Eyrir Invest ehf.

Separate Financial Statements
for the year 2007

ISK

Eyrir Invest ehf.
Skólavörðustígur 13
101 Reykjavík
Iceland

Reg. no. 480600-2150

Contents

Endorsement and Statement by 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 financial statements are for the first time prepared according to International Financial Reporting Standards (IFRSs) as adopted by the EU. The Company's financial statements for the previous years have been prepared in accordance with the Icelandic Financial Statements 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 2006 increases by ISK 1 million, from ISK 9,617 million to ISK 9,618 million. The effect of IFRS adoption is further explained in the notes to the financial statements.

According to the Income Statement, profit for the year amounted to ISK 797 million. According to the Balance Sheet, equity at the end of the year amounted to ISK 18,133 million.

During the year the nominal value of share capital of the Company was increased by ISK 200.3 million. In January and February shares with nominal value of ISK 20 million were sold to new shareholders for ISK 487 million, net of selling cost. In April options for shares with nominal value of ISK 36.3 million at the rate of 19.0 were excercised. The increase in equity according to the exercise was ISK 690 million. In September shares with nominal value of ISK 144 million were sold for ISK 4,205 million, net of selling cost.

Shareholders at the end of the year were 15, but were 7 at the beginning of the year. Four shareholders held more than 10% of outstanding shares each at the end of the year 2007. They are:

Þórður Magnússon	28.0%
Árni Oddur Þórðarson	23.9%
Straumborg ehf.	11.9%
Sigurjón Jónsson	11.4%

The Board of Directors proposes a dividend payment amounting to ISK 199 million, which is 25% of profit of the year 2007.

Statement by the Board of Directors and the CEO

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies.

According to our best knowledge it is our opinion that the Annual Financial Statements give a true and fair view of the financial performance of the Company for the financial year 2007, its assets, liabilities and financial position as at 31 December 2007 and its cash flows for the financial year 2007.

Further, in our opinion the Financial Statements and Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Company's operations and its position and describes the principal risks and uncertainties faced by the Company.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

The Board of Directors and the CEO have today discussed the Annual Financial Statements of Eyrir Invest ehf. for the year 2007 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the Financial Statements will be approved at the Annual General Meeting of Eyrir Invest ehf.

Reykjavík, 7 February 2008.

The Board of Directors:

Thórdur Magnússon, Chairman

Sigurjón Jónsson

Jón Helgi Gudmundsson

CEO:

Árni Oddur Thórdarson

Independent Auditor's Report

To the Board of Directors and Shareholders of Eyrir Invest ehf.

We have audited the accompanying financial statements of Eyrir Invest ehf. (the "Company"), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Eyrir Invest ehf. as at December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 7 February 2008.

KPMG hf.

Sæmundur Valdimarsson

Income Statement for the year 2007

	Notes	2007	2006
Investment income:			
Net income from securities and derivatives	6	1,761,577	3,061,683
Interest income		279,305	78,742
Interest expenses		(1,653,272)	(922,927)
Net foreign exchange gain (loss)	7	821,259	(126,242)
Net operating revenue		1,208,869	2,091,256
Operating expenses:			
Salaries and salary related expenses	8	236,102	168,655
Other operating expenses	9	64,943	48,417
Operating expenses		301,045	217,072
Profit before income tax		**907,824**	**1,874,184**
Income tax expense	10,22	(111,143)	(307,874)
Profit for the year		**796,681**	**1,566,310**
Earnings per share:			
Basic earnings per share (ISK)	11	1.28	3.20
Diluted earnings per share (ISK)	11	1.27	3.20

The notes on pages 10 to 36 are an integral part of these financial statements.

Anounts are in ISK thousand

Balance Sheet as at 31 December 2007

	Notes	2007	2006
Assets:			
Cash and cash equivalents	12	6,958,889	261,052
Investment securities	13	40,508,576	25,483,638
Derivatives	15	484,873	338,205
Trade and other receivables	16	33,210	31,323
Operating assets	17	218,073	151,074
Total assets		48,203,621	26,265,292
Equity:			
Share capital	18	730,305	530,005
Share premium		9,280,785	3,892,423
Reserves		21,526	102,248
Retained earnings		8,100,561	7,470,306
Total equity		18,133,177	11,994,982
Liabilities:			
Derivatives	15	298,498	285,921
Trade and other payables	19	2,358,992	183,842
Borrowings	20,21	25,668,482	12,139,943
Deferred tax liability	22	1,744,472	1,660,604
Total liabilities		30,070,444	14,270,310
Total equity and liabilities		48,203,621	26,265,292

The notes on pages 10 to 36 are an integral part of these financial statements.

