

2019

Consolidated financial statement



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Endorsement and Statement by the Board of Directors and the CEO

Eik fasteignafélag hf. is an Icelandic limited liability company. The Group consists of the parent company, Eik fasteignafélag hf., along with three subsidiaries which all are 100% owned by the parent company. The Group's operations are ownership, rental and operations of business premises and ownership of hotel operations.

Operations

The financial statements include the consolidated financial statements of Eik fasteignafélag hf. and subsidiaries. The Group's income amounted to ISK 8,656 million in the year 2019 compared to ISK 8,108 million in the year 2018. Operating profit before changes in value and depreciation amounted to ISK 5,562 million in the year 2019 compared to ISK 5,218 million in the previous year. The results for the year were somewhat under the operating budget for the year. According to the Group's statement of comprehensive income the profit for the year 2019 amounted to ISK 2,968 million. Net cash from operating activities amounted to ISK 3,104 million according to the Group's statement of cash flow.

Financial position

Total assets of the Group amounted to ISK 102,594 million at year end 2019 according to the statement of financial position, whereof investment properties amounted to ISK 95,918 million, assets for own use ISK 4,068 million and cash and cash equivalents ISK 1,837 million. The Group's equity at year end 2019 amounted to ISK 32,553 million, whereof share capital amounted to ISK 3,422 million. The Group's equity ratio was 31.7% at year end. The Company settled all interest bearing long term liabilities of its subsidiary EF1 in the year. Concurrently two new bond classes were issued, EIK 050726 and EIK 05074-9, along with new bank loans. EIK 050749 was increased twice during the year following an initial public offering and total nominal value of the class was ISK 6,000 million

at year end. EIK 050726 was increased once following an initial public offering and the total nominal value of the class was ISK 1,500 million at year end. The funds were mostly used for installments on bank loans.

Share capital

Listed share capital at year end amounted to ISK 3,465 million. The entire share capital is of the same class and all shares are entitled to the same rights. The Company holds ISK 42.6 million of own shares.

At year end the Company's share capital was divided between 420 shareholders (ID numbers), but shareholders were 536 at the beginning of the year.

The 10 largest shareholders hold 59.3% of the Company's number of votes. They were:

Lífeyrissjóður verslunarmanna	9.2%
Almenni lífeyrissjóðurinn	8.0%
Brimgarðar ehf.	7.5%
Lífsværk lífeyrissjóður	5.8%
Lífeyrissjóður starfsmanna ríkisins. A og B deild	5.8%
Birta lífeyrissjóður	5.1%
Stapi lífeyrissjóður	5.1%
Gildi - lífeyrissjóður	4.9%
Arion banki hf.	4.0%
Kvika banki hf.	3.9%

Dividend payment policy of the Board of Directors of Eik has been to pay to shareholders around 35% of net cash from operating activities either as dividend or with purchase of own shares. Payment of dividend amounted to ISK 1,106 million to shareholders in the year 2019 for the operating year 2018. The Company's Board of Directors proposes that an amount of ISK 1,098 million will be allocated to shareholders for the operating year 2019. Own

shares have already been purchased for an amount of ISK 298 million and thus the Board proposes a dividend payment of ISK 800 million to shareholders or an equivalent of ISK 0.23 per share. Reference is made to the financial statements on allocation of profit and other changes in equity.

The Company's investment properties

At year end 2019 the Company's investment properties amounted to ISK 95,918 million and assets for own use amounted to ISK 4,068 million. The Company's properties are 110 with over 310 thousand square meters, over 600 rental units and over 400 lessees. The Company's main properties are Smáratorg 1 and 3 (Turninn) in Kópavogur, Suðurlandsbraut 8 and 10, Mýrargata 2-16, Borgartún 21, 21a and 26, Álþheimar 74 (New Glæsibær), Glerártorg in Akureyri, Skútuvogur 14-16, Austurstræti 5, 6, 7 and 17, and Pósthússtræti 2. The Company's largest asset group is business premises which is 45% of the value of the total portfolio of assets. Retail premises are 24% of the portfolio, storage facilities 13% of the portfolio, hotel 11% and other properties 8%.

The Company purchased two properties during the year and sold one. The Company purchased a warehouse at Vatnagarðar 14 and commercial premises at Skólavörðustígur 42. The Company's investments in new properties amounted to a total of ISK 458 million. In the year the Company sold its share in Barónsstígur 11 for around ISK 60 million.

Merger of subsidiaries

The Company merged two subsidiaries, EF12 and EF14, with Eik fasteignafélag during the year. Furthermore, a subsidiary of Landfestar, LF11, merged with another subsidiary of Landfestar, LF1, during the year. The mergers were effective as of 1 January 2019.

Corporate governance and non-financial information

The Company's Board of Directors and management have set the objective to have good corporate governance always as a guiding light. Eik's corporate governance is in accordance with the Act no. 2/1995 on limited liability companies, the Company's Articles of Association and Board's procedures. The Company emphasises maintaining good management practices and the Company's corporate governance is based on Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers in June 2015. Gender ratio in the Company's Board of Directors is 40% male and 60% female and thus the Company fulfills provisions in the Act on limited liability companies regarding gender ratios on boards of limited liability companies. Gender ratio in the Company's executive management is 86% male and 14% female. Ratio of the Company's employees is 46% male and 54% female. At the Company's annual general meeting on 12 December 2018 a nomination committee was established which nominates candidates for the Company's Board of Directors.

The Company publishes in its financial statements a chapter on non-financial information in addition to a statement on corporate governance, which is prepared in accordance with Guidelines from Nasdaq from the year 2017, which is an appendix to the financial statements for the year 2019. The statement includes criteria regarding the Group's performance with relation to environmental issues, social responsibility and corporate governance.

Further information on the Board of Directors and statement of corporate governance along with non-financial information is accessible at the Company's website, www.eik.is, and as appendices to the financial statements, "Corporate Governance statement" and "Non-financial information".

Statement by the Board of Directors and the CEO

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and are audited by KPMG ehf. According to the best knowledge it is the Board and CEO's opinion that the consolidated financial statements give a true and fair view of the consolidated financial performance of the Group for the financial year 2019, its assets, liabilities and consolidated financial position as at 31 December 2019, and its consolidated cash flows for the financial year 2019. Furthermore, it is the opinion of the Board and CEO that the conso-

lidated financial statements and the endorsement by the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and CEO of Eik fasteignafélag hf. confirm hereby the consolidated financial statements of the Company for the year 2019 by means of their signatures. The Board and CEO recommend that the consolidated financial statements be approved at the Company's annual general meeting.

Reykjavík, 10 March 2020

Board of Directors

Eyjólfur Árni Rafnsson
Chairman

Guðrún Bergsteinsdóttir

Agla Elísabet Hendriksdóttir

Arna Harðardóttir

Bjarni Kristján Þorvarðarson

CEO

Garðar Hannes Friðjónsson

Independent Auditors' Report

To the Board of Directors and Shareholders of Eik fasteignafélag hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Eik fasteignafélag hf. ("the Group") for the year 2019. The consolidated financial statements comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows, summary of significant accounting policies and other notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of ethics for Icelandic auditors and we have also fulfilled other ethical requirements of those rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key Audit Matters

Valuation of investment properties

Reference is made to notes 13 and 26 e "Investment properties"

Book value of investment properties is ISK 95,918 million and are 93.5% of the Group's total assets at 31 December 2019.

The Group's investment properties are estimated at fair value at the reporting date by the Company's management. In valuing the properties management assesses future cash flow which the Company can expect from leases. Basis of this valuation are presumptions on estimated utilisation ratio of the properties in the future, market rent at the end of lease periods of current leases and their operating costs. Furthermore, management estimate of development of several factors in the future is taken into account, such as interest rates in capital markets.

Valuation of investment properties is a key audit matter in our audit of the Group's financial statements since investment properties are such a high percentage of its total assets and due to uncertainty regarding development of several factors on which the management valuation on cash flow due to the properties is based.

How the matter was addressed in the audit

We, as well as our valuation specialists, assessed calculation models and assumptions applied by management in determining fair value of the investment properties. Our audit work included, among other things:

- We verified functionality of the Company's calculation model by calculating fair value of a selected sample through our own valuation model.
- We inspected and assessed the reasonableness and assumptions of the calculations, such as lease payments according to contracts, market rent at the end of leases, maintenance and property taxes.
- We assessed whether presumptions applied in determining present value of future cash flow of the properties were appropriate by comparing them to information on financing terms of business premises and other market presumptions.
- We assessed the notes to the financial statements to confirm that disclosure requirements were fulfilled.

Other information in the Annual Report

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the Annual Report of the Group, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a

material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide The Board of Directors and audit committee with a statement that we have complied with

relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with The Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and CEO accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Auður Þórisdóttir.

Reykjavík, 10 March 2020

KPMG ehf.

