

Fasteignafélagið Stoðir hf.

**Consolidated interim financial statements
Six months ended 30 June 2005**

Fasteignafélagið Stoðir hf.

Kringlan 4-12

103 Reykjavík

ID #. 450599-3529

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Endorsement by the board of directors and the managing director

The Consolidated interim financial statements of Fasteignafélagið Stoðir hf. have been prepared according to the same accounting principles as the year before and include the consolidated interim financial statements of the Company and its subsidiaries.

According to the consolidated interim income statement net profit for the six months ended June 30, 2005 amounted to ISK 766 million. According to the consolidated interim balance sheet equity at June 30, 2005 amounted to ISK 10,041 million, including share capital in the amount of ISK 2,160 million. The equity ratio of the Group was 22.2% at the end of the period.

The Company's share capital was increased by ISK 10 million during the period and amounts to ISK 2,162 million at the end of the period. Stockholders at the end of the period were 90 compared to 91 at the beginning of the year. Three stockholders held more than 10% of the outstanding shares in the Company at 30 June 2005. These are:

	Share
Baugur Group hf.	49.1%
KB banki hf.	21.9%
Ingibjörg Pálmadóttir and Eignarhaldsfélagið ISP ehf.	17.9%

The Board of Directors and the Managing Director of Fasteignafélagið Stoðir hf. hereby confirm the Company's consolidated interim financial statements for the six months ended June 30, 2005 by means of their signatures.

Reykjavík, 31 Agust 2005.

Board of Directors:

Kristín Jóhannesdóttir

Skarphéðinn Berg Steinarsson Elín Þórðardóttir

Jóhannes B. Björnsson

Managing Director:

Jónas Þór Þorvaldsson

Auditors' review report

To the Board of Directors of Fasteignafélagið Stoðir hf.

We have reviewed the accompanying consolidated interim balance sheet of Fasteignafélagið Stoðir hf. ("the Company") as of 30 June 2005, and the related consolidated statements of income and cash flows for the six months then ended. This consolidated interim financial information is the responsibility of the Company's management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with International Standard on Review Engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the Company as of 30 June 2005, and the financial performance and cash flows for the interim period then ended, in accordance with IAS 34, 'Interim Financial Reporting'.

Reykjavík, 31 August 2005

Anna Þórðardóttir
Lilja B. Skúladóttir

KPMG Endurskoðun hf.

Consolidated interim income statement

for the six months ended 30 June, 2005

	Notes	2005 1.1.-30.6.	2004 1.1.-30.6.
Operating revenue and expenses:			
Rental income		1.711	1.516
Operating cost, investment properties .....	(	323)	(311)
Administrative expenses .....	(	93)	(114)
		1.295	1.091
Properties for sale:			
Property sales		622	0
Cost of property sold .....	(	829)	(0)
		(207)	0
Operating profit		1.088	1.091
Net financial expenses	1 (	873)	(996)
Value adjustment of investment properties	2	923	1.214
Gain on the sale of investment properties		67	0
Net loss of associated companies	6 (	292)	(3)
		(175)	215
Profit before tax		913	1.306
Income tax	13 (	138)	(223)
Profit before minority interest		775	1.083
Minority interests' share of the results of subsidiaries	5 (	9)	(12)
Net profit for the period	9	766	1.071
Earnings per share:			
Earnings per ISK 1 of capital stock		0,35	0,50

Consolidated interim balance sheet

as at 30 June 2005

Assets

	Notes	30.6.2005	31.12.2004
Non-current assets:			
Investment properties		40.011	35.215
Properties under construction		20	979
Assets for own use		99	111
	2-4	40.130	36.305
Investments in associated companies	6	3.177	3.471
Other investments	7	195	206
		3.372	3.677
Total non-current assets		43.502	39.982
Current assets:			
Properties held for sale	3,4	240	799
Accounts receivable	7	706	1.150
Receivables due from related parties		0	2.502
Other receivables		350	109
Cash and cash equivalents		426	908
Total current assets		1.722	5.468
Total assets		45.224	45.450

Equity and liabilities

Equity:

Share capital	8	2.160	2.151
Share premium		1.920	1.876
Hedging reserve		(101)	(61)
Investment properties value adjustment reserve		4.433	3.621
Retained earnings		1.232	1.601
Total equity attributable to equity holders of the parent	9	9.644	9.188
Minority interest	5	397	264
Total equity		10.041	9.452

Liabilities:

