Hagar hf.

Consolidated Financial Statements
for Year Ended 28 February 2011
ISK

Hagar hf.
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Iceland

Reg. no. 670203-2120

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Attached document: Spin off balance sheet as at 31 August 2010

Endorsement and Signatures by the Board of Directors and the CEO

Hagar hf. is a retail company and its operation is 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 2011, comprise the consolidated financial statements of the Company and its subsidiaries, together referred to as the "Group".

At the Company's shareholders meeting on 30 August 2010 it was approved to divide Hagar hf. Rekstrarfélag Tíu-ellefu ehf., a company owned by Eignabjarg ehf., took over the operation of the retail stores 10-11. Hagar verslanir ehf., a company owned by Hagar hf., took over the operation of Bónus, Hagkaup, Aðföng, Útilíf and Hýsing vöruhótel. Shareholders received shares in Rekstrarfélag Tíu-ellefu ehf. and Hagar verslanir ehf. for their shares in the Company. The operational separation of the companies was executed on 31 August 2010.

On the basis of a term and revolving facilities agreement dated 16 October 2009 between the Company on the one hand and Arion banki hf. and NBI hf. on the other the Company was refinanced with an ISK 15,000 million loan and a greater part of the loan falls due on 16 October 2011. With an agreement dated 18 November 2010, Arion banki hf. took over NBI hf.'s part of the loan. With an amendment agreement dated 13 April 2011, the Company reached an agreement with Arion banki hf. on the loan term and the final repayment date of the loan was extended until 16 October 2012. The Company may request for an extension of the final repayment date for a maximum period of 24 months. In accordance with the IFRS the repayment dated 16 October 2011 in the amount of ISK 11,481 million is recognized under current liabilities, even though the Company has extended the loan until 16 October 2012.

According to the statement of comprehensive income, profit of the Group for the year amounted to ISK 1,093 million. According to the balance sheet, equity at the end of the fiscal year amounted to ISK 3,612 million.

The Company's share capital amounted to ISK 1,172 million at the end of the fiscal year. Shareholders were four at the beginning and end of the fiscal year. Eignabjarg ehf., a company owned by Arion banki hf. held 99.5% of outstanding shares. The intention of the bank this year is to list the Company's shares on Nasdaq OMX Iceland.

The Board of Directors proposes that no dividends shall be paid to shareholders in the year 2011. Reference is made to the statement of changes in equity regarding information on changes in equity.

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 2011, its assets, liabilities and consolidated financial position as at 28 February 2011 and its consolidated cash flows for the fiscal year ended 28 February 2011 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 2011 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.

Reykjavík, 19 April 2011.

The Board of Directors:

CEO:

Independent Auditor's Report

To the Board of Directors and Shareholders of Hagar hf.

We have audited the accompanying consolidated financial statements of Hagar hf., which comprise the consolidated balance sheet as at 28 February 2011, 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.

Auditor's 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.

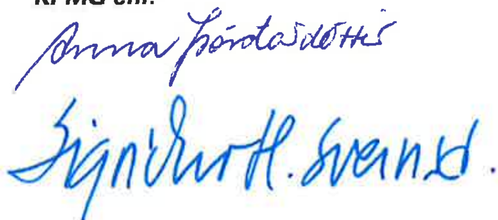
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2011 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, 19 April 2011.

KPMG ehf.



Consolidated Statement of Comprehensive Income for the Year Ended 28 February 2011

	Note	2010/11	2009/10
Sales		66,700	68,278
Cost of goods sold		(50,160)	(51,376)
Gross profit		16,540	16,902
Other operating income	5	94	109
Salaries and related expenses	6	(6,020)	(6,584)
Other operating expenses	7	(6,230)	(6,393)
Results from operating activities before fine, depreciation and amortisation		4,384	4,034
Fine to the Competition Authority	22	(273)	0
Depreciation and amortisation	8	(955)	(732)
		(1,228)	(732)
Results from operating activities		3,156	3,302
Finance income		184	43
Finance expenses		(1,888)	(2,926)
Net finance expense	9	(1,704)	(2,883)
Share of profit (loss) of associates	13	5	(445)
Profit (loss) before income tax		1,457	(26)
Income tax	10	(333)	70
Profit for the year		1,124	44
Other comprehensive income		(31)	0
Comprehensive income for the year		1,093	44