Auður Þórisdóttir

Consolidated Income Statement and other Comprehensive Income

		2019	2018
Lease income	6	7.393	6.765
Other operating income	6	1.264	1.343
		<u>8.656</u>	<u>8.108</u>
Operating expenses	7	(3.094)	(2.890)
Operating profit before changes in value and depreciation (EBITDA)		5.562	5.218
Gain on sale of investment properties		(3)	276
Changes in value of investment properties	13	2.170	1.501
Depreciation and impairment	15	(165)	(119)
Operating profit		7.564	6.877
Finance income		84	128
Finance cost		(3.932)	(4.007)
Net financial expense	10	(3.848)	(3.880)
Profit before income tax		3.716	2.997
Income tax	11, 20	(748)	(482)
Profit for the year		2.968	2.515
Other comprehensive income			
Operating recognized directly in equity:			
Revaluation of property		0	72
Income tax		0	(14)
Other total comprehensive income		0	58
Total profit for the year		2.968	2.572
Earnings per share:			
Basic earnings and diluted earnings per share	18	0,86	0,73

The notes on pages 15 to 40 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes.	2019	2018
Assets			
Intangible assets	12	433	496
Investment properties	13	95.918	90.302
Assets for own use	14	4.068	3.756
Non-current receivables	16	46	28
		<u>100.465</u>	<u>94.582</u>
Non-current assets			
Trade and other receivables	16	292	294
Cash and cash equivalents		1.837	1.847
		<u>2.129</u>	<u>2.141</u>
Current assets			
Total assets		102.594	96.723
Equity			
Share capital		3.423	3.456
Share premium		12.687	12.950
Statutory reserve		866	866
Revaluation reserve		153	153
Restricted equity		5.182	3.700
Retained earnings		10.242	9.772
		<u>32.553</u>	<u>30.898</u>
Total equity			
Liabilities			
Interest-bearing debt	19	58.364	56.451
Lease liabilities	4	2.039	0
Income tax liability	20	7.252	6.504
		<u>67.655</u>	<u>62.954</u>
Non-current liabilities			
Interest-bearing debt	19	1.416	1.698
Trade and other payables	21	969	1.172
		<u>2.386</u>	<u>2.870</u>
Current liabilities			
Total liabilities		70.041	65.824
Total equity and liabilities		102.594	96.723

The notes on pages 15 to 40 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Revaluation reserve	Restricted equity	Retained earnings	Total equity
Year 2018							
Equity 1 January 2018	3.456	12.950	866	95	2.478	9.393	29.238
Total profit for the year				58		2.515	2.572
Transferred to restricted equity					1.222 (	1.222)	0
Dividend paid ISK 0.26 per share .....					(	913)	(913)
Equity 31.12.2018	3.456	12.950	866	153	3.700	9.772	30.898
Year 2019							
Equity 1.1.2019	3.456	12.950	866	153	3.700	9.772	30.898
Total profit for the year						2.968	2.968
Transferred to restricted equity					1.482 (	1.482)	0
Dividend paid ISK 0.29 per share .....					(	1.016)	(1.016)
Repurchase of own shares	(34)	(264)					(298)
Equity 31.12.2019	3.423	12.687	866	153	5.182	10.242	32.553

The notes on pages 15 to 40 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

		2019	2018
Cash flows from operating activities			
Profit for the year		7.564	6.877
Operating items which do not affect cash flow:			
Gain on sale of investment properties		3	(276)
Valuation changes of investment properties	13	(2.170)	(1.501)
Depreciation	15	165	119
		5.562	5.218
Change in operating assets		63	(14)
Change in operating liabilities		18	(52)
		5.644	5.152
Interest income received	10	84	128
Interest expenses paid		(2.624)	(2.368)
Paid income tax		0	(2)
		3.104	2.909
		Net cash from operating activities	
		3.104	2.909
Cash flows used in investment activities			
Investment in investment properties	13	(1.558)	(4.199)
Sale prices of investment assets		60	928
Investment in assets for own use	14	(326)	(23)
Bonds, change	16	(18)	2
Other receivables, change		(50)	0
		(1.891)	(3.293)
		Net cash used in investing activities	
		(1.891)	(3.293)
Cash flows (to) from financing activities			
New long-term debts		18.861	15.885
Repayments and final payments of Long-term loans	19	(18.451)	(14.060)
Dividend paid		(1.016)	(913)
Purchase of treasury shares		(298)	0
Short-term loans, change		(319)	(162)
		(1.223)	750
		Net cash (to) from financing activities	
		(1.223)	750
		(Decrease) increase in cash and cash equivalents	
		(10)	366
		Cash and cash equivalents at beginning of year	
		1.847	1.481
		Cash and cash equivalents at end of period	
		1.837	1.847
Investing and financing without credit:			
The purchase price of investment properties		0	(220)
Other short-term liabilities		0	220

The notes on pages 15 to 40 are an integral part of these consolidated financial statements.

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Notes

1. General Information

Eik fasteignafélag hf., "the Company", is domiciled in Iceland. The Company's headquarters are at Sóltún 26 in Reykjavík. The consolidated financial statements of the Company for the year 2019 comprise the financial statements of the Company and its subsidiaries, together referred to as the "Group". The Group's operations are ownership, rental and operations of business premises and ownership of hotel operations. The consolidated financial statements of the Company are accessible at www.eik.is.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The financial statements were approved by the Company's Board of Directors on 10 March 2020.

The same accounting policies have been applied in preparing these financial statements as in the previous year except for what is discussed in note 4.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except investment properties which are measured at fair value, and assets for own use which are measured at revalued cost. Methods in measuring fair value are discussed in notes 3, 13 and 23.

Note 26 contains information on the Group's main accounting policies and changes to them during the year.

c. Presentation and functional currency

The consolidated financial statements of the Group are presented in Icelandic krona (ISK), which is the Parent's and subsidiaries' functional currency. All amounts are presented in ISK million unless otherwise stated.

d. Use of estimates and judgements

The preparation of consolidated financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognised in the periods when the changes are made and in subsequent periods if the changes also affect those periods.

Information about management estimates and judgements in applying accounting policies that have the most significant effect on the financial statements is included in note 3 on fair value and note 13 on valuation of investment properties.

3. Determination of fair value

The Company has established a process for determining fair value. This means that management is responsible for all the important decisions regarding fair value, including decisions related to assessment strategies covered in level 3 of the fair value measurement.

In determining fair value the Group utilises market information as far as possible, but if such information is not available it is based on management estimates.

Management regularly reviews important assumptions in the evaluation of assets and liabilities that are based on data which cannot be obtained in the market. If information from third parties, such as prices from brokers or pricing services, are used in determining fair value, management uses the information to support the conclusion that the assessment is in accordance with International Financial Reporting Standards (IFRSs), including the level that such an evaluation would fall under.

Fair value is classified according to the standards in a hierarchy system based on the assumptions used in the measurement according to following definitions:

Level 1: quoted prices (unchanged) in active markets for identical assets and liabilities.

Level 2: other assumptions than quoted prices according to level 1 which can be identified for the asset or liability, either directly (prices) or indirectly (derived from prices).

Level 3: assumptions used in determining asset or liability are not based on available market data (unobservable data).

If the assumptions used in determining fair value of assets and liabilities are classified at different levels in the classification, the total fair value is classified at the same level as the lowest important assumptions in the measurement.

If there is a change in classification of fair value during the reporting period the transfer between stages is at the end of that period.

Further information on assumptions used in determining fair value is in the following notes: Note 12 on intangible assets, note 13 on investment properties and note 26 on significant accounting policies.

4. New financial reporting standards

The Group has applied IFRS 16 for the financial year commencing 1 January 2019. Other international reporting standards effective as of 1 January 2019 do not have material effect on the Group's financial statements.

IFRS 16 replaces IAS 17 and the standard entails recognition of lease assets due to leases where the Group is a lessee. Deviation from that policy is permitted if the lease period is less than one year. Lease liabilities are recognised against lease assets due to future lease payments of the same amount.

Effects on the Group can be two fold, where the Group is a lessor and where the Group is a lessee. Implementation of IFRS 16 has insignificant effect on the Group as lessor.

Implementation of IFRS 16 where the Group is a lessee has insignificant effect on the Group. Lease assets and lease liabilities of the Group are only due to plot rental agreements with third parties. If built-in interests on plot lease can be determined these are used in determining present value of the liability. If this is not possible incremental borrowing rate is used which is the method used by the Group. Different borrowing rates of new loans is applied based on the location and type of properties which are on each plot and a similar method is applied in determining borrowing rates of new loans as with estimating the value of the Company's investment properties. The interest rates used for present value are determined by weighing borrowing rates of new loans at 70% and borrowing rates of new loans plus margin weigh 30%. This method was applied to all of the Group's plot lease agreements.

On transition to IFRS 16 the Group applied accumulated effect approach. Lease assets due to right-of-use of plots for ISK 1,931 million were recognised in the Groups statement of financial position as investment properties. On the other hand lease liabilities in the same amount were recognised in the statement of financial position. Implementation of the standard thus has no effect on the Group's equity at 1 January 2019 and comparative information for the year 2018 are unchanged. Implementation of IFRS 16 has positive effect by ISK 90 million on operating profit before the Group's changes in value and depreciation but increases interest payments of the Group annualised by the same amount.

