

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 31 August 2015
ISK

Hagar hf.
Hagasmári 1
201 Kópavogur
Iceland

Reg. no. 670203-2120

Contents

Endorsement and Signatures of the Board of Directors and the CEO	3
Independent Auditors' Review Report	4
Consolidated Statement of Comprehensive Income	5
Consolidated Balance Sheet	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Interim Financial Statements	9

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 2015 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".

According to the statement of comprehensive income, profit of the Group for the period amounted to ISK 1,986 million. According to the balance sheet, equity at the end of the period amounted to ISK 14,758 million.

In June 2015, the Company paid dividends to shareholders in the amount of ISK 1,992 million (ISK 1.70 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 1,124 at the beginning of the period and 1,062 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 2015, its assets, liabilities and consolidated financial position as at 31 August 2015 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 2015 and confirm them by means of their signatures.

Kópavogur, 28 October 2015

The Board of Directors:

Kristín Friðgeirsdóttir

Salvör Nordal

Sigurður Arnar Sigurðsson

Stefán Árni Auðólfsson

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 2015, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and notes to the interim financial information. The Board of Directors and CEO are 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, 28 October 2015

KPMG ehf.

Símon Á. Gunnarsson

Margrét Flóvenz

Consolidated Statement of Comprehensive Income

for the six months ended 31 August 2015

	Note	Second quarter		First half	
		Q2 2015	Q2 2014	2015	2014
		1.6.-31.8.	1.6.-31.8.	1.3.-31.8.	1.3.-31.8.
		*	*		
Sales		19.722	19.478	38.390	38.363
Cost of goods sold		<u>(14.875)</u>	<u>(14.787)</u>	<u>(29.058)</u>	<u>(29.098)</u>
Gross profit		4.847	4.691	9.332	9.265
Other operating income		42	30	87	57
Salaries and related expenses		(1.667)	(1.568)	(3.364)	(3.214)
Other operating expenses		<u>(1.566)</u>	<u>(1.515)</u>	<u>(3.187)</u>	<u>(3.065)</u>
Profit from operating activities before depreciation and amortisation		1.656	1.638	2.868	3.043
Depreciation and amortisation	7	<u>(162)</u>	<u>(168)</u>	<u>(333)</u>	<u>(334)</u>
Profit from operating activities		1.494	1.470	2.535	2.709
Finance income		59	53	107	139
Finance expenses		<u>(85)</u>	<u>(80)</u>	<u>(160)</u>	<u>(231)</u>
Net finance expense	8	<u>(26)</u>	<u>(27)</u>	<u>(53)</u>	<u>(92)</u>
Profit before income tax		1.468	1.443	2.482	2.617
Income tax		<u>(293)</u>	<u>(288)</u>	<u>(496)</u>	<u>(523)</u>
Comprehensive income for the period		<u>1.175</u>	<u>1.155</u>	<u>1.986</u>	<u>2.094</u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		1,00	0,99	1,69	1,79

*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 interim financial statements.

Consolidated Balance Sheet as at 31 August 2015

	Note	31.8.2015	28.2.2015
Assets			
Operating assets		7.771	6.770
Intangible assets		7.743	7.750
Total non-current assets		<u>15.514</u>	<u>14.520</u>
Inventories	9	4.924	4.606
Trade and other receivables		734	864
Trade receivable - customers' credit cards		4.324	4.271
Cash and cash equivalents		2.478	3.348
Total current assets		<u>12.460</u>	<u>13.089</u>
Total assets		<u><u>27.974</u></u>	<u><u>27.609</u></u>
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		12.314	12.320
Total equity		<u>14.758</u>	<u>14.764</u>
Liabilities			
Loans and borrowings	10	3.866	4.239
Incentives from operating leases		4	25
Deferred income tax liabilities		385	527
Total non-current liabilities		<u>4.255</u>	<u>4.791</u>
Loans and borrowings	10	751	749
Trade and other payables	11	7.187	6.375
Current tax liabilities		993	880
Provisions		30	50
Total current liabilities		<u>8.961</u>	<u>8.054</u>
Total liabilities		<u>13.216</u>	<u>12.845</u>
Total equity and liabilities		<u><u>27.974</u></u>	<u><u>27.609</u></u>

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

Consolidated Statement of Changes in Equity for the six months ended 31 August 2015

	Share capital	Share premium	Retained earnings	Total equity
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
 Changes in equity from 1 March to 31 August 2015:				
Equity at 1 March 2015	1.172	1.272	12.320	14.764
Dividends paid, 1.70 ISK per share			(1.992)	(1.992)
Comprehensive income for the period			1.986	1.986
Equity at 31 August 2015	1.172	1.272	12.314	14.758

