Reginn hf.

Consolidated Financial Statements
2012

Reginn hf.
Hagasmári 1
201 Kópavogur

Reg. no. 630109-1080

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Endorsement and Statement by the Board of Directors and the CEO

The consolidated financial statements of Reginn hf. have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Reginn hf. is an Icelandic limited company with distributed ownership and is listed in the Icelandic stock exchange, NASDAQ OMX Iceland hf. The Company is a real estate company handling investment, renting and management of business premises. Reginn's real estate portfolio comprises 32 properties and the total square meters of the portfolio at year end was 158 thousand square meters. Over 96% of rentable square meters are being rented out. The Company's biggest properties are the shopping centre Smáralind in Kópavogur and Egilshöll in Grafarvogur.

The operation of the Group consists in ownership, development, rent and operation of real estates under professional activity, such as commercial, service and industrial activities, offices, sports and entertainment facilities. Furthermore, sale of services related to rent and operation of real estates, such as cleaning, janitorial services, maintenance and general real estate management.

During the year, the Company was listed in the Icelandic stock exchange following a general tender of shares where 975,000,000 shares in the Company were sold. These shares correspond to a 75% share. Shareholders numbered 939 at year end. Eignarhaldsfélag Landsbankans ehf., holds a 25% share in the Company, other shareholders hold within 10%, thereof two over 5%.

In January 2012, the Company's share capital was decreased and the decrease was allocated to a share premium account. In February 2012, the Company's equity was increased by subscription of 250,000,000 new shares at the exchange rate 7.2. In February 2012, the Company's form was changed from private limited liability company (ehf.) to limited liability company (hf.). Furthermore, the Company's Articles of Association were amended and a new Board of Directors consisting of five Directors was elected.

In a shareholders' meeting on 4 December 2012 it was decided, in accordance with Art. 55 of Act no. 2/1995, to authorise the Company's Board of Directors to acquire treasury shares over the next three years. The purchase value of the shares shall be based on the last recorded market value before a purchase agreement is concluded. No limitation is set on the minimum number of shares within this authorisation. The Company and its subsidiaries shall not hold more treasury shares than permitted by law, which currently is 10% of the share capital.

At year end, a temporary operating and service agreement between Reginn hf. and Hömlur ehf. terminated. The agreement stipulated that Reginn should handle the management and development of properties sold to Hömlur ehf. parallel to the preparation of the registration of Reginn hf. in the stock exchange.

The Company's management has been involved in two extensive projects in the year 2012, apart from general operating projects. The projects are:

Refinancing of the subsidiaries Knatthöllin ehf., Kvikmyndahöllin ehf. and Eignarhaldsfélagið Smáralind ehf. Refinancing of these companies was concluded in the year with good results. The Company's estimated benefit due to lower interest terms is around ISK 160 million on annual basis.

Optimisation in order to decrease the Company's administrative expenses. Parallel to the termination of a temporary operating and service agreement between Reginn hf. and Hömlur ehf. the Company has been systematically working on reducing the scope and cost of the Group's management. At year end 2012, the project was in all main respect concluded and the Company was able to reach set goals.

Operation and financial standing

Profit for the year amounted to ISK 2,599 million according to the statement of comprehensive income. The Group's total assets amounted to ISK 32,195 million at year end 2012 according to the statement of financial position. The Company's equity amounted to ISK 11,108 million including share capital in the amount of ISK 1,300 million and the Company's equity ratio was around 35%.

Operation and financial standing, contd.:

Operating revenue of Reginn hf. Group amounted to ISK 3,484 million in the year 2012 compared to ISK 3,171 million in the year 2011. The Group's operating profit before value adjustment, gain on sale of investment properties and depreciation in the year 2012 amounted to ISK 1,981 million compared to ISK 1,501 million in the previous year.

The Company's Board of Directors proposes no payment of dividend in the year 2013, but otherwise refers to the financial statements for allocation of profit and other changes in equity during the year.

The Company's asset portfolio

The Company's asset portfolio at year end 2012 comprises 32 properties of total 157,588 m^2 in size, classified as follows:

Commercial buildings	50%
Sports and entertainment	19%
Office buildings	17%
Tourism, industrial and storage buildings	14%

Based on the carrying amount of investment properties the average price of each m^2 is around ISK 191 thousand. Five individual properties, i.e. Smáralind shopping mall, football hall and cinema together forming Egilshöll entertainment and sports centre, Brúarvogur 1-3, Vínlandsleið 1 and Suðurhraun 1 make up 73% of the Company's properties in terms of size.

Changes in asset portfolio / projects

The main changes in the Company's asset portfolio in the year 2012 were the following:

In May 2012, Reginn hf. sold the subsidiary Laugahús ehf. to Hömlur ehf. Laugahús ehf. is included in the consolidated financial statements of Reginn until 30 April 2012. The real estate at Sundlaugavegur 30a is owned by Laugahús ehf.

Around mid year, an extensive development project on the building at Brúarvogur 1 - 3, which was undertaken parallel to the conclusion of a new rental agreement, was concluded.

In the third quarter the development of Egilshöll was finalized with the opening of a bowling alley and a restaurant in Egilshöll. The bowling alley has 22 lanes with the appropriate equipment and services.

In October, the Company finalized the purchase of the real estate at Hafnarstræti 83-89 in Akureyri, which houses Hótel KEA. Furthermore, a rental agreement with a 14 year term was concluded with Keahótel ehf.

At year end, an extensive and thorough development and renovation of Borgartún 33 was concluded, which pertained to a rental agreement on the entire building.

Furthermore, the Company undertook several maintenance and renovation projects on its rental properties.

Lawsuits

By the ruling of the District Court of Reykjavík on 21 November 2012 Eignarhaldsfélag Smáralindar ehf. was absolved from all claims by the bankruptcy estate of Norðurturninn which filed a lawsuit against Eignarhaldsfélag Smáralindar ehf. for the payment of a part in the construction cost of the North tower. The Company had from the beginning objected to the claim as no formal approval was found in the Company's documents for the approval of participating in the building cost. Landsbankinn hf., owner of Reginn hf. before the listing on market, had issued a hold-harmless statement should the Company be sentenced to pay the claim.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Board of Directors and corporate governance

The Board of Directors of Reginn hf. emphasizes on maintaining good corporate governance and complying with the Icelandic Corporate Governance Guidelines issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers in March 2012. The Board of Directors has laid down comprehensive guidelines wherein the competences of the Board is defined and its scope of work vis-à-vis the CEO. The Company is listed in Kauphöll Íslands hf. and shall therefore comply with Guidelines on Corporate Governance in accordance with the stock exchange's rules, which are accessible on its website. Further information on the Board of Directors and corporate governance is included in the Chapter Corporate Governance as appendix to the Company's financial statements.

