

Q1 2020.

Condensed consolidated
interim financial statements

EIK

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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 and ownership of hotel operations.

The quarterly financial statements of Eik fasteignafélag hf. for the period 1 January to 31 March 2020 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 interim financial statements have not been audited or reviewed by the Company's independent auditors. The condensed consolidated interim financial statements of Eik fasteignafélag hf. do not contain all of the information required to be included in annual financial statements and should be read in context with the Group's financial statements for the year 2019.

Operations

On 25 March 2020 the Company published a news bulletin at Nasdaq Iceland where it was announced that the earnings forecast for the year 2020 no longer applies due to uncertainties regarding economic effects of the COVID-19 pandemic.

For the first three months of 2020 the Group's operating income amounted to ISK 2,135 million, compared to ISK 2,084 million for the same period in 2019. The Group's operating profit before changes in value and depreciation amounted to ISK 1,326 million compared to ISK 1,303 million for the same period in the previous year. The results were in line with the Company's original budget. Valuation change of investment properties in the period was negative by ISK 771 million. According to the statement of comprehensive income total loss for the period amounted to ISK 235 million. Net cash from operating activities amounted to ISK 976 million according to the consolidated statement of cash flows.

Impairment of trade receivables amounted to ISK 30 million. Over half of the impairment is due to insolvency and financial difficulties of two lessees which existed prior to the effect of COVID-19 pandemic. In its original budget the Company had already accounted for this impairment. Other impairments are also due to lessees having financial difficulties prior to the COVID-19 pandemic.

Financial position

The Group's total assets amounted to ISK 102,363 million at the end of the period according to the consolidated statement of financial position, whereof investment properties amounted to ISK 95,619 million, assets for own use ISK 4,078 million and cash and cash equivalents ISK 1,853 million. The Group's equity amounted to ISK 32,271 million, whereof share capital amounted to ISK 3,415 million. The Group's equity ratio was 31.5% at the end of the period. The Company issued bonds in February amounting to a nominal value of ISK 1,160 million and concurrently the Company repaid less favourable bank loans for the amount of ISK 1,350 million.

Outlook and measures due to COVID-19

At this time it is unclear what economic effect the COVID-19 pandemic will have on Eik fasteignafélag for the short or long term. The Company benefits from having a diverse asset portfolio, has sizeable cash position, is well within covenants in loan agreements and has diversified lessees, but there are over 400 legal entities and individuals paying rent to the Company. The results of the year will mostly depend on how the Company's lessees will come through the pandemic and how quickly daily life will return to normal. The Company's lessees that are currently facing the most operational risk are in tourism, since there is significant uncertainty on when restrictions on travelling will be lifted.

Some of the Company's lessees have encountered revenue loss and the Company is working on solutions with the lessees. The solutions are mainly deferrals of lease payments for the lessees which have encountered significant revenue loss and thus it is likely that the balance of trade receivables will increase in the coming months which could lead to that impairment of trade receivables will increase between years. The Company has engaged Deloitte to assist the lessees needing assistance with planning and utilisation of solutions offered by the government and financial institutions. Simultaneously Deloitte will advise the Company with regards to solutions for lessees.

The Company has taken several measures in order to ensure even better position of cash and cash equivalents:

- The Company has secured a banking facility for ISK 1,400 million.

- The Company's repurchase plan was shortened and repurchase amounted to ISK 45 million at the end of it, but the plan had estimated repurchase for up to ISK 500 million.
- The Company's annual general meeting was postponed due to a ban on gatherings and thus the Board's proposal regarding payment of dividend has not been discussed, but previous proposal for the annual general meeting allowed for ISK 800 million as dividend payment.

in addition to this the Company has an undrawn line of credit amounting to ISK 800 million and unpledged assets amounting to over ISK 4,400 million which the Company could use to secure further access to cash if needed. Furthermore, the Company has the opportunity to postpone certain projects which are not connected to agreements with lessees.

Reykjavik, 29 April 2020

Board of Directors

Eyjólfur Árni Rafnsson
Chairman

Guðrún Bergsteinsdóttir

Aglá Elísabet Hendriksdóttir

Arna Harðardóttir

Bjarni Kristján Þorvarðarson

CEO

Garðar Hannes Friðjónsson

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 2020, its assets, liabilities and consolidated financial position as at 31 March 2020 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 2020 by means of their signatures.

