

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 31 August 2014
ISK

Hagar hf.
Hagasmári 1
201 Kópavogur
Iceland

Reg. no. 670203-2120

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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 2014 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".

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 2,094 million. According to the balance sheet, equity at the end of the period amounted to ISK 13,020 million.

In June 2014, the Company paid dividends to shareholders in the amount of ISK 1,172 million (ISK 1.00 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 1,225 at the beginning of the period and 1,170 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 2014, its assets, liabilities and consolidated financial position as at 31 August 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 August 2014 and confirm them by means of their signatures.

Kópavogur, 23 October 2014

The Board of Directors:

Kristín Friðgeirsdóttir

Erna Gísladóttir

Stefán Árni Auðólfsson

Salvör Nordal

Sigurður Arnar Sigurðsson

CEO:

Finnur Árnason

Independent Auditors' Review Report

To the Board of Directors of Hagar hf.

We have reviewed the accompanying consolidated balance sheet of Hagar hf. as at 31 August 2014 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information. Management is 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, 23 October 2014

KPMG ehf.

Símon Á. Gunnarsson

Sigríður Helga Sveinsdóttir

Consolidated Statement of Comprehensive Income

for the six months ended 31 August 2014

	Note	Q2 2014 1.6.-31.8. *	Q2 2013 1.6.-31.8. *	2014 1.3.-31.8.	2013 1.3.-31.8.
Sales		19,478	19,415	38,363	37,794
Cost of goods sold		<u>(14,787)</u>	<u>(14,747)</u>	<u>(29,098)</u>	<u>(28,679)</u>
Gross profit		4,691	4,668	9,265	9,115
Other operating income		30	37	57	68
Salaries and related expenses		<u>(1,568)</u>	<u>(1,518)</u>	<u>(3,214)</u>	<u>(3,116)</u>
Other operating expenses		<u>(1,515)</u>	<u>(1,520)</u>	<u>(3,065)</u>	<u>(3,064)</u>
Results from operating activities before depreciation and amortisation		1,638	1,667	3,043	3,003
Depreciation and amortisation	7	<u>(168)</u>	<u>(160)</u>	<u>(334)</u>	<u>(328)</u>
Results from operating activities		1,470	1,507	2,709	2,675
Finance income		53	73	139	124
Finance expenses		<u>(80)</u>	<u>(160)</u>	<u>(231)</u>	<u>(333)</u>
Net finance expense	8	<u>(27)</u>	<u>(87)</u>	<u>(92)</u>	<u>(209)</u>
Profit before income tax		1,443	1,420	2,617	2,466
Income tax		<u>(288)</u>	<u>(284)</u>	<u>(523)</u>	<u>(493)</u>
Comprehensive income for the period		<u>1,155</u>	<u>1,136</u>	<u>2,094</u>	<u>1,973</u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		0.99	0.97	1.79	1.68

*Quarterly financial information has not been reviewed by the Company's auditors.

The notes on pages 9 to 11 are an integral part of these financial statements.

Consolidated Balance Sheet as at 31 August 2014

	Note	31.8.2014	28.2.2014
Assets			
Operating assets		5,362	5,275
Intangible assets		7,762	7,774
Total non-current assets		<u>13,124</u>	<u>13,049</u>
Inventories	9	4,969	4,831
Trade and other receivables		867	745
Trade receivable - customers' credit cards		4,447	3,837
Cash and cash equivalents		3,046	4,143
Total current assets		<u>13,329</u>	<u>13,556</u>
Total assets		<u><u>26,453</u></u>	<u><u>26,605</u></u>
Equity			
Share capital		1,172	1,172
Share premium		1,272	1,272
Retained earnings		10,576	9,654
Total equity		<u>13,020</u>	<u>12,098</u>
Liabilities			
Loans and borrowings	10	4,071	6,154
Incentives from operating leases		46	68
Deferred income tax liabilities		419	516
Total non-current liabilities		<u>4,536</u>	<u>6,738</u>
Loans and borrowings	10	463	669
Trade and other payables	11	7,153	6,076
Current tax liabilities		1,212	938
Provisions		69	86
Total current liabilities		<u>8,897</u>	<u>7,769</u>
Total liabilities		<u>13,433</u>	<u>14,507</u>
Total equity and liabilities		<u><u>26,453</u></u>	<u><u>26,605</u></u>

The notes on pages 9 to 11 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity for the six months ended 31 August 2014

	Share capital	Share premium	Retained earnings	Total equity
Changes in equity from 1 March to 31 August 2013:				
Equity at 1 March 2013	1,172	1,272	6,287	8,731
Dividends paid, 0.50 ISK per share			(586)	(586)
Comprehensive income for the period			1,973	1,973
Equity at 31 August 2013	1,172	1,272	7,674	10,118
 Changes in equity from 1 March to 31 August 2014:				
Equity at 1 March 2014	1,172	1,272	9,654	12,098
Dividends paid, 1.00 ISK per share			(1,172)	(1,172)
Comprehensive income for the period			2,094	2,094
Equity at 31 August 2014	1,172	1,272	10,576	13,020

The notes on pages 9 to 11 are an integral part of these financial statements.

