

Heimstaden ehf.
Consolidated Financial Statements

2023

Heimstaden ehf.
Hlíðarsmára 15
201 Kópavogur

reg.nr. 440315-1190

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Endorsement and Statement by the Board of Directors and the CEO

Heimstaden ehf. is a private limited liability company (hereafter also referred to as "the Company"). The purpose of the Company is to invest, operate, hold, sell and to administrate real estate, invest, sell, and hold securities, loan operations, other financial operations and related operations.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in accordance with the Icelandic Financial Statement Act No. 3/2006. The Consolidated Financial Statements are comprised of financial statements for the Company and its five subsidiaries together called the Group see note 29.

Operations and Financial Position

Profit for the year 2023 amounted to ISK 1,783 million (2022: ISK 8,260 million). Total equity at year-end 2023 amounted to ISK 32,868 million (year-end 2022: ISK 34,202 million). Equity ratio at year-end was 40.5% (2022: 43.7%).

The EBIT ratio was 66.0% in the year 2023 (2022: 65.1%). Rental revenue in 2023 amounted to ISK 4,246 million which is an increase of ISK 262 million or 6.5%, from the previous year. The total number of rental units at the beginning of the year were 1677 and at the year-end 2023 the number of rental units is 1507.

Fair value adjustment in 2023 amounted to ISK 3,405 million in comparison to ISK 11,134 million in 2022. The Group uses market approach to estimate the fair value of the investment properties.

Net finance expenses amounted to ISK 4,026 million in 2023 compared to ISK 3,453 million in the previous year. Thereof, the amount of the consumer price indexation changes amounted to ISK 1,701 million in 2023 (2022: ISK 1,660 million) but inflation in the year amounted to 7.7% (2022: 9.6%).

The main risk and uncertainty that the Group faces in the coming months is the effect of higher inflation and interest rates that can effect vacancy, operational costs and finance expenses. The eruption on the Reykjanes-penisula has not effected the investment properties there. The Group does not own any apartments in the Grindavik area.

Heimstaden AB possessed all shares in the Company at the beginning of year 2023 in the amount of ISK 11,251 million. In October 2023 the shares were sold to Fredensborg AS that holds all the shares at year-end 2023. On 28 December 2023, a purchase agreement was signed for the purchase of all shares in Heimstaden ("the Purchase Agreement") by SRE III slhf. SRE III slhf. is a specialized fund operated by Stefmir hf. and the aim is that pension funds will be the primary investors in the fund. The Purchase Agreement is subject to conditions, e.g. the approval of the Icelandic Competition Authority, but also that surety terms of a bond will be lifted as Heimstaden AB will no longer be associated with Heimstaden if the purchase is finalized.

Endorsement and statement by the board of directors and the CEO, contd.:

The board proposes not to pay dividends to shareholders in 2024 related to the fiscal year 2023. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

Corporate Governance Statement

The Board of Directors of Heimstaden ehf. emphasizes maintaining good corporate governance and adhering to the Icelandic Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and SA Confederation of Icelandic Enterprise in June of 2021. The Board has implemented rules of procedures detailing the scope of its authority and its responsibilities to the Chief Executive Officer. The aforementioned information is put forth in an annex, Statement on Corporate Governance, to the Consolidated Financial Statements.

At year-end 2023, the Board of Directors of Heimstaden ehf. comprised of three persons, there of one woman (33%). Within the Group there are at year-end 15 employees (11 men and 4 women).

Non-Financial Disclosure

The Group publishes information necessary to evaluate the development, scope, status and impact of the Group on environmental, social and human resource matters, in accordance with the Icelandic Financial Statement Act No. 3/2006. The Group's policy regarding human rights and other issues are also made public. The aforementioned information is put forth in an annex, *Non-financial disclosure*, to the Consolidated Financial Statements.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the Consolidated Financial Statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in accordance with the Icelandic Financial Statement Act No. 3/2006. It is the opinion of the Board of Directors and the CEO that the Consolidated Financial Statements give a true and fair view of the consolidated financial performance of the Group in the year 2023, its assets, liabilities and financial position as at 31st of December 2023 and its consolidated cash flows for 2023.

Furthermore, it is the opinion of the Board of Directors and the CEO that the Consolidated 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 Heimstaden ehf. have today discussed the Group's Consolidated Financial Statements for the year 2023 and confirmed them with their signatures. The Board of Directors and the CEO propose to the Annual General Meeting that the financial statements are approved.

Reykjavík, 22. February 2024.

Board of Directors:

Andreas Sötvedt Oulie
Egill Lúðvíksson
Margrét Guðjónsdóttir

CEO:

Egill Lúðvíksson

Independent Auditor's Report

To the Shareholders and the Board of Directors of Heimstaden ehf.

Opinion

We have audited the consolidated financial statements of Heimstaden ehf. for the year ended December 31, 2023 which comprise, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Heimstaden ehf. as at December 31, 2023, and 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 requirements in the Icelandic Financial Statement Act.

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 Heimstaden ehf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors and management are responsible for the other information. The other information comprises: the Endorsement and Statement by the Board of Directors and the CEO, Quarterly statement - unaudited, Governance Statement - unaudited and Non-financial Information - unaudited.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except for confirmation regarding the Board of Directors Report as stated below.

In connection with our audit of the consolidated financial statements, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the consolidated financial statements. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated. If we, based on the work performed concerning this other information, 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.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the consolidated financial statements.

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

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing Heimstaden shf.'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 the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The board of directors shall supervise the preparation and presentation of the consolidated financial statements.

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 scepticism 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 Heimstaden ehf.'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 Company'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 Company 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 and separate 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 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.

Kópavogur, 22. February 2024

Deloitte ehf.

Gunnar Þorvarðarson

State Authorized Public Accountant

The consolidated financial statements of Heimstaden ehf. for the year ended December 31, 2023 is electronically certified by the auditor

Consolidated Statement of Profit or Loss and Comprehensive Income for the Year 2023

	Note	2023	2022
Rental revenue	5	4,245,624	3,983,838
Operating expenses of investment properties	6	(1,020,275)	(1,019,592)
Net rental revenue		<u>3,225,349</u>	<u>2,964,246</u>
Other income		7,415	7,399
Other operating expenses	7.8	(430,569)	(377,275)
Operating profit before fair value adjustment.....		2,802,195	2,594,370
Fair value adjustment of investment properties	11	3,405,451	11,134,389
Operating profit.....		6,207,646	13,728,759
Financial income		86,449	66,246
Financial expenses		(4,112,325)	(3,519,377)
Net financial expense	9	<u>(4,025,876)</u>	<u>(3,453,131)</u>
Profit before income tax		2,181,770	10,275,628
Income tax	10	(398,413)	(2,015,712)
Total profit and other comprehensive profit for the year.....		<u>1,783,357</u>	<u>8,259,916</u>
Earnings per share			
Basic and diluted earnings per share	17	<u>0.159</u>	<u>0.734</u>

Notes on pages 11 - 25 are an integral part of these Consolidated Financial Statements

