# Heimstaden ehf.

## Consolidated Financial Statements

## 2021

Heimstaden ehf.
Hlíðarsmára 15
200 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 four subsidiaries together called the Group.

Operations and Financial Position

Profit for the year 2021 amounted to ISK 7,115 million (2020: ISK 1,034 million). Total equity at year-end 2021 amounted to ISK 28,342 million (year-end 2020: ISK 21,227 million). Equity ratio at year-end was 43.0% (2020: 39.5%).

The EBIT ratio was 58.1% in the year 2021 (2020: 55.9%). Rental revenue in 2021 amounted to ISK 3,416 million which is an increase of ISK 318 million or 10.3%, from the previous year.The total number of rental units at the beginning of the year were 1602 and at the year-end 2021 the number of rental units is 1653.

Fair value adjustment in 2021 amounted to ISK 8,994 million in comparison to ISK 1,954 million in 2020. In the beginning of the year the Group changed its valuation technique for investment properties i.e from discounted cash flow measurement to market approach as it is the managements judgment that the market approach is more representative of the fair value of the investment properties.

Net finance expenses amounted to ISK 2,018 million in 2021 compared to ISK 2,471 million in the previous year. Thereof, the amount of the consumer price indexation charges amounted to ISK 753 million in 2021 (2020: ISK 851 million) but inflation in the year amounted to 5.1% (2020: 3.6%).

The main risk and uncertainty that the Group faces in the coming months is the effect of the Covid-19 pandemic on its operations that reflects mainly in a higher vacancy rate. In the year 2021 the total vacancy amounted to ISK 335 million or 9.8% of the gross rental revenue. It is expected that in next years operation the vacancy rate will improve and be acceptable.

Heimstaden AB possesses all shares in the Company at year-end 2021 in the amount of ISK 11,251 million. Fredensborg ICE ehf. possessed all shares in the Company at year-end 2020. In July 2021 the Company's listed bonds HEIMA071248, HEIMA071225 and HEIMA100646 were delisted and therefore the Company is no longer a Public Interest Entity. Following that change, Fredensborg ICE ehf. sold all the shares in the Company to Heimstaden AB in Sweden. From that time Heimstaden ehf. is a direct part of Heimstaden AB Group.

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

The board has decided not to pay dividends to shareholders in 2022 related to the fiscal year 2021. 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 2015. The Board has implemented rules of procedures detailing the scope of its authority and its responsibilities to the Chief Executive Director. The aforementioned information is put forth in an annex, Statement on Corporate Governance, to the Consolidated Financial Statements.

At year-end 2021, the Board of Directors of Heimstaden ehf. comprised of three men (100%). Within the Group there are 21 employees (14 men and 7 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 Act on Annual Accounts. 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., and 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 2021, its assets, liabilities and financial position as at 31st of December 2021 and its consolidated cash flows for 2021.

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 2021 and confirmed them with their signatures. The Board of Directors and the CEO propose to the Annual General Meeting that the financial statements be approved.

Reykjavík, 10th of February 2022.

Board of Directors:

*Andreas Sötvedt Oulie*
*Helge Krogsböl*
*Sondre Hove*

Andreas Oulie    Helge Krogsbol    Sondre Hove

CEO:

*Arnar Gauti Reynisson*

Gauti Reynisson

# Independent Auditor's Report

To the Shareholders of Heimstaden ehf.

## Opinion

We have audited the consolidated financial statements of Heimstaden ehf., which comprise the statement of consolidated financial position as at December 31, 2021, the consolidated income statement and consolidated statement of cash flows for the year then ended, and notes to the 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 the Group as at December 31, 2021, and its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union and additional requirements in the Icelandic Act on Annual Accounts.

## Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Group 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 financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

## Other Matters

The consolidated financial statements of Heimstaden ehf. for 2020 was audited by KPMG ehf. with an unmodified audit opinion. The date of the report was 16 February 2021.

## Other information in the annual report of Heimstaden ehf. for 2021

This document also contains other information than the annual accounts and consolidated accounts. Other information is the Endorsement and Statement by the Board of Directors and the CEO, Quarterly statement, Governance Statement and Non-financial Information. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. 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 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.

## Responsibilities of Managing Director and Board of Directors for the Consolidated Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the 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 the International Standards on Auditing (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 financial statements.

As part of an audit in accordance with the International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

* Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
* Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
* Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
* Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
* Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

### Report on the Board of Directors report

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

Reykjavík, 10th of February 2022.

Valgerður Kristjánsdóttir

Valgerður Kristjánsdóttir
State Authorised Public Accountant

Ernst & Young ehf.
Borgartúni 30, 105 Reykjavík

# Consolidated Statement of Comprehensive Income for the Year 2021

| | Note | 2021 | 2020 |
|---|---|---|---|
| Rental revenue | 6 | 3,415,887 | 3,097,675 |
| Operating expenses of investment properties | 7.8 | ( 994,806) | ( 1,025,088) |
| Net rental revenue | | 2,421,081 | 2,072,587 |
| Other income | | 6,261 | 7,251 |
| Other operating expenses | 8.9 | ( 438,058) | ( 346,786) |
| Operating profit before fair value adjustment | | 1,989,284 | 1,733,052 |
| Fair value adjustment of investment properties | 12 | 8,993,981 | 2,028,012 |
| Operating profit | | 10,983,265 | 3,761,064 |
| Financial income | | 10,989 | 41,508 |
| Financial expenses | | ( 2,029,132) | ( 2,512,936) |
| Net financial expense | 10 | ( 2,018,143) | ( 2,471,428) |
| Profit before income tax | | 8,965,122 | 1,289,636 |
| Income tax | 11 | ( 1,850,044) | ( 255,197) |
| Total profit and other comprehensive income for the year | | 7,115,078 | 1,034,439 |
| Profit per share | | | |
| Basic and diluted profit per share | 19 | 0.632 | 0.092 |

