

Hagar hf.

Condensed Consolidated
Interim Financial Statements
1 March - 31 August 2012
ISK

Hagar hf.
Hagasmára 1
201 Kópavogur
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 2012 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 1,554 million. According to the balance sheet, equity at the end of the period amounted to ISK 7,327 million.

In June 2012, the Company paid a dividend to shareholders in the amount of ISK 527 million (ISK 0.45 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 2,013 at the beginning of the period and 1,596 at the end of the period. One shareholder held over 10% of share capital at the end of the period, Gildi-lífeyrissjóður with 10,31% share.




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 2012, its assets, liabilities and consolidated financial position as at 31 August 2012 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 2012 and confirm them by means of their signatures.

Kópavogur, 25 October 2012

The Board of Directors:

CEO:



Independent Auditors' Review Report

To the Board of Directors of Hagar hf.

We have reviewed the accompanying condensed consolidated balance sheet of Hagar hf. as of 31 August 2012 and the related condensed 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, 25 October 2012

KPMG ehf.

Consolidated Statement of Comprehensive Income for the six months ended 31 August 2012

	Note	Q2 2012 1.6-31.8 *	Q2 2011 1.6-31.8 *	2012 1.3-31.8	2011 1.3-31.8
Sales		18,205	17,213	35,569	33,711
Cost of goods sold		(13,765)	(13,066)	(26,944)	(25,685)
Gross profit		<u>4,440</u>	<u>4,147</u>	<u>8,625</u>	<u>8,026</u>
Other operating income		52	25	76	55
Salaries and salary-related expenses		(1,475)	(1,590)	(3,045)	(3,037)
Other operating expenses		(1,522)	(1,431)	(3,024)	(2,856)
Results from operating activities before depreciation and amortisation		1,495	1,151	2,632	2,188
Depreciation and amortisation of operating and intangible assets	7	(181)	(438)	(365)	(596)
Results from operating activities		1,314	713	2,267	1,592
Finance income		52	187	81	210
Finance expenses		(197)	(235)	(383)	(441)
Net finance expense	8	(145)	(48)	(301)	(231)
Profit before income tax		1,169	665	1,966	1,361
Income tax		(243)	(197)	(412)	(336)
Comprehensive income for the period		<u>926</u>	<u>468</u>	<u>1,554</u>	<u>1,025</u>
Earnings per share:					
Basic and diluted earnings per share of ISK 1		0.79	0.40	1.33	0.87

*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 2012

	Note	31.8.2012	29.2.2012
Assets			
Operating assets		4,600	4,795
Intangible assets		7,793	7,809
Non-current assets		12,393	12,604
Inventories	9	4,483	4,343
Trade and other receivables		674	564
Trade receivable - customers' credit cards		3,936	3,745
Cash and cash equivalents		2,943	2,149
Current assets		12,036	10,801
Total assets		24,429	23,405
Equity			
Share capital		1,172	1,172
Share premium		1,272	1,272
Retained earnings		4,883	3,777
Total equity		7,327	6,221
Liabilities			
Loans and borrowings	10	9,096	9,921
Incentives from operating leases		131	153
Deferred tax liabilities		806	394
Non-current liabilities		10,033	10,468
Loans and borrowings	10	666	651
Trade and other payables	11	6,282	5,944
Provisions		121	121
Current liabilities		7,069	6,716
Total liabilities		17,102	17,184
Total equity and liabilities		24,429	23,405

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 2012

	Share capital	Share premium	Retained earnings	Total equity
Changes in equity from 1 March to 31 August 2011:				
Equity at 1 March 2011	1,172	1,272	1,168	3,612
Share-based transaction			170	170
Comprehensive income for the period			1,025	1,025
Equity at 31 August 2011	1,172	1,272	2,363	4,807
 Changes in equity from 1 March to 31 August 2012:				
Equity at 1 March 2012	1,172	1,272	3,777	6,221
Share-based transaction			79	79
Dividends paid			(527)	(527)
Comprehensive income for the period			1,554	1,554
Equity at 31 August 2012	1,172	1,272	4,883	7,327

