

Eyrir Invest ehf.

Condensed Interim Financial Statements

1 January - 30 June 2007

ISK

Eyrir Invest ehf.
Skólavörðustígur 13
101 Reykjavík
Iceland

Reg. no. 480600-2150

Contents

Endorsement and Signatures of the Board of Directors and the CEO	3	Statement of Changes in Equity	7
Independent Auditors' Review Report	4	Statement of Cash Flows	8
Income Statement	5	Notes to the Financial Statements	9
Balance Sheet	6		

Endorsement and Signatures of the Board of Directors and the CEO

Eyrir Invest ehf.'s aim is to own, buy and sell shares, other securities and all other financial assets. The Company started its operation in the year 2000.

Eyrir Invest ehf.'s interim financial statements are for the first time prepared according to International Financial Reporting Standards (IFRSs) as adopted by EU. The Company's financial statements for the previous years have been prepared in accordance with the Financial Statement Act and accounting principles in Iceland. The total effect of IFRS adoption on the Company's financial statements is that equity at the beginning of the year 2007 increases by ISK 14 million, from ISK 11,981 million to ISK 11,995 million. The effect of IFRS adoption is further explained in note 19 to the financial statements.

According to the income statement, profit for the period from 1 January to 30 June 2007 amounted to ISK 2,219 million. According to the balance sheet, equity at the end of June amounted to ISK 15,312 million.

The Board of Directors and the CEO of Eyrir Invest ehf. hereby confirm the Company's Condensed Interim Financial Statements for the period from 1 January to 30 June 2007 by means of their signatures.

Reykjavík, 13 August 2007.

The Board of Directors:

Thórdur Magnússon, Chairman

Sigurjón Jónsson

Jón Helgi Guðmundsson

CEO:

Árni Oddur Thórdarson

Independent Auditors' Review Report

To the Board of Directors of Eyrir Invest ehf.

Introduction

We have reviewed the accompanying consolidated interim balance sheet of Eyrir Invest ehf. as of 30 June 2007 and the related consolidated interim statements of income, changes in equity and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this 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 does not give a true and fair view of the financial position of the entity as at 30 June 2007, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 13 August 2007.

KPMG hf.

Sæmundur Valdimarsson
Hrafnhildur Helgadóttir

Income Statement

for the Six Monts Ended 30 June 2007

	Notes	1 January - 30 June	
		2007	2006
Investment income:			
Net income from securities and derivatives	5	1,767,716	93,426
Interest income		153,808	30,778
Interest expenses		(577,801)	(487,733)
Net foreign exchange gain (loss)		1,480,233	(756,584)
		<u>2,823,956</u>	<u>(1,120,113)</u>
Operating expenses:			
Salaries and salary related expenses		146,841	75,974
Other operating expenses		26,478	27,387
		<u>173,319</u>	<u>103,361</u>
Profit (loss) before income tax		2,650,637	(1,223,474)
Income tax	6,7	(431,839)	245,473
Profit (loss) for the period		2,218,798	(978,001)
Earnings per share:			
Basic earnings (loss) per share (ISK)	8	3.94	(2.03)
Diluted earnings (loss) per share (ISK)	8	3.90	(2.02)

Balance Sheet as at 30 June 2007

	Notes	30.6.2007	31.12.2006
Assets:			
Cash and cash equivalents		1,369,228	261,052
Securities	9,10	31,279,529	25,483,638
Derivatives	11	919,363	338,205
Share subscription	13	689,700	0
Trade and other receivables	12	462,936	31,323
Operating assets		151,795	151,074
Total assets		34,872,551	26,265,292
 Equity:			
Share capital	13	586,305	530,005
Share premium		5,192,021	3,892,423
Reserves		10,987	102,248
Retained earnings		9,522,678	7,470,306
Total equity		15,311,991	11,994,982
 Liabilities:			
Derivatives	11	261,950	285,921
Trade and other payables	14	930,411	183,842
Borrowings	15,16	16,275,756	12,139,943
Deferred income tax liability	17	2,092,443	1,660,604
Total liabilities		19,560,560	14,270,310
Total equity and liabilities		34,872,551	26,265,292

