Reginn hf.

Consolidated Financial Statements
2020

These consolidated financial statements are translated from the original version which is in Icelandic. In case of any discrepancy the Icelandic version prevails.

Reginn hf.
Hagasmára 1
201 Kópavogur

Reg, no.. 630109-1080

Contents

Endorsement and Statement by the Board of Directors and the CEO

Reginn hf. is an Icelandic limited liability company with distributed ownership and listed on the Iceland Stock Exchange (NASDAQ OMX Iceland). The Group has 12 subsidiaries. Reginn hf. is a real estate company that invests in, rents out and manages commercial real estate in Iceland. Reginn is a pioneering and progressive real estate company that is a sought-after partner and employer. The Company is committed to being a leader in the shaping and operation of real estate, in addition to promoting the well-being of the community, improved quality of life and the environment for the residents. The basic elements of the Company's business model are the leasing of commercial premises to companies and institutions (B2B). The Company's main area of operation is in the capital area, where over 90% of the Company's assets and income are. The Group has three equally large segments; commercial buildings, public-private partnership and office buildings and the general market. The Company owns 115 properties which combined are a total of 378 thousand m^2. The Company's largest properties are the shopping centre Smáralind in Kópavogur, Katrínartún 2 (Höfðatorg) and Egilshöll in Grafarvogur.

Operations of the year

New strategy and its implementation has left its mark on the Company's operations, and new emphases are already visible in its operations and results, as well as investments. A new organizational structure was introduced at the Company in the beginning of the year, and was part of strengthening the Company and supporting the future priorities set by the strategy. The organizational structure entails separate profit units which are commercial buildings, public-private partnership and office buildings and the general market. Now, for the first time, results are shown for each individual profit unit (operating segments).

The Company's occupancy ratio has decreased slightly between years and is now around 96%, most of the unleased spaces being in the retail category. In recent years, the Company's aim has been to increase the share of governmental entities in the Company's rental income. In the year 2020, 32% of the Company's rental income was from governmental entities, and if listed companies are included, the proportion is 43%. Management believes that operational outlook for the Company is good. Property utilization is good as well as demand, but about 32 thousand m^2 were rented out during the year.

The main risks in the Company's operations lie in the economic environment and its financing. The Company's Board of Directors has approved a risk policy that aims to detect and analyze risks, set risk criteria and monitor them. Risk management is discussed in more detail in Notes 21-25. The Company meets the main risks by maintaining a strong equity and liquidity position as well as secure access to credit.

Segment reporting

Commercial buildings

This segment includes activities related to retail and entertainment, as well as various service activities. Despite restrictions on gatherings and severe restrictions on retail and services during the year, business in Smáralind went well and customers are accepting the transformation of retail areas. Smáralind was rated the highest out of Iceland's shopping centers in customer satisfaction during the year. The Company's retail area in the center of Reykjavík by Hafnartorg has now been handed over to the Company and preparations are being made for finishing and leasing. If measures taken to stop the COVID pandemic will be in accordance with the situation at the beginning of February 2021, the Company will begin the final phase of leasing and finishing the rental space at Hafnartorg in the spring.

Public-Private Partnership

The central government and municipalities have been an ever increasing part of the Company's customer base, but the Company has from the beginning worked at increasing its share in this market. The Company's experience in this area, i.e. in leasing and providing support services, has led to that there is extensive knowledge within the Company on leasing real estate with emphasis on co-operative ventures where tenants are offered support services. Examples of successful projects within this segment are Egilshöll in Grafarvogur, school structures in Hafnarfjörður, kindergartens in Garðabær and Hafnarfjörður and the latest one Sóltún Nursing Home. Today, over one third of Regin's portfolio is leased to governmental entities, and the largest tenant is the City of Reykjavík whether looking at square meters or income, but around 16% of Regin's income comes from the City of Reykjavík, the second largest tenant of the Company is the Icelandic Government with around 10% of total income. Income from governmental entities has increased in the last years with new lease agreements with among others the Directorate of Health, Social Insurance Administration, Police in Suðurnes, Mental Health Team East, and National Commissioners Office. Income from governmental entities will increase further in the coming years when new headquarters for the Road and Coastal Administration will be delivered.

Office buildings and the general market

This segment includes the leasing of office and warehouse buildings to private parties as well as travel-related services. There was a big change in the composition of the tenants in the Tower at Höfðatorg. During the year, rental spaces were handed over to Kvika Banki, the Office of the Medical Director of Health and other smaller tenants.

Sustainability

There has been great success in the last few years in implementing sustainability awareness in the Company's infrastructure and its operations. The largest environmental impact of Reginn is related to real estate. Currently, two of the Company's largest buildings have received BREEAM In-Use accreditation, i.e. Smáralind and Turninn at Höfðatorg. The Company plans that within a few years, approximately half of Reginn's portfolio will have environmental accreditation. Accreditation of the portfolio is a precondition and a basis for a good result in green financing. At the end of the year, the City Council approved a plot promise to Reginn for a C40 project at Lágmúli 2 at the corner of Suðurlandsbraut and Kringlumýrarbraut. This project entails planning, designing, financing, building and operating a 15.000m^2 property on the plot. The property will fulfil 10 key objectives and actions which all are related to environmental effects of the building, whether relating to the properties, their operations or transport of users.

Refinancing

During the year, great emphasis has been placed on refinancing the Company. Favourable conditions for financing together with a good, reliable and well-distributed portfolio of the Company has yielded good results. The Company applied for new financing for ISK 30 billion during 2020. Thereof ISK 10 billion in bank loans and ISK 20 billion in bond issues. Of the total funding for the year, green funding is ISK 16 billion or just over half. Good results have been achieved in reducing the Company's financing costs in both non-indexed and indexed financing. In 2021, the Company will continue its path of refinancing if market conditions remain favourable, as the right financing is the basis for the future success of a real estate company like Reginn. Interest-bearing debt loan agreements in the amount of ISK 37,497 million contain provisions authorizing prepayment in 2021.

COVID-19

The Company's Board of Directors discussed in its meetings the position of the Company due to COVID-19. Emphasis and actions have been aimed at security and welfare of employees and guests along with financial factors relating to tenants and actions to ensure liquid funds.

At its meeting on 11 June 2020 the Board discussed management suggestions relating to payment difficulties of tenants. They took into account general conditions of tenants within their area of operation. These entailed renegotiations with tenants regarding payment of rent and in some cases disallowance of rent. Also that part of the rent would be changed to turnover related rent. The Company estimates that the COVID-19 effect on income is ISK 1,140 million not taking into account the distribution of rental income. The Company has met the reduction in income with deferment of interest bearing liabilities and increase in share capital. The Company puts emphasis on strong liquidity position with regular bond issuance and secure access to credit lines at banks. The Group received no support through the governmental counterbalance program.

The Board and management believe that there is still some uncertainty relating to the development of the national economy which can have an effect on some tenants' ability to pay their liabilities. It will however not have an effect on the Company's ability to continue as a going concern in the year 2021. Further information on the effect of COVID-19 on the Company's financial statements is in Notes 4 and 11.

Operations and Financial Position

The consolidated operating revenue of Reginn hf. for the year 2020 amounted to ISK 9,736 million, compared to ISK 9,848 million for the year 2019. Thereof, rental income amounted to ISK 9,170 million. The Group's operating expenses amounted to ISK 3,355 million and its operating profit before value adjustment for the year 2020 amounted to ISK 6,381 million, compared to ISK 6,711 million in the previous year. Value adjustment of investment properties amounted to ISK 1,475 million, profit from sale of investment properties amounted to ISK 133 million and the depreciation of assets for own use amounted to ISK 19 million. Net finance expenses amounted to ISK 6,398 million and income tax amounted to ISK 298 million. Profit for the year amounted to ISK 1,274 million, compared to ISK 4,486 million the previous year. Earnings per share was 0.71 for the year of 2020 compared to 2.47 in the previous year.

Operations and Financial Position, contd.

The Group's total assets amounted to ISK 152,975 million at year end 2020 according to the statement of financial position, including investment properties in the amount of ISK 147,178 million. The Company's equity amounted to ISK 46,872 million, whereof effective share capital amounted to ISK 1,823 million. The Group's equity ratio was 31% at year end. Interest bearing liabilities amounted to ISK 90,529 million, of which ISK 3,098 million are current liabilities. Cash and cash equivalents amounted to ISK 3,630 million at year end and undrawn credit lines amounted to ISK 3,515 million. The current ratio was 1.14 at year end. Man years at year end 2020 were 57 and full-time equivalents were 56 at year end.

Net cash provided by operating activities amounted to ISK 2,094 million compared to ISK 3,269 million in the year 2019. Net cash used in investing activities amounted to ISK 4,382 million in 2020 compared to ISK 4,777 million in the year 2019. Treasury shares were purchased for ISK 500 million and new shares issued for ISK 591 million. New loans amounting to ISK 30,397 million were obtained and the Company repaid unfavourable loans amounting to ISK 24,559 million. Of new liabilities, ISK 16,039 million were in green funding.

Information on events after the reporting date is in Note 30.

Reginn hf.'s dividend policy entails a dividend to shareholders corresponding to around 1/3 of profit in the preceding accounting period, either with payment of dividend or with purchase of own shares and decrease in share capital. The Company's dividend policy states that risk from external environment should be taken into account and that the Company should maintain a sound equity and liquidity position. The Board of Directors proposes that no dividend will be paid to shareholders in 2021 due to the country's economic uncertainty following the COVID pandemic. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

Share Capital and Shareholders

Nominal value of issued shares in the Company is currently ISK 1,823,152,097. The shares are all in one category. Shareholders were 434 at the beginning of the year but 500 at the end of the year. Outstanding shares at year end of the ten largest shareholders are following:

	Outstanding shares
Lífeyrissjóður starfsmanna ríkisins	12,54%
Lífeyrissjóður verslunarmanna	10,38%
Gildi - lífeyrissjóður	9,01%
Birta lífeyrissjóður	6,60%
Stapi lífeyrissjóður	4,89%
Frjálsi lífeyrissjóðurinn	4,14%
Kvika banki hf.	4,05%
Arion banki hf.	3,62%
Sigla ehf.	3,38%
Snæból ehf.	2,82%

The Board of Directors activated a repurchase plan on 7 January 2020 which was based on an authorization from the Annual General Meeting on 14 March 2019. Repurchase was to be for a maximum of 21,929,825 shares, with the total purchase price not exceeding ISK 500,000,000, and that treasury shares would not exceed 1.20% of the Company's total share capital. Repurchase according to the repurchase plan closed at 27 January 2020. The Company purchased a total of 21,162,034 shares in the Company and total purchase price amounted to ISK 499,999,986. The Annual General Meeting on 11 March 2020 approved to decrease the share capital by 43,091,859 of own shares which entered into effect on 1 April 2020. The Company owns no treasury shares at year end 2020. There are no restrictions on the shareholders right to dispose of their shares. Change in ownership and its process is in accordance with the current law on central securities depositories and rules based on these laws. At shareholders meetings, one vote is attached to each ISK one share.

The Company's Annual General Meeting on 11 March 2020 approved an authorization for the Board of Directors to purchase shares in the Company so that it along with its subsidiaries would own, satisfying other legal requirements, up to 10% of the Company's total share capital. The authorization is valid for 18 months from its approval.

The Company's Annual General Meeting on 11 March 2020 approved that dividend would be paid to shareholders due to the last financial years amounting to ISK 535 million. The dividend was paid on 11 September 2020. In order to minimize the effect of the dividend payment on the Company's equity and liquidity position, the Company initiated an IPO where 40,000,000 shares were offered at the rate of 15.0, the total amounting to ISK 600 million. The shares were all sold to holders of priority rights and were settled on 2 October 2020. The increase entered into effect on 5 October 2020.