Consolidated Statement of Comprehensive Income

for the period from 1 January to 31 March 2020

	Notes	2020 1.1.-31.3.	2019 1.1.-31.3.
Lease income		1.861	1.784
Other operating income		274	300
		<u>2.135</u>	<u>2.084</u>
Operating expenses	6	(809)	(781)
EBITDA		1.326	1.303
(Loss) gain on sale of investment properties .....	(	1)	0
Changes in value of investment properties	8	(771)	352
Depreciation and impairment	10	(111)	(28)
Operating profit		443	1.626
Finance income		18	29
Finance cost		(732)	(955)
Net financial expense	7	(714)	(927)
(Loss) profit before income tax .....	(	271)	699
Income tax		36	(140)
Total (loss) profit for the year		<u>(235)</u>	<u>560</u>
(Loss) earnings per share:			
Basic (loss) earnings and diluted earnings per share		(0,07)	0,16

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

Consolidated Statement of Financial Position as at 31 March 2020

	Notes	31.3.2020	31.12.2019
Assets			
Intangible assets		351	433
Investment properties	8	95.619	95.918
Assets for own use	9	4.078	4.068
Non-current receivables	11	47	46
Non-current assets		<u>100.095</u>	<u>100.465</u>
Trade and other receivables	11	414	292
Cash and cash equivalents		1.853	1.837
Current assets		<u>2.268</u>	<u>2.129</u>
Total assets		<u>102.363</u>	<u>102.594</u>
Equity			
Share capital		3.415	3.423
Share premium		12.648	12.687
Statutory reserve		866	866
Revaluation reserve		153	153
Restricted equity		5.208	5.182
Retained earnings		9.981	10.242
Total equity	12	<u>32.271</u>	<u>32.553</u>
Liabilities			
Interest-bearing debt	13	58.112	58.364
Lease liabilities	14	2.066	2.039
Income tax liability		7.216	7.252
Non-current liabilities		<u>67.394</u>	<u>67.655</u>
Interest-bearing debt	13	1.399	1.416
Trade and other payables		1.299	969
Current liabilities		<u>2.698</u>	<u>2.386</u>
Total liabilities		<u>70.092</u>	<u>70.041</u>
Total equity and liabilities		<u>102.363</u>	<u>102.594</u>

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 2020

	Share capital	Share premium	Statutory reserve	Revaluation reserve	Restricted equity	Retained earnings	Total equity
1 Januar to 31 March 2019							
Equity 1.1.2019	3.456	12.950	866	153	3.700	9.772	30.898
Total profit for the year						560	560
Dividend paid ISK 0,294 per share						(1.015)	(1.015)
Transferred to restricted equity					362	(362)	0
Repurchase of own shares	(3)	(22)					(25)
Equity 31.3.2019	3.453	12.929	866	153	4.062	8.955	30.418
1 Januar to 31 March 2020							
Equity 1.1.2020	3.423	12.687	866	153	5.182	10.242	32.552
Total (loss) for the year						(235)	(235)
Transferred to restricted equity					26	(26)	0
Repurchase of own shares	(8)	(39)					(46)
Equity 31.3.2020	3.415	12.648	866	153	5.208	9.981	32.271

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

Consolidated Statement of Cash Flow

for the period from 1 January to 31 March 2020

	Notes	2020 1.1.-31.3.	2019 1.1.-31.3.
Cash flows from operating activities			
Profit for the period		443	1.626
Operating items which do not affect cash flow:			
Gain on sale of investment properties		1	(0)
Valuation changes of investment properties	8	771	(352)
Depreciation		111	28
		1.326	1.303
Change in operating assets .....	(	122)	46
Change in operating liabilities		160	45
		1.363	1.394
Interest income received		18	29
Interest expenses paid .....	(	405)	(393)
		976	1.029
Net cash from operating activities			
Cash flows used in investment activities			
Investment in investment properties .....	(	447)	(275)
Investment in assets for own use .....	(	39)	(9)
Other receivables, change .....	(	1)	1
		(487)	(284)
Net cash used in investing activities			
Cash flows (to) from financing activities			
New long-term debts		1.165	0
Repayments and final payments of Long-term loans .....	(	1.592)	(208)
Short-term loans, change		0	(52)
Purchase of treasury shares .....	(	46)	(25)
		(473)	(285)
Net cash (to) from financing activities			
Increase in cash and cash equivalents		16	460
Cash and cash equivalents at beginning of year		1.837	1.847
Cash and cash equivalents at end of period		1.853	2.308

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

Notes

1. General Information

Eik fasteignafélag hf., "the Company", is domiciled in Iceland. The Company's headquarters are at Sóltún 26 in Reykjavík. The condensed consolidated interim financial statements of the Company for the period 1 January to 31 March 2020 comprise the interim financial statements of the Company and its subsidiaries, together 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 preparation

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 2019. The interim financial statements were approved by the Company's Board of Directors on 29 April 2020.