Statement by the Board of Directors and the CEO

According to our best knowledge it is our opinion that the consolidated financial statements give a true and fair view of the consolidated financial performance of the Group for the financial year 2012, its assets, liabilities and consolidated financial position as at 31 December 2012 and its consolidated cash flows for the financial year 2012.

Further, in our opinion the consolidated financial statements and the endorsement by the board of directors and the CEO 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.

The Board of Directors and the CEO of Reginn hf. have today discussed the Company's financial statements for the year 2012 and confirm them by means of their signatures. The Board of Directors and the CEO submit the financial statements to the Annual General Meeting for approval.

Kópavogur, 26 February 2013.

The Board of Directors:

Elín Jónsdóttir

Benedict K. Kristiansen

Guðríður Friðriksdóttir

Guðrún Blöndal

Stanley Pálsson

CEO:

Helgi S. Gunnarsson

Independent Auditors' Report

To the Board of Directors and shareholders of Reginn hf.

We have audited the accompanying financial statements of Reginn hf., which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error .

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Reginn hf. as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 106, Paragraph 1 item 5 of the Icelandic Financial Statements Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Financial Statements.

Reykjavík, 26 February 2013

KPMG ehf.

Helgi F. Arnarson

Sigurður Jónsson

Consolidated Statement of Comprehensive Income for the year 2012

	Notes	2012	2011
Operating revenue	5	3.483.794	3.171.238
Operating expenses of investment properties	6	(1.123.000)	(1.278.364)
		2.360.794	1.892.874
Administrative and marketing expenses		(311.725)	(392.004)
Registration cost		(68.180)	0
Operating profit before value adjustment and depreciation		1.980.889	1.500.870
Gain on sale of investment properties	10	770.000	102.068
Value adjustment of investment properties	10	2.397.193	1.672.305
Depreciation	11	(3.997)	(19.647)
Operating profit		5.144.085	3.255.596
Finance income and (expenses):			
Finance income		70.120	467.839
Finance expenses		(1.904.106)	(2.123.012)
Net finance expenses	8	(1.833.986)	(1.655.173)
Profit before income tax		3.310.099	1.600.423
Income tax	9	(710.710)	(289.289)
Profit for the year and comprehensive income		2.599.389	1.311.134
Earnings per share:			
Basic and diluted earnings per share	15	1,57	0,73

Notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2012

	Notes	2012	2011
Assets			
Investment properties	10	30.114.008	27.104.361
Property and equipment for own use	11	23.293	22.688
Investments and long term receivables		0	45.101
Non-current assets		30.137.301	27.172.150
Unpaid sales value of investment properties		0	15.000
Current maturities on long term receivables		6.726	12.212
Receivable from related companies	25	90.072	1.601.103
Trade and other receivables	12	258.727	283.381
Cash and cash equivalents	13	1.701.698	861.971
Current assets		2.057.223	2.773.667
Total assets		32.194.524	29.945.817
Equity			
Share capital		1.300.000	5.610.100
Reserve		7.059.900	716.113
Investment properties value adjustment		2.202.290	312.864
Retained earnings		546.081	30.006
Equity	14	11.108.272	6.669.083
Liabilities			
Interest bearing liabilities	16	17.595.652	17.029.661
Unpaid purchase value of investment properties		0	24.000
Deferred income tax liability	17	1.183.359	564.794
Non-current liabilities		18.779.011	17.618.455
Interest bearing liabilities	16	1.702.088	2.133.524
Unpaid purchase value of investment properties		153.976	52.706
Payable to related companies	25	0	3.153.900
Trade and other payables	18	451.177	318.149
Current liabilities		2.307.241	5.658.279
Total liabilities		21.086.252	23.276.734
Total equity and liabilities		32.194.524	29.945.817

Notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year 2012

	Share capital	Reserve	Investment properties value adjustment	(Accumulated deficit) retained earnings	Total
Year 2011					
Equity 1.1.2011	3.887.100	0	0	(837.151)	3.049.949
Profit for the year and comprehensive income			312.864	998.270	1.311.134
Paid in share capital	1.723.000	585.000			2.308.000
Contribution to statutory reserve		131.113		(131.113)	0
Equity 31.12.2011	5.610.100	716.113	312.864	30.006	6.669.083
Year 2012					
Equity 1.1.2012	5.610.100	716.113	312.864	30.006	6.669.083
Profit for the year and comprehensive income			1.889.426	709.963	2.599.389
Share capital decrease transferred to share premium	(4.560.100)	4.560.100			0
Paid in share capital	250.000	1.595.000			1.845.000
Stamp duty on share capital		(5.200)			(5.200)
Contribution to statutory reserve		193.887		(193.887)	0
Equity 31.12.2012	1.300.000	7.059.900	2.202.290	546.081	11.108.272

Notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year 2012

	Notes	2012	2012
Cash flows from operating activities			
Profit for the year		2.599.389	1.311.134
Adjusted for:			
Gain on sale of investment properties	10	(770.000)	(102.068)
Value adjustment of investment properties	10	(2.397.193)	(1.672.305)
Depreciation	11	3.997	19.647
Net finance expenses	8	1.833.986	1.655.173
Income tax	9	710.710	289.289
		1.980.889	1.500.870
Change in operating assets		240.273	17.044
Change in operating liabilities		123.687	(34.974)
		2.344.849	1.482.940
Interest income received		70.120	99.461
Interest expenses and foreign exchange difference paid		(1.089.947)	(1.303.296)
Net cash provided by operating activities		1.325.022	279.105
Cash flows from investing activities			
Investment in investment properties	10	(2.463.594)	(11.338.038)
Sales value of investment properties	10	1.205.000	1.404.608
Investment in property and equipment for own use	11	(4.602)	(202.152)
Other receivables, change		(34.547)	(165.430)
Receivable and payable to related companies, change		(2.015.903)	0
Cash transferred due to sale		(5.715)	(66.416)
Net cash used in investing activities		(3.319.361)	(10.367.428)
Cash flows from financing activities			
Paid in new share capital		1.845.000	2.308.000
Stamp duty on share capital		(6.500)	0
Paid in share capital, minority interest		0	382.000
Proceeds from long term borrowings		16.422.484	15.849.091
Interest bearing short term liabilities, change		(468.201)	90.859
Repayments and settlement of interest bearing liabilities		(14.958.717)	(8.256.524)
Net cash provided by financing activities		2.834.066	10.373.426
Increase in cash and cash equivalents		839.727	285.103
Cash and cash equivalents at the beginning of the year		861.971	576.868
Cash and cash equivalents at the end of the year	13	1.701.698	861.971
Investing and financing activities not affecting cash flow			
Sale of assets to Hömlur ehf.		1.654.119	10.376.009
Liabilities taken over from Hömlur ehf. due to sale of assets		(1.654.119)	(11.708.817)
Receivable from related companies		0	(1.821.092)
Payable to related companies		0	3.153.900
Investment in investment properties		(153.976)	0
Unpaid purchase value of investment properties		153.976	0

Notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

The address of Reginn ehf., "the Company", is at Hagasmári 1 in Kopavogur, Iceland. The consolidated financial statements of the Company for the year 2012 comprise the financial statements of the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities".

