Hagar hf.

Consolidated Financial Statements
for Year Ended 28 February 2013
ISK

Hagar hf.
Hagasmári 1
201 Kópavogur
Iceland

Reg. no. 670203-2120

Contents

Endorsement and Signatures by the Board of Directors and the CEO

Hagar hf. is a retail company operating in Iceland.

The consolidated financial statements of Hagar hf. ("the Company") have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The financial statements for the fiscal year ended 28 February 2013, comprise the consolidated financial statements of the Company and its subsidiaries, together referred to as the "Group".

Operations

According to the statement of comprehensive income, profit of the Group for the year amounted to ISK 2,958 million. According to the balance sheet, equity at the end of the fiscal year amounted to ISK 8,731 million.

Share capital and Articles of Association

The Company's share capital amounted to ISK 1,218 million at the end of the fiscal year, of which the Company held treasury shares in the amount of ISK 46 million. The share capital is divided into shares of ISK 1, all in one class with equal rights.

Shareholders were 2,013 at the beginning of the fiscal year and 1,196 at the end of the fiscal year. Two shareholders held over 10% of share capital at year-end, Lífeyrissjóður starfsmanna ríkisins with 14.2% share and Gildi - pension fund with 10.3% share.

The Board of Directors will propose to the 2013 Annual General Meeting that a ISK 0.50 per share dividend shall be paid to shareholders in the year 2013, a total of ISK 586 million. Reference is made to financial statements regarding information on changes in equity.

The Company's Board of Directors comprises five members. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least five days before the annual general meeting. The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. Resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented at the shareholders' meeting.

Corporate governance

Hagar hf.'s corporate governance is based on Act no. 2/1995 on limited liability companies, the Company's Articles of Association and Rules of Procedure for the Board. Hagar hf. complies with the Corporate Governance Guidelines, 4th issue, published in 2012 by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers, except in few cases: The Board has neither appointed a Remuneration nor a Nomination Committee; analysis of environmental and social factors that are necessary to understand the development, performance and position of the Company is not present in the corporate governance statement and the Company's share registry does not account for group relations between the Company and its investors.

Exceptions and explanations can be found in the detailed Corporate Governance Statement of Hagar hf., which is prepared in accordance with the Corporate Governance Guidelines, and is accessible on the Company´s website www.hagar.is. Guidelines on Corporate Governance are available on the website of the Iceland Chamber of Commerce, www.vi.is.

In connection with the preparation of the financial statements the Company has in place internal control and risk management factors such as proper segregation of duties and well defined responsibilities. Also the Board receives regular reporting on the financial risk of the company as well as reports on individual departments as a part of monitoring performance. Procedures are in place to ensure control of income registration, operating costs and other factors that affect the Company´s financial statements. Furthermore, the Company's audit committee monitors the organisation and efficiency of internal control. See further information on the Company’s risk management in note 22.

The Company's Board of Directors consists of five Directors. Árni Hauksson, Chairman of the Board, other Board Directors are Hallbjörn Karlsson, Erna Gísladóttir, Guðbrandur Sigurðsson and Kristín Friðgeirsdóttir. The board members have extensive experience and diverse educational background. Erna, Guðbrandur and Kristín are considered to be independent from the Company, its daily management and major shareholders. Detailed information on Board members is included in the Corporate Governance Statement on the Company's website www.hagar.is

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

The Board of Directors has established Rules of Procedure for the Board which are reviewed on an annual basis. The Rules of Procedure for the Board are accessible on the Company's website, www.hagar.is where the Boards´ tasks are laid out. Board meetings were held, at least, once every month in the year 2012/13. Board meetings are also attended by the CEO and the CFO of the Company. The majority of votes cast prevails in decision-making. The Board performs an evaluation on its work on an annual basis.

Key management personnel of Hagar hf. consists of Finnur Árnason CEO, Guðrún Eva Gunnarsdóttir CFO, Guðmundur Marteinsson Managing Director of Bónus, Gunnar Ingi Sigurðsson Managing Director of Hagkaup, Kjartan Már Friðsteinsson Managing Director of Bananar and Lárus Óskarsson Managing Director of Aðföng.

The Board has elected an audit committee which has the role to review financial information and disclosures from the management. The audit committee consists of Erna Gísladóttir, Guðbrandur Sigurðsson and Sigrún K. Sigurjónsdóttir. All members of the committee are independent from the auditors of Hagar hf., its daily management and major shareholders. The audit committee verifies the reliability of the information received by the Board and whether it gives a fair view of the operation and financial standing of the Company.

Statement by the Board of Directors and the CEO

To the best of our knowledge, the consolidated financial statements give a true and fair view of the consolidated financial performance of the Company for the fiscal year ended 28 February 2013, its assets, liabilities and consolidated financial position as at 28 February 2013 and its consolidated cash flows for the fiscal year ended 28 February 2013 in accordance with International Financial Reporting Standards as adopted by the EU.