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 2012

	Note	Q2 2012 1.6-31.8 *	Q2 2011 1.6-31.8 *	2012 1.3-31.8	2011 1.3-31.8
Cash flows from operating activities:					
Net profit for the period		926	468	1,554	1,025
Adjustments for:					
Depreciation and amortisation	7	181	438	365	596
Net finance expense	8	142	48	301	231
Gain on sale of assets		(16)	4	(19)	0
Share-based expense		31	170	79	170
Income tax		243	197	412	336
Incentives from operating leases and other items		(10)	(22)	(21)	(37)
Working capital provided by operating activities		<u>1,497</u>	<u>1,303</u>	<u>2,671</u>	<u>2,321</u>
Net change in operating assets and liabilities		(377)	132	(27)	(310)
Cash from operations before interest and taxes		<u>1,120</u>	<u>1,435</u>	<u>2,644</u>	<u>2,011</u>
Interest received		52	18	81	40
Interest paid		(201)	(222)	(375)	(429)
Income taxes paid		(43)	0	(75)	0
Net cash provided by operating activities		<u>928</u>	<u>1,231</u>	<u>2,275</u>	<u>1,622</u>
Cash flows to investing activities:					
Acquisition of operating assets		(84)	(115)	(177)	(206)
Proceeds from sale of operating assets		19	5	42	10
Net cash used in investing activities		<u>(65)</u>	<u>(110)</u>	<u>(135)</u>	<u>(196)</u>
Cash flows to financing activities:					
Repayment of borrowings		(166)	(500)	(819)	(689)
Dividends paid		(527)	0	(527)	0
Net cash used in financing activities		<u>(693)</u>	<u>(500)</u>	<u>(1,346)</u>	<u>(689)</u>
Net increase in cash and cash equivalents		170	621	794	737
Cash and cash equivalents at beginning of the period.....		<u>2,773</u>	<u>1,204</u>	<u>2,149</u>	<u>1,088</u>
Cash and cash equivalents at 31 August		<u><u>2,943</u></u>	<u><u>1,825</u></u>	<u><u>2,943</u></u>	<u><u>1,825</u></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 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 six months ended 31 August 2012 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 29 February 2012.

The condensed consolidated interim financial statements were approved by the Board of Directors on 25 October 2012.

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 2012.

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 estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 29 February 2012.

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 2012 and therefore goodwill was not tested for impairment.

7. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2012	2011
	1.3-31.8	1.3-31.8
Depreciation of operating assets	345	421
Impairment of goodwill	0	150
Amortisation of intangible assets	20	25
	<u>365</u>	<u>596</u>

Notes, contd.:

8. Finance income and expense

Finance income and finance expense are specified as follows:

	2012	2011
	1.3-31.8	1.3-31.8
Interest income	81	40
Adjustment of provision	0	170
Total finance income	<u>81</u>	<u>210</u>
Interest expense and indexation	(383)	(441)
Total finance expense	<u>(383)</u>	<u>(441)</u>
Net finance income and expense	<u>(301)</u>	<u>(231)</u>

9. Inventories

Inventories are specified as follows:

	31.8.2012	29.2.2012
Groceries	2,821	2,730
Non food goods	1,346	1,380
Goods in transit	316	233
Total inventories	<u>4,483</u>	<u>4,343</u>
Inventory write-down at the end of the period	166	116

10. Loans and borrowings

Loans and borrowings are specified as follows:

	31.8.2012	29.2.2012
Non-current loans and borrowings		
Secured bank loans	8,896	9,721
Finance lease liability	200	200
Total loans and borrowing	<u>9,096</u>	<u>9,921</u>

Current loans and borrowings

Current portion of secured bank loans	650	636
Current portion of finance lease liability	16	15
Total loans and borrowing	<u>666</u>	<u>651</u>

Terms and conditions of outstanding loans were as follows:

	Weighted average interest rate	31.8.2012	29.2.2012
Debt in ISK, indexed	10.52%	216	215
Debt in ISK, un-indexed	7.76%	9,546	10,357
Non-current loans and borrowing, including current portion		9,762	10,572
Current portion of non-current loans and borrowings		(666)	(651)
Total non-current loans and borrowings		<u>9,096</u>	<u>9,921</u>

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1 year or less	666	651
Repayments in 1 - 2 years	668	667
Repayments in 2 - 3 years	671	669
Repayments in 3 - 4 years	7,620	8,444
Repayments in 4 - 5 years	28	20
Subsequent	109	121
Total	<u>9,762</u>	<u>10,572</u>

Notes, contd.:

10. Loans and borrowings, contd.:

On 26 September 2012, the Company decided to accept an offer from Arion bank hf. on better interest terms but the Company also had several offers to refinance its debt from other financial institutions. The new weighted average interest rate is REIBOR + 1.26%, with effective date from 1 July 2012.

11. Trade and other payables

Trade and other payables are specified as follows:

	31.8.2012	29.2.2012
Trade payables	4,951	4,173
Other payables	1,024	1,385
Income tax payable	264	343
Incentives from operating leases	43	43
Total trade and other payables	<u>6,282</u>	<u>5,944</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 2012 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	
		31.8.2012	29.2.2012
Hagar verslanir ehf.	Iceland	100%	100%
Banar 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%