Subordinated loan	10	1.705	1.743
Interest-bearing loans and borrowings	11	25.702	26.265
Deferred income-tax liability	13	2.333	2.158
Total non-current liabilities		29.740	30.166
Credit institutions		1.413	1.511
Current maturities of long-term debt	12	2.746	2.150
Other liabilities		1.284	2.171
Total current liabilities		5.443	5.832
Total liabilities		35.183	35.998
Equity and liabilities		45.224	45.450

Consolidated interim statement of cash flows

for the six months ended 30 June 2005

	Notes	2005 1.1.-30.6.	2004 1.1.-30.6.
Cash flows from operating activities:			
Net profit for the period	9	766	1.071
Adjustments for:			
Gain on sale of investment property .....	(	67)	0
Gain on sale of non-current assets .....	(	17)	(110)
Indexation and currency fluctuation on long-term bonds and long-term debt .....	(	80)	461
Value adjustment of investment properties	2 (	923)	(1.214)
Net loss of associated companies		292	3
Income tax and other items		113	238
Working capital provided by operating activities		84	449
Change in current assets and liabilities		554	(248)
Cash flows from operating activities		638	201
Cash flows to investing activities:			
Acquisition of investment properties .....	(	1.374)	(1.628)
Proceeds from sale of investment properties		70	577
Investment in shares in other companies .....	(	217)	126
Proceeds from sale of shares in other companies		4	0
Other receivables, changes		836	(82)
Cash flows to investing activities	(	681)	(1.007)
Cash flows (to) from financing activities:			
Paid-in capital		167	0
Treasury shares, bought and sold		11	27
Dividends paid .....	(	323)	0
Proceeds from interest-bearing loans and borrowings		2.360	3.238
Repayment of interest-bearing loans and borrowings .....	(	2.469)	(984)
Other current liabilities, changes .....	(	185)	(1.476)
Cash flows (to) from financing activities	(	439)	805
Net decrease in cash and cash equivalents .....	(	482)	(1)
Cash and cash equivalents at 1 January		908	111
Cash and cash equivalents at 30 June		426	110

Notes to the consolidated interim financial statements

Significant accounting policies

Fasteignafélagið Stoðir hf. (the "Company") is domiciled in Kringlan 4-12, Reykjavík. The consolidated interim financial statements of the Company for the six months ended June, 30 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The consolidated interim financial statements were authorised for issue by the board of directors on August 31, 2005.

a. **Statement of compliance**

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements. The interim financial statements cover a part of the period which the annual financial statement of the group will cover. The consolidated interim financial statements do not include all of the information required for full annual financial statements.

b. **Basis of preparation**

The consolidated financial statements are prepared in Icelandic kronas (ISK), rounded to the nearest million. They are based on historical cost accounting with the exception that investment properties and derivative financial instruments are presented at fair value.

The preparation of interim financial statements in conformity with IAS 34, Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

c. **Basis of consolidation**

(i) **Subsidiaries**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. The interim financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) **Associates**

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operational policies. The consolidated interim financial statements include the Group's share in the total recognised gains and losses of associated companies on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Significant accounting policies (continued)

(iii) *Transactions eliminated on consolidation*

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated interim financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

d. *Foreign currency*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Icelandic kronas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

e. *Derivative financial instruments*

The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational and financing activities. Derivative financial instruments are stated at fair value. Gain or loss of derivative financial instruments which meet with requirements of hedge accounting for cash flow hedges is recognised directly in equity. Gain or loss on remeasurement to fair value of other derivative financial instruments is recognised in the income statement.

Fair value of derivative financial instruments is the amount for which it could be exchanged or settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of a financial instrument is based on their quoted market price at the balance sheet date. If a quoted market price is not available the fair value of the instrument is estimated using known valuation techniques such as discounted cash flow or option pricing models. The fair value of derivatives rely mostly on information available on the market considering all factors parties in the market would consider in pricing under normal circumstances.

f. *Fixed assets*

(i) *Investment properties*

Real estate (land or buildings) held by the Company either to earn rental income from or for capital appreciation or for both, is classified as investment properties. Investment properties are stated at fair value according to International Accounting Standard number 40 (IAS). The fair value of each individual property is measured by discounted cash flow projections. In determining the income generated by the properties existing lease agreements are mainly taken into account. Estimated operating expenses and maintenance are deducted from rental income. The interest rates used to calculate the present values are consistent with those offered to the Company. An independent party was hired to estimate future rental income and maintenance expenses of individual properties. An independent appraiser was also hired to estimate the value of land held by the Company and its subsidiaries. The fair value of investment properties was measured for the first time on January 1, 2004.