Consolidated Statement of Financial Position as on 31 December 2023

	Note	31.12.2023	31.12.2022
Assets			
Investment properties	11	71,589,518	75,756,330
Investment properties under construction	13	1,134,822	1,534,393
Property and equipment	14	52,711	43,759
Non-current assets		<u>72,777,051</u>	<u>77,334,482</u>
Trade receivables	24	24,113	25,298
Receivables, related parties	28	2,700,549	0
Other receivables	15	2,923,285	88,478
Cash and cash equivalents		2,621,602	727,544
Current assets		<u>8,269,549</u>	<u>841,320</u>
Total assets		<u>81,046,600</u>	<u>78,175,802</u>
Equity			
Share capital		11,251,397	11,251,397
Statutory reserve		1,632,992	1,543,824
Restricted share reserve		1,463,605	568,187
Retained earnings		18,520,102	20,838,831
Total equity	16	<u>32,868,096</u>	<u>34,202,239</u>
Non-current liabilities			
Loans and borrowings	18	33,844,886	34,990,140
Deferred income-tax liability	21	7,703,503	7,272,476
Lease liability	20	745,703	643,315
Non-current liabilities		<u>42,294,092</u>	<u>42,905,931</u>
Current liabilities			
Loans and borrowings	18.19	1,961,471	403,907
Payable, related parties	28	3,162,704	0
Trade and other payables	22	760,237	663,725
Current liabilities		<u>5,884,412</u>	<u>1,067,632</u>
Total liabilities		<u>48,178,504</u>	<u>43,973,563</u>
Total equity and liabilities		<u>81,046,600</u>	<u>78,175,802</u>

Notes on pages 11 - 25 are an integral part of these Consolidated Financial Statements

Consolidated Statement of Changes in Equity for the Year 2023

	Share capital	Statutory reserve	Restricted share reserve	Retained earnings	Total
1 January - 31 December 2022					
Equity as on 1 January 2022	11,251,397	717,832	241,657	16,131,437	28,342,323
Total profit and comprehensive income				8,259,916	8,259,916
Reserved equity			326,530	(326,530)	0
Transferred to statutory reserve		825,992		(825,992)	0
Transactions related to the shareholders of the Company					
Paid dividend 0,20 ISK per share				(2,400,000)	(2,400,000)
Equity as on 31 December 2022	<u>11,251,397</u>	<u>1,543,824</u>	<u>568,187</u>	<u>20,838,831</u>	<u>34,202,239</u>
1 January - 31 December 2023					
Equity as on 1 January 2023	11,251,397	1,543,824	568,187	20,838,831	34,202,239
Total profit and comprehensive income				1,783,357	1,783,357
Reserved equity			895,418	(895,418)	0
Transferred to statutory reserve		89,168		(89,168)	0
Transactions related to the shareholders of the Company					
Paid dividend 0,28 ISK per share				(3,117,500)	(3,117,500)
Equity as on 31 December 2023	<u>11,251,397</u>	<u>1,632,992</u>	<u>1,463,605</u>	<u>18,520,102</u>	<u>32,868,096</u>

Notes on pages 11 - 25 are an integral part of these Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1. General information

Heimstaden ehf. ("the Group") is an Icelandic private limited Company. The Group's headquarters are based in Hlíðasmári 15, Kópavogur. The consolidated financial statements for the year 2023 comprise of the financial statements of the Group and its subsidiaries; Heimkynni ehf., Heimstaden miðbær ehf., Heimstaden Akureyri ehf., Eskiás 2 ehf. and Heimstaden rekstur ehf. together referred to as "the Group" and individually as "Group entities". Heimstaden ehf. is a part of the Group of Fredensborg AS, Norway.

2. Basis of preparation

a. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in accordance with the Icelandic Financial Statement Act No. 3/2006. A summary of significant accounting policies is disclosed in note 3.

The Consolidated Financial Statements were approved by the Board of Directors on 22nd of February 2024.

b. Going concern

The Company's management have assessed its ability to continue as a going concern and feel that the Company has the basis to do so.

c. Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except that investment properties are measured at fair value. Methods for fair value adjustments are disclosed in notes 3d and 11.

d. Presentation and functional currency

These Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the Group's functional currency. All amounts are presented in thousand of ISK unless otherwise stated. At the end of the year the exchange rate of the ISK against EUR is 150.7 (31.12.2022 EUR 152.4).

e. 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.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the carrying amount of assets recognized in the financial statements is included in note 11 - valuation of investment properties.

The determination of fair value is based on assumptions which are dependent on management's judgement regarding development of various factors in the future. Actual selling prices of assets and settlement values of liabilities may differ from these estimates.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparation of the Consolidated Financial Statements.

Notes, contd.:

3. Significant accounting policies, contd.:

b. Revenue

Rental income from investment properties is recognized in the income statement on a straight-line basis over the term of the lease. Discounts are recognized with the same approach.

c. Properties and equipment for own use

(i) Recognition and measurement

Properties and equipment for own use are measured at cost less depreciation and impairment losses.

The gain on sale of properties and equipment for own use is the difference between the selling price and the carrying amount of the asset and it is recognized among other income in profit or loss. Loss on sale of property and equipment for own use is recognized among other operating expenses.

(ii) Depreciation

The depreciation method, useful life and residual value are evaluated at each reporting date and adjusted if appropriate. Depreciation is recognized on a straight-line basis over the estimated useful life of individual parts of operating assets.

Property	30 years
Vehicles	5 years
Other operating assets	3-5 years

d. Investment properties

Investment properties are real estate (land and buildings) held by the Group either to earn rental income, for capital appreciation or both. Investment properties are exclusively residential properties and are recognized at fair value.

Changes in the fair value of investment properties are recognized in consolidated statement of comprehensive income under the line item "Fair value adjustment of investment properties". Investment properties are not depreciated.

Investment properties are measured initially at cost, which comprises the purchase price and any directly attributable expenditure on preparing the properties for their intended use, including related transaction costs. Expenditure incurred subsequent to the acquisition of an investment property in order to add to, replace part of, or service a property is capitalised only if it meets the general asset recognition criteria. Interest expense on loans used to finance the cost value of investment property under development is capitalised at the time of construction. Expenditure directly attributable to the acquisition of properties and equipment for own use is capitalised when incurred if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are expensed in profit or loss as incurred.

After the purchases of investment properties have been recorded, the Group uses a value model that evaluates investment properties at expected market price on the accounting dates. The changes in fair value of investment properties are recorded in the item Fair Value Adjustment of Investment Properties. Information on methods and important premises that the Group uses to decide fair value of investment properties can be found in note 11.

The gain (loss) on sale of investment properties is calculated as the difference between the carrying amount and selling price less selling costs and it is recognized in profit or loss in the line item "Fair value adjustment of investment properties".

e. Lease assets and lease liabilities

Lease assets and lease liabilities are due to lease agreements that the Group leases from a third party, i.e. plots for buildings owned by the Group. Lease assets that the Group records due to these agreements are recorded as investment assets in note 11 and are evaluated at fair value at each accounting date. Lease liabilities are assessed in the beginning as the present value of unpaid lease liability payments on the starting day. Lease payments are calculated to present value using intrinsic interest rates if it is possible to decide on those rates easily. If it is not, then the present value of lease liabilities is calculated using the interest rate available to the Group on new loans and borrowings. After settlement dates, the lease liabilities are assessed at a depreciated cost by using effective interest rates, where the lease payments are divided into depreciation and interest expenses, which are recorded in the Consolidated Statement of Comprehensive Income.

Notes, contd.:

3. Significant accounting policies, contd.:

f. Financial instruments

(i) Financial assets other than derivatives

Trade receivables, other receivables and bank deposits are recorded on the day that they originate.

