

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 31 May 2012

Hagar hf.
Hagasmára 1
201 kópavogi
Iceland

Reg. no. 670203-2120

Efnisyfirlit

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Endorsement and Signatures by the Board of Directors and the CEO

The condensed consolidated financial statements of Hagar hf. ("the Company") for the period 1 March to 31 May 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.

On 8 June, the Annual General Meeting of the Company approved that a ISK 0.45 per share dividend shall be paid to shareholders in the year 2012. The dividend payment in the amount of ISK 527 million was paid on 27 June 2012.

According to the consolidated interim statement of comprehensive income, profit of the Group for the period amounted to ISK 628 million. According to the consolidated interim statement of financial position, equity at the end of the period amounted to ISK 6.897 million.

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 three month period ended 31 May 2012, its assets, liabilities and consolidated financial position as at 31 May 2012 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 31 May 2012 and confirm them by means of their signatures.

Kópavogur, 29 June 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 three months ended 31 May 2012

	Note	2012 1.3-31.5	2011 1.3-31.5
Sales		17.364	16.498
Cost of goods sold		(13.179)	(12.619)
Gross profit		<u>4.185</u>	<u>3.879</u>
Other operating income		24	30
Salaries and salary-related expenses	6	(1.570)	(1.447)
Other operating expenses		(1.502)	(1.425)
Results from operating activities before depreciation and amortisation		1.137	1.037
Depreciation and amortisation of operating and intangible assets		(184)	(158)
Results from operating activities		953	879
Interest income		29	23
Interest expenses		(185)	(206)
Net finance expense		(156)	(183)
Profit before income tax		797	696
Income tax		(169)	(139)
Comprehensive income for the period		<u>628</u>	<u>557</u>
Earnings per share:			
Basic and diluted earnings per share of ISK 1		0,54	0,48

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

Consolidated Balance Sheet as at 31 May 2012

	Note	31.5.2012	29.2.2012
Assets			
Operating assets		4.690	4.795
Intangible assets		7.803	7.809
Non-current assets		12.493	12.604
Inventories	7	4.953	4.343
Trade and other receivables	8	716	564
Trade receivable - customers' credit cards	8	3.701	3.745
Cash and cash equivalents		2.773	2.149
Current assets		12.143	10.801
Total assets		24.636	23.405
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		4.453	3.777
Total equity		6.897	6.221
Liabilities			
Loans and borrowings	9	9.258	9.921
Incentives from operating leases		142	153
Deferred tax liability		563	394
Non-current liabilities		9.963	10.468
Loans and borrowings	9	665	651
Trade and other payables	10	6.990	5.944
Provisions		121	121
Current liabilities		7.776	6.716
Total liabilities		17.739	17.184
Total equity and liabilities		24.636	23.405

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

Consolidated Statement of Changes in Equity for the three months ended 31 May 2012

	Share capital	Share premium	Retained earnings	Total equity
Changes in equity from 1 March to 31 May 2011:				
Equity at 1 March 2011	1.172	1.272	1.168	3.612
Comprehensive income for the period			557	557
Equity at 31 May 2011	1.172	1.272	1.725	4.169
Changes in equity from 1 March to 31 May 2012:				
Equity at 1 March 2012	1.172	1.272	3.777	6.221
Share-based transaction			48	48
Comprehensive income for the period			628	628
Equity at 31 May 2012	1.172	1.272	4.453	6.897

On 8 June the Annual General Meeting of the Company approved that a ISK 0.45 per share dividend shall be paid to shareholders in the year 2012. The dividend payment in the amount of ISK 527 million was paid on 27 June 2012. The effect of the dividend has not been posted to these financial statements as it was approved after reporting period-end.

