Hagar hf.

Consolidated Financial Statements
for Year Ended 29 February 2012
ISK

Hagar hf.
Hagasmára 1
201 Kópavogi
Iceland

Reg. no. 670203-2120

Contents

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 29 February 2012, 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 2,344 million. According to the balance sheet, equity at the end of the fiscal year amounted to ISK 6,221 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, from 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 four at the beginning of the fiscal year and 2,013 at the end of the fiscal year. Two shareholders held over 10% of share capital at year-end, Eignabjarg ehf. with 19.3% share and Búvellir slhf. with 12.7% share.

The Board of Directors will propose to the 2012 Annual General Meeting that a ISK 0.45 per share dividend shall be paid to shareholders in the year 2012. 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.

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.

Internal control and risk management consists of monitoring the Company's operation in order to prevent and detect possible errors or fraud by the Company's suppliers, employees and customers. The Company operates a special security department with employees specialised in monitoring the operation of the Company's stores. The Company has a full-time employee responsible for internal control and verifying of whether the appropriate working procedures are complied with in the daily operation of the Company. 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 24.

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 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 2011/12. 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 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 29 February 2012, its assets, liabilities and consolidated financial position as at 29 February 2012 and its consolidated cash flows for the fiscal year ended 29 February 2012 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 29 February 2012 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, 10 May 2012

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., which comprise the consolidated balance sheet as at 29 February 2012, 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 29 February 2012 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, 10 May 2012.

KPMG ehf.

Símon Á. Gunnarsson

Sigríður H. Sveinsdóttir

Consolidated Statement of Comprehensive Income for the Year Ended 29 February 2012

	Note	2011/12	2010/11
Sales		68.495	66.700
Cost of goods sold		(52.389)	(50.160)
Gross profit		16.106	16.540
Other operating income	5	103	94
Salaries and related expenses	6	(6.259)	(6.020)
Other operating expenses	7	(5.767)	(6.230)
Results from operating activities before fine, depreciation and amortisation		4.183	4.384
Fine to the Competition Authority		0	(273)
Depreciation and amortisation	8	(1.153)	(955)
		(1.153)	(1.228)
Results from operating activities		3.030	3.156
Finance income		786	184
Finance expenses		(840)	(1.888)
Net finance expense	9	(54)	(1.704)
Share of profit of associates	13	76	5
Profit before income tax		3.052	1.457
Income tax	10	(708)	(333)
Profit for the year		2.344	1.124
Other comprehensive income		0	(31)
Comprehensive income for the year		2.344	1.093

Earnings per share:

	Note	2011/12	2010/11
Basic and diluted earnings per share of ISK 1	19	2,00	0,96

The notes on pages 10 to 30 are an integral part of these consolidated financial statements.

Financial Statements of Hagar hf. 29 February 2012 6 Amounts are in ISK million

Consolidated Balance Sheet as at 29 February 2012

	Note	29.2.2012	28.2.2011
Assets			
Operating assets	11	4.795	4.638
Intangible assets	12	7.809	8.172
Total non-current assets		12.604	12.810
Inventories	15	4.343	3.936
Trade and other receivables	16	564	541
Trade receivable - customers' credit cards	16	3.745	3.455
Cash and cash equivalents	17	2.149	1.088
Total current assets		10.801	9.020
Total assets		23.405	21.830
Equity			
Share capital	18	1.172	1.172
Share premium	18	1.272	1.272
Retained earnings		3.777	1.168
Total equity		6.221	3.612
Liabilities			
Loans and borrowings	20	9.921	483
Incentives from operating leases	23	153	196
Deferred tax liability	14	394	151
Total non-current liabilities		10.468	830
Loans and borrowings	20	651	11.497
Trade and other payables	21	5.944	5.618
Provisions	22	121	273
Total current liabilities		6.716	17.388
Total liabilities		17.184	18.218
Total equity and liabilities		23.405	21.830

The notes on pages 10 to 30 are an integral part of these consolidated financial statements.

Financial Statements of Hagar hf. 29 February 2012 7 Amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year Ended 29 February 2012

	Note	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
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
Changes in equity from 1 March 2011 to 29 February 2012						
Equity at 1 March 2011		1.172	1.272	0	1.168	3.612
Share-based transactions	25				265	265
Comprehensive income for the year					2.344	2.344
Equity at 29 February 2012		1.172	1.272	0	3.777	6.221

The notes on pages 10 to 30 are an integral part of these consolidated financial statements.

