

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

The condensed consolidated interim financial statements of Hagar hf. ("the Company") for the period 1 March to 30 November 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 3,035 million. According to the balance sheet, equity at the end of the period amounted to ISK 16,412 million.

In June 2016, the Company paid dividends to shareholders in the amount of ISK 1,992 million (ISK 1.70 per share).

In November 2016 Hagar signed a purchase agreement to acquire all shares in the retail pharmacy Lyfja. The purchase price was ISK 6,700 million. The agreement was signed subject to due diligence and an approval of the Icelandic Competition Authority. The transaction is expected to be completed by 1st of July 2017.

In January 2017 Hagar signed a purchase agreement for 4.706,3 m² in Skeifunni 11. The purchased price was ISK 1,714 million. Included in the purchase price is company's right to insurance benefits, as a large part of the property was damaged in fire in 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 nine month period ended 30 November 2016, its assets, liabilities and consolidated financial position as at 30 November 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 30 November 2016 and confirm them by means of their signatures.

Kópavogur, 12 January 2017

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 nine months ended 30 November 2016

	Notes	Q3 2016 1.9.-30.11.	Q3 2015 1.9.-30.11.	2016 1.3.-30.11.	2015 1.3.-30.11.
Sales		18.951	18.787	59.663	57.177
Cost of goods sold		(14.119)	(14.134)	(44.796)	(43.192)
Gross profit		<u>4.832</u>	<u>4.653</u>	<u>14.867</u>	<u>13.985</u>
Other operating income		47	45	156	132
Salaries and related expenses		(1.947)	(1.788)	(5.701)	(5.152)
Other operating expenses		(1.534)	(1.637)	(4.744)	(4.824)
Results from operating activities before depreciation and amortisation		<u>1.398</u>	<u>1.273</u>	<u>4.578</u>	<u>4.141</u>
Depreciation and amortisation	7	(296)	(175)	(758)	(508)
Results from operating activities		<u>1.102</u>	<u>1.098</u>	<u>3.820</u>	<u>3.633</u>
Finance income		63	60	216	167
Finance expenses		(72)	(101)	(242)	(261)
Net finance expense	8	<u>(9)</u>	<u>(41)</u>	<u>(26)</u>	<u>(94)</u>
Profit before income tax		<u>1.093</u>	<u>1.057</u>	<u>3.794</u>	<u>3.539</u>
Income tax		(219)	(212)	(759)	(708)
Comprehensive income for the period		<u><u>874</u></u>	<u><u>845</u></u>	<u><u>3.035</u></u>	<u><u>2.831</u></u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		0,75	0,72	2,59	2,42

The notes on pages 8 to 11 are an integral part of these financial statements.

Consolidated Balance Sheet as at 30 November 2016

	Notes	30.11.2016	29.2.2016
Assets			
Operating assets		9.434	8.956
Intangible assets		7.718	7.728
Total non-current assets		<u>17.152</u>	<u>16.684</u>
Inventories	9	5.732	4.756
Trade and other receivables		694	660
Trade receivable - customers' credit cards		4.158	3.795
Cash and cash equivalents		3.028	3.810
Total current assets		<u>13.612</u>	<u>13.021</u>
Total assets		<u><u>30.764</u></u>	<u><u>29.705</u></u>
Equity			
Share capital		1.153	1.172
Share premium		291	1.272
Restricted reserve	10	3.051	0
Retained earnings		11.917	13.924
Total equity		<u>16.412</u>	<u>16.368</u>
Liabilities			
Loans and borrowings	11	3.180	3.748
Deferred income tax liability		1.270	509
Total non-current liabilities		<u>4.450</u>	<u>4.257</u>
Loans and borrowings	11	766	763
Trade and other payables	12	7.919	7.018
Current tax liabilities		804	874
Provisions		413	425
Total current liabilities		<u>9.902</u>	<u>9.080</u>
Total liabilities		<u>14.352</u>	<u>13.337</u>
Total equity and liabilities		<u><u>30.764</u></u>	<u><u>29.705</u></u>

The notes on pages 8 to 11 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity for the nine months ended 30 November 2016

	Share capital	Share premium	Restricted reserve	Retained earnings	Total equity
Changes in equity from 1 March to 30 November 2015:					
Equity at 1 March 2015	1.172	1.272	0	12.320	14.764
Dividends paid, 1.70 ISK per share				(1.992)	(1.992)
Comprehensive income for the period				2.831	2.831
Equity at 30 November 2015	1.172	1.272	0	13.159	15.604

Changes in equity from 1 March to 30 November 2016:

Equity at 1 March 2016	1.172	1.272	0	13.924	16.368
Dividends paid, 1.70 ISK per share				(1.992)	(1.992)
Comprehensive income for the period				3.035	3.035
Purchased own share	(19)	(981)			(1.000)
Transferred to reserves			3.051	(3.051)	0
Equity at 30 November 2016	1.153	291	3.051	11.916	16.412

The notes on pages 8 to 11 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the nine months ended 30 November 2016

