Norvik hf.

Consolidated Financial Statements 2022*
All amounts are in ISK

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

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Endorsement by the Board of Directors and the Chief Executive Officer

Norvik hf. is an Icelandic holding company which holds and operates five subsidiaries in construction supply market, a real estate management and a timber production. Norvik's subsidiaries are located in Iceland and its associate is located in Sweden. Norvik hf. owns 100 percent shares in the Icelandic companies BYKO ehf, Smáragarður ehf., Hólf og gólf ehf., 51 percent shares in Kambstál ehf. These companies are considered as subsidiaries of the Norvik Group. Norvik's associated company in Sweden is Bergs Timber AB and Norvik owns 58.67% share in the company but with 45% of voting rights.on shareholders meetings.

The Board of Directors consists of five Directors, two female and three male. The Executive Management Team consists of three Executives, one female and two male.

The Consolidated Financial Statements have been prepared in accordance with the Icelandic Financial Statements Act and are prepared according to the same accounting principles as for the previous year. The functional currency of Norvik hf. is Icelandic krona (ISK) from the beginning of the year 2022 but was before euro (EUR). Comparative numbers have been adjusted accordingly.

Operations in 2022 and future prospects

According to the Income Statement, net earnings of the group amounted to ISK 2,754 million for the year 2022. According to the Balance Sheet, the Group’s total assets amounted to ISK 51,238 million and equity amounted to ISK 36,764 million at year end 2022. The Board of Directors proposes a dividend payment of ISK 400 million to shareholders in 2023 for operations in 2022 and refer to the Financial Statements for other changes in equity.

The main uncertainties according to the Board of Directors relate to the turbulent global economic environment and high inflation in the largest trading countries following COVID-19 and the conflict in Ukraine. Each subsidiary’s management monitors closely the circumstances of each company and further possible effects on the operations.

The Board of Directors does not estimate any new risk of reputational damage or threat of competition. The Company does not possess any currency hedging and the Board of Directors estimates that risk is insignificant. Cyber security threats are increasing and Norvik emphasizes that appropriate security measures are taken by their subsidiaries.

The average number of employees converted into full-time-employees (FTEs) during the year was 10 (2021: 9).

Share capital at year-end 2022 amounted to ISK 328 million of which the Company held treasury shares of ISK 18 million as the Company acquired treasury shares from shareholders for ISK 450 million according to approvals from General meeting 2022. Shareholders at the end of the year 2022 were nine, same number as at the beginning of the year. Shareholders at year end 2022 were the following:

	Ownership
Sterna ehf.	42,3%
Jón Helgi Guðmundsson	27,8%
Guðmundur H. Jónsson	9,0%
Steinunn Jónsdóttir	9,0%
Iðunn Jónsdóttir	4,0%
Bjarnheiður K. Guðmundsdóttir	0,7%
Björk Guðmundsdóttir	0,4%
Sjöfn Guðmundsdóttir	0,6%
Þórunn Guðmundsdóttir	0,7%
Total outstanding shares	94,4%
Treasury shares	5,6%
Total issued shares	100,0%

Endorsement by the Board of Directors and the Chief Executive Officer

Corporate Governance

Norvik's Board of Directors emphasizes good governance in accordance with the Guidelines on Good Governance published by the Iceland Chamber of Commerce, Nasdaq Iceland and the Confederation of Icelandic Enterprise. The Board of Directors has established detailed rules of procedure, which define its area of authority and the scope of work of the Chief Executive Officer. These rules include rules on meeting procedures, detailed rules on the eligibility of board members to participate in the handling of matters, rules on confidentiality, the disclosure of information by the Chief Executive Officer to the board and more. The company's board decides on the remuneration of the Chief Executive Officer and meets regularly with the company's auditors.

Non-financial reporting

According to article 66.d. in the Icelandic Financial Statements Act Norvik hf. is required to provide information that measures the Company's sustainability and societal impact. The Company is also required to provide information on their policies relating to the environment, society- and employee matters, human rights, corruption, and bribery as well as detailed description of the companies business plan. The information is further referred to in the Non-financial appendix of the Consolidated Financial Statements.

Statement by the Board of Directors and the Chief Executive Officer

The Consolidated Financial Statements are prepared and presented in accordance with the Icelandic Financial Statements Act. To the best of our knowledge the Consolidated Financial Statements give a true and fair view of the consolidated financial performance of Norvik hf. for the year ended 31 December 2022, its assets, liabilities and consolidated financial position as at 31 December 2022 and its consolidated cash flows for the year ended 31 December 2022.

Further, in our opinion the Consolidated Financial Statements and the endorsement by the Board of Directors and the Chief Executive Officer give a fair view of the development and performance of the Group's operations and its financial position.

