

Hagar hf.

**Condensed Consolidated
Interim Financial Statements
for the Six Months Ended 31 August 2008
ISK**

Hagar hf.
Hagasmára 1
201 Kopavogur
Iceland

Reg. no. 670203-2120

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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 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim accounts, IAS 34. The interim financial statements comprise the consolidated interim financial statements of Hagar hf. and its subsidiaries ("the Group"). The Company's auditors have not reviewed the interim financial statements.

According to the income statement, loss of the Group for the period amounted to ISK 1.409 million. According to the balance sheet, equity at the end of the period amounted to ISK 6.687 million.

Statement by the Board of Directors and 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 six month period ended 31 August 2008, its assets, liabilities and consolidated financial position as at 31 August 2008 and its consolidated cash flows for the period then ended.

Further, in our opinion the condensed consolidated interim financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and financial performance of the Group's operations and its financial position and fairly describes the principal risks and uncertainties faced by the Group.

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 2008 and confirm them by means of their signatures.

Reykjavík, 31 October 2008

The Board of Directors:

Jón Ásgeir Jóhannesson

Jóhannes Jónsson

Tinna Ólafsdóttir

CEO:

Finnur Árnason

Consolidated Interim Income Statement for the six months ended 31 August 2008

	Note	2008 1.3-31.8	2007 1.3-31.8
Sales		29.351	25.474
Cost of goods sold		(22.092)	(18.899)
Gross profit		7.259	6.575
Other operating income		69	45
Salaries and salary-related expenses		(3.154)	(2.833)
Other operating expenses		(2.722)	(2.348)
Results from operating activities before depreciation and amortisation		1.452	1.439
Depreciation and amortisation of operating assets	6	(514)	(443)
Results from operating activities		938	996
Finance income		299	535
Finance expenses		(2.683)	(575)
Net finance expense	7	(2.384)	(40)
Share of loss of equity accounted investees	8	0	(39)
(Loss) profit before income tax		(1.446)	917
Income tax expense		37	(202)
(Loss) profit for the period		<u>(1.409)</u>	<u>715</u>
(Loss) earnings per share:			
Basic and diluted (loss) earnings per share of ISK 1		(1,24)	0,63

Consolidated Interim Balance Sheet 31 August 2008

	Note	31.8.2008	29.2.2008
Assets			
Operating assets		4.773	4.532
Intangible assets		9.718	9.697
Investments in associates	8	769	1.004
Investments in other companies	9	3.228	3.905
Investments in bonds		2	518
Deferred tax assets		0	0
Non-current assets		18.490	19.656
Inventories	10	3.894	3.657
Trade and other receivables		964	849
Trade receivable - customers' credit cards		4.150	3.112
Restricted cash		657	508
Cash and cash equivalents		424	213
Current assets		10.089	8.339
Total assets		28.579	27.995
 Equity			
Share capital		1.189	1.218
Share premium		5.853	6.536
Translation reserve		31	31
Retained earnings		(386)	1.023
Total equity		6.687	8.808
 Liabilities			
Loans from credit institutions	11	298	610
Bonds	11	9.294	8.506
Incentives from operating leases		342	373
Deferred tax liabilities		0	37
Non-current liabilities		9.934	9.526
Interest-bearing loans and borrowings	11	4.419	3.606
Trade and other payables, including derivatives	12	7.345	5.805
Provisions		194	250
Current liabilities		11.958	9.661
Total liabilities		21.892	19.187
Total equity and liabilities		28.579	27.995

Consolidated Interim Statement of Changes in Equity for the six months ended 31 August 2008

