

Icelandic Group hf.
Consolidated Financial Statements
Year Ended 31 December 2013
in euro

Icelandic Group hf.
Borgartún 27
105 Reykjavík
Iceland
Reg. no. 461296-2119

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Endorsement and Statement by the Board of Directors and the CEO

Icelandic Group hf. is a holding company for manufacturing and marketing companies specialising in seafood on international markets.

Icelandic Group's consolidated financial statements for the year 2013 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial statements comprise the consolidated financial statements of Icelandic Group hf. (the "Company") and its subsidiaries (the "Group"), which were 15 at 31 December 2013.

Operations in 2013

According to the statement of comprehensive income total comprehensive income amounted to € 0.9 million for the year. The Group's income from operations amounted to € 591.8 million for the year. According to the statement of financial position total assets at year end amounted to € 277.2 million and equity amounted to € 130.1 million. The equity ratio of the Group was 46.9%.

The average number of full time employees was 1,801 in 2013. Total salaries and salary-related expenses were € 56.4 million.

The goodwill of the Group was tested for impairment at year-end by calculating its recoverable amount. The results of these impairment tests were that there was no impairment as the recoverable amount of the goodwill was above book value. Further information is disclosed in note 21.

Following a strategic review of operations, a subsidiary of Icelandic Group hf., Icelandic Seachill Ltd., UK, has decided to withdraw from Ready Meals production at its West site facility. As a result an asset write down specifically related to the Ready Meals production of € 1.8 million was included within the year 2013.

The Board of Directors will submit a proposal to the Annual General Meeting that no dividend will be paid to shareholders. Reference is made to the financial statements regarding deployment of net profit and other changes in equity.

Acquisition of subsidiaries

In January 2014 Icelandic Group hf. acquired the assets and operations of a fresh fish producer in Iceland, Ný-Fiskur hf., and at end of February the Company signed a Share Purchase Agreement of acquiring a fishing company in Iceland, Útgerðarfélag Sandgerðis ehf. The Share Purchase Agreement is expected to be executed in March 2014.

Share capital and Articles of Association

Shareholders at the year end numbered two. Majority shareholder is Framtakssjóður Íslands slhf. reg. no. 651109-0510, which owns 99.99% of the shares and Icelandic Group Investments ehf., reg. no. 520612-0760. Further information on matters related to share capital is disclosed in note 25.

The Company's Board of Directors comprise five members elected on the annual general meeting for a term of one year. 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. A 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.

Statement by the Board of Directors and the CEO

The annual consolidated financial statements for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements.

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

According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Company for the financial year 2013, its assets, liabilities and consolidated financial position as at 31 December 2013 and its consolidated cash flows for the financial year 2013.

Further, in our opinion the consolidated financial statements and the endorsement of 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 Icelandic Group hf. for the year 2013 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements will be approved at the annual general meeting of Icelandic Group hf.

Reykjavík, 12 March 2014.

Board of Directors:

Herdís Dröfn Fjeldsted

Árni Geir Pálsson

Ingunn Björk Vilhjálmsdóttir

Vilhjálmur Egilsson

Ævar Agnarsson

CEO:

Magnús Bjarnason

Independent Auditors' Report

To the Board of Directors and Shareholders of Icelandic Group hf.

We have audited the accompanying consolidated financial statements of Icelandic Group hf., which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Icelandic Group hf. as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 104, Paragraph 2 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, 12 March 2014.

KPMG ehf.

Sæmundur Valdimarsson

Margret G. Flóvenz

Consolidated Statement of Comprehensive Income for the year 2013

	Notes	2013	2012
Sales	9	591.847	566.519
Cost of goods sold		(526.842)	(510.403)
Gross profit		65.005	56.116
Operating expenses	10	(56.976)	(51.649)
Impairment losses on operating assets	12	(1.811)	0
Operating profit		6.218	4.467
Finance income		1.857	1.580
Finance costs		(3.416)	(5.047)
Net finance costs	13	(1.559)	(3.467)
Profit before income tax		4.659	1.000
Income tax	14,15	(2.392)	(662)
Profit for the year		2.267	338
Other Comprehensive Income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operation		(1.381)	319
Total comprehensive income for the year		886	657
Profit for the year attributable to			
Equity holders of the Company		2.267	338
Total comprehensive income attributable to			
Equity holders of the Company		886	657
Earnings per share			
Basic and diluted earnings per share (each share is 1 Icelandic króna)	28	0,0016	0,0002

The notes on pages 11 to 35 are integral part of these financial statements

Consolidated Statement of Financial Position as at 31 December 2013

	Notes	2013	2012
Assets			
Property, plant and equipment	16-20	40.144	43.780
Intangible assets	21	55.491	57.028
Other investments	22	1.468	1.614
Deferred tax assets	31	1.139	1.876
Total non-current assets		<u>98.242</u>	<u>104.298</u>
Inventories	23	65.506	70.981
Trade and other receivables	24	66.898	67.466
Restricted cash		0	14.174
Cash and cash equivalents		46.552	35.644
Total current assets		<u>178.956</u>	<u>188.265</u>
Total assets		<u><u>277.198</u></u>	<u><u>292.563</u></u>
Equity			
Share capital	25	8.050	8.050
Share premium	26	78.054	78.054
Translation reserve	27	1.699	3.080
Retained earnings		42.265	39.998
Total equity		<u>130.068</u>	<u>129.182</u>
Liabilities			
Loans and borrowings	29,30	35.986	43.702
Deferred income tax liability	31	2.732	3.778
Total non-current liabilities		<u>38.718</u>	<u>47.480</u>
Loans and borrowings	29,30	26.270	31.398
Trade and other payables	32	82.142	84.503
Total current liabilities		<u>108.412</u>	<u>115.901</u>
Total liabilities		<u>147.130</u>	<u>163.381</u>
Total equity and liabilities		<u><u>277.198</u></u>	<u><u>292.563</u></u>