The changes in the fair value of investment properties are recognised as value adjustment of investment properties in the income statement. Investment properties are not depreciated.

Significant accounting policies (continued)

(ii) *Properties under construction and held for sale*

Properties under construction are capitalised at the cost of material, direct labour and appropriate proportion of overheads. Financial expenses are capitalised as a part of the construction costs over the construction period.

Properties held for sale are assets which have been acquired for the sole purpose of reselling.

(iii) *Assets for own use*

Assets for own use are capitalised at cost, less depreciation.

g. ***Investments***

Bonds are stated at amortised cost less impairment. Interest of bonds are calculated using the effective interest method and are recognised in profit or loss.

h. ***Bonds and receivables***

Bonds and receivables are recorded at cost less impairment.

i. ***Impairment***

The carrying amounts of assets, other than investment properties, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) *Calculation of recoverable amount*

The recoverable amount of the Group's investment in bond and receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

j. ***Share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total capital.

Significant accounting policies (continued)

k. ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

l. ***Income recognition***

Rental income from investment properties is recorded in the income statement on a straight-line basis over the term of the lease.

m. ***Financial income and financial expenses***

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on investments, dividends, foreign exchange gains and losses and gains and losses on derivative financial instruments that are recognised in profit or loss.

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

n. ***Income tax***

Income tax 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.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for difference relating to investments in subsidiaries, to the extent that the parent company can control when the temporary difference will reverse and that they will probably not reverse in the foreseeable future.

Notes to the consolidated interim financial statements (continued)

Financial expenses and financial income

1. Financial income and expenses are specified as follows:

	30.6.2005	30.6.2004
Interest income	69	41
Interest expenses	(974)	(865)
Indexation	(284)	(390)
Capitalized financial expenses	27	48
Currency fluctuations	358	85
Borrowing costs	(66)	(25)
Capital (loss) gains on the sale of shares in other companies	(3)	110
Net financial expenses total	(873)	(996)

Investment properties, properties under construction and assets for own use

2. Investment properties, properties under construction and assets for own use are specified as follows:

	Investment properties	Properties under construction	Assets for own use	Total
Balance before fair value adjustment 1.1.2005	30.800	979	111	31.890
Additions through subsidiaries	360			360
Acquisitions during the period	2.530	209		2.739
Transfer to investment properties	1.168	(1.168)		0
Disposals during the period	(185)		(9)	(194)
Depreciation during the period			(3)	(3)
Balance before fair value adjustments 30.6.2005	34.673	20	99	34.792
Fair value adjustment 1.1.2005	4.415			4.415
Fair value adjustments during the period	923			923
Fair value adjustment 30.6.2005	5.338	0	0	5.338
Balance 30.6.2005	40.011	20	99	40.130

Mortgages and commitments

3. The Group's properties are mortgaged for long-term debts, the remaining balance of which amounts to ISK 15,074 million at the end of the period. The Parent Company guarantees debt for 101 Skuggahverfi hf. amounting to ISK 403 million. Shares in Akraland ehf., held by Þyrping hf. a subsidiary of the Company, are mortgaged to secure a debt with a remaining balance amounting to ISK 186 million at the end of the period and shares in 101 Skuggahverfi hf. are mortgaged to secure a debt with a remaining balance amounting to ISK 111 million.

Notes to the consolidated interim financial statements (continued)

Official assessment value and insurance value

4. The insurance value of the Group's buildings at the end of the period amounted to ISK 35,406 million whereas the carrying value of land and buildings amounted to ISK 40,370 million. The official assessment value of buildings and land amounted to a total of ISK 24,339 million.

Investments

Shares in subsidiaries

5. Shares in subsidiaries are specified as follows:

	Share
Pyrping hf., Reykjavík	79%
Líf fasteignir ehf., Reykjavík	100%
PSBP fasteignir ehf., Reykjavík	100%

Subsidiaries held by Pyrping hf.:

101 Skuggahverfi hf., Reykjavík	100%
Sjónvarphúsið Laugavegi ehf., Reykjavík	100%

Minority interest in net profits of subsidiaries amounted to ISK 9 million. Minority interest in their equity at the end of the period amounted to ISK 397 million. Minority interest is presented as a specific item in the consolidated interim financial statements.