Notes on pages 12 - 28 are an integral part of these Consolidated Financial Statements

# Consolidated Statement of Financial Position as on 31 December 2021

| | Note | 31.12.2021 | 31.12.2020 |
|---|---|---|---|
| **Assets** | | | |
| Investment properties | 12 | 63,994,796 | 51,850,837 |
| Investment properties under construction | 14 | 668,299 | 0 |
| Property and equipment | 15 | 50,730 | 45,920 |
| Non-current assets | | 64,713,825 | 51,896,757 |
| Trade receivables | 26 | 41,455 | 20,443 |
| Other receivables | 17 | 174,093 | 664,703 |
| Cash and cash equivalents | | 945,490 | 1,151,106 |
| Current assets | | 1,161,038 | 1,836,252 |
| Total assets | | 65,874,863 | 53,733,009 |
| **Equity** | | | |
| Share capital | | 11,251,397 | 11,251,397 |
| Statutory reserve | | 717,832 | 6,324 |
| Restricted share reserve | | 241,657 | 10,222,238 |
| Retained earnings ( negative ) | | 16,131,437 | ( 252,714) |
| Total equity | 18 | 28,342,323 | 21,227,245 |
| **Non-current liabilities** | | | |
| Deferred income-tax liability | 23 | 5,244,994 | 3,190,902 |
| Lease liability | 22 | 646,942 | 688,216 |
| Loans and borrowings | 20 | 26,072,412 | 27,167,905 |
| Non-current liabilities | | 31,964,348 | 31,047,023 |
| **Current liabilities** | | | |
| Loans and borrowings | 20.21 | 4,980,754 | 567,499 |
| Trade and other payables | 24 | 587,438 | 891,242 |
| Current liabilities | | 5,568,192 | 1,458,741 |
| Total liabilities | | 37,532,540 | 32,505,764 |
| Total equity and liabilities | | 65,874,863 | 53,733,009 |

Notes on pages 12 - 28 are an integral part of these Consolidated Financial Statements

# Consolidated Statement of Changes in Equity for the Year 2021

| | Share capital | Share premium | Statutory reserve | Restricted share reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| 1 January - 31 December 2020 | | | | | | |
| Equity as on 1 January 2020 .................. | 11,163,998 | 584,633 | 6,324 | 8,300,631 | 0 | 20,055,586 |
| Total profit and comprehensive income .. | | | | | 1,034,439 | 1,034,439 |
| Reserved equity ..................................... | | | | 1,921,607 | ( 1,921,607) | 0 |
| Share premium transferred .................... | | ( 634,454) | | | 634,454 | 0 |
| Transactions related to the shareholders | | | | | | 0 |
| of the Company | | | | | | 0 |
| Share buyback ....................................... | 87,399 | 49,821 | | | | 137,220 |
| Equity as on 31 December 2020 ............ | 11,251,397 | 0 | 6,324 | 10,222,238 | ( 252,714) | 21,227,245 |
| 1 January - 31 December 2021 | | | | | | |
| Equity as on 1 January 2021 .................. | 11,251,397 | 0 | 6,324 | 10,222,238 | ( 252,714) | 21,227,245 |
| Transferred to retained earnings ............ | | | | ( 10,061,808) | 10,061,808 | |
| Total profit and comprehensive income .. | | | | | 7,115,078 | 7,115,078 |
| Reserved equity ..................................... | | | | 81,227 | ( 81,227) | 0 |
| Transferred to statutory reserve ............. | | | 711,508 | | ( 711,508) | |
| Equity as on 31 December 2021 ............ | 11,251,397 | 0 | 717,832 | 241,657 | 16,131,437 | 28,342,323 |

Notes on pages 12 - 28 are an integral part of these Consolidated Financial Statements

# Consolidated Statement of Cash Flows for the Year 2021

| | Note | 2021 | 2020 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit and comprehensive profit for the year | | 7,115,078 | 1,034,439 |
| Adjusted for: | | | |
| Fair value adjustment of investment properties | 12 | ( 8,993,981) | ( 2,028,012) |
| Depreciation | 15 | 17,175 | 20,985 |
| Net financial expenses | 10 | 2,018,143 | 2,471,428 |
| Income tax | 11 | 1,850,044 | 255,197 |
| | | 2,006,459 | 1,754,037 |
| Change in operating assets and liabilities: | | | |
| Current assets, decrease, (increase) | | 34,362 | ( 96,002) |
| Current liabilities, increase, (decrease), | | 91,449 | ( 353,090) |
| | | 125,811 | ( 449,092) |
| Net cash provided by operating activities before financial income and expenses | | 2,132,270 | 1,304,945 |
| Interest income received | | 10,989 | 41,508 |
| Interest expenses paid | | ( 1,253,266) | ( 1,560,525) |
| Net cash provided by (used in) operating activities | | 889,993 | ( 214,072) |
| Cash flows from investing activities | | | |
| Investment in investment properties | 12 | ( 1,175,100) | ( 201,314) |
| Investment in investment properties under construction | 14 | ( 668,299) | ( 4,215,078) |
| Sales of investment properties | 12 | 681,505 | 6,117,919 |
| Purchase of equipment | 15 | ( 18,917) | ( 29,640) |
| Selling of equipment | 15 | 2,933 | 3,050 |
| Investment in subsidiaries | 5 | ( 1,078,715) | 0 |
| Long-term bonds, change | | 0 | 42,982 |
| Net cash provided by investing activities | | ( 2,256,593) | 1,717,919 |
| Cash flows from financing activities | | | |
| Repurchasing of own shares | 18 | 0 | 137,220 |
| New long-term borrowings | 20 | 2,441,586 | 11,564,461 |
| Repayments and settlements of interest bearing liabilities | 20 | ( 1,308,381) | ( 13,794,586) |
| Net cash used in financing activities | | 1,133,205 | ( 2,092,905) |
| Decrease in cash and cash equivalents | | ( 233,395) | ( 589,058) |
| Cash and cash equivalents at the beginning of the year | | 1,151,106 | 1,740,164 |
| Cash and cash equivalents transfered into the Group | | 27,779 | 0 |
| Cash and cash equivalents at the end of the year | | 945,490 | 1,151,106 |
| Investing and financing activities not affecting cash flows | | | |
| Investment in investment properties under construction | | 0 | 395,253 |
| Unpaid sales price of investment properties under construction | 24 | 0 | ( 395,253) |
| Sales of investment properties | 17 | 65,994 | 501,230 |
| Unpaid sales price of investment properties | | ( 65,994) | ( 501,230) |