The Board of Directors and the Chief Executive Officer have today discussed the annual Consolidated Financial Statements of Norvik hf. for the year ended 31 December 2022 and confirm them by means of their signatures.

Kopavogur, 28th March 2023

Board of Directors:

Jón Helgi Guðmundsson

Steinunn Jónsdóttir

Þórður Magnússon

Guðmundur Halldór Jónsson

Iðunn Jónsdóttir

Chief Executive Officer:

Gísli Jón Magnússon

Independent Auditor's Report

To the Board of Directors and Shareholders of Norvik hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the Consolidated Financial Statements of Norvik hf., the Company ("the Group"), which comprise the Consolidated Balance Sheet as at December 31, 2022, the Consolidated Income Statement, and Consolidated Statement of cash flows for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the financial position of the Group as at December 31, 2022, and of its Consolidated Financial performance and its Consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of consolidated financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 Consolidated Financial Statements

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of the Consolidated 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 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 Chief Executive Officer 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.

Those charged with governance are responsible for overseeing the Groups‘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 judgment 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 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 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 Statements Act if not disclosed elsewhere in the Consolidated Financial Statements.

Reykjavik, 28th March 2023

KPMG ehf.

Matthías Þór Óskarsson

Consolidated Income Statement for the year 2022

	Notes	2022	2021
Operating revenues	5	30.586.674	24.556.269
Cost of sales		(20.407.123)	(15.999.461)
Gross profit		10.179.551	8.556.809
Salaries and related expenses	6	(4.739.445)	(3.888.973)
Other operating expenses		(2.873.293)	(2.511.476)
		(7.612.738)	(6.400.449)
EBITDA		2.566.813	2.156.360
Fair value change of investment properties		600.844	404.983
Depreciation	10	(545.138)	(499.521)
EBIT		2.622.519	2.061.823
Interest income		172.706	326.518
Interest expense		(604.131)	(330.509)
Currency fluctuations		(11.093)	445.297
Bonds valuation		(525.137)	93.397
Net finance income		(967.655)	534.703
Interest in net gain of associated company	11	1.483.916	4.052.858
Net earnings before income tax		3.138.780	6.649.384
Income tax	7,16	(384.457)	(522.245)
Net earnings for the year		2.754.323	6.127.139

Earnings per share:

Earnings per share	15	8,89	19,52

Norvik hf., Consolidated Financial Statement 2022 7 Amounts are in ISK thousand

Consolidated Balance Sheet as at 31 December 2022

	Notes	2022	2021
Assets			
Intangible assets	8	637.839	779.094
Investment properties	9	7.122.746	7.245.058
Operating assets	10	9.078.770	8.221.932
Shares in associated companies	11	15.261.999	14.128.574
Shares in other companies	11	4.798.204	2.520.198
Bonds and long-term receivables on related parties	12	28.452	78.080
Bonds and long-term receivables		139.040	231.643
Total non-current assets		37.067.050	33.204.579
Inventories	13	6.828.026	5.366.861
Receivable to related parties		823.454	319.406
Trade receivables and other receivables	14	3.040.618	1.981.583
Bonds		895.137	4.314.634
Cash and cash equivalents		2.583.460	1.750.578
Total current assets		14.170.695	13.733.061
Total assets		51.237.745	46.937.641
Equity			
Share capital	15	309.789	313.843
Statutory reserve		84.921	84.921
Translation reserve		(2.071.146)	(2.144.949)
Restricted equity account		10.015.702	8.105.083
Retained earnings		28.424.291	28.376.533
Total equity		36.763.557	34.735.431
Liabilities			
Deferred income tax liability	16	2.425.850	2.335.621
Interest bearing debt	17	4.940.444	4.382.435
Total non-current liabilities		7.366.294	6.718.056
Payables to related parties	19	322.782	108.899
Interest bearing debt	17	331.079	666.078
Accounts payable and other payables	18	6.454.033	4.709.177
Total current liabilities		7.107.894	5.484.154
Total liabilities		14.474.188	12.202.210
Total equity and liabilities		51.237.745	46.937.641

Norvik hf., Consolidated Financial Statement 2022 8 Amounts are in ISK thousand

Consolidated Statement of Changes in Equity

	Capital stock	Other equity	Retained earnings	Total
2021 EUR				
Equity 1.1.2021	2.229.563	15.859.200	182.479.651	200.568.414
Purchased treasury shares	(31.216)		(3.027.926)	(3.059.142)
Foreign currency transl. diff. for subsidiaries		(1.986.632)		(1.986.632)
Dividend paid			(1.699.524)	(1.699.524)
Net earnings for the year			41.511.782	41.511.782
Contribution to restricted equity account		27.011.043	(27.011.043)	0
Equity 31.12.2021	2.198.347	40.883.611	192.252.940	235.334.898
Converted to ISK @ 147,6	313.843	6.045.055	28.376.533	34.735.431
2022 ISK ('000)				
Equity 1.1.2022	313.843	6.045.055	28.376.533	34.735.431
Purchased treasury shares	(4.054)		(445.946)	(450.000)
Foreign currency transl. diff. for subsidiaries		73.803		73.803
Dividend paid			(350.000)	(350.000)
Net earnings for the year			2.754.323	2.754.323
Contribution to restricted equity account		1.910.619	(1.910.619)	0
Equity 31.12.2022	309.789	8.029.477	28.424.291	36.763.557

