

# **Samherji hf.**

## **Interim Financial Statements Six Months Ended June 30, 2003**

Samherji hf.  
Glerárgötu 30  
600 Akureyri

kt. 610297-3079

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# Endorsement by the Board of Directors

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The Financial Statements of Samherji hf. for the period January 1, to June 30, 2003 have been prepared by using the same accounting principles as for the previous year.

According to the Statement of Earnings net profit amounted to ISK 602.9 million for the period. According to the Balance Sheet the Company's stockholders' equity amounted to ISK 8,492.1 at June 30, 2003 and the equity ratio at the same time was 38.1% compared to 37.3% at the beginning of the year.

At the end of June three of the Company's subsidiaries were merged under the name of Íslandslax hf., i.e. Íslandslax hf., Víkurlax ehf. and Reyðarlax ehf. In addition Íslandsbleikja ehf. was merged to Íslandslax hf. but before Íslandslax hf. was the sole owner of that company. At the same time the shares of Samherji hf. in the subsidiaries Íslandslax hf., Silfurstjarnan hf., Sæsilfur hf. and Fiskeldi Eyjafjarðar hf. were transferred to the holding company Oddeyri ehf. which is wholly owned by Samherji hf. The effects of this on the operation results and the Balance Sheet of Samherji hf. are nil.

The Board of Directors and the CEO of Samherji hf. hereby confirm the Interim Financial Statements for the period January 1 to June 30, 2003.

Akureyri, August 22, 2003.

**Board of Directors:**

Finnbogi Jónsson

Jóhannes Geir Sigurgeirsson

Óskar Magnússon

Jón Sigurðsson

Gunnar Felixson

**CEO:**

Þorsteinn Már Baldvinsson

# Auditors' Review Report

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To the Board of Directors of Samherji hf.

We have reviewed the Consolidated Balance Sheet of Samherji hf. as of June 30, 2002 and the related Consolidated Statement of Earnings and Consolidated Statement of Cash Flows for the period January 1 to June 30, 2003. All information included in these Consolidated Financial Statements is the responsibility of the management of Samherji hf.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data and ratios. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Consolidated Financial Statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review we are not aware of any material modifications that should be made to the accompanying Consolidated Financial Statements in order for them to be in conformity with generally accepted accounting principles in Iceland.

Akureyri, August 22, 2003.

Arnar Árnason

***KPMG Endurskoðun Akureyri hf.***

# Statement of Earnings January 1 to June 30, 2003

	Notes	Second quarter		Year to-date	
		April 1 - June 30		January 1- June 30	
		2003	2002	2003	2002
<b>Operating revenue:</b>					
Fish processing revenue .....		1.613.934	1.424.058	3.660.227	3.531.500
Catch from fishing vessels .....		1.531.467	1.923.239	3.085.712	4.171.506
Catch from own fishing vessels to own production .....		( 345.353)	( 165.837)	( 886.848)	( 866.568)
Sales revenue .....		193.007	74.651	348.673	247.199
Other income .....		7.592	( 35.223)	25.839	14.283
Gain on sale of assets .....		3.449	76.889	3.449	76.889
		<u>3.004.096</u>	<u>3.297.777</u>	<u>6.237.052</u>	<u>7.174.809</u>
<b>Operating expenses:</b>					
Production cost .....		1.430.958	1.199.497	3.261.503	2.844.664
Catch from own fishing vessels to own production .....		( 345.353)	( 165.837)	( 886.848)	( 866.568)
Operation of fishing vessels .....		1.135.527	1.348.536	2.156.277	2.785.297
Cost of goods sold .....		182.821	62.077	332.646	231.237
General and administrative expenses .....		83.849	50.755	172.423	164.140
		<u>2.487.802</u>	<u>2.495.028</u>	<u>5.036.001</u>	<u>5.158.770</u>
Operating profit before financial income and expenses ...		516.294	802.749	1.201.051	2.016.039
Depreciation .....	14	( 273.395)	( 250.840)	( 546.119)	( 505.358)
Operating profit before financial income and expenses .....		242.899	551.909	654.932	1.510.681
<b>Financial income (expenses):</b>					
Interest earned and dividends .....		1.969	39.077	6.285	42.132
Provision and gain on sale of shares .....			( 17.794)		14.274
Interest expense and indexation .....		( 103.616)	( 142.156)	( 236.375)	( 265.112)
Currency fluctuations .....		( 16.308)	340.339	172.934	761.819
		<u>( 117.955)</u>	<u>219.466</u>	<u>( 57.156)</u>	<u>553.113</u>
Share of results in associated companies .....	16	( 94.036)	57.270	87.230	61.322
Operating profit before income tax .....		30.908	828.645	685.006	2.125.116
Income tax .....	10,22	( 28.251)	( 129.950)	( 112.979)	( 370.582)
Net profit before minority interest .....		2.657	698.695	572.027	1.754.534
Minority interest .....		20.059		30.830	
<b>Net profit for the period .....</b>		<u><u>22.716</u></u>	<u><u>698.695</u></u>	<u><u>602.857</u></u>	<u><u>1.754.534</u></u>