Shares in associated companies

6. Shares in associated companies are specified as follows:

	Share	Carrying amount
Akraland ehf., Reykjavík	50%	
DBH Holding ehf., Reykjavík	23%	
Hagar hf., Reykjavík	23%	
Húsumsjón ehf., Reykjavík	30%	
Sauðahellir ehf., Reykjavík	25%	
		3.177

Bonds and receivables

7. Provision for doubtful bonds and receivables is specified as follows:

	30.6.2005	31.12.2004
Balance 1.1. 2005	93	59
Losses during the period	(10)	(11)
Provisions made during the period	(9)	45
Subsidiary provision for doubtful receivables	(1)	0
Balance 30.6.2005	73	93

Notes to the consolidated interim financial statements (continued)

Equity

8. The Company's capital stock was increased by ISK 10 million during the period. The Company's total capital stock at the end of the period according to its Articles of Association amounted to ISK 2,162 million. The Company holds treasury shares amounting to ISK 2 million which are deducted from capital stock. One vote is attached to each share of ISK 1 in the Company.

9. Changes in Equity are specified as follows:

	Share capital	Share Premium	Hedging reserve	Investment properties value adjustment reserve	Retained earnings	Total equity
Balance 1.1.2004	2.152	1.891	0	2.172	560	6.775
Treasury shares bought (sold)	(1)	(15)				(16)
Dividend					(215)	(215)
Other changes			(61)			(61)
Net profit for the year				1.449	1.256	2.705
Balance 31.12.2004	2.151	1.876	(61)	3.621	1.601	9.188
Balance 1.1.2005	2.151	1.876	(61)	3.621	1.601	9.188
Increase of capital stock	10	33				43
Treasury shares bought (sold)	(1)	11				10
Dividend					(323)	(323)
Other changes			(40)			(40)
Net profit for the period				757	9	766
Balance 30.6.2005	2.160	1.920	(101)	4.378	1.287	9.644

Subordinated loan

10. The Company has issued bonds which are subordinated liabilities. The bonds have the characteristics of equity in being subordinate to other liabilities of the Company. The bonds are denominated in EUR and carry interest of 8% and their maturity date is June 24, 2007.

Notes to the consolidated interim financial statements (continued)

Interest-bearing loans and borrowings

11. Interest-bearing loans and borrowings are specified as follows:	30.6.2005	31.12.2004
Long-term debt in foreign currencies:		
Debt in EUR	5.743	4.531
Debt in USD	1.463	939
Debt in GBP	675	431
Debt in JPY	258	281
Debt in CHF	210	250
Debt in NOK	89	94
Debt in SEK	46	60
	<u>8.484</u>	<u>6.586</u>
Interest-bearing loans and borrowings in Icelandic kronas:		
Indexed debt	19.253	21.095
Other debt	711	734
	<u>19.964</u>	<u>21.829</u>
Interest-bearing loan and borrowings total, including current maturities	28.448	28.415
Current maturities of interest-bearing loans and borrowings	(2.746)	(2.150)
Interest-bearing loans and borrowings total	<u>25.702</u>	<u>26.265</u>
12. Aggregated annual maturities of interest-bearing loans and borrowings are specified as follows:		
1.7.2005 - 30.6.2006		2.746
1.7.2006 - 30.6.2007		1.486
1.7.2007 - 30.6.2008		840
1.7.2008 - 30.6.2009		1.910
1.7.2009 - 30.6.2010		747
Subsequent		20.719
Interest-bearing loans and borrowings total		<u>28.448</u>

Deferred income-tax liability

13. The Group's deferred income-tax liability according to the interim balance sheet is specified as follows:		
Deferred income tax liability 1.1.2005		2.158
Additions through business combinations		37
Calculated income tax		138
Deferred income-tax liability 30.6.2005		<u>2.333</u>

Notes to the consolidated interim financial statements (continued)

13. Cont.:

The Company's deferred income-tax liability is attributable to the following balance sheet items:

Fixed assets	2.236
Accounts receivable	107
Shares in other companies	47
Carry-forward losses	(57)
Deferred income-tax liability 30.6.2005	<u>2.333</u>

Hedging

14. Interest-rate swaps are specified as follows:	30.6.2005	31.12.2004
Assets in foreign currencies carrying variable interest rates	4.476	4.633
Debt in foreign currencies carrying fixed interest rates	4.476	4.633

Other matters

15. During the year 2004 the Company entered into a stock option agreement with the Company's Managing Director. The agreement gives the Managing Director the option to purchase shares in the Company for a nominal value of ISK 50 million at a pre-determined price. At the beginning of the year 2005 ISK 10 million of the option had been exercised. The option is exercisable on December 31, 2005 and 2006. The Company has entered into a sale-back agreement við the managing director for purchase of the shares based on pre-determined premises.