

Q3 2018

Report

EIK
FASTEIGNAFÉLAG

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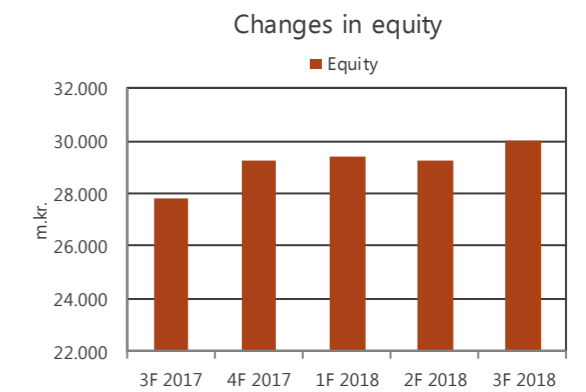
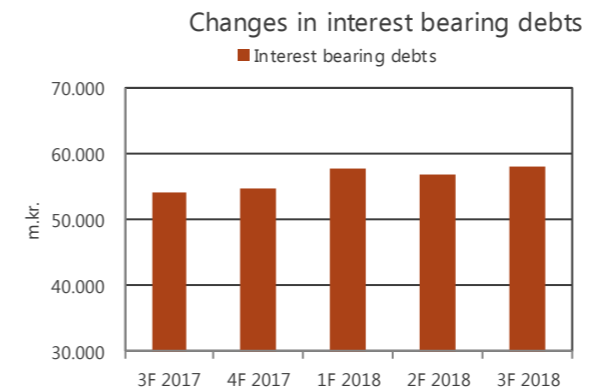
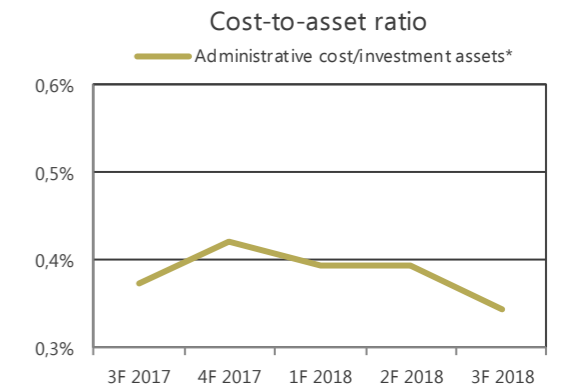
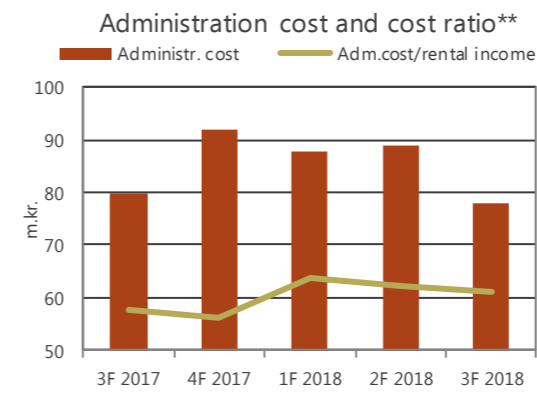
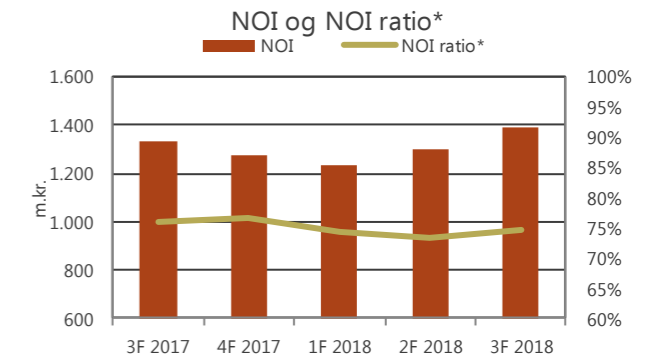
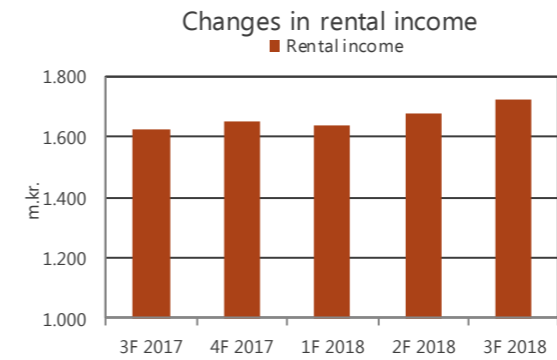