At the beginning of the year, the Company was a subsidiary of Eignarhaldsfélag Landsbankans ehf., which is 100% owned by Landsbankinn hf. In June, Eignarhaldsfélag Landsbankans sold 75% of its share following which Reginn was listed in the Icelandic stock exchange (NASDAQ OMX Iceland).

The Company's financial statements are accessible on the Company's website.

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements were approved by the Board of Directors on 26 February 2013.

These financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

b. *Basis of measurement*

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

c. *Presentation and functional currency*

These consolidated financial statements are presented in Icelandic krona (ISK), which is the Company's functional currency. Financial information has been rounded to the nearest thousand unless otherwise stated.

d. *Use of estimates and judgements*

The preparation of financial statements in conformity with the 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. Revisions to accounting estimates are recognised and the effect of the changes are entered in the periods the changes are made and in subsequent periods if the change also affects those periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Note 10 - valuation of investment properties.
Note 17 - utilization of tax losses.

The determination of fair value is based on preconditions, which are dependent on the judgement of management on future events. Actual fair value may differ from these estimates. Notes 4 and 10 include further information on measurement of fair value.

3. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and to all companies within the group.

a. *Basis of consolidation*

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. 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 preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. *Foreign currencies*

(i) Foreign currency transactions

Transactions in foreign currencies are recognised at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

c. *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 recognised at fair value cf. note 4.

Changes in the fair value of investment properties are recognised in the income statement under the line item "Value adjustment of investment properties". Investment properties are not depreciated.

The Group measures its investment properties 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 projects is capitalised at the time of construction. All other cost is expensed as it is incurred.

Realised profit (loss) on sale of investment properties, which is calculated as the difference between the carrying amount and selling price reduced by the selling expenses, is recognised in the profit or loss in the item "Gain (loss) on the sale of investment properties".

d. *Financial instruments*

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and bonds, trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. When financial instruments are not recognised at fair value through profit or loss any direct transaction cost is recognised as increase in their value upon initial recognition. Subsequent to initial recognition non-derivative financial instruments are recognised as follows.

3. Significant accounting methods, contd.:

d. *Financial instruments, contd.:*

(i) Non-derivative financial instruments, contd.:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus all direct transaction costs. Subsequent to initial recognition loans and receivables are recognised at the amortised cost value based on effective interests, less any impairment if losses. Loans and receivables comprise cash and cash equivalents, trade and other receivables.

Financial liabilities

Non-derivative financial liabilities are recognised at cost on an effective interest basis.

Accounting for finance income and expense is discussed in note 3(i).

(ii) Share capital

Ordinary shares

Share capital is classified as equity. Direct cost due to issue of share capital is accounted for as decrease in equity, after deducting tax.

Treasury shares

When share capital recognised as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. When treasury shares are sold the amount received is recognised as an increase in equity.

e. *Property and equipment for own use*

(i) Recognition and measurement

Property and equipment for own use is recognised at cost less accumulated depreciation and impairment losses.

Cost which includes expenditure that is directly attributable to the acquisition of the asset is capitalised when it is incurred, if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is expensed in the profit or loss as it is incurred.

Gain on the sale of property and equipment for own use is the difference between the sales price and the carrying amount of the asset and is recognised in the profit or loss among other income, but loss is recognised among other operating expenses.

Depreciation is recognised on a straight-line basis over the estimated useful lives of operating assets. The estimated useful lives are specified as follows:

	Useful life
Real estate	17 years
Furnishings, tools, equipment and vehicles	5-10 years

Depreciation method, useful lives and residual value is evaluated on each reporting date., and adjusted if appropriate.

3. Significant accounting methods, contd.

f. *Impairment*

Financial assets

A financial asset, not recognised at fair value, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment loss on financial assets available for sale is determined on the basis of their fair value at each time. Individual significant financial assets are specifically assessed for impairment. Other financial assets are grouped together and each group specifically assessed for impairment.

An impairment loss is expensed in the profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Impairment loss on investments held to maturity is reversed in the profit or loss.

g. *Revenue*

(i) Rental income

Rental income from investment properties is recognised in the profit or loss on a straight-line basis over the lease term for the relevant asset.

(ii) Other income

Other income is recognised when accrued.

h. *Operating expenses on investment properties*

Operating expenses on investment properties are expensed as they incur and consist among other in real estate tax, insurance and maintenance cost.

i. *Finance income and expenses*

Finance income includes interest income on receivables, including bank deposits and foreign exchange gain. Interest income is recognised in the profit or loss as it accrues using the effective interest method.

Finance expenses include interest expense on borrowings and foreign exchange loss. Borrowing cost is recognised in the profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

j. *Income tax*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised there under.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, in addition to adjustments made to current tax of previous years.

3. Significant accounting methods, contd.

j. *Income tax, contd.:*

Deferred tax is recognised using the balance sheet method, providing for 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 recognised for differences relating to investments in subsidiaries. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against the asset. Deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

k. *Earnings per share*

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is the same as basic earnings per share since the Group has not issued convertible notes or granted share options to employees or others and has not taken convertible loans.

l. *Segment reporting*

A segment is a distinguishable component of the Group which deals with transactions and is able to generate income and incur expenses, including income and expenses on transactions with other components of the Group. The return of all Group segments is reviewed on regular basis by management and the Board of Directors in order to decide how to allocate its assets to the segments and to evaluate their performance.

Segment operating results, assets and liabilities consist of items that can be directly linked to each segment, in addition to the items that can be reasonably divided into segments.

m. *New standards and interpretations*

The Group has adopted all International Financial Reporting Standards, amendments thereto and interpretations confirmed by the EU and that have entered into effect at year end 2012 and that apply to its operation. The Group has not adopted standards, amendments to standards or interpretations entering into effect after year end 2012, which may be adopted earlier. The effect thereof on the Group's financial statements have not been fully determined but are considered to be insubstantial.

4. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Note 10 includes information on the fair value of investment properties. The fair value of other assets and liabilities has been determined on the basis of assessment and/or notes according to the following methods.

The fair value of bonds is measured on the basis of their estimated market value at the reporting date.

The fair value of trade and other receivables is measured at the current value of estimated future cash flow discounted based on market interest at the reporting date.

The fair value of financial liabilities, which is only measured for explanatory purposes, is the calculated present value of future cash flow of the principal and interests discounted based on market interests at the reporting date.