Notes on pages 12 - 28 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 limited liability Company. The Group's headquarters are based in Hlíðarsmári 15, Kópavogur. The consolidated financial statements for the year 2021 comprise of the financial statements of the Group and its subsidiaries; Heimkynni ehf., Heimstaden miðbær ehf., BÞ 14-16 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 Heimstaden AB, Sweden from July 2021.

2. Basis of preparation

a. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional 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 10th of February 2022.

b. 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 no. 3d and 12.

c. 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 147.6 ( 31.12.2020 EUR 156.1).

d. Use of estimates and judgements

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

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 12 - 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.

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 12.

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 cf. note 12 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.

3. Significant accounting policies, contd.:

f. Financial instruments

(i) Financial assets other than derivates

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 are special assets or liabilities.

Financial assets and financial liabilities are equalized and a net amount recorded in the Consolidated Statement of Financial Position when and only when the Groups 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 Groups financial assets are considered financial assets recorded at a depreciated cost price.

Financial assets recorded at a depreciated cost price have set or decisive payments, that are nor recorded in an active market and the Group intends to retain until due date. 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 a depreciated cost price considering active interest rates, less impairment when applicable.

Financial assets recorded at amortized cost are comprised of cash, trade receivables, 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 groups financial liabilities other that derivative contracts as other financial liabilities. Such liabilities are initially recorded are fair value in addition to related transactional expenses. After the initial recording, these financial liabilities are evaluated at a depreciated cost price considering active interest rates.

Financial liabilities are loans, trades payable and other short term liabilities.

Financial assets and financial liabilities are equalized and a net amount recorded in the Consolidated Statement of Financial Position when and only when the Groups 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.

(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. Deferred tax is not recognized for goodwill, not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect accounting, or taxable profit or differences relating to investment in subsidiaries.

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 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

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

k. Segment reporting

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

l. New standards and interpretations

Accounting standards that came into effect for the accounting year that began on 1. January 2021 did not have significant impacts on the Consolidated Financial Statement.

New standards and interpretations that have not come into effect

A few new accounting standards apply to the fiscal year starting after 1. January 2021 and it is allowed 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 3 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
- 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 12.

5. Business combination

In January 2021 the Company bought all shares in Heimkynni ehf., that owns 35 apartments in Reykjavík. The purchase price of the shares amounted to ISK 720 million. In July 2021 the Company bought all shares in Heimstaden miðbær ehf. ( before Fjarðarafl ehf.) that owns 26 apartments in Reykjavík. The purchase price of the shares amounted to ISK 358 million. The purchase price is paid in full. The effects on the Groups balance sheet were as follows:

| | Heimkynni ehf. | Heimstaden Miðbær ehf. | Total |
|---|---|---|---|
| Investment properties, (fair value at purchase date) | 1,614,168 | 1,042,352 | 2,656,520 |
| Current assets | 20,250 | 465 | 20,715 |
| Cash and cash equivalents | 1,652 | 26,127 | 27,779 |
| Assets acquired | 1,636,070 | 1,068,944 | 2,705,014 |
| Loans and borrowings | 688,618 | 688,405 | 1,377,023 |
| Deferred income tax liability | 203,710 | 12,109 | 215,819 |
| Current liabilities | 23,293 | 10,164 | 33,457 |
| Liabilities assumed | 915,621 | 710,678 | 1,626,299 |
| Total net assets | 720,449 | 358,266 | 1,078,715 |

6. Lease contracts

The Group has entered into lease agreements in relation to it´s investment properties. Lease agreements have a fixed lease price indexed to the purchasing price index and are recalculated monthly. Lease agreements are normally from one to three years. The average lease period is 6 months ( 2020: 9 months ). The Group is also party to indefinite lease agreements with a reciprocal six or twelve month termination notice period depending on the active period of the agreement as per leasing laws. The proportion of definite lease agreements to total lease agreements is 33% and indefinite lease agreements are 67% at year end 2021 (2020: 69% and 31%)

The lease terms on agreements are as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Number | Contractual lease income ISK m. | Proportion% | Number | Contractual lease income ISK m. | Proportion% |
| 2021 | 0 | 0 | 0.0% | 1397 | 2,985 | 96.3% |
| 2022 | 1240 | 3,372 | 95.4% | 3 | 7 | 0.2% |
| 2023 | 211 | 36 | 4.6% | 17 | 40 | 1.3% |
| 2024 | 16 | 3 | 0.0% | 0 | 0 | 0.0% |
| 2025 | 0 | 0 | 0.0% | 0 | 0 | 0.0% |
| Later | 78 | 5 | 0.0% | 1 | 66 | 2.1% |
| | 1545 | 3416 | 100.0% | 1418 | 3098 | 100.0% |

6. Lease contracts contd.:

The Groups rental revenue is divided by areas as follows:

| | 2021 | 2020 |
|---|---|---|
| Capital region | 52.2% | 48.1% |
| East Iceland | 2.5% | 2.5% |
| North Iceland | 6.9% | 7.8% |
| South Iceland | 2.6% | 2.7% |
| Reykjanes Peninsula | 35.3% | 38.3% |
| West Iceland | 0.6% | 0.6% |
| | 100.0% | 100.0% |

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 2021 amount to ISK 335 million (2020: 361 million) and the real economical letting ration was 90% (2020: 89%).

