

Fasteignafélagið Stoðir hf.

Condensed Consolidated Interim Financial Statements

1. january - 30 June 2006

ISK

Fasteignafélagið Stoðir hf.

Kringlan 4-12

103 Reykjavík

Reg. no. 450599-3529

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Endorsement and Signatures of the Board of Directors and the Managing Director

The Company's consolidated interim financial statements for the six months ended 30 June, 2006 have been prepared according to International Financial Reporting Standards. The interim financial statements comprise the consolidated financial statements of Fasteignafélagið Stoðir hf. and its subsidiaries.

At the end of the year 2005 the Company acquired all the shares of the Danish real estate company Atlas Ejendomme A/S. Atlas Ejendomme A/S is a part of the consolidated financial statements of the Group from the date on which control was transferred, which was 6 January, 2006. In May 2006 the company acquired all the shares in Langastétt ehf. real estate company which is included in the consolidated financial statements of the group from 1 May, 2006. The subsidiaries Húsumsjón ehf., PSBP fasteignir ehf. and Krókháls 6 ehf. merged with the Company on 1 January, 2006. During the period the company sold its shares in Hagar ehf. and DBH Holding ehf. to Baugur Group hf.

According to the interim income statement, net profit for the six months ended 30 June 2006 amounted to ISK 4,186 million. The Company's equity amounted to ISK 15,297 million at the end of the period according to the balance sheet.

The Board of Directors and the Managing Director of Fasteignafélagið Stoðir hf. hereby confirm the Company's interim financial statements for the six months ended 30 June 2006, by means of their signatures.

Reykjavík, 30 August 2006.

Board of Directors:

Kristín Jóhannesdóttir
Jóhannes B. Björnsson
Skarphéðinn Berg Steinarsson
Ingibjörg S. Pálmadóttir

Managing Director:

Jónas Þór Þorvaldsson

Auditors' Review Report

To the Board of Directors of Fasteignafélagið Stoðir hf.

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Fasteignafélagið Stoðir hf. as of 30 June 2006 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.

Reykjavík, 30 August 2006.

Anna Þórðardóttir

KPMG Endurskoðun hf.

Consolidated Income Statement

for the six months ended 30 June 2006

	Notes	2006 1.1.-30.6.	2005 1.1.-30.6.
Operating revenue and expenses:			
Rental income		2.778	1.711
Property operating expenses .....	(	589)	(323)
Administrative expenses .....	(	249)	(93)
		1.940	1.295
 Properties for sale:			
Property sales		0	622
Cost of property sold		0	(829)
		0	(207)
 Operating profit		1.940	1.088
Net financing expenses	3	(4.245)	(873)
Value adjustment of investment properties	4	7.404	923
Gain on the sale of investment properties		(1)	67
Net gain of associated companies		(45)	(292)
		3.113	(175)
 Profit before tax		5.053	913
Income tax		(867)	(138)
 Profit for the period		4.186	775
 Attributable to:			
Equity holders of the parent		4.186	766
Minority interest		0	9
 Profit for the period		4.186	775
 Earnings per share:			
Basic earnings per share of ISK 1		1,93	0,36

Consolidated Balance Sheet

at 30 June 2006

	Notes	30.6.2006	31.12.2005
Assets:			
Investment properties	4	94.297	41.316
Properties under construction		541	541
Assets for own use		105	106
		94.943	41.963
Investment in associates		1.369	4.147
Other investments		3.430	12.690
		4.799	16.837
Total non-current assets		99.742	58.800
Trading properties		121	121
Trade and other receivables		3.766	1.459
Deposit		0	12.110
Cash and cash equivalents		1.073	48
Total current assets		4.960	13.738
Total assets		104.702	72.538
Equity:			
Share capital	5	2.170	2.160
Share premium		1.954	1.920
Investment properties value adjustment reserve		9.948	3.877
Other reserves	6	223	(12)
Retained earnings		1.002	2.887
Total equity		15.297	10.832
Liabilities:			
Deferred income-tax liability		9.151	2.250
Subordinated loan		2.282	1.684
Interest-bearing loans and borrowings	7	63.811	41.894
Total non-current liabilities		75.244	45.828
Interest bearing loans		10.631	13.123
Trade and other payables		3.530	2.755
Total current liabilities		14.161	15.878
Total liabilities		89.405	61.706
Total equity and liabilities		104.702	72.538