	Q3 2016	Q3 2015	2016	2015
	Notes	1.9.-30.11.	1.9.-30.11.	1.3.-30.11.
Cash flows from operating activities:				
Profit for the period		874	845	3.035
Adjustments for:				2.831
Gain on sale of assets		(2)	(1)	(4)
Incentives from operating lease		(4)	(11)	(25)
Depreciation and amortisation	7	296	175	758
Net finance expense	8	9	41	26
Income tax		219	212	759
Working capital provided by operating activities		<u>1.392</u>	<u>1.261</u>	<u>4.549</u>
Change in current assets		(442)	(1.060)	(1.388)
Change in current liabilities		980	839	1.659
Cash from operations before interest and taxes		<u>1.930</u>	<u>1.040</u>	<u>4.820</u>
Interest income received		63	59	214
Interest expenses paid		(75)	(99)	(240)
Income taxes paid		(316)	56	(794)
Net cash provided by operating activities		<u>1.602</u>	<u>1.056</u>	<u>4.000</u>
Cash flows used in investing activities:				
Acquisition of real estate		(476)	(290)	(509)
Acquisition of operating assets		(229)	(334)	(738)
Acquisition of intangible assets		0	(2)	0
Proceeds from the sale of operating assets		4	7	25
Net cash used in investing activities		<u>(701)</u>	<u>(619)</u>	<u>(1.222)</u>
Cash flows used in financing activities:				
Repayment of borrowings		(189)	(188)	(568)
Dividends paid		0	0	(1.992)
Purchased own share		(1.000)	0	(1.000)
Net cash used in financing activities		<u>(1.189)</u>	<u>(188)</u>	<u>(3.560)</u>
Net (decrease) increase in cash and cash equivalents		(288)	249	(782)
Cash and cash equivalents at beginning of the period		3.316	2.478	3.810
Cash and cash equivalents at 30 November		<u>3.028</u>	<u>2.727</u>	<u>3.028</u>

The notes on pages 8 to 11 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 nine months ended 30 November 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.

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 29 February 2016. The annual financial statement can be obtained from the Company or its website, www.hagar.is and on the website of OMX Nordic Exchange in Iceland.

The condensed consolidated interim financial statements were approved by the Board of Directors on 12 January 2017.

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, 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 29 February 2016.

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 2016 and therefore goodwill was not tested for impairment.

Notes, contd.:

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2016	2015
	1.3.-30.11.	1.3.-30.11.
Depreciation of operating assets	748	493
Amortisation of intangible assets	10	15
Total depreciation and amortisation	<u>758</u>	<u>508</u>

8. Finance income and expense

Finance income and finance expense are specified as follows:

Interest income	215	161
Net foreign exchange gain	1	6
Total finance income	<u>216</u>	<u>167</u>
Interest expenses and indexation	(242)	(261)
Total finance expense	<u>(242)</u>	<u>(261)</u>
Net finance expense	<u>(26)</u>	<u>(94)</u>

9. Inventories

Inventories are specified as follows:

	30.11.2016	29.2.2016
Groceries	4.147	3.213
Non food goods	1.294	1.242
Goods in transit	291	301
Total inventories	<u>5.732</u>	<u>4.756</u>
Inventory write-down at the end of the period	105	103

10. Restricted equity

According to recently accepted amendments on the Icelandic Financial Statements Act valid from 1 January 2016, share in profit or loss of subsidiaries, which exceeds the dividends received or the dividend declared by the subsidiaries, should be transferred from retained earnings to a restricted reserve account among equity. There is uncertainty regarding the implementation, scope and application of the new laws.

11. Loans and borrowings

Loans and borrowings are specified as follows:

	30.11.2016	29.2.2016
Non-current loans and borrowings		
Secured bank loans	3.056	3.605
Finance lease liability	124	143
Total non-current loans and borrowings	<u>3.180</u>	<u>3.748</u>
Current loans and borrowings		
Current portion of secured bank loans	740	739
Current portion of finance lease liability	26	24
Total current loans and borrowings	<u>766</u>	<u>763</u>
Total interest bearing loans and borrowings	<u>3.946</u>	<u>4.511</u>

Notes, contd.:

11. Loans and borrowings, contd.:

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	30.11.2016	29.2.2016	30.11.2016	29.2.2016
Debt in ISK, non-indexed	6,65%	7,15%	3.796	4.344
Debt in ISK, indexed	10,50%	10,50%	150	167
Non-current loans and borrowing, incl. current portion			3.946	4.511
Current portion of non-current loans and borrowings			(766)	(763)
Total non-current loans and borrowings			3.180	3.748

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	766	763
Repayments in 1 - 2 years	770	767
Repayments in 2 - 3 years	2.353	771
Repayments in 3 - 4 years	41	2.165
Repayments in 4 - 5 years	16	45
Total	3.946	4.511

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

12. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	6.452	4.979
Other payables	1.467	2.039
Total trade and other payables	7.919	7.018

13. Group entities

At 30 November 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	
		30.11.2016	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 subsidiaries as collateral for loans and borrowings.

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

Notes, contd.:

14. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	30.11.2016	29.2.2016
Current ratio - Current assets/current liabilities	1,37	1,43
Equity ratio - equity/total capital	53,3%	55,1%
Internal value of share capital	14,23	13,97