	**(119)**	**533**	**(57)**
Earnings per share	*0.48*	*0.43*	*0.11*	*0.30*	*0.03*

[16] Magn's stand-alone financial statements are prepared in accordance with Faroese national accounting standards.

3.2. Balance sheet

Amounts are in ISK million	**2016** 30.09. Reviewed	**2015** 31.12. Audited	**2014** 31.12. Audited	**2013** 31.12. Audited
Assets				
Total non-current assets	13,706	14,012	15,733	11,877
Total current assets	6,400	4,394	5,691	4,566
Total assets	**20,106**	**18,406**	**21,424**	**16,443**
Equity				
Total equity	**7,201**	**7,478**	**8,097**	**5,530**
Liabilities				
Total non-current liabilities	5,230	5,939	7,750	6,966
Total current liabilities	7,675	4,989	5,577	3,947
Total liabilities	**12,905**	**10,928**	**13,327**	**10,914**
Total equity and liabilities	**20,106**	**18,406**	**21,424**	**16,443**

3.3. Cash flow statement

Amounts are in ISK million	**2016** 30.09. Reviewed	**2015** 30.09. Unaudited	**2015** 31.12. Audited	**2014** Audited	**2013** Audited
Operating activities					
Net cash from operating activities	**1,605**	**1,948**	**2,535**	**2,252**	**784**
Net cash used in investing activities	**(769)**	**(368)**	**(905)**	**(283)**	**(342)**
Net cash from financing activities	**(901)**	**(1,792)**	**(1,889)**	**(1,493)**	**(965)**
(Decrease) increase in cash and cash equiv.	**(65)**	**(212)**	**(259)**	**476**	**(523)**
Effects of movements in exchange rates	(30)	(29)	(22)	(25)	7
Cash and cash equiv. at beginning of year	374	655	655	203	718
Cash and cash equiv. at end of year	**279**	**414**	**374**	**655**	**203**

3.4. Key ratios

Operations	**2016 9M** Reviewed	**2015 9M** Unaudited	**2015** Audited	**2014** Audited	**2013** Audited
Average margin (contribution margin/sales)	15.5%	18%	18.5%	15.4%	14.0%
EBITDA/gross profit	40.4%	43.5%	39.3%	42.3%	44.7%
EBIT/gross profit	31%	33.2%	12.2%	29.8%	24.9%
Salaries/gross profit	28.7%	28.3%	30.5%	29.5%	26.5%
Sales and distribution / gross profit	24.1%	25%	27.3%	25.8%	32.9%
Operating expenses/gross profit	61.5%	60.3%	64.1%	61.5%	65.7%
Return on equity	20.7%	27.6%	3.6%	9.4%	1.0%
Balance sheet					
Current ratio (curr. assets/current liabilities)	0.83	0.88	0.88	1.02	1.16
Quick ratio (curr. assets-inventory/current liabil.)	0.50	0.48	0.48	0.61	0.55
NIBD/EBITDA	2.50	2.46	2.46	2.81	3.88
Equity ratio (shareholders' equity/total capital)	35.8%	40.6%	40.6%	37.8%	33.6%
Internal value of share capital	3.4	3.0	3.0	3.0	3.1

4. Information about the Company

4.1. Issuer

Issuer:	Skeljungur hf.
ID No:	590269-1749
Legal form:	Public limited company
Date of incorporation:	9 December 1955
Total shares outstanding:	2,099,582,121 divided into shares of one ISK each
Total share capital:	ISK 2,099,582,121
Ticker symbol at Nasdaq Iceland:	SKEL
ISIN number:	IS0000000503
Domicile:	Borgartún 26, 105 Reykjavík, Iceland
Website:	www.skeljungur.is
E-mail:	fjarfestar@skeljungur.is / investors@skeljungur.is
Telephone:	+354 444 3000

4.2. Organisational chart

Figure 1: *The Issuer's organisational chart*

4.3. History and development

Skeljungur is an Icelandic oil importing company whose activities span a range of retail and service operations in Iceland and the Faroe Islands. Skeljungur has a long history and strong ties in the Icelandic economy and community. Although the Issuer was formally founded in Reykjavík on 9 December 1955 its predecessor's history traces back as far as 1928 when H/F Shell á Íslandi was established by local businessmen with strong ties to the country's import/export and fisheries sectors. Shell Petroleum Company (later Shell International) was a founding partner in H/F Shell á Íslandi and in fact remained a large shareholder until 2003 or for 75 years.

Table 1: *Milestones in the Issuer's history*

1928	H/F Shell á Íslandi, Skeljungur's predecessor is established.
1938	H/F Shell becomes the first privately owned company in Iceland to offer pension benefits to its employees.
1955	Skeljungur hf. is founded, acquiring the assets of H/F Shell and assuming its sales business in Iceland.
1970	Construction is started on the oil tanks and storage facilities in Örfirisey.
1992	Skeljungur becomes the first oil company in Iceland to accept credit cards as payment at all its gas stations.
	The first automated payment pump is introduced at the Company Miklubraut station.
1994	A new improved Shell gasoline is sold by Skeljungur containing a cleansing compound that increased efficiency thus preserving energy.
	Skeljungur hf. in Iceland is listed on the Icelandic Stock Exchange (ísl. Verðbréfaþing)
1995	Subsidiary Orkan, is founded with Skeljungur being a 1/3 shareholder. Orkan would in time become one of Iceland's most valuable brand names.
1997	Skeljungur is the first to open 24-hour convenience stores in Reykjavík under the brand name Select.
	The first loyalty card, Fríkortið, is introduced in cooperation with four other retailers.
1999	Skeljungur, in co-operation with Shell International, is a founding partner in a new venture that aims to expand the use of hydrogen to power vehicles in Iceland.
2002	A new loyalty programme for customers is introduced.
2000	The facilities for the docking of oil cargo ships in Örfirisey (Eyjagarður) are greatly improved bringing about increased safety in the unloading of oil.
2001	Shell V-power 99+ is introduced.
2003	Skeljungur opens the first hydrogen station in the world for cars at its Vesturlandsvegur service station.
	Shell Petroleum Company sells its 20,68% share in Skeljungur thereby concluding Shell International's 75 year long history of ownership in the Company.
	Skeljungur's shares are delisted from the Icelandic Stock Exchange.
2004	Skeljungur's headquarters for over 40 years are sold and the offices are moved to Hólmaslóð, closer to the Company's Örfirisey premises.
	Hagar hf. acquire all shares in Skeljungur hf. and 10-11 assumes the operations of Select, the Company's convenience stores.
2010	Several service stations are rebranded to Orkan and a price guarantee Orkuvernd is introduced whereby Orkan pledges to always offer the lowest price within each region.
2012	Skeljungur acquires a 34% share in Magn.
2013	ICA launches it's market investigation of the Icelandic fossil fuel market.

2014	Skeljungur acquires all shares in Magn. Convenience store operations in Iceland are discontinued and leased to 10-11. A charging station for electric cars is put up on Skeljungur's plot on Miklabraut.
	Skeljungur launches a new methane station in Reykjavík.
2015	Orkan X is launched. Orkan X offers everyone, regardless of loyalty programmes one low price without discounts.
	ICA publishes the preliminary findings of its market investigation.
2016	The Company rebrands its remaining Shell stations to Skeljungur, thereby retiring the Shell brand after over 80 years of continuous use.
	Skeljungur is granted EU funding in relation to the construction of hydrogen stations.

5. Business overview

5.1. Role, task and values

Skeljungur's purpose is to satisfy energy needs of individuals and companies in an efficient and safe way in harmony with the environment.

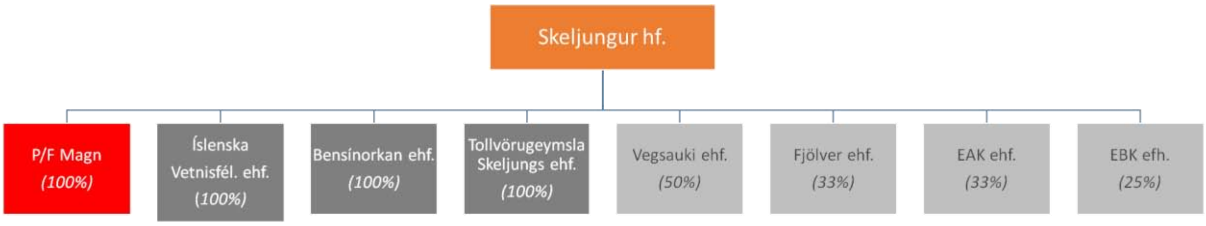
Skeljungur's main objective is to maximise customers' value and convenience with satisfied employees, where safety and progress is pivotal. Skeljungur services over 60 thousand customers, individuals and companies alike.

Skeljungur's values are:

RELIABILITY	EFFICIENCY	LEADING CHANGE
Our service is reliable and we earn trust by honesty & quality. We emphasize the safety of people and environment.	Efficiency & practicality characterizes our operations. We are continuously improving and creating customer value.	Progress drives us, we are eager to experiment with new things. We work together to secure Skeljungur leadership.

5.2. Subsidiaries and associated companies

Figure 2: *Skeljungur's subsidiaries and associated companies*



Skeljungur is the parent company of four subsidiaries, two of which have important operations, Magn and Tollvörugeymsla Skeljungs. The other two currently have minor operations while holding some assets or commitments.

In addition Skeljungur has four associated companies with holdings ranging from 25% to 50%.

5.2.1. P/F Magn

Magn was founded in 1925 when Christian Holm Jacobsen was appointed Shell International's representative in the Faroe Islands. The company has a long history and strong ties in the Faroese community. Like Skeljungur it has longstanding and extensive experience of the oil business and similar historical ties with Shell. In fact, Magn was an independent subsidiary of Shell Denmark from 1954 to 2007 and continued to operate under the Shell brand name until April 2009 when it was rebranded to Magn.

The company's core competencies relate to importing, storing, selling and distributing gasoil, diesel, gasoline, lubricants and hydraulic oils.

In addition to the main office in Tórshavn, there are regional branches in Klaksvík and Tvøroyri. Magn's oil terminals and storage facilities are located in Tórshavn and Klaksvík.

As in Skeljungur's Icelandic operations the operating assets are at the heart of Magn's business and vital to the continued success and value of the company. Apart from its service station buildings, terminals, pumps and storage facilities the company owns road tankers, vans, and trucks operating daily to service companies and individuals throughout the Faroes. Furthermore Magn also boasts a nationwide heating service whereby the company takes care of everything from hardware to maintenance and year-round customer service for heating customers. The company continuously maintains and invests in new equipment in order to ensure that operations run as efficiently, safely and securely as possible.

Magn's operations are guided by stringent health, safety, security and environmental standards informed by their status as one of few Faroese companies whose business areas have been ISO 9001, 14001 and OHSAS 18001 certified. Magn is further Achilles[17] and F-Pal certified whose high standards reinforce the company's commitment to conform to highest industry standards. Having an ISO certified Management System Magn commits to following a systemized path of continuous improvements. Maintenance is scheduled and controlled via the company's operational management system which not only controls all technical maintenance but also all scheduled and systemized audits, checklists and other reminders which are set up on the basis of supplier recommendations and operational experience. The system is accessible from all locations and on any device increasing efficiency and adding flexibility to the work of technicians.

For a review of Magn's operating assets please refer to Chapter 5.5. *Operating assets* below. For information on Magn's key management please refer to Chapter 6.3. *Executive Management*.

5.2.2. ÍSLENSKA VETNISFÉLAGIÐ

Íslenska Vetnisfélagið is a new venture relating to participation in the Hydrogen Mobility Europe 2 programme run by the EU. The project will provide a partial grant from the EU to install and operate one hydrogen service station and with potential for two more. The project is subject to government authorisation and licence, which at the date of this Prospectus had not been finalised. Construction is scheduled to start late 2017 with operations commencing in the spring of 2018. Chairman of the Board is Valgeir M. Baldursson and Ólafur H. Jónsson is the managing director. Neither of them receive special remuneration for their positions held with Íslenska Vetnisfélagið.

5.2.3. BENSÍNORKAN

Bensínorkan has no current operations and its sole assets are the lot and pumps located at Austurströnd 7, in Seltjarnarnes. A purchase offer has been signed related to the sale of Austurströnd 7 but closing is dependent on urban planning issues that at the date of this Share Registration Document have yet to be finalised by Seltjarnarnes municipality.

Chairman of the Board is Ingunn Agnes Kro and Valgeir M. Baldursson is the managing director. Neither of them receive special remuneration for their positions held with Bensínorkan.

5.2.4. TOLLVÖRUGEYMSLA SKELJUNGS

Tollvörugeymslan's purpose is the operation of a customs warehouse for storage of merchandise post customs clearance. The company has a service agreement in place with Skeljungur. Chairman of the Board is Ingunn Agnes Kro and Valgeir M. Baldursson is the managing director. Neither of them receive special remuneration for their positions held with Tollvörugeymslan.

5.2.5. ASSOCIATED COMPANIES

Vegsauki (50%)	Fjölver (33,3%)	EAK (33,3%)	EBK (25%)
Vegsauki owns the building that houses the convenience store operated at Skeljungur's gas station in Freysnes, Iceland.	Fjölver is a research laboratory that specialises in the testing and measuring of the physico-chemical qualities or properties of fossil fuel and lubricants. Co-owned by N1 and Olís.	EAK services airlines with their needs for jet fuel at Keflavik International airport in Iceland. EAK is co-owned by N1 and Olís.	EBK operates an oil terminal at Keflavík Internataional airport in Iceland. EBK is co-owned by N1, Olís and Icelandair.

[17] Achilles maintains a global network that helps organisations identify, assess, qualify and monitor suppliers throughout supply chains in a number of industries. In short, the certification helps Magn's international vessel sales as the buyers can know that Magn's operations meet the high standard for offshore oil suppliers. More at http://www.achilles.com/en?cont=uk.

5.3. Principal markets and activities

The Company's primary operations are in two geographical markets, Iceland and the Faroe Islands. Within these markets the Company breaks its activities down into two sections, Business to Business ("B2B") and Business to Consumer ("B2C").

In the B2B market the Company offers oil, and oil related products such as lubricants, in both geographical markets. In the Icelandic market the Company further offers industrial raw materials, food related raw material as well as fertilizer. The most important customer sectors are fisheries, agriculture, contractors, tourism and the transportation industry (air, sea and land).

In the B2C market Skeljungur mainly offers oil and oil related services and products. In the Faroe Islands Magn further offers heating oil for residential houses and commercial buildings (factories, offices, etc.), along with related services and hardware for house heating. In addition to selling transportation fuels at the service stations, Magn also operates their gas station convenience stores. In Iceland, the Company's exposure to the convenience store business is indirect through its operational and rental agreement with 10-11.

The Company has an expanding international business whereby the Company delivers oil to international vessels in the growing North Atlantic market.

The Company's products and services are sold under the following brands: Skeljungur, Orkan, Orkan X and Magn.

Table 2: *Breakdown of gas stations by brand name*

Gas station w/store	9	26		11	**46**
Self-service gas station		22	8		**30**
Total gas stations	**9**	**48**	**8**	**11**	**76**

Skeljungur enjoys geographical diversification through its Faroese operations. While both companies are in the oil business there are important aspects of the Faroese business model that supplement the Group's model, e.g. Magn's heating oil business and international sales, the latter of which Skeljungur in Iceland has increasingly collaborated on in the recent past.

Table 3: *Geographical split of key income statement items*

	2013	**2014**[a)]	**2015**	**9M 2015**	**9M 2016**
Gross profit	**4,320,763**	**6,566,057**	**6,798,298**	**5,299,974**	**5,301,398**
Iceland	4,320,763	4,487,406	4,704,693	3,573,603	4,144,954
Faroe Islands	n/a	2,078,651	2,093,605	1,726,371	1,156,444
EBITDA	**2,776,171**	**2,775,171**	**2,674,568**	**2,306,791**	**2,301,751**
Iceland	2,776,171	1,755,629	1,663,548	1,381,398	1,506,048
Faroe Islands	n/a	1,019,542	1,011,020	925,393	795,703
EBIT	**1,075,061**	**1,957,283**	**833,700**	**1,759,469**	**1,769,815**
Iceland	1,075,062	1,169,579	4,102	965,446	1,096,386
Faroe Islands	n/a	787,704	829,598	794,023	673,429

a) Skeljungur leased the operations of 12 of its Iceland based convenience stores to 10-11 in 2014. These operations are recognised as discontinued in the Company's 2014 consolidated financial statements.

Table 4: *Sales split by product category*

	2013	2014	2015	9M 2015	9M 2016
Fuel	28,239,573	38,989,853	32,890,667	26,167,136	33,903,687
Other goods	2,539,941	3,778,367	3,961,530	3,285,889	2,956,894
Total	**30,779,514**	**42,768,220**	**36,842,197**	**29,453,023**	**36,860,481**

5.3.1. Activities in Iceland

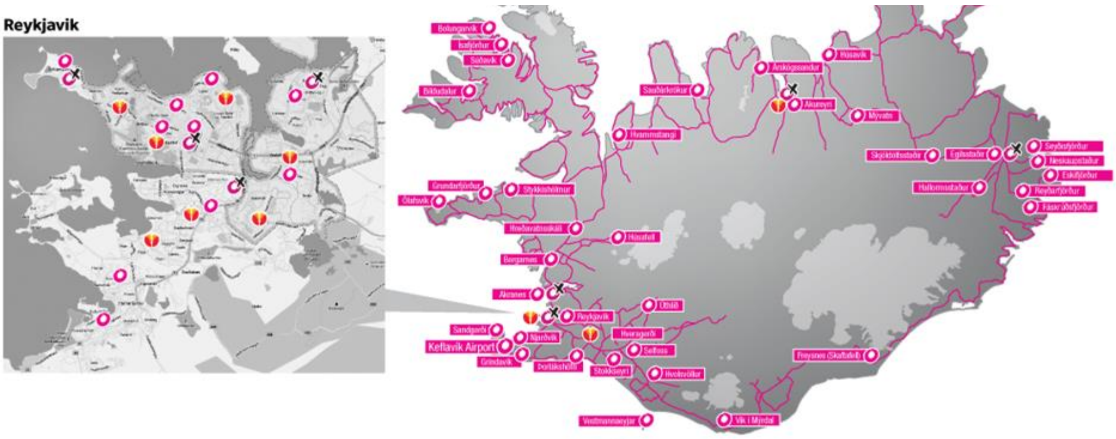
In B2C the Company operates 65 gas stations; 9 under the Skeljungur brand, 48 under the Orkan brand and 8 under the recently established low cost brand Orkan X. Of the 65 stations, 21 are located in the capital region. In 2014, in a bid to sharpen focus and concentrate on its core competencies, the Company made an agreement with 10-11 to lease and operate 12 of its convenience stores. Today Skeljungur does not operate any of the 35 convenience stores at its stations.

Skeljungur is a high end brand; reliable, with better fuel, full quality service and friendly and knowledgeable staff. The Skeljungur stations are modern and all operated in co-operation with 10-11.

Orkan is a low cost fuel brand. It is fun and likable with a great loyalty program. The 24/7 self-service pumps are easy to use and the gas stations are very accessible. Orkan is also a big partaker in society with its emphasis on social responsibility. Orkan X, a sub-brand of Orkan, is a new and different type of fuel brand with a lower price at the pump. It is simple, no frills or discounts. Just everyday low prices regardless of payment method.

The Company's presence is more prominent in the capital and Southwest corner of Iceland (31 of 65 stations) although the Company is well represented around the country as can be seen in Figure 3. In Reykjavik the Company's service stations are mostly in prime locations along high-traffic main streets. Those locations are fundamental in Skeljungur's business, especially since new stations are likely to be few in the future due to the combined scarcity of land in the metropolitan area and will of City officials to curb the number of service stations within the City limits.

Figure 3: *Skeljungur's locations in Iceland*



In the B2B Skeljungur services companies in all industries were the main ones are fisheries, agriculture, contractors, tourism and the transportation industry (air, sea and land). In addition to selling oil and oil related products the Company further offers industrial raw materials and other food related raw material and fertilizer to its customers. In 2015, Skeljungur's corporate customers totalled around 3,600. Most of them get their oil through Skeljungur's gas stations, including many of the large scale buyers otherwise serviced by the sales department. Skeljungur's sales network is thereby integrated and equipped to provide services through the platform most suitable for customers at any given time. Skeljungur also services airlines at Iceland's largest airports and is the largest supplier of jet fuel in Iceland in 2016.

In addition to operating gas stations the Company operates marine, aircraft and private tanks and pumps at marinas, airports and private/company locations around Iceland.

Access to terminals is a vital part of operations. The Company's main terminals are located in Reykjavík, Akureyri, Vestmannaeyjar and in Eskifjörður all of which are ports of entry. These terminals are the basis for big consumer sales such as to fisheries and industry, particularly outside the capital region.

Skeljungur purchases nearly all inventory from two suppliers, Unioil in Denmark and Statoil in Norway. The contract with Unioil is on CIF terms. The contract with Statoil is twofold: inventory delivered to Vestmannaeyjar, Reyðarfjörður and Ísafjörður is on CIF terms while inventory delivered to Reykjavík, Akureyri, Eskifjörður and Helguvík (jet) are on ITT[18] terms.

5.3.2. The Icelandic Market

There are three other oil companies, N1, Olís and Atlantsolía, operating in the Icelandic market. N1 and Olís jointly organise their storage and distribution through their independently operated company Olíudreifing[19]. In addition, U.S. retail chain Costco is expected to open its doors in Iceland in the first quarter of 2017. Costco has been granted a license to operate a gas station on its premises and the company's stated objective is to offer the most competitive fuel prices in any operating market. Costco uses their low prices of gasoline to attract customers to their warehouse, for which they charge a membership fee, *i.e.* gas station operations are not their key competency. It is to be expected that Costco will gain some market share at the expense of the existing oil companies.

The Icelandic market is competitive with 246 gas stations as of 2016, operated by the four companies, and their sub-brands. Moreover the companies sell oil to larger customers, such as fisheries and contractors, by direct delivery.

Table 5: *Gas stations in Iceland by vendor*

N1 DÆLAN		olís ÓB	AO ATLANTSOLÍA
100	65	62	19

In 2015 the size of the oil market in Iceland was 692 million litres, excluding jet which was 274 million litres. Skeljungur's market share in the different categories can be seen in figures 4-7[20].

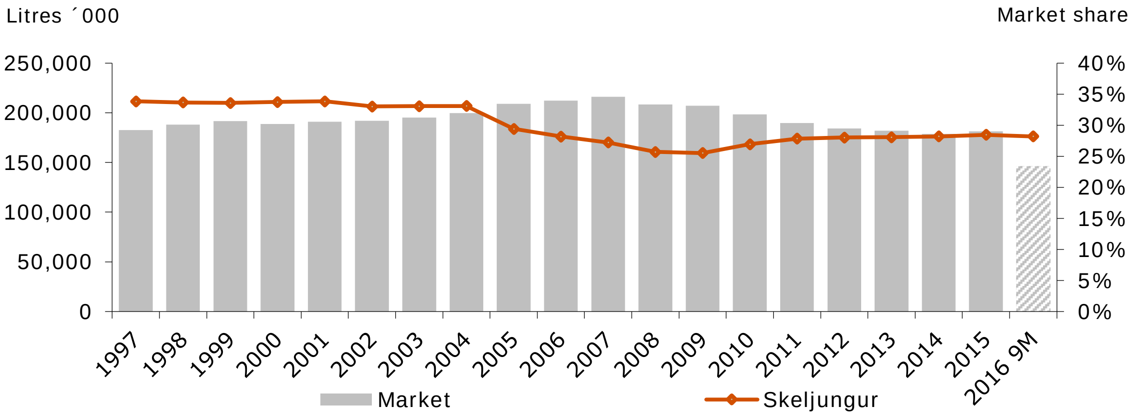
The gasoline market in Iceland is mainly a B2C market and is more stable than the market in other oil products. Nonetheless, this market did see growth pre-2008. During that time Skeljungur lost some market share mainly because of the new competition presented in Atlantsolía, which took a significant amount of customers from the other companies operating on the market. Skeljungur has been steadily gaining market share since 2009 and continues to grow faster than the market.

[18] Under the ITT terms the supplier owns the oil in the terminals where from Skeljungur purchases it on a regular and pre-scheduled basis. This arrangement is contingent on Skeljungur having a bonded warehouse which the Company does in Reykjavík, Akureyri and Eskifjörður. ITS, in cooperation with ODR, has a bonded warehouse in Helguvík where all jet fuel is unshipped. This arrangement confers that Skeljungur binds less working capital in inventory which in turn acts to mitigate both the oil price and the currency risk borne by the Company as both those risks are directly tied to the Company's level of inventory at each time.

[19] ODR further rents terminal space to Skeljungur and Atlantsolía.

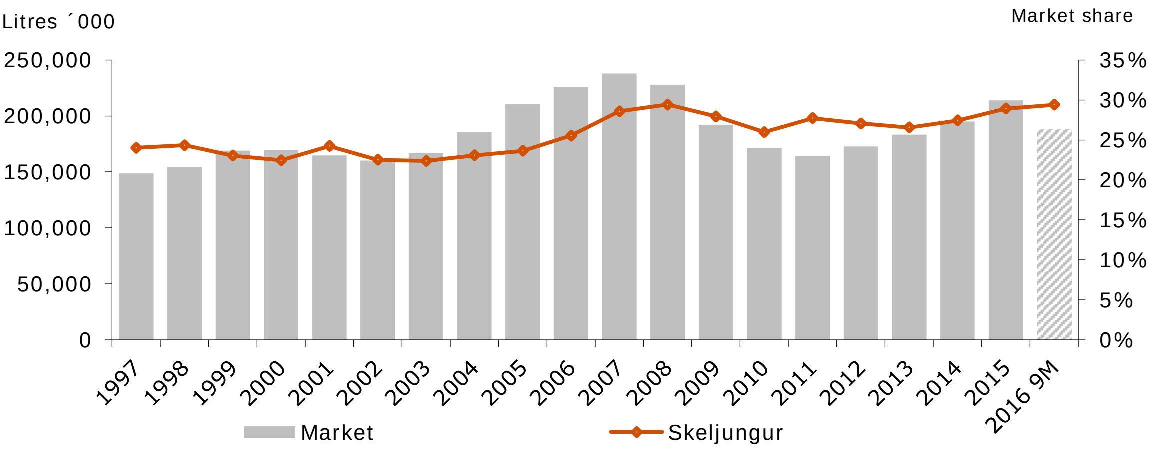
[20] Source for market share figures of Skeljungur Iceland: Transport Equalizing Fund (Flutningsjöfnunarsjóður).

Figure 4: *Size and market share of Skeljungur in gasoline*



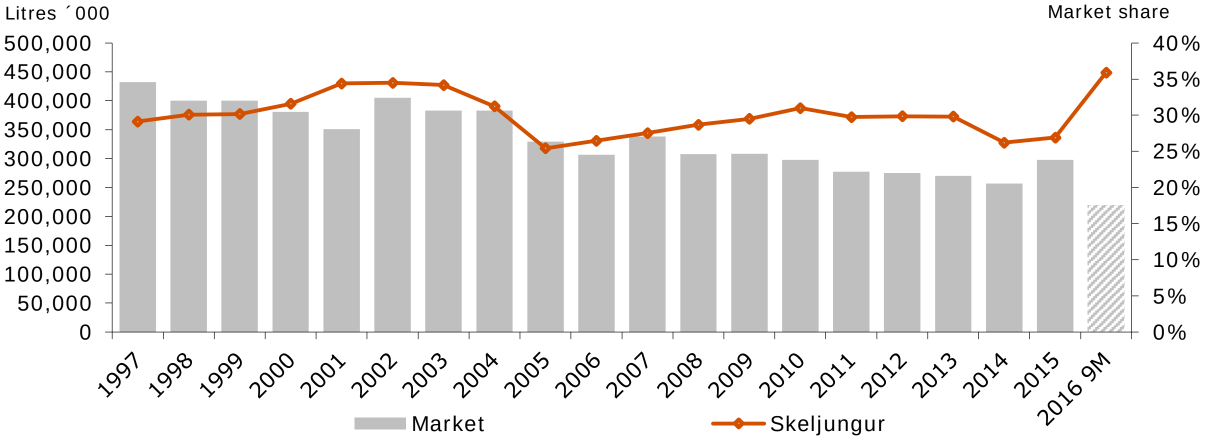
The diesel market is a mix of B2B and B2C. The diesel market is therefore much more correlated to the general economic development in Iceland than the gasoline market. From 2007 to 2011 there was a more than 30% drop in size of the total diesel market. The last couple of years Skeljungur has been increasing its market share and has grown from 26.6% in 2013 to 28.9% in 2015.

Figure 5: *Size and market share of Skeljungur in diesel*



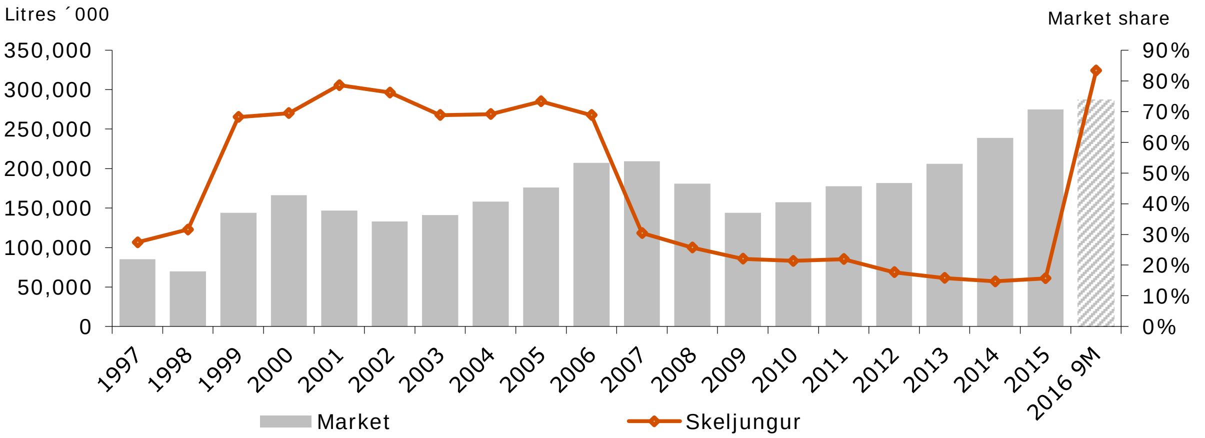
The marine sales market is a combination of a number of different products. Mainly MGO (Marine Gas Oil), MDO (Marine Diesel Oil) and IFO (intermediate fuel oil) at different strength (viscosity) levels. IFO is a mix of Heavy Fuel Oil and MGO. The main customers are companies in the Icelandic fishing industry and international vessels sailing across the Atlantic. The product combination of the marine sales market has changed somewhat during the past years due to regulation changes (prohibiting the burning of heavy oil in some areas). This might cause some volatility in market share since customers might shift between vendors based on different marine products for various reasons. When a customer shifts between vendors that normally has considerable effect on the market share of both vendors. Skeljungur and Magn have, in the past twelve months, been using their joint strength to grow their presence in international marine sales and have successfully grown the Company's market share in that segment from 22% to 36% YoY. Skeljungur's market share in marine oil can be seen in Figure 6.

Figure 6: *Size and market share of Skeljungur in marine oil*



With tourism growing to become one of the largest industries in Iceland with records in the number of tourists coming to Iceland being beaten many times over, the jet fuel market has increased remarkably from year to year. Historically, market share in jet has really only depended on which company serviced Icelandair, Iceland's largest airline company. Although the number of airlines flying to and from the country has increased from 5 in 2005 to 25 in 2016 the Icelandic airlines are by far the largest individual airlines flying into Keflavik. The contracts with the Icelandic airlines are tendered every year. Sales in jet are generally with high turnover and low margin.

Figure 7: *Size and market share of Skeljungur in jet fuel*



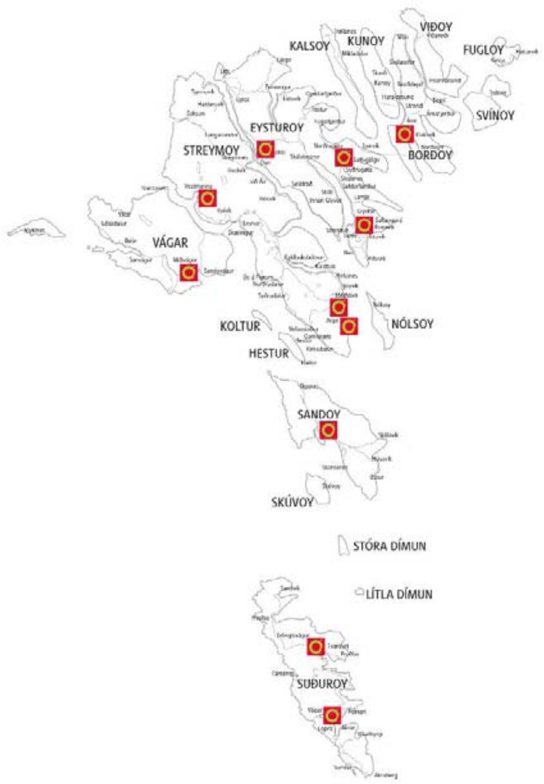
In addition to oil, a small portion of cars in Iceland run on methane[21]. Skeljungur currently operates one methane service station which is located in Reykjavík.

It is easy, and perhaps natural, to primarily identify Skeljungur's business with its service and gas stations for vehicle owners as they are to most the most visible aspect of the business. However, the Company's Icelandic B2B business, which besides oil and lubricants includes fertilizer and raw materials for industry, is responsible for half of the Company's gross profit in 2015 .

[21] In 2012 the volume of methane gas produced in Iceland was around 2 million m^3 the equivalent of around 1.2% of sold gasoline that year. Source: Metanorka.

5.3.3. Activities in the Faroe Islands

Figure 8: *Location of Magn's service stations*



Magn is active on both the B2C and the B2B market in the Faroe Islands. In the B2C market, Magn's main business segments are the company's house heating business along with the eleven Magn branded retail stations.

In the house heating segment, Magn delivers gas oil for houses and buildings. 80% of Magn's house heating customers have bought into a programme whereby Magn ensures that there is always sufficient oil in the customers' tanks[22]. Furthermore, Magn runs a nation-wide one-stop-shop heating service, which includes annual inspections of the heating equipment, hardware sale, spare part delivery, service calls, and general maintenance. A large majority of Magn's B2C house heating customers settle their invoices via a fixed monthly payment scheme. Hence, Magn has developed a strong service-delivery concept delivering to, and servicing, close to 9,000 houses and buildings around all 18 islands in the Faroe Islands archipelago.

In addition to the house heating segment, eleven Magn-branded retail stations sell diesel, gasoline, lubricants, and non-fuel retail goods to Faroese consumers in the B2C market. Seven of these stations are so-called COCOs[23], where the company operates both pumps and stores, and four are owned and operated by third party (DODOs[24]). Operating retail stores is one of Magn's core competencies and all of them are at good locations around the Faroe Islands. More than 50% of the total volumes of transportation fuel sold in the Faroes is sold by Magn, using fewer stations than its competitor Effo (Magn 11: Effo 14).

Magn is also active in the B2B market. Magn sells and distributes oil and oil related products to its B2B customers, where ships and the construction sector are of special importance to sales. The main product is gas oil, with products like lubricants and hydraulic oils also being important in this market. Furthermore, Magn sells oil and services related to heating as well as diesel to its B2B customers, either from Magn's retail stations or via tanks placed at construction sites.

Magn owns and operates two terminals, one in Tórshavn and the other in Klaksvík. Their total capacity is 9,500 m^3 in a total of five storage tanks. In addition to the terminals and the retail stations, Magn owns and operates tank trucks, lorries, small marine tanks at harbours and working tanks at construction sites around the Faroe Islands.

In the B2B market, Magn is also active in selling to international vessels. These sales are made both to vessels that bunker in the Faroes (out of Magn's terminals) and Iceland (out of Skeljungur's terminals). Lastly, the company further has a growing trading business (where oil is sold out of a 3rd party terminals).

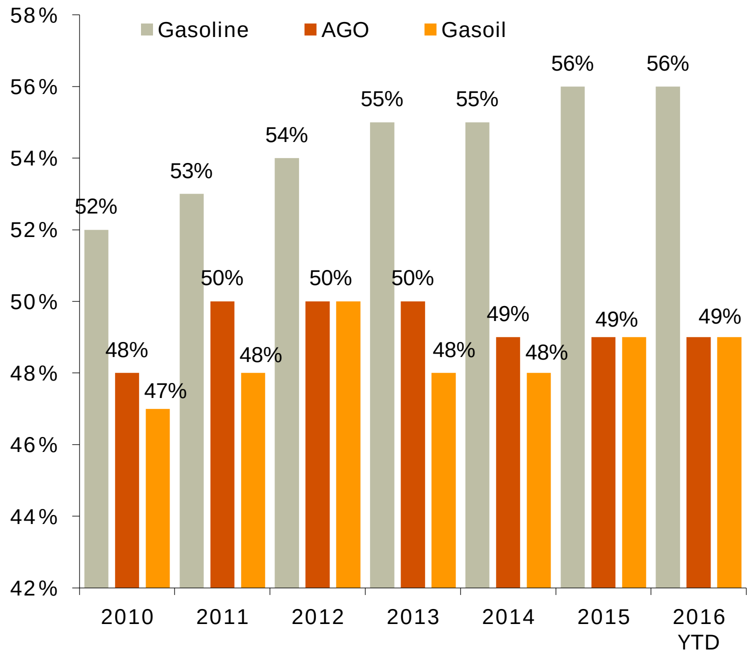
5.3.4. The Faroese Market

The Faroese oil market is served by two competitors, Magn and Effo. Even so, there are segments of the market that are served by other companies. In the lubricants segment, all major brands compete, and in the non-fuel retail segment, Magn competes not only with Effo but with a wide variety of kiosks and supermarkets as well.

[22] Delivery of oil to these customers is managed by an algorithm based on a Degree-Days-forecasting system.
[23] Company owned, Company operated.
[24] Dealer owned, Dealer operated.

Magn and Effo purchase, store, and distribute their own volumes of oil, but as in many other oil markets, the competitors in the Faroese market have entered into an exchange agreement. Oil prices in the Faroes are comparatively low paralleled with the neighbouring countries like Denmark and Norway, taxes notwithstanding.

Figure 9: *Magn's historical market share by product*



The Faroese gasoline market is purely a B2C market, with Magn holding a strong position despite only selling out of eleven retail stations compared with Effo's fourteen. The diesel market is both a B2B and a B2C market and market share is heavily influenced by the construction industry. Just as with gasoline, Magn enjoys a strong position in the private segment whereas competitor Effo has a higher market share sales of diesel in the B2B.

The gas oil market is by far the most important segment in the Faroese oil market. This goes for B2B as well as B2C. Gas oil makes up 80% of the total clean product market (diesel, gasoline and gas oil). The split of gas oil sales is 45% house heating oil and 55% ship fuel. The gas oil market is influenced by the fact that many of the big Faroese ship owners own shares in Effo. Even so, Magn has been able to maintain a good market share in this important segment[25].

An important part of the B2C gas oil market (house heating) is the nation-wide heating service that Magn and Effo respectively operate. The service includes annual inspections of the heating equipment, hardware sale, spare part delivery, service calls, and general maintenance.

Table 6: *Faroe market size and Magn's market share*

	Market size 2015 (m^3)	Magn's market share
Gasoline	14,300	56%
Diesel	22,500	49%
Gasoil - heating	70,500	49%
Gasoil - ships	92,000	49%
Lubricants	1,800	52%

Sales of heavy fuel in the Faroe Islands are exclusive to Effo. Magn does not own heavy fuel terminals and the as such, the company only sells heavy fuel via trading activities or to SEV, the public electricity company that tenders approximately 30,000 mts of heavy fuel every year. Furthermore, Effo has the only jet fuel tank in the Faroes, a tank that is leased from the Faroese government.

Magn is the only company in the Faroese oil market that is ISO 9001, 14001, 18001 certified and F-Pal and Achilles registered. Furthermore, Magn is the only oil company in the Faroe Islands that has had its oil terminals environmentally approved by the Faroese Environmental Authorities.

[25] Source for all market and market share data: Magn management

5.4. Operating Assets

The oil business requires investments in and access to large scale infrastructure and specialised equipment which the Company has built up over an extended period of time and is at the core of its business. The Company divides operating assets into two asset classes: terminals and real estate and other assets. As at 30 September 2016 the book value of Skeljungur's operating assets was ISK 9,698 million.

5.4.1. Terminals and real estate

The Company's real estate totals ca. 8,748m^2 in Iceland and ca. 3,844m^2 in the Faroes. The Company currently operates 76 service stations (Iceland:65 and Faroes:11) and six main terminals[26] (Iceland:4 and Faroes:2).

In Iceland Skeljungur owns 34 retail spaces, situated at services stations around Iceland along with 30 self service stations. All of the retail spaces are leased to independent operators, the largest of whom is 10-11 with 12 stores.

In the Faroe Islands, Magn owns and operates seven service stations[27], often referred to as CoCos with four more operated by dealer franchisees, referred to as DoDos, in spaces where Magn does not own the real estate used for the operations. The real estate is generally well maintained and in good condition.

Skeljungur owns and operates an extensive storage and distribution network in Iceland and in the Faroe Islands. In Iceland the storage space owned and utilized by Skeljungur totals around 97,250 m^3. Around 75% of the space is in Reykjavík. The largest terminals outside Reykjavík are in Akureyri, Vestmannaeyjar and in Eskifjörður. In addition, the Company rents storage space in Grundarfjörður, Ísafjörður and in Helguvík. The condition of the Iceland based terminals is generally good and they have been well maintained and developed in the past years. The only exception is Eskifjörður where three out of five storage tanks have subsided due to soil disruption. The remaining two tanks, which constitute 77% of the Eskifjörður storage space, are in good condition and fulfil the terminal's operational needs and requirements. Skeljungur documents the maintenance history of its Iceland based operating assets in a custom made system where each asset's maintenance schedule and history is thoroughly recorded.