5. Operating revenue

Operating revenue is specified as follows:

	2012	2011
Rental income	2.834.326	2.686.340
Income from operation in real estates	524.047	484.898
Service income	100.766	0
Other income	24.655	0
Total operating revenue	3.483.794	3.171.238

The lease contracts are linked to the consumer price or building cost index and have a lease term between 3 and 40 years. A limited part of lease contracts are linked to the relevant lessee's turnover.

The Group's rentals receivable under non-cancellable operating leases at year end based on indices in December 2012 (December 2011) are specified as follows. Lease contracts linked to turnover are not taken into account.

Within 1 year	2.880.163	2.965.238
Between 1 and 5 years	9.620.447	10.348.838
More than 5 years	13.533.205	16.633.414
	26.033.815	29.947.490

Approximately 28% of the Group's rental income is attributable to transactions with two of its largest customers constituting around 14% of rental income respectively.

6. Operating expenses of investment properties

Operating expenses of investment properties are specified as

	2012	2011
Property tax, water and sewage fees and rent of land	438.163	516.065
Insurance	42.017	42.678
Operation in real estates	559.044	513.687
Maintenance and other expenses	83.776	205.934
Total operating expenses of investment properties	1.123.000	1.278.364

7. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

Salaries	320.779	287.132
Pension cost	32.170	28.302
Other salary related expenses	26.905	38.265
Total salaries and salary related expenses	379.854	353.699
Average number of employees	43	35
Number of employees at year end	39	45

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

Operating expenses on investment properties	159.804	163.604
Administrative and marketing expenses	220.050	190.095
Total salaries and salary related expenses	379.854	353.699

8. Finance income and (expenses)

Finance income and expenses are specified as follows:

	2012	2011
Interest income	70.120	36.047
Foreign exchange gain	0	431.792
Total finance income	70.120	467.839
Interest expenses	(1.036.111)	(1.273.603)
Indexation	(764.128)	(762.466)
Prepayment fee	(103.867)	(86.943)
Total finance expenses	(1.904.106)	(2.123.012)
Net finance expenses	(1.833.986)	(1.655.173)

9. Income tax

Income tax in the profit or loss is specified as follows:

	2012	2011
Profit for the year	2.599.389	1.311.134
Income tax for the year	710.710	289.289
Profit before income tax	3.310.099	1.600.423

		2012		2011
Income tax according to current tax rate	20,0%	662.020	20,0%	319.954
Gain on sale of shares, tax-exempt	(4,7%)	(154.000)	0,0%	0
Unrecognised deferred tax asset	6,6%	220.000	0,0%	0
Recognition of previously unrecognised tax losses	0,0%	0	3,3%	(53.190)
Effect of joint taxation with Landsbankinn hf.	0,0%	0	(0,9%)	14.485
Non-deductible expense	0,0%	0	(0,3%)	5.089
Other items	1,1%	(17.310)	(0,2%)	2.951
Effective income tax	21,5%	710.710	18,1%	289.289

10. Investment properties

Investment properties are specified as follows:

	2012	2011
Cost		
Balance at 1.1	26.713.281	26.180.866
Additions during the year	2.564.864	11.380.632
Sold during the year	(1.917.000)	(1.166.540)
Sold to Hömlur ehf.	0	(9.906.404)
Reclassification of investment properties	0	224.727
Balance at 31.12	27.361.145	26.713.281
Value adjustment		
Balance at 1.1	391.080	(1.281.225)
Sold during the year	(35.410)	0
Value adjustment of the year	2.397.193	1.672.305
Balance at 31.12	2.752.863	391.080
Carrying amount 31.12	30.114.008	27.104.361

10. Investment properties, contd.:

Main assumptions

The determination of the fair value of investment properties is based on assumptions subject to management's evaluation of future development of various factors. Actual value may differ from these estimates.

Investment properties are recognised at fair value in accordance with the International Accounting Standard on such assets. Fair value assessment for investment properties is supported by present value of future cash flows of individual properties as well as the fair value of similar properties, in the same location and condition, at an active market between knowledgeable, willing parties in an arm's length transaction at the reporting date. Assessment of investment properties is performed by the Company's employees. Included in the assessment of investment properties are furnishings and other equipment necessary to ensure the cash flow from the assets.

The value of each investment property is calculated by discounting the cash flows using a discount factor that reflects the expected WACC. The discounted cash flow model spans 50 years. The return requirement is derived, based on the CAPM model, from the risk free rate in real terms (indexed housing bonds) at the reporting date, market risk for the real estate sector and the specific risk rating for tenants in each property. In the model interests on loans are based on general market interests. The result is that the WACC is between 5.9% and 9.6% based on the property and is the future leverage ratio is estimated at 70%. If the Group's WACC would be 0.5% higher or lower the evaluation of investment property would decrease/increase by 6.5% or ISK 1,962 million.

Estimated cash flow is based on available rental agreements and their expected development. In evaluating cash flow all risk factors of importance are taken into account, such as quality and length of current rental agreements and estimated market rent at the end of the agreement. Evaluation of the present value of cash flow takes into account general uncertainty in the Company's current operating environment and its properties.

Against estimated income on rent of each property the operating and maintenance cost is estimated based on the operating budget. In this way each property is assessed as an independent unit so that each unit stands for independent income generating operation, taking into account operating expenses, maintenance cost and other expenses. Increasing maintenance and renovation cost on older properties was specifically taken into account.

The results of the evaluation was an increase in the evaluation of investment properties in the amount of ISK 2,397 million.

Pledges and guarantees

At year end, investment properties in the carrying amount of ISK 30,114 million are pledged as collaterals for the Company's liabilities in the amount of ISK 19,298 million.

The Company's real estates carry input VAT encumbrance in the amount of ISK 912 million at year end 2012 (2011: ISK 1,028 million). The VAT encumbrance lapses over 10 to 20 years and does not become payable unless the relevant real estate is utilized for operation exempt from VAT.

Official assessment value and insurance value

The official assessment value of buildings and land at year end amounted to a total of ISK 22,071 million. At the same time, the assessed value for fire insurance of the Company's real estates amounted to ISK 36,609 million.

