

Q1 2019

Condensed Consolidated
Interim Financial Statement



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Endorsement and Statement by the Board of Directors and the CEO

Eik fasteignafélag hf. is an Icelandic public limited liability company. The Group consists of the parent company, EIK fasteignafélag hf., plus five subsidiaries, all of which are wholly owned by the parent Company. The Company's activities include ownership, leasing and operation of commercial premises.

The quarterly financial statements of EIK fasteignafélag hf. for the period 1 January to 31 March 2019 have been prepared in accordance with the International Accounting Standard IAS 34 for interim financial statements. The quarterly financial statements include the condensed consolidated financial statements for EIK fasteignafélag hf. and subsidiaries. The Condensed Consolidated Interim Financial Statements have not been audited or reviewed by the Company's independent auditors.

The Group's total profit for the first quarter of 2019 amounted to ISK 560 million, according to the consolidated statement of comprehensive income. The Group's total assets amounted to ISK 99,680 million as

of 31 March 2019, according to its balance sheet. At the end of the period the Group's equity amounted to ISK 30,418 million, including share capital in the amount of ISK 3,453 million. The Group's equity ratio was 30.5% at the end of March 2019.

For the first three months of 2019 the Group's operating income was ISK 2,084 million, compared to ISK 1,946 million for the same period in 2018. The Group's operating profit before changes in value and depreciation amounted to ISK 1,303 million in the first quarter of 2019, compared with ISK 1,235 million for the same period in 2018.

The Company's Annual General Meeting, held on 10 April 2019, approved a dividend payment of ISK 1,020 million to shareholders, equivalent to ISK 0.294 per share. The dividend payment date was set at 30 April 2019.

At the beginning of the year the Company held treasury shares of ISK 8,800,000 at nominal value. On 7 March 2019, the Company announced that the Board of

Directors had approved a share purchase programme, based on an authorization granted to the Board of Directors at a shareholders' meeting on 12 December 2018, in accordance with the Public Limited Liability Companies Act, No. 2/1995, and an appendix to the Regulation on Inside Information and Market Abuse, No. 630/2005. Kvika hf. was engaged to implement the programme. During the quarter, the Company purchased treasury shares of ISK 3,000,000 nominal value for a total of ISK 24,720,000.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board and the CEO, the consolidated quarterly financial statements have been prepared in accordance with International

Financial Reporting Standards as adopted by the European Union. It is the opinion of the Board of Directors and the CEO that the quarterly financial statements give a true and fair view of the financial performance of Group for the three month period ended 31 March 2019, its assets, liabilities and consolidated financial position as at 31 March 2019 and its consolidated cash flows for the period then ended.

The Board of Directors and CEO of EIK fasteignafélag hf. hereby confirm the Company's quarterly financial statements for the period from 1 January to 31 March 2019 by means of their signatures.

Reykjavík, 8. May 2019

Board of Directors

Eyjólfur Árni Rafnsson
Chairman

Guðrún Bergsteinsdóttir

Agla Elísabet Hendriksdóttir

Arna Harðardóttir

Bjarni Kristján Þorvarðarson

CEO

Garðar Hannes Friðjónsson

Consolidated Statement of Comprehensive Income for the period from 1 January to 31 March 2019

	Notes	2019 1/1-31/3	2018 1/1-31/3
Operating income		2.084	1.946
Operating expenses	6	(781)	(711)
Operating profit before changes in value and depreciation (EBITDA) ..		1.303	1.235
Gain on sale of investment properties		0	204
Changes in value of investment properties	8	352	884
Depreciation		(28)	(30)
Operating profit		1.626	2.293
Finance income		29	23
Finance cost		(955)	(938)
Net financial expense	7	(927)	(914)
Profit before income tax		699	1.379
Income tax		(140)	(276)
Profit for the period		560	1.103
Earnings per share:			
Basic earnings and diluted earnings per share		0,16	0,32