Consolidated Statement of Changes in Equity

Changes in Equity 1 January - 30 June 2005

	Share capital	Share premium	Investment properties value adjustment reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2005	2.151	1.876	3.621	(61)	1.601	9.188
New shares issued	10	33				43
Changes in treasury stock	(1)	11				10
Dividends to shareholders					(323)	(323)
Hedge accounting				(40)		(40)
Net profit for the period			757		9	766
Balance at 30 June 2005	2.160	1.920	4.378	(101)	1.287	9.644

Changes in Equity 1 January - 30 June 2006

Balance at 1 January 2006	2.160	1.920	3.877	(12)	2.887	10.832
New shares issued	10	34				44
Hedge accounting				223		223
Currency translation difference arising from subsidiaries				12		12
Net profit for the period			6.071		(1.885)	4.186
Balance at 30 June 2006	2.170	1.954	9.948	223	1.002	15.297

Consolidated Statement of Cash Flows

for the Six Months ended 30 June 2006

	Notes	2006 1.1.-30.6.		2005 1.1.-30.6.
Cash flows from operating activities:				
Profit for the year		4.186		766
Adjustments for:				
Gain on sale of investment property		0	(	67)
Gain on sale of non-current assets		0	(	17)
Gain on sale of investment in shares .....	(	1.532)		0
Indexation and currency fluctuation on long-term bonds and long-term liabilities		3.772	(	80)
Value adjustment of investment properties	4	(7.404)	(	923)
Effect of associated companies		45		292
Income tax and other items		870		113
Working capital (used) provided by operating activities		(63)		84
Change in current assets and liabilities		219		554
Cash flows provided by operating activities		156		638
Cash flows to investing activities:				
Investments in properties	4	(877)	(	1.374)
Proceeds from sale of investment properties		1		70
Investments in subsidiaries	2	(1.819)		0
Investments in other companies		(230)	(	217)
Proceeds from sale of shares in other companies		4.500		4
Other receivables, change		4.225		836
Cash flows used (to) investing activities		5.800	(	681)
Cash flows from financing activities:				
Proceeds from the issue of share capital		44		167
Treasury shares, bought and sold		(1)		11
Dividends paid		0	(	323)
Proceeds from non-current borrowing		18.761		2.360
Repayment of borrowings		(19.446)	(	2.469)
Changes in short-term borrowing		(4.325)	(	185)
Cash flows to financing activities		(4.967)	(	439)
Increase (decrease) in cash and cash equivalents		989	(	482)
Effects of exchange rate fluctuations on cash held		36		0
Cash and cash equivalents at 1 January		48		908
Cash and cash equivalents at 30 June		1.073		426

Notes

Significant accounting policies

The legal residence of Fasteignafélagið Stoðir hf. is at Kringlan 4-12, Reykjavík, Iceland. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2006 comprise the Company and its subsidiaries together referred to as the "Group" and the Group's interest in associates. The interim financial statements were authorised for issue by the board of directors on 30 August 2006.

a. *Statement of compliance*

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting. They do not include all of the information required for a complete set of consolidated annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended 31 December 2005.

b. *Basis of preparation*

The accounting policies and methods of computation applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2005. The financial statements for the year 2005 are available at the Company's website, www.stodir.is and at The Icelandic Stock exchange website, www.icex.is.

The condensed interim financial statements are prepared in Icelandic kronas (ISK), rounded to the nearest million. They are prepared on the historical cost basis except that investment properties and derivative financial instruments are stated at their fair value.

Segment reporting

Geographical segment

1. Segment reporting is based on geographical segments. The presentation of segment income and segment assets is based on the geographical location of the relevant Group companies.

Income Statement	Iceland	Denmark	Total
Rental income.....	2.085	693	2.778
Operating cost and administrative expence.....	(586)	(252)	(838)
Operating profit.....	1.499	441	1.940
Net financing expence.....	(3.646)	(599)	(4.245)
Value adjustment of investment properties.....	7.404	0	7.404
Gain on the sale of investment properties.....	(1)	0	(1)
Net gain of associated companies.....	(45)	0	(45)
Profit before tax.....	5.211	(158)	5.053
Income tax.....	(908)	41	(867)
Profit for the period.....	4.303	(117)	4.186

Notes, contd.:

Changes within the Group

2. At the end of the year 2005 the Company (Stodir Holding A/S) acquired all the shares of the Danish real estate company Atlas Ejendomme A/S. In may 2006 the Company acquired all shares of Langastétt ehf.