Further, in our opinion the consolidated financial statements and the endorsement by the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the annual consolidated financial statements of Hagar hf. for the year ended 28 February 2013 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements be approved at the annual general meeting of Hagar hf.

Kopavogur, 16 May 2013

The Board of Directors:

Árni Hauksson
Erna Gísladóttir
Guðbrandur Sigurðsson
Hallbjörn Karlsson
Kristín Friðgeirsdóttir

CEO:

Finnur Árnason

Independent Auditors' Report

To the Board of Directors and Shareholders of Hagar hf.

We have audited the accompanying consolidated financial statements of Hagar hf. and subsidiaries, which comprise the consolidated balance sheet as at 28 February 2013, 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.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, 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 consolidated 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 principles 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 consolidated financial statements give a true and fair view of the consolidated financial position of Hagar hf. as at 28 February 2013 and of its consolidated financial performance and its consolidated 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 106, Paragraph 1, Item 5 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Financial Statements.

Reykjavík, 16 May 2013.

KPMG ehf.

Símon Á. Gunnarsson

Sigríður H. Sveinsdóttir

Consolidated Statement of Comprehensive Income for the Year Ended 28 February 2013

	Note	2012/13	2011/12
Sales		71.771	68.495
Cost of goods sold		(54.485)	(52.389)
Gross profit		17.286	16.106
Other operating income	5	156	103
Salaries and related expenses	6	(6.267)	(6.259)
Other operating expenses	7	(6.212)	(5.767)
Results from operating activities before depreciation and amortisation		4.963	4.183
Depreciation and amortisation	8	(688)	(1.153)
Results from operating activities		4.275	3.030
Finance income		188	786
Finance expenses		(725)	(840)
Net finance expense	9	(537)	(54)
Share of profit of associates		0	76
Profit before income tax		3.738	3.052
Income tax	10	(780)	(708)
Comprehensive income for the year		2.958	2.344

Earnings per share

	Note	2012/13	2011/12
Basic and diluted earnings per share of ISK 1	17	2,52	2,00

The notes on pages 10 to 29 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Hagar hf. 28 February 2013 6 Amounts are in ISK million

Consolidated Balance Sheet as at 28 February 2013

	Note	28.2.2013	29.2.2012
Assets			
Operating assets	11	5.086	4.795
Intangible assets	12	7.789	7.809
Total non-current assets		12.875	12.604
Inventories	13	5.099	4.343
Trade and other receivables	14	680	564
Trade receivable - customers' credit cards	14	4.113	3.745
Cash and cash equivalents	15	2.947	2.149
Total current assets		12.839	10.801
Total assets		25.714	23.405
Equity			
Share capital	16	1.172	1.172
Share premium	16	1.272	1.272
Retained earnings		6.287	3.777
Total equity		8.731	6.221
Liabilities			
Loans and borrowings	18	8.275	9.921
Incentives from operating leases	21	110	153
Deferred income tax liability	10	563	394
Total non-current liabilities		8.948	10.468
Loans and borrowings	18	667	651
Trade and other payables	19	6.610	5.601
Current tax liabilities	10	606	343
Provisions	20	152	121
Total current liabilities		8.035	6.716
Total liabilities		16.983	17.184
Total equity and liabilities		25.714	23.405

The notes on pages 10 to 29 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Hagar hf. 28 February 2013 7 Amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year Ended 28 February 2013

	Note	Share capital	Share premium	Retained earnings	Total equity
Changes in equity 2011/12					
Equity at 1 March 2011		1.172	1.272	1.168	3.612
Share-based transactions	24			265	265
Comprehensive income for the year				2.344	2.344
Equity at 29 February 2012		1.172	1.272	3.777	6.221
Changes in equity 2012/13					
Equity at 1 March 2012		1.172	1.272	3.777	6.221
Share-based transactions	24			79	79
Dividends paid, 0.45 ISK per share				(527)	(527)
Comprehensive income for the year				2.958	2.958
Equity at 28 February 2013		1.172	1.272	6.287	8.731

The notes on pages 10 to 29 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Hagar hf. 28 February 2013 8 Amounts are in ISK million

