

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 30 November 2014

Hagar hf.
Hagasmára 1
201 Kópavogi
Iceland

Reg. no. 670203-2120

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Endorsement and Signatures by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Hagar hf. ("the Company") for the period 1 March to 30 November 2014 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements (IAS 34). The financial statements comprise the consolidated interim financial statements of Hagar hf. and its subsidiaries, together referred to as the "Group". The Company's auditors have not audited or reviewed these interim financial statements.

On 5 June, the Annual General Meeting of the Company approved to reduce share capital by the means of retirement of treasury shares in the amount of ISK 46.1 million. The reduction has no effects on the amounts presented in the financial statement of the Company.

According to the statement of comprehensive income, profit of the Group for the period amounted to ISK 2,848 million. According to the balance sheet, equity at the end of the period amounted to ISK 13,774 million.

In June 2014, the Company paid dividends to shareholders in the amount of ISK 1,172 million (ISK 1.00 per share).

Statement by the Board of Directors and the CEO

To the best of our knowledge the condensed consolidated interim financial statements give a true and fair view of the consolidated financial performance of the Company for the nine month period ended 30 November 2014, its assets, liabilities and consolidated financial position as at 30 November 2014 and its consolidated cash flow for the period then ended in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements (IAS 34).

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Hagar hf. for the period 1 March to 30 November 2014 and confirm them by means of their signatures.

Kópavogur, 8 January 2015

The Board of Directors:

Kristín Friðgeirsdóttir

Erna Gísladóttir

Salvör Nordal

CEO:

Finnur Árnason

Consolidated Statement of Comprehensive Income for the nine months ended 30 November 2014

	Note	Q3 2014 1.9.-30.11.	Q3 2013 1.9.-30.11.	2014 1.3.-30.11.	2013 1.3.-30.11.
Sales		18.400	17.997	56.763	55.790
Cost of goods sold		(13.978)	(13.584)	(43.076)	(42.263)
Gross profit		<u>4.422</u>	<u>4.413</u>	<u>13.687</u>	<u>13.527</u>
Other operating income		25	38	82	106
Salaries and related expenses		(1.674)	(1.594)	(4.888)	(4.710)
Other operating expenses		(1.630)	(1.623)	(4.695)	(4.687)
Results from operating activities before depreciation and amortisation		1.143	1.234	4.186	4.236
Depreciation and amortisation	7	(167)	(161)	(501)	(488)
Results from operating activities		976	1.073	3.685	3.748
Finance income		58	70	197	194
Finance expenses		(91)	(134)	(322)	(467)
Net finance expense	8	(33)	(64)	(125)	(273)
Profit before income tax		943	1.009	3.560	3.475
Income tax		(189)	(209)	(712)	(702)
Comprehensive income for the period		<u>754</u>	<u>800</u>	<u>2.848</u>	<u>2.773</u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		0,64	0,68	2,43	2,37

The notes on pages 8 to 10 are an integral part of these financial statements.

Consolidated Balance Sheet as at 30 November 2014

	Note	30.11.2014	28.2.2014
Assets			
Operating assets		5.425	5.275
Intangible assets		7.758	7.774
Non-current assets		<u>13.183</u>	<u>13.049</u>
Inventories	9	6.100	4.831
Trade and other receivables		756	745
Trade receivable - customers' credit cards		4.428	3.837
Cash and cash equivalents		3.010	4.143
Current assets		<u>14.294</u>	<u>13.556</u>
Total assets		<u><u>27.477</u></u>	<u><u>26.605</u></u>
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		11.330	9.654
Total equity		<u>13.774</u>	<u>12.098</u>
Liabilities			
Loans and borrowings	10	3.764	6.154
Incentives from operating leases		36	68
Deferred income tax liability		735	516
Total non-current liabilities		<u>4.535</u>	<u>6.738</u>
Loans and borrowings	10	671	669
Trade and other payables	11	7.366	6.076
Current tax liabilities		1.062	938
Provisions		69	86
Total current liabilities		<u>9.168</u>	<u>7.769</u>
Total liabilities		<u>13.703</u>	<u>14.507</u>
Total equity and liabilities		<u><u>27.477</u></u>	<u><u>26.605</u></u>