Earnings per share:

	Note	2010/11	2009/10
Basic and diluted earnings per share of ISK 1	19	0.96	0.04

The notes on pages 9 to 27 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet as at 28 February 2011

	Note	28/02/2011	28/02/2010
Assets			
Operating assets	11	4,638	5,340
Intangible assets	12	8,172	9,664
Investments in associates	13	0	578
Deferred tax assets	14	0	154
Total non-current assets		12,810	15,736
Inventories	15	3,936	4,159
Trade and other receivables	16	541	761
Trade receivable - customers' credit cards	16	3,455	3,433
Cash and cash equivalents	17	1,088	475
Total current assets		9,020	8,828
Total assets		21,830	24,564
Equity			
Share capital	18	1,172	1,172
Share premium	18	1,272	1,272
Translation reserve	18	0	31
Retained earnings		1,168	44
Total equity		3,612	2,519
Liabilities			
Subordinated loan	20,25	0	828
Loans and borrowings	20	483	12,548
Incentives from operating leases	23	196	249
Deferred tax liability	14	151	0
Total non-current liabilities		830	13,625
Loans and borrowings	20	11,497	1,141
Trade and other payables	21	5,618	6,963
Provisions	22	273	316
Total current liabilities		17,388	8,420
Total liabilities		18,218	22,045
Total equity and liabilities		21,830	24,564

The notes on pages 9 to 27 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the Year Ended 28 February 2011

	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
Changes in equity from 1 March 2009 to 28 February 2010					
Equity at 1 March 2009	1,189	1,570	31	0	2,790
Comprehensive income for the year				44	44
Own shares acquired	(17)	(298)			(315)
Equity at 28 February 2010	1,172	1,272	31	44	2,519
Changes in equity from 1 March 2010 to 28 February 2011					
Equity at 1 March 2010	1,172	1,272	31	44	2,519
Comprehensive income for the year			(31)	1,124	1,093
Equity at 28 February 2011	1,172	1,272	0	1,168	3,612

The notes on pages 9 to 27 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the Year Ended 28 February 2011

	Note	2010/11	2009/10
Cash flows from operating activities:			
Profit for the year		1,093	44
Adjustments for:			
Net finance expense	9	1,704	2,883
Depreciation	8	955	732
Gain on sale of assets		(7)	(1)
Incentives from operating lease		(62)	(62)
Share of (profit) loss of associates		(5)	445
Income tax		333	(70)
Working capital provided by operating activities		4,011	3,971
Change in current assets		74	450
Change in current liabilities		(903)	489
Cash from operations before interest and taxes		3,182	4,910
Interest received		61	15
Interest paid		(1,768)	(1,698)
Net cash provided by operating activities		1,475	3,227
Cash flows from (to) investing activities:			
Acquisition of intangible assets	12	0	(13)
Acquisition of real estate	11	0	(449)
Acquisition of operating assets	11	(399)	(526)
Proceeds from the sale of shares in other companies		450	0
Restricted cash, decrease (increase)		0	558
Proceeds from the sale of operating assets		64	5
Derivatives, decrease		0	(1,025)
Receivable from related parties, change		1,684	0
Net cash provided by (used in) investing activities		1,799	(1,450)
Cash flows to financing activities:			
Own shares acquired		0	(316)
Proceeds from borrowings		367	13,352
Repayment of borrowings		(2,578)	(12,900)
Short term borrowings, decrease		(450)	(1,758)
Net cash used in financing activities		(2,661)	(1,622)
Net increase in cash and cash equivalents		613	155
Cash and cash equivalents at 1 March		475	320
Cash and cash equivalents at 28 February		1,088	475
Investment and financing activities without cash flow effect:			
Proceeds from the sale of shares in other companies		0	80
Trade and other receivables		0	(80)

The notes on pages 9 to 27 are an integral part of these consolidated financial statements.

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 Skútuvogur 7, Reykjavík, Iceland. The consolidated financial statements of the Company as at and for the year ended 28 February 2011 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 19 April 2011.

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 kronas (ISK), which is the Company's functional currency. All financial information presented in Icelandic kronas 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 effected.

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 22 – 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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3. Significant accounting policies, contd.:

a. *Basis of consolidation, contd.;*

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income, expenses and equity movements of associates from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

(iii) 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, except for difference arising on the retranslation of foreign operation, which are recognised in other comprehensive income and presented in translation reserve in equity. When a foreign operation is disposed of, in full, the cumulative amount in the translation reserve is reclassified to profit or loss as part of the gain or loss on disposal.