Financial assets are written off when the Group's contractual rights to the cash flow of the assets expire or if the Group sells the rights to another party without withholding control or if the risk and gain that stem from the asset is next to none. Portions of financial assets created or retained by the Group are recorded as special assets or liabilities.

Financial assets and financial liabilities are offset and a net amount recorded in the Consolidated Statement of Financial Position when and only when the Group's legal right to do so is present and the Group is intent on equalizing the financial assets and liabilities or redeem the asset and settle the liability at the same time.

All of the Group's financial assets are considered financial assets recorded at an amortized cost.

Financial assets recorded at amortized cost have set or decisive payments, that are not recorded in an active market and the Group intends to hold to maturity. Such assets are initially recorded at fair value in addition to all related transactional expenses. After the initial recording, loans and claims are assessed at amortized cost considering effective interest rates, less impairment when applicable.

Financial assets recorded at amortized cost are comprised of cash, trade receivables, receivables for related parties, bond holdings and other short term liabilities.

Cash is considered as funds and unrestricted deposits available for disposal within three months time.

(ii) Financial liabilities

Bonds are initially recorded on the day that they are created. All other financial liabilities are initially recorded on the business day when the Group becomes party to the contractual obligations of the financial instrument.

The Group writes off financial liabilities when the contractual obligations of a financial instrument have expired, are struck down or have been completed.

The Group classifies financial liabilities other than derivative contracts as other financial liabilities. Such liabilities are initially recorded at fair value in addition to related transactional expenses. After the initial recording, these financial liabilities are evaluated at amortized cost considering effective interest rates.

Financial liabilities are loans, trades payable, payables to related parties and other short term liabilities.

Financial assets and financial liabilities are offset and a net amount recorded in the Consolidated Statement of Financial Position when and only when the Group's legal right to do so is present and the Group is intent on offsetting the financial assets and liabilities or redeem the asset and settle the liability at the same time.

(iii) Equity

Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

g. Deferred tax

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income tax on profit or loss for the year includes both income tax payable and deferred income tax. Income tax is recorded in the Consolidated Statement of Profit or Loss and Comprehensive Income except for the extent to which it relates to items directly recorded onto equity, in which case it is recorded in Equity.

Notes, contd.:

3. Significant accounting policies, contd.:

h. Employee benefits

Defined contribution plans

The Group pays its employees' contributions to their independent pension funds. The Group bears no responsibilities for the obligations of the pension funds. Obligations for contributions to defined contribution plans are expensed as the related service is provided.

i. Financial income and financial expenses

Financial income consists of interest income on receivables and bank deposits. Interest income is recognized in profit or loss as it accrues using the effective interest method.

Financial expenses consist of interest expenses on borrowings. Borrowing costs are recognized in profit or loss using the effective interest method.

j. Impairment

Financial assets

At each reporting date it is assessed whether there is any objective evidence that financial assets are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events that occurred after the initial recognition of the asset have had a negative effect on the estimated future cash flows of that asset and it is possible to estimate the value of the asset reliably.

In assessing impairment of individual groups of assets, the Group uses a basis of credit risk characteristics, timing of receivables and losses, as well as regard to executives' assessments of whether the current economical and credit related circumstances will lead to a higher or lower loss than prior history dictates.

k. Segment reporting

Information to management does not contain segment reporting, since the Group operates in a single segment.

l. New standards and interpretations

Amendments to accounting standards that came into effect for the accounting year that began on 1 January 2023 did not have significant impacts on the Consolidated Financial Statement.

New standards and interpretations that have not come into effect

A few new amendments to accounting standards apply to the fiscal year starting after 1 January 2024 and it is permitted to apply before their effect. The Group has not implemented new or changed accounting standards for the period in this Consolidated Financial Statement and they are not considered to have a significant effect on the Groups Consolidated Financial Statement.

4. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Group's Directors have overall responsibility for overseeing all significant fair value measurements, including Level 2 fair values.

The Group's Directors regularly review significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in note 11.

Notes, contd.:

5. Rental Revenue

The Group has entered into lease agreements in relation to its investment properties. Lease agreements have a fixed lease price indexed to the consumer price index and are recalculated monthly. The Group's lease agreements are mainly indefinite with a reciprocal three or twelve month termination notice period depending on the active period of the agreement as per leasing laws. Definite lease agreements are normally no longer than one year. The average lease period is 28 months (2022: 26 months). The proportion of definite lease agreements to total lease agreements is 26% and indefinite lease agreements are 74% at year end 2023 (2022: 12% and 88%)

The lease terms on agreements are as follows:

	2023			2022		
	Number	Contractual lease income ISK m.	Proportion%	Number	Contractual lease income ISK m.	Proportion%
2023	0	0	0.0%	1552	3,984	100.0%
2024	1528	4,246	100.0%	0	0	0.0%

The Groups rental revenue is divided by areas as follows:

	2023	2022
Capital region	43.7%	52.0%
East Iceland	2.3%	2.1%
North Iceland	7.1%	6.4%
South Iceland	2.5%	2.4%
Reykjanes Peninsula	43.8%	36.6%
West Iceland	0.6%	0.5%
	<u>100.0%</u>	<u>100.0%</u>

Estimated rental revenue losses due to vacant properties are calculated at the price that the Group expects they would be able to lease them for to a third party at the time in consideration.

Estimated rental revenue losses due to vacant properties in 2023 amount to ISK 144,9 million (2022: 97,6 million) and the real economical letting ration was 96.6% (2022: 97.5%).

6. Operating expenses of investment properties

	2023	2022
Operating expenses of investment properties are specified as follows:		
Property tax, water and sewage fees	357,903	330,441
Maintenance and operating expenses of investment properties	149,496	206,805
Insurance	67,180	57,132
Salaries and related expenses	122,572	130,906
Energy and heating	130,354	112,480
Common property fees	66,790	55,029
Service rendered	98,010	97,631
Other operating expenses	27,970	29,168
	<u>1,020,275</u>	<u>1,019,592</u>

Operating expenses of investment properties that are vacant are immaterial.

7. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2023	2022
Salaries	261,025	236,482
Pension contributions	37,650	32,270
Other salary-related expenses	21,995	23,707
	<u>320,670</u>	<u>292,459</u>

Notes, contd.:

7. Salaries and related expenses contd.:	2023	2022
Salaries and related expenses are specified as follows on operating items:		
Operating expenses of investment properties	122,572	130,906
Other operating cost	198,098	161,553
	320,670	292,459
Average number of employees	18	19
Salaries, benefits and pension contributions paid to two CEO's of the Company in the year 2023 amounts to ISK 61,1 million (2022: one CEO 32,4 million).		
8. Other operating expenses		
Other operating expenses are specified as follows:		
Salaries and related expenses	198,098	161,951
Depreciation	10,736	11,323
Accounts receivables, losses	432	1,636
Other operating expenses	221,303	202,365
	430,569	377,275
9. Financial income and (expenses)		
Financial income is specified as follows:		
Interest income of cash and cash equivalents	62,496	62,967
Interest income of trade receivables	23,953	3,279
	86,449	66,246
Financial expenses are specified as follows:		
Interest expenses of long term loans and borrowings	(4,121,201)	(3,481,905)
Interest expenses of lease liabilities	(32,573)	(23,651)
Other financial expenses	41,449	(13,821)
	(4,112,325)	(3,519,377)
Net financial expenses	(4,025,876)	(3,453,131)
10. Income tax		
Income tax is specified as follows:		
	2023	2022
Profit for the year	2,181,770	10,275,628
Income tax according to current tax rate	20.00% (436,354)	20.00% (2,055,126)
Other items	(1.74%) 37,941	(0.38%) 39,414
Effective income tax	18.26% (398,413)	19.62% (2,015,712)

