

Stoðir hf.
Condensed Financial Statements
for the year 2018

Stoðir hf.
Suðurgata 12
101 Reykjavík
Iceland

Reg. no. 601273-0129

Contents

	Page
Endorsement and Statement by the Board of Directors and the CEO	3
Independent Auditor's Report	4
Income Statement	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes	10

Endorsement and Statement by the Board of Directors and the CEO

The financial statements comprise the financial statements of Stoðir hf. ("Stodir" or "the Company").

Stodir's primary asset at year-end 2017, a 8.87% shareholding in Refresco, was sold on 29 March 2018. As discussed at the Company's AGM in May 2018, Stodir was transformed into an active investment company, with the Refresco sales proceeds to be re-invested in new projects over a longer term horizon. At year-end 2018, the Company had invested ISK 5.3 billion into new projects.

During the year 2018 an average of 2,1 employees (2017: 0,2) worked at the Company.

According to the income statement profit of the year 2018 amounted to ISK 1,082 million. According to the statement of financial position, equity at 31 December 2018 amounted to ISK 17,500 million.

At the Company's AGM in May 2018, a decision was made to implement a buy-back of own shares from smaller shareholders. During the year 2018 the Company acquired own shares in nominal amount of ISK 1,437 million for ISK 1,886 million. At year-end, the Company owned 12.09% of its issued share capital and a reduction or sale of share capital is planned in year 2019.

Total number of shareholders at year-end were 42, compared to 94 at the beginning of the year. The 10 largest shareholders at year-end were as follows:

Shareholders:	Share
S121 ehf.	62.28%
Arion banki hf.	18.62%
Landsbankinn hf.	15.24%
Íslandsbanki hf.	1.96%
Lífeyrissjóður Vestmannaeyja	0.96%
Stefnir - ÍS 5	0.45%
Frjálsi lífeyrissjóðurinn	0.15%
Lífsvirk lífeyrissjóður	0.10%
Eftirlaunasjóður atvinnuflugmanna	0.07%
Lífeyrissjóður Rangæinga	0.01%

The Board of Directors proposes that no dividend be paid to shareholders in 2019. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

Statement by the Board of Directors and the CEO

The annual financial statements for the year ending 31 December 2018 have been prepared in accordance with Icelandic Financial Statement Act.

According to our best knowledge, it is our opinion that the annual financial statements give a true and fair view of the financial performance of the Company for the year 2018, its assets, liabilities and financial position as at 31 December 2018.

Further, in our opinion, the financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Company's operations and its financial position and fairly describes the principal risks and uncertainties faced by the Company, as outlined in notes to the financial statements.

The Board of Directors and the CEO have today discussed the financial statements of Stoðir hf. for the year 2018 and confirm them by means of their signatures.

Reykjavík, 14 February 2019

The Board of Directors:

Jón Sigurðsson
Sigurjón Pálsson
Örvar Kærneded

CEO:

Júlíus Þorfinnsson

Independent Auditor's Report

The accompanying condensed financial statements for Stoðir hf. is based on the financial statements of the company for the year 2018. Following auditor's report from us came with the audited financial statements:

To the Board of Directors and Shareholders of Stoðir hf.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stoðir hf. (the Company), which comprise the statement of financial position as at 31 December 2018, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Icelandic Financial Statement Act.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the Code of ethics for Icelandic auditors, which are based on the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code). We have also fulfilled other ethical requirements of that rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and CEO for the Financial Statements

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

In preparing the financial statements, the Board of Directors and CEO are responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report, contd.:

- 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with The Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

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

Reykjavík, 14 February 2019

KPMG ehf.

Sæmundur Valdimarsson

Income Statement for the year 2018

	Notes	2018	2017
Net investment income (expense):			
Net income from investment securities		112,811	5,437,857
Other income		189,382	4,714
Interest income		87,586	1,696
Interest expense	(15,822)	0
Net foreign exchange gain		839,494	33,106
		<u>1,213,451</u>	<u>5,477,373</u>
Operating expenses:			
Operating expenses	(131,278)	(58,182)
	(<u>131,278</u>	<u>(58,182)</u>
Profit for the year		<u>1,082,173</u>	<u>5,419,191</u>

Statement of Financial Position

as at 31 December 2018

	Notes	2018	2017
Assets			
Cash and cash equivalents	4	12,189,270	792,497
Investments	5	2,712,624	17,505,706
Loans		2,543,623	0
Receivables		45,837	10,657
Operating assets	6	15,152	0
Total assets		<u>17,506,506</u>	<u>18,308,860</u>
Equity			
Ordinary share capital		10,448,122	11,885,096
Statutory reserve		2,658,962	2,658,962
Unrealised fair value changes of investments		0	747,528
Retained earnings		4,393,119	3,012,047
Total equity		<u>17,500,203</u>	<u>18,303,633</u>
Liabilities			
Trade and other payables		6,303	5,227
Total liabilities		<u>6,303</u>	<u>5,227</u>
Total equity and liabilities		<u>17,506,506</u>	<u>18,308,860</u>