# Balance Sheet

<b>Assets</b>		2003	2002
	Notes	30.6.	31.12.
<b>Fixed assets:</b>			
Intangible assets:			
Purchased catch quota .....		2.997.662	3.031.220
Other intangible assets .....		264.104	283.280
	7,12	3.261.766	3.314.500
Property and equipment:			
Buildings .....		945.232	977.417
Fishing vessels .....		5.439.185	5.566.389
Machinery and equipment .....		1.355.542	1.198.333
	13	7.739.959	7.742.139
Investments:			
Shares in associated companies .....	16	3.458.988	3.381.367
Shares in other companies .....	17	1.445.621	1.046.339
Loans to subsidiary and associated companies .....	18	27.719	29.475
Long-term notes .....		5.975	34.053
		4.938.303	4.491.234
Long-term inventories:			
Inventories of farmed fish and juveniles .....	19	514.778	297.637
		16.454.806	15.845.510
<b>Fixed assets</b>			
<b>Current assets:</b>			
Inventories .....	19	2.579.290	2.795.784
Receivables:			
Accounts receivable .....		2.085.876	1.897.045
Due from subsidiary and associated companies .....		52.991	364.686
Other receivables .....		899.068	664.899
Prepaid expenses .....		138.622	48.941
Cash .....		19.975	371.998
		5.775.822	6.143.353
<b>Current assets</b>			
		22.230.628	21.988.863
<b>Total assets</b>			

## June 30, 2003

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### Stockholders' equity and liabilities

	Notes	2003 30.6.	2002 31.12.
<b>Stockholders' equity:</b>			
Capital stock .....	20	1.660.000	1.660.000
Contributed capital in excess of par .....		847.933	847.933
Statutory reserve .....		176.503	176.503
Retained earnings .....		5.807.695	5.517.338
Stockholders' equity	21	8.492.131	8.201.774
<b>Minority interest in stockholders' equity of subsidiaries .....</b>		157.662	197.978
<b>Obligations:</b>			
Deferred income tax liabilities .....	10,22	760.407	769.826
<b>Long-term debt:</b>			
Bonds .....		1.816.590	2.441.318
Credit institutions .....		4.524.817	5.106.874
	23	6.341.407	7.548.192
<b>Current liabilities:</b>			
Credit institutions .....		2.210.521	1.753.268
Accounts payable .....		961.295	858.708
Liabilities to associated companies .....		206.353	82.654
Current maturities of long-term debt .....	23	2.157.403	1.889.999
Taxes for the year .....		399.891	274.157
Other liabilities .....		543.558	412.307
		6.479.021	5.271.093
Total liabilities		13.580.835	13.589.111
<b>Stockholders' equity and liabilities</b>		<b>22.230.628</b>	<b>21.988.863</b>

