

Reitir fasteignafélag hf.
Condensed Consolidated
Interim Financial Statements
30 June 2011
ISK

Reitir fasteignafélag hf.
Kringlunni 4-12
103 Reykjavík

Reg.no. 711208-0700

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Endorsement and Signatures of the Board of Directors and the Managing Director

Reitir fasteignafélag hf. is a real estate company, its operations being investment in property and leasing out investment property under operating leases in Iceland.

The condensed consolidated interim financial statements for the first six months have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". The interim financial statements comprise the consolidated interim financial statements of Reitir fasteignafélag hf. (the "Company") and its subsidiaries together referred to as the "Group".

According to the statement of comprehensive income, net loss for the six months ended 30 June 2011 amounted to ISK 1.803 million. The Company's equity amounted to ISK 18.326 million at the end of June 2011 according to the statement of financial position, including share capital amounting to ISK 7 million.

There were seven shareholders at the end of the period. At 30 June 2011, the following three shareholders held over 10% of outstanding shares:

	Shares
Eignabjarg ehf.....	42,67%
Horn Fjárfestingarfélag ehf.....	29,57%
Protabú Landic Property hf.....	15,88%

Statement by the Board of Directors and the Managing Director

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the six months ended 30 June 2011, its assets, liabilities and financial position as at 30 June 2011 and its cash flows for the period then ended in accordance with IFRS as adopted by the EU.

Further, in our opinion the condensed consolidated interim financial statements and the endorsement by the Board of Directors and the Managing Director give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group. Uncertainty still prevails over the real value of assets.

The Board of Directors and the Managing Director have today discussed the condensed consolidated interim financial statements of Reitir fasteignafélag hf. for the period from 1 January to 30 June 2011 and confirm them by means of their signatures.

Reykjavík, 17 August 2011

Board of Directors:

Elín Árnadóttir

Einar Ingi Halldórsson

Finnur Sveinbjörnsson

Gunnar Jónsson

Pórarinn Viðar Pórarinsson

Managing Director:

Guðjón Auðunsson

Independent Auditor's Review Report

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

We have reviewed the accompanying condensed consolidated statement of financial position of Reitir fasteignafélag hf. as of 30 June 2011 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Emphasis of Matter

We draw attention to endorsement of the board of directors and the managing director in the financial statements, which states that uncertainty still prevails over the real value of assets.

Reykjavík, 17 August 2011

KPMG ehf.

Anna Þórðardóttir

Consolidated Statement of Comprehensive Income

1 January to 30 June 2011

	Notes	2011 01.01.-30.06	2010 01.01.-30.06
Operating revenue and expenses			
Rental income		3.735	3.747
Operating expenses of investment properties		(821)	(852)
Operating income		<u>2.914</u>	<u>2.895</u>
Administrative expenses		(162)	(146)
Profit before net financial cost		2.751	2.749
Financial income		44	2.526
Financial expenses		(4.796)	(3.115)
Net financial cost	5	<u>(4.752)</u>	<u>(589)</u>
(Loss) profit before tax		(2.000)	2.161
Income tax		198	(255)
(Loss) profit for the period		<u>(1.803)</u>	<u>1.906</u>
Other comprehensive income		0	0
Comprehensive (loss) income for the period		<u>(1.803)</u>	<u>1.906</u>
(Loss) earnings per share			
Basic and diluted (loss) earnings per share of ISK 1		<u>(270)</u>	<u>286</u>

Consolidated Statement of Financial Position

as at 30 June 2011

	Notes	30.06.2011	31.12.2010
Assets			
Investment properties		92.668	92.024
Property and equipment for own use		151	154
Loans and receivables		74	35
Total non-current assets		92.892	92.213
Trade and other receivables		329	362
Prepaid expenses		83	0
Restricted cash		729	678
Cash and cash equivalents		537	820
Total current assets		1.677	1.860
Total assets		94.570	94.072
Equity			
Share capital		7	7
Share premium		16.098	16.098
Investment properties value adjustment reserve		1.351	1.351
Retained earnings		870	2.673
Total equity		18.326	20.129
Liabilities			
Loans and borrowings		67.097	68.289
Deferred income-tax liability		3.540	3.737
Total non-current liabilities		70.637	72.027
Loans and borrowings		4.697	1.131
Trade and other payables		909	786
Total current liabilities		5.606	1.917
Total liabilities		76.244	73.944
Total equity and liabilities		94.570	94.072

Consolidated Statement of Changes in Equity

1 January to 30 June 2011

	Share capital	Share premium	Investment properties value adjustment	Retained earnings	Total equity
1 January - 30 June 2010					
Balance at 1 January 2010	7	16.098	0	0	16.105
Profit for the period				1.906	1.906
Balance at 30 June 2010	7	16.098	0	1.906	18.010
1 January - 30 June 2011					
Balance at 1 January 2011	7	16.098	1.351	2.673	20.129
Loss for the period				(1.803)	(1.803)
Balance at 30 June 2011	7	16.098	1.351	870	18.326

