The Due Diligence on Eik fasteignafélag hf.

Auður Capital
July 2010

Introduction

- Audur Capital is the financial advisor for majority of the unsecured bondholders and was mandated by EIK, according to a Framework Agreement, to review and assess the financial standing of EIK, with a particular focus on:
  a. The company's estimated Net Operating Income (NOI) for the period 2010 through 2015
  b. The company's maintenance forecast for the same period
  c. The company's ability to service senior debt obligations
  d. Amendments to the company's senior debt obligations
  e. The company's net debt position following the planned conversion of unsecured and subordinated debt into equity
- The review of EIK is a prerequisite to the planned conversion of unsecured and subordinated debt into new equity in EIK as holders of unsecured and subordinated debt are expected to hold 90% of the equity in the company following the planned financial restructuring

Scope of Due Diligence

- A central task of the Due Diligence was to investigate management's operating budget for the period 2010 through 2015 and to assess the Net Operating Income (NOI) for the period as estimated by management
- The review of the operating budget included:
  - Review of rental agreements to confirm names of lessee, rental levels, CPI indexation and duration
  - Review of key assumptions in the income forecast, such as market rent and occupancy forecasts
  - Review of operating expenses such as property taxes, insurance, maintenance and administrative expenses
- Furthermore, as the company's liabilities and its ability to service senior debt obligations following the purposed conversion is central to the restructuring process, Audur also reviewed the company's debt position as of June 1st 2010
  - In order to confirm the company´s current debt position Audur reviewed the company´s loan agreements and debt summaries made by EIK management
  - In addition the current debt positions were verified by the company´s major lenders

Key Findings

- Management NOI estimates are fairly accurate in the short term or through the year 2015 and Audur's cumulative estimates for the period are 4,0% less than those of management
- After 2015, the gap between management's and Audur's estimates becomes increasingly large as management portrays a more positive outlook in terms of occupancy and growth in market rent
  - In 2020, management estimates are 6,5% or 90M higher in real terms
  - In 2025, management estimates are 11,3% or 153M higher
- The difference between the two forecasts (management vs. Audur) has a minimal effect on the company's ability to service senior debt obligations
- Post restructuring liabilities at 15,0 billion are higher than anticipated prior to the review and although the liabilities must be structured as annuity loans with equal payments, the restructuring will not be complete without at least two of the below amendments
  - The company obtains a discount on its foreign debt at Arion Bank similar to that already offered by Islandsbanki but this should lower senior debt by some 327 million or from 15.001 to 14.674 million
  - Average interest costs should be no higher than 5,6% although the company could sustain 6,0% in the short term with certain adjustments to the company's maintenance schedule in 2012
  - New cash equity of approximately 100 to 200 million depending on mortgage structure and terms

Recommendations

- In our view, despite any risk and uncertainty, the value of the unsecured claims on EIK is not going to increase if the financial restructuring is postponed. In addition any postponement is likely to decrease the value of these claims. It is therefore our recommendations that unsecure debt holders should convert their claims into equity and take over the majority of the board of directors. By doing so, the credibility of EIK will increase and further damaged is avoided.

Sincerely,
Brynjar Pétursson
On behalf of Audur Capital
Corporate finance department

Disclaimer

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- Audur Capital is acting as advisor to unsecured bondholders who collectively hold more than 90% of the company's bonds, listed on the Icelandic Stock Exchange as EIK 05 1. The role of Audur Capital is to review the company's operations, budget and holdings in order to assess the viability of converting these bonds into equity in the company. This report is being made available to the creditors and owners of the company only.