# Statement of Cash Flows January 1 - June 30, 2003

	Notes	2003 1.1. - 30.6.	2002 1.1. - 30.6.
<b>Cash flows from operating activities:</b>			
Net profit for the period .....		602.857	1.754.534
Adjustment to reconcile net profit to net cash:			
Gain on sale of assets .....		( 3.449)	( 91.163)
Depreciation and special provision.....	14	546.119	505.358
Indexation and currency fluctuation on long-term debt .....		( 184.497)	( 605.446)
Effects of associated companies .....		( 87.230)	( 61.322)
Other items .....		( 40.247)	122.166
		833.553	1.624.127
Working capital from operation			
Changes in operating assets and liabilities .....		279.086	1.044.365
		1.112.639	2.668.492
<b>Cash flows from investing activities:</b>			
Investment in intangible assets .....	7,12	( 123.350)	
Investment in fixed assets .....	13	( 370.598)	( 1.536.173)
Proceeds from sale of fixed assets .....		13.700	664.793
Investment in subsidiaries and associated companies .....		( 2.780)	( 1.667.036)
Investment in other companies .....		( 400.086)	( 1.501.555)
Proceeds from sale of assets in other companies .....			95.637
Long-term notes, decrease .....		94.826	181.898
Inventories, increase .....		( 217.142)	
Receivables, decrease (increase) .....		182.864	( 24.830)
		( 822.566)	( 3.787.266)
<b>Cash from financing activities:</b>			
Own shares, change .....			364.116
Dividends paid .....	21	( 332.000)	( 496.023)
Proceeds from long-term borrowing .....		136.300	2.204.286
Payments of long-term debt .....		( 903.678)	( 522.389)
Current liabilities, increase (decrease) .....		457.253	( 272.400)
		( 642.125)	1.277.590
Net cash (used in) provided by investing activities			
<b>(Decrease) increase in cash .....</b>		( 352.052)	158.816
<b>Cash at beginning of year .....</b>		372.027	47.758
<b>Cash at end of period .....</b>		19.975	206.574

# Notes

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## Accounting principles and policies

### *Basis of Preparation*

1. The Interim Financial Statements of Samherji hf. contains the Consolidated Financial Statements of the Company and its subsidiaries. The Financial Statements are prepared in Icelandic currency and the amounts are presented in thousands of Icelandic krónur. It is based on cost accounting and is prepared according to the same accounting principles as for the previous year.
2. Subsidiaries are companies in which the Company holds controlling interest. The Financial Statements of the subsidiaries are included in the Consolidated Financial Statements of the Company from the time of the acquisition of majority interest until the interest is no longer held. Balances between Group companies and intercompany transaction are eliminated in the Consolidated Financial Statements.
3. Associated companies are companies where the Group has significant influence over the financial and operational policies but not controlling interest. The Consolidated Financial Statements include the Group's share in the net profit or loss of associated companies. Should the Group's share of loss be higher than the book value of an associated company the book value is recorded at zero and further share of loss is not recorded unless the Company has granted guarantees for the associated company or it has financed it.

### *Foreign Currency*

4. Operational revenue and expenses in foreign currencies are converted at the exchange rate on the transaction date. Assets and liabilities in foreign currencies are converted to ISK at the June end 2003 exchange rate. Currency fluctuations are included in the Statement of Earnings. Assets and liabilities in foreign currencies are entered at June end 2003 exchange rate. Currency fluctuations are included in the Statement of Earnings.

### *Financial Statements of Foreign Subsidiary*

5. Assets and liabilities of a foreign subsidiary are converted into ISK at the June-end 2003 exchange rate. Revenue and expenses of the foreign subsidiary are converted into ISK at the average exchange rate for the period. Exchange rate difference thus created due to the conversion into ISK is entered in the stockholders' equity. The Parent Company's share in revaluation and operational results of its foreign associated companies is entered in the Financial Statements by a comparable way.

### *Derivates*

6. Forward contracts and currency and interest rate and option swap contracts are entered in Financial Statements at estimated market value at June-end 2003.

The Company has entered into swap contracts to limit its risk regarding currency and interest rates. Accrued interest due to these contracts is included in the Financial Statements and the effect of these contracts is included in the information on specification of long-term debt according to currencies, see note 23.