The notes on pages 11 to 35 are integral part of these financial statements

Consolidated Statement of Changes in Equity for the year 2013

	Notes	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
Changes in equity in 2012						
Equity as at 1.1.2012		11.169	108.296	2.761	55.903	178.129
Demerger of the Company	25	(3.119)	(30.242)		(16.243)	(49.604)
Total comprehensive income for the year				319	338	657
Equity as at 31.12.2012		<u>8.050</u>	<u>78.054</u>	<u>3.080</u>	<u>39.998</u>	<u>129.182</u>
Changes in equity in 2013						
Equity as at 1.1.2013		8.050	78.054	3.080	39.998	129.182
Total comprehensive income for the year				(1.381)	2.267	886
Equity as at 31.12.2013		<u>8.050</u>	<u>78.054</u>	<u>1.699</u>	<u>42.265</u>	<u>130.068</u>

The notes on pages 11 to 35 are integral part of these financial statements

Consolidated Statement of Cash Flows for the year 2013

	Notes	2013	2012
Cash flows from operating activities			
Operating profit		6.218	4.467
Difference between operating profit and cash from operations:			
Net loss (gain) on sale of assets		38 (	23)
Depreciation and amortisation	12	8.668	7.417
Impairment of operating assets	12	1.811	0
Loss (profit) on sale of shares in other companies		175 (	269)
Share of profit of equity accounted investees		0 (	9)
Change in operating assets and liabilities	35	416	6.174
Cash generated from operations		<u>17.326</u>	<u>17.757</u>
Interest income and currency gain received		2.636	1.193
Interest and finance costs paid		(3.523)	(3.793)
Income tax paid		(2.722)	(1.555)
Net cash provided by operating activities		<u>13.717</u>	<u>13.602</u>
Cash flows from investing activities			
Investment in property, plant and equipment	16	(7.099)	(9.169)
Proceeds from sale of property, plant and equipment		194	65
Investment in intangible assets	21	(303)	(885)
Acquisition of subsidiaries, net of cash acquired	8	(829)	(13.560)
Investment in shares in other companies		0 (	12)
Proceeds from sale of shares in other companies		72	0
Restricted cash, change		14.107	22.705
Decrease in bonds and other long-term receivables		131	1.120
Net cash provided by investing activities		<u>6.273</u>	<u>264</u>
Cash flows from financing activities			
Net cash outflow as a result of demerger		0 (	75.000)
Long-term debt proceeds		1.644	9.100
Long-term debt repaid		(7.872)	(6.021)
Short-term debt, change		(2.797)	(15.775)
Net cash used in financing activities		<u>(9.025)</u>	<u>(87.696)</u>
Increase (decrease) in cash and cash equivalents		10.965 (	73.830)
Effect of exchange rate fluctuations on cash held		(57)	179
Cash and cash equivalents at 1 January		<u>35.644</u>	<u>109.295</u>
Cash and cash equivalents at 31 December		<u>46.552</u>	<u>35.644</u>
Financing activities not affecting cash flows:			
Long-term loan transferred as a result of demerger		0 (	25.397)

The notes on pages 11 to 35 are integral part of these financial statements

Notes

1. Reporting entity

Icelandic Group hf. is a company domiciled in Borgartún 27, Reykjavík, Iceland. The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities", and the Group's interest in associates. The Group is involved in manufacturing and marketing of seafood in international markets (see note 6).

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 EU.

The consolidated financial statements were approved by the Board of Directors on 12 March 2014.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- * Financial instruments at fair value though profit or loss are measured at fair value
- * Derivative financial instruments are measured at fair value

The methods used to measure fair values are discussed further in note 4.

c. Functional and presentation currency

The consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

d. Use of estimates and judgements

The preparation of consolidated financial statements in conformity with 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 estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements is included in note 21 on measurement of the recoverable amounts of cash-generating units containing goodwill.

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.

Notes, contd.:

a. Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date - i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payments awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(ii) 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 currently 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.

Notes, contd.:

3. Significant accounting policies, contd.:

a. Basis of consolidation, contd.:

(iii) Associates (equity accounted investees)

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 (equity accounted investees) and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, 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 equity accounted investee, the carrying amount of that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) 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. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the date of transactions.

Foreign currency differences arising on translation are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of translation difference is allocated to the non-controlling interests. When a foreign operations is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

Notes, contd.:

3. Significant accounting policies, contd.

c. Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, restricted cash, cash and cash equivalents, loans and borrowings, and trade and other payables. Financial assets and liabilities are recognised on the date that they are originated.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchases and sales decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss as incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Loan and receivables

Loans and 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 loan and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Restricted cash

Restricted cash comprise cash balances with maturities of three months or more from the reporting date.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Accounting for finance income and expenses is discussed in note 3. m.

(ii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

Notes, contd.:

3. Significant accounting policies, contd.:

c. Financial instruments, contd.:

(ii) Derivative financial instruments, contd.:

Other non-trading derivatives

When a derivative financial instruments is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares is recognised as a deduction from equity, net of 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, net of any tax effects, is recognised as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity.