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) Share capital

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.

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 a 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 acquire.

Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(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

3. Significant accounting policies, contd.:

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.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, 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.

3. Significant accounting policies, contd.:

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 in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

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, an 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 are reported on a net basis.

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:

* temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reversed in the foreseeable future; and
* taxable temporary differences arising on the initial recognition of goodwill.

3. Significant accounting policies, contd.:

m. Income tax, cont.:

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 March 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

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 acquired in a business combination 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 derivatives 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 income

Other income specifies as follows:

	2010/11	2009/10
Concession rent	18	29
Sold services	76	80
	94	109

6. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2010/11	2009/10
Salaries	4,992	5,631
Pension cost	465	458
Salary-related expenses	563	495
Total salaries and related expenses	6,020	6,584
Average number of employees (full year equivalents)	1,220	1,375
Number of employees at year-end	2,162	2,383

Salaries paid to the Board of Directors and Management amounted to ISK 410 million in 2010/11 (2009/10: ISK 274 million). In May and June 2007, the Company entered into share-based contracts with its executives. The contracts were cash settled in May 2010 with ISK 184 million payment to the executives which had been recognised in previous accounts.

7. Other operating expenses

Other operating expenses are specified as follows:

	2010/11	2009/10
Lease expenses	3,236	3,277
Other operating expenses	2,994	3,116
Total operating expenses	6,230	6,393

8. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2010/11	2009/10
Depreciation of operating assets, see note 11	685	666
Impairment of goodwill	201	0
Amortisation of intangible assets, see note 12	69	66
Depreciation and amortisation recognised in the income statement	955	732

9. Finance income and expense

Finance income and finance expenses are specified as follows:

	2010/11	2009/10
Interest income of bank deposits and account receivables	61	43
A final settlement with Skeljungur hf. (see note 22)	123	0
Total finance income	184	43
Net foreign exchange loss	(53)	(584)
Interest expenses and indexation	(1,835)	(1,830)
Net changes in the fair value of financial assets at fair value	0	(512)
Total finance expense	(1,888)	(2,926)
Net finance expense	(1,704)	(2,883)

10. Income tax

Reconciliation of effective tax rate

		2010/11		2009/10
Profit for the year		1,124		44
Income tax for the year		333		(70)
Profit (loss) before income tax		1,457		(26)
Income tax according to current tax rate	18.0%	(262)	15.0%	4
Non-deductable expenses	10.0%	(146)	(580.8%)	(151)
Non-taxable income	(3.4%)	49	0.0%	0
Effects of change in statutory tax rate	1.2%	(17)	188.5%	49
Deductable loss of shares in other companies	0.0%	0	607.7%	158
Other items	(3.0%)	43	38.5%	10
Effective tax rate	22.8%	(333)	268.9%	70

In December 2010 the Icelandic Parliament approved to increase the income tax rate from 18% to 20% as of 1 January 2011. The effect of the change in the income tax rate is ISK 17 million.

11. Operating assets

Operating assets and their depreciation is specified as follows:	Real estate	Fixtures and equipment	Total
Cost			
Balance at 1 March 2009	35	10,376	10,411
Additions	449	526	975
Disposals	0	(234)	(234)
Balance at 28 February 2010	484	10,668	11,152
Balance at 1 March 2010	484	10,668	11,152
Additions	10	389	399
Disposal through division	0	(771)	(771)
Disposals	(41)	(33)	(74)
Balance at 28 February 2011	453	10,253	10,706
Depreciation and impairment losses			
Balance at 1 March 2009	7	5,375	5,382
Depreciation	1	665	666
Disposals	0	(235)	(235)
Balance at 28 February 2010	8	5,805	5,813
Balance at 1 March 2010	8	5,805	5,813
Depreciation	10	675	685
Disposal through division	0	(414)	(414)
Disposals	(5)	(11)	(16)
Balance at 28 February 2011	13	6,055	6,068
Carrying amounts			
At 1 March 2009	28	5,001	5,029
At 28 February 2010	476	4,864	5,340
At 28 February 2011	440	4,198	4,638

11. Operating assets, contd.:

Official real estate value and insurance value

Insurance value, official real estate value and carrying amount is specified as follows:	28/2/2011	28/2/2010
Official real estate value	140	190
Insurance value of buildings	267	342
Carrying value of buildings	440	476
Insurance value of fixtures and equipment	6,422	7,547
Carrying value of fixtures and equipment	4,198	4,864

Pledged

The Group has pledged all its assets.

