

Hagar hf.

**Condensed Consolidated
Interim Financial Statements
1 March - 30 November 2011
ISK**

Hagar hf.
Hagasmára 1
201 Kopavogur
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 30 November 2011 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". The Company's auditors have not reviewed this interim financial statements.

According to the statement of comprehensive income, profit of the Group for the period amounted to ISK 1,867 million. According to the balance sheet, equity at the end of the period amounted to ISK 5.696 million.

Statement by the Board of Directors and 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 2011, its assets, liabilities and consolidated financial position as at 30 November 2011 and its consolidated cash flows for the period then ended in accordance with International Financial 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 2011 and confirm them by means of their signatures.

Kópavogur, 27 January 2012

The Board of Directors:

Árni Hauksson

Erna Gísladóttir

Guðbrandur Sigurðsson

Hallbjörn Karlsson

Kristín Friðgeirsdóttir

CEO:

Finnur Árnason

Consolidated Statement of Comprehensive Income for the nine months ended 30 November 2011

	Note	2011 1.3-30.11	2010 1.3-30.11
Sales		49.898	49.170
Cost of goods sold		(38.103)	(36.908)
Gross profit		11.795	12.262
Other operating income		77	71
Salaries and salary-related expenses		(4.561)	(4.492)
Other operating expenses		(4.228)	(4.468)
Results from operating activities before fine, depreciation and amortisation		3.083	3.373
Fine to the Competition Authority		0	(270)
Depreciation and amortisation of operating and intangible assets	6	(776)	(629)
Results from operating activities		2.307	2.474
Finance income		756	265
Finance expenses		(650)	(1.721)
Net finance expense	7	106	(1.456)
Profit before income tax		2.413	1.018
Income tax		(546)	(231)
Comprehensive income for the period		<u>1.867</u>	<u>787</u>
Earnings per share:			
Basic and diluted earnings per share of ISK 1		1,59	0,67

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

Consolidated Balance Sheet as at 30 November 2011

	Note	30.11.2011	28.2.2011
Assets			
Operating assets		4.920	4.638
Intangible assets		7.994	8.172
Total non-current assets		12.914	12.810
Inventories	8	5.702	3.936
Trade and other receivables		1.229	541
Trade receivable - customers' credit cards		3.565	3.455
Cash and cash equivalents		1.240	1.088
Total current assets		11.736	9.020
Total assets		24.650	21.830
 Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		3.252	1.168
Total equity		5.696	3.612
 Liabilities			
Loans and borrowings	9	10.563	483
Incentives from operating leases		164	196
Deferred tax liability		576	151
Total non-current liabilities		11.303	830
Loans and borrowings	9	664	11.497
Trade and other payables	10	6.837	5.618
Provisions		150	273
Total current liabilities		7.651	17.388
Total liabilities		18.954	18.218
Total equity and liabilities		24.650	21.830

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 2011

	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
Changes in equity from 1 March to 30 November 2010:					
Equity at 1 March 2010	1.172	1.272	31	44	2.519
Comprehensive income for the period				787	787
Equity at 30 November 2010	1.172	1.272	31	831	3.306
 Changes in equity from 1 March to 30 November 2011:					
Equity at 1 March 2011	1.172	1.272	0	1.168	3.612
Share-based transaction				218	218
Comprehensive income for the period				1.867	1.867
Equity at 31 May 2011	1.172	1.272	0	3.252	5.696

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 2011

	Note	2011 1.3-30.11	2010 1.3-30.11
Cash flows from operating activities:			
Net profit for the period		1.867	787
Adjustment for:			
Depreciation and amortisation	6	776	629
Net finance expense	7	(106)	1.456
Share-based expense		218	0
Gain on sale of assets		(6)	(5)
Incentives from operating lease		(43)	(43)
Income tax		546	231
Working capital provided by operating activities		3.252	3.055
Net change in operating assets and liabilities		(781)	(2.055)
Cash from operations before interest and taxes		2.471	1.000
Interest received		71	32
Interest paid		(617)	(1.268)
Income taxes paid		(62)	0
Net cash provided by operating activities		1.863	(236)
Cash flows from investing activities:			
Acquisition of operating assets		(369)	(346)
Acquisition of real estate		(515)	0
Acquisition of intangible assets		0	(7)
Proceeds from sale of operating assets		10	59
Proceeds from the sale of shares in other companies		0	450
Proceeds from the division of Rekstrarfélag Tíu-ellefu ehf.		0	1.688
Net cash used in by investing activities		(874)	1.844
Cash flows from financing activities:			
Proceeds from borrowings		0	367
Repayment of borrowings		(837)	(1.530)
Repayment of Subordinated loan		0	(828)
Short term borrowings, changes		0	120
Net cash (used in) provided by financing activities		(837)	(1.871)
Net (decrease) increase in cash and cash equivalents		152	(263)
Cash and cash equivalents at 1 March		1.088	475
Cash and cash equivalents at 30 November		1.240	212