Lease assets and lease liabilities are specified as follows:

	31.12.2019
Lease assets	
Balance 1 January 2019	1.931
Change due to revaluation	98
Purchased and sold assets	9
Balance 31 December 2019	<u>2.039</u>
Lease liabilities	
Balance 1 January 2019	1.931
Change due to revaluation	98
Purchased and sold assets	9
Balance 31 December 2019	<u>2.039</u>
Amounts in statement of comprehensive income	
Interest expenses of lease liabilities	90
Total amounts in statement of comprehensive income	<u>90</u>
Amounts in statement of cash flow	
Interest expenses paid	90
Total amounts in statement of cash flow	<u>90</u>

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 2019	Investment properties	Hotel	Offset entries	Total
Lease income	7.675		(282)	7.393
Operating income	602	662		1.264
Operating expenses	(2.564)	(825)	294	(3.094)
Operating profit (loss) before changes in value and depreciation	<u>5.713</u>	<u>(163)</u>	<u>12</u>	<u>5.562</u>
Gain on sale of investment properties	(3)	0	0	(3)
Change in value of investment properties	2.170	0	0	2.170
Depreciation	(150)	(15)	0	(165)
Net finance expenses	(3.847)	(0)	0	(3.848)
Profit (loss) before income tax	<u>3.882</u>	<u>(178)</u>	<u>12</u>	<u>3.716</u>
Income tax	(782)	33	0	(748)
Profit (loss) for the year	<u>3.101</u>	<u>(145)</u>	<u>12</u>	<u>2.968</u>

Assets 31 December 2019	102.111	253	230	102.594
Liabilities 31 December 2019	70.053	218	(230)	70.041
Investments in the year	1.659	225	0	1.884

Segments 2018	Investment properties	Hotel	Offset entries	Total
Lease income	7.038		(273)	6.765
Operating income	542	800		1.343
Operating expenses	(2.332)	(831)	273	(2.890)
Operating profit (loss) before changes in value and depreciation	<u>5.249</u>	<u>(31)</u>	<u>0</u>	<u>5.218</u>
Gain on sale of investment properties	276	0	0	276
Change in value of investment properties	1.501	0	0	1.501
Depreciation	(118)	(1)	0	(119)
Net finance expenses	(3.885)	5	0	(3.880)
Profit (loss) before income tax	<u>3.023</u>	<u>(26)</u>	<u>0</u>	<u>2.997</u>
Income tax	(488)	5	0	(482)
Profit (loss) for the year	<u>2.535</u>	<u>(21)</u>	<u>0</u>	<u>2.515</u>

Assets 31 December 2018	96.357	321	44	96.723
Liabilities 31 December 2018	65.715	153	(44)	65.824
Investments in the year	4.419	11	0	4.430

6. Operating income

Operating income is specified as follows:	2019	2018
Lease income	7.393	6.765
Operating income of common properties	510	468
Income from hotel operations	662	800
Other income	92	74
Total operating income	8.656	8.108

The Group has entered into lease agreements which are valid for a period from a few months up to almost 30 years. Almost all of the agreements are connected to price changes by connecting them to consumer price index for indexation. The Group has 10 lease agreements connected to turnover, either in full or in part, and the ratio of lease income from such agreements was just over 1% of the Company's total lease income. Income weighted average rental period is 6.0 years (2018: 6.4 years). Some of the lease agreements can be terminated before the end of the lease period.

Following is an analysis of future lease income of current lease agreements without taking into account revaluation clauses regarding lease payments and termination provisions.

Lease income 2019	-	7.274
Lease income 2020	7.268	6.500
Lease income 2021	6.371	5.751
Lease income 2022	5.434	4.869
Lease income 2023	4.348	3.935
Lease income 2024	3.844	3.442
Lease income more than five years	21.139	18.469
Lease income total	48.404	50.239

7. Operating expenses

Operating expenses are specified as follows:	2019	2018
Property tax	1.251	1.150
Insurance	65	62
Maintenance	59	69
Operating expenses of properties	583	533
Operating expenses of hotel	531	558
Impairment of receivables and bad debt	31	23
Office and administrative expenses	416	371
Other operating expenses	161	123
Total operating expenses	3.094	2.890

Operating expenses are specified as follows between leased assets and assets not generating lease income in the year:

Leased assets	2.080	1.898
Assets not generating lease income in the year	68	63
	2.148	1.961
Operating expenses of hotel	531	558
Office and administrative expenses	416	371
Total operating expenses	3.094	2.890

8. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:	2019	2018
Salaries	609	546
Contributions to pension funds	77	65
Other salary-related expenses	58	48
Other staff related expenses	20	25
Total salaries and salary-related expenses	763	685
Man-years	64	64
Positions at the end of the year	64	63

Salaries and salary-related expenses are allocated to operating items as follows:

Operating expenses of investment properties	171	127
Operating expenses of hotel	299	302
Office and administrative expenses	293	256
Total salaries and salary-related expenses	763	685

9. Fees to auditors

Fees to auditors of the Company are specified as follows:	2019	2018
Audit of financial statements and review of interim financial statements	16	17
Other services	3	3
Total fees to auditors	18	20

10. Finance income and finance expenses

Finance income and finance expenses are specified as follows:	2019	2018
Interest income	84	128
Interest expenses	(2.495)	(2.290)
Indexation	(1.438)	(1.717)
Total finance expenses	(3.932)	(4.007)
Total finance income and finance expenses	(3.848)	(3.880)

11. Income tax**Expensed income tax**

Effective income tax is specified as follows:		2019		2018
Profit before income tax		3.716		2.997
Income tax according to the current tax ratio	20,0%	743	20,0%	599
Change in valuation of tax asset	0,0%	0	(3,9%)	(116)
Other changes	0,1%	5	(0,1%)	(1)
Effective income tax	20,1%	748	16,1%	482

12. Intangible assets

Intangible assets are specified as follows:

	Goodwill	Trade agreement	Total intangible assets
Cost			
Balance 1.1.2018	351	220	571
Balance 31.12.2018	351	220	571
Balance 31.12.2019	351	220	571
Amortisation and impairment losses			
Total amortisation 1.1.2018	0	47	47
Amortisation 2018	0	29	29
Total amortisation 31.12.2018	0	76	76
Amortisation during the year	0	29	29
Impairment during the year	0	34	34
Total amortisation 31.12.2019	0	138	138
Book value			
At 1.1.2018	351	173	524
At 31.12.2018	351	144	496
At 31.12.2019	351	82	433

Goodwill is not amortised but is evaluated at least annually taking impairment into account or more often if there is indication of impairment. In performing impairment test fair value less cost to disposal was evaluated.

Key assumptions which supported the impairment test were among others the following:

- Weighted rate of return 6.2%
- Growth 0.5%
- Equity ratio 30%

The cash flow model used is comparable and with the same presumptions as were used in valuating the Company's investment properties (notes 13 and 26). The impairment test did not indicate any impairment.

The following changes of presumptions would have lead to impairment at year end 2019:

- Increase in WACC of 0.15%
- Decrease in interests of 0.5% down to 0%
- Decrease in market rent by 5%

13. Investment properties

	2019	2018
Book value at the beginning of the year	90.302	85.033
Lease assets, effect of implementation of IFRS 16	2.039	0
Investment in current investment properties	1.097	1.473
Investment in new investment properties	458	2.946
Sold investment properties	(60)	(652)
Value adjustment	2.170	1.501
Recognised in assets for own use	(214)	0
Recognised from assets for own use	126	0
Book value at year end	95.918	90.302

Segmentation of investment properties

Real estate	93.418	89.841
Building rights and plots	461	461
Lease assets, effect of implementation of IFRS 16	2.039	0
Total investment properties	95.918	90.303

2019	Commercial buildings	Office buildings	Industrial and storage	Hotel and restaurant	Wellness and other	Total
Book value at 1.1.	22.354	42.213	11.610	10.414	3.711	90.302
Investments in the year	388	394	149	110	57	1.097
Additions during the year ..	182		276			458
Sold during the year				(61)	(61)	
Reclassification	103 (	1.206) (	309)	597	731 (	84)
Value adjustment for the year ..	60	2.009	487 (	539)	149	2.165
Book value at 31.12.	23.088	43.410	12.212	10.521	4.647	93.878
Proportions	24,6%	46,2%	13,0%	11,2%	5,0%	100,0%

Following is information on main presumptions and changes which have occurred.

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 measuring 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 lease period of current lease agreements. The measurement is in accordance with level 3 in the fair value hierarchy, see further note 3, and there were no changes in classification during the year. The measurement is based on presumptions on expected utilisation ratio of the properties in the future, market rent at the end of lease periods of current agreements and operating costs of these properties. The approach and conclusions, which are used in measuring both amounts and timing of future cash flow, are revaluated on a regular basis in order to come closer to actual fair value of the assets. Management estimates of development of several other factors in the future are also taken into account, such as changes in lease and capital markets.

Management had transactions of business premises in the 2019 looked at and the result was that evaluation of the Company's investment properties was comparable to those market transactions.

Interests

Presumptions on interests applied in calculating the Company's weighted average cost of capital have been revalued from the previous year's estimate in accordance with changes to general credit terms, but management expectations on market interest of individual assets are relied upon.

Rate of return on equity and equity ratio

Rate of return on equity is derived from the CAPM model (Capital Asset Pricing Model). Changes were made to presumptions of rate of return on equity for reduction. The Company's WACC is between 5.7% - 7.4% (2018: 5.7% - 7.5%) depending on assets. Tax shield is not taken into account in calculating WACC. Equity ratio is expected to be 30%.

Utilisation of lease units

Rental value ratio of the Group was 94.9% at the end of year 2019 (2018: 95.2%). Rental value ratio is the ratio of leased properties which are in a leasable condition relative to lease payments but not relative to square metres. Presumptions on rental value ratio of individual assets are between 25% to 100% by assets and future estimate is 95% (2018: 95%).

