

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 31 May 2015

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 2015 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 811 million. According to the balance sheet, equity at the end of the period amounted to ISK 15,575 million.

On 4 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 25 June 2015.

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 2015, its assets, liabilities and consolidated financial position as at 31 May 2015 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 2015 and confirm them by means of their signatures.

Kópavogur, 30 June 2015

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 2015

	Note	2015 1.3.-31.5.	2014 1.3.-31.5.
Sales		18.668	18.885
Cost of goods sold		(14.183)	(14.311)
Gross profit		<u>4.485</u>	<u>4.574</u>
Other operating income		45	27
Salaries and salary-related expenses		(1.697)	(1.646)
Other operating expenses		(1.621)	(1.550)
Profit from operating activities before depreciation and amortisation		1.212	1.405
Depreciation and amortisation	7	(171)	(166)
Profit from operating activities		1.041	1.239
Finance income		48	86
Finance expenses		(75)	(151)
Net finance expense	8	(27)	(65)
Profit before income tax		1.014	1.174
Income tax		(203)	(235)
Comprehensive income for the period		<u>811</u>	<u>939</u>
Earnings per share:			
Basic and diluted earnings per share of ISK 1		0,69	0,80

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

Consolidated Balance Sheet as at 31 May 2015

	Note	31.5.2015	28.2.2015
Assets			
Operating assets		7.148	6.770
Intangible assets		7.753	7.750
Total non-current assets		<u>14.901</u>	<u>14.520</u>
Inventories	9	4.951	4.606
Trade and other receivables		752	864
Trade receivable - customers' credit cards		3.854	4.271
Cash and cash equivalents		4.814	3.348
Total current assets		<u>14.371</u>	<u>13.089</u>
Total assets		<u><u>29.272</u></u>	<u><u>27.609</u></u>
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		13.131	12.320
Total equity		<u>15.575</u>	<u>14.764</u>
Liabilities			
Loans and borrowings	10	4.052	4.239
Incentives from operating leases		13	25
Deferred income tax liability		729	527
Total non-current liabilities		<u>4.794</u>	<u>4.791</u>
Loans and borrowings	10	750	749
Trade and other payables	11	7.484	6.375
Current tax liabilities		619	880
Provisions		50	50
Total current liabilities		<u>8.903</u>	<u>8.054</u>
Total liabilities		<u>13.697</u>	<u>12.845</u>
Total equity and liabilities		<u><u>29.272</u></u>	<u><u>27.609</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 2015

	Share capital	Share premium	Retained earnings	Total equity
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
Changes in equity from 1 March to 31 May 2015:				
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

On 4 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 25 June 2015. 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 2015

	Note	2015 1.3.-31.5.	2014 1.3.-31.5.
Cash flows from operating activities			
Profit for the period		811	939
Adjustment for:			
Gain on sale of assets		(3)	(2)
Incentives from operating lease		(11)	(11)
Depreciation and amortisation	7	171	166
Net finance expense	8	27	65
Income tax		203	235
Working capital provided by operating activities		1.198	1.392
Change in current assets		184	(722)
Change in current liabilities		1.107	786
Cash from operations before interest and taxes		2.489	1.456
Interest income received		51	86
Interest expenses paid		(76)	(147)
Income taxes paid		(261)	(175)
Net cash provided by operating activities		2.203	1.220
Cash flows used in investing activities			
Acquisition of operating assets		(561)	(225)
Proceeds from the sale of operating assets		11	4
Net cash used in investing activities		(550)	(221)
Cash flows used in financing activities			
Repayment of borrowings		(187)	(1.639)
Net increase (decrease) in cash and cash equivalents		1.466	(640)
Cash and cash equivalents at beginning of the period		3.348	4.143
Cash and cash equivalents at 31 May		4.814	3.503

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

Notes to the Consolidated Interim 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 2015 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 28 February 2015, 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 30 June 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 2015.

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 2015. 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 2015.

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 2015 and therefore goodwill was not tested for impairment.

Notes, cont.:

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2015 1.3-31.5.	2014 1.3-31.5.
Depreciation of operating assets	169	162
Amortisation of intangible assets	2	4
	<u>171</u>	<u>166</u>

8. Finance income and expense

Finance income and finance expense are specified as follows:

Interest income	47	86
Net foreign exchange gain	1	0
Total finance income	<u>48</u>	<u>86</u>
Interest expense and indexation	(75)	(151)
Total finance expense	<u>(75)</u>	<u>(151)</u>
Net finance expense	<u>(27)</u>	<u>(65)</u>

9. Inventories

Inventories are specified as follows:

	31.5.2015	28.2.2015
Groceries	3.067	3.024
Non food goods	1.525	1.394
Goods in transit	359	188
Total inventories	<u>4.951</u>	<u>4.606</u>
Inventory write-down at period-end	97	99

10. Loans and borrowings

Loans and borrowings are specified as follows:

Non-current loans and borrowings

Secured bank loans	3.896	4.077
Finance lease liability	156	162
Total non-current loans and borrowings	<u>4.052</u>	<u>4.239</u>

Current loans and borrowings

Current portion of secured bank loans	728	728
Current portion of finance lease liability	22	21
Total current loans and borrowings	<u>750</u>	<u>749</u>

Total interest bearing loans and borrowings	<u>4.802</u>	<u>4.988</u>
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Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount 31.5.2015	Carrying amount 28.2.2015
	31.5.2015	28.2.2015		
Debt in ISK, non-indexed	6,1%	6,1%	4.624	4.805
Debt in ISK, indexed	10,5%	10,5%	178	183
Non-current loans and borrowing, incl. current portion			<u>4.802</u>	<u>4.988</u>
Current portion of non-current loans and borrowings			<u>(750)</u>	<u>(749)</u>
Total non-current loans and borrowings			<u>4.052</u>	<u>4.239</u>

Notes, cont.:

10. Loans and borrowings, contd.

Contractual repayments of loans and borrowings are specified as follows:	31.5.2015	28.2.2015
Repayments in 1 year or less	750	749
Repayments in 1 - 2 years	754	753
Repayments in 2 - 3 years	758	756
Repayments in 3 - 4 years	762	761
Repayments in 4 - 5 years	1.750	1.931
Subsequent	28	38
Total	<u>4.802</u>	<u>4.988</u>

11. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	5.641	4.811
Other payables	1.799	1.521
Incentives from operating leases	44	43
Total trade and other payables	<u>7.484</u>	<u>6.375</u>

12. Group entities

At 31 May 2015 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	
		31.5.2015	28.2.2015
Hagar verslanir ehf.	Iceland	100%	100%
Banarar 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 above mentioned subsidiaries as collateral for loans and borrowings

13. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	31.5.2015	28.2.2015
Current ratio - Current assets/current liabilities	1,61	1,63
Equity ratio - equity/total capital	53,2%	53,5%
Internal value of share capital	13,29	12,60