Statement of Changes in Equity for the Six Months Ended 30 June 2007

	Reserves				Total equity
	Share capital	Share premium	Share option reserve	Retained earnings	
2006					
Equity 1.1.2006	482,005	2,812,423	0	6,322,331	9,616,759
IFRS adoption			8,837	(7,662)	1,175
Equity 1.1.2006, restated	482,005	2,812,423	8,837	6,314,669	9,617,934
Loss for the period				(978,001)	(978,001)
Dividends (ISK 0.43 per share)				(205,337)	(205,337)
Share option reserve			46,168		46,168
Equity 30.6.2006	482,005	2,812,423	55,005	5,131,331	8,480,764
2007					
Equity 1.1.2007	530,005	3,892,423	0	7,559,004	11,981,432
IFRS adoption			102,248	(88,698)	13,550
Equity 1.1.2007, restated	530,005	3,892,423	102,248	7,470,306	11,994,982
Profit for the period				2,218,798	2,218,798
Dividends (ISK 0.30 per share)				(166,426)	(166,426)
Issued share capital	20,000	467,000			487,000
Exercise of share options	36,300	653,400			689,700
Share option reserve			87,937		87,937
Share option reserve transferred		179,198	(179,198)		0
Equity 30.6.2007	586,305	5,192,021	10,987	9,522,678	15,311,991

Statement of Cash Flows

for the Six Months Ended 30 June 2007

	Notes	1 January - 30 June	
		2007	2006
Cash flows from operating activities:			
Profit (loss) for the period		2,218,798	(978,001)
Adjustments for:			
Net gain on the sale of shares in other companies		(2,293,648)	(1,269,021)
Unrealised loss on shares		732,797	917,427
Share option expensed		87,937	46,168
Depreciation		4,131	3,557
Income tax		431,839	(245,473)
Working capital from (used in) operations		1,181,854	(1,525,343)
Change in operating assets and liabilities		(118,928)	(45,591)
Net cash from (used in) operating activities		1,062,926	(1,570,934)
Cash flows from investing activities:			
Investments in shares		(19,661,520)	(11,890,091)
Proceeds from the sale of shares		17,275,880	8,120,368
Investments in bonds		(1,415,515)	(1,003,945)
Derivatives, change		(605,129)	165,216
Acquisition of operating assets		(4,852)	(441)
Net cash used in investing activities		(4,411,136)	(4,608,893)
Cash flows from financing activities:			
Proceeds from the issue of share capital		487,000	0
Dividend paid		(166,426)	(205,337)
Proceeds from borrowings		12,882,698	5,369,513
Repayment of borrowings		(8,746,885)	0
Net cash provided by financing activities		4,456,387	5,164,176
Increase (decrease) in cash and cash equivalents		1,108,177	(1,015,651)
Cash and cash equivalents at 1 January		261,052	1,802,633
Cash and cash equivalents at 30 June		1,369,229	786,982
Investing and financing transactions without cash flow effect:			
Issued share capital		689,700	0
Other information:			
Interest income received		13,392	9,019
Interest expense paid		538,551	294,874
Dividends received		251,531	140,263

Notes to the Consolidated Financial Statements

1. Reporting Entity

Eyrir Invest ehf.'s registered office is at Skólavörðustígur 13 in Reykjavík, Iceland. The financial statements of Eyrir Invest ehf. ("the Company") as at and for the period ended 30 June 2007 comprise the Company.

Eyrir Invest ehf. is an investment company, aiming to own, buy and sell shares, other securities and all other financial assets. The Company has listed bonds on the Iceland Stock Exchange.

2. Basis of preparation

Assets and liabilities in the Balance Sheet are presented in liquidity order which is considered more appropriate for the Company than the current/non-current presentation. For each asset and liability item that combines amounts expected to be recovered or settled after more than 12 months, a payment schedule is disclosed.

a. *Statement of compliance*

The condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements as adopted by EU. These are the Company's first IFRS financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1, *First-time Adoption of International Financial reporting Standards*, has been applied. The condensed financial statements do not include all the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 19. This note includes reconciliations of equity and performance for comparative period reported under Icelandic GAAP (IS-GAAP) to those periods under IFRSs.

