

Landsafl ehf.
Financial Statements
2007

Landsafl ehf.
Kringlan 4-12
103 Reykjavík

Reg. no. 670492-2069

Contents

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

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

The Company is a real estate company, its main operations are investment and leasing of assets in Iceland.

The Company's annual financial statements have been prepared according to the International Financial Reporting Standards as adopted by EU. The financial statements have previously been prepared in accordance with the Icelandic Financial Statements Act and generally accepted accounting standards in Iceland. The transition to IFRSs has not affected the reported financial position, financial performance and cash flow of the company.

Landic Property is the owner of all outstanding shares in the Company and the financial statements are part of that company's consolidated financial statements.

According to the income statement, net profit for the year amounted to ISK 4,130 million. The Company's equity amounted to ISK 8,203 million at year-end according to the balance sheet, including share capital amounting to ISK 870 million. At year-end 2007 all the shares are owned by Landic Property hf.

The Company's board of directors does not propose a dividend payment to stockholders in 2007. Allocation of profit and other changes in stockholders' equity are further explained in the notes to the financial statements.

The Board of Directors and the Managing Director of Landsafl ehf. hereby confirm the Company's financial statements for the year 2007, by means of their signatures.

Reykjavík, 31 March 2008

Board of Directors:

Skarphéðinn Berg Steinarsson

Managing Director:

Örn V. Kjartansson

Independent Auditor's Report

To the shareholder of Landsafl ehf.

We have audited the accompanying financial statements of Landsafl ehf., which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement 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 misstatement, 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 judgment, 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 policies 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 Landsafl ehf. as at 31 December 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 EU.

Reykjavík, 31 March 2008.

KPMG hf.

Sigríður Helga Sveinsdóttir

Income Statement for the Year 2007

	Note	2007	2006
Operating revenue and expenses:			
Revenue		1.184.303	1.175.967
Operating expenses of investment properties	7	(270.566)	(234.302)
Value adjustment of investment properties		5.511.099	(843.351)
Realised profits on sale of investment properties, net		11.430	0
Other operating expenses	8	(424.567)	(81.172)
Operating profit		6.011.699	17.142
Financial income	9	18.933	201.577
Financial expenses	10	(988.813)	(1.114.886)
Profit (loss) before tax		5.041.819	(896.167)
Income tax	11	(911.725)	170.429
Profit (loss) for the year		<u>4.130.094</u>	<u>(725.738)</u>
Earnings per share			
Basic and diluted earnings per share of ISK 1	19	4,75	(0,83)

The notes on pages 10 to 24 are an integral part of these financial statements

Balance Sheet as at 31 December 2007

	Note	2007	2006
Assets:			
Investment properties	12	22.742.350	14.211.843
Properties under construction	13	0	557.268
Equipment for own use	14	2.272	6.285
		<u>22.744.622</u>	<u>14.775.396</u>
Other securities and investments	15	0	2.411.330
		<u>22.744.622</u>	<u>17.186.726</u>
Total non-current assets			
		<u>22.744.622</u>	<u>17.186.726</u>
Trade and other receivables	16	555.267	60.265
Cash and cash equivalents	17	234.703	79.972
		<u>789.970</u>	<u>140.237</u>
Total current assets			
		<u>789.970</u>	<u>140.237</u>
Total assets			
		<u><u>23.534.592</u></u>	<u><u>17.326.963</u></u>
Equity:			
Share capital		870.000	870.000
Share premium		140.557	233.850
Statutory reserve		0	151.179
Investment properties value adjustment reserve		7.192.072	2.841.983
Retained earnings		0	(24.477)
	18	<u>8.202.629</u>	<u>4.072.535</u>
Total equity			
		<u>8.202.629</u>	<u>4.072.535</u>
Liabilities:			
Loans and borrowings	20	1.557.703	7.664.182
Deferred income-tax liability	21	1.683.993	772.268
		<u>3.241.696</u>	<u>8.436.450</u>
Total non-current liabilities			
		<u>3.241.696</u>	<u>8.436.450</u>
Loans and borrowings	20	9.151.077	2.168.270
Payable to parent company	23	2.860.405	0
Trade and other payables	22	78.785	2.649.708
		<u>12.090.267</u>	<u>4.817.978</u>
Total current liabilities			
		<u>12.090.267</u>	<u>4.817.978</u>
Total liabilities			
		<u>15.331.963</u>	<u>13.254.428</u>
Total equity and liabilities			
		<u><u>23.534.592</u></u>	<u><u>17.326.963</u></u>