Notes on pp. 9-16 are an integral part of the interim financial statements

Consolidated Statement of Financial Position as at 31 March 2019

	Notes	31/3 2019	31/12 2018
Assets			
Intangible assets		489	496
Investment properties	8	92.852	90.302
Assets for own use	9	3.744	3.756
Non-current receivables		28	28
Non-current assets		97.112	94.582
Trade and other receivables		260	294
Cash and cash equivalents		2.308	1.847
Current assets		2.568	2.141
Total assets		99.680	96.723
Equity			
Share capital		3.453	3.456
Share premium		12.929	12.950
Statutory reserve		866	866
Revaluation reserve		153	153
Restricted equity		4.062	3.700
Retained earnings		8.955	9.772
Total equity	10	30.418	30.898
Liabilities			
Interest-bearing debt	11	56.563	56.440
Lease liabilities	12	1.932	0
Other long-term liabilities		11	11
Deferred tax liabilities		6.643	6.504
Non-current liabilities		65.150	62.954
Interest-bearing debt	11	1.710	1.698
Taxes payable		2	2
Trade and other payables		2.401	1.171
Current liabilities		4.112	2.870
Total liabilities		69.262	65.824
Total equity and liabilities		99.680	96.723

Notes on pp. 9-16 are an integral part of the interim financial statements

Consolidated Statement of Changes in Equity for the period from 1 January to 31 March 2019

	Share capital	Share premium	Statutory reserve	Revaluation reserve	Restricted equity	Retained earnings	Total
1 January to 31 March 2018							
Equity 1 January 2018	3.456	12.950	866	95	2.478	9.393	29.238
Profit for the period						1.103	1.103
Dividend paid ISK 0.264 per share						(915)	(915)
Transferred to restricted equity					735	(735)	0
Equity 31 March 2018	3.456	12.950	866	95	3.213	8.845	29.426
1 January to 31 March 2019							
Equity 1 January 2019	3.456	12.950	866	153	3.700	9.772	30.898
Profit for the period						560	560
Dividend paid ISK 0,294 per share						(1.015)	(1.015)
Transferred to restricted equity					362	(362)	0
Treasury shares purchased	(3)	(22)					(25)
Equity 31 March 2019	3.453	12.929	866	153	4.062	8.955	30.418

Notes on pp. 9-16 are an integral part of the interim financial statements

Consolidated Statement of Cash Flow for the three months ended 31 March 2019

	Notes	2019 1/1-31/3	2018 1/1-31/3
Cash flows from operating activities			
Profit for the period		1.626	2.293
Operating items which do not affect cash flow:			
Gain on sale of investment properties .....	(	0)	(204)
Valuation changes of investment properties	8 (	352)	(884)
Depreciation		28	30
		1.303	1.235
Change in operating assets		46	(78)
Change in operating liabilities		45	76
		1.394	1.233
Interest income received		29	23
Interest expenses paid .....	(	393)	(439)
Net cash from operating activities		1.029	817
Cash flows used in investment activities			
Investment in investment properties .....	(	275)	(1.148)
Investment in assets for own use .....	(	9)	(4)
Other receivables, change		1	1
Net cash used in investing activities	(	284)	(1.151)
Cash flows (to) from financing activities			
Proceeds from long-term borrowings		0	3.933
Repayments of loans and borrowings .....	(	208)	(1.188)
Short-term loans, change .....	(	52)	(104)
Purchase of treasury shares .....	(	25)	0
Net cash (to) from financing activities	(	285)	2.641
Increase in cash and cash equivalents		460	2.306
Cash and cash equivalents at beginning of year		1.847	1.481
Cash and cash equivalents at end of period		2.308	3.787
Investment and financing activities without cash flow effect:			
Gain on sale of investment properties		0	204
Trade and other receivables		0	(584)
Proceeds from sales of investment properties		0	380

Notes on pp. 9-16 are an integral part of the interim financial statements

Notes

1. General information

The registered office of Eik fasteignafélag hf., "the Company", is at Álftheimar 74 in Reykjavík. The Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2019 include the interim financial statements of the Company and its subsidiaries, which are referred to as the Group. The Company is a public limited liability company and listed on the Iceland Stock Exchange (NASDAQ Iceland).

2. Basis of accounting

The Consolidated Interim Financial Statements are prepared in accordance with International Accounting Standards on Interim Financial Statements, IAS 34. The Condensed Consolidated Interim Financial Statements of Eik fasteignafélag hf. do not include all the information required for a complete set of IFRS financial statements and should be read in conjunction with the Group's Consolidated Financial Statements for 2018. The Board of Directors approved the Consolidated Interim Financial Statements on 8 May 2019.