The financial statements were approved by the Board of Directors of Eyrir Invest ehf. on 13 August 2007.

b. *Basis of measurement*

The financial statements are prepared on the historical cost basis except for the following:

- * derivative financial instruments are measured at fair value;
- * financial instruments at fair value through profit or loss are measured at fair value;
- * investments in associates are measured at fair value.

c. *Functional and presentation currency*

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

Notes, contd.:

2. Contd.:

d. ***Use of estimates and judgements***

The preparation of financial statements 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 estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in note 4g.

3. **Accounting policies related to financial instruments**

a. ***Financial instruments***

(i) ***Non-derivative financial instruments***

Non-derivative financial instruments in the Company's balance sheet comprise securities, loans, trade and other receivables, cash and cash equivalents, borrowings, trade and other payables and ordinary shares.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances, demand deposits and mutual-fund certificates that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Accounting for finance income and expense is discussed in note 3c.

Investments at fair value through profit and loss

Securities in the balance sheet are financial assets classified as at fair value through profit or loss and designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Notes, contd.:

3. a. Contd.:

(ii) *Derivative financial instruments*

The Company holds derivative financial instruments for investment purposes but also to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for through profit or loss. Derivatives with positive fair value at the reporting date are recognised as assets in the balance sheet while derivatives with negative fair value are recognised as liabilities.

Hedge accounting is not applied.

(iii) *Share capital*

Ordinary shares

Incremental costs directly attributable to issue of shares and share options are recognised as a deduction from equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends

Dividends are recognised as a decrease in equity in the period in which they are declared.

b. ***Fair value measurement principles for financial instruments***

(i) *Securities*

Securities in the balance sheet consist of investments in equity and debt securities. The fair value of securities is based on their quoted market bid prices at the reporting date without any deduction for estimated future selling costs.

If a quoted market price is not available on a stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the investment is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date. Fair values for unquoted equity investments are estimated, if possible, using applicable price / earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Notes, contd.:

3. b. Contd.:

(i) *Contd.:*

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Investments in associates are designated at fair value through profit or loss on initial recognition and are included in the item securities in the balance sheet. The Company defines its operations partly as venture capital organisation and that part of the business is clearly and objectively distinct from other operations.

(ii) *Derivatives*

The fair value of forward exchange contracts are based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(iii) *Trade and other receivables*

The fair value of trade and other receivables, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iv) *Non-derivative financial liabilities*

The fair value of non-derivative financial liabilities which is determined for disclosure purpose is based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

c. **Investment income**

(i) *Net income from securities and derivatives*

Net income from investments in securities and derivatives comprise gain on the sale of shares, changes in the fair value of the investments and derivatives, other than foreign exchange hedges, and dividend income. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(ii) *Interest income and expenses*

Interest income and expenses is recognised in the income statement, using the effective interest method.

(iii) *Net foreign exchange gain (loss)*

Net foreign exchange gain (loss) comprises foreign exchange changes arising from monetary assets and liabilities de-nominated in foreign currencies and gains and losses arising from derivatives hedging the foreign currency risk.

Notes, contd.:

4. Other accounting policies

a. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

b. Operating assets

(i) Buildings and other operating assets

Buildings and other operating assets are stated at cost less accumulated depreciation and impairment losses.

(ii) Subsequent costs

The cost of replacing part of an item of operating asset is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each item of operating assets. The estimated useful lives are as follows:

Buildings	50 years
Other operating assets	3-5 years

The depreciation method, useful lives and residual values are reassessed at the reporting date.

c. Impairment

(i) Financial assets

Financial assets that are stated at cost or amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

Notes, contd.:

4. c. Contd.:

(ii) *Non-financial assets*

The carrying amounts of the Company's non-financial 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

d. *Share-based payment transactions*

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behaviour, expected dividends, and the risk-free interest rate based on government bonds. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

e. *Income tax expense*

Income tax on the profit or loss for the period comprises current tax and deferred tax.

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

Deferred tax is provided 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. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Notes, contd.:

4. Contd.:

f. ***Earnings per share***

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

g. ***Accounting estimates and judgements***

Key sources of estimation uncertainty

Determination of fair values of financial instruments

As indicated in note 3b the Company's securities, derivatives and investments in associates are measured at fair value on the balance sheet. For the majority of these financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques, including reference to the current fair values of other instruments that are substantially the same, subject to the appropriate adjustments.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows etc.) and therefore, cannot be determined with precision.