In the Faroe Islands, Magn operates two terminals, one in Tórshavn and the other in Klaksvík (Grótrætt), with a total storage capacity of 9,500m^3. Magn moreover has an exchange agreement in place with competitor Effo whereby the companies can use each other's terminals and storage space. Magn's terminals are ISO 9001, 14001 and OHSAS 18001 certified and are in good condition. They have moreover been approved by the Faroese Envionmental Athorities, by the strongest category of potentially polluting and dangerous activities. The company has in place an extensive operations management system that documents each asset's maintenance schedule and history.

5.4.2. Other assets

Other assets mainly consist of vehicles and smaller equipment. Skeljungur owns and operates more than 90 vehicles. In Iceland Skeljungur owns and operates 46 vehicles along with 19 oil trailers. Vehicles that are used solely for the transport of oil are a total of 30 and consist of tank trucks and trailer trucks. Other cars owned by Skeljungur are categorized as passenger cars or vans. In the Faroe Islands the car fleet totals 28 vehicles, whereof 13 are used to transport oil, there are 2 large and 1 small lorry, 3 small vans and 9 other vehicles. The general condition of Skeljungur's car fleet is good, however its maintenance and renewal is an ongoing and continuous task.

5.4.3. Principal Investments

The following information on principal investments includes the period from 1 January 2013 to 30 September 2016 and is based on the consolidated financial statements of the Company.

[26] In Iceland Skeljungur owns a total of 9 terminals. Thereof 4 are in heavy use with the other 5 being in limited use. The four most used ones have the capacity to store 97 million litres or equal to 98% of the Company's Iceland based inventory.

[27] One of these is technically held by Magn's wholly owned subsidiary.

During the aforesaid period the Company’s total investments amounted to ISK 3,343 million which the Company has financed with its cash flow from operations. Sales of operational assets were insignificant in the period.

Table 7: *Investments in operating assets*

2013	2014	2015	2016
			01.01.-30.09.
Audited	Audited	Audited	Reviewed
715	750	1,082	796

The Company manages its investments with the aim of securing the service level, functionality and value of assets.

9M 2016

In 2016, the Company continued to replace storage tanks at service stations, rebranded the remaining Shell stations in Iceland to the Skeljungur brand, invested in a new lot at Fiskislóð 41 in Reykjavík[28], in addition to the ongoing and continuous investments in trucks, terminals and service stations. In the Faroes the Company, in addition to regular investments, invested in a new ERP (enterprise resource planning) system, built an automated car wash in Tórshavn as well as other fixtures at service stations.

2015

Investments were unusually high in 2015 with the purchase of a new ERP system in the Iceland operations, mandatory replacements of storage tanks[29] at several gas stations in Iceland, large refurbishment projects at two of the Faroese service stations as well as a new tank yard in Klaksvík and a new terminal in Soldarfjordur.

2014

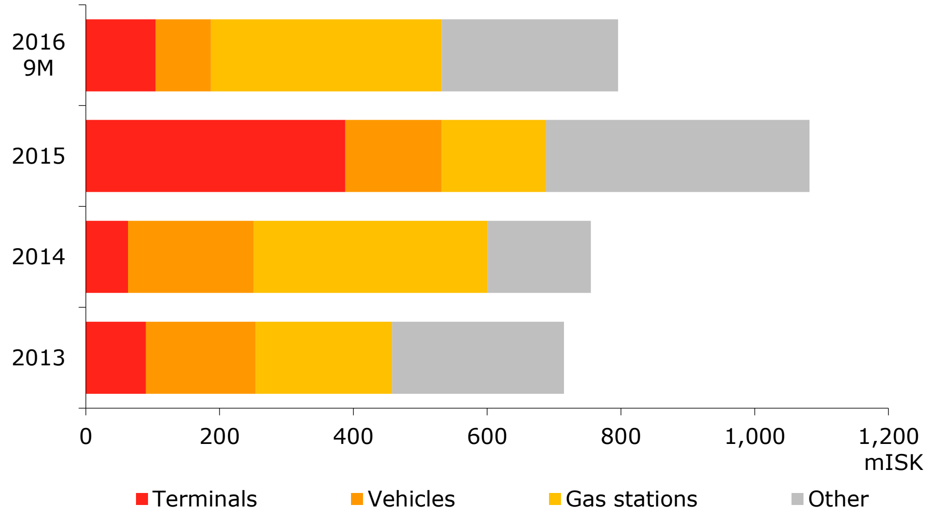
In 2014, the Company invested in the construction of a methane station in Reykjavík which explains higher than average investments in gas stations. In the Faroes investments were made in the rebuilding and modernising of a station that was previously dealer owned and operated.

2013[30]

In 2013, investments in Iceland also included the construction of a methane station, storage tank replacements at gas stations, terminals and fixtures at the Company’s head office. In the Faroes, investments were made in the demolishing and building of a new retail station in Miðvágur, different replacement programs fx dispensers and tank truck, ERP system, other fixtures.

[28] Office and / or service building.
[29] Regulations stipulate that these underground tanks must be replaced every 25 years.
[30] Magn was not a part of the consolidated financial statements in 2013. Magn’s operating currency is DKK and figures have been converted using the average DKK/ISK exhange rate for 2013 which was 21.773 according to Iceland’s Central Bank.

Figure 10: *Investments in operating assets 2013 - 2015 and 9M 2016*



5.4.4. FUTURE INVESTMENTS

The Company's investments going forward will be planned according to the same principle as hereto, *i.e.* to maintain the value and revenue generating capabilities of assets. In the period from 2013-2015 Skeljungur accounted for a total of ISK 3,343 million in investments. The lion's share of Skeljungur's investment costs lie in the gas stations, *i.e.* grounds, buildings, pumps and storage tanks, along with cars and terminals. The Company estimates the average yearly investment need to be between ISK 750 and 850 million in total. This figure reflects the Executive Management's estimate and may fluctuate substantially from year to year. The possibility of unforeseen investment cannot be excluded. Reference is made to a discussion on Skeljungur's participation in the Hydrogen Mobility Europe 2 programme through its subsidiary Íslenska Vetnisfélagið (as per Chapter 5.2.2. *Íslenska Vetnisfélagið*). Skeljungur has committed to the construction of a hydrogen station in Iceland, which is presently scheduled to commence in late 2017. While the estimated costs regarding that station are included in next year's investments Íslenska Vetnisfélagið might construct two more in the coming years. The Company's total estimated costs associated with the hydrogen project is EUR 2 million, taking into consideration a grant from the EU, which sponsors the programme.

Magn's Board of Directors has discussed whether increasing the storage capacity of Magn should be considered necessary given the Faroe Islands' limited total capacity. Although Magn is perfectly operational in its current form the construction of additional three tanks would solve a number of issues relating to efficiency and costs incurred due to limited supplier options brought about by the need for rather frequent deliveries. In that way increased storage space is estimated to help reduce unit costs of which transport forms a large part. If undertaken, such an investment would be in the range of ISK 419 million[31] payable in the years 2017–2019 and would be estimated to positively affect EBITDA by approximately ISK 18.5 million annually. Should the Board decide to move ahead with this investment that amount would be on top of the already estimated annual capital expenditure requirements of the Company. As of the date of this Share Registration Document no decision has been made on the matter and as is the Company estimates it unlikely that it will move ahead with these investments.

[31] Estimate is stated in DKK and stands at 25 million. ISK figure is based on ISK/DKK exchange rate as at the date of this Share Registration Document.

5.5. Employees

Skeljungur strives to recruit engaged, capable staff that shows initiative and ambition in their work, actively participating in improving the Company. Skeljungur prides itself of providing excellent customer service and wishes to retain happy and engaged staff with exemplary knowledge of the Company's products.

Skeljungur's human resources are a vital part of the Company. The Company places the rights, safety and occupational environment of its people above all and wants to be leading among peers in that respect. Equal opportunities grounded in ability and skill are an integral part of the Company's corporate culture.

Statistics on employment at the Company at year-end 2013, 2014[32] and 2015 respectively are to found in tables 9 and 10.

Table 8: *Skeljungur's employee statistics by year and division*

	2013	2014	2015
Full Time Equivalents	230	146	130
# staff total	290	156	134
Thereof:			
CEO's office	12	6	5
Finance	10	14	15
Retail	202	54	49
Sales	14	n/a	14
Operations	52	82	51
In Reykjavík	230	118	118
Other areas	60	38	16
Male	62.40%	85.2%	82.1%
Female	37.6%	14.8%	17.9%

Table 9: *Magn employee statistics by year and division*

	2013	2014	2015
Full Time Equivalents	75	76	76
# staff total	138	147	150
Thereof:			
Administration and customer service	13	13	13
Retail and sales	39	42	41
Operations	23	21	22
Male	41%	43%	44%
Female	59%	57%	56%

[32] Large contraction between 2013 and 2014 is explained by the outsourcing of Skeljungur's convenience store operations to 10-11. The reduction in staff directly related to that was 120.

6. Corporate governance

6.1. Governance structure

Skeljungur's corporate governance framework is defined by Act No. 2/1995 on Public Limited Companies ("the Public Companies Act") and set out in the Articles of Association ("the Articles"). In accordance with Article 70 (5) of the Public Companies Act the Board of Directors ("the Board") has set itself formal Rules of Procedure ("the Rules") which are supplementary to the Articles. According to the Rules the Board of Directors may elect committees that operate on behalf of the Board. All Board committees set themselves specific rules of procedure.

The current Rules were approved by the Board on 23 August and the Articles were ratified by the shareholder on 16 September 2016. Both documents are available at the Company's website through www.skeljungur.is/articlesofassociation and www.skeljungur.is/rulesofprocedure. Moreover, the Articles can be found in Chapter 9. *Articles of Association* of this Share Registration Document.

Skeljungur adheres to the principles of set forth in the Corporate Governance Guidelines, published by the Iceland Chamber of Commerce in co-operation with SA Business Iceland and Nasdaq Iceland (the "Guidelines").

As of the date of this Share Registration Document the only deviation from the full compliance with the Guidelines is the lack of a formal corporate governance statement. The Company will publish such a statement for the current operating year, to be disclosed in Q1 2017.The majority of the board members of Skeljungur are independent of the Company and at least two board members are independent of major shareholders, according to the definition in the Guidelines. For further information in that respect a reference is made to Chapter 6.2. *Board of Directors*.

The current version of Skeljungur's Code of Conduct was approved by the Company's Board of Directors on 8 September 2016. The Code of Conduct applies to all board members and employees belonging to the Iclandic operations. The Code of Conduct is available on the Company's website, www.skeljungur.is/codeofconduct. While Magn has not implemented a written code of conduct, the company's operations are subject to the strict criteria of their ISO 9001, 14001 and 18001 certificates as well as a thoroughly documented Health, Safety, Environment and Quality ("HSEQ") statement, accessible to all on the company' intranet, that *inter alia* addresses proper conduct expected from Magn employees.

6.1.1. Articles of Association

The Articles feature provisions regarding shareholders' meetings in articles 13 through 21, regarding the Board of Directors in articles 22 through 24, regarding the CEO in article 25, and regarding accounting and auditing in articles 26 through 29.

According to the Articles the supreme power of the Company's affairs, within the boundaries set by the Articles and Icelandic legislation, lies in the hands of a lawful shareholders' meeting with the day-to-day operations being governed by the Board of Directors and the CEO. Shareholders' meetings, including the annual general meeting, are lawful if they are lawfully called for, regardless of eventual turnout.

The following hold a right to participate in shareholders' meetings: Shareholders, their advisors and/or agents, given that they present a signed and dated written power of attorney; the Company's accountants and CEO, even if they are not shareholders; and by invitation of the Board, consultants whose advice or assistance is required. One vote is attached to each share in the Company and matters are decided by simple majority unless otherwise stipulated in the Articles or legislation.

Shareholders' meetings shall be called as deemed necessary by the Board of Directors, or when the elected auditor or shareholders controlling at least 5% of the share capital so insist, in writing accompanied with arguments as to its need. The Board of Directors shall call a meeting within a fortnight of receiving a lawful claim thereof, giving a minimum of 21 days' notice. Shareholders' meetings shall be called for by any or all of the following manners: advertisement in the media, regular mail, e-mail or any other manner decided by the Board.

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The following hold a right to participate in shareholders' meetings: Shareholders, their advisors and/or agents, given that they present a signed and dated written power of attorney; the Company's accountants and CEO, even if they are not shareholders; and by invitation of the Board, consultants whose advice or assistance is required. One vote is attached to each share in the Company and matters are decided by simple majority unless otherwise stipulated in the Articles or legislation.

Shareholders' meetings shall be called as deemed necessary by the Board of Directors, or when the elected auditor or shareholders controlling at least 5% of the share capital so insist, in writing accompanied with arguments as to its need. The Board of Directors shall call a meeting within a fortnight of receiving a lawful claim thereof, giving a minimum of 21 days' notice. Shareholders' meetings shall be called for by any or all of the following manners: advertisement in the media, regular mail, e-mail or any other manner decided by the Board.

The Annual General Meeting ("AGM") shall be held within four months as of the end of the preceding fiscal year. Annual general meetings shall be called by the same process as other shareholders' meetings. No later than three weeks prior to the AGM its agenda, along with all supplementary documentation, annual accounts and any proposals for amendments to the Articles shall be available to shareholders at the Company's headquarters.

The AGM elects five members and two alternates to the Board of Directors. Their eligibility is determined by law and further detailed in the Guidelines. A shareholders' meeting may also appoint a member of the Board in cases where a board member has resigned or is deceased. The Board shall be represented by both genders as equally as possible and the proportion of each gender shall never go below 40%. Alternates shall be of opposite genders.

Elections for the Board shall be conducted by ballot if the number of candidates exceeds the number of seats on the Board. The Board elects a chairman from among its members. Otherwise the Board divides its tasks as necessary. The Chairman of the Board calls and manages board meetings. Board meetings shall be called whenever the Chairman deems necessary and shall be at least ten over the fiscal year. A meeting shall also be called if any board member or the CEO so requests. Board members may participate in board meetings through communication systems (e.g. telephone or webcam).

The Board of Directors has supreme powers in all matters concerning the Company between shareholders' meetings. Board meetings are lawful if the majority of the Board is present. Matters need approval from a simple majority to be binding for the Company. The Chairman of the Board holds the deciding vote. All significant decisions must be discussed by all Board members before being voted on, if at all possible. The Board shall set itself formal Rules of Procedure.

The Board is obligated to appoint an audit committee. The appointment of other board committees is optional. The Board is not bound by the resolutions of its committees unless otherwise stipulated by law.

The Board of Directors appoints a CEO, one or more, decides his or hers terms of employment by written contract and grants power of procuration. The CEO manages the day-to-day operations of the Company in consultation with the Board and in accordance with the Articles. The day-to-day operations do not include matters which are unusual or material[33].

6.1.2. Compliance

The Board of Directors has appointed Ingunn Agnes Kro, general counsel as the Company's Compliance Officer. The Board has further appointed Guðrún Nielsen as the alternate Compliance Officer. The role of the Compliance Officer includes overseeing that the rules on treatment of insider information and insider trading are complied with within the Company.

6.1.3. Audit Committee

Skeljungur's audit committee is made up of three individuals, Birna Ósk Einarsdóttir, Trausti Jónsson and Helena Hilmarsdóttir. Birna Ósk and Helena were appointed on 23 June 2015 and Trausti was appointed on 29 February 2016. Trausti and Birna are members of the Board of Skeljungur while Helena is entirely independent of the Company.

The audit committee's main responsibilities include:

- Reviewing and evaluating the quality of financial information provided by management and auditors.
- Monitoring the efficiency and reliability of the Company's internal controls, risk management and other surveillance protocols.
- Evaluating the independence and the eligibility of both the Company's auditor and its auditing firm and making suggestions to the Board on the choice of auditor or auditing firm.

[33] The CEO of Skeljungur is authorised to order the sale or purchase of real estate with a book value less than ISK 25,000,000 without prior Board approval. More detailed information on what constitutes unusual or material can be found in Annex I to the Rules of Procedures (Starfsreglur stjórnar) to be found at www.skeljungur.is/rulesofprocedure.

6.1.4. Remuneration Committee

Skeljungur's remuneration committee is made up of Jón Diðrik Jónsson, Chairman of the Board and Gunn Ellefsen, member of the Board. Jón Diðrik was appointed on 2 October 2014 and Gunn on 7 June 2016. The remuneration committee submits an annual report to the Board prior to the AGM.

The remuneration committee's main responsibilities include:

- Providing guidance to the Board of Directors and management on overall employment terms offered at the Company.
- Advising management on the correct interpretation of the remuneration policy.
- Monitoring that the remuneration of management is within the framework set out in the remuneration policy and that all remuneration schemes are in compliance with applicable official rules, regulations and general guidance.

Skeljungur's current remuneration policy was approved by the AGM on 27 April 2016. The remuneration policy covers all the principal factors of the employment- and remuneration terms of all of the Company's employees, Executive Management and Board of Directors.

6.1.5. Nomination Committee

Skeljungur's Nomination Committee was appointed on 8 November 2016 and is made up of Jón Diðrik Jónsson, Chairman of the Board of Directors, Trausti Fannar Valsson, senior lecturer at the Faculty of Law of the University of Iceland and Katrín S. Óladóttir, CEO, partner and executive recruiter at Hagvangur. The Nomination Committee will put together a list of nominees in anticipation of the 2017 Annual General Meeting.

6.2. Board of Directors

At the Company's last Annual General Meeting which took place on 27 April 2016 the following individuals were elected to the Board of Directors[34][35]:

Chairman of the Board of Directors

Name:	Jón Diðrik Jónsson
Date of birth:	11 April 1963
Primary position:	CEO of Sena ehf.
Business address:	Skeifan 17, 108 Reykjavik, Iceland
First elected:	January 2014
Education:	Owner/President Management (OPM), Harvard Business School Executive Education 2013, Master Int´l Management, Thunderbird School of Global Management 1990, B.Sc. Marketing, Florida Institute of Technology 1988.
Work experience:	CEO of Sena ehf. since 2015, Owner/CEO Draupnir fjárfestingafélag since 2007, 2005-2007 Executive Vice president of Investment and Corporate Banking, Glitnir bank and later CEO of Glitnir Iceland, 2001-2004 CEO of Ölgerðin, 1990-2001 various managerial roles with Coca-Cola International in Europe and Asia, 1988-1989 Marketing Manager Olís hf.
Member of board or management, owner, co-owner:	*Current:* Draupnir fjárfestingafélag ehf., Draupnir-Sigla ehf., Húsafell hraunlóðir ehf., Íslenska Tónlistarútgerðin ehf., Leikfangaland ehf., Sena ehf., Sena heildsala ehf., Sena Live ehf., Þrjúbíó ehf., D3 Miðlar ehf., Íslensk Tónlist ehf., Representatives´ council of the Commercial College of Iceland, School Board of the International School Iceland. SÍA I and SÍA II Investment Board, *In the past five years:* School Board of the Commercial Collage of Iceland, Garðarshólmi rekstrarfélag ehf., Lok 1 ehf., Rifsber ehf., Ofanleiti 1 ehf., Sena Réttindasvið ehf., SF1 GP ehf., SF II slhf., Sjóklæðagerðin hf., Sjóvá-Almennar tryggingar hf., Skynjun ehf.
Remuneration 2015:	ISK 9,820,552.
Shareholdings in the Company/Options granted:	A 98% share in Draupnir fjárfestingafélag ehf., holder of a 33.3% share in Draupnir Sigla ehf. which holds 2,979,845 shares, nominal value, in SF IV, *i.e.* 4,0052%.
Holdings of related parties	None

[34] Jón Diðrik Jónsson, Gunn Ellefsen and Jens Meinhard Rasmussen also form the Board of Directors of Magn and Trausti Jónsson and Birna Ósk Einarsdóttir are alternates to the Magn Board. Salaries for Magn's Board are included in the renumeration figure for the respective Board members. According to Faroese Company Law, employees at companies with over 35 employees have the right to appoint two individuals to the Board of Directors of their respective employer. No such representatives are on the Board of Magn nor have employees wished to be represented on the Board. No guarantee can be given that this will always be the case.

[35] At the time of this Share Registration Document the Issuer has no alternate board members. Alternates will be appointed at the next AGM taking place before the end of April 2017.

Vice-Chairman

Name:	Trausti Jónsson
Date of birth:	10 May 1982
Primary position:	Fund Manager, Stefnir hf.
Business address:	Borgartún 19, 105 Reykjavík
First elected:	February 2016
Education:	B.Sc. Economics, University of Iceland, 2006. Diploma in Securities Brokerage, 2006.
Work experience:	Fund Manager, Stefnir hf. since 2012, Analyst, Arion banki Corporate Finance, 2009-2012, analyst Kaupthing banki Asset Management, 2005-2008. Part-time lecturer, University of Iceland 2006-2009.
Member of board or management, owner, co-owner:	*Current:* SF VI slhf., ID invest ehf., SF IV slhf., SF IV GP hf., SF III GP ehf., Lok 1 ehf., Skeljungur hf., SF III slhf., SÍA GP hf., SF VI GP ehf., SÍA II GP ehf., SF V GP hf., Mandólín hf., Verne Holding ltd., Jarðboranir hf. (alternate) And SF VII ehf. (alternate), SF V slhf. (management), SF III slhf. (management), SÍA III GP hf. (management), SF V GP hf. (management), SÍA II slhf. (management) and SÍA III slhf. (management). *In the past five years:* None that are not listed above.
Remuneration 2015:	ISK 0.
Shareholdings in the Company/Options granted:	None
Holdings of related parties	None

Board member

Name:	Birna Ósk Einarsdóttir
Date of birth:	9 April 1976
Primary position:	Managing Director, Sales and Services at Síminn hf.
Business address:	Ármúli 25, 108 Reykjavík, Iceland
First elected:	May 2015
Education:	AMP, IESE Business School, 2015, M.Sc. Strategic Management, University of Iceland, 2008, B.Sc. Business Administration, Reykjavík University, 2001.
Work experience:	Various roles within Síminn hf. since 2001 among them managing director, head of marketing, head of project management, human resources and public relations.
Member of board or management, owner, co-owner:	*Current:* Sensa ehf. and Radíómiðlun ehf. *In the past five years:* Gildi pension fund, Farsímagreiðslur ehf.
Remuneration 2015:	ISK 1,788,596.
Shareholdings in the Company/Options granted:	None
Holdings of related parties:	None

Board member

Name:	Gunn Ellefsen
Date of birth:	28 December 1975
Primary position:	Attorney-at-Law, Partner at Advokatfelagið Yviri við Strond 4
Business address:	Yviri við Strond 4, Thórshavn, Faroe Islands
First elected:	April 2016
Education:	Cand. Jur., University of Copenhagen, 2004.
Work experience:	Partner at Advokatfelagið since 2012, having previously been an Attorney there since 2007, and in training since 2004. Gunn further has various experience from the public sector working for the Office of the Faroese Prime Minister.
Member of board or management, owner, co-owner:	*Current:* P/F Magn, Sp/f Advokatsmápartafelagið Gunn Ellefsen and Advokatfelagið við Strond 4 Í/F. *In the past five years:* None other than the above mentioned.
Remuneration 2015:	ISK 0.
Shareholdings in the Company/Options granted:	None
Holdings of related parties:	None

Board member

Name:	Jens Meinhard Rasmussen
Date of birth:	29 July 1974
Primary position:	CEO Skansi Offshore
Business address:	Skansavegur 7, Thórshavn, Faroe Islands
First elected:	May 2014
Education:	Cand. Jur., University of Copenhagen, 2005, Master Mariner, Vinnuháskúlin Tórshavn, 1997.
Work experience:	CEO of Skansi Offshore since 2006, shipbroker, Atlantic shipping, 2005-2006, 1. Officer, Bornholmstrafiken, 2002-2004.
Member of board or management, owner, co-owner:	*Current:* P/F Magn, Skansi Offshore p/f, SmyrilLine p/f *In the past five years:* None other than the above mentioned.
Remuneration 2015:	ISK 11,918,051.
Shareholdings in the Company/Options granted:	None
Holdings of related parties:	None

6.3. Executive Management

Chief Executive Officer

Name:	Valgeir Matthías Baldursson
Date of birth:	15 March 1970
Business address:	Borgartún 26, 105 Reykjavík
First employed:	August 2009
Education:	MBA, Reykjavík University, 2007
Work experience:	CEO of Skeljungur since 2014, prior to that served as Managing Director of retail 2011-2014 and as CFO 2009-2011. SPRON hf., CFO 2007-2009, SPRON hf., advisor, 2006-2007, Álit investments, Managing Director 2003-2006 and KPMG consulting, consultant, 2001-2003.
Member of board or management, owner, co-owner:	*Current:* None other than within the Skeljungur group. *In the past five years:* Framganga ehf. (dormant)
Remuneration 2015:	ISK 36,240,800.
Shareholdings in the Company/Options granted:	None
Holdings of related parties:	None

Chief Financial Officer

Name:	Benedikt Ólafsson
Date of birth:	12 September 1982
Business address:	Borgartún 26, 105 Reykjavík
First employed:	February 2016
Education:	B.Sc. Business Administration, Reykjavík University, 2005, Diploma in Securities Brokerage, Reykjavík University, 2007, MBA, Reykjavík University, class of 2017
Work experience:	CFO of Skeljungur since early 2016, Executive Director of alternative investments at Stefnir hf., 2012-2016, Fund Manager (SÍA I and SÍA II) 2010-2016, Associate, Corporate finance, Arion bank, 2007-2010, Fund Manager, Kaupthing bank 2005-2007.
Member of board or management, owner, co-owner:	*Current:* Berndsen ehf. *In the past five years:* Skeljungur hf., Sjóklæðagerðin hf. (alternate), Reykjavík Excursions (Kynnisferðir) ehf., Iceland Drilling (Jarðboranir) hf., SF ID ehf., SF III slhf., SF III GP ehf., SF IV slhf., SF IV GP ehf., SF IV GP hf., SF V slhf., SF V GP hf., SF VI GP ehf., SÍA II slhf. (managing director), SÍA II GP hf., SRE-S10 ehf., Bekei hf., SF 1 slhf. (managing director), Berndsen ehf.
Remuneration 2015:	4,124,071.[36]
Shareholdings in the Company/Options granted:	None
Holdings of related parties	None

[36] Benedikt joined Skeljungur as CFO on 1 February 2016 having previously served on the Company's Board of Directors. This amount represents payments for his services as a Board member.

General Counsel

Name:	Ingunn Agnes Kro
Date of birth:	27 March 1982
Business address:	Borgartún 26, 105 Reykjavík
First employed:	September 2009
Education:	B.A., Law, University of Iceland, 2005, M.A., Law, University of Iceland, 2007, Licensed District court solicitor since 2008, Diploma in Securities Brokerage, Reykjavík University, 2016.
Work experience:	General Counsel at Skeljungur since 2009, adjunct at the University of Iceland Faculty of Law since 2009, Attorney, Landslög, 2007-2009.
Member of board or management, owner, co-owner:	*Current:* None other than within the Skeljungur group. *In the past five years:* Bókaútgáfan Codex ses.
Remuneration 2015:	ISK 8,958,837[37].
Shareholdings in the Company/Options granted:	None
Holdings of related parties	None

Chief Sales Officer – B2C

Name:	Ingunn Elín Sveinsdóttir
Date of birth:	9 December 1958
Business address:	Borgartún 26, 105 Reykjavík
First employed:	July 2015
Education:	Cand. Oecon., University of Iceland, 1991
Work experience:	Chief Sales Officer B2B at Skeljungur from 2015. Managing Director of Retail at N1 2006-2015. Branch manager at Íslandsbanki 2000-2006, Account manager at Íslandsbanki 1997-2000. CFO of Áburðarverksmiðja ríkisins 1991-1997.
Member of board or management, owner, co-owner:	*Current:* Lyfja hf. *In the past five years:* N1 (managing director), Flutningsjöfnunarsjóður Olíufélaga
Remuneration 2015:	ISK 15,750,000.
Shareholdings in the Company/Options granted:	None
Holdings of related parties	None

[37] Ingunn was on maternity leave from July. Figure reflects her accrued salaries for the months of January – June 2015.

Chief Operating Officer

Name:	Már Erlingsson
Date of birth:	26 April 1969
Business address:	Borgartún 26, 105 Reykjavík
First employed:	June 2006
Education:	M.Sc., Engineering, Danmarks Tekniske Universitet, 2003
Work experience:	MD Operations division at Skeljungur since 2008, Purchasing Manager 2006-2008. District Manager of Tálknafjarðarhreppur 2004-2006. Project Manager at the Government Construction Contracts Agency 1998-2004.
Member of board or management, owner, co-owner:	*Current:* Sumarbyggð hf. (co-owner), Ketilsstaðir ehf. (co-owner). *In the past five years:* None other than above.
Remuneration 2015:	ISK 28,000,000.
Shareholdings in the Company/Options granted:	None
Holdings of related parties	None

Chief Sales Officer – B2B

Name:	Sigurður Orri Jónsson
Date of birth:	19 October 1976
Business address:	Borgartún 26, 105 Reykjavík
First employed:	May 2015
Education:	B.Sc., Economics, University of Aalborg, 2001, M.Sc., Int'l Business Economics, University of Aalborg, 2003.
Work experience:	MD Sales division at Skeljungur since 2015. Managing Director of Eimskip Denmark, 2006-2015, Managing Director of Eimskip Scandinavia, 2007-2009, Sales Manager of Exports, Eimskip 2003-2006. Project Manager, Marel, 2001-2002.
Member of board or management, owner, co-owner:	*Current:* None *In the past five years:* Eimskip Denmark (managing director).
Remuneration 2015:	ISK 13,650,000
Shareholdings in the Company/Options granted:	None
Holdings of related parties	None

Chief Executive Officer – Magn

Name:	Hendrik Egholm
Date of birth:	23 April 1974
Business address	Vestara Bryggja 10, FO-110 Tórshavn
First employed:	October 2007
Education:	B.Sc., Economics and Modern Languages, Copenhagen Business School, 2000, M.Sc., Economics and Business Administration, Copenhagen Business School, 2002.
Work experience:	CEO of Magn since 2007, Smyril Line 2004-2007, Sales & Marketing Director, Smyril Line 2007, interim CEO, VELUX 2003-2004, Account Manager Solar Energy Division; Integral Marketing & Consulting 2000-2003, Account Manager.
Member of board or management, owner, co-owner:	*Current:* P/F Smyril Line (Vice Chairman), P/F Sendistovan (director), Spf 21.06 2003 (owner) *In the past five years:* P/F Mest (director) Spf Ekkó (director)
Remuneration 2015:	DKK 2,535,579.
Shareholdings in the Company/Options granted:	27,035,941 shares
Holdings of related parties	None

Chief Financial Officer – Magn

Name:	Johnni Poulsen
Date of birth:	8 January 1970
Business address	Vestara Bryggja 10, FO-110 Tórshavn
First employed:	May 2006
Education:	Social Science Basic Studies, Roskilde University Centre, 1993, B.A., Business Administration, Roskilde University Centre, 1995, M.Sc., Economics and Business Administration, Copenhagen Business School, 2000.
Work experience:	CFO of Magn since 2006, Financial manager, Strandfaraskip Landsins, 2002-2006, Project assistant , business controller, strategic planner, and lastly financial manager (in the UMTS business area), at A/S Telia Denmark 1996-2002.
Member of board or management, owner, co-owner:	*Current:* P/F Føroya Tele, Finansieringsfonden af 1992, P/F H-Dygd. *In the past five years:* P/F H-Dygd (chairman) and P/F Vága Floghavn.
Remuneration 2015:	DKK 1,784,752.
Shareholdings in the Company/Options granted:	27,035,941 shares
Holdings of related parties	None

6.3.1. Terms of employment of Executive Management

Employment contracts with the Executive Management are believed to be by and large standard contracts for a company such as Skeljungur, providing for termination periods of three to twelve months. The Company's CEO, Valgeir M. Baldursson, as well as the CEO of Magn, Hendrik Egholm, both have twelve month termination periods stipulated in their employment contracts. All of the employment contracts with key employees stipulate non-compete and confidentiality clauses. All the aforementioned contracts provide for a termination without warning in case of a breach of the confidentiality clause. Valgeir M. Baldursson's employment contract moreover contains stipulations of financial penalty for a breach of these provisions.

None of the employment contracts with Executive Management contain dates of expiration of their current terms of office nor do they provide for benefits upon termination of employment. Neither the Company nor its subsidiaries have set aside or accrued funds to provide pension, retirement or similar benefits beyond what is required by law to any member of the Board or Executive Management.

Skeljungur's Board of Directors has implemented a remuneration policy for the Iceland based management that has been approved by shareholders. The policy stipulates that the Board is authorised to grant the Executive Management a bonus based on a budget decided by the Board. When deciding and allocating bonus payments the Board shall give due regard to the Company's best interests as well as general sound business practices.

A bonus scheme for the years 2015-2017 has been implemented in both Iceland and the Faroes. In Iceland the incentive based remuneration is based on the financial performance of the Company for each preceding year, where one third of the earned payment each year is postponed and placed in a holding account, which is indexed to the Share price of the Company until payable. The majority of the holding account is set to be paid out in 2018, subject to stipulated conditions. At 30 September 2016 the total balance of the holding account was ISK 92 million, payable to six people.

The incentives based remuneration at Magn is based on the financial performance of the company for each preceding year. Eligible for bonus payments are the members of the Magn management board, which in addition to the CEO and CFO include three other managing directors. Further, the CEO and CFO of Magn have been granted options for shares in the Company the details of which are discussed in Chapter 1.3.9. *Call Option Agreements*.

The Board will furthermore orchestrate a bonus scheme to be put up for vote at the 2107 Annual General Meeting and, if approved, take effect as of 2018. Executive Management members will be paid an annual bonus given that conditions thereof, as defined by the Board, have been met.

6.4. Auditors

The Company's Articles of Association stipulate that the Company's fiscal year is the calendar year. Further it is stated that the Company's annual accounts shall be audited by an auditing company, and that an auditor or auditor company shall be elected at the AGM for a term of one year. The Company's auditing company and auditors shall be provided with any information requested in relation to its auditing services for the Company. The Company's annual accounts, report of the Board of Directors, and report of the auditor shall be available for review by the shareholders at the Company's headquarters no later than 21 days before the Annual General Meeting. The qualifications and eligibility of auditors is subject to statutory law.

The elected audit company of Skeljungur for the 2016 fiscal year is KPMG. KPMG has been the Company's auditors for over three decades. KPMG has not resigned, been removed from office or not been re-elected during the period covered by the historical financial information in this Prospectus. On behalf of KPMG, Matthías Þór Óskarsson, Certified Public Accountant (ID No. 070575-5079), audited and endorsed the consolidated annual accounts of Skeljungur hf. for the year 2013, Reynir Stefán Gylfason, Certified Public Accountant (ID No. 200973-4109) audited and endorsed the consolidated annual accounts of Skeljungur hf. for the year 2015 and reviewed the consolidated interim financial statements for the nine month period ended on 30 September 2016. Reynir Stefán and Matthías Þór jointly audited and endorsed the consolidated annual accounts of Skeljungur hf. for the year 2014. Reynir Stefán and Matthías Þór are members of the Institute of State Authorized Public Accountants in Iceland.

6.5. Related parties

6.5.1. RELATED PARTY DEFINITION AND RELATED PARTIES TRANSACTIONS

Parties who have material influence on the Company's business as large shareholders of the Company, subsidiaries of the Company, affiliates of the Company, and members of the Board of Directors, CEO, CFO and other senior management within the Company are considered related to the Company. The definition is based on international accounting standard No. 24 (IAS24).

Transactions between individual units within the Company take place and are part of daily operations. Transactions between the Company and its subsidiaries and individual units within the Company have been eliminated in the preparation of consolidated accounts and are therefore not specified here.

Table 10 shows transactions with related parties for the years 2013 – 2015 as well as the nine month period ended 30 September 2016.

Table 10: *Related party transactions*

Amounts are in ISK million	9M 2016 Reviewed	2015 Audited	2014 Audited	2013 Audited
Associated companies				
Purchased goods and services	491.2	83.5	59.7	52.6
Sold goods and services	9	7.5	9.5	9.8
Receivables at year-end	1	1	0.9	1.3
Payables at year-end	91	7	3.3	3.1
Employees				
Loans relating to vehicle sales	1.3	2.7	10.1	13.7

The international sales described in Chapter 1.1.3. *Competitors* are conducted in the way that Skeljungur sells oil from its terminals in Iceland to Magn which then sells it onwards to international vessels. Due to the large volumes involved this technically makes Magn one of Skeljungur's biggest clients. All transactions between Magn and Skeljungur are conducted at arms-length and Magn does not enjoy any special privilege in its dealings with Skeljungur in Iceland.

In the period from 2013 to 2015 as covered by the historical financial information in this Share Registration Document S-fasteignir was Skeljungur's wholly owned subsidiary (the two companies were merged as of 1 January 2016). During that time Skeljungur was the tenant of S-fasteignir's real estate. The rent due from Skeljungur to S-fasteignir was on market terms.

Skeljungur has a service agreement in place with its subsidiary Tollvörugeymsla Skeljungs. The amount due to Tollvörugeymslan on an annual basis is ISK 8.4 million.

Besides the aforementioned there are no significant transactions between the Company and its related parties for the period covered by the historical financial information. All transactions are conducted at arms-length.

6.5.2. STATEMENTS AND POTENTIAL CONFLICT OF INTEREST

Attention is drawn to the following interests held by members of the Board of Directors.

Trausti Jónsson, vice-chairman of the Board of Skeljungur is employed by Stefnir hf. which is a wholly owned subsidiary of Arion Bank. Arion Bank holds a 14.715% share in SF IV[38]. Trausti is also the Chairman of the Board of Directors of SF IV, the CEO of SÍA II slhf. and a member of the board of directors of SÍA II GP ehf. SÍA II GP forms the board of directors of SÍA II slhf. SÍA II slhf. is the single biggest shareholder in SF IV. SÍA II slhf. also holds a 35% share in Kynnisferðir. Kynnisferðir was Skeljungur's 12th biggest customer in the year 2015. Both Kynnisferðir and Skeljungur are owned by funds managed by Stefnir hf.

38 Arion Bank holds 12.9% directly and 1.815% indirectly through the bank's shareholding in SÍA II. SÍA II holds a 24.2% share in SF IV.

Jón Diðrik Jónsson, chairman of the Board of Directors of Skeljungur holds a 98% share in Draupnir fjárfestingafélag ehf., which holds a 33.3% share in Draupnir Sigla ehf. which in turn holds 4.0052% of the shares in SF IV. Jón Diðrik further serves on the investment boards of SÍA I and SÍA II which are under the management of Stefnir hf. SÍA II slhf. also owns 35% of Kynnisferðir. Kynnisferðir is Skeljungur´s 12th biggest customer in the year 2015. Both Kynnisferðir and Skeljungur are owned by funds managed by Stefnir hf. Stefnir hf. is a wholly owned subsidiary of Arion Bank which holds a 14.715% share in SF IV.

Gunn Ellefsen, member of the board of Skeljungur is also a member of the board of Magn. Gunn is a partner at Advokatfelagið við Strönd 4. The legal due diligence on Magn was performed by Jógvan P. Lassen, senior partner at Advokatfelagið. Gunn did not serve on either board during the period which formed the scope of the due diligence process, nor did she have any hand in examining the company in relation to the due diligence. Gunn took a seat on the board of Skeljungur and Magn on 27 April 2016, the general scope of the due diligence was 1 January 2013 to 31 December 2015.

Jens Meinhard Rasmussen, member of the Board of Skeljungur and Magn, is the Chairmain of the Board of SmyrilLine p/f which was Magn's 3rd biggest client in the year 2015.

Hendrik Egholm, the CEO of Magn is the Vice Chairman of the Board of SmyrilLine p/f which was Magn's 3rd biggest client in the year 2015.

Johnni Poulsen, CFO of Magn, is a member of the board of Føroya Tele. Føroya Tele is a large supplier of services to Magn.

The Company is not aware of any other potential conflicts of interests between any duties of the members of the Board of Directors and the Executive Management, and their private interests and/or other duties.

During the period of the last five years preceding the date of this Share Registration Document, no member of the Board of Directors or the Executive Management has been convicted of a fraudulent offence nor have they been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

None of the members of the Board of Directors or the Executive Management have, in the past five years, been associated with companies, in their capacity as a founder, director or senior manager, that have filed for bankruptcy or gone into receivership or liquidation.

There are no family relations between any of the Members of the Board or the Executive Management of the Company.

7. Operational and financial review

Following is a discussion of the Issuer's financial condition and results of operations. The discussion is based on the audited consolidated financial statements for the years ended 31 December 2015, 2014 and 2013, the reviewed consolidated interim accounts for the nine months ended 30 September 2016 and the unaudited consolidated interim management accounts for the nine months ended 2015.

KPMG has audited the annual consolidated financial statements of the Company for the referred fiscal years in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Financial Reporting Interpretations Committee. The financial statements can be found in Chapter 10 *Financial Statements*. KPMG has been the Company's auditor for the past three decades.

Investors should read the following discussion together with Issuer's financial statements and the related notes, as well as the other sections of the Prospectus, and should not rely solely on the information contained in this section.

The forward-looking statements contained in this section are subject to risks, uncertainties and other factors that could cause the Company's future results to differ materially from those contemplated by the forward-looking statements. Factors that may cause such differences include, but are not limited to, those discussed in chapters 1 *Risk factors* and 2 *Information important to investors*. The assumptions on which the forward-looking statements are based have been examined by KPMG.

The Executive Management is not aware of any governmental, legal, economic or fiscal policies in Iceland, the Faroe Islands or other jurisdictions that have in the past twelve months, or could in the next twelve months, likely have material adverse effect on the Company's financial position or results of operations. That notwithstanding reference is made to Chapter 1.1.4. *Alternative Energy Sources* and Chapter 1.4.2. *Competition cases* for a description of recent reports published by ICA and FCA on the respective fossil fuel markets.

Besides what has already been presented above no significant changes have occurred that would impact the Company's financial or trading position since the end of the last financial period, 30 September 2016.

7.1. Recent developments, trends and outlook

Significant operational developments have taken place within Skeljungur in the period covered by the historical financial information in this Prospectus. Of the financial statements published in this Chapter 7 *Operational and financial review* only the 9M 2016 figures fully reflect the expected form of operations going forward.

