

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 31 May 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 31 May 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 939 million. According to the balance sheet, equity at the end of the period amounted to ISK 13,037 million.

On 5 June, the Annual General Meeting of the Company approved that a ISK 1.00 per share dividend shall be paid to shareholders. The dividend payment in the amount of ISK 1.172 million is paid today, on 27 June 2014.

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 2014, its assets, liabilities and consolidated financial position as at 31 May 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 31 May 2014 and confirm them by means of their signatures.

Kópavogur, 27 June 2014

The Board of Directors:

Kristín Friðgeirsdóttir

Erna Gísladóttir

Stefán Árni Auðólfsson

Salvör Nordal

Sigurður Arnar Sigurðsson

CEO:

Finnur Árnason

Consolidated Statement of Comprehensive Income for the three months ended 31 May 2014

	Note	2014 1.3.-31.5.	2013 1.3.-31.5.
Sales		18.885	18.379
Cost of goods sold		(14.311)	(13.932)
Gross profit		<u>4.574</u>	<u>4.447</u>
Other operating income		27	31
Salaries and salary-related expenses		(1.646)	(1.598)
Other operating expenses		(1.550)	(1.544)
Results from operating activities before depreciation and amortisation		1.405	1.336
Depreciation and amortisation	7	(166)	(168)
Results from operating activities		1.239	1.168
Finance income		86	51
Finance expenses		(151)	(173)
Net finance expense	8	(65)	(122)
Profit before income tax		1.174	1.046
Income tax		(235)	(209)
Comprehensive income for the period		<u>939</u>	<u>837</u>
Earnings per share:			
Basic and diluted earnings per share of ISK 1		0,80	0,71

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

Consolidated Balance Sheet as at 31 May 2014

	Note	31.5.2014	28.2.2014
Assets			
Operating assets		5.339	5.275
Intangible assets		7.768	7.774
Total non-current assets		<u>13.107</u>	<u>13.049</u>
Inventories	9	5.105	4.831
Trade and other receivables		931	745
Trade receivable - customers' credit cards		4.106	3.837
Cash and cash equivalents		3.503	4.143
Total current assets		<u>13.645</u>	<u>13.556</u>
Total assets		<u><u>26.752</u></u>	<u><u>26.605</u></u>
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		10.593	9.654
Total equity		<u>13.037</u>	<u>12.098</u>
Liabilities			
Loans and borrowings	10	4.515	6.154
Incentives from operating leases		57	68
Deferred income tax liability		749	516
Total non-current liabilities		<u>5.321</u>	<u>6.738</u>
Loans and borrowings	10	670	669
Trade and other payables	11	6.875	6.076
Current tax liabilities		763	938
Provisions		86	86
Total current liabilities		<u>8.394</u>	<u>7.769</u>
Total liabilities		<u>13.715</u>	<u>14.507</u>
Total equity and liabilities		<u><u>26.752</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 three months ended 31 May 2014

	Share capital	Share premium	Retained earnings	Total equity
Changes in equity from 1 March to 31 May 2013:				
Equity at 1 March 2013	1.172	1.272	6.287	8.731
Comprehensive income for the period			837	837
Equity at 31 May 2013	1.172	1.272	7.124	9.568

Changes in equity from 1 March to 31 May 2014:

Equity at 1 March 2014	1.172	1.272	9.654	12.098
Comprehensive income for the period			939	939
Equity at 31 May 2014	1.172	1.272	10.593	13.037

On 5 June, the Annual General Meeting of the Company approved that a ISK 1.00 per share dividend shall be paid to shareholders. The dividend payment in the amount of ISK 1.172 million will be paid on 27 June 2014. The effect of the dividend has not been posted to these financial statements as it was approved after reporting period-end.

