



Byggðastofnun



Annual Accounts of Byggðastofnun

Institute of Regional Development in Iceland

2004

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Signatures of the board of Directors of the Institute of Regional Development

The annual accounts of the Institute of Regional Development for the year 2004 have been prepared in accordance with similar accounting principles as in previous years. According to the Profit and loss account, the Institute operated at a loss of ISK 385.5 million. According to the Balance sheet, equity capital amounted to ISK 1.314 million at year-end.

The equity ratio, as defined by the Act on Credit Institutions other than Commercial and Savings Banks, was 9.59%.

The Board of Directors, Director-General and Director of Finance hereby affix their signatures in attestation to the annual accounts of the Institute of Regional Development for the year 2004.

Reykjavík, 4.3 2005.

Heraðs Stjórnardáttir
Chairman of Board

<i>Guðjón Guðmundsson</i>	<i>Kjartan Ólafsson</i>
<i>Drífa Þjartardáttir</i>	<i>Gunnlaugur Stefánsson</i>
<i>Þorvaldur T. Jónsson</i>	<i>Örlygur Hnefíll Jónsson</i>

Adalsteinn Þorsteinsson
Director-General

Friðbjörgur Max Karlsson
Director of Finance

Auditors' report

On behalf of the National Audit Bureau we have audited the 2004 annual accounts of the Institute of Regional Development. The annual accounts consist of a Profit and loss account, Balance sheet, Statement of cash flow and Notes. The annual accounts are submitted by the Directors of the Institute and on their responsibility, in accordance with laws and regulations. Our responsibility rests in the opinions we express concerning these annual accounts on the basis of our audit.

The audit was carried out in accordance with generally accepted auditing standards. According to such standards, we are to organise and perform our audit in order to ascertain with reasonable certainty that the annual accounts have no substantial flaws or limitations. The audit includes analysis, random spot checks and other investigations of data to verify the amounts and information presented in the annual accounts. The audit also includes investigation of the accounting practices used and assessment rules followed in compiling the annual accounts, together with an evaluation of their overall presentation. We believe that our audit provides a sufficiently trustworthy basis for our opinion.

It is our opinion that the annual accounts provide a true and fair picture of the performance of the Institute of Regional Development for the year 2004, its financial position as of 31 December 2004 and changes in liquid assets for the year 2004, in conformity with law, regulations and generally accepted accounting principles.

Reykjavík, 4.3 2005.

Ernst & Young hf.

Árni Snæbjörnsson

Profit and Loss Account 2004

	<i>Note</i>	2004	2003
Financial Income		ISK 000s	ISK 000s
Interest from securities		112.782	42.372
Interest on loans		1.045.500	1.060.592
		1.158.282	1.102.964
Financial Expenses			
Interest on borrowings		819.020	600.627
Other interest expense		70.081	60.620
		889.101	661.248
<i>Net financial income</i>		269.180	441.716
Other Income			
Regular budget allocation		307.100	287.410
Allocations from supplementary budget		44.502	100.000
Foreign exchange earnings (losses)		(106.295)	(118.307)
Miscellaneous income		28.440	28.190
		273.747	297.292
<i>Net income</i>		542.928	739.009
Other Expenses			
Grants to economic development companies		120.218	114.728
Other grants		56.660	27.725
Wages and wage-related expenses	5,6	158.513	155.977
General operating expenses		122.602	108.743
Depreciation of fixed assets		7.836	7.836
Provision to loan-loss acct. & adjustment to share capital	2,10	462.563	664.366
		928.391	1.079.375
Net profit (loss) before extraordinary items		(385.463)	(340.366)
Extraordinary Items			
Allocation from national treasury		0	347.600
		0	347.600
Net Earnings (Losses)		(385.463)	7.234

Balance Sheet

Assets	Note	2004 ISK 000s	2003 ISK 000s
Bank Deposits and Securities			
Funds and bank deposits	7	2.620.525	1.067.848
		<u>2.620.525</u>	<u>1.067.848</u>
Loans			
Loans to customers	1,8	10.159.621	12.158.092
Appropriated assets	9	227.120	402.388
		<u>10.386.741</u>	<u>12.560.481</u>
Fund holding Certificates and shareholdings			
Fund holding certificates			
Shares	11	1.324.478	1.183.469
		<u>1.324.478</u>	<u>1.183.469</u>
Other Assets			
Accounts receivable		87.320	91.749
Real estate	1,12	89.659	97.495
		<u>176.979</u>	<u>189.244</u>
Total Assets		<u>14.508.723</u>	<u>15.001.042</u>