The notes on pages 8 to 10 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity for the nine months ended 30 November 2014

	Share capital	Share premium	Retained earnings	Total equity
Changes in equity from 1 March to 30 November 2013:				
Equity at 1 March 2013	1.172	1.272	6.287	8.731
Dividends paid, 0.50 ISK per share			(586)	(586)
Comprehensive income for the period			2.773	2.773
Equity at 30 November 2013	1.172	1.272	8.474	10.918
Changes in equity from 1 March to 30 November 2014:				
Equity at 1 March 2014	1.172	1.272	9.654	12.098
Dividends paid, 1.00 ISK per share			(1.172)	(1.172)
Comprehensive income for the period			2.848	2.848
Equity at 30 November 2014	1.172	1.272	11.330	13.774

The notes on pages 8 to 10 are an integral part of these financial statements.

Consolidated Statement of Cash Flows for the nine months ended 30 November 2014

	Q3 2014	Q3 2013	2014	2013
Note	1.9.-30.11.	1.9.-30.11.	1.3.-30.11.	1.3.-30.11.
Cash flows from operating activities:				
Profit for the period	754	800	2.848	2.773
Adjustments for:				
Gain on sale of assets	(1)	(3)	(9)	(22)
Incentives from operating lease	(11)	(11)	(32)	(32)
Depreciation and amortisation	7 167	161	501	488
Net finance expense	8 33	64	125	273
Income tax	189	209	712	702
Working capital provided by operating activities	<u>1.131</u>	<u>1.220</u>	<u>4.145</u>	<u>4.182</u>
Change in current assets	(924)	(1.154)	(1.870)	(1.495)
Change in current liabilities	426	204	1.590	478
Cash from operations before interest and taxes	<u>633</u>	<u>270</u>	<u>3.865</u>	<u>3.165</u>
Interest income received	57	79	202	196
Interest expenses paid	(92)	(178)	(326)	(488)
Income taxes paid	(309)	(259)	(686)	(436)
Net cash provided by (used in) operating activities	<u>289</u>	<u>(88)</u>	<u>3.055</u>	<u>2.437</u>
Cash flows used in investing activities:				
Acquisition of operating assets	(228)	(120)	(650)	(362)
Proceeds from the sale of operating assets	3	3	25	38
Net cash used in investing activities	<u>(225)</u>	<u>(117)</u>	<u>(625)</u>	<u>(324)</u>
Cash flows used in financing activities:				
Repayment of borrowings	(4.400)	(1.135)	(6.691)	(1.960)
Proceeds from borrowings	4.300	0	4.300	0
Dividends paid	0	0	(1.172)	(586)
Net cash used in financing activities	<u>(100)</u>	<u>(1.135)</u>	<u>(3.563)</u>	<u>(2.546)</u>
Net decrease in cash and cash equivalents	(36)	(1.340)	(1.133)	(433)
Cash and cash equivalents at beginning of the period	3.046	3.854	4.143	2.947
Cash and cash equivalents at 30 November	<u>3.010</u>	<u>2.514</u>	<u>3.010</u>	<u>2.514</u>

The notes on pages 8 to 10 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. Reporting entity

Hagar hf. (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Hagasmári 1, Kópavogur, Iceland. The condensed consolidated interim financial statements of the Company as at and for the nine months ended 30 November 2014 comprise the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities". The main activity of the Group is retail.

These condensed consolidated interim financial statements have not been audited or reviewed.

2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended 28 February 2014, which are available on the Company's website, www.hagar.is, and the OMX Nasdaq Iceland website, www.nasdaqomx.com.

The condensed consolidated interim financial statements were approved by the Board of Directors on 8 January 2015.

3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 28 February 2014.

These consolidated financial statements are presented in Icelandic kronas (ISK), which is the Company's functional currency. All financial information presented in Icelandic kronas has been rounded to the nearest million.

Changes in accounting policies

The Group has adopted all new standards and amendments to standards, including any consequential amendments to other standards as they have been endorsed by the EU, with a date of initial application of 1 January 2014. The adoption does not have any effect on the Group's financial statements.

4. Estimates

The preparation of interim financial statements in accordance with IFRS 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.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 28 February 2014.