12. Intangible assets

The Group's intangible assets are specified as follows:

	Lease rights	Software	Goodwill	Total
Cost				
Balance at 1 March 2009	148	390	9,394	9,932
Acquisitions	0	13	0	13
Balance at 28 February 2010	148	403	9,394	9,944
Balance at 1 March 2010	148	403	9,394	9,945
Disposal through division			(1,222)	(1,222)
Balance at 28 February 2011	148	403	8,172	8,723
Amortisation and impairment losses				
Balance at 1 March 2009	40	136	39	215
Amortisation	17	49	0	66
Balance at 28 February 2010	57	185	39	281
Balance at 1 March 2010	57	185	39	281
Amortisation	22	47	0	69
Impairment of goodwill	-	-	201	201
Balance at 28 February 2011	79	232	240	551
Carrying amounts				
At 1 March 2009	108	254	9,355	9,717
At 28 February 2010	91	218	9,355	9,664
At 28 February 2011	69	171	7,932	8,172

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. In 2010/11, recoverable amounts are based on value in use.

The carrying amount of one unit was determined to be higher than its recoverable amount and an impairmant loss of ISK 201 million was recognised.

12. Intangible assets, contd.:

Impairment tests, contd.:

Csah flow 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 0,9% up to 7% for the years 2011 to 2015. The forecasts are extrapolated beyond five years based on estimated long-term average growth rates of 4%.

An after-tax discount rate of 12.4%-14.28% 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 20% at a marked interest rate of 6.7%-12.4%. 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.

13. Investments in associates

The Group's share of gain in its associate for the year amounted to ISK 5 million (2009/10: loss ISK 445 million).

The Group's investments in associates are specified as follows:

	Ownership	Carrying amount at 28/02/2011	Ownership	Carrying amount at 28/02/2010
Max ehf.	51%	0	51%	-
P/F SMS, Faroe Islands	0%	-	50%	-
		0		578

Summary of financial information for associates, not adjusted for the percentage ownership held by the Group:

	28/02/2011	28/02/2010
Assets	-	3,450
Liabilities	-	(2,176)
Revenue	-	8,397
Expenses	-	(8,865)
Net loss	-	(468)

The shares in P/F SMS were sold for ISK 450 million, see note 25.

14. Deferred tax assets and liabilities

The deferred tax assets and liabilities are specified as follows:

Deferred tax asset at 1 March	154	84
Adjustments for previous years	11	0
Disposal through division	16	0
Calculated income tax for the year	(315)	21
Effects of change in statutory tax rate	(17)	49
Deferred tax (liability) asset at the end of the year	(151)	154

14. Deferred tax assets and liabilities, contd.:

The Group's deferred income tax asset is attributable to the following balance sheet items:

	28/02/2011	28/02/2010
Intangible assets	(19)	(33)
Operating assets	(347)	(359)
Trade and other receivables	9	3
Trade and other payables	56	51
Foreign exchange difference	28	70
Carrying amount of losses carried forward	134	483
Other items	27	(33)
Write-down of tax asset	(39)	(28)
Deferred tax (liability) asset	(151)	154

Movement in temporary differences during the year:

	Balance 28/02/2010	Recognised in profit or loss	Effect of spin-off and other	Balance 28/02/2011
Intangible assets	(33)	14	0	(19)
Operating assets	(359)	(4)	16	(347)
Trade and other receivables	3	6	0	9
Trade and other payables,	51	5	0	56
Foreign exchange difference	70	(42)	0	28
Carrying amount of losses carried forward	483	(361)	12	134
Other items	(33)	60	0	27
Write-down of tax asset	(28)	(11)	0	(39)
Net tax asset	154	(333)	28	(151)

Carry forward tax losses at year-end amounted to ISK 672 million (2009/10: ISK 2,783 million). Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