Determination of impairment of financial assets

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 4c(i). The assessment for impairment is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

Determination of impairment of non-financial assets

Non-financial assets are regularly valued for impairment. The assessment for impairment is based upon management's estimates of future cash flows and discount rate.

Determination of fair value of share-based payment transactions

The fair value of options at grant date is determined as disclosed in accounting policy 4d. For share options granted to employees, in many cases market prices are not available, because the options granted are subject to terms and conditions that do not apply to traded options. If traded options with similar terms and conditions do not exist, the fair value of the options granted are estimated by applying an option pricing model. In estimating the fair value of options at grant date, the management considers factors that knowledgeable, willing market participants would consider in selecting the option pricing model to be used for this purpose.

Critical accounting judgements in applying the Company's accounting policies

Classification of securities

The Company's accounting policies provide scope for securities to be designated at fair value through profit or loss. By making this designation, the management has determined that it has met the necessary criteria as set out in accounting policy 3a(i).

Notes, contd.:

Investment income

5. Net income from securities and derivatives is specified as follows:

	2007	2006
Gain on the sale of shares	2,293,648	1,269,021
Dividends earned	251,531	140,263
Change in fair value of securities	(732,797)	(917,666)
Change in fair value of derivatives	(44,666)	(398,192)
Net income from securities and derivatives	<u>1,767,716</u>	<u>93,426</u>

Income tax expense

6. Income tax recognised in the income statement is specified as follows:

Origination and reversal of temporary differences	431,839	(245,473)
Total income tax in income statement	<u>431,839</u>	<u>(245,473)</u>

7. Reconciliation of effective tax rate:

	2007	2006
Profit (loss) before income tax	<u>2,650,637</u>	<u>(1,223,474)</u>
Income tax using the Company's tax rate	18.0% 477,115	18.0% (220,225)
Tax exempt revenue	(1.7%) (45,276)	2.1% (25,248)
Effective tax rate	<u>16.3%</u> 431,839	<u>20.1%</u> (245,473)

Earnings per share

8. Profit attributable to ordinary equity holders of the Company:

	2007	2006
Profit (loss) for the period	<u>2,218,798</u>	<u>(978,001)</u>

Weighted average number of ordinary shares

in thousand shares

Issued ordinary shares at 1 January	530,005	482,005
Effect of the increase of share capital in January 2007	10,333	0
Effect of the increase of share capital in March 2007	6,089	0
Effect of stock options exercised in April 2007	16,335	0
Weighted average number of ordinary shares at 30 June	<u>562,762</u>	<u>482,005</u>

Weighted average number of ordinary shares (diluted)

in thousand shares

Weighted average number of ordinary shares (basic)	562,762	482,005
Effect of share options	5,825	1,371
Weighted average number of ordinary shares (diluted) at 30 June	<u>568,587</u>	<u>483,376</u>

Earnings per share:

Basic earnings per share (ISK)	3.94	(2.03)
Diluted earnings per share (ISK)	3.90	(2.02)

Notes, contd.:

Securities

9. Securities are specified as follows:

	Ownership	Fair value 30/06/2007	Ownership	Fair value 31/12/2006
Listed securities:				
<i>Listed on the Icelandic Stock Exchange:</i>				
Marel hf.	32.8%	10,285,891	29.6%	8,368,040
Össur hf.	21.8%	8,908,263	15.4%	6,797,133
Other companies		230,668		1,281,433
Total listed on the Iceland Stock Exchange		<u>19,424,822</u>		<u>16,446,606</u>
<i>Listed on foreign stock exchanges:</i>				
Listed on stock exchange in Stockholm		6,374,155		5,801,316
Listed on stock exchange in Helsinki		0		1,137,062
Listed on stock exchange in Oslo		753,077		751,341
Listed on stock exchange in Copenhagen		422,197		0
Listed on stock exchange in Frankfurt		469,161		0
Total listed on foreign stock exchanges		<u>8,018,590</u>		<u>7,689,719</u>
Total listed securities		<u>27,443,412</u>		<u>24,136,325</u>
Unlisted securities:				
Unlisted shares		861,368		75,862
Unlisted bonds		2,974,749		1,271,451
Total unlisted securities		<u>3,836,117</u>		<u>1,347,313</u>
Fair value of securities end of period		<u>31,279,529</u>		<u>25,483,638</u>

Shares in unlisted companies with fair value of ISK 796 million are in company that invests only in listed shares.