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

Consolidated Statement of Cash Flows for the six months ended 31 August 2015

	Q2 2015	Q2 2014	2015	2014
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	1.175	1.155	1.986	2.094
Adjustments for:				
Gain on sale of assets	(5)	(6)	(8)	(8)
Incentives from operating lease	(10)	(10)	(21)	(21)
Depreciation and amortisation	7 162	168	333	334
Net finance expense	8 26	27	53	92
Income tax	293	288	496	523
Working capital provided by operating activities	<u>1.641</u>	<u>1.622</u>	<u>2.839</u>	<u>3.014</u>
Change in current assets	(427)	(224)	(243)	(946)
Change in current liabilities	(314)	378	793	1.164
Cash from operations before interest and taxes	<u>900</u>	<u>1.776</u>	<u>3.389</u>	<u>3.232</u>
Interest income received	54	59	105	145
Interest expenses paid	(78)	(87)	(154)	(234)
Income taxes paid	(264)	(202)	(525)	(377)
Net cash provided by operating activities	<u>612</u>	<u>1.546</u>	<u>2.815</u>	<u>2.766</u>
Cash flows used in investing activities:				
Acquisition of real estate	(491)	(16)	(722)	(24)
Acquisition of fixtures and equipment	(291)	(181)	(621)	(398)
Proceeds from the sale of operating assets	13	18	24	22
Net cash used in investing activities	<u>(769)</u>	<u>(179)</u>	<u>(1.319)</u>	<u>(400)</u>
Cash flows used in financing activities:				
Repayment of loans and borrowings	(187)	(652)	(374)	(2.291)
Dividends paid	(1.992)	(1.172)	(1.992)	(1.172)
Net cash used in financing activities	<u>(2.179)</u>	<u>(1.824)</u>	<u>(2.366)</u>	<u>(3.463)</u>
Net decrease in cash and cash equivalents	(2.336)	(457)	(870)	(1.097)
Cash and cash equivalents at beginning of the period.....	4.814	3.503	3.348	4.143
Cash and cash equivalents at 31 August	<u>2.478</u>	<u>3.046</u>	<u>2.478</u>	<u>3.046</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 interim financial statements.

Notes to the Consolidated Interim 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 2015 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 2015.

The condensed consolidated interim financial statements were approved by the Board of Directors on 28 October 2015.

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 2015. The annual financial statement can be obtained from the Company or its website, www.hagar.is and on the website of OMX Nordic Exchange in Iceland.

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 2015. 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 2015.

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 2015 and therefore goodwill was not tested for impairment.

Notes, contd.:

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2015	2014
	1.3.-31.8.	1.3.-31.8
Depreciation of operating assets	326	322
Amortisation of intangible assets	7	12
Total depreciation and amortisation	<u>333</u>	<u>334</u>

8. Finance income and expense

Finance income and finance expense are specified as follows:

Interest income	103	139
Net foreign exchange gain	4	0
Total finance income	<u>107</u>	<u>139</u>
Interest expenses and indexation	(160)	(229)
Net foreign exchange loss	0	(2)
Total finance expense	<u>(160)</u>	<u>(231)</u>
Net finance expense	<u>(53)</u>	<u>(92)</u>

9. Inventories

Inventories are specified as follows:

	31.8.2015	28.2.2015
Groceries	3.243	3.024
Non food goods	1.333	1.394
Goods in transit	348	188
Total inventories	<u>4.924</u>	<u>4.606</u>
Inventory write-down at the end of the period	100	99

10. Loans and borrowings

Loans and borrowings are specified as follows:

Non-current loans and borrowings

Secured bank loans	3.713	4.077
Finance lease liability	153	162
Total loans and borrowings	<u>3.866</u>	<u>4.239</u>

Current loans and borrowings

Current portion of secured bank loans	728	728
Current portion of finance lease liability	23	21
Total loans and borrowings	<u>751</u>	<u>749</u>

Total interest bearing loans and borrowings	<u>4.617</u>	<u>4.988</u>
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Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	31.8.2015	28.2.2015	31.8.2015	28.2.2015
Debt in ISK, non-indexed	6,6%	6,1%	4.441	4.805
Debt in ISK, indexed	10,5%	10,5%	176	183
Non-current loans and borrowing, incl. current portion			4.617	4.988
Current portion of non-current loans and borrowings			(751)	(749)
Total non-current loans and borrowings			<u>3.866</u>	<u>4.239</u>

Notes, contd.:

10. Loans and borrowings, contd.:

Contractual repayments of loans and borrowings are specified as follows:

	31.8.2015	28.2.2015
Repayments in 1 year or less	751	749
Repayments in 1 - 2 years	755	753
Repayments in 2 - 3 years	759	756
Repayments in 3 - 4 years	763	761
Repayments in 4 - 5 years	1.570	1.931
Subsequent	19	38
Total	<u>4.617</u>	<u>4.988</u>

The fair value of financial assets and liabilities is equal to the carrying amount.

11. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	5.423	4.811
Other payables	1.721	1.521
Incentives from operating leases	43	43
Total trade and other payables	<u>7.187</u>	<u>6.375</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 2015 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	
		31.8.2015	28.2.2015
Hagar verlanir ehf.	Iceland	100%	100%
Banar 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:	31.8.2015	28.2.2015
Current ratio - Current assets/current liabilities	1,39	1,63
Equity ratio - equity/total capital	52,8%	53,5%
Internal value of share capital	12,59	12,60