

Heimavellir hf.

Condensed Consolidated Interim Financial Statements 1 of January to 30 September 2018

*These Condensed Consolidated Interim Financial Statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

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Endorsement and Statement by the Board of Directors and the CEO

Heimavellir hf. is a limited liability Company (hereafter also referred to as "the Company"). The purpose of the Company is to invest, operate, hold and to administrate real estate.

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34).

The Condensed Consolidated Interim Financial Statements comprise of financial statements for the Company and its 15 subsidiaries (hereafter also referred to as "the Group"). The Condensed Consolidated Financial Statements are neither audited or reviewed.

Operations and Financial Position

Loss for the period from 1 January to 30 September 2018 amounted to ISK 36,2 million (2017: profit ISK 1.823,1 million). Total equity at end of September 2018 amounted to ISK 18.712,3 million (year end 2017: ISK 17.587 million).

At the beginning of 2018, Heimavellir hf.'s share capital amounted to ISK 10.282,4 million and remained unchanged up until the firm's initial public offering, that took place on the 7th and 8th of May, 2018. In the beginning of April, 2018, Heimavellir leigufélag slhf. handed ISK 9.254,2 million worth of shares over to shareholders of Heimavellir hf. in accordance to reduction of class-A shares. As a result, the number of shareholders in Heimavellir hf. rose to 81. ISK 874,1 million worth of shares were sold in the firm's IPO and consequently, Heimavellir hf.'s share capital rose to ISK 11.251,4 million. At the firm's registration on the Nasdaq Iceland stock exchange, the number of shareholders was 752. Heimavellir hf.'s shares were formally admitted to trading on the 24th of May, 2018.

The firm's primary future objectives are the continued restructuring of it's asset portfolio and the refinancing of it's long-term liabilities. Many of the firm's assets deemed inefficient for it's operations have recently been sold and further sales are planned to meet it's asset portfolio restructuring objective, with expected positive results.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO the Condensed Consolidated Interim Financial Statements give a true and fair view of the consolidated financial performance of the Group in the period from 1 January to 30 September 2018, its assets, liabilities and financial position as at the end of September 2018 and its consolidated cash flows for the period 1 January to 30 September 2018.

Furthermore, it is the opinion of the Board of Directors and the CEO that the Condensed Consolidated Interim Financial Statements and the endorsement by the Board of Directors and the CEO contain a true and fair overview of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO of Heimavellir hf. have today discussed the Company's Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2018 and confirmed them with their signatures.

Reykjavík, October 24, 2018.

Board of directors:

CEO:

Consolidated Statement of Comprehensive Income

for the nine months ended 30 September 2018

	Not.	2018 1.7.-30.9.	2017 1.7.-30.9.	2018 1.1.-30.9.	2017 1.7.-30.9.
Rental revenue	3	928.221	807.574	2.761.114	2.230.652
Operating expenses of investment properties	4	(223.632)	(236.292)	(783.699)	(744.343)
Net rental income		<u>704.589</u>	<u>571.282</u>	<u>1.977.415</u>	<u>1.486.309</u>
Other operating expenses		(106.368)	(125.011)	(323.275)	(367.780)
Operating profit before fair value adjustment		598.221	446.271	1.654.140	1.118.529
Profit (loss) from sale of investment properties	7	111.594	(52.980)	222.117	44.236
Fair value adjustment of investment properties	7	138.331	844.543	141.586	2.599.651
Operating profit		848.146	1.237.834	2.017.843	3.762.416
Finance income		1.013	5.327	6.890	12.980
Financial expenses		(724.041)	(480.808)	(2.069.964)	(1.514.069)
Net financial cost	6	<u>(723.028)</u>	<u>(475.481)</u>	<u>(2.063.074)</u>	<u>(1.501.089)</u>
Profit (loss) before income tax		125.118	762.353	(45.231)	2.261.327
Income tax		(25.024)	(5.250)	9.046	(438.162)
Profit (loss) for the period		<u>100.094</u>	<u>757.103</u>	<u>(36.185)</u>	<u>1.823.165</u>

Notes on pages. 8 - 12 are an inseparable part of the Consolidated Interim Financial Statements