Key results

millions of ISK	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Operating income	2.112	1.986	1.946	1.973	2.016
Rental income	1.722	1.676	1.637	1.654	1.627
Operating expenses	(722)	(686)	(711)	(700)	(684)
Operating cost of investment assets	(477)	(475)	(501)	(486)	(434)
Office and administration costs	(78)	(89)	(88)	(92)	(80)
EBITDA	1.389	1.300	1.235	1.273	1.331
Change of fair value, profit on sale and depreciation	460	(498)	1.058	1.528	332
Net financial expenses	(923)	(987)	(914)	(1.054)	(655)
Pre-tax profit	926	(185)	1.379	1.747	1.009
Aggregate profit	743	(149)	1.103	1.297	804

	30.9.2018	30.6.2018	31.3.2018	31.12.2017	30.9.2017
Economic vacancy ratio	4,2%	4,8%	4,0%	4,7%	4,4%

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
NOI ratio*	76,5%	74,8%	73,4%	74,2%	76,6%
Administration costs as ratio of rental income**	4,3%	5,1%	5,2%	5,4%	4,6%
Administration costs as ratio of properties***	0,34%	0,39%	0,39%	0,42%	0,37%



* EBITDA / rental income

** Administration costs without one-off items / rental income

*** Administration costs without one-off items / average asset position

First nine months of 2018

Eik fasteignafélag hf. had an eventful first nine months of 2018. The company's economic vacancy ratio has decreased by 0,5% since the beginning of the year. The company's EBITDA was right under the lower level of the management forecast.

The first nine months of 2018

Eik fasteignafélag hf. had an eventful first nine months of the year. The company's EBITDA was right under the lower limit of the management forecast for the first nine months of 2018. The company's EBITDA amounted to ISK 3,924 m. The changes of fair value of investment assets amounted to ISK 897 m and profit of sale of investment assets amounted to 210 m.kr. The company's EBITDA for the full year is estimated to be around the lower level of the original forecast that projected that the Company's EBITDA would be ISK 5,300 m based on 2.5% inflation.

Refinancing

The company has expanded the bond series EIK 16047 three times since the beginning of the year for a total of ISK 10,100 in nominal value with a weighted interest rate of 3.58%, the most recent expansion being on 27th August. The total size of EIK 161047 is ISK 20,000 m in

nominal value after the latest expansion. The bond series was listed on the Nasdaq OMX in the beginning of June. Refinancing of the debt in relation to the purchase of Mýrargata 2-16 has been completed and the construction loans for Suðurlandsbraut 8 as well as extending the loans for Suðurlandsbraut 10 while the building is under construction. Towards the end of October, extensions to the majority of its interest-bearing liabilities due in the next 12 months were made.

Economic Vacancy Ratio

The Company's economic vacancy ratio has decreased by 0.5% since the beginning of the year and was 4.2% at the end of September 2018.

Purchases and sales of assets since the beginning of the year

Two well-located warehouses were purchased during the period, both fully leased. The properties are located at Vatnagarðar 22 and Smiðshöfði 7, totalling 4,427 square meters. The Company sold Ármúli 13a, its share in Bæjarlind 14-16 and Vegmúli 4. These properties were 2,985 square meters in total.