11. Property and equipment for own use

Property and equipment for own use is specified as follows:

	Real estates	Other Operating assets	Total
Cost			
Balance at 1.1.2011	24.821	361.435	386.256
Additions during the year	0	202.152	202.152
Sold to Hömlur ehf.	(24.821)	(11.122)	(35.943)
Reclassification of investment properties	0	(528.396)	(528.396)
Balance at 31.12.2011	0	24.069	24.069
Additions during the year	0	4.602	4.602
Balance at 31.12.2012	0	28.671	28.671
Depreciation			
Balance at 1.1.2011	6.912	293.959	300.871
Reclassification of investment properties	0	(303.669)	(303.669)
Sold to Hömlur ehf.	(9.114)	(6.354)	(15.468)
Depreciated during the year	2.202	17.445	19.647
Balance at 31.12.2011	0	1.381	1.381
Depreciated during the year	0	3.997	3.997
Balance at 31.12.2012	0	5.378	5.378
Carrying amounts			
1.1.2011	17.909	67.476	85.385
31.12.2011	0	22.688	22.688
31.12.2012	0	23.293	23.293

12. Trade and other receivables

Trade and other receivables are specified as follows:

	2012	2011
Trade and other receivables	224.915	219.910
Receivable due to gift cards	8.430	20.853
Other receivables	25.382	42.618
Total trade and other receivables	258.727	283.381

13. Cash and cash equivalents

Cash and cash equivalents consist of fund and bank deposits.

14. Equity

Share capital

The parent company's total share capital amounted to ISK 1,300 million at year end according to its Articles of Association. In January 2012, the Company's share capital was decreased and the decrease was allocated to a share premium account. In February 2012, the Company's equity was increased by subscription of 250,000,000 new shares at the exchange rate 7.2. One vote is attached to each ISK one share in the Company.

14. Equity, contd.:

Reserves

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

A statutory reserve is established in accordance with Act no. 2/1995 on limited companies, stipulating that at least 10% of the Company's profit, not utilised to adjust previous years' losses or for other reserves in accordance with law, shall be allocated to a reserve until it amounts to 10% of the Company's share capital. When that benchmark has been reached the contribution to the reserve shall at least be 5% until its value has reached 25% of the Company's share capital.

Reserves are specified as follows:

	Share premium	Statutory reserve	Total
Total value 31.12.2011	585.000	131.113	716.113
Share capital decrease transferred to reserve	4.560.100		4.560.100
Paid in share capital	1.595.000		1.595.000
Stamp duty on share capital	(5.200)		(5.200)
Contribution to statutory reserve		193.887	193.887
Balance 31.12.2012	6.734.900	325.000	7.059.900

Investment properties value adjustment

Value adjustment of investment properties after deducting income tax effect is shown as a specific item among equity.

Dividend

The Company did not pay dividend in the years 2011 and 2012.

15. Earnings per share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period and shows earnings per each share. Diluted EPS is the same as basic earnings per share since the Group has not issued convertible notes or granted share options to employees or others and has not taken convertible loans.

	2012	2011
Profit for the year	2.599.389	1.311.134
Share capital at the beginning of the year	5.610.100	3.887.100
Effect of share capital decrease	(4.560.100)	(3.159.581)
Effect of paid in share capital	609.175	1.069.860
Weighted average number of shares during the year	1.659.175	1.797.379
Basic and diluted earnings per share	1,57	0,73

16. Interest bearing liabilities

This note includes information on contractual provisions of the Company's interest bearing liabilities, recognised at amortised cost.

	2012	2011
Interest bearing long term liabilities	18.159.688	17.556.931
Current maturities on interest bearing liabilities	(564.036)	(527.270)
	17.595.652	17.029.661

Interest bearing short term liabilities are specified as follows:

Current maturities on interest bearing long term liabilities	564.036	527.270
Short term credit line due to construction project of Borgartún 33	28.105	0
Short term credit line due to purchase of Hafnarstræti 83-89, Akureyri	1.109.947	0
Short term credit line due to construction project of Egilshöll	0	1.267.772
Short term credit line due to construction project of Suðurlandsbraut 14	0	261.040
Line of credit	0	77.442
Total interest bearing short term liabilities	1.702.088	2.133.524
Total interest bearing liabilities	19.297.740	19.163.185

Terms and repayment period of interest bearing liabilities is specified as follows:

	Interest rate 2012	Carrying amount 2012	Interest rate 2011	Carrying amount 2011
Liabilities in ISK, indexed	3.85%-4.90%	18.159.688	5.25-5.50%	17.556.931
Liabilities in ISK, non-indexed	7,35%	1.138.052	6,90%	1.606.254
Total interest bearing liabilities		19.297.740		19.163.185

Interest bearing long term liabilities are payable as follows over the next years:

	2012	2011
Repayments in 2012	-	527.270
Repayments in 2013	564.036	533.642
Repayments in 2014	566.021	540.377
Repayments in 2015	1.364.177	3.744.917
Repayments in 2016	1.093.908	7.138.456
Repayments in 2017	486.919	239.538
Subsequently	14.084.626	4.832.731
Total interest bearing long term liabilities, including current maturities	18.159.688	17.556.931

During the year, all liabilities due to Egilshöll were refinanced with a loan from Stefnir hf. with a term of 10 years. Loans of Eignarhaldsfélag Smáralindar were also refinanced with a loan from Stefnir hf. with a term of 30 years.

Purchase of the real estate at Hafnarstræti 84-86, Akureyri, was financed with a short term loan, which will subsequently will be refinanced with a long term loan.

17. Deferred income tax liability

Deferred income tax liability is specified as follows:

	2012	2011
Deferred income tax liability 1.1	564.794	45.248
Effect of joint taxation	(60.494)	193.845
Transferred due to sale of companies	(31.651)	36.412
Income tax for the year	710.710	289.289
Deferred income tax liability 31.12	1.183.359	564.794

Deferred income tax liability is divided as follows:

Investment properties and equipment for own use	1.723.947	1.412.133
Trade receivables	(9.821)	(12.098)
Deferred taxable foreign exchange difference	(15.121)	24.413
Carry forward taxable loss	(795.646)	(923.540)
Decrease in value of deferred tax assets	280.000	63.886
Deferred income tax liability 31.12	1.183.359	564.794

The Company will not pay income tax for the year 2012 due to carry forward taxable loss. Carry forward taxable loss at year end is specified as follows:

Carry forward loss of the year 2006, utilisable until the year 2016	3.559	71.999
Carry forward loss of the year 2007, utilisable until the year 2017	4.713	4.713
Carry forward loss of the year 2008, utilisable until the year 2018	3.248.980	4.073.611
Carry forward loss of the year 2009, utilisable until the year 2019	418.252	465.759
Carry forward loss of the year 2010, utilisable until the year 2020	15.230	1.616
Carry forward loss of the year 2011, utilisable until the year 2021	287.495	0
Total carry forward taxable loss	3.978.229	4.617.698

Deferred tax asset is not recognised due to carry forward taxable loss in the mount of ISK 1,400 million and related deferred tax asset amounts thus to ISK 280 million.

18. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	200.907	139.430
Accrued interest	67.434	52.500
Other payables	182.836	126.219
Total trade and other payables	451.177	318.149

19. Financial risk management

Overview

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

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

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing risk. Furthermore, quantitative disclosures are included throughout these financial statements.

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. With personnel training and work procedures the Group aims at maintaining disciplined control where all employees are aware of their role and responsibilities.