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Consolidated Statement of Cash Flows
for the Year Ended 29 February 2012

	Note	2011/12	2010/11
Cash flows from operating activities:			
Profit for the year		2.344	1.093
Adjustments for:			
Net finance expense	9	54	1.704
Depreciation and amortisation	8	1.153	955
Gain on sale of assets		(7)	(7)
Incentives from operating lease		(54)	(62)
Share of profit of associates	13	(76)	(5)
Share based expense		265	0
Income tax		708	333
Working capital provided by operating activities		4.387	4.011
Change in current assets		(931)	74
Change in current liabilities		230	(903)
Cash from operations before interest and taxes		3.686	3.182
Interest received		94	61
Foreign exchange gain received		515	0
Interest paid		(743)	(1.768)
Taxes paid		(125)	0
Net cash provided by operating activities		3.427	1.475
Cash flows (to) from investing activities:			
Acquisition of intangible assets	12	(4)	0
Acquisition of real estate	11	(515)	0
Acquisition of operating assets	11	(433)	(399)
Proceeds from the sale of shares in other companies		0	450
Proceeds from the sale of operating assets		14	64
Repayment from associates	13	76	0
Receivable from related parties, change		0	1.684
Net cash (used in) provided by investing activities		(862)	1.799
Cash flows to financing activities:			
Proceeds from borrowings		18	367
Repayment of borrowings		(1.522)	(2.578)
Short term borrowings, decrease		0	(450)
Net cash used in financing activities		(1.504)	(2.661)
Net increase in cash and cash equivalents		1.061	613
Cash and cash equivalents at the beginning of the year		1.088	475
Cash and cash equivalents at the end of the year		2.149	1.088

The notes on pages 10 to 30 are an integral part of these consolidated financial statements.

Financial Statements of Hagar hf. 29 February 2012 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 29 February 2012 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 10 May 2012.

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.

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.

3. Significant accounting policies, contd.:

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 an increase in equity, and the resulting surplus or deficit on the transaction is included or deducted from share premium.

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 subsdiary at the day of acquistion.

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.

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 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.

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.

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 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.

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

The Company has adopted all IFRSs, interpretations and amendments to existing standards that are applicable for annual periods beginning after 1 March 2011 and relevant to the Company. The Company has not adopted early any IFRSs, interpretations or amendments.

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 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.

Notes, contd.:

5. Other income

Other income specifies as follows:

	2011/12	2010/11
Concession rent	10	18
Sold services	93	76
	103	94

6. Salaries and related expenses

Salaries and related expenses are specified as follows:

Salaries	5.002	4.992
Pension cost	437	465
Share-based payment transactions (see note 25)	265	0
Other salary-related expenses	555	563
Total salaries and related expenses	6.259	6.020
Average number of employees (full year equivalents)	1.189	1.220
Number of employees at year-end	2.117	2.162

7. Other operating expenses

Other operating expenses are specified as follows:

Lease expenses	2.950	3.236
Other operating expenses	2.817	2.994
Total operating expenses	5.767	6.230

8. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

Depreciation of operating assets, see note 11	786	685
Impairment of goodwill, see note 11	323	201
Amortisation of intangible assets, see note 12	44	69
Depreciation and amortisation recognised in the income statement	1.153	955

9. Finance income and expense

Finance income and finance expenses are specified as follows:

Interest income of bank deposits and account receivables	100	61
A final settlement with Skeljungur hf.	0	123
Adjustment of provision	171	0
Net foreign exchange gain	515	0
Total finance income	786	184
Net foreign exchange loss	0	(53)
Interest expenses and indexation	(840)	(1.835)
Total finance expense	(840)	(1.888)
Net finance expense	(54)	(1.704)

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10. Income tax

Reconciliation of effective tax rate

		2011/12		2010/11
Profit for the year		2.344		1.124
Income tax for the year		708		333
Profit before income tax		3.052		1.457
Income tax according to current tax rate	20,0%	(610)	18,0%	(262)
Non-deductable expenses	3,9%	(118)	10,0%	(146)
Non-taxable income	0,0%	0	(3,4%)	49
Effects of change in statutory tax rate	0,0%	0	1,2%	(17)
Other items	(0,7%)	20	(3,0%)	43
Effective tax rate	23,2%	(708)	22,8%	(333)

11. Operating assets

Operating assets and their depreciation is specified as follows:	Real estate	Fixtures and equipment	Total
Cost			
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
Balance at 1 March 2011	453	10.253	10.706
Additions	515	433	948
Disposals	0	(17)	(17)
Balance at 29 February 2012	968	10.669	11.637
Depreciation and impairment losses			
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
Balance at 1 March 2011	13	6.055	6.068
Depreciation	12	774	786
Disposals	0	(12)	(12)
Balance at 29 February 2012	25	6.817	6.842
Carrying amounts			
At 1 March 2010	476	4.864	5.340
At 28 February 2011	440	4.198	4.638
At 29 February 2012	943	3.852	4.795

