

Hagar hf.  
Condensed Consolidated  
Interim Financial Statements  
1 March - 31 August 2013  
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

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The condensed consolidated interim financial statements of Hagar hf. ("the Company") for the period 1 March to 31 August 2013 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 1,973 million. According to the balance sheet, equity at the end of the period amounted to ISK 10,118 million.

In June 2013, the Company paid dividends to shareholders in the amount of ISK 586 million (ISK 0.50 per share).

The Company's share capital amounted to ISK 1,218 million at the end of the period, from which the Company held treasury shares in the amount of ISK 46 million. The share capital is divided into shares of ISK 1, all in one class with equal rights.

Shareholders were 1,196 at the beginning of the period and 1,105 at the end of the period. Two shareholders held over 10% of share capital at the end of the period, Pension Fund for State Employees (LSR) with 14.3% and Gildipension fund with 10.3% share.

## **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 2013, its assets, liabilities and consolidated financial position as at 31 August 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 31 August 2013 and confirm them by means of their signatures.

Kópavogur, 24 October 2013

The Board of Directors:

Árni Hauksson

Erna Gísladóttir

Hallbjörn Karlsson

Kristín Friðgeirsdóttir

Stefán Árni Auðólfsson

CEO:

Finnur Árnason

# Independent Auditors' Review Report

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To the Board of Directors of Hagar hf.

We have reviewed the accompanying consolidated balance sheet of Hagar hf. as at 31 August 2013 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, 24 October 2013

## **KPMG ehf.**

Símon Á. Gunnarsson

Sigríður Helga Sveinsdóttir

# Consolidated Statement of Comprehensive Income

## for the six months ended 31 August 2013

	Note	Q2 2013 1.6.-31.8. *	Q2 2012 1.6.-31.8. *	2013 1.3.-31.8.	2012 1.3.-31.8.
Sales .....		19,415	18,205	37,794	35,569
Cost of goods sold .....		<u>( 14,747)</u>	<u>( 13,765)</u>	<u>( 28,679)</u>	<u>( 26,944)</u>
<b>Gross profit</b> .....		4,668	4,440	9,115	8,625
Other operating income .....		37	52	68	76
Salaries and related expenses .....		<u>( 1,518)</u>	<u>( 1,475)</u>	<u>( 3,116)</u>	<u>( 3,045)</u>
Other operating expenses .....		<u>( 1,520)</u>	<u>( 1,522)</u>	<u>( 3,064)</u>	<u>( 3,024)</u>
<b>Results from operating activities before depreciation and amortisation</b> .....		1,667	1,495	3,003	2,632
Depreciation and amortisation .....	7	<u>( 160)</u>	<u>( 181)</u>	<u>( 328)</u>	<u>( 365)</u>
<b>Results from operating activities</b> .....		1,507	1,314	2,675	2,267
Finance income .....		73	52	124	81
Finance expense .....		<u>( 160)</u>	<u>( 197)</u>	<u>( 333)</u>	<u>( 383)</u>
<b>Net finance expense</b> .....	8	<u>( 87)</u>	<u>( 145)</u>	<u>( 209)</u>	<u>( 301)</u>
<b>Profit before income tax</b> .....		1,420	1,169	2,466	1,966
Income tax .....		<u>( 284)</u>	<u>( 243)</u>	<u>( 493)</u>	<u>( 412)</u>
<b>Total Comprehensive income for the period</b> .....		<u>1,136</u>	<u>926</u>	<u>1,973</u>	<u>1,554</u>
<b>Earnings per share:</b>					
Basic and diluted earnings per share of ISK 1 .....		0.97	0.79	1.68	1.33