20. *Credit risk*

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group or that customers' guarantees will not suffice to meet their obligations. The Company is mainly exposed to credit risk due to trade receivables.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the financial position and operations of each customer. If customers do not meet with their obligations agreements are terminated or further guarantees requested. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The book value of the Company's financial assets corresponds to its maximum exposure to credit risk and is specified as follows at year end:

	Notes	2012	2011
Investments and long term receivables		0	45.101
Unpaid sales value of investment properties		0	15.000
Current maturities on long term receivables		6.726	12.212
Receivable from related companies		90.072	1.601.103
Trade and other receivables	12	258.727	283.381
Cash and cash equivalents	13	1.701.698	861.971
Total exposure to credit risk		2.057.223	2.818.768

20. *Credit risk, contd.:*

Impairment and impairment losses on receivables

The aging of receivables at the reporting date was as follows:

	2012		2011	
	Gross value	Impairment	Gross value	Impairment
Receivables not past due	188.004	12.997	148.585	0
0 - 30 days	31.211	9.019	52.323	11.207
30 - 90 days	22.007	6.495	32.334	17.968
90 days and older	33.670	21.467	77.418	61.575
Total	274.892	49.977	310.660	90.750

21. *Liquidity risk*

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

The Group monitors its liquidity balance by analysing maturities of financial assets and liabilities to be able to meet its liabilities when due and maintains work methods which ensure that there are sufficient liquid assets in order to meet foreseeable and unforeseeable payment obligations.

The Group has made an agreement on a credit line which unused balance at year end 2012 amounts to ISK 448 million.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

2012

Non-derivative financial liabilities:	Carrying amount	Contractual cash flow	Within one year	After 1 - 2 years	After 2 - 5 years	After more than 5 years
Interest bearing liabilities	19.297.740	45.198.644	2.844.797	4.022.720	3.487.693	34.843.434
Unpaid purchase value of investment properties	153.976	153.976	153.976	0	0	0
Trade payables	200.907	200.907	200.907	0	0	0
Other payables	250.270	250.270	250.270	0	0	0
	19.902.893	45.803.797	3.449.950	4.022.720	3.487.693	34.843.434

21. *Liquidity risk, contd.:*

2011

Non-derivative financial liabilities:	Carrying amount	Contractual cash flow	Within one year	After 1 - 2 years	After 2 - 5 years	After more than 5 years
Interest bearing liabilities	19.163.185	25.873.882	2.617.175	2.604.436	12.348.596	8.303.675
Unpaid purchase value of investment properties	76.706	76.706	52.706	24.000	0	0
Payable to related companies	3.153.900	3.153.900	3.153.900	0	0	0
Trade payables	139.430	139.430	139.430	0	0	0
Other payables	178.719	178.719	178.719	0	0	0
	22.711.940	29.422.637	6.141.930	2.628.436	12.348.596	8.303.675

22. *Market risk*

Foreign exchange risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of investments in financial instruments. The Group has reacted to foreign exchange risk by refinancing all loans in foreign currencies in the year 2011 with loans in Icelandic krona. The Company is therefore not exposed to foreign exchange risk due to loans at year end 2012.

Interest rate risk

The Group's borrowings are in Icelandic krona and mainly with fixed interest rate. The Group's interest rate risk is monitored in terms of the effect of interest rate changes on the Company's operation based on encumbrances in loan agreements.

The Group's interest bearing financial instruments are specified as follows at year end:

Financial instruments with fixed interest rates	**2012**	**2011**
Investments and long term receivables	0	45.101
Financial liabilities with fixed interest rates	(14.442.022)	0
Financial instruments with floating interests		
Financial liabilities	(4.855.718)	(19.163.185)

Sensitivity analysis of the fair value of financial instruments with fixed interest rates

The Group's financial instruments with fixed interest rates are not recognised at fair value through profit or loss. Therefore, interest rate changes at the reporting date do not affect the Company's income statement.

Sensitivity analysis of the cash flow of financial instruments with floating interest rates

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) the profit before income tax by ISK 49 million (2011: ISK 192 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the year 2011.

22. *Market risk, contd.:*

Fair value

Comparison of fair value and carrying amounts

The fair value and carrying amounts of financial assets and liabilities is specified as follows:

	2012		2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Investments and long term receivables	0	0	45.101	45.101
Unpaid sales value of investment properties	0	0	15.000	15.000
Current maturities on long-term receivables	6.726	6.726	12.212	12.212
Receivable from related companies	90.072	90.072	1.601.103	1.601.103
Trade and other receivables	258.727	258.727	283.381	283.381
Cash and cash equivalents	1.701.698	1.701.698	861.971	861.971
Interest bearing liabilities	(19.297.740)	(19.297.740)	(19.163.185)	(19.163.185)
Unpaid purchase value of investment properties	(153.976)	(153.976)	(76.706)	(76.706)
Payable to related companies	0	0	(3.153.900)	(3.153.900)
Trade and other payables	(451.177)	(451.177)	(318.149)	(318.149)
	(17.845.670)	(17.845.670)	(19.893.172)	(19.893.172)

23. *Operational risk*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation. To reduce operational risk there are among other things requirements for appropriate segregation of duties, requirements for the reconciliation and monitoring of transactions, compliance with regulatory and other legal requirements, requirements for the periodic assessment of operational risks faced, training and professional development and insurance where this is effective.

24. *Capital management*

The Board of Directors has established equity management policy to ensure strong equity position, support stable future operating development and address uncertainty in its external environment. During the Company's growth it intends to maintain an equity ratio of 30-35%. In the future the Company aims at maintaining an average equity ratio of 40%.

25. Related parties

Definition of related parties

The Group has a related party relationship with owners with significant influence, its subsidiaries and with its Board of Directors and Managing Directors.

Transactions with management

The Company has not carried out transactions with the Company's management.