Leasing conditions favourable

Outdoor construction work at Suðurlandsbraut 10 has been completed and lease agreements have been signed with Sýn for a quarter of the building. Currently, the spaces are being decorated for the broadcasting activities of Sýn and work is expected to be completed by the end of the year. Sýn will relocate its operations into the space once the

property is ready.

Alterations made to one floor of Ármúli 13 for Capacent's business activities have been finalised. The company consolidated their activities on one floor instead of two. A lease agreement for a legal practice has been signed for the floor previously leased by Capacent so Ármúli 13 remains fully leased.

Vacant spaces at Sóltún 26 have been successfully leased after some tenants relocated and handed in their lease. In the past months long-term lease agreements have been signed for two whole floors in the building, to a company in finance/insurance services and for a dental practice that will be the largest dental practice in Iceland.

Construction work for a new restaurant at Glerártorg has begun with the aim of opening the restaurant in the spring of 2019. Arion bank has signed an agreement for the opening of a branch at Glerártorg in the space previously leased by the Pier. The branch will open next year. Construction work on a guesthouse currently expanding from one floor to three floors at Hafnarstræti 102 in Akureyri is underway.

The upper level of Helluhraun 16 has been decorated for a ballet school and leased long-term. The floor had not been decorated nor leased before. Also, the current leaseholders of the properties at Guðríðarstígur 2-4 and Síðumúli 12 expanded their business activities, the properties were previously sub-let to other tenants. An optical research company has begun its business operations on half of the floor at Álþheimar 74.

On the 20th floor of Smáratorg 3 a new leaseholder has relocated a part of its operations into one of the most elegant office spaces in Iceland. The agreement with OR on the space at Smáratorg 3 was extended and spaces



in Turninn are being leased without much effort.

Barónstígur 11a-b is now categorised as a development property. In recent years, the restaurant Argentina has operated on the premises.

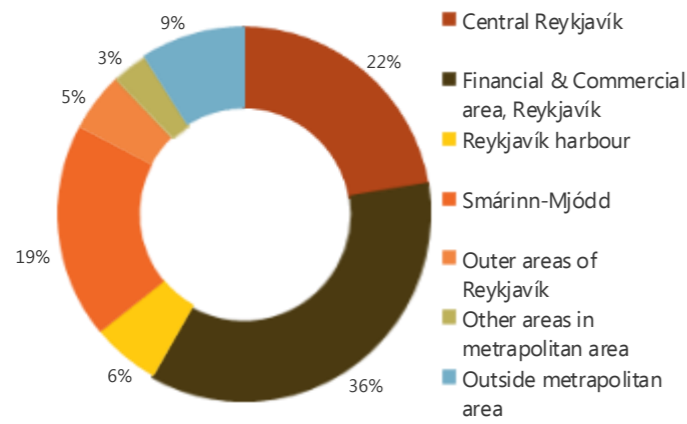
Eik in a nutshell

The value of the Company's properties is roughly ISK 91 bn and the total number of leaseholders 450. The Company owns over 100 properties with over 300 thousand leased square meters. The Company's main properties in the capital region are Borgartún 21 and 21a, Borgartún 26, Suðurlandsbraut 8, Mýrargata 2-16, Pósthússtræti 2, (Hotel 1919), Smáratorg 3 (Turninn), Smáratorg 1, Álþheimar 74 (the new Glæsibær) and Austurstræti 5, 6, 7 and 17. The Company's main property outside the capital region is Glerártorg in Akureyri. The largest leaseholders are Húsasmiðjan, Icelandair hotels, the Government Property Agency, Rúmfatalagerinn, Landsbankinn, Síminn, Sýn, Míla, Deloitte and VÍS.