7. Operating expenses of investment properties

Operating expenses of investment properties are specified as follows:

| | 2021 | 2020 |
|---|---|---|
| Property tax, water and sewage fees | 311,185 | 291,342 |
| Maintenance and operating expenses of investment properties | 267,595 | 307,673 |
| Insurance | 51,077 | 55,349 |
| Salaries and related expenses | 109,738 | 106,246 |
| Energy and heating | 109,815 | 113,777 |
| Common property fees | 44,027 | 45,640 |
| Service rendered | 78,762 | 83,017 |
| Other operating expenses | 22,607 | 22,044 |
| | 994,806 | 1,025,088 |

Operating expenses of investment properties that are vacant are immaterial.

8. Salaries and related expenses

Salaries and related expenses are specified as follows:

| | 2021 | 2020 |
|---|---|---|
| Salaries | 225,664 | 191,058 |
| Pension contributions | 33,403 | 24,163 |
| Other salary-related expenses | 25,610 | 28,662 |
| Total salaries and related expenses | 284,677 | 243,883 |

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

| | | |
|---|---|---|
| Operating expenses of investment properties | 109,738 | 106,246 |
| Other operating cost | 174,939 | 137,637 |
| Total salaries and related expenses | 284,677 | 243,883 |
| Average number of employees | 20 | 16 |

Salaries, benefits and pension contributions paid to CEO of the Company in the year 2021 amounts to ISK 46,4 million ( 2020: 34,2 million ).

9. Other operating expenses

Other operating expenses are specified as follows:

| | | |
|---|---|---|
| Salaries and related expenses | 174,939 | 137,637 |
| Depreciation | 11,174 | 9,031 |
| Accounts payable, losses | 17,896 | 9,805 |
| Other operating expenses | 234,049 | 190,313 |
| | 438,058 | 346,786 |

# Notes, contd.:

10. Financial income and (expenses)

Financial income is specified as follows:

| | | |
|---|---|---|
| Interest income of cash and cash equivalents | 7,889 | 38,426 |
| Interest income of trade receivables | 3,100 | 3,082 |
| | 10,989 | 41,508 |

Financial expenses are specified as follows:

| | | |
|---|---|---|
| Interest expenses | 1,992,130 | 2,453,616 |
| Interest expenses of lease liabilities | 32,083 | 34,513 |
| Other financial expenses | 4,919 | 24,807 |
| | 2,029,132 | 2,512,936 |

11. Income tax

Income tax is specified as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Profit for the year | | 8,965,122 | | 1,289,636 |
| Income tax according to current tax rate ... | 20.00% | ( 1,793,024) | 20.00% | ( 257,927) |
| Other items | 0.64% | ( 57,020) | ( 0.21%) | 2,730 |
| Effective income tax | 20.64% | ( 1,850,044) | 19.79% | ( 255,197) |

12. Investment properties

Investment properties are specified as follows:

| 31.12.2021 | Investment properties | Lease assets | Total |
|---|---|---|---|
| Investment properties at 1.1 | 51,154,338 | 696,499 | 51,850,837 |
| Transferred into the Group | 2,656,520 | | 2,656,520 |
| Additions during the year | 779,847 | | 779,847 |
| Sold during the year | ( 246,269) | | ( 246,269) |
| Indexation | 0 | 70 | 70 |
| Changes due to sale of properties | 0 | ( 34,189) | ( 34,189) |
| Loss from sale of investment properties | ( 7,460) | | ( 7,460) |
| Fair value adjustment for the year | 9,001,441 | | 9,001,441 |
| Depreciation | | ( 6,001) | ( 6,001) |
| Investment properties at 31.12 | 63,338,417 | 656,379 | 63,994,796 |

| 31.12.2020 | Investment properties | Lease assets | Total |
|---|---|---|---|
| Investment properties at 1.1 | 44,579,237 | 720,156 | 45,299,393 |
| Additions during the year | 201,314 | | 201,314 |
| Transf. from investment properties under construction | 4,582,929 | | 4,582,929 |
| Sold during the year | ( 1,394,817) | | ( 1,394,817) |
| Indexation | | 527 | 527 |
| Changes due to sale of properties | | ( 12,230) | ( 12,230) |
| Profit from sale of investment properties | | | |
| Fair value adjustment for the year | 2,009,520 | | 2,009,520 |
| Depreciation | | ( 11,954) | ( 11,954) |
| Transferred to investment properties for sale | 1,176,155 | | 1,176,155 |
| Investment properties at 31.12 | 51,154,338 | 696,499 | 51,850,837 |

12. Investment properties contd.:

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Purchase price of investment properties | 40,327,988 | 36,879,019 |
| Fair value adjustments | 23,010,429 | 14,275,319 |
| Investment properties at 31.12 | 63,338,417 | 51,154,338 |

Investment properties by region are specified as follows:

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Capital area | 34,817,788 | 28,582,358 |
| East Iceland | 1,501,708 | 768,744 |
| North Iceland | 4,335,532 | 3,454,613 |
| South Iceland | 1,791,669 | 1,135,319 |
| Reykjanes Peninsula | 20,533,278 | 16,952,854 |
| West Iceland | 358,443 | 260,450 |
| Investment properties at 31.12 | 63,338,417 | 51,154,338 |

Official assessment value and assessed value for fire insurance

Official real estate value of investment properties of the Group amounted to ISK 57,111 million at the year end (2020: 50,812 million) there of is the lot evaluation ISK 5,118 million (2020: ISK 4,476 million). The insurance value of these assets amounted to ISK 60,286 million (2020: ISK 52,269 million).