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 2014

	Note	2014 1.3.-31.5.	2013 1.3.-31.5.
Cash flows from operating activities			
Profit for the period		939	837
Adjustment for:			
Gain on sale of assets		(2)	(10)
Incentives from operating lease		(11)	(11)
Depreciation and amortisation	7	166	168
Net finance expense	8	65	122
Income tax		235	209
Working capital provided by operating activities		1.392	1.315
Change in current assets		(722)	(438)
Change in current liabilities		786	260
Cash from operations before interest and taxes		1.456	1.137
Interest income received		86	51
Interest expenses paid		(147)	(152)
Income taxes paid		(175)	(88)
Net cash provided by operating activities		1.220	948
Cash flows used in investing activities			
Acquisition of operating assets		(225)	(104)
Proceeds from the sale of operating assets		4	11
Net cash used in investing activities		(221)	(93)
Cash flows used in financing activities			
Repayment of borrowings		(1.639)	(658)
Net increase in cash and cash equivalents		(640)	197
Cash and cash equivalents at beginning of the period		4.143	2.947
Cash and cash equivalents at 31 May		3.503	3.144

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 three months ended 31 May 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 27 June 2014.

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 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 28 February 2014.

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 2014 and therefore goodwill was not tested for impairment.

Notes, cont.:

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2014	2013
	1.3-31.5.	1.3-31.5.
Depreciation of operating assets	162	162
Amortisation of intangible assets	4	6
	<u>166</u>	<u>168</u>

8. Finance income and expense

Finance income and finance expense are specified as follows:

	2014	2013
	1.3-31.5.	1.3-31.5.
Interest income	86	51
Total finance income	<u>86</u>	<u>51</u>
Interest expense and indexation	(151)	(168)
Net foreign exchange loss	0	(5)
Total finance expense	<u>(151)</u>	<u>(173)</u>
Net finance income and expense	<u>(65)</u>	<u>(122)</u>

9. Inventories

Inventories are specified as follows:

	31.5.2014	28.2.2014
Groceries	3.338	3.349
Speciality goods	1.542	1.297
Goods in transit	225	185
Total inventories	<u>5.105</u>	<u>4.831</u>
Inventory write-down at period-end	97	97

10. Loans and borrowings

Loans and borrowings are specified as follows:

	31.5.2014	28.2.2014
Non-current loans and borrowings		
Secured bank loans	4.338	5.972
Finance lease liability	177	182
Total non-current loans and borrowings	<u>4.515</u>	<u>6.154</u>
Current loans and borrowings		
Current portion of secured bank loans	650	650
Current portion of finance lease liability	20	19
Total current loans and borrowings	<u>670</u>	<u>669</u>
Total interest bearing loans and borrowings	<u>5.185</u>	<u>6.823</u>

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	31.5.2014	28.2.2014	31.5.2014	28.2.2014
Debt in ISK, indexed	10,5%	10,5%	197	201
Debt in ISK, non-indexed	6,9%	7,0%	4.988	6.622
Non-current loans and borrowing, incl. current portion			<u>5.185</u>	<u>6.823</u>
Current portion of non-current loans and borrowings			(670)	(669)
Total non-current loans and borrowings			<u>4.515</u>	<u>6.154</u>

Notes, cont.:

10. Loans and borrowings, contd.

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	670	669
Repayments in 1 - 2 years	4.360	5.994
Repayments in 2 - 3 years	25	25
Repayments in 3 - 4 years	29	29
Repayments in 4 - 5 years	34	34
Subsequent	67	72
Total	<u>5.185</u>	<u>6.823</u>

During the period, the Company repaid ISK 1.472 million of secured bank loans in excess of contractual maturities.

11. Trade and other payables

Trade and other payables are specified as follows:

	31.5.2014	28.2.2014
Trade payables	5.475	4.697
Other payables	1.358	1.337
Incentives from operating leases	42	42
Total trade and other payables	<u>6.875</u>	<u>6.076</u>

12. Group entities

At 31 May 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	
		31.5.2014	28.2.2014
Hagar verslanir ehf.	Iceland	100%	100%
Banana 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:	31.5.2014	28.2.2014
Current ratio - Current assets/current liabilities	1,63	1,74
Equity ratio - equity/total capital	48,7%	45,5%
Internal value of share capital	11,12	10,32