Market rent

In estimating future cash flow market rent needs to be evaluated at the time when current lease agreements expire. The market rent is based on management estimate of development of rental price in the future.

Estimated lease income is based on current lease agreements and management estimate of development of rental price in the future.

2019	Commercial buildings	Office buildings	Industrial and storage	Hotel and restaurant	Wellness and other	Total
Estimated lease income pr. m ² pr. month (ISK)	918-6.140	670-4.240	532-2.149	1.516-5.259	1.171-3.177	670-5.259
Estimated weighted average rent pr. m ² pr. month (ISK) ..	2.101	2.434	1.597	3.921	1.171	2.294
WACC	6,1%-6,7%	5,7%-7,4%	6,1%-7,4%	5,7%-6,7%	6,1%-6,7%	6,4%

2018	Commercial buildings	Office buildings	Industrial and storage	Hotel and restaurant	Wellness and other	Total
Estimated lease income pr. m ² pr. month (ISK)	871-6.175	682-5.198	509-2.100	1.743-5.567	939-3.098	509-5.567
Estimated weighted average rent pr. m ² pr. month (ISK) ..	2.060	2.344	1.568	4.154	1.330	2.240
WACC	6,2%-6,9%	5,7%-7,5%	6,2%-7,5%	5,7%-6,7%	6,2%-6,7%	6,4%

Sensitivity analysis

Effects of changes in fair value of investment properties:

	2019		2018	
	Increase	Decrease	Increase	Decrease
Increase (decrease) of lease income by 1%	1.265 (	1.265)	1.175 (	1.175)
Increase (decrease) of rental value ratio by 1%-point	1.294 (	1.294)	1.196 (	1.196)
Increase (decrease) of rate of return by 0.5%-points	8.199 (	6.944)	7.645 (	6.478)

Official assessment value and insurance value

Book value of the Group's real estate and plots amounte to ISK 97,671 million at year end (2018: ISK 94,015 million). Official assessment value of real estate and plots amounted to ISK 84,249 million at year end (2018: ISK 79,795 million). At the same time fire insurance value of the assets amounted to ISK 83,166 million (2018: ISK 76,625 million). Insurance value of additional fire insurance amounted to ISK 11,744 million.

Pledges and guarantees

The Group's real estates, whether classified as investment properties, properties under construction og assets for own use, are pledged as collaterals for the Group's liabilities for the amount of ISK 59,749 million at year end (2018: ISK 58,138 million). A part of the Group's real estates carry input VAT encumbrance in the amount of ISK 3,179 million at year end (2018: ISK 3,239 million) which lapse over 20 years. The VAT encumbrance does not become payable unless prerequisites change, if relevant real estate is utilised for operations which are exempt from VAT or they are sold less the encumbrance. In addition there is an encumbrance for the amount of ISK 222 million for a building right at the Company's plot at Borgartún 21. The encumbrance will lapse at year end 2026 and will not become payable unless construction will commence on the plot.

14. Assets for own use

Assets for own use are specified as follows:

	Real estate	Vehicles and other	Total
Cost			
Balance at 1.1.2018	3.827	112	3.940
Revaluation 2018	72	0	72
Additions 2018	16	7	23
Balance at 31.12.2018	3.916	119	4.035
Recognised from investment properties	214	0	214
Recognised in investment properties	(129)	0 (	129)
Additions during the year	43	283	326
Balance at 31.12.2019	4.043	402	4.446
Depreciation			
Depreciation at 1.1.2018	127	61	188
Depreciation 2018	75	15	90
Total depreciation at 31.12.2018	202	75	278
Depreciation during the year	0	100	100
Total depreciation at 31.12.2019	202	175	378
Book value			
At 1.1.2018	3.700	51	3.752
At 31.12.2018	3.714	44	3.756
At 31.12.2019	3.842	226	4.068
Book value less revaluation			
At 1.1.2018	3.582	51	3.634
At 31.12.2018	3.523	43	3.567
At 31.12.2019	3.651	226	3.878

The Group's assets for own use are revaluated at fair value at the reporting date. The revaluation is based on the same methods as valuation of the Company's investment assets (note 13). There was insignificant difference between fair value of the assets at year end 2019 compared to year end 2018 and thus revaluation was not recognised in the year.

15. Depreciation

Depreciation and impairment losses is specified as follows:

	2019	2018
Intangible assets	62	29
Office	3	2
Hotel	88	72
Vehicles and other	12	15
Total depreciation and impairment losses	165	119

16. Trade receivables and other receivables

Trade receivables and other receivables are specified as follows:

	2019	2018
Long-term receivables	46	28
Trade receivables due to lease	77	95
Trade receivables due to other operations	119	146
Other short-term receivables	96	53
Total trade receivables and other short-term receivables	292	294

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

Depreciation reserve at beginning of the year	37	29
Depreciated bad debt during the year, change	(32)	(27)
Expensed during the year	44	34
Depreciation reserve at year end	50	37

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 15 million.

17. Equity**Share capital**

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 42,617,000 which is recognised as decrease in share capital. Outstanding shares at year end are 3,422,563,435 and are all paid up. One vote is attached to each ISK 1 share in the Company.

At a Board meeting of the Company on 7 March 2019 the Company's repurchase plan was approved. The Company purchased under this purchase plan treasury shares for the nominal value of ISK 33,817,000 for a total of ISK 297,519,980. The repurchase plan was implemented in accordance with authorisation by shareholder meeting, the Act no. 2/1995 on limited liability companies and appendix to Regulation no 630/2005 on insider information and market abuse. Kvika banki hf. handled the process.

Share premium

Share premium represents excess of payments above nominal value that shareholders have paid for shares sold by the Company.

Reserves

A statutory reserve is established by the Company in accordance with Act No. 2/1995 on limited liability companies, which stipulates that at least 10% of the Company's profit, not utilised to adjust previous years' losses or for other reserves in accordance with law, shall be allocated to the statutory reserve until the reserve amounts to 10% of the Company's share capital. When that benchmark has been reached the contribution to the reserve shall be at least 5% until its value has reached 25% of the Company's share capital. The statutory reserve can be used to offset loss which cannot be offset with entries from other reserves. When the statutory reserve amounts to more than 25% of the share capital, the excess amount can be utilised to increase share capital or, or if provisions in Article 53 of the Act no. 2/1995 on limited liability companies are met, for other needs.

Revaluation reserves

Revaluation of assets for own use is recognised in revaluation reserve. The revaluation is liquidated equal to its annual depreciation in the statement of comprehensive income. Liquidation of revaluation is recognised among retained earnings.

Restricted minority interest reserve

According to the Financial Statements Act no. 3/2006 companies are required to recognise share in profit or loss of subsidiaries, which is recognised in the income statement and is in excess of dividend received or dividend which has been decided to distribute, to restricted minority interest reserve among equity.

Retained earnings

Retained earnings consist of the Group's retained profit and accumulated deficit from the establishment of the parent company, with valuation changes of investment properties taking into account income tax effects, less dividend payments and transfers to and from other equity items.

Capital management

The Company's Board of Directors has established an equity ratio of 30%. It is the Board's policy to ensure a strong equity position and support stable future operating development. The Board aims to keep balance between rate of return of equity and optimisation and security which is achieved with strong equity ratio. The Company's equity ratio was 31.7% at year end (2018: 31.9%). Return on equity was positive by 9.6% in the year 2019 (2018: 8.9%).

Dividend

In the year 2019 a dividend was paid to shareholders amounting to ISK 1,016 million. The Company's Board of Directors' policy is to annually pay dividend or repurchase share for the amount corresponding to 35% of net cash provided by operations. In accordance with the dividend policy, the Board proposes dividend of ISK 1,098 million will be paid to shareholders less repurchase for the amount of ISK 298 million in the year 2019. The Board's proposal is thus for a dividend payment of ISK 800 million.

18. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit to average number of active shares during the year and shows the earnings per each share of ISK 1. Diluted earnings per share is the same as basic earnings per share since no share options have been granted by the Company nor has it sold convertible bonds.

	2019	2018
Profit for the year.....	2.968	2.515
Weighted average number of shares during the year.....	3.437	3.456
Earnings per share.....	0,86	0,73

19. Interest bearing liabilities

This note includes information about the contractual provisions of the Group's interest bearing liabilities. Reference is made to note 21 for information on the Group's foreign exchange and interest rate risk.