Financial Statements of Hagar hf. 29 February 2012 18 Amounts are in ISK million

11. Operating assets, contd.:

Official real estate value and insurance value

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

	29.2.2012	28.2.2011
Official real estate value	389	140
Insurance value of buildings	807	267
Carrying value of buildings	943	440
Insurance value of fixtures and equipment	7.021	6.422
Carrying value of fixtures and equipment	3.852	4.198

Mortgages and pledges

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 2010	148	403	9.394	9.945
Disposal through division	0	0	(1.222)	(1.222)
Balance at 28 February 2011	148	403	8.172	8.723
Balance at 1 March 2011	148	403	8.172	8.723
Acquisitions	0	4		4
Balance at 29 February 2012	148	407	8.172	8.727
Amortisation and impairment losses				
Balance at 1 March 2010	57	185	39	281
Amortisation	22	47	0	69
Impairment of goodwill	0	0	201	201
Balance at 29 February 2011	79	232	240	551
Balance at 1 March 2011	79	232	240	551
Amortisation	19	25	0	44
Impairment of goodwill	0	0	323	323
Balance at 29 February 2012	98	257	563	918
Carrying amounts				
At 1 March 2010	91	218	9.355	9.664
At 28 February 2011	69	171	7.932	8.172
At 29 February 2012	50	151	7.608	7.809

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 2011/12, 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 impairment loss of ISK 323 million was recognised.

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12. Intangible assets, contd.:

Impairment tests, contd.:

Cash 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 -13.8% up to 5.9% for the years 2012/2013 to 2016/17. The forecasts are extrapolated beyond five years based on estimated long-term average growth rates of 4%.

An after-tax discount rate of 11.6%-12.98% 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 19% at a marked interest rate of 7.1%-13%. 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 Company owns 50% share in M50 ehf. M50 ehf. is dormant and owns no assets and it's only liability is a loan from Hagar hf. During the year, M50 ehf. received ISK 76.5 million from Landsbankinn hf. due to a recalculation of foreign currency denominated loans that the company had settled. The repayment was used to pay down the loan from Hagar hf. As Hagar hf. had previously written-down the loan, ISK 76.5 million is recognised as a share of profit of an associate.

14. Deferred tax assets and liabilities

The deferred tax assets and liabilities are specified as follows:	**29.2.2012**	**28.2.2011**
Deferred tax asset (liability) at 1 March	(151)	154
Adjustments for previous years	122	11
Disposal through division	0	16
Calculated income tax for the year	(708)	(315)
Income tax payable	343	0
Effects of change in statutory tax rate	0	(17)
Deferred tax liability at the end of the year	(394)	(151)

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14. Deferred tax assets and liabilities, contd.:

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

	29.2.2012	28.2.2011
Operating assets	(493)	(347)
Intangible assets	(19)	(19)
Inventories	(43)	14
Trade and other receivables	(37)	(5)
Trade and other payables	0	56
Foreign exchange difference	(65)	28
Carrying amount of losses carried forward	234	95
Other items	29	27
Deferred tax liability	(394)	(151)

Movement in temporary differences during the year:	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)

Carry forward tax losses at year-end amounted to ISK 1,427 million (2010/11: ISK 672 million). Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

	29.2.2012	28.2.2011
Loss for the year 2004, to be used before end of 2014	87	89
Loss for the year 2005, to be used before end of 2015	129	129
Loss for the year 2006, to be used before end of 2016	107	107
Loss for the year 2007, to be used before end of 2017	59	47
Loss for the year 2008, to be used before end of 2018	1.045	281
Loss for the year 2009, to be used before end of 2019	0	19
	1.427	672
Carry forward tax losses not recognised	(257)	(4)
Carry forward tax losses recognised in income tax assets or liabilities	1.170	668

15. Inventories

Inventories are specified as follows:

Groceries	2.730	2.319
Non food goods	1.380	1.317
Goods in transit	233	300
Total inventories	4.343	3.936
Inventory write-down at year-end	116	115

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16. Trade and other receivables

Trade and other receivables are specified as follows:

	29.2.2012	28.2.2011
Trade receivables	359	431
Other receivables	102	133
Prepaid expenses	155	25
Allowance for bad debt	(52)	(48)
Trade and other receivables	564	541
Customers credit cards	3.745	3.455
Total trade and other receivables	4.309	3.996

17. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Marketable securities	1.850	700
Cash	163	259
Bank balances	136	129
Cash and cash equivalents in the statement of cash flows	2.149	1.088

18. Equity

Issued capital

In millions of shares

On issue at 1 March	1.172	1.172
On issue at 29 February	1.172	1.172

At 29 February 2012, 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

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

The Board of Directors proposes that a ISK 0.45 per share dividend shall be paid to shareholders in the year 2012 (ISK: 0 per share 2011).