The largest, most significant changes are:

- The purchase of 66% of Magn in the 2014 annual accounts, financed by issuing new shares.
- The operational and rental agreement regarding the convenience store operations in Iceland in the 2015 annual accounts
- The impairment charge to operating assets (terminals) in the 2015 annual accounts
- A large volume agreement concerning the provision of jet fuel in 2015

2014: Consolidation of Magn

At a shareholders' meeting on 22 September 2014, the Board of Directors was authorised to increase the share capital of Skeljungur by ISK 940.8 million at a price per share of 2.747475. The Shares were used to purchase 66% of shares in Magn from Skeljungur's owner SF IV. Before the acquisition Skeljungur held a 34% share in Magn. The transaction required an approval from the Central Bank of Iceland, which was granted in November 2014. Magn is now fully owned by Skeljungur and is included in the consolidated financial statements from 1 January 2014, since common control was in place from the date SF IV acquired the shares in January 2014. This explains a large part of the increase in sales, cost of goods sold and gross margin between 2013 and 2014.

2014: Operational and rental agreement regarding convenience store operations

In a bid to focus its Icelandic operations on the core competencies of importing, storing, distributing and selling oil Skeljungur opted to lease the operations of 12 of its key location convenience stores to retailer 10-11 in 2014. This should be considered when comparing 2013 vs. 2014 figures. These operations are recognised as discontinued operations in the 2014 consolidated financial statements.

The decision to outsource the retail operations was twofold; Firstly, Skeljungur wished to discontinue a section of its operations that had not been rendering acceptable returns on invested capital for some time, by partnering with a reputable and established operator in the retail sector. Secondly, by discontinuing these operations Skeljungur has managed to vastly simplify its operations (reducing staff by more than half) and thereby enabling the Company to focus its effort on its core competency, the import, storage, sale and distribution of fuel and related goods.

2015: Impairment of terminals

The Company re-classed its Iceland based operating assets in 2015, whereby terminals are now viewed as an independent cash flow generating asset class. Subsequently an impairment test was performed on these assets at year-end 2015 resulting in an ISK 1,063 million impairment charge of terminals. The main reason behind this was to ensure as best as possible that the book value of these assets did not exceed what they could reasonably generate in revenues as a stand-alone entity.

2016: Increased volume and corporate development

At the end of 2015 Skeljungur in Iceland won a tender that vastly increased the volume of jet fuel sold at Keflavik International airport. The jet oil business is a high volume, low margin business and thus affects sales more than it does the operating profit. This partially explains an increase in the level of inventory in 2016 year-to-date. Large domestic buyers in jet are currently conducting price collections in connection with next year’s purchase agreements.

In addition to what has been discussed above Skeljungur merged its real estate holding company, S-fasteignir, into the operating company as of 1 January 2016. Seeing as S-fasteignir had previously been a wholly owned subsidiary, and as such a part of the consolidated accounts, this did not render any changes to the financial statements or reporting of Skeljungur as such. However, with the merger Skeljungur hopes to further simplify operations by reducing the administrative burden of operating these assets. Since most all of the Company’s real estate is being leased to third parties, who in most cases also operate any existing retail services at the respective gas stations, the merger allows contracts with these vendors to be on a single counterparty basis.

7.1.1. CAPITAL STRUCTURE

The Board of Directors seeks to optimise the capital structure of the Company thus maintaining Skeljungur's financial strength. The Board has adopted a dividend policy according to which it will propose a dividend or/and a share buy back in the level of 30-50% of net profit annually. When forming their proposal the Board takes into account and considers the risk policy in place, market conditions, the Company’s liquidity needs, financial covenants and other possible factors that might limit payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend being proposed.

At the Annual General Meeting on 27 April 2016 the Board of Directors was authorised by shareholders to propose a payout of ISK 1,000 million by decreasing share capital by a nominal value of ISK 402.7 million. The main reason for such a high payout proposal in 2016 was that the Board of Directors does not expect any payout to shareholders in 2017.

At 30 September 2016 the carrying amount of Skeljungur’s total interest bearing loans and borrowings was ISK 6,954 million, whereof ISK 5,536 million was denominated in ISK, ISK 827 million in DKK and ISK 591 million in USD. The debt carried weighted average interest rates of 7.1%, 2.5% and 4.3% respectively.[39] At year-end 2015 Skeljungur's equity ratio was 40.6% and NIBD/EBITDA was 2.46 as opposed to a equity ratio of 35.8% and NIBD/EBITDA of 2.5 at 30 September 2016. When evaluating net interest bearing debt investors are advised to consider the average amount drawn on the Company's credit lines instead of spot positions. The reason being that Skeljungur utilises credit lines, categorised among loans and borrowings, to finance inventory and trade receivables and these items tend to fluctuate greatly within the year. Working capital is at its highest in the summer months and at its lowest at year-end.

The Company is currently in the process of refinancing all of its debt with the object of lowering borrowing costs and hedging assets denominated in foreign currency, where the equity in Magn is the single largest unhedged asset, denominated in DKK. The Company is negotiating with Faroes banks to refinance part of its debt. The lending is subject to numerus conditions, including that the Central Bank of Iceland grants the Faroese banks an exemption from certain provisions of the Act on Foreign Exchange. The Company is also engaged in discussions with Icelandic banks to take part in the refinancing. If approved the refinancing could lower the Company's annual borrowing costs by approximately ISK 110-140 million. The objective of the refinancing is also partly to balance the debt level between Skeljungur in Iceland and Magn.

7.1.2. CYCLICAL EFFECTS ON DEMAND

Since 2013, the annual growth rate has been in the range of 2-4% in Iceland and 6-8%in the Faroes. General economic conditions have been improving, bringing about a surge in economic activity and increased real purchasing power resulting in a rise in private consumption as well as government and private sector investment levels. These are all factors that have had a positive impact on consumer and business demand for oil. Moreover, the number of international visitors to Iceland has soared. In the period from 2013 to 2015 the number of international visitors to Iceland went from 807,400 to 1,289,140 on an annual basis, an increase of 59.7%. A large proportion of visitors mention nature as a factor in their decision to travel to Iceland. As a result they tend to travel extensively around the country. Most of them rent cars or travel by bus and others will take guided tours. Tourism has therefore had significant direct and indirect positive impact on the demand for oil in Iceland.

Investors are advised to bear in mind that the aforementioned factors, one or more, may not develop in a manner that would be beneficial to Skeljungur going forward.

7.1.3. THE EFFECTS OF OIL PRICE LEVELS

The market price of oil can have meaningful impact on the Company's operations and balance sheet. Operationally the potential differences in the purchase price versus the sales price of oil/gasoline to customers, can directly affect the Company's gross profit. On a balance sheet level higher oil price means that more capital gets tied up in working capital which Skeljungur normally funds by drawing on available credit lines and vice versa when oil price goes down. Lastly, low market prices can positively impact demand as consumers are more likely to increase consumption when prices are low and vice versa. Since mid-year 2014 oil prices have fallen by more than 50% which has had a very positive effect on the Company's cash flow.

The supply and demand of oil is unpredictable and price fluctuations are based on events outside the Company's control. Investors are advised to consider the effects of prices starting to climb again, *i.e.* inventory and receivables tying up more working capital while at the same time sold volume could decrease due to less demand at higher prices.

When examining the Company's accounts it is also important to consider that a large part of changes in turnover YoY is explained by changes in oil prices and/or taxation. In light of how severe fluctuations in oil prices can be, and how little control the Company has of pricing, margins are determined per base unit (kr. pr. litre) rather than as a percentage of the market or consumer price. Investors are therefore advised that neither turnover nor any indicators derived therefrom are good measurements by which to evaluate the Company's performance. Gross margin and key ratios as a proportion thereof will yield a much better view on how the Company's business is developing.

[39] See Note 11 in the 30 September 2016 consolidated financial statements of Skeljungur.

7.1.4. THE EFFECTS OF EXCHANGE RATE FLUCTUATIONS

Changes in exchange rates significantly impacted the Company's operations in the period covered by the historical financial information in this Share Registration Document. Information on these factors is provided in Chapter 1.3.2. *Currency risk*. In the period from January 2013 to November 2016 the ISK/DKK exchange rate has gone from 22.65 to 16.44 (-37.8%) and the ISK/USD exchange rate has gone from 127.57 to 110.21 (-15.8%). The biggest impact of the ISK/USD exchange rate is seen in lower working capital being tied up in inventory and accounts receivable. The biggest impact of the ISK/DKK exchange rate is the lower earnings of the Faroese operations measured in ISK as well as the depreciation of the value of Skeljungur's share capital in Magn. Translation difference was negative by ISK 111 million, 38 million and 393 million in the Company's consolidated annual accounts for the 2013, 2014 and 2015 fiscal years respectively. Translation difference was negative by ISK 381 million in the 9 months ended 30 September 2016.

7.1.5. SEASONAL FLUCTUATIONS

When examining the operations of the Company it is important to realise that demand and subsequently turnover greatly fluctuates within the year. Turnover is at its highest from May through September when all at once, domestic travel, tourism, airline, contractor and fisheries' activities peak. Consequently, more captial gets tied up in inventory and payables which increases the need for credit.

7.1.6. OUTLOOK

Looking throughout 2017, the Company expects that increased economic activity in Iceland will positively impact operations. The Central Bank of Iceland forecasts GDP growth to reach 4.9% in 2016, the highest in nine years, and 4.1% in 2017. In the Faroe Islands GDP growth is forecast to be 8.5% in 2016 according to the Economic Council of the Faroe Islands. The tourism sector in Iceland is projected to continue to churn out record numbers of incoming travellers, YoY growth in 2016 is expected to be 37% and 35% in 2017. Tourism has been a large and important contributor to growth in volume sold in the past years, a trend that is likely to continue in the short to medium term.

U.S. retail chain Costco has made public their plans to open a store in Iceland, currently expected to open its doors in the first quarter of 2017. Costco has been granted a license to operate a gas station on its premises and the company's stated objective is to offer the most competitive fuel prices in any operating market. Furthermore, Icelandic retail chain Kaupás has disclosed that it has looked into and taken steps toward opening gas stations at some of their Krónan store locations although no detailed time line has been released. The entry of new competitors can be expected to negatively influence the market share of Skeljungur and the results of operation.

According to collective wage agreements agreed in spring 2015, wage rates are set to rise by 4.5% at the beginning of 2017

The competition authorities in both Iceland and the Faroes have in recent years conducted market investigations of the fossil fuel markets in the respective countries and published preliminary findings reports thereof. The Company cannot speculate as to the impact these investigations will have on the market. The reports and their findings are discussed in Chapter 1.4.2. *Competition cases* in this Share Registration Document. Investors are encouraged to familiarise themselves with the reports and form their own opinion on the subject matter.

In the short to medium term the Company's Executive Management is generally optimistic of favourable market conditions, given that economic forecasts will be realised. In the longer term however the Company faces a number of challenges. Public pressure to reduce CO2 emission and exchange fossil fuel with renewable and alternative energy is mounting. Investors are encouraged to acquaint themselves with public policy for energy conversion in both Iceland and the Faroes. If realised, fully or in part, these plans could heavily impact the Company's operations in the long run. Engine manufacturers have further gone to great lengths to increase energy efficiency of motors as well as introduce alternative energy options which tie into the aforementioned public policy. See

Chapter 1.1.4. *Alternative energy sources* for details.These changes however, bring with them not only challenges but also new business opportunities.

Skeljungur is adamant to maintain its role as a leading company in adapting to market changes. Skeljungur was the first oil company to open self-service stations, the first to offer 24-hour opening hours, one of the first to offer charging stations for plug-ins and the first company globally to open a hydrogen station for vehicles. In fact the Company has plans to open a new hydrogen station in Iceland in the first half of 2018, as part of a joint venture with the EU. The project may involve the opening of two more stations in the latter part of 2018 and 2019. Skeljungur is moreover exploring further service offering options relating to alternative energy sources.

The Company will continue to work towards streamlining operations and increased efficiency in its sales and distribution network. The Company focuses on building its operations around its existing strong asset base and discontinuing non-profitable business ventures. The Company moreover aims at increasing the co-operation between Iceland and the Faroe Islands by seizing the opportunities in the growing shipping traffic across the North Atlantic, and thereby building on the successful existing partnership regarding sales to international vessels. Lastly, the Company is in the process of refinancing the group with the objective of lowering borrowing costs, utilising the lower market interest enjoyed by Magn.

General economic trends, economic growth, actions of competitors, sector wide collective wage agreements, policy decisions regarding reduction of CO2 emission and resolutions of competition authorites, such as have been discussed above are outside the sphere of influence of Skeljungur's Board and Executive Management.

7.1.7. FORWARD LOOKING STATEMENT

Looking throughout 2016 and into 2017 the Company estimates that the Group EBITDA will be in the range of ISK 2,650 to 2,850 million for 2016 and in the range ISK 2,400 to ISK 2,700 million for 2017. Capital expenses are estimated to be ISK 1,000 million in 2016 and range from ISK 750 to ISK 850 million in 2017. The main factors that can influence these estimates are the strengthening of the ISK against the DKK, the loss of large contracts for sale of jet fuel, cost increases (e.g. salaries), increased competition, continued economic growth and growth in tourism in Iceland. All but the last two are more likely to lower the estimates while continued growth in the economy and tourism would likely act to raise the estimates.

7.1.8. AUDITOR'S REPORT REGARDING THE FORWARD LOOKING STATEMENT

I, the undersigned, for and on behalf of KPMG as the appointed auditors of Skeljungur hf., have examined the estimates and forecast disclosed by the Company in Chapter 7.1.7. *Forward Looking Statement* in this Share Registration Document. The result of the examination is that the estimates and forecast have been properly compiled and that the basis of accounting used for the profit forecast or estimate is consistent with the accounting policies employed by the Issuer as described in the Company's interim consolidated financial statements for the nine month period ended 30 September 2016.

The assumptions on which the Company bases its forecast and forward looking statements are the sole responsibility of the Executive Management of Skeljungur.

Reykjavík, 14 November 2016,

For and on behalf of KPMG ehf.,

Reynir Stefán Gylfason

7.2. Consolidated statement of comprehensive income

What follows is a comparison and discussion of the consolidated income statements for the years 2013, 2014 and 2015 as well as the periods ended on 30 September 2015 and 2016 respectively.

Amounts are in ISK million	**2016** 01.01.- 30.09. Reviewed	**2015** 01.01.- 30.09. Unaudited	**2015** Audited	**2014** Audited	**2013** Audited
Sales	36,860	29,453	36,842	42,768	30,780
Cost of goods sold	(31,159)	(24,153)	(30,044)	(36,202)	(26,459)
Gross profit	**5,701**	**5,300**	**6,798**	**6,566**	**4,321**
Other income	105	201	236	248	451
Salaries and related expenses	(1,637)	(1,501)	(2,077)	(1,937)	(1,143)
Sales and distribution expenses	(1,374)	(1,325)	(1,856)	(1,697)	(1,423)
Other operating expenses	(494)	(369)	(427)	(405)	(271)
Earnings before depr. and fin. items	**2,302**	**2,307**	**2,675**	**2,775**	**1,934**
Impairment of goodwill					(250)
Depreciation of operating assets	(532)	(547)	(1,843)	(818)	(609)
Operating profit	**1,770**	**1,759**	**832**	**1,957**	**1,075**
Net financial expenses	(399)	(455)	(579)	(729)	(799)
Share of profit from assoc. companies	**2**	**29**	**39**	**11**	**(7)**
Profit before income tax	1,373	1,333	292	1,239	268
Income tax expense	(269)	(247)	(18)	(246)	(55)
Profit from continuing operations	**1,104**	**1,086**	**273**	**993**	**213**
Loss from discontinued operations	0	0	0	(422)	(159)
Profit for the period	1,104	1,086	273	(571)	55
Foreign operation currency translations differences	(381)	(334)	(368)	(38)	(111)
Foreign currency translations differences reclassified to P&L	0	(25)	(25)	0	0
Profit for the period	**723**	**727**	**(119)**	**533**	**(57)**
Earnings per share	*0.48*	*0.43*	*0.11*	*0.30*	*0.03*

7.2.1. Income statement for the nine months ended 30 September 2016 and 2015 respectively

Sales (turnover) amounted to ISK 36,860 million in 2016 compared to ISK 29,453 million in 2015, a 25.2% increase between years. The difference is largely explained by significant increase in sold volumes of jet fuel as well as an increase in other grades.

Cost of goods sold (COGS) amounted to ISK 31,159 million in 2016 compared to 24,153 in 2015, a 29.0% increase YoY. This is also to a large extent explained by the increase in sold volumes of jet fuel.

Gross profit amounted to ISK 5,701 million in 2016 compared to ISK 5,300 million in 2015, a 7.6% increase YoY. This is mainly due to increased volumes sold.

Other income amounted to ISK 105 million in 2016 as compared to ISK 201 million in 2015, a decrease of 47.9% YoY. The main explanation is that no waste oil has been sold in 2016.

Salaries and salary related expenses amounted to ISK 1,637 million in 2016 compared to ISK 1,501 million in 2015, a 9.0% increase YoY. The increase is mainly due to collective wage agreement raises and other general salary increase.

Sales and distribution expenses were ISK 1,374 million in 2016 compared to ISK 1,325 million in 2015, a 3.7% increase YoY. The increase is due to higher volumes distributed and housing costs, *i.e.* necessary maintenance of buildings, tanks and pumps.

Other operating expenses amounted to ISK 494 million in 2016 compared to ISK 369 million in 2015, a 34.0% increase between years.

Depreciation of operating assets was ISK 532 million in 2016 compared to ISK 547 million in 2015, a decrease of 2.8% YoY.

Net financial expenses were ISK 399 million in 2016 compared to ISK 455 million in 2015, a decrease of 12.4% between years. This is explained by a lower debt level throughout the year.

Share of profit from associated companies was ISK 2 million in 2016 compared to ISK 29 million in 2015. Associated companies are Vegsauki ehf, Fjölver ehf., EAK ehf. and EBK ehf. The decrease is mainly due to translation differences reclassified to profit and loss related to Birgðastöðin Miðsandi, which was sold in 2015.

Income tax was ISK 269 million in 2016 compared to ISK 247 million in 2015, an increase of 8.9% between years. This is explained by higher profit for the period. The effective tax rate was 19,6% in 2016 compared to 18,5% in 2015.

The profit for the period was ISK 1,104 million in 2016 compared to ISK 1,086 million in 2015, an increase of 1.7% between years.

7.2.2. INCOME STATEMENT FOR YEAR ENDED 2015 COMPARED TO YEAR ENDED 2014

Sales (turnover) amounted to ISK 36,842 million in 2015 compared to ISK 42,768 million in 2014, a 13.9% decrease between years. The difference is largely explained by considerably lower oil prices as well as around a ISK 1,800 million reduction in turnover as a result of Skeljungur operational and rental agreement regarding the convenience stores.

Cost of goods sold (COGS) amounted to ISK 30,044 million in 2015 compared to 36,202 in 2014, a 17.0% decrease YoY. This is also to a large extent explained by lower oil prices and the discontinuing of the convenience store operations.

Gross profit amounted to ISK 6,798 million in 2015 compared to ISK 6,566 million in 2014, a 3.5% increase YoY. This is mainly due to increased volumes sold. Also two of Magn's retail stations that were partly out of commission in 2014, due to refurbishment and damages, were back on full operational capacity in 2015.

Other income amounted to ISK 236 million in 2015 as compared to ISK 248 million in 2014, a decrease of 5.0% YoY. The main explanation is lower rental income due to the sale of Birgðastöðin Miðsandi and lower commission income relating to the expiration and non-renewal of a purchase contract with Atlantsolía. These factors were partly offset by an increase in service revenue and in the sales of waste oil.

Salaries and salary related expenses amounted to ISK 2,077 million in 2015 compared to ISK 1,937 million in 2014, a 7.2% increase YoY. The increase is due to collective wage agreement raises and new management hires in Iceland.

The average number of full-time employees decreased from 298 to 220 YoY. The main reason for the change is that the contract with 10-11 was in affect for the whole year of 2015 compared to only 4 months in 2014.

Sales and distribution expenses were ISK 1,856 million in 2015 compared to ISK 1,697 million in 2014, a 9.3% increase YoY. The increase is due to higher volumes sold and housing costs, *i.e.* necessary maintenance of buildings, tanks and pumps.

Depreciation of operating assets was ISK 1,843 million in 2015 compared to ISK 818 million in 2014, an increase of 125.3% YoY. The main reason for the increase is the impairment charge of Skeljungur's terminals (see Chapter 7.1. *Recent developments, trends and outlook* for details) in the amount of ISK 1,063 million at year-end 2015.

Net financial expenses were ISK 579 million in 2015 compared to ISK 729 million in 2014, a decrease of 20.7% between years. This is explained by lower leverage and less need to draw on credit lines due to lower average net working capital.

Share of profit from associated companies was ISK 39 million in 2015 compared to ISK 11 million in 2014. Associated companies are Vegsauki ehf, Fjölver ehf., EAK ehf. and EBK ehf. The increase is mainly due to the sale of Birgðastöðin Miðsandi ehf. in early 2015 which was booked at a profit of ISK 26.7 million.

Income tax was ISK 18 million in 2015 compared to ISK 246 million in 2014, a decrease of 92.5% between years. This is explained by a lower base for taxation largely due to the impairment charge to the terminals. The effective tax rate was 6% in 2015 compared to 20% in 2014.

The profit for the period was ISK 273 million in 2015 compared to ISK 571 million in 2014, a decrease of 52,1% between years. The decline is mainly due to ISK 1,063 million one off impairment of terminals in Iceland.

7.2.3. INCOME STATEMENT FOR YEAR ENDED 2014 COMPARED TO YEAR ENDED 2013

Magn was fully incorporated into the consolidated accounts as of 1 January 2014[40]. Unless otherwise explicitly stated in this Chapter 7.2.3. *Income statement 2014 vs. 2013* major deviations in the income statement between 2014 and 2013 are explained by the acquisition of Magn.

Sales amounted to ISK 42,768 million in 2014 compared to ISK 30,780 million in 2013, a 39.0% increase YoY. Besides the Magn effect, sales are also affected by a drop in world market oil prices in the second half of the year.

COGS were also affected by drop in oil prices and amounted to ISK 36,202 million in 2014 compared to ISK 26,459 million in 2013, a 36.8% increase YoY.

Other income amounted to ISK 325 million in 2014 as compared to ISK 451 million in 2013, a decrease of 38.8% YoY. The main explanation is the sale of fixed assets in 2013[41] and lower commissions in 2014.

Salaries and salary related expenses were ISK 1,937 million in 2014 compared to ISK 1,143 million in 2013, a 69.4% increase between years. Largely this increase is due to Magn (+75 employees on the consolidated level) however some of the increase is due to severance packages to the former CEO, CFO and HR Manager and other employees that left in 2014.

Sales and distribution expenses were ISK 1,774 million in 2014 compared to ISK 1,423 million in 2013, a 19.2% increase YoY.

Other operating expenses amounted to ISK 405 million in 2014 compared to ISK 271 million in 2013, a 49.2% increase between years.

Earnings before depreciation and financial items were ISK 2,775 million in 2014 compared to ISK 1,934 million in 2013, an increase of 43.5% YoY. The difference is largely due to the Magn consolidation and general higher volumes on higher profit margin products.

Depreciation of operating assets was ISK 818 million in 2014 compared to ISK 609 million in 2013, an increase of 34.3% YoY. In 2013 there was a ISK 250 million impairment charge made to goodwill following trades with shares in the Company.

Net financial expenses were ISK 729 million in 2014 compared to ISK 799 million in 2013, a 9.6% decrease YoY. The change is due to a favourable development in exchange rates.

Loss from discontinued operations was ISK 422 million in 2014 (Icelandic convenience store operations) compared to ISK 159 million in 2013. The increase is due to costs associated with lay-offs and write-offs of equipment and software.

The profit for the period was ISK 571 million in 2014 compared to ISK 55 million in 2013. The main reason for low profit in 2013 was an impairment charge to goodwill and translation difference.

40 Skeljungur previously held a 34% share with the remaining 66% being held by Skeljungur's owner, SF IV.
41 Hydrogen station at Vesturlandsvegur and terminals in Bolungarvík and Ísafjörður.

7.3. Statement of financial position

Amounts are in ISK million	**2016 30.09. Reviewed**	**2015 31.12. Audited**	**2014 31.12. Audited**	**2013 31.12. Audited**
Assets				
Goodwill	3,257	3,455	3,640	1,351
Other intangible assets	685	709	769	0
Operating assets	9,698	9,763	11,238	8,987
Shares in associated companies	63	63	53	1,462
Other loans	4	23	33	78
Total non-current assets	**13,706**	**14,012**	**15,733**	**11,877**
Inventories	2,596	2,002	2,295	2,410
Trade receivables	3,269	1,960	2,553	1,761
Other receivables	256	57	188	192
Cash and cash equivalents	279	374	655	203
Total current assets	**6,400**	**4,394**	**5,691**	**4,566**
Total assets	**20,106**	**18,406**	**21,424**	**16,443**
Equity				
Share capital	2,100	2,502	2,704	1,763
Share premium	3,115	3,712	4,010	2,366
Statutory reserve	299	244	216	188
Reserve for share options	37	37	37	0
Reserve for share in profit from subsidiaries and associated companies	505			
Translation difference of shares in companies	(903)	(522)	(93)	(55)
Retained earnings	2,049	1,505	1,223	1,265
Minority interest	0	0	0	2
Total equity	**7,201**	**7,478**	**8,097**	**5,530**
Liabilities				
Deferred tax liability	**600**	641	864	618
Loans and borrowings	**4,629**	5,298	6,886	6,348
Total non-current liabilities	**5,230**	**5,939**	**7,750**	**6,966**
Short term borrowings	**1,909**	1,220	1,044	773
Trade payables	**1,924**	1,168	1,816	448
Current maturities of long-term debt	**415**	426	532	591
Payables to associated companies	**0**	0	6	2
Current tax liabilities	**282**	228	193	136
Other current liabilities	**3,144**	1,948	1,986	1,997
Total current liabilities	**7,675**	**4,989**	**5,577**	**3,947**
Total liabilities	**12,905**	**10,928**	**13,327**	**10,914**
Total equity and liabilities	**20,106**	**18,406**	**21,424**	**16,443**

7.3.1. Statement of financial position as at 30 September 2016 and 2015 respectively

Assets

The Company's total assets amounted to ISK 20,106 million at 30 September 2016 compared to ISK 18,406 million at 31 December 2015. The increase of 9.2%, is explained by seasonal fluctuations in current assets.

Non-current assets

The Company's non-current assets mainly consist of terminals, real estate (including underground storage tanks and pumps), land, goodwill and other equipment. Total non-current assets amounted to ISK 13,706 million at 30 September 2016 compared to ISK 14,012 million at 31 December 2015, a 2.2% decrease.

Goodwill amounted to ISK 3,257 million at 30 September 2016 compared to ISK 3,455 million at 31 December 2015.

Other intangible assets were ISK 685 million at 30 September 2016, which consist of business relationships and software, compared to ISK 709 million at 31 December 2015, a decrease of 3.4%.

Operating assets amounted to ISK 9,698 million at 30 September 2016 compared to ISK 9,763 million at 31 December 2015. Operating assets consist of terminals, real estate (including storage tanks and pumps) and land.

Long term receivables amounted to ISK 4 million at 30 September 2016 compared to ISK 23 million at 31 December 2015.

Current assets

The Company's current assets were ISK 6,400 million at 30 September 2016 compared to ISK 4,394 million at 31 December 2015, a 45.7% increase. The difference is due to seasonal fluctuations in inventories (higher by ISK 594 million) and receivables (higher by ISK 1,507 million).

Cash and cash equivalents amounted to ISK 279million at 30 September 2016 compared to ISK 374 million at 31 December 2015.

Equity

The Company's total equity amounted to ISK 7,201 million at 30 September 2016 compared to ISK 7,478 million at 31 December 2015, a3.7% decrease. Share capital was lowered by ISK 1,000 million (nominal value: ISK 403 million) and paid out to shareholders. The remaining difference of ISK 381 million is due to translation differences.

Liabilities

The Company's total liabilities amounted to ISK 12,905 million ISK at 30 September 2016 compared to ISK 10,928 million at 31 December 2015, an 18% increase.

Non-current liabilities

Total non-current liabilities were ISK 5,230 million at 30 September 2016 compared to ISK 5,939 million at 31 December 2015, a 12% decrease. Loans and borrowings lowered by ISK 668 million and deferred tax liability lowered by ISK 40 million.

Current liabilities

Total current liabilities amounted to ISK 7,675 million at 30 September 2016 compared to ISK 4,989 million at 31 December 2015, a 53.8% increase. The Company's current liabilities consist of short term borrowings, trade payables, current maturities of long-term debt, current tax liabilities and other current liabilities.

Short term borrowings rose by ISK 689 million, from ISK 1,220 to ISK 1,909 million, or 56.5%, and is mostly due to seasonality fluctuations.

Trade payables amounted to ISK 1,924 million at 30 September 2016 compared to ISK 1,168 million at 31 December 2015, a 64.8% increase mainly explained by seasonal fluctuations.

Current maturities of long-term debt amounted to ISK 415 million at 30 September 2016 compared to ISK 426 million at 31 December 2015.

Other current liabilities amounted to ISK 3,144 million at 30 September 2016 compared to ISK 1,948 million at 31 December 2015, a 61.4% increase mainly due to seasonal fluctuations.

7.3.2. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015 AND 2014 RESPECTIVELY

Assets

The Company's total assets amounted to ISK 18,406 million at 31 December 2015 compared to ISK 21,424 million at 31 December 2014. The decrease, 16.4% YoY, is explained by an impairment made to the Company's terminals in Örfirisey, and lower value of inventory and trade receivables due to a drop in oil prices. At the end of February 2015 the Company's sold its subsidiary, Birgðastöðin Miðsandi ehf., to Atlantic tank storage ehf.

Non-current assets

The Company's non-current assets mainly consist of terminals, real estate (including underground storage tanks and pumps), land, goodwill and other equipment. Total non-current assets amounted to ISK 14,012 million at 31 December 2015 compared to ISK 15,733 million at 31 December 2014, an 11% decrease YoY. The lower asset base is directly linked to the impairment made to the book value of terminals which were valued as a separated group of cash-generating units for first time in 2015. It is the view of the management and the Board of Directors that it is more prudent to test the standalone value of the terminals

Goodwill amounted to ISK 3,455 million is at 31 December 2015 compared to ISK 3,640 million at 31 December 2014. The impairment test on goodwill performed at year-end 2015 did not give cause for an impairment charge. The lowering YoY is due to a translation difference when preparing the consolidated financial statements.

Other intangible assets were ISK 709 million at 31 December 2015, which are specified as business relationships ISK 590 million and software ISK 179 million, compared to ISK 769 million at 31 December 2014, a decrease of 8%. The lowering is due to amortization and translation differences.

Operating assets amounted to ISK 9,763 million at 31 December 2015 compared to ISK 11,238 million at 31 December 2014, a decrease of 13% between years. Operating assets consist of terminals, real estate (including storage tanks and pumps) and land. The changes are mostly explained by the sale of Birgðastöðin Miðsandi ehf. and the impairment made to terminals.

Shares in associated companies amounted to ISK 63 million at 31 December 2015 compared to ISK 53 million at 31 December 2014.

Current assets

The Company's current assets were ISK 4,394 million at 31 December 2015 compared to ISK 5,691 million at 31 December 2014, a decrease of 13% between years. The difference is due to lower oil prices that in turn lower the book value of inventories (lower by ISK 273 million YoY) and trade receivables (lower by ISK 593 million YoY).

Other receivables were ISK 57 million at 31 December 2015 compared to ISK 188 million at 31 December 2014, a 69% decrease between years.

Cash and cash equivalents amounted to ISK 374 million at 31 December 2015 compared to ISK 655 million at 31 December 2014.

Equity

The Company's total equity amounted to ISK 7,478 million at 31 December 2015 compared to ISK 8,097 million at 31 December 2014, an 8% decrease between years. Share capital was lowered by ISK 500 million (nominal value: ISK 201 million) and paid out to shareholders. The remaining difference of ISK 119 million is due to translation differences.

Liabilities

The Company's total liabilities amounted to ISK 10,928 million ISK at 31 December 2015 compared to ISK 13,327 million at 31 December 2014, an 18% decrease YoY.

Non-current liabilities

Total non-current liabilities were ISK 5,939 million at 31 December 2015 compared to ISK 7,750 million at 31 December 2014, a 23% decrease YoY. Loans and borrowings lowered by ISK 1,588 million YoY due in part to a pre-payment of ISK 1,066 million on long term loans granted to S-fasteignir. The Company used cash released from working capital, dividend and cash proceeds of a share buy back in Magn to pay down interest-bearing debt.

Deferred tax liabilities were ISK 641 million at 31 December 2015 compared to ISK 864 million at 31 December 2014, a 26% decrease YoY.

Current liabilities

Total current liabilities amounted to ISK 4,989 million at 31 December 2015 compared to ISK 5,577 million at 31 December 2014, an 11% decrease between years. The Company's current liabilities consist of short term borrowings, trade payables, current maturities of long-term debt, payables to associated companies, current tax liabilities and other current liabilities.

Short term borrowings rose by ISK 176 million, from ISK 1,044 to ISK 1,220 million, or 17% YoY.

Trade payables were ISK 1,168 million at 31 December 2015 compared to ISK 1,816 million at 31 December 2014, a 36% decrease YoY mainly explained by lower oil prices.

Current maturities of long-term debt lowered by ISK 106 million YoY, from ISK 532 million to ISK 426 million due to lower debt levels following pre-payment of long term loans.

7.3.3. Statement of financial position as at 31 December 2014 and 2013 respectively

Magn was fully incorporated into the consolidated accounts as of 1 January 2014. Major deviations in the balance sheet between 2014 and 2013 are mostly explained by the acquisition of Magn.

Assets

The Company's total assets amounted to ISK 21,424 million at 31 December 2014 compared to ISK 16,443 million at 31 December 2013 which is mainly related to the acquisition of Magn.

Non-current assets

Total non-current assets amounted to ISK 15,733 million at 31 December 2014 compared to ISK 11,877 million at 31 December 2013, a 32% increase YoY. The increase is by and large related to the acquisition of Magn.

Goodwill amounted to ISK 3,641 million at 31 December 2014 compared to ISK 1,351 million at 31 December 2013, an increase of 169% YoY. The goodwill assumed from Magn amounted to ISK 2,350 million. An impairment test did not result in a charge to that amount and the only minor adjustment (ISK 61 million) was due to a translation difference.

Net other intangible assets, consisting of customer relationships and software, amounted to ISK 769 million at 31 December 2014, assumed from Magn whereas the Company had no other intangible assets at 31 December 2013.

Operating assets amounted to ISK 11,238 million at 31 December 2014 compared to ISK 8,987 million at 31 December 2013, an increase of 25% YoY. The increase is due to Magn.

Shares in associated companies amounted to ISK 53 million at 31 December 2014 compared to ISK 1,462 million at 31 December 2013. Again, this is explained by the full acquisition of Magn subsequently re-classed as a fully consolidated subsidiary. The book value of the 34% share in P/F Magn was ISK 1,418 million in 2013.

Other loans were ISK 33 million at 31 December 2014 compared to 78 million at 31 December 2013.

Current assets

The Company's current assets amounted to ISK 5,691 million at 31 December 2014 compared to ISK 4,566 million at 31 December 2013, an increase of 25% YoY.

The book value of inventories decreased along due to lower oil prices in the second half of 2014 as well as the disposal of the convenience stores operations in Iceland. Inventory was booked at ISK 2,295 million at 31 December 2014 vis-à-vis ISK 2,410 million at year-end 2013.

Trade receivables amounted to ISK 2,553 million at 31 December 2014 compared to ISK 1,761 million at 31 December 2013, a 45% increase YoY due to the consolidation of Magn.

Other receivables were ISK 188 million at 31 December 2014 compared to ISK 192 million at 31 December 2013, a 2% decrease between years.

Cash and cash equivalents amounted to ISK 655 million at 31 December 2014 compared to ISK 203 million at 31 December 2013.

Equity

The Company's total equity amounted to ISK 8,097 million at 31 December 2014 compared to ISK 5,530 million at 31 December 2013, a 46% YoY. The difference is due to a share capital increase associated with the acquisition of Magn.

Liabilities

The Company's total liabilities amounted to ISK 13,327 million ISK at 31 December 2014 compared to ISK 10,914 million at 31 December 2013, a 22% increase between years. The liabilities related to the acquisition of P/F Magn in 2014 amounted to ISK 3,800 million, long term ISK 1,388 million and short term ISK 2,412 million.

Non-current liabilities

Total non-current liabilities amounted to ISK 7,750 million at 31 December 2014 compared to ISK 6,966 million at 31 December 2013, an 11% increase YoY. The net increase of loans and borrowings was in the amount of ISK 538 million and deferred tax liabilities increased by ISK 245 million in both cases the increase is related to the consolidation of Magn.

Current liabilities

Total current liabilities amounted to ISK 5,577 million at 31 December 2014 compared to ISK 3,947 million at 31 December 2013, a 41% increase YoY mainly due to the acquisition of Magn.

Short term borrowings were ISK 1,044 million at 31 December 2014 compared to ISK 773 million at 31 December 2013, a 35% increase between years.

Trade payables were ISK 1,816 million at 31 December 2014 compared to ISK 448 million at 31 December 2013, a 305% increase between years, largely due to the acquisition of Magn.

Current maturities of long-term debt were ISK 532 million at 31 December 2014 compared to ISK 591 million at 31 December 2013, a 10% decrease between years as the Company has been paying off debt.

Current tax liabilities were ISK 193 million at 31 December 2014 compared to ISK 136 million at 31 December 2013, due to higher profit YoY as well as the acquisition of Magn.

Other current liabilities were largely unchanged YoY, amounted to ISK 1,986 million 31 December 2014 compared to ISK 1,997 million at 31 December 2013, a decrease of 1%.

7.4. Cash flow statement

Amounts are in ISK million	**2016** 01.01.- 30.09. Reviewed	**2015** 01.01.- 30.09. Unaudited	**2015** Audited	**2014** Audited	**2013** Audited
Operating activities					
Profit of period	1,104	1,086	273	571	55
Adjustments:					
Depreciation	532	547	1,843	939	627
Goodwill depreciation					250
Financial income and expenses	399	455	579	729	799
Effect from associated companies	(2)	(27)	(39)	(11)	7
Effects of options	(1)	(8)		37	
Gain on sale of assets			(8)	27	(90)
Effects of long term debt restructuring					120
Income tax	269	247	18	69	(131)
Changes in:					
Inventory, (increase) decrease	(663)	(322)	227	1,073	150
Trade and other receivables, (increase) decrease	(1,565)	(558)	880	281	61
Trade and other payables, increase (decrease)	1,962	1,026	(484)	(488)	(291)
Interest received	22	23	39	59	50
Interest paid	(406)	(453)	(606)	(782)	(777)
Taxes payed	(47)	(69)	(187)	(253)	(48)
Cash from operating activities	**1,605**	**1,948**	**2,535**	**2,252**	**784**
Investing activities					
Investment in operating assets	**(796)**	**(541)**	**(1,083)**	**(750)**	**(521)**
Proceeds from sale of operating assets	**6**	**19**	**22**	**41**	**115**
Investment in shares in associated companies		**(329)**	**(329)**		
Proceeds from sold shares in assoc. companies		**472**	**472**		**5**
Dividends from associated companies	**2**		**2**	**2**	**39**
Securities, change	**19**	**11**	**10**	**57**	**20**
Cash from subsidiaries				**368**	**0**
Financing activities	**(769)**	**(368)**	**(905)**	**(283)**	**(342)**
Share capital decrease	(1,000)	(500)	(500)		(125)
Paid dividends				(550)	
Instalments on long-term debt	(610)	(1,378)	(1,584)	(1,084)	(935)
Proceeds from new long-term liabilities	19				
Short-term borrowing, change	689	86	195	141	95
Net cash from financing activities	**(901)**	**(1,792)**	**(1,889)**	**(1,493)**	**(965)**
Increase (decrease) in cash and cash equiv.	**(65)**	**(212)**	**(259)**	**476**	**(523)**
Effects of movements in exchange rates	**(30)**	(29)	**(22)**	**(25)**	**7**
Cash and cash equiv. at beginning of year	374	655	655	203	718
Cash and cash equiv. at end of year	279	414	374	655	203

7.4.1. Statement of cash flows for the nine month period ended 30 September 2016

Net cash from operating activities amounted to ISK 1,605 million in 2016 compared to ISK 1,948 million in 2015, an 18% decrease YoY. The difference is explained by an increase in trade and other receivables and inventory due to increased volumes sold of jet fuel.

Net cash flow from investing activities was negative by ISK 769 million in 2016 compared to negative by 368 million in 2015, a 109% increase between years. The increase is due to a higher capital expenditure level.

Net cash from financing activities is negative by ISK 901 million in 2016 compared to negative by ISK 1,792 million in 2015, a 50% decrease between years. In lieu of dividend the shareholders voted to lower share capital.

Short term borrowing increased by ISK 603 million, from ISK 86 million in 2015 to ISK 689 million in 2016, due to seasonal fluctuations and a decrease in share capital paid out to investors.

7.4.2. STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 RESPECTIVELY

The increase in cash flow is due to the sale of Birgðastöðin Miðsandi ehf. in 2014 and investments in new ERP (enterprise resource planning) systems in both Iceland and the Faroes in 2015. Magn further invested in terminals, pipes and tanks. Net cash from operating activities amounted to ISK 2,535 million in 2015 compared to ISK 2,252 million in 2014, a 13% increase YoY. The difference is explained by a decrease in trade and other receivables and inventory due to lower oil prices.

Net cash flow from investing activities was negative by ISK 905 million in 2015 compared to negative by 283 million in 2014, a 220% increase between years. The increase is due to the sale of Birgðastöðin Miðsandi ehf. in 2014 and investments in new ERP systems in both Iceland and the Faroes in 2015. Magn further invested in terminals, pipes and tanks.

Net cash from financing activities is negative by ISK 1,889 million in 2015 compared to negative by ISK 1,493 million in 2014, a 55% increase between years. The Company continued to pay off debt, using cash released from trade receivables and inventory. In lieu of dividend the shareholders voted to lower share capital.

Cash and cash equivalents amounted to ISK 374 million at 31 December 2015 compared to ISK 655 million at 31 December 2014.

