

1H 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., and its subsidiaries. The Company's activities include ownership, leasing and operation of commercial premises and ownership of hotel operations.

The interim financial statements of Eik fasteignafélag hf. for the period 1 January to 30 June 2020 have been prepared in accordance with the International Accounting Standard IAS 34 for interim financial statements. The interim financial statements include the condensed consolidated financial statements for Eik fasteignafélag hf. and subsidiaries. The condensed consolidated financial statements for Eik fasteignafélag hf. do not contain all information required in financial statements and should be read in conjunction with the Group's consolidated financial statements for the year 2019.

The Company published on 5 June 2020 an updated forecast for the year 2020. The Company's EBITDA in the first half of 2020 was in line with this forecast and the Company has not changed its outlook.

For the first six months of the year 2020 the Group's operating income amounted to ISK 4,184 million, compared to ISK 4,240 million for the same period in 2019. The revenue of Hótel 1919 dropped significantly between periods or ISK 178 million and the hotel's return decreased by ISK 108 million. The Group's operating profit before changes in value and depreciation amounted to ISK 2,494 million in the first six months of the year 2020, compared with ISK 2,680 million for the same period in 2019.

The Group's loss in the first six months of the year 2020 amounted to ISK 439 million, but the Group's total loss amounted to ISK 592 million according to the statement of comprehensive income.

The Group's total assets amounted to ISK 103,375 million as of 30 June 2020, according to its balance sheet. Cash and cash equivalents amounted to ISK 2,599 million at

the end of the period. The Group's equity amounted to ISK 31,915 million at the end of the period, including share capital in the amount of ISK 3,415 million. The Group's equity ratio was 30.9% at the end of June 2020.

In June the Company drew down an ISK 1,400 million bank facility which was secured at the beginning of the pandemic. In July the Company increased the bond class EIK 050726 by a nominal value of ISK 2,000 million with a 2.25% rate of return. The proceeds of the issuance were used to repay unfavourable bank loans. The bond class along with the bond class EIK 050749 were listed for trading at Nasdaq Iceland at the end of June.

The effects of COVID-19 on the Company's operations have been extensive. The balance of trade receivables has increased by ISK 132 million since year end 2019 and write-down of trade receivables amounted to ISK 181 million in the same period. Final depreciation amounted to ISK 21 million and precautionary depreciation of trade receivables amounted to ISK 160 million. The balance of trade receivables and amounts of depreciation are in line with the Company's expectations when its updated forecast was published.

It is still unclear what economic effect the pandemic will have on the Company's operations for the short and long term, but it is likely that the effect will continue into the year 2022. The Company's strong position allows it to meet continuing effects on the operations. The Company holds significant cash, an undrawn bank facility, unpledged assets amounting to over ISK 4,400 million, in addition to the Company having substantial leeway with regards to its main bond financial covenants.

The Company continues to work with tenants on resolving their issues which mainly consist of deferrals of lease payments and operating expenses. The results for the year will thus mainly depend on how the Company's tenants will come through the pandemic and how quickly daily life will return to normal.

At the Company's Annual General Meeting held on 10 June 2020 it was resolved to decrease the Company's share capital by the shares the Company had purchased in accordance with buyback plans, ISK 41,317,000 of nominal value, and currently the share capital is ISK 3,423,863,435. The Company currently holds own shares amounting to ISK 8,800,000 of nominal value. Furthermore, the Board of Directors proposed that no dividend would be paid in 2020 for the year 2019.

The merging of the subsidiary EF1 hf. into Eik fasteignafélag hf. is currently being worked on. A merger of two subsidiaries of Landfestar ehf. is also being prepared. The mergers have not been finalised but are expected to be finalised in the next weeks. Legal effects of the mergers will be as of 1 January 2020.

A new long-term lease agreement was signed with Össur regarding continuing lease of Grjótháls 1-3. A part of this agreement relates to the expansion of the building about by 3,200 square meters and estimated construction costs are around ISK 1,100 million which will be fully financed with loans.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board and the CEO, the consolidated interim 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 interim financial statements give a true and fair view of the financial performance of Group for the six month period ended 30 June 2020, its assets, liabilities and consolidated financial position as at 30 June 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 interim financial statements for the period from 1 January to 30 June 2020 by means of their signatures.