### *Intangible Assets*

7. The intangible assets in the Balance Sheet consists of fishing licenses and catch quota and also premium of shares in a subsidiary, which is linked to the above mentioned assets. Fishing licenses and catch quota are expensed over the period of seventeen years, but premium due to investment in subsidiary, which primarily consists of fishing licenses and catch quota, is expensed over the period of twenty years. Catch quota and fishing licenses of a subsidiary in foreign territorial waters is entered in the Balance Sheet among fixed assets and is not depreciated in the subsidiary's Financial Statements. In the Consolidated Financial Statements of Samherji hf. these fishing licenses and catch quota are depreciated in the same way as in the Financial Statements of the Parent Company. Goodwill due to investments in other subsidiaries and its acquisition cost is entered under the item other intangible assets and it will be expensed over the period of five to ten years.

### *Fixed Assets*

8. Fixed assets are capitalized at historical cost less depreciation. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the assets. Estimated useful life is specified as follows:

Buildings .....	25 years
Fishing vessels .....	17 years
Machinery and equipment .....	3 - 8 years

## Notes cont.:

### *Inventories*

9. Seafood inventories are valued at average production cost which consists of direct and indirect production cost. Inventories of farmed fish and juveniles are capitalized at cost price or estimated day's price whichever is lower. Farmed fish and juveniles which is not intended for sale during the next year is entered as inventories among fixed assets in the Balance Sheet but farmed fish and juveniles which will be sold during the next year are entered as current assets. Supplies are entered at the latest purchase price, except for used fishing gear which is valued at 50% of its purchase price.

### *Deferred Income Tax Liability*

10. The Company's deferred income tax liability has been calculated and recorded in the Financial Statements. The liability represent the timing difference in the accounting methods used for tax purposes compared to the ones used for Financial Statements, and which are due to the fact that income tax calculation is based on other premises than the premises used for financial reporting. Thus the difference mainly consists of the timing differences in expenses, especially depreciation, which are generally expensed earlier for income tax purposes than in the Financial Statements..

### **Quarterly Statements**

11. Summary of the Group's operating results by quarters:	Q 2	Q 1	Q 4	Q 3	Q 2
	1.4-30.6.	1.1-31.3.	1.10-31.12.	1.7-30.9.	1.4-30.6.
	2003	2003	2002	2002	2002
Operating revenue .....	3.004.096	3.232.956	3.262.466	2.563.301	3.297.777
Operating expenses excl. depreciation .....	(2.487.802)	(2.548.199)	(2.761.465)	(2.083.023)	( 2.495.028)
Operating profit less depreciation (EBITDA) .....	516.294	684.757	501.001	480.278	802.749
Depreciation .....	( 273.395)	( 272.724)	( 383.261)	( 187.779)	( 216.152)
Special provision of fixed assets .....			( 167.226)		( 34.688)
Operating profit (EBIT) .....	242.899	412.033	( 49.486)	292.499	551.909
Financial income and expenses .....	( 211.991)	242.065	( 56.547)	( 38.348)	276.736
Income tax .....	( 28.251)	( 84.728)	15.829	( 58.971)	( 129.950)
Minority interest in subsidiaries .....	20.059	10.771	19.721		
Net profit (loss) .....	<u>22.716</u>	<u>580.141</u>	<u>( 70.483)</u>	<u>195.180</u>	<u>698.695</u>

### **Intangible Assets**

12. Intangible assets specifies as follows:

	Catch quota	Other	Total
	intangible assets		
Book value 1.1.2003 .....	3.031.220	283.280	3.314.500
Additions during the period .....	123.350	19.331	142.681
Effects of exchange rate fluctuations during the period .....	( 4.304)		( 4.304)
Expensed during the period .....	( 152.604)	( 38.507)	( 191.111)
Book value 30.6.2003 .....	<u>2.997.662</u>	<u>264.104</u>	<u>3.261.766</u>

