

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 30 November 2013

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 2013 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 2.773 million. According to the balance sheet, equity at the end of the period amounted to ISK 10.918 million.

In June 2013, the Company paid dividends to shareholders in the amount of ISK 586 million (ISK 0,50 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 2013, its assets, liabilities and consolidated financial position as at 30 November 2013 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 2013 and confirm them by means of their signatures.

Kópavogur, 10 January 2014

The Board of Directors:

Árni Hauksson

Erna Gísladóttir

Hallbjörn Karlsson

Kristín Friðgeirsdóttir

Stefán Árni Auðólfsson

CEO:

Finnur Árnason

Consolidated Statement of Comprehensive Income for the nine months ended 30 November 2013

	Note	Q3 2013 1.9.-30.11.	Q3 2012 1.9.-30.11.	2013 1.3.-30.11.	2012 1.3.-30.11.
Sales		17.997	16.745	55.790	52.314
Cost of goods sold		(13.584)	(12.785)	(42.263)	(39.729)
Gross profit		4.413	3.960	13.527	12.585
Other operating income		38	52	106	128
Salaries and salary-related expenses		(1.594)	(1.518)	(4.710)	(4.563)
Other operating expenses		(1.623)	(1.580)	(4.687)	(4.604)
Results from operating activities before depreciation and amortisation		1.234	914	4.236	3.546
Depreciation and amortisation of operating and intangible assets	7	(161)	(149)	(488)	(514)
Results from operating activities		1.073	765	3.748	3.032
Finance income		70	46	194	127
Finance expense		(134)	(165)	(467)	(547)
Net finance expense	8	(64)	(119)	(273)	(420)
Profit before income tax		1.009	646	3.475	2.612
Income tax		(209)	(137)	(702)	(549)
Comprehensive income for the period		<u>800</u>	<u>509</u>	<u>2.773</u>	<u>2.063</u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		0,68	0,43	2,37	1,59

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

Consolidated Balance Sheet as at 30 November 2013

	Note	30.11.2013	28.2.2013
Assets			
Operating assets		4.956	5.086
Intangible assets		7.777	7.789
Non-current assets		<u>12.733</u>	<u>12.875</u>
Inventories	9	6.432	5.099
Trade and other receivables		784	680
Trade receivable - customers' credit cards		4.169	4.113
Cash and cash equivalents		2.514	2.947
Current assets		<u>13.899</u>	<u>12.839</u>
Total assets		<u><u>26.632</u></u>	<u><u>25.714</u></u>
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		8.474	6.287
Total equity		<u>10.918</u>	<u>8.731</u>
Liabilities			
Loans and borrowings	10	6.319	8.275
Incentives from operating leases		78	110
Deferred tax liability		759	563
Non-current liabilities		<u>7.156</u>	<u>8.948</u>
Loans and borrowings	10	669	667
Trade and other payables	11	6.973	6.610
Current tax liabilities		764	606
Provisions		152	152
Current liabilities		<u>8.558</u>	<u>8.035</u>
Total liabilities		<u>15.714</u>	<u>16.983</u>
Total equity and liabilities		<u><u>26.632</u></u>	<u><u>25.714</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 2013

	Share capital	Share premium	Retained earnings	Total equity
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, 0.45 ISK per share			(527)	(527)
Comprehensive income for the period			2.063	2.063
Equity at 30 November 2012	1.172	1.272	5.392	7.837

Changes in equity from 1 March to 30 November 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			2.773	2.773
Equity at 30 November 2013	1.172	1.272	8.474	10.918

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 2013

	Q3 2013	Q3 2012	2013	2012
Note	1.9.-30.11.	1.9.-30.11.	1.3.-30.11.	1.3.-30.11.
Cash flows from operating activities:				
Net profit for the period	800	509	2.773	2.063
Adjustment for:				
Gain on sale of assets	(3)	(3)	(22)	(22)
Incentives from operating lease	(11)	(11)	(32)	(32)
Share based expense	0	0	0	79
Depreciation and amortisation	7 161	149	488	514
Net finance expense	8 64	119	273	420
Income tax	209	137	702	549
Working capital provided by operating activities	<u>1.220</u>	<u>900</u>	<u>4.182</u>	<u>3.571</u>
Change in current assets	(1.154)	(1.313)	(1.495)	(1.755)
Change in current liabilities	204	1.011	478	1.426
Cash from operations before interest and taxes	<u>270</u>	<u>598</u>	<u>3.165</u>	<u>3.242</u>
Interest income received	79	51	196	132
Interest expenses paid	(178)	(164)	(488)	(539)
Income taxes paid	(259)	(10)	(436)	(85)
Net cash provided by operating activities	<u>(88)</u>	<u>475</u>	<u>2.437</u>	<u>2.750</u>
Cash flows used in investing activities:				
Acquisition of operating assets	(120)	(197)	(362)	(374)
Acquisition of real estate	0	(473)	0	(473)
Proceeds from the sale of operating assets	3	8	38	50
Net cash used in investing activities	<u>(117)</u>	<u>(662)</u>	<u>(324)</u>	<u>(797)</u>
Cash flows used in financing activities:				
Repayment of borrowings	(1.135)	(166)	(1.960)	(985)
Dividends paid	0	0	(586)	(527)
Net cash used in financing activities	<u>(1.135)</u>	<u>(166)</u>	<u>(2.546)</u>	<u>(1.512)</u>
Net (decrease) increase in cash and cash equivalents	(1.340)	(353)	(433)	441
Cash and cash equivalents at beginning of the period	3.854	2.943	2.947	2.149
Cash and cash equivalents at 30 November	<u>2.514</u>	<u>2.590</u>	<u>2.514</u>	<u>2.590</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 2013 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 28 February 2013, which are available on the Company's website, www.hagar.is, and the OMX Nasdaq Iceland website, www.nasdaqomx.com.