As of 31. December 2004

Liabilities and Capital	Note	2004 ISK 000s	2003 ISK 000s
Funding			
Securities issued	1,14	7.418.524	5.419.219
Loans from financial institutions		4.886.253	7.080.978
		<u>12.304.777</u>	<u>12.500.197</u>
Other liabilities			
Provision to deprecation of guarantees		60.321	58.812
Creditors		180.043	170.538
		<u>240.363</u>	<u>229.350</u>
Calculated Obligations			
Provision to pension fund	3	649.601	572.049
		<u>649.601</u>	<u>572.049</u>
Total liabilities		<u>13.194.741</u>	<u>13.301.597</u>
Equiti Capital	4,15	<u>1.313.982</u>	<u>1.699.445</u>
Total Liabilities and Capital		<u>14.508.723</u>	<u>15.001.042</u>
Outside the Balance Sheet			
Guarantees provided		421.929	1.354.633

Statement of Cash flow 2004

	2004	2003
	ISK 000s	ISK 000s
Cash flow from operations		
Net profit (loss)	(385.463)	7.234
<i>Items not affecting liquid assets:</i>		
Provision to loan-loss acct. & adjustment to share capital	465.349	673.474
Allocations due to pension obligations	77.552	70.891
Calculated inflation adjustment	0	(100.000)
Depreciation of fixed assets	7.836	7.836
Interest, indexation and exchange rate differential	698.678	219.493
Unpaid grants	(7.270)	1.790
Cash flow from operations	856.682	880.718
 Investment activities		
Repayment of loans	2.607.894	1.365.506
New loans made	(1.331.231)	(1.624.808)
Redeemed assets	(9.612)	5.372
Shares	(220.461)	(324.140)
Sold real estate	0	(874.558)
Purchased real estate	0	874.558
Debtors	4.429	(80.427)
Investment activities	1.051.018	(658.498)
 Financing activities		
Repayment of borrowings	(1.932.584)	(824.876)
New borrowings	1.560.787	1.417.467
Accounts payable	16.774	(13.949)
Financial activities	(355.023)	578.642
 Increase (decrease) in cash on hand	1.552.677	800.862
Cash on hand at beginning of year	1.067.848	266.986
Cash on hand at year-end	2.620.525	1.067.848

Notes to the 2004 Financial statements

1. Accounting principles

1. The annual accounts of the Institute of Regional Development are prepared in accordance with legislation on annual accounts and rules on the compilation of annual accounts for commercial banks, savings banks and other credit institutions.

Foreign exchange earnings (losses) are now entered under operating costs in the profit and loss account, but were previously entered under financial income and financial expenses. The figures for the previous year have been entered in accordance with this.

The annual account is not price-level adjusted. The legal provision for price-level adjustment was changed by Act No. 133/2001 but had been obligatory in the previous Act No. 144/1994. The change in the measure of operating performance has to be taken in account in comparison with the previous annual account. The main change is that debit entry for price-level adjustment is no longer included, but this amounted to ISK 109 million in the previous year.

Depreciation is calculated as a fixed annual percentage of the initial cost at the end of year 2001, but of cost prices from 1 January 2002. Further explanation of depreciation is provided in note 8.

Accrued foreign exchange earnings (losses) are entered in assets and liabilities in the balance sheet. Inflation rate-indexed assets and liabilities are entered in accordance with the indices as of 1 January 2003. Foreign exchange rated assets and liabilities are entered in ISK according to exchange rate at the end of year 2002.

2. Provisions to loan-loss account

Provision is made for contributions to loan-loss accounts to meet the risk incurred in lending operations, but does not reflect the final loan losses. Contributions to the loan-loss account are entered as expenses in the Profit and loss account, after deducting repayments on loans previously written off.

3. Pension obligations

According to actuarial calculations, pension obligations are estimated at ISK 650 million at the end of year 2004. In accordance with regulations on the compilation of the financial statements of commercial banks, savings banks and other credit institutions, interest and indexation are calculated on accrued pension obligations that are entered under interest charges and balanced against increases in pension obligations.