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	**2011/12**	**2010/11**
Net profit for the year attributable to equity holders of the parent	2.344	1.124
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	2,00	0,96

20. Loans and borrowings

Loans and borrowings are specified as follows:	**29.2.2012**	**28.2.2011**
Non-current loans and borrowings		
Secured bank loans	9.721	283
Finance lease liability	200	200
Total loans and borrowing	9.921	483
Current loans and borrowings		
Current portion of secured bank loans	636	11.485
Current portion of finance lease liability	15	12
Total loans and borrowing	651	11.497

Terms and conditions of outstanding loans were as follows:	**Weighted average interest rate**	**Carrying amount**	**Carrying amount**
Debt in ISK, indexed	10,0%	215	499
Debt in ISK, non-indexed	6,8%	10.357	11.481
Non-current loans and borrowing, including current portion		10.572	11.980
Current portion of non-current loans and borrowings		(651)	(11.497)
Total non-current loans and borrowings		9.921	483

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 2011/12	-	11.497
Repayments in 2012/13	651	16
Repayments in 2013/14	667	16
Repayments in 2014/15	669	16
Repayments in 2015/16	8.444	16
Repayments in 2016/17	20	-
Subsequent	121	419
Total	10.572	11.980

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21. Trade and other payables

Trade and other payables are specified as follows:

	29.2.2012	28.2.2011
Trade payables	4.173	4.161
Payables*	0	282
Income tax payable	343	-
Other payables	1.385	1.121
Incentives from operating leases (see note 23)	43	54
Total trade and other payables, including derivatives	5.944	5.618

*The Company entered into a forward sale contract where shares in FL Group hf. were sold forward. The expiration date of the contract was in October 2008. The disagreement between the Company and the counterparty was settled during the year.

22. Provisions and contingencies

At fiscal year-end the provision amounted to ISK 121 million (2010/11: ISK 273 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 a provision has not been recognised due to this matter.

The Company has made a claim on Arion bank hf. due to final settlement of loans in foreign currency. The claim is in the amount of ISK 824.8 million. The Company has not recogniced any income in these financial statements due to this matter.

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	29.2.2012	28.2.2011
Less than one year	2.955	2.995
Between one and five years	10.211	8.683
More than five years	5.458	10.949
	18.624	22.627

The Company leases buildings for its operations. The longest term of lease is until 2023. At the end of February 2012, the obligation in relation to these leases amounted to ISK 18,624 million (2010/11: ISK 22,627 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 196 million (2010/11: ISK 249 million) will be recognised in profit or loss on a straight-line basis over the next three years.

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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	29.2.2012	28.2.2011
Trade receivables and other receivables	16	564	541
Trade receivables - customers credit cards	16	3.745	3.455
The maximum exposure to credit risk for trade receivables		4.309	3.996
Cash and cash equivalents		2.149	1.088
		6.458	5.084

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

Balance at the beginning of the year	48	21
Changes in provision during the period	4	27
Balance at year end	52	48

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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:

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 liabilities ...	215	418	37	38	127	216
Trade and other payables	5.944	5.944	5.944			
	16.516	18.093	7.242	1.132	9.503	216

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 payables	5.618	5.618	5.618			
	17.598	18.815	17.646	65	198	906

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).

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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:

29 February 2012	EUR	USD	GBP	Other
Trade payables	342	33	58	0
28 February 2011				
Trade payables	181	3	46	34

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011/12	2010/11	2011/12	2010/11
EUR	162,04	158,30	167,00	159,93
USD	117,23	120,12	124,37	115,67
GBP	187,25	186,05	198,22	187,97

Sensitivity analysis

A 10 percent weakening of the Icelandic Krona against the following currencies at 29 February 2012 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 2010/11.

	Equity		Profit or (loss)	
	29.2.2012	28.2.2011	2011/12	2010/11
EUR	(27)	(14)	(27)	(14)
USD	(3)	0	(3)	0
GBP	(5)	(4)	(5)	(4)
Other	0	(3)	0	(3)

(ii) Interest rate risk

98.0% of the Group's borrowings carry variable interest rates (2010/11: 95.2%).