Consolidated Statement of Cash Flows for the Year Ended 28 February 2013

	Note	2012/13	2011/12
Cash flows from operating activities			
Profit for the year		2.958	2.344
Adjustments for:			
Gain on sale of assets		(37)	(7)
Incentives from operating lease		(43)	(54)
Share based expense		79	265
Depreciation and amortisation	8	688	1.153
Net finance expense	9	537	54
Share of profit of associates		0	(76)
Income tax		780	708
Working capital provided by operating activities		4.962	4.387
Change in current assets		(1.237)	(931)
Change in current liabilities		1.049	230
Cash from operations before interest and taxes		4.774	3.686
Interest income received		184	94
Foreign exchange gain received		0	515
Interest expenses paid		(724)	(743)
Income taxes paid	10	(346)	(125)
Net cash provided by operating activities		3.888	3.427
Cash flows used in investing activities			
Acquisition of real estate	11	(473)	(515)
Acquisition of other operating assets	11	(507)	(433)
Acquisition of intangible assets	12	(11)	(4)
Proceeds from the sale of operating assets		69	14
Repayment from associates		0	76
Net cash used in investing activities		(922)	(862)
Cash flows used in financing activities			
Repayment of borrowings		(1.641)	(1.522)
Proceeds from borrowings		0	18
Dividends paid		(527)	0
Net cash used in financing activities		(2.168)	(1.504)
Net increase in cash and cash equivalents		798	1.061
Cash and cash equivalents at the beginning of the year		2.149	1.088
Cash and cash equivalents at the end of the year		2.947	2.149

The notes on pages 10 to 29 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Hagar hf. 28 February 2013 9 Amounts are in ISK million

Notes to the Consolidated Financial Statements

1. Reporting entity

Hagar hf. (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Hagasmári 1, Kópavogur, Iceland. The consolidated financial statements of the Company as at and for the year ended 28 February 2013 comprise the Company and its subsidiaries together referred to as the "Group" and individually as "Group entities" and the Group´s interest in associates. The main activity of the Group is retail.

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The Company's Board of Directors approved the financial statements on 16 May 2013.

b. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis.

c. *Functional and presentation currency*

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

d. *Use of estimates and judgements*

The preparation of the consolidated financial statements in conformity with the IFRSs requires management to make judgements, 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 estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 12 – measurement of the recoverable amounts of cash-generating units
- Note 20 – provision and contingencies

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

a. *Basis of consolidation*

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3. Significant accounting policies, contd.:

a. Basis of consolidation, contd.;

(ii) Transactions eliminated on consolidation

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

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognised in profit or loss. Foreign currency differences on purchases of goods for resale is recognised in the line item "cost of goods sold".

c. Financial instruments

(i) Financial assets

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

Cash and cash equivalents comprise cash held at bank, at hand and call deposits with original maturities of three months or less.

(ii) Financial liabilities

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method.

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

(iii) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(iv) Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is included or deducted from share premium.

3. Significant accounting policies, contd.:

d. *Operating assets*

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) 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 recognised net within "other operating income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of operating assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of operating assets are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of operating assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

Real estate	20-50 years
Fixtures and equipment	3-14 years

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

e. *Intangible assets*

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the day of acquisition.

Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses.

3. Significant accounting policies, contd.:

e. Intangible assets, contd.:

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

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.

(iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software	5-12 years
Lease rights	10-15 years

f. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

g. Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

3. Significant accounting policies, contd.:

g. Impairment, contd.:

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 amortisation, if no impairment loss had been recognised.

h. Employee benefits

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 recognised as an employee benefit expense in profit or loss in the period which services are rendered by employees.

i. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive 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.

j. Revenue

Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Services / other income

Revenue from services rendered is recognised based on the terms of the contracts and is recognised when the service is provided.

3. Significant accounting policies, contd.:

k. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Incentives from operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

l. Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, impairment losses recognised on financial asset and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses, except for gain or losses on purchases of goods, are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or loss position.

m. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised 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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n. 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which could be issued.

o. Segment reporting

The Group does not present business nor geographical segments as it has only similar retail operation in Iceland.

p. New standards and interpretations not yet adopted

The Group has not adopted early any IFRSs, interpretations or amendments. New standards and interpretations will have immaterial effect on the Group's financial statements.

4. 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. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a. Operating assets

The fair value of operating assets recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of equipment, fixtures and machinery is based on the quoted market prices for similar items.

b. Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

c. Inventories

The fair value of inventories is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

d. Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

e. None derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. Other operating income

Other operating income specifies as follows:

	2012/13	2011/12
Concession rent	6	10
Sold services	150	93
Total other operating income	156	103

6. Salaries and related expenses

Salaries and related expenses are specified as follows:

Salaries	5.199	5.002
Pension cost	455	437
Share-based payment transactions (see note 24)	79	265
Other salary-related expenses	534	555
Total salaries and related expenses	6.267	6.259
Average number of employees (full year equivalents)	1.208	1.189
Number of employees at year-end	2.141	2.117

7. Other operating expenses

Other operating expenses are specified as follows:

Lease expenses	3.143	2.950
Other operating expenses	3.069	2.817
Total operating expenses	6.212	5.767

8. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

Depreciation of operating assets, see note 11	656	786
Impairment of goodwill, see note 12	0	323
Amortisation of intangible assets, see note 12	32	44
Total depreciation and amortisation	688	1.153

9. Finance income and expense

Finance income and finance expenses are specified as follows:

Interest income on bank deposits and account receivables	188	100
Adjustment of provision	0	171
Net foreign exchange gain	0	515
Total finance income	188	786
Interest expenses and indexation	(721)	(840)
Net foreign exchange loss	(4)	0
Total finance expense	(725)	(840)
Net finance expense	(537)	(54)

Consolidated Financial Statements of Hagar hf. 28 February 2013 17 Amounts are in ISK million

10. Income tax

Income tax recognised in profit or loss

	2012/13	2011/12
Current tax expense	606	343
Deferred tax expense	174	365
Income tax recognised in profit or loss	780	708

Reconciliation of effective tax rate

	2012/13	2011/12
Profit for the year	2.958	2.344
Income tax for the year	780	708
Profit before income tax	3.738	3.052

		2012/13		2011/12
Income tax according to current tax rate	20,0%	(748)	20,0%	(610)
Non-deductable expenses	0,0%	0	3,9%	(118)
Other items	0,9%	(32)	(0,7%)	20
Effective tax rate	20,9%	(780)	23,2%	(708)

Movement in temporary differences 2012/13:

	Balance 29.2.2012	Recognised in profit or loss	Adjustments for previous years	Balance 28.2.2013
Operating assets	(493)	42	0	(451)
Intangible assets	(19)	0	0	(19)
Inventories	(43)	0	0	(43)
Trade and other receivables	(37)	(14)	0	(51)
Trade and other payables	0	6	0	6
Foreign exchange difference	(65)	6	0	(59)
Carrying amount of losses carried forward	234	(214)	5	25
Other items	29	0	0	29
Net tax liability	(394)	(174)	5	(563)

Movement in temporary differences 2011/12:

	Balance 28.2.2011	Recognised in profit or loss	Adjustments for previous years	Balance 29.2.2012
Operating assets	(347)	(146)	0	(493)
Intangible assets	(19)	0	0	(19)
Inventories	14	(57)	0	(43)
Trade and other receivables	(5)	(32)	0	(37)
Trade and other payables	56	(56)	0	0
Foreign exchange difference	28	(93)	0	(65)
Carrying amount of losses carried forward	95	17	122	234
Other items	27	2	0	29
Net tax liability	(151)	(365)	122	(394)

Consolidated Financial Statements of Hagar hf. 28 February 2013 18 Amounts are in ISK million

10. Income tax, contd.:

Tax losses carried forward

Carry forward tax losses at year-end amounted to ISK 443 million (2011/12: ISK 1,427 million). Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

	28.2.2013	29.2.2012
Loss for the year 2004, to be used before end of 2014	0	87
Loss for the year 2005, to be used before end of 2015	88	129
Loss for the year 2006, to be used before end of 2016	236	107
Loss for the year 2007, to be used before end of 2017	47	59
Loss for the year 2008, to be used before end of 2018	62	1.035
Loss for the year 2009, to be used before end of 2019	10	10
	443	1.427
Carry forward tax losses not recognised	(316)	(257)
Carry forward tax losses recognised in income tax assets or liabilities	127	1.170

11. Operating assets

Operating assets and their depreciation is specified as follows:

	Real estate	Fixtures and equipment	Total
Cost			
Balance at 1 March 2011	451	9.080	9.531
Additions	515	433	948
Disposals	0	(17)	(17)
Balance at 29 February 2012	966	9.496	10.462
Additions	473	507	980
Disposals	0	(193)	(193)
Balance at 28 February 2013	1.439	9.810	11.249
Depreciation and impairment losses			
Balance at 1 March 2011	11	4.882	4.893
Depreciation	12	774	786
Disposals	0	(12)	(12)
Balance at 29 February 2012	23	5.644	5.667
Depreciation	19	637	656
Disposals	0	(160)	(160)
Balance at 28 February 2013	42	6.121	6.163
Carrying amounts			
At 1 March 2011	440	4.198	4.638
At 29 February 2012	943	3.852	4.795
At 28 February 2013	1.397	3.689	5.086

Official real estate value and insurance value

Insurance value, official real estate value and carrying amount is specified as follows:

	28.2.2013	29.2.2012
Official real estate value	895	389
Insurance value of buildings	1.681	807
Carrying value of buildings	1.397	943
Insurance value of fixtures and equipment	6.590	7.021
Carrying value of fixtures and equipment	3.689	3.852

Mortgages and pledges

The Group has pledged all its assets as collateral for loans and borrowings.

