

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

Hagar hf.
Hagasmári 1
201 Kópavogur
Iceland

Reg. no. 670203-2120

Contents

Endorsement and Signatures of the Board of Directors and the CEO	3
Independent Auditors' Review Report	4
Consolidated Statement of Comprehensive Income	5
Consolidated Balance Sheet	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Interim Financial Statements	9

Endorsement and Signatures of 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 August 2016 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Hagar hf. and its subsidiaries, together referred to as the "Group".

According to the statement of comprehensive income, profit of the Group for the period amounted to ISK 2,161 million. According to the balance sheet, equity at the end of the period amounted to ISK 16,537 million.

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

The Company's share capital amounted to ISK 1,172 million at the end of the period. The share capital is divided into shares of ISK 1, all in one class with equal rights.

Shareholders were 960 at the beginning of the period and 1,190 at the end of the period.

Statement by the Board of Directors and 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 six month period ended 31 August 2016, its assets, liabilities and consolidated financial position as at 31 August 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 August 2016 and confirm them by means of their signatures.

Kópavogur, 27 October 2016

The Board of Directors:

Kristín Friðgeirsdóttir

Erna Gísladóttir

Salvör Nordal

Sigurður Arnar Sigurðsson

Stefán Árni Auðólfsson

CEO:

Finnur Árnason

Independent Auditors' Review Report

To the Board of Directors of Hagar hf.

We have reviewed the accompanying condensed consolidated balance sheet of Hagar hf. as at 31 August 2016, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and notes to the interim financial information.

The Board of Directors and CEO are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Reykjavík, 27 October 2016

KPMG ehf.

Simon Á. Gunnarsson

Margrét Flóvenz

Consolidated Statement of Comprehensive Income

for the six months ended 31 August 2016

	Note	Second quarter		First half	
		Q2 2016	Q2 2015	2016	2015
		1.6.-31.8. *	1.6.-31.8. *	1.3.-31.8.	1.3.-31.8.
Sales		20.731	19.722	40.712	38.390
Cost of goods sold		(15.608)	(14.875)	(30.677)	(29.058)
Gross profit		<u>5.123</u>	<u>4.847</u>	<u>10.035</u>	<u>9.332</u>
Other operating income		55	42	109	87
Salaries and related expenses		(1.814)	(1.667)	(3.754)	(3.364)
Other operating expenses		(1.557)	(1.566)	(3.210)	(3.187)
Profit from operating activities before depreciation and amortisation		1.807	1.656	3.180	2.868
Depreciation and amortisation	7	(271)	(162)	(462)	(333)
Profit from operating activities		1.536	1.494	2.718	2.535
Finance income		71	59	153	107
Finance expenses		(91)	(85)	(170)	(160)
Net finance expense	8	(20)	(26)	(17)	(53)
Profit before income tax		1.516	1.468	2.701	2.482
Income tax		(303)	(293)	(540)	(496)
Comprehensive income for the period		<u>1.213</u>	<u>1.175</u>	<u>2.161</u>	<u>1.986</u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		0,95	1,00	1,70	1,69

*Quarterly financial information has not been reviewed by the Company's auditors.
The notes on pages 9 to 12 are an integral part of these interim financial statements.

Consolidated Balance Sheet as at 31 August 2016

	Note	31.8.2016	29.2.2016
Assets			
Operating assets		9.025	8.956
Intangible assets		7.720	7.728
Total non-current assets		16.745	16.684
Inventories	9	4.885	4.756
Trade and other receivables		649	660
Trade receivable - customers' credit cards		4.625	3.795
Cash and cash equivalents		3.316	3.810
Total current assets		13.475	13.021
Total assets		30.220	29.705
 Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Restricted reserve	10	2.166	0
Retained earnings		11.927	13.924
Total equity		16.537	16.368
 Liabilities			
Loans and borrowings	11	3.358	3.748
Deferred income tax liabilities		485	509
Total non-current liabilities		3.843	4.257
Loans and borrowings	11	779	763
Trade and other payables	12	7.689	7.018
Current tax liabilities		959	874
Provisions		413	425
Total current liabilities		9.840	9.080
Total liabilities		13.683	13.337
Total equity and liabilities		30.220	29.705

The notes on pages 9 to 12 are an integral part of these interim financial statements.

Consolidated Statement of Changes in Equity for the six months ended 31 August 2016

	Share capital	Share premium	Restricted reserve	Retained earnings	Total equity
Changes in equity from 1 March to 31 August 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				1.986	1.986
Equity at 31 August 2015	1.172	1.272	0	12.314	14.758
 Changes in equity from 1 March to 31 August 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				2.161	2.161
Transferred to reserves			2.166	(2.166)	0
Equity at 31 August 2016	1.172	1.272	2.166	11.927	16.537

The notes on pages 9 to 12 are an integral part of these interim financial statements.