4. Tourism Fund of Iceland

The Institute has taken over all outstanding loans from the Tourism Fund of Iceland with its assets and liabilities in full. The takeover took place on 30. november 2003. The value of assets was ISK 774,6 millions and the contribution from the Treasury ISK 100 millions.

	2004	2003
5. Wages and wage-related Expenses	ISK 000s	ISK 000s
Wages	120.912	107.082
Pension contributions	28.997	41.468
Other wage-related expenses	8.603	7.427
	<u>158.513</u>	<u>155.977</u>

6. Loans

Breakdown by sector:		
Local authorities	1,89%	1,67%
Industrial sector:		
Fisheries	40,48%	45,28%
Manufacturing	14,56%	13,04%
Services	34,11%	30,58%
Aquaculture	4,38%	4,92%
Other	4,57%	4,50%
	<u>100,00%</u>	<u>100,00%</u>

Loans by maturity period:

	2004	2003
	ISK 000s	ISK 000s
On demand	671.147	872.020
Up to 3 months	818.175	
Less than 1 year	671.043	1.326.497*
1 to 5 years	3.251.148	4.703.766
Over 5 years	4.748.108	5.253.809
	<u>10.159.621</u>	<u>12.158.092</u>

Appropriated assets

Real estate	226.820	336.936
Moveable assets	300	4.699
	<u>227.120</u>	<u>341.635</u>

Provision to loan-loss account

According to the Regulation on the Institute of Regional Development, a loan-loss account is to be established which reflects the Institute's current exposure as a result of loans granted. Whenever decisions are taken on granting loans or guarantees, or purchasing shares in an enterprise, the risks involved shall be assessed and provision made to the loan-loss account. Thus the loan-loss account includes provision for each loan granted by the Institute.

Changes during year (ISK 000s)

	2004	2003
Acct. balance at beginning of year	1.512.509	1.644.237
Contribution because of the takeover of the Tourism Fund of Iceland.	0	90.000
Provisions to loan-loss account	384.387	444.315
Loans written off	(686.280)	(666.043)
	<u>1.210.616</u>	<u>1.512.509</u>

7. Shareholdings

Breakdown of shares held by the RDI at year-end, by nominal value and holding proportion:

	Holding	Nominal value ISK 000s
Holding companies		
Eignarhaldsfélag Austurlands hf	40,00%	120.000
Eignarhaldsfélag Glámu hf	40,00%	102.000
Eignarhaldsfélag Suðurnesja hf	19,40%	96.840
Eignarhaldsfélag Suðurlands hf	40,00%	109.160
Eignarhaldsfélag Vestmannaeyja hf	33,76%	78.500
Hvetjandi ehf.	29,44%	19.400
Vesturland hf., eignarhaldsfélag	40,00%	120.541
Tækifæri ehf	39,99%	217.072
Total holding companies		863.513
Economic development companies:		
Atvinnuþróunarf. Vestfjarða hf	20,00%	1.200
Atvinnuþróunarf. Þingeyinga hf	33,30%	1.500
Hagfélagið hf	28,90%	500
Total econ. dev. companies		3.200
Other companies:		
Aðlöðun ehf.	5,42%	1.714
Ámundarkinn ehf.	18,60%	8.000
Ásgarður ehf.	15,47%	15.000
Baðfélag Mývatnssveitar ehf.	20,83%	25.000
Bakkavík hf.	16,61%	31.097
Bíldælingur	30,00%	9.000
Dalagisting ehf., Búðardal	16,31%	8.000
Dýralíf ehf.	28,92%	4.000
Eignarhaldsfél. Hallormur ehf.	20,00%	2.814
Eldisfóður hf.	40,00%	1.200
Ferðaskrifstofa Austurlands ehf.	29,03%	4.500
Feyging ehf.	14,44%	17.491
Fjallalamb hf.	15,43%	10.000
Fjarðaraldan hf.	32,61%	15.000
Fjölnet hf.	20,63%	10.000
Forsvar ehf.	30,00%	4.500
Frumkvöðlasetur Austurlands	23,02%	2.800
Gjöll ehf.		4.000
Grand hótél Mývatn ehf.	15,50%	10.000
Hitaveita Dalabyggðar	26,67%	20.000
HotMobileMail ehf.	24,53%	15.000
Hótel Flúðir hf.	19,38%	9.327
Hótel Hellissandur hf.	8,62%	5.000
Hótel Ísafjörður hf.	17,55%	8.680
Hótel Varmahlíð hf.	13,04%	3.000
Íslenska polyofélagið ehf.	26,18%	5.000
Ísprjón ehf.	33,07%	6.376
Kjörorka ehf.	8,25%	2.000
Laugarhóll ehf.	17,15%	5.000
Lónið ehf.	28,44%	6.106
Lónshöfn ehf.	18,44%	3.300
MT Bílar ehf.	18,31%	133
Mýflug hf.	27,57%	8.789
Mýrdælingur ehf.	23,89%	2.000

