

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 30 November 2012

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 2012 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 2.063 million. According to the balance sheet, equity at the end of the period amounted to ISK 7.837 million.

In June 2012, the Company paid a dividend to shareholders in the amount of ISK 527 million (ISK 0,45 per share).

Statement by the Board of Directors and the CEO

To the best of our knowledge it is our opinion that 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 2012, its assets, liabilities and consolidated financial position as at 30 November 2012 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 2012 and confirm them by means of their signatures.

Kópavogur, 18 January 2013

The Board of Directors:

Árni Hauksson

Erna Gísladóttir

Hallbjörn Karlsson

Kristín Friðgeirsdóttir

CEO:

Finnur Árnason

Consolidated Statement of Comprehensive Income for the nine months ended 30 November 2012

	Note	Q3 2012 1.9-30.11	Q3 2011 1.9-30.11	2012 1.3-30.11	2011 1.3-30.11
Sales		16.745	16.187	52.314	49.898
Cost of goods sold		(12.785)	(12.418)	(39.729)	(38.103)
Gross profit		<u>3.960</u>	<u>3.769</u>	<u>12.585</u>	<u>11.795</u>
Other operating income		52	22	128	77
Salaries and salary-related expenses		(1.518)	(1.524)	(4.563)	(4.561)
Other operating expenses		(1.580)	(1.372)	(4.604)	(4.228)
Results from operating activities before depreciation and amortisation		914	895	3.546	3.083
Depreciation and amortisation of operating and intangible assets	7	(149)	(180)	(514)	(776)
Results from operating activities		765	715	3.032	2.307
Finance income		46	546	127	756
Finance expenses		(165)	(209)	(547)	(650)
Net finance expense	8	(119)	337	(420)	106
Profit before income tax		646	1.052	2.612	2.413
Income tax		(137)	(210)	(549)	(546)
Comprehensive income for the period		<u>509</u>	<u>842</u>	<u>2.063</u>	<u>1.867</u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		0,43	0,72	1,76	1,59

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

Consolidated Balance Sheet as at 30 November 2012

	Note	30.11.2012	29.2.2012
Assets			
Operating assets		5.113	4.795
Intangible assets		7.795	7.809
Non-current assets		<u>12.908</u>	<u>12.604</u>
Inventories	9	5.963	4.343
Trade and other receivables		624	564
Trade receivable - customers' credit cards		3.814	3.745
Cash and cash equivalents		2.590	2.149
Current assets		<u>12.991</u>	<u>10.801</u>
Total assets		<u><u>25.899</u></u>	<u><u>23.405</u></u>
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		5.393	3.777
Total equity		<u>7.837</u>	<u>6.221</u>
Liabilities			
Loans and borrowings	10	8.928	9.921
Incentives from operating leases		121	153
Deferred tax liability		935	394
Non-current liabilities		<u>9.984</u>	<u>10.468</u>
Loans and borrowings	10	666	651
Trade and other payables	11	7.291	5.944
Provisions		121	121
Current liabilities		<u>8.078</u>	<u>6.716</u>
Total liabilities		<u>18.062</u>	<u>17.184</u>
Total equity and liabilities		<u><u>25.899</u></u>	<u><u>23.405</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 nine months ended 30 November 2012

	Share capital	Share premium	Retained earnings	Total equity
Changes in equity from 1 March to 30 November 2011:				
Equity at 1 March 2011	1.172	1.272	1.168	3.612
Share-based transaction			218	218
Comprehensive income for the period			1.867	1.867
Equity at 30 November 2011	1.172	1.272	3.253	5.697

Changes in equity from 1 March to 30 November 2012:

Equity at 1 March 2012	1.172	1.272	3.777	6.221
Share-based transaction			79	79
Dividends paid			(527)	(527)
Comprehensive income for the period			2.063	2.063
Equity at 30 November 2012	1.172	1.272	5.392	7.837