\*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 2013

	Note	31.8.2013	28.2.2013
<b>Assets</b>			
Operating assets .....		4,992	5,086
Intangible assets .....		7,782	7,789
Total non-current assets		<u>12,774</u>	<u>12,875</u>
Inventories .....	9	5,015	5,099
Trade and other receivables .....		897	680
Trade receivable - customers' credit cards .....		4,327	4,113
Cash and cash equivalents .....		3,854	2,947
Total current assets		<u>14,093</u>	<u>12,839</u>
<b>Total assets</b>		<u><u>26,867</u></u>	<u><u>25,714</u></u>
<b>Equity</b>			
Share capital .....		1,172	1,172
Share premium .....		1,272	1,272
Retained earnings .....		7,674	6,287
Total equity		<u>10,118</u>	<u>8,731</u>
<b>Liabilities</b>			
Loans and borrowings .....	10	7,454	8,275
Incentives from operating leases .....		89	110
Deferred income tax liabilities .....		581	563
Total non-current liabilities		<u>8,124</u>	<u>8,948</u>
Loans and borrowings .....	10	668	667
Trade and other payables .....	11	6,947	6,610
Current tax liabilities .....		858	606
Provisions .....		152	152
Total current liabilities		<u>8,625</u>	<u>8,035</u>
Total liabilities		<u>16,749</u>	<u>16,983</u>
<b>Total equity and liabilities</b>		<u><u>26,867</u></u>	<u><u>25,714</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 2013

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	Share capital	Share premium	Retained earnings	Total equity
<b>Changes in equity from 1 March to 31 August 2012:</b>				
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 )
Total Comprehensive income for the period .....			1,554	1,554
Equity at 31 August 2012 .....	1,172	1,272	4,883	7,327
 <b>Changes in equity from 1 March to 31 August 2013:</b>				
Equity at 1 March 2013 .....	1,172	1,272	6,287	8,731
Dividends paid, 0.50 ISK per share .....			( 586 )	( 586 )
Total Comprehensive income for the period .....			1,973	1,973
Equity at 31 August 2013 .....	1,172	1,272	7,674	10,118

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 2013

	Q2 2013	Q2 2012	2013	2012
Note	1.6.-31.8.	1.6.-31.8.	1.3.-31.8.	1.3.-31.8.
	*	*		
<b>Cash flows from operating activities:</b>				
Net profit for the period .....	1,136	926	1,973	1,554
Adjustments for:				
Gain on sale of assets .....	( 10)	( 16)	( 20)	( 19)
Incentives from operating lease .....	( 10)	( 10)	( 21)	( 21)
Share-based expense .....	0	31	0	79
Depreciation and amortisation .....	7 160	181	328	365
Net finance expense .....	8 87	142	209	301
Income tax .....	284	243	493	412
Working capital provided by operating activities	<u>1,647</u>	<u>1,497</u>	<u>2,962</u>	<u>2,671</u>
Change in current assets .....	120	276	( 318)	( 442)
Change in current liabilities .....	( 10)	( 653)	250	415
Cash from operations before interest and taxes	<u>1,757</u>	<u>1,120</u>	<u>2,894</u>	<u>2,644</u>
Interest income received .....	66	52	117	81
Interest expenses paid .....	( 159)	( 201)	( 311)	( 375)
Income taxes paid .....	( 88)	( 43)	( 176)	( 75)
Net cash provided by operating activities	<u>1,576</u>	<u>928</u>	<u>2,524</u>	<u>2,275</u>
<b>Cash flows used in investing activities:</b>				
Acquisition of operating assets .....	( 138)	( 84)	( 242)	( 177)
Proceeds from the sale of operating assets .....	24	19	35	42
Net cash used in investing activities	<u>( 114)</u>	<u>( 65)</u>	<u>( 207)</u>	<u>( 135)</u>
<b>Cash flows used in financing activities:</b>				
Repayment of borrowings .....	( 166)	( 166)	( 824)	( 819)
Dividends paid .....	( 586)	( 527)	( 586)	( 527)
Net cash used in financing activities	<u>( 752)</u>	<u>( 693)</u>	<u>( 1,410)</u>	<u>( 1,346)</u>
<b>Net increase in cash and cash equivalents .....</b>	<b>710</b>	<b>170</b>	<b>907</b>	<b>794</b>
<b>Cash and cash equivalents at beginning of the period.....</b>	<b><u>3,144</u></b>	<b><u>2,773</u></b>	<b><u>2,947</u></b>	<b><u>2,149</u></b>
<b>Cash and cash equivalents at 31 August .....</b>	<b><u><u>3,854</u></u></b>	<b><u><u>2,943</u></u></b>	<b><u><u>3,854</u></u></b>	<b><u><u>2,943</u></u></b>

\*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

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## 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 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.