Anounts are in ISK thousand

Statement of Changes in Equity

for the year 2007

	Notes	Share capital	Share premium	Reserves: Share option reserve	Retained earnings	Total equity
2006						
Equity 1.1.2006 (IS-GAAP)		482,005	2,812,423	0	6,322,331	9,616,759
Effect of transition to IFRS	26	0	0	8,837	(7,662)	1,175
Equity 1.1.2006 (IFRS)		482,005	2,812,423	8,837	6,314,669	9,617,934
Profit for the year					1,566,310	1,566,310
Dividends (ISK 0.85 per share)					(410,673)	(410,673)
Issued share capital		48,000	1,080,000			1,128,000
Share based payments				93,411		93,411
Equity 31.12.2006	18	530,005	3,892,423	102,248	7,470,306	11,994,982
2007						
Equity 1.1.2007 (IS-GAAP)		530,005	3,892,423	0	7,559,004	11,981,432
Effect of transition to IFRS	26	0	0	102,248	(88,698)	13,550
Equity 1.1.2007 (IFRS)		530,005	3,892,423	102,248	7,470,306	11,994,982
Profit for the year					796,681	796,681
Dividends (ISK 0.31 per share)					(166,426)	(166,426)
Issued share capital		164,000	4,555,764			4,719,764
Exercise of share options		36,300	653,400			689,700
Share based payments				98,476		98,476
Transfer of share option reserve			179,198	(179,198)		0
Equity 31.12.2007	18	730,305	9,280,785	21,526	8,100,561	18,133,177

The notes on pages 10 to 36 are an integral part of these financial statements.

Anounts are in ISK thousand

Statement of Cash Flows for the year 2007

	Notes	2007	2006
Cash flows from operating activities:			
Profit for the year		796,681	1,566,310
Adjustments for:			
Net loss (gain) on the sale of shares in other companies		54,663	(2,786,320)
Unrealised gain on securities		(1,415,920)	(607,461)
Share options expensed		98,476	93,411
Depreciation		9,494	7,151
Income tax		111,143	307,874
Working capital used in operations		(345,463)	(1,419,035)
Change in operating assets and liabilities		(7,425)	51,909
Net cash used in operating activities		(352,888)	(1,367,126)
Cash flows from investing activities:			
Investments in shares		(49,898,287)	(29,891,524)
Proceeds from the sale of shares		38,579,903	23,449,839
Derivatives, change		(134,091)	(348,263)
Investments in bonds		(164,610)	0
Acquisition of operating assets	17	(76,493)	(1,034)
Net cash used in investing activities		(11,693,578)	(6,790,982)
Cash flows from financing activities:			
Proceeds from the issue of share capital		5,382,190	1,128,000
Dividend paid		(166,426)	(410,673)
Proceeds from borrowings		15,110,162	6,360,734
Repayment of borrowings		(1,581,623)	(461,534)
Net cash provided by financing activities		18,744,303	6,616,527
Increase (decrease) in cash and cash equivalents		6,697,837	(1,541,581)
Cash and cash equivalents at 1 January		261,052	1,802,633
Cash and cash equivalents at 31 December	12	6,958,889	261,052

Other information:

		2007	2006
Interest income received		277,839	78,742
Interest expense paid		1,284,941	762,950
Dividends received		251,613	162,335

The notes on pages 10 to 36 are an integral part of these financial statements.

Anounts are in ISK thousand

Notes

1. ## Reporting Entity

Eyrir Invest ehf. (the "Company") is a company incorporated and domiciled in Iceland. The registered office of the Company is at Skólavörðustígur 13 in Reykjavík, Iceland. The financial statements of Eyrir Invest ehf. as at and for the year ended 31 December 2007 comprise the Company.

Eyrir Invest ehf. is an investment company, aiming to own, buy and sell shares, bonds and other financial instruments. 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.

The Financial Statements of Eyrir Invest ehf. are labelled as separate financial statements because the Company does not have any investments in subsidiaries and it accounts for all its investments in associates as financial assets designated at fair value through profit or loss. Accordingly, Eyrir Invest ehf. does not prepare either consolidated financial statements or individual financial statements for the year 2007.

a. ### *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. These are the Company´s first IFRS annual financial statements and IFRS 1, *First-time Adoption of International Financial reoporting Standards* , has been applied.

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 26. This note includes reconciliations of equity and performance for comparative period reported under Icelandic GAAP (IS-GAAP) to those reported for the period under IFRSs.