Consolidated Statement of Financial Position as at 30 September 2018

	Not.	30.9.2018	31.12.2017
Assets			
Investment properties	7	55.661.146	53.618.702
Investment properties under construction	8	1.017.924	1.844.470
Fixed assets		38.905	45.105
Long term bonds		20.896	3.970
Non-current assets		56.738.871	55.512.247
Trade receivables		21.566	25.986
Other receivables	9	1.002.952	296.389
Cash and cash equivalents		683.546	155.932
Current assets		1.708.064	478.307
Total assets		58.446.935	55.990.554
Equity			
Share capital		11.251.398	10.282.420
Share premium		759.333	1.470.265
Statutory reserve		6.324	6.324
Restricted share reserve		6.695.230	5.828.412
Total equity	10	18.712.285	17.587.421
Non-current liabilities			
Deferred income-tax liability		2.575.815	2.584.861
Loans and borrowings	11	34.952.272	32.093.051
Non-current liabilities		37.528.087	34.677.912
Current liabilities			
Loans and borrowings	11	1.594.712	2.844.559
Liabilities due to related parties	14	0	149.994
Trade and other payables	13	611.851	730.668
Current liabilities		2.206.563	3.725.221
Total liabilities		39.734.650	38.403.133
Total equity and liabilities		58.446.935	55.990.554

Consolidated Statement of Changes in Equity for the nine months ended 30 September 2018

	Share capital	Share premium	Statutory reserve	Restricted share reserve	Retained earnings	Total
First nine months of 2017						
Equity as at 1.1.2017	9.341.090	0	6.324	2.446.380	(172.771)	11.621.023
Profit and total comprehensive income					1.823.165	1.823.165
Share premium transferred						
Reserved equity				2.372.599	(2.372.599)	0
Transferred from share premium		(722.205)			722.205	0
Transactions related to the owners of the Company						
Increased capital	789.474	2.210.526				3.000.000
Equity 30.09.2017	10.130.564	1.488.321	6.324	4.818.979	0	16.444.188
First nine months of 2018						
Equity as at 1.1.2018	10.282.420	1.470.265	6.324	5.828.412	0	17.587.421
Loss and total comprehensive loss				0	(36.185)	(36.185)
Reserved equity				866.818	(866.818)	0
Transferred from share premium		(903.003)			903.003	0
Transactions related to the owners of the Company						
Increased capital	968.978	192.071				1.161.049
Equity 30.09.2018	11.251.398	759.333	6.324	6.695.230	0	18.712.285

Consolidated Statement of Cash Flows for the nine months ended 30 September 2018

	Not.	2018 1.1.-30.9.	2017 1.1.-30.9.
Cash flows from operating activities			
(Loss) profit for the period .....	(	36.185)	1.823.165
Adjusted for:			
Value adjustment of investment properties	7 (	141.586)	(2.599.651)
Profit from sale of investment properties	7 (	222.117)	(44.236)
Depreciation		14.002	12.014
Net finance expenses		2.063.074	1.501.089
Income tax .....	(	9.046)	438.162
		1.668.142	1.130.543
Change in operating assets and liabilities:			
Current assets, decrease		71.929	1.536
Current liabilities, (decrease) increase .....	(	118.817)	15.588
	(	46.888)	17.124
Net cash provided by operating activities before financial income and expenses		1.621.254	1.147.667
Interest income received		6.890	12.980
Interest expenses paid .....	(	1.435.046)	(1.206.592)
Net cash provided by (used in) operating activities		193.098	(45.945)
Cash flows from investing activities			
Investment in investment properties	7 (	4.040.072)	(5.388.298)
Sales price of investment properties	7	2.413.805	1.541.106
Investment in fixed assets .....	(	7.801)	(24.443)
Sales price of fixed assets		0	2.408
Investment in subsidiary		0	(238.593)
Long term bonds, change .....	(	16.926)	530
Net cash used in investing activities	(	1.650.994)	(4.107.290)
Cash flows from financing activities			
Share capital increase	10	1.161.049	0
New long-term borrowings	11	8.012.307	6.960.898
Repayments and settlements of interest bearing liabilities	11 (	5.874.562)	(2.418.424)
Contractual repayments of interest bearing liabilities	11 (	392.603)	(231.885)
Interest bearing short-term liabilities, change		(770.687)	298.643
Related companies, change	14 (	149.994)	(158.789)
Net cash provided by financing activities		1.985.510	4.450.443
Increase in cash and cash equivalents		527.614	297.208
Cash and cash equivalents at the beginning of the year		155.932	201.907
Consolidated assets overtaken		0	3.572
Cash and cash equivalents at the end of the period		683.546	502.687
Investing and financing activities not affecting cash flows			
Investment in investment properties, under construction		0	(43.128)
Unpaid purchase price of investment properties		0	43.128
Subsidiary investment		0	(403.436)
Share capital increase		0	3.000.000
Related party liabilities		0	(2.596.564)
		0	0

All amounts are in ISK thousand

Notes to the Condensed Consolidated Financial Statements

1. General information

Heimavellir hf. ("the Company") is a public limited liability company domiciled in Iceland. The Company's headquarters are based in Lágmúli 6, Reykjavík. The condensed consolidated interim financial statements for January 1 until September 30 comprise of interim financial statements of the Company and its subsidiaries; Heimavellir I ehf., Heimavellir III ehf., Heimavellir VI ehf., Heimavellir VII ehf., Heimavellir VIII ehf., Heimavellir IX ehf., Heimavellir X ehf., Heimavellir XI ehf., Heimavellir XII ehf., Heimavellir XVI ehf., Heimavellir XVII ehf., Heimavellir XVIII ehf., Heimavellir XIX ehf., Heimavellir XX ehf., and Heimavellir rekstur ehf. which form the entity which is referred to as the "Group" and subsidiaries.