Reykjavik, 27 August 2020

Board of Directors

Eyjólfur Árni Rafnsson
Chairman

Guðrún Bergsteinsdóttir

Arna Harðardóttir

Bjarni Kristján Þorvarðarson

Hersir Sigurgeirsson

CEO

Gaðar Hannes Friðjónsson

Independent Auditor’s Review Report

To the Board of Directors of Eik fasteignafélag hf.

We have reviewed the accompanying condensed consolidated interim financial statements of Eik fasteignafélag hf. for the period 1 January to 30 June 2020, which comprises a statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes to the financial statements. The Board of Directors and CEO are 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”.

Reykjavik, 27 August 2020

KPMG ehf.

Auður Þórisdóttir

Consolidated Statement of Comprehensive Income

for the period from 1 January to 30 June 2020

	Notes	Second quarter		First half	
		2020 1.4.-30.6.*	2019 1.4.-30.6.*	2020 1.1.-30.6.	2019 1.1.-30.6.
Lease income		1.883	1.853	3.743	3.637
Other operating income		167	303	441	603
		2.049	2.156	4.184	4.240
Operating expenses	6	(730)	(764)	(1.509)	(1.542)
Impairment of receivables		(152)	(15)	(181)	(18)
EBITDA		1.168	1.377	2.494	2.680
(Loss) gain on sale of investment properties		0	0	(1)	0
Changes in value of investment properties	8	(44)	975	(815)	1.326
Depreciation and impairment	10	(134)	(28)	(245)	(56)
Operating profit		990	2.324	1.433	3.950
Finance income		(6)	19	12	47
Finance cost		(1.262)	(1.172)	(1.994)	(2.128)
Net financial expense	7	(1.268)	(1.153)	(1.982)	(2.080)
(Loss) profit before income tax		(278)	1.171	(549)	1.870
Income tax		73	(234)	110	(374)
(Loss) profit for the period		(205)	937	(439)	1.496
Other profit					
Operating items recorded in equity and will not be recorded in statement of comprehensive income:					
Revaluation of real estate		(190)	0	(190)	0
Income tax of revaluation of real estate		37	0	37	0
Other profit total		(153)	0	(153)	0
Total (loss) profit for the period		(357)	937	(592)	1.496
(Loss) earnings per share:					
Basic (loss) earnings and diluted earnings per share		(0,06)	0,27	(0,13)	0,44

Notes on pp. 10-16 are an integral part of the interim financial statements

Consolidated Statement of Financial Position as at 30 June 2020

	Notes	30.6.2020	31.12.2019
Assets			
Intangible assets		351	433
Investment properties	8	95.933	95.918
Assets for own use	9	3.793	4.068
Non-current receivables	11	94	46
Non-current assets		100.172	100.465
Trade and other receivables	11	604	292
Cash and cash equivalents		2.599	1.837
Current assets		3.204	2.129
Total assets		103.376	102.594
Equity			
Share capital		3.415	3.423
Share premium		12.648	12.687
Statutory reserve		866	866
Revaluation reserve		0	153
Restricted equity		5.376	5.182
Retained earnings		9.609	10.242
Total equity	12	31.915	32.553
Liabilities			
Interest-bearing debt	13	59.699	58.364
Lease liabilities	14	2.092	2.039
Income tax liability		7.105	7.252
Non-current liabilities		68.897	67.655
Interest-bearing debt	13	1.458	1.416
Trade and other payables		1.105	969
Current liabilities		2.564	2.386
Total liabilities		71.460	70.041
Total equity and liabilities		103.376	102.594

Notes on pp. 10-16 are an integral part of the interim financial statements

Consolidated Statement of Changes in Equity

for the period from 1 January to 30 June 2020

	Share capital	Share premium	Statutory reserve	Revaluation reserve	Restricted equity	Retained earnings	Total equity
1 January to 30 June 2019							
Equity 1.1.2019	3.456	12.950	866	153	3.700	9.772	30.898
Total profit for the year						1.496	1.496
Transferred to restricted equity					740	(740)	0
Dividend paid ISK 0,294 per share .						(1.016)	(1.016)
Repurchase of own shares	(24)	(187)					(210)
Equity 30.6.2019	3.433	12.764	866	153	4.440	9.513	31.169