The Financial Statements were approved by the Board of Directors of Eyrir Invest ehf. on 7 February 2008.

b. ### *Basis of measurement*

The Financial Statements have been 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, including all investments in associates.

The methods used to measure fair values are discussed further in note 3b.

c. ### *Functional and presentation currency*

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

2. Contd:

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 4h.

3. Accounting policies related to financial instruments

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

a. ***Financial instruments***

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, loans, trade and other receivables, cash and cash equivalents, borrowings, trade and other payables.

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.

Cash and cash equivalents comprise cash balances, call 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 expenses is discussed in note 3c.

Financial assets at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments 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 for financial assets.

3. Contd:

(ii) *Derivative financial instruments*

The Company holds derivative financial instruments for investment purposes and 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

Ordinary shares are classified as equity. 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, which includes 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. When treasury shares are sold subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from share premium.

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***

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) *Securities*

Securities in the Balance Sheet consist of investments in equity and debt securities. The fair value of securities is determined by reference to their quoted market bid price at the reporting date without any deduction for estimated future selling costs.

When 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.

3. Contd:

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.

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*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(v) *Share-based payment transactions*

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.

c. *Investment income*

(i) *Net income from securities and derivatives*

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

3. Contd:

(ii) *Interest income*

Interest income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

(iii) *Interest expenses*

Interest expenses comprise interest expense on borrowings. All borrowing costs are recognised in the Income Statement, using the effective interest method.

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

Net foreign exchange gain (loss) comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies and gains and losses arising from derivatives hedging economically the foreign currency risk. Net currency gains and losses are reported on a net basis.

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 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 currency gain or loss arising on translation are recognised in the Income Statement.

b. *Operating assets*

(i) *Buildings and other operating assets*

Buildings and other operating assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

(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 within the part will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the Income Statement as an expense as incurred.

(iii) *Depreciation*

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful live of each part of operating assets. The estimated useful lives are as follows:

Buildings	50 years
Other operating assets	3-5 years

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

4. Contd:

c. ***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 amortised 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. All impairment losses are recognised in the Income Statement.

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

(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 estimated 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 the Income Statement.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the Income Statement. 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. ***Employee benefits***

(i) *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Income Statement when they are due.

4. Contd:

(ii) *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.

e. *Income tax expense*

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, 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 recognised 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 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax 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 realised.

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. *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are either not yet effective for the year ended 31 December 2007, and have not been applied in preparing these Financial Statements:

IFRS 8 *Operating Segments* sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. If adopted by the EU, IFRS 8, which becomes mandatory for the Company´s 2009 financial statements, is not expected to have any impact on the financial statements.

Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

4. Contd:

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Company's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Company's 2008 financial statements, is not expected to have any effect on the financial statements.

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Company's 2009 financial statements, is not expected to have any impact on the financial statements.

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Company's 2008 financial statements, and will not have any impact on the financial statements.

h. *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 regularily valuated for impairment. The assessment for impairment is based upon management's estimates of future cash flows and discount rate.

4. Contd.:

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(ii). 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).

5. Financial risk management

Overview

The Company maintains positions in both derivative and non-derivative financial instruments in accordance with its investment strategy. The Company´s investment portfolio comprises quoted and non-quoted equity and debt investments.

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed from its use of financial instruments are:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management. The Board has commended the CEO day to day developing and monitoring of the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company aims to minimize this risk factor by only entering agreements with solid and well known financial institutions in addition to closely monitoring the credit risk on an ongoing basis.

5. Contd.:

Transactions involving derivative financial instruments are usually with counterparties with whom the Company has signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk.

There were no significant concentrations of credit risk to counterparties at 31 December 2007.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due and not risking damage to the Company's reputation.

The Company´s financial instruments can include investments in unlisted equity investments and derivative contracts traded over-the-counter, which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to its fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the credit-worthiness of any particular issuer. Unlisted financial instruments were 0.8% of total assets at year-end 2007 (2006: 0.3%).

To mitigate this risk the Company has a policy of minimum available cash at any given time and in addition to that, the Company´s listed financial investments are in large and mid cap companies in different markets, which represent large part of the total assets, that are considered to be readily realisable as they are listed on stock exchanges.

The Company maintains lines of credit with financial institutions. The credit lines amount for up to ISK 3,280 million.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company's market risk is managed on a daily basis by the employees in accordance with policies and procedures in place.

Details of the Company's investment portfolio at the reporting date are disclosed in the schedule of investments included in note 13.