Other equity is specified as follows:

Other equity 2021	Statutory reserve	Translation reserve	Restricted equity acc.	Other equity total
Other equity 1.1.2021	84.921	(1.851.722)	4.118.253	2.351.452
Foreign currency transl. difference		(293.227)		(293.227)
Contribution to restricted equity account			3.986.830	3.986.830
Other equity 31.12.2021	84.921	(2.144.949)	8.105.083	6.045.055
Other equity 2022				
Other equity 1.1.2022	84.921	(2.144.949)	8.105.083	6.045.055
Foreign currency transl. difference		73.803		73.803
Contribution to restricted equity account			1.910.619	1.910.619
Other equity 31.12.2022	84.921	(2.071.146)	10.015.702	8.029.477

Foreign currency translation difference arising when converting business in currency other than functional currency are shown as a separate item under other equity, among translation reserve.

Restricted equity account consists of share in accumulated earnings of subsidiaries that exceeds dividend paid from appropriate subsidiaries.

Consolidated Statement of Cash Flows 2021

	Notes	2022	2021
Operating activities:			
Net earnings for the year		2.754.323	6.127.139
Adjustments to reconcile net earnings to net cash provided:			
Depreciation	10	545.138	499.521
Fair value adjustments of investment properties		(600.844)	(404.983)
Indexation and currency fluctuations		403.249	(45.401)
Net earnings from associated companies and sales	11	(1.483.916)	(4.052.120)
Gain on sales of operating assets		(17.914)	(6.534)
Income tax, change		90.229	124.561
Other items, change		32.856	(21.407)
Working capital provided by operating activities		1.723.121	2.220.774
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(1.461.165)	(1.049.723)
Receivables, (increase) decrease		(1.059.035)	(492.192)
Current liabilities, increase (decrease)		937.132	1.179.492
Changes in operating assets and liabilities		(1.583.068)	(362.422)
Net cash provided by operating activities		140.053	1.858.352
Investing activities			
Investment in software and intangible assets	8	(77.183)	(49.926)
Investment in investment properties	9	(590.156)	(1.060.616)
Proceeds from sale of investment properties	9	133.000	316.027
Investment in operating assets	10	(1.449.117)	(209.998)
Proceeds from sale of operating assets	10	265.580	20.946
Investment in subsidiaries		0	(64.163)
Investment in associates		223.224	(231)
Investment in other companies		(1.447.642)	(857.235)
Proceeds from sale in associates		179.813	1.143.078
Dividend received from subsidiaries and associated comp.		806.950	711.502
Receivables on related parties, change		(893.412)	0
Receivables, change		92.603	369.338
Bonds, change		3.167.499	(3.835.533)
Cash flows used in investing activities		411.158	(3.516.810)
Financing activities			
Dividend paid		(350.000)	(250.850)
Share capital, decrease	15	(450.000)	(451.530)
Proceeds from long-term liabilities		1.400.000	63.958
Instalments of long-term liabilities		(183.330)	(138.261)
Payables to related parties, change		200.000	0
Changes in short-term liabilities		(334.999)	537.388
Cash flows used in financing activities		281.671	(239.295)
Increase (decrease) in cash and cash equivalents		832.881	(1.897.753)
Effect of exchange rate fluctuations		0	2.058
Cash and cash equivalents at the beginning of the year		1.750.578	3.646.273
Cash and cash equivalents at the end of the year		2.583.460	1.750.578

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Notes to the Consolidated Financial Statements

1. General information

Norvik hf. (the "Company") is an Icelandic limited company domiciled in Iceland. The address of the Company´s registered office is at Vallakór 4, Kópavogur. The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2022 comprise the Company and its five subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates.

Norvik operates in retail and construction supply market, a timber production and a real estate holding.

2. Basis of accounting

a. *Statement of compliance*

The Consolidated Financial Statements have been prepared in accordance with the Icelandic Financial Statements Act.