7.4.3. STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013 RESPECTIVELY

Net cash from operating activities amounted to ISK 2,252 million in 2014 compared to ISK 784 million in 2013, an 187% increase between years. The difference is mainly explained by a decrease in trade and other receivables as well as lower inventory.

Net cash flow from investing activities was negative by ISK 283 million in 2014 compared to negative by 342 million in 2013, a 17% decrease between years. The decrease is to a large extent due to cash held by Magn at the time of consolidation.

Net cash from financing activities was negative by ISK 1,493 million in 2014 compared to negative by ISK 965 million in 2013, a 55% increase between years. The Company paid dividend in the amount of ISK 550 million and pre-paid ISK 1,066 million of debt.

Cash and cash equivalents amounted to ISK 655 million at 31 December 2014 compared to ISK 203 million at 31 December 2013.

7.5. Statement of changes in equity

Amounts are in ISK million[42]	Share capital	Share premium	Statutory reserve	Reserve share options	Reserve share in profit from subsidiaries	Transl. diff.	Retained earnings	Non-contr. Interest	Total equity
2013									
Shareholders' equity	1,763	2,366	185	0	0	(56)	1,193	3	5,566
Impact of change to IFRS							131		131
Position as of 1/1 2013	1,763	2,366	185	0		(56)	1,324	3	5,697
Total comprehensive loss						(111)	69	0,3	(43)
Contr. to statutory reserve			3				(3)		0
Issued new shares									0
Paid dividend							(125)		(125)
Balance at 31 December	1,763	2,366	188	0	0	(55)	1,265	2	5,530
2014									
Shareholders' equity	1,763	2,366	188			(55)	1,265	2	5,530
Total comprehensive income							571		571
Contr. to statutory reserve						(38)			(38)
Issued new shares	941	1,644							2,585
Equity-settled share-paym.			29				(29)		
Non-controlling interest acq.							2	(2)	
Paid dividend							(550)		(550)
Balance at 31 December	2,704	4,010	216	37	0	(93)	1,223		8,097
2015									
Shareholders' equity	2,704	4,010	216	37		(93)	1,223		8,097
Equity 1/1 reclassified						(37)	37		
Profit							273		273
Other comprehensive loss						(393)			(393)
Total comprehensive income						(393)	273		(119)
Share capital decrease	(201)	(299)							(500)
Contr. to statutory reserve			27				(27)		
Balance at 31 December	2,502	3,712	244	37	0	(522)	1,505		7,478
2016									
Shareholders' equity	2,502	3,712	216	37		(522)	1,505		7,478
Total comprehensive income						(381)	1,104		723
Share capital decrease	(403)	(597)							(1000)
Contribution to reserve, profit from subsidiaries and associated companies					505		(505)		
Contr. to statutory reserve			55				(55)		
Balance at 30 September	2,100	3,115	299	37	505[43]	(903)	2,049		7,201

[42] Please note that figures in this table have been rounded and so sums may not add up.
[43] Due to changes to Icelandic accounting standards Skeljungur must recognise a reserve against its share of profit from subsidiaries/associated companies. Reference is made to Note 9 in the Company's consolidated financial statements for the 9 months ended 30 September 2016 for a more detailed account of these changes.

The Company's total equity at 30 September 2016 was ISK 7,201 million compared to ISK 7,478 million at year-end 2015, ISK 8,097 million at year-end 2014 and ISK 5,530 million at year-end 2013. The share capital was increased in the amount of ISK 2,585 million in 2014 in association with the full acquisition of Magn. In 2015 and 2016 shareholders resolved to lower the share capital by ISK 500 million and ISK 1,000 million respectively and pay it out to shareholders.

The table above shows changes in equity between 31 December 2013 and 2014 respectively, between 31 December 2014 and 2015 respectively and 31 December 2015 and 30 September 2016 respectively.

8. Share capital and shareholders

8.1. Share capital

As of the date of this Share Registration Document, the nominal value of the share capital of Skeljungur is ISK 2,099,582,121 divided into an equal number of Shares with a nominal value of one ISK one each. All of the Company's issued share capital is paid in full.

In accordance with the Public Companies Act the Company is authorised to own up to 10.0% of its own share capital. The authorisation of a shareholders' meeting to the Board of Directors is needed for the Company to acquire treasury Shares. Such an authorisation, if issued, can only be granted for a period of eighteen months at a time. The Company currently neither holds nor is authorised to acquire treasury Shares.

8.1.1. SHARE CAPITAL MOVEMENTS

Table 11: *Developments in issued share capital of Skeljungur*

Date *Amounts are in ISK*	Changes	Issued shares post changes	Nature of changes
01.01.2013		1,762,804,606	Issued share capital at beginning of period
05.11.2014	940,789,580	2,703,594,186	Share capital increase
18.05.2015	(201,337,337)	2,502,256,849	Share capital decrease
22.09.2016	(402,674,728)	2,099,582,121	Share capital decrease

8.2. Shareholders

At the date of this Share Registration Document Skeljungur has two shareholders; SF IV and SF IV GP ehf. ("SF IV GP"). SF IV holds all Shares but one.

Table 12: *Shareholders of Skeljungur as at 14 November 2016*

Shareholder name	Nominal value	Number of shares	% of holding
SF IV slhf.	2,099,582,120	2,099,582,120	99,99%
SF IV GP ehf.	1	1	0,001%

SF IV is a holding company in the ownership of 32 Beneficial Owners of the Shares in Skeljungur. Prior to the Offering SF IV will decrease its share capital by handing down to the Beneficial Owners, in proportion to their holdings, the 1,606,180,322 Shares in Skeljungur that SF IV has not committed to sell in the Offering. Therefore, at the time of the Offering the Beneficial Owners will be direct holders of Shares in Skeljungur alongside SF IV. The shareholders' agreement in place between the shareholders of SF IV will lapse parallel with the Shares being admitted to trading. A list of the 20 largest shareholders in SF IV as at the date of this Share Registration Document can be seen in Table 13.

Table 13: *20 largest shareholders in SF IV as at 14 November 2016*

Shareholder name *Amounts are in ISK*	% of holding
SÍA II slhf.	24.22%
Arion banki hf.	12.92%
Gildi – pension fund	9.30%
PB1 ehf.	8.18%
LSR pension fund A-branch	7.07%
Stefnir - ÍS 5 mutual fund	4.65%
Draupnir – Sigla ehf.	4.00%
Festa pension fund	3.49%
Stapi pension fund	3.49%
LSR pension fund B-branch	3.26%
Söfnunarsj. Lífeyrisréttinda pension fund	2.90%
Stefnir – Samval mutual fund	2.67%
Vátryggingafélag Íslands hf.	1.86%
Mars ehf.	1.78%
Sindrandi ehf.	1.29%
Kaskur ehf.	1.18%
Landstakkur ehf.	1.17%
Sjóvá-Almennar tryggingar hf.	1.16%
ET sjón ehf.	1.01%
Eignaval – Hlutabréf mutual fund	0.87%
Others (12)	3.49%
Total	100%

The largest shareholder in SF IV is SÍA II with a 24.22% share. SÍA II will therefore be the largest single shareholder in Skeljungur once SF IV hands the Shares down. SÍA II is a private equity fund owned by institutional investors, some of which will also be direct shareholders in Skeljungur. SÍA II aims to sell its remaining Shares in Skeljungur and/or distribute them to its investors within 18 months from the Offering. As long as SÍA II remains a significant shareholder in Skeljungur, it will follow through its investment in Skeljungur and nominate a member to Skeljungur's Board of Directors.

The Issuer declares that to the best of its knowledge the above listed are the rightful owners of the Company and that the Issuer is not aware that it is, whether directly or indirectly, under the control or influence of a party or parties other than those listed above.

Investors are advised to familiarise themselves with possible conflicts of interest regarding the Issuer in Chapters 2.1. *Potential Conflict of interest* and 6.5.2. *Statements and Potential Conflict of Interest* of this Share Registration Document. Chapters 6.2. *Board of Directors* and 6.3. *Executive Management* further contains information on the shareholdings of the members of the Board of Directors as well as Executive Management and their related parties as relevant.

SF IV will offer a total of 493,401,798 Shares in Skeljungur for sale in the Offering taking place between 28 and 30 November 2016. The following Beneficial Owners, Arion Bank and SÍA II, reserve the right to increase the number of offered Shares by up to 8% of the total issue of Shares, which if used in full would bring the total number of issued Shares up to 31.5%. Reference is made to the Issuer's Securities Note, dated 14 November 2016 for all details of the Offering. The Offering's results are expected to be publicly announced on 1 December 2016.

If Shares in Skeljungur will be admitted to trading on Nasdaq Iceland's regulated market, as planned, shareholders will be subject to Chapter IX. of the Securities Transactions Act on the changes in significant proportions of voting rights, Chapter X. on takeovers and Chapter XI. on offer documents.

8.2.1. SHAREHOLDERS' RIGHTS AND OBLIGATIONS

The Shares are all in one class and equal in all respects. Shareholders' rights are subject to the Company's Articles of Association and the relevant applicable laws at any given time. No special rights or privileges are attached to the Shares and all Shares are freely transferable. Shareholders will not be subject to redemption of their Shares unless stipulated by law. Changes in ownership of the Shares are governed by the provisions of Act No. 131/1997 on electronic registration of title to securities and any subsequent rules based thereon. For information on all other rights reference is made to Chapter 9 *Skeljungur's Articles of Association* in this Share Registration Document as well as to the Public Companies Act.

Disputes arising regarding Shares in the Company shall be settled before the Reykjavik District Court as per Act No. 91/1991 on Civil Procedure.

8.2.2. VOTING RIGHTS

Each Share carries one vote at shareholders' meetings, where matters are decided by simple majority unless otherwise prescribed by the Articles or law. No voting rights are attached to treasury Shares or Shares held by the Issuer's subsidiaries.

8.2.3. INCREASE / DECREASE OF SHARE CAPITAL

The increase of share capital can exclusively be decided by a shareholders' meeting and requires the same number of votes as do amendments to the Articles of Association. If share capital is increased existing shareholders enjoy pre-emptive rights to new Shares in proportion to their existing holdings, as prescribed by law at each given time. If a shareholder does not exercise his or her pre-emptive rights in full, other shareholders are entitled to increase their subscription rights. A shareholders' meeting's resolution is also needed to lower share capital and requires the same number of votes as do amendments to the Articles of Association.

According to the current Articles of Association the Board of Directors is authorised to increase the share capital of the Company by issuing up to 81,107,826 new shares. The increase can exclusively be used to honor options agreements with employees pursuant to the Company's remuneration policy. The authorisation, to the extent it is still untapped, will lapse on 1 September 2019. Under the authorisation existing shareholders waive all pre-emptive rights to these new Shares.

8.2.4. AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

The Company's Articles of Association can only be amended at lawful shareholders' meetings. Amendments are only valid if voted for by at least 2/3 of the total votes cast and have the support of shareholders controlling at least 2/3 of the share capital represented at the meeting. Amendments to articles stipulating voting rights and equal rights of shareholders demand the support of all shareholders as per Article 94 of the Public Companies Act.

8.2.5. DIVIDENDS

The Board has adopted a dividend policy according to which it will propose a dividend and/or a share buy back in the level of 30-50% of net profit annually. When forming their proposal the Board takes into account and considers the risk policy in place, market conditions, the Company's liquidity need, financial covenants and other possible factors that might limit payments to shareholders at any given time. These considerations might affect the proposed amount of devident an even lead to no dividend being proposed. As discussed in Chapter 7.1.1. *Capital structure*, the Company is currently seeking to refinance all of its debt *inter alia* by borrowing from Faroese banks. According to the covenants of the Faroese loan dividend payments / share buy-back cannot exceed 50% of profits.

All shareholders hold equal rights to dividend payments. Dividend shall be decided at the Annual General Meeting to be held before the end of April each year. The AGM decides the payment date which must be within six months of the AGM. The AGM moreover decides the ex-date. The right to dividend payments are afforded to the registered shareholders as at the record date, *i.e.* three days post the declaration date (the date of the AGM). In light of the recent share capital decrease the Board of Directors does not expect to propose a dividend payment for the year 2016.

Dividends may be claimed at the Company's registered offices for up to four years post the payment date, after which they lapse and are lawfully retained by the Company.

In deciding the amount of dividend to be paid, the Issuer is bound by the provisions of the Public Companies Act. According to Article 99 (1) of said Act companies are only allowed to allocate as dividend, profits according to the previous fiscal year's annual accounts, profits that have been carried over from prior years and available funds from which unsettled losses and agreed or lawfully required reserves have been deducted.

The Company is further bound by covenants concerning dividend payments that loan agreements may contain. According to Skeljungur's loan agreements with Arion Bank the Company cannot pay dividends unless the following conditions are fully met:

a) No payments according to any loan agreements entered into by the Company or any of the subsidiaries within the group are past due;
b) The financial conditions set by the loan agreement are complied with;
c) That the Company's equity ratio maintains a minimum of 30% post dividend payment;
d) That the profits paid out are not the result of a one-off sale of fixed assets, due to the revaluation of assets or due to a change in accounting procedures.

It should be noted that according to Act No. 87/1992 on Foreign Exchange, dividends can only be transferred offshore if their source is profits from regular, continuing operations, *i.e.* they can not be proceeds from the sale of assets or a share capital decrease.

9. Skeljungur's Articles of Association

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ARTICLES OF ASSOCIATION OF SKELJUNGUR HF.

Chapter I

Company name, address and purpose of business.

Article 1

The name of the Company is Skeljungur hf.

Article 2

The Company's address is Borgartún 26, 105 Reykjavík.

Article 3

The purpose and objective of the Company is wholesale and retail trade in petrol, oil products and other related products, as well as every kind of commercial activity involving other products, both for retail sale and in wholesale. Also, lending activities, the management and operation of property, vessels, service stations and other business activity, or participation in commercial enterprise, as resolved by the Company's board.

CHAPTER II

Share capital of the Company.

Article 4

The share capital of the company is ISK 2,099,582,121 – two billion ninety nine million five hundred eighty two thousand one hundred twenty one –. The share capital is divided into shares and each share amounts to one - 1 - Krona nominal value. However, shares may be issued of different amounts, if there is a reason to do so.

The consent of a shareholders meeting is necessary to increase or decrease the share capital. The same amount of votes is necessary as is to change these Articles of Association. If the share capital is increased the shareholders have pre-emptive rights to all new shares issued upon an increase of the share capital in proportion to their registered holdings, otherwise the issuing of such shares is governed by the rules set by the Company's board of directors in accordance with the decision of a shareholders' meeting at any given time. The same amount of votes is needed to set aside the shareholders´ pre-emptive rights as to change the Articles.

The Board is permitted to increase the share capital for as much as 81.107.825 ISK but no more than 3% of the nominal value of the share capital, to fulfil the obligations towards Skeljungur and its subsidiaries´ employees leading from the Remuneration Policy, i.e. stock options, purchase and subscribtion agreements. The share holders waive their pre-emption rights. The permission stands until January 1, 2019.

Article 5

When a shareholder has fully paid-up his share the shareholder shall be handed electronic shares issued by a securities brokerage and given the right of ownership of the shares. Such electronic shares provide him with title as prescribed by law and the Articles of Association.

Article 6

The Company's shares are issued electronically by a securities brokerage, according to act no. 131/1997 on electronic property registration. The board shall maintain a share ledger which shall be accessible to all shareholders at the Company's head office. A printout from a securities brokerage concerning the ownership of shares in the Company is considered to be a sufficient base for a share ledger.

Article 7

The share ledger is full valid proof with respect to the Company for ownership of shares in the Company, and dividends as well as all notifications are to be sent to the party who at any given time is the registered owner of the relevant shares. A person who gains ownership over shares in the Company cannot exercise its rights as a shareholder unless its name has been listed in the share ledger.

Article 8

The Company may own its own shares to the degree permitted by law. The Company may only acquire such shares by permission given to the board by a shareholders' meeting. The authority granted to the Company's board to purchase its own shares may not exceed a period of 18 months on each occasion. Voting rights are not attached to the company's own shares. After listing, the Company shall apply to act no 2/1995 on public limited companies, regarding the purchasing of its own shares.

Article 9

There are no restrictions imposed on transactions involving shares in the Company.

Registration at a securities brokerage is considered a sufficient proof for ownership of shares.

Article 10

Each shareholder has a duty without any particular obligation, to comply with the current Company Articles of Association or as duly amended at a later date.

If a shareholder owns more than 9/10 of the shares, he, with the Board of Directors, or a minority shareholder can force a purchase according to Paragraph 1 of Article 24 and 26 in the Act on Public limited liability companies no. 2/1995. If such events occur before the Company is listed the purchase price shall be equivalent to the intrinsic value of the Company according to the next Annual Account or the next interim financial report, approved by the Board of Directors. After the listing of the Company, article 110 of the Securities Transaction Act no 108/2007 shall apply.

Shareholders are not liable for the Company's obligations in excess of their shareholdings. This provision may not be amended nor cancelled by the resolution of a shareholders' meeting.

Article 11

If the annual meeting of the Company decides that dividends be paid on shares the Company's Board of Directors has the right and the obligation to pay the dividend to the registered owner of shares, but not to any other, unless the holders prove their title to the shares or their power of attorney to receive the dividend.

CHAPTER III

Governance.

Article 12

The governance of the Company is vested in these parties:

1) Shareholders' meetings.
2) The Company's Board of Directors.
3) The Chief Executive Officer.

Shareholders' meetings.

Article 13

The supreme authority in all the affairs of the Company, within the limits set forth in its Articles of Association and national laws is in the hands of lawful shareholders' meetings.

A shareholder can have a proxy attend shareholders' meetings on his behalf.

The proxy shall submit a written and duly dated power of attorney. The power of attorney may never be valid for more than one year from its date of execution.

The annual meeting or a shareholders' meeting shall be convened with at least 21 days advance notice by advertisement in newspapers, post letter, e-mail or by other means as the Company's Board may decide. It is however permitted to convene a meeting with one week's advance notice if shareholders who control at least 90% of the shares approve in advance in writing of such a manner of convening. Approval by e-mail is considered sufficient for this purpose. Matters to be discussed at the shareholders' meeting must be set forth in the convening notice. If a motion to amend the Articles of Association is on the agenda, the main subject of this motion shall be indicated in the convening notice. After listing, the Company must abide to article 88.d. of the Act no. 2/1995 on public limited companies, regarding the shareholders´ access to documents for shareholders or annual meetings, such as meeting notifications, necessary voting power, documents and proposals for the meetings.

A shareholders' meeting is valid it is rightfully summoned. The same applies to the annual meeting.

Article 14

The Company's board shall convene a shareholders' meeting when it considers it to be necessary, as well as in complying with a resolution by a meeting or when elected auditors or shareholders controlling at least 1/20 of the shares, submit a written demand for this accompanied by explanatory notes with reasoning for demanding a meeting.

Such meetings shall be convened in the same manner as other shareholders' meetings. When a lawful demand for the holding of a meeting has been presented the Board is obligated to convene a meeting at the latest within two weeks from when it received the demand.

Each shareholder is entitled to have a specific matter discussed at a shareholders' meeting if he issues a written demand for this to the Company's Board with such advance notice that it is possible to put the matter on the agenda for the meeting.

Article 15

The annual general meeting shall be held before the end of April every year. The meeting shall be held at the location which the Board decides at any given time.

Article 16

The general meeting shall pass resolutions on these matters:

1) Report from the Company's Board of Directors on the Company's activity the previous operating year.
2) The Company's annual report for the past operating year including the auditors' notes shall be presented for approval.
3) A decision shall be taken as to the treatment of the Company's profits or losses during the fiscal year.

4) Decision taken regarding compensation to board members, examiners and committee members.
5) Election of Nomination Committee
6) Election of the Board of Directors pursuant to Article 23.
7) Election of an auditor or a public accountant firm
8) Proposals by the Board of Directors concerning the Company's policy regarding terms of employment.
9) Other issues that may have been lawfully submitted to the meeting or which the meeting takes up for discussion.

Article 17

The Chairman of the Board or the elected chairman of the meeting chairs the meeting of the shareholders and he appoints the secretary of the meeting with the approval of the meeting. At the outset of the meeting the chairman of the meeting shall check whether the meeting is duly convened and whether the meeting is valid in other respects and he shall then declare if it is so. Discussions, voting and the procedures at the meeting shall be conducted as the chairman decides. A special minute book shall be kept and all decisions and resolutions passed by the meeting as well as short minutes shall be recorded therein. When the minutes have been read out and passed the chairman of the meeting as well as the secretary shall sign the minutes. Such recorded minutes shall be considered to be lawful evidence of what transpired at the meeting.

Article 18

At the meetings of the shareholders each 1 krona share shall have one vote.

At the meetings of shareholders a simple plurality of votes will decide issues, unless the Company's Articles of Association or national laws stipulate otherwise.

If a proposal receives an equal number of votes, for and against, it is considered defeated. If two or more persons receive an equal number of votes at the election of persons for posts at the Company a drawing of lots will decide.

The approval of all shareholders is needed for the following:

a) To require shareholders to supply funds in excess of their original obligations.
b) To require shareholders to be subject to redemption of their shares in part or in whole unless the Company is dissolved or the share capital is written down.
c) To limit the authority of shareholders to exercise the use of their shares exceeding what is stipulated in these Articles of Association.
d) To change the purpose and objective of the Company significantly.
e) To amend the provisions of these Articles of Association regarding voting right, privileges, whether preferred shares should be issued according to individual shareholdings in the Company or regarding equality between individual shareholders.

Article 19

The Company's own shares do not hold voting rights. Such shares should not be included when there is a requirement for the approval of all shareholders or for a specified majority of all share capital or for the shares represented at shareholders' meetings.

Article 20

The shareholder by himself, or through proxy or as proxy for others may not participate in a vote at a shareholders' meeting with respect to litigation against himself or involving his liability towards the Company. The same applies to legal proceedings against others or concerning the liability of others, if the shareholder has a material interest in such a case which might be contrary to the interests of the Company.

Article 21

The shareholder may grant power of attorney to others to attend meetings on his behalf and to vote his shares or act on his behalf regarding his shares, cf. Article 14. Otherwise only the shareholders, the Company's auditors and the CEO possess the right to attend shareholders' meetings, although they are not shareholders. The Board may however invite specialists to attend a particular meeting, if there is a need to appeal to their opinion or assistance.

The Company's Board of Directors

Article 22

The annual general meeting of shareholders elects every year five persons to the Company's Board of Directors [and two alternates]. Requirements for their competency are set out in law. A shareholders' meeting may also elect board members/board member, in the event that a board member/-members is or are deceased or has resigned. The ratio of each gender within the Board shall be no less than 40%. The alternatives shall be of the opposite gender.

Elections to the board of directors shall as a rule be written if the number of proposed candidates is higher than the number to be elected. In that case the election shall only involve the appointed candidates.

Article 23

The board of directors elects the chairman from among the members of the board and divides its tasks between the board members.

The chairman convokes the meetings of the board and chairs the meetings.

Board meetings shall as a rule be held if any of the board members or the CEO demands this. A meeting of the board is a meeting with a quorum when a majority of the board members attends. Important decisions may however not be taken without all board members having had an opportunity to discuss the matter, if possible. A simple majority will decide issues unless otherwise stipulated in these Articles of Association or in other lawful orders. The vote of the chairman decides issues when the votes break even.

A record of minutes shall be held concerning everything that transpires at the meetings of the Board of Directors and the record of minutes shall be signed by those who attend the meeting.

Meetings of the Board of Directors may be conducted by telephone or by teleconferencing equipment. [The Board may also make decisions via email, if necessary.] Decisions thus taken shall however be confirmed at the next meeting of the Board of Directors when the board convenes.

Article 24

The Board of Directors is the supreme authority in the affairs of the Company between shareholder meetings.

The Board of Directors handles and is responsible for the affairs of the Company and is responsible for keeping the organisation and operation of the Company in good order.

The Company's board shall oversee that the Company's accounting and the handling of the Company's funds is under adequate control.

The Company's board hires a director for the Company issues terms of reference for him or draws up a contract of employment with him and relieves him of his duties.

The company's board alone can grant powers of procuration.

The company's board has the authority to obligate the Company and the signatures of a majority of the members of the board is sufficient.

In other respects the responsibilities, powers and work of the board shall be governed by law.

Chief Executive Officer

Article 25

The Chief Executive Officer oversees the Company's daily operation according to the Company's Articles of Association and the main policy set by shareholder's meetings or by the Company's board of directors. This however does not cover those matters that are unusual or important. Such matters the CEO will only be able to take care of provided that he is granted authority to do so by the Company's board unless it is not possible to wait for the decisions of the company's board without substantial disadvantage for the company's operations. In such instances the company's board must be notified of the handling of the matter as soon as possible.

The CEO is responsible towards the company's board when carrying out his duties. The CEO attends board meetings although he is not a board member and has the right to speak and submit motions.

The CEO has the authority to sell and purchase real estate for the Company for up to ISK 25,000,000.- on each separate occasion, without special approval from the board.

CHAPTER IV

Accounting, auditing etc.

Article 26

The Company's fiscal year is the calendar year. The preparation of the annual accounts must be completed within two weeks before the annual general meeting and will then be handed over to the auditors for thorough auditing.

Article 27

The general meeting shall elect an auditor for the Company or an auditing firm for a term of one year. Auditors may not be elected from among the group of board members or from among the Company's employees. Requirements for the competency of auditors are set out in law.

Article 28

Auditors and examiners shall audit the Company's annual accounts in accordance with good auditing practices, and in this connection they must review accounting records of the Company and other factors linked to the company's operation and situation. As a rule they have access to all the company's records and documents. Otherwise their duties are subject to law.

Article 29

The annual accounts shall show in a clear-cut and thorough manner the Company's income and expenses, its assets and liabilities. The expenses should include reasonable depreciation of the Company's real estate holdings and movable assets.

Amendments to the Company's Articles of Association.

Article 30

The Company's Articles of Association may be amended at a duly convened meeting of the shareholders unless prohibited by law. The Company's Articles of Association may however not be changed unless with the approval of at least 2/3 parts of the votes cast at the meeting as well as the approval of the shareholders of 2/3 of the shares present at the shareholders' meeting.

The provisions of these Articles of Association regarding the voting right of shareholders and equal status among them may however not be amended except in accordance with Article 94 of the Act on Public Limited Companies, No. 2/1995.

Chapter V

Dissolution of the Company etc.

Article 31

In the event that it is found to be advisable or necessary to dissolve the Company the decision on the dissolution of the Company shall be taken at a meeting of the shareholders by the same voting power as is necessary to change these Articles of Association. The same applies to any kind of merger or consolidation of the Company with other companies as well as regarding the sale of its assets. The meeting that lawfully passes a decision to dissolve the Company shall also make provisions for how to allocate its assets and for the payment of debts, cf. Chapter XIII of Act No. 2/1995 on Public Limited Companies.

Other provisions.

Article 32

Whenever the provisions of these Articles of Association do not prescribe the procedures to be followed or how the affairs of the Company are to be arranged then the provisions of Act No. 2/1995 on Public Limited Companies, and Act No. 144/1994 on Annual Accounts shall be complied with to the extent applicable.

Approved at the meeting of the shareholders of Skeljungur hf. on 16 September 2016.

10. Consolidated financial statements

Skeljungur hf.

Ársreikningur samstæðunnar
2013

Skeljungur hf.
Borgartúni 26
105 Reykjavík

Kt. 590269-1749

Efnisyfirlit

Skýrsla og yfirlýsing stjórnar og forstjóra

Skeljungur hf. er íslenskt olíuinnflutnings fyrirtæki með víðtæka starfsemi á sviði þjónustu og verslunar á Íslandi. Skeljungur er með starfsemi á 65 smásölu- og bensínsínstöðvum og 10 olíubirgðastöðvum.

Ársreikningurinn hefur að geyma samstæðureikning Skeljungs hf. og dótturfélaga þess, Bensínorkunnar ehf, Birgðastöðvarinnar Miðsandi ehf., S-fasteigna ehf. og Tollvörugeymslu Skeljungs ehf. sem er núna í fyrsta skipti hluti af samstæðunni.

Samkvæmt rekstrarreikningi nam sala samstæðunnar 32.645 millj. kr. á árinu og hagnaður ársins nam 55 millj. kr. Samkvæmt efnahagsreikningi námu eignir samstæðunnar 16.299 millj. kr. Eigið fé samstæðunnar í lok reikningsársins nam 5.385 millj. kr. og eiginfjárhlutfall var 33%

Hlutafé félagsins var 1.763 millj. kr. í lok ársins 2013 og var það í eigu sex aðila, en þeir voru fimm í ársbyrjun, Hluthafar í árslok voru eftirfarandi:

	Eignarhluti
SNV Holding ehf.	34,87%
Íslandsbanki hf.	33,95%
Hedda eignarhaldsfélag ehf.	25,37%
Einarsmelur ehf.	3,00%
Rákir ehf.	2,49%
Einar Örn Ólafsson	0,32%

Í desember 2013 var kominn á skuldbindandi samningur um kaup SF IV slhf. og SF IV GP hf. á 100% hlutafjár í Skeljungi hf. Afhending hlutafjárins fór fram í janúar 2014.

Stjórn félagsins leggur til að greiddar verði 550 millj. kr. í arð til hluthafa á árinu 2014 vegna rekstrarársins 2013 og vísar til skýringa um ráðstöfun hagnaðar og aðrar breytingar á eigin fé.

Stjórn og forstjóri Skeljungs hf. staðfesta hér með ársreikning samstæðunnar fyrir árið 2013 með undirritun sinni.

Reykjavík, 16. apríl 2014

Stjórn:

Forstjóri:

Áritun óháðs endurskoðanda

Til stjórnar og hluthafa í Skeljungi hf.

Við höfum endurskoðað meðfylgjandi samstæðuársreikning Skeljungs hf. fyrir árið 2013. Ársreikningurinn hefur að geyma rekstrarreikning, efnahagsreikning, eiginfjáryfirlit, sjóðstreymisyfirlit upplýsingar um helstu reikningsskilaaðferðir og aðrar skýringar.

Ábyrgð stjórnenda á ársreikningnum

Stjórnendur eru ábyrgir fyrir gerð og glöggri framsetningu ársreikningsins í samræmi við lög um ársreikninga nr. 3/2006. Stjórnendur eru einnig ábyrgir fyrir því innra eftirliti sem þeir telja nauðsynlegt til að gera þeim kleift að setja fram ársreikning sem er án verulegra annmarka, hvort sem er vegna sviksemi eða mistaka.

Ábyrgð endurskoðanda

Ábyrgð okkar felst í því áliti sem við látum í ljós á ársreikningnum á grundvelli endurskoðunarinnar. Endurskoðað var í samræmi við alþjóðlega endurskoðunarstaðla. Samkvæmt þeim ber okkur að fara eftir settum siðareglum og skipuleggja og haga endurskoðuninni þannig að nægjanleg vissa fáist um hvort ársreikningurinn sé án verulegra annmarka.

Endurskoðun felur í sér aðgerðir til staðfestingar á fjárhæðum og öðrum upplýsingum í ársreikningnum. Val endurskoðunaraðgerða byggist á faglegu mati endurskoðandans, þar með talið á þeirri hættu að verulegir annmarkar séu á ársreikningnum, hvort sem er vegna sviksemi eða mistaka. Við áhættumatið er tekið tillit til þess innra eftirlits sem varðar gerð og glögga framsetningu ársreiknings, til þess að skipuleggja viðeigandi endurskoðunaraðgerðir, en ekki til þess að gefa álit á virkni innra eftirlits félagsins. Endurskoðun felur einnig í sér mat á því hvort reikningsskilaaðferðir og matsaðferðir sem stjórnendur nota við gerð ársreikningsins séu viðeigandi sem og mat á framsetningu hans í heild

Við teljum að við endurskoðunina höfum við aflað nægilegra og viðeigandi gagna til að byggja álit okkar á.

Álit

Það er álit okkar að samstæðuársreikningur Skeljungs hf. gefi glögga mynd af afkomu samstæðunnar á árinu 2013, fjárhagsstöðu hennar 31. desember 2013 og breytingu á handbæru fé á árinu 2013, í samræmi við lög um ársreikninga

Staðfesting vegna skýrslu stjórnar

Í samræmi við ákvæð 2. mgr. 104 gr. laga nr. 3/2006 um ársreikninga staðfestum við samkvæmt okkar bestu vitund að í skýrslu stjórnar sem fylgir ársreikningi þessum eru veittar þær upplýsingar sem þar ber að veita í samræmi við lög um ársreikninga og koma ekki fram í skýringum.

Reykjavík, 16. apríl 2014

KPMG ehf.

Rekstrarreikningur ársins 2013

	Skýr.	2013	2012
Sala	2	32.645.224	33.564.227
Kostnaðarverð seldra vara		(27.725.228)	(28.671.499)
Framlegð		4.919.996	4.892.728
Aðrar rekstrartekjur	13	527.523	371.491
Sölu- og dreifingarkostnaður		(3.079.764)	(3.166.264)
Annar rekstrarkostnaður		(614.013)	(523.042)
Rekstrarhagnaður fyrir afskriftir og fjármagnsliði		1.753.742	1.574.913
Virðisrýrnun viðskiptavildar	6,17	(250.000)	0
Afskriftir rekstrarfjármuna	7,18	(626.817)	(728.783)
Rekstrarhagnaður		876.925	846.130
Fjármunatekjur og fjármagnsgjöld			
Fjármunatekjur	15	49.787	73.480
Fjármagnsgjöld	15	(849.177)	(940.766)
Áhrif hlutdeildarfélaga	8,21,22	(7.331)	58.923
Hagnaður fyrir tekjuskatt		70.204	37.767
Tekjuskattur	12,16,27	(15.580)	11.172
Hagnaður ársins		54.625	48.939
Hagnaður skiptist þannig:			
Hluthafar móðurfélags		54.915	50.055
Minnihluti í dótturfélagi		(290)	(1.116)
Hagnaður ársins		54.625	48.939
Hagnaðarhlutur			
Hagnaður á hverja krónu hlutafjár	5	0,03	0,03

Efnahagsreikningur 31. desember 2013

	Skýr.	2013	2012
Fastafjármunir			
Viðskiptavild	6,17	1.351.038	1.601.038
Rekstrarfjármunir	7,18	8.986.786	9.176.982
Eignarhlutir í hlutdeildarfélögum	8,22	1.317.446	1.462.361
Langtímakröfur		77.500	97.173
Fastafjármunir		11.732.770	12.337.554
Veltufjármunir			
Birgðir	9,23	2.409.569	2.559.768
Viðskiptakröfur	10,24	1.761.493	1.671.774
Aðrar skammtímakröfur		191.974	342.868
Handbært fé		202.956	718.160
Veltufjármunir		4.565.992	5.292.570
Eignir samtals		16.298.762	17.630.124
Eigið fé			
Hlutafé	25	1.762.805	1.762.805
Yfirverðsreikningur hlutafjár		2.366.490	2.366.490
Lögbundinn varasjóður		187.802	185.056
Þýðingarmunur		(54.750)	56.452
Óráðstafað eigið fé		1.120.318	1.193.149
Eigið fé hluthafa móðurfélags		5.382.666	5.563.953
Hlutdeild minnihluta		2.358	2.648
Eigið fé samtals		5.385.024	5.566.601
Langtímaskuldir og skuldbindingar			
Tekjuskattsskuldbinding	12,26	618.370	749.474
Skuldir við lánastofnanir	28,29	6.348.074	7.257.705
Langtímaskuldir og skuldbindingar		6.966.444	8.007.179
Skammtímaskuldir			
Skuldir við lánastofnanir		772.821	677.443
Viðskiptaskuldir		448.111	545.758
Næsta árs afborganir af langtímaskuldum	29	591.220	529.633
Skuldir við tengd félög		1.942	79
Skattar ársins	26	135.850	47.720
Aðrar skammtímaskuldir	31	1.997.350	2.255.711
Skammtímaskuldir		3.947.294	4.056.344
Skuldir samtals		10.913.738	12.063.523
Eigið fé og skuldir samtals		16.298.762	17.630.124
Veðsetningar og skuldbindingar	27,30,32		

Eiginfjáryfirlit 31. desember 2013

	Hlutafé	Yfirverðs-reikningur hlutafjár	Lögbundinn varasjóður	Þýðingar-munur	Óráðstafað eigið fé	Samtals	Hlutdeild minnihluta	Samtals
2012								
Eigið fé 31.12.2011	1.173.437	1.187.753	182.554	17.778	1.145.597	3.707.119		3.707.119
Þýðingarmunur dótturfélags				11.058		11.058		11.058
Þýðingarmunur hlutdeildarfélags				27.616		27.616		27.616
Hækkun hlutafjár	589.368	1.178.737				1.768.105		1.768.105
Minnihluti, við kaup á dótturfélagi						0	3.764	3.764
Hagnaður ársins					50.055	50.055	(1.116)	48.939
Lagt í lögbundinn varasjóð			2.503		(2.503)	0		0
Eigið fé 31.12.2012	1.762.805	2.366.490	185.056	56.452	1.193.149	5.563.953	2.648	5.566.601
2013								
Eigið fé 31.12.2012	1.762.805	2.366.490	185.056	56.452	1.193.149	5.563.953	2.648	5.566.601
Þýðingarmunur dótturfélags				(18.892)		(18.892)		(18.892)
Þýðingarmunur hlutdeildarfélags				(92.310)		(92.310)		(92.310)
Greiddur arður					(125.000)	(125.000)		(125.000)
Hagnaður ársins					54.915	54.915	(290)	54.625
Lagt í lögbundinn varasjóð			2.746		(2.746)	0		0
Eigið fé 31.12.2013	1.762.805	2.366.490	187.802	(54.750)	1.120.318	5.382.666	2.358	5.385.024

Sjóðstreymisyfirlit ársins 2013

	Skýr.	2013	2012
Rekstrarhreyfingar:			
Hagnaður ársins		54.625	48.939
Rekstrarliðir sem hafa ekki áhrif á fjárstreymi:			
Söluhagnaður eigna		(89.568)	(1.840)
Afskriftir rekstrarfjármuna	7,18	626.817	725.800
Virðisrýrnun viðskiptavildar	6,17	250.000	0
Áhrif hlutdeildarfélaga	8,22	7.331	(58.923)
Áhrif minnihluta		290	1.116
Söluhagnaður hlutabréfa		0	(13.544)
Gengismunur og verðbætur langtímalána		120.121	198.368
Tekjuskattur		(131.103)	(58.891)
Veltufé frá rekstri		838.512	841.025
Breyting á rekstrartengdum eignum og skuldum:			
Vörubirgðir, lækkun (hækkun)		150.199	(353.146)
Viðskiptakröfur og aðrar skammtímakröfur, lækkun		61.172	1.032.202
Viðskiptaskuldir og aðrar skammtímaskuldir, (lækkun) hækkun		(266.018)	237.931
Breyting rekstrartengdra eigna og skulda		(54.647)	916.987
Handbært fé frá rekstri		783.865	1.758.012
Fjárfestingahreyfingar:			
Fjárfesting í varanlegum rekstrarfjármunum	18	(520.925)	(576.069)
Söluverð varanlegra rekstrarfjármuna		114.669	120.262
Söluverð eignarhluta í hlutdeildarfélögum		5.284	26.000
Arður frá hlutdeildarfélagi		39.349	0
Langtímakröfur, breyting		19.673	43.282
Fjárfestingarhreyfingar		(341.950)	(386.525)
Fjármögnunarhreyfingar:			
Greiddur arður		(125.000)	0
Tekin ný langtímalán		0	7.656.679
Afborganir langtímalána		(935.349)	(7.796.804)
Skammtímalán, breyting		95.378	(1.288.513)
Fjármögnunarhreyfingar		(964.971)	(1.428.638)
Lækkun á handbæru fé		(523.056)	(57.151)
Handbært fé yfirtekið við kaup á dótturfélagi		358	105.772
Þýðingarmunur á handbæru fé		7.494	914
Handbært fé í byrjun árs		718.160	668.625
Handbært fé í árslok		202.956	718.160

Fjárfesting og fjármögnun án greiðsluáhrifa:

	2013	2012
Fjárfesting í eignarhlut í dótturfélagi	0	(426.265)
Fjárfesting í eignarhlut í hlutdeildarfélagi	0	(1.341.837)
Hækkun hlutafjár	0	1.768.102

Skýringar

Reikningsskilaaðferðir

1. Grundvöllur reikningsskilanna

Skeljungur hf. ("Félagið") er íslenskt hlutafélag með lögheimili á Íslandi. Skráð heimilisfang er Borgartún 26, Reykjavík. Ársreikningurinn hefur að geyma samstæðureikning félagsins og dótturfélaga þess (sem vísað er til í heild sem "samstæða" og eitt og sér sem "félag") og hlutdeild samstæðunnar í hlutdeildarfélögum.

Skeljungur er olíuinnflutnings fyrirtæki með víðtæka starfsemi í þjónustu og verslun á Íslandi. Félagið er með starfsemi á 65 smásölu- og bensínstöðvum og 10 olíubirgðastöðvum.

Ársreikningurinn er gerður í samræmi við lög um ársreikninga og reglugerðir um framsetningu og innihald ársreikninga og samstæðureikninga. Ársreikningurinn byggir á kostnaðarverðsreikningsskilum og er gerður eftir sömu reikningsskilaaðferðum og árið áður. Ársreikningurinn er gerður í íslenskum krónum og eru fjárhæðir birtar í þúsundum króna.

Dótturfélög eru þau félög þar sem félagið fer með yfirráð. Yfirráð er til staðar þegar félagið hefur völd, bein eða óbein, til að stjórna fjárhags- og rekstrarstefnu dótturfélags í þeim tilgangi að hagnast á starfi þess. Ársreikningar dótturfélaga eru innifaldir í samstæðureikningi félagsins frá því yfirráð nást og þar til þeim lýkur. Stöður milli samstæðufélaga, viðskipti og óinnleystur hagnaður sem myndast hefur af viðskiptum milli þeirra er felldur út í samstæðureikningnum.

2. Innlausn tekna

Tekjur af sölu á vörum eru færðar í rekstrarreikning þegar áhætta og ávinningur af eignarhaldinu flyst til kaupanda sem oftast nær fellur saman við afhendingardag. Tekjur af veittri þjónustu eru færðar í rekstrarreikning í hlutfalli við stöðu verks á uppgjörsdegi. Staða verks er metin með hliðsjón af vinnu sem lokið er. Tekjur eru ekki færðar ef veruleg óvissa er um innheimtu þeirra, tengdan kostnað eða að vörunni verði mögulega skilað.