Currency risk

The Company is exposed to currency risk on sales and purchases of equity and debt securities, and borrowings that are denominated in a currency other than the functional currency of the Company.

The Company uses forward exchange contracts to hedge its currency risk. When necessary, forward exchange contracts are rolled over at maturity.

The Company's borrowings denominated in foreign currencies, especially in euro and SEK, proposes currency risk which is economically hedged with assets in the same currency.

5. Contd.:
The Company's total net currency balance is monitored on daily basis and traded as any other calculated financial position.

Interest rate risk

The majority of the Company's financial assets are non-interest-bearing. Interest-bearing financial assets are subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. The Company is exposed to interest risk from interest bearing liabilities and that risk is mitigated by active risk management. Any excess cash and cash equivalents of the Company are invested in short-term money market loans to banks.

The Company adopts a policy of ensuring that some of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps.

Other market price risk

Equity price risk arises from financial assets at fair value through profit or loss, primarily equity securities.

Price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Company´s financial assets are carried at fair value with fair value changes recognised in the Income Statement, all changes in market conditions will directly affect investment income.

Price risk is mitigated by the Company´s Management by constructing a diversified portfolio of investments and instruments traded on various markets. In addition market fluctuations are monitored on intraday basis which enables the Company to react quickly to any changes in the market.

The Company´s financial investments is diversified by industries as follows:

	2007	2006
Food systems; Marel and Stork Food Systems	37.8%	33.6%
Financial	22.5%	31.3%
Health services; Össur	20.8%	26.4%
Technical services - Oil & gas; Stork	11.4%	3.3%
Aerospace services; Stork	7.5%	5.4%

Capital management

The Board´s policy is to maintain a strong capital base so as sustain future development of the business. The Board of Directors have proposed to Annual General Meetings in recent years that 10% - 25% of each year profit is paid as dividend to shareholders.

The Board´s target is to connect the interests of the shareholders and employees of the Company. For that purpose the Board has entered into share option agreements with the employees. At year-end 2007 options for 12 million shares have been granted and will vest in the next four years.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Comany's return on capital was 5.7% (2006: 17.6%).

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

Anounts are in ISK thousand

Investment income

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

	2007	2006
(Loss) gain on the sale of shares	(54,663)	2,786,320
Dividends earned	251,613	162,335
Change in fair value of securities	1,415,920	340,387
Change in fair value of derivatives	148,707	(227,359)
Net income from securities and derivatives	1,761,577	3,061,683

7. Net foreign exchange gain (loss) are specified as follows:

Translation exchange gain (loss)	464,809	(602,014)
Net gain on currency and interest rate derivatives	356,450	475,772
Net foreign exchange gain (loss) total	821,259	(126,242)

Salaries and salary related expense

8. Salaries and salary related expenses are specified as follows:

Salaries and performance-based payments	104,846	60,017
Equity-settled shared-based payment transactions	98,476	93,411
Contributions to defined contribution plans	10,281	5,377
Other salary-related expenses	22,499	9,850
Total salaries and salary-related expenses	236,102	168,655
Full time equivalent positions at the end of the year	10	5

Salaries to the Chairman of the Board and the CEO are specified as follows:

	Salaries	Bonus	Other benefits	Total salaries & benefits
Thórdur Magnússon, Chairman	12,600	0	1,920	14,520
Árni Oddur Thórdarson, CEO	27,600	0	1,285	28,885

The Chairman of the Board and the CEO exercised in 2007 stock options that were granted in 2005. The difference in exercise price and market price were ISK 79.2 million and ISK 138.6 million, respectively. The Chairman and the CEO do not have any outstanding share options at year-end 2007.

Contribution to defined contribution plans paid in 2007 amounted to ISK 1.26 million for the Chairman and ISK 2.76 million for the CEO.

Anounts are in ISK thousand

Other operating expenses

9. Other operating expenses specify as follows:

	2007	2006
Depreciation	9,494	7,151
Contribution and grants	3,900	17,900
Other operating expenses	51,549	23,366
Total other operating expenses	64,943	48,417

Income tax expense

10. Income tax recognised in the Income Statement is specified as follows:

	2007	2006
Change in deferred tax due to origination and reversal of temporary differences	111,143	307,874
Total income tax expense in Income Statement	111,143	307,874

Reconciliation of effective tax rate:

