

Reitir II ehf.  
Condensed Interim Financial Statements  
30 June 2011  
ISK

Reitir II ehf.  
Kringlunni 4-12  
103 Reykjavík

Reg.no. 670492-2069

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

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Reitir II ehf. (the "Company") is a real estate company, its operations being investment in property and leasing out investment property under operating leases in Iceland.

The condensed interim financial statements for the first six months have been prepared in accordance with International Financial Reporting Standard IAS 34.

According to the statement of comprehensive income, net loss for the six months ended 30 June 2011 amounted to ISK 572 million. The Company's equity amounted to ISK 2.650 million at the end of June 2011 according to the statement of financial position, including share capital amounting to ISK 2 million. Reitir fasteignafélag hf. owns the outstanding shares in the company.

## **Statement by the Board of Directors and the Managing Director**

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

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

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

Reykjavík, 17 August 2011

Board of Directors:

Elín Árnadóttir

Guðjón Auðunsson Einar Þorsteinsson

Managing Director:

Guðjón Auðunsson

# Independent Auditor's Review Report

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To the Board of Directors and Shareholders of Reitir II ehf.

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

## **Scope of review**

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

## **Conclusion**

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

## **Emphasis of Matter**

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

Reykjavík, 17 August 2011

***KPMG ehf.***

Anna Þórðardóttir

# Statement of Comprehensive Income

## 1 January to 30 June 2011

	Notes	2011 01.01.-30.06	2010 01.01.-30.06
<b>Operating revenue and expenses</b>			
Rental income .....		776.531	806.345
Operating expenses of investment properties .....		( 199.005)	( 191.303)
<b>Operating income</b> .....		<u>577.526</u>	<u>615.042</u>
Administrative expenses .....		( 47.629)	( 48.849)
<b>Net operating profit</b> .....		529.897	566.192
Financial income .....		1.535	7.683
Financial expenses .....		( 1.103.717)	( 949.289)
<b>Net financial cost</b> .....	5	<u>( 1.102.181)</u>	<u>( 941.606)</u>
<b>Loss for the period</b> .....		<u>( 572.285)</u>	<u>( 375.414)</u>
Other comprehensive income .....		0	0
<b>Comprehensive loss for the period</b> .....		<u><u>( 572.285)</u></u>	<u><u>( 375.414)</u></u>
<b>Loss per share</b>			
Basic and diluted loss per share of ISK 1 .....		<u>( 301)</u>	<u>( 198)</u>

# Statement of Financial Position

## as at 30 June 2011

	<b>Notes</b>	<b>30.06.2011</b>	<b>31.12.2010</b>
<b>Assets</b>			
Investment properties .....		21.082.971	21.053.922
Loans and receivables .....		2.444	0
Total non-current assets		21.085.415	21.053.922
Trade and other receivables .....		48.981	42.450
Prepaid expenses .....		20.100	0
Restricted cash .....		25.355	17.598
Cash and cash equivalents .....		14.177	15.759
Total current assets		108.614	75.807
<b>Total assets</b>		<b>21.194.029</b>	<b>21.129.729</b>
<b>Equity</b>			
Share capital .....		1.900	1.900
Investment properties value adjustment reserve .....		4.750.629	4.750.629
Accumulated deficit .....		( 2.102.589)	( 1.530.304)
Total equity		2.649.940	3.222.225
<b>Liabilities</b>			
Loans and borrowings .....		17.917.255	17.422.672
Loans and borrowings .....		162.094	152.497
Payable to related parties .....	6	312.566	210.461
Trade and other payables .....		152.174	121.874
Total current liabilities		626.834	484.832
Total liabilities		18.544.089	17.907.504
<b>Total equity and liabilities</b>		<b>21.194.029</b>	<b>21.129.729</b>

# Statement of Changes in Equity

## 1 January to 30 June 2011

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	Share capital	Investment properties value adjustment	Accumu- lated Deficit	Total equity
<b>1 January - 30 June 2010</b>				
Balance at 1 January 2010 .....	1.900	5.109.767	( 1.262.080)	3.849.587
Loss for the period .....			( 375.414)	( 375.414)
Balance at 30 June 2010 .....	1.900	5.109.767	( 1.637.494)	3.474.173
 <b>1 January - 30 June 2011</b>				
Balance at 1 January 2011 .....	1.900	4.750.629	( 1.530.304)	3.222.225
Loss for the period .....			( 572.285)	( 572.285)
Balance at 30 June 2011 .....	1.900	4.750.629	( 2.102.589)	2.649.940