(iv) Dividends

Dividends are recognised as a decrease in equity in the period in which they are approved by the Company's shareholders.

d. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that is directly attributable to the acquisition of the asset and capitalised borrowing costs. 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 property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other operating income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment 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 property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term or 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:

Notes, contd.:

3. Significant accounting policies, contd.:

d. Property, plant and equipment, cont.:

(iii) Depreciation, contd.:

	Useful lives
Buildings	10 - 50 years
Other fixed assets	5 - 10 years

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

e. Intangible assets

(i) Goodwill

Goodwill arises up on the acquisition of subsidiaries.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately as income in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that 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 when incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, less its residual value.

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:

	Useful lives
Business relationship	5 - 20 years
Software	3 - 5 years

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

Notes, contd.:

3. Significant accounting policies, contd.:

f. Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

g. 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, production and conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. The cost of inventory may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

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

h. Impairment

(i) Financial assets

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 a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset can be estimated reliably.

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 a 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.

Notes, contd.:

3. Significant accounting policies, contd.:

h. Impairment, contd.:

(ii) Non financial assets

The carrying amount 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 assets 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 that cannot be tested individually 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"). Goodwill acquired in a business combination 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 estimated 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 amounts 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.

i. 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 when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

j. Provisions

A provision is recognised in the statement of financial position 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. The unwinding of the discount is recognised as finance cost.

Notes, contd.:

3. Significant accounting policies, contd.:

k. Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenues 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 or the 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.

The timing of the transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Other operating revenue

Other operating revenue comprises the gain on the sale of property, plant and equipment, share of profit of equity accounted investees and other revenue.

l. 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.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

m. Finance income and costs

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to acquisition or construction of a qualifying asset are recognised in profit or loss using the effective interest method.

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

n. Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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.

Notes, contd.:

3. Significant accounting policies, contd.:

n. Income tax, contd.:

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

o. 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.

p. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All segment's operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Notes, contd.:

3. Significant accounting policies, contd.:

q. New standards and interpretations not yet adopted

The Group has adopted all International Financial Reporting standards, interpretations and amendments to standards that the EU has adopted and have become effective for the year 2013 and are relevant for the Group. A few new standards, amendment to standards and interpretations have not become effective for the year 2013 and have not been applied in preparing these consolidated financial statements. It is not expected that those standards and interpretations will have material effect on the financial statements of the Group when adopted.

IFRS 13 Fair Value Measurement became effective at the beginning of 2013. The standard sets out a framework for assessment of fair value, and requirements for fair value disclosures, when such assessment is required or permitted according to IFRS. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition to that disclosure requirements have been expanded. The adoption of IFRS 13 did not affect the Group's measurement of fair value.

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

(i) Property, plant and equipment

The fair value of property, plant and equipment 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 and willingly.

(ii) Intangible assets

The fair value of trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned. The fair value of business relationships acquired in a business combination is determined using the multiperiod excess earnings method. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) 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.

(iv) 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. The fair value is determined for disclosure purposes.

(v) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

(vi) Non-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. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Notes, contd.:

5. Financial risk management

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

- * Credit risk
- * Liquidity risk
- * Market risk
- * Operational 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 Board has commended the CEO day to day developing and monitoring of the Group's risk management policies.

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 aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customer operate, has less of an influence on credit risk. Approximately 56% (2012: 58%) of the Group's sales is attributable to sales transactions with its five largest customers.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Most of the Group's customers have been transacting with the Group for many years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss components 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.

Notes, contd.:

5. Financial risk management, contd.:

Guarantees

The Group's policy is to provide financial guarantees only to subsidiaries. At 31 December 2013 guarantees provided to subsidiaries amounting to € 11.2 million (2012: € 17.4 million) were outstanding.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains lines of credit amounting to € 13.0 million (2012: € 14.7 million) that can be drawn down to meet short-term financing needs.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect 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.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the euro (€), but also the Pound Sterling (GBP), U.S. Dollars (USD), Japanese Yen (JPY) and Norwegian Krone (NOK). The currencies in which these transactions primarily are denominated are GBP, USD and JPY.

Interest rate risk

Most of the Group's borrowings are on a floating rate basis.

Other market price risk

Other market price risk is limited, as the Group's investments in held-to-maturity bonds and shares at fair value through profit or loss is immaterial part of the Group's operations.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Notes, contd.:

5. Financial risk management, contd.:

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity, excluding non-controlling interest. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board 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. The Group's target is to achieve a return on capital of between 12.5 and 15.0 percent; in 2013 the return from operations was positive by 6.2 percent (2012: positive by 0.4 percent). In comparison the weighted average interest expense on interest-bearing borrowings, excluding liabilities with imputed interest, was 4.5 percent (2012: 4.6 percent).

Notes, contd.:

6. Operating segments

The Group comprises the following main reportable segments:

- * *Production*: Processing seafood into value added products.
- * *Sales and marketing*: Sales and marketing of seafood without further processing.
- * *Holding and servicing*: Parent company and companies that provide logistic and quality service to other group companies.