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. puts emphasis on maintaining good corporate governance and complying with the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederation of Icelandic Employers in June 2015. The Board of Directors has laid down comprehensive operating procedures which define the power and scope of work of the Board vis-à-vis the CEO. A nomination committee was appointed in 2018, but the aim of the committee's appointment is to ensure the qualifications, experience and knowledge of the board members and transparency in board elections. The shares issued by the Company are listed on the Iceland Stock Exchange and therefore the Company is required to comply with the Corporate Governance Guidelines in accordance with the rules of the Stock Exchange, which are accessible on its website.

The Board of Directors includes the following members at year end 2020: Tómas Kristjánsson, chairman, Albert Þór Jónsson, vice chairman, Bryndís Hrafnkelsdóttir, Guðrún Tinna Ólafsdóttir and Heiðrún Emilía Jónsdóttir. The Board of Directors consists of three women (60%) and two men (40%) and therefore the Company fulfils the requirements for gender ratios of limited liability companies. The Executive Management Board consists of four men (80%) and one woman (20%). The Company's employees consisted of 39% women and 61% men.

Further information on the Board of Directors and corporate governance is provided in the Statement of Corporate Governance, which is an appendix to the financial statements of the Company.

Non-financial information

According to the Financial Statements Act, the Company publishes a chapter on non-financial information as a part of the Company's consolidated financial statements. The Company has created a report on sustainability along with its non-financial information as a part of Reginn hf.'s consolidated financial statements for the year 2020.

Reginn has identified the main risks and key criteria in relation to environmental issues, social factors and governance. In a reference table also published on the Company's website, there are 30 criteria measuring company performance relating to these categories. The sustainability report is a part of the Company's annual report and is accessible on the Company's website www.reginn.is.

Statement by the Board of Directors and the CEO

The consolidated financial statements of Reginn hf. have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements in accordance with the Financial Statements Act.

According to the best knowledge of the Board of Directors and the CEO the consolidated financial statements give a true and fair view of the consolidated financial performance of the Group for the year 2020, its assets, liabilities and financial position as at 31 December 2020 and its consolidated cash flows for the year 2020.

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 Reginn hf. have today discussed the Company's consolidated financial statements for the year 2020 and confirm them with their signatures. The Board of Directors and the CEO propose to the Annual General Meeting to approve the financial statements.

Kópavogur, 10 February 2021.

Board of Directors:

Tómas Kristjánsson

Albert Þór Jónsson

Bryndís Hrafnkelsdóttir

Guðrún Tinna Ólafsdóttir

Heiðrún Emilía Jónsdóttir

CEO:

Helgi S. Gunnarsson

Independent auditor's report

To the Board of Directors and Shareholders of Reginn hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Reginn hf. ("the Group"), which comprise the statements of profit or loss and comprehensive income, the statement of financial position as at 31 December 2020, statement of changes in equity, statement of cash flows, information on significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional disclosure requirements for listed companies in Iceland.

Our opinion on the consolidated financial statements of the Company is consistent with other reports we have submitted to the Company's Audit Committee in accordance with Article 11 og the EU Regulation no. 537/2014.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We 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 Code of Ethics for Professional Accountants (IESBA Code) together with relevant ethical requirements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge, we have not provided Reginn hf. or entities within the Group any prohibited non-audit services as the Company's auditors, cf. a list of prohibited non-audit services in Article 5(1) of the EU Regulation 537/2014.

Appointment of Auditor

We were first appointed as auditors of Reginn hf. and subsidiaries for the year 2020 by the Annual General Meeting on 11 March 2020.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled our responsibilities as they are described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, as well as in relation to key audit matters. The audit involved design and implementation of audit procedures in order to respond to our evaluation of significant risks in the consolidated financial statements. The conclusion of our audit procedures, including those listed below, form a basis for our opinion on the Company's consolidated financial statements.

Key Audit Matters	How the matter was addressed in the audit
Valuation of investment properties The Group's investment properties are recognised at fair value at the reporting date, 31 December 2020, in accordance with IAS 40 Investment properties and IFRS 13 Fair Value Measurement. Investment properties amounted to ISK 147,178 million or 96.2% of the Group's total assets at 31 December 2020. Valuation change for the year was positive by ISK 1,475 million. Valuation of investment properties is based on management assumption and interpretations. Valuation of investment properties falls under level 3 in the fair value hierarchy and the valuation is based on the present value of cash flow of individual assets. Determination of the value of investment properties is based on presumptions, many of which are based on management assessment such as required return, estimated future rental income and estimated future expenses. There is significant uncertainty relating to economic effect of the Covid-19 pandemic and effect on valuation of investment properties, see note 11. Due to evaluative nature of the item, its size and also that investment properties are a large portion of the Group’s statement of financial position in addition to significant uncertainties relating to economic effect of Covid-19 on depreciation, we consider valuation of investment properties to be a key audit matter in our audit. The accounting policy and most significant assumptions applied in the valuation are disclosed in note 11.	Emphasis was put on the following procedures in order to resend to this key audit matter: Overall review and assessment of the Group's valuation model and approach. Emphasis was put on review of the following assumptions applied by management in determining value of investment properties, but they are: • WAAC • estimated future rental income • estimated future expenses We verified the functionality of the valuation model by calculating fair value of a selected sample with our own valuation model. Required return used calculating present value of cash flow was compared to development of market interests and equity charge. Performed numerical analysis on estimated income for each cash generating investment property. Performed numerical analysis on estimated future expenses for each cash generating investment property and compared to the Group’s historical expenses. Reviewed changes in income forecast and risk classification of assets due to Covid-19. In auditing valuation of investment properties, we were assisted by valuation specialists of EY in Iceland. The relevant notes to the consolidated financial statements were reviewed in order to assess whether all significant information is included in accordance with disclosure requirements for the Group, see note 11.

Other matters

The consolidated financial statements of Reginn hf. for the year 2019 were audited by KPMG ehf. with an unqualified opinion. The date of the report was 12 February 2020.

Other information

This document contains other information than the consolidated financial statements and our auditor’s report thereon. The other information comprises: Endorsement and Statement by the Board of Directors and the CEO, unaudited Quarterly Statement, unaudited Statement of Corporate Governance and unaudited Non-financial information. The Board of Directors and CEO are responsible for the other information.

Our opinion on the consolidated financial statements does not cover this other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we 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 the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO 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 they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and Audit Committee 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 consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 the Board of Directors and Audit Committee 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.

We also provide The Board of Directors and audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with The Board of Directors and Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 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 and CEO accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the notes.

Kópavogur, 10 February 2021

Ingunn H. Hauksdóttir
Certified Public Accountant

Ernst og Young ehf.
Borgartúni 30
105 Reykjavík

Consolidated Statement of Profit or Loss and Comprehensive Income for the Year 2020

	Notes	2020	2019
Rental income		9.170	9.266
Income from operations in real estates		566	582
Operating revenue	6	9.736	9.848
Operating expenses of investment properties		(2.187)	(1.923)
Operations in real estates		(724)	(787)
Administrative expenses		(444)	(427)
Operating expenses	7	(3.355)	(3.137)
Operating profit before value adjustment		6.381	6.711
Value adjustment of investment properties	11	1.475	4.089
Profit from sale of investment properties	11	133	0
Depreciation of assets for own use	12	(19)	(14)
Operating profit		7.970	10.786
Financial income and (finance expenses):			
Financial income		70	74
Finance expenses		(6.468)	(5.244)
Net finance expenses	10	(6.398)	(5.170)
Profit before income tax		1.572	5.616
Income tax	19	(298)	(1.130)
Comprehensive income for the year		1.274	4.486
Earnings per share:			
Basic and diluted earnings per share	16	0,71	2,47

The notes on pages 14 - 36 are an integral part of the financial statements.

Consolidated Financial Statements of Reginn hf. 2020 10 Amounts are in ISK million

Consolidated Statement of Financial Position as at 31 December 2020

	Notes	2020	2019
Assets			
Investment properties	11	147.178	140.746
Properties and equipment for own use	12	152	193
Lease deferrals	4	502	0
Non-current assets		147.832	140.939
Trade and other short-term receivables	13	1.513	886
Cash and cash equivalents	14	3.630	2.840
Current assets		5.143	3.726
Total assets		152.975	144.665
Equity			
Share capital		1.823	1.804
Reserves		16.586	16.514
Unrealised share of profit of equity accounted investees		23.874	20.337
Retained earnings		4.589	7.387
Equity	15	46.872	46.042
Liabilities			
Interest bearing liabilities	17	87.431	80.234
Lease liability	18	3.593	2.650
Deferred income tax liability	19	10.587	10.259
Non-current liabilities		101.611	93.143
Interest bearing liabilities	17	3.098	3.787
Current portion of lease liability	18	139	115
Trade and other short-term payables	20	1.255	1.578
Current liabilities		4.492	5.480
Total liabilities		106.103	98.623
Total equity and liabilities		152.975	144.665

The notes on pages 14 - 36 are an integral part of the financial statements.

Consolidated Financial Statements of Reginn hf. 2020 11 Amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year 2020

	Share capital	Reserves*	Unrealised share of profit of equity accounted investees	Retained earnings	Total
Year 2019					
Equity as at 1.1.2019	1.826	16.965	14.331	8.902	42.024
Total comprehensive income for the year		(5)		4.491	4.486
Transferred to restricted equity account			6.006	(6.006)	0
Purchase of treasury shares	(22)	(446)			(468)
Equity as at 31.12.2019	1.804	16.514	20.337	7.387	46.042
Year 2020					
Equity as at 1.1.2020	1.804	16.514	20.337	7.387	46.042
Total comprehensive income for the year				1.274	1.274
Transferred to restricted equity account			3.537	(3.537)	0
New shares issued	40	551			591
Purchase of treasury shares	(21)	(479)			(500)
Dividend paid				(535)	(535)
Equity as at 31.12.2020	1.823	16.586	23.874	4.589	46.872

* specification of reserves is in note 15.
The notes on pages 14 - 36 are an integral part of the financial statements.

Consolidated Financial Statements of Reginn hf. 2020 12 Amounts are in ISK million

Consolidated Statement of Cash Flows for the Year 2020

	Notes	2020	2019
Cash flows from operating activities			
Profit for the year		1.274	4.486
Adjusted for:			
Value adjustment of investment properties	11	(1.475)	(4.089)
Profit from sale of investment properties	11	(133)	0
Depreciation of assets for own use	12	19	14
Net finance expenses	10	6.398	5.170
Income tax	19	298	1.130
		6.381	6.711
Change in operating assets		(388)	(108)
Change in operating liabilities		(83)	128
		5.910	6.731
Interest income received		70	74
Interest expenses paid		(3.401)	(3.358)
Interest expenses from lease liabilities		(167)	(157)
Paid borrowing cost and prepayment fee		(318)	(21)
Net cash provided by operating activities		2.094	3.269
Cash flows from investing activities			
Investment in investment properties	11	(4.382)	(4.777)
Sales price of investment properties	11	99	199
Investment in properties and equipment for own use	12	22	(93)
Other short-term receivables, change		(137)	694
Net cash used in investing activities		(4.398)	(3.977)
Cash flows from financing activities			
New shares issued		591	0
Purchase of treasury shares		(500)	(468)
Dividend paid		(535)	0
New long-term borrowings	17	30.397	11.307
Repayments and settlements of interest bearing long-term liabilities	17	(26.732)	(9.696)
Repayments of lease liabilities	18	(127)	-85
Net cash provided by financing activities		3.094	1.058
Increase in cash and cash equivalents		790	350
Cash and cash equivalents at the beginning of the year		2.840	2.490
Cash and cash equivalents at the end of the year	14	3.630	2.840
Investing and financing activities not affecting cash flows			
Investment in investment properties	11	0	(165)
Unpaid purchase price of investment properties		0	165
Unpaid sales price of investment properties	11	(640)	0
Sales price of investment properties	11	640	0

The notes on pages 14 - 36 are an integral part of the financial statements.