Atlas Ejendomme A/S is a part of the consolidated financial statements of the Group from 6 January and Langastétt ehf. is a part of the consolidated financial statement from 1 may 2006.

The subsidiaries Húsumsjón ehf., PSBP fasteignir ehf. and Krókháls 6 ehf. merged with the Company on January 1, 2006. At the end of the year 2005 the Company sold 29.7% of its shares in Þyrping hf. After the sale the Company holds a 49.3% share in Þyrping hf.

The allocation of the consideration paid for the companies to relevant assets and liabilities has not been concluded. IFRS allows a period of up to one year from the date of the acquisition for the assessments to be completed by the company.

The acquisitions had the following affect on the balance sheet of the Group:

Investment properties.....	27.039
Assets for own use.....	8
Trade and other receivables.....	271
Cash and cash equivalents.....	12.344
Non-current liabilities.....	(19.594)
Current liabilities.....	(12.900)
Equity when acquired.....	7.168
Premium.....	6.995
Acquisition price	14.163
Cash acquired.....	(12.344)
Investment in subsidiaries according to cash-flow statement.....	1.819

Net financing costs

3. Financial expenses and financial income are specified as follows:	2006	2005
	1.1.-30.6.	1.1.-30.6.
Interest income	87	69
Interest expenses	(1.799)	(974)
Indexation	(1.198)	(284)
Capitalized financial expenses	0	27
Net foreign exchange (loss), gain	(2.817)	358
Borrowing costs	(50)	(66)
Capital gains (loss) on the sale of shares in other companies	1.532	(3)
Net financial expenses	(4.245)	(873)

Notes, contd.:

Investment properties

4. Investment properties are specified as follows:	2006	2005
	1.1.-30.6.	1.1.-31.12
Cost before value adjustment 1 January	36.588	30.800
Acquisitions during the period	24.960	1.535
Additions during the period	877	4.821
Transferred from properties under construction and for sale	0	929
Disposed through sale of subsidiary	0	(1.253)
Sold and disposed during the year	(1)	(244)
Cost before value adjustment 30 June	<u>62.424</u>	<u>36.588</u>
Value adjustment 1 January	4.728	4.415
Acquisitions during the period	19.741	518
Changes in the period	7.404	1.133
Value adjustment moved out because of sale	0	(1.338)
Value adjustment during the period	<u>31.873</u>	<u>4.728</u>
Balance at 30 June	<u>94.297</u>	<u>41.316</u>

Equity

5. The Company's share capital was increased by ISK 10 million during the period. The Company's issued capital, according to its Articles of Association amounts to ISK 2,172 million at the end of the period. The Company holds own shares amounting to a nominal value of ISK 2 million, own shares are deducted from equity. One vote is attached to each ISK one Krona share in the Company.

6. Other reserves are specified as follows:	30.6.2006	31.12.2005
Hedging reserve	211	(12)
Currency translation difference arising from subsidiaries	12	0
Other reserve total	<u>223</u>	<u>(12)</u>

Notes, contd.:

Interest-bearing loans and borrowings

7. Interest bearing loans and borrowings are specified as follows:

	30.6.2006	31.12.2005
Debt in foreign currencies:		
Debt in DKK	22.448	17.575
Debt in EUR	10.244	4.451
Debt in USD	654	888
Debt in GBP	380	381
Debt in JPY	72	103
Debt in CHF	13	85
Debt in NOK	6	46
Debt in SEK	1	43
	<u>33.818</u>	<u>23.572</u>
Debt in Icelandic kronas:		
Indexed debt	31.499	20.823
Non-current loans and borrowing, including current portion	65.317	44.395
Current portion of non-current loans and borrowings	(1.506)	(2.501)
Total interest-bearing loans and borrowings	<u>63.811</u>	<u>41.894</u>

8. Interest-bearing loans are payable as follows:

1.7.2006 - 30.6.2007	1.506
1.7.2007 - 30.6.2008	978
1.7.2008 - 30.6.2009	2.290
1.7.2009 - 30.6.2010	1.038
1.7.2010 - 30.6.2011	12.681
Subsequently	46.824
Total interest-bearing loans and borrowings	<u>65.317</u>

Group entities

9. Group entities are specified as follows:

	Share
Áthagar ehf., Reykjavík	100%
Líf fasteignir ehf., Reykjavík	100%
S Fasteignir ehf., Reykjavík	100%
Fasteignafélagið Löngustétt ehf., Reykjavík	100%
Stodir Holding A/S, (Atlas Ejendomme A/S) Denmark	100%