Related party assets and liabilities are specified as follows at year end:

	2012	2011
Bank deposits with Landsbankinn hf.	1.115.401	760.862
Receivable from Hömlur ehf. and subsidiaries	90.072	1.601.103
Receivable from Landsbankinn hf.	22.396	89.067
Interest bearing liabilities and unpaid accrued interests to Landsbankinn hf.	(4.855.718)	(15.438.397)
Payable to Fasteignafélag Íslands ehf.	0	(3.153.900)

Transactions with related parties during the year are specified as follows:

Sales value of a subsidiary to Hömlur ehf.	1.205.000	0
Interest income on bank deposits with Landsbankinn hf.	42.686	87.415
Interest expenses and indexation to Landsbankinn hf.	(1.161.495)	(1.347.903)
Rental income from Landsbankinn hf.	30.362	13.622
Services sold to Hömlur ehf. and subsidiaries	175.412	0
Services purchased from Landsbankinn hf.	(59.332)	(17.683)

Salaries, benefits and fees to the Board of Directors and management for their work for the Group during the year is specified as follows:

	Salaries, benefits and fees	
	2012	2011
Elín Jónsdóttir, Chairman of the Board	4.400	0
Benedikt K. Kristjánsson, Board member	200	0
Guðríður Friðriksdóttir, Board member	2.375	2.100
Guðrún Blöndal, Board member	200	0
Stanley Páll Pálsson, Board member	2.200	0
Fjóla Þorgerður Hreinsdóttir, former Board member	2.000	0
Hjördís Halldórsdóttir, former Board member	2.000	2.100
Helgi S. Gunnarsson, CEO of Reginn hf.	18.286	15.136
Katrín Bryndís Sverrisdóttir, Director of operating division	14.417	11.320
Sturla Eðvarðsson, Managing Director of Eignarhaldsfélag Smáralindar ehf.	14.377	13.714
Two directors of divisions	23.044	32.309

25. Related parties, contd.:

Shareholding of the Board of Directors and management in the Company at year end is specified as follows:

	Share 2012
Stanley Páll Pálsson, Board member	1.220
Helgi S. Gunnarsson, CEO of Reginn hf.	122
Sturla Eðvarðsson, Managing Director of Eignarhaldsfélag Smáralindar ehf.	24

Included in the above shares are shares of spouses and financially dependent children in addition to shares of companies controlled by the relevant person.

Other board members were employees of Landsbankinn hf. and they did not receive salaries from the Company for their work for the Board.

Other transactions with related parties is an insignificant part of the Group's operation. Pricing in such transactions is comparable to other transactions of the Group.

26. Subsidiaries

At year end 2012, Reginn hf. had the following eight subsidiaries.

	Ownership interest	
	2012	2011
Eignarhaldsfélagið Smáralind ehf.	100%	100%
Smáralind ehf.	100%	100%
Knatthöllin ehf.	100%	100%
Kvikmyndahöllin ehf.	100%	100%
Reginn atvinnuhúsnæði ehf.	100%	100%
Reginn A1 ehf.	100%	100%
Reginn A2 ehf.	100%	100%
Reginn A3 ehf.	100%	100%
Laugahús ehf.	-	100%

27. Lawsuits

In January 2012, the lawsuit filed by the bankruptcy estate of Norðurturninn ehf. against Eignarhaldsfélag Smáralindar ehf. was recorded by the District Court of Reykjavík. The main claim by bankruptcy estate is that the Company be obligated to pay to the estate the amount of ISK 1,300 million in addition to interests on arrears from 30 March 2009. As a reserve claim, the estate requests the rescission by court ruling of the disallowance of the company's commitment to pay the amount of ISK 1,300 million and that it be sentenced to pay that amount in addition to interests on arrears from 30 March 2009.

By the ruling of the District Court of Reykjavík on 21 November 2012 Eignarhaldsfélag Smáralindar ehf. was absolved from all of the estate's claims. The ruling has been appealed.

Landsbankinn hf. has issued a hold-harmless statement to Eignarhaldsfélag Smáralindar ehf. for the results of the ruling, i.e. take over the payment obligation towards the plaintiff, in case of such obligation.

28. Subsequent events

In January 2013, the real estate at Ofanleiti 2, Reykjavík, was purchased. The size of the building is 8,012 m^2 , and it is designed for office and educational facilities. The major part of the building was rented out but the income base was not strong. An agreement has been reached with one party for the rent of the entire property. Based on that agreement renovation work on the building will be initiated.

25. Segment reporting

The Group is divided into five segments:

- Operation of the parent company
- Operation of other rental properties, business premises
- Operation of the shopping centre Smáralind
- Operation of Egilshöll
- Development properties (until 31.12.2011)

Operating segments 2012	Operation of the parent company	Operation of business premises	Operation of Smáralind	Operation of Egilshöll	Development properties	Eliminations	Consolidated
Rental income	0	1.019.518	1.324.132	496.948	0	(6.272)	2.834.326
Income from operation in real estates	0	0	383.117	140.930	0	0	524.047
Service income	100.766	0	0	0	0	0	100.766
Other income	0	24.655	0	0	0	0	24.655
Operating revenue within the Group	177.761	0	0	0	0	(177.761)	0
	278.527	1.044.173	1.707.249	637.878	0	(184.033)	3.483.794
Operating expenses of investment properties	(6.538)	(242.197)	(224.920)	(90.300)	0	0	(563.955)
Operation in real estates	0	0	(403.254)	(155.791)	0	0	(559.045)
Administrative and marketing expenses	(250.620)	(105.224)	(84.438)	(55.476)	0	184.033	(311.725)
Registration cost	(68.180)	0	0	0	0	0	(68.180)
Operating (loss) profit before value adjustment and depr.	(46.811)	696.752	994.637	336.311	0	0	1.980.889
Gain on the sale of investment properties	0	770.000	0	0	0	0	770.000
Value adjustment of investment properties	0	994.553	853.231	549.409	0	0	2.397.193
Depreciation	(3.997)	0	0	0	0	0	(3.997)
Operating (loss) profit	(50.808)	2.461.305	1.847.868	885.720	0	0	5.144.085
Net finance expenses							(1.833.986)
Income tax							(710.710)
Profit for the year and comprehensive income							2.599.389
Total assets	12.736.542	10.975.906	15.522.244	7.572.105	0	(14.612.273)	32.194.524
Total liabilities	1.628.273	6.848.556	9.732.829	5.914.403	0	(3.037.809)	21.086.252

25. Statement of segments, contd.:

Operating segments

2011	Operation of the parent company	Operation of business premises	Operation of Smáralind	Operation of Egilshöll	Development properties	Eliminations	Consolidated
Rental income	7.293	857.858	1.249.717	473.550	97.922	0	2.686.340
Income from rented properties	0	0	364.898	120.000	0	0	484.898
Service income	0	0	0	0	0	0	0
Operating revenue within the Group	89.729	0	0	0	0	(89.729)	0
Total operating revenue	97.022	857.858	1.614.615	593.550	97.922	(89.729)	3.171.238
Operating expenses of investment properties	(3.561)	(267.853)	(237.731)	(126.394)	(129.138)	0	(764.677)
Operation in real estates		(73)	(395.895)	(117.719)	0	0	(513.687)
Administrative and marketing expenses	(248.142)	(34.794)	(79.565)	(35.789)	(83.443)	89.729	(392.004)
Operating (loss) profit before value adjustment and depr.	(154.681)	555.138	901.424	313.648	(114.659)	0	1.500.870
Gain on the sale of investment properties	0	30.140	0	0	71.928	0	102.068
Value adjustment of investment properties	0	151.334	696.874	824.097	0	0	1.672.305
Depreciation	(654)	(1.218)	(10.508)	(6.300)	(967)	0	(19.647)
Operating (loss) profit	(155.335)	735.394	1.587.790	1.131.445	(43.698)	0	3.255.596
Net finance expenses							(1.655.173)
Income tax							(289.289)
Profit for the year and comprehensive income							1.311.134
Total assets	9.937.119	10.442.904	12.933.523	5.489.681	0	(8.857.410)	29.945.817
Total liabilities	3.268.036	7.982.927	7.754.319	4.271.452	0	0	23.276.734

Statement of Corporate Governance

Board of Directors and corporate governance

The Board of Directors

The Board of Directors of Reginn consists of five board members elected for a one year term at the Company's Annual General Meeting. Elín Jónsdóttir, Chairman of the Board, has been on the Company's Board since February 2012, Guðríður Friðriksdóttir has been on the Board from August 2010, Stanley Pálsson from February 2012, Guðrún Blöndal and Benedikt K. Kristjánsson from December 2012.