	28/02/2011	28/02/2010
Loss for the year 2002, to be used before end of 2012	-	28
Loss for the year 2003, to be used before end of 2013	-	28
Loss for the year 2004, to be used before end of 2014	89	26
Loss for the year 2005, to be used before end of 2015	129	854
Loss for the year 2006, to be used before end of 2016	107	241
Loss for the year 2007, to be used before end of 2017	47	47
Loss for the year 2008, to be used before end of 2018	281	492
Loss for the year 2009, to be used before end of 2019	19	1,067
	672	2,783
Carry forward tax losses not recognised	(4)	(172)
Carry forward tax losses recognised in income tax assets or liabilities	668	2,611

15. Inventories

Inventories are specified as follows:

Groceries	2,319	2,551
Speciality goods	1,317	1,315
Goods in transit	300	293
Total inventories	3,936	4,159
Written down of inventories at the end of the year	115	86

16. Trade and other receivables

Trade and other receivables are specified as follows:

	28/02/2011	28/02/2010
Trade receivables	431	515
Other receivables	133	159
Prepaid expenses	25	107
Allowance for bad debt	(48)	(20)
Trade and other receivables	541	761
Customers credit cards	3,455	3,433
Total trade and other receivables	3,996	4,194

17. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	28/02/2011	28/02/2010
Marketable securities	700	0
Cash	259	121
Bank balances	129	354
Cash and cash equivalents in the statement of cash flows	1,088	475

18. Equity

Issued capital

In millions of shares

	28/02/2011	28/02/2010
On issue at 1 March	1,172	1,189
Acquired own shares	0	(17)
On issue at 28 February	1,172	1,172

At 28 February 2011, 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.

Translation reserve

Foreign exchange differences arising on translation of financial statements of foreign associates are recognised directly in a separate component of equity.

Dividends

No dividends was paid to the shareholders of the Company for the year 2010/11 (ISK 0 per share 2009/10).

19. 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	2010/11	2009/10
Net profit for the year attributable to equity holders of the parent	1,124	44
Weighted average number of ordinary shares:		
Shares at the beginning of the year	1,172	1,189
Effect of own shares held	0	(6)
Weighted average number of ordinary shares	1,172	1,183
Basic and diluted earnings per share	0.96	0.04

20. Loans and borrowings

Loans and borrowings are specified as follows:	28/02/2011	28/02/2010
Non-current loans and borrowings		
Secured bank loans	283	12,339
Other loans	200	209
Total loans and borrowing	483	12,548
Subordinated loan	0	828
	483	13,376
Current loans and borrowings		
Current portion of secured bank loans	11,485	680
Current portion of finance lease liability	12	11
Secured bank facility	0	450
Total loans and borrowing	11,497	1,141

Terms and conditions of outstanding loans were as follows:	Weighted average interest rate	Carrying amount	Carrying amount
Debt in ISK, indexed	7.0%	499	636
Debt in ISK, un-indexed	6.6%	11,481	13,879
Debt in JPY		0	1
Debt in CHF		0	1
Non-current loans and borrowing, including current portion		11,980	14,517
Current portion of non-current loans and borrowings		(11,497)	(1,141)
Total non-current loans and borrowings		483	13,376

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 2010/11	-	691
Repayments in 2011/12	11,497	13,062
Repayments in 2012/13	16	71
Repayments in 2013/14	16	58
Repayments in 2014/15	16	58
Repayments in 2015/16	16	-
Subsequent	419	577
Total	11,980	14,517

21. Trade and other payables

Trade and other payables are specified as follows:

	28/02/2011	28/02/2010
Trade payables	4,161	4,550
Payables*	282	282
Other payables	1,121	2,192
Incentives from operating leases (see note 23)	54	62
Total trade and other payables, including derivatives	5,618	7,086

*The Company entered into a forward sale contract with Glitnir Bank hf. where shares in FL Group hf. were sold forward. The expiration date of the contract was in October 2008. In the beginning of October 2008, the Company requested to close the contract with Glitnir Bank hf. At that time the Icelandic Financial Supervisory Authority had taken control of Glitnir Bank hf. and appointed a Resolution committee. Due to this, Glitnir Bank hf. informed the Company that it was unable to close the contract at that time. There is a disagreement between the Company and Glitnir Bank hf. about the amount of the final settlement.