3. Significant accounting policies

In preparing the Interim Financial Statements, the same accounting principles were applied as were used in the preparation of the Consolidated Financial Statements for 2018 with the exception of changes due to the adoption of IFRS 16, which are explained in Note 12. The Company's Annual Financial Statements are available on www.eik.is and www.nasdaqomxnordic.com. The interim financial statements are prepared in Icelandic krónur (ISK), which is the Company's functional currency, and amounts are presented in ISK millions. The Company's investment properties are valued at fair value, while in other respects the Interim Financial Statements are based on historical cost.

4. Use of judgements and estimates

The preparation of interim financial statements in accordance with International Accounting Standards 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.

5. Operating segments

The segment overview provides information on individual aspects of the Company's operations.

Reportable segments 1/1-31/3 2019	Investment properties	Hotel	Elimination entries	Total
Operating income	2.007	147	(70)	2.084
Operating expenses	(653)	(198)	70	(781)
Operating profit before changes in value and depreciation	1.353	(51)	0	1.303
Changes in value of investment properties	352	0	0	352
Depreciation	(28)	0	0	(28)
Net finance expenses	(932)	5	0	(927)
Income tax	(149)	9	0	(140)
Profit (loss) for the period	596	(37)	0	560
Segment assets 31/3 2019	99.502	281	(104)	99.680
Segment liabilities 31/3 2019	69.218	148	(104)	69.262

Reportable segments 1/1-31/3 2018	Investment properties	Hotel	Elimination entries	Total
Operating income	1.846	168	(68)	1.946
Operating expenses	(589)	(189)	68	(711)
Operating profit before changes in value and depreciation	1.257	(21)	0	1.235
Gain on sale of investment properties	204	0	0	204
Changes in value of investment properties	884	0	0	884
Depreciation	(30)	0	0	(30)
Net finance expenses	(914)	0	0	(914)
Income tax	(280)	4	0	(276)
Profit (loss) for the period	1.121	(17)	0	1.103
Segment assets 31/3 2018	95.449	306	(44)	95.712
Segment liabilities 31/3 2018	66.153	177	(44)	66.286

6. Operating expenses

	2019	2018
	1/1-31/3	1/1-31/3
Operating expenses is specified as follows:		
Property tax and insurance	331	305
Maintenance of investment properties	21	18
Operating expenses of properties	151	134
Impairment of receivables, change	3	18
Other operating expenses of investment properties	41	26
Operating expenses of Hótel 1919	128	122
Office and administrative expenses	107	88
Total operating expense	781	711

7. Finance income and finance cost

	2019	2018
	1/1-31/3	1/1-31/3
Finance income and finance cost specify as follows:		
Interest income	29	23
Interest expenses	(656)	(606)
Indexation	(299)	(332)
Finance cost	(955)	(938)
Net finance cost	(927)	(914)

8. Investment properties

	31.3.2019	31.12.2018
Investment properties are specified as follows:		
Book value at beginning of year	92.234	85.033
Investment during the period	266	1.473
Purchases during the period	0	2.946
Investment properties sold	0	(652)
Valuation changes	352	1.501
Investment properties at end of period	92.852	90.302

The Group's investment properties are valued by the Company's management at fair value on the reporting date in accordance with IAS 40.

Book value at 1.1.2019 takes into account the application of IFRS 16. Leased assets amount to ISK 1,932 million.

In valuing the assets, management has assessed the cash flows which the Company can expect from current leases and leases which the Company intends to apply after the lease period of current agreements expires. The methodology and conclusions used to estimate both the amounts and timing of future cash flows are reviewed regularly with the aim of approaching the fair value of the assets. No changes have been made to the methodology used in assessing the Company's investment properties from its last Consolidated Financial Statements.

9. Assets for own use

Assets for own use specify as follows:

	Vehicles and		Total
	Real estate	other	
Cost			
Total value 1/1 2019	3.915	119	4.035
Additions	0	9	9
Total value 31/3 2019	3.915	128	4.043
Depreciation			
Total written off 1/1 2019	202	75	278
Depreciation	18	3	21
Total written off 31/3 2019	220	79	299
Book value			
Book value at beginning of year	3.713	43	3.756
Book value at end of period	3.695	49	3.744

10. Equity

The Company's total share capital, according to its Articles of Association, is ISK 3,465,180,435 and the nominal value of each share is ISK 1. At the end of Q1, the Company held treasury shares of nominal value ISK 11,800,000, which are deducted from share capital and the share premium account. Outstanding shares therefore totalled ISK 3,456 million, all of which are paid-up. Each ISK 1 of share capital in the Company entitles the owner to one vote.