2. Basis of preparation

a. Statement of compliance

These interim financial statements have been prepared in accordance with IAS34, *Interim Financial Reporting*. They do not include all the information required for a complete set of IFRS financial statements. The condensed interim consolidated financial statement includes the notes necessary to understand changes in financial position and result of operations. It should be read in context with the consolidated financial statement of 2017 for the Group.

These interim financial statements were approved by the Board of Directors on October 24th 2018.

b. Significant accounting policies

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last consolidated financial statements for the year 2017.

At the beginning of the year 2018 two new reporting standards took effect, IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial Instruments*. The adoption of these reporting standards has no effects on the interim financial statements.

The interim financial statements have been prepared on the historical cost basis, except that investment properties are measured at fair value.

c. Presentation and functional currency

These consolidated financial statements are presented in Icelandic krona (ISK), which is the Company's functional currency. All amounts are presented in thousand of ISK unless otherwise stated.

d. Use of estimates and judgements

The preparation of financial statements in accordance with IFRS 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.

Notes, contd.:

3. Lease contracts

The Groups rental income is divided into the following areas:

	2018	2017
	1.1.-30.9	1.1.-30.9
Capital area	41,10%	28,60%
East Iceland	3,70%	4,30%
North Iceland	8,40%	11,30%
South Iceland	5,20%	6,60%
Southern Peninsula	36,30%	42,20%
Westfjords	5,30%	7,00%
West Iceland	100,00%	100,00%

4. Operating expenses of investment properties

Operating expenses of investment properties are specified as follows:

Property tax, water and sewage fees and rent of land	283.461	222.162
Maintenance and operating expenses of investment properties	154.061	152.625
Insurance	44.861	42.995
Salaries and related expenses	57.667	61.436
Energy and heating	100.393	91.279
Other operating expenses	143.256	173.846
	<u>783.699</u>	<u>744.343</u>

Operating expenses of investment properties that made no revenue are insubstantial

5. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2018	2017
	1.1.-30.9	1.1.-30.9
Salaries	188.641	143.056
Pension contributions	24.157	16.683
Other salary-related expenses	15.693	34.411
Total salaries and related expenses	<u>228.491</u>	<u>194.150</u>

Salaries and related expenses are specified as follows on operating items:

Operating expenses of investment properties	57.667	61.436
Other operating cost	170.824	132.714
Total salaries and related expenses	<u>228.491</u>	<u>194.150</u>

6. Finance income and (expenses)

Finance income and expenses are specified as follows:

Interest income of cash and cash equivalents	3.161	3.394
Interest income of trade receivables	3.729	9.586
	<u>6.890</u>	<u>12.980</u>
Interest expenses	2.052.565	1.441.113
Other financial expenses	17.399	72.956
	<u>2.069.964</u>	<u>1.514.069</u>

Notes, contd.:

7. Investment properties

Investment properties are specified as follows:	30.9.2018	31.12.2017
Investment properties at 1.1	53.618.702	40.704.471
Consolidated transfers	0	1.014.860
Additions during the period	4.040.072	8.097.814
Transferred from investment properties under construction	826.546	1.912.700
Sold during the period	(3.187.877)	(1.956.178)
Profit from sale of investment properties	222.117	156.565
Value adjustment for the period	141.586	3.688.470
Balance at the end of period	55.661.146	53.618.702
Investment properties, purchase price	48.385.619	46.411.971
Investment properties, value adjustment	7.275.527	7.206.731
Investment properties at the end of period	55.661.146	53.618.702
Capital area	26.842.715	22.514.911
East Iceland	1.601.580	1.767.264
North Iceland	4.727.711	4.963.454
South Iceland	2.309.836	2.493.071
Southern Peninsula	17.698.406	19.138.599
West Iceland	2.480.898	2.741.403
Balance at the end of period	55.661.146	53.618.702

Determination of fair value

Fair value measurements are based on assumptions dependent on management's judgement and actual sales price may differ from the measurement.