22. Provisions and contingencies

At year-end the provision amounted to ISK 273 million (2009/10: ISK 316 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 provisions at the year-beginning was provision for onerous leases and due to an obligation to pay Skeljungur hf. any compensationary damages that may be imposed on Skeljungur hf. as a result of litigation from former customer of Skeljungur hf. due to its violation of the Icelandic Completion Law. The Company has closed this case with a final payment to Skeljungur hf.

In an agreement dated 23 September 2010 the Company reached a settlement with the Competition Authority in relation to an investigation on the Company's vertical collusion with meat suppliers. The Company agreed to pay an administrative fine to the amount of ISK 270 million, which is expensed in profit or loss.

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 a provision has not been recognised due to this matter.

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	28/02/2011	28/02/2010
Less than one year	2,995	3,013
Between one and five years	8,683	9,734
More than five years	10,949	7,514
	22,627	20,261

The Company leases buildings for its operations. The longest term of lease is until 2023. At the end of February 2011, the obligation in relation to these leases amounted to ISK 22,627 million (2009/10: ISK 20,261 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 249 million (2009/10: ISK 311 million) will be recognised in profit or loss on a straight-line basis over the next four years.

24. 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.

(i) 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	28/02/2011	28/02/2010
Trade receivables and other receivables	16	541	761
Trade receivables - customers credit cards	16	3,455	3,433
The maximum exposure to credit risk for trade receivables		3,996	4,194
Cash and cash equivalents		1,088	475
		5,084	4,669

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

	28/02/2011	28/02/2010
Balance at the beginning of the year	21	134
Receivables written off	0	(123)
Changes in provision during the period	27	10
Balance at year end	48	21

24. 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 2011

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 .	11,768	12,784	11,990	29	87	678
Finance lease liabilities	212	413	38	36	111	228
Trade and other		0				
payables	5,618	5,618	5,618			
	17,598	18,815	17,646	65	198	906

On the basis of a term and revolving facilities agreement dated 16 October 2009 between the Company on the one hand and Arion banki hf. and NBI hf. on the other the Company was refinanced with an ISK 15,000 million loan and a greater part of the loan falls due on 16 October 2011. With an agreement dated 18 November 2010, Arion banki hf. took over NBI hf.'s part of the loan. With an amendment agreement dated 13 April 2011, the Company reached an agreement with Arion banki hf. on the loan term and the final repayment date of the loan was extended until 16 October 2012. The Company may request for an extension of the final repayment date for a maximum period of 24 months.

28 February 2010

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 .	13,847	16,820	2,600	13,876	22	322
Finance lease liabilities	220	380	34	34	102	210
Trade and other						
payables	6,963	6,963	6,963			
Overdraft	450	450	450			
	21,480	24,613	10,047	13,910	124	532

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 and borrowings that are denominated in a currency other than ISK. The currencies in which these transactions primarily are denominated are US Dollar (USD), Euro (EUR), Pound sterling (GBP) and Swedish krona (SEK).

24. 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 2011	**EUR**	**USD**	**GBP**	**SEK**	**Other**
Trade payables	181	3	46	22	12
28 February 2010					
Trade payables	242	44	25	19	12
Loans and borrowings .	0	0	0	0	2
Balance sheet risk	242	44	25	19	14

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2010/11	**2009/10**	**2010/11**	**2009/10**
EUR	158.30	175.88	159.93	174.20
USD	120.12	124.63	115.67	128.01
SEK	16.94	16.79	18.19	17.95
GBP	186.05	198.70	187.97	195.70

A 10 percent weakening of the Icelandic Krona against the above currencies at 28 February 2011 would have decreased profit after tax by ISK 21 million (2009/10: ISK 25 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009/10.

(ii) Interest rate risk

A 95.2% of the Group's borrowings carry variable interest rates (2009/10: 90.8%).

Interest rate risk

Interest-bearing financial liabilities are as follows at year end:	**28/02/2011**	**28/02/2010**
Financial instruments with fixed interest rate		
Financial liabilities	570	1,464
Financial instruments with floating interest rate		
Financial liabilities	11,410	13,053

e. *Capital management*

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

The Company's 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 a sound capital position. Return on equity was 36.7% in the year ended 28 February 2011 (2009/10: 1.7%).

There were no changes in the Company’s approach to capital management during the year and the Company is not obliged to comply with external rules on minimum equity.