Consolidated Statement of Cash Flows for the six months ended 31 August 2014

	Q2 2014	Q2 2013	2014	2013
Note	1.6.-31.8. *	1.6.-31.8. *	1.3.-31.8.	1.3.-31.8.
Cash flows from operating activities:				
Profit for the period	1,155	1,136	2,094	1,973
Adjustments for:				
Gain on sale of assets	(6)	(10)	(8)	(20)
Incentives from operating lease	(10)	(10)	(21)	(21)
Depreciation and amortisation	7 168	160	334	328
Net finance expense	8 27	87	92	209
Income tax	288	284	523	493
Working capital provided by operating activities	<u>1,622</u>	<u>1,647</u>	<u>3,013</u>	<u>2,962</u>
Change in current assets	(224)	120	(946)	(318)
Change in current liabilities	378	(10)	1,164	250
Cash from operations before interest and taxes	<u>1,776</u>	<u>1,757</u>	<u>3,231</u>	<u>2,894</u>
Interest income received	59	66	145	117
Interest expenses paid	(87)	(159)	(234)	(311)
Income taxes paid	(202)	(88)	(377)	(176)
Net cash provided by operating activities	<u>1,546</u>	<u>1,576</u>	<u>2,766</u>	<u>2,524</u>
Cash flows used in investing activities:				
Acquisition of fixtures and equipment	(197)	(138)	(422)	(242)
Proceeds from the sale of operating assets	18	24	22	35
Net cash used in investing activities	<u>(179)</u>	<u>(114)</u>	<u>(400)</u>	<u>(207)</u>
Cash flows used in financing activities:				
Repayment of borrowings	(652)	(166)	(2,291)	(824)
Dividends paid	(1,172)	(586)	(1,172)	(586)
Net cash used in financing activities	<u>(1,824)</u>	<u>(752)</u>	<u>(3,463)</u>	<u>(1,410)</u>
Net (decrease) increase in cash and cash equivalents	(457)	710	(1,097)	907
Cash and cash equivalents at beginning of the period.....	<u>3,503</u>	<u>3,144</u>	<u>4,143</u>	<u>2,947</u>
Cash and cash equivalents at 31 August	<u><u>3,046</u></u>	<u><u>3,854</u></u>	<u><u>3,046</u></u>	<u><u>3,854</u></u>

*Quarterly financial information has not been reviewed by the Company's auditors.

The notes on pages 9 to 11 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 six months ended 31 August 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.

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.

The condensed consolidated interim financial statements were approved by the Board of Directors on 23 October 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 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 28 February 2014.

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 2014 and therefore goodwill was not tested for impairment.

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2014	2013
	1.3.-31.8.	1.3.-31.8
Depreciation of operating assets	322	315
Amortisation of intangible assets	12	13
Total depreciation and amortisation	<u>334</u>	<u>328</u>

Notes, contd.:

8. Finance income and expense

Finance income and finance expense are specified as follows:

	2014 1.3.-31.8.	2013 1.3.-31.8.
Interest income	139	124
Total finance income	<u>139</u>	<u>124</u>
Interest expenses and indexation	(229)	(323)
Net foreign exchange loss	(2)	(10)
Total finance expense	<u>(231)</u>	<u>(333)</u>
Net finance expense	<u>(92)</u>	<u>(209)</u>

9. Inventories

Inventories are specified as follows:

	31.8.2014	28.2.2014
Groceries	3,142	3,349
Non food goods	1,368	1,297
Goods in transit	459	185
Total inventories	<u>4,969</u>	<u>4,831</u>
Inventory write-down at the end of the period	92	97

10. Loans and borrowings

Loans and borrowings are specified as follows:

	31.8.2014	28.2.2014
Non-current loans and borrowings		
Secured bank loans	3,898	5,972
Finance lease liability	173	182
Total loans and borrowings	<u>4,071</u>	<u>6,154</u>
Current loans and borrowings		
Current portion of secured bank loans	443	650
Current portion of finance lease liability	20	19
Total loans and borrowings	<u>463</u>	<u>669</u>
Total interest bearing loans and borrowings	<u>4,534</u>	<u>6,823</u>

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	31.8.2014	28.2.2014	31.8.2014	28.2.2014
Debt in ISK, indexed	10.5%	10.5%	193	201
Debt in ISK, non-indexed	7.0%	7.0%	4,341	6,622
Non-current loans and borrowing, incl. current portion			4,534	6,823
Current portion of non-current loans and borrowings			(463)	(669)
Total non-current loans and borrowings			<u>4,071</u>	<u>6,154</u>

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	463	669
Repayments in 1 - 2 years	3,919	5,994
Repayments in 2 - 3 years	25	25
Repayments in 3 - 4 years	29	29
Repayments in 4 - 5 years	33	34
Subsequent	65	72
Total	<u>4,534</u>	<u>6,823</u>

During the period, the Company repaid ISK 1,957 million in secured bank loans in excess of contractual maturities.

Notes, contd.:

10. Loans and borrowings, contd.

On 22 September 2014, the Company refinanced loans and borrowing in the amount of ISK 4,341 million by signing a new loan agreement with Arion bank hf. in the amount of ISK 4,300 million. The Company will pay ISK 653 million annual instalments until 2019 when the remaining amount is due. The final maturity date can be extended until 2021 if certain conditions are met.

11. Trade and other payables

Trade and other payables are specified as follows:

	31.8.2014	28.2.2014
Trade payables	5,509	4,697
Other payables	1,602	1,337
Incentives from operating leases	42	42
Total trade and other payables	<u>7,153</u>	<u>6,076</u>

12. 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.

13. Group entities

At 31 August 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	
		31.8.2014	28.2.2014
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 subsidiaries as collateral for loans and borrowings.

14. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	31.8.2014	28.2.2014
Current ratio - Current assets/current liabilities	1.50	1.74
Equity ratio - equity/total capital	49.2%	45.5%
Internal value of share capital	11.11	10.32