The notes on pages 10 to 24 are an integral part of these financial statements

Statement of Changes in Equity for the year 2007

	Share capital	Share premium	Statutory reserve	Investment properties value adjustment reserve	Retained earnings	Total equity
1 January to 31 December 2006						
Balance 1 January 2006	870.000	233.850	151.179	3.543.074	169	4.798.272
Changes during the year, net of income tax				(9.543)	9.543	0
Profit for the year				(691.548)	(34.189)	(725.737)
Balance 31 December 2006	<u>870.000</u>	<u>233.850</u>	<u>151.179</u>	<u>2.841.983</u>	<u>(24.477)</u>	<u>4.072.535</u>
1 January to 31 December 2007						
Balance at 1 January 2007	870.000	233.850	151.179	2.841.983	(24.477)	4.072.535
Changes during the year, net of income tax				(169.013)	169.013	0
Profit for the year				4.519.102	(389.008)	4.130.094
Transferred to retained earnings		(93.293)	(151.179)		244.472	0
Balance 31 December 2007	<u>870.000</u>	<u>140.557</u>	<u>0</u>	<u>7.192.072</u>	<u>0</u>	<u>8.202.629</u>

The notes on pages 10 to 24 are an integral part of these financial statements

Statement of Cash Flows for the Year 2007

	Note	2007	2006
Cash flows from operating activities:			
Profit (loss) for the year		4.130.094	(725.738)
Adjustments	23	(3.639.114)	1.587.406
		490.980	861.668
Working capital changes	24	(63.474)	(41.208)
Working capital from operations		427.506	820.460
Interest income received		18.793	41.704
Interest expenses paid		(845.128)	(564.559)
Net cash (used in) provided by operating activities		(398.829)	297.605
Cash flows to investing activities:			
Acquisition of investment properties	12	(2.253.965)	(1.899.695)
Sale of investment properties		0	89.752
Acquisition of property and equipment		(2.424)	0
Sale of property and equipment		4.627	24.140
Investment in financial assets, net		0	(1.716.252)
Other receivables, change		(500.902)	(18.517)
Net cash used in investing activities		(2.752.664)	(3.520.572)
Cash flows from financing activities:			
Short-term borrowing, change		5.808.904	1.777.070
Proceeds from borrowings		0	928.910
Repayment of borrowings		(4.787.956)	(1.412.904)
Payable to parent company, change		2.285.276	0
Other payables, change		0	1.975.330
Net cash provided by financing activities		3.306.224	3.268.406
Increase in cash and cash equivalents		154.731	45.439
Cash and cash equivalents at 1 January		79.972	34.533
Cash and cash equivalents at 31 December		234.703	79.972
Investing transactions without cash flow effect:			
Sale of other securities and investments	15	2.411.330	0
Additions in investment properties	12	(2.513.409)	0
Sale of investment properties	12	2.314.238	0
Financing transactions without cash flow effect:			
Non-current interest-bearing loans and borrowings		(4.725.568)	0
Payable to parent company		2.513.409	0

