

Fasteignafélagid Stodir hf.

Condensed Consolidated Interim Financial Statements 1 January - 30 June 2007

ISK

Fasteignafélagid Stodir hf.
Kringlan 4-12
103 Reykjavík

Reg. no. 450599-3529

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Endorsement and Signatures of the Board of Directors and the CEO

The condensed consolidated interim financial statements of Fasteignafélagid Stodir hf. ("the Company") for the period 1 January to 30 June 2007 have been prepared in accordance with International Financial Reporting Standard (IFRS) for interim financial statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Fasteignafélagid Stodir hf. and its subsidiaries ("the Group").

Fasteignafélagid Stodir hf. submitted on 29 June 2007 a conditional voluntary offer to all shareholders in the Danish company Keops A/S. Keops A/S is listed on the OMX Nordic Exchange in Copenhagen. According to the takeover offer, the shareholders of Keops A/S are offered to sell their shares in the company at a value of DKK 24.00 per share and receive payment in cash or shares in Fasteignafélagid Stodir hf. at a value of ISK 14.00 per share. Keops A/S has a share capital of nominally DKK 181,522,637. The offer period expires on 31 August 2007.

According to the income statement, net profit for the period amounted to ISK 4,336 million. According to the balance sheet, equity at the end of June 2007 amounted to ISK 34,077 million, including share capital in the amount of ISK 2,721 million.

The Company's share capital was increased by ISK 522 million in the period and total outstanding capital amounted to ISK 2,721 million at end of June 2007.

The Board of Directors and the CEO of Fasteignafélagid Stodir hf. hereby confirm the Company's consolidated interim financial statements for the period 1 January to 30 June 2007 by means of their signatures.

Reykjavik, 29 August 2007.

The Board of Directors:

Kristín Jóhannesdóttir

Ingibjörg S. Pálmadóttir

Jóhannes B. Björnsson

Eiríkur Jóhannsson

Gunnar Jónsson

CEO:

Skarphéðinn Berg Steinarsson

Report on Review of Interim Financial Information

To the Board of Directors of Fasteignafélagid Stodir hf.

Introduction

We have reviewed the accompanying balance sheet of Fasteignafélagid Stodir hf as of 30 June 2007 and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 June 2007, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavik, 29 August 2007.

KPMG hf.

Anna Þórðardóttir

Consolidated Income Statement

for the six months ended 30 June 2007

	Note	2007 1.1.-30.6.	2006 1.1.-30.6.
Operating revenue and expenses:			
Rental income		4,162	2,778
Operating expenses of investment properties		(901)	(589)
Net rental income		3,261	2,189
Other operating expenses		(336)	(249)
Operating profit		2,925	1,940
Financial income and financial expenses:			
Financial income		4,427	1,619
Financial expenses		(3,398)	(5,864)
Net finance income (expenses)	6	1,029	(4,245)
Value adjustment of investment properties	8	236	7,403
Net gain (loss) of associated companies	9	465	(45)
Profit before tax		4,655	5,053
Income tax	7	(319)	(867)
Profit for the period		4,336	4,186
Earnings per share:			
Basic and diluted earnings per share of ISK 1		1.73	1.93

The notes on pages 9 to 14 are an integral part of these consolidated financial statements

Consolidated Balance Sheet

as of 30 June 2007

	Note	30.6.2007	31.12.2006
Assets:			
Goodwill		1,996	2,219
Investment properties	8	152,222	144,719
Property and equipment for own use		205	185
		154,423	147,123
Shares in associated companies	9	1,706	1,240
Other investments	10	6,862	3,437
		8,568	4,677
Total non-current assets		162,991	151,800
Trade receivables		353	424
Other receivables	11	3,023	3,957
Cash and cash equivalents		3,952	453
Total current assets		7,328	4,834
Total assets		170,319	156,634
Equity:			
Share capital	12	2,721	2,200
Share premium		9,337	2,067
Translation reserve		(76)	(20)
Hedging reserve		599	311
Investment properties value adjustment reserve		16,597	17,157
Retained earnings		4,899	1,002
Total equity		34,077	22,717
Liabilities:			
Interest-bearing loans and borrowings	13	91,219	98,546
Deferred income-tax liability	14	9,803	10,136
Total non-current liabilities		101,022	108,682
Interest-bearing loans and borrowings	13	30,441	19,355
Subordinated loan	13	2,021	2,303
Trade and other payables	15	2,758	3,577
Total current liabilities		35,220	25,235
Total liabilities		136,242	133,917
Total equity and liabilities		170,319	156,634