	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
Changes in equity from 1 March to 31 August 2007:					
Equity at 28 February 2007, IS-GAAP	1.067	3.975	0	1.423	6.465
Changes due to IFRSs adoption				73	73
Equity at 1 March 2007, IFRSs	1.067	3.975	0	1.496	6.538
Net profit for the period				715	715
Issued share capital	151	2.561			2.712
Dividends to equity holders				(1.000)	(1.000)
Equity at 31 August 2007, IFRSs	1.218	6.536	0	1.211	8.965
Changes in equity from 1 March to 31 August 2008:					
Equity at 29 February 2008	1.218	6.536	31	1.023	8.808
Net loss for the period				(1.409)	(1.409)
Own shares bought	(29)	(683)			(712)
Equity at 31 August 2008	1.189	5.853	31	(386)	6.687

Consolidated Interim Statement of Cash Flows for the six months ended 31 August 2008

	Note	2008 1.3-31.8	2007 1.3-31.8
Cash flows from operating activities:			
Net (loss) profit for the period .....	(	1.409)	715
Adjustments for non-cash transactions	13	2.693	550
Working capital provided by operating activities		1.284	1.265
Net change in operating assets and liabilities .....	(	270)	(134)
Cash from operations before interest and taxes		1.014	1.131
Interest received		112	6
Interest paid .....	(	182)	(160)
Net cash provided by operating activities		944	977
Cash flows from investing activities:			
Acquisition of intangible assets .....	(	22)	(28)
Acquisition of operating assets .....	(	769)	(480)
Proceeds from sale of operating assets		19	22
Proceeds from forward sale of investments in other companies		0	1.000
Dividends received		234	225
Restricted cash, change .....	(	149)	0
Receivables and securities, changes .....	(	179)	(15)
Net cash provided by investing activities		(866)	724
Cash flows from financing activities:			
Dividends paid		0	(900)
Repayment of borrowings .....	(	194)	(175)
Short term borrowings, changes		327	(508)
Net cash used in financing activities		133	(1.583)
Net increase (decrease) in cash and cash equivalents		211	118
Cash and cash equivalents at 1 March		213	150
Cash and cash equivalents at 31 August		424	268
Investment and financing activities without cash flow effect:			
Acquisition of associates			2.147
Issued share capital			(2.147)
Own shares bought		712	
Receivables, changes		712	

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 condensed consolidated interim financial statements of the Company as at and for the six months ended 31 August 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The condensed consolidated financial statements were approved by the Board of Directors of Hagar hf. on 31 October 2008.

2. Statement of compliance

These condensed consolidated 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 29 February 2008.

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 29 February 2008. The consolidated financial statements for the Group as at and for the year ended 29 February 2008 are available upon request from the Company's registered office at Skútuvogi 7, Reykjavík, Iceland or at The Nordic Stock Exchange website, www.omxgroup.com.

4. Significant judgements and accounting 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 estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 29 February 2008.

Notes, cont.:

5. Segment reporting

The Group does not present business nor geographical segments as its' operation is only in retail and in Iceland.

6. Depreciation and amortisation

	2008	2007
<i>Depreciation and amortisation are specified as follows:</i>	1.3-31.8	1.3-31.8
Depreciation of operating assets	499	420
Amortisation of intangible assets	15	23
Depreciation and amortisation recognised in the income statement	<u>514</u>	<u>443</u>

7. Finance income and expense

Financial income and financial expenses are specified as follows:

Interest income	120	46
Net foreign exchange gain	0	132
Dividend received	179	140
Change in fair value of equity based derivatives	(510)	0
Net changes in fair value of financial assets at fair value through profit or loss	(677)	217
Total finance income	<u>(888)</u>	<u>535</u>
Interest expenses	(1.318)	(575)
Net foreign exchange loss	(178)	0
Total finance expense	<u>(1.496)</u>	<u>(575)</u>
Net finance income and expense	<u>(2.384)</u>	<u>(40)</u>

8. Equity accounted investees

The Company's share of loss in its equity accounted investees for the period amounted to ISK 0 million (Feb 2008: ISK (39) million).

The Groups's investments in associates are specified as follows:

	Ownership	Carrying amount at 31.8.2008	Ownership	Carrying amount at 29.2.2008
Max ehf.	51%		51%	
P/f SMS	50%		50%	
		<u>769</u>		<u>1.004</u>

The Company owns 51% of outstanding shares in Max ehf. The Company's investment in the company is classified as investment in associates as the Company does not have the power to govern the financial and operating policy of the entity.