Business segments					
2013	Production	Sales and marketing	Holding and servicing	Eliminations	Consolidated
Sales to external customers	387.171	204.227	449	0	591.847
Inter-segment sales	22.384	12.301	3.599	(38.284)	0
Total segment sales	<u>409.555</u>	<u>216.528</u>	<u>4.048</u>	<u>(38.284)</u>	<u>591.847</u>
Segment result	7.570	3.207	(4.559)	0	6.218
Net finance costs	(367)	(848)	(344)	0	(1.559)
Profit (loss) before income tax	7.203	2.359	(4.903)	0	4.659
Income tax	(2.138)	(1.520)	1.266	0	(2.392)
Profit (loss) for the year	<u>5.065</u>	<u>839</u>	<u>(3.637)</u>	<u>0</u>	<u>2.267</u>
Segment assets	188.665	76.194	48.475	(36.136)	277.198
Segment liabilities	74.979	45.912	62.375	(36.136)	147.130
Capital expenditure	6.469	534	399	0	7.402
Depreciation and amortisation	9.423	286	770	0	10.479
2012					
Sales to external customers	358.610	207.461	448	0	566.519
Inter-segment sales	24.242	9.405	2.288	(35.935)	0
Total segment sales	<u>382.852</u>	<u>216.866</u>	<u>2.736</u>	<u>(35.935)</u>	<u>566.519</u>
Segment result	9.667	(810)	(4.390)	0	4.467
Net finance costs	(25)	(2.309)	(1.133)	0	(3.467)
Profit (loss) before income tax	9.642	(3.119)	(5.523)	0	1.000
Income tax	(2.563)	1.094	807	0	(662)
Profit (loss) for the year	<u>7.079</u>	<u>(2.025)</u>	<u>(4.716)</u>	<u>0</u>	<u>338</u>
Segment assets	176.031	79.077	71.272	(33.817)	292.563
Segment liabilities	72.019	48.450	76.729	(33.817)	163.381
Capital expenditure	9.561	362	131	0	10.054
Depreciation and amortisation	6.967	312	138	0	7.417

7. Demerger of the Company

In end of October 2012 a shareholders' meeting accepted that the Company would split into an investment company and operating company. The demerger became legally effective as of 1 January 2012. The new investment company took over € 75.0 million of assets and € 25.4 million of liabilities. The impact on the Group's equity as at 1 January 2012, was a decrease in equity ratio from 47.8% to 43.1%. Further information about the Demerger of the Company is in note 8 in the consolidated financial statements of the Company at year end 31 December 2012.

8. Acquisition of subsidiary

Business combination

In October 2012 the Group acquired all shares in Gadus Fish NV, Belgium, for € 17.8 million. The company is a fresh fish producer. In the three months to 31 December 2012 the subsidiary contributed revenue of € 18.4 million and profit of € 0.6 million. If the acquisition had occurred on 1 January 2012, management estimates that consolidated revenue would have been € 615 million and consolidated profit for the year € 1.2 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2012. For further information, see note 9 in the consolidated financial statements of the Company at year end 31 December 2012.

Notes, contd.:

9. Sales

Sales is specified as follows:

	2013	2012
Sales	591.501	565.918
Commission	346	569
Other revenues	0	32
Sales, total	<u>591.847</u>	<u>566.519</u>

10. Operating expenses

Operating expenses are specified as follows:

	2013	2012
Salaries and salary-related expenses	27.639	26.765
Other operating expenses	27.070	22.882
Depreciation of operating assets and amortisation and impairment losses of intangible assets	2.267	2.002
Total operating expenses	<u>56.976</u>	<u>51.649</u>

In 2013 the Group incurred restructuring costs in relation to organizational structural changes in UK and Norway operations in the amount of €2.1m.

11. Salaries and salary-related expenses are specified as follows:

	2013	2012
Salaries	52.613	53.575
Salary-related expenses	3.794	3.835
Total salaries and salary-related expenses	<u>56.407</u>	<u>57.410</u>

Average number of employees (full year equivalents)	1.801	1.838
Positions with the Group at the end of the year	1.891	1.864

Salaries and salary-related expenses are allocated as follows on items in the profit or loss:

	2013	2012
Cost of goods sold	28.768	30.645
Operating expenses	27.639	26.765
Total salaries and salary-related expenses	<u>56.407</u>	<u>57.410</u>

Salaries and fringe benefits paid to the Board of Directors and key management for their work for companies within the Group are specified as follows:

	2013	2012
Board of Directors:		
Herdís Dröfn Fjeldsted, Chairman of the Board*	37	36
Árni Geir Pálsson, Board Member	20	19
Ingunn Björk Vilhjálmisdóttir, Board Member	20	19
Vilhjálmur Egilsson, Board Member	15	0
Ævar Agnarsson, Board Member	20	0
Jón Þorgeir Einarsson, former Board Member	5	13
Egill Tryggvason, alternative Board Member and former Board Member*	1	8
Steinþór Baldusson, former Board Member	0	5
Managing Director:		
Magnús Bjarnason, former Board Member - CEO from 19 December 2012	239	8
Lárus Ásgeirsson, CEO to 2 December 2012	114	182

* The salaries of two Board Members are paid to Framtakssjóður Íslands slhf.