## Notes cont.:

### Fixed assets

13. Property and equipment, revaluation and depreciation are as follows:

	Buildings	Fishing vessels	Machinery & equipment	Total
Total value 1.1.2003 .....	1.926.384	8.242.752	3.543.226	13.712.362
Depreciation total 1.1.2003 .....	( 948.967)	(2.676.363)	(2.344.894)	( 5.970.224)
Book value 1.1.2003 .....	977.417	5.566.389	1.198.333	7.742.138
Effects of exchange rate fluctuations during the period .....		( 7.498)	( 21)	( 7.519)
Additions during the period .....	4.826	89.613	276.158	370.598
Depreciation during the period .....	( 27.036)	( 209.319)	( 118.653)	( 355.008)
Book value 30.6.2003 .....	945.232	5.439.185	1.355.542	7.739.959
Depreciation ratios .....	2-4%	6-33%	12-33%	

14. Depreciation according to the Statement of Earnings amounts to ISK 546.1 million as follows:

Depreciation of fixed assets, see note 13 .....	355.008
Depreciation of catch quota and other intangible assets, see note 12 .....	191.111
Depreciation according to the Statement of Earnings .....	546.119

### Investments

#### Subsidiaries

15. At the end of June three of the Company's subsidiaries were merged under the name of Íslandslax hf., i.e. Íslandslax hf., Víkurlax ehf. and Reyðarlax ehf. In addition Íslandsbleikja ehf. was merged to Íslandslax hf. but Íslandslax hf. was the sole owner of that company. At the same time the shares of Samherji hf. in the subsidiaries Íslandslax hf., Silfurstjarnan hf., Sæsilfur hf. and Fiskeldi Eyjafjarðar hf. were transferred to the holding company Oddeyri ehf. which is wholly owned by Samherji hf. The effects of this on the operation results and the Balance Sheet of Samherji hf. are nil. During the period the Company acquired 11.4% share in Silfurstjarnan hf.

Shares in subsidiaries at June 30, 2003 are as follows:

	Share	Book value	Entered in the Statement of Earnings
Onward Fishing Company Ltd., UK .....	100,0%	377.606	51.502
Oddeyri ehf., Akureyri .....	100,0%	630.825	( 103.837)
Hjalteyrin ehf., Árskógssandi .....	100,0%	502	
Shares in subsidiaries total .....		1.008.933	( 52.334)

#### Owned by subsidiary:

Íslandslax hf., Grindavík .....	80,7%	99.133	( 58.865)
Silfurstjarnan hf., Öxarfirði .....	70,9%	140.780	( 10.708)
Sæsilfur hf., Mjóafirði .....	57,3%	205.435	( 34.265)
		445.348	( 103.837)

## Notes cont.:

### Associated Companies

16. At the beginning of the year 2003 two of the Company's associated companies, Síldarvinnslan hf. and SR-mjöl hf. were merged under the name of Síldarvinnslan hf. In June the associated company FAB GmbH. was divided into two companies, FAB GmbH. and Reederei GmbH. This change has no effects on the Company's Balance Sheet during the period.

Shares in associated companies are as follows:

	Share	Book value	Entered in the Statement of Earnings
FAB GmbH. / Reederei GmbH., Germany .....	35,0%	83.227	( 17.205)
Framherji Sp/f., Faeroe Islands .....	30,0%	69.778	26.548
Hraðfrystistöð Þórshafnar hf. ....	49,7%	655.718	10.721
Krossanes hf., Akureyri .....	100,0%	131.743	( 41)
Rif ehf., Hrísey .....	49,0%	64.166	3.277
Seagold Ltd., UK .....	50,0%	53.145	5.613
Seley hf., Fjarðabyggð .....	30,0%	29.010	( 990)
Síldarvinnslan hf., Neskaupsstað .....	20,6%	2.107.026	43.465
Snæfugl ehf., Fjarðabyggð .....	55,0%	239.629	25.537
SNS holding Ltd., Canada .....	43,2%	10.045	
Sæblikinn ehf., Akureyri .....	50,0%	251	
<b>Parent total .....</b>		<b>3.443.738</b>	<b>96.925</b>
<b>Owned by subsidiary:</b>			
Ulloriaq, Greenland .....	33,3%	15.251	( 9.694)
<b>Group total .....</b>		<b>3.458.988</b>	<b>87.230</b>

### Shares in other companies

17. In January 2003 Samherji hf. acquired 2,6% share in the Norwegian fishing industry and fish farming firm Fjord Seafood ASA by nominal value of NOK 11.2 million for ISK 317.1 million.