Notes, cont.:

9. Other investments

Financial assets designated at fair value through profit or loss

The Group's investment in other companies designated at fair value through profit or loss is specified as follows:

	Share	Carrying amount at 31.8.2008	Carrying amount at 29.2.2008
Húsasmiðjan hf., Iceland	45%		
Stoðir hf., Iceland	0,40%		
BYR sparisjóður, Iceland			
Investment in other companies			
		<u>3.228</u>	<u>3.905</u>

In August 2007, the Company entered into a forward sale contract where 37.9 million shares in FL Group were sold forward. The net fair value of the forward sale contract is classified as derivatives and is recorded with other payables and amounted to ISK 1.175 million at 31 August 2008. Gain or loss from the contract is classified as finance income or loss on a net basis.

10. Inventories

Inventories are specified as follows:

	31.8.2008	29.2.2008
Groceries	2.327	1.983
Speciality goods	1.491	1.630
Goods in transit	76	44
Total inventories	<u>3.894</u>	<u>3.657</u>

11. Loans and borrowings

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate	31.8.2008 Carrying amount	29.2.2008 Carrying amount
Debt in ISK, indexed	5,60%	12.609	11.531
Debt in EUR	5,79%	293	240
Debt in USD	6,74%	172	136
Debt in SEK	5,31%	450	405
Debt in JPY	2,38%	144	122
Debt in CHF	4,09%	343	288
Non-current loans and borrowing, including current portion		14.011	12.722
Current portion of non-current loans and borrowings		(4.419)	(3.606)
Total loans and borrowings		<u>9.592</u>	<u>9.116</u>

Contractual repayments of non-current borrowings are specified as follows:

Repayments in 2008/09	4.419	3.606
Repayments in 2009/10	9.379	8.876
Repayments in 2010/11	19	34
Subsequent repayment	194	206
Total	<u>14.011</u>	<u>12.722</u>

Notes, cont.:

12. Trade and other payables, including derivatives

<i>Trade and other payables are specified as follows:</i>	31.8.2008	29.2.2008
Trade payables	4.382	3.842
Other payables	1.670	1.202
Share-based payments obligation	56	34
Derivatives - forward sale contract	1.175	707
Derivatives - foreign exchange option contract	0 (	42)
Incentives from operating leases	62	62
Total trade and other payables, including derivatives	<u>7.345</u>	<u>5.805</u>

13. Statement of cash flows

<i>Adjustments for non-cash transactions specified as follows:</i>	2008	2007
	1.3-31.8	1.3-31.8
Gain on sale of assets	5 (	1)
Depreciation	514	443
Indexation and foreign exchange rate difference	1.055 (	100)
Derivative, changes	510	0
Share of loss in associates	0	39
Financial assets designated at fair value through profit and loss	677	0
Income tax	(37)	202
Other items	(31)	(33)
	<u>2.693</u>	<u>550</u>

14. Related parties

Identity of related parties

The Company has a related party relationship with its parent company, associates and with its directors and executive officers.

Related party transactions

Loans to the company's directors, which were made in connection with their share purchase, have been repaid with shares in the company amounting to a nominal amount of ISK 29 million.

Among other receivables is a claim on Baugur Group hf. in the amount of ISK 283 million (ISK 16 million at 29 February 2008). Baugur Group hf. has granted the Company a subordinated loan amounting to ISK 675 million. The loan will mature on 30 November 2008.

Notes, cont.:

15. Group entities

At 31 August 2008 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	
		31.8.2008	29.2.2008
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%

16. Financial Ratios

The Group's primary financial ratios are as follows:

Balance Sheet:	31.8.2008	29.2.2008
Current ratio - Current assets/current liabilities	0,8	0,9
Equity ratio - equity/total capital	23,4%	31,5%
Internal value of share capital	5,6	7,2