The Consolidated Financial Statements were authorized for issue by the Board of Directors of Norvik hf. on March 28th 2023.

b. Basis of measurement

The Consolidated Financial Statements of Norvik Group is prepared in accordance with Icelandic Financial Statement Act. The Consolidated Financial Statements are prepared in Icelandic kronas. The Consolidated Financial Statements are based on cost accounting and are prepared according to the same accounting principles as for the previous year.

c. Functional and presentation currency

The Consolidated Financial Statements are now prepared in ISK where the Icelandic krona is the Group's functional currency from 1st January 2022 but was before EUR. The comparative amounts for the previous period have been converted to ISK, based on the exchange rate at year-end 2021 of 147,6.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are companies in which the Company holds controlling interest. Controlling interest exists when the Company has significant influence, direct or indirect, to control a subsidiary's financial and operational policies. The Financial Statements of the subsidiaries are included in the Consolidated Financial Statements of the Company.

(ii) Transactions eliminated on consolidation

All material balances between Group companies, transactions and earnings created in transactions between Group companies are eliminated in the Consolidated Financial Statements.

(iii) Associates

Associated companies are companies in which the Company has a significant influence on the financial and operational policies but not controlling interest. Significant influence is present when the Company has control over 20-50% of the voting right. The Financial Statements contain the Company's share in the performance of associated companies from the beginning of influence until the end. Should the Company's part of loss exceed the book value of an associated company, the book value is recorded as zero and further entries of loss are ceased unless the Company has granted guarantees for the associated company or financed it.

b. Foreign currency

(i) Transactions in other currencies than functional currency

Business in currency other than functional currency are converted to functional currency at the exchange rate at the date of transaction. Monetary assets and liabilities denominated in other currency than functional currency are converted to ISK at the year-end 2022 exchange rate. Foreign exchange differences arising on translation are recognized in the Income Statement.

(ii) Subsidiaries with other functional currency than ISK

Business in currency other than functional currency are converted to functional currency at the exchange rate at the date of transaction. Monetary assets and liabilities denominated in other currency than functional currency are converted to EUR at the year-end 2021 exchange rate. Foreign exchange differences arising on translation are recognised in the Income Statement.

3. Significant accounting polices, contd.:

c. Goodwill

Goodwill arises either on the acquisition of subsidiaries or has directly been purchased. Goodwill relating to acquisition of associates is not recognized separately as an asset but is included in the carrying amount of the investments in associates. Goodwill is recorded at historical cost less accumulated impairment loss. Goodwill is amortized over 10 years.

d. Investment properties

Investment properties are real estate (land and/or buildings) held by the Group either to earn rental income, for capital appreciation or both. The group measures its investment properties initially at cost, which comprises the purchase price and any directly attributable expenditure on preparing the properties for their intended use, including related transaction cost. Expenditure incurred subsequent to the acquisition of an investment property in order to add to, replace part of, or service a property is capitalized only if it meets the general asset recognition criteria. All other expenditure is recognized in income statement when incurred. Accordingly, expenditure for repairs and maintenance of recognized investment property is not recognized in the carrying amount of an investment property but it is recognized in income statement as incurred. However, the cost of replacing part of an existing investment property is recognized in the carrying amount of the investment property at the time that cost is incurred provided the relevant asset recognition criteria are met. At the same time, the carrying amount of those parts that are replaced is derecognized. When it is difficult to discern how much fair value should be reduced for the part being replaced, the group first includes the cost of the replacement in the carrying amount of the investment property and then reassesses the fair value of the property, as required for additions not involving replacement.

Investment properties are measured at fair value. Fair value measures are based on fair value of comparable assets in the same place and condition in a active market between informed unrelated parties. The measurement takes into account the aggregated net rental income of the properties in addition to appropriate costs. Rental income is mainly forecasted using current lease agreements and deducting any estimated maintenance cost. The determination of the fair value of investment property is based on current market rate and group interest rate.

Changes in fair value of investments properties are recognized under value adjustments of investment properties in the income statement. Investment properties are not depreciated.

When the use of a property changes from owner-occupied to investment property, the property is reassessed to fair value and reclassified accordingly. Any gain arising on this reassessment is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in OCI and presented in the revaluation reserve. Any loss is recognized in profit or loss.

When the group is redesigning current investment property for continuing use as an investment property no reclassification is made and the investment property continues to be measured at a fair value.

e. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

(ii) Subsequent costs

The cost of replacing part of an item of operating assets is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of operating assets are recognized in the Consolidated

3. Significant accounting polices, contd.:

(iii) Depreciation

Depreciation is recognized in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of operating assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Real estates	33 - 50 years
Fixtures, machinery and equipment	3 - 10 years
Vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Gain or loss on sale of operating assets is the difference between the sale price and the book value of the item and is recognized in the Consolidated Income Statement.

f. Shares in other companies

Investment in other companies, where the Company owns less than 20% of shares, is carried at acquisition cost less provisions for estimated impairment losses on certain investments. Dividends are recognized as interest income.

g. Inventories

Inventories are measured at the lower of cost and net realisable value. Manufactured products are valued at their average production cost. Inventories of purchased goods and materials are valued at cost less provision.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

h. Receivables and securities

The value of receivables and securities is reduced by an allowance for doubtful accounts in the Balance Sheet. The calculated allowance is not regarded as a final write-off, but as a reserve to meet possible future losses. Firstly, there are specific allowances made to adjust for obligations of creditors who have received a poor risk evaluation and secondly, there is a general allowance to meet the general risk of receivables and securities. The allowance is deducted from appropriate balance sheet items.

i. Bonds

Bonds are valued at market value.

j. Cash and cash equivalents

Cash and cash equivalents consist of fund and bank deposits.

k. *Impairment*

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are expensed in the Consolidated Income Statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the Consolidated Income Statement.