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Notes to the Consolidated Financial Statements

1. General Information

The address of Reginn hf. ("the Company") is at Hagasmári 1 in Kópavogur. The consolidated financial statements of the Company for the year 2020 comprise the financial statements of the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities".

The Company is a public limited liability company, listed on the Icelandic Stock Exchange (Nasdaq QMX Iceland).

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 European Union. The Company's financial statements also comply with the Icelandic Financial Statements Act. A summary of significant accounting policies is disclosed in note 31.

The financial statements were approved by the Board of Directors on 10 February 2021.

b. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis, except that the Company's 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. All amounts are presented in ISK million unless otherwise stated.

d. *Use of estimates and judgements by management*

The preparation of consolidated financial statements in accordance with IFRSs 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 recognised 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 recognised in the financial statements is included in the following notes:

Note 11 - valuation of investment properties.
Note 19 - utilisation of carry-forward tax losses.

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

3. Determination of fair value

Several accounting policies of the Group require the determination of fair value. This applies to financial assets, financial liabilities and other assets and liabilities.

The Company has established a process for determining fair value. This means that management is responsible for all the important decisions regarding fair value, including decisions related to assessment strategies covered in level 3 of the fair value measurement.

3. Determination of fair value contd.:

Management regularly reviews important assumptions in the evaluation of assets and liabilities that are based on data which cannot be obtained in the market. If information from third parties, such as prices from brokers or pricing services, are used in determining fair value, management uses the information to support the conclusion that the assessment is in accordance with International Financial Reporting Standards (IFRSs), including the level that such an evaluation would fall under.

Fair value is classified according to the standards in a hierarchy system based on the assumptions used in the measurement according to following definitions:

- Level 1: quoted prices (unchanged) in active markets for identical assets and liabilities.
- Level 2: other assumptions than quoted prices according to level 1 which can be identified for the asset or liability, either directly (prices) or indirectly (derived from prices).
- Level 3: assumptions used in determining asset or liability are not based on available market data (unobservable data).

If the assumptions used in determining fair value of assets and liabilities are classified at different levels in the classification, the total fair value is classified at the same level as the lowest important assumptions in the measurement.

The Group accounts for transfers between levels in the classification at the end of the accounting period the change occurred. Further information on the assumptions used in determining the fair value can be found in note 11 on investment properties.

4. Effect of COVID-19 on the financial statements

Reginn has met the effect of COVID-19 on the Company's lessees by offering solutions which consider each of their situation. This has been done by renegotiating with the lessees, which entails changes in payment terms of lease agreements and in some instances a forgiveness of rent. Furthermore, part of the rent has been changed to rent linked to turnover. The extent of forgiveness of rent in the year 2020 is ISK 360 million.

According to IFRS 16.87 such changes to existing lease agreements should be treated as a new lease agreement. The effects of the changes are thus spread over the lifetime of the lease agreement. Accumulated disbursed rent in the period amounts to ISK 578 million. Income will decrease by ISK 76 million in the next 12 months and a decrease of ISK 502 million at later dates.

Increase in operating income in the period due to forgiveness of rent and lease deferrals is ISK 218 million.

The effect of COVID-19 is considered in estimation of cash flow of individual assets in the Company's valuation. Further information on the basis of valuation is in note 11.

5. Segment reporting

The segment report provides information about individual segments in the Group's operations and is submitted to the Executive Management and the Board of Directors. The Group's operations has three segments that are based on its organizational chart which was presented in the second half of 2019. The segments are divided by assets and their main operations. Assets under development are a separate segment until they are generate revenue

Segments:

- Commercial buildings
- Public-private partnership
- Office buildings and the general market

	Commercial buildings	Public-private partner-ship	Office buildings	Assets under develop-ment	Other	Adjust-ment	Total 2020
Rental income	2.944	2.685	3.541	0	0	0	9.170
Income from operations in real estates	326	229	11		165	(165)	566
Operating revenue	3.270	2.914	3.552	0	165	(165)	9.736
Operating expenses of investment properties	(633)	(414)	(1.117)	(23)	0	0	(2.187)
Operations in real estates	(449)	(275)	0	0	0	0	(724)
Administrative expenses	(52)	(48)	(65)	0	(444)	165	(444)
Operating expenses	(1.134)	(737)	(1.182)	(23)	(444)	165	(3.355)
Operating profit before value adjustment	2.136	2.177	2.370	(23)	(279)	0	6.381
Value adjustment of investment properties	1.120	(353)	719	(11)	0	0	1.475
Profit from sale of investment properties	133	0	0	0	0	0	133
Depreciation of assets for own use					(19)		(19)
Operating profit	3.389	1.824	3.089	(34)	(298)	0	7.970
Net finance expenses							(6.398)
Profit before income tax							1.572
Income tax							(298)
Comprehensive income for the year							1.274
31 December 2020							
Investment properties owned by the Group	46.578	36.721	54.875	5.272	0	0	143.446

The segment report was not prepared in 2019 and therefore comparative information is not available.

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6. Operating revenue

Operating revenue is specified as follows:

	2020	2019
Rental income from fixed price leases	8.214	8.766
Rental income from leases linked to turnover	378	500
Lease deferrals	578	0
Total operating revenue of investment properties	9.170	9.266
Income from operations in real estates	566	582
Total operating income	9.736	9.848

The lease contracts entered into by the Company with lessees are up to 30 years and the contracts are linked to the consumer price or building cost indices. The weighted average lease period is 7 years (2019: 7 years).

Following is an analysis of the Group's non-cancellable lease payments at year end based on indices at year end 2020 (year end 2019). Lease contracts linked to turnover are not taken into account.

	2020	2019
Lease payments 2020	-	8.423
Lease payments 2021	8.631	7.755
Lease payments 2022	7.984	7.162
Lease payments 2023	7.586	6.663
Lease payments 2024	6.967	6.042
Lease payments 2025	6.408	5.589
More than 5 years	28.849	22.613
	66.425	64.247

Approximately 16% of the Group's rental income for the year 2020 is attributable to its largest lessee (Reykjavíkurborg) compared to 15% for the year 2019 (Reykjavíkurborg). Reykjavíkurborg is categorized as public-private partnership.

7. Operating expenses

Operating expenses are specified as follows:

	2020	2019
Property tax, water and sewage fees	1.570	1.483
Insurance	143	128
Maintenance and refurbishment	320	333
Energy and waste disposal	129	145
Depreciation and amortization of receivables	132	47
Salary expenses	876	807
Other operating expenses	185	194
Total operating expenses	3.355	3.137

Operating expenses of investment properties that did not generate rental income during the year was insignificant.

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8. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:	2020	2019
Salaries	734	676
Contributions to pension funds	94	83
Other salary-related expenses	48	48
Total salaries and salary related expenses	876	807
Average number of full-time equivalent positions	57	54
Number of full-time equivalent positions at year end	56	57

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

Operating expenses of investment properties	315	287
Operations in real estates	227	221
Administrative expenses	334	299
Total salaries and salary related expenses	876	807

9. Auditor's fees

Auditor's fees are specified as follows:	2020	2019
Audit of the annual financial statements	16	12
Review of interim financial statements	2	3
Other services	0	18
Total auditor's fees	18	33

During 2020, ISK 11,5 million was paid to the Group's former auditors for the audit of the annual financial statement of 2019.

10. Financial income and (finance expenses)

Financial income and finance expenses are specified as follows:	2020	2019
Interest income	70	74
Total financial income	70	74
Interest expense	(3.435)	(3.458)
Capitalised interest expense	87	315
Borrowing cost	(246)	(51)
Prepayment fee	(261)	0
Interest expense from leases	(167)	(157)
Indexation	(2.446)	(1.893)
Total finance expenses	(6.468)	(5.244)
Net finance expenses	(6.398)	(5.170)

Capitalised interest expenses are due to properties under construction or renovation that are not generating income. Calculations of interests are based on average interest rate of 4% and is in accordance with the Company's line of credit at each time.

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11. Investment properties

Determination of fair value

The Group' investment properties are recognised at fair value at the reporting date in accordance with the International Accounting Standard *IAS 40 Investment Property* and International Financial Reporting Standard *IFRS 13 Fair Value Measurement*. All investment properties are classified as level 3 in the fair value hierarchy, thus the measurement is not based on observable market information. No changes in classification were made during the year. The fair value measurement is performed by the employees of the parent company in the same manner as for the previous year and it includes furnishings and other equipment necessary to ensure cash flow from the assets. Fair value measurement is based on assumption dependent on management's judgement and actual sales price may differ from the measurement. Classification of properties is revised based on use.

In estimating the fair value of investment assets discounted future cash flow of individual assets is relied upon. The cash flow model is based on free cash flow to the Group, discounted at the Weighted Average Cost of Capital (WACC) of the Company. The cash flow model spans 30 years (2019: 50 years), there is no change in cash flow after 30 years. The change has no effect on fair value. The rate of return on equity is derived from the Capital Asset Pricing Model (CAPM), which is based on the risk-free indexed interest rates (12 months average rate of return on housing bonds) to which a spread is added in order to meet the risk of the underlying business of the Company. The interest rates on debt capital are estimated considering the general interest rates offered in the market. The leverage ratio for the future is assumed to be 70% (2019:70%).

Estimated cash flows are based on current lease agreements and their expected development. When estimating the cash flows, each individual lease agreement is reviewed and all important risk factors are taken into account, such as quality and term of current lease agreements and the estimated market rent expected after the end of the agreement. Rental ratio is estimated to be 97.5% after lapse of lease agreement (2019: 97.5%). Operating expenses such as real estate tax, insurance, maintenance and operations in real estates where appropriate, are deducted from the estimated rental income of each property in addition to share in administrative expenses. In this way each property is assessed as an independent unit. Presumptions of the value model are based on actual figures from the Company's operations along with a future prediction of development of key factors.

The result of the evaluation was an increase in the measurement of investment properties in the amount of ISK 1,608 million (2019: ISK 4,089 million). Main factors affecting the measurement are price-level changes and increase in required rate of return.

Effect of COVID-19 on the valuation

Due to uncertainties relating to the COVID-19 pandemic, presumptions regarding the effect of domestic and foreign demand on cash flow of individual assets has been changed. The cash flow model now considers that the effect of the pandemic on income in tourism related operations will continue to 2023-24 but domestic demand will reach a balance in the year 2021. In order to meet uncertainties due to effects of COVID-19, risk spread in calculating required rate of return has been increased from the one used at year end 2019 and in addition hotels have been moved to a higher risk category.

Segmentation of investment properties 2020:	**The Group's investment properties**	**Right-of-use assets**	**Total**
Carrying amount			
Balance as at 1.1.2020	137.981	2.765	140.746
Additions during the year	4.469	0	4.469
Sold during the year	(739)	0	(739)
Adjustment due to revaluation of lease liabilities	0	1.094	1.094
Value adjustment for the year and sales profit	1.735	(127)	1.608
Balance as at 31.12.2020	143.446	3.732	147.178

Further information on right-to-use assets is in note 18.