Notes, contd.:

11. Investment properties

Investment properties are specified as follows:

Year 2023:

	Investment properties	Lease assets	Total
Investment properties at 1.1	75,099,951	656,379	75,756,330
Additions during the year	741,673	108,106	849,779
Transferred from under construction	2,529,360	0	2,529,360
Sold during the year	(10,951,402)	0	(10,951,402)
Loss from sale of investment properties	(8,399)	0	(8,399)
Fair value adjustment for the year	3,413,850	0	3,413,850
Investment properties at 31.12	<u>70,825,033</u>	<u>764,485</u>	<u>71,589,518</u>

Year 2022:

	Investment properties	Lease assets	Total
Investment properties at 1.1	63,338,417	656,379	63,994,796
Additions during the year	657,736	0	657,736
Sold during the year	(30,591)	0	(30,591)
Loss from sale of investment properties	(3,192)	0	(3,192)
Fair value adjustment for the year	11,137,581	0	11,137,581
Investment properties at 31.12	<u>75,099,951</u>	<u>656,379</u>	<u>75,756,330</u>

31.12.2023 31.12.2022

Purchase price of investment properties	38,118,651	45,741,993
Fair value adjustments	<u>32,706,382</u>	<u>29,357,958</u>
Investment properties at 31.12	<u>70,825,033</u>	<u>75,099,951</u>

Investment properties by region are specified as follows:

Capital area	34,310,671	40,383,625
East Iceland	1,495,934	1,400,884
North Iceland	5,507,828	5,509,087
South Iceland	1,837,230	2,022,058
Reykjanes Peninsula	27,237,762	25,373,951
West Iceland	435,608	410,346
Investment properties at 31.12	<u>70,825,033</u>	<u>75,099,951</u>

Official assessment value and assessed value for fire insurance

Official real estate value of investment properties of the Group amounted to ISK 70,969 million at the year end (2022: 68,674 million) thereof lot evaluation totals ISK 6,365 million (2022: ISK 6,216 million). The insurance value of these assets amounted to ISK 70,323 million (2022: ISK 69,141 million).

Notes, contd.:

11. Investment properties contd.:

Determination of fair value

Investment properties are recognised at fair value in accordance with IAS 40 - Investment Property and IFRS 13 - Fair Value Measurement. The investment properties are all categorized as level 2 investments, in the fair value hierarchy.

The fair value measurement is performed by outside specialist consultation and is based on market approach. The fair value is based on fair value of similar assets (sales comparison approach) which is based on independent expert estimate. Valuation from another independent expert and official valuation of the Registers Iceland were also obtained to support the valuation.

The valuation method is based on a relative valuation. Two components are needed in relative valuation, a standardised price and identical assets. Registers Iceland, the state registry for real estate, provided information on the sales price per sqm in the neighbourhood of each apartment in the Group's portfolio for the period 2018-2023 taking into account the size and number of rooms. Based on this data an average price per sqm was calculated based on size, number of rooms and year of construction. An average of official sale prices from the current period, or if not available the most recent from earlier periods, was allocated to each apartment based on the criteria explained to assess the value.

Sensitivity analysis

	Change	Effect on fair value 2023		Effect on fair value 2022	
		Increase	Decrease	Increase	Decrease
Average market price	+/- 5%	3,541,252	(3,541,252)	3,754,998	(3,754,998)

Changes in fair value of investment properties are disclosed under fair value adjustments of investment properties in the consolidated statement of profit or loss and comprehensive income. The fair value increase of investment properties was ISK 3,405 million for the year 2023 (2022: ISK 11,134 million).

12. Pledges and guarantees

At year end 2023 the Groups investment properties in the carrying amount of ISK 70,825 million (2022: ISK 75,099 million), were pledged as guarantees for debt amounting to ISK 35,806 million (2022: ISK 35,394 million).

13. Investment properties under construction

In October 2021 the Group signed a purchase agreement for two buildings in Eskiás 2 & 4, in total 84 apartments. The apartments in Eskiás 2 were delivered in May 2023 and the Eskiás 4 apartments will be delivered in April 2024. The purchase agreement is in the amount of ISK 4.455 million.

	2023	2022
Investment under construction at the beginning of the year	1,534,393	668,299
Investment during the year	2,129,789	866,094
Transferred to investment properties	(2,529,360)	0
Investment under construction at the end of the year	<u>1,134,822</u>	<u>1,534,393</u>

Notes, contd.:

14. Property and equipment

Property and equipment are specified as follows:

	Property	Vehicles	Equipment	Total
Cost				
Balance at 31.12.2021	20,564	43,367	3,330	67,261
Additions during the year	637	7,515	0	8,152
Sold during the year	0	(9,452)	(3,330)	(12,782)
Balance at 31.12.2022	21,201	41,430	0	62,631
Additions during the year		19,700	8,058	27,758
Sold during the year	0	(13,307)	0	(13,307)
Balance at 31.12.2023	21,201	47,823	8,058	77,082
Depreciation				
Total depreciation 31.12.2021	(617)	(13,916)	(1,998)	(15,914)
Depreciated during the year	(617)	(9,374)	(1,332)	(11,323)
Sold during the year	0	5,652	3,330	8,982
Total depreciation 31.12.2022	(1,234)	(17,638)	0	(18,255)
Depreciated during the year	(617)	(8,631)	(1,488)	(10,736)
Sold during the year	0	5,237	0	5,237
Total depreciation 31.12.2023	(1,851)	(21,032)	(1,488)	(23,754)
Carrying amount 31.12.2022	19,967	23,792	0	43,759
Carrying amount 31.12.2023	19,350	26,791	6,570	52,711
Depreciation %	3%	20%	15-33%	

Insurance value of vehicles and equipment is equal to the cost value. The official real estate value of the property amounted to ISK 16,9 million at year end (2022: ISK 16,1 million) and the insurance value amounted to ISK 45 million (2022: ISK 43,3 million).

15. Other receivables

Other receivables specified as follows:

	31.12.2023	31.12.2022
Unpaid selling price of investment properties	2,865,777	15,623
Short-term bonds	29,474	17,676
Prepaid expenses	25,334	52,479
Other short-term receivables	2,700	2,700
	<u>2,923,285</u>	<u>88,478</u>

16. Equity

Share capital

The Group's share capital according to its Articles of Association amounted to ISK 11,251 million at year end 2023. One vote is attached to each share of ISK 1 in the Group. The share capital is paid in full.

Statutory reserve

A statutory reserve is established in accordance with Act No. 138/1994 on private limited companies, which stipulates that at least 10% of the Group'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 Group'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 Group's share capital.

Restricted share reserve

Restricted equity includes the Group's share in the profit of subsidiaries from the beginning of 2016 that is in excess of dividends received.

Retained earnings

Retained earnings consist of the Group's accumulated, unallocated profits and losses, since the establishment of the parent Group, less dividends paid and transfers to and from other equity line items.