3. Erlendir gjaldmiðlar

Viðskipti í erlendum gjaldmiðlum eru færð á gengi viðskiptadags. Peningalegar eignir og skuldir í erlendum gjaldmiðlum eru umreiknaðar í íslenskar krónur á skráðu gengi í lok ársins. Gengismunur er færður í rekstrarreikning.

4. Áhættuvarnir vegna peningalegra eigna og skulda

Afleiðusamningar eru notaðir til að verjast gengisáhættu peningalegra eigna og skulda. Hagnaður eða tap af áhættuvörninni er fært í rekstrarreikning.

5. Hagnaðarhlutur

Hagnaður á hlut er hlutfall hagnaðar og vegins meðaltals hlutafjár á árinu og sýnir hver hagnaðurinn er á hverja krónu hlutafjár. Hagnaður ársins nemur 55 millj. kr. og vegið meðaltal nafnverðs hlutafjár var 1.763 millj. kr. Félagið hefur ekki gert samninga um útgáfu breytanlegra skuldabréfa.

6. Óefnislegar eignir

Viðskiptavild sem myndast við kaup á eignarhlutum í döttur- og hlutdeildarfélögum svarar til mismunar á upphaflegu kaupverði eignarhlutans annars vegar og hlutdeild í hreinni eign félags á kaupdegi hins vegar. Viðskiptavild er færð á kostnaðarverði að frádreginni uppsafnaðri virðisrýrnun. Virðisrýrnunarpróf er framkvæmt að minnsta kosti árlega.

7. Varanlegir rekstrarfjármunir

Varanlegir rekstrarfjármunir eru færðir til eignar á kostnaðarverði að frádregnum afskriftum og uppsafnaðri virðisrýrnun.
Kostnaðarverð inniheldur útgjöld sem rekja má beint til kaupa á eigninni. Keyptur hugbúnaður sem er nauðsynlegur til að unnt sé að nýta vélbúnað er eignfærður sem hluti af þeim tækjabúnaði.

Söluhagnaður og -tap rekstrarfjármuna er ákvarðað með því að bera saman söluverð við bókfært verð rekstrarfjármuna. Söluhagnaður og -tap er fært í rekstrarreikning.

Í rekstrarreikningi samstæðunnar eru afskriftir færðar línulega miðað við áætlaðan nýtingartíma einstakra rekstrarfjármuna. Lóðir eru ekki afskrifaðar.

Áætlaður nýtingartími greinist þannig:

Olíustöðvar og fasteignir	11 - 50 ár
Vélar, áhöld og flutningstæki	4 -13 ár

8. Eignarhlutir í félögum

Hlutdeildarfélög eru þau félög þar sem samstæðan hefur veruleg áhrif á fjárhags- og rekstrarstefnu, en ekki yfirráð. Samstæðureikningurinn inniheldur hlutdeild samstæðunnar í hagnaði eða tapi hlutdeildarfélaga frá upphafi áhrifa til loka þeirra. Verði hlutdeild samstæðunnar í tapi meiri en bókfært verð hlutdeildarfélagsins er bókfærða verðið fært í núll og færslu frekara taps er hætt nema félagið hafi gengist í ábyrgðir fyrir hlutdeildarfélagið eða fjármagnað það.

Eignarhlutir í öðrum félögum, þar sem félagið á minna en 20% hlutafjár, eru færðir á kostnaðarverði að frádreginni niðurfærslu. Arður frá þessum félögum er færður til tekna meðal fjármunatekna.

9. Birgðir

Vörubirgðir eru eignfærðar á síðasta innkaupsverði eða dagverði ef það er lægra. Framleiddar vörubirgðir eru metnar til eignar á meðalframleiðsluverði. Rekstrarvörubirgðir eru metnar á síðasta innkaupsverði.

Dagverð er áætlað söluverð í venjulegri starfsemi að frádregnum áætluðum kostnaði við að selja vöruna.

10. Skammtímakröfur og verðbréf

Skammtímakröfur og verðbréf eru færð niður til að mæta almennri áhættu sem fylgir kröfueign félagsins, en hér er ekki um endanlega afskrift að ræða. Annars vegar er um að ræða niðurfærslu vegna krafna sem sérstaklega hafa verið metnar í tapshættu og hins vegar niðurfærslu til að mæta almennri áhættu. Niðurfærslan er dregin frá viðkomandi liðum í efnahagsreikningi.

11. Handbært fé

Sjóður og bankainnstæður teljast til handbærs fjár.

12. Tekjuskattskuldbinding

Tekjuskattur á hagnað eða tap ársins innifelur bæði tekjuskatt til greiðslu og frestaðan tekjuskatt. Tekjuskattur er færður í rekstrarreikning nema að því marki að hann tengist liðum sem færðir eru beint á eigið fé, en þá er hann færður á eigið fé.

Tekjuskattur til greiðslu er áætlaður skattur ársins, miðað við gildandi skatthlutföll. Tekið er tillit til leiðréttinga vegna fyrri ára.

Tekjuskattsskuldbinding er reiknuð og færð í ársreikninginn. Útreikningur hennar byggist á mismun efnahagsliða samkvæmt skattuppgjöri annars vegar og ársreikningi félagsins hins vegar. Mismunur efnahagsliða, sem þannig kemur fram, stafar af því að álagning tekjuskatts er miðuð við aðrar forsendur en reikningsskil félagsins og er þar í meginatriðum um að ræða tímabundinn mismun vegna þess að gjöld eru að jafnaði færð fyrr í skattuppgjöri en í ársreikningi og matsverð eignarhluta í öðrum félögum er mun hærra en skattverð þeirra. Skatteign vegna yfirfæranlegs skattalegs taps er færð til lækkunar á tekjuskattsskuldbindingu af efnahagsliðum.

13. Aðrar rekstrartekjur

Aðrar rekstrartekjur greinast þannig:	2013	2012
Leigutekjur	115.628	103.186
Söluhagnaður eigna	89.568	1.840
Umboðslaun	79.955	78.361
Endurgreiðsla úr flutningsjöfnunarsjóði	77.687	73.623
Akstur og önnur sendingargjöld	80.645	61.088
Aðrar tekjur	84.040	53.393
Aðrar rekstrartekjur samtals	527.523	371.491

14. Laun og launatengd gjöld

Laun og launatengd gjöld greinast þannig:	2013	2012
Laun	1.449.747	1.442.852
Mótframlag í lífeyrissjóð	140.563	137.000
Önnur launatengd gjöld	147.271	150.213
Laun og launatengd gjöld samtals	1.737.581	1.730.065
Meðalfjöldi starfsmanna umreiknað í heilsársstörf	243	264
Stöðugildi í árslok	233	235

Heildarlaun stjórnar, forstjóra og fimm framkvæmdastjóra námu samtals 166,6 millj. kr. á árinu. (2012: 199,9 millj. kr. sjö framkvæmdastjórar).

Laun og launatengd gjöld í rekstrarreikningi samstæðunnar greinast þannig:

Sölu- og dreifingarkostnaður	1.380.157	1.424.278
Annar rekstrarkostnaður	357.424	305.787
Laun og launatengd gjöld samtals	1.737.581	1.730.065

15. Fjármunatekjur og fjármagnsgjöld

Fjármunatekjur greinast þannig:

	2013	2012
Vaxtatekjur af handbæru fé	8.224	4.090
Vaxtatekjur af skuldabréfum	1.711	3.754
Vaxtatekjur af kröfum	39.852	52.092
Hagnaður af sölu eignarhluta í félögum	0	13.544
Fjármunatekjur samtals	49.787	73.480

Fjármagnsgjöld greinast þannig:

	2013	2012
Vaxtagjöld	774.765	942.337
Gengismunur	74.412	(1.571)
Fjármagnsgjöld samtals	849.177	940.766

16. Tekjuskattur

Gjaldfærður tekjuskattur í rekstarreikningi greinist þannig:

		2013		2012
Hagnaður fyrir tekjuskatt		70.204		37.767
Tekjuskattur miðað við gildandi skatthlutfall	20,00%	(14.041)	20,00%	(7.553)
Virðisrýrnun viðskiptavildar	71,22%	(50.000)	0,00%	0
Ófrádráttarbær kostnaður	3,02%	(2.123)	(0,08%)	30
Áhrif eignarhluta í félögum	(1,40%)	983	-31,20%	11.785
Aðrir liðir, leiðrétting frá fyrra ári	(70,65%)	49.601	-18,30%	6.910
Tekjuskattur í rekstrarreikningi	22,19%	(15.580)	(29,58%)	11.172

17. Óefnislegar eignir

Viðskiptavild greinist þannig:

	2013	2012
Viðskiptavild 1.1	1.601.039	1.601.039
Virðisrýrnun ársins	(250.000)	0
Viðskiptavild 31.12.	1.351.039	1.601.039

Virðisrýrnunarpróf

Í lok reikningsársins var framkvæmt virðisrýrnunarpróf á viðskiptavild samstæðunnar. Við mat á virðisrýrnun er stuðst við vænt fjárstreymi rekstrar sem fært hefur verið til núvirðis auk þess sem viðskiptaverð um hlutafé í Skeljungi var haft til hliðsjónar. Við núvirðisútreikning er notuð vaxtaprósenta sem samsvarar vegnu meðaltali fjármagnskostnaðar, þ.e. kostnaður skulda og eigin fjár að teknu tilliti til tekjuskatts. Ef gangverð viðskiptavildar, sem er núvirt vænt framtíðarfjárstreymi eða nýlegt viðskiptaverð með eignarhlut í félaginu, reynist lægra en bókfært verð er mismunurinn færður til gjalda. Niðurstaða prófsins leiddi til virðisrýrnunar að fjárhæð 250 millj .kr. á árinu og var þar aðallega stuðst við viðskiptaverð með eignarhluti í félaginu.

Fjárstreymi var fengið úr áætlun stjórnar félagsins fyrir árið 2014 og vöxtur næstu fjögurra ára áætlaður af stjórnendum. Fjárstreymið byggir á 1,5% framtíðarvexti frá 2018. Væntur samanlagður framtíðarvöxtur tekna er 9,8% fyrir árin 2014 til 2018. Notuð var 13,6% ávöxtunarkrafa (WACC) við útreikninginn. Ef miðað væri við 2% framtíðarvöxt virðisrýrnun orðið 102 millj. kr. Ef ávöxtunarkrafa væri 0,5% lægri hefði ekki orðið virðisrýrnun.

18. Rekstrarfjármunir

Rekstrarfjármunir og afskriftir greinast þannig:

	Olíustöðvar og fasteignir	Aðrar eignir	Samtals
Heildarverð 31.12.2012	10.361.565	3.095.793	13.457.358
Afskrifað áður	(2.454.266)	(1.826.110)	(4.280.376)
Bókfært verð 31.12.2012	7.907.299	1.269.683	9.176.982
Viðbót á árinu	153.582	367.343	520.925
Þýðingarmunur varanlegra rekstrarfjármuna	(59.065)	(138)	(59.203)
Selt og niðurlagt á árinu	(12.949)	(12.152)	(25.101)
Afskrifað á árinu	(443.197)	(183.620)	(626.817)
Bókfært verð 31.12.2013	7.545.670	1.441.116	8.986.786
Heildarverð 31.12.2013	10.226.392	3.381.889	13.608.281
Afskrifað samtals 31.12.2013	(2.680.722)	(1.940.773)	(4.621.495)
Bókfært verð 31.12.2013	7.545.670	1.441.116	8.986.786
Afskriftarhlutföll	2-9%	8-25%	
Áætlaður nýtingartími	11 - 50 ár	4 - 13 ár	

19. Fasteignamat og vátryggingarverð

Vátryggingaverð mannvirkja nam í árslok 2013 samtals 7.675 millj. kr. (2012: 7.226 millj. kr.) Fasteignamat mannvirkja og lóða nam í árslok 2013 samtals 2.858 millj. kr. (2012: 3.010 millj. kr.). Vátryggingarverð véla, áhalda og flutningatækja samstæðunnar nam í árslok 2013 samtals 653 millj. kr. (2012: 802 millj. kr.).

20. Leigusamningar

Samstæðan leigir húsnæði fyrir hluta starfsemi sinnar allt fram til ársins 2035. Áætlaðar leigugreiðslur fyrir árið 2013 eru 554 millj. kr., þar af eru innan samstæðunnar 405 millj. kr. til S-fasteigna ehf. og 73 millj. kr. til Birgðastöðvarinnar Miðsandi ehf.

21. Dótturfélög

Skeljungur hf. átti 100% eignarhlut í þremur dótturfélögum í lok reikningsársins þ.e., Bensínorkunni ehf., og Birgðastöðinni Miðsandi ehf. og Tollvörugeymslu Skeljungs ehf. sem kemur nýtt inn í samstæðu félagsins á árinu en var áður fært meðal hlutdeildarfélaga. Skeljungur á auk þess 99,79% hlut í S-fasteignum ehf.

	Afkoma	Heildar-eignir	Eigið fé	Áhrif dótturfélaga	Bókfært verð 31.12.2013
Bensínorkan ehf., Rvk	47	723	707	47	707
Birgðastöðin Miðsandi ehf., Rvk	(8.494)	482.732	154.722	(27.386)	154.722
S-fasteignir ehf., Rvk	(144.473)	4.924.548	1.112.069	(125.289)	989.543
Tollvörugeymsla Skeljungs ehf.	940	1.813	1.297	657	1.297
	(151.979)	5.409.816	1.268.795	(151.971)	1.146.269

Skeljungur jók hlutafé sitt í S-fasteignum ehf. um 500 millj. á árinu 2013.

22. Hlutdeildarfélög

Eignarhlutir samstæðunnar í hlutdeildarfélögum greinast þannig:

	Eignarhlutur	Nafnverð	Hlutdeild í afkomu	Bókfært verð 2013	Bókfært verð 2012
Magn P/F, Færeyjar *	34,0%	1.795	(19.616)	1.273.867	1.422.426
EAK ehf., Reykjanesbær	33,3%	6.000	9.569	23.651	20.082
Fjölver ehf., Reykjavík	33,3%	100	(1.505)	8.502	10.007
EBK ehf, Reykjanesbær	25,0%	2.000	2.648	5.313	4.666
Vegsauki ehf., Reykjavík	50,0%	2.500	1.573	6.113	4.540
Tollvörug. Skeljungs ehf., Rvk	100,0%		-	-	640
Eignarhl. í hlutdeildarf. samtals			(7.331)	1.317.446	1.462.361

Á undirritunardegi ársreiknings lágu ekki fyrir endanlega samþykktir ársreikningar fyrir öll hlutdeildarfélög samstæðunnar. Í þeim tilvikum byggði hlutdeild í afkomu á fyrirliggjandi drögum að rekstri og efnahag ársins 2013.

*Hagnaður Magns P/F nam, umreiknaður í íslenskar krónur, 441 millj. á árinu. Hlutdeild Skeljungs að teknu tilliti til sölu á 4% hlut og afskriftar á yfirverði var neikvæð um 19,6 millj. kr. Neikvæður þýðingarmunur vegna eignarhlutans nam 92 millj. kr. og er hann færður yfir eigið fé.

23. Birgðir

Birgðir samstæðunnar sundurliðast þannig:

	2013	2012
Eldsneyti	1.981.520	2.215.660
Smurolía	201.258	127.783
Aðrar birgðir	226.791	216.325
Vörubirgðir samtals	2.409.569	2.559.768

24. Skammtímakröfur og verðbréf

Niðurfærsla skammtímakrafna greinist þannig:

	2013	2012
Niðurfærsla í ársbyrjun	124.282	159.954
Afskrifaðar tapaðar kröfur á árinu	(18.900)	(56.890)
Gjaldfærð niðurfærsla viðskiptakrafna á árinu	29.720	21.218
Niðurfærsla í árslok	135.102	124.282

25. Eigið fé

Hlutafé félagsins nam í árslok 1.763 millj. kr. samkvæmt samþykktum þess. Eitt atkvæði fylgir hverjum einnar krónu hlut í félaginu.

26. Tekjuskattsskuldbinding

Tekjuskattsskuldbinding greinist þannig:

	2013	2012
Tekjuskattsskuldbinding í ársbyrjun	749.474	501.493
Þýðingarmunur	1.693	446
Tekjuskattsskuldbinding færð inn við kaup á dótturfélagi	0	306.427
Leiðrétting frá fyrra ári	(12.527)	0
Reiknaður tekjuskattur	15.580	(11.172)
Tekjuskattur til greiðslu	(135.850)	(47.720)
Tekjuskattsskuldbinding í árslok	618.370	749.474

Tekjuskattsskuldbinding skiptist þannig á einstaka liði:

Varanlegir rekstrarfjármunir	1.037.357	1.129.933
Vörubirgðir	22.966	20.878
Viðskiptakröfur	(8.484)	(64)
Yfirfæranlegt skattalegt tap	(407.980)	(382.131)
Frestun gengismunar	(9.662)	372
Aðrir liðir	(15.827)	(19.514)
Tekjuskattsskuldbinding í árslok	618.370	749.474

Yfirfæranlegt tap sem nýtist til lækkunar skattskyldra tekna greinist þannig:

Tap ársins 2008 nýtanlegt til 2018	1.111.714	1.111.714
Tap ársins 2011 nýtanlegt til 2021	219.374	219.374
Tap ársins 2012 nýtanlegt til 2022	588.181	579.567
Tap ársins 2013 nýtanlegt til 2023	120.631	-
Yfirfæranlegt tap samtals	2.039.900	1.910.655

Yfirfæranlegt skattalegt tap samstæðunnar er í félögunum S-fasteignir ehf. og Birgðastöðinni Miðsandi ehf.

27. Skuldbindingar

Félagið er háð gengissveiflum á alþjóðlegum olíumörkuðum. Félagið hefur gert framvirka samninga við þriðja aðila til að lágmarka áhættuna. Staðan á afleiðusamningum í lok árs var jákvæð sem nam 1 millj. kr. Staðan á samningunum er færð í samstæðureikninginn.

28. Langtímaskuldir

Yfirlit um langtímaskuldir:

	2013	2012
Skuldir í íslenskum krónum, óverðtryggðar, breytilegir vextir 7,85%	6.684.410	3.341.680
Skuldir í íslenskum krónum, verðtryggðar	0	4.112.183
Skuldir í erlendum gjaldmiðlum, USD, vextir 5,67%	254.884	333.475
Langtímaskuldir samtals, þ.m.t. næsta árs afborganir	6.939.294	7.787.338
Næsta árs afborganir langtímaskulda	(591.220)	(529.633)
Langtímaskuldir í efnahagsreikningi samtals	6.348.074	7.257.705

Í lánasamningum koma fram ýmis fjárhagsleg skilyrði sem félögin þurfa að uppfylla, svo sem um lágmarks eigið fé og skuldaþekju. Í árslok 2013 eru öll fjárhagsleg skilyrði lánasamninga uppfyllt.

29. Afborganir af langtímaskuldum greinast þannig á næstu ár:

	2013	2012
2013	-	529.633
2014	591.220	733.362
2015	336.336	481.420
2016	3.860.922	481.420
2017	300.000	481.420
2018	1.850.816	3.205.083
Afborganir síðar	0	1.875.000
Langtímaskuldir samtals, þ.m.t. næsta árs afborganir	6.939.294	7.787.338

Afborgunarferli langtímalána Skeljungs hf. í árslok 2013 er þannig að mánaðarlega er 1/144 höfuðstóls greiddur fram til lokagjalddaga árið 2018 en þá greiðast 72/144. Samkvæmt lánasamningi hefur Skeljungur hf. á lokagjalddaga 2018 heimild til að framlengja láninu til sex ára að uppfylltum ákveðnum skilyrðum og greiða áfram mánaðarlega 1/144 höfuðstóls. Langtímalán S-fasteigna ehf. eru með samskonar endurgreiðsluferli en þar er félagið að greiða 1/1200 mánaðarlega fram til lokagjalddaga árið 2016 en getur framlengt til þriggja ára í senn.

30. Veðsetningar

Til tryggingar greiðslu skulda Skeljungs hf. við lánastofnun að fjárhæð 3.848 millj. kr. hefur Skeljungur veitt allsherjarveð í skammtímakröfum og birgðum félagsins allt að 8.276 millj. kr. og í varanlegum rekstrarfjármunum að fjárhæð 2.682 millj. kr. Veð er í fasteignum Birgðastöðvarinnar Miðsandi ehf. vegna lána félagsins. Til tryggingar skuldum S-fasteigna ehf. er handveð í fjárkröfum félagsins gagnvart Skeljungi, handveð á bankareikningi og tryggingabréf að upphaflegum höfuðstól 3.120 millj. kr.

31. Aðrar skammtímaskuldir

Aðrar skammtímaskuldir greinast þannig:

Skuld við ríkissjóð	1.654.580	1.936.539
Ógreidd launatengd gjöld	223.070	212.521
Skuldbinding vegna gashylkja	0	50.000
Fyrirfram innheimtar tekjur	45.000	0
Áfallnir vextir	36.443	21.125
Aðrar skuldir	38.257	35.526
Aðrar skammtímaskuldir samtals	1.997.350	2.255.711

32. Tengdir aðilar

Skilgreining tengdra aðila:

Hluthafar, dótturfélög, hlutdeildarfélög, stjórnarmenn og stjórnendur auk félaga í meirihlutaeigu þessara aðila teljast vera tengdir aðilar félagsins.

Viðskipti við hlutdeildarfélög

	2013	2012
Keyptar vörur og þjónusta	52.621	43.342
Seldar vörur og þjónusta	9.789	10.626
Kröfur í árslok	1.292	1.716
Skuldir í árslok	3.138	3.127

32. Tengdir aðilar frh.

Laun og hlunnindi stjórnar og stjórnenda

Gerð er grein fyrir launum til stjórnar og stjórnenda í skýringu 14.

Viðskipti við hluthafa

Óveruleg viðskipti voru við hluthafa á árinu.

Viðskipti við starfsmenn

Samstæðan hefur lánað starfsmönnum vegna almennra vöruviðskipta. Félagið hefur einnig lánað starfsmönnum vegna sölu á bifreiðum til þeirra samtals 13,7 millj. kr. Lánin bera vexti og eru til allt að fimm ára.

33. Kennitölur

Helstu kennitölur samstæðunnar:		2013	2012
Rekstur:			
Framlegð í hlutfalli af sölu		15,1%	14,6%
EBITDA / Rekstrartekjur		5,4%	4,7%
Arðsemi eigin fjár		1,0%	0,9%
Efnahagur:		**31.12.2013**	**31.12.2012**
Veltufjárhlutfall - veltufjármunir/skammtímaskuldir		1,16	1,30
Eiginfjárhlutfall - eigið fé / heildarfjármagn	r 2		31,6%
Innra virði hlutafjár		3,1	3,2

Skeljungur hf.

Consolidated Financial Statements
For the Year Ended 31 December 2014

Skeljungur hf.
Borgartun 26
105 Reykjavik

Reg. no. 590269 -1749

Contents

Endorsement by the Board of Directors and the CEO

The Consolidated Financial Statements of Skeljungur hf. (the "Company" or "Skeljungur") for the financial year 2014 include the Company and its subsidiaries. These are the Company's first financial statements prepared according to IFRS.

The company consists of two main operations Skeljungur and Magn. Skeljungur the Icelandic operations span a range of retail, wholesale and service operations under the brands, Skeljungur, Shell and Orkan. Main activities are import, sale and distribution of oil but also lubricants, chemical products and fertilizer. Skeljungur operates 65 gas stations and 9 oil depots around Iceland. P/F Magn operates in Faroe Islands and main activities are import, sale and distribution of oil as well as convenience retail. P/F Magn operates 11 retail outlets. Customer base of the companies span every sectors and large part of both islands populations.

At the end of July 2014 Skeljungur hf. leased the convenience retail portion of twelve gas stations to Tíu-ellefu ehf. Tíu-ellefu ehf. took over the operations in September 2014. The agreement entails that Skeljungur hf. will continue to sell fuel at these stations. Therefore the retail operations are classified as dicontinued operations in the 2014 Consolidated Financial Statements. The overall impact of discontinued operations amounted to ISK 422 million. Detailed information on discontinued operations is in note 6 in the Consolidated Financial Statements.

At a shareholders' meeting on 22 September 2014, the Board of Directors was authorized to increase the share capital of Skeljungur in the amount of ISK 940.8 million at the share price of 2.747475. The shares were used to purchase 66% of shares in P/F Magn in the Faroe Islands from Skeljungur's owners SF IV slhf. Before the acquisition Skeljungur held a 34% share in the company. The transaction required an approval from the Central Bank of Iceland, which was granted in November 2014. Magn is now fully owned by Skeljungur and is included in the Consolidated Financial Statements from 1 January 2014, since common control was in place from the date SF IV slhf. acquired the shares in January 2014.

According to the Consolidated Statement of Comprehensive Income, total operating revenue amounted to ISK 42,768 million for the Group. The Group's net earnings for the year 2014 amounted to ISK 570.8 million. According to the Statement of Financial Position, the Group's total assets amounted to ISK 21,424 million. Shareholders' equity amounted to ISK 8,097 million at year end 2014. The Group's equity ratio was 37.8%.

The Company's share capital amounted to ISK 2,704 million at the end of the year. At year end the share capital is owned by two shareholders, but they were six at the beginning of the year. The shareholders at year end are:

	Share
SF IV slhf.	99,9%
SF IV GP hf.	0,1%

The Board of Directors refers to the Consolidated Financial Statements regarding allocation of profit and other changes in shareholders' equity within the fiscal year. A proposal concerning dividend will be submitted at the Annual General Meeting of the Company.

The Board of Directors and the CEO of Skeljungur hf. hereby confirm the Consolidated Financial Statements for the year ended 31 December 2014 by means of their signatures.

Reykjavik, 16 April 2015.

The Board of Directors:

CEO:

Independent Auditors' Report

To the Board of Directors and Shareholders of Skeljungur hf.

We have audited the accompanying Consolidated Financial Statements of Skeljungur hf., which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information

The Board of Directors and CEO´s Responsibility for the Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of Skeljungur hf. as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors' Report

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

Reykjavik, 16 April 2015

KPMG ehf.

Matthías Þór Óskarsson

Ragnar Stefán Ragnarsson

Consolidated Statement of Comprehensive Income for the year ended 31 December 2014

	Notes	2014	2013
Sales	7	42.768.220	30.779.514
Cost of goods sold	8	(36.202.163)	(26.458.751)
Gross profit		6.566.057	4.320.763
Other income	9	325.293	451.045
Salaries and salary related expenses	10	(1.937.048)	(1.143.485)
Sales and distribution expenses	11	(1.774.474)	(1.423.353)
Operating expenses	12	(404.657)	(271.171)
Earnings before depreciation and financial items		2.775.171	1.933.799
Impairment of goodwill	15	0	(250.000)
Depreciation of operating assets	16	(817.887)	(608.738)
Operating profit		1.957.283	1.075.061
Financial income	13	59.321	49.787
Financial expenses	13	(788.720)	(849.177)
		(729.400)	(799.390)
Share of profit (loss) from associated companies	20	11.043	(7.331)
Profit before income tax		1.238.926	268.340
Income tax expense	14	(245.983)	(55.207)
Profit from continuing operations		992.944	213.133
Loss from discontinued operations (net of tax)	6	(422.149)	(158.509)
Profit		570.794	54.624
Other comprehensive income that will be reclassifed to profit or loss			
Foreign operation - foreign currency translation differences		(37.869)	(111.202)
Total comprehensive income (loss)		532.925	(56.578)
Profit from continuing operations attributable to:			
Owners of the Company		992.944	213.133
Non-controling interest		0	(290)
Profit		992.944	212.843
Profit for the year attributable to:			
Owners of the Company		570.794	54.624
Non-controling interest		0	(290)
Profit		570.794	54.334
Total comprehensive income (loss) for the year attributable to:			
Owners of the Company		532.925	(56.578)
Non-controling interest		0	(290)
Profit (loss)		532.925	(56.868)
Earnings per share:			
Earnings per each ISK one of share capital and diluted share capital	26	0,30	0,03

The notes on pages 9-36 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Skeljungur hf. 2014 5 All amounts are in ISK thousand

Consolidated Statement of Financial Position as at 31 December 2014

	Notes	31.12.2014	31.12.2013	1.1.2013
Assets				
Goodwill	15	3.640.161	1.351.038	1.601.038
Other intangible assets	16	768.983	0	0
Operating assets	17,18,19	11.238.210	8.986.786	9.176.982
Shares in associated companies	20	52.623	1.462.002	1.593.126
Other loans	21	33.020	77.500	97.173
Non-current assets		15.732.996	11.877.326	12.468.319
Current assets				
Inventories	22	2.295.497	2.409.569	2.559.768
Trade receivables	23	2.552.907	1.761.493	1.671.774
Other receivables	24	188.350	191.974	342.868
Cash and cash equivalents		654.635	202.956	718.160
Current assets		5.691.390	4.565.992	5.292.570
Total assets		21.424.386	16.443.318	17.760.889
Equity				
Share capital	25	2.703.594	1.762.805	1.762.805
Share premium		4.010.496	2.366.490	2.366.490
Statutory reserve		216.342	187.802	185.056
Reserve for share options	25,27	36.861	0	0
Translation difference of shares in companies		(92.619)	(54.750)	56.452
Retained earnings		1.222.626	1.264.875	1.323.914
Equity attributable to owners of the Company		8.097.300	5.527.222	5.694.717
Non-controling interests		0	2.358	2.648
Total equity		8.097.300	5.529.580	5.697.366
Liabilities				
Deferred tax liability	28	863.646	618.370	749.474
Loans and borrowings	29	6.886.047	6.348.074	7.257.705
Non-current liabilities		7.749.694	6.966.444	8.007.179
Short term borrowings	29	1.043.896	772.821	677.443
Trade payables		1.816.221	448.110	545.758
Current maturities of long-term debt	29	531.793	591.220	529.633
Payable to associated companies		6.027	1.942	79
Current tax liabilities	29	193.451	135.850	47.720
Other current liabilities	30	1.986.005	1.997.351	2.255.711
Current liabilities		5.577.392	3.947.294	4.056.344
Total liabilities		13.327.086	10.913.738	12.063.523
Total equity and liabilities		21.424.386	16.443.318	17.760.889
Mortgages	29			

The notes on pages 9-36 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Skeljungur hf. 2014 6 All amounts are in ISK thousand

Consolidated Statement of Changes in Equity 31 December 2014

	Share capital	Share premium	Statutory reserve	Reserve share option	Translation difference	Retained earnings	Total	Non-controlling interests	Total equity
2013									
Shareholders' equity 31.12.2012	1.762.805	2.366.490	185.056	0	56.452	1.193.149	5.563.952	2.648	5.566.600
Equity 1.1.2013 effects of IFRS						130.765	130.765		130.765
Balance at 1. January 2013	1.762.805	2.366.490	185.056	0	56.452	1.323.914	5.694.717	2.648	5.697.365
Total comprehensive income					(111.202)	68.706	(42.496)	(290)	(42.786)
Contribution to statutory resererve			2.746			(2.746)	0		0
Transactions with owners of the Company									
Paid dividend (ISK 0.071 per share)						(125.000)	(125.000)		(125.000)
Balance at 31 December 2013	1.762.805	2.366.490	187.802	0	(54.750)	1.264.875	5.527.222	2.358	5.529.580
2014									
Shareholders' equity 31.12.2013	1.762.805	2.366.490	187.802	0	(54.750)	1.264.875	5.527.222	2.358	5.529.580
Total comprehensive income					(37.869)	570.794	532.925		532.925
Contribution to statutory resererve			28.540			(28.540)	0		0
Transactions with owners of the Company									
Issued new shares	940.789	1.644.006					2.584.795		2.584.795
Equity-settled share-based payments				36.861		(36.861)	0		0
Non-controlling interests acquired						2.358	2.358	(2.358)	0
Paid dividend (ISK 0.312 per share)						(550.000)	(550.000)		(550.000)
Balance at 31 December 2014	2.703.594	4.010.496	216.342	36.861	(92.619)	1.222.626	8.097.300	0	8.097.300

The notes on pages 9-36 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Skeljungur hf. 2014 7 All amounts are in ISK thousand

Consolidated Statement of Cash Flows
for the year 2014

	Notes	2014	2013
Operating Activities:			
Profit		570.794	54.624
Adjustments:			
Depreciation	16,17	939.075	626.817
Impairment of goodwill	15	0	250.000
Loss (profit) from associated companies	20	(11.043)	7.331
Financial income and expenses		729.400	799.390
Effect of share options.		36.861	0
Loss (gain) on sale of assets		26.611	(89.568)
Indexation and currency fluctuations of long term liabilities		0	120.121
Tax expense	28	69.031	(131.103)
		2.360.729	1.637.612
Changes in:			
Inventory, decrease		1.072.993	150.199
Trade and other receivables, decrease		281.363	61.462
Trade and other payables, decrease		(488.153)	(290.796)
		866.203	(79.135)
Cash generated from operating activities		3.226.932	1.558.477
Interest received		59.321	49.787
Interest paid		(781.892)	(776.679)
Taxes paid		(252.831)	(47.720)
Net cash from operating activities		2.251.529	783.865
Cash flows from investing activities:			
Investment in operating assets	17	(750.373)	(520.925)
Proceeds from sale of operating assets		40.955	114.669
Proceeds from sale of shares in associated companies		0	5.284
Dividend from associated companies		2.000	39.349
Securities, change		56.580	19.673
Cash acquired on consolidation		368.209	358
Net cash used in investing activities		(282.629)	(341.592)
Cash flows from financing activities			
Paid dividend		(550.000)	(125.000)
Installments on long-term debt		(1.084.054)	0
Proceeds from new long-term liabilities		0	(935.349)
Short-term borrowing, change		141.445	95.378
Net cash used in financing activities		(1.492.609)	(964.971)
Net increase (decrease) in cash and cash equivalents		476.291	(522.698)
Effects of movements in exchange rates on cash held		(24.612)	7.494
Cash and cash equivalents at the beginning of the year		202.956	718.160
Cash and cash equivalents at year end		654.635	202.956
Investing and financing activities not affecting cash:			
Investment in subsidiary		(2.584.795)	0
Share capital increase		2.584.795	0

The notes on pages 9-36 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Skeljungur hf. 2014 8 All amounts are in ISK thousand

Notes to the Consolidated Financial Statements

1. Reporting entity

Skeljungur hf. (the "Company") is an Icelandic limited liability company domiciled in Iceland. The address of the Company´s registered office is at Borgartun 26, Reykjavik. The Consolidated Financial Statements of the Company comprise the Company and its subsidiaries, P/F Magn, S-fasteignir ehf., Birgðastöðin Miðsandi ehf., Tollvörugeymsla Skeljungs ehf., Bensínorkan ehf., (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates.

Skeljungur hf. is an Icelandic oil importing company whose activities span a range of retail and service operations in Iceland. The Company has a network of 65 service stations and 10 oil depots in Iceland. P/F Magn in Faroe Islands has 11 service stations and 3 oil depots around the Faroe Islands.

2. Basis of preparation

a. Statement of compliance with International Financial Reporting Standards

The Company's financial statements are prepared according to IFRS as adopted by the EU and additional Icelandic disclosure requirements in accordance with the Icelandic Financial Statements Act No. 3/2006.

These are the Group's first financial statments that are prepared according to IFRS and therefore IFRS 1 "implementing IFRS" has been applied. The effects of implementing IFRS on the comprehensive income, financial position and cash flows are described in note 39.

These financial statements were confirmed by the Board of Directors on 24 March 2015.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception that derivative financial instruments are recognized at fair value.

c. Presentation and functional currency

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

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimates and judgments made in applying accounting policies that have significant effect on the amounts recognised in the financial statements is in note 15 regarding measurement of the recoverable amounts of cash-generating units containing goodwill.

The determination of fair value is based on preconditions, which are dependent on the judgment of management on future events. Actual results can be different from these estimates.

e. Determination of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

- Note 15 - Intangible assets (impairment of goodwill)
- Note 22 - Inventories (write-down of inventories)
- Note 31 - Financial instruments (impairment of trade receivables)

3. Significant accounting policies

The Group has consistently applied the accounting policies set out in this note to all periods presented in these financial statements and in the initial preparation of financial statements as at 1 January 2013 according to IFRS, unless otherwise indicated.

a. Basis for consolidation

i) Business combinations

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

ii) Subsidiaries

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

iii) Intra-group balances

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

iv) Subsidiaries with different functional currency

Monetary assets and liabilities of subsidiaries with different functional currency than the Company are translated to Icelandic krona at the exchange rate at the reporting date. Transactions are translated at the average exchange rate of the year. Exchange differences arising from the translation to Icelandic krona are recognised as a separate line item in the statement of comprehensive income. The cash flow is translated to Icelandic krona using the average exhange rate of the year. Exchange differences arising from the translation to Icelandic krona are recognised as a separate line item in the statement of cash flow.

v) Associates

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

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence ceases.

3. Significant accounting policies continued:

v) Associates contd:

Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. Foreign currencies

Foreign currency transactions

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

c. Financial instruments

(i) Non-derivative financial assets

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

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

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

Loans and receivables

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

Loans and receivables comprise cash and cash equivalents and trade receivables, other receivables and other loans.

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

(ii) Non-derivative financial liabilities

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

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

c Financial instruments, continued:

(ii) Non-derivative financial liabilities continued

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

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

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

(iii) Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value in the statement of financial position and changes in fair value are recognized in profit or loss as part of cost of goods sold in the statement of comprehensive income.

(iv) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

(v) Shares

Incremental costs directly attributable to issuance of shares are recognized as a deduction from equity, net of any tax effects.

d. Intangible assets and goodwill

Goodwill arises either on the acquisition of subsidiaries or has directly been purchased. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is measured at cost less accumulated impairment losses. An impairment test is performed at least annually.

Software and customer relationships acquired from a subsidiary and have finite useful lifes are measured at cost less accumulated amortisation and any accumulated impairment losses.

e. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of operating asset have different useful lifes, they are accounted for as separate items of operating assets.

Gains and losses on disposal of an item of operating assets are determined by comparing the proceeds from disposal with the carrying amount of operating assets, and are recognized on a net basis within other income or other expenses in profit or loss.

e. Operating assets, contd.:

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

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

f. Leased assets

Leases are operating leases and the leased assets are not recognized in the Company's statement of financial position.

g. Inventories

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

h. Impairment

(i) Non-derivative financial assets

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

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

h. Impairment, contd.:

(ii) Non-financial assets

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

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

j. Provisions

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

k. Revenue

(i) Sold goods and services

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the payment received or receivable, net of discounts and refunds. Revenue is recognised in the statement of comprehenive income when a significant portion of the risks and rewards of ownership are transferred to the buyer, it is probable that the consideration will be collected and the cost of sale and possible return of goods can be estimated reliably. Revenue is in general recognised upon delivery of the goods as the risk and rewards are in general transferred to the buyer when delivery occurs.

(ii) Other income

Other income comprises commissions, gain on sale of assets, lease income, reimbursement from transport equalisation fund, transportation fees, and other income. Other income is recognised upon delivery of goods or services.

(iii) Operating lease income

Lease income is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

l. Expenses

(i) Cost of goods sold

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

(ii) Lease payments

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

m. Finance income and finance expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

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

Foreign currency gains and losses are reported on a net basis.

n. Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

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

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

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

o. Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with intent to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

p. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS equals to basic EPS as the Company has not issued convertible notes, and share options were granted at year-end and have no effect on earnings per share.

q. Segment reporting

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

r. New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

4. Changes in the Group

At a shareholders' meeting on 22 September 2014, the Board of Directors was authorized to increase the share capital of Skeljungur in the amount of ISK 940.8 million at the share price of 2.747475. The shares were used to purchase 66% of shares in P/F Magn in the Faroe Islands from Skeljungur's owners SF IV slhf. Before the acquisition Skeljungur held a 34% share in the company. The transaction required an approval from the Central Bank of Iceland, which was granted in November 2014. Magn is now fully owned by Skeljungur and is included in the Consolidated Financial Statements from 1 January 2014, since common control was in place from the date SF IV slhf. acquired the shares in January 2014.

The acquisition had the following effect on the Group's finanacial statements at 1 January 2014:

Goodwill	2.350.297
Other intangible assets	755.060
Operating assets	2.549.661
Inventories	982.732
Trade and other receivables	1.102.971
Cash and cash equivalents	368.209
Deferred income tax liability	(305.214)
Long-term liabilities	(1.388.208)
Current liabilities	(2.412.291)
Net assets	4.003.217
Book value/fair value of the Group's 34% share at the beginning of the year	(1.418.422)
Satisfied by issue of shares	(2.584.795)

5. Geographic information

The geographic information below analyses the Group's revenue and non-current assets by the companies' country of domicile. In presenting the following information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

i) Revenue

Iceland	28.677.254
Faroe Islands	14.416.259
Total revenue	43.093.513

ii) Non-current assets

Iceland	11.131.387
Faroe Islands	4.601.609
Total non-current assets	15.732.996

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6. Discontinued operation

At the end of July 2014 Skeljungur hf. leased the convenience retail portion of twelve gas stations to Tíu-ellefu ehf. Tíu-ellefu rents the premises and is responsible for customer service inside the stores. The effect is that the number of Skeljungur's employees decreased by 120, and the expected annual turnover will be affected by ISK 1.8 billion. In the income statement the discontiuned operation is shown in a single line, including revenue less expenses, depreciation and tax. Loss from discontinued operations specifies as follows:

a) Results of discontinued operations

	Note	2014	2013
Revenue		1.533.808	1.942.188
Expenses		(2.061.494)	(2.140.324)
Results from operating activities		(527.686)	(198.136)
Income tax	14	105.537	39.627
Results from operating activities, net of tax		(422.149)	(158.509)
Basic and diluted loss per share		(0,16)	(0,09)

Depreciation of assets from discontinued operations are included in expenses in the amount of ISK 121.2 million (2013: ISK 18.1 million)

b) Cash flows from discontinued operations

	2014	2013
Net cash used in operating activities	(237.085)	(180.057)
Net cash flow for the year	(237.085)	(180.057)

7. Sales

Sales are specified as follows:

	2014	2013*
Fuel	38.989.853	28.239.573
Other goods	3.778.367	2.539.941
Total sales	42.768.220	30.779.514

8. Cost of goods sold

Cost of goods sold is specified as follows:

	2014	2013*
Fuel	33.546.380	24.605.067
Other goods	2.655.783	1.853.684
Total cost of goods sold	36.202.163	26.458.751

9. Other income

Other income is specified as follows:

	2014	2013*
Rental income	150.829	115.628
Gain on sale of operating assets	1.191	89.568
Commission	37.998	68.694
Reimbursement from transport equalisation fund	77.192	77.687
Transportation fees	14.666	15.428
Other income	43.417	84.040
Other income total	325.293	451.045

* *Comparative figures do not include P/F Magn*

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10. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

	2014	2013*
Salaries	2.011.302	1.449.747
Contribution to pension funds	202.644	140.563
Salary-related expenses	273.997	180.641
Salaries and salary-related expenses in discontinued operations	(550.895)	(627.466)
Salaries and salary-related expenses total	1.937.048	1.143.485
Average number of full-time employees during the year	298	243
Full-time-equivalent positions at year end	224	233

Salaries paid to the Board of Directors, the CEO and seven Directors amounted to ISK 231.5 million for the year. (2013: ISK 146.8 milllion, five Directors). The CEO and CFO of Skeljungur left the Company during the year 2014 and their severance packages have been expensed.