Determination of fair value

Investment properties are recognised at fair value in accordance with the International Accounting Standard IAS 40 - Investment Property and International Financial Reporting Standard IFRS 13 - Fair Value Measurement. The investment properties are all level 2 investments.

The fair value measurement is performed by outside specialist consultation. In the beginning of the year the Group changed it's valuation technique for investment properties i.e from discounted cash flow measurement to market approach as it is the managements judgment that the market approach is more representative of the fair value of the investment properties. For the year 2021 and onwards the fair value is based on fair value of similar assets (sales comparison approach) which is based on independent expert estimate. Valuation from other 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 2016-2021 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 transaction. An average of official sale prices from the current period, or if not available the most resent from earlier periods, was allocated to each apartment based on the criteria explained to assess the value.

Sensitivity analysis

| | | Effect on fair value 2021 | | Effect on fair value 2020 | |
|---|---|---|---|---|---|
| | Change | Increase | Decrease | Increase | Decrease |
| Average market price | +/- 5% | 3,166,921 | ( 3,166,921) | | |
| Market rent | +/- 5% | 0 | 0 | 4,078,431 | ( 4,078,431) |
| WACC | -/+ 0.5% | 0 | 0 | 5,812,096 | ( 4,764,974) |

Changes in fair values of investments properties are disclosed under fair value adjustments of investment properties in the consolidated statement of profit or loss. The fair value increase of investments properties was ISK 8,994 million for the year 2021 as compared to ISK 2,028 million for the year before.

13. Pledges and guarantees

At year end 2021 the Groups investment properties in the carrying amount of ISK 63.338 million, were pledged as guarantees for debt amounting to ISK 31.053 million.

# Notes, contd.:

14. Investment properties under construction

In October 2021 the Company signed a purchase agreement for two buildings in Eskiás 2 & 4, in total 84 apartments that will be delivered in the year 2023. The purchase agreement is in the amount of ISK 4.455 million.

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Investment under construction at the beginning of the year | 0 | 370,211 |
| Investment during the year | 668,299 | 4,212,718 |
| Transferred to investment properties | 0 | ( 4,582,929) |
| Investment under construction at the end of the year | 668,299 | 0 |

15. Property and equipment

Property and equipment are specified as follows:

| | Property | Vehicles | Equipment | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at 31.12.2019 | 0 | 27,030 | 42,888 | 69,918 |
| Additions during the year | 20,564 | 9,076 | 0 | 29,640 |
| Sold during the year | 0 | ( 5,529) | 0 | ( 5,529) |
| Balance at 31.12.2020 | 20,564 | 30,577 | 42,888 | 94,029 |
| Additions during the year | 0 | 18,917 | 0 | 18,917 |
| Sold during the year | 0 | ( 6,127) | ( 39,558) | ( 45,685) |
| Balance at 31.12.2021 | 20,564 | 43,367 | 3,330 | 67,261 |
| Depreciation | | | | |
| Total depreciation 31.12.2019 | 0 | ( 8,034) | ( 34,343) | ( 42,377) |
| Depreciated during the year | 0 | ( 5,084) | ( 3,947) | ( 9,031) |
| Sold during the year | 0 | 3,299 | 0 | 3,299 |
| Total depreciation 31.12.2020 | 0 | ( 9,819) | ( 38,290) | ( 48,109) |
| Depreciated during the year | ( 617) | ( 7,291) | ( 3,266) | ( 11,174) |
| Sold during the year | 0 | 3,194 | 39,558 | 42,752 |
| Total depreciation 31.12.2021 | ( 617) | ( 13,916) | ( 1,998) | ( 16,531) |
| Carrying amount 31.12.2020 | 20,564 | 20,758 | 4,598 | 45,920 |
| Carrying amount 31.12.2021 | 19,947 | 29,451 | 1,332 | 50,730 |
| 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 57,111 million at  and the insurance value amounted to ISK 60,286 million.

# Notes, contd.:

16. Investment properties for sale

At year-end 2021, the Group had no investment properties specified as being for sale.

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Investment properties for sale at the beginning of the year | 0 | 4,613,531 |
| Transferred to investment properties for sale | 0 | ( 1,176,155) |
| Sold during the year | 0 | ( 3,455,868) |
| Profit from the sale of investment properties | 0 | 18,492 |
| Investment properties for sale at year-end | 0 | 0 |

17. Other receivables

Other receivables specified as follows:

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Unpaid selling price of investment properties | 65,994 | 501,230 |
| Short-term bonds | 50,924 | 80,451 |
| Prepaid expenses | 54,475 | 81,422 |
| Other short-term receivables | 2,700 | 1,600 |
| | 174,093 | 664,703 |

18. Equity

Share capital

The Group's share capital according to its Articles of Association amounted to ISK 11,251 million at year end 2021. One vote is attached to each share of ISK 1 in the Group. The share capital is paid in full.

Share premium

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

According to the Icelandic Companies Act, share premium can be offset against accumulated losses.

Statutory reserve

A statutory reserve is established in accordance with Act No. 2/1995 on limited liability companies, which stipulates that at least 10% of the 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

Accumulated deficit or 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.

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 2021 the ratio was 49,0% ( Year end 2020: 54,2%).