Notes, contd.:

16. Equity contd.:

Capital management

It is the policy of the Board of Directors to maintain a strong capital base in order to support the stability of future development of the operation and to deal with uncertainty in the external environment. There were no changes in the approach to capital management during the year.

The Group's capital management employs a debt to asset ratio, that is calculated as a ratio of interest-bearing liabilities, investment properties and cash flow conditions according to loan agreements. For the future, the ratio between interest-bearing liabilities and investment properties is targeted at around 65%, at year end 2023 the ratio was 50% (2022: 47%).

The Group and it's subsidiaries are not mandated to follow external regulations of minimum equity ratio.

17. Earnings per share	2023	2022
Earnings per share is specified as follows:		
Profit and comprehensive profit for the year	1,783,357	8,259,916
Share capital at beinning and end of year	11,251,397	11,251,397
Basic and diluted earnings per share	0.159	0.734

18. Interest-bearing liabilities

The following is information on the Groups interest-bearing liabilities: 31.12.2023 31.12.2022

Interest-bearing long-term liabilities are specified as follows during the year:

Long-term liabilities at the beginning of the year	35,394,047	31,053,166
Long-term borrowing	16,269,829	17,088,305
Capitalized borrowing cost of the year	(106,147)	(77,546)
Indexation of the year	1,777,913	1,659,910
Payments of the year	(17,611,806)	(14,395,364)
Capitalized borrowing cost-amortization	82,520	65,576
Long-term liabilities at the end of the year	35,806,356	35,394,047

Interest-bearing liabilities are specified as follows at year end:

Long-term liabilities in ISK

Bank loans, indexed int.4.00%-4.35% / 3.90%-4.20%	20,875,967	5,198,754
Bonds, indexed, int. 3.20% - 3.90%	15,239,062	13,392,034
Non-indexed bonds, int. /8,20%	0	17,088,305
Capitalized borrowing cost	(308,673)	(285,046)
Total interest-bearing liabilities including next years payables	35,806,356	35,394,047
Current maturities	(1,961,471)	(403,907)
Long-term liabilities at the end of the year	33,844,885	34,990,140

Interest-bearing-short-term liabilities

Next years repayments of long-term interest-bearing liabilities	1,961,471	403,907
Interest-bearing short-term liabilities	1,961,471	403,907

19. 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	1,961,471	403,907
From 12 - 24 months	866,756	418,734
From 24 - 36 months	898,567	8,979,109
From 36 - 48 months	931,650	450,054
From 48 - 60 months	966,055	9,009,894
From 60 - 72 months	1,001,835	483,736
Later	29,180,022	15,648,613
Total interest-bearing long-term liabilities, including current maturities	35,806,356	35,394,047

At year end 2023 the Group fulfils all obligations in the loan agreements except in the case of one indexed bond in the amount of 1.125 million, at year end. The owner of the bond has signed a waiver were he confirms that he will not use his authority to accelerate payment of the bond. The bond is classified within next years repayments as it will be repayed at the beginning of February 2024.

Notes, contd.:

	31.12.2023	31.12.2022
20. Lease liabilities		
Lease liabilities specifies as follows:		
At the beginning of the year	643,315	646,942
Changes due to properties sold	106,350	0
Interest expenses of the year	32,573	31,425
Repayments of the year	(36,535)	(35,052)
At the end of the year	<u>745,703</u>	<u>643,315</u>
Total repayments of the year	<u>36,535</u>	<u>35,052</u>
21. Deferred income tax liability		
Deferred income tax liability is specified as follows:		
Deferred income tax liability at the beginning of the year	7,272,476	5,244,994
Accusation of tax liability(see note 29)	175,970	0
Income tax	398,413	2,015,712
Used in joint taxation	0	26,854
Income tax to be paid	(143,356)	(15,084)
Deferred tax liability at the end of the year	<u>7,703,503</u>	<u>7,272,476</u>
Deferred income tax liability is specified as follows:		
Investment properties	7,703,883	7,405,610
Carry forward tax losses	0	(132,434)
Other items	(380)	(700)
Deferred tax liability at the end of the year	<u>7,703,503</u>	<u>7,272,476</u>
There were no carry forward losses at year-end 2023 (2022: ISK 662 million).		
22. Trade and other payables		
Trade and other payables are specified as follows:		
Trade payables	87,616	99,578
Accrued interest	106,072	151,327
Guarantees and prepaid rent	375,799	354,132
Other payables	47,394	58,688
Income tax, payable	143,356	0
Trade and other payables, total	<u>760,237</u>	<u>663,725</u>

Notes, contd.:

23. Financial risk management

(i) Goal

The objective of risk management is to identify and analyse risks, to set risk limits and to control them.

(ii) Structure

The Board of Directors are responsible for implementing and monitoring the Group's risk management. The Board of Directors has assigned control of daily risk management to the CEO of the Group.

(iii) Types of risk

The Group has exposure to the following risks arising from its financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

24. Credit risk

(i) Definition

Credit risk is the risk that the Group will incur a financial loss if a customer or a counterparty to a financial instrument fails to discharge their contractual obligations or that customers' guarantees will not suffice to meet their obligations. Credit risk arises mainly from trade receivables, unpaid selling price of investment properties and cash and cash equivalents. Customers provide letters of credit for insurance purposes or make an advance payment equal to 3 months lease payments.

(ii) Risk factors and management

The Group's exposure to credit risk is influenced mainly by the financial position and operations of each customer. If customers do not discharge their obligations the agreements are terminated or further guarantees requested. In order to guarantee the Group's trade receivables customers must provide a letter of credit or an advance payment up to three months. The collective loss allowance is determined based on expected credit loss for similar financial assets. The write off amounted to ISK 1,9 million at year end 2023 (2022: 3,5 million).

The maximum exposure to credit risk for trade and other receivables by type of counterparty is as follows:

	31.12.2023	31.12.2022
Trade receivables	24,113	25,298
Receivables, related parties	2,700,549	0
Other receivables	2,923,285	88,478
Cash and cash equivalents	2,621,602	727,544
	<u>8,269,549</u>	<u>841,320</u>

Maturities of trade receivables at 31. December 2023:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables ...	10,366	7,737	2,600	5,310	(1,900)	24,113
	<u>10,366</u>	<u>7,737</u>	<u>2,600</u>	<u>5,310</u>	<u>(1,900)</u>	<u>24,113</u>

Maturities of trade receivables at 31. December 2022:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables ...	19,003	6,558	211	3,026	(3,500)	25,298
	<u>19,003</u>	<u>6,558</u>	<u>211</u>	<u>3,026</u>	<u>(3,500)</u>	<u>25,298</u>

Write off of trade receivables is specified as follows:

	31.12.2023	31.12.2022
Trade receivables write off at the beginning of the year	3,500	16,894
Allowance for bad debt	620	1,636
Trade receivables write off during the period, change	(2,220)	(15,030)
Trade receivables write off at end of the year	<u>1,900</u>	<u>3,500</u>

Notes, contd.:

25. Liquidity risk

(i) Definition

Liquidity risk is the risk that the Group will not be able to meet its financial obligations, which will be settled in cash or other assets, as they accrue.

(ii) Risk factors and management

The Group monitors its liquidity by analysing the maturity of financial assets and financial liabilities in order to be able to repay all debt at maturity and employs working methods which ensure that there is sufficient liquidity to meet foreseeable and unforeseen payment obligations.