The notes on pages 9 to 14 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

	Share capital	Share Premium	Translation reserve	Hedging reserve	Investment properties value adjustment reserve	Retained earnings	Total	Minority interest	Total equity
1 January to 30 June 2006									
Balance 1 January 2006	2,160	1,920	0	(12)	3,877	2,887	10,832	264	11,096
Currency translation difference of subsidiaries			(17)				(17)		(17)
Hedging reserve arising from subsidiaries			29				29		29
Changes during the period, net of income tax				223			223		223
Income and expense recognised directly in equity			12	223	0	0	235	0	235
Profit for the period					6,071	(1,885)	4,186	220	4,406
Total profit for the period			12	223	6,071	(1,885)	4,421	220	4,641
Issued share capital	10	34					44		44
Disposed by sale of subsidiary, net of income tax							0	(484)	(484)
Balance 30 June 2006	2,170	1,954	12	211	9,948	1,002	15,297	0	15,297
1 January to 30 June 2007									
Balance at 1 January 2007	2,200	2,067	(20)	311	17,157	1,002	22,717	0	22,717
Currency translation difference of subsidiaries			(895)				(895)		(895)
Hedging reserve arising from subsidiaries			839				839		839
Changes during the period, net of income tax				288			288		288
Income and expense recognised directly in equity			(56)	288	0	0	232	0	232
Profit for the period					194	4,142	4,336		4,336
Total profit for the period			(56)	288	194	4,142	4,568	0	4,568
Issued share capital	522	7,274					7,796		7,796
Own shares purchased	(1)	(4)					(5)		(5)
Reversal of value adjustment on sale					(754)	754	0		0
Dividends to shareholders						(999)	(999)		(999)
Balance 30 June 2007	2,721	9,337	(76)	599	16,597	4,899	34,077	0	34,077

The notes on pages 9 to 14 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

for the six months ended 30 June 2007

	Note	2007 1.1.-30.6.	2006 1.1.-30.6.
Cash flows to operating activities:			
Profit for the period		4,336	4,186
Adjustments for:			
Net finance (income) cost .....	(	441)	5,777
Gain on investment in shares .....	(	588)	(1,532)
Value adjustment of investment properties	8 (	236)	(7,404)
Effect of associated companies	9 (	465)	45
Income tax and other items		333	870
		2,939	1,942
Change in current assets		1,919	(373)
Change in current liabilities .....	(	565)	141
Working capital from operations		4,293	1,710
Interest expenses paid .....	(	3,641)	(1,662)
Interest income received		218	108
Net cash provided by operating activities		870	156
Cash flows to investing activities:			
Acquisition of investment properties .....	(	10,341)	(877)
Investment in property and equipment for own use .....	(	8)	0
Proceeds from sale of property and equipment for own use		11	1
Investment in subsidiary net of cash acquired		0	(1,819)
Investment in shares in other companies		0	(230)
Proceeds from sale of shares in other companies		1,939	4,500
Other receivables, change		1,439	4,225
Net cash (used in) provided by investing activities	(	6,960)	5,800
Cash flows from financing activities:			
Proceeds from the issue of share capital		7,796	44
Purchase of own shares .....	(	5)	(1)
Dividends paid .....	(	999)	0
Proceeds from non-current borrowing		6,168	18,761
Repayment of borrowings .....	(	10,546)	(19,446)
Short-term borrowing, change		7,204	(4,325)
Net cash provided by financing activities		9,618	(4,967)
Increase in cash and cash equivalents		3,528	989
Cash and cash equivalents at 1 January		453	48
Effect of exchange rate fluctuations on cash held .....	(	29)	36
Cash and cash equivalents at 30 June		3,952	1,073
Investing and financing transactions without cash flow effect:			
Investment in shares in other companies .....	(	3,240)	0
Other receivables, change		2,500	0
Proceeds from sale of shares in other companies		740	0

Notes to the Consolidated Financial Statements

1. Reporting entity

Fasteignafélagid Stodir hf. "the Company" is domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2007 comprise the Company and its subsidiaries and the Group's interest in associates.