10. As presented in note 9, investments in associates are accounted for at fair value through profit or loss and presented within securities in the balance sheet. At end of June 2007, based on both direct and indirect ownership, the following investments are defined as associates:

	Ownership
Marel hf., Iceland	32.8%
Össur hf., Iceland	21.8%
LME ehf., Iceland	40.0%

Notes, contd.:

Derivatives

11. Net assets in derivatives are specified as follows:

	30.6.2007	31.12.2006
Net position of interest rate derivatives	285,331	148,695
Net position of currency derivatives	372,082	(97,411)
Net position of derivatives	<u>657,413</u>	<u>51,284</u>
Derivatives - assets in the balance sheet	919,363	338,205
Derivatives - liabilities in the balance sheet	(261,950)	(286,921)
Net position of derivatives	<u>657,413</u>	<u>51,284</u>

Trade and other receivables

12. Trade and other receivables are specified as follows:

Trade receivables	402,872	0
Prepaid expenses	46,672	31,323
Other receivables	13,392	0
Total trade and other receivables	<u>462,936</u>	<u>31,323</u>

At 30 June 2007 and 31 December 2006 no allowance was conseded for doubtful receivables. No impairment loss was recognised during the periods.

Equity

13. *Issued capital*

A shareholders meeting in January 2007 approved an increase in nominal value of share capital of ISK 20 million which was sold for ISK 487 million, after deduction of cost of ISK 13 million. In April 2007 share options for shares with nominal value of ISK 36.3 million were exercised. The selling price amounting to ISK 689 million will be paid in August 2007.

The Company's share capital, according to its Articles of Association amounts to ISK 586 million. The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Share capital was increased during the year 2006 by a nominal value of ISK 48 million, from ISK 482 million to ISK 530 million. Share capital according to the balance sheet amounted to ISK 586 million at the end of June 2007.

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Share option reserve

The reserve includes the accrued part of the fair value of share options. This reserve is reversed if share options are exercised or forfeited.

Notes, contd.:

Trade and other payables

14. Trade and other payables are specified as follows:

	30.6.2007	31.12.2006
Trade payables	878,351	0
Other payables	52,060	183,842
Total trade and other payables	<u>930,411</u>	<u>183,842</u>

Borrowings

15. Borrowings are specified as follows:

EUR	4,849,653	3,865,910
SEK	5,690,456	1,563,164
ISK	2,894,726	2,911,823
USD	1,305,766	2,052,692
GBP	951,866	1,077,487
CHF	224,066	260,078
NOK	195,025	212,058
JPY	164,198	196,731
Borrowings	<u>16,275,756</u>	<u>12,139,943</u>

16. Repayment of borrowings are specified as follows:

Repayments in 2007	2,042,640	2,445,806
Repayments in 2008	266,639	265,037
Repayments in 2009	7,051,358	5,177,596
Repayments in 2010	1,180,485	1,349,384
Repayments in 2012	5,734,634	2,902,120
Borrowings	<u>16,275,756</u>	<u>12,139,943</u>

Deferred income tax liability

17. The deferred income tax liability is specified as follows:

Deferred income tax liability 1.1.	1,680,074	1,354,411
Changes due to IFRS	(19,470)	(1,682)
Deferred income tax liability 1.1. (IFRS)	<u>1,660,604</u>	<u>1,352,729</u>
Income tax expense recognised in income statement	431,839	307,875
Deferred income tax liability at end of period	<u>2,092,443</u>	<u>1,660,604</u>

When the Company pays dividends to its shareholders, it is required to pay a portion of the dividends to taxation authorities on behalf of shareholders, i.e. withholding tax. The amount paid to taxation authorities is charged to equity as a part of the dividends.

Notes, contd.:

Share-based payments

18. The terms and conditions of grants at end of June 2007 are as follows:

Grant date / employees entitled	Number of options in thousands	Vesting conditions	Contractual life of option
Options granted 2006	4,750	32/44 months service	3.5 years
Options granted 2007	7,250	23/35/47/59 months service	4.8 years
Total	<u>12,000</u>		

All options are to be settled by physical delivery of shares. Options vesting in 20 months can be exercised three times during the contractual life, at the end of each 12 month period. Accordingly 32 month options can be exercised two times and the 44 month options only once at the end of the 36 month period.