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

19. Earnings per share

Earnings per share is specified as follows:

| | 2021 | 2020 |
|---|---|---|
| Profit and comprehensive profit for the year | 7,115,078 | 1,034,439 |
| Share capital at beinning and end of year | 11,251,398 | 11,207,698 |
| Basic and diluted earnings per share | 0.632 | 0.092 |

20. Interest-bearing liabilities

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

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

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Long-term liabilities at the beginning of the year | 27,735,404 | 28,994,678 |
| Transfered into the Group | 1,377,023 | 0 |
| Long-term borrowing | 2,630,467 | 11,652,172 |
| Capitalized borrowing cost of the year | ( 188,881) | ( 87,711) |
| Indexation of the year | 753,080 | 851,438 |
| Payments of the year | ( 1,308,381) | ( 13,794,586) |
| Capitalized borrowing cost-amortization | 54,454 | 119,413 |
| Long-term liabilities at the end of the year | 31,053,166 | 27,735,404 |

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

Long-term liabilities

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Bank loans in ISK, indexed int.2.65%-4.20% / 3.90%-5.10% | 7,363,053 | 7,162,317 |
| Listed bonds, indexed, int. 3.20% - 3.90% | 0 | 12,372,654 |
| Bonds, indexed, int. 3.20% - 3.90% | 12,533,723 | 0 |
| Non-indexed bonds, int. 3.20%-4.80% / 7.40 - 8.40% | 11,429,467 | 8,339,082 |
| Capitalized borrowing cost | ( 273,077) | ( 138,649) |
| Total interest-bearing liabilities including next years payables | 31,053,166 | 27,735,404 |
| Current maturities | ( 4,980,754) | ( 567,499) |
| Long-term liabilities at the end of the year | 26,072,412 | 27,167,905 |

Interest-bearing-short-term liabilities

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Next years repayments of long-term interest-bearing liabilities | 4,980,754 | 567,499 |
| Interest-bearing short-term liabilities | 4,980,754 | 567,499 |

21. Repayments of interest-bearing long-term liabilities

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

| | 2021 | 2020 |
|---|---|---|
| Within 12 months | 4,980,754 | 567,499 |
| From 12 - 24 months | 1,164,673 | 3,407,738 |
| From 24 - 36 months | 936,429 | 5,241,708 |
| From 36 - 48 months | 591,926 | 449,259 |
| From 48 - 60 months | 608,370 | 799,650 |
| From 60 - 72 months | 1,400,945 | 468,733 |
| Later | 21,370,069 | 16,800,817 |
| Total interest-bearing long-term liabilities, including current maturities | 31,053,166 | 27,735,404 |

At year end 2021 the Group fulfils all obligations in the loan agreements.

22. Lease liability

| Lease liability specifies as follows: | 31.12.2021 | 31.12.2020 |
|---|---|---|
| At the beginning of the year | 688,216 | 717,539 |
| Indexation adjustment | 69 | 527 |
| Changes due to properties sold | ( 31,571) | ( 14,224) |
| Interest expenses of the year | 31,666 | 34,513 |
| Repayments of the year | ( 41,438) | ( 50,139) |
| At the end of the year | 646,942 | 688,216 |
| Total repayments of the year | 41,438 | 50,139 |

23. Deferred income tax liability

Deferred income tax liability is specified as follows:

| | | |
|---|---|---|
| Deferred income tax liability at the beginning of the year | 3,190,902 | 2,935,705 |
| Transfered into the Group | 215,819 | 0 |
| Income tax | 1,850,044 | 255,197 |
| Income tax to be paid | ( 11,771) | 0 |
| Deferred tax liability at the end of the year | 5,244,994 | 3,190,902 |

Deferred income tax liability is specified as follows;

| | | |
|---|---|---|
| Investment properties | 5,909,787 | 3,815,506 |
| Carry forward tax losses | ( 728,294) | ( 682,202) |
| Depreciation of tax losses | 64,992 | 56,379 |
| Other items | ( 1,491) | 1,219 |
| Deferred tax liability at the end of the year | 5,244,994 | 3,190,902 |

Carry forward tax losses at year-end 2021 amount to ISK 3,641 million (2020: ISK 3,411 million). Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

| | | |
|---|---|---|
| Loss of the year 2011, to be used before end of 2021 | 52,070 | 52,070 |
| Loss of the year 2012, to be used before end of 2022 | 53,904 | 53,904 |
| Loss of the year 2013, to be used before end of 2023 | 102,174 | 102,174 |
| Loss of the year 2014, to be used before end of 2024 | 13,312 | 13,312 |
| Loss of the year 2015, to be used before end of 2025 | 287,084 | 287,084 |
| Loss of the year 2016, to be used before end of 2026 | 429,600 | 429,600 |
| Loss of the year 2017, to be used before end of 2027 | 360,090 | 360,090 |
| Loss of the year 2018, to be used before end of 2028 | 564,836 | 564,836 |
| Loss of the year 2019, to be used before end of 2029 | 623,527 | 623,527 |
| Loss of the year 2020, to be used before end of 2030 | 754,981 | 924,413 |
| Loss of the year 2021, to be used before end of 2031 | 399,891 | 0 |
| Total carry-forward tax loss | 3,641,469 | 3,411,010 |

The Group's management expects, based on business plans, refinancing and organizing of the Group, that there will be sufficient taxable profit in the future to cover the carry-forward tax losses. To be prudent a reserve of ISK 325 million has been made.

24. Trade and other payables
Trade and other payables are specified as follows:

| | | |
|---|---|---|
| Trade payables | 98,288 | 94,208 |
| Accrued interest | 92,257 | 73,094 |
| Guarantees and prepaid rent | 347,666 | 279,929 |
| Income tax of the year | 11,771 | 0 |
| Unpaid purchase price of investment properties | 0 | 395,253 |
| Other payables | 37,456 | 48,758 |
| Trade and other payables, total | 587,438 | 891,242 |

25. 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

26. 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 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 16,9 million at year end 2021 (2020: 1,9 million).