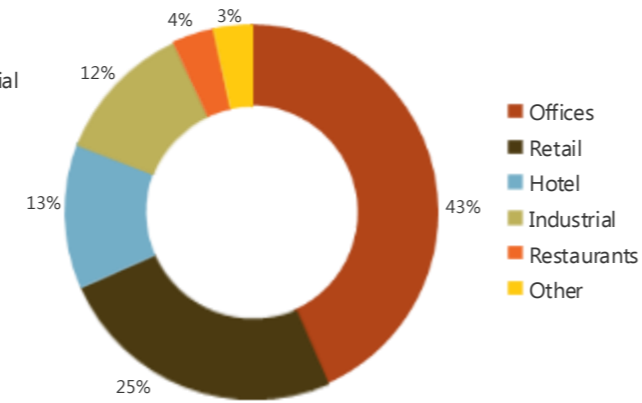


Location and types of properties

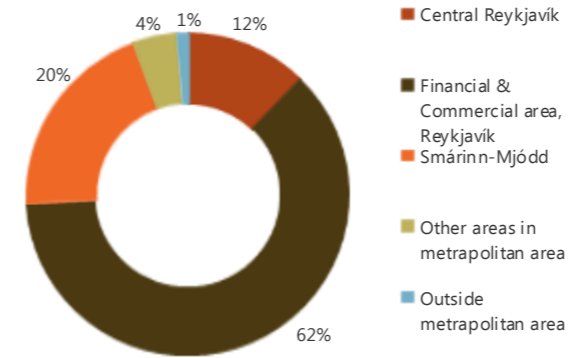
Value of properties by location



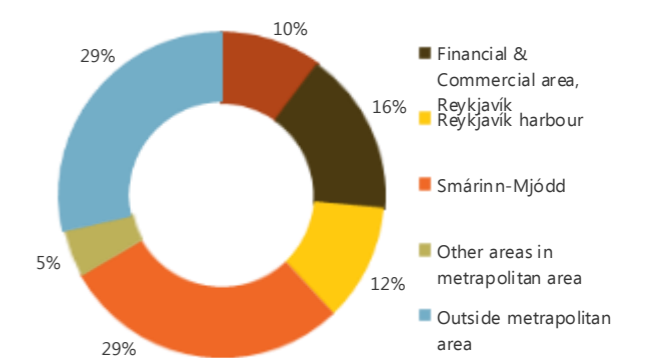
Value of property by type



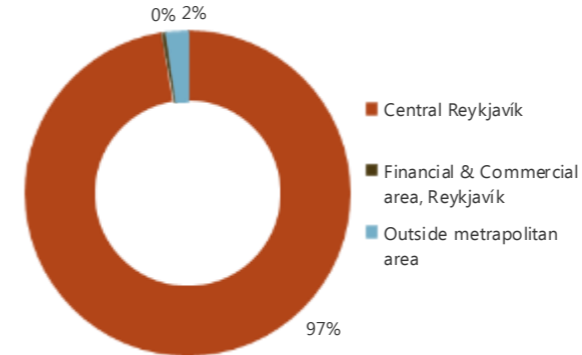
Office locations



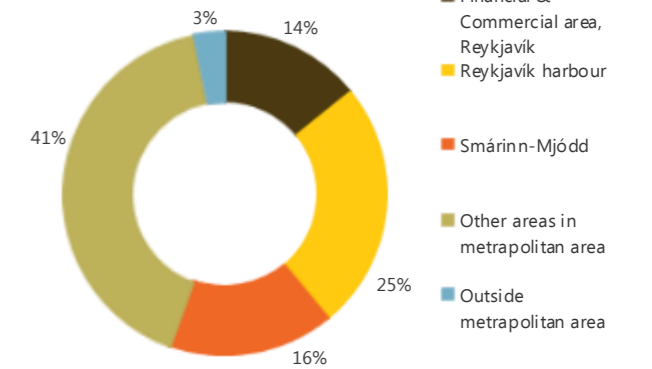
Retail locations



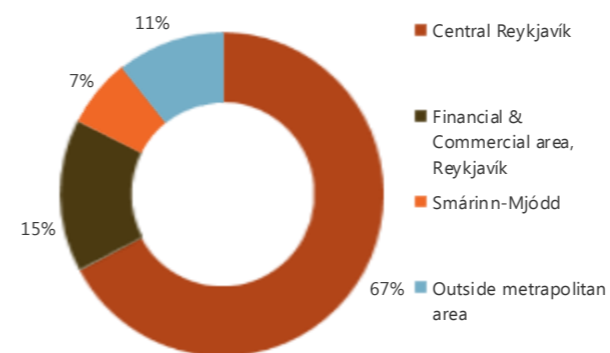
Hotel locations



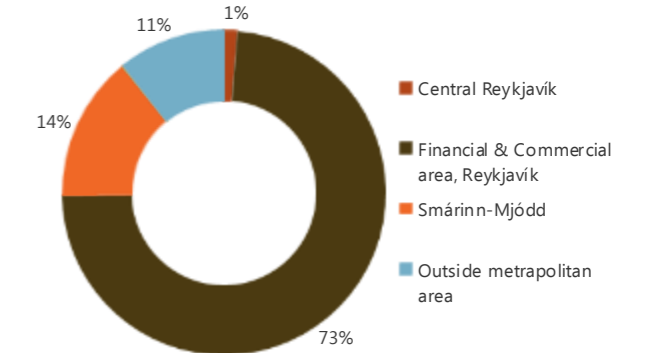
Industrial locations



Restaurant locations



Locations of other properties



About the Company's operations

	Third quarter		Three quarters	
	2018 1.7.-30.9	2017 1.7.-30.9	2018 1.1.-30.9	2017 1.1.-30.9
Operating revenue	2.112	2.016	6.044	5.643
Operating expenses	(722)	(684)	(2.120)	(1.947)
EBITDA	1.389	1.331	3.924	3.696
Profit of sale of investment assets	3	0	210	64
Changes of fair value of investment assets	486	362	897	1.550
Depreciation	(30)	(30)	(88)	(88)
Operating earnings	1.849	1.663	4.944	5.222
Financial income	40	15	88	37
Financial expenses	(963)	(670)	(2.912)	(2.236)
Net financial expenses	(923)	(655)	(2.824)	(2.200)
Pre-tax profit	926	1.009	2.120	3.023
Corporate tax	(183)	(205)	(423)	(613)
Aggregate profit	743	804	1.697	2.410

Operating income	9m 2018
Rental income	5.035
Income of Hotel 1919	614
Operating revenues of common areas	342
Other income	53
Total	6.044

Financial income and expenses	9m 2018
Financial income	88
Financial expenses	(1.836)