24. Financial instruments, cont.:

Fair value

Fair value versus carrying amounts

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

	28 February 2011		28 February 2010	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Trade and other receivables	541	541	761	761
Cash and cash equivalents	1,088	1,088	475	475
Loans and borrowings	(11,980)	(11,980)	(14,067)	(14,067)
Unsecured short-term bank facility	0	0	(450)	(450)
Trade and other payables	(5,618)	(5,618)	(6,963)	(6,963)
	(15,969)	(15,969)	(20,244)	(20,244)

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

25. Related parties

Identity of related parties

The Company has a related party relationship with its parent company, associates, 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. The Company's ultimate owner is Arion banki hf.

Related party transactions

With an agreement, dated 17 November 2010, the Company reached an agreement with its former shareholder, Baugur Group hf., regarding final settlement of the subordinated loan from Baugur Group hf.

With an agreement, dated 25 November 2010, between the Company and EB 1 ehf. (a company own by Eignabjarg ehf.) the Company sold its shares in P/F SMS for ISK 450 million which was paid upon the signing of the agreement.

Payable to related parties at year-end, was as follows:

	28/02/2011	28/02/2010
Arion banki hf.	(11,481)	(6,437)

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

	28/02/2011	28/02/2010
Interest income from Arion banki hf.	28	0
Fees paid to Arion banki hf.	4	0
Interest expense to Arion banki hf.	811	324

26. Group entities

At 28 February 2011 the Company's subsidiaries were eight. The subsidiaries included in the consolidated financial statements are the following:

	Place of registration and operation	Ownership interest 28/02/2011	28/02/2010
Hagar verslanir ehf.	Iceland	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%

At the Company's shareholders meeting on 30 August 2010 it was approved to divide Hagar hf. Rekstrarfélag Tíu-ellefu ehf., a company owned by Eignarbjarg ehf., took over the operation of the retail stores 10-11. Hagar verslanir ehf., a company owned by Hagar hf., took over the operation of Bónus, Hagkaup, Aðföng, Útilíf and Hýsing vöruhótel. Shareholders received shares in Rekstrarfélag Tíu-ellefu ehf. and Hagar verslanir ehf. for their shares in the Company. The operational separation of the companies was executed on 31 August 2010.

The Parent Company has pledged all its shares in the abovementioned subsidiaries.

27. Financial Ratios

The Group's primary financial ratios are as follows:

Balance sheet:	**28/02/2011**	**28/02/2010**
Current ratio - Current assets/current liabilities	0.52	1.05
Equity ratio - equity/total capital	16.5%	10.3%
Internal value of share capital	3.08	2.15

Spin-off Balance Sheet as at 31 August 2010

Amounts are in ISK million

	Hagar hf. parent 31/08/2010	Rekstrar-félag Tíu-ellefu ehf.	Hagar - verslanir ehf.	Hagar hf. parent 31/08/2010
Assets				
Operating assets	4,592	357	3,739	496
Intangible assets	7,803	1,222	5,357	1,224
Investments in subsidiaries	3,449	0	0	3,449
Investments in associates	450	0	0	450
Investments in other companies	0	0	0	0
Deferred tax assets	117	(16)	(277)	410
Non-current assets	16,411	1,563	8,819	6,029
Inventories	3,693	182	3,511	0
Trade receivables	123	11	111	1
Trade receivable - customers´credit cards	3,659	169	3,490	0
Other receivable	461	6	195	260
Receivable from related parties				11,859
Cash and cash equivalents	334	19	169	146
Current assets	8,270	387	7,476	12,266
Total assets	24,681	1,950	16,295	18,295
Equity				
Share capital	1,171.6	0.05	0.05	1,171.5
Share premium	1,272	0	0	1,272
Translation reserve	31	0	0	31
Retained earnings	514	0	0	514
Total equity	2,989	0	0	2,989
		0		
Liabilities				
Loans and borrowings	12,646	0	206	12,440
Subordinated loan from Baugur Group hf.	828	0	0	828
Incentives from operating leases	118	0	118	0
Total non-current liabilities	13,592	0	324	13,268
Loans and borrowings	680	0	0	680
Trade and other payables	5,937	205	4,374	1,358
Payables to related parties	1,483	1,745	11,597	(11,859)
Receivable from related parties				11,859
Total current liabilities	8,100	1,950	15,971	2,038
Total liabilities	21,692	1,950	16,295	15,306
Total equity and liabilities	24,681	1,950	16,295	18,295