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11. Investment properties, contd.:

Segmentation of the Group´s investment properties 2020:

	Commer-cial buildings	Office buildings	Industrial and storage buildings	Hotels	Sports, education and enter-tainment	Assets under develop-ment	Total
Carrying amount							
Balance as at 1.1.	42.094	51.409	12.513	11.468	17.525	2.972	137.981
Reclassification	0	0	0	0	0	0	0
Additions during the year	255	1	0	0	2	426	684
Improvements during the year	728	739	293	35	102	1.888	3.785
Sold during the year	(739)	0	0	0	0	0	(739)
Value adjustment for the year	1.396	966	333	(831)	(118)	(11)	1.735
Balance as at 31.12.	43.734	53.115	13.139	10.672	17.511	5.275	143.446
Key assumptions in the 2020 valuation model:							
Projected rental income per square meter per month in ISK	660-12,650	580-5,400	960-2,200	2,330-5,570	1,540-4,830		
Estimated average rent per square meter per month in ISK	3.131	2.715	1.623	3.841	2.474		2.695
Pre-tax weighted average cost of capital (WACC)	5.4%-7.4%	5.3%-7.8%	5.5%-7.4%	6.2%-6.9%	5.3%-6.4%		
Weighted average	5.8%	5.8%	6.3%	6.2%	5.6%		5.9%

Segmentation of the Group's investment properties 2019:

	Commer-cial buildings	Office buildings	Industrial and storage buildings	Hotels	Sports, education and enter-tainment	Assets under develop-ment	Total
Carrying amount							
Balance as at 1.1.	37.818	52.313	10.855	10.835	16.122	805	128.748
Reclassification	1.698	(4.712)	1.184	466	195	1.169	0
Additions during the year	6	0	27	0	0	399	432
Improvements during the year	2.300	1.253	164	29	477	603	4.826
Sold during the year	(98)	0	(101)	0	0	0	(199)
Value adjustment for the year	370	2.555	384	138	731	(4)	4.174
Balance as at 31.12.	42.094	51.409	12.513	11.468	17.525	2.972	137.981
Key assumptions in the 2019 valuation model:							
Projected rental income per square meter per month in ISK	690-12,230	570-4,550	930-2,100	2,290-5,360	1,250-4,670		
Estimated average rent per square meter per month in ISK	2.711	2.715	1.586	3.828	2.371		2.538
Pre-tax weighted average cost of capital* (WACC)	5.4%-8.7%	5.1%-8.4%	5.3%-7.8%	5.5%-6.9%	5.2%-6.5%		
Weighted average	5,8%	5,8%	6,3%	5,8%	5,4%		5,8%

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11. Investment properties, contd.:

	2020		2019	
	Increase	Decrease	Increase	Decrease
Sensitivity analysis of fair value:				
Increase (decrease) in rental income of 5%	8.837	(8.837)	8.245	(8.245)
Decrease (increse) in yield of 0.5%- points	10.099	(9.071)	12.794	(10.006)

Pledges and guarantees

At year end, investment properties with a carrying amount of ISK 138,592 million (2019: ISK 134,804 million) are pledged as collaterals for the Company's liabilities in the amount of ISK 84,606 million (2019: ISK 78,829).

The Company's real estates carry input VAT encumbrance in the amount of ISK 5,139 million at year end 2020 (2019: ISK 5,590 million). The VAT encumbrance lapses over 20 years and does not become payable unless the relevant real estate is utilised for operations which are 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 90,105 million (2019: ISK 89,915 million). At the same time, the assessed value for fire insurance of the Company's real estates amounted to ISK 118,608 million (2019: ISK 119,066 million). The Group has purchased additional insurances in the amount of ISK 20,515 million (2019: ISK 18,813 million).

Further information on accounting policies regarding investment properties is in note 31.

12. Properties and equipment for own use

Properties and equipment for own use are vehicles and equipment not related to the lease of individual properties:

	2020	2019
Cost		
Balance at 1.1.	193	115
Additions during the year	17	94
Sold during the year	(39)	(2)
Depreciation during the year	(19)	(14)
Balance at 31.12.	152	193

13. Trade and other short-term receivables

Trade and other short-term receivables are specified as follows:

	2020	2019
Trade receivables	611	617
Lease deferrals	76	0
Outstanding sales price	640	19
Other short-term receivables	186	250
Total trade and other receivables	1.513	886

Information about credit risk and impairment (provision) of trade and other receivables of the Group is disclosed in note 22. Trade receivables for other services are insubstantial.

14. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank deposits.

Consolidated Financial Statements of Reginn hf. 2020 21 Amounts are in ISK million

15. Equity

Share capital

Total share capital of the Company recognised in the Group's financial statements is total nominal price of ordinary shares which are issued by the parent company and are outstanding at the reporting date.

The parent company's total share capital at year end 2020 amounted to ISK 1,823 million according to its Articles of Association and it is fully paid. One vote is attached to each share of ISK 1 in the parent company.

The Board of Directors activated a repurchase plan on 7 January 2020 which was based on an authorisation by the annual general meeting on 14 March 2019. Repurchase was to be for a maximum of 21,929,825 shares, with the total purchase price not exceeding ISK 500,000,000, and that treasury shares would not exceed 1.20% of the Company's total share capital. Repurchase according to the repurchase plan closed at 27 January 2020. The Company purchased a total of 21,162,034 shares in the Company and total purchase price amounted to ISK 499,999,986. The annual general meeting on 11 March 2020 approved to decrease the share capital by 43,091,859 own shares which entered into effect on 1 April 2020.

Issuance of 40.000.000 new shares was approved at a shareholders meeting on 9 September 2020. The shares were sold to preferred shareholders the rate ISK 15.0, for the total value of ISK 600 million. The share increase entered into effect on 5 October 2020.

Reserves

Share premium represents the 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 liability companies, which stipulates 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 the statutory reserve until the reserve amounts to 10% of the Company'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 Company's share capital.

Reserves are specified as follows:

	Statutory reserve	**Share premium**	**Total reserves**
Balance at 1.1.2020	452	16.062	16.514
Increase of statutory reserve	0	0	0
Share increase	10	541	551
Acquisition of treasury shares	(5)	(474)	(479)
Balance at 31.12.2020	457	16.129	16.586

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

Unrealised share of profit of equity accounted investees consists of share of profit of subsidiaries from the end of 2015 in excess of dividend allocated by those companies as at the date of approval.

Consolidated Financial Statements of Reginn hf. 2020 22 Amounts are in ISK million

15. Equity, contd.:

Capital management

It is the policy of the Board of Directors of the Company to maintain a strong capital base for the Group in order to support the stability of future development of operations and to deal with uncertainty in the external environment. The Company intends to maintain the real return of equity on average above 10%. The Company intends to keep leverage as a proportion of investment properties below 65%.

The Board approved the Company's investment policy at a board meeting on 20 April 2015 and it was confirmed, unchanged, at a board meeting on 11 April 2019.

Dividend

According to a resolution made on the Company's annual general meeting, a dividend of ISK 535 million or ISK 0.3 per share would be paid on 27 March 2020. The Board of Directors decided to postpone the payment date from previously announced date due to increased risk related to Covid-19. The dividend was paid on 11 September 2020.

Reginn hf.'s dividend policy entails a dividend to shareholders corresponding to around 1/3 of profit in the preceding accounting period, either with payment of dividend or with purchase of own shares and decrease in share capital. The Company's dividend policy states that risk from external environment should be taken into account and that the company should maintain a sound equity- and liquidity position. The Board of Directors proposes that no dividend will be paid to shareholders in 2021 due to the country's economic uncertainty following Covid-19. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

16. Earnings per share

Basic earnings per share 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 year and shows the earnings per each share of ISK 1. Diluted earnings per share is the same as basic earnings per share since no share options have been granted to employees or others and the Company has not taken loans convertible into share capital.

	2020	2019
Profit for the year	1.274	4.486
Share capital at the beginning of the year	1.804	1.826
Effect of repurchase of own shares	(21)	(9)
Effect of paid-in share capital	10	0
Weighted average number of shares during the year	1.793	1.817
Basic and diluted earnings per share	0,71	2,47

17. Interest bearing liabilities

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

	2020	2019
Green bonds issued	14.539	0
Other bonds issued	31.982	26.794
Bond issue according to a framework	46.521	26.794
Liabilities with mutual funds which issue listed bond	12.838	29.696
Interest bearing long-term liabilities with credit institutions	31.566	28.088
Interest bearing long-term liabilities less borrowing cost	90.925	84.578
Capitalised borrowing cost	(396)	(557)
Current maturities of interest bearing liabilities	(3.098)	(3.787)
Total interest bearing long-term liabilities	87.431	80.234

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17. Interest bearing liabilities, contd.:

Table showing the terms and repayment periods of interest bearing liabilities:

	Maturity	Weighted interest rate 2020	Carrying amount 2020	Weighted interest rate 2019	Carrying amount 2019
Liabilities in ISK, indexed	2022	3,80%	6.907	3,80%	6.880
Liabilities in ISK, indexed	2023			4,15%	3.692
Liabilities in ISK, indexed	2028	3,15%	1.363	4,17%	4.577
Liabilities in ISK, indexed	2030	2,46%	6.482	2,75%	1.521
Liabilities in ISK, indexed	2040	3,90%	7.076	3,90%	7.167
Liabilities in ISK, indexed	2042			3,95%	8.138
Liabilities in ISK, indexed	2043	4,35%	5.931	4,35%	5.876
Liabilities in ISK, indexed	2044			3,85%	8.802
Liabilities in ISK, indexed	2047	3,68%	7.765	3,68%	7.786
Liabilities in ISK, indexed	2048	3,60%	17.735	3,60%	17.486
Liabilities in ISK, indexed	2050	2,50%	12.539		
		3,40%	65.798	3,84%	71.925
Liabilities in ISK, non-indexed	2021			5,67%	2.751
Liabilities in ISK, non-indexed	2022	4,10%	3.385		
Liabilities in ISK, non-indexed	2023	3,90%	4.934	6,90%	3.000
Liabilities in ISK, non-indexed	2024	4,10%	3.980	5,72%	4.085
Liabilities in ISK, non-indexed	2025	3,35%	10.100		
Liabilities in ISK, non-indexed	2029	4,60%	2.728	5,95%	2.817
		3,81%	25.127	6,04%	12.653
Total interest bearing liabilities			90.925		84.578

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

	2020	2019
Repayments in 2020	-	3.787
Repayments in 2021	3.098	6.572
Repayments in 2022	13.103	10.061
Repayments in 2023	5.348	8.496
Repayments in 2024	5.028	5.255
Repayments in 2025	13.705	7.295
Subsequent repayments	50.643	43.112
Total interest bearing long-term liabilities, including current maturities	90.925	84.578

The Company signed an agreement in April with its commercial bank regarding a postponement of repayments of the Company's loans for six months and the loan agreements will be extended accordingly. The postponed payments amount to just over ISK 1,600 million.

The Group's loan agreements contain covenants concerning financial conditions and the Group meets with all current covenants at year end 2020. The Company utilised favourable market conditions for refinancing. New loans were obtained amounting to ISK 30 billion, both bonds and bank loans. The Company repaid unfavourable loans amounting to ISK 24 billion. Loan agreements for interest bearing loans amounting to ISK 37,497 million contain provisions allowing for repayment in the year 2021.

Reginn hf. has issued bonds according to a bond framework for ISK 70 billion at Nasdaq Iceland hf.'s leading market, where it is possible to issue bonds and bills of exchange with different attributes. At the end of the year the book value of certified assets under the green framework amounted to ISK 21,078 million and green financing ISK 16,084 million.

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17. Interest bearing liabilities, contd.:

Changes in interest bearing liabilities during the year are specified as follows:

	2020	2019
Interest bearing liabilities 1 January	84.578	81.027
New borrowings	30.397	11.307
Repayments and settlements of long-term liabilities	(26.732)	(9.696)
Interest bearing short-term liabilities, change	236	47
Indexation	2.446	1.893
Interest bearing liabilities 31 December	90.925	84.578

18. Leases

Right-of-use assets and lease liabilities come from leases on land for the Group´s properties and properties that the Group leases from a third party. Lease properties which the Group recognises due to these lease agreements are recognised as investment properties as can be seen in note 11 and are measured at fair value at reporting date. Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. After the lease commencement date, lease liabilities are measured at amortised cost using the effective interest method, where lease payments are divided into interest expense recognised in profit and loss, and repayments of lease liabilities in statement of financial position.