Indexation	(1.076)
Total	(2.824)

Operating expenses	9m 2018
Property tax valuation and insurance	909
Maintenance	57
Operating costs of common areas	386
Operating costs of Hotel 1919	411
Depr. of accounts receivable & lost claims .	21
Other operating expenses	336
Total	2.120

Operating income

The Company's operating income in the first nine months of the year 2018 amounted to ISK 6,044m of which rental income was ISK. Operating income before valuation changes, profit of sale of investment assets and depreciation amounted to ISK 3,924 m and increased by 6.1% between years.

The NOI ratio, i.e. operating income before valuation changes, profit of sale and depreciation as a ratio of rental income was 74.9% compared to 75.2% at year-end 2017. When calculating the NOI ratio, the rental income as well as the income of Hotel 1919 is used less the cost of Hotel 1919 i.e. the net income from Hotel 1919 is taken into account as turnover rent.

Due to seasonal fluctuations in the activities of Hotel 1919, the third quarter is generally the best quarter of the year as the hotel's business activities peak in the quarter.

Operating expenses

Operating expenses amounted to ISK 2,120 m in the first nine months of the year 2018. Property tax and insurance amounted to ISK 909 m, which is the single largest cost item for the Company. Maintenance in the amount of ISK 57 m was expensed in the first nine months of the year.