# Statement of Cash Flows

## 1 January to 30 June 2011

	Notes	2011	2010
<b>Cash flows from operating activities</b>			
Loss for the period .....	(	572.285)	( 375.414)
Adjustments for:			
Net financial cost .....	5	1.102.181	941.606
		<u>529.897</u>	<u>566.192</u>
Change in current assets .....	(	28.379)	( 30.208)
Change in current liabilities .....		28.820	21.556
Changes in operating assets and liabilities		<u>441</u>	<u>( 8.652)</u>
Interest income received .....		813	2.744
Interest expenses paid .....	(	517.443)	( 513.500)
Net cash provided by operating activities		<u>13.708</u>	<u>46.784</u>
<b>Cash flows from investing activities</b>			
Acquisition of investment properties cash .....	(	29.049)	( 76.073)
Change in restricted cash .....	(	7.758)	1.179
Net cash used in investing activities	(	<u>36.807)</u>	<u>( 74.894)</u>
<b>Cash flows from financing activities</b>			
Repayments of long-term borrowings .....	(	75.683)	( 67.353)
Payable to parent company, change .....		97.200	9.982
Net cash provided by (used in ) financing activities		<u>21.517</u>	<u>( 57.371)</u>
<b>Decrease in cash and cash equivalents .....</b>	(	1.582)	( 85.481)
<b>Cash and cash equivalents at 1 January .....</b>		<u>15.759</u>	<u>142.797</u>
<b>Cash and cash equivalents at 30 June .....</b>		<u>14.177</u>	<u>57.316</u>



# Notes

## 1. Reporting entity

Reitir II ehf. ("the Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Kringlan 4-12, Reykjavík, Iceland.

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

The Company is a subsidiary of Reitir fasteignafélag hf. which registered office is Kringlan 4-12, Reykjavík. The financial statements of the Company are part of the consolidated financial statements of the parent company, which include information about the financial performance and the financial position of the Group.

## 2. Statement of compliance

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

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

## 3. Significant accounting policies

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

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

## 4. Estimates and judgements

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

## 5. Financial income and expense

Financial income is specified as follows:

	<b>2011</b>	<b>2010</b>
	<b>01.01.-30.06</b>	<b>01.01.-30.06</b>
Interest income on bank deposits .....	772	7.680
Interest income on loans and other receivables .....	764	3
Total financial income .....	<u>1.535</u>	<u>7.683</u>

Financial expenses are specified as follows:

Interest expenses .....	( 518.949)	( 511.739)
Indexation .....	( 579.863)	( 437.549)
Intercompany interest expenses .....	( 4.905)	0
Total financial expenses .....	<u>( 1.103.717)</u>	<u>( 949.289)</u>
Net financial cost .....	<u>( 1.102.181)</u>	<u>( 941.606)</u>

Notes, contd.:

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## 6. Related parties

### *Identity of related parties*

The Company has a related party relationship with its parents company's owners with significant influence and its fellow subsidiaries. Significant owners of parent company are Eignabjarg ehf. (Arion banki hf.) and Horn Fjárfestingarfélag ehf. (Landsbankinn hf.).

### *Related party transactions with significant owners of parent company*

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

	<b>30.06.2011</b>	<b>31.12.2010</b>
<b>Assets:</b>		
Cash and cash equivalents .....	14.177	15.759
<b>Liabilities:</b>		
Loans and borrowing .....	16.027.328	15.566.381
Other payables (accrued interest) .....	42.027	40.819
	<u>16.069.355</u>	<u>15.607.200</u>

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

	<b>2011</b>	<b>2010</b>
	<b>01.01.-30.06</b>	<b>01.01.-30.06</b>
Interest income .....	740	4.971
Interest expenses .....	( 976.965)	( 852.923)

### *Related party transactions within the Group*

The statement of financial position includes the following transactions with related parties within the Group:

	<b>30.06.2011</b>	<b>31.12.2010</b>
<b>Liabilities:</b>		
Payable to parent company .....	( 312.566)	( 206.640)
Payable to fellow subsidiaries .....	0	( 3.821)
	<u>( 312.566)</u>	<u>( 210.461)</u>

The statement of comprehensive income include the following transaction with related parties within the Group:

	<b>2011</b>	<b>2010</b>
	<b>01.01.-30.06</b>	<b>01.01.-30.06</b>
Operating expenses to parent company .....	( 43.985)	( 44.369)

All outstanding balances with related parties are valued on arm's length basis.