The notes on pages 10 to 24 are an integral part of these financial statements

Notes to the Financial Statements

	page		page
1. Reporting entity	10	14. Property and equipment for own use	19
2. Basis of preparation	10	15. Other securities and investments	20
3. Significant accounting policies	11	16. Trade and other receivables	20
4. Critical accounting judgements and key sources of estimation uncertainty	14	17. Cash and cash equivalents	21
5. Financial risk management	15	18. Capital and reserves	21
6. Segment reporting	17	19. Earnings per share	21
7. Operating expenses of investment properties	17	20. Loans and borrowings	21
8. Other operating expenses	17	21. Deferred income tax liability	22
9. Financial income	18	22. Trade and other payables	23
10. Financial expenses	18	23. Adjustment of cash flows from profit for the year	23
11. Income tax expense	18	24. Working capital changes	23
12. Investment properties	19	25. Related parties	23
13. Properties under construction	19		

Notes to the Financial Statements

1. Reporting entity

Landsafl ehf. ("the Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Kringlan 4-12, Reykjavík, Iceland. The company is a wholly owned subsidiary of Landic Property hf. The company's main operations are leasing out of investment property under operation leases.

2. Basis of preparation

a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The transition to IFRSs has not affected the reported financial position, financial performance and cash flow of the company.

The financial statements were approved by the Board of Directors on 31 March 2008.

b. Basic of measurement

The financial statement have been prepared on historical cost basis except for following:

Investment property are measured at fair value. The methods used to measure fair value are discussed further in applicable notes.

c. Standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007 and have not been applied in preparing these financial statements:

IFRS 8 Operating Segments (the standard becomes mandatory for the Company's 2009 financial statements);

IAS 1 Presentation of Financial Statements (revised in 2007) (if endorsed by the EU, the standard becomes mandatory for the Company's 2009 financial statements);

IAS 23 Borrowing Costs (revised in 2007) (if endorsed by the EU, the standard becomes mandatory for the Company's 2009 financial statements);

IFRS 3 Business Combinations (revised in 2008) and amended *IAS 27* Consolidated and Separate Financial Statements (if endorsed by the EU, the standards become mandatory for the Company's 2010 financial statements);

The amendment to *IFRS 2* Share Based Payment - Vesting Conditions and Cancellations (if endorsed by the EU, the amendment becomes mandatory for the Company's 2009 financial statements);

The amendments to *IAS 32* Financial Instruments: Presentation and *IAS 1* Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (if endorsed by the EU, the amendment becomes mandatory for the Company's 2009 financial statements);

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (the interpretation becomes mandatory for the Company's 2008 financial statements);

IFRIC 12 Service Concession Arrangements (if endorsed by the EU, the interpretation becomes mandatory for the Company's 2008 financial statements);

Notes, cont.:

2.c Cont.:

IFRIC 13 Customer Loyalty Programmes (if endorsed by the EU, the interpretation becomes mandatory for the Company's 2009 financial statements);

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (if endorsed by the EU, the interpretation becomes mandatory for the Company's 2008 financial statements);

The Company plans to apply these standards, amendments to standards and interpretations as they become mandatory and it has not yet determined the potential effect of their initial application on the Company's financial statements.

d. **Changes in presentation**

Compared to prior years, the presentation of certain items in the income statement has been changed. Value adjustments of investment properties and realised profits on sale of investment properties are now included in operating profit.

3. **Significant accounting policies**

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

3.1 **Functional and presentation currency**

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

3.2 **Investment properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

On initial recognition, investment properties are measured at cost, which comprises the properties' acquisition price and any directly attributable costs. Investment properties are subsequently measured by property or by property portfolio at fair value. Fair value is determined by using a discounted cash flow model, by which future cash flows from the ownership of investment properties are discounted by using discount rates which are determined for each property or for portfolios of properties with identical characteristics. Discount rates regarding investment properties are based on risk free interest rate and a risk premium measured by using a risk rating obtained from independent credit institute.

It is the Company's accounting policy to obtain the above mentioned risk free interest rate and risk rating once a year in connection with the year-end reporting.

Gains and losses arising from changes in fair value of investment properties are recognised in the income statement in the line item "Value adjustments".

Subsequent expenditure is added to the carrying amount of investment property only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement when they are incurred.

3.3 **Equipment for own use**

Equipment for own use are recorded at cost, less accumulated depreciation and accumulated impairment losses.