Norðurós ehf.	6,40%	1.833
Norðvestur bandalagið hf.	3,61%	10.000
ORF Líftækni hf.	5,88%	3.000
Plastmótun ehf.	7,82%	733
P/F Smyril-line	3,22%	55.650
Rennex ehf.	10,71%	600
Reykofninn ehf.	19,80%	6.667
Reynihlíð hf.	27,47%	5.000
Saxa smiðjufélag ehf.	24,22%	11.230
Skaginn hf.	8,89%	2.984
Sindraberg ehf.	21,13%	25.000
Sláturfélag Austurlands fsvf.	28,00%	18.000
Sláturfélag Dalamanna ehf.	77,04%	11.000
Snerpa ehf.	21,43%	750
Snorri Þorfinnsson ehf.	28,66%	12.000
Sumarbyggð ehf.	23,36%	2.500
Sæferðir ehf.	24,39%	20.000
Textíll ehf.	28,91%	3.500
Trésmiðjan Borg ehf.	22,39%	10.000
Trico ehf.	9,09%	1.000
Tröllasteinn ehf.	18,92%	7.000
Yrkjar ehf.	13,85%	1.800
Vesturferðir ehf.	20,48%	4.000
Þörungaverksmiðjan hf.	32,16%	7.919
Þvottatækni ehf.	30,00%	729

Total other companies. 506.722

Total shares 1.373.435

The value of shares held by the Institute is entered in the financial statement as ISK 1.324.478

8. Real Estate

Breakdown of revaluation and depreciation of real estate:

	2004 ISK 000s Real Estate	2003 ISK 000s Fixtures
Total value 1/1	95.806	29.601
Addition during the year	95.806	29.601
Total value as of 31 December 2002	95.806	29.601
Depreciated 1/1	16.842	11.069
Depreciated during the year	1.916	5.921
	<u>18.758</u>	<u>16.990</u>
Book value as of 31 December 2002	77.048	12.611

The official taxation value of land and buildings totalled ISK 45,6 million.
Insurance replacement value of buildings totalled ISK 111,2 million.

9. Assets and liabilities linked to foreign currencies inflation-indexed

	2004 ISK 000s	2003 ISK 000s
Exchange-rate-indexed:		
Assets	5.041.423	5.667.072
Liabilities	4.059.974	6.245.481
Difference	<u>981.449</u>	<u>(578.409)</u>
Inflation-indexed:		
Assets	5.065.437	6.491.277
Liabilities	8.244.803	6.253.098
Difference	<u>(3.179.366)</u>	<u>238.179</u>

10. Funding

Breakdown of liabilities by maturity period:

	2004 ISK 000s	2003 ISK 000s
Up to 3 months	919.186	
Less than 1 year	622.092	1.093.910*
1 to 5 years	3.702.277	6.361.124
Over 5 years	7.061.222	5.045.163
Total	<u>12.304.777</u>	<u>12.500.197</u>

11. Equity capital

Equity capital and equity capital ratio as stipulated by law:

	2004 ISK 000s	2003 ISK 000s
Equity capital A	<u>1.313.982</u>	1.699.445
Total equity capital	<u>1.313.982</u>	1.699.445
Risk-adjusted asset base	<u>13.698.142</u>	15.669.551
Capital ratio	<u>9,59%</u>	10,85%
	Retained earnings	Total
Balance as of 1 Jan. 2004	1.699.445	1.699.445
Losses for the year	<u>(385.463)</u>	<u>(385.463)</u>
	<u>1.313.982</u>	<u>1.313.982</u>