1 January to 30 June 2020

Equity 1.1.2020	3.423	12.687	866	153	5.182	10.243	32.553
Total (loss) for the year				(153)		(439)	(592)
Transferred to restricted equity					194	(194)	0
Repurchase of own shares	(8)	(39)					(46)
Equity 30.6.2020	3.415	12.648	866	0	5.376	9.609	31.915

Notes on pp. 10-16 are an integral part of the interim financial statements

Consolidated Statement of Cash Flow

for the period from 1 January to 30 June 2020

	Notes	2020 1.1.-30.6.	2019 1.1.-30.6.
Cash flows from operating activities			
Profit for the period		1.433	3.950
Operating items which do not affect cash flow:			
(Loss) gain on sale of investment properties		1	(0)
Valuation changes of investment properties	8	815	(1.326)
Depreciation		245	56
		2.494	2.680
Change in operating assets .....	(	312)	(386)
Change in operating liabilities		115	227
		2.296	2.521
Interest income received		12	47
Interest expenses paid .....	(	1.118)	(1.210)
Net cash from operating activities		1.191	1.359
Cash flows used in investment activities			
Investment in investment properties .....	(	810)	(1.015)
Investment in assets for own use .....	(	51)	(202)
Sold assets for own use		5	0
Other receivables, change .....	(	49)	1
Net cash used in investing activities	(	905)	(1.215)
Cash flows (to) from financing activities			
New long-term debts		2.557	1.344
Repayments and final payments of long-term loans .....	(	2.035)	(663)
Dividend paid		0	(1.016)
Purchase of treasury shares .....	(	46)	(210)
Short-term loans, change		0	(79)
Net cash (to) from financing activities		476	(624)
Increase (decrease) in cash and cash equivalents		763	(479)
Cash and cash equivalents at beginning of year		1.837	1.847
Cash and cash equivalents at end of period		2.599	1.368

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 30 June 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 27 August 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.

Notes on pp. 10-16 are an integral part of the interim financial statements

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.

Segments 1.1.-30.6.2020	Investment properties	Hotel	Offset entries	Total
Lease income	3.886	0	(143)	3.743
Operating income	323	118	0	441
Operating expenses	(1.332)	(320)	143	(1.509)
Impairment of receivables	(179)	(3)	0	(181)
EBITDA	2.698	(204)	0	2.493
Loss on sale of investment properties	(1)	0	0	(1)
Change in value of investment properties	(815)	0	0	(815)
Depreciation	(233)	(11)	0	(244)
Net finance expenses	(1.975)	(7)	0	(1.982)
Income tax	65	45		110
Loss for the year	(262)	(178)	0	(439)
Assets 30.6.2020	102.650	300	425	103.376
Liabilities 30.6.2020	71.441	444	(425)	71.460

Segments 1.1.-30.6.2019

Lease income	3.777	0	(140)	3.637
Operating income	307	296	0	603
Operating expenses	(1.293)	(389)	140	(1.542)
Impairment of receivables	(18)	0	0	(18)
EBITDA	2.773	(93)	0	2.680
Change in value of investment properties	1.326	0	0	1.326
Depreciation	(56)	0	0	(56)
Net finance expenses	(2.086)	6	0	(2.080)
Income tax	(391)	17	0	(374)
Profit (loss) for the year	1.566	(70)	0	1.496
Assets 30.6.2019	100.867	349	(154)	101.062
Liabilities 30.6.2019	69.808	239	(154)	69.893

6. Operating expenses

Operating expenses are specified as follows:

	2020 1.1. - 30.6.	2019 1.1. - 30.6.
Property tax and insurance	696	666
Maintenance of investment properties	24	28
Operating expenses of properties	312	297
Other operating expenses of investment properties	83	89
Operating expenses of hotel	177	249
Office and administrative expenses	218	212
Total operating expenses	1.509	1.542

7. Finance income and finance expenses

Finance income and finance expenses are specified as follows:

	2020 1.1. - 30.6.	2019 1.1. - 30.6.
Interest income	12	47
Interest expenses	(1.146)	(1.227)
Indexation	(848)	(901)
Total finance expenses	(1.994)	(2.128)
Total finance income and finance expenses	(1.982)	(2.080)

