

Hagar hf.  
Condensed Consolidated  
Interim Financial Statements  
1 March - 31 May 2016

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

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The condensed consolidated interim financial statements of Hagar hf. ("the Company") for the period 1 March to 31 May 2016 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.

According to the statement of comprehensive income, profit of the Group for the period amounted to ISK 948 million. According to the balance sheet, equity at the end of the period amounted to ISK 17.316 million.

On 3 June, the Annual General Meeting of the Company approved that a ISK 1.70 per share dividend shall be paid to shareholders. The dividend payment in the amount of ISK 1.992 million was paid on 24 June 2016.

### **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 three month period ended 31 May 2016, its assets, liabilities and consolidated financial position as at 31 May 2016 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 31 May 2016 and confirm them by means of their signatures.

Kópavogur, 29 June 2016

The Board of Directors:

Kristín Friðgeirsdóttir

Erna Gísladóttir

Salvör Nordal

Sigurður Arnar Sigurðsson

Stefán Árni Auðólfsson

CEO:

Finnur Árnason

# Consolidated Statement of Comprehensive Income for the three months ended 31 May 2016

	Note	2016 1.3.-31.5.	2015 1.3.-31.5.
Sales .....		19.981	18.668
Cost of goods sold .....		( 15.069)	( 14.183)
<b>Gross profit</b> .....		<u>4.912</u>	<u>4.485</u>
Other operating income .....		54	45
Salaries and salary-related expenses .....		( 1.940)	( 1.697)
Other operating expenses .....		( 1.653)	( 1.621)
<b>Profit from operating activities before depreciation and amortisation</b> .....		1.373	1.212
Depreciation and amortisation .....	7	( 191)	( 171)
<b>Profit from operating activities</b> .....		1.182	1.041
Finance income .....		82	48
Finance expenses .....		( 79)	( 75)
<b>Net finance income (expense)</b> .....	8	<u>3</u>	<u>( 27)</u>
<b>Profit before income tax</b> .....		1.185	1.014
Income tax .....		( 237)	( 203)
<b>Comprehensive income for the period</b> .....		<u>948</u>	<u>811</u>
<b>Earnings per share:</b>			
Basic and diluted earnings per share of ISK 1 .....		0,81	0,69

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

## Consolidated Balance Sheet as at 31 May 2016

	Note	31.5.2016	29.2.2016
<b>Assets</b>			
Operating assets .....		9.008	8.956
Intangible assets .....		7.724	7.728
Total non-current assets		<u>16.732</u>	<u>16.684</u>
Inventories .....	9	5.342	4.756
Trade and other receivables .....		591	660
Trade receivable - customers' credit cards .....		4.239	3.795
Cash and cash equivalents .....		4.733	3.810
Total current assets		<u>14.905</u>	<u>13.021</u>
<b>Total assets</b>		<u><u>31.637</u></u>	<u><u>29.705</u></u>
<b>Equity</b>			
Share capital .....		1.172	1.172
Share premium .....		1.272	1.272
Retained earnings .....		14.872	13.924
Total equity		<u>17.316</u>	<u>16.368</u>
<b>Liabilities</b>			
Loans and borrowings .....	10	3.560	3.748
Deferred income tax liability .....		424	509
Total non-current liabilities		<u>3.984</u>	<u>4.257</u>
Loans and borrowings .....	10	765	763
Trade and other payables .....	11	8.188	7.018
Current tax liabilities .....		959	874
Provisions .....		425	425
Total current liabilities		<u>10.337</u>	<u>9.080</u>
Total liabilities		<u>14.321</u>	<u>13.337</u>
<b>Total equity and liabilities</b>		<u><u>31.637</u></u>	<u><u>29.705</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 three months ended 31 May 2016

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	Share capital	Share premium	Retained earnings	Total equity
<b>Changes in equity from 1 March to 31 May 2015:</b>				
Equity at 1 March 2015 .....	1.172	1.272	12.320	14.764
Comprehensive income for the period .....			811	811
Equity at 31 May 2015 .....	1.172	1.272	13.131	15.575
 <b>Changes in equity from 1 March to 31 May 2016:</b>				
Equity at 1 March 2016 .....	1.172	1.272	13.924	16.368
Comprehensive income for the period .....			948	948
Equity at 31 May 2016 .....	1.172	1.272	14.872	17.316

On 3 June, the Annual General Meeting of the Company approved that a ISK 1.70 per share dividend shall be paid to shareholders. The dividend payment in the amount of ISK 1.992 million was paid on 24 June 2016. The effect of the dividend has not been recognised to these financial statements as it was approved after the reporting date.