The number and weighted average exercise price of share options is as follows in thousands:

	Weighted average exercise price 2007	Number of options 2007	Weighted average exercise price 2006	Number of options 2006
Outstanding at 1 January	19.0	41,050	19.0	36,300
Exercised during the year	19.0	(36,300)		0
Granted during the year	24.0	7,250	19.0	4,750
Outstanding at end of period	<u>21.8</u>	<u>12,000</u>	<u>19.0</u>	<u>41,050</u>
Excercisable at end of period		<u>0</u>		<u>36,300</u>

Options exercised during the year belong to key management, i.e. the CEO and the Chairman of the Board.

The options outstanding at 30 June 2007 have a weighted average contractual life of 3.1 years. The share price at the date of exercise for share options exercised in 2007 was 25.

The fair value of services received in return for share options granted based on the fair value of share options granted, mesuring using a Black-Scholes model, with the following inputs:

	Granted 2006	Granted 2007
Fair value at grant date, average	6.96	9.81
Share price	19.0	24.0
Exercise price *	19.0	24.0
Expected volatility (weighted average volatility)	22.2%	23.2%
Option life (expected weighted average life)	3.5	4.8
Expected dividends *	0.0%	0.0%
Risk-free interest rate (based on government bonds)	12.4%	11.6%

* Exercise price is depended on dividends paid during the life of the option.

Total recognised expenses for the year arising from share-based payment transactions amounted to ISK 92 million (2006: ISK 99 million) including accrued social security expenses related to share-based payments.

Transition to IFRS

19. These are the Company's first condensed interim financial statements for part of the period covered by the first annual financial statements prepared in accordance with IFRSs and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied.

The interim financial statements are prepared in accordance with the accounting policies presented in the notes to these financial statements. The opening IFRS balance sheet as at 1 January 2006, which is referred to as the transition date, and the comparative figures for 2006 have also been prepared in accordance with these accounting policies. Accordingly the Company has adjusted amounts reported previously in financial statements prepared in accordance with Icelandic GAAP (IS-GAAP).

The following tables and notes show the effects of the change from IS-GAAP to IFRSs on the Company's financial position and financial performance. The total Effect of the adoption of IFRSs on equity is a increase of ISK 14 million. There are no significant changes to the cash flows according to IFRS compared with how they were previously reported under IS-GAAP.

Explanation of changes in equity, net of tax

Equity according to IS-GAAP at 31 December 2006	11,981,432
Equity according to IFRS at 31 December 2006	11,994,982
Total increase in equity due to transition to IFRS	<u>13,550</u>

Changes in measurement

		1 January 2006	30 June 2006	31 December 2006
Share-based payments	IFRS 2	(507)	(3,185)	(5,920)
Deferred tax liability	IAS 12	1,682	10,474	19,470
Total increase in equity due to transition to IFRS		<u>1,175</u>	<u>7,289</u>	<u>13,550</u>

Share-based payments

The Company applies IFRS 2, *Share-based payment*, to its share-based payment arrangements at 1 January 2006. The Company has granted equity-settled share-based payments in 2005, 2006 and 2007.

The Company has not accounted for these share-based payments arrangements in its previous financial statements.

The effect of accounting for equity-settled share-based payment transactions at fair value is to increase Salaries and salary related expenses by ISK 49 million for the six months ended 30 June 2006 and by ISK 99 million for the year ended 31 December 2006. The adoption of IFRS 2 is equity-neutral for equity-settled transactions, except that the Company has to pay social security taxes when the share options are exercised. The estimated taxes are included in the expenses and reduce the equity of the Company by ISK 6 million as at 31 December 2006.

The share-based payments are deductible from income tax when exercised. The tax effect of the expensed share-based payments reduce income tax expense and increase equity.

Notes, contd.:

19. Contd.:

Unlisted associated company

The Company has previously accounted for unlisted associate using the equity method. Under IFRS the unlisted associate is capitalised at fair value through profit and loss. The effect is that Net income from securities and derivatives decreases by ISK 14 million for the first half of 2006. The change does not affect equity.