8. Investment properties

Investment properties are specified as follows:	30.6.2020	31.12.2019
Book value at the beginning of the year	95.918	90.302
Lease assets, effect of implementation of IFRS 16	0	2.039
Revaluation of lease assets	53	0
Investment in current investment properties	810	1.097
Investment in new investment properties	0	458
Sold investment properties	(1)	(60)
Value adjustment	(815)	2.170
Recognised in assets for own use	0	(214)
Recognised from assets for own use	(32)	126
Book value at year end	95.933	95.918

The Group' 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 three years. The Company uses a lower rental value ratio for that period. Furthermore, the Company has precautionary entry regarding the Company's hotel properties due to uncertainty regarding their value and the value of hotel properties (including Pósthússtræti 2) decreases by 15% since year end, considering depreciation, amortization and negative value adjustments. The Company's hotel properties have thus decreased in real value by 21% since 30 September 2019.

Sensitivity analysis

Effects of changes in fair value of investment properties:

Increase (decrease) of lease income by 1%	1.311	(1.311)
Increase (decrease) of rental value ratio by 1%-point	1.358	(1.297)
Decrease (Increase) of rate of return by 0.5%-points	8.556	(7.250)

9. Assets for own use

Assets for own use are specified as follows:			
	Realestate	Vehicles and other	Total
Cost			
Balance at 1.1.2020	4.044	402	4.044
Revaluation during the period	(158)	0	(158)
Additions during the period	27	24	27
Sold during the period	0	(5)	(5)
Balance 30.6.2020	3.913	421	3.908
Depreciation			
Depreciation at 1.1.2020	202	175	378
Depreciation during the period	39	17	57
Revaluation during the period	107	0	107
Total depreciation 30.6.2020	348	193	542
Book value			
Book value at 1.1.2020	3.842	226	4.068
Book value at 30.6.2020	3.565	228	3.793

10. Depreciation

Depreciation and impairment losses is specified as follows:	30.6.2020	31.12.2019
Intangible assets	82	62
Office	1	3
Hotelasset	144	88
Vehicles and other	17	12
Total depreciation and impairment losses	245	165

11. Trade receivables and other receivables

Trade receivables and other receivables are specified as follows:

	30.6.2020	31.12.2019
Long-term receivables	94	46
Trade receivables due to lease	229	77
Trade receivables due to other operations	99	119
Other short-term receivables	276	96
Total trade receivables and other short-term receivables	604	292

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 period, change	(21)	(32)
Expensed during the year	181	44
Depreciation reserve at year end	210	50

The Company's long-term receivables for the amount of ISK 17 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 end of period takes into account precautionary recording of ISK 11 million (30.6.2019: ISK 12 million). Write-down of trade receivables amounted to ISK 181 million in the period. Thereof were ISK 160 million due to precautionary depreciation of trade receivables. The company has worked with the tenants that have encountered significant revenue loss on solving their issues which mainly consist of deferrals of lease payments and operating expenses from the first half of the year to the second half of the year.

12. Equity

The Company's total share capital according to its Articles of Association amount to ISK 3.423.863.435. The Company holds treasury shares in the nominal value of ISK 8.800.000 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. At the Company's annual general meeting held on 10 June 2020, the Board's proposal to reduce share capital by ISK 41,317,000 nominal value was approved.

No dividends will be paid in 2020 for the year 2019.

13. Interest bearing liabilities

	30.6.2020	31.12.2019
Long-term liabilities		
Interest bearing bank loans	10.606	10.608
Listed bonds	50.874	49.485
Other long term liabilities	14	31
	61.494	60.124
Current maturities of liabilities	(1.458)	(1.416)
Capitalised borrowing cost	(337)	(344)
Total interest bearing liabilities	59.699	58.364

Short-term liabilities

Current maturities of liabilities	1.458	1.416
Total short-term liabilities	1.458	1.416

14. Lease liability

Lease assets and lease liabilities are specified as follows:

	30.6.2020	31.12.2019
Lease assets		
Balance at beginning of period	2.039	1.931
Change due to revaluation	53	98
Purchased and sold assets	0	9
Balance at end of period	2.092	2.039
Lease liabilities		
Balance at beginning of period	2.039	1.931
Change due to revaluation	53	98
Purchased and sold assets	0	9
Balance at end of period	2.092	2.039
Amounts in statement of comprehensive income		
Interest expenses of lease liabilities	47	90
Total amounts in statement of comprehensive income	47	90

Amounts in statement of cash flow

Interest expenses paid	47	90
Total amounts in statement of cash flow	47	90