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

# Consolidated Statement of Cash Flows for the three months ended 31 May 2016

	Note	2016 1.3.-31.5.	2015 1.3.-31.5.
<b>Cash flows from operating activities</b>			
Profit for the period .....		948	811
Adjustment for:			
Gain on sale of assets .....	(	1)	( 3)
Incentives from operating lease .....	(	10)	( 11)
Depreciation and amortisation .....	7	191	171
Net finance (income) expense .....	8	( 3)	27
Income tax .....		237	203
Working capital provided by operating activities		<u>1.362</u>	<u>1.198</u>
Change in current assets .....	(	961)	184
Change in current liabilities .....		1.184	1.107
Cash from operations before interest and taxes		<u>1.585</u>	<u>2.489</u>
Interest income received .....		80	51
Interest expenses paid .....	(	76)	( 76)
Income taxes paid .....	(	239)	( 261)
Net cash provided by operating activities		<u>1.350</u>	<u>2.203</u>
<b>Cash flows used in investing activities</b>			
Acquisition of operating assets .....	(	251)	( 561)
Proceeds from the sale of operating assets .....		12	11
Net cash used in investing activities		<u>( 239)</u>	<u>( 550)</u>
<b>Cash flows used in financing activities</b>			
Repayment of borrowings .....	(	188)	( 187)
<b>Net increase in cash and cash equivalents</b> .....		923	1.466
<b>Cash and cash equivalents at beginning of the period</b> .....		<u>3.810</u>	<u>3.348</u>
<b>Cash and cash equivalents at 31 May</b> .....		<u><u>4.733</u></u>	<u><u>4.814</u></u>

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

# Notes to the Consolidated Interim Financial Statements

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## 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 three months ended 31 May 2016 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.

## 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 29 February 2016, which are available on the Company's website, [www.hagar.is](http://www.hagar.is), and the OMX Nasdaq Iceland website, [www.nasdaqomx.com](http://www.nasdaqomx.com).

The condensed consolidated interim financial statements were approved by the Board of Directors on 29 June 2016.

## 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 29 February 2016.

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 2016. The adoption does not have any effect on the Group's financial statements.

## 4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. 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 estimating uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 29 February 2016.

## 5. Segment reporting

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

## 6. Goodwill

### ***Impairment tests***

There was no indication of impairment at 31 May 2016 and therefore goodwill was not tested for impairment.



## Notes, cont.:

### 7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2016 1.3-31.5.	2015 1.3-31.5.
Depreciation of operating assets .....	187	169
Amortisation of intangible assets .....	4	2
	<u>191</u>	<u>171</u>

### 8. Finance income and expense

Finance income and finance expense are specified as follows:

Interest income .....	82	47
Net foreign exchange gain .....	0	1
Total finance income .....	<u>82</u>	<u>48</u>
Interest expense and indexation .....	( 79)	( 75)
Total finance expense .....	<u>( 79)</u>	<u>( 75)</u>
Net finance income (expense) .....	3	( 27)

### 9. Inventories

Inventories are specified as follows:

	31.5.2016	29.2.2016
Groceries .....	3.668	3.213
Non food goods .....	1.344	1.242
Goods in transit .....	330	301
Total inventories .....	<u>5.342</u>	<u>4.756</u>
Inventory write-down at period-end .....	103	103

### 10. Loans and borrowings

Loans and borrowings are specified as follows:

#### Non-current loans and borrowings

Secured bank loans .....	3.424	3.605
Finance lease liability .....	136	143
Total non-current loans and borrowings .....	<u>3.560</u>	<u>3.748</u>

#### Current loans and borrowings

Current portion of secured bank loans .....	740	739
Current portion of finance lease liability .....	25	24
Total current loans and borrowings .....	<u>765</u>	<u>763</u>

Total interest bearing loans and borrowings .....	<u>4.325</u>	<u>4.511</u>
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Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	31.5.2016	29.2.2016	31.5.2016	29.2.2016
Debt in ISK, non-indexed .....	7,15%	7,15%	4.164	4.344
Debt in ISK, indexed .....	10,50%	10,50%	161	167
Non-current loans and borrowing, incl. current portion .....			4.325	4.511
Current portion of non-current loans and borrowings .....			( 765)	( 763)
Total non-current loans and borrowings .....			<u>3.560</u>	<u>3.748</u>

## Notes, cont.:

### 10. Loans and borrowings, contd.

Contractual repayments of loans and borrowings are specified as follows:	<b>31.5.2016</b>	<b>29.2.2016</b>
Repayments in 1 year or less .....	765	763
Repayments in 1 - 2 years .....	768	767
Repayments in 2 - 3 years .....	773	771
Repayments in 3 - 4 years .....	1.972	2.165
Repayments in 4 - 5 years .....	47	45
Total .....	<u>4.325</u>	<u>4.511</u>

The fair value of financial assets and liabilities is equal to the carrying amount.

### 11. Trade and other payables

Trade and other payables are specified as follows:

Trade payables .....	5.787	4.979
Other payables .....	2.387	2.014
Incentives from operating leases .....	14	25
Total trade and other payables .....	<u>8.188</u>	<u>7.018</u>

### 12. Group entities

At 31 May 2016 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	
		31.5.2016	29.2.2016
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%
Gargon ehf. ....	Iceland	-	100%

The Parent Company has pledged all its shares in the above mentioned subsidiaries as collateral for loans and borrowings, except for Gargon ehf.

At 1 March 2016 the subsidiary, Gargon ehf., merged with the parent company.

### 13. Financial Ratios

The Group's primary financial ratios are as follows:

<b>Balance Sheet:</b>	<b>31.5.2016</b>	<b>29.2.2016</b>
Current ratio - Current assets/current liabilities .....	1,44	1,43
Equity ratio - equity/total capital .....	54,7%	55,1%
Internal value of share capital .....	14,77	13,97