Consolidated Financial Statements of Hagar hf. 28 February 2013 19 Amounts are in ISK million

12. Intangible assets

The Group's intangible assets are specified as follows:

	Goodwill	Software	Lease rights	Total
Cost				
Balance at 1 March 2011	8.172	400	145	8.717
Acquisitions	0	4	0	4
Balance at 29 February 2012	8.172	404	145	8.721
Acquisitions		11	0	11
Balance at 28 February 2013	8.172	415	145	8.732
Amortisation and impairment losses				
Balance at 1 March 2011	240	229	76	545
Amortisation	0	25	19	44
Impairment of goodwill	323	0	0	323
Balance at 29 February 2012	563	254	95	912
Amortisation	0	18	14	32
Balance at 28 February 2013	563	272	108	943
Carrying amounts				
At 1 March 2011	7.932	171	69	8.172
At 29 February 2012	7.608	151	50	7.809
At 28 February 2013	7.609	143	37	7.789

Impairment tests

Goodwill arising on business combinations is not amortised but is tested for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitors that goodwill.

Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs to sell. Recoverable amounts are based on value in use.

Cash flows were projected based on actual operating results and the 5-year business plan. The anticipated annual nominal revenue growth included in the cash flow projections was from 2.4% up to 3.0% for the years 2013/14 to 2017/18 (2011/12: 1.4% up to 5.9%). The forecasts are extrapolated beyond five years based on estimated long-term average growth rates of 3% (2011/12: 4%).

An after-tax discount rate of 10.8% (2011/12: 11.6%) was applied in determining the recoverable amount of the units. The discount rate was estimated based on an industry average weighted cost of capital, which was based on debt leveraging of average 24.2% (2011/12: 19.0%) at a market interest rate of 6.4% (2011/12: 7.1%). These discount rates are derived from the Group's post-tax weighted average cost of capital as adjusted for the specific risks related to each cash-generating unit.

Consolidated Financial Statements of Hagar hf. 28 February 2013 20 Amounts are in ISK million

13. Inventories

Inventories are specified as follows:

	28.2.2013	29.2.2012
Groceries	3.502	2.730
Non food goods	1.358	1.380
Goods in transit	239	233
Total inventories	5.099	4.343
Inventory write-down at year-end	122	116

14. Trade and other receivables

Trade and other receivables are specified as follows:

Trade receivables	471	359
Other receivables	143	102
Prepaid expenses	106	155
Allowance for bad debt	(40)	(52)
Trade and other receivables	680	564
Customers credit cards	4.113	3.745
Total trade and other receivables	4.793	4.309

15. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Marketable securities	2.400	1.850
Bank balances	489	244
Cash	58	55
Total cash and cash equivalents	2.947	2.149

16. Equity

Issued capital

In millions of shares

On issue at 1 March	1.172	1.172
On issue at 28 February	1.172	1.172

At 28 February 2013, the authorised share capital comprised 1,218 million shares according to the Company's Articles of Association. The Company holds own shares amounting to the nominal value of ISK 46.1 million. One vote is attached to each share. The holders of shares are entitled to receive dividend as declared from time to time at general meetings of the Company.

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. According to the Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Dividends

The Board of Directors proposes that a ISK 0.50 per share dividend shall be paid to shareholders in the year 2013 (2012: ISK 0.45 per share).

17. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the parent by the weighted average outstanding number of shares during the year and shows the earnings per each share.

Basic and diluted earnings per share	2012/13	2011/12
Net profit for the year attributable to equity holders of the parent	2.958	2.344
Weighted average number of ordinary shares:		
Shares at the beginning and the end of the year	1.172	1.172
Weighted average number of ordinary shares	1.172	1.172
Basic and diluted earnings per share	2,52	2,00

18. Loans and borrowings

Loans and borrowings are specified as follows:	28.2.2013	29.2.2012
Non-current loans and borrowings		
Secured bank loans	8.082	9.721
Finance lease liability	193	200
Total loans and borrowing	8.275	9.921
Current loans and borrowings		
Current portion of secured bank loans	650	636
Current portion of finance lease liability	17	15
Total loans and borrowing	667	651
Total interest bearing loans and borrowings	8.942	10.572

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	28.2.2013	29.2.2012		
Debt in ISK, indexed	10,5%	10,5%	210	215
Debt in ISK, non-indexed	7,1%	6,8%	8.732	10.357
Non-current loans and borrowing, incl. current portion			8.942	10.572
Current portion of non-current loans and borrowings			(667)	(651)
Total non-current loans and borrowings			8.275	9.921

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 2012/13	-	651
Repayments in 2013/14	667	667
Repayments in 2014/15	670	669
Repayments in 2015/16	7.454	8.444
Repayments in 2016/17	26	20
Repayments in 2017/18	30	20
Subsequent	95	101
Total	8.942	10.572

Consolidated Financial Statements of Hagar hf. 28 February 2013 22 Amounts are in ISK million

19. Trade and other payables

Trade and other payables are specified as follows:

	28.2.2013	29.2.2012
Trade payables	4.751	4.173
Other payables	1.816	1.385
Incentives from operating leases (see note 21)	43	43
Total trade and other payables	6.610	5.601

20. Provisions and contingencies

At fiscal year-end the provision amounted to ISK 152 million (2011/12: ISK 121 million). The provision at year-end is for onerous leases related to lease liabilities for premises vacated from the Group's operating activities, and to net losses on rent of subleased premises.