Right-of-use assets and lease liabilities are specified as follows:

	2020	2019
Right-of-use assets		
Balance at 1.1.	2.765	2.575
Additions	0	161
Adjustment due to revaluation of lease liabilities	1.094	114
Value adjustment for the year	(127)	(85)
Balance at 31.12.	3.732	2.765
Lease liabilities		
Balance at 1.1.	2.765	2.575
Additions	0	161
Revaluation because of indexation of lease payments	1.094	114
Repayments of lease liabilities	(127)	(85)
Current portion of lease liabilities	(139)	(115)
Balance at 31.12.	3.593	2.650

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18. Leases, contd.:

	Properties	Total
Amounts recognised in profit or loss		
Value adjustment for the year	(127)	(85)
Interest on lease liabilities	(167)	(157)
Financial expenses from lease liabilities	(294)	(242)

Amounts recognised in statement of cash flows		
Paid interest expense from lease liabilities	(167)	(157)
Repayments of lease liabilities	(127)	(85)
Total amounts recognised in statement of cash flows	(294)	(242)

Lease liabilities

Repayments of lease liabilities for properties is specified as follows:

	2020	2019
Repayments in 2020		115
Repayments in 2021	137	119
Repayments in 2022	144	124
Repayments in 2023	150	130
Repayments in 2024	151	130
Repayments in 2025	99	56
Subsequent repayments	18	40
Net investment in leases	699	714

19. Income tax

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

		2020		2019
Profit before income tax		1.572		5.616
Income tax according to current tax rate	20,0%	314	20,0%	1.123
Difference between estimated and imposed taxes	(1,0%)	(16)	0,1%	7
Effective income tax	19,0%	298	20,1%	1.130

Deferred income tax liability is specified as follows:

	2020	2019
Deferred income tax liability at 1.1	10.259	9.129
Effects of investing in real estate companies during the year	30	0
Income tax for the year	298	1.130
Income tax payable	0	0
Deferred income tax liability at 31.12	10.587	10.259

Deferred income tax liability is attributable to the following items:

Investment properties and properties and equipment for own use	11.624	10.985
Trade receivables	(21)	(15)
Borrowing cost	24	18
Tax loss carry-forward	(1.040)	(729)
Deferred income tax liability at 31.12	10.587	10.259

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19. Income tax, contd.:

Tax loss carry-forward at year end is specified as follows:

	2020	2019
Tax loss of the year 2011, utilisable until year-end 2021	86	112
Tax loss of the year 2012, utilisable until year-end 2022	89	110
Tax loss of the year 2013, utilisable until year-end 2023	105	58
Tax loss of the year 2014, utilisable until year-end 2024	7	368
Tax loss of the year 2015, utilisable until year-end 2025	72	344
Tax loss of the year 2016, utilisable until year-end 2026	568	446
Tax loss of the year 2017, utilisable until year-end 2027	101	123
Tax loss of the year 2018, utilisable until year-end 2028	1.145	1.054
Tax loss of the year 2019, utilisable until year-end 2029	1.161	1.006
Tax loss of the year 2020, utilisable until year-end 2030	1.865	0
Total tax loss carry forward	5.199	3.621

It is the management's view that tax loss carry-forward at year-end 2020 will be utilisable against taxable profit in the future.

20. Trade and other short-term payables

Trade and other short-term payables are specified as follows:

	2020	2019
Trade payables	328	307
Unpaid accrued interest	515	690
Other short-term liabilities	412	581
Total trade and other short-term payables	1.255	1.578

21. Financial risk management

Overview

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

- credit risk
- liquidity risk
- market risk
- operational risk

Following is information regarding the Group's risks and its objectives, policies and processes for measuring and managing them.

The Board of Directors of Reginn hf. is 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 Company. The Company's Board of Directors has approved an investment policy where risk limits or qualifications are set for main factors related to lease activities, investments and financial activities.

The objective of risk management is to identify and analyse risks, to set risk limits and to control them. With training of personnel and work procedures the Group aims at maintaining disciplined control where all employees are aware of their roles and responsibilities.

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22. ***Credit risk***

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. Collaterals are generally in the form of cash and bank guarantees and amount to three months of rent. Credit risk arises mainly from trade receivables and cash and cash equivalents.

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 discharge their obligations the agreements are terminated or further guarantees requested. Write-off of trade receivables has been insignificant as a percentage of turnover.

The Group recognises an allowance for the estimated impairment of trade and other receivables and investments. The allowance is essentially a specific allowance for individual customers and a general allowance with respect to the age of receivables (older than one month) and which has not been associated with individual customers. A receivable is written off when its collectability is clear and in the meantime a general allowance is determined with respect to likelyhood of default and collection history of similar receivables. The allowance for impairment amounted to ISK 107 million at year end (2019: ISK 76 million). Write-off of trade receivables in the year amounted to ISK 115 million (2019: ISK 6 million).

The maximum exposure to credit risk arising from financial assets is their carrying amount, which is specified as follows at year end:

	Notes	2020	2019
Lease deferral	4	502	0
Trade and other short-term receivables	13	1.513	886
Cash and cash equivalents	14	3.630	2.840
Total maximum exposure to credit risk		5.143	3.726

Aging of trade receivables and allowance at the reporting date was as follows:

	Gross 2020	Allow-ance 2020	Gross 2019	Allow-ance 2019
Not past due	514	20	472	3
Past due 0-30 days	32	15	67	6
Past due 31 - 180 days	138	47	27	9
Past due more than 180 days	34	25	127	58
	718	107	693	76

The Company believes that there is no risk of loss in other short term receivables.

23. ***Liquidity risk***

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 financial assets, as they accrue.

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.

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23. *Liquidity risk, contd.:*

The Group has negotiated short-term loans and unused loan facilities amounted to ISK 3,515 million at year-end 2020 (2019: ISK 5,135 million).

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

Non-derivative financial liabilities	Carrying amount	Contract-ual cash flows	Within 1 year	1-2 years	2-5 years	More than 5 years
2020						
Interest bearing liabilities	90.925	123.137	6.329	24.244	23.182	69.382
Lease liabilities on properties*	699	774	165	330	261	18
Trade payables	328	328	328	0	0	0
Other short-term liabilities	412	412	412	0	0	0
	92.364	124.651	7.234	24.574	23.443	69.400
2019						
Interest bearing liabilities	84.021	118.783	7.093	23.082	18.310	70.297
Lease liabilities on properties*	714	803	142	284	279	98
Trade payables	307	307	307	0	0	0
Other short-term liabilities	1.271	1.271	1.271	0	0	0
	86.313	121.164	8.813	23.366	18.589	70.395

*The Company has leases on land for its investment properties. The Company considers that the leases are valid throughout the lifetime of the properties and their closing date is therefore uncertain. Lease on land in 2020 amounted to ISK 136 million (2019: ISK 132 million).

24. *Market risk*

Interest rate risk

The Group's borrowings are in Icelandic krona and mainly with fixed interest rates. The Group's interest rate risk is monitored taking into account the effect of interest rate changes on the Company's operations.

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

Financial instruments with fixed interest rates	2020	2019
Indexed financial liabilities	(64.435)	(71.925)
Non-indexed financial liabilities	(2.000)	0
	(66.435)	(71.925)
Financial instruments with floating interest rates		
Cash and cash equivalents	3.630	2.840
Non-indexed financial liabilities	(23.127)	(12.653)
Indexed financial liabilities	(1.363)	0
	(20.860)	(9.813)

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 profit or loss.

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 209 million (2019: ISK 98 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2019.

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24. *Market risk, contd.:*

Inflation risk

Interest bearing liabilities in the amount of ISK 65,798 million (2019: ISK 71,925 million) are indexed to the consumer price index. An increase (decrease) in inflation of one percentage point at year end 2020 would have increased (decreased) the Company's profit before income tax in the amount of ISK 658 million (2019: ISK 719 million). The analysis is based on all other variables remaining constant.

Lease contracts that make up 96% (2019: 95%) of the Company's rental income are indexed to the consumer price index.

Fair value

Comparison of fair value and carrying amount

The following table shows comparison of fair value and carrying amounts of financial assets and liabilities in the statement of financial position. Information on fair value is not disclosed if it is equal to carrying amount:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest bearing liabilities	90.529	95.466	84.021	86.850

Fair value of financial assets and financial liabilities is calculated by discounting future payments of principal and interest with market rates the reporting date. Market interest rate at year end is considered.

25. *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 organisation, 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. In order 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.

26. Related parties

Definition of related parties

The Group has a related party relationship with shareholders which have significant influence over the Company and with its subsidiaries, members of the Board of Directors, the CEO and close members of their families and companies which are controlled by them.

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

	Share in ISK thousand	
	2020	2019
Tómas Kristjánsson, Chairman of the Board (100% share in Sigla ehf, 50% in 2019.)	61.701	50.000
Finnur Reyr Stefánsson, former vice board member (50% share in Sigla ehf. 2019)	0	50.000
Albert Þór Jónsson, board member	153	150
Bryndís Hrafnkelsdóttir, board member	18	18
Ólöf Hildur Pálsdóttir, former board member	0	5
Helgi S. Gunnarsson, CEO (100% share in B38 ehf.)	1.567	1.522

Included in the above are shares of spouses and financially dependent children as well as shares held by companies controlled by the relevant person.

26. Related parties, contd.:

Salaries, benefits and pension contributions for the Board of Directors and management for their work for the Group during the year are specified as follows:

	2020		2019	
	Salaries and benefits	Pension contri-butions	Salaries and benefits	Pension contri-butions
Tómas Kristjánsson, chairman of the board	8,7	0,7	8,4	0,7
Albert Þór Jónsson, vice chairman of the board	5,1	0,4	4,7	0,4
Bryndís Hrafnkelsdóttir, board member	4,6	0,4	4,4	0,4
Guðrún Tinna Ólafsdóttir, board member	4,6	0,4	4,4	0,4
Heiðrún Emilía Jónsdóttir, board member	5,1	0,4	3,8	0,3
Ólöf Hildur Pálsdóttir, former board member	0,0	0,0	0,9	0,1
Hjördís Dröfn Vilhjálmsdóttir, chairman of the audit comm.	2,0	0,1	0,8	0,1
Guðfinna S. Bjarnadóttir, chairman of the nomination comm.	1,1	0,1	0,0	0,0
Ína Björk Hannesdóttir, nomination committee member	0,6	0,0	0,0	0,0
María Sólbergsdóttir, former nomination committee member	0,1	0,0	0,0	0,0
Sigurjón Pálsson, nomination committee member	0,7	0,1	0,0	0,0
Helgi S. Gunnarsson, CEO	44,3	6,2	40,5	5,6
Four managing directors (five in 2019)	104,3	15,5	113,1	15,8
Total	181,2	24,3	181,0	23,8

Other transactions with related parties are insignificant. Pricing in such transactions is comparable to other transactions of the Group.

The Board of Directors has approved an incentive payment plan for the most senior management of the Company. Key management's benefits according to the plan is capped to a maximum amount corresponding to three months' salary. Total payment in 2020 amounted to ISK 15.1 million (2019: ISK 8.4 million).

The CEO and five other executive managers took part in an incentive system during 2020. Bonus payments to the CEO amounted to ISK 4.9 million (2019: ISK 2.6 million) and ISK 10.2 million (2019: ISK 5.8 million) to the five executive managers.

27. Subsidiaries

Reginn hf. owned 12 subsidiaries at year end 2020:

	Share 2020	2019
Eignarhaldsfélagið Smáralind ehf.	100%	100%
Smáralind ehf.	100%	100%
Knatthöllin ehf.	100%	100%
Kvikmyndahöllin ehf.	100%	100%
Reginn atvinnuhúsnæði ehf.	100%	100%
RA 5 ehf.	100%	100%
FM-hús ehf.	100%	100%
Hafnarslóð ehf.	100%	100%
Hörðuvellir ehf.	100%	100%
Reykir fasteignafélag ehf.	100%	100%
HTO ehf.	100%	100%
RA 18 ehf.	100%	-

The parent company is liable to secure a portion of its subsidiaries' liabilities. Parts of the assets of subsidiaries are pledged to secure the liabilities of the parent company.