Interest rate risk

Interest-bearing financial liabilities are as follows at year end:	29.2.2012	28.2.2011
Financial instruments with fixed interest rate		
Financial liabilities	215	570
Financial instruments with floating interest rate		
Financial liabilities	10.357	11.410

e. Capital management

The Boards 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.

Financial Statements of Hagar hf. 29 February 2012 27 Amounts are in ISK million

24. Financial instruments, contd.:

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:

	29 February 2012		28 February 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	564	564	541	541
Cash and cash equivalents	2.149	2.149	1.088	1.088
Loans and borrowings	(10.572)	(10.572)	(11.980)	(11.980)
Trade and other payables	(5.944)	(5.944)	(5.618)	(5.618)
	(13.803)	(13.803)	(15.969)	(15.969)

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 shareholders with significant influence, 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.

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. Shareholder with significant influence at fiscal year-end is Búvellir slhf as the company has two Board members.

Related party transactions

Salaries and benefits paid to directors and management

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.

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25. Related parties, contd.:

Related party transactions, contd.:

Share-based transactions

During the year, Eignabjarg ehf. which was at the time the parent company of Hagar hf. finished an agreement with key management personnel (KMP) of Hagar hf. that entitles 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 amounts to 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 are obliged to remain in service to 31 July 2012, otherwise the above-mentioned shares shall be returned. The shares will be delivered to KMP during the period 15 January - 31 July 2012. In addition Eignabjarg ehf. will reimburse 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 265 million as salary and salary-related expenses through profit and loss with a corresponding positive entry in equity. The fair value of the agreement at the agreement date amounts to 344.3 million ISK and the Company will account for the remaining amount in the same manner during in the year 2012.

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:

	29.2.2012	28.2.2011
Interest income from Arion banki hf.*	71	28
Fees paid to Arion banki hf.*	50	4
Interest expense to Arion banki hf.*	591	811
Repaid exchange gain of foreign loans	515	0

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

Transactions with associates are disclosed in note 13.

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

	29.2.2012	28.2.2011
Arion banki hf.	-	(11.481)

26. Group entities

At 29 February 2012 the Company’s subsidiaries were eight. The subsidiaries included in the consolidated financial statements are the following:

	Place of registration and operation	Ownership interest 29.2.2012	Ownership interest 28.2.2011
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.

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27. Change in group entities

On 31 August 2010, Rekstrarfélag Tíu-ellefu ehf., a company at that time owned by Eignabjarg ehf., took over the operations of the retail stores of 10-11. The operating results of 10-11 for the period 1 March to 31 August 2010 are included in the prior year results.

28. Financial Ratios

The Group's primary financial ratios are as follows:

Balance sheet:	**29.2.2012**	**28.2.2011**
Current ratio - Current assets/current liabilities	1,61	0,52
Equity ratio - equity/total capital	26,6%	16,5%
Internal value of share capital	5,31	3,08

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Quarterly statements (unaudited)

Amounts are in ISK million

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 fine, depreciation and amortisation	1.037	1.151	895	1.100	4.183
Fine to the Competition Authority	0	0	0	0	0
Depreciation and amortisation	(158)	(438)	(180)	(377)	(1.153)
	(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)
Profit for the year	557	468	842	477	2.344
Other comprehensive income	0	0	0	0	0
Comprehensive income for the year	557	468	842	477	2.344

Year 2010/11	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Sales	16.531	17.276	15.363	17.530	66.700
Cost of goods sold	(12.449)	(12.879)	(11.580)	(13.252)	(50.160)
Gross profit	4.082	4.397	3.783	4.278	16.540
Other operating income	32	17	22	23	94
Salaries and related expenses	(1.564)	(1.528)	(1.400)	(1.528)	(6.020)
Other operating expenses	(1.552)	(1.468)	(1.448)	(1.762)	(6.230)
Results from operating activities before fine, depreciation and amortisation	998	1.418	957	1.011	4.384
Fine to the Competition Authority	0	(270)	0	(3)	(273)
Depreciation and amortisation	(192)	(267)	(170)	(326)	(955)
	(192)	(537)	(170)	(329)	(1.228)
Results from operating activities	806	881	787	682	3.156
Finance income	10	191	64	(81)	184
Finance expenses	(436)	(821)	(464)	(167)	(1.888)
Net finance expense	(426)	(630)	(400)	(248)	(1.704)
Share of profit of associates	0	0	0	5	5
Profit before income tax	380	251	387	439	1.457
Income tax	(68)	(93)	(70)	(102)	(333)
Profit for the year	312	158	317	337	1.124
Other comprehensive income	0	0	0	(31)	(31)
Comprehensive income for the year	312	158	317	306	1.093