	2019	2018
Interest bearing liabilities 1 January	58.148	54.630
New borrowings	18.861	15.885
Repayments and settlements of long-term liabilities	(18.451) (	14.060)
Indexation	1.174	1.717
Capitalised borrowing cost, change	27 (	35)
Other long-term liabilities, change	21	11
Interest bearing liabilities 31 December	59.780	58.148

Long-term liabilities

Listed bonds and bank loans	58.333	56.440
Other long-term liabilities	31	11
	58.364	56.451

Short-term liabilities

Current maturities of liabilities	1.416	1.698
	1.416	1.698

Total interest bearing liabilities	59.780	58.148
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Table containing terms and repayment period of interest bearing liabilities

	Weighted average interest rates	Final maturity	2019	2018
Loan in ISK, indexed	3,99%	2024	6.744	13.734
Bond issue LF 14 1 in ISK, indexed	3,90%	2044	12.426	12.386
Bond issue EIK 15 1 in ISK, indexed	3,30%	2045	3.290	3.279
Bond issue EIK 100346 in ISK, indexed	3,60%	2046	5.623	5.598
Bond issue EIK 161047 in ISK, indexed	3,50%	2047	20.262	20.131
Bond issue EIK 050726 in ISK, indexed	2,71%	2026	1.509	0
Bond issue EIK 050749 in ISK, indexed	3,08%	2049	6.047	0
Loan in ISK, non-indexed	4,37%	2024-2029	3.847	3.009
Other non-indexed long-term liabilities	2,60%	2021-2029	31	11
Total long-term liabilities, incl. current maturities			59.780	58.148
Current maturities			(1.416) (	1.698)
Total			58.364	56.451

	2019	2018
Repayment of long-term liabilities is specified as follows over the next years:		
Repayments in 2019	-	1.698
Repayments in 2020	1.416	1.349
Repayments in 2021	1.401	13.011
Repayments in 2022	1.451	2.170
Repayments in 2023	1.501	1.117
Repayments in 2024	8.074	-
Subsequent repayments	45.937	38.803
Total	59.780	58.148

The Company settled all interest bearing long term liabilities of its subsidiary EF1 in the year. Concurrently two new bond classes were issued, EIK 050726 and EIK 050749, along with new bank loans. EIK 050749 was increased twice during the year following an initial public offering and total nominal value of the class was ISK 6,000 million at year end. EIK 050726 was increased once following an initial public offering and the total nominal value of the class was ISK 1,500 million at year end. The funds were mostly used for installments on bank loans.

20. Income tax liability

The Company's income tax liability is specified as follows:	2019	2018
Income tax liability at 1 January	6.504	6.009
Income tax liability in statement of comprehensive income	748	482
Income tax due to changes in equity	0	14
Income tax payable	0 (	2)
Income tax liability at 31 December	7.252	6.504

Income tax liability is specified as follows:

Real estate	7.928	7.312
Tax loss carry-forward	(715) (	837)
Provision for tax asset	28	41
Other items	12 (	12)
Tax liability at year end	7.252	6.504

Tax loss carry-forward, which is not utilisable against profit within 10 years since it developed, will terminate. Tax loss carry-forward at year end is utilisable as follows:

Taxable loss due to 2009, utilisable until year end 2019	-	252
Taxable loss due to 2010, utilisable until year end 2020	49	280
Taxable loss due to 2011, utilisable until year end 2021	153	561
Taxable loss due to 2012, utilisable until year end 2022	204	270
Taxable loss due to 2013, utilisable until year end 2023	179	382
Taxable loss due to 2014, utilisable until year end 2024	114	116
Taxable loss due to 2015, utilisable until year end 2025	263	268
Taxable loss due to 2016, utilisable until year end 2026	594	594
Taxable loss due to 2017, utilisable until year end 2027	482	492
Taxable loss due to 2018, utilisable until year end 2028	1.015	970
Taxable loss due to 2019, utilisable until year end 2029	525	-
	3.577	4.185

Income tax asset is recognised to the extent that it is considered likely that future profit can be utilised against the asset. Income tax asset is evaluated at each reporting date. Income tax asset for the amount of ISK 28 million (2018: ISK 41 million) due to tax loss carry-forward is not recognised among assets due to uncertainties of its utilisation.

21. Trade payables and other short-term payables

Trade payables and other short-term payables are specified as follows at year end:	2019	2018
Trade payables	210	201
Accrued interest	404	318
Other short-term liabilities	355	651
Total trade payables and other short-term payables	969	1.172

22. Financial risk management

The Group's financial instruments are exposed to several risks and those will be described below along with methods applied by the Group in evaluating and managing the risk. The Company's Board of Directors is responsible for implementing and monitoring the Group's risk management. Risk management is meant to analyse or detect risk factors, set benchmarks relating to risks and monitor it.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and guarantees are not sufficient for the outstanding receivable. Credit risk arises principally from financial position and operations of the Group's customers. The Company analyses financial position of new customers for creditworthiness prior to entering into business, in addition to requesting 3-6 months' guarantees. If a customer does not meet contractual obligations the agreement is generally terminated 45 days after due date. Follow up on collections is effective and decisions made on how to react to them.

The Group's maximum exposure to credit risk of financial assets is their book value which at year-end was as follows:

	2019	2018
Cash and cash equivalents	1.837	1.847
Trade receivables	196	240
Other short-term receivables	96	53
Total maximum exposure	2.129	2.141

The aging of trade receivables and impairment at year-end was as follows:

	2019		2018	
	Gross	Impairment	Gross	Impairment
Not past due	4	0	13	0
Past due 0 - 30 days	143	3	156	5
Past due 31 - 60 days	33	4	36	4
Past due 61 - 90 days	17	4	22	3
Past due more than 90 days	50	38	52	25
	247	49	278	38

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group observes development of its liquidity by analysing due dates of financial assets and financial liabilities with the aim to ensure that it will always have sufficient liquidity to meet its liabilities. The Company had undrawn credit facilities of ISK 800 million at year end.

Contractual instalments of liabilities, including expected interest payments, are specified as follows:

2019	Book	Contractual	Less than			More than
	value	cash flows	1 year	1 - 2 years	2 - 5 years	5 years
Interest bearing loans	59.780	89.036	3.543	3.543	17.012	64.938
Trade receivables and other short-term receivables	969	969	969			
	60.750	90.005	4.513	3.543	17.012	64.938
2018	Book	Contractual	Less than			More than
	value	cash flows	1 year	1 - 2 years	2 - 5 years	5 years
Interest bearing loans	58.148	84.173	3.900	3.504	20.640	56.128
Trade receivables and other short-term receivables	1.172	1.172	1.172			
	59.320	85.345	5.072	3.504	20.640	56.128

Interest rate risk

Interest rate risk is the risk of changes in fair value or cash flow from financial assets and financial liabilities due to changes in market interest rates. The Group's interest bearing financial instruments are specified as follows at year end:

	2019	2018
Financial instruments with fixed interest rates		
Interest bearing loans	(50.504)	(53.910)
Net financial instruments with fixed interest rates	(50.504)	(53.910)

Financial instruments with floating interest rates

Cash and cash equivalents	1.837	1.847
Interest bearing loans	(9.276)	(4.228)
Net financial instruments with floating interest rates	(7.440)	(2.381)

Sensitivity analysis of the cash flow of financial instruments with floating interest rates

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) the profit before income tax by ISK 74 million (2018: ISK 24 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2018.

Financial instruments with fixed interest rates

The Group's financial instruments with fixed interest rates are not recognised at fair value through statement of comprehensive income. If there is a change in interest rate at reporting date it has no effect on the Group's financial performance.

Inflation risk

Inflation risk is the risk of the Company's results fluctuating due to changes in consumer price index. Interest bearing liabilities in the amount of ISK 55,933 million (2018: ISK 55,128 million) are indexed to the consumer price index. A change in inflation of one percentage point at year end 2019 would have decreased the Company's profit before income tax in the amount of ISK 559 million (2018: ISK 551 million). The analysis is based on all other variables remaining constant.

Operational risk

Operational risk is a risk related to other factors than those discussed above, general factors which apply to operation of real estate companies. Operational risk is the risk of direct or indirect loss arising from a wide variety of factors in the Group's operations, the work of the Group's personnel, technology and organisation, and from external factors other than the above mentioned, such as changes in laws, increased tax levy as with property taxes and general attitude towards corporate governance. Operational risks arise from all of the Group's operations.

The Company's objective is to manage operational risk efficiently in order to avoid financial losses and to protect the Company's reputation. In order to reduce operational risk, among other things, an appropriate segregation of duties has been implemented, transactions are controlled as well as compliance with laws, regular assessment of risk is performed, employees are trained, procedures are organised and documented, and insurance is purchased when applicable.

23. Fair value

Comparison of fair value and book value

Fair value and book value of financial assets and financial liabilities is specified as follows:

	31 December 2019		31 December 2018	
	Book value	Fair value	Book value	Fair value
Interest bearing loans	(59.780)	(65.394)	(58.148)	(62.164)

Fair value of the Company's listed bonds is calculated in accordance with level 3, see note 3. Fair value of other financial assets and financial liabilities is the same as their book value.

24. Related parties

Definition of related parties

The Group has a related party relationship with members of the Board of Directors, management and shareholders which have significant influence, companies controlled by them, along with their spouses and financially dependent children.

Related parties with significant influence

No single party holds more than 20% share in the Company at year end.

Transactions with companies controlled by members of the Board of Directors

Transactions with companies controlled by members of the Board of Directors were on the same terms as with unrelated parties.