The notes on pages 8 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 nine months ended 30 November 2011 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 2011.

The condensed consolidated interim financial statements were approved by the Board of Directors on 27 January 2012.

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 2011.

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 28 February 2011.

5. Segment reporting

The Group does not present business segments as its operation is mainly in retail and in Iceland.

Notes, cont.:**6. Depreciation and amortisation**

	2011	2010
<i>Depreciation and amortisation is specified as follows:</i>	1.3-30.11	1.3-30.11
Depreciation of operating assets	598	516
Impairment of goodwill	150	60
Amortisation of intangible assets	28	53
	<u>776</u>	<u>629</u>

7. Finance income and expense

	1.3-30.11	1.3-30.11
<i>Finance income and finance expense are specified as follows:</i>		
Interest income	70	32
Adjustment of provision	171	0
A final settlement with Skeljungur hf.	0	123
Adjustment of provision due to Max ehf.	0	102
Net foreign exchange gain	1	8
Exchange gain due to recalculation of foreign loans	514	0
Total finance income	<u>756</u>	<u>265</u>
Interest expense and indexation	(650)	(1.462)
Net foreign exchange loss	0	(130)
Net changes in fair value of financial assets at fair value through profit or loss	0	(129)
Total finance expense	<u>(650)</u>	<u>(1.721)</u>
Net finance income and expense	<u>106</u>	<u>(1.456)</u>

8. Inventories

	30.11.2011	28.2.2011
<i>Inventories are specified as follows:</i>		
Groceries	3.379	2.319
Speciality goods	2.081	1.317
Goods in transit	242	300
Total inventories	<u>5.702</u>	<u>3.936</u>

9. Loans and borrowings

	30.11.2011	28.2.2011
Loans and borrowings are specified as follows:		
Non-current loans and borrowings		
Secured bank loans	10.361	283
Other loans	202	200
Total non-current loans and borrowings	<u>10.563</u>	<u>483</u>
Current loans and borrowings		
Current portion of secured bank loans	650	11.485
Current portion of finance lease liability	14	12
Total current loans and borrowings	<u>664</u>	<u>11.497</u>

Notes, cont.:

9. Loans and borrowings, contd.

<i>Terms and conditions of outstanding loans were as follows:</i>	Weighted average interest rate	30.11.2011 Carrying amount	28.2.2011 Carrying amount
Debt in ISK, indexed	10,52%	216	499
Debt in ISK, un-indexed	6,48%	11.011	11.481
Non-current loans and borrowing, including current portion		11.227	11.980
Current portion of non-current loans and borrowings		(664)	(11.497)
Total non-current loans and borrowings		10.563	483

<i>Contractual repayments of loans and borrowings are specified as follows:</i>	30.11.2011	28.2.2011
Repayments in 1 year or less	664	11.497
Repayments in 1 - 2 years	666	16
Repayments in 2 - 3 years	669	16
Repayments in 3 - 4 years	9.083	16
Repayments in 4 - 5 years	25	16
Subsequent	120	419
Total	11.227	11.980

10. Trade and other payables

<i>Trade and other payables are specified as follows:</i>	30.11.2011	28.2.2011
Trade payables	5.624	4.161
Other payables	1.106	1.277
Taxes payable	64	126
Incentives from operating leases	43	54
Total trade and other payables	6.837	5.618

11. Group entities

At 30 November 2011 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	
		30.11.2011	28.2.2011
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, except for Íshöfn ehf.

Notes, cont.:

12. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	30.11.2011	28.2.2011
Current ratio - Current assets/current liabilities	1,53	0,52
Equity ratio - equity/total capital	23,1%	16,5%
Internal value of share capital	4,86	3,08