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

Consolidated Statement of Cash Flows

for the nine months ended 30 November 2012

	Note	Q3 2012 1.9-30.11	Q3 2011 1.9-30.11	2012 1.3-30.11	2011 1.3-30.11
Cash flows from operating activities:					
Net profit for the period		509	842	2.063	1.867
Adjustment for:					
Depreciation and amortisation	7	149	180	514	776
Net finance expense	8	119	(337)	420	(106)
Share based expense		0	48	79	218
Gain on sale of assets		(3)	(6)	(22)	(6)
Incentives from operating lease		(11)	(6)	(32)	(43)
Income tax		137	210	549	546
Working capital provided by operating activities		<u>900</u>	<u>931</u>	<u>3.571</u>	<u>3.252</u>
Net change in operating assets and liabilities		(302)	(471)	(329)	(781)
Cash from operations before interest and taxes		<u>598</u>	<u>460</u>	<u>3.242</u>	<u>2.471</u>
Interest received		51	31	132	71
Interest paid		(164)	(188)	(539)	(617)
Income taxes paid		(10)	(62)	(85)	(62)
Net cash provided by operating activities		<u>475</u>	<u>241</u>	<u>2.750</u>	<u>1.863</u>
Cash flows to investing activities:					
Acquisition of operating assets		(197)	(163)	(374)	(369)
Acquisition of real estate		(473)	(515)	(473)	(515)
Proceeds from the sale of operating assets		8	0	50	10
Net cash used in investing activities		<u>(662)</u>	<u>(678)</u>	<u>(797)</u>	<u>(874)</u>
Cash flows to financing activities:					
Repayment of borrowings		(166)	(148)	(985)	(837)
Dividends paid		0	0	(527)	0
Net cash used in financing activities		<u>(166)</u>	<u>(148)</u>	<u>(1.512)</u>	<u>(837)</u>
Net (decrease) increase in cash and cash equivalents		(353)	(585)	441	152
Cash and cash equivalents at beginning of the period		2.943	1.825	2.149	1.088
Cash and cash equivalents at 30 November		<u>2.590</u>	<u>1.240</u>	<u>2.590</u>	<u>1.240</u>

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 nine months ended 30 November 2012 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 2012, which are available on the Company's website www.hagar.is.

The condensed consolidated interim financial statements were approved by the Board of Directors on 18 January 2013.

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 2012.

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.

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 estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 29 February 2012.

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 30 November 2012 and therefore goodwill was not tested for impairment.

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2012	2011
	1.3-30.11	1.3-30.11
Depreciation of operating assets	490	598
Impairment of goodwill	0	150
Amortisation of intangible assets	24	28
	<u>514</u>	<u>776</u>

Notes, cont.:

8. Finance income and expense

Finance income and finance expense are specified as follows:

	2012	2011
	1.3-30.11	1.3-30.11
Interest income	127	70
Adjustment of provision	0	170
Net foreign exchange gain	0	515
Total finance income	<u>127</u>	<u>756</u>
Interest expense and indexation	(547)	(650)
Total finance expense	<u>(547)</u>	<u>(650)</u>
Net finance income and expense	<u>(420)</u>	<u>106</u>

9. Inventories

Inventories are specified as follows:

	30.11.2012	29.2.2012
Groceries	3.739	2.730
Speciality goods	1.910	1.380
Goods in transit	314	233
Total inventories	<u>5.963</u>	<u>4.343</u>
Inventory write-down at period-end	166	116

10. Loans and borrowings

Loans and borrowings are specified as follows:

	30.11.2012	29.2.2012
Non-current loans and borrowings		
Secured bank loans	8.734	9.721
Finance lease liability	194	200
Total non-current loans and borrowings	<u>8.928</u>	<u>9.921</u>

Current loans and borrowings

Current portion of secured bank loans	650	636
Current portion of finance lease liability	16	15
Total current loans and borrowings	<u>666</u>	<u>651</u>

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate	30.11.2012 Carrying amount	29.2.2012 Carrying amount
Debt in ISK, indexed	10,52%	210	215
Debt in ISK, un-indexed	7,00%	9.384	10.357
Non-current loans and borrowing, including current portion		9.594	10.572
Current portion of non-current loans and borrowings		(666)	(651)
Total non-current loans and borrowings		<u>8.928</u>	<u>9.921</u>

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	666	651
Repayments in 1 - 2 years	668	667
Repayments in 2 - 3 years	8.105	669
Repayments in 3 - 4 years	25	8.444
Repayments in 4 - 5 years	28	20
Subsequent	102	121
Total	<u>9.594</u>	<u>10.572</u>

Notes, cont.:

11. Trade and other payables

Trade and other payables are specified as follows:	30.11.2012	29.2.2012
Trade payables	6.260	4.173
Income tax payable	130	343
Other payables	858	1.385
Incentives from operating leases	43	43
Total trade and other payables	<u>7.291</u>	<u>5.944</u>

12. Group entities

At 30 November 2012 the Company's subsidiaries were eight. The subsidiaries included in the condensed consolidated interim financial statements are the following:

	Place of registration and operation	Ownership interest	
		30.11.2012	29.2.2012
Hagar verslanir ehf.	Iceland	100%	100%
Bananar ehf.	Iceland	100%	100%
DBH á Íslandi ehf.	Iceland	100%	100%
Ferskar kjötvörur ehf.	Iceland	100%	100%
Noron ehf.	Iceland	100%	100%
Sólhöfn 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.

13. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	30.11.2012	29.2.2012
Current ratio - Current assets/current liabilities	1,61	1,61
Equity ratio - equity/total capital	30,3%	26,6%
Internal value of share capital	6,69	5,31