3. Significant accounting polices, contd.:

k. Impairment, contd.:

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill a recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

l. Revenue recognition

Goods and services sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and trade discounts. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and the amount of revenue can be measured reliably.

Revenue from services rendered is recognized in the Consolidated Income Statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Revenue from timber processing and production services and corresponding expenses are recognized by the reference to the stage of completion. The stage of completion is assessed by reference to surveys of work performed.

m. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, and foreign currency gains. Interest income is recognized as it accrues in the Income Statement, using the effective interest method. Dividend income is recognized in the Consolidated Income Statement on the date that the Group’s right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, and foreign currency losses. All borrowing costs are recognized in the Consolidated Income Statement using the effective interest method.

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

n. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Consolidated Income Statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill which is not tax deductible. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. Financial risks

The main financial risk arising from the Group's financial instruments are foreign currency risk, interest risk, liquidity and credit risk. The Group's main financial instruments comprise of loans from credit institutions and accounts payables to ensure financing of the Group. See further about risk management in note 23.

5. Revenues

Revenues are specified as follows:

	2022	2021
Sales of goods	30.447.042	24.483.375
Other revenue	139.632	72.894
Total operating revenue	30.586.674	24.556.269

6. Salaries

Salaries and salary-related expenses are specified as follows:

	2022	2021
Salaries	3.754.407	3.181.260
Pension fund	464.389	404.602
Salary-related expenses	520.649	324.427
Total salary and salary-related expenses	4.739.445	3.910.289
Average number of FTEs	408	400

Salaries paid to the Board and executives of Norvik and the subsidiaries amounts to ISK 251 million during the year 2022 (2021: 242 million).

7. Income tax

Effective income tax is specified as follows:

		2022		2021
Net earnings before income tax		3.138.780		6.649.384
Income tax using the domestic tax ratio	20,0%	(627.756)	20,0%	(1.329.877)
Associated companies	(5,4%)	170.466	(12,2%)	810.572
Non-deductible expenses	0,0%	(964)	0,0%	(2.724)
Non-taxable income	(1,9%)	58.876	(0,6%)	40.693
Other items	(0,5%)	14.921	0,6%	(40.909)
Total income tax recognized	12,2%	(384.457)	7,9%	(522.245)

8. Intangible assets

Book value of intagible assets are specified as follows:

	Goodwill	Software	Total
Book value 1.1.2022	524.139	254.955	779.094
Additions during the year	0	77.183	77.183
Amortization and impairment	(105.702)	(112.737)	(218.439)
Book value 31.12.2022	418.438	219.401	637.839

Goodwill is amortized in 10 years according to the Icelandic Financial Statement Act and is mainly from difference of subsidiaries equity and book value.

Norvik hf., Consolidated Financial Statement 2022 15 Amounts are in ISK thousand

9. Investment properties

	2022	2021
Book value at the beginning of the year	7.245.058	5.526.629
Additions during the year	0	1.060.616
Fair value change	600.844	404.984
Sales during the year	(133.000)	(89.676)
Translation difference	0	342.505
Reclassified to operating assets	(590.156)	0
Book value at the end of the year	7.122.746	7.245.058

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

The group measures its investment properties at discounted cash flow of individual assets. The cash flow is determined based on general accepted assessment procedures.

The fair value model is based on an estimated cash flow to shareholders and uses criterions that reflect the current market situations at reporting date. The cash flow for investment properties is estimated from expected income flow from rental income deducting any estimated cost. The most important variables in the model are estimated rental income, interest rate and equity rate of return.

Rental income is forecasted using current lease agreements. Based on assumptions subject to management expectations of market rate of interest and estimated market rent at the end of current lease agreements.

Deducted from estimated rental income are all relevant expenses such as maintenance cost, property taxes, insurance cost, other operating cost and financing cost. Property taxes and insurance cost are estimated using historical data and expected development in proportion to income. Maintenance cost is estimated by the size of the property and other operating cost as a percentage of rental income. Cost of capital is estimated from market rate and estimated interest premium. Interest premium is estimated for individual assets.