Shares in other companies are as follows:

	Share	Book value
Fjord Seafood ASA .....	2,6%	317.128
Kaldbakur fjárfestingarfélag hf. ....	15,3%	794.500
Primex hf. ....	15,7%	163.740
Other companies .....		32.935
Shares in other companies total .....		1.308.303
Provision .....		( 80.000)
<b>Parent Company total .....</b>		<b>1.228.303</b>
<b>Owned by subsidiaries:</b>		
Fiskeldi Eyjafjarðar hf. ....	16,8%	214.294
Shares in other companies .....		3.024
<b>Subsidiaries total .....</b>		<b>217.318</b>
<b>Group total .....</b>		<b>1.445.621</b>

## Notes cont.:

### Long-term notes

18. Loans to associated companies are as follows:

Notes in CAD .....	36.248
Current maturities .....	( 8.529)
Loans to associated companies total .....	<u>27.719</u>

### Inventories

19. Inventories are as follows:

Finished goods .....	1.466.193
Farmed fish and juveniles .....	579.561
Supplies .....	<u>533.536</u>
Inventories entered as current assets .....	2.579.290
Inventories of farmed fish and juveniles entered as fixed assets .....	<u>514.778</u>
Total inventories .....	<u>3.094.068</u>

### Stockholders' equity

20. Total capital stock at June end amounted to ISK 1,660.0 million according to the Company's articles of association. One vote is attached to each share of one ISK in the Parent Company.

21. Changes in stockholders' equity:

	Capital stock	Capital in excess of par	Statutory reserve	Retained earnings	Total
Stockholders' equity 1.1.2003 .....	1.660.000	847.933	176.503	5.517.338	8.201.774
Dividends paid .....				( 332.000)	( 332.000)
Profit for the period .....				602.857	602.857
Revaluation of assets .....				19.500	19.500
Stockholders' equity 30.6.2003 .....	<u>1.660.000</u>	<u>847.933</u>	<u>176.503</u>	<u>5.807.695</u>	<u>8.492.131</u>

### Obligations

22. The deferred income tax liability of the Company amounted to ISK 760.4million at the end of June 2003 according to the Balance Sheet. The change in the liability during the period is as follows:

Balance 1.1. 2003 .....	769.826
Income tax for the period .....	112.979
Income tax payable in 2004 .....	( 122.398)
Deferred income tax liability at June end 2003 .....	<u>760.407</u>

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

Intangible assets .....	222.869
Fixed assets .....	360.246
Shares in other companies .....	189.413
Tax loss carry forward .....	( 37.009)
Other items .....	<u>24.888</u>
Deferred income tax liability at June end 2003 .....	<u>760.407</u>

## Notes cont.:

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### Long-term debt

23. Long-term debt specify as follows:

Loans in JPY .....	1.634.653
Loans in USD .....	1.472.900
Loans in EUR .....	1.377.964
Loans in CHF .....	639.718
Loans in GBP .....	398.591
Loans in RFI .....	214.142
Loans in other currencies .....	28.558
Loans in foreign currencies total .....	5.766.526
Indexed loans .....	2.732.284
Total long-term debt including current maturities .....	8.498.810
Current maturities .....	( 2.157.403)
Total long-term debt according to the Balance Sheet .....	6.341.407

### Other matters

24. In June 2002 Samherji hf. was sentenced to pay damages to the Norwegian State by the amount of NOK 10,0 million which equals ISK 106.0 million. Samherji hf. has appealed this verdict to a higher court but it is not known when the case will be received for adjudication. As the company does not consider itself liable for damage, an expense due to this case is not entered in the Financial Statements.