

Hagar hf.
Condensed Consolidated
Interim Financial Statements
1 March - 30 November 2015

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 2015 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 2,831 million. According to the balance sheet, equity at the end of the period amounted to ISK 15,604 million.

In June 2015, the Company paid dividends to shareholders in the amount of ISK 1,992 million (ISK 1.70 per share).

Statement by the Board of Directors and the 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 nine month period ended 30 November 2015, its assets, liabilities and consolidated financial position as at 30 November 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 30 November 2015 and confirm them by means of their signatures.

Kópavogur, 12 January 2016

The Board of Directors:

Kristín Friðgeirsdóttir
Erna Gísladóttir
Salvör Nordal
Sigurður Arnar Sigurðsson
Stefán Árni Auðólfsson

CEO:

Finnur Árnason

Consolidated Statement of Comprehensive Income for the nine months ended 30 November 2015

	Note	Q3 2015 1.9.-30.11.	Q3 2014 1.9.-30.11.	2015 1.3.-30.11.	2014 1.3.-30.11.
Sales		18.787	18.400	57.177	56.763
Cost of goods sold		(14.134)	(13.978)	(43.192)	(43.076)
Gross profit		<u>4.653</u>	<u>4.422</u>	<u>13.985</u>	<u>13.687</u>
Other operating income		45	25	132	82
Salaries and related expenses		(1.788)	(1.674)	(5.152)	(4.888)
Other operating expenses		(1.637)	(1.630)	(4.824)	(4.695)
Results from operating activities before depreciation and amortisation		1.273	1.143	4.141	4.186
Depreciation and amortisation	7	(175)	(167)	(508)	(501)
Results from operating activities		1.098	976	3.633	3.685
Finance income		60	58	167	197
Finance expenses		(101)	(91)	(261)	(322)
Net finance expense	8	(41)	(33)	(94)	(125)
Profit before income tax		1.057	943	3.539	3.560
Income tax		(212)	(189)	(708)	(712)
Comprehensive income for the period		<u><u>845</u></u>	<u><u>754</u></u>	<u><u>2.831</u></u>	<u><u>2.848</u></u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		0,72	0,64	2,42	2,43

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

Consolidated Balance Sheet as at 30 November 2015

	Note	30.11.2015	28.2.2015
Assets			
Operating assets		8.225	6.770
Intangible assets		7.735	7.750
Total non-current assets		<u>15.960</u>	<u>14.520</u>
Inventories	9	6.332	4.606
Trade and other receivables		646	864
Trade receivable - customers' credit cards		4.063	4.271
Cash and cash equivalents		2.727	3.348
Total current assets		<u>13.768</u>	<u>13.089</u>
Total assets		<u><u>29.728</u></u>	<u><u>27.609</u></u>
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		13.160	12.320
Total equity		<u>15.604</u>	<u>14.764</u>
Liabilities			
Loans and borrowings	10	3.680	4.239
Incentives from operating leases		0	25
Deferred income tax liability		1.236	527
Total non-current liabilities		<u>4.916</u>	<u>4.791</u>
Loans and borrowings	10	752	749
Trade and other payables	11	7.399	6.375
Current tax liabilities		1.027	880
Provisions		30	50
Total current liabilities		<u>9.208</u>	<u>8.054</u>
Total liabilities		<u>14.124</u>	<u>12.845</u>
Total equity and liabilities		<u><u>29.728</u></u>	<u><u>27.609</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 2015

	Share capital	Share premium	Retained earnings	Total equity
Changes in equity from 1 March to 30 November 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			2.848	2.848
Equity at 30 November 2014	1.172	1.272	11.330	13.774
Changes in equity from 1 March to 30 November 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			2.831	2.831
Equity at 30 November 2015	1.172	1.272	13.159	15.604