	2019	2018
Purchased goods	0	11

Transactions with management

Salaries and benefits to management for their work for the Group and shares in the Company are specified as follows:

Year 2019	Salaries and benefits	Success based payments	Contribution to pension funds	Nominal value of shares
Eyjólfur Árni Rafnsson, Chairman of the Board	8,3		1,1	
Guðrún Bergsteinsdóttir, Vice chairman of the Board	5,8		0,8	
Agla Elísabet Hendriksdóttir, Board member and chairman of audit committee	4,5		0,6	
Arna Harðardóttir, Board member	4,3		0,6	
Bjarni Kristján Þorvarðarson, Board member	2,8		0,4	
Frosti Bergsson, Board member until 10 April 2019	1,1		0,1	78,1
Garðar Hannes Friðjónsson, CEO	40,1	3,5	5,7	7,4
Directors, 6 ftes.	110,4	4,2	14,7	0,3

Year 2018

	Salaries and benefits	Success based payments	Contribution to pension funds	Nominal value of shares
Eyjólfur Árni Rafnsson, Chairman of the Board	7,9		1,0	
Guðrún Bergsteinsdóttir, Vice chairman of the Board	4,0		0,5	
Agla Elísabet Hendriksdóttir, Board member and chairman of audit committee	4,5		0,5	
Arna Harðardóttir, Board member	4,0		0,5	
Frosti Bergsson, Board member	3,8		0,5	78,1
Garðar Hannes Friðjónsson, CEO	37,7		4,7	7,4
Directors, 4,5 ftes.	80,2		9,8	0,3

No irregular contracts have been entered into with board members or management. The share of Garðar Hannes Friðjónsson is through Burðarbita ehf.

25. Subsidiaries

Shareholding in subsidiaries

	Share 2019	Share 2018
EF1 hf.	100,0%	100,0%
Eik rekstrarfélag ehf.	100,0%	100,0%
EF12 ehf.	0,0%	100,0%
EF14 ehf.	0,0%	100,0%
Landfestar ehf.	100,0%	100,0%
- LF1 ehf.	100,0%	100,0%
- LF2 ehf.	100,0%	100,0%
- Hótel 1919 ehf.	100,0%	100,0%
- LF11 ehf.	0,0%	100,0%

All of the subsidiaries are domiciled in Reykjavík.

The Company merged two subsidiaries, EF12 and EF14, with Eik fasteignafélag during the year. Furthermore, a subsidiary of Landfestar ehf., LF11, merged with another subsidiary of Landfestar, LF1, during the year.

26. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in the Company's financial statements, except for what is described in note 4.

In order to increase the information value of the financial statements, the notes are published on the basis of how appropriate and significant they are for the reader. This entails that information which is considered neither significant nor appropriate for the user of the financial statements are not published in the notes.

a. Basis of consolidation

i) Merger of companies

The purchase method is applied at merger when control transfers to the Group. The transaction at merger is measured at fair value as well as the separable assets and liabilities which are taken over. Goodwill generated is tested annually for impairment. Profit from favourable purchases is recognised immediately in the statement of comprehensive income. Transaction costs are expensed as it occurs except when it is related to issue of bonds or shares.

Conditional supplementary payments are recognised at fair value at the acquisition date. If such supplementary payment is categories as equity it is not revalued and is settled within equity. In other instances changes in fair value of conditional supplementary payment is recognised in the statement of comprehensive income.

ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is based on whether the Group has power over the investment, bears a risk or has the rights to variable returns from its involvement in the investment and has the ability to affect its returns of the investment. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii) Loss of control

When the Group loses control of a subsidiary the assets and liabilities of the subsidiary are removed from the consolidated financial statement along with the share of other shareholders of the entity and other items in equity. All related profit or loss is recognised in the statement of comprehensive income. Remaining share is measured at fair value at the date control was lost.

iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised loss is eliminated by the same method as unrealised profit, but only to the extent that there is no indication of impairment of the asset.

b. Foreign currencies transactions

Transactions in foreign currencies are recognised in the functional currency of individual group entities at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are recognised at the exchange rate ruling at the reporting date. Other assets and liabilities recognised in foreign currencies at fair value are translated at the exchange rate ruling at the date of determination of fair value.

Exchange differences arising from transactions in foreign currencies are recognised in the statement of comprehensive income.

c. Financial instruments

i) Financial assets

Loans, receivables and cash and cash equivalent are recognised at the date they incurred. Other financial assets are initially recognised at the date the Company became party to contractual provisions of the financial instrument.

Financial assets are deregistered if contractual rights of the Company to cash flow related to the financial assets expires or if the Company delivers right to cash flow related to the financial asset to another party without retaining control or almost all of the risk and benefit which the ownership entails.

Financial assets and financial liabilities are offset and net amount recognised in statement of financial position when and only when the Company has legal right to offset and intentions are to settle with offsetting financial assets and financial instruments or redeem the asset og settle the liability at the same time.

Financial assets at amortised cost

Financial assets are recognised at amortised cost are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus all related transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses

Loans and receivables comprise trade receivables and other short-term receivables.

Cash and cash equivalents

Cash and cash equivalents consist of funds and on demand bank deposits and securities available within three months.

ii) Financial liabilities

Interest bearing liabilities are recognised at the date they were entered into. All other financial liabilities are initially recognised at the transaction date where the Company became party to contractual provisions of the financial instrument.

The Company deregisteres financial liability if contractual obligations related to the financial liability finish, they are relinquished or expire. The Company classifies financial liabilities other than derivative agreements as other financial liabilities. Financial liabilities are initially measured at fair value plus all direct transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

The Company's financial liabilities consist of interest bearing liabilities, trade payables and other short-term liabilities.

iii) Share capital

Direct costs attributable to the issue of share capital are recognised as a deduction from equity, net of tax effects.

d. Intangible assets

i) *Goodwill*

Goodwill arises upon the acquisition of subsidiaries. Goodwill is the difference between the cost upon take-over and the fair value of overtaken assets, liabilities and uncertain liabilities. If negative goodwill arises it is immediately recognised in the statement of comprehensive income less accumulated impairment.

ii) *Other intangible assets*

Other intangible assets which are acquired or are written up at acquisition of subsidiaries and have limited useful life are capitalised at cost less accumulated depreciation and impairment as appropriate.

iii) *Subsequent cost*

Subsequent cost is only capitalised if it increases benefit of the asset for which the cost is related to. Other costs, including due to goodwill and trademarks created within the Group, is recognised in the statement of comprehensive income when it incurs.

iv) *Depreciation of intangible assets*

Depreciation of intangible assets is recognised in the statement of comprehensive income on a straight-line basis over their estimated useful lives. The estimated useful life is specified as follows:

Trade agreements 5 years

e. Investment properties

Investment properties are real estates (land and buildings) owned by the Company to create rental income, for value increase or both. Investment properties are recognised at fair value in accordance with International Accounting Standard IAS 40, see further note 13. Measurement of investment assets relies upon fair value of comparable assets in active market in transactions between unrelated informed parties, and discounted future cash flow of individual assets. The measurement takes into account the sum of expected future rental income of the properties in addition to cost of operating and maintaining the properties. Estimated future rental income is mostly based on current lease agreements. Estimated operating costs and maintenance of properties is subtracted from rental income. Market interest rates are used in discounting. Changes of fair value of investment properties are recognised under the item changes in value of investment properties in the statement of comprehensive income. Investment properties are not amortised.

When asset for own use becomes investment property due to a change in utilisation, the difference created at transfer of book value and fair value of the property is recognised as revaluation in other profit if there is a profit. At sale of investment property this profit is recognised among retained earnings. Loss which is created at such event is recognised immediately in the statement of comprehensive income.

If investment property is used by its owner it is classified as asset for own use and its fair value at reclassification date will become its cost price in the accounts.

f. Properties under construction

Property under construction and intended to be used as investment property, is recognised at cost less impairment until it is finalised. Then it is revalued at fair value and reclassified as investment property. Profit or loss which can be created at revaluation is recognised in the statement of comprehensive income.

g. Assets for own use

i) *Recording and valuation*

Assets for own use are measured at cost less depreciation and impairment losses. Revalued cost is fair value of the assets at the revaluation date less accumulated depreciations. All increases due to the revaluation are recognised in revaluation reserve among equity less income tax. Depreciation of the revaluation is recognised in the statement of comprehensive income and annually an adjustment is recognised which corresponds to the amount in revaluation reserve and retained earnings. Annual revaluation is performed.

Cost consists of direct cost of the transaction. Cost of assets for own use which the Company itself builds, consist of materials and salaries, other costs incurred in making the asset operative and is considered to be part of cost of the property. Purchased software which is essential in order to use hardware is capitalised as part of that equipment.

When assets for own use are composed of units with different useful lives the units are separated and depreciated in line with the useful life.

Profit of sale of assets for own use is the difference between actual sale price and book value of the property and is recognised in the statement of comprehensive income among operating income.

Interest expenses of loans which are used to finance the cost of properties under construction are capitalised over the construction period.

ii) *Subsequent costs*

Cost of renewing certain parts assets for own use are capitalised if it is considered likely that benefit related to the asset will be received by the Company and the cost can reasonably be measured. All other cost is expensed in the statement of comprehensive income when it incurs.

iii) *Depreciation*

Depreciation measured on a straight-line basis over the estimated useful lives of assets for own use. Land is not depreciated. The estimated useful lives are specified as follows:

	Useful life
Properties for own use	50 years
Other assets for own use	5 - 20 years

Depreciation methods, estimated useful life and residual value are revalued at each accounting date.

h. Impairment**i) Financial assets**

A financial asset, not recognised at fair value, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Impairment of financial assets is recognised in the statement of comprehensive income.

ii) Other assets

Book value of other assets of the Group is reviewed at each reporting date to determine whether there are indications of impairment. If there is any such indication the recoverable amount of the asset is estimated. Goodwill is tested for impairment at least once a year.