Valuation change of investment assets

Investment assets are the largest part of the Company's assets. To give an accurate picture of the value of investment assets the valuation change of investment assets is calculated every quarter and the valuation change of the assets is recognised in the income statement. The valuation change of investment assets in the first nine months of 2018 amounted to ISK 897 m, i.e. it was positive by ISK 486 m in the third quarter. Profit of sales of investment assets amounted to ISK 210 m in the first nine months of 2018.

Financial expenses

Net financial expenses amounted to ISK 2,824 in the first nine months of the year and are for the most part interest expenses due to indexed debentures. Interest income amounted to ISK 88 m, interest expenses ISK 1,836 m and indexation ISK 1,076 m.

Profit

Profit before income tax amounted to ISK 2,120 m and imputed income tax amounted to ISK 423 m. According to an estimate the payment of income tax will be deferred due to the utilisation of taxable losses. The profit for the period amounted to ISK 1,697 m and earnings per share ISK 0.49.

About the Company's assets

	30.9.2018	31.12.2017
Assets		
Intangible assets	503	524
Investment assets	87.489	85.033
Assets for own use	3.700	3.751
Long term assets	30	30
Fixed assets	91.721	89.339
Receivables and short-term assets	519	280
Cash	3.514	1.481
Current assets	4.032	1.761
Total assets	95.753	91.100

About the Company's assets

Total assets amounted to ISK 95,753 m at the end of September 2018 compared to ISK 91,100 m at year-end 2017. Investment assets amounted to ISK 87,489 m at the end of the period, but amounted to ISK 85,033 m at year-end 2017. Cash in hand amounted to ISK 3,514 m at the end of September 2018 compared to ISK 1,481 m at year-end 2017.

Fixed assets

The Company's fixed assets amount to ISK 91,721 m. Of that a total of ISK 87,489 m investment assets are divided between leased properties in the amount of ISK 85,215 m, properties under construction ISK 1,813 m, construction rights and building lots ISK 448 m and pre-

paid charges for municipal street constructions in the amount of ISK 13 m. Assets that are under construction are the fourth and fifth floor of Ármúli 3, the second floor of Hallarmúli 3, a part of Suðurlandsbraut 10, Barónsstígur 11a-b and Helluhraun 8.

A break-down of the Company's building rights and building lots can be seen here below. No decision has been made regarding the utilisation of the building rights held by the Company. As cited in the Company's annual report, the Company is restricted in how it may utilise Borgartún 21a due to an encumbrance on the property. The Company is of the opinion that the approved building volume on Skeifan 7 will be increased, but a detailed land use plan for the Skeifan area has not been finalised.

Investment assets (ISK m).	30.9.2018
Leased assets	85.215
Assets under development	1.813
Building rights and plots	448
Pre-paid road-building charges	13
Total	87.489
Receivables & short-term receivables	30.9.2018
Receivables	196
Short-term receivables	323
Total	519

Building rights and plots accord. to the area plan (m ²)	
Austurstræti 17	183
Ármúli 3	8.400
Ármúli 13	2.400
Borgartún 21a	8.896
Gleráreyrar 6-8	4.000
Holtasmári 1	2.400
Skeifan 7	100
Stórhöfði 22-30	22.400
Stórhöfði 42	2.383
Total squaremeters	51.162

About the Company's equity and liabilities

	30.9.2018	31.12.2017
Equity		
Share capital	3.456	3.456
Share premium	12.950	12.950
Legally required reserve fund	866	866
Revaluation account	95	95
Restricted shareholding account	3.799	2.478
Retained earnings	8.856	9.393
Total equity	30.023	29.238
Liabilities		
Interest bearing debts	52.346	48.604
Other long-term liabilities	14	64
Deferred corporate tax liability	6.431	6.009
Long-term liabilities	58.792	54.677
Interest bearing debts	5.708	6.227
Accounts payable and other short-term debts	1.230	958
Short-term liabilities	6.938	7.185
Total liabilities	65.730	61.861
Total equity and liabilities	95.753	91.100

Equity

The Company's equity amounted to ISK 30,023 m at the end of September 2018 and the equity ratio was 31.4%. At the Company's Annual General Meeting held 22 March 2018 it was agreed to pay dividends in the amount of ISK 913 m to shareholders or what amounts to ISK 0.26 per share. The dividends were paid out on 26th of April. The dividends policy of the Company's Board of Directors is to pay out up to 35% of cash from operations to shareholders. Cash and cash equivalents from operations amounted to ISK 2,263 in the first nine months of 2018.