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 2015

	Q3 2015	Q3 2014	2015	2014
Note	1.9.-30.11.	1.9.-30.11.	1.3.-30.11.	1.3.-30.11.
Cash flows from operating activities:				
Profit for the period	845	754	2.831	2.848
Adjustments for:				
Gain on sale of assets	(1)	(1)	(9)	(9)
Incentives from operating lease	(11)	(11)	(32)	(32)
Depreciation and amortisation	7 175	167	508	501
Net finance expense	8 41	33	94	125
Income tax	212	189	708	712
Working capital provided by operating activities	<u>1.261</u>	<u>1.131</u>	<u>4.100</u>	<u>4.145</u>
Change in current assets	(1.060)	(924)	(1.303)	(1.870)
Change in current liabilities	839	426	1.632	1.590
Cash from operations before interest and taxes	<u>1.040</u>	<u>633</u>	<u>4.429</u>	<u>3.865</u>
Interest income received	59	57	164	202
Interest expenses paid	(99)	(92)	(253)	(326)
Income taxes paid	56	(309)	(469)	(686)
Net cash provided by operating activities	<u>1.056</u>	<u>289</u>	<u>3.871</u>	<u>3.055</u>
Cash flows used in investing activities:				
Acquisition of real estate	(290)	(42)	(1.012)	(66)
Acquisition of operating assets	(334)	(186)	(955)	(584)
Acquisition of intangible assets	(2)	0	(2)	0
Proceeds from the sale of operating assets	7	3	31	25
Net cash used in investing activities	<u>(619)</u>	<u>(225)</u>	<u>(1.938)</u>	<u>(625)</u>
Cash flows used in financing activities:				
Repayment of borrowings	(188)	(4.400)	(562)	(6.691)
Proceeds from borrowings	0	4.300	0	4.300
Dividends paid	0	0	(1.992)	(1.172)
Net cash used in financing activities	<u>(188)</u>	<u>(100)</u>	<u>(2.554)</u>	<u>(3.563)</u>
Net increase (decrease) in cash and cash equivalents	249	(36)	(621)	(1.133)
Cash and cash equivalents at beginning of the period	<u>2.478</u>	<u>3.046</u>	<u>3.348</u>	<u>4.143</u>
Cash and cash equivalents at 30 November	<u><u>2.727</u></u>	<u><u>3.010</u></u>	<u><u>2.727</u></u>	<u><u>3.010</u></u>

The notes on pages 8 to 10 are an integral part of these 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 nine months ended 30 November 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.

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 2015.

The condensed consolidated interim financial statements were approved by the Board of Directors on 12 January 2016.

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 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 30 November 2015 and therefore goodwill was not tested for impairment.

Notes, cont.:

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2015	2014
	1.3.-30.11.	1.3.-30.11.
Depreciation of operating assets	493	484
Amortisation of intangible assets	15	17
Total depreciation and amortisation	<u>508</u>	<u>501</u>

8. Finance income and expense

Finance income and finance expense are specified as follows:

Interest income	161	197
Net foreign exchange gain	6	0
Total finance income	<u>167</u>	<u>197</u>
Interest expenses and indexation	(261)	(321)
Net foreign exchange loss	0	(1)
Total finance expense	<u>(261)</u>	<u>(322)</u>
Net finance expense	<u>(94)</u>	<u>(125)</u>

9. Inventories

Inventories are specified as follows:

	30.11.2015	28.2.2015
Groceries	4.062	3.024
Non food goods	1.896	1.394
Goods in transit	374	188
Total inventories	<u>6.332</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	3.531	4.077
Finance lease liability	149	162
Total non-current loans and borrowings	<u>3.680</u>	<u>4.239</u>

Current loans and borrowings

Current portion of secured bank loans	728	728
Current portion of finance lease liability	24	21
Total current loans and borrowings	<u>752</u>	<u>749</u>

Total interest bearing loans and borrowings	<u>4.432</u>	<u>4.988</u>
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Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate		Carrying amount 30.11.2015	Carrying amount 28.2.2015
	30.11.2015	28.2.2015		
Debt in ISK, non-indexed	7,00%	6,10%	4.259	4.805
Debt in ISK, indexed	10,50%	10,50%	173	183
Non-current loans and borrowing, incl. current portion			<u>4.432</u>	<u>4.988</u>
Current portion of non-current loans and borrowings			<u>(752)</u>	<u>(749)</u>
Total non-current loans and borrowings			<u>3.680</u>	<u>4.239</u>

Notes, cont.:

10. Loans and borrowings, contd.:

Contractual repayments of loans and borrowings are specified as follows:	30.11.2015	28.2.2015
Repayments in 1 year or less	752	749
Repayments in 1 - 2 years	755	753
Repayments in 2 - 3 years	759	756
Repayments in 3 - 4 years	2.112	761
Repayments in 4 - 5 years	41	1.931
Subsequent	13	38
Total	<u>4.432</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	6.299	4.811
Other payables	1.064	1.521
Incentives from operating leases	36	43
Total trade and other payables	<u>7.399</u>	<u>6.375</u>

12. Group entities

At 30 November 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	
		30.11.2015	28.2.2015
Hagar verslanir ehf.	Iceland	100%	100%
Banana 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.

13. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	30.11.2015	28.2.2015
Current ratio - Current assets/current liabilities	1,50	1,63
Equity ratio - equity/total capital	52,5%	53,5%
Internal value of share capital	13,31	12,60