The Group's liquidity risk is related to refinancing. The Group's policy is to have a stable repayment period and stable cash flow to minimize liquidity risk.

To reduce refinancing risk the Group's policy is to diversify its financial liabilities. At year end 2023 57% (2022: 51%) of the Group's interest-bearing liabilities were loans from financial institutions and 43% bonds owned by investors (2022: 49%).

At year end 2023 none of the Group's liabilities were in arrears. The group does not have an open credit line but has good relationship with all financial institutions and can provide access to credit within short notice.

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

	Carrying amount	Contractual cash flows	Within 1 year	1 - 2 years	2 - 5 years	More than 5 years
2023						
Financial liabilities						
Interest bearing liab.	35,806,357	35,806,357	1,961,471	866,756	2,796,272	30,181,858
Lease payables	745,703	2,608,598	36,535	36,535	109,605	2,425,923
Related parties	3,162,704	3,162,704	3,162,704	0	0	0
Trade payables	760,237	689,652	689,652	0	0	0
	<u>40,475,001</u>	<u>42,267,311</u>	<u>5,850,362</u>	<u>903,291</u>	<u>2,905,877</u>	<u>32,607,781</u>
2022						
Financial liabilities						
Interest-bearing liab.	31,053,166	31,053,166	7,860,098	2,997,317	3,342,581	16,853,170
Lease payables	646,942	2,263,115	45,262	45,262	135,786	2,036,790
Trade payables	587,438	587,438	587,438	0	0	0
	<u>32,287,546</u>	<u>33,903,719</u>	<u>8,492,798</u>	<u>3,042,579</u>	<u>3,478,367</u>	<u>18,889,960</u>

26. Market risk

(i) Definition

Market risk emerges from changes in market prices, such as foreign exchange rates and interest rates, as those changes will affect the Group's cash flows or the value of its holdings of financial instruments.

(ii) Risk factors and management

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The group is exposed to a minor exchange rate risk stemming from a loan extended to its parent company in Norwegian Krone (NOK). All other liabilities, properties, and agreements are in local currency, ISK, and do not pose an exchange rate risk. Long term loans are in ISK and partly with fixed-rate interest. Interest rate risk is monitored in regards to effects of changes in interest rate on operations and loan obligations.

Interest rate risk

The Group has both fixed and floating Interest-bearing liabilities. Interest-bearing financial instruments with floating rates are specified as follows:

	Carrying amount	
	2023	2022
Financial assets with floating interest rates	2,621,602	727,544
Financial liabilities with floating interest rates	(20,567,295)	(17,088,305)
	<u>(17,945,693)</u>	<u>(16,360,761)</u>

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) the profit before income tax by ISK 179,4 million (2022: ISK 163,6 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2022. The Group's financial liabilities are otherwise indexed with fixed interest rates and are not presented at fair value through profit or loss.

Notes, contd.:

26. Market risk contd.:

Inflation risk

Interest-bearing liabilities in the amount of ISK 35,806 million (2022: ISK 18,591 million) are linked to the consumer price index. An increase (decrease) in inflation of 1% at year end 2023, and other variables unaffected, would have increased (decreased) the Group's profit before income tax in the amount of ISK 358 million (2022: ISK 185 million). This analysis assumes that all other variables remain constant.

Fair value

Comparison of fair value and carrying amounts

The fair value and carrying amounts of financial assets and liabilities are specified as follows. Information on fair value is not shown if it is equal to the carrying amount.

	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Interest-bearing liabilities	35,806,357	35,067,440	35,394,047	36,797,470

The fair value of the Group's interest-bearing liabilities is based on discounted cash flow and the Group's interest rate at year end 2023.

27. Operational risk

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 organization, and from external factors other than credit, market and liquidity risks, such as changes in laws and general attitude towards corporate governance. Operational risks arise from all of the Group's operations. The eruption on the Reykjanes-penisula has not effected the investment properties there. The Group does not own any apartments in the Grindavik area.

The Group's objective is to manage operational risk efficiently in order to avoid financial losses and to protect the Group's reputation.

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.

28. Related parties

Related parties are defined as those who have significant influence 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. Following transactions were recorded with related parties in the year.

Fredensborg AS (parent company) credit facility NOK, due date 30.6.24, int. 6.5%	2,700,549
Heimstaden AB loan, due date 30.6.24, int. 6%	(3,162,704)

29. Shares in subsidiaries

The subsidiaries are five at the end of 2023. In May 2023 the apartments at Eskiás 2 were delivered to the Group in a limited liability company Eskiás 2 ehf. The acquisition of the asset does not constitute a business and is therefore not a business combination. In the acquisition, the Group acquired investment properties and an income tax liability. The asset was previously recognised under investment properties under construction, see note 13. The subsidiaries specify as follows:

	Share	Share
	2023	2022
Eskiás 2 ehf., Reykjavík	100%	-
Heimkynni ehf., Reykjavík	100%	100%
Heimstaden Akureyri ehf., Reykjavík	100%	100%
Heimstaden Miðbær ehf., Reykjavík	100%	100%
Heimstaden rekstur ehf., Reykjavík	100%	100%

Notes, contd.:

30. Auditor's fee

The Group's Audit fee for 2023 amounted to ISK 16,1 million (2022: ISK 12,7 million) thereof ISK 12,1 million (2022: ISK 12,0 million) for the financial statements audit and Auditor's review on Group's financial statements.

31. Obligations

The Group has committed to lease agreements for the properties Hlíðarsmári 15, Norðingabraut 4, Reykjavík and Grænásbraut 506, Ásbrú. The leases are linked to the consumer price index and amount to ISK 1,0 million monthly. The total lease liability amounts to ISK 10,2 million at year end.

Quarterly statement - unaudited

The quarterly statement of the Group specifies as follows:

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Total
Rental revenue	1,020,730	1,075,134	1,090,373	1,059,387	4,245,624
Operating expenses of inv. properties	(249,246)	(260,933)	(243,610)	(266,486)	(1,020,275)
Net rental revenue	<u>771,484</u>	<u>814,201</u>	<u>846,763</u>	<u>792,901</u>	<u>3,225,349</u>
Other income	1,544	1,786	1,789	2,296	7,415
Other operating expenses	(98,740)	(111,552)	(109,830)	(110,447)	(430,569)
Operating profit before fair value adjustment	674,288	704,435	738,722	684,750	2,802,195
Fair value adjustment of inv. properties	<u>447,980</u>	<u>266,633</u>	<u>645,749</u>	<u>2,045,089</u>	<u>3,405,451</u>
Operating profit before finance income and finance expenses	1,122,268	971,068	1,384,471	2,729,839	6,207,646
Finance income	80,934	1,854	2,347	1,314	86,449
Finance expenses	(903,784)	(1,025,430)	(1,053,374)	(1,129,737)	(4,112,325)
Net finance expense	<u>(822,850)</u>	<u>(1,023,576)</u>	<u>(1,051,027)</u>	<u>(1,128,423)</u>	<u>(4,025,876)</u>
Profit (loss) before income tax	299,418	(52,508)	333,444	1,601,416	2,181,770
Income tax	(21,917)	10,476	(66,663)	(320,309)	(398,413)
Total profit(loss) and other comprehensive profit(loss) for the year	<u>277,501</u>	<u>(42,032)</u>	<u>266,781</u>	<u>1,281,107</u>	<u>1,783,357</u>
Net rental income to Rental revenue	75.6%	75.7%	77.7%	74.8%	76.0%
Operating profit before fail value adjustment to Rental revenue	66.1%	65.5%	67.7%	64.6%	66.0%

Governance Statement – unaudited

Heimstaden ehf.'s governance is in accordance with Act no. 138/1994 respecting Private Limited Companies and takes note of The Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf and the Confederation of Icelandic Employers, 6th edition published in 2021. The guidelines are available on the website www.leidbeiningar.is.