Changes in presentation

Change in the presentation of dividends earned

Dividends earned which has been presented as a separate line item in the income statement is now included in Net income from securities and derivatives.

Change in the presentation of Contributions and grants

Contributions and grants which has been presented as a separate line item in the income statement is now included in Other operating expenses.

Change in the presentation of Securities

Securities have been divided into four line items in previous financial statements. Shares in other companies and bonds are now included in the line item Securities. The bonds are either listed or unlisted loans to companies that Eyrir Invest has share in. Mutual fund certificates that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value are now included in cash and cash equivalents.

Change in the presentation of Derivatives liabilities

Derivative financial instruments with negative net value were previously included in Interest-bearing borrowings, but are now included as a separate line item in Derivatives among liabilities in the balance sheet. Derivative assets are as before shown as a separate line item among assets in the balance sheet.

Explanation of changes in the profit for the first half of 2006

According to IS-GAAP	IS-GAAP 1.1.-30.6.2006	Changes in valuation	Changes in presentation	IFRS 1.1.-30.6.2006	According to IFRSs
Net gains on investments in shares and shares derivatives	(32,817)	(14,020)	140,263	93,426	Net income from securities and derivatives
Dividends earned	140,263		(140,263)	0	-
Interest earned	30,778			30,778	Interest income
Changes in foreign exchange currency and interest rates	(756,584)			(756,584)	Net foreign exchange gain (loss)
Financial expenses	(487,733)			(487,733)	Interest expenses
	<u>(1,106,093)</u>			<u>(1,120,113)</u>	
Salaries and salary related expenses	27,128	48,846		75,974	Salaries and salary related expenses
Other operating expenses	17,087		10,300	27,387	Other operating expenses
Contributions and grants	10,300		(10,300)	0	-
	<u>54,515</u>			<u>103,361</u>	
Loss before income tax	(1,160,608)			(1,223,474)	Loss before income tax
Income tax	234,157	11,316		245,473	Income tax
Loss for the period	<u>(926,451)</u>	<u>(51,550)</u>	<u>0</u>	<u>(978,001)</u>	Loss for the period

Notes, contd.:

19. Contd.:

Explanation of changes in the profit of the year 2006

	First half 1.1.-30.6.	Second half 1.7.-31.12.	Year 2006 total
Net (loss) earnings according to IS-GAAP	(926,451)	2,590,716	1,664,265
Net changes in fair value of associated company	(14,020)	(6,928)	(20,948)
Share-based payment expenses	(46,168)	(47,243)	(93,411)
Social security taxes	(2,678)	(2,736)	(5,414)
Income tax effect	11,316	10,502	21,818
(Loss) profit for the period according to IFRS	(978,001)	2,544,311	1,566,310

Explanation of changes in balance sheet as at 31 December 2006

According to IS-GAAP	IS-GAAP 31/12/2006	Changes in valuation	Changes in presentation	IFRS 31/12/2006	According to IFRSs
Shares in other companies	24,212,187		1,271,451	25,483,638	Securities
Derivatives	338,205			338,205	Derivatives
Mutual funds	0			0	-
Bonds	1,271,451		(1,271,451)	0	-
Sundry receivables	31,323			31,323	Trade and other receivables
Fixed assets	151,074			151,074	Operating assets
Cash and cash equivalents	261,052			261,052	Cash and cash equivalents
Total assets	26,265,292	0	0	26,265,292	Total assets
Capital stock	530,005			530,005	Share capital
Contributed capital in excess of par	3,892,423	102,248		3,892,423	Share premium
Retained earnings	7,559,004	(88,698)		7,470,306	Reserves
Stockholders equity	11,981,432	13,550	0	11,994,982	Total equity
Deferred income tax liability	1,680,074	(19,470)		1,660,604	Deferred income tax liability
Interest-bearing borrowings	12,425,864		285,921	12,711,785	Derivatives
Other liabilities	177,922	5,920	(285,921)	12,139,943	Borrowings
Total liabilities	14,283,860	(13,550)	0	14,270,310	Trade and other payables
Total stockholders' equity and liabilities	26,265,292	0	0	26,265,292	Total liabilities
					Total equity and liabilities