The key presumption for determination of fair value at year end were rental income according to current rental lease agreements in addition to expectations of actual change in rental income. Bases for calculations were 3.9% actual interest rate (2021: 3.7%). Required rate of return of equity was based on 10.5% actual interest and 35% equity ratio. Expected weighed average cost of capital (WACC) was 6.2% (2021: 6,1%).

Real estate assessment value

Real estate assessment value of investment properties and land at year end amount to ISK 10,937 million when included all investment properties, also those rented to related parties. Insurance value for year end 2022 amount to ISK 16,315 million.

Rental income from investment property

A subsidiary of Norvik hf., Smaragarður ehf. has signed lease agreements with its customers for up to 16 years. Contractual rental income to all lessees at the Company based on an index at the end of December 2022 is analyzed as follows in the coming years:

	2022	2021
Contractual income for up to one year	1.597.153	1.338.901
Contractual income from 1 year up to 5 years	5.781.039	4.930.458
Contractual income for more than 5 years	4.499.171	4.652.256
Total rental income from investment property	11.877.363	10.921.615

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10. Operating assets

Operating assets are specified as follows:

	Property	Fixtures, machinery and equipment	Vehicles	Total
Total value 31.12.2021	8.883.214	707.824	568.832	10.159.869
Total depreciation 31.12.2021	(1.083.834)	(514.380)	(339.724)	(1.937.937)
Book value 31.12.2021	7.799.380	193.444	229.108	8.221.932
Additions during the year	1.226.553	134.862	87.702	1.449.117
Depreciated during the year	(196.115)	(67.426)	(63.158)	(326.699)
Disposals	(250.000)	(1.160)	(14.420)	(265.580)
Book value 31.12.2022	8.579.818	259.720	239.232	9.078.770
Total value 31.12.2022	9.859.767	841.526	642.114	11.343.406
Total depreciation 31.12.2022	(1.279.949)	(581.806)	(402.882)	(2.264.636)
Book value 31.12.2022	8.579.818	259.720	239.232	9.078.770
Depreciation percentage	2 - 3%	10 - 33%	20%	
Expected useful life	33 - 50 years	3 - 10 years	5 years	

Depreciation according to the Income Statement is specified as follows:

	2022	2021
Depreciation of operating assets	326.699	290.082
Amortization and impairment of goodwill, see note 8	218.439	209.438
Depreciation and impairment according to the Income Statement	545.138	499.521

Insurance value and official value

Insurance value and official value of properties at year-end:

	2022	2021
Insurance value of property	16.315.000	14.040.931
Official valuation of property and land	12.350.000	9.690.555
Insurance value of fixed assets, other than property	1.429.000	1.288.000

Mortgages and guarantees

Pursuant to loan agreements the Group's assets have been mortgaged and pledged in respect of security for loans. In some instances companies within the Group have existing and future inventory, receivables and cash funds of the companies secured as commercial pledge against loans from their banks.

Companies within the Group have committed themselves to their banks that certain assets will not be sold or mortgaged without the banks´ consent.

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Notes, contd.:

11. Investments

(i) Investments in associated companies

Investments in associated companies are as follows:

	Ownership 31.12.2022	Interest in net gain of associated	2022	2021
Bergs Timber AB, Sweden	58,7%	1.811.776	14.723.121	13.644.847
Hafnagarður ehf., Iceland	62,5%	0	299.688	98.885
Steinull hf., Iceland	25,0%	74.049	212.619	181.271
Fasteignaf. Smidjuvellir ehf., Iceland	51,0%	0	8.978	8.978
Wedo ehf., Iceland	33,5%	(401.909)	0	177.000
OOO Komilesbusiness, Russia	66,7%	0	17.362	17.362
Vistbyggð ehf., Reykjavik	46,2%	0	231	231
Total		1.483.916	15.261.999	14.128.574

Bergs Timber AB is listed on the Swedish stock exchange with a stock price of 30,45 at year end 2022 and a market value of ISK 8,438 million. The shares are accounted for using the equity method and reflect Norvikur's hf. share in the Company's equity. The stock price has increased during the first months of the year 2023 and as of 24th of March 2023 the stock price was 34,25. Norvik holds 45% of the votes at shareholders meetings. In view of this, Bergs Timber AB is not part of Norvik's Consolidated Financial Statements in accordance with accounting standards.

In 2022, Norvik sold all shares in Hafnagardur ehf. where delivery of the shares takes place simultaneously with the purchase contract payments and subject to the fulfilment of other conditions. At year-end 37.5% of the shares has been delivered and the remaining 62.5% is expected to be delivered in 2023. Norvik does not control Hafnagardur ehf. and therefore Hafnagardur ehf. is not part of the Consolidated Financial Statements of Norvik hf.