The Company has implemented all accounting standards and changes to accounting standards which became effective for accounting periods beginning 1 January 2020 or earlier and have been confirmed by the European Union.

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 2019. 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. Segment reporting

Segment reporting contains information on individual parts of the Company's operations. The Company's operations are divided into two segments which sell goods and services in different markets.

	Investment properties	Hotel	Offset entries	Total
Segments 1.1-31.3.2020				
Lease income	1.932	0	(71)	1.861
Operating income	164	110	0	274
Operating expenses	(695)	(186)	71	(809)
EBITDA	1.401	(76)	0	1.326
Loss on sale of investment properties	(1)	0	0	(1)
Change in value of investment properties	(771)	0	0	(771)
Depreciation	(105)	(6)	0	(111)
Net finance expenses	(718)	4	0	(714)
Income tax	20	16	0	36
Loss for the year	(173)	(62)	0	(235)
Assets 31.3.2020	102.427	231	(295)	102.363
Liabilities 31.3.2020	70.128	259	(295)	70.092
Segments 1.1-31.3.2019				
Lease income	1.854	0	(70)	1.784
Operating income	153	147	0	300
Operating expenses	(653)	(198)	70	(781)
EBITDA	1.354	(51)	0	1.303
Change 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 year	596	(37)	0	560
Assets 31.3.2019	99.502	281	(104)	99.680
Liabilities 31.3.2019	69.218	148	(104)	69.262

6. Operating expenses

	2020	2019
	1.1. - 31.3.	1.1. - 31.3.
Operating expenses are specified as follows:		
Property tax and insurance	348	331
Maintenance of investment properties	12	21
Operating expenses of properties	158	151
Impairment of receivables and bad debt, change	30	3
Other operating expenses of investment properties	39	41
Operating expenses of hotel	114	128
Office and administrative expenses	108	107
Total operating expenses	<u>809</u>	<u>781</u>

7. Finance income and finance expenses

	2020	2019
	1.1. - 31.3.	1.1. - 31.3.
Finance income and finance expenses are specified as follows:		
Interest income	18	29
Interest expenses	(587)	(656)
Indexation	(145)	(299)
Total finance expenses	<u>(732)</u>	<u>(955)</u>
Total finance income and finance expenses	<u>(714)</u>	<u>(927)</u>

8. Investment properties

	31.3.2020	31.12.2019
Investment properties are specified as follows:		
Book value at the beginning of the year	93.879	90.302
Lease assets, effect of implementation of IFRS 16	2.066	2.039
Investment in current investment properties	447	1.097
Investment in new investment properties	0	458
Sold investment properties	(1)	(60)
Value adjustment	(771)	2.170
Recognised in assets for own use	0	(214)
Recognised from assets for own use	0	126
Book value at year end	<u>95.619</u>	<u>95.918</u>

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

In assessing the assets, management has estimated discounted future cash flow that the Company can expect from current lease agreements and lease agreements the Company expects to enter into at the end of the term of current lease agreements. 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. Due to the effects of the COVID-19 epidemic the Company has adjusted its assumptions looking forward one year. The Company uses a lower rental value ratio for the next 12 months than previously. The expected weighted rental value ratio for the next 12 months at year-end 2019 was 94.1% but is 88% for the first quarter of 2020 in the Company's valuation. In addition, the Company has made a provision in respect of its hotel assets due to uncertainty of their value and the valuation of hotel assets taking into account depreciation, impairment and negative changes in value decreases by 5% at present value on top of the 8% present value decrease at year-end 2019. The Company's hotel assets have thus decreased by 13% present value from 30.9.2019. WACC is unchanged since year end 2019 as a significant drop in risk free interest rates weighs up against an increased risk spread on return on equity.