The Company has received a payment claim from a competitor for indemnity due to misappropriation of market leading position. The Company has rejected the claim and has not recognised a provision in the balance sheet. This matter is now in the District Court of Reykjanes.

The Company has made a claim in the District Court of Reykjavík on Arion bank hf. due to final settlement of loans in foreign currencies. The claim is in the amount of ISK 825 million. The Company has not recognised any income in the financial statements due to this matter.

21. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	28.2.2013	29.2.2012
Less than one year	2.904	2.955
Between one and five years	9.823	10.211
More than five years	3.822	5.458
Total non-cancellable operating leases	16.549	18.624

The Company leases buildings for its operations. The longest term of lease is until 2023. At the end of February 2013, the obligation in relation to these leases amounted to ISK 16,549 million (2011/12: ISK 18,624 million). The Company has also entered into operating lease agreements regarding machinery, equipment and operating assets.

The remaining incentives from operating leases amounting to ISK 153 million (2011/12: ISK 196 million) will be recognised in profit or loss on a straight-line basis over the next four years.

Consolidated Financial Statements of Hagar hf. 28 February 2013 23 Amounts are in ISK million

22. Financial risk management

a. *Overview*

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market 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 consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

b. *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 and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

At the reporting date there were no significant concentrations of credit risk.

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:

	Notes	28.2.2013	29.2.2012
Trade receivables and other receivables	14	574	409
Trade receivables - customers credit cards	14	4.113	3.745
The maximum exposure to credit risk for trade receivables		4.687	4.154
Cash and cash equivalents	15	2.947	2.149
		7.634	6.303

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

	28.2.2013	29.2.2012
Balance at the beginning of the year	52	48
Changes in provision during the period	(12)	4
Balance at year end	40	52

Consolidated Financial Statements of Hagar hf. 28 February 2013 24 Amounts are in ISK million

22. Financial risk management, contd.:

c. *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

Liquidity risk

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

28 February 2013

Non-derivative financial instruments	Carrying amount	Contractual cash flows	Less than one year	1 - 2 years	2- 5 years	After 5 years
Loans and borrowings	8.732	9.613	1.159	946	7.508	0
Finance lease liability	210	369	39	40	129	161
Trade and other payables	6.610	6.610	6.610			
	15.552	16.592	7.808	986	7.637	161

29 February 2012

Non-derivative financial instruments	Carrying amount	Contractual cash flows	Less than one year	1 - 2 years	2- 5 years	After 5 years
Loans and borrowings	10.357	11.731	1.261	1.094	9.376	0
Finance lease liability	215	418	37	38	127	216
Trade and other payables	5.601	5.601	5.601			
	16.173	17.750	6.899	1.132	9.503	216

d. *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will effect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on purchases that are denominated in a currency other than ISK. The currencies in which these transactions primarily are denominated are Euro (EUR), US Dollar (USD) and Pound sterling (GBP).

Consolidated Financial Statements of Hagar hf. 28 February 2013 25 Amounts are in ISK million

22. Financial risk management, contd.:

(i) Currency risk, contd.;

Exposure to currency risk

The Group’s exposure to foreign currency risk, based on notional amounts, was as follows:

28 February 2013	EUR	USD	GBP	Other
Trade payables	412	45	59	43
29 February 2012				
Trade payables	342	33	58	0

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012/13	2011/12	2012/13	2011/12
EUR	162,49	162,04	164,93	167,00
USD	125,89	117,23	125,84	124,37
GBP	199,72	187,25	190,86	198,22

Sensitivity analysis

A 10 percent weakening of the Icelandic Krona against the following currencies at 28 February 2013 would have decreased post-tax equity and profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011/12.

	Profit or (loss)	
	2012/13	2011/12
EUR	(33)	(27)
USD	(4)	(3)
GBP	(5)	(5)
Other	(3)	0

(ii) Interest rate risk

97.6% of the Group's borrowings carry variable interest rates (2011/12: 98.0%).