(ii) Investments in other companies

Investments in other companies are as follows:

	2022	2021
Icelandic listed companies	1.352.254	0
Icelandic unlisted companies and funds	763.835	241.234
Foreign unlisted companies	2.682.115	2.278.964
Investments in other companies total	4.798.204	2.520.198

12. Bonds and long-term receivables

Norvik has a long-term receivables on its Russian associated company OOO Komilesbusiness amounting to ISK 28.5 million (2021: ISK 36.6 million). The receivable is interest bearing.

13. Inventories

The book value of inventories at year-end 2022 amounted to ISK 6,828 million (2021: ISK 4,266 million). The inventories comprises mainly of timber and building materials. The insurance value of the inventories at year-end 2022 amounted to ISK 8,231 million (2021: ISK 6,052 million).

Mortgages

Pursuant to loan agreements the Group's inventories have been mortgaged and pledged in respect of security for loans. In some instances, companies within the Group have its inventory secured as commercial pledge against loans from their banks.

14. Trade receivables and other receivables

Trade and other receivables are specified as follows:

	2022	2021
Trade receivables	2.812.939	1.752.464
Other receivables	228.076	229.119
Trade and other receivables total	3.041.015	1.981.583

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15. Equity

Share capital

At 31 December 2022, the authorized share capital comprised ISK 328 million. One vote is attached to each ISK one share in the Company. The Company bought shares for the nominal value of ISK 4.1 million for ISK 450 million according to approvals from General meeting 2022. At year end 2022 the Company held treasury shares of nominal value ISK 18.4 million.

Statutory reserves

The Company is obligated by Icelandic law to put aside 10 percent of net earnings, which is not used to balance losses from previous years or put aside to other reserve accounts, to a statutory reserve until it amounts to at least 10 percent of share capital. When the statutory reserve amounts to 10 percent of share capital the Company is obligated to put aside at least 5 percent of net earnings until the statutory reserve amounts to 1/4 of share capital. The Company is permitted to use the reserve to balance losses which are not balanced with transfer from other accounts. When the statutory reserve amounts to more than 25% of share capital, the Company can disburse the amount in excess of 25%.

Translation difference

Foreign currency translation difference arising when converting business in currency other than functional currency are shown as a separate item under other equity, among translation reserve.

Restricted equity account

Restricted equity account consists of share in accumulated earnings of subsidiaries that exceeds dividend paid from appropriate subsidiaries.

Dividend

The Board of Directors proposes dividend payments amounting to ISK 400 million to its shareholders in 2023 for operations from 2022.

Earnings per share

Earnings per share are based on earnings allocated to shareholders and weighted average share capital for the year and show earnings per icelandic krona of share capital.

Profit share is the ratio of profit to the weighted average number of shares for the year:

	2022	2021
Earnings per share	8,89	19,52

16. Deferred income tax asset (liability)

The deferred income tax asset (liability) of the Group is specified as follows for 2022:

	Assets	Liabilities	Net 2022
Balance at beginning of the year 2022	81.937	(2.417.558)	(2.335.621)
Calculated income tax	11.845	372.612	384.457
Income tax payable next year	0	(294.228)	(294.228)
Other changes	(9.377)	(86.676)	(96.053)
Balance at year-end 2022	84.405	(2.425.850)	(2.341.445)

The deferred income tax asset (liability) of the Group is attributable to the following items:

Operating assets and investment properties	(1.181)	(2.449.207)	(2.450.388)
Inventories	0	(66.637)	(66.637)
Trade receivables	53.706	14.978	68.684
Tax loss carrying forward	80.856	0	80.856
Currency difference	(24.976)	(1.451)	(26.427)
Other items	(24.000)	(7.938)	(31.938)
Balance at year-end 2022	84.405	(2.510.255)	(2.425.850)

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16. Deferred income tax asset (liability), contd.:

The deferred income tax asset (liability) of the Group is specified as follows for 2021:

	Assets	Liabilities	Net 2021
Balance at beginning of the year 2021	116.739	(2.238.219)	(2.121.480)
Calculated income tax	(100.273)	(421.971)	(522.245)
Income tax payable next year	66.496	374.914	441.411
Currency translation difference and other changes	(1.025)	(132.282)	(133.307)
Balance at year-end 2021	81.937	(2.417.558)	(2.335.621)

The deferred income tax asset (liability) of the Group is attributable to the following items:

Operating assets and investment properties	391	(2.397.252)	(2.396.860)
Inventories	0	(52.742)	(52.742)
Trade receivables	53.223	23.339	76.562
Currency difference	18.306	2.737	21.042
Other items	10.016	6.360	16.377
Balance at year-end 2021	81.937	(2.417.558)	(2.335.621)

17. Loans and borrowings

Loans and borrowings at year-end are specified as follows:

	2022	2021
Liabilities:		
Liabilities in ISK, indexed	5.243.635	5.048.513
Long-term liabilities total, including next year's mortgages	5.243.635	5.048.513
Current maturities	(303.191)	(666.078)
Loans and borrowings 31.12.	4.940.444	4.382.435