Investment properties are recognised at fair value in accordance with the International Accounting Standard IAS 40 - Investment Property and International Financial Reporting Standard IFRS 13 - Fair Value Measurement. The investments properties are all level 3 investments.

8. Investment properties under construction

The Group has entered into contracts to buy 200 apartments that are under construction at the end of September 2018. The total purchase price amounts to ISK 7.978 million and will be financed by debt and equity. The Group plans that the construction will be completed in the year 2019. At end of September 2018 the Group has paid ISK 1.018 million for these assets, the payments are disclosed as investment properties under construction among non-current assets.

9. Other receivables

Other receivables are specified as follows:	30.9.2018	31.12.2017
Unpaid selling price of investment properties	902.370	128.298
Short term bonds	44.375	89.548
Prepaid expenses	48.747	75.879
Other receivables	7.460	2.664
Total other receivables	1.002.952	296.389

Notes, contd.:

10. Equity

Share capital

The Company's total share capital according to its Articles of Association amounted to ISK 11.251 million at the end of the period and is fully paid. One vote is attached to each share of ISK 1 in the company.

Share premium

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

Statutory reserve

A statutory reserve is established 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.

Restricted share reserve

In accordance with Act No. 73/2016 the return of subsidiaries are disclosed in the income statement, returns that are a surplus from received dividends shall be held as reserved equity.

11. Interest bearing liabilities

Interest bearing liabilities are specified as follows:

	30.9.2018	31.12.2017
Long term liabilities		
Bank loans in ISK, indexed int.3,90%-5,10%	30.609.592	29.881.236
Listed bonds, indexed int. 3,90%	1.298.894	1.284.380
Non indexed bonds, int.6,80% -7,60% / 7,40 - 8,40%	744.915	1.525.731
Listed bonds,not indexed int. 7,9%	3.000.000	0
Borrowing cost	(202.662)	(141.070)
Total interest bearing liabilities	35.450.739	32.550.277
Current maturities	(498.468)	(457.225)
Interest bearing long-term liabilities according to statem. of financial pos.	34.952.270	32.093.052
Interest bearing short-term liabilities		
Non indexed bank loans, int. 7,60%-11,0%%	1.096.244	2.387.334
Current maturities of interest bearing long-term liabilities	498.468	457.225
Total interest bearing short-term liabilities	1.594.712	2.844.559

12. Repayments of interest bearing long-term liabilities

Repayments of interest bearing long-term liabilities over the next years are specified as follows:

Within 12 months	498.468	457.225
From 12 - 24 months	498.955	514.217
From 24 - 36 months	589.211	456.998
From 36 - 48 months	589.211	456.998
From 48 - 60 months	589.211	1.366.164
From 60 - 72 months	3.589.211	432.390
Later	29.096.472	28.866.285
Total interest bearing long-term liabilities, including current maturities	35.450.739	32.550.277

At end of June 2018 the group fulfills all of its obligations to its debtors terms.

13. Trade and other payables

Trade and other payables are specified as follows:

Trade	68.526	179.672
Accrued interest	231.629	203.107
Rent insurance	256.043	227.311
Prepaid rent	37.401	82.035
Other payables	18.252	38.543
Total trade and other payables	611.851	730.668

Notes, contd.:

14. Related parties

Related parties are defined as those who have control of 20% or more of the Group's shares, subsidiaries, members of the Board of Directors, management and companies controlled by the Group's management and members of the Board of Directors.

Interest bearing liabilities to related parties are specified as follows: **30.9.2018** **31.12.2017**

Related parties liabilities

Heimavellir leigufélag slhf.	0	149.994
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15. Shares in subsidiaries

The subsidiaries are fifteen at the end of June 2018 and are specified as follows:

	Share	Share
	2018	2017
Heimavellir I ehf., Reykjavík	100%	100%
Heimavellir III ehf., Reykjavík	100%	100%
Heimavellir VI ehf., Reykjavík	100%	100%
Heimavellir VII ehf., Reykjavík	100%	100%
Heimavellir VII ehf., Reykjavík	100%	100%
Heimavellir IX ehf., Reykjavík	100%	100%
Heimavellir X ehf., Reykjavík	100%	100%
Heimavellir XI ehf., Reykjavík	100%	100%
Heimavellir XII ehf., Reykjavík	100%	100%
Heimavellir XVI ehf., Reykjavík	100%	100%
Heimavellir XVII ehf., Reykjavík	100%	100%
Heimavellir XVIII ehf., Reykjavík	100%	100%
Heimavellir XIX ehf., Reykjavík	100%	100%
Heimavellir XX ehf., Reykjavík	100%	-
Heimavellir rekstur ehf., Reykjavík	100%	100%