5. Segment reporting

The Group does not present business segments as its operation is only in retail and in Iceland.

6. Goodwill

Impairment tests

There was no indication of impairment at 30 November 2014 and therefore goodwill was not tested for impairment.

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2014	2013
	1.3.-30.11.	1.3.-30.11.
Depreciation of operating assets	484	467
Amortisation of intangible assets	17	21
Total depreciation and amortisation	<u>501</u>	<u>488</u>

Notes, cont.:

8. Finance income and expense

Finance income and finance expense are specified as follows:

	2014 1.3.-30.11.	2013 1.3.-30.11.
Interest income	197	194
Total finance income	<u>197</u>	<u>194</u>
Interest expenses and indexation	(321)	(467)
Net foreign exchange loss	(1)	0
Total finance expense	<u>(322)</u>	<u>(467)</u>
Net finance expense	<u>(125)</u>	<u>(273)</u>

9. Inventories

Inventories are specified as follows:

	30.11.2014	28.2.2014
Groceries	3.886	3.349
Non food goods	1.891	1.297
Goods in transit	323	185
Total inventories	<u>6.100</u>	<u>4.831</u>
Inventory write-down at the end of the period	92	97

10. Loans and borrowings

Loans and borrowings are specified as follows:

	30.11.2014	28.2.2014
Non-current loans and borrowings		
Secured bank loans	3.595	5.972
Finance lease liability	169	182
Total loans and borrowings	<u>3.764</u>	<u>6.154</u>
Current loans and borrowings		
Current portion of secured bank loans	650	650
Current portion of finance lease liability	21	19
Total current loans and borrowings	<u>671</u>	<u>669</u>
Total interest bearing loans and borrowings	<u>4.435</u>	<u>6.823</u>

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	30.11.2014	28.2.2014	30.11.2014	28.2.2014
Debt in ISK, indexed	10,50%	10,50%	190	201
Debt in ISK, non-indexed	6,85%	7,00%	4.245	6.622
Non-current loans and borrowing, incl. current portion			4.435	6.823
Current portion of non-current loans and borrowings			(671)	(669)
Total non-current loans and borrowings			<u>3.764</u>	<u>6.154</u>

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	671	669
Repayments in 1 - 2 years	674	5.994
Repayments in 2 - 3 years	678	25
Repayments in 3 - 4 years	680	29
Repayments in 4 - 5 years	1.680	34
Subsequent	52	72
Total	<u>4.435</u>	<u>6.823</u>

During the period, the Company repaid ISK 1,957 million in secured bank loans in excess of contractual maturities.

Notes, cont.:

10. Loans and borrowings, contd.

On 22 September 2014, the Company refinanced loans and borrowing in the amount of ISK 4,341 million by signing a new loan agreement with Arion bank hf. in the amount of ISK 4,300 million. The Company will pay ISK 653 million annual instalments until 2019 when the remaining amount is due. The final maturity date can be extended until 2021 if certain conditions are met.

11. Trade and other payables

Trade and other payables are specified as follows:	30.11.2014	28.2.2014
Trade payables	6.192	4.697
Other payables	1.131	1.337
Incentives from operating leases	43	42
Total trade and other payables	<u>7.366</u>	<u>6.076</u>

12. Group entities

At 30 November 2014 the Company's subsidiaries were six. The subsidiaries included in the condensed consolidated interim financial statements are the following:

	Place of registration and operation	Ownership interest	
		30.11.2014	28.2.2014
Hagar verslanir ehf.	Iceland	100%	100%
Bananar ehf.	Iceland	100%	100%
Ferskar kjötvörur ehf.	Iceland	100%	100%
Noron ehf.	Iceland	100%	100%
Íshöfn ehf.	Iceland	100%	100%
Eignarhaldsfélagið Dagar ehf.	Iceland	100%	100%

The Parent Company has pledged all its shares in the abovementioned subsidiaries as collateral for loans and borrowings.

13. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	30.11.2014	28.2.2014
Current ratio - Current assets/current liabilities	1,56	1,74
Equity ratio - equity/total capital	50,1%	45,5%
Internal value of share capital	11,75	10,32