Interest rate risk

Interest-bearing financial liabilities are as follows at year end:	28.2.2013	29.2.2012
Financial instruments with fixed interest rate		
Financial liabilities	210	215
Financial instruments with variable interest rate		
Financial liabilities	8.732	10.357

A change of 1% in variable interest rate at the end of the reporting period would have increased (decreased) equity and profit or loss by 70 million ISK (2011/12: 83 million ISK) net of tax.

e. *Capital management*

The Board of Directors' policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board´s policy is to use excess cash generated by the operations to pay dividends, repay interest-bearing borrowings, buy own shares if market value of shares is deemed to be substantially lower than fair value and to buy property for the Company's operations.

The Board´s target is that future annual dividend payments amount to at least ISK 0.45 per share.

Consolidated Financial Statements of Hagar hf. 28 February 2013 26 Amounts are in ISK million

23. Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	28 February 2013 Carrying amount	28 February 2013 Fair value	29 February 2012 Carrying amount	29 February 2012 Fair value
Trade and other receivables	4.687	4.687	4.154	4.154
Cash and cash equivalents	2.947	2.947	2.149	2.149
Loans and borrowings	(8.942)	(8.942)	(10.572)	(10.572)
Trade and other payables	(6.610)	(6.610)	(5.601)	(5.601)
	(7.918)	(7.918)	(9.870)	(9.870)

The basis for determining fair values is disclosed in note 4.

24. Related parties

Identity of related parties

The Company has a related party relationship with its shareholders with significant influence, directors and executive officers. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Shareholders with significant influence

Until the listing of the Company on the Icelandic Stock Exchange on 16 December 2011, Eignarbjarg ehf. was related party through it's majority shareholding in the Company. Transactions with Arion banki hf., the parent company of Eignabjarg ehf., until listing are included in transactions with related parties.

Related party transactions

Salaries and benefits paid to directors and management

Board fee for the year 2012/2013 and shares at year-end	Board fee	Pension contribution	Shares at year-end*
Árni Hauksson, Chairman	6,0	0,5	95,7
Hallbjörn Karlsson, Board Member	3,0	0,2	95,7
Guðbrandur Sigurðsson, Board Member	3,0	0,2	0,0
Kristín Friðgeirsdóttir, Board Member	3,0	0,0	0,0
Erna Gísladóttir, Board Member	3,0	0,2	0,9

	Salary and benefits**	Incentive payments	Share-based transactions	Shares at year-end*
Finnur Árnason, CEO	44,5	28,3	22,5	7,8
Guðrún Eva Gunnarsdóttir, CFO	20,8	4,0	0,0	0,0
Guðmundur Marteinsson, Managing Director	32,9	28,3	22,5	6,6
Gunnar Ingi Sigurðsson, Managing Director	24,7	10,0	11,3	1,2
Kjartan Már Friðsteinsson, Managing Director	28,2	10,0	11,3	2,4
Lárus Óskarsson, Managing Director	21,5	4,0	11,3	1,2

*Shares held directly by directors or parties related to them.
**Salary, pension contribution and car benefits.

Consolidated Financial Statements of Hagar hf. 28 February 2013 27 Amounts are in ISK million

24. Related parties, contd.:

Related party transactions, contd.:

Board fee for the year 2011/2012 and shares at year-end

	Board fee	Pension contribution	Shares at year-end*
Árni Hauksson, Chairman	5,0	0,4	155,0
Hallbjörn Karlsson, Board Member	2,4	0,2	155,0
Guðbrandur Sigurðsson, Board Member	3,0	0,2	0,0
Kristín Friðgeirsdóttir, Board Member	2,4	0,0	0,0
Erna Gísladóttir, Board Member	3,0	0,2	0,9
Steinn Logi Björnsson, Chairman (until May 2011)	1,2	0,1	-
Pétur J. Eiríksson, Board Member (until May 2011)	0,6	0,0	-
Svana Helen Björnsdóttir, Board Member (until May 2011)	0,6	0,0	-

	Salary and benefits**	Incentive payments	Share-based transactions	Shares at year-end*
Finnur Árnason, CEO	43,0	25,0	75,8	7,8
Guðrún Eva Gunnarsdóttir, CFO	20,3	8,0	0,0	0,0
Guðmundur Marteinsson, Managing Director	32,0	25,0	75,8	6,6
Gunnar Ingi Sigurðsson, Managing Director	24,4	3,0	37,9	2,4
Kjartan Már Friðsteinsson, Managing Director	22,2	10,0	37,9	2,4
Lárus Óskarsson, Managing Director	21,0	3,0	37,9	2,4

*Shares held directly by directors or parties related to them.
**Salary, pension contribution and car benefits.