The recoverable amount of an asset or a cash generating unit is the higher of their net fair value or value in use. Value in use is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is expensed when the book value of an asset or a cash generating unit is higher than its recoverable amount. A cash generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or asset groups. Impairment losses recognised in respect of cash generating units are allocated first to reduce the book value of the goodwill and then to reduce the book value of the other assets in the cash generating unit on a pro rata basis. An impairment loss is expensed in the statement of comprehensive income.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of prior recognition of impairment taking taxes into account.

i. Obligations

Obligations are recognised in the statement of financial position when the Group has a legal obligation or entered into obligations due to past events, it is considered probable that they will be settled and they can be reliably measured. If the effect is significant, the obligation is assessed by discounting estimated future cash flow with interest before taxes which shows current market assessment of time value of money and, if appropriate, the risk inherent with the obligation.

j. Rental income

Rental income of investment properties are recognised in the statement of comprehensive income over the rental period.

k. Operating expense of investment properties

Operating expense of investment properties is expensed when it incurs and contains among other property taxes, insurance, maintenance and impairment of trade receivables.

l. Finance income and finance expenses

Finance income comprises interest income on financial assets and foreign exchange gain on foreign currencies. Interest income is recognised in the statement of comprehensive income as it accrues based on effective interests.

Finance expenses comprise interest expense and indexation on borrowings, exchange rate loss on foreign currencies and other finance expenses. Interest expenses are recognised in the statement of comprehensive income as it accrues based on effective interests.

Foreign currency gains and losses are reported on a net basis.

m. Income tax

Income tax expense comprises current and deferred income tax. Income tax is recognised in statement of comprehensive income except to the extent that it relates to operating items recognised directly in equity, in which case the income tax is recognised in equity.

Current income tax is the expected tax payable next year on the taxable income for the current year, using tax rates effective at the reporting date, in addition to adjustments made to current tax of previous years.

Deferred income tax is recognised using the balance sheet method, providing for temporary differences between the book value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognised for temporary differences relating to investments in subsidiaries as long as it is considered that the parent company can control when they are reversed and also it is likely that they will not reverse in the foreseeable future. The amount of deferred tax is based on the expected tax rate to be in effect when the temporary difference will be reversed, as per law in effect at the reporting date.

A deferred income tax asset is only recognised to the extent that it is probable that future taxable profits will be available against the asset. Deferred income tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable it will be realised.

n. Earnings per share

The financial statements present basic and diluted earnings per share data for ordinary shares in the Company. Basic earnings per share is calculated by dividing profit by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in respect of shares which might be issued in relation to share purchase agreements and other financial instruments which are convertible to shares in the Company.

o. Segment reporting

A segment is a distinguishable component of the Group within a certain business environment.

Statement of Corporate Governance

Board of Directors and Corporate governance

Eik fasteignafélag hf.'s ("Eik" or "the Company") corporate governance is in accordance with the Act on limited liability companies, the Company's Articles of Association and Board's procedures. The Company emphasises maintaining good management practices and the Company's corporate governance is based on Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers in June 2015.

Board of Directors

The Board of Directors consists of five individuals appointed by shareholders for a one year term. The Company's nomination committee calls for candidacy for the Board in addition to requesting candidates for the Board from the Company's shareholders. The Company's Board complies with provisions on gender ratio of boards of limited liability companies. The Company's Board for the operating year 2019-2020 consist of:

Eyjólfur Árni Rafnsson, Chairman of the Board, has been on the Company's Board since February 2015. Eyjólfur is born in 1957 and has a Phd. in civil engineering from the University of Missouri-Rolla in the United States. Eyjólfur sits on the boards of the following companies and organisations: Innri Kóngsbakki ehf., Eignarhaldsfélagið Birta ehf., Kötluvíkur ehf., Hitaveita Kóngsbakka ehf., Bra-Brammer Íslandi ehf. and is Chairman of the Confederation of Icelandic Enterprise.

Guðrún Bergsteinsdóttir, Vice-chairman of the Board, has been on the Company's Board since April 2016. Guðrún is born in 1975 and is Cand. Jur. from the University of Iceland, LL.M from the University in Leiden, the Netherlands, is a district court attorney and authorised before the Appeal Court in addition to having a securities trading certificate. Guðrún is a practicing attorney and a partner in LOCAL lögmennt. She sits on the boards of Brynrun ehf., LOCAL Partners ehf., LOCAL Ilm ehf. and Útgerðarfélagið Auður ehf.

Agla Elísabet Hendriksdóttir has been on the Company's Board since April 2013. Agla is born in 1967, has a BA in political science from the University of Iceland in addition to having a securities trading certificate. Agla is self employed advisor and sits on the boards of the following companies: Allianz Íslandi hf., Eir hjúkrunarheimili and Akta sjóðir hf.

Arna Harðardóttir has been on the Company's Board since May. Arna is born in 1965 and has a BA in business economics from the University of Reading, England and MBA from the Reykjavik University in addition to having a securities trading certificate. Arna is CFO of the Icelandic Red Cross and sits on the boards of Tern systems ehf. and Intellis ehf.

Bjarni Kristján Þorvarðarson has been on the Company's Board since April 2019. Bjarni is born in 1966 and is electrical engineer from the University of Iceland and University of Wisconsin, Madison, United States. He also has an MBA from ISG in Paris, France and M.Sc. in Finance from London Business School, London, England. Bjarni is CEO of Coripharma ehf. and sits on the boards of that company, Coripharma Holding ehf., Síminn hf., Inning ehf., BKP Invest ehf. and Stök Gulrót ehf.

Eik's Board members' background and education is of various genre and board members also have extensive professional experience, from business, management and investments. All board members are independent of the Company and its shareholders. Further information on the Board members is accessible on the Company's website.

The Board of Directors has laid down comprehensive rules wherein the competence of the Board is defined and its scope of work vis-à-vis the CEO. These rules include among other things rules regarding division of work within the Board, procedures and order at meetings, minutes, rules on confidentiality, disclosure of information and more. Current rules of the Board were approved at a board meeting on 28 May 2019.

According to law and the Company's Articles of Association the Board of Directors is the highest authority in the Company's affairs between shareholders meetings. The Board's main role is to ensure sufficient controls over the Company's accounting and use of the Company's finances, in addition to reviewing operational and financial budgets and ensuring that they are adhered to. The Board ensures that quarterly statements are prepared containing information on the Company's operations and financial position, and has ensured sufficient internal controls, but regular review is performed by the Company's internal auditor. The Board decides on the policy of the Company and is in a consulting role for the CEO and other members of management. The Board hires CEO and defines his role. The Board makes all significant decisions relating to the Company's operations and ensures that it is operated

in compliance with law and rules applicable to the Company.

The Board of Directors has appointed two sub-committees, audit committee and remuneration committee. Furthermore, the Company has established a nomination committee. Information on the Articles of Association, Board rules and rules for sub-committees are accessible on the Company's website, www.eik.is.

Audit committee

The Board of Directors appointed the Company's audit committee on 8 May 2019. According to rules of procedures for the audit committee the committee consists of one Board member and two external specialists independent of the Company. The committee consists of Agla Elísabet Hendriksdóttir, Board member and chairman of the committee, Arnar Már Jóhannsson, certified public accountant and Þórir Ólafsson, certified public accountant. The audit committee meets in relation to annual and semiannual accounts of Eik and submits a report to the Board at least annually.

Remuneration committee

The Board of Directors appointed a remuneration committee on 25 April 2018. According to rules of procedures for the remuneration committee the committee consists of Chairman of the Board and two Board members, but these shall not be members of other sub-committees. The committee consists of Eyjólfur Árni Rafnsson chairman, Arna Harðardóttir and Guðrún Bergsteinsdóttir Board members of Eik.

Nomination committee

At a shareholders meeting on 25 January 2019 Drífa Sigurðardóttir advisor, chairman, and Ingólfur Bender economist were elected to the nomination committee. The Board of Directors appointed Þorkell Erlingsson engineer to the committee. The role of the nomination committee is to advise in relation to election of board members and its goal is to create a premise for shareholders for an informed decision regarding election of the board.

Board meetings and meetings of sub-committees

In the year 2019, 15 Board meetings were held, 4 meetings in the Audit Committee and 4 meetings in the remuneration committee, and the meetings have been attended by the majority of the Board of Directors and the majority of the committee members in the period. In accordance

with the Company's Articles of Association resolutions by the Board's sub-committees are only of advisory nature for the Board.

Appraisal of the Board's success

The Board of Directors emphasises good corporate governance and received in 2016 acknowledgement from the Reasearc centre on corporate governance as an exemplary company in corporate governance which is still valid. Furthermore, the Company has for several years received acknowledgement from Creditinfo as one of Iceland's Strongest Companies. The Board's work has gone well and communication between board members has been open and sound. All board meetings were attended by the majority of the board members and the main projects were prioritised and executed carefully.

Executive management

Eik fasteignafélag's CEO is Garðar Hannes Friðjónsson, but he has been the CEO of the Company since 2002. Garðar is born in 1971 and has a BA in philosophy from the University of Iceland and MBA from the University of Salford in England. Garðar holds 7,410,461 shares in Eik fasteignafélag through the private limited liability company Burðarbiti ehf.

CEO is responsible to the Board of Directors for daily operations and performance of the Company. The CEO manages daily operations of the Company and oversees implementation of strategic planning.