		2007		2006
Profit before income tax		907,824		1,874,184
Income tax using the Company's tax rate	18.0%	163,408	18.0%	337,353
Tax exempt revenue	(5.0%)	(45,290)	(1.6%)	(29,220)
Share options exercised	(2.7%)	(24,667)		0
Other changes	1.9%	17,692	0.0%	(259)
Effective tax rate	12.2%	111,143	16.4%	307,874

Earnings per share

11. **Profit attributable to ordinary equity holders of the Company:**

	2007	2006
Profit for the year	796,681	1,566,310

Weighted average number of ordinary shares

in thousand shares

	2007	2006
Issued ordinary shares at 1 January	530,005	482,005
Effect of the increase of share capital in September 2006	0	4,077
Effect of the increase of share capital in November 2006	0	3,068
Effect of the increase of share capital in January 2007	11,178	0
Effect of the increase of share capital in February 2007	7,036	0
Effect of the increase of share capital in September 2007	47,035	0
Effect of stock options exercised in April 2007	26,454	0
Weighted average number of ordinary shares at 31 December	621,708	489,150

11. Contd.:

Weighted average number of ordinary shares (diluted)

in thousand shares	2007	2006
Weighted average number of ordinary shares (basic)	621,708	489,150
Effect of share options	3,631	0
Weighted average number of ordinary shares (diluted) at 31 December	625,339	489,150

Earnings per share:		
Basic earnings per share (ISK)	1.28	3.20
Diluted earnings per share (ISK)	1.27	3.20

Cash and cash equivalents

12. Cash and cash equivalents are specified as follows:

Bank deposits	6,388,176	261,052
Mutual-fund certificates	570,713	0
Total cash and cash equivalents	6,958,889	261,052

Investment securities

13. Investment securities are specified as follows:

	Ownership	Fair value 31/12/2007	Ownership	Fair value 31/12/2006
Listed securities:				
Listed on the Iceland Stock Exchange:				
Marel hf.	31.2%	12,869,385	29.6%	8,368,040
Össur hf.	19.9%	8,277,961	15.4%	6,797,133
Other companies		2,905,553		1,281,433
Total listed on the Iceland Stock Exchange		24,052,899		16,446,606
Listed on foreign stock exchanges:				
Listed on stock exchange in Stockholm		4,758,873		5,801,316
Listed on stock exchange in Helsinki		0		1,137,062
Listed on stock exchange in Oslo		507,541		751,341
Listed on stock exchange in Frankfurt		1,184,512		0
Total listed on foreign stock exchanges		6,450,926		7,689,719
Total listed securities		30,503,825		24,136,325
Unlisted securities:				
LME ehf.	40.0%	9,635,471	40.0%	1,271,451
Unlisted foreign shares		204,670		75,862
Unlisted bonds		164,610		0
Total unlisted securities		10,004,751		1,347,313
Fair value of investment securities at year-end		40,508,576		25,483,638

Notes, contd.:

Associates

14. As presented in note 13, investments in associates are accounted for at fair value through profit or loss and presented within investment securities in the Balance Sheet. At end of year 2007, based on both direct and indirect ownership, the following investments are defined as associates:

	Ownership
Marel hf., Iceland	31.2%
LME ehf., Iceland	40.0%

All assets of LME ehf. are in listed shares.

Derivatives

15. Net assets and liabilities in derivatives are specified as follows:

	2007	2006
Net position of bond derivatives	366,459	0
Net position of interest rate derivatives	95,884	149,695
Net position of currency derivatives	(275,968)	(97,411)
Net position of derivatives	186,375	52,284
Derivatives - assets in the Balance Sheet	484,873	338,205
Derivatives - liabilities in the Balance Sheet	(298,498)	(285,921)
Net position of derivatives	186,375	52,284

Trade and other receivables

16. Trade and other receivables are specified as follows:

Prepaid expenses	31,744	31,323
Other receivables	1,466	0
Total trade and other receivables	33,210	31,323

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

Operating assets

17. Operating assets are specified as follows:

Gross carrying amount	Buildings	Other operating assets	Total
Balance at 1.1.2006	138,000	23,508	161,508
Additions during the year	345	969	1,314
Sales and disposals during the year	0	(640)	(640)
Balance at 31.12.2006	138,345	23,837	162,182
Additions during the year	62,645	13,848	76,493
Balance 31.12.2007	200,990	37,685	238,675