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

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Trade receivables | 41,455 | 20,443 |
| Other receivables | 174,093 | 664,703 |
| Cash and cash equivalents | 945,490 | 1,151,106 |
| | 1,161,038 | 1,836,252 |

26. Credit risk contd.:

Maturities of trade receivables at 31. December 2021:

| | 1 - 30 d. | 31 - 60 d. | 61 - 90 d. | Older than 91 d. | Write off | Carrying amount |
|---|---|---|---|---|---|---|
| Trade receivables .. | 24,016 | 3,055 | 6,165 | 25,113 | ( 16,894) | 41,455 |
| | 24,016 | 3,055 | 6,165 | 25,113 | ( 16,894) | 41,455 |

Maturities of trade receivables at 31. December 2020:

| | 1 - 30 d. | 31 - 60 d. | 61 - 90 d. | Older than 91 d. | Write off | Carrying amount |
|---|---|---|---|---|---|---|
| Trade receivables .. | 17,591 | 1,730 | 184 | 2,828 | ( 1,890) | 20,443 |
| | 17,591 | 1,730 | 184 | 2,828 | ( 1,890) | 20,443 |

Write off of trade receivables is specified as follows:

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Trade receivables write off at the beginning of the year .................................... | 1,890 | 3,245 |
| Allowance for bad debt ........................................................................................ | ( 17,896) | ( 9,805) |
| Trade receivables write off during the period, change ..................................... | 32,900 | 8,450 |
| Trade receivables write off at end of the year .................................................. | 16,894 | 1,890 |

27. 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 it's financial liabilities. At year end 2021 35% (2020: 30%) of the Group's interest-bearing liabilities were loans from financial institutions and 65% bonds owned by investors (2020: 70%).

At year end 2021 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.

27. Liquidity risk, contd.

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

| 2021 | Carrying amount | Contractual cash flows | Within 1 year | 1 - 2 years | 2 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| 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 | 575,667 | 575,667 | | | |
| | 32,287,546 | 33,891,948 | 8,481,027 | 3,042,579 | 3,478,367 | 18,889,960 |
| 2020 | | | | | | |
| Financial liabilities | | | | | | |
| Interest-bearing liab. .. | 27,735,404 | 27,735,404 | 567,499 | 3,407,738 | 6,490,618 | 17,269,547 |
| Lease payables ......... | 688,216 | 2,407,498 | 48,150 | 48,150 | 144,450 | 2,166,748 |
| Trade payables .......... | 891,242 | 891,242 | 891,242 | 0 | 0 | 0 |
| | 29,314,862 | 31,034,144 | 1,506,891 | 3,455,888 | 6,635,068 | 19,436,295 |

28. 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. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(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 has no exchange rate risk since properties, liabilities and agreements are not in foreign currency. Loans are in ISK and in most part 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 2021 | 2020 |
|---|---|---|
| Financial assets with floating interest rates ....................................................... | 945,490 | 1,151,106 |
| Financial liabilities with floating interest rates .................................................... | ( 11,429,467) | ( 8,339,082) |
| | ( 10,483,977) | ( 7,187,976) |

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) the profit before income tax by ISK 104 million (2020: ISK 71,3 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2020. 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.:

28. Market risk contd.:

Inflation risk

Interest-bearing liabilities in the amount of ISK 19.896 million (2020: ISK 19,535 million) are indexed to the consumer price index. An increase (decrease) in inflation of 1% at year end 2021, and other variables unaffected, would have increased (decreased) the Group's profit before income tax in the amount of ISK 198 million (2020: ISK 195 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.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Interest-bearing liabilities ............................... | 31,053,166 | 33,769,868 | 27,735,404 | 30,161,850 |

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 2021.

29. 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 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.

30. Related parties

Related parties are defined as those who have control of 20% or more of the Group's shares, subsidiaries, members of the Board of Directors, management and companies controlled by the Group's management and members of the Board of Directors. No trades were recorded with related parties in the year.

31. Shares in subsidiaries

At the beginning of the year three subsidiaries Heimstaden III ehf., Heimstaden VI ehf., and HV 900 ehf., were merged with the Parent Company. In January 2021 the Parent Company bought all shares in the company Heimkynni ehf., that owns 35 apartments in Reykjavík and in July 2021 all shared in the company Heimstaden Miðbær ehf. ( before Fjarðarafl ehf.) that owns 26 apartments in Reykjavík. The subsidiaries are four at the end of 2021 and are specified as follows:

| | Share 2021 | Share 2020 |
|---|---|---|
| Heimstaden III ehf., Reykjavík ............................................................................ | - | 100% |
| Heimstaden VI ehf., Reykjavík ........................................................................... | - | 100% |
| Heimstaden 900 ehf., Reykjavík ......................................................................... | - | 100% |
| Heimkynni ehf., Reykjavík .................................................................................. | 100% | - |
| Heimstaden Miðbær ehf., Reykjavík ................................................................. | 100% | - |
| BÞ 14 - 16 ehf., Reykjavík .................................................................................. | 100% | 100% |
| Heimstaden rekstur ehf., Reykjavík .................................................................. | 100% | 100% |

# Notes, contd.:

32. Auditor's fee

The Group's Audit fee for 2021 amounted to ISK 11,5 million, VAT excl. (2020: ISK 12,8 million) thereof ISK 9,3 million (2020: ISK 8,3 million) for the financial statements audit and Auditor's review on interim financial statements.

33. Obligations

The group has committed to lease agreements for the properties Hlíðarsmári 15 and Norðingabraut 4, Reykjavík. The leases are linked to the consumer price index and amount to ISK 0,7 million monthly. The total lease liability amounts to ISK 9,7 million at year end.

34. Other matters

It is unclear what impact the Covid-19 epidemic will have on the Group's operations and asset portfolio for the short or long term. The Group has a diverse asset portfolio and positive cash holdings. The main impact on the Group's operations has been an increase in the property underutilization rate. Each 1% increase in the underutilization rate impacts rental income by a decrease of ISK 37 million. The financial result for the next year will depend on the development of the pandemic and its effects on the Icelandic and global economies.