Notes, contd.:

12. The Group's depreciation charge in profit or loss is specified as follows:

	2013	2012
Depreciation of property, plant and equipment, see note 16	7.867	6.770
Impairment of operating assets, see note 16	1.811	0
Amortisations of intangible assets, see note 21	801	647
Total	<u>10.479</u>	<u>7.417</u>

Depreciation, amortisation and impairment loss is allocated as follows on operating items:

Cost of goods sold	6.401	5.415
Operating expenses	2.267	2.002
Impairment of operating assets	1.811	0
Total	<u>10.479</u>	<u>7.417</u>

13. Net finance costs

Net finance costs are specified as follows:

	2013	2012
Interest income	519	865
Dividend income	1	0
Gain on sale of shares	0	269
Net currency gain	1.337	446
Finance income, total	<u>1.857</u>	<u>1.580</u>
Interest expenses	(3.411)	(4.992)
Fair value changes on shares in other companies	(5)	(55)
Finance costs, total	<u>(3.416)</u>	<u>(5.047)</u>
Net finance costs	<u>(1.559)</u>	<u>(3.467)</u>

14. Income tax expense

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

	2013	2012
Current tax expense	3.425	2.676
Deferred tax expense	(1.033)	(2.014)
Total income tax in continuing operations	<u>2.392</u>	<u>662</u>

15. Effective tax rate is specified as follows:

	2013		2012	
Profit for the year		2.267		338
Total income tax		<u>2.392</u>		<u>662</u>
Profit excluding income tax		<u>4.659</u>		<u>1.000</u>
Income tax using Icelandic corporation tax rate	20,0%	(932)	20,0%	(200)
Effect of tax rate in foreign jurisdictions	42,6%	(1.984)	44,2%	(442)
Non-deductable expenses	0,6%	(26)	2,0%	(20)
Other items	(11,8%)	550	0,0%	0
Effective tax rate	<u>51,3%</u>	<u>(2.392)</u>	<u>66,2%</u>	<u>(662)</u>

The main reason for fluctuations in effective income tax rate in the statement of comprehensive income is explained by different geographical composition of profit or loss before taxes in individual companies and periods, tax assets that are not capitalized and presentation of transactions in the statement of comprehensive income between continuing and discontinuing operations.

Notes, contd.:

16. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Buildings and land	Other operating assets	Total
Cost or deemed cost			
Balance at 1 January 2012	20.704	66.925	87.629
Acquisitions of subsidiaries	8.388	5.532	13.920
Purchases during the year	1.153	8.016	9.169
Disposals	0	(2.493)	(2.493)
Exchange rate differences	476	1.649	2.125
Balance at 31 December 2012	30.721	79.629	110.350
Purchases during the year	529	6.570	7.099
Disposals	(520)	(4.926)	(5.446)
Exchange rate differences	(384)	(1.397)	(1.781)
Balance at 31 December 2013	30.346	79.876	110.222
Depreciation and impairment losses			
Balance at 1 January 2012	4.979	48.295	53.274
Acquisitions of subsidiaries	3.831	3.838	7.669
Depreciation	652	6.118	6.770
Disposals	0	(2.450)	(2.450)
Exchange rate differences	116	1.191	1.307
Balance at 31 December 2012	9.578	56.992	66.570
Depreciation	909	6.958	7.867
Impairment losses	0	1.811	1.811
Disposals	(520)	(4.614)	(5.134)
Exchange rate differences	(98)	(938)	(1.036)
Balance at 31 December 2013	9.869	60.209	70.078
Carrying amounts			
1.1.2012	15.725	18.630	34.355
31.12.2012	21.143	22.637	43.780
31.12.2013	20.477	19.667	40.144
Depreciation ratios	2-10%	10-20%	

Following a strategic review of operations, Icelandic Seachill Ltd., UK., has decided to withdraw from Ready Meals production at its West site facility. As a result an asset write down specifically related to the Ready Meals production of € 1,811 thousand was included within the year 2013.

17. Finance leases

Equipment and machinery for which the Group has concluded lease agreements are capitalized despite the ownership right of the lessor according to the agreements. The remaining balance of the lease agreements amounted to € 1,058 thousand at year-end 2013 (2012: € 770 thousand).

18. Operating leases

The Group has entered into operating lease contracts for machinery and production equipment. Commitments from these contracts are not included in the statement of financial position.

19. Mortgages and Guarantees

Mortgages and guarantees for debt with a remaining balance of € 30,010 thousand (2012: € 34,954 thousand) were registered against the Group's property, plant and equipment at year-end.

20. Insurance value

Insurance and book value at year-end were as follows:	2013	2012
Insurance value of buildings	44.882	45.169
Book value of buildings	20.477	21.143
Insurance value of other operating assets	70.202	65.060
Book value of other operating assets	19.667	22.637

Notes, contd.:

21. Intangible assets

The Group's intangible assets are specified as follows:

	Goodwill	Trademarks	Business relationships	Other intangible assets	Total
Cost					
Balance at 1.1.2012	58.835	13	1.249	2.735	62.832
Acquisitions of subsidiaries	4.164	0	3.730	110	8.004
Purchases during the year	0	0	26	859	885
Disposals	0	0	(272)	(532)	(804)
Exchange rate differences	1.638	0	147	1.227	3.012
Balance at 31.12.2012	64.637	13	4.880	4.399	73.929
Reclassification	0	0	(120)	120	0
Purchases during the year	0	0	0	303	303
Disposals	0	0	(219)	(28)	(247)
Exchange rate differences	(1.270)	0	(13)	(100)	(1.383)
Balance at 31.12.2013	63.367	13	4.528	4.694	72.602
Amortisations and impairment losses					
Balance at 1.1.2012	12.127	12	980	2.247	15.366
Amortisation for the year	0	0	193	454	647
Disposals	0	0	(272)	(532)	(804)
Exchange rate differences	333	0	131	1.228	1.692
Balance at 31.12.2012	12.460	12	1.032	3.397	16.901
Amortisation for the year	0	0	269	532	801
Disposals	0	0	(219)	(28)	(247)
Exchange rate differences	(259)	0	0	(85)	(344)
Balance at 31.12.2013	12.201	12	1.082	3.816	17.111
Carrying amounts					
1.1.2012	46.708	1	269	488	47.466
31.12.2012	52.177	1	3.848	1.002	57.028
31.12.2013	51.166	1	3.446	878	55.491
Depreciations ratios			5-33%	4-15%	

Impairment testing for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating entities which represent the lowest level within the Group, at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2013	2012
Seachill Ltd.	47.002	48.013
Gadus Fish NV	4.164	4.164
Total goodwill	51.166	52.177

The value in use of each unit was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

Cash flows were projected based on actual operating results and a five year business plan for each unit approved by management. Cash flows for future periods were extrapolated using a constant growth rate.