Anounts are in ISK thousand

17. Contd.:

Depreciation and impairment losses	Buildings	Other operating assets	Total
Balance at 1.1.2006	1,640	2,677	4,317
Depreciation	2,760	4,391	7,151
Sales and disposals during the year	0	(360)	(360)
Balance 31.12.2006	4,400	6,708	11,108
Depreciation	2,760	6,734	9,494
Balance 31.12.2007	7,160	13,442	20,602
Carrying amounts			
1.1.2006	136,360	20,831	157,191
31.12.2006	133,945	17,129	151,074
31.12.2007	193,830	24,243	218,073
Depreciation ratios	2%	20-30%	

Equity

18. ***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, net 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 690 million was paid in August 2007. A shareholders meeting in August 2007 approved an increase in nominal value of share captial of up to ISK 150 million. In September an increase in nominal value of share capital of ISK 144 million was sold for ISK 4,205 million, net of cost of ISK 114.5 million. Share capital was increased during the year 2006 by a nominal value of ISK 48 million, from ISK 482 million to ISK 530 million.

The Company's share capital, according to its Articles of Association amounts to ISK 730 million and is all fully paid. 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 according to the Balance Sheet amounted to ISK 730 million at the end of year 2007, share capital is specified as follows:

	Amounts	Ratio
Total issued shares at the end of the year	730,305	100.0%
Own shares	0	0.0%
Share capital according to the Articles of Association	730,305	100.0%

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 transferred to share premium when share options are exercised. The reserve is transferred to retained earnings when the share options are not exercised.

Anounts are in ISK thousand

Trade and other payables

19. Trade and other payables are specified as follows:

	2007	2006
Trade payables	2,295,030	114,342
Other payables	63,962	69,500
Total trade and other payables	2,358,992	183,842

Borrowings

20. Borrowings are specified as follows:

	2007 Carrying amount	2006 Carrying amount
EUR	9,727,661	3,865,910
ISK	8,710,092	2,911,823
SEK	4,304,685	1,563,164
USD	1,319,641	2,052,692
GBP	968,403	1,077,487
CHF	244,712	260,078
NOK	212,588	212,058
JPY	180,700	196,731
Borrowings	25,668,482	12,139,943

Borrowings are secured as follows:

Secured bank loans	17,003,188	9,237,824
Unsecured bond issues	8,665,294	2,902,119
Borrowings total	25,668,482	12,139,943

Company's investment securities amounting to ISK 24,630 millions are mortgaged to secure borrowings with the remaining balance of ISK 17,003 million at the year-end 2007.

21. Repayment of borrowings are specified as follows:

Repayments in 2007	-	2,445,806
Repayments in 2008	692,344	265,037
Repayments in 2009	10,364,271	5,177,596
Repayments in 2010	1,417,909	1,349,384
Repayments in 2011	2,014,090	0
Repayments in 2012	11,179,868	2,902,120
Borrowings	25,668,482	12,139,943

Anounts are in ISK thousand

Deferred income tax liability

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

	2007	2006
Deferred income tax liability 1.1.	1,680,074	1,354,411
Changes due to IFRS	(19,470)	(1,681)
Deferred income tax liability 1.1. (IFRS)	1,660,604	1,352,730
Income tax expense recognised in Income Statement	111,143	307,874
Income tax recognised directly in equity	(27,275)	0
Deferred income tax liability 31.12.	1,744,472	1,660,604

The deferred income tax liability is attributable to the following items:

Securities	2,170,948	1,896,614
Accrued share options expense	(4,940)	0
Operating assets	473	693
	2,166,481	1,897,307
Tax losses carried forward	(422,009)	(236,703)
Deferred income tax liability at end of period	1,744,472	1,660,604

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.

Share-based payments

23. The terms and conditions of grants are as follows:

Grant date / employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of option
Options granted 2006	4,750	32/44 months service	3 years
Options granted 2007	7,250	23/35/47/59 months service	5 years
Total	12,000		

All options are to be settled by physical delivery of shares. Options vesting in 12 months can be excercised three times during the contractual life, at the end of each 12 month period. Accordingly 24 month options can be exercised two times and the 36 month options only once at the end of the 36 month period.

23. Contd.:

The number and weighted average excercise 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 31 December	22.0	12,000	19.0	41,050
Excercisable at 31 December		0		36,300

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

The options outstanding at 31 December 2007 have a weighted average contractual life of 2.3 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 12, 24, and 36 months options	6.96	9.81
Share price	25.0	25.0
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%

* Excercise 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 98 million (2006: ISK 99 million) including accrued social security expenses related to share-based payments.