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28. Committments not included in the statement of financial position

Reginn hf. entered into a purchase agreement with Austurhöfn ehf. at the end of December 2017 regarding the purchase of all commercial properties on square 5b at Austurbakki 2 in Reykjavík's city center. The property is 2,700 m2 of shopping and restaurant space. The transaction is insignificant compared with Reginn hf.'s asset portfolio and will have an insignificant effect on Reginn hf.'s financial position and operating results. The property was delivered to Reginn at the end of 2020. Final settlement is not available.

Reginn hf. is a party to a development plan on an area south of Smáralind (Smárabyggð). The area is mainly planned for apartments, but in part for trade and services. Reginn hf. owns the construction rights to over 15,000 m2 in the Smárabyggð area. The asset is recognised at a carrying amount of ISK 573 million at year end.

29. Other matters

At the end of January 2017 a court case was initiated against the Company and Kópavogsbær by Norðurturninn hf., for recognition of the right to use parking lots at Hagasmári 1 and that the land use plan of Smárinn, west of Reykjanesbraut, would be annulled. The Supreme Court reached a verdict on 4 June 2020, where Norðurturninn hf. claim was considered but during proceedings before the Appeal Court Norðurturninn hf. abandoned its claim against Kópavogsbær for annulment of land use plan. In accordance with previous information the result of the court case has insignificant financial effect on Reginn or its subsidiaries, since there was no financial claim presented on Reginn in the case. Furthermore, the ruling has no effect on construction plans in the Smárinn area west of Reykjanesbraut (Smárabyggð).

30. Events after the reporting date

Reginn hf. registered at 1 January 2021 for 90% of shares in the private limited liability company S2F ehf. by signing up for 4,500,000 new shares in the company. The company had signed a purchase agreement regarding the real estate Sóltún 2, purchase price being ISK 3,783 million and the purchase was finalized on 15 January 2021. The purchase was fully financed with a loan.

Reginn hf.'s purchase offer to GAMMA CAPITAL MANAGEMENT hf. on behalf of GAMMA:201 was approved regarding the acquisition of all shares in CCI Fasteignir ehf. which owns 20.6% of shares in Smárabyggð ehf. The offer was made pending due diligence and thus the final purchase price is not available.

31. 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. In order to increase the informative value of the financial statements, the notes are disclosed on the basis of how appropriate and significant its value is for the reader. This means that information which is neither deemed appropriate nor significant for the user of the financial statements is not disclosed in the notes. The standards entering into effect on 1 January 2020 do not have a significant impact on the Group's consolidated financial statement.

a. *Basis of consolidation*

(i) Subsidiaries

Subsidiaries are entities 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 on which control commences until the date on which 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.

31. Significant accounting policies, contd.:

b. *Investment properties*

Investment properties are divided into investment properties owned by the Group and right-of-use assets. Information on accounting policies relating to right-of-use assets is in note 31m.

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 11.

Changes in the fair value of investment properties are recognised in profit or loss under the line item "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. Development properties are valued at cost.

The gain (loss) on sale of investment properties is calculated as the difference between the carrying amount and selling price less selling costs.

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.

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.

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 recognised among other income in profit or loss, but loss is recognised among other operating expenses.

Depreciation is recognised on a straight-line basis over the estimated useful lives of individual parts of operating assets. The estimated useful lives are between 5 and 10 years.

The depreciation methods, useful lives and residual value are evaluated at each reporting date and adjusted if appropriate.

d. *Financial instruments*

The Group's financial instruments comprise trade receivables and other receivables, cash and cash equivalents, borrowings, trade payables and other short-term liabilities.

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 an increase in their value upon initial recognition. Subsequent to initial recognition financial instruments are recognised as follows.

(i) Financial assets recognised at amortised cost

Financial assets recognised at amortised cost 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 related transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

31. Significant accounting policies, contd.:

(ii) Financial liabilities

Financial liabilities are initially measured at fair value plus all direct transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial assets and financial liabilities are offset and the net amount is shown in the statement of financial position when the Group has a legally enforceable right to offset the amounts and intends to either settle the contracts on a net basis or at the same time.

The accounting policies for financial income and finance expenses are disclosed in note 31(i).

(iii) Share capital

Ordinary shares

Share capital is classified as equity. Direct costs attributable to the issue of share capital are recognised as a deduction from equity, net of tax effects.

Acquisition of own shares

When the Group acquires its own shares, the acquisition price, including directly attributable costs, is recognised as a deduction from equity. The sale of own shares is recognised as an increase in equity.

e. *Impairment*

Financial assets

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

The impairment loss on financial assets measured at amortised cost is calculated as the difference between their carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The 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 on the basis of similar credit risk characteristics and each group specifically assessed for impairment.

Impairment losses are expensed in 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 losses on investments held to maturity are reversed through profit or loss.

f. *Provisions*

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that the costs required to settle the obligation, which can be measured reliably, will fall on the Group. Provisions are determined by discounting the expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

31. Significant accounting policies, contd.:

g. *Revenue*

(i) Rental income

Rental income from investment properties is recognised in profit or loss in accordance with the lease term for the relevant asset.

(ii) Operations in real estates

Income from services to lessees is recognised when the service is provided.

h. *Operating expenses of investment properties*

Operating expenses of investment properties are expensed as incurred and consist among other things of real estate tax, insurance and maintenance costs.

i. *Financial income and finance expenses*

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

Finance expenses consist of interest expense on borrowings. Borrowing costs are recognised in profit or loss using the effective interest method.

j. *Income tax*

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

Current tax is the tax expected to be paid next year due to the taxable profit for the year, based on tax rates enacted at the reporting date, in addition to adjustments made to current tax of previous years.

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 their tax bases. Deferred tax is not recognised for differences relating to investments in subsidiaries. The amount of deferred tax is based on expected realisation or settlement of the carrying amounts of assets and liabilities by using tax rates enacted at 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, intending to settle current tax liabilities and assets on a net basis and their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is only 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 for ordinary shares in the Company. Basic earnings per share are 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 year. Diluted earnings per share are the same as basic earnings per share since no share options have been granted to employees or others and the Company has not taken loans convertible into share capital.

l. *Segment reporting*

The Company's management presents information for the three segments corresponding to the Company's organizational structure.

31. Significant accounting policies, contd.:

m. *Leases*

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of unpaid lease payments at the commencement date. The payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

32. *New accounting standards and their interpretations issued but not yet effective*

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted. However, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group’s consolidated financial statements.

–COVID-19 - Related Rent Concessions (Amendment to IFRS 16).
–Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
–Reference to Conceptual Framework (Amendments to IFRS 3).
–Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

Quarterly Statement - Unaudited

Year 2020

	Q1	Q2	Q3	Q4	Total
Rental income	2.241	2.205	2.299	2.425	9.170
Income from operations in real estates	149	141	142	134	566
Operating revenue	2.390	2.346	2.441	2.559	9.736
Operating expenses of investm. properties	(519)	(577)	(532)	(559)	(2.187)
Operations in real estates	(195)	(175)	(164)	(190)	(724)
Administrative expenses	(121)	(109)	(96)	(118)	(444)
Operating expenses	(835)	(861)	(792)	(867)	(3.355)
Operating profit before value adjustment	1.555	1.485	1.649	1.692	6.381
Value adjustment of investment properties	(51)	(11)	109	1.428	1.475
Gain from sale	0	0	133	0	133
Depreciation of assets for own use	(7)	(4)	(2)	(6)	(19)
Operating profit	1.497	1.470	1.889	3.114	7.970
Financial income and (finance expenses):					
Financial income	8	6	5	51	70
Finance expenses	(1.124)	(1.738)	(1.811)	(1.794)	(6.468)
Net finance expenses	(1.116)	(1.732)	(1.806)	(1.743)	(6.398)
Profit before income tax	381	(262)	83	1.371	1.572
Income tax	(77)	53	(16)	(258)	(298)
Comprehensive income for the period	304	(209)	67	1.113	1.274
Basic and diluted earnings per share	0,17	(0,12)	0,04	0,61	0,71

Year 2019

	Q1	Q2	Q3	Q4	Total
Rental income	2.251	2.290	2.304	2.421	9.266
Income from operations in real estates	146	145	146	145	582
Operating revenue	2.397	2.435	2.450	2.566	9.848
Operating expenses of investm. properties	(484)	(495)	(446)	(498)	(1.923)
Operations in real estates	(193)	(198)	(156)	(240)	(787)
Administrative expenses	(113)	(109)	(89)	(116)	(427)
Operating expenses	(790)	(802)	(691)	(854)	(3.137)
Operating profit before value adjustment	1.607	1.633	1.759	1.712	6.711
Value adjustment of investment properties	874	1.313	1.080	822	4.089
Depreciation of assets for own use	(3)	(3)	(3)	(5)	(14)
Operating profit	2.478	2.943	2.836	2.529	10.786
Financial income and (finance expenses):					
Financial income	9	10	22	33	74
Finance expenses	(1.167)	(1.612)	(1.110)	(1.354)	(5.244)
Net finance expenses	(1.158)	(1.602)	(1.088)	(1.321)	(5.170)
Profit before income tax	1.320	1.341	1.748	1.208	5.616
Income tax	(263)	(279)	(350)	(238)	(1.130)
Comprehensive income for the period	1.057	1.062	1.398	970	4.486
Basic and diluted earnings per share	0,77	0,58	0,58	0,54	2,47

Consolidated Financial Statements of Reginn hf. 2020 37 Amounts are in ISK million

Statement of Corporate Governance

Management and corporate governance

The corporate governance of Reginn hf. ("Reginn" or "the Company") is in accordance with legal requirements, such as the Act No. 2/1995 on limited liability companies, Act no. 3/2006 on Financial Statements, Act no. 44/2005 on Competition, Act no. 108/2007 on Securities, and Act on measures against money laundering and terrorist financing no. 140/2018, which are accessible on Alþingi´s website, www.althingi.is. The corporate governance also takes into account the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederation of Icelandic Employers, version 5 in 2015. The Guidelines are available on the website of the Iceland Chamber of Commerce, www.vi.is and www.leidbeiningar.is, in addition to with various rules set by the Company itself and can be found on the Company's website, www.reginn.is. The shares issued by the Company are listed on the Iceland Stock Exchange and therefore the Company is required to comply with the Guidelines on Corporate Governance in accordance with the rules of the Stock Exchange, which are available on its website. An inspection on corporate governance was made at year-end 2018, that concluded that the Guidelines on Corporate Governance were being followed and as a result the Company was awarded a recognition as an exemplary company in corporate governance in August 2020.

Board of Directors

The Board of Directors of Reginn hf. consists of five members, which are elected annually at the Annual General Meeting. The Company operates a nomination committee which has the role to nominate individuals to the Board of the Company. Committee members are elected at a shareholders meeting for a two-year term. Operating procedures for the nomination committee were approved at a shareholders meeting in 13 September 2018. In accordance with the Articles of Association the election of Board members is usually in writing if nominations exceed the number of members which are to be elected. If shareholders of the Company are 200 or more and shareholders holding at least one tenth of the share capital require so, the election must be performed by way of proportional or multiple voting. However, if shareholders are fewer than 200 then a holding of one fifth of the share capital is required for the request. If requests come from more than one shareholder group and both proportional and multiple voting are requested then multiple voting must be used. The request must be received by the Board of the Company at least five days prior to the shareholders' meeting. Interaction between the Board and shareholders are to be characterised by honesty, clarity and be consistent. If shareholders send enquiries to the Company's Board, the Board shall be informed and supervise the Company's response to them. Shareholders meetings are the most common platform for providing shareholders with information in order for every shareholder to be treated equally. The current Articles of Association were approved at a shareholders meeting on 9 September 2020.