The anticipated annual real revenue growth rate included in the cash flow projection was minus 3.4% to plus 5.6% for the years 2014 to 2018. Future growth ranged between 1.0% and 2.0%. A long term growth rate into perpetuity has been determined as the lower of the nominal GDP rates for the country in which the division is based and the long-term compound annual growth rate in EBITDA estimated by management.

A post-tax discount rate between 7.0% and 9.9% was applied in determining the recoverable amount of the respective cash generating units. The discount rate was estimated based on the industry's capital structure and risk profile along with company specific metrics.

All the carrying amount of goodwill is related to the production companies.

Trademarks purchased and acquired are capitalised by the Group's production companies.

Notes, contd.:

22. Other investments

The Group's other investments are specified as follows:	2013	2012
Held-to-maturity investments	900	1.652
Equity accounted investees	724	950
Financial assets designated at fair value through profit or loss	102	121
	<u>1.726</u>	<u>2.723</u>
Current maturities	(258)	(1.109)
Total other investments	<u>1.468</u>	<u>1.614</u>

Held-to-maturity investments have interest rates of 5.3% to 8.0% (2012: 5.3% to 8.0%) and mature in years 2014 to 2017.

The financial assets designated at fair value through profit and loss are equity securities.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 33.

23. Inventories

Inventories are specified as follows:	2013	2012
Raw material and work in process	35.459	39.681
Finished goods	30.047	31.300
Total inventories	<u>65.506</u>	<u>70.981</u>

24. Trade and other receivables

Trade and other receivables are specified as follows:	2013	2012
Trade receivables	60.995	61.985
Other receivables	4.220	3.614
Prepaid expenses	1.683	1.867
Total trade and other receivables	<u>66.898</u>	<u>67.466</u>

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 33.

Equity

25. Issued shares

The Company's total number of shares according to its Articles of Association are 1,576.6 million (2012: 1,576.6 million). Issued shares at year-end numbered 1,576.6 million (2012: 1,576.6 million) and is all paid for. The owners of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share of one ISK at meetings of the Company.

The Company's Articles of Association were changed in October 2012 due to demerger (see note 8) and the number of shares decreased from 2,072.0 million to 1,576.6 million or by 495.4 million. The Company held 157.6 million treasury shares at the year end (2012: 157.6 million shares).

26. Share premium

Share premium represents excess of payments above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company less payments above nominal value that the Company has paid for treasury shares. According to Icelandic Companies Act, 25% of the nominal share capital must be held in reserve which can not be paid out as dividend to shareholders.

27. Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

28. Earnings per share

The calculation of basic earnings per share was based on the profit attributable to shareholders of the Parent Company and a weighted average number of shares outstanding during the year calculated as follows:

Earnings per share:	2013	2012
Profit for the year attributable to equity holders of the parent	2.267	338
Weighted average number of ordinary shares	1.418.963	1.790.487
Earnings per share of ISK 1	0,0016	0,0002

Diluted earnings per share is equal to basic earnings per share as the Company has not entered into share options agreements and has no convertible loans.

Notes, contd.:

29. Loans and borrowings

Loans and borrowings are specified as follows:

2013	Non-current liabilities	Current liabilities	Total
Currency			
GBP	29.882	6.735	36.617
EUR	11.435	11.604	23.039
JPY	467	1.438	1.905
USD	88	0	88
NOK	0	347	347
ISK	260	0	260
Loans and borrowings, total	42.132	20.124	62.256
Current maturities of non-current liabilities	(6.146)	6.146	0
Loans and borrowings according to statement of financial position	35.986	26.270	62.256
2012			
GBP	35.344	4.990	40.334
EUR	11.982	9.276	21.258
JPY	696	8.876	9.572
USD	0	1.517	1.517
NOK	1.904	0	1.904
ISK	515	0	515
Loans and borrowings, total	50.441	24.659	75.100
Current maturities of non-current liabilities	(6.739)	6.739	0
Loans and borrowings according to statement of financial position	43.702	31.398	75.100

Property, plant and equipment, shares in subsidiary, inventory and accounts receivable have been pledged against loans the amount of € 45.6 million (2012: € 57.9 million).