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

Consolidated Statement of Cash Flows for the three months ended 31 May 2012

	Note	2012 1.3-31.5	2011 1.3-31.5	
Cash flows from operating activities:				
Net profit for the period		628	557	
Adjustment for:				
Depreciation and amortisation		184	158	
Net finance expense		159	183	
Share based expense		48	0	
Gain on sale of assets	(3)	(4)
Incentives from operating lease	(11)	(15)
Income tax		169	139	
Working capital provided by operating activities		1.174	1.018	
Change in current assets	(718)	(1.802)
Change in current liabilities		1.068	1.360	
Cash from operations before interest and taxes		1.524	576	
Interest received		29	22	
Interest paid	(174)	(207)
Income taxes paid	(32)	(0)
Net cash provided by operating activities		1.347	391	
Cash flows to investing activities:				
Acquisition of operating assets	(93)	(91)
Proceeds from the sale of operating assets		23	5	
Net cash used in investing activities	(70)	(86)
Cash flows to financing activities:				
Repayment of borrowings	(653)	(189)
Net increase in cash and cash equivalents		624	116	
Cash and cash equivalents at 1 March		2.149	1.088	
Cash and cash equivalents at 31 May		2.773	1.204	

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 public 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 three months ended 31 May 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 29 June 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 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.

Notes, cont.:

6. Salaries and related expenses

Salaries and related expenses are specified as follows:	2012	2011
	1.3-31.5	1.3-31.5
Salaries	1.264	1.192
Pension cost	118	115
Share-based payment transactions	48	0
Other salary-related expenses	140	140
Total salaries and related expenses	<u>1.570</u>	<u>1.447</u>

7. Inventories

Inventories are specified as follows:	31.5.2012	29.2.2012
Groceries	3.053	2.730
Speciality goods	1.542	1.380
Goods in transit	358	233
Total inventories	<u>4.953</u>	<u>4.343</u>
Inventory write-down at period-end	116	116

8. Trade and other receivables

Trade and other receivables are specified as follows:	31.5.2012	29.2.2012
Trade receivables	572	359
Other receivables	66	102
Prepaid expenses	127	155
Allowance for bad debt	(49)	(52)
Trade and other receivables	<u>716</u>	<u>564</u>
Customers credit cards	3.701	3.745
Total trade and other receivables	<u>4.417</u>	<u>4.309</u>

9. Loans and borrowings

Loans and borrowings are specified as follows:	31.5.2012	29.2.2012	
Non-current loans and borrowings			
Secured bank loans	9.042	9.721	
Finance lease liability	216	200	
Total non-current loans and borrowings	<u>9.258</u>	<u>9.921</u>	
Current loans and borrowings			
Current portion of secured bank loans	650	636	
Current portion of finance lease liability	15	15	
Total current loans and borrowings	<u>665</u>	<u>651</u>	
Terms and conditions of outstanding loans were as follows:	Weighted	31.5.2012	29.2.2012
	average interest	Carrying	Carrying
	rate	amount	amount
Debt in ISK, indexed	10,52%	216	215
Debt in ISK, un-indexed	7,01%	9.707	10.357
Non-current loans and borrowing, including current portion		<u>9.923</u>	<u>10.572</u>
Current portion of non-current loans and borrowings		(665)	(651)
Total non-current loans and borrowings		<u>9.258</u>	<u>9.921</u>

Notes, cont.:

9. Loans and borrowings, cont.:

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	665	651
Repayments in 1 - 2 years	668	667
Repayments in 2 - 3 years	671	669
Repayments in 3 - 4 years	7.782	8.444
Repayments in 4 - 5 years	25	20
Subsequent	112	121
Total	<u>9.923</u>	<u>10.572</u>

10. Trade and other payables

Trade and other payables are specified as follows:

	31.5.2012	29.2.2012
Trade payables	5.048	4.173
Income tax payable	311	343
Other payables	1.588	1.385
Incentives from operating leases	43	43
Total trade and other payables	<u>6.990</u>	<u>5.944</u>

11. Group entities

At 31 May 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	
		31.5.2012	29.2.2012
Hagar verslanir ehf.	Iceland	100%	100%
Banamar 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.

12. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	31.5.2012	29.2.2012
Current ratio - Current assets/current liabilities	1,56	1,61
Equity ratio - equity/total capital	28,0%	26,6%
Internal value of share capital	5,88	5,31