The Board of Directors of the Company consisted of the following members at year end 2020: Tómas Kristjánsson, Chairman of the Board, has been a Board member since April 2014. Albert Þór Jónsson, Vice-Chairman of the Board, has been a Board member since April 2015. Bryndís Hrafnkelsdóttir has been a board member since April 2014. Guðrún Tinna Ólafsdóttir has been a board member since March 2018. Heiðrún Emilía Jónsdóttir has been a board member since March 2019. The background, education and age of Board members varies and they have extensive business experience in the field of investments, real estate transactions and operations as well as management experience.

Tómas Kristjánsson, Chairman of the Board, is born in 1965 and holds an MBA degree from the University of Edinburgh and a Cand. Oceon degree in business from the University of Iceland, in addition to holding a certificate in trading securities. Tómas is the owner of Sigla ehf. and Klasi ehf. Tómas holds 100% of all shares in Sigla ehf. which owns 3.38% of shares in Reginn hf. In addition to being a member of the board of Reginn hf., Tómas is a board member of Sigla ehf., Klasi ehf., Gani ehf., Borgarhörfði Fasteignaþróun ehf. I, II and III, Heljarkambur ehf., NV lóðir ehf., Grunnur I ehf., Smárabyggð ehf., Húsafell Hraunlóðir ehf., Húsafell Resort ehf., Hótel Húsafell ehf., and Húsafell Giljaböð ehf. Tómas has no interest with the Company's major customers, competitors or shareholders who own more than 10% of shares in the Company. Tómas is the Chairman of the Board of Smárabyggð ehf. that is one of the developers of a new residential are south of Smáralind.

Board of Directors, contd.:

Albert Þór Jónsson, Vice chairman, is born in 1962 and holds a MCF degree in corporate finance from Reykjavík University and a Cand. Oecon degree in business from the University of Iceland, in addition to a certification in trading securities and real estate. Albert works independently and is a member of the board of Gneis ehf. and vice board member of Kvika banki hf. Albert holds 153,365 shares in Reginn hf. or 0.0084% of all shares. Albert has no interest with the Company's major customers, competitors or shareholders who own more than 10% of shares in the Company.

Bryndís Hrafnkelsdóttir is born in 1964 and is the CEO of Happdrætti Háskóla Íslands (The University of Iceland Lottery). Bryndís holds M.Sc. and Cand. Oceon degrees in business from the University of Iceland. Bryndís is the Chairman of the school board of The Commercial College of Iceland, Chairman of the Board of Ofanleiti 1 ehf., and is a vice board member of TM hf. and Lykill fjármögnun ehf. Bryndís holds 18,509 shares in Reginn hf. or 0.0010% of all shares. Bryndís has no interest with the Company's major customers, competitors or shareholders who own more than 10% of shares in the Company.

Guðrún Tinna Ólafsdóttir is born in 1975 and holds a M.Sc. degree in finance and a B.Sc. degree in business from the University of Iceland. Guðrún is the Managing Director of retail stores at Húsasmiðjan ehf. in addition to being a board member of Norðlenska matborðið ehf., Svanni Loan Guarantee Fund and a vice board member of Brunnur vaxtarsjóður slhf. Guðrún Tinna holds no shares in Reginn hf. Guðrún Tinna has no interest with the Company's major customers, competitors or shareholders who own more than 10% of shares in the Company.

Heiðrún Emilía Jónsdóttir is born in 1969 and is a lawyer with a Cand.Jur degree in law from the University of Iceland. Heiðrún works independently as an attorney. Heiðrún is also a board member in Múli lögmannsstofa ehf., Íslandsbanki hf and Royal Arctic Line. Heiðrún holds no shares in Reginn hf. Heiðrún has no interest with the Company´s major customers, competitors or shareholders who own more than 10% of shares in the Company.

None of the board members have been employed by the Company or performed any other work for the Company than being on the board.

The Board of Directors comprises two men and three women and thus the Company fulfils the requirements for gender ratios of limited liability companies. All five Board members are independent of the Company and the Company´s major shareholders.

Further information about the Board members is available on the Company's website, www.reginn.is.

Corporate Governance

The Board of Directors has adopted detailed operating procedures which define its power. The procedures include rules regarding the division of duties within the Board, the scope of work of the Board, the Chairman and the CEO, procedures and rules of meetings, information and more. Every member of the Board shall act in accordance with the procedures of the Board and prevent any kind of conflict of interest between the Company and their personal or business matters. The procedures of the Board for 2020 were approved on 11 April 2019. Current procedures were confirmed by the Board on 5 February 2021 and are accessible on the Company's website.

According to law and the Articles of Association of the Company, the Board of Directors holds the supreme authority in the affairs of the Company between shareholders' meetings. Among other tasks it decides the CEO's terms of employment and meets regularly with the Company's auditors. The Board of Directors has appointed two sub-committees of the Board, the Audit Committee and the Renumeration Committee. The Board of Directors appoints members of sub-committees no later than one month after the Annual General Meeting, appoints a chairman for each sub-committee and specifies their work procedures where their purpose and main tasks are detailed. Work procedures of sub-committees for 2020 were approved at a Board meeting on 11 April 2019. Current procedures for sub-committees were confirmed by the Board on 7 January 2021 and are accessible on the Company's website. In accordance with the Articles of Association of the Company, the conclusions of the sub-committees of the Board are only suggestive for the Board.

Corporate Governance, contd.:

At the end of 2020 the following were members of the Audit Committee: Hjördís Dröfn Vilhjálmsdóttir, Chairman, Albert Þór Jónsson and Heiðrún Emilía Jónsdóttir. Committee members satisfy the requirements for independence under the Guidelines on Corporate Governance. The main role and responsibilities of the committee are to monitor the processes for preparation of financial statements and the audit of separate financial statements, consolidated financial statements and other financial information of the Company. The committee evaluates the independence of the auditor, monitors his performance and submits proposals to the Board on the selection of the Company's auditor. The Company´s auditors confirmed their independence in writing in August 2020. In addition, the committee monitors the organisation of risk management and other control procedures and follows up on corrective actions on deficiencies appearing in internal control. The operating procedures of the Audit Committee for 2020 were confirmed by the Board of Directors on 11 April 2019. The current procedures of the Audit Committee were confirmed by the Board on 7 January 2021 and are accessible on the Company's website. The Audit Committee and the Remuneration Committee are required to report on their tasks to the Board at least once a year.

At the end of 2020 the following were members of the Remuneration Committee: Tómas Kristjánsson, Chairman, Bryndís Hrafnkelsdóttir and Guðrún Tinna Ólafsdóttir. The main role of the committee is to prepare and implement; (1) proposals for the remuneration policy of the Company, (2) shape proposals to shareholders meetings for the remuneration of Board members and (3) execution of contracts with the CEO and other employees, if they appertain to the Board, on salaries and other benefits. The decision power of the Board in this regard is not delegated to the Remuneration Committee. The operating procedures of the Remuneration Committee were confirmed by the Board on 7 January 20201 and are available on the Company's website.

The CEO is appointed by the Board and is responsible for the Company's daily operations in accordance with the Board's policies and instructions, law, the Company's Articles of Association and rules of procedure of the Board. The CEO executes the Company's policies as framed by the Board and sets goals for the operation. Helgi S. Gunnarsson has been CEO of the Company since its establishment in 2009. Helgi is born in 1960 and holds a M.Sc. degree in engineering from Danmark's Tekniske Universitet. Helgi holds 1,566,787 shares in Reginn, or 0.0859% of all shares, via the private limited liability company B38 ehf. Helgi is the chairman of the Board of all of the Company's wholly owned subsidiaries, in addition to being board member of B38 ehf. Helgi is independent of the Company's major customers, competitors and major shareholders. The job description of the CEO is stated in his employment contract. Further information about the CEO is available on the Company's website.

Other members of the Executive Management of Reginn are Jóhann Sigurjónsson, CFO, Baldur M. Helgason, Director of commerce and service and substitute CEO, Páll V. Bjarnason, Director of business properties and general market, and Sunna Hrönn Sigmarsdóttir, Director of governmental entities, cooperation and rental projects.

The Company has not entered into any agreements with members of the Board of Directors or employees regarding payments or compensation upon employment termination. Contracts with employees are traditional employment contracts with normal termination notice period. The Board of Directors has approved an incentive payment plan for the most senior management of the Company. Key management's benefits according to the plan is capped to a maximum amount corresponding to three month salary. No agreements have been made with employees regarding share options or other share based payments.

Corporate Governance, contd.:

The Company´s Board of Directors is responsible for internal control of the Company and has, in co-operation with the CEO, established internal control and risk management that entails monitoring of the Company's operations in order to prevent and detect any possible error and fraud of employees and its customers. This entails e.g. that the internal control is formal, documented and that its functionality is verified on a regular basis. The Company has set up procedures and rules for the segregation of duties to guarantee efficiency and surveillance. Financial overview is prepared each month and submitted to the Board of Directors. The Audit Committee monitors that the Board of Directors ensures that internal control and risk management is in accordance with the Company's policies and that controls cover the risks associated with the operations. Risk management is reviewed on a regular basis taking into account changes in the main risk factors the Company's operations face. Further review of the risk management policy is being prepared by the Company. The Company has not employed an internal auditor. The external auditors are elected for a term of one year at the Annual General Meeting. Neither the Company's auditors nor parties related to them may own shares in the Company. The financial statements of the Company are audited in accordance with International Standards on Auditing. The auditors have unrestricted access to the records and data of the Company. The Board of Directors receives each year a special audit report from the auditors which includes major observations made by the auditors. Compliance officer appointed by the Board monitors that rules regarding insider information and insider trading are followed. The Company's compliance officer is Heiða Salvarsdóttir and compliance officer's substitute is Dagbjört E. Einarsdóttir attorney.

The Board of Directors and its sub-committees have conducted formal performance evaluations of their work in 2020. Such performance evaluation entails e.g. that the Board assesses both strengths and weaknesses in its work and work procedures and scope for improvement. The main factors evaluated are the Board's tasks, provision of information, strategic planning and vision, board members and chairman of the board. The performance evaluation provides control basis to improve the work and increase the effectiveness of the Board in the coming year. The Board considered that all board members have completed their work with enthusiasm and conscientiousness. Attendance at board meetings was good and all board members actively participated in the work of the Board. The Board believed that it had set a clear focus at the beginning of the year and that it had concluded all projects for the previous year. The year was unusual due to effects of COVID-19 on the operations but the Board has nevertheless carried out all their main tasks and activities of the Board have gone well.

During the year 2020, 23 meetings of the Board of Directors were held and that were predominantly held electronically due to COVID-19, 11 meetings in the Audit Committee and 4 meetings in the Remuneration Committee. The majority of Board members and the majority of committee members have attended all meetings. The Audit Committee invites the Company's auditors regularly to meetings and the auditors also attend meetings of the Board of Directors when the annual financial statements and interim reports are discussed. The Board of Directors communicates with shareholders on shareholder meetings. CEO is the Company's spokesperson although he can authorize other employees a temporary permission to comment on specific aspects of the business. This is in accordance with the Company's information policy that was last approved on 1 October 2020.

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

Reginn publishes a special society report with non-financial information as part of its consolidated financial statements for 2020. The non-financial information is in accordance with ESG instructions from Nasdaq in Iceland and the Nordic countries from 2019 that sets forth a criteria on companies' performance in environmental and societal factors and corporate governance. Reginn hf. uses digital technology to ensure traceability, transparency and efficiency in data collection and dissemination of environmental information.