30. Non-current loans and borrowings are payable as follows:

	2013	2012
Year 2013	-	6.739
Year 2014	6.146	7.502
Year 2015	5.348	4.825
Year 2016	4.775	4.495
Year 2017	4.508	6.925
Year 2018	5.719	3.994
Subsequent	15.636	15.961
Non-current loans and borrowings including current maturities	42.132	50.441

31. Deferred tax assets and liabilities

Deferred tax asset and liabilities are specified as follows:

	Deferred tax assets	Deferred tax liability	Net
Balance at 1.1.2012	(381)	2.057	1.676
Income tax on operations	(1.528)	2.190	662
Income tax payable 2013 on 2012 activities	0	(1.667)	(1.667)
Exchange rate difference, prepaid tax and other changes	33	1.198	1.231
Balance at 31.12.2012	(1.876)	3.778	1.902
Income tax on operations	112	2.280	2.392
Income tax payable 2014 on 2013 continuing activities	0	(1.219)	(1.219)
Exchange rate difference, prepaid tax and other changes	625	(2.107)	(1.482)
Balance at 31.12.2013	(1.139)	2.732	1.593

The deferred income tax liability is attributable to the following items:

	2013	2012
Property, plant and equipment	3.058	3.790
Tax losses carried forward	(738)	(1.253)
Other items	(727)	(635)
Net income tax liability at year-end	1.593	1.902

Notes, contd.:

32. Trade and other payables

Trade and other payables are specified as follows:	2013	2012
Trade payables	67.183	64.822
Taxes for the year	1.219	1.667
Other payables	13.740	18.014
Total trade and other payables	<u>82.142</u>	<u>84.503</u>

Financial instruments

33. 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:

	2013	2012
Held-to-maturity investments	900	1.652
Loans and receivables	64.956	64.489
Restricted cash	0	14.174
Cash and cash equivalents	46.552	35.644
	<u>112.408</u>	<u>115.959</u>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

United Kingdom	30.141	29.749
Continental Europe	24.896	25.226
Asia	5.731	6.738
USA	0	135
Iceland	227	137
	<u>60.995</u>	<u>61.985</u>

The Group's five most significant customers account for € 30.5 million of the trade receivables carrying amount at 31 December 2013 (2012: €24.4 million).

Impairment losses

The aging of accounts receivables at the reporting date was:

	2013		2012	
	Gross	Impairment	Gross	Impairment
Past due 0-30 days	54.177	162	54.817	168
Past due 31-90 days	6.221	129	6.807	350
Past due 91-180 days	480	37	453	77
Past due 181-360 days	452	57	189	158
More than one year	1.003	953	1.057	585
	<u>62.333</u>	<u>1.338</u>	<u>63.323</u>	<u>1.338</u>

Provision for losses on trade and other receivables are specified as follows:

	2013	2012
Provision at 1 January	1.338	1.061
Changes in provision for the year	8	336
Exchange rate difference	(8)	(59)
Provision at 31 December	<u>1.338</u>	<u>1.338</u>

Notes, contd.:

33. Financial instruments, contd.:

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
31 December 2013						
Non-derivative financial liabilities						
Non-current loans and borrowings	35.986	40.640	1.822	7.196	31.079	543
Current loans and borrowings	26.270	26.270	26.270	0	0	0
Trade and other payables	82.142	82.142	82.142	0	0	0
	<u>144.398</u>	<u>149.052</u>	<u>110.234</u>	<u>7.196</u>	<u>31.079</u>	<u>543</u>

31 December 2012

Non-derivative financial liabilities

Non-current loans and borrowings	43.702	49.409	13.574	15.439	19.617	779
Current loans and borrowings	31.398	31.398	31.398	0	0	0
Trade and other payables	84.503	84.503	84.503	0	0	0
	<u>159.603</u>	<u>165.310</u>	<u>129.475</u>	<u>15.439</u>	<u>19.617</u>	<u>779</u>

Exposure to currency risk

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

	EUR	GBP	USD	Other
31 December 2013				
Cash and cash equivalents	2.718	1.616	957	277
Trade receivables	118	0	2.676	0
Loans and borrowings	0	0	0	(87)
Trade payables	(84)	(5)	(4.888)	(503)
Gross balance exposure	<u>2.752</u>	<u>1.611</u>	<u>(1.255)</u>	<u>(313)</u>

31 December 2012

Cash and cash equivalents	2.367	277	2.958	84
Restricted cash	0	1.870	8.818	0
Trade receivables	1.510	111	2.989	2
Loans and borrowings	0	0	(1.518)	(3.081)
Trade payables	0	(13)	(3.990)	(1.093)
Gross balance exposure	<u>3.877</u>	<u>2.245</u>	<u>9.257</u>	<u>(4.088)</u>

The following significant exchange rates of EUR applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
GBP	0,8489	0,8180	0,8330	0,7612
JPY	129,3137	103,4642	144,7038	106,0236
NOK	7,7935	7,5422	8,3794	6,8797
DKK	7,4590	7,5083	7,4606	6,9648
USD	1,3276	1,2968	1,3773	1,2307
ISK	161,8490	160,4792	158,0600	169,3300

Notes, contd.:

33. Financial instruments, contd.:

Sensitivity analysis

A 10 percent strengthening of the euro against the above mentioned currencies at 31 December would have decreased pre-tax profit € 280 thousand (2012: decreased pre-tax profit by € 1.129 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10 percent weakening of the euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	Carrying amount	
	2013	2012
Variable rate instruments		
Financial assets	46.552	49.818
Financial liabilities	(61.401)	(72.639)
	<u>(14.849)</u>	<u>(22.821)</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

	Profit or loss	
	100bp increase	100bp decrease
31 December 2013		
Variable rate instruments	148	(148)
Cash flow sensitivity (net)	<u>148</u>	<u>(148)</u>
31 December 2012		
Variable rate instruments	228	(228)
Cash flow sensitivity (net)	<u>228</u>	<u>(228)</u>