11. Sales and distribution expenses

Sales and distribution expenses are specified as follows:

	2014	2013*
Distribution expenses	847.462	700.831
Marketing expenses	471.582	354.769
Housing costs	455.430	367.753
Total sales and distribution expenses	1.774.474	1.423.353

12. Other operating expenses

Other operating expenses are specified as follows:

	2014	2013*
Office and administrative expenses	311.807	186.389
Housing costs	37.210	40.078
Computer costs	55.640	44.704
Total other operating expenses	404.657	271.171

13. Financial income and expenses

Financial income is specified as follows:	2014	2013*
Interest income on bank accounts	2.880	8.224
Interest income from bonds	24.880	1.711
Interest income on receivables	31.561	39.852
Financial income total	59.321	49.787
Financial expences are specified as follows:		
Interest expenses	776.423	775.345
Currency exchange loss	12.297	73.832
Financial expenses total	788.720	849.177
Net financial expenses	(729.399)	(799.390)

* *Comparative figures do not include P/F Magn*

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14. Income tax

Expensed income tax is specified as follows:

	2014		2013	
Earnings before income tax		1.238.926		268.340
Income tax using the corporate tax rate	20,00%	(247.785)	20,00%	(53.668)
Effects of tax rates in foreign jurisdictions ..	(1,21%)	15.018	0,00%	0
Impairment of goodwill	0,00%	0	18,63%	(50.000)
Non deductible expenses	0,08%	(1.000)	0,79%	(2.123)
Effects from shares in companies	2,85%	(35.294)	(0,37%)	983
Other items and correction from past year .	(1,86%)	23.079	(18,48%)	49.601
Income tax recognised in the income statemen	19,85%	(245.982)	20,57%	(55.207)

15. Intangible assets

Goodwill is specified as follows:

	2014	2013
Goodwill 1 January	1.351.038	1.601.038
Acquisition of goodwill in business combination	2.350.297	0
Translation difference	(61.174)	0
Impairment of goodwill	0	(250.000)
Goodwill 31 December	3.640.161	1.351.038

Impairment test

At year end 2014 the goodwill of Skeljungur hf. and its operating assets was tested for impairment. The impairment test is based on discounted future cash flows. The pre-tax discount rate applied was based on the weighted average cost of capital, i.e. the cost of debt and equity. If fair value of goodwill (discounted cash flows) is lower than carrying amount the difference is expensed. Based on the impairment test results, no impairment was made in the year 2014.

The impairment test on the goodwill resulting in the business combination with P/F Magn was based on the acquistion price of the shares in the beginning of the year 2014. Magn amortisizes goodwill in its separate financial statements according to Faroese GAAP, but in the Consolidated Financial Statements, goodwill has been restated and the amortisation reversed from 1 January 2013. No impairment is made on goodwill.

Cash flows were projected based on next year's business plans and future growth for the next four years prepared by management and confirmed by the Board of Directors. The cash flows are based on 1.5% future growth rate. The anticipated accumulated annual revenue growth rate is in total 9.7% for the years 2015 to 2019. A discount rate of 12.8% was applied (WACC). If WACC would have been 1.0% higher an impairment of ISK 193 million would have been realized and if EBITDA was 5% lower for all the anticipated EBITDA, an impairment of ISK 78 million would have been realized.

16. Other intangible assets

Other intangible assets are specified as follows:

	Customer relationships	Software
Acquisition of other intangible assets from business combination	620.600	134.460
Additions during the year	0	59.522
Amortisation for the year	(31.030)	(11.126)
Translation difference	0	(3.443)
Other intangible assets 31 December	589.570	179.413
Amortisation ratio	5%	10%

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17. Operating assets

Operating assets and their depreciation are specified as follows:

	Oil depots, real estates and land	Other assets	Total
Cost			
Balance 1 January 2013	10.361.565	3.095.793	13.457.358
Additions during the year	153.582	367.343	520.925
Disposals	(249.072)	(81.154)	(330.226)
Translation difference	(39.683)	(93)	(39.776)
Balance 31 December 2013	10.226.392	3.381.889	13.608.281
Aquired from business combination	2.241.233	308.146	2.549.379
Additions during the year	2.494.914	584.929	3.079.843
Disposals	(2.676.976)	(383.408)	(3.060.384)
Translation difference	(79.023)	(40.926)	(119.949)
Balance 31 December 2014	12.206.540	3.850.630	16.057.170
Depreciation			
Depreciated 1 January 2013	2.454.266	1.826.110	4.280.376
Depreciation for the year	443.197	183.620	626.817
Sold during the year	(197.315)	(68.958)	(266.273)
Translation difference	(17.752)	(1.673)	(19.425)
Balance 31 December 2013	2.682.396	1.939.099	4.621.495
Depreciation for the year	477.311	419.607	896.918
Sold during the year	(257.415)	(340.243)	(597.658)
Translation difference	(68.335)	(33.460)	(101.795)
Balance 31 December 2014	2.833.957	1.985.003	4.818.960
Book value 1 January 2013	7.907.299	1.269.683	9.176.982
Book value 31 December 2013	7.543.996	1.442.790	8.986.786
Book value 31 December 2014	9.372.583	1.865.627	11.238.210
Depreciation ratios	0 - 9%	8 - 25%	
Estimated useful life	11 - 50 years	4 - 13 years	

18. Tax assessment value and insurance value of buildings

The insurance value of the buildings amounted to ISK 7,515 million at year end 2014 (2013: ISK 7,675 million). The tax assessment value of the buildings and land amounted to ISK 3,286 million at year end (2013: ISK 2,858 million). The insurance value of the vehicles, machinery and equipment amounted to ISK 770 million at year end 2013 (2013: ISK 653 million).

There is no tax assessment on assets in Faroe Islands but the carrying value on buildings amounted to ISK 2,135 million. The insurance value of buildings and other assets amounted to ISK 3,118 million.

19. Pledged assets

Arion banki hf. holds a pledge in the Company´s operating assets, inventories and trade receivables in the amount of ISK 10,958 million (2013: ISK 10,958 million) as a collateral for long-term loans at year end. Shares in Magn and S fasteignir are pledged as collateral for long-term loans at year end.

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20. Investments in associated companies

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

	Share	Share in earnings 2014	Book value 2014	Share in earnings 2013	Book value 2013
#####################	34,0%	-	-	(19.616)	1.418.423
EAK ehf., Reykjanesbær .	33,3%	6.220	29.872	9.569	23.651
Fjölver ehf., Reykjavik	33,3%	-847	7.655	(1.505)	8.502
EBK ehf., Reykjanesbær .	25,0%	2.486	5.799	2.648	5.313
Vegsauki ehf., Reykjavik .	50,0%	3.183	9.297	1.573	6.113
Total in associated companies		11.042	52.623	(7.331)	1.462.002

The Financial Statements for the year 2014 for some of the associated companies were not available when the Consolidated Financial Statements for the Group were signed and in those cases the share in net earnings was based on available drafts of the 2014 Financial Statements.

* Magn is part of the Consolidated Financial Statements since it is now fully owned by Skeljungur hf.

21. Long term receivables

Long term receivables are specified as follows:

	2014	2013
Interest bearing long term receivables	40.708	81.342
Other loans	9.475	7.217
Current maturities for long term receivables	(17.163)	(11.059)
Total other loans	33.020	77.500

Interest bearing long term receivables bear 7.5% interests and are due in 2017 with equal installments, but other loans are maturing in the next two years.

22. Inventories

Inventories are specified as follows:

	2014	2013
Fuel	1.823.645	1.981.520
Lubricating oils	249.399	201.258
Other inventories	222.453	226.791
Total inventories	2.295.497	2.409.569

In the year 2014, decrease in the write-down of other goods amounted to ISK 0.5 million but in the year 2013 the write-down increased by ISK 16.5 million. At year end, write-down of other goods amounted to ISK 27 million (2013: ISK 27.5 million).

The Company uses derivative contracts as hedging instruments in a fair value hedge of fluctuations in the market price of fuel. Usually, the derivative contracts are not for a longer period than 45 days. The profit or loss on the derivative contracts is recognised together with the hedged inventory and recognised in the income statement when the hedged inventory is sold. At year end 2014 there were ISK 45 million recognised as a reduction in inventories due to hedging derivative contracts.

23. Trade receivables

Trade receivables are specified as follows:

	2014	2013
Nominal value of trade receivables	2.750.746	1.896.595
Allowance for bad debt	(197.839)	(135.102)
Total trade receivables	2.552.907	1.761.493

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is explained in note 31.

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24. Other receivables

Other receivables are specified as follows:

	2014	2013
Receivables due from the government	22.042	35.780
Receivables from sale of land	43.650	82.387
Prepaid expenses	18.321	5.678
Current maturities for long term receivables	17.164	11.059
Other receivables	87.173	57.069
Total other receivables	188.350	191.973

25. Equity

(i) Issued capital

Issued share capital, as stipulated in the Company's Articles of Association, amounted to ISK 2,704 million (2013: ISK 1,763 million). One vote is attached to each share of one ISK in the Company in addition to rights to receive dividend. All issued capital has been paid for. The Board of Directores has received permission to increase the share capital for as much as ISK 81.1 million in order to fulfil the obligations towards employees of Skeljungur and its subsidiaries leading from the remuneration policy. The permission is valid until 1 September 2019.

(ii) Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company.

(iii) Statutory reserve

In accordance with the Icelandic Company Act, the Company must contribute 5-10% of its annual profit until the statutory reserve consists of an amount corresponding to 25% of the nominal value of share capital of the company. This amount cannot be distributed to shareholders as dividend.

(iv) Reserve for share options

On 9 November 2014, the Group provided two employees of its subsidiary in Faroe Islands with share options that entitle them to purchase shares in the Company. Under this program, holders of vested options are entitled to purchase shares at the market price of the shares at the grant date. A reserve has been made in equity to meet this obligation.

(v) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the Group's proportionate share in certain subsidiaries and associates.

(vi) Retained earnings

Profit for the year is recognised as increase in retained earnings less contribution to the statutory reserve. Dividend payments are recognised as reduction in retained earnings.

(vii) Dividend

Dividend paid during 2014 was ISK 550 million (2013: ISK 125 million).

viii) Capital management

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

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by lower levels of borrowings. The equity ratio was 37.8% at year end 2014 (2013: 33.0%).

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

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26. Earnings per share

Basic and diluted earnings per share

	2014	2013
Profit for the year	992.944	212.843

Weighted average number of ordinary shares

	2014	2013
Shares on 1 January	1.762.805	1.762.805
Effect of share capital increase	156.798	0
Weighted average number of shares	1.919.603	1.762.805
Basic and diluted earnings per share	0,52	0,12

27. Share-based payment arrangements

On 9 November 2014, the Group provided two employees of its subsidiary in Faroe Island with share options that entitle them to purchase shares in the Company. Under this program, holders of vested options are entitled to purchase shares at the market price of the shares at the grant date.

The options carry neither rights to dividend nor voting rights and are valued using the Black-Scholes pricing model. The expected volatility assumptions used to value the options is 25.8% and the annual discount rate ranges from 5.50% to 6.30%. The options expire 10 working days after the exercise date. There are no movements in share options during the period from issuance to 31 December 2014. The fair value of the employee share purchase options at grant date is ISK 36.9 million. An expense of ISK 36.9 million is recognized in the income statement for the period. Estimated remaining cost due to the share option contracts is ISK 2.0

The key terms and conditions related to the grants under this program are as follows; options are to be settled by the physical delivery of shares.

Grant date/ employees entitled	Numbers of instruments in ISK thousands	Vesting conditions	Contractual life of options
Options granted to key management personnel			
On 9 November 2014	52.449	at 12 September 2017	3 years
On 9 November 2014	1.622	at 9 November 2021	3 years
Total share options	54.071		

28. Deferred income tax liabilities

Income tax liability is specified as follows:

	2014	2013
Income tax liability at the beginning of the year	618.370	749.474
Income tax liability overtaken due to acquistion of a subsidiary	305.214	0
Translation difference	(6.932)	1.693
Corrections from past year	0	(12.527)
Income tax expensed from continuing operations	245.982	55.207
Income tax expensed from discontinued operations	(105.537)	(39.627)
Income tax payable	(193.451)	(135.850)
Deferred income tax liability at year end	863.646	618.370

28. Deferred income tax liabilities contd.:

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

	2014	2013
Operating assets	793.713	1.037.357
Other intangible assets	106.114	0
Inventories	17.920	22.966
Trade receivables	19.708	(8.484)
Deferred tax losses	(63.360)	(407.980)
Currency adjustments according to Icelandic tax laws	(3.647)	(9.662)
Other items	(6.802)	(15.827)
Deferred income tax liability at year end	863.646	618.370

Carry-forward losses at year end are specified as follows:

Loss of the year 2008 utilizable until 2018	0	1.111.714
Loss of the year 2011 utilizable until 2021	0	219.374
Loss of the year 2012 utilizable until 2022	196.173	588.181
Loss of the year 2013 utilizable until 2023	120.631	120.631
Total carry-forward losses	316.804	2.039.900

The Group's carry-forward losses pertain to S-fasteignir ehf. and Birgðastöðin Miðsandi ehf. which are not under joint taxation with Skeljungur hf. The Company´s management estimates that the companies will have a future taxable profit against the carry forward losses.

29. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 31.

Long-term debt

	2014	2013
Long-term debt in ISK, non-indexed, variable interest 6.5%	6.063.705	6.684.410
Debt in foreign currency, USD, fixed interest 5.67%	0	254.884
Debt in foreign currency, DKK, fixed interest 3%	1.354.135	0
Total long-term debt, including current maturities	7.417.840	6.939.294
Current maturities	(531.793)	(591.220)
Total long-term debt, according to the balance sheet	6.886.047	6.348.074

Current debt

Current maturities	531.793	591.220
Current bankloans	1.043.896	772.821
Total current debt, according to the balance sheet	1.575.689	1.364.041
Total interest-bearing loans and borrowings	8.461.736	7.712.115

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29. Loans and borrowings continued:
Terms of loans and borrowings

Loans in foreign currency:	Final due date	2014 Weighted average interest rate	2014 Carrying amount	2013 Weighted average interest rate	2013 Carrying amount
Loans in USD	2014	-	0	5,7%	254.884
Loans in DKK	2021	3,0%	1.354.135		0
			1.354.135		254.884
Loans in ISK:					
Non-indexed loans in ISK .		6,5%	6.063.705	7,9%	6.684.410
Current loans in ISK	2015	7,0%	224.351		772.821
Current loans in USD	2015	3,99%	819.545		0
			7.107.601		7.457.231
Total interest-bearing loans and borrowings			8.461.736		7.712.115

Aggregated annual maturities of long-term debt are specified as follows:	2014	2013
2014	-	591.220
2015	531.793	336.336
2016	3.774.824	3.860.922
2017	510.645	300.000
2018	2.076.987	1.850.816
2019	223.620	-
Subsequent	299.972	-
Long-term debt including current maturities	7.417.840	6.939.294

Loan agreements include various financial covenants the Group must comply with, such as equity, leverage and liquidity ratios. At year end 2014, the Group was in full compliance with these financial covenants.

Skeljungur has the possibility to extend loans with the final maturity in 2016, twice for another three year tearm, each time, and a loan with the final maturity in 2018 for another two years, subject to certain conditions are fulfilled.

Skeljungur has signed two pledge agreements with Arion banki in the combined amount of ISK 10,958 million. The first agreement pledges receivables and inventories owned by Skeljungur up to ISK 8,276 million. The second agreement pledges operating assets owned by Skeljungur up to ISK 2,682 million. S-fasteignir has pledged its receivables from Skeljungur and the company’s bank accounts (ISK 40,5 million at year end 2014)in addition to issuing a collateral letter for the original principal of ISK 3,120 million as collateral for the Skeljungur's loans. At year end the collateral amounts to ISK 4.898 million.

The shares in Magn are pledged to Eik bank in Faroe Islands and the company has mortgaged its current assets in the amount of DKK 8.5 million and fixed assets in the amount of DKK 207 million to Eik bank.

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30. Other current liabilities

Other current liabilities are specified as follows:

	2014	2013
Payable to the state	1.539.931	1.654.580
Unpaid salary related expenses	334.959	223.070
Prepaid income	0	45.000
Unpaid accrued interests	14.815	36.443
Other current liabilities	96.300	38.258
Other current liabilities total	1.986.005	1.997.351

31. Risk management

Overview

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

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

Risk management framework

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and manages financial risk in close co-operation with the Board of Directors. The Group's risk management program focuses on addressing the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group determines whether or not to use derivative financial instruments to hedge certain risk exposures if such derivatives are available. The Group does not currently hedge its risk exposure except for part of oil price risk related to inventories.

Credit risk

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

Skeljungur's exposure to credit risk is influenced mainly by the individual characteristics of its customer. Approximately 32.3% (2013: 34.2%) of the Company’s revenues is attributable to sales transactions with the 30 largest customers. In Magn it is approximately 45.4%. Trade and other receivables are receivables from transportation, fishing industry and contractors.

The Company has set a credit policy where all new significant customers are evaluated for credit risk and have credit limits to their accounts which they cannot exceed. Payment history of new customers is checked.

Most of the Company's customers have been customers for many years and loss on receivables has been insignificant in proportion to turnover. Credit risk management includes taking into account the age of the receivables and financial standing of each customer. The list of aged receivables is reviewed on a regular basis by the credit controller. Customers that are behind in payments are not permitted to make further transactions with the Company until they settle their debt or the Company's collection department approves further transactions based on an agreement.

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

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31. Risk management continued:

Exposure to credit risk

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

	Notes	2014	2013
Other loans	21	33.020	77.500
Trade receivables	22	2.552.907	1.761.493
Other receivables	23	188.350	191.974
Cash and cash equivalents		654.635	202.956
		3.428.912	2.233.923

Impairment

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

	Nominal value	Write-down	Carrying amount
Year 2014			
Neither past due nor impaired	1.851.987	0	1.851.987
Past due 0 - 30 days	266.949	(17.657)	249.292
Past due 31 - 60 days	367.255	(36.053)	331.203
Past due 61 - 90 days	185.898	(90.866)	95.032
Past due more than 90 days	78.656	(53.263)	25.393
	2.750.745	(197.839)	2.552.907
Year 2013			
Neither past due nor impaired	169.812	0	169.812
Past due 0 - 30 days	906.598	(16.650)	889.948
Past due 31 - 60 days	240.340	(28.163)	212.177
Past due 61 - 90 days	94.289	(27.749)	66.540
Past due more than 90 days	350.454	(62.540)	287.914
	1.761.493	(135.102)	1.626.391

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

	2014	2013
Balance at 1 January	135.102	124.282
Aquired from subsidiary	108.298	0
Final write off	(72.680)	(18.900)
Impairment losses recognized	27.119	29.720
Balance at 31 December	197.839	135.102

Skeljungur has an agreement with Borgun hf. whereas Borgun purchases specific credit card receivables from the Company. Under the agreement, Borgun carries the risk of losses up to a specified percentage of sold receivables. Given the risk of claims shifted from Skeljungur, these credit card receivables have been derecognized in the balance sheet. At year end 2014, ISK 333 million of credit card receivables are outstanding.

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31. Risk management continued:

Impairment contd.:

The Group´s trade receivables are specified as follows at year end by groups of clients:

	Nominal value	Specific write-down	General write-down	Carrying amount
Year 2014				
Fishing industry	886.591	(1.898)	(81.622)	803.071
Transportation	615.038	(21.063)	(6.826)	587.149
Contractors and agriculture	819.957	(20.237)	(37.342)	762.378
Other industries and individuals	429.159	(6.904)	(21.946)	400.309
	2.750.745	(50.102)	(147.736)	2.552.907
Year 2013				
Fishing industry	760.638	(27.466)	(927)	732.245
Transportation	652.301	(18.524)	(13.969)	619.808
Contractors and agriculture	398.151	(27.273)	(13.218)	357.660
Other industries and individuals	85.505	(8.381)	(25.344)	51.780
	1.896.595	(81.644)	(53.458)	1.761.493

Other financial assets subject to credit risk are not impaired.

Liquidity risk

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

The Group´s liquidity position was strong at year end 2014 and the Group's management believes that it is in a good position to meet its obligations when they are due. In addition to present liabilities, the Company has access to a credit line for 2 years in the amount of ISK 2,750 million, and is only using ISK 1,077 million. Magn has access to a credit line for the amount of DKK 50 million at year end (ISK 1,036 million).

Exposure to liquidity risk

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

	Total payment	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Year end 2014					
Loans and borrowings	9.563.753	2.066.654	4.222.542	2.953.805	320.752
Trade and other payables .	3.995.677	3.995.677			
Payable to related parties .	6.027	6.027			
	13.565.456	6.068.357	4.222.542	2.953.805	320.752
Year end 2013					
Loans and borrowings	8.816.445	1.875.102	4.370.370	467.674	2.103.299
Trade and other payables .	2.581.311	2.581.311			
Payable to related parties .	1.942	1.942			
	11.399.698	4.458.355	4.370.370	467.674	2.103.299

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31. Risk management continued:

Market risk

Market risk is the risk that changes in market prices, such as oil prices, foreign exchange rates and interest rates will affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Market risk for the Group consists of price risk, currency risk and interest rate risk.

(i) Price risk

The Group is exposed to significant price risk due to changes in world market oil prices, which have fluctuated significantly in the past few years. Significant changes in the world market prices are reflected in frequent price changes at he Group´s service stations. The Group limits price risk by means of specific agreements with its largest customers.

(ii) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currencies other than ISK. The currencies in which these transactions primarily are denominated are US Dollar (USD), Euro (EUR) and Danish krona (DKK). The major part of imports is purchase of oil, denominated in USD from foreign suppliers but the sales are in great part in ISK. Sales in ISK constitute 81.3% (2013: 78.0%), USD 16.6% (2013: 18.3%) and other currencies 2.1% (2013: 3.7%).

Magn is exposed to currency risk on sales and purchases that are denominated in a currencies other than DKK. The currency in which these transactions are primarily denominated is US Dollar (USD). The major part of imports is purchase of oil, denominated in USD from foreign suppliers, but the sales are in great part in DKK. Sales in DKK constitute 85.2%, USD 14.6% and other currencies 0.2%.

Exposure to currency risk

The Group's exposure to foreign currency risk is as follows:

	USD	EUR	DKK	Other currencies
2014				
Receivables	502.583	48.525	0	0
Cash and cash equivalents	73.197	1.492	243	743
Loans and borrowings	(819.545)	0	0	0
Payables	(129.441)	(4.603)	(5.669)	(2.224)
Balance sheet risk	(373.206)	45.414	(5.426)	(1.481)

	USD	EUR	DKK	Other currencies
2013				
Receivables	649.560	91.791	548.010	34.623
Cash and cash equivalents	23.753	3.144	137	480
Loans and borrowings	(970.834)	0	0	0
Payables	(17.061)	(5.600)	(15.809)	0
Balance sheet risk	(314.582)	89.335	532.338	35.103

The following exchange rates were used during the year:

	Average exchange rate		End of year exchange rate	
	2014	2013	2014	2013
USD	116,75	122,23	126,90	115,03
EUR	154,86	162,38	154,27	158,50
DKK	20,77	21,77	20,72	21,25

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31. Risk management continued:

Currency risk continued

Sensitivity analysis

A 10 percent strengthening of the ISK against the following currencies at 31 December would have increased (decreased) profit or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2013.

	Profit or (loss) 2014	2013
USD	(6.488)	31.458
EUR	(4.541)	(8.934)
DKK	543	(53.234)
Other currencies	148	(48)

A 10 percent weakening of the ISK against the above currencies at 31 December would have had the equal but opposite effect on profit or loss after tax to the amounts shown above, on the basis that all other variables remain constant. The analysis was performed on the same basis for the year 2013.

Interest rate risk

The majority of the Group's long term borrowings are subject to variable interest rates. Due to current market conditions in Iceland the Company does not currently hedge its interest rate risk as there is no counterparty for forward contracts or other derivatives available in Iceland.

An increase or decrease of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity before income tax by ISK 57 million (2013: 74.3 million) due to effects of the Group's borrowings on floating interests. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2013.

Other market risk

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

Classification of financial instruments

Financial assets and liabilities are classified as follows:

	Loans and receivables	Other financial liabilities	Carrying amount
2014			
Other loans	33.020		33.020
Trade receivables	2.552.907		2.552.907
Other receivables	188.350		188.350
Cash and cash equivalent	654.635		654.635
Total assets	3.428.912	0	3.428.912
Loans and borrowings		8.461.736	8.461.736
Trade payables		1.816.221	1.816.221
Other payables		2.185.482	2.185.482
Total liabilities	0	12.463.440	12.463.440

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31. Risk management, continued:

Classification of financial instruments contd.

Financial assets and liabilities are classified as follows:

	Loans and receivables	Other financial liabilities	Carrying amount
2013			
Other loans	77.500		77.500
Trade receivables	1.761.493		1.761.493
Other receivables	191.974		191.974
Cash and cash equivalent	202.956		202.956
Total assets	2.233.923	0	2.233.923
Loans and borrowings		7.712.115	7.712.115
Trade payables		448.110	448.110
Other payables		2.135.143	2.135.143
Total liabilities	0	10.295.368	10.295.368

32. Operating lease

Rental obligation

The Group rents premises and vehicles from various parties and the total obligation in relation thererof amounts to ISK 112 million until the year 2021 (2013: ISK 144 milion). Future rent payments, without taking into account future inflation, are specified as follows at year end:

	2014	2013
Within one year	55.057	68.097
After 1 - 5 years	57.339	75.790
Total	112.396	143.887

Rental income

The Group rents premises to various parties. Some of the rental agreements are indeterminate but the lease term of other agreements are from 2 - 21 years. Rental income in the year 2014 amounted to ISK 159 million (2013: ISK 125 million). Most of the rental agreements are price indexed. Total obligations of lessees without taking into account future inflations is specified as follows. Obligation of the lessees due to indeterminate agreements is only calculated for one year.

	2014	2013
Within one year	104.802	75.914
After 1 - 5 years	252.076	308.020
After 5 years	48.858	48.858
Total	405.736	432.792

33. Uncertainty

Following an investigation by the Icelandic Competition Authority of an alleged breach of the Icelandic Competition Law the Company has been fined ISK 450 million, which was paid and expensed in 2005. The Company appealed the decision but the case was dismissed by the Supreme Court. The Company lost the case again in the Icelandic District Court. The case will be appealed and it is probable that a final ruling will be handed in before year end 2015. The Icelandic Competition Authority has no authority to raise the fine.

34. Subsequent event

In February 2015 Skeljungur sold its subsidiary Birgðastöðin Miðsandi ehf. to Atlantic Tank Storage hf. for the amount of ISK 480 million. Skeljungur hf. has expensed a loss of ISK 13.3 million in the income statement as a result of the sale in the year 2014.

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35. Related parties

Definition of related parties:

Shareholders, subsidiaries, associated companies, directors, managers and companies in which they own majority of the shares are considered to be related parties.

Transactions with associated companies	2014	2013
Purchased goods and services	59.749	52.621
Sold goods and services	9.513	9.789
Receivables at year end	900	1.292
Payables at year end	3.325	3.138

Salaries paid to the Board of Directors and managers

Salaries paid to the Board of Directors and managers are specified in note 10.

Transactions with shareholders

Transactions with shareholders were insignificant during the year.

Transactions with employees

The Company has granted employees loans for general trade. The Company has also granted employees loans relating to the sale of vehicles for a total amount of ISK 10.1 million. The loans carry interest rate and have a term of up to five years.

36. Subsidiaries

The consolidated financial statements include the following subsidiaries:

	Shares	
	2014	2013
P/F Magn	100%	34%
S-fasteignir ehf., Reykjavík	100%	100%
Birgðastöðin Miðsandi ehf., Reykjavík	100%	100%
Tollvörugeymsla Skeljungs ehf., Reykjavík	100%	100%
Bensínorkan ehf., Reykjavík	100%	100%

37. Other matters

In June 2013 the Icelandic Competition Authority announced that it had decided to initiate a market investigation on the Icelandic fossil fuels market. This is the first time the Competition Authority initiates a market investigation of this form, which entails whether there is need to take measures against circumstances or conduct which prevents, limits or affects competition to the detriment of the public interest. Thus, the market investigation is not aimed at the Company itself but at the fossil fuels market as a whole. According to an updated time plan, the authority plans to publish a preliminary report in the first half of the year 2015. The market investigation did not affect the financial position of Skeljungur in the year 2014.

38. Financial Ratios

The Group's key ratios are as follows:

	2014	2013
Operations:		
Average margin - contribution margin / sales	15,4%	14,0%
EBITDA / sales	6,5%	6,3%
Return on equity	9,4%	1,0%
Balance Sheet:	**2014**	**2013**
Current ratio - Current assets / current liabilities	1,02	1,16
Equity ratio - Shareholders' equity / total capital	37,8%	33,6%
Internal value of share capital	3,0	3,1

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39. Transition to IFRSs

Changes to accounting policies in accordance with International Financial Reporting Standards (IFRSs)

As stated in note 2(a) on accounting policies, these are the Group´s first financial statements prepared in accordance with IFRS.

The accounting policies in note 3 have been applied in preparing the financial statements for the year 2014, the comparative information for the year ended 31 December 2013 and the preparation of an opening IFRS balance sheet at 1 January 2013 (the Group's date of transition).

Amounts in the opening Balance Sheet of 1 January 2013 have been changed in accordance with IFRS, but were previously presented in accordance with Icelandic generally accepted accounting principles ("Icelandic GAAP"). An explanation on how the transition from Icelandic GAAP to IFRSs has affected the Group's financial position and financial performance is set out in the following tables and notes that accompany the tables. There are no significant changes to the Group's cash flows from Icelandic GAAP to IFRS.

Changes in equity from Icelandic GAAP to IFRS:

	Equity
Equity according to Icelandic GAAP at 31 December 2012	5.566.600
Equity according to IFRS at 1 January 2013	5.697.365
Changes from Icelandic accounting policies to IFRS	130.765

Changes at the beginning of year 2013:

Share in associated companies	130.765
Total changes due to IFRS at 1 January 2013	130.765

Changes in profit for the year 2013:

Share in profit from associated companies	13.791
Income tax effects	0
Total changes due to IFRS for the year 2013	13.791
Changes from Icelandic GAAP to IFRS	144.556

Total effects of the transition to IFRSs is an increase in equity amounting to ISK 144.6 million. Following is an explanation of the effect of transition on the income statement and balance sheet.

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39. Transition to IFRSs, continued

Changes from previous GAAP to IFRS

The following tables show an overview of the transition to IFRS and is divided into changes in estimates and changes in presentation excluding effects of discontinued operations.

Income statement for the year 2013, changes from previous GAAP to IFRS

	Icelandic GAAP	Changes in estimates	Changes in presentation	IFRS
Sales	32.645.224		65.216	32.710.440
Cost of goods sold	(27.725.228)			(27.725.228)
Other income	527.523		(65.216)	462.307
Sales and distribution expenses	(3.079.764)			(3.079.764)
Operating expenses	(614.013)			(614.013)
Impairment of goodwill	(250.000)			(250.000)
Depreciation	(626.817)			(626.817)
Finance income	49.787			49.787
Finance expenses	(849.177)			(849.177)
Gain (loss) from associated companies	(7.331)	13.791		6.460
Income tax	(15.580)			(15.580)
Profit for the year	54.623	13.791	0	68.415

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39. Transition to IFRSs, continued

Changes from previous GAAP to IFRS

Balance sheet 31 December 2013, changes from previous GAAP to IFRS

Icelandic GAAP		Changes in estimates	Changes in presentation	IFRS
Assets				
Goodwill	1.351.038			1.351.038
Operating assets	8.986.786			8.986.786
Shares in associated comp.	1.317.446	144.556		1.462.002
Other loans	77.500			77.500
Fixed assets	11.732.770			11.877.326
Inventories	2.409.569			2.409.569
Trade receivables	1.761.493			1.761.493
Other receivables	191.974			191.974
Cash and cash equivalents	202.956			202.956
Current assets	4.565.992			4.565.992
Total assets	16.298.762			16.443.318
Equity				
Share capital	1.762.805			1.762.805
Share premium	2.366.490			2.366.490
Statutory reserve	187.802			187.802
Translation difference	(54.750)			(54.750)
Retained earnings	1.120.318	144.556		1.264.874
Shareholders' equity	5.382.665			5.527.221
Minority share	2.358			2.358
Total equity	5.385.024			5.529.580
Liabilities and provisions				
Def. income-tax liability	618.370			618.370
Long term liabilities	6.348.074			6.348.074
	6.966.444			6.966.444
Credit institutions	772.821			772.821
Trade payables	448.111			448.111
Current maturites	591.220			591.220
Payable to associated comp.	1.942			1.942
Income tax payable	135.850			135.850
Other current liabilities	1.997.350			1.997.350
Total current liabilities	3.947.294			3.947.294
Total liabilities	10.913.738			10.913.738
Total equity and liabilities	16.298.762			16.443.318

Consolidated Financial Statements of Skeljungur hf. 2014 36 All amounts are in ISK thousand

Skeljungur hf.

Consolidated Financial Statements
For the Year Ended 31 December 2015

Skeljungur hf.
Borgartun 26
105 Reykjavik

Reg. no. 590269 -1749

Contents

Endorsement by the Board of Directors and the CEO

The Consolidated Financial Statements of Skeljungur hf. (the "Company" or "Skeljungur") for the financial year 2015 include the Company and its subsidiaries (Group).

The Group consists of two main operations Skeljungur and Magn. Skeljungur the Icelandic operations span a range of retail, wholesale and service operations under the brands, Skeljungur, Shell, Orkan and Orkan X. Main activities are import, sale and distribution of oil but also lubricants, chemical products and fertilizer. Skeljungur operates 65 gas stations and 9 oil depots around Iceland. The Company decided not to prolong the retail brand contract with Shell Branding International. That has no effect on it's co-operation with Shell regarding lubricants, aviation and marine services. P/F Magn operates in the Faroe Islands and main activities are import, sale and distribution of oil as well as convenience retail. P/F Magn operates 11 retail outlets. The customer base of the companies span every sectors and large part of both islands populations.

At the annual meeting on May 18th 2015 the Board of Directors was authorized to pay out to shareholders ISK 500 million or 50% of the year 2014 profit, before discontinued operations by decreasing the share capital of nominal value of 201,3 million.

In the impairment test for 2015, the terminals owned by the company were valued as a separate group of cash-generating units for the first time. It is the view of the management and the Board of Directors that it is more prudent to test the standalone value of the terminals as if they were operated separately as a CGU. Based on the impairment test results, an impairment of 1,063 million was made in the year 2015.

According to the Consolidated Statement of Comprehensive Income, total operating revenue amounted to ISK 36,842 million for the Group (2014: 42,768). The Group's net earnings for the year 2015 amounted to ISK 273.1 million (2014: 570.8). According to the Statement of Financial Position, the Group's total assets amounted to ISK 18,416 million (2014: 21,424). Shareholders' equity amounted to ISK 7,478 million at year end 2015 (2014: 8,097). The Group's equity ratio was 40.6% (2014:37.8%).

The Company's share capital amounted to ISK 2,502 million at the end of the year. At year end the share capital is owned by two shareholders, same as at the beginning of the year. The shareholders at year end are:

	Share
SF IV slhf.	99,99%
SF IV GP hf.	0,01%

The Board of Directors refers to the Consolidated Financial Statements regarding allocation of profit and other changes in equity within the fiscal year. A proposal concerning dividend will be submitted at the Annual General Meeting of the Company.

The Board of Directors and the CEO of Skeljungur hf. hereby confirm the Consolidated Financial Statements for the year ended 31 December 2015 by means of their signatures.

Reykjavik, 22 March 2016

The Board of Directors:

CEO:

Independent Auditors' Report

To the Board of Directors and Shareholders of Skeljungur hf.

We have audited the accompanying Consolidated Financial Statements of Skeljungur hf., which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information

The Board of Directors and CEO´s Responsibility for the Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of Skeljungur hf. as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors' Report

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

Reykjavik, 22 March 2016

KPMG ehf.

Reynir Stefán Gylfason

Consolidated Statement of Comprehensive Income for the year ended 31 December 2015

	Notes	2015	2014
Sales	7	36.842.197	42.768.220
Cost of goods sold	8	(30.043.899)	(36.202.163)
Gross profit		6.798.298	6.566.057
Other income	9	235.790	248.101
Salaries and salary related expenses	10	(2.076.634)	(1.937.048)
Sales and distribution expenses	11	(1.855.909)	(1.697.282)
Operating expenses	12	(426.977)	(404.657)
Earnings before depreciation and financial items		2.674.568	2.775.171
Depreciation and impairment of operating assets	17	(1.842.868)	(817.887)
Operating profit		831.700	1.957.283
Financial income	13	31.204	59.321
Financial expenses	13	(609.962)	(788.720)
Net financial expenses		(578.758)	(729.400)
Share of profit from associated companies	20	38.655	11.043
Profit before income tax		291.597	1.238.926
Income tax expense	14	(18.450)	(245.983)
Profit from continuing operations		273.146	992.944
Loss from discontinued operations (net of tax)	6	0	(422.149)
Profit for the year		273.146	570.794
Profit from continuing operations attributable to:			
Owners of the Company		273.146	992.944
Profit for the year		273.146	992.944
Profit for the year attributable to:			
Owners of the Company		273.146	570.794
Profit for the year		273.146	570.794
Other comprehensive income that will be reclassifed to profit or loss			
Foreign operation - foreign currency translation differences		(367.970)	(37.869)
Foreign currency translation differences reclassified to profit and loss		(24.574)	0
Total comprehensive (loss) income		(119.398)	532.925
Total comprehensive (loss) income for the year attributable to:			
Owners of the Company		(119.398)	532.925
Profit for the year		(119.398)	532.925
Earnings per share:			
Earnings per each ISK one of share capital and diluted share capital	26	0,11	0,30

The notes on pages 9-36 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Skeljungur hf. 2015 5 All amounts are in ISK thousand

Consolidated Statement of Financial Position as at 31 December 2015

	Notes	31.12.2015	31.12.2014
Assets			
Goodwill	15	3.454.643	3.640.161
Other intangible assets	16	709.315	768.983
Operating assets	17,18,19	9.763.159	11.238.210
Shares in associated companies	20	62.566	52.623
Long term receivables	21	22.677	33.020
Non-current assets		14.012.360	15.732.996
Current assets			
Inventories	22	2.001.540	2.295.497
Trade receivables	23	1.960.420	2.552.907
Other receivables	24	57.496	188.350
Cash and cash equivalents		374.125	654.635
Current assets		4.393.582	5.691.390
Total assets		18.405.941	21.424.386
Equity			
Share capital	25	2.502.257	2.703.594
Share premium		3.711.833	4.010.496
Statutory reserve		243.657	216.342
Reserve for share options	25,27	36.861	36.861
Translation difference of shares in companies		(522.024)	(92.619)
Retained earnings		1.505.319	1.222.626
Total equity		7.477.902	8.097.300
Liabilities			
Deferred tax liability	28	640.600	863.646
Loans and borrowings	29	5.298.020	6.886.047
Non-current liabilities		5.938.619	7.749.694
Short term borrowings	29	1.219.808	1.043.896
Trade payables		1.167.556	1.816.221
Current maturities of long-term debt	29	426.129	531.793
Current tax liabilities	29	227.788	193.451
Other current liabilities	30	1.948.139	1.992.032
Current liabilities		4.989.420	5.577.393
Total liabilities		10.928.039	13.327.086
Total equity and liabilities		18.405.941	21.424.386
Mortgages	29		

The notes on pages 9-36 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Skeljungur hf. 2015 6 All amounts are in ISK thousand

Consolidated Statement of Changes in Equity 31 December 2015

	Attributable to owners of the Company								
	Share capital	**Share premium**	**Statutory reserve**	**Reserve share option**	**Translation difference**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
2014									
Shareholders' equity 31.12.2013	1.762.805	2.366.490	187.802	0	(54.750)	1.264.875	5.527.222	2.358	5.529.580
Profit for the year						570.794	570.794		570.794
Other comprehensive loss					(37.869)		(37.869)		(37.869)
Total comprehensive income					(37.869)	570.794	532.925		532.925
Transact. with owners of the Company									
Issued new shares	940.789	1.644.006					2.584.795		2.584.795
Contribution to statutory resererve			28.540			(28.540)	0		0
Equity-settled share-based payments				36.861		(36.861)	0		0
Non-controlling interests acquired						2.358	2.358	(2.358)	0
Paid dividend (ISK 0.312 per share)						(550.000)	(550.000)		(550.000)
Balance at 31 December 2014	2.703.594	4.010.496	216.342	36.861	(92.619)	1.222.626	8.097.300	0	8.097.300
2015									
Shareholders' equity 31.12.2014	2.703.594	4.010.496	216.342	36.861	(92.619)	1.222.626	8.097.300	0	8.097.300
Equity 31.12.2014 reclassified					(36.861)	36.861	0		0
Profit for the year						273.146	273.146		273.146
Other comprehensive loss					(392.544)		(392.544)		(392.544)
Total comprehensive income					(392.544)	273.146	(119.398)		(119.398)
Transact. with owners of the Company									
Share Capital decrease	(201.337)	(298.663)					(500.000)		(500.000)
Contribution to statutory resererve			27.315			(27.315)	0		0
Balance at 31 December 2015	2.502.257	3.711.833	243.657	36.861	(522.024)	1.505.319	7.477.902	0	7.477.902

The notes on pages 9-36 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Skeljungur hf. 2015 7 All amounts are in ISK thousand

Consolidated Statement of Cash Flows for the year 2015

	Notes	2015	2014
Cash flows form operating activities:			
Profit for the year		273.146	570.794
Adjustments:			
Depreciation and impairment	16,17	1.842.868	939.075
Profit from associated companies	20	(38.654)	(11.043)
Net finance costs		578.757	729.400
Effect of share options.		0	36.861
(Gain) loss on sale of assets		(7.730)	26.611
Tax expense	28	18.450	69.031
		2.666.838	2.360.729
Changes in:			
Inventory, decrease		226.601	1.072.993
Trade and other receivables, decrease		879.745	281.363
Trade and other payables, decrease		(483.965)	(488.153)
		622.381	866.203
Cash generated from operating activities		3.289.219	3.226.932
Interest received		38.658	59.321
Interest paid		(606.454)	(781.892)
Taxes paid		(186.660)	(252.831)
Net cash from operating activities		2.534.762	2.251.529
Cash flows from investing activities:			
Investment in operating assets	17	(1.082.528)	(750.373)
Proceeds from sale of operating assets		22.347	40.955
Investement in shares in associated companies		(329.240)	0
Proceeds from sale of shares in associated companies		472.066	0
Dividend from associated companies		2.000	2.000
Other loans, change		10.344	56.580
Cash acquired on consolidation		0	368.209
Net cash used in investing activities		(905.011)	(282.629)
Cash flows from financing activities			
Share Capital decrease		(500.000)	0
Paid dividend		0	(550.000)
Installments on long-term debt		(1.583.689)	(1.084.054)
Short-term borrowing, change		195.011	141.445
Net cash used in financing activities		(1.888.678)	(1.492.609)
Net (decrease) increase in cash and cash equivalents		(258.927)	476.291
Effects of movements in exchange rates on cash held		(21.583)	(24.612)
Cash and cash equivalents at the beginning of the year		654.635	202.956
Cash and cash equivalents at year end		374.125	654.635
Investing and financing activities not affecting cash:			
Investment in subsidiary		0	(2.584.795)
Share capital increase		0	2.584.795

The notes on pages 9-36 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Skeljungur hf. 2015 8 All amounts are in ISK thousand

Notes to the Consolidated Financial Statements

1. Reporting entity

Skeljungur hf. (the "Company") is an Icelandic limited liability company domiciled in Iceland. The address of the Company´s registered office is at Borgartun 26, Reykjavik. The Consolidated Financial Statements of the Company comprise the Company and its subsidiaries, P/F Magn, S-fasteignir ehf., Tollvörugeymsla Skeljungs ehf., Bensínorkan ehf., (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates.