The Group's condensed consolidated interim financial statements are presented in Icelandic krona (ISK) which is the Company's functional currency, rounded to the nearest million.

These condensed consolidated interim financial statements were approved by the Board of Directors on 29 August 2007.

2. Statement of compliance

These 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 full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2006.

3. Significant accounting policies

The accounting policies applied by the Group in the preparation of these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2006. The consolidated financial statements of the Group as at and for the year ended 31 December 2006 are available upon request from the Company's registered office, Kringlan 4-12, Reykjavík, Iceland or at www.stodir.is.

4. Significant judgements and accounting estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2006.

Notes, cont.:

7. Income tax

Reconciliation of effective tax rate:	2007		2006	
	1.1.-30.6.		1.1.-30.6.	
Profit before tax		4,655		5,053
Income tax using the domestic corporation tax rate	18.0%	780	18.0%	910
Effect of subsidiaries in foreign tax areas	0.2%	9	(0.2%)	(11)
Effect of changes in tax rates in foreign subsidiaries	(9.5%)	(444)		
Associated companies	(3.0%)	(84)	0.2%	9
Other items	1.2%	57	(0.8%)	(41)
Effective income tax rate	6.9%	319	17.2%	867

8. Investment properties

Investment properties are specified as follows:	2007		2006	
	1.1.-30.6.		1.1.-31.12	
Cost before value adjustment 1 January		123,795		36,588
Acquisitions during the period		0		26,468
Additions during the period		18,269		52,049
Transferred from properties under construction and for sale		0		662
Disposed through sale of subsidiary	(2,234)		0	
Sold and disposed during the period	0	(863)		
Effect of movements in exchange rates	(7,849)		8,891	
Cost before value adjustment at the end of the period		131,981		123,795
Value adjustment 1 January		20,924		4,728
Increase in value adjustment		236		16,212
Reversal of revaluation through sale of subsidiary	(919)	(16)		
Value adjustment at the end of the period		20,241		20,924
Balance at the end of the period		152,222		144,719

9. Equity accounted investees

The Group's share of profit in its equity accounted investees for the period is as follows:

	Share	Effects in income statement	Book value 30.6.2007
Þyrping hf., Reykjavík	49%	465	1,703
Sauðahellir ehf., Reykjavíkið	25%	0	3
		465	1,706

Notes, cont.:

10. Other investments

Other investments are specified as follows:

	Share	30.06.2007	31/12/2006
Shares in FL Group hf. and put option	1,44%	3,673	0
Loan to Baugur Group hf.		2,997	3,241
Other investments		192	196
Other investments total		<u>6,862</u>	<u>3,437</u>

Shares in other companies are recognised at fair value. The Company acquired shares in FL Group hf. in relation with sale of its shares in S fasteignir ehf. in March 2007. The Company has the right to sell its share in FL Group hf. to Baugur Group hf. at a fixed price. The option was granted on 30 June 2007 and can be exercised in the period from 22 to 29 September 2007. The option is recognised at fair value.

In connection to the sale of Hagar hf. to Baugur Group hf. the Company granted Baugur Group hf. a subordinated loan in the amount of ISK 3,673 million. The loan is due on 10 July 2011 and is interest bearing with 400 bp premium on EURIBOR.