The condensed consolidated interim financial statements were approved by the Board of Directors on 10 January 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 2013.

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 2013. 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 2013.

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 30 November 2013 and therefore goodwill was not tested for impairment.

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2013	2012
	1.3.-30.11.	1.3.-30.11.
Depreciation of operating assets	467	490
Amortisation of intangible assets	21	24
Total depreciation and amortisation	<u>488</u>	<u>514</u>

Notes, cont.:

8. Finance income and expense

Finance income and finance expense are specified as follows:

	2013	2012
	1.3.-30.11.	1.3.-30.11.
Interest income	194	127
Total finance income	<u>194</u>	<u>127</u>
Interest expense and indexation	(467)	(547)
Total finance expense	<u>(467)</u>	<u>(547)</u>
Net finance income and expense	<u>(273)</u>	<u>(420)</u>

9. Inventories

Inventories are specified as follows:

	30.11.2013	28.2.2013
Groceries	4.205	3.502
Non food goods	1.896	1.358
Goods in transit	331	239
Total inventories	<u>6.432</u>	<u>5.099</u>
Inventory write-down at the end of the period	102	122

10. Loans and borrowings

Loans and borrowings are specified as follows:

	30.11.2013	28.2.2013
Non-current loans and borrowings		
Secured bank loans	6.134	8.082
Finance lease liability	185	193
Total loans and borrowings	<u>6.319</u>	<u>8.275</u>
Current loans and borrowings		
Current portion of secured bank loans	650	650
Current portion of finance lease liability	19	17
Total current loans and borrowings	<u>669</u>	<u>667</u>
Total interest bearing loans and borrowings	<u>6.988</u>	<u>8.942</u>

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	30.11.2013	28.2.2013	30.11.2013	28.2.2013
Debt in ISK, indexed	10,5%	10,5%	204	210
Debt in ISK, non-indexed	7,0%	7,1%	6.784	8.732
Non-current loans and borrowing, incl. current portion			6.988	8.942
Current portion of non-current loans and borrowings			(669)	(667)
Total non-current loans and borrowings			<u>6.319</u>	<u>8.275</u>

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	669	667
Repayments in 1 - 2 years	6.156	670
Repayments in 2 - 3 years	25	7.454
Repayments in 3 - 4 years	29	26
Repayments in 4 - 5 years	33	30
Subsequent	76	95
Total	<u>6.988</u>	<u>8.942</u>

During the period, the Company repaid ISK 1,500 million in secured bank loans in excess of contractual maturities.

Notes, cont.:

11. Trade and other payables

Trade and other payables are specified as follows:	30.11.2013	28.2.2013
Trade payables	6.074	4.751
Other payables	856	1.816
Incentives from operating leases	43	43
Total trade and other payables	<u>6.973</u>	<u>6.610</u>

12. Group entities

At 30 November 2013 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	
		30.11.2013	28.2.2013
Hagar verslanir ehf.	Iceland	100%	100%
Bananar ehf.	Iceland	100%	100%
DBH Ísland 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. Other matters

In March 2012 the Company made a claim in the District Court of Reykjavik on Arion bank hf. due to final settlement of loans in foreign currencies. The claim was in the amount of ISK 825 million. On 28 May 2013 Arion bank hf. was acquitted of the claim and the Company decided to appeal the decision to the Supreme Court. On 12 December 2013 the Supreme Court confirmed the former decision of the District Court of Reykjavik and acquitted Arion bank hf. of all claims. This verdict has no effect in the financial statements of the company.

In December 2013 the Company made a claim in the District Court of Reykjavik on the Icelandic Government due to high duties levied on imported food. The Company claims the duties are illegal and that the Government should repay an amount of ISK 282 million. The Company has not recognised any income in the financial statements due to this matter.

14. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	30.11.2013	28.2.2013
Current ratio - Current assets/current liabilities	1,62	1,60
Equity ratio - equity/total capital	41,0%	34,0%
Internal value of share capital	9,32	7,45