Annual maturities of long-term liabilities are as follows:

2023/2022	303.191	695.917
2024/2023	505.881	154.923
2025/2024	312.561	155.682
2026/2025	324.265	1.241.598
2027/2026	323.436	154.500
Subsequent years	3.474.301	2.645.893
Total loans and borrowings, including current maturities	5.243.635	5.048.513

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18. Accounts payables and other payables

Accounts payables and other payables are specified as follows:

	2022	2021
Account payables	3.547.362	2.895.384
Taxes for the year	294.228	441.412
Unsettled transactions	1.171.800	0
Other payables	1.440.643	1.372.380
Total	6.454.033	4.709.177

19. Related parties

Identity of related parties

The Group has a related party relationship with its Shareholders, associates, the Board of Directors and companies in their possession.

Related party transactions

Purchased goods and services from associated companies for the year 2022 were ISK 1.0 million (2021: 3.1 million). Payables at year end were 0.1 million as part of account payables (2021: 0.3 million).

Salaries and benefits of the management and Board of Directors of the Group companies are referenced in note 6.

20. Subsidiaries

Norvik hf. owned five subsidiaries and one sub-subsidiary at year-end, which are the following:

		Ownership	
	Country	2022	2021
BYKO ehf., Kopavogur (construction retailer)	Iceland	100%	100%
Smáragarður ehf., Kopavogur (real estate company)	Iceland	100%	100%
Hafnagarður ehf., Kopavogur (real estate company)	Iceland	62,5%	100%
Hólf og gólf ehf., Kopavogur (dormant)	Iceland	100%	100%
Kambstál ehf., Hafnarfjordur (industrial company)	Iceland	51%	51%
SIA Norvik Timber Industries, Riga (real estate company)	Latvia	100%	100%

In 2022, Norvik purchased all shares in Hafnagarður ehf. by its subsidiary Smáragarður ehf. Subsequently, an agreement was made with Kaldalon hf. for the sale of the entire share capital of Hafnagarður ehf. to Kaldalon, Hafnagardur currently is building the old Kassagerdarhús on Köllunarklettsvegur in Reykjavík. The acquisition is expected to be fully completed by the end of 2023, but Hafnagarður is not part of Norvik's consolidated financial statements.

21. Auditor's fees

	2022	2021
Audit of the Financial Statements	13.492	11.941
Other services	7.955	8.491
Total	21.447	20.431

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22. Leasing

The company has concluded rental agreements with third parties for up to three years on the premises in which its operations are located. Operating rental expenses amounted to ISK 148 million in 2022 (2021: ISK 112 million). The expenses are recognised in the income statement as operating costs.

Estimated rental payments amount to ISK 148 million in 2023 at price levels at the beginning of 2023. Estimated lease payments over the next five years are as follows in ISK thousand:

Year 2023	148.054
Year 2024	119.630
Year 2025	84.852

23. Risk Management

Overview

The main financial risks to which the Group is exposed are: credit risk, liquidity risk and market risk. Information on the above risks is provided, but in addition quantitative information is provided throughout the annual accounts.

Risk Management

The Board of Directors, together with the CEO, takes the lead in formulating policies, setting objectives and defining the company's risk criteria, as well as establishing an active system of internal controls. The company's risk management is carried out by the company's management in accordance with rules approved by the company's Board of Directors. The company's goal is to manage risk efficiently and ensure awareness of transparency of risk management at all levels, from the Board of Directors down to individual employees. The company's risk management is aimed at ensuring that risk is in accordance with the company's risk appetite and policy and thus contribute to increased stability and long-term profitability.

Credit risk

Credit risk is the risk of financial loss for the company if a client or counterparty to a financial instrument is unable to meet its promised obligations or if customer collateral is insufficient to meet their obligation.

The Company's credit risk depends primarily on the financial position and activities of individual customers. If customers fail to fulfil their obligations, contracts are terminated or additional collateral is required against payment. The CEO and CFO monitor the status of claims in the Group on a monthly basis.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they arise. Based on the Company's operating budget for 2023, it can be expected that cash flow to the Company will fully cover the Company's obligations that will be due over the next 12 months.

Market risk

Market risk is the risk that changes in the market price of interest rates or changes in foreign exchange rates will affect the performance of the company or the value of its investments in financial instruments.

24. Subsequent events

At the beginning of 2023, the acquisition of an 80% share in Latvian real estate company Solvina AS was completed through Norvik's subsidiary in Latvia, SIA Norvik Timber Industry. The company has several subsidiaries that own both real estate and land. The purchase price was EUR 14 million.

Norvik has exercised an option to purchase an additional 24% holding in Kambstál ehf. After the acquisition, Norvik owns 75% of the company's share capital.