Fair values versus carrying amounts

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

	31 December 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Held-to-maturity investments	900	900	1.652	1.652
Financial assets designated at fair value				
through profit or loss	102	102	121	121
Loans and receivables	64.956	64.956	64.489	64.488
Restricted cash	0	0	14.174	14.174
Cash and cash equivalents	46.552	46.552	35.644	35.644
Loans and borrowings, non-current	(35.986)	(35.175)	(43.702)	(43.685)
Loans and borrowings, current	(26.270)	(26.270)	(31.398)	(31.398)
Trade and other payables	(82.142)	(82.142)	(84.503)	(84.503)
Gross balance exposure	<u>(31.888)</u>	<u>(31.077)</u>	<u>(43.523)</u>	<u>(43.507)</u>

34. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2013	2012
Less than one year	757	685
Between one and five years	1.201	1.361
More than five years	22	0
Total non-cancellable operating lease rentals	<u>1.980</u>	<u>2.046</u>

Notes, contd.:

35. Statement of Cash Flows

Change in operating assets and liabilities in the statement of cash flows are specified as follows:

	2013	2012
Inventories, decrease	1.308	16.870
Trade and other receivables, increase	(2.072)	(3.760)
Trade and other payables, increase (decrease)	1.180	(6.936)
Change in operating assets and liabilities	<u>416</u>	<u>6.174</u>

36. Cash flows from operating activities are specified as follows:

	2013	2012
Profit for the year	2.267	338
Difference between gain and cash flows from operations:		
Loss (profit) from sales of assets	38 (	23)
Depreciations and amortisation	8.668	7.417
impairment losses	1.811	0
Loss (profit) on sale of shares in other companies	175 (	269)
Profit of equity accounted investees	0 (	9)
Other items	(1.066)	(1.486)
Working capital provided by operating activities	<u>11.893</u>	<u>5.968</u>

37. Subsequent events

In January 2014 Icelandic Group hf. acquired the operations of a fresh fish producer in Iceland, Ný-Fiskur hf. and at end of February the Company signed a Share Purchase Agreement of acquiring a fishing company in Iceland, Útgerðarfélag Sandgerðis ehf. The Share Purchase Agreement is expected to be executed in March 2014.

38. Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the party in making financial or operational decisions. The Group's related parties include: Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, subsidiaries and associates. 99,99% of the Company is owned by Framtakssjóður Íslands slhf., which is in majority ownership of Icelandic pension funds.

Transactions with related parties

The Group has transactions with related parties. Transaction with such parties are made in the ordinary course of business and on substantially the same terms as comparable transactions with other parties.

Transactions with key management personnel

Executive directors of the Group and their relatives control none of the voting shares of the Company (2012: none). Information on salaries and benefits of management paid for their work for the Company are disclosed in note 11.

Other related party transactions

A part of the parties defined as related parties have carried out general transactions with the Group. Terms and condition of the transactions are on an arm's length basis and at year end are classified as such. The Group purchased consulting services amounting to € 30 thousand from Blóðberg ehf. a company owned by Board Member Árni Geir Pálsson and consulting services amounting to € 19 thousand from Board Member Ævar Agnarsson.

Notes, contd.:

39. Group entities

Subsidiaries numbered 15 at year-end (2012: 21) and are all included in the consolidated financial statements. They are:

31 December 2013		Share	Share
Ecomsa S.A., Spain	100%	Icelandic Japan K.K., Japan	100%
Gadus B.V., The Netherlands	100%	Icelandic Ny-Fiskur hf., Iceland	100%
Icelandic Acquisition Ltd., UK	100%	Icelandic Norway AS, Norway	100%
Icelandic Asia Inc., S-Korea	100%	Icelandic Produit de la Mer, France	100%
Icelandic China Trading Co. Ltd., China	100%	Icelandic Services ehf., Iceland	100%
Icelandic Gadus NV, Belgium	100%	Icelandic Seachill Ltd., UK	100%
Icelandic Hong Kong Ltd., Hong Kong	100%	Icelandic Trademark ehf., Iceland	100%
Icelandic Iberica S.A., Spain	100%		

In 2013 Icelandic Group UK Ltd. name was changed to Icelandic Seachill Ltd. Its subsidiaries have been merged into one company that operates under the name Icelandic Seachill Ltd. Furthermore Gadus NV in Belgium name has been changed to Icelandic Gadus NV and Fiskval ehf. name has been changed to Icelandic Ny-Fiskur hf.

31 December 2012		Share	Share
Coldwater Seafood (UK) Ltd., UK	100%	Icelandic Iberica S.A., Spain	100%
Ecomsa S.A., Spain	100%	Icelandic Italy S.A.R.L., Italy	100%
Fiskval ehf., Iceland	100%	Icelandic Japan K.K., Japan	100%
Gadus B.V., The Netherlands	100%	Icelandic Norway AS, Norway	100%
Gadus NV, Belgium	100%	Icelandic Produit de la Mer, France	100%
Gadus Fish NV, Belgium	100%	Icelandic Services ehf., Iceland	100%
Icelandic Acquisition Ltd., UK	100%	Icelandic Trademark ehf., Iceland	100%
Icelandic Asia Inc., S-Korea	100%	Icelandic UK Ltd., UK	100%
Icelandic China Trading Co. Ltd., China	100%	IFP Trading Ltd., UK	100%
Icelandic Group UK Ltd., UK	100%	Seachill Ltd., UK	100%
Icelandic Hong Kong Ltd., Hong Kong	100%		

40. Financial Ratios

Financial ratios for the consolidated financial statements:	2013	2012
Current ratio	1.65	1.62
Equity ratio	46,9%	44.2%
Return on equity	1.7%	0.4%
Internal value	16.16	16.05
EBITDA	16.697	11.884
EBITDA ratio	2.8%	2.1%