Consolidated Statement of Cash Flows for the six months ended 31 August 2016

	Note	Second quarter		First half	
		Q2 2016 1.6.-31.8. *	Q2 2015 1.6.-31.8. *	2016 1.3.-31.8.	2015 1.3.-31.8.
Cash flows from operating activities:					
Profit for the period		1.213	1.175	2.161	1.986
Adjustments for:					
Gain on sale of assets		(1)	(5)	(2)	(8)
Incentives from operating lease		(11)	(10)	(21)	(21)
Depreciation and amortisation	7	271	162	462	333
Net finance expense	8	20	26	17	53
Income tax		303	293	540	496
Working capital provided by operating activities		<u>1.795</u>	<u>1.641</u>	<u>3.157</u>	<u>2.839</u>
Change in current assets		15	(427)	(946)	(243)
Change in current liabilities		(505)	(314)	679	793
Cash from operations before interest and taxes		<u>1.305</u>	<u>900</u>	<u>2.890</u>	<u>3.389</u>
Interest income received		71	54	151	105
Interest expenses paid		(89)	(78)	(165)	(154)
Income taxes paid		(239)	(264)	(478)	(525)
Net cash provided by operating activities		<u>1.048</u>	<u>612</u>	<u>2.398</u>	<u>2.815</u>
Cash flows used in investing activities:					
Acquisition of real estate		(9)	(491)	(33)	(722)
Acquisition of fixtures and equipment		(282)	(291)	(509)	(621)
Proceeds from the sale of operating assets		9	13	21	24
Net cash used in investing activities		<u>(282)</u>	<u>(769)</u>	<u>(521)</u>	<u>(1.319)</u>
Cash flows used in financing activities:					
Repayment of loans and borrowings		(191)	(187)	(379)	(374)
Dividends paid		(1.992)	(1.992)	(1.992)	(1.992)
Net cash used in financing activities		<u>(2.183)</u>	<u>(2.179)</u>	<u>(2.371)</u>	<u>(2.366)</u>
Net decrease in cash and cash equivalents		(1.417)	(2.336)	(494)	(870)
Cash and cash equivalents at beginning of the period.....		4.733	4.814	3.810	3.348
Cash and cash equivalents at 31 August		<u>3.316</u>	<u>2.478</u>	<u>3.316</u>	<u>2.478</u>

*Quarterly financial information has not been reviewed by the Company's auditors.
The notes on pages 9 to 12 are an integral part of these interim 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 six months ended 31 August 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. 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 27 October 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 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 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 31 August 2016 and therefore goodwill was not tested for impairment.

Notes, contd.:

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2016 1.3.-31.8.	2015 1.3.-31.8
Depreciation of operating assets	454	326
Amortisation of intangible assets	8	7
Total depreciation and amortisation	<u>462</u>	<u>333</u>

8. Finance income and expense

Finance income and finance expense are specified as follows:

Interest income	153	103
Net foreign exchange gain	0	4
Total finance income	<u>153</u>	<u>107</u>
Interest expenses and indexation	(170)	(160)
Total finance expense	<u>(170)</u>	<u>(160)</u>
Net finance expense	<u>(17)</u>	<u>(53)</u>

9. Inventories

Inventories are specified as follows:

	31.8.2016	29.2.2016
Groceries	3.464	3.213
Non food goods	1.071	1.242
Goods in transit	350	301
Total inventories	<u>4.885</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:

	31.8.2016	29.2.2016
Non-current loans and borrowings		
Secured bank loans	3.227	3.605
Finance lease liability	131	143
Total loans and borrowings	<u>3.358</u>	<u>3.748</u>
Current loans and borrowings		
Current portion of secured bank loans	753	739
Current portion of finance lease liability	26	24
Total loans and borrowings	<u>779</u>	<u>763</u>
Total interest bearing loans and borrowings	<u>4.137</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	
	31.8.2016	29.2.2016	31.8.2016	29.2.2016
Debt in ISK, non-indexed	7,15%	7,15%	3.980	4.344
Debt in ISK, indexed	10,50%	10,50%	157	167
Non-current loans and borrowing, incl. current portion			4.137	4.511
Current portion of non-current loans and borrowings			(779)	(763)
Total non-current loans and borrowings			3.358	3.748

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	779	763
Repayments in 1 - 2 years	783	767
Repayments in 2 - 3 years	789	771
Repayments in 3 - 4 years	1.759	2.165
Repayments in 4 - 5 years	27	45
Total	4.137	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	5.479	4.979
Other payables	2.210	2.039
Total trade and other payables	7.689	7.018

13. Related parties

Identity of related parties

The Company has a related party relationship with its directors and executive officers. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

There were no significant transactions with related parties during the period.

14. Group entities

At 31 August 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	
		31.8.2016	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.:

15. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	31.8.2016	29.2.2016
Current ratio - Current assets/current liabilities	1,37	1,43
Equity ratio - equity/total capital	54,7%	55,1%
Internal value of share capital	14,11	13,97