Heimstaden Board of Directors

The Board of Directors of Heimstaden ehf. is made up of three directors, elected annually at the Company's Annual General Meeting. Communications from the Board of Directors to shareholders shall be concise and The Board shall take care to ensure consistency in its disclosures to the Company's shareholders. If shareholders direct inquiries to the Board, the Board shall be made aware of them and have supervision of the Company's response to those questions. The Company's current Articles of Association were approved on 1st. of February 2021.

The Company's Board of Directors was composed of the following individuals in 2023:

- Andreas Sötvedt Oulie, Chairman of the Board (from the 12th of October 2023)
 - Egill Lúðvíksson, Board member (from the 10th of May 2023)
 - Margrét Guðjónsdóttir, Board member (from the 13th of January 2021)
 - Sondre Hove, reserve board member (from the 12th of October 2023)
- Andreas Oulie Sötvedt, Board member since October 2023, chairman since October 2023. 39 years old.
Head of fund management for Fredensborg AS
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
- Egill Lúðvíksson, Board member since May 2023
30 years old
CEO for Heimstaden ehf.
Owns no shares in Heimstaden ehf.
- Margrét Guðjónsdóttir, board member since January 2021
65 years old
CFO for Heimstaden ehf.
Cand Oecon - Certified accountant
Former partner at KPMG
Owns no shares in Heimstaden ehf.,
- Sondre Hove, board member since October 2023
32 years old
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent reserved Board member in Heimstaden ehf.

Governance

The Board has established detailed rules of procedure where its authority and scope are defined. These rules of procedure contain, among other things, articles regarding the segregation of duties within the Board, the scope and purview of the Board, the Chairman and the CEO, rules of procedure regarding meetings, disclosures, and other matters. The current rules of procedure for the Board of Directors were approved on 24. august 2023. In accordance with laws and the Company's Articles of Association, the Board of Directors has the highest authority in The Company's operations between shareholder meetings.

Governance statement – unaudited, contd.:

The CEO is appointed by the Board and is responsible for the day-to-day operations of the Company in accordance with the policies and instructions of the Board, laws, the Company's Articles of Association, and the Board's Rules of Procedure. The CEO implements the Company's policies that have been formulated by the Board and sets goals for the Company's operations.

Egill Lúðvíksson has been the Company's CEO since 1st of May, 2023. The CEO's job description is outlined in his employment contract.

Egill Lúðvíksson has an M.Sc. in Applied Economics and Finance, Economics from Copenhagen Business School B.A in Economics from the University of Iceland. He owns no shares in Heimstaden ehf. and is independent of the Company's major customers, competitors and major shareholders.

Employment contracts for other employees are traditional employment contracts with traditional notice periods.

The Company's Board and CEO have implemented internal controls and risk management for the Company's operations to prevent and analyze possible mistakes and fraud by employees and clients.

The Company is obliged to have its financial statements for 1st of January to 30th of June reviewed and the full year audited by its auditors. The General Counsel executes a risk review of the companies main risk factors every quarter.

The Company has established rules of procedure and rules for the division of jobs. Accounting statements are prepared and provided to the Board. Rules of procedure have been set in place to ensure monitoring of income and expense accounting among other items that affect the Company's operations. Risk management is reviewed regularly with consideration to changes in the Company's main risk factors in its operations.

The company does not employ an internal auditor.

Auditors are appointed for one-year terms at the Company's Annual General Meeting.

Neither the Company's auditors nor any parties related to them may own shares or equity in the Company. The Company's Consolidated Financial Statements are audited in accordance with international accounting standards. Auditors have unhindered access to the Company's books and accounting and all of its documents. The Board receives a special auditing report from the Company's auditor yearly with key information. The Compliance Officer, appointed by the Board, supervises that rules regarding insider information and insider trading are followed.

In 2023 the Board had 3 Board Meetings. All Board Members were present at the meetings. The Board of Directors has conducted a formal evaluation of their work in 2023. The Company is committed to the welfare of Icelandic society and wants to ensure that benefits of its operations are realized both for the society and its shareholders. The Company does this by building solid infrastructure and effective teamwork and by being a trusted partner and an attractive investment option that returns acceptable profits to its shareholders and benefits to society. There are currently in place rules of procedure and ethics protocols for Heimstaden ehf. and its subsidiaries that were approved by the Board on 24 August 2023. In it, the Company's main emphases regarding human rights, equality, ethics, employment matters and social responsibility are outlined. The Company's policy of social responsibility was approved by the Board on 10th december 2023.

The Company has not been sentenced for violating any rules and/or regulations by appropriate arbiters or supervisory bodies.

Non-financial Information - unaudited

The Company's Business Model:

To own, operate and let residential housing in the general market in Iceland, with emphasis on affordable letting prices.

Main Objectives:

Heimstaden ehf. wants to be the foremost operator of residential housing in the Icelandic leasing market.

The Company's main policies are:

- To own all, or at least the majority of apartments in apartment buildings.
- Geographical focus:
 - o Capital Region 60%
 - o Southern Peninsula 30%
 - o Other regions 10%
- Types and sizes of apartments:
 - o Studio: 35-42 m² 15-25%
 - o 1-bedroom: 50-70m² 15-25%
 - o 2-bedroom: 65-90m² 30-40%
 - o 3-bedroom: 85-110m² 15-20%
- Properties that are operationally cost-effective
- Company financing:
 - o Equity 35%
 - o Long-term loans and/or bonds.

Heimstaden ehf. emphasizes on four main environmental goals:

Fossil fuel free operations.

Energy & water efficiency.

Renewable energy generation in all new builds.

Ecosystem services in projects.

Heimstaden ehf. has two main goals when it comes to governance & reporting target areas which is that employees sign a code of conduct and that all business partners also sign a code of conduct.

Heimstaden ehf. is working on lowering the paper usage in its day to day business and has started using electronic signatures for lease agreements and other documents when possible.

Heimstaden ehf. uses environmentally certified paint when repainting interiors of apartments and environmentally certified flooring materials.

Heimstaden ehf. is changing old light bulbs and lighting fixtures for LED bulbs and fixtures which consume far less electricity.

Hot water systems in buildings are being modified so that water usage in buildings is more efficient. Heimstaden ehf. has started monitoring the electrical and water usage for each house and is creating a Green Report which contains information on water usage and electrical usage for the Heimstaden ehf. property portfolio.

Results of the Company's policies:

The Company has been operating in accordance with the aforementioned policies in 2023. The Company has been successful in transforming the asset portfolio which has resulted in greater operating efficiency. This work will continue through out this year and further.