Financial instruments

24. ***Credit risk***

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount 2007	2006
Financial assets at fair value through profit or loss	484,873	338,205
Loans and receivables	197,820	31,323
Cash and cash equivalents	6,958,889	261,052
	7,641,582	630,580

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated future interest payments:

31 December 2007

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Financial liabilities:						
Secured bank loans	17,003,188	20,935,266	1,527,341	5,819,628	13,588,297	0
Unsecured bond issues	8,665,294	10,832,757	742,268	6,563,331	3,527,158	0
Trade and other payables	2,358,992	2,358,992	2,358,992	0	0	0
	28,027,474	34,127,015	4,628,601	12,382,959	17,115,455	0

31 December 2006

Financial liabilities:						
Secured bank loans	9,236,824	11,192,917	3,214,221	918,557	7,060,139	0
Unsecured bond issues	2,902,119	3,803,800	157,300	157,300	471,900	3,017,300
Trade and other payables	183,842	183,842	183,842	0	0	0
	12,322,785	15,180,559	3,555,363	1,075,857	7,532,039	3,017,300

Anounts are in ISK thousand

24. Contd.:

Currency risk

Exposure to currency risk

The Company´s exposure to foreign currency risk was as follows based on notional amounts:

31 December 2007	EUR	SEK	USD	GBP	NOK	Other
Financial instruments at fair value through profit or loss	10,725,674	4,758,872	65,484	0	646,727	(6,238)
Loans and receivables	166,076	0	0	0	0	0
Cash and equvalents	3,452,578	2,432,478	158	0	319	1,458
Secured bank loans	(9,746,712)	(4,293,344)	(1,316,164)	(965,851)	(212,027)	(424,292)
Trade payables	0	(572,465)	0	0	0	0
Net balance sheet exposure	4,597,616	2,325,541	(1,250,522)	(965,851)	435,019	(429,072)
31 December 2006						
Financial instruments at fair value through profit or loss	2,416,150	5,745,306	182,375	0	751,340	(6,585)
Cash and equvalents	3,715	161,965	7,002	0	0	121
Secured bank loans	(3,864,911)	(1,563,165)	(2,052,692)	(1,077,488)	(212,057)	(456,807)
Net balance sheet exposure	(1,445,046)	4,344,106	(1,863,315)	(1,077,488)	539,283	(463,271)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2007	2006	2007	2006
EUR	87.846	87.965	91.450	94.870
SEK	9.498	9.511	9.713	10.477
USD	64.168	69.943	62.150	72.000

Sensitivity analysis

A 10% strengthening of the Icelandic króna against the following currencies at 31 December would have increased (decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 2006.

	Profit or loss	
	2007	2006
EUR	377,005	(118,798)
SEK	190,694	342,936
Other	(181,255)	(235,519)

A 10% weakening of the Icelandic króna against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Anounts are in ISK thousand

24. Contd.:

Interest rate risk

At the reporting date the interest rate profile of the Company´s interest bearing financial instruments was:

	Carrying amount	
	2007	2006
Fixed rate instruments		
Financial assets	164,610	0
Financial liabilities	(8,665,294)	(2,902,119)
	(8,500,684)	(2,902,119)
Variable rate instruments		
Financial liabilities	(17,003,189)	(9,237,824)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

	2007		2006	
	Profit or loss		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(137,404)	137,404	(74,849)	74,849
Cash flow sensitivity (net)	(137,404)	137,404	(74,849)	74,849

Anounts are in ISK thousand

24. Contd.:

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2007		31 December 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments designated at fair value through profit or loss	40,530,341	40,530,341	25,535,922	25,535,922
Loans and receivables	197,820	197,820	31,323	31,323
Cash and cash equivalents	6,958,889	6,958,889	261,052	261,052
Secured bank loans	(17,003,188)	(16,355,055)	(9,237,824)	(8,678,995)
Unsecured bond issues	(8,665,294)	(8,378,539)	(2,902,119)	(2,999,870)
Trade and other payables	(2,358,992)	(2,358,992)	(183,842)	(183,842)
	19,659,576	20,594,464	13,504,512	13,965,590

The basis for determining fair values is disclosed in note 4.

Interest rates used for determining fair values

The interest rate used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2007	2006
Secured bank loans	6.8% - 8.0%	5.2% - 7.6%
Unsecured bond issues, indexed / non-indexed	6.7% / 18.5%	6.2% / -

Related parties

Identity of related parties

25. The Company has a related party relationship with its associates, and with its directors and executive officers.

Transactions with related parties

During the year the Company paid salaries to the Chairman of the Board of Directors and the CEO. Both the Chairman and the CEO exercised their share options during the year. Further information is in note 8. The members of the Board of Directors and the CEO purchased part of share increases during the year at the same rate as other shareholders. These transactions were priced on an arm's length basis.