The Company's Board of Directors consists of three women and two men and therefore meets with provisions of law on gender quota on companies Board of Directors which will enter into effect on 1 September 2013. All five board members are independent on the Company and four board members are also independent on major shareholders in the Company. One board member, Benedikt K. Kristjánsson, is related to a large shareholder according to definition in Article 2.5. of the „Guidelines on Corporate Governance" Board members have various background and diverse education, among others Cand.Jur and LL.M degree, brokerage degree, degree in business administration and building engineering M.Sc. Furthermore, board members have extensive professional experience within the field of investments, real estate transactions, company management and governance.

The Company's current Articles of Association were approved in a shareholders' meeting on 7 February 2012.

Corporate Governance

The Board of Directors has laid down comprehensive procedures wherein the competence of the Board is defined. These rules include i.a. rules regarding separation of tasks within the Board, purview of the Board, Chairman and CEO, and rules regarding order at meetings, information disclosure and other issues. The Board's procedures are dated 12 April 2012 and are accessible on the Company's website www.reginn.is.

The Board of Directors has appointed two sub-committees; an Audit Committee and a Remuneration Committee, and rules for both committees are accessible on the Company's website.

The Audit Committee now consists of a board member, a consultant and an external state authorised public accountant. Its main role and responsibility is to monitor work procedures in the preparation of the financial statements and audit of the financial statements, consolidated financial statements and other financial information of the Company. Furthermore, the committee evaluates the auditor's independence, monitors his work and presents motion to the Board of Directors regarding election of the Company's auditor. The Audit Committee also controls risk management and other control factors. The work procedures of the audit committee are dated 25 October 2012.

The Remuneration Committee currently consists of the Chairman of the Board, one Board director and a consultant. The main role of the committee is to establish and execute; (1) proposition for the Company's remuneration policy, (2) propositions to shareholders regarding the CEO's employment terms and (3) execution of agreements with the CEO and other employees, who appertain to the Board, as regards to wages and other employment terms. The decisional power in such matters is in the hands of the Board of Directors. A letter of appointment of the Remuneration Committee was approved by the Board of Directors of Reginn hf. on 25 September 2012.

The Company has not entered into agreements with board members or employees regarding payments or settlement in the case they resign from the Board or if they are without valid reason dismissed. Conventional employment agreements have been made with employees including terms on general term of notice.

The Board has begun development of the Company's risk policy. Approved risk policy is estimated to be available in August 2013.

In the year 2012, 25 Board meetings were held, 3 meetings in the Audit Committee and 2 in Remuneration Committee. Meetings have been attended by the majority of the Board of Directors and the majority of the committees. The Audit Committee meets with the Company's auditors on regular basis and participates in Board meetings when financial statements and interim financial statements are being discussed.

Quarterly statement - unaudited

Year 2012

	Q 1	Q 2	Q 3	Q 4	Total
Operating revenue	848.611	832.375	828.796	974.012	3.483.794
Operating expenses of investment properties	(274.351)	(272.539)	(237.131)	(338.979)	(1.123.000)
	574.260	559.836	591.665	635.033	2.360.794
Administrative and marketing expenses	(64.190)	(82.714)	(68.617)	(96.204)	(311.725)
Registration cost	(2.754)	(65.426)	0	0	(68.180)
Operating profit before value adjustment and depreciation	507.316	411.696	523.048	538.829	1.980.889
Gain on sale of investment properties	0	770.000	0	0	770.000
Value adjustment of investment properties	230.415	247.148	(3.280)	1.922.910	2.397.193
Depreciation	(990)	(995)	(995)	(1.017)	(3.997)
Operating profit	736.741	1.427.849	518.773	2.460.722	5.144.085
Finance income and (expenses):					
Finance income	1.505	5.018	14.789	48.808	70.120
Finance expenses	(566.092)	(568.071)	(132.698)	(637.245)	(1.904.106)
Net finance expenses	(564.587)	(563.053)	(117.909)	(588.437)	(1.833.986)
Profit before income tax	172.154	864.796	400.864	1.872.285	3.310.099
Income tax	(34.431)	(19.816)	(79.316)	(577.147)	(710.710)
Profit and comprehensive income for the period	137.723	844.980	321.548	1.295.138	2.599.389
Earnings per share:					
Basic and diluted earnings per share	0,12	0,65	0,25	1,00	1,57

Quarterly statement - unaudited, contd.:

Year 2011

	Q 1	Q 2	Q 3	Q 4	Total
Operating revenue	700.877	727.839	846.326	896.196	3.171.238
Operating expenses of investment properties	(211.283)	(286.126)	(364.369)	(416.586)	(1.278.364)
	489.594	441.713	481.957	479.610	1.892.874
Administrative and marketing expenses	(83.571)	(107.035)	(51.494)	(149.904)	(392.004)
Operating profit before value adjustment and depreciation	406.023	334.678	430.463	329.706	1.500.870
Gain on sale of investment properties	0	4.500	49.453	48.115	102.068
Value adjustment of investment properties	0	0	0	1.672.305	1.672.305
Depreciation	(12.849)	(3.007)	(1.084)	(2.707)	(19.647)
Operating profit	393.174	336.171	478.832	2.047.419	3.255.596
Finance income and (expenses):					
Finance income	4.808	390.761	27.570	44.700	467.839
Finance expenses	(518.254)	(577.189)	(486.751)	(540.818)	(2.123.012)
Net finance expenses	(513.446)	(186.428)	(459.181)	(496.118)	(1.655.173)
(Loss) profit before income tax	(120.272)	149.743	19.651	1.551.301	1.600.423
Income tax	(536)	37.184	(3.394)	(322.543)	(289.289)
(Loss) profit and comprehensive (loss) income for the period	(120.808)	186.927	16.257	1.228.758	1.311.134
Earnings per share:					
Basic and diluted earnings per share	(0,16)	0,04	0,01	0,68	0,73