Liabilities

The Company's interest-bearing liabilities amounted to ISK 58,054 m at the end of September 2018 compared to ISK 54,831 at year-end 2017. The Company's total liabilities were ISK 65,730 m of which deferred income tax amounted to ISK 6,431 m. Loan to value ratio i.e. interest-bearing liabilities as a ratio of the Company's assets was 63.7%.

Accounts payable & other short-term debts	30.9.2018
Accounts payable	208
Unpaid interest due for payment	102
Other short-term debts	920
Total	1.230

Other short-term liabilities amounted to ISK 1,230 m at the end of September 2018.

The Company has expanded the bond series EIK 160147 three times since the beginning of the year by a total of ISK 10,100 m in nominal value for a weighted discount rate of 3.58%, most recently on 27 August. The total size of EIK 160147 is ISK 20,000 after these bond offerings and the series was listed on the market in the beginning of June. Also, the Company refinanced its financing with banks in relation to Mýrargata 2-16 and its construction loans for Suðurlandsbraut 8 as the maturity date on those loans was within the next twelve months.

The Company's interest-bearing liabilities that are due in the next 12 months amounted to ISK 5,708 m. The Company finished refinancing most of the Company's liabilities that mature in the next 12 months in the end of October.

About the Company's cash flow

	2018	2017
	1.1.-30.9.	1.1.-30.9
Operating activities:		
Operating profit for the year	4.944	5.222
Operating items that do not affect cash flows:		
Profit on sale of investment assets	(210)	(64)
Changes in fair value of investment assets	(897)	(1.550)
Depreciation	88	88
	<u>3.924</u>	<u>3.696</u>
Changes in operating assets	(220)	(150)
Changes in operating liabilities	13	144
	<u>3.717</u>	<u>3.690</u>
Interest earnings received	88	37
Interest expenses paid	(1.542)	(1.446)
Cash generated from operation activities	<u>2.263</u>	<u>2.281</u>
Investment activities:		
Investment in investment assets	(2.060)	(3.906)
Sale prices of investment assets	712	307
Investment in assets for own use	(15)	(14)
Acquisition of subsidiary, net of cash	0	(2.286)
Other claims, change	(19)	(44)
Investment activities	<u>(1.382)</u>	<u>(5.943)</u>
Financing activities:		
Dividend payment	(913)	(928)
New long-term debts	15.885	6.587
Amortization and repayments of long-term debts	(13.607)	(2.785)
Short-term liabilities, change	(213)	493
Financing activities	<u>1.152</u>	<u>3.367</u>
Increase (Reduction) in cash	2.032	(295)
Cash at beginning of the period	1.481	1.908
Cash at end of the period	<u>3.513</u>	<u>1.613</u>

Operating activities

Cash from operations totalled ISK 2,263 m in the first nine months of 2018; cash from operations less interest was ISK 3,717 m.

Investing activities

Investing activities during the first nine months of 2018 were negative by ISK 1,382 m. Investment in investment assets amounted ISK 2,060 m.

Financing activities

Financing activities the first nine months of 2018 amounted to ISK 1,152 m. Further details on the company's interest-bearing debts can be found in the section "The company's assets, equity and liabilities." Dividend amounting to ISK 913m were paid out to shareholders on 26 April 2018.

Cash

Cash was at ISK 3.513 m at the end of September 2018, having increased by ISK 2.032 m from the previous period.



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