Skeljungur hf. is an Icelandic oil importing company whose activities span a range of retail and service operations in Iceland. The Company has a network of 65 service stations and 9 oil depots in Iceland. P/F Magn in Faroe Islands has 11 service stations and 3 oil depots around the Faroe Islands.

2. Basis of preparation

a. Statement of compliance with International Financial Reporting Standards

The Company's financial statements are prepared according to IFRS as adopted by the EU and additional Icelandic disclosure requirements in accordance with the Icelandic Financial Statements Act No. 3/2006.

These financial statements were confirmed by the Board of Directors on 22 March 2016.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception that derivative financial instruments are recognized at fair value.

c. Presentation and functional currency

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

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimates and judgments made in applying accounting policies that have significant effect on the amounts recognised in the financial statements is in note 15 regarding measurement of the recoverable amounts of cash-generating units containing goodwill.

The determination of fair value is based on preconditions, which are dependent on the judgment of management on future events. Actual results can be different from these estimates.

e. Determination of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

- Note 15 - Intangible assets (impairment of goodwill)
- Note 17 - Operating assets (impairment of terminals)
- Note 22 - Inventories (write-down of inventories)
- Note 31 - Financial instruments (impairment of trade receivables)

3. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these financial statements.

a. Basis for consolidation

i) Business combinations

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

The Group elects on a transaction-by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

ii) Subsidiaries

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

iii) Transactions eliminated on consolidation

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

iv) Associates

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

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence ceases.

Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies continued:

b. Foreign currencies

Foreign currency transactions

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

Foreign operations

Monetary assets and liabilities of subsidiaries with different functional currency than the Company are translated to Icelandic krona at the exchange rate at the reporting date. Transactions are translated at the average exchange rate of the year. Exchange differences arising from the translation to Icelandic krona are recognised as a separate line item in the statement of comprehensive income. The cash flow is translated to Icelandic krona using the average exhange rate of the year. Exchange differences arising from the translation to Icelandic krona are recognised as a separate line item in the statement of cash flow.

c. Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with intent to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

d. Financial instruments

(i) Non-derivative financial assets

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

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

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

Loans and receivables

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

Loans and receivables comprise cash and cash equivalents and trade receivables, other receivables and other loans.

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

d. Financial instruments, continued:

(ii) Non-derivative financial liabilities

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

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

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

(iii) Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value in the statement of financial position and changes in fair value are recognized in profit or loss as part of cost of goods sold in the statement of comprehensive income.

(iv) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

(v) Share capital

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

Treasury shares

When share capital recognised as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. When treasury shares are sold the sale is recognised as increase in equity.

e. Intangible assets and goodwill

(i) Recognition and measurement

Goodwill arises either on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. An impairment test is performed at least annually.

Software and customer relationships that are acquired from by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

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

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

Software	10 years
Customer relationships	20 years

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

f. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of operating asset have different useful lifes, they are accounted for as separate items of operating assets.

Gains and losses on disposal of an item of operating assets are determined by comparing the proceeds from disposal with the carrying amount of operating assets, and are recognized on a net basis within other income or other expenses in profit or loss.

(ii) Subsequent costs

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

g. Operating assets, contd.:

(iii) Depreciation

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

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

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

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

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

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

h. Leased assets

Leases are operating leases and the leased assets are not recognized in the Company's statement of financial position.

i. Inventories

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

j. Impairment

(i) Non-derivative financial assets

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

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

(ii) Non-financial assets

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

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

k. Impairment, contd.:

(ii) Non-financial assets contd.:

The recoverable amount of an asset og CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

i. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

l. Revenue

(i) Sold goods and services

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the payment received or receivable, net of discounts and refunds. Revenue is recognised in the statement of comprehenive income when a significant portion of the risks and rewards of ownership are transferred to the buyer, it is probable that the consideration will be collected and the cost of sale and possible return of goods can be estimated reliably. Revenue is in general recognised upon delivery of the goods as the risk and rewards are in general transferred to the buyer when delivery occurs. Revenue is measured net of returns, trade discount and volume rebates.

(ii) Other income

Other income comprises commissions, gain on sale of assets, lease income, transportation fees, and other income. Other income is recognised upon delivery of goods or services.

(iii) Operating lease income

Lease income is recognised in the income statment on a straight-line basis over the term of the lease.

m. Expenses

(i) Cost of goods sold

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

(ii) Lease payments

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

n. Finance income and finance expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

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

Foreign currency gains and losses are reported on a net basis.

o. Income tax

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case the income tax is recognised in those items.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

p. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS equals to basic EPS as the Company has not issued convertible notes, and share options were granted at year-end and have no effect on earnings per share.

q. Segment reporting

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

r. New standards and interpretations

The Group has adopted all international financial reporting standards, interpretations and amendments to standards that have been endorsed by the EU, are relevant for the Group and are effective for the financial year 2015. The international Accounting Standards Board has issued a few new standards that have not become effective and are yet to be endorsed by the EU. The Group has not assessed the impact of those standards, if endorsed by the EU, on it's financial statements in the future. The standards that are considered to have some potential impact on the Group's financial statements in the future are IFRS 15, revenue from contracts with customers and IFRS 16, leases.

4. Changes in the Group

At the end of February 2015, Skeljungur sold its subsidiary Birgðastöðin Miðsandi ehf. to Atlantic tank storage ehf. As the subsidiary's operation is insignificant in the first two months, Birgðastöðin Miðsandi ehf. is not part of the company's consolidated financial statements from January 1 2015.

The sale had the following effect on the Group's financial statements at 1 January 2015:

Operating assets	(455.776)
Deferred tax asset	(19.745)
Trade and other receivables	(7.214)
Cash and cash equivalents	(208)
Current liabilities	3.026
Net assets	(479.917)
Book value of the shares in the Company at the beginning of the year	140.689
Share increase during the year	329.240
Satisfied by cash	(472.066)
Gain on sale of subsidiary	2.218
Realized translation difference	24.575
Effect of sale of subsidiary recognized in the income statement	26.793

5. Geographic information

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

Year 2015

Income Statement	Iceland	Faroe Islands	Total
Revenue	24.226.791	12.930.520	37.157.311
Gross profit	4.704.693	2.093.605	6.798.298
EBITDA	1.663.548	1.011.020	2.674.568
EBIT	4.102	827.598	831.700
Financial Position			
Non-current assets	8.678.574	5.333.786	14.012.360
Current assets	3.098.680	1.294.902	4.393.582
Total assets	11.777.253	6.628.688	18.405.941
Long term liabilities	4.825.570	1.113.049	5.938.619
Current liabilities	3.386.295	1.603.125	4.989.420
Total liabilities	8.211.865	2.716.174	10.928.039

Year 2014

Income Statement	Iceland	Faroe Islands	Total
Revenue	28.677.254	14.416.259	43.093.513
Gross profit	4.487.406	2.078.651	6.566.057
EBITDA	1.755.629	1.019.542	2.775.171
EBIT	1.169.579	787.704	1.957.283
Financial Position			
Non-current assets	10.171.661	5.561.335	15.732.996
Current assets	3.604.049	2.087.341	5.691.390
Total assets	13.775.710	7.648.676	21.424.386
Long term liabilities	6.395.607	1.354.087	7.749.694
Current liabilities	3.873.593	1.703.800	5.577.393
Total liabilities	10.269.200	3.057.887	13.327.087

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6. Discontinued operation

At the end of July 2014 Skeljungur hf. leased the convenience retail portion of twelve gas stations to Tíu-ellefu ehf. Tíu-ellefu rents the premises and is responsible for customer service inside the stores. The effect is that the number of Skeljungur's employees decreased by 120, and the expected annual turnover was affected by ISK 1.8 billion. In the income statement 2014 comparison the discontiuned operation is shown in a single line, including revenue less expenses, depreciation and tax. Loss from discontinued operations specifies as follows:

a) Results of discontinued operations

	Note	2015	2014
Revenue		0	1.533.808
Expenses		0	(2.061.494)
Results from operating activities		0	(527.686)
Income tax	14	0	105.537
Results from operating activities, net of tax		0	(422.149)
Basic and diluted loss per share		0	(0,17)

Depreciation of assets from discontinued operations are included in expenses in the amount of ISK 121.2million in the year 2014.

b) Cash flows from discontinued operations

	2015	2014
Net cash used in operating activities	0	(237.085)
Net cash flow for the year	0	(237.085)

7. Sales

Sales are specified as follows:

	2015	2014
Fuel	32.890.667	38.989.853
Other goods	3.951.530	3.778.367
Total sales	36.842.197	42.768.220

8. Cost of goods sold

Cost of goods sold is specified as follows:

	2015	2014
Fuel	27.261.478	33.546.380
Other goods	2.782.421	2.655.783
Total cost of goods sold	30.043.899	36.202.163

9. Other income

Other income is specified as follows:

	2015	2014
Rental income	117.432	150.829
Commission	19.881	37.998
Transportation fees	23.014	14.666
Gain on sale of operating assets	7.730	1.191
Other income	67.733	43.417
Other income total	235.790	248.101

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Notes, contd.:

10. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

	2015	2014
Salaries	1.757.354	2.011.302
Contribution to pension funds	175.599	202.644
Salary-related expenses	143.681	273.997
Salaries and salary-related expenses in discontinued operations	0	(550.895)
Salaries and salary-related expenses total	2.076.634	1.937.048
Average number of full-time employees during the year	220	298
Full-time-equivalent positions at year end	207	224

Salaries paid to the Board of Directors, the CEO and six Directors of Skeljungur amounted to ISK 168.1 million for the year. (2014: ISK 172,2 milllion, six Directors). Contribution to pension fund amounted to ISK 14.2 million for the year (2014: ISK 12.6 milliion).

Salaries paid to the Board of Directors, the CEO and four Directors of Magn P/F amounted to DKK 6.7 million for the year (ISK 132.2 million). Contribution to pension funds amounted to DKK 510 thousand (ISK 10 million).

11. Sales and distribution expenses

Sales and distribution expenses are specified as follows:

	2015	2014
Distribution expenses	816.974	847.462
Marketing expenses	509.753	471.582
Maintenance expenses	608.506	455.430
Total sales and distribution expenses	1.935.233	1.774.474

12. Other operating expenses

Other operating expenses are specified as follows:

	2015	2014
Office and administrative expenses	330.724	311.807
Maintenance expenses	41.226	37.210
Computer costs	55.027	55.640
Total other operating expenses	426.977	404.657

13. Financial income and expenses

Financial income is specified as follows:

	2015	2014
Interest income on bank accounts	2.705	2.880
Interest income from bonds	4.172	24.880
Interest income on receivables	24.327	31.561
Financial income total	31.204	59.321

Financial expences are specified as follows:

	2015	2014
Interest expenses	595.473	776.423
Currency exchange loss	14.489	12.297
Financial expenses total	609.962	788.720
Net financial expenses	(578.758)	(729.399)

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14. Income tax

Expensed income tax is specified as follows:

	2015	2014
Income tax payable	227.788	193.451
Deferred income tax	(246.238)	52.532
Expensed income tax	(18.450)	245.983

Effective income tax is specified as follows:

		2015		2014
Profit before income tax		291.597		1.238.926
Income tax using the corporate tax rate	20,00%	(58.319)	20,00%	(247.785)
Effects of tax rates in foreign jurisdictions	(5,29%)	15.422	(1,21%)	15.018
Non deductible expenses	0,21%	(623)	0,08%	(1.000)
Effects from shares in companies	(10,89%)	31.742	2,85%	(35.294)
Other items	2,29%	(6.672)	(1,86%)	23.079
Effective income tax rate	6,33%	(18.450)	19,85%	(245.982)

15. Intangible assets

Goodwill is specified as follows:

	2015	2014
Goodwill 1 January	3.640.161	1.351.038
Acquisition of goodwill in business combination	0	2.350.297
Translation difference	(185.518)	(61.174)
Goodwill 31 December	3.454.643	3.640.161

Impairment testing for CGUs goodwill

At year end 2015 the goodwill of Skeljungur hf. was tested for impairment. The impairment test is based on discounted future cash flows. The pre-tax discount rate applied was based on the weighted average cost of capital, i.e. the cost of debt and equity. If fair value of goodwill (discounted cash flows) is lower than carrying amount the difference is expensed.

The impairment test on the goodwill resulting in the business combination with P/F Magn was based on the acquisition price of the shares in the beginning of the year 2014. Magn amortizises goodwill in its separate financial statements according to Faroese GAAP, but in the Consolidated Financial Statements, goodwill has been restated and the amortisation reversed from 1 January 2013. No impairment is made on goodwill.

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

	2015	2014
Discount rate (WACC)	11,14%	12,75%
Future growth rate (nominal)	2,0%	1,5%
Budgeted EBITDA growth rate (average of next five years)	0,4%	5,3%

The discount rate was a post-tax measure estimated based on the historical industry average weighted-average cost of capital, with a possible debt leveraging of 60% at a market interest rate of 7.58%

Cash flows were projected based on next year's business plans and future growth for the next four years prepared by management and confirmed by the Board of Director. The future growth rate was determined based on management´s estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

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16. Other intangible assets

Other intangible assets are specified as follows:

	Customer relationships	Software	Total
Other intangible assets in the beginning of the year	589.570	179.413	768.983
Additions during the year	0	84.115	84.115
Amortisation for the year	(28.645)	(34.921)	(63.566)
Translation difference	(63.080)	(17.137)	(80.217)
Other intangible assets 31 December	497.845	211.470	709.315
Amortisation ratio	5%	10%	

17. Operating assets

Operating assets and their depreciation are specified as follows:

	Terminals	Other assets	Total
Cost			
Balance 1 January 2014	10.226.392	3.381.889	13.608.281
Aquired from business combination	2.241.233	308.146	2.549.379
Additions during the year	2.494.914	584.929	3.079.843
Disposals	(2.676.976)	(383.408)	(3.060.384)
Translation difference	(79.023)	(40.926)	(119.949)
Balance 31 December 2014	12.206.540	3.850.630	16.057.170
Reclassified	(2.388.099)	2.388.099	0
Subidiary sold	(816.545)	(3.834)	(820.379)
Additions during the year	384.485	718.096	1.102.581
Disposals	(116.231)	(261.327)	(377.558)
Translation difference	(296.434)	(151.861)	(448.295)
Balance 31 December 2015	8.973.716	6.539.803	15.513.519
Depreciation			
Depreciated 1 January 2014	2.682.396	1.939.099	4.621.495
Depreciation for the year	477.311	419.607	896.918
Sold during the year	(257.415)	(340.243)	(597.658)
Translation difference	(68.335)	(33.460)	(101.795)
Balance 31 December 2014	2.833.957	1.985.003	4.818.960
Subsidiary sold	(349.516)	(1.763)	(351.279)
Depreciation for the year	329.458	386.844	716.302
Impairment of assets	1.063.000	0	1.063.000
Sold during the year	(24.250)	(248.047)	(272.297)
Translation difference	(104.727)	(119.599)	(224.326)
Balance 31 December 2015	3.747.922	2.002.438	5.750.360
Book value 1 January 2014	7.543.996	1.442.790	8.986.786
Book value 31 December 2014	9.372.583	1.865.627	11.238.210
Book value 31 December 2015	5.225.794	4.537.365	9.763.159
Depreciation ratios	0 - 9%	8 - 25%	
Estimated useful life	11 - 50 years	4 - 13 years	

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17. Operating assets contd.:

Depreciation and impairment of assets are specified as follows:

	2015	2014
Amortisation of intangible assets	63.566	42.156
Depreciation of operating assets	716.302	773.717
Impairment of operating assets	1.063.000	0
Balance 31 December 2015	1.842.868	817.887

Impairment testing for Terminals

In the impairment test for 2015, the terminals owned by the company were valued as a separate group of cash-generating units for the first time. It is the view of the management and the Board of Directors that it is more prudent to test the standalone value of the terminals as if they were operated separately as a CGU.

Based on the impairment test results, an impairment of 1,063 million was made in the year 2015.

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

	2015
Discount rate (WACC)	10,12%
Future growth rate (nominal)	2,0%
Budgeted EBITDA growth rate (average of next five years) (e.CAGR)	3,4%

The discount rate (WACC) was a post-tax measure estimated based on the historical industry average weighted-average cost of capital, with a possible debt leveraging of 60% at a market interest rate of 7.31%

If WACC would have been 1.0% higher an impairment increase of ISK 105 million would have been realized for the Terminals and if EBITDA was 5% lower for the forcasted EBITDA, an impairment increase of ISK 93 million would have been realized for the Terminals.

18. Tax assessment value and insurance value of buildings

The insurance value of the buildings in Iceland amounted to ISK 7,139 million at year end 2015 (2014: ISK 7,515 million). The tax assessment value of the buildings and land in Iceland amounted to ISK 3,031 million at year end (2014: ISK 3,286 million). The insurance value of the vehicles, machinery and equipment in Iceland amounted to ISK 1,075 million at year end 2015 (2014: ISK 770 million).

There is no tax assessment on assets in Faroe Islands but the carrying value on buildings amounted to ISK 2,135 million (2014: 2,175 million). The insurance value of buildings and other assets amounted to ISK 2,849 million (2014:3,118 million).

19. Pledged assets

Arion banki hf. holds a pledge in the Company´s operating assets, inventories and trade receivables in the amount of ISK 10,958 million (2014: ISK 10,958 million) as a collateral for long-term loans at year end. Shares in S fasteignir are pledged as collateral for long-term loans at year end. Shares in Magn are pledged as collateral for long-term loans in Eik Bank in the Foroe Islands.

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20. Investments in associated companies

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

	Share	Share in earnings 2015	Book value 2015	Share in earnings 2014	Book value 2014
EAK ehf., Reykjanesbær .	33,3%	4.023	33.895	6.220	29.872
Fjölver ehf., Reykjavik	33,3%	2.006	9.660	(847)	7.655
EBK ehf., Reykjanesbær .	25,0%	4.216	8.016	2.486	5.799
Vegsauki ehf., Reykjavik .	50,0%	1.698	10.995	3.183	9.297
Birgðastöðin Miðsandi * .	0,0%	26.712	0	-	-
Total in associated companies		38.655	62.566	11.042	52.623

The Financial Statements for the year 2015 for some of the associated companies were not available when the Consolidated Financial Statements for the Group were signed and in those cases the share in net earnings was based on available drafts of the 2015 Financial Statements.

* Profit from the sale of Birgðamiðstöðin Miðsandi ehf. see note 4

21. Long term receivables

Long term receivables are specified as follows:

	2015	2014
Interest bearing long term receivables	45.732	40.708
Other loans	7.216	9.475
Current maturities for long term receivables	(30.271)	(17.163)
Total other loans	22.677	33.020

Interest bearing long term receivables bear 7.5-10,5% interests and are due in 2017 with equal installments, but other loans are maturing in the next two years.

22. Inventories

Inventories are specified as follows:

	2015	2014
Fuel	1.446.581	1.823.645
Lubricating oils	333.090	249.399
Other inventories	221.869	222.453
Total inventories	2.001.540	2.295.497

In the year 2015, decrease in the reserve for other inventories amounted to ISK 7.7 million but in the year 2014 the write-down decreased by ISK 0,5 million. At year end, the reserve for other inventories amounted to ISK 19.3 million (2014: ISK 27 million).

The Company uses derivative contracts as hedging instruments in a fair value hedge of fluctuations in the market price of fuel. The aim of the hedging instruments are solely to limit the effect of oil prices fluctuations on the financial statement of the Company. Usually, the derivative contracts are not for a longer period than 45 days. The profit or loss on the derivative contracts is recognised together with the hedged inventory and recognised in the income statement when the hedged inventory is sold. At year end 2015 there were ISK 16,6 million recognised as an increase in inventories due to hedging derivative contracts.

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23. Trade receivables

Trade receivables are specified as follows:

	2015	2014
Nominal value of trade receivables	2.131.829	2.750.746
Allowance for bad debt	(171.409)	(197.839)
Total trade receivables	1.960.420	2.552.907

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is explained in note 31.

24. Other receivables

Other receivables are specified as follows:

	2015	2014
Receivables due from the government	14.661	22.042
Receivables from sale of land	0	43.650
Prepaid expenses	6.024	18.321
Current maturities for long term receivables	30.271	17.164
Other receivables	6.540	87.173
Total other receivables	57.496	188.350

25. Equity

(i) Issued capital

Issued share capital, as stipulated in the Company's Articles of Association, amounted to ISK 2,502 million (2014: ISK 2,704 million). One vote is attached to each share of one ISK in the Company in addition to rights to receive dividend. All issued capital has been paid for. The Board of Directors has received permission to increase the share capital up to ISK 81.1 million in order to fulfil the obligations towards employees of Skeljungur and its subsidiaries leading from the remuneration policy. The permission is valid until 1 September 2019.

(ii) Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company.

(iii) Statutory reserve

In accordance with the Icelandic Company Act, the Company must contribute 5-10% of its annual profit until the statutory reserve consists of an amount corresponding to 25% of the nominal value of share capital of the company. This amount cannot be distributed to shareholders as dividend.

(iv) Reserve for share options

On 9 November 2014, the Group provided two employees of its subsidiary in Faroe Islands with share options that entitle them to purchase shares in the Company. Under this program, holders of vested options are entitled to purchase shares at the market price of the shares at the grant date. A reserve has been made in equity to meet this obligation.

(v) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the Group's proportionate share in certain subsidiaries and associates.

Exchange differences arises from the translation to Icelandic krona and are recognized as a separate line item in the statement of comprehensive income and accumulated in the translation reserve (see note 3 (b)). All translation differences are due translation of the operations of P/F Magn, a fully owned subsidiary of Skeljungur, which functional currency is DKK.

(vi) Retained earnings

Profit for the year is recognised as increase in retained earnings less contribution to the statutory reserve. Dividend payments are recognised as reduction in retained earnings.

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25. Equity contd.

(vii) Dividend

No dividend was paid during 2015 (2014: ISK 550 million), but share capital was reduced in the amount of ISK 500 million, or nominal value 201.3 million, and paid to shareholders.

viii) Capital management

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

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by lower levels of borrowings. The equity ratio was 40,6% at year end 2015 (2014: 37.80%).

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

26. Earnings per share

Basic and diluted earnings per share	**2015**	**2014**
Profit for the year	273.146	992.944
Weighted average number of ordinary shares		
Shares on 1 January	2.703.594	1.762.805
Effect of share capital (decrease) increase	(83.890)	156.798
Weighted average number of shares	2.619.704	1.919.603
Basic and diluted earnings per share	0,10	0,52

27. Share-based payment arrangements

On 9 November 2014, the Group provided two employees of its subsidiary in Faroe Island with share options that entitle them to purchase shares in the Company. Under this program, holders of vested options are entitled to purchase shares at the market price of the shares at the grant date.

The options carry neither rights to dividend nor voting rights and are valued using the Black-Scholes pricing model. The expected volatility assumptions used to value the options is 25.8% and the annual discount rate ranges from 5.50% to 6.30%. The options expire 10 working days after the exercise date. There are no movements in share options during the period from issuance to 31 December 2015. The fair value of the employee share purchase options at grant date was ISK 36.9 million and was recognized in the income statement for the year 2014.

The key terms and conditions related to the grants under this program are as follows; options are to be settled by the physical delivery of shares.

Grant date/ employees entitled	Numbers of instruments in ISK thousands	Vesting conditions	Contractual life of options
Options granted to key management personnel			
On 9 November 2014	52.449	12 September 2017	3 years
On 9 November 2014	1.622	At termination of employment but no sooner than 13 September 2017	3 years
Total share options	54.071		

28. Deferred tax liability

Deferred tax liability is specified as follows:

	2015	2014
Deferred tax liability at the beginning of the year	863.646	618.370
Deferred tax liability overtaken due to acquistion of a subsidiary	0	305.214
Deferred tax asset of a subsidiary sold	19.745	0
Translation difference	(33.453)	(6.932)
Income tax expensed from continuing operations	18.450	245.982
Income tax expensed from discontinued operations	0	(105.537)
Income tax payable	(227.788)	(193.451)
Deferred tax liability at year end	640.600	863.646

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

	2015	2014
Operating assets	616.816	793.713
Intangible assets	1.799	106.114
Inventories	15.296	17.920
Trade receivables	28.145	19.708
Deferred tax losses	0	(63.360)
Currency adjustments according to Icelandic tax laws	(3.103)	(3.647)
Other items	(18.353)	(6.802)
Deferred tax liability at year end	640.600	863.646

Carry-forward losses at year end are specified as follows:

	2015	2014
Loss of the year 2012 utilizable until 2022	0	196.173
Loss of the year 2013 utilizable until 2023	0	120.631
Total carry-forward losses	0	316.804

The Group's carry-forward losses pertain to S-fasteignir ehf. and Birgðastöðin Miðsandi ehf. (BMI) which are not under joint taxation with Skeljungur hf. BMI was sold in the beginning of the year and the carry-forward losses of S fasteignir ehf. was utilised in the year 2015.

29. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 31.

Long-term debt

	2015	2014
Long-term debt in ISK, non-indexed, variable interest 7.5%	4.669.934	6.063.705
Debt in foreign currency, DKK, fixed interest 2,8%	1.054.216	1.354.135
Total long-term debt, including current maturities	5.724.150	7.417.840
Current maturities	(426.130)	(531.793)
Total long-term debt, according to the balance sheet	5.298.020	6.886.047

Current debt

	2015	2014
Current maturities	426.129	531.793
Current bankloans	1.219.808	1.043.896
Total current debt, according to the balance sheet	1.645.937	1.575.689
Total interest-bearing loans and borrowings	6.943.957	8.461.736

Consolidated Financial Statements of Skeljungur hf. 2015 27 All amounts are in ISK thousand

29. Loans and borrowings continued:
Terms of loans and borrowings

Loans in foreign currency:		2015		2014	
	Final due date	Weighted average interest rate	Carrying amount	Weighted average interest rate	Carrying amount
Loans in DKK	2021	2,8%	1.054.216	3,0%	1.354.135
Current loans in USD	2016	4,2%	323.069	4,0%	819.545
Current loans in DKK	2016	3,2%	535.055	-	0
			1.912.340		2.173.680
Loans in ISK:					
Non-indexed loans in ISK .	2018-2019	7,5%	4.669.934	6,5%	6.063.705
Current loans in ISK	2016	7,9%	361.683	7,0%	224.351
			5.031.617		6.288.056
Total interest-bearing loans and borrowings			6.943.957		8.461.736

Aggregated annual maturities of long-term debt are specified as follows:	2015	2014
2015	-	531.793
2016	420.218	3.774.824
2017	431.391	510.645
2018	1.520.643	2.076.987
2019	3.087.237	223.620
2020	211.288	299.972
Subsequent	53.373	-
Long-term debt including current maturities	5.724.150	7.417.840

Loan agreements include various financial covenants the Group must comply with, such as equity, leverage and liquidity ratios. At year end 2015, the Group was in full compliance with these financial covenants.

Skeljungur has extended loans with the final maturity in 2016 for another three year term. A loan with the final maturity in 2018 can be extended for another two years, if the Company fulfills certain conditions.

Skeljungur has signed two pledge agreements with Arion banki in the combined amount of ISK 10,958 million. The first agreement pledges receivables and inventories owned by Skeljungur up to ISK 8,276 million. The second agreement pledges operating assets owned by Skeljungur up to ISK 2,682 million. S-fasteignir has pledged its receivables from Skeljungur and the company's bank accounts (ISK 1.6 million at year end 2015) in addition to issuing a collateral letter for the original principal of ISK 3,120 million as collateral for the Skeljungur's loans. At year end the collateral amounts to ISK 4.986 million.

The shares in Magn are pledged to Eik bank in Faroe Islands and the company has pledged its current assets in the amount of DKK 8.5 million and fixed assets in the amount of DKK 207 million to Eik bank.

Consolidated Financial Statements of Skeljungur hf. 2015 28 All amounts are in ISK thousand

30. Other current liabilities

Other current liabilities are specified as follows:

	2015	2014
Payable to the state	1.487.772	1.539.931
Salary related expenses	295.509	334.959
Accrued interests	25.778	14.815
Other current liabilities	139.080	102.327
Other current liabilities total	1.948.139	1.992.032

31. Risk management

Overview

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

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

Risk management framework

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and manages financial risk in close co-operation with the Board of Directors. The Group's risk management program focuses on addressing the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group determines whether or not to use derivative financial instruments to hedge certain risk exposures if such derivatives are available. The Group does not currently hedge its risk exposure except for part of oil price risk related to inventories.

Credit risk

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

Skeljungur's exposure to credit risk is influenced mainly by the individual characteristics of its customers. Approximately 32.4% (2014: 32.3%) of the Company’s revenues is attributable to sales transactions with the 30 largest customers. In Magn it is approximately 45.5% (2014:45.4%). Trade and other receivables are receivables from transportation, fishing industry and contractors.

The Company has set a credit policy where all new significant customers are evaluated for credit risk and have credit limits to their accounts which they cannot exceed. Payment history of new customers is checked.

Most of the Company's customers have been customers for many years and loss on receivables has been insignificant in proportion to turnover. Credit risk management includes taking into account the age of the receivables and financial standing of each customer. The list of aged receivables is reviewed on a regular basis by the credit controller. Customers that are behind in payments are not permitted to make further transactions with the Company until they settle their debt or the Company's collection department approves further transactions based on an agreement.

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

Consolidated Financial Statements of Skeljungur hf. 2015 29 All amounts are in ISK thousand

31. Risk management continued:

Exposure to credit risk

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

	Notes	2015	2014
Other loans	21	22.677	33.020
Trade receivables	22	1.960.420	2.552.907
Other receivables	23	57.496	188.350
Cash and cash equivalents		374.125	654.635
Max exposure to credit risk		2.414.719	3.428.912

Impairment on receivables

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

	Nominal value	Write-down	Carrying amount
Year 2015			
Neither past due nor impaired	1.669.971	0	1.669.971
Past due 0 - 30 days	169.430	(33.371)	136.059
Past due 31 - 60 days	75.170	(37.629)	37.541
Past due 61 - 90 days	154.232	(72.382)	81.850
Past due more than 90 days	63.033	(28.027)	34.999
	2.131.836	(171.409)	1.960.420
Year 2014			
Neither past due nor impaired	1.851.987	0	1.851.987
Past due 0 - 30 days	266.949	(17.657)	249.292
Past due 31 - 60 days	367.255	(36.053)	331.203
Past due 61 - 90 days	185.898	(90.866)	95.032
Past due more than 90 days	78.656	(53.263)	25.393
	2.750.745	(197.839)	2.552.907

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

	2015	2014
Balance at 1 January	197.839	135.102
Aquired from subsidiary	0	108.298
Final write off	(42.498)	(72.680)
Impairment losses recognized	16.068	27.119
Balance at 31 December	171.409	197.839

Write off is expensed with distribution cost in the Income Statement.

Skeljungur has an agreement with Borgun hf. whereas Borgun purchases specific credit card receivables from the Company. Under the agreement, Borgun carries the risk of losses up to a specified percentage of sold receivables. Given the risk of claims shifted from Skeljungur, these credit card receivables have been derecognized in the balance sheet. At year end 2015, ISK 283 million of credit card receivables are outstanding (2014: ISK 333 million).

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31. Risk management continued:

Impairment contd.:

The Group´s trade receivables are specified as follows at year end by groups of clients:

	Nominal value	Specific write-down	General write-down	Carrying amount
Year 2015				
Fishing industry	632.417	(10.151)	(68.977)	553.289
Transportation	529.322	(9.161)	(2.223)	517.938
Contractors and agriculture	739.794	(21.597)	(26.777)	691.420
Other industries and individuals	230.297	(16.599)	(15.925)	197.773
	2.131.830	(57.508)	(113.902)	1.960.420
Year 2014				
Fishing industry	886.591	(1.898)	(81.622)	803.071
Transportation	615.038	(21.063)	(6.826)	587.149
Contractors and agriculture	819.957	(20.237)	(37.342)	762.378
Other industries and individuals	429.159	(6.904)	(21.946)	400.309
	2.750.745	(50.102)	(147.736)	2.552.907

Other financial assets subject to credit risk are not impaired.

Liquidity risk

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

The Group´s liquidity position was strong at year end 2015 and the Group's management believes that it is in a good position to meet its obligations when they are due. In addition to present liabilities, the Company has access to a credit line for 2 years in the amount of ISK 2,750 million, and is only using ISK 323 million. Magn has access to a credit line for the amount of DKK 50 million at year end (ISK 947 million).

Exposure to liquidity risk

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

	Total payment	Within a year	1 - 2 years	3 - 5 years	Over 5 years
Year end 2015					
Loans and borrowings	8.068.987	2.015.355	777.678	5.221.834	54.120
Trade and other payables	3.353.043	3.343.483			
	11.422.030	5.358.838	777.678	5.221.834	54.120
Year end 2014					
Loans and borrowings	9.563.753	2.066.654	4.222.542	2.953.805	320.752
Trade and other payables	4.001.704	4.001.704			
	13.565.457	6.068.358	4.222.542	2.953.805	320.752

Consolidated Financial Statements of Skeljungur hf. 2015 31 All amounts are in ISK thousand

31. Risk management continued:

Market risk

Market risk is the risk that changes in market prices, such as oil prices, foreign exchange rates and interest rates will affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Market risk for the Group consists of price risk, currency risk and interest rate risk.

(i) Price risk

The Group is exposed to significant price risk due to changes in world market oil prices, which have fluctuated significantly in the past few years. Significant changes in the world market prices are reflected in frequent price changes at the Group´s service stations. The Group limits price risk by means of specific agreements with its largest customers.

(ii) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than ISK. The currencies in which these transactions primarily are denominated are US Dollar (USD), Euro (EUR) and Danish krona (DKK). The major part of imports is purchase of oil, denominated in USD from foreign suppliers but the sales are in great part in ISK. Sales in ISK constitute 82.5% (2014: 81.3%), USD 16.2% (2014: 16.6%) and other currencies 1.3% (2014: 2.1%).

Magn is exposed to currency risk on sales and purchases that are denominated in a currencies other than DKK. The currency in which these transactions are primarily denominated is US Dollar (USD). The major part of imports is purchase of oil, denominated in USD from foreign suppliers, but the sales are in great part in DKK. Sales in DKK constitute 75,4%(2014: 85.2%), USD 24,5% (2014:14.6%) and other currencies 0,1 (2014:0.2%).

Exposure to currency risk

The Group's exposure to foreign currency risk is as follows:

	USD	EUR	DKK	Other currencies
2015				
Receivables	352.963	18.724	0	0
Cash and cash equivalents	185.225	32.451	94	9.466
Loans and borrowings	(323.069)	0	0	0
Payables	(196.521)	(10.640)	(7.086)	(2.490)
Balance sheet risk	18.598	40.535	(6.992)	6.976

	USD	EUR	DKK	Other currencies
2014				
Receivables	502.583	48.525	0	0
Cash and cash equivalents	73.197	1.492	243	743
Loans and borrowings	(819.545)	0	0	0
Payables	(129.441)	(4.603)	(5.669)	(2.224)
Balance sheet risk	(373.206)	45.414	(5.426)	(1.481)

The following exchange rates were used during the year:

	Average exchange rate		End of year exchange rate	
	2015	2014	2015	2014
USD	131,85	116,75	129,59	126,90
EUR	146,30	154,86	141,32	154,27
DKK	19,62	20,77	18,94	20,72

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31. Risk management continued:
Currency risk continued

Sensitivity analysis
A 10 percent strengthening of the ISK against the following currencies at 31 December would have increased (decreased) profit or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2014.

	Profit or (loss) 2015	2014
USD	(1.493)	(6.488)
EUR	(3.254)	(4.541)
DKK	561	543
Other currencies	(760)	148

A 10 percent weakening of the ISK against the above currencies at 31 December would have had the equal but opposite effect on profit or loss after tax to the amounts shown above, on the basis that all other variables remain constant. The analysis was performed on the same basis for the year 2014.

Interest rate risk
The majority of the Group's long term borrowings are subject to variable interest rates. Due to current market conditions in Iceland the Company does not currently hedge its interest rate risk as there is no counterparty for forward contracts or other derivatives available in Iceland.

An increase or decrease of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity before income tax by ISK 44 million (2014: 57 million) due to effects of the Group's borrowings on floating interests. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2014.

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

Classification of financial instruments
Financial assets and liabilities are classified as follows:

	Loans and receivables	Other financial liabilities	Carrying amount
2015			
Other loans	22.677		22.677
Trade receivables	1.960.420		1.960.420
Other receivables	57.496		57.496
Cash and cash equivalent	374.125		374.125
Total assets	2.414.719	0	2.414.719
Loans and borrowings		6.943.957	6.943.957
Trade payables		1.167.556	1.167.556
Other payables		2.175.927	2.175.927
Total liabilities	0	10.287.439	10.287.439

Consolidated Financial Statements of Skeljungur hf. 2015 33 All amounts are in ISK thousand

31. Risk management, continued:

Classification of financial instruments contd.

Financial assets and liabilities are classified as follows:

2014	Loans and receivables	Other financial liabilities	Carrying amount
Other loans	33.020		33.020
Trade receivables	2.552.907		2.552.907
Other receivables	188.350		188.350
Cash and cash equivalent	654.635		654.635
Total assets	3.428.912	0	3.428.912
Loans and borrowings		8.461.736	8.461.736
Trade payables		1.816.221	1.816.221
Other payables		2.185.483	2.185.483
Total liabilities	0	12.463.440	12.463.440

32. Operating lease

Rental obligation

The Group rents premises and vehicles from various parties and the total obligation in relation thererof amounts to ISK 405 million until the year 2021 (2014: ISK 463 milion). Future rent payments, without taking into account future inflation, are specified as follows at year end:

	2015	2014
Within one year	113.346	113.713
After 1 - 5 years	291.512	349.493
Total	404.858	463.206

Rental income

The Group rents premises to various parties. Some of the rental agreements are indeterminate but the lease term of other agreements are from 2 - 21 years. Rental income in the year 2015 amounted to ISK 136 million (2014: ISK 159 million). Most of the rental agreements are price indexed. Total obligations of lessees without taking into account future inflations is specified as follows. Obligation of the lessees due to indeterminate agreements is only calculated for one year.

	2015	2014
Within one year	81.846	104.802
After 1 - 5 years	299.360	252.076
After 5 years	58.187	48.858
Total	439.393	405.736

33. Subsequent event

In March 2016 Skeljungur bought a land plot at Fiskislóð 41 from Faxaflóahafnir with the potential to use it for future operations of the Company. The purchase price was around ISK 96 million and ISK 77 million is payable in March 2016 and the rest in 10 even payments to March 2021.

On the 29th of January the Supreme Court ruled that the case against the Icelandic Competition Authority and the dispute of the amount of fine the Company paid in 2004 will not be alterd. This is a final ruling and it does not affect Skeljungur financial position.

Consolidated Financial Statements of Skeljungur hf. 2015 34 All amounts are in ISK thousand

34. Related parties

Definition of related parties:

Shareholders, subsidiaries, associated companies, directors, managers and companies in which they own majority of the shares are considered to be related parties.

Transactions with associated companies	**2015**	**2014**
Purchased goods and services	83.510	59.749
Sold goods and services	7.466	9.513
Receivables at year end	1.060	900
Payables at year end	7.023	3.325

Salaries paid to the Board of Directors and managers

Salaries paid to the Board of Directors and managers are specified in note 10.