Share-based transactions

During the year 2011, Eignabjarg ehf. which was at the time the parent company of Hagar hf. made an agreement with key management personnel (KMP) of Hagar hf. that entitled them to receive shares in Hagar hf. without any reimbursement. This agreement was a settlement related to an earlier agreement made between Eignabjarg and KMP which KMP agreed to terminate against this reimbursement. The nominal value of shares amounted to ISK 17.0 million. At the signing of the agreement, 7.7 million shares were delivered to KMP. The remaining shares in the nominal amount of 9.4 million were delivered to KMP in February 2012. KMP were obliged to remain in service to 31 July 2012, otherwise the above-mentioned shares should be returned. The shares were delivered to KMP during the period from 15 January to 31 July 2012. In addition Eignabjarg ehf. reimbursed KMP all tax payments levied on them due to this agreement.

Due to this agreement between Eignabjarg ehf. and the Company's KMP, the Company expensed ISK 79 million (2011/12: 265 million) as salary and salary-related expenses through profit and loss with a corresponding positive entry in equity.

The Company will incur no cost or cash outflow as a result of this agreement, as Eignabjarg will fulfil all obligations to KMP under the agreement. The expense entry in profit and loss does not have any effect on the Company's income tax.

Transactions between the Group and other related parties in the statement of comprehensive income, was as follows:

	28.2.2013	29.2.2012
Interest income from Arion banki hf.*	0	71
Fees paid to Arion banki hf.*	0	50
Interest expense to Arion banki hf.*	0	591
Repaid exchange gain of foreign loans	0	515

*Transactions with Arion banki hf. until significant influence was lost on 16 December 2011.

Consolidated Financial Statements of Hagar hf. 28 February 2013 28 Amounts are in ISK million

25. Group entities

At 28 February 2013 the Company's subsidiaries were eight. The subsidiaries included in the consolidated financial statements are the following:

	Place of registration and operation	Ownership interest 28.2.2013	Ownership interest 29.2.2012
Hagar verslanir ehf.	Iceland	100%	100%
Bananar ehf.	Iceland	100%	100%
DBH á Íslandi ehf.	Iceland	100%	100%
Ferskar kjötvörur ehf.	Iceland	100%	100%
Noron ehf.	Iceland	100%	100%
Sólhöfn ehf.	Iceland	100%	100%
Íshöfn ehf.	Iceland	100%	100%
Eignarhaldsfélagið Dagar ehf.	Iceland	100%	100%

The Parent Company has pledged all its shares in the abovementioned subsidiaries as collateral for loans and borrowings.

26. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	**28.2.2013**	**29.2.2012**
Current ratio - Current assets/current liabilities	1,60	1,61
Equity ratio - equity/total capital	34,0%	26,6%
Internal value of share capital	7,45	5,31

Consolidated Financial Statements of Hagar hf. 28 February 2013 29 Amounts are in ISK million

Quarterly statements (unaudited)

Amounts are in ISK million

Year 2012/13	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Sales	17.364	18.205	16.745	19.457	71.771
Cost of goods sold	(13.179)	(13.765)	(12.785)	(14.756)	(54.485)
Gross profit	4.185	4.440	3.960	4.701	17.286
Other operating income	24	52	52	28	156
Salaries and related expenses	(1.570)	(1.475)	(1.518)	(1.704)	(6.267)
Other operating expenses	(1.502)	(1.522)	(1.580)	(1.608)	(6.212)
Results from operating activities before depreciation and amortisation	1.137	1.495	914	1.417	4.963
Depreciation and amortisation	(184)	(181)	(149)	(174)	(688)
Results from operating activities	953	1.314	765	1.243	4.275
Finance income	29	52	46	61	188
Finance expenses	(185)	(197)	(165)	(178)	(725)
Net finance expense	(156)	(145)	(119)	(117)	(537)
Share of profit of associates	0	0	0	0	0
Profit before income tax	797	1.169	646	1.126	3.738
Income tax	(169)	(243)	(137)	(231)	(780)
Comprehensive income for the year	628	926	509	895	2.958

Year 2011/12	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Sales	16.498	17.213	16.187	18.597	68.495
Cost of goods sold	(12.619)	(13.066)	(12.418)	(14.286)	(52.389)
Gross profit	3.879	4.147	3.769	4.311	16.106
Other operating income	30	25	22	26	103
Salaries and related expenses	(1.447)	(1.590)	(1.524)	(1.698)	(6.259)
Other operating expenses	(1.425)	(1.431)	(1.372)	(1.539)	(5.767)
Results from operating activities before depreciation and amortisation	1.037	1.151	895	1.100	4.183
Depreciation and amortisation	(158)	(438)	(180)	(377)	(1.153)
Results from operating activities	879	713	715	723	3.030
Finance income	23	187	546	30	786
Finance expenses	(206)	(235)	(209)	(190)	(840)
Net finance expense	(183)	(48)	337	(160)	(54)
Share of profit of associates	0	0	0	76	76
Profit before income tax	696	665	1.052	639	3.052
Income tax	(139)	(197)	(210)	(162)	(708)
Comprehensive income for the year	557	468	842	477	2.344