CFO and deputy CEO is Lýður Heiðar Gunnarsson, but he is responsible for management of funds, bookkeeping, accounting, reporting, financing and strategy of Eik fasteignafélag and subsidiaries. Lýður holds 300,000 shares in the Company.

Director of rentals is Eyjólfur Gunnarsson, but he is responsible for rentals of the Company's properties, lease agreements, rental income and collections.

Director of projects is Guðbjartur Magnússon, but he is responsible for all maintenance, projects, buildings and development of properties and vacant lots.

Director of building care is Árdís Ethel Hrafnisdóttir, but she is responsible for operations and services of the operating company with Eik's lessees.

Director of business development is Jón Gretar Jónsson, but he is responsible for increasing revenue of new or current projects in real estate operations.

Director of legal is Jóhann Magnús Jóhannsson, but he is responsible for that the Company's legal matters and internal controls are in compliance with laws and regulations.

The Company owns three subsidiaries and, excluding the three deviations described below, the boards of the companies within the Group comprise one board member, Garðar Hannes Friðjónsson, CEO of Eik, and one alternate board member, Eyjólfur Gunnarsson, Director of Eik's rentals. In the subsidiary EF1 hf. the board comprises three board members, Eyjólfur Gunnarsson, who is chairman of the board, Garðar Hannes Friðjónsson and Lýður H. Gunnarsson. The board of directors of Hótel 1919 ehf. comprises Garðar Hannes Friðjónsson, who is chairman of the board, and Lýður H. Gunnarsson.

Internal control and risk management

The Company's Board of Directors is responsible for and has, in cooperation with the Company's management, implemented effective risk management and internal control. The risk management is intended to analyse or detect risk factors, set benchmarks on risks and control it. Eik emphasises internal control in its daily operations through the Company's rules of procedure and organised inspections of the operations where all main segments of the operations are reviewed. The Company puts emphasis on that its employees have knowledge of the Company's rules of procedure and enforce them. Employees must acquaint themselves with the content of the rules of procedure as they are at each time and enforce them in all respects. The Company's internal auditor examines functionality of internal controls and risk management annually and submits a report to the Board.

Regluvörður The Company's Compliance Officer is Jóhann Magnús Jóhannsson attorney. Deputy Compliance Officer is Árdís Ethel Hrafnadóttir lawyer. The Compliance Officer's role is to oversee that rules regarding insider information and transactions of insiders are enforced.

Values, ethical standards and social responsibility

Eik's values are reliability, professionalism, initiative and ease. The Company is conscious of its social responsibility and has approved a policy on social responsibility. The Company supports charities. Furthermore, the Company has supported Icelandic culture, both theatre and music,

by loaning buildings. Policy on human rights and social responsibility in addition to the Company's code of ethics are accessible on the Company's website.

Eik now presents non-financial information for the second time in a separate social report which accompanies the consolidated financial statements of Eik fasteignafélag hf. for the year 2019. The information is in line with the second version of guidance from Nasdaq from the year 2019 on benchmarks on performance of companies with regards to environment, social factors and corporate governance.

Interaction between shareholders and Board of Directors

According to law and the Company's Articles of Association shareholders meeting is the highest authority within Eik, but there the shareholders exercise their decision rights in the Company's matters. Annual General Meeting of Eik shall be held before the end of June each year where matters are discussed which are specified in law and the Company's Articles of Association.

Interaction between shareholders and the Board of Directors take place at shareholders meetings. Board members are independent in performing their tasks and do not receive instructions directly from the Company's shareholders or other interested parties. Board members exercise confidentiality in their work and equality in providing shareholders with information and do not supply shareholders with information regarding the Company unless it is presented within the Board at publicised information meetings of the Company or specific meetings when there is reason for it. Shareholders can submit matters to the Board between shareholders meetings. Chairman of the Board in general represents the Board. Interaction between the Board and shareholders regarding the Company's operations shall be documented.

Non-financial information

Eik fasteignafélag hf. ("the Company" or "Eik") operates in the Icelandic real estate market for business premises and owns business premises in the main business centres of the capital area as well as in selected regional areas. The Company owns, operates and leases real estates which are leased to trustworthy lessees and the assets are highly competitive in the rental market with regards to condition and location.

Eik's Board of Directors has approved a policy on social responsibility which is accessible on the Company's website. Emphasis is put on environment, social matters and corporate governance (ESG) within the Company, as well as creating value and pay dividend. The Company aims to be economically responsible, operate within the current frame of law, be socially responsible and be sought after and safe work place.

Non-financial information is presented in a specific social responsibility report which accompanies the consolidated financial statements of Eik fasteignafélag hf. for the year 2019. The information is in line with the second version of guidance from Nasdaq from the year 2019 on benchmarks on performance of companies with regards to environment, social factors and corporate governance.

Environment

The Company's aim is to reduce the use of natural resources by e.g. using them more efficiently within the operations and set goals for itself in this respect. The social responsibility report contains among other things information on direct and indirect green house gas omission as well as information on energy use, waste and water use.

Social factors

The Company has approved a remuneration policy which is based on a long term goal of value increase for shareholders, sound corporate governance and interest of customers. Thereby it is meant to support planning regarding the Company's development and contribute to that qualified and robust individuals are employed by the Company. Remuneration and facilities must thus relate to market conditions at each time, salary equality and encourage good performance and support continuing education. The remuneration policy was last confirmed the

annual general meeting on 10 April 2019 and is accessible on the Company's website.

The Company's code of ethics applies to its employees and Board of Directors. They have duty to read the code of ethics and enforce them. The code covers among other things responsibility and respect for the society, interaction with customers, respect and tolerance at the workplace, conflicts of interest and equality and respect for all human beings. The code of ethics is accessible on the Company's website.

The social responsibility report includes among other things information on salary and gender ratio, employee turnover, equality, health protection and safety of employees.

Corporate governance

Eik pursues Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers in June 2015. Further information and documents containing information of corporate governance are in a specific site on the Company's website: <http://www.eik.is/fjarfestar/stjornarhaettir>.

Eik pursues, in line with the Company's policy on social responsibility, current laws and regulations in its entire operations and does not tolerate corruption, including oppression, bribery and illegal operations. Eik operates with honesty and trust as its guiding light.

Management and other employees of the Company must avoid that their financial interests and the interests of the Company collide. Employees are encouraged to report to management or Board of Directors on ethical uncertainties and failures of the same root which they encounter. Employees shall not in any way pay for submitting such notifications to the Board or management.

The Company's social responsibility report for the year 2019 contains further information on segregation of duties within the Board in addition to transparency of decisions. It also contains information on measures against corruption and bribery, data privacy, financial incentives and collective wage agreements, provision of information and certification of information relating to social responsibility and sustainability.

Quarterly statements (unaudited)

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Total
Lease income	1.886	1.871	1.852	1.784	7.393
Operating income	300	360	304	300	1.264
	2.185	2.231	2.156	2.084	8.656
Operating costs	(812)	(723)	(778)	(781)	(3.094)
EBITDA	3.558	1.508	1.377	1.303	5.562
Gain on sale of investment properties	(3)	0	0	0	(3)
Changes in value of investment properties	647	196	975	352	2.170
Depreciation	93	(37)	(28)	(28)	0
Operating profit	4.296	1.666	2.324	(1.626)	7.564
Finance income	28	8	19	29	84
Finance cost	(938)	(867)	(1.172)	(955)	(3.932)
Net financial expense	(910)	(859)	(1.153)	(927)	(3.848)
Profit before income tax	1.038	808	1.171	699	3.716
Income tax	(212)	(162)	(234)	(140)	(748)
Profit for the year	825	646	937	560	2.968
Other comprehensive income					
Operating recognized directly in equity and will not be recognized in profit or loss:					
Revaluation of property	0	0	0	0	0
Income tax	0	0	0	0	0
Other total comprehensive income	0	0	0	0	0
Total profit for the year	825	646	937	560	2.968
Earnings per share:					
Basic earnings and diluted earnings per share	0,24	0,19	0,27	0,16	0,86

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Total
Lease income	1.730	1.722	1.676	1.637	6.765
Operating income	333	390	310	309	1.343
	2.063	2.112	1.986	1.946	8.108
Operating cost	(770)	(722)	(686)	(711)	(2.890)
EBITDA	1.293	1.389	1.300	1.235	5.218
Gain on sale of investment properties	66	3	3	204	276
Changes in value of investment properties	604	486	(473)	884	1.501
Depreciation	(30)	(30)	(28)	(30)	(119)
Operating profit	1.933	1.849	802	2.293	6.877
Finance income	39	40	25	23	128
Finance cost	(1.095)	(963)	(1.012)	(938)	(4.007)
Net financial expense	(1.056)	(923)	(987)	(914)	(3.880)
Profit before income tax	877	926	(185)	1.379	2.997
Income tax	(59)	(183)	36	(276)	(482)
Profit for the year	817	743	(149)	1.103	2.515
Other comprehensive income					
Operating recognized directly in equity and will not be recognized in profit or loss:					
Revaluation of property	72	0	0	0	72
Income tax	(14)	0	0	0	(14)
Other total comprehensive income	58	0	0	0	58
Total profit for the year	875	743	(149)	1.103	2.572
Earnings per share:					
Basic earnings and diluted earnings per share	0,24	0,21	(0,04)	0,32	0,73