Transactions with shareholders

Transactions with shareholders were insignificant during the year.

Transactions with employees

The Company has granted employees loans for general trade. The Company has also granted employees loans relating to the sale of vehicles for a total amount of ISK 2,7 million. The loans carry interest rate and have a term of up to five years.

35. Subsidiaries

The consolidated financial statements include the following subsidiaries:

	Shares	
	2015	**2014**
P/F Magn	100%	100%
S-fasteignir ehf., Reykjavík	100%	100%
Birgðastöðin Miðsandi ehf., Reykjavík	0%	100%
Tollvörugeymsla Skeljungs ehf., Reykjavík	100%	100%
Bensínorkan ehf., Reykjavík	100%	100%

36. Other matters

In June 2013 the Icelandic Competition Authority announced that it had decided to initiate a market investigation on the Icelandic fossil fuels market. This is the first time the Competition Authority initiates a market investigation of this form, which entails whether there is need to take measures against circumstances or conduct which prevents, limits or affects competition to the detriment of the public interest. Thus, the market investigation is not aimed at the Company itself but at the fossil fuels market as a whole.The preliminery report was issued on the 30th of November and all parties with any realtions to the market are offered to send in their views on the preliminery report. The market investigation did not affect the financial position of Skeljungur in the year 2015.

Consolidated Financial Statements of Skeljungur hf. 2015 35 All amounts are in ISK thousand

37. Financial Ratios

The Group's key ratios are as follows:

	2015	2014
Operations:		
Average margin - contribution margin / sales	18,5%	15,4%
EBITDA / gross profit	39,3%	42,3%
EBIT / gross profit	12,2%	29,8%
Salaries / gross profit	30,5%	29,5%
Sales and distribution / gross profit	27,3%	25,8%
Opex / gross profit	64,1%	61,5%
Return on equity	3,6%	9,4%
Balance Sheet:		
Current ratio - Current assets / current liabilities	0,88	1,02
Quick ratio - (Current assets - inventory) / current liabilities	0,48	0,61
NIBD/EBITDA	2,46	2,81
Equity ratio - Shareholders' equity / total capital	40,6%	37,8%
Internal value of share capital	3,0	3,0

Consolidated Financial Statements of Skeljungur hf. 2015 36 All amounts are in ISK thousand

Skeljungur hf.

Condensed Interim Consolidated Financial Statements
1 January to 30 September 2015

Skeljungur hf.
Borgartun 26
105 Reykjavik

Reg. no. 590269 -1749

Contents

Endorsement by the Board of Directors and the CEO

The interim consolidated financial statements of Skeljungur hf. (the “Company“ or “Skeljungur“) for the period 1 January to 30 September 2015 include the Company and its subsidiaries and have been prepared in accordance with the International Financial Reporting Standard for interim financial reporting, IAS 34.

According to the interim consolidated statement of comprehensive income, total operating revenue for the first nine months amounted to ISK 29,453million for the Group. The Group's net earnings for the period amounted to ISK 1,086 million. According to the statement of financial position, the Group's total assets at the end of September amounted to ISK 21,017 million. Shareholders' equity amounted to ISK 8,325 million at September end 2015, but the share capital was decreased by ISK 500 million during the period. The Group's equity ratio was 39.6%.

The Company’s share capital amounted to ISK 2,502 million at the end of September. The shareholders at 30 September are:

	Share
SF IV slhf.	99,9%
SF IV GP hf.	0,1%

Statement by the Board of Directors and the CEO

The consolidated interim financial statements of Skeljungur hf. for the period from 1 January to 30 September 2015 are prepared in accordance with the International Financial Reporting Standard for interim financial reporting, IAS 34. According to our best knowledge it is our opinion that the interim financial statements give a fair view of the Company's operating results, its assets, liabilities and financial position as at 30 September 2015 and changes in cash flows during the period from 1 January to 30 September 2015.

Furthermore, it is our opinion that the interim financial statements and the Endorsement by the Board of Directors and the CEO give a fair view of the Group's results and financial position.

The Board of Directors and the CEO of Skeljungur hf. have today discussed the Group's condensed interim financial statements for the period from 1 January to 30 September 2015 and confirm them with their signatures.

Reykjavik, 1 December 2015

The Board of Directors:

Jón Diðrik Jónsson
Chairman

Benedikt Ólafsson
Vice Chairman

Birna Ósk Einarsdóttir

Jens Meinhard Rasmussen

Katrín Helga Hallgrímsdóttir

CEO:

Valgeir M. Baldursson

Consolidated Statement of Comprehensive Income
1 January to 30 September 2015

	Notes	2015 1.1.-30.9
Sales	6,7	29.453.023
Cost of goods sold	8	(24.153.049)
Gross profit		5.299.974
Other income		261.333
Salaries and salary related expenses		(1.500.951)
Sales and distribution expenses		(1.385.051)
Operating expenses		(368.514)
Earnings before depreciation and financial items		2.306.791
Depreciation of operating assets		(547.322)
Operating profit		1.759.469
Financial income		23.056
Financial expenses		(478.186)
		(455.130)
Share of profit from associated companies	5	28.774
Profit before income tax		1.333.113
Income tax expense	9	(246.888)
Profit for the period		1.086.225
Other comprehensive income that will be reclassified to profit or loss		
Foreign currency translation differences		(334.404)
Foreign currency translation differences reclassified to profit and loss		(24.574)
Total comprehensive income		727.247
Earnings per share:		
Earnings per share capital and diluted share capital		0,43

The notes on pages 9-12 are an integral part of these consolidated financial statements.

All amounts are in ISK thousand

Consolidated Statement of Financial Position
as at 30 September 2015

	Notes	30.9.2015	31.12.2014
Assets			
Goodwill		3.476.635	3.640.161
Other intangible assets		727.142	768.983
Operating assets		10.541.114	11.238.210
Shares in associated companies		54.603	52.623
Other loans		21.876	33.020
Non-current assets	6	14.821.370	15.732.996
Current assets			
Inventories		2.558.156	2.295.497
Trade receivables		2.971.371	2.552.907
Other receivables		252.420	188.350
Cash and cash equivalents		413.501	654.635
Current assets		6.195.448	5.691.390
Total assets		21.016.818	21.424.386
Equity			
Share capital		2.502.257	2.703.594
Share premium		3.711.833	4.010.496
Statutory reserve		216.342	216.342
Reserve for share options		36.861	36.861
Translation difference of shares in companies		(488.458)	(92.619)
Retained earnings		2.345.712	1.222.626
Total equity		8.324.547	8.097.300
Liabilities			
Deferred tax liability	10	888.005	863.646
Loans and borrowings	11	5.420.745	6.886.047
Non-current liabilities		6.308.750	7.749.694
Short term borrowings	11	1.112.579	1.043.896
Trade payables		1.526.450	1.816.221
Current maturities of long-term debt		520.356	531.793
Payable to associated companies		6.439	6.027
Current tax liabilities		216.691	193.451
Other current liabilities		3.001.006	1.986.005
Current liabilities		6.383.521	5.577.392
Total liabilities		12.692.271	13.327.086
Total equity and liabilities		21.016.818	21.424.386

The notes on pages 9-12 are an integral part of these consolidated financial statements.

All amounts are in ISK thousand

Consolidated Statement of Changes in Equity 30 September 2015

	Share capital	Share premium	Statutory reserve	Reserve share option	Translation difference	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
2014									
Shareholders' equity 31.12.2013	1.762.805	2.366.490	187.802	0	(54.750)	1.264.875	5.527.222	2.358	5.529.580
Total comprehensive income					(37.869)	570.794	532.925		532.925
Contribution to statutory resererve			28.540			(28.540)	0		0
Transactions with owners of the Company									
Issued new shares	940.789	1.644.006					2.584.795		2.584.795
Equity-settled share-based payments				36.861		(36.861)	0		0
Non-controlling interest acquired						2.358	2.358	(2.358)	0
Paid dividend (ISK 0.071 per share)						(550.000)	(550.000)		(550.000)
Balance at 31 December 2014	2.703.594	4.010.496	216.342	36.861	(92.619)	1.222.626	8.097.300	0	8.097.300
2015									
Shareholders' equity 31.12.2014	2.703.594	4.010.496	216.342	36.861	(92.619)	1.222.626	8.097.300	0	8.097.300
Equity 1/1 reclassified					(36.861)	36.861	0		0
Total comprehensive income					(358.978)	1.086.225	727.247		727.247
Transactions with owners of the Company									
Share capital decrease	(201.337)	(298.663)					(500.000)		(500.000)
Balance at 30 September 2015	2.502.257	3.711.833	216.342	36.861	(488.458)	2.345.712	8.324.547	0	8.324.547

The notes on pages 9-12 are an integral part of these consolidated financial statements.

All amounts are in ISK thousand

Consolidated Statement of Cash Flows
from 1 January to 30 September 2015

	Notes	2015 1.1-30.9
Operating Activities:		
Profit for the period		1.086.225
Adjustments:		
Depreciation		547.322
Financial income and expenses		455.130
Effect from associated companies		(26.793)
Gain on sale of assets		(7.543)
Income tax		163.502
		2.217.843
Changes in:		
Inventory, increase		(322.196)
Trade and other receivables, increase		(557.565)
Trade and other payables, increase		1.109.628
		229.867
Cash used in operating activities		2.447.710
Interest received		23.056
Interest paid		(453.063)
Taxes paid		(69.421)
		(499.428)
Net cash used in operating activities		1.948.282
Cash flows from investing activities:		
Investment in operating assets		(541.427)
Proceeds from sale of operating assets		19.164
Investment in shares in associated companies		(329.240)
Proceeds from sale of shares in associated companies		472.066
Securities, change		11.144
Net cash used in investing activities		(368.293)
Cash flows from financing activities		
Share capital decrease		(500.000)
Installments on long-term debt		(1.378.245)
Short-term borrowing, change		86.245
Net cash from financing activities		(1.791.999)
Net decrease in cash and cash equivalents		(212.011)
Effects of movements in exchange rates on cash held		(29.123)
Cash and cash equivalents at the beginning of the year		654.635
Cash and cash equivalents at period end		413.501

The notes on pages 9-12 are an integral part of these consolidated financial statements.

All amounts are in ISK thousand

Notes

1. Reporting entity

Skeljungur hf. (the "Company") is an Icelandic limited liability company domiciled in Iceland. The address of the Company´s registered office is at Borgartun 26, Reykjavik. The Consolidated Financial Statements of the Company comprise the Company and its subsidiaries, P/F Magn, S-fasteignir ehf., Tollvörugeymsla Skeljungs ehf., Bensínorkan ehf., (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates.

Skeljungur hf. is an Icelandic oil importing company whose activities span a range of retail and service operations in Iceland. The Company has a network of 65 service stations and 9 oil depots in Iceland. P/F Magn in Faroe Islands has 11 service stations and 3 oil depots around the Faroe Islands.

2. Basis of preparation

a. Statement of compliance with International Financial Reporting Standards

The Group's interim financial statements are prepared according to IFRS as adopted by the EU for interim financial reporting, IAS 34. The condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2014.

b. Presentation and functional currency

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

c. Use of estimates and judgements

In preparing these consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2014.

3. Significant accounting policies

The interim consolidated financial statements are prepared based on the same accounting policies as the Company's annual financial statements for the year 2014.

4. Geographic information

The geographic information below analyses the Group's revenue and non-current assets by the companies' country of domicile. In presenting the following information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

i) Revenue

	2015 1.1.-30.9.
Iceland	18.862.210
Faroe Islands	10.590.813
Total revenue	29.453.023

ii) Non-current assets

	30.9.2015	31.12.2014
Iceland	10.501.831	11.131.387
Faroe Islands	4.319.539	4.601.609
Total non-current assets	14.821.370	15.732.996

5. Sales

Sales are specified as follows:

	2015 1.1.-30.9.
Fuel	18.862.210
Other goods	10.590.813
Total sales	29.453.023

6. Cost of goods sold

Cost of goods sold is specified as follows:

	2015 1.1.-30.9.
Fuel	21.780.196
Other goods	2.372.853
Total cost of goods sold	24.153.049

All amounts are in ISK thousand

7. Income tax

Expensed income tax is specified as follows:

		2015 1.1.-30.9.
Profit before income tax		1.333.113
Income tax using the corporate tax rate	20,00%	(266.623)
Effects of tax rates in foreign jurisdictions	(1,11%)	14.812
Effects from shares in companies	(0,37%)	4.923
Income tax recognised in the income statement	18,52%	(246.888)

8. Deferred income tax liabilities

Income tax liability is specified as follows:

	30.9.2015	31.12.2014
Income tax liability at the beginning of the year	863.646	618.370
Income tax liability overtaken due to acquistion of a subsidiary	0	305.214
Income tax asset of a subsidiary sold	19.745	0
Translation difference	(25.583)	(6.932)
Income tax expensed from continuing operations	246.888	245.982
Income tax expensed from discontinued operations	0	(105.537)
Income tax payable	(216.691)	(193.451)
Deferred income tax liability at period end	888.005	863.646

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

Operating assets	777.604	793.713
Other intangible assets	90.427	106.114
Inventories	18.137	17.920
Trade receivables	33.230	19.708
Deferred tax losses	(11.867)	(63.360)
Currency adjustments according to Icelandic tax laws	(3.596)	(3.647)
Other items	(15.930)	(6.802)
Deferred income tax liability at period end	888.005	863.646

9. Loans and borrowings

Interest bearing borrowings are specified as follows:

	30.9.2015	31.12.2014
Long-term debt in ISK, non-indexed, variable interest 6,9%	4.828.844	6.063.705
Debt in foreign currency, DKK, variable interest 2,75%	1.112.257	1.354.135
Total long-term debt, including current maturities	5.941.101	7.417.840
Current maturities	(520.356)	(531.793)
Total long-term debt, according to the balance sheet	5.420.745	6.886.047

Current debt

Current maturities	520.356	531.793
Current bank loans	1.112.579	1.043.896
Total current debt, according to the balance sheet	1.632.935	1.575.689
Total interest-bearing loans and borrowings	7.053.680	8.461.736

All amounts are in ISK thousand

Notes, contd.:

10. Loans and borrowings contd.:

Aggregated annual maturities of long-term debt are specified as follows:

	30.9.2015	31.12.2014
2015 to year end	277.996	531.793
2016	2.780.854	3.774.824
2017	500.729	510.645
2018	2.066.259	2.076.987
2019	212.039	223.620
Subsequent	103.225	299.972
Long-term debt including current maturities	5.941.101	7.417.840

Skeljungur has the possibility to extend loans with the final maturity in 2016, twice for another three year term, each time, and a loan with the final maturity in 2018 for another two years, subject to certain conditions being fulfilled.

11. Related parties

Definition of related parties:

Shareholders, subsidiaries, associated companies, directors, managers and companies in which they own majority of the shares are considered to be related parties.

Transactions with shareholders were insignificant during the period apart from a decrease in share capital in the amount of ISK 500 million.

12. Financial Ratios

The Group's key ratios are as follows:

	2015 1.1.-30.9.
Operations:	
Average margin - contribution margin / sales	18,0%
EBITDA / sales	7,8%
Return on equity	27,6%

Balance Sheet:	30.9.2015	31.12.2014
Current ratio - Current assets / current liabilities	0,97	1,02
Equity ratio - Shareholders' equity / total assets	39,6%	37,8%
Internal value of share capital	3,3	3,0

All amounts are in ISK thousand

Skeljungur hf.

Condensed Consolidated Interim Financial Statements
For the Period Ended 30 September 2016

Skeljungur hf.
Borgartun 26
105 Reykjavik

Reg. no. 590269 -1749

Contents

Endorsement by the Board of Directors and the CEO

The Condensed Consolidated Financial Statements of Skeljungur hf. (the “Company“ or “Skeljungur“) for the financial period 1 January to 30 September 2016 include the Company and its subsidiaries (Group).

The Group consists of two main operations Skeljungur and Magn. Skeljungur the Icelandic operations span a range of retail, wholesale and service operations under the brands, Skeljungur, Shell, Orkan and Orkan X. Main activities are import, sale and distribution of oil but also lubricants, chemical products and fertilizer. Skeljungur operates 65 gas stations and 9 oil depots around Iceland. P/F Magn operates in the Faroe Islands and main activities are import, sale and distribution of oil as well as convenience retail. P/F Magn operates 11 retail outlets. The customer base of the companies span every sectors and large part of both islands populations.

At the annual meeting on April 26th 2016 the Board of Directors was authorized to pay out to shareholders ISK 1.000 million by decreasing the share capital of nominal value of ISK 402.7 million.

In the first half of the year 2016 the Boards of Directors for Skeljungur hf. and S-fasteignir ehf. decided to merge the companies under the name of Skeljungur. Ther merger was approved by the Directorate of internal revenue on 13 July 2016. Since it was a merger between a fully owned subidiary of Skeljungur, the merger had no effect on Skeljungur's shares. The merger was effective as of January 1, 2016.

According to the Consolidated Statement of Comprehensive Income, total operating revenue amounted to ISK 36.860 million for the Group (2015: 24,453 million). The Group's net earnings for the period 1 January to 30 September amounted to ISK 1,104 million (2015: 1,086 million). According to the Statement of Financial Position, the Group's total assets amounted to ISK 20,106 million (2015: 18,406 millj. kr.. Shareholders' equity amounted to ISK 7,201 million at September end 2016 (2015: ISK 7,408 million). The Group's equity ratio was 35.8%.

The Company’s share capital amounted to ISK 2,100 million at the end of September and the share capital is owned by two shareholders, same as at the beginning of the year. The shareholders at the end of September are:

	Share
SF IV slhf.	99,99%
SF IV GP hf.	0,01%

The Board of Directors refers to the Condensed Consolidated Interim Financial Statements regarding allocation of profit and other changes in equity within the period.

The Board of Directors and the CEO of Skeljungur hf. hereby confirm the Condensed Consolidated Interim Financial Statements for the period ended 30 September 2016 by means of their signatures.

Reykjavik, 27 October 2016

The Board of Directors:

CEO:

Independent Auditors' Report

To the Board of Directors and Shareholders of Skeljungur hf.

We have reviewed the accompanying condensed consolidated statement of financial position of Skeljungur hf. as at September 30, 2016, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes to the interim financial information. The Board of Directors and CEO are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Reykjavik, 27 October 2016

KPMG ehf.

Regnir Stefán Eyjólfsson

Consolidated Statement of Comprehensive Income
for the period 1 January to 30 September 2016

	Notes	2016 1.1.-30.9.	2015 1.1.-30.9.*
Sales	4	36.860.481	29.453.023
Cost of goods sold	5	(31.159.083)	(24.153.049)
Gross profit		5.701.398	5.299.974
Other income		104.836	201.136
Salaries and salary related expenses		(1.636.657)	(1.500.951)
Sales and distribution expenses		(1.373.966)	(1.324.854)
Operating expenses		(493.860)	(368.514)
Earnings before depreciation and financial items		2.301.751	2.306.791
Depreciation and impairment of operating assets		(531.937)	(547.322)
Operating profit		1.769.814	1.759.469
Financial income		22.587	23.056
Financial expenses		(421.226)	(478.186)
Net financial expenses		(398.639)	(455.130)
Share of profit from associated companies		2.113	28.774
Profit before income tax		1.373.288	1.333.113
Income tax expense	6	(268.921)	(246.888)
Profit for the period		1.104.367	1.086.225
Other comprehensive income that will be reclassifed to profit or loss			
Foreign operation - foreign currency translation differences		(381.051)	(334.404)
Foreign currency translation differences reclassified to profit and loss		0	(24.574)
Total comprehensive income		723.316	727.247
Earnings per share:			
Earnings per each ISK one of share capital and diluted share capital	7	0,48	0,43

* Amounts have not been reviewed by the Company's auditors

The notes on pages 9-13 are an integral part of these consolidated financial statements.

All amounts are in ISK thousand

Consolidated Statement of Financial Position as at 30 September 2016

	Notes	30.9.2016	31.12.2015
Assets			
Goodwill		3.257.266	3.454.643
Other intangible assets		685.120	709.315
Operating assets		9.697.590	9.763.159
Shares in associated companies		62.679	62.566
Long term receivables		3.654	22.677
Non-current assets		13.706.309	14.012.360
Current assets			
Inventories		2.595.802	2.001.540
Trade receivables		3.268.797	1.960.420
Other receivables	8	256.266	57.496
Cash and cash equivalents		278.973	374.125
Current assets		6.399.838	4.393.582
Total assets		20.106.147	18.405.941
Equity			
Share capital		2.099.582	2.502.257
Share premium		3.114.508	3.711.833
Statutory reserve		298.874	243.657
Reserve for share options		36.861	36.861
Reserve for share in profit from subsidiaries and associated companies	9	505.272	0
Translation difference of shares in companies		(903.075)	(522.024)
Retained earnings		2.049.196	1.505.319
Total equity		7.201.218	7.477.902
Liabilities			
Deferred tax liability	10	600.475	640.600
Loans and borrowings	11	4.629.784	5.298.020
Non-current liabilities		5.230.259	5.938.619
Short term borrowings	11	1.909.164	1.219.808
Trade payables		1.924.254	1.167.556
Current maturities of long-term debt	11	414.676	426.129
Current tax liabilities	6	282.094	227.788
Other current liabilities		3.144.482	1.948.139
Current liabilities		7.674.670	4.989.420
Total liabilities		12.904.929	10.928.039
Total equity and liabilities		20.106.147	18.405.941

The notes on pages 9-13 are an integral part of these consolidated financial statements.

All amounts are in ISK thousand

Consolidated Statement of Changes in Equity from 1 January to 30 September 2016

	Share capital	Share premium	Statutory reserve	Reserve share option	Reserve for share in profit from subsidiaries	Translation difference	Retained earnings	Total equity
2015								
Shareholders' equity 31.12.2014	2.703.594	4.010.496	216.342	36.861	0	(129.480)	1.259.487	8.097.300
Profit for the period							1.086.225	1.086.225
Translation difference						(358.978)		(358.978)
Total comprehensive income for the period						(358.978)	1.086.225	727.247
Transact. with owners of the Company								
Share Capital decrease	(201.337)	(298.663)						(500.000)
Balance at 30. September 2015 *	2.502.257	3.711.833	216.342	36.861	0	(488.458)	2.345.712	8.324.547
2016								
Shareholders' equity 31.12.2015	2.502.257	3.711.833	243.656	36.861	0	(522.024)	1.505.319	7.477.902
Profit for the period							1.104.367	1.104.367
Translation difference						(381.051)		(381.051)
Total comprehensive income for the period						(381.051)	1.104.367	723.316
Transact. with owners of the Company								
Share Capital decrease	(402.675)	(597.325)						(1.000.000)
Contribution to reserve, profit from subsidiaries and associated companies **					505.272		(505.272)	0
Contribution to statutory resererve			55.218				(55.218)	0
Balance at 30 September 2016	2.099.582	3.114.508	298.874	36.861	505.272	(903.075)	2.049.196	7.201.218

* Amounts have not been reviewed by the Company's auditors

** See note 9

The notes on pages 9-13 are an integral part of these consolidated financial statements.

All amounts are in ISK thousand

Consolidated Statement of Cash Flows
for the period 1 January to 30 September 2016

	Notes	2016 1.1.-30.9.	2015 * 1.1.-30.6.
Cash flows form operating activities:			
Profit for the period		1.104.367	1.086.225
Adjustments:			
Depreciation and impairment		531.937	547.322
Profit from associated companies		(2.113)	(26.793)
Net finance costs		398.639	455.130
Gain on sale of assets		(521)	(7.543)
Tax expense	6	268.921	246.888
		2.301.230	2.301.229
Changes in:			
Inventory, increase		(663.103)	(322.196)
Trade and other receivables, increase		(1.565.010)	(557.565)
Trade and other payables, increase		1.962.112	1.026.242
		(266.001)	146.481
Cash generated from operating activities		2.035.229	2.447.710
Interest received		22.400	23.056
Interest paid		(405.807)	(453.063)
Taxes paid		(47.209)	(69.421)
Net cash from operating activities		1.604.613	1.948.282
Cash flows from investing activities:			
Investment in operating assets		(795.965)	(541.427)
Proceeds from sale of operating assets		6.024	19.164
Investement in shares in associated companies		0	(329.240)
Proceeds from sale of shares in associated companies		0	472.066
Cash from subidiary		370	0
Dividend from associated companies		2.000	0
Other loans, change		19.023	11.144
Net cash used in investing activities		(768.548)	(368.293)
Cash flows from financing activities			
Share Capital decrease		(1.000.000)	(500.000)
Installments on long-term debt		(609.842)	(1.378.245)
Proceeds from new long-term liabilities		19.246	0
Short-term borrowing, change		689.356	86.245
Net cash used in financing activities		(901.240)	(1.792.000)
Net decrease in cash and cash equivalents		(65.175)	(212.011)
Effects of movements in exchange rates on cash held		(29.977)	(29.123)
Cash and cash equivalents at the beginning of the year		374.125	654.635
Cash and cash equivalents at period end		278.973	413.501

* Amounts have not been reviewed by the Company's auditors

The notes on pages 9-13 are an integral part of these consolidated financial statements.

All amounts are in ISK thousand

Notes

1. Reporting entity

Skeljungur hf. (the "Company") is an Icelandic limited liability company domiciled in Iceland. The address of the Company´s registered office is at Borgartun 26, Reykjavik. The Condensed Consolidated Financial Statements of the Company comprise the Company and its subsidiaries, P/F Magn, Tollvörugeymsla Skeljungs ehf., Bensínorkan ehf., Íslenska vetnisfélagið, (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates.

Skeljungur hf. is an Icelandic oil importing company whose activities span a range of retail and service operations in Iceland. The Company has a network of 65 service stations and 8 oil depots in Iceland. P/F Magn in Faroe Islands has 11 service stations and 3 oil depots around the Faroe Islands.

2. Basis of preparation

a. Statement of compliance with International Financial Reporting Standards

The Group's interim financial statements are prepared according to IFRS as adopted by the EU for interim financial reporting, IAS 34. The condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015, which is available at the Company's website; www.skeljungur.is

b. Significant accounting policies

The interim financial statements are prepared based on the same accounting policies as the Group's annual financial statemnts for the year 2015.

The Board of Directors of Skeljungur confirmed the Group's interim financial statements on October 27 2016.

c. Presentation and functional currency

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

d. Use of estimates and judgements

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

e. Seasonality

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

f. Fair value

The difference between fair value and book value of financial assets and liabilities is insignificant at the end of September 2016.

3. Geographic information

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

Year 2016

Income Statement 1.1.-30.9.	Iceland	Faroe Islands	Total
Revenue	27.251.307	9.609.174	36.860.481
Gross profit	4.144.954	1.556.444	5.701.398
EBITDA	1.506.048	795.703	2.301.751
EBIT	1.096.386	673.428	1.769.814
Financial Position 30.9.2016			
Non-current assets	9.638.912	4.067.397	13.706.309
Current assets	4.744.127	1.655.711	6.399.838
Total assets	14.816.139	5.826.460	20.106.147
Long term liabilities	4.399.182	831.077	5.230.259
Current liabilities	5.884.836	1.789.834	7.674.670
Total liabilities	10.977.986	2.647.463	12.904.929

Year 2015

Income Statement 1.1.-30.9.*	Iceland	Faroe Islands	Total
Revenue	18.862.210	10.590.813	29.453.023
Gross profit	3.573.603	1.726.371	5.299.974
EBITDA	1.381.398	925.393	2.306.791
EBIT	965.446	794.023	1.759.469
Financial Position 31.12.2015			
Non-current assets	8.678.574	5.333.786	14.012.360
Current assets	3.098.680	1.294.902	4.393.582
Total assets	11.777.254	6.628.688	18.405.942
Long term liabilities	4.825.570	1.113.049	5.938.619
Current liabilities	3.386.295	1.603.125	4.989.420
Total liabilities	8.211.865	2.716.174	10.928.039

4. Sales

Sales are specified as follows:

	2016 1.1.30-9.	2015* 1.1.-30.9.
Fuel	33.903.587	26.167.136
Other goods	2.956.894	3.285.887
Total sales	36.860.481	29.453.023

5. Cost of goods sold

Cost of goods sold is specified as follows:

Fuel	29.139.898	21.780.196
Other goods	2.019.185	2.372.853
Total cost of goods sold	31.159.083	24.153.049

* Amounts have not been reviewed by the Company's auditors

from January to September 2016 10 All amounts are in ISK thousand

6. Income tax

Effective income tax is specified as follows:

Profit before income tax		1.373.288		1.333.113
Income tax using the corporate tax rate	20,00%	(274.658)	20,00%	(266.623)
Effects of tax rates in foreign jurisdictions	(0,92%)	12.676	(1,11%)	14.812
Non deductible expenses	0,49%	(6.719)	0,00%	0
Effects from shares in companies	0,02%	(220)	(0,37%)	4.923
Effective income tax rate	19,58%	(268.921)	18,52%	(246.888)

7. Earnings per share

Basic and diluted earnings per share

	30.9.2016	30.9.2015*
Profit for the year	1.104.367	1.086.225

Weighted average number of ordinary shares

Shares on 1 January	2.502.257	2.703.594
Effect of share capital (decrease) increase	(223.708)	(201.337)
Weighted average number of shares	2.278.549	2.502.257
Basic and diluted earnings per share	0,48	0,43

8. Other receivables

Other receivables are specified as follows:

	30.9.2016	31.12.2015
Receivables due from the government	183.268	14.661
Prepaid expenses	31.536	6.024
Current maturities for long term receivables	33.364	30.271
Other receivables	8.098	6.540
Total other receivables	256.266	57.496

9. Equity

Reserve for share in profit from subidiaries and associated companies

In June 2016 the Icelandic parliament passed a law on changes of the Icelandic Annual Accounts Act (IS-GAAP), with the effective date as of 1 January 2016. One was that to the extent that profit from equity accounted investees (subsidiaries and associated companies) recognised in the income statement exceeds dividends received from those companies, or the dividend that has been decided to distribute, the same amount must be recognised in a specific reserve within equity. Skeljungur received a DKK 9 million dividend from Magn P/F in the first half of 2016. That dividend has not been deducted from the reserve due to uncertainty about interpretation of the law.

* Amounts have not been reviewed by the Company's auditors

Condensed Consolidated interim Financial Statements of Skeljungur hf. from January to September 2016 11 All amounts are in ISK thousand

10. Deferred tax liability

Deferred tax liability is specified as follows:

	30.9.2016	31.12.2015
Deferred tax liability at the beginning of the year	640.600	863.646
Deferred tax asset of a subsidiary sold	0	19.745
Translation difference	(26.953)	(33.453)
Income tax expensed from continuing operations	268.921	18.450
Income tax payable	(282.094)	(227.788)
Deferred tax liability at period/year end	600.475	640.600

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

	30.9.2016	31.12.2015
Operating assets	545.636	616.816
Intangible assets	77.814	1.799
Inventories	18.493	15.296
Trade receivables	(15.325)	28.145
Currency adjustments according to Icelandic tax laws	(3.596)	(3.103)
Other items	(22.547)	(18.353)
Deferred tax liability at period/year end	600.475	640.600

11. Loans and borrowings

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

Loans in foreign currency:		30.9.2016		31.12.2015	
	Final due date	Weighted average interest rate	Carrying amount	Weighted average interest rate	Carrying amount
Loans in DKK	2021	2,5%	826.525	2,8%	1.054.216
Current loans in USD	2016	4,3%	591.062	4,2%	323.069
Current loans in DKK	2016	-	0	3,2%	535.055
			1.417.587		1.912.340
Loans in ISK:					
Non-indexed loans in ISK	2018-2019	7,0%	4.217.935	7,5%	4.669.934
Current loans in ISK	2016	7,4%	1.318.102	7,9%	361.683
			5.536.037		5.031.617
Total long-term interest-bearing loans and borrowings			4.629.784		5.298.020
Total short term interest-bearing loans and borrowings			2.323.840		1.645.937
Total interest-bearing loans and borrowings			6.953.624		6.943.957

Aggregated annual maturities of long-term debt are specified as follows:

	30.9.2016
1.7.2016-30.9.2017	414.676
1.7.2017-30.9.2018	1.554.601
1.7.2018-30.9.2019	217.279
1.7.2019-30.9.2020	2.764.850
1.7.2020-30.9.2021	93.054
Long-term debt including current maturities	5.044.460

All amounts are in ISK thousand

12. Subsidiaries

The consolidated financial statements include the following subsidiaries:

	Shares	
	30.9.2016	2015
P/F Magn	100%	100%
S-fasteignir ehf., Reykjavik	0%	100%
Tollvorugeymsla Skeljungs ehf., Reykjavik	100%	100%
Bensinorkan ehf., Reykjavik	100%	100%
Islenska vetnisfelagid ehf., Reykjavik	100%	0%

13. Related parties

Definition of related parties:

Shareholders, subsidiaries, associated companies, directors, managers and companies in which they own majority of the shares are considered to be related parties.

The above-mentioned parties have had transactions with the Group during the period. The conditions and terms of those transactions were comparable to transactions with non-related parties. Following is an overview of the primary transactions between related parties during the period, together with an overview of receivables and payables at period end. Transactions and positions between companies within the group are eliminated in the group interim financial statements and therefore not specified. The information do not include sale for domestic use of individuals.

Transactions with associated companies	**2016**	**2015**
	1.1.-30.9.	**1.1.-31.12.**
Purchased goods and services	491.262	83.510
Sold goods and services	9.002	7.466
Receivables at year end	1.081	1.060
Payables at year end	91.029	7.023

Transactions with shareholders

Transactions with shareholders were insignificant during the year.

Transactions with employees

The Company has granted employees loans for general trade. The Company has also granted employees loans relating to the sale of vehicles for a total amount of ISK 1,3 million. The loans carry interest rate and have a term of up to five years.

14. Financial Ratios

The Group's key ratios are as follows:

	1.1.-30.9.2016	**1.1.-30.9.2015**
Operations:		
Average margin - contribution margin / sales	15,5%	18,0%
EBITDA / gross profit	40,4%	43,5%
EBIT / gross profit	31,0%	33,2%
Salaries / gross profit	28,7%	28,3%
Sales and distribution / gross profit	24,1%	25,0%
Opex / gross profit	61,5%	60,3%
Return on equity	20,7%	27,6%
Balance Sheet:	**30.9.2016**	**31.12.2015**
Current ratio - Current assets / current liabilities	0,83	0,88
Quick ratio - (Current assets - inventory) / current liabilities	0,50	0,48
NIBD/EBITDA 12 months	2,50	2,46
Equity ratio - Shareholders' equity / total capital	35,8%	40,6%
Internal value of share capital	3,4	3,0

All amounts are in ISK thousand

11. Related parties to Skeljungur as defined by the Icelandic Competition Authority

By Decision 2/2014 the Icelandic Competition Authorities authorised the purchase of Skeljungur hf. by SF IV. In order for the transaction to be approved SF IV, Stefnir hf., Arion Bank reached a settlement with ICA in order to secure the autonomy of Skeljungur as a competing party in the Icelandic oil market. The list of related parties, as per the definition of ICA, is compiled and updated so as to document the cross-ownership of Arion Bank, Stefnir as well as the shareholders of SF IV.

The settlement lapses at the time Skeljungur's Shares are listed on the regulated market of Nasdaq Iceland. What follows is the latest version of the related party list, updated 27 October 2016.

A. Arion Bank, ID No. 581008-0150

B. Companies controlled by Arion Bank

Company name	Icelandic ID No.
Akraland ehf.	4812032870
AltaPay A/S - DK	9999990047
AltaPay gmbh DE	-
AltaPay Inc USA	-
Arion Bank Mortgages Institutional Investor Fund	5701069610
Austurland ehf.	4912131910
BG 12 slhf.	5106130580
EAB 1 ehf.	4812100890
Eignarhaldsfélagið Landey ehf.	5205090620
Einkaklúbburinn ehf.	4403112100
FF eignarhaldsfélag ehf.	7107033450
Fram Foods ehf.	4505100760
Gen hf.	5204003970
Iteron Holding DK ApS	-
Iteron Holding Limited UK	-
Landey ehf.	6411091420
Markadis Limited Ireland	-
Okkar Líftryggingar hf.	6201660229
Rekstrarfélagið Braut ehf.	5806962019
Sólon ehf.	6109932499
Startup Reykjavík Invest ehf.	5505121570
Stefnir hf.	7009962479
Tekjuvernd ehf.	5510992969
Valitor hf.	5006830589
Valitor Holding hf.	5112070100
Valitor Payment services Ltd	-
Vildarkerfi ehf.	7012110490
VISA Ísland ehf.	5003081250
Vörður tryggingar hf.	4410993399

Vörður líftryggingar hf.	6112072040

C. Companies controlled by companies that have a management or service agreement with Stefnir

Company name	Icelandic ID No.
ADCO Kópavogur ehf. (auglýsingastofa)	500399-2019
B37 ehf.	630910-0480
Bakkinn vöruhótel ehf.	650808-1770
Bílaleiga Kynnisferða ehf.	611298-3239
Cambridge Plaza Venture Company ehf.	590815-0550
Elko ehf.	561000-3280
Euro-Bor ehf.	680808-0820
Ferðaskrifstofa Kynnisferða ehf.	560269-3829
Ferðaskrifstofa Reykjavíkur ehf.	491109-1060
Festi fasteignir ehf. (fasteignafélag)	581113-1100
Festi hf.	500913-0100
Flugrútan ehf.	631299-2379
Hekla Energy BV (Holland)	-
Hekla Energy BV (Netherlands)	-
Hópbílar Kynnisferða ehf.	620372-0489
Hótel Borg ehf.	620698-2889
Höfðaeignir ehf. (fasteignafélag)	581113-1020
Iceland Drilling (UK) Ltd	-
Iceland Drilling Azores Lda (Portúgal)	-
Iceland Drilling Chile SpA	-
Iceland drilling Philipines	-
Iceland Drilling UK Ltd (Bretland)	-
ISP á Íslandi ehf. (Intersport)	650908-1120
Jarðboranir hf.	590286-1419
Kaupás ehf. (Nóatún, Krónan, Kjarval)	711298-2239
Klettagarðar 12 ehf.	620310-1070
Kynnisferðir ehf.	501006-0250
Mandólín hf.	710316-1390
Nóatún ehf. (enginn rekstur)	450700-4010
SBK ehf.	560800-2740
SRE-F11 ehf.	520613-1290
SRE-Fax5 ehf.	681211-0630
SRE-L77 ehf.	571212-2930
SRE-S10 ehf.	691211-3040
SRE-S16 ehf.	460314-0620
SRE-Skúla ehf.	480212-0530
Umferðarmiðstöðin ehf.	440204-3760
Vesturvör 34 ehf.	570211-0560

D. Shareholders in SF IV

Company / person	Icelandic ID No.
Arion banki hf.	581008-0150
Draupnir-Sigla ehf.	601213-1250
Eignaval - Hlutabréf	591112-9880
Einarsmelur ehf.	480507-2660
ET sjón ehf.	420502-4350
Festa Lífeyrissjóður	571171-0239
GAMMA EQ1	700311-9530
GAMMA Equity Fund	450213-9850
Gildi lífeyrissjóður	561195-2779
Guðný Hansdóttir	300167-3579
Guðrún Þorgeirsdóttir	080979-5929
Ingimundur Ingimundarson	041027-3919
Jóhanna Waagfjörð	131058-5199
Kaskur ehf.	500804-2030
Landstakkur ehf.	631014-0700
Lífeyrissj.starfsm.rík. A-deild	550197-3409
Lífeyrissj.starfsm.rík. B-deild	430269-6669
Lífeyrissjóður hjúkrun.fræðinga	430269-4889
Líftryggingafélag Íslands hf.	570990-1449
Lúðvík Björgvinsson	040760-4829
Mars ehf.	680214-0340
PB1 ehf. (L1057 ehf.)	690413-0430
Sindrandi ehf.	661013-2220
SÍA II slhf.	550512-2620
Sjóvá-Almennar tryggingar hf.	650909-1270
Stapi lífeyrissjóður	601092-2559
Stefnir - Eignastýringarsjóður	650398-9049
Stefnir - ÍS 5	430407-9610
Stefnir - Samval	561204-9180
Söfnunarsjóður lífeyrisréttinda	450181-0489
Vátryggingafélag Íslands hf.	680689-2009

E. Companies related to members of the Board of Directors, Managing Directors or key personnel of Skeljungur hf.

Company name	Icelandic ID No.
Advokatfelagið við Strond 4	-
Alþjóðaskólinn á Íslandi ehf.	510407-0160
Berndsen ehf.	410415-0700
Bíómyndir ehf.	701299-4939
D3 Miðlar ehf.	601087-1389
Draupnir fjárfestingafélag ehf.	501204-2260
Draupnir-Sigla ehf.	601213-1250
Gildi lífeyrissjóður	561195-2779
ID Invest ehf.	661115-2460

Jarðboranir hf.	590286-1419
Lok 1 ehf.	500611-3400
Lyfja hf.	531095-2279
Radíómiðun ehf.	431006-1030
Reiðarafelagið fyri farmaskip	-
Rifsber ehf.	630707-0560
Sena ehf.	510205-1380
Sena heildsala ehf.	620605-1580
Sena Réttindasvið ehf.	470205-0590
Sensa hf.	480202-2520
SF 1 slhf.	500611-3400
SF III GP ehf.	420311-1090
SF III slhf.	611011-1210
SF IV GP hf.	711011-3230
SF IV slhf.	691211-2150
SF V GP hf.	691211-2900
SF V slhf.	560913-1250
SF VI slhf.	511114-0630
SF VI GP ehf.	691211-2740
SF VII ehf.	631214-1850
SF1 GP ehf.	420311-0600
SÍA II GP hf.	691211-2820
SÍA II slhf.	550512-2620
SÍA III GP hf.	681015-3960
Síminn hf.	460207-0880
Sjóvá-Almennar tryggingar hf.	650909-1270
Skansi Offshore	-
Smyril-Line	-
Sp/f Advokatsmápartafelagið Gunn Ellefsen	-
Stefnir hf.	700996-2479
Verne Holdings Ltd.	660814-9810
Verzlunarskóli Íslands ses.	690269-1399
Þrjúbíó ehf.	451206-0360