At the beginning of the year the Company held treasury shares of ISK 8,800,000 at nominal value. On 7 March 2019, the Company announced that the Board of Directors had approved a share purchase programme, based on an authorisation granted to the Board of Directors at a shareholders' meeting on 12 December 2018, in accordance with the Public Limited Companies Act, No. 2/1995, and an appendix to the Regulation on Inside Information and Market Abuse, No. 630/2005. Kvika hf. has been engaged to implement the programme. During the quarter, the Company purchased treasury shares with a nominal value of ISK 3,000,000 for a total of ISK 24,720,000.

At the AGM on 10 April 2019, a motion to pay a dividend of ISK 1,020 million to shareholders on 30 April 2019 was approved.

11. Interest-bearing debt

	31.3.2019	31.12.2018
Interest-bearing non-current loans		
Interest-bearing liabilities owed to credit institutions	16.722	16.749
Bond issues	41.884	41.727
	<u>58.606</u>	<u>58.476</u>
Current maturities	(1.710)	(1.698)
Capitalised borrowing cost	(333)	(339)
Total interest-bearing debt	<u>56.563</u>	<u>56.440</u>
Interest-bearing loans among current liabilities		
Current maturities of non current loans	1.710	1.698
Total current interest bearing liabilities	<u>1.710</u>	<u>1.698</u>

12. Impact of the adoption of IFRS 16 on financial reporting.

The Group has implemented the International Financial Reporting Standard (IFRS) 16 as of 1 January 2019.

IFRS 16 replaces standard IAS 17 and provides for the recognition of leased assets in connection with contracts in which the Group is the lessee. Deviations from this rule are authorised for lease periods of less than one year. Lease liabilities are recognised against leased assets for the present value of future lease payments.

This can impact the Group in two respects, where the Company is the lessor and where it is the lessee. Implementation of IFRS 16 has an insignificant effect on the Group where the Group is the lessor.

Implementation of IFRS 16 where the Group is the lessee has a minor impact on the Group. The Group's leased assets and lease liabilities are solely in connection with leasing contracts for premises with third parties. If the embedded interest on the leases can be determined, this is to be used to calculate the present value of the liability. If that is not possible, the incremental borrowing rate is used, which is the methodology used by the Group. Different incremental borrowing rates are used, depending upon the location and type of buildings on each individual asset and the methodology used to determine the incremental borrowing rate is similar to that used in estimating the value of the Company's investment properties. The interest rate used for discounting is determined by weighting the incremental borrowing rate 70% and weighting the incremental borrowing rate plus premium 30%. This method is applied to all of the Group's leasing contracts for premises.

In implementing IFRS 16 the Group applies a cumulative effect method. Leased assets linked to the right to use amounting to ISK 1,932 million were recognised in the Group's balance sheet as investment properties. Lease liabilities of the same amount were entered against this in the balance sheet. The introduction of the standard has therefore not affected the Group's equity on 1 January 2019, and comparison amounts for the year 2018 remain unchanged. Implementation of the IFRS 16 standard has a positive impact amounting to ISK 90 million on operating profit before changes in value and depreciation by the Group, but increases the Group's interest expenses by the same amount.

Leased assets and lease liabilities are as follows:

	31.3.2019
Leased assets	
Balance as at 1 Jan. 2019	1.932
Valuation changes in the right to use assets	0
Balance as at 31 Mar. 2019	<u>1.932</u>
Lease liabilities	
Balance as at 1 Jan. 2019	1.932
Valuation changes in lease liabilities	0
Balance as at 31 Mar. 2019	<u>1.932</u>

Amounts in profit or loss

Valuation changes	0
Interest expenses on lease liabilities	22
Total	<u>22</u>

Amounts in cash flow

Interest expenses paid on lease liabilities	22
Instalments on lease liabilities	0
Total	<u>22</u>