11. Other receivables

Other receivables are specified as follows:

	30.6.2007	31.12.2006
Derivatives	1,583	0
Receivables due from related parties	0	2,391
Other receivables and prepayments	1,416	1,523
Current maturities of non-current receivables	24	43
	<u>3,023</u>	<u>3,957</u>

12. Capital and reserves

Share capital

In millions of shares

On issue at 1 January	2,200
Issued new shares	522
Own shares purchased	(1)
On issue at 30 June	<u>2,721</u>

At 30 June 2007, the authorised share capital comprised 2,724 million shares according to the Company's Articles of Association. The Company holds own shares amounting to a nominal value of ISK 3 million. One vote is attached to each ISK one share in the Company. At a shareholders' meeting on 12 July 2007 the Board of Directors was authorised to increase the share capital of the Company by issuing new shares of up to ISK 4,000 million at a nominal value to meet the payments to those shareholders of Keops A/S that agree to the Company's takeover offer and choose to receive payment for their shares in shares in Fasteignafélagid Stodir hf. At the same meeting it was agreed to authorise the Board of Directors to issue new shares of up to ISK 250 million at a nominal value in relation to acquisitions and to fulfil intended share option agreements with employees.

Notes, cont.:

13. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings.

<i>Non-current loans and borrowings</i>	30/06/2007	31/12/2006
Secured bank loans	70,297	78,690
Bonds	20,922	19,856
Interest-bearing loans total	<u>91,219</u>	<u>98,546</u>

Current loans and borrowing

Current portion of non-current loans and borrowings	7,321	6,315
Bank loans	23,120	13,040
Interest-bearing loans total	<u>30,441</u>	<u>19,355</u>
Subordinated loan	2,021	2,303
	<u>32,462</u>	<u>21,658</u>

Subordinated loan

The Company has issued bonds which are subordinated liabilities. The bonds have the property of equity in being subordinate to other liabilities of the Company.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Effective interest rate	Year of maturity	Carrying amount 30.6.2007	Carrying amount 31.12.2006
Indexed debt in ISK	7.85%	2029	31,794	36,539
Debt in DKK	4.00%	2015	46,227	52,682
Debt in EUR	5.15%	2011	15,016	14,567
Debt in USD	6.79%	2021	2,504	592
Debt in GBP	6.57%	2021	491	388
Debt in JPY	2.70%	2021	1,015	66
Debt in CHF	4.45%	2021	1,491	24
Other currency	5.15%	2009	2	3
Non-current loans and borrowings incl. next year's repayments			<u>98,540</u>	<u>104,861</u>
Current portion of non-current loans and borrowings			<u>(7,321)</u>	<u>(6,315)</u>
Total interest-bearing loans and borrowings			<u>91,219</u>	<u>98,546</u>

Notes, cont.:

14. Fair value of deferred income-tax liability	30/06/2007
Deferred income-tax liability, nominal value according to the financial statement	9,803
Deferred income-tax liability, fair value	961
Hidden reserves	<u>8,842</u>

The deferred income-tax liability, stated in nominal value in the Consolidated financial statements, is providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The nominal value is conceived to be a temporary difference, but if no properties are sold, no income-tax will be paid, unless taxable depreciations are depleted and the temporary difference starts to reverse.

15. Trade and other payables

Trade and other payables are specified as follows:	30/06/2007	31/12/2006
Trade payables	340	375
Derivatives	0	269
Other payables	2,418	2,933
	<u>2,758</u>	<u>3,577</u>

16. Group entities

Subsidiaries are specified as follows:

	Ownership	
Atlas Ejendomme II A/S, Denmark	100%	100%
Áthagar ehf., Reykjavík	100%	100%
FS6 ehf., Reykjavík	100%	100%
Landsafl hf., Reykjavík	100%	-
Langastétt ehf., Reykjavík	100%	100%
Líf fasteignir ehf., Reykjavík	100%	100%
S Fasteignir ehf., Reykjavík	-	100%
Stodir Properties Holding A/S, (Atlas Ejendomme A/S), Denmark	100%	100%

In February 2007, the Company acquired all outstanding shares in Landsafl hf. from Landsbanki Islands hf. The acquisition is treated as acquisition of assets portfolio in the interim financial statement.

17. Subsequent events

Fasteignafélagid Stodir hf. submitted on 29 June 2007 a conditional voluntary offer to all shareholders in the Danish company Keops A/S. According to the takeover offer, the shareholders of Keops A/S are offered to sell their shares in the company at a value of DKK 24.00 per share and receive payment in cash or shares in Fasteignafélagid Stodir hf. at a value of ISK 14.00 per share. The offer period expires on 31 August 2007.