Sensitivity analysis

Effects of changes in fair value of investment properties:

Increase (decrease) of lease income by 1%	1.263	(1.263)
Increase (decrease) of rental value ratio by 1%-point	1.297	(1.297)
Decrease (Increase) of rate of return by 0.5%-points	8.186	6.934

9. Assets for own use

Assets for own use are specified as follows:

	Real estate	Vehicles and other	Total
Cost			
Balance at 1.1.2020	4.043	402	4.446
Additions during the period	28	12	39
Balance at 31.3.2020	<u>4.071</u>	<u>414</u>	<u>4.486</u>
Depreciation			
Depreciation at 1.1.2020	202	175	378
Depreciation during the period	21	9	29
Total depreciation 31.3.2020	<u>223</u>	<u>184</u>	<u>407</u>
Book value			
Book value at 1.1.2020	3.841	226	4.068
Book value at 31.3.2020	<u>3.848</u>	<u>230</u>	<u>4.078</u>

10. Depreciation

Depreciation and impairment losses is specified as follows:

	31.3.2020	31.12.2019
Intangible assets	82	29
Office	1	2
Hotel	19	72
Vehicles and other	9	15
Total depreciation and impairment losses	<u>111</u>	<u>119</u>

11. Trade receivables and other receivables

Trade receivables and other receivables are specified as follows:

	31.3.2020	31.12.2019
Long-term receivables	47	46
Trade receivables due to lease	94	77
Trade receivables due to other operations	97	119
Other short-term receivables	223	96
Total trade receivables and other short-term receivables	<u>414</u>	<u>292</u>

Impairment of trade receivables is specified as follows at year end:

Depreciation reserve at beginning of the year	50	37
Depreciated bad debt during the year, change	(1)	(32)
Expensed during the year	28	44
Depreciation reserve at year end	<u>77</u>	<u>50</u>

The Company's long-term receivables for the amount of ISK 20 million are for lease payments due. Where lease payments due are changed to long-term receivables the Company has in general received additional insurance in addition to the receivable becoming interest bearing and in instalment process. Balance at year end takes into account precautionary recording of ISK 28 million (2019: ISK 15 million).

12. Equity

The Company's total share capital according to its Articles of Association amount to ISK 3.465.180.435. The Company holds treasury shares in the nominal value of ISK 50.117.000 at the end of the period which is recognised as decrease in share capital. Outstanding shares at year end are 3.415.063.435 and are all paid up. One vote is attached to each ISK 1 share in the Company.

At the beginning of the year the Company held treasury shares of ISK 42,617,000 at nominal value. On 10 March 2020, the Company announced that the Board of Directors had approved a share buy-back 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. On 25 March 2020 the Company announced that the board of directors had decided to terminate the share buy-back programme that commenced on 12 March 2020. During the first quarter, the Company purchased treasury shares with a nominal value of ISK 7,500,000 for a total of ISK 46,230,000.

Due to restrictions on large gatherings the board of directors of the Company decided to postpone the annual general meeting of shareholders indefinitely and a decision has therefore not been made on the payment of dividend to shareholders for the year 2019.

13. Interest bearing liabilities

	31.3.2020	31.12.2019
Long-term liabilities		
Interest bearing bank loans	9.209	10.608
Listed bonds	50.606	49.485
Other long term liabilities	31	31
	<u>59.846</u>	<u>60.124</u>
Current maturities of liabilities	(1.399)	(1.416)
Capitalised borrowing cost	(335)	(344)
Total interest bearing liabilities	<u>58.112</u>	<u>58.364</u>
Short-term liabilities		
Current maturities of liabilities	1.399	1.416
Total short-term liabilities	<u>1.399</u>	<u>1.416</u>

14. Lease liability

Lease assets and lease liabilities are specified as follows:

	31.3.2020	31.12.2019
Lease assets		
Balance at beginning of period	2.039	1.931
Change due to revaluation	27	98
Purchased and sold assets	0	9
Balance at end of period	<u>2.066</u>	<u>2.039</u>
Lease liabilities		
Balance at beginning of period	2.039	1.931
Change due to revaluation	27	98
Purchased and sold assets	0	9
Balance at end of period	<u>2.066</u>	<u>2.039</u>
Amounts in statement of comprehensive income		
Interest expenses of lease liabilities	24	90
Total amounts in statement of comprehensive income	<u>24</u>	<u>90</u>
Amounts in statement of cash flow		
Interest expenses paid	24	90
Total amounts in statement of cash flow	<u>24</u>	<u>90</u>