Consolidated Statement of Cash Flows

1 January to 30 June 2011

	Notes	2011 01.01.-30.06	2010 01.01.-30.06
Cash flows from operating activities			
(Loss) profit for the period .....	(	1.803)	1.906
Adjustments for:			
Depreciation		11	10
Net financial cost	5	4.752	589
Income tax .....	(	198)	255
		2.762	2.759
Change in current assets .....	(	63)	(69)
Change in current liabilities		140	3
Changes in operating assets and liabilities		77	(66)
Interest income received		19	24
Interest expenses paid .....	(	1.706)	(1.792)
Net cash provided by operating activities		1.152	926
Cash flows from investing activities			
Acquisition of investment properties cash .....	(	643)	(99)
Acquisition of property and equipment for own use .....	(	8)	(3)
Other receivables, change		6	5
Change in restricted cash .....	(	50)	(407)
Net cash used in investing activities		(695)	(504)
Cash flows from financing activities			
Proceeds from loans and borrowings		32	0
Repayments of long-term borrowings .....	(	777)	(773)
Net cash used in financing activities		(745)	(773)
Decrease in cash and cash equivalents .....	(	287)	(351)
Effect of exchange rate fluctuations on cash held		4	0
Cash and cash equivalents at 1 January		820	1.023
Cash and cash equivalents at 30 June		537	672

Notes

1. Reporting entity

Reitir fasteignafélag hf. ("the Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Kringlan 4-12, Reykjavík, Iceland. The condensed interim consolidated financial statements of the Company as at and for the ended 30 June 2010 comprise the Company and its subsidiaries, together referred to as the "Group".

The Group's main operations are leasing out of investment property under operation leases.

2. Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance International Financial Reporting Standard IAS 34. The condensed interim consolidated financial statements of Reitir fasteignafélag hf. do not include all of the information required in complete annual financial statement and should be read together with the Company's 2010 annual financial statements.

The condensed consolidated interim financial statements were approved by the Board of Directors on 17 August 2011.

3. Significant accounting policies

The same accounting policies are followed in preparing the condensed consolidated interim financial statements as were used in preparing the Company's annual financial statements for 2010.

These financial statements are presented in Icelandic krona (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest million. The statements have been prepared on the historical cost basis except that investment property is measured at fair value.

4. Estimates and judgements

The preparation of financial statements in conformity with the Icelandic financial statement act 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. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

5. Financial income and expense

Financial income is specified as follows:

	2011	2010
	01.01.-30.06	01.01.-30.06
Interest income	37	75
Indexation	7	6
Net foreign exchange gain	0	2,445
Total financial income	<u>44</u>	<u>2,526</u>

Financial expenses are specified as follows:

Interest expenses	(1.845)	(1.779)
Indexation	(1.770)	(1.314)
Net foreign exchange loss	(1.169)	(22)
Borrowing fee	(12)	
Total financial expenses	<u>(4.796)</u>	<u>(3.115)</u>
Net financial cost	<u>(4.752)</u>	<u>(589)</u>

Notes, cont.:

6. Related parties

Identity of related parties

The Group has a related party relationship with its owners with significant influence, its subsidiaries and with its Board of Directors and Managing Directors. Significant owners are Eignabjarg ehf. (Arion banki hf.) and Horn Fjárfestingarfélag ehf. (Landsbankinn hf.).

Related parties with key management personnel

The Group was not involved in any transactions during the year with members of the Board of Directors, the Managing Director or companies outside the Company in which these parties have interests.

Related party transactions with significant owners

The statement of financial position includes the following transactions with significant owners:

	30.06.2011	31.12.2010
Assets:		
Restricted cash	704	616
Cash and cash equivalents	537	820
	1.240	1.436
Liabilities:		
Loans and borrowing	29.644	28.792
Other payables (accrued interest)	166	138
	29.811	28.930

The statement of comprehensive income include the following transaction with significant owners:

	2011	2010
	01.01.-30.06	01.01.-30.06
Interest income	24	51
Interest expenses	1.817	1.536

7. Group entities

Subsidiaries at 30 June 2011 were seven and they are:

	Ownership interest	
	30.6.2011	30.6.2010
Reitir I ehf., Iceland	100%	100%
Reitir II ehf., Iceland	100%	100%
Reitir III ehf., Iceland	100%	100%
Reitir IV ehf., Iceland	100%	100%
Reitir V ehf., Iceland	100%	100%
Reitir VI ehf., Iceland	100%	100%
Reitir VII ehf., Iceland	100%	100%