In July 2021 the Company's listed bonds HEIMA071248 and HEIMA071225 were delisted and therefore the Company is no longer a Public interest entity. Following that change, Fredensborg ICE ehf. sold all the shares in the Company to Heimstaden AB in Sweden. From that time Heimstaden ehf. is a direct part of the Heimstaden Group.

# Quarterly statement - unaudited

Quarterly

The quarterly statement of the Group specifies as follows:

| | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 | Total |
|---|---|---|---|---|---|
| Rental revenue | 894,754 | 871,998 | 836,968 | 812,167 | 3,415,887 |
| Operating expenses of inv. properties | ( 260,460) | ( 254,266) | ( 241,893) | ( 238,187) | ( 994,806) |
| Net rental revenue | 634,294 | 617,732 | 595,075 | 573,980 | 2,421,081 |
| Other income | 1,478 | 780 | 2,167 | 1,836 | 6,261 |
| Other operating expenses | ( 115,361) | ( 99,215) | ( 114,835) | ( 108,647) | ( 438,058) |
| Operating profit before fair value adjustment | 520,411 | 519,297 | 482,407 | 467,169 | 1,989,284 |
| Fair value adjustment of inv. properties | 3,969,069 | 985,117 | 2,706,888 | 1,332,907 | 8,993,981 |
| Operating profit before finance income and finance expenses | 4,489,480 | 1,504,414 | 3,189,295 | 1,800,076 | 10,983,265 |
| Finance income | 5,336 | 766 | 1,975 | 2,912 | 10,989 |
| Finance expenses | ( 609,872) | ( 385,905) | ( 594,497) | ( 438,858) | ( 2,029,132) |
| Net finance expenses | ( 604,536) | ( 385,139) | ( 592,522) | ( 435,946) | ( 2,018,143) |
| Profit before income tax | 3,884,944 | 1,119,275 | 2,596,773 | 1,364,130 | 8,965,122 |
| Income tax | ( 834,008) | ( 223,856) | ( 519,354) | ( 272,826) | ( 1,850,044) |
| Profit and comprehensive profit for the year | 3,050,936 | 895,419 | 2,077,419 | 1,091,304 | 7,115,078 |

# 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 2020:

- Andreas Sötvedt Oulie, Chairman of the Board (from the 14th of May 2020)
- Helge Krogsböl, Board member (from the 14th of May 2020)
- Sondre Hove, Board member (from the 14th of May 2020)

- Andreas Sötvedt Oulie, Chairman of the Board (Board member since May 2020)
37 years old
B.Sc. in business from Norwegian School of Business
Managing Director of Investment Team at Fredensborg AS
Board member of Fredensborg ICE ehf., owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent Board member in Heimstaden ehf.

- Helge Krogsböl, Board member since May 2020
54 years old
Chief Operating Officer for Heimstaden AB
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent Board member in Heimstaden ehf.

- Sondre Hove, Board member since May 2020
31 years old
Norwegian School of Economics, Columbia University in the City of New York
Senior Associate in Investment Team at Fredensborg AS
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent 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 January 16th, 2020. 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.

Arnar Gauti Reynisson has been the Company's CEO since 1st of April, 2019. The CEO's job description is outlined in his employment contract.
Arnar Gauti has an M.Sc. in Industrial Engineering from the University of Minnesota, B.Sc. in Mechanical Engineering from the University of Iceland and is a licensed stock broker. 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 employee 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 2021 the Board had one Board Meeting. All Board Members were present at the meeting. The Board of Directors has not conducted a formal evaluation of their work in 2021 but plans to execute the evaluation in March 2022. 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 16th of January 2020. 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 16th of January 2020.

The Company has not been sentenced for violating any rules and/or regulations by appropiate 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 Policies:
Heimstaden wants to be the foremost operator of residential housing in the 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 emphasizes on four main enviromental 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 enviromentally certified paint when repainting interiors of apartments and enviromentally 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 property portfolio.
Results of the Company's policies:
The Company has been operating in accordance with the aforementioned policies in 2021. The Company has been successful in transforming the asset portfolio which has resulted in greater operating efficiency.  This work will continue through out this

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 October 2021, where the factors deemed important to ensure the safety of personal data that belongs to the Company's lessees, 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 Covid 19 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 in Iceland has few employees and it is important to maintain a friendly workplace in order to achieve Heimstaden's goals.

• Not enough information sharing between employees during the day-to-day operations

Heimstaden 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'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's 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 has adopted goals based on the UN sustainable development goals and the Group is consistantly working towards achieving those goals.

Further information on Heimstadens 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 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 paint the majority of their apartments with a special paint called “Heimstaden 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. The Company is looking into getting BREEAM certifications or Nordic Swan Ecolabel certifications for those buildings that the Company owns where such a certification is possible. The company is finalizing an ECO report which will review ecological factors such as water and electricity usage and more. The first version of the report will be ready in Q1 or Q2, after which it will

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 apartments. In the year 2021 no accidents occurred, in great part due to the good condition of Heimstaden apartments. Heimstaden maintenance employees always review Heimstaden 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'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 ÍST 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'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 2021 was 21 and the distribution of employees is as follows: 11 employees work in the Company's office in Reykjavík and 10 employees work in property management in the Company's operating regions. In property management there are  are men whereas in the office there are four women and four men.

The main risk factor regarding Heimstaden personnel is that the workplace becomes hostile. Heimstaden ehf. is a small business with 10 office employees and 11 maintanance 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 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 and its subsidiaries conduct business with suppliers, partners and customers with respect and integrity, cf. Heimstaden 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
No incidents occurred during the year in relation to corruption and bribery matters.