

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

Hagar hf.
Hagasmára 1
201 Kópavogur
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 31 May 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 837 million. According to the balance sheet, equity at the end of the period amounted to ISK 9,568 million.

On 7 June, the Annual General Meeting of the Company approved that a ISK 0.50 per share dividend shall be paid to shareholders. The dividend payment in the amount of ISK 586 million was paid on 26 June 2013.

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

Kópavogur, 28 June 2013

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 three months ended 31 May 2013

	Note	2013 1.3.-31.5.	2012 1.3.-31.5.
Sales		18.379	17.364
Cost of goods sold		(13.932)	(13.179)
Gross profit		<u>4.447</u>	<u>4.185</u>
Other operating income		31	24
Salaries and salary-related expenses		(1.598)	(1.570)
Other operating expenses		(1.544)	(1.502)
Results from operating activities before depreciation and amortisation		1.336	1.137
Depreciation and amortisation	7	(168)	(184)
Results from operating activities		1.168	953
Finance income		51	29
Finance expenses		(173)	(185)
Net finance expense	8	(122)	(156)
Profit before income tax		1.046	797
Income tax		(209)	(169)
Comprehensive income for the period		<u>837</u>	<u>628</u>
Earnings per share:			
Basic and diluted earnings per share of ISK 1		0,71	0,54

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

Consolidated Balance Sheet as at 31 May 2013

	Note	31.5.2013	28.2.2013
Assets			
Operating assets		5.023	5.086
Intangible assets		7.786	7.789
Non-current assets		<u>12.809</u>	<u>12.875</u>
Inventories	9	5.567	5.099
Trade and other receivables		830	680
Trade receivable - customers' credit cards		3.924	4.113
Cash and cash equivalents		3.144	2.947
Current assets		<u>13.465</u>	<u>12.839</u>
Total assets		<u><u>26.274</u></u>	<u><u>25.714</u></u>
Equity			
Share capital		1.172	1.172
Share premium		1.272	1.272
Retained earnings		7.124	6.287
Total equity		<u>9.568</u>	<u>8.731</u>
Liabilities			
Loans and borrowings	10	7.617	8.275
Incentives from operating leases		100	110
Deferred tax liability		773	563
Non-current liabilities		<u>8.490</u>	<u>8.948</u>
Loans and borrowings	10	670	667
Trade and other payables	11	6.876	6.610
Current tax liabilities		518	606
Provisions		152	152
Current liabilities		<u>8.216</u>	<u>8.035</u>
Total liabilities		<u>16.706</u>	<u>16.983</u>
Total equity and liabilities		<u><u>26.274</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 three months ended 31 May 2013

	Share capital	Share premium	Retained earnings	Total equity
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
Changes in equity from 1 March to 31 May 2013:				
Equity at 1 March 2013	1.172	1.272	6.287	8.731
Comprehensive income for the period			837	837
Equity at 31 May 2013	1.172	1.272	7.124	9.568

On 7 June, the Annual General Meeting of the Company approved that a ISK 0.50 per share dividend shall be paid to shareholders. The dividend payment in the amount of ISK 586 million was paid on 26 June 2013. 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 2013

	Note	2013		2012
		1.3.-31.5.		1.3.-31.5.
Cash flows from operating activities				
Net profit for the period		837		628
Adjustment for:				
Gain on sale of assets .....	(	10)	(	3)
Share based expense		0		48
Incentives from operating lease .....	(	11)	(	11)
Depreciation and amortisation	7	168		184
Net finance expense	8	122		156
Income tax		209		169
Working capital provided by operating activities		1.315		1.171
Change in current assets .....	(	438)	(	715)
Change in current liabilities		260		1.068
Cash from operations before interest and taxes		1.137		1.524
Interest received		51		29
Interest paid .....	(	152)	(	174)
Income taxes paid .....	(	88)	(	32)
Net cash provided by operating activities		948		1.347
Cash flows to investing activities				
Acquisition of operating assets .....	(	104)	(	93)
Proceeds from the sale of operating assets		11		23
Net cash used in investing activities		(93)		(70)
Cash flows to financing activities				
Repayment of borrowings .....	(	658)	(	653)
Net cash used in financing activities		(658)		(653)
Net increase in cash and cash equivalents		197		624
Cash and cash equivalents at beginning of the period		2.947		2.149
Cash and cash equivalents at 31 May		3.144		2.773

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 three months ended 31 May 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 28 June 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.

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 estimating 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 mainly in retail and in Iceland.

6. Goodwill

Impairment tests

There was no indication of impairment at 31 May 2013 and therefore goodwill was not tested for impairment.

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2013	2012
	1.3-31.5	1.3-31.5
Depreciation of operating assets	162	175
Amortisation of intangible assets	6	9
	<u>168</u>	<u>184</u>

Notes, cont.:

8. Finance income and expense

Finance income and finance expense are specified as follows:

	2013	2012
	1.3.-31.5.	1.3.-31.5.
Interest income	51	29
Total finance income	<u>51</u>	<u>29</u>
Interest expense and indexation	(168)	(185)
Net foreign exchange loss	(5)	0
Total finance expense	<u>(173)</u>	<u>(185)</u>
Net finance income and expense	<u>(122)</u>	<u>(156)</u>

9. Inventories

Inventories are specified as follows:

	31.5.2013	28.2.2013
Groceries	3.547	3.502
Speciality goods	1.700	1.358
Goods in transit	320	239
Total inventories	<u>5.567</u>	<u>5.099</u>
Inventory write-down at period-end	122	122

10. Loans and borrowings

Loans and borrowings are specified as follows:

	31.5.2013	28.2.2013
Non-current loans and borrowings		
Secured bank loans	7.427	8.082
Finance lease liability	190	193
Total non-current loans and borrowings	<u>7.617</u>	<u>8.275</u>

Current loans and borrowings

Current portion of secured bank loans	650	650
Current portion of finance lease liability	20	17
Total current loans and borrowings	<u>670</u>	<u>667</u>

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate	31.5.2013 Carrying amount	28.2.2013 Carrying amount
Debt in ISK, indexed	10,5%	210	210
Debt in ISK, un-indexed	7,1%	8.077	8.732
Non-current loans and borrowing, including current portion		8.287	8.942
Current portion of non-current loans and borrowings		(670)	(667)
Total non-current loans and borrowings		<u>7.617</u>	<u>8.275</u>

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	670	667
Repayments in 1 - 2 years	673	670
Repayments in 2 - 3 years	6.803	7.454
Repayments in 3 - 4 years	29	26
Repayments in 4 - 5 years	34	30
Subsequent	78	95
Total	<u>8.287</u>	<u>8.942</u>

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

Notes, cont.:

11. Trade and other payables

Trade and other payables are specified as follows:	31.5.2013	28.2.2013
Trade payables	5.361	4.751
Other payables	1.472	1.816
Incentives from operating leases	43	43
Total trade and other payables	<u>6.876</u>	<u>6.610</u>

12. Group entities

At 31 May 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	
		31.5.2013	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%
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

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 is in the amount of ISK 825 million. On 28 May 2013 Arion bank hf. was acquitted of the claim. The Company has decided to appeal the decision to the Supreme Court.

14. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	31.5.2013	28.2.2013
Current ratio - Current assets/current liabilities	1,64	1,60
Equity ratio - equity/total capital	36,4%	34,0%
Internal value of share capital	8,16	7,45