Main Risk Factors in the Company's Operations:

The Company regularly assesses the main risk factors in its operations. The last risk assessment was made in December 2023, where the factors deemed important to ensure the safety of personal data that belongs to the Company's lessees and staff, were reviewed. The reviews purpose is, among other things, to examine whether there is reason to update the Company's IT security protocols or protection system. In addition, possible rising vacancy levels due to increasing inflation were identified as a key risk and in response it is deemed important to maintain quality properties at good prices. It is important that the Company's real estate properties are in good condition so that air quality, energy consumption, lighting and other factors effectively promote the well-being and safety of the Company's lessees.

Non-financial information, contd.:

According to the last review, there are three factors that the Company defines as main risk factors in its operations. They are as follows:

- Usage of materials in new buildings and renovations that are not environmentally certified.
- Negative work environment, Heimstaden ehf. in Iceland has few employees and it is important to maintain a friendly workplace in order to achieve Heimstaden ehf.'s goals.
- Not enough information sharing between employees during the day-to-day operations

Heimstaden ehf. has adopted a policy of sustainability, environmental preservation and more, in keeping with the UN sustainable development goals, the Paris Agreement and other ESG policies. It is Heimstaden ehf.'s declared policy to work toward and promote a positive societal atmosphere and social development by promoting cooperation between stakeholders in the residential housing market. As a residential letting Company, one of Heimstaden ehf. goals is to promote the well-being of society as well as work toward a safe environment for the Company's employees, customers, and other partners. Emphasis is placed on improving the environment in the areas where the Company lets apartments. Heimstaden ehf. has adopted goals based on the UN sustainable development goals and the Group is consistently working towards achieving those goals.

Further information on Heimstaden ehf. ESG goals can be found here:

<https://heimstaden.com/is/um-okkur/>

Environmental matters:

The Company has adopted a special environmental policy where the Company's main goals in environmental matters are detailed:

- Purchasing of supplies for Heimstaden ehf. will be mostly ecological. Eco-labeled products and services will be chosen above others.
- Special emphasis is placed on effective use of resources, minimization of waste, increased recycling, ways to decrease greenhouse gas emissions and ecological purchasing.
- Negative environmental impacts from the use of transportation modes will be minimized. The same goes for the use of materials, energy, and water.
- Recyclable waste will be sorted and recycled.
- Hazardous waste will be disposed of to certified waste collectors.
- Informing and educating employees about environmental matters and increasing inner environmental operations as well as encourage employees to adopt an eco-friendly lifestyle.
- Electronic solutions are to be used when possible to reduce the Company's ecological footprint. Heimstaden ehf. paint the majority of their apartments with a special paint called "Heimstaden ehf. white" that is environmentally certified (Nordic Swan Ecolabel). Additionally, the Company's operational handbook contains many items regarding sustainability and environmental protection. The Company's operations in environmental matters is constantly evolving and it is expected that disclosure on environmental factors will be increased in the coming months.
- The Company also tries to use ecological or environmentally conscious materials in its asset management and maintenance work.
- Heimstaden ehf. utilises Circular Economy methodology in its Facility Management operations and renovations where The Company emphasizes that its properties, grounds, and surroundings are kept clean and tidy. The Company has renewed electric plugs with motion sensors that save electricity in common areas in its buildings. Emphasis is also placed on the efficient use of hot water that is used in properties owned by the Company and in the use and operations of efficient service vehicles.

When keys to properties are handed over to new lessees, fire safety and equipment is specifically pointed out to them. All lease properties are handed over accompanied by a fire extinguisher, installed and working smoke detectors and a fire blanket. This is done to reduce the risk of injury to people and property in case of a fire.

The Company considers the largest environmental risks to be earthquakes and gale winds.

Non-financial information, contd.:

Social matters:

The Company has adopted a social policy. The Company bases the social policy on these main factors:

- Lessee/tenant safety - The main risk is that lessees get injured in Heimstaden ehf. apartments. In the year 2023 no accidents occurred, in great part due to the good condition of Heimstaden ehf. apartments. Heimstaden ehf. maintenance employees always review Heimstaden ehf. apartments when they are handed to the lessees, including doing a safety review.
- Condition and environment of properties - The main risk factor regarding the environment is that the buildings are not in an acceptable condition and therefore lessees could injure themselves. Maintenance employees make sure to check the status of our houses during their day-to-day operations to make sure that everything is up to code and meets Heimstaden ehf.'s quality and safety standards.
- Operations related to asset management.

In the social policy, emphasis is placed on the safety of tenants/lessees being ensured as much as possible. All apartments have received an inspection as a completed property in accordance with IST standard 51:2001 as well as having passed a safety inspection from the relevant construction authority representative.

The Company has adopted rules regarding purchasing in its operational handbook that dictate that failures in heating, electricity, and energy systems in apartments be fixed or worked on by certified contractors and that all maintenance and improvements must fulfill the Company's conditions on quality and safety as is further detailed in the operational handbook.

Personnel matters:

The Company has adopted a personnel policy. Its purpose is to ensure that the Company employs competent, engaged and solution-orientated personnel with a desire to provide excellent customer service. The Company's employees are encouraged to take responsibility and take an active role in the development of the Company. Emphasis is placed on the matter that each and every employee is able to enjoy their work and progress and grow in their employment with the Company.

The Company has also employed an equality policy wherein Heimstaden ehf.'s goal is to maximize its personnel by ensuring equal opportunities and remunerations for employees of both genders and to be a desirable workplace for both men and women. Discrimination of any kind on the basis of gender or sexuality is in opposition to the equality policy and equality laws. One part of the Company's equality-policy is a defined action plan for bullying and gender-based discrimination.

The company has also adopted a remuneration policy which is updated as needed.

The total number of employees at the end of 2023 was 15 and the distribution of employees is as follows: 7 employees work in the Company's office in Reykjavik, 1 in the office in Ásbrú and 7 employees work in property management in the Company's operating regions. In property management there are seven men whereas in the office there are four women and four men.

The main risk factor regarding Heimstaden ehf. personnel is that the workplace becomes hostile. Heimstaden ehf. is a small business with 8 office employees and 7 maintenance employees, therefore it is important to maintain a friendly workplace. Heimstaden ehf. plans on maintaining a friendly workplace by using satisfaction surveys and maintaining an open dialog with all employees by executing performance reviews.

Human-rights matters:

The Company has adopted a human-rights policy which has the main goal of ensuring the human-rights of its employees and customers. Heimstaden ehf. commits itself to abide by all current laws and regulations respecting human rights, including those regarding the freedom of association, forced labor, slave labor, child labor and inequality in the workplace.

The Company has set rules for itself on a chain of responsibility where a demand is made that all contractors that work for the Company make a commitment to take care of the safety of their employees, have employment contracts in place in line with collective remuneration agreements and follow local legislation and regulations in their operations.

No incidents occurred during the year in relation to the chain of responsibility or human-rights matters.

Corruption and bribery matters:

The Company has adopted a policy against corruption and bribery wherein it is stated, among other things, that Heimstaden ehf. and its subsidiaries conduct business with suppliers, partners and customers with respect and integrity, cf. Heimstaden ehf. subsidiaries' ethics-policy.

The Company has adopted an ethics policy that applies to all operations, employees, and executives. The goal is to guide employees in the execution of their daily work with the interest of the Company and its customers at the forefront. In our daily work, we emphasize the following values: Respect, integrity, and cooperation.

The Company regularly reviews the ethics-policy and other items that are put forth in the Company's operational handbook with all its employees.

No incidents occurred during the year in relation to corruption and bribery matters.