Statement of Changes in Equity for the year 2018

	Ordinary share capital	Statutory reserve	Unrealised fair value changes of investments	Retained earnings (accumulated deficit)	Total equity
Year 2017					
Balance at 1 January 2017	11,885,096	2,500,433	0	(1,501,087)	12,884,442
Profit for the year				5,419,191	5,419,191
Transfer to fair value reserve			747,528	(747,528)	0
Transfer to statutory reserve		158,529		(158,529)	0
Balance at 31 December 2017	<u>11,885,096</u>	<u>2,658,962</u>	<u>747,528</u>	<u>3,012,047</u>	<u>18,303,633</u>
Year 2018					
Balance at 1 January 2018	11,885,096	2,658,962	747,528	3,012,047	18,303,633
Profit for the year				1,082,173	1,082,173
Own shares purchased	(1,436,974)			(448,629)	(1,885,603)
Transfer from fair value reserve			(747,528)	747,528	0
Balance at 31 December 2018	<u>10,448,122</u>	<u>2,658,962</u>	<u>0</u>	<u>4,393,119</u>	<u>17,500,203</u>

Statement of Cash Flows for the year 2018

	Notes	2018	2017
Cash flows from operating activities:			
Profit for the year		1,082,173	5,419,191
Adjustments for:			
Change in fair value		66,020	(5,437,857)
Depreciation		3,788	0
Working capital to (from) operations		<u>1,151,981</u>	<u>(18,666)</u>
Net change in operating assets and liabilities		(53,044)	(4,863)
Net cash from (used in) operating activities		<u>1,098,937</u>	<u>(23,529)</u>
Cash flows from investing activities:			
Investment securities, change		14,727,062	667,098
Short term loans, change		(2,543,623)	0
Investment in operating assets		(18,940)	0
Net cash provided by investing activities		<u>12,183,439</u>	<u>667,098</u>
Cash flows from financing activities:			
Own shares acquired		(1,885,603)	0
Dividend income tax paid		0	(398,685)
Net cash used in financing activities		<u>(1,885,603)</u>	<u>(398,685)</u>
Net increase in cash and cash equivalents		11,396,773	244,884
Cash and cash equivalents at 1 January		792,497	547,613
Cash and cash equivalents at 31 December		<u>12,189,270</u>	<u>792,497</u>
Other information:			
Interest income received		70,223	1,696

Notes

1. Reporting Entity

Stoðir hf. is a investment company registered at Suðurgata 12 in Reykjavík, Iceland. The financial statements of Stoðir hf. ("Stoðir" or "the Company") as at and for the year ended 31 December 2018 comprise the financial statements of the Company.

2. Basis of preparation

a. Statement of compliance

The financial statements have been prepared in accordance with Icelandic Financial Statement Act.

The financial statements were approved by the Board of Directors of Stoðir on 14 February 2019.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial assets designated at fair value through profit or loss are measured at fair value.

c. Functional and presentation currency

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

d. Use of estimates and judgements

The preparation of the financial statements in conformity with Icelandic Financial Statement Act's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Effective tax rate

Reconciliation of effective tax rate:

	2018		2017	
Profit before income tax		1,082,173		5,419,191
Income tax using the Company's domestic tax rate ...	20.0%	216,435	20.0%	1,083,838
Tax exempt revenue	(0.9%)	(9,458)	(17.6%)	(954,151)
Non-deductible expenses	12.0%	130,358	0.0%	3
Impairment on deferred tax asset, change	(31.2%)	(337,335)	(2.4%)	(129,690)
Effective tax rate	0.0%	0	0.0%	0

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax asset for the Company amounting to ISK 5,551 million is impaired at year-end 2018 as realization of tax benefits is improbable. Tax loss carry forwards for the Company is estimated to be ISK 15,543 million at year-end 2018.

Notes, contd.:

4. Cash and cash equivalents

Cash and cash equivalents consist of demand deposits.

5. Investments

Investments are specified as follows:

	2018	2017
Listed on stock exchanges	895,187	17,505,706
Unlisted investments	1,377,634	0
Bonds	439,803	0
Total investments at year end	<u>2,712,624</u>	<u>17,505,706</u>

6. Operating assets

Operating assets are specified as follows:

Cost	Vehicles
Additions during the year	<u>0</u>
Balance at 31.12.2018	<u>0</u>
Depreciation	
Depreciation	<u>3,788</u>
Balance at 31.12.2018	<u>3,788</u>
Carrying amount	
At 31.12.2017	<u>0</u>
At 31.12.2018	<u>(3,788)</u>

7. Financial Guarantees

At year-end 2018, the Company was aware of two outstanding financial guarantees, which were provided in the year 2006 in relation to lease contract made by former subsidiary of the Company. Uncertainty exists regarding the amount and the probability of the guarantees coming into effect. According to a legal opinion that the Company has obtained, the outstanding guarantees, if claims were to be declared, would fall under the approved and confirmed composition agreement of the Company from June 2009. It is estimated that the maximum number of shares needed to settle these claims, if declared, would not exceed ISK 150 million.

8. VAT matters

In December 2017, the District Court in Reykjavik ruled on a court case regarding disputed VAT payments from the years 2006-2007. The ruling was partly in favor of Stodir, as the court ruled that ISK 40 million plus interest should be returned to Stodir. Neither party appealed the ruling and payment was received in June 2018.