## 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.

The condensed consolidated interim financial statements were approved by the Board of Directors on 24 October 2013.

## 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 31 August 2013 and therefore goodwill was not tested for impairment.

## 7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2013	2012
	1.3.-31.8.	1.3.-31.8.
Depreciation of operating assets .....	315	345
Amortisation of intangible assets .....	13	20
Total depreciation and amortisation .....	<u>328</u>	<u>365</u>

## Notes, contd.:

### 8. Finance income and expense

Finance income and finance expense are specified as follows:

	2013 1.3.-31.8.	2012 1.3.-31.8.
Interest income .....	124	81
Total finance income .....	<u>124</u>	<u>81</u>
Interest expense and indexation .....	( 323)	( 383)
Net foreign exchange loss .....	( 10)	0
Total finance expense .....	<u>( 333)</u>	<u>( 383)</u>
Net finance income and expense .....	<u>( 209)</u>	<u>( 301)</u>

### 9. Inventories

Inventories are specified as follows:

	31.8.2013	28.2.2013
Groceries .....	3,253	3,502
Non food goods .....	1,386	1,358
Goods in transit .....	376	239
Total inventories .....	<u>5,015</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:

	31.8.2013	28.2.2013
<b>Non-current loans and borrowings</b>		
Secured bank loans .....	7,265	8,082
Finance lease liability .....	189	193
Total loans and borrowings .....	<u>7,454</u>	<u>8,275</u>
<b>Current loans and borrowings</b>		
Current portion of secured bank loans .....	650	650
Current portion of finance lease liability .....	18	17
Total loans and borrowings .....	<u>668</u>	<u>667</u>
Total interest bearing loans and borrowings .....	<u>8,122</u>	<u>8,942</u>

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount	Carrying amount
	31.8.2013	28.2.2013	31.8.2013	28.2.2013
Debt in ISK, indexed .....	10.5%	10.5%	207	210
Debt in ISK, non-indexed .....	7.0%	7.1%	7,915	8,732
Non-current loans and borrowing, incl. current portion .....			8,122	8,942
Current portion of non-current loans and borrowings .....			( 668 )	( 667 )
Total non-current loans and borrowings .....			<u>7,454</u>	<u>8,275</u>

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less .....	668	667
Repayments in 1 - 2 years .....	463	670
Repayments in 2 - 3 years .....	6,847	7,454
Repayments in 3 - 4 years .....	28	26
Repayments in 4 - 5 years .....	32	30
Subsequent .....	84	95
Total .....	<u>8,122</u>	<u>8,942</u>

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

## Notes, contd.:

### 11. Trade and other payables

Trade and other payables are specified as follows:

	31.8.2013	28.2.2013
Trade payables .....	5,265	4,751
Other payables .....	1,639	1,816
Incentives from operating leases .....	43	43
Total trade and other payables .....	<u>6,947</u>	<u>6,610</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 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	
		31.8.2013	28.2.2013
Hagar verslanir ehf. ....	Iceland	100%	100%
Bananar ehf. ....	Iceland	100%	100%
DBH á Íslandi ehf. ....	Iceland	100%	100%
Ferskar kjötvörur ehf. ....	Iceland	100%	100%
Íshöfn ehf. ....	Iceland	100%	100%
Noron ehf. ....	Iceland	100%	100%
Sólhöfn ehf. ....	Iceland	100%	100%
Eignarhaldsfélagið Dagar ehf. ....	Iceland	100%	100%

### 14. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	31.8.2013	28.2.2013
Current ratio - Current assets/current liabilities .....	1.63	1.60
Equity ratio - equity/total capital .....	37.7%	34.0%
Internal value of share capital .....	8.63	7.45