Statement of Corporate Governance contd.:

Corporate Governance, contd.:

The Company has approved a sustainability policy that aims to contribute positive effects on the society but the Company has set a goal to be at the forefront in forming and operating real estate in addition to contributing to welfare of the society, improved quality of life and environment of the residents. The policy entails to practice high quality in corporate governance, actively participating in creating a better society, and following a responsible human resources policy that promotes security, equality and welfare of employees. The policy on sustainability is extensive and also addresses important factors such as environmental factors and social responsibility. The Company's current sustainability policy was confirmed by the Board of Directors on 5 February 2021 and is accessible on the Company's website. Further information on social responsibility and ethical standards can be found in the non-financial information.

The Company approved a dividend policy in the year 2019 which entails that the Company aims to pay dividend to shareholders corresponding to around one third of profit in the preceding accounting period, either with payment of dividend or with purchase of own shares. The dividend policy for the year 2020 was confirmed by the Board on 11 April 2019. The current policy was confirmed unchanged on 5 February 2021.

Reginn hf. focuses on equal pay. Criteria on which wage decisions are based should not include gender differences. The company's current equality- and equal pay policies in 2020 were confirmed by the Board of Directors on 11 April 2019. The current equality- and equal pay policies were confirmed by the Board of Directors on 5 February 2021.

The Company's values are solution based, responsible and vigorous.

At the Company's website, www.reginn.is, there is a specific site dedicated to corporate governance with all additional information, under the tab Investors.

Non-financial information

About Reginn

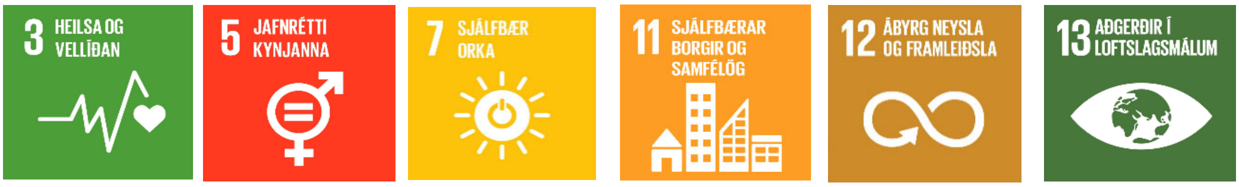
Reginn hf. ("Reginn" or "the Company") is an Icelandic limited liability company with distributed ownership and listed on the Iceland Stock Exchange (NASDAQ OMX Iceland). Reginn considers itself to be a pioneer and a progressive real estate company which is a desirable business associate and employer. The Company puts emphasis on being leading in forming and operating real estate in addition to contributing to society's welfare, improving quality of life and environment for residents.

In recent years, environmental and climate issues have received increasing attention, and greater knowledge of the issue has led to a change in the demands of investors, tenants and other stakeholders. At the same time, environmental and climate issues have influenced Reginn's business model. Operation and organisation of real estate impacts its residents' environment and quality of life but on a daily basis tens of thousands of people dwell in Reginn's properties, either for work or leisure. Through targeted measures in real estate operations, investments, planning, new construction and in collaboration with tenants, Reginn can play an important role in shaping people's environment so that daily life becomes better, more enjoyable and safer. To meet changing demands, Reginn has emphasized sustainability as a guiding principle in the Company's operations, most notably the environmental certification of the Company's real estate, the development of smart waste to encourage waste sorting, encouragement of green transport with increased bicycle storage and electric car charging at the Company's properties, electronic signatures and increased disclosure to tenants through a service website.

Sustainability policy

Reginn has a sustainability policy in place that was approved by the Board of Directors on 5 February 2021 which addresses environmental, social and economic sustainability. At the same time, the Company set measurable goals in these three categories, which were worked on in 2020. At year end 2020, the goals were revised with the experience and results of the past year in mind. Sustainability success will continue to be measured in a targeted manner and employees, customers and investors will be informed about the goals and the results achieved. Investment and real estate operations are considered long-term. It is the Company's belief that in addition to improving society, the emphasis on sustainability reduces risk in the Company's operations and strengthens financial profitability in the long run.

The Company puts emphasis on integrating the UN's sustainable development goals with its business. The Company's main focus is on six goals that are most affected by its daily operations; health and well-being, production and climate action, gender equality, sustainable cities and communities, sustainable energy and responsible consumption. See further information on sustainability policy, goals and results along with Reginn's actions in the Company's sustainability report at its website, www.reginn.is.



Environmental sustainability

In recent years, Reginn has placed increased emphasis on environmental issues and sustainability in its operations. The Company has undertaken various actions and projects with the aim of reducing negative environmental impact and increasing environmental awareness. The main negative environmental impact of the Company is the emission of greenhouse gases from its real estate during the operating period. Real estate is responsible for about a third of global greenhouse gas emissions, and these emissions also occur during the operation of the real estate. As a real estate company that handles real estate operations in about a third of its portfolio, the Company is in a unique position to reduce the negative environmental impact of its properties. Environmental certification of properties owned by the Company is a major factor in analyzing the risks that each property creates for the environment and is a third party confirmation that the operator complies with the best standards and requirements in real estate operations.

Non-financial information contd.:

Environmental sustainability, contd:

The main cause of greenhouse gas emissions in Reginn's operations is all kinds of energy consumption. The Company has therefore defined energy consumption as the main risk factor in the Company's operations. Waste and its treatment is also has a major environmental impact, which is why waste is also classified as one of the Company's risks. The Company has set itself a key measure in connection with the main risks, which is the reduction of CO2 emissions and the increase in the sorting ratio of waste.

In order to promote environmental sustainability, the Company has set itself the goal of reducing greenhouse gas emissions from operations during construction and carbon offsetting emissions related to the Company's operations. Natural resources must be used responsibly and ways sought to reduce their use as well as maximize the share of renewable energy. The use of products that are harmful to the environment should be minimized and emphasis should be placed on reducing the amount of waste and increasing its sorting ratio. The goal for the year 2020 was to reduce CO2 emissions by 3% per square meter by the end of 2021. Total emissions for 2020 were 707.4 tCO2, a decrease of 3% from 2019. The goal was achieved and will be revised in 2021. Reginn carbon offset emissions for the year with restoration of wetlands at the Icelandic Wetland Fund. In 2020, the Company's goal was to increase the waste sorting ratio to 45% as well as to reduce the total amount. The total amount of waste decreased by 16% between years and the goal for the year in increasing the sorting ratio was achieved as the sorting ratio was 46.9% in 2020. The results of the year 2020 can be seen in Reginn's sustainability report which is available on the Company's website www.reginn.is.

Social sustainability

Social sustainability aims to guarantee people's well-being and a safe and healthy environment. This applies to both inside and surrounding areas of the Company's real estate, for employees, lessees and their guests. Regular polls are conducted among employees and the Company puts emphasis on providing a good and secure working environment and a reduction in sick days of employees. Also there are regularly performed service polls among the Company's customers which are aimed at responding to the customers' wishes. Reginn emphasises green viewpoint in municipal planning and buildings, and thus increasing quality of life for passers by. In addition, sociological factors will also be taken into account in planning and a platform for increased communication will be prepared.

Main risks associated with social factors are health and safety of employees and contractors, human rights in the value chain and human resources. Reginn has set key criteria relating to social factors which are to ensure a safe working environment and reduce days in sick days of employees, show social responsibility in conducting business along with equalizing pay for men and women. The goal of reducing sick days in the year 2020 was achieved, but sick days were 3.37 on average during the year which is a decrease of 32% from the previous year.

In order to promote secure working environment for the employees there are among other seminars for employees on risk relating to fire prevention, first aid and seminars on handling of machinery. In the Company’s procedures and code of ethics, which were confirmed by the Board of Directors on 1 October 2020, there are provisions on that employees shall conduct themselves in a professional and honest manner. Respect, fairness, courtesy and dignity shall characterise all interactions with customers, colleagues and other business associates. Reginn respects human rights as one of the fundamental pillars of society that everyone is entitled to without regards to race, complexion, gender, language, religion, views, nationality, origin, assets, ancestry or other circumstances. In order to counteract the risk of human rights violations, the Company demands that the business of its lessees, contractors and suppliers is at all times in compliance with laws and regulations and are not in violation of basic human rights, such as labour market rights and safety in the workplace. Furthermore, contractors and suppliers are required to confirm that they bear the so-called chain responsibility in accordance with law. The procedures and code of conduct are accessible on the Company’s website.

Non-financial information contd.:

Corporate governance

One of Reginn's goal relating to social sustainability is to equalize gender payments. In deciding salary and benefits at the Company, the Act no. 150/2020 on equal position and equal rights of the genders is considered. The result of equal pay appraisal shows that the basic salaries for men in the year 2020 were 1.3% higher that the basic salaries for women. Reginn has now finalized pre-appraisal on the Company's equal pay system and estimates to begin a certification process in the first quarter of 2021. The Company has policies on equal pay and equality which were confirmed by the Board of Directors on 5 February 2021. The aim is to ensure equality in deciding salaries and ensure that employees enjoy equal pay for the same or equally valuable work irrespective of gender. The Board of Directors of Reginn in 2020 comprises three women (60%) and two men (40%) and thus the Company fulfils the requirements for gender ratios of limited liability companies. Included in the Company's report on social sustainability are among other information on salary and gender ratios, number of sick days, employee turnover, equality, health and safety of employees. In addition, the report contains information on serious events such as accidents. The Company's report on social sustainability is accessible on the Company's website www.reginn.is.

The corporate governance of Reginn is in accordance with the Act no. 2/1995 on limited liability companies and Guidelines on Corporate Governance. The shares issued by the Company are listed on the Iceland Stock Exchange and therefore the Company is required to comply with the Guidelines on Corporate Governance in accordance with the rules of Nasdaq Iceland hf., which are available on Nasdaq's website. Further information on governance is available on the Company's website, www.reginn.is/fjarfestavefur. The Company has set itself a policy on competition that states the importance of operating in all aspects of the Company in accordance with law and regulation on competition. The policy on competition was confirmed by the Board of Directors on 1 October 2020 and is available on the Company's website. The Company has also set itself a policy on data protection that covers protection and processing of personal information and its storage. The policy on data protection was confirmed by the Board of Directors on 1 October 2020 and is available on the Company's website.

The main risks are the overview of the board and management, business ethics, communication with stakeholders and data security. Key criteria are recognition of good governance, formal evaluation of the work of the Board as well as evaluation of data security. The Company's Board of Directors and subcommittees have carried out a formal performance appraisal for their work in the year 2020. The Board concluded that all board members had done their jobs with interest and conscientiousness, attendance at board meetings was good and everyone took an active part in the work of the Board. Reginn has continued to promote measures that promote good governance, but in 2020 Reginn received recognition from Stjórnvísir as a model company in good governance 2019-2020. To improve data security, the Company outsources the storage of data to service providers who have security certificates, cf. certification of Information Security Management System (ISO 27001) from BSI.

At Reginn, any kind of corruption, bribery or other illegal operations are under no circumstances tolerated. The risk of that is minimised by maintaining sound business ethics in a transparent manner in accordance with operating procedures. In the aforementioned code of ethics it is stated that management and employees are obligated to never let private matters collide with the Company's interests or its customers. Additionally all employees are bound by confidentiality requirements regarding all information they might become aware of in their work regarding the Company's customers. Employees must report all possible conflicts of interests to the compliance officer or his/her senior officer. No corruption or bribery cases arose in 2020.

The Company's report on social responsibility for the year 2020 includes among other things information on gender ratios, Board's independence, collective wage agreements, supplier behaviour, code of ethics, measures against corruption and bribery, data privacy, in addition to information on sustainability. The report also contains criteria and information on the progress made in these matters. The sustainability report is available on the company's website www.reginn.is.

The Company's non-financial disclosure is based on ESG guidelines issued by Nasdaq in Iceland and the Nordic countries in 2019.