Anounts are in ISK thousand

Transition to IFRS

26. These are the Company´s first Financial Statements prepared in accordance with IFRSs and IFRS 1, *First-time Adoption of International Financial Reporting Standards* , has been applied.

The 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 IS-GAAP.

The following tables and notes show the effects of the change from Icelandic GAAP (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	13,550

Changes in measurement

		1 January 2006	31 December 2006
Share-based payments	IFRS 2	(507)	(5,920)
Deferred tax liability	IAS 12	1,682	19,470
Total increase in equity due to transition to IFRS		1,175	13,550

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 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.

Anounts are in ISK thousand

26. Contd.:

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 securites 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 Investment 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 ehf. 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 year 2006

According to IS-GAAP	IS-GAAP 2006	Changes in valuation	Changes in presentation	IFRS 2006	**According to IFRSs**
Net gains on investments in share and shares derivatives	2,920,296	(20,948)	162,335	3,061,683	Net income from securities and derivatives
Dividends earned	162,335		(162,335)	0	
Interest earned	78,742			78,742	Interest income
Changes in foreign exchange currency and interest rate derivatives	(126,242)			(126,242)	Net foreign exchange gain (loss)
Financial expenses	(922,927)			(922,927)	Interest expenses
Net operating revenue	2,112,204			2,091,256	Net operating revenue
Salaries and salary related expenses	69,830	98,825		168,655	Salaries and salary related expenses
Other operating expenses	30,517		17,900	48,417	Other operating expenses
Contributions and grants...	17,900		(17,900)	0	
Operating expenses	118,247			217,072	Operating expenses
Profit before income tax ...	1,993,957			1,874,184	Profit before income tax
Income tax	(329,692)	21,818		(307,874)	Income tax
Profit for the year	1,664,265	(97,955)	0	1,566,310	Profit for the year

Anounts are in ISK thousand

26. Contd.:

Explanation of changes in the profit of the year 2006

Profit for the year according to IS-GAAP	1,664,265
Net changes in fair value of associated company	(20,948)
Share-based payment expenses	(93,411)
Social security taxes	(5,414)
Income tax effect	21,818
Profit for the year according to IFRS	1,566,310

Explanation of changes in Balance Sheet as at 31 December 2005

According to IS-GAAP	IS-GAAP 31/12/2005	Changes in valuation	Changes in presentation	IFRS 31/12/2005	**According to IFRSs**
Shares in other companies	15,486,620		26,262	15,512,882	Investment securities
Derivatives	10,890			10,890	Derivatives
Mutual funds	121,343		(121,343)	0	-
Bonds	26,262		(26,262)	0	-
Sundry receivables	85,742			85,742	Trade and other recievables
Fixed assets	157,191			157,191	Operating assets
Cash and cash equivalents	1,681,290		121,343	1,802,633	Cash and cash equivalents
Total assets	17,569,338	0	0	17,569,338	Total assets
Capital stock	482,005			482,005	Share capital
Contributed capital in excess of par	2,812,423			2,812,423	Share premium
		8,837		8,837	Reserves
Retained earnings	6,322,331	(7,662)		6,314,669	Retained earnings
Stockholders equity	9,616,759	1,175	0	9,617,934	Total equity
Deferred income tax liability	1,354,411	(1,682)		1,352,729	Deferred tax liability
			149,521	149,521	Derivatives
Interest-bearing borrowings	6,526,664		(149,521)	6,377,143	Borrowings
Taxes for the year	7,333			7,333	Current tax liability
Other liabilities	64,171	507		64,678	Trade and other payables
Total liabilities	7,952,579	(1,175)	0	7,951,404	Total liabilities
Total stockholders´equity and litabilities	17,569,338	0	0	17,569,338	Total equity and liabilities

Anounts are in ISK thousand

26. Contd.:

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	Investment 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 recievables
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			3,892,423	Share premium
		102,248		102,248	Reserves
Retained earnings	7,559,004	(88,698)		7,470,306	Retained earnings
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 tax liability
			285,921	285,921	Derivatives
Interest-bearing borrowings	12,425,864		(285,921)	12,139,943	Borrowings
Taxes for the year	0			0	Current tax liability
Other liabilities	177,922	5,920		183,842	Trade and other payables
Total liabilities	14,283,860	(13,550)	0	14,270,310	Total liabilities
Total stockholders´equity and litabilities	26,265,292	0	0	26,265,292	Total equity and liabilities

Anounts are in ISK thousand