Notes, cont.:

3.3 Cont.:

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

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

Equipment	4 years
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Residual values are reassessed at the reporting date unless the amount is immaterial.

Gains and losses arising from the sale of equipment are measured as the difference between the net disposal proceeds and the carrying amount at the time of sale.

3.4 *Financial instruments*

(i) *Financial assets*

Financial assets comprise investments in companies, other securities, trade and other receivables, and cash and cash equivalents.

Receivables consists of receivables from tenants and other receivables. Receivables are recognised at fair value less provision for impairment.

Receivables are assessed at each reporting date to determine whether there is any objective evidence of impairment. A provision for impairment is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

(ii) *Financial liabilities*

Financial liabilities comprise debt and other borrowings and trade and other payables.

Financial liabilities are measured at amortised cost and recognised initially at fair value net of transaction costs incurred, and subsequently are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and fees and costs that are an integral part of the effective interest rate.

(iii) *Determination of fair value of financial assets and financial liabilities*

The determination of fair value of financial assets and financial liabilities that are quoted in an active market is based on quoted prices. A market is considered active if quoted prices are readily and regularly available and those prices represent actual or regularly occurring market transactions on an arm's length basis.

For all other financial assets and financial liabilities fair value is determined by using valuation techniques. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments.

Notes, cont.:

3.5 *Tax*

Tax for the year consists of changes in deferred tax and result of changes in the tax rate, is recognised in the income statement by the portion attributable to the profit/loss for the year and classified directly as equity by the portion attributable to entries directly in equity.

Deferred tax is measured by applying the liability method on all temporary differences between the carrying amount and tax-based value of assets and liabilities. Where statement of the tax base can be made according to alternative tax rules, deferred tax is measured on the basis of the planned use of asset/settlement of the liability.

Deferred tax is measured based on the tax regulations and tax rates according to law at the balance sheet date when the deferred tax is estimated.

3.6 *Cash*

Cash comprises cash funds as well as bank deposits.

3.7 *Revenue*

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of the lease. When the Company provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

3.8 *Operating expenses*

Operating expenses comprise costs incurred to earn revenue, including salaries to e.g. caretakers, operating expenses for investment properties and cost of properties sold.

3.9 *Value adjustments*

Changes in the fair value of investments properties are recognised in the income statement item "Value adjustments".

3.10 *Realised profits/loss on sale of investment properties*

Realised Profits/losses on sale of investment properties, which are calculated as the difference between the carrying amount and selling price reduced by the selling expenses, are recognised in the income statement in the item "Realised profits/loss on sale of investment properties".

3.11 *Financial income and expenses*

Financial income and expenses include interest income and expenses, gains and losses from sales of securities, foreign exchange gains and losses, borrowing costs of debt designated as at the fair value through profit or loss, and inflation indexation on borrowings.

Interest income and expenses from financial assets and financial liabilities which are measured at amortised cost are recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of financial assets and financial liabilities and of allocating interest income and expenses over the relevant periods.

3.12 *Cash flow statement*

The cash flow statement shows the cash flows for the year by operating, investing and financing activities, the year's changes in cash and cash equivalents as well as the Company's cash at the beginning and the end of the year.

Notes, cont.:

3.12 Cont.:

The cash flow statement is calculated according to the indirect method based on profit for the year.

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and sale of property, plant and equipment as well as fixed asset investments.

Cash flow from financing activities comprise proceeds and instalments on loans.

3.13 *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 or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is the same as basic earnings per share since the Company has not issued convertible notes or granted share options to employees or others.

4. **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) ***Critical judgements in applying accounting policies***

The following are the critical judgements, apart from those involving estimations (see below), that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Financial asset and liability classification

The Company's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. In designating financial assets or liabilities at fair value through profit or loss, management has determined that it has met the criteria for this designation.

(ii) ***Key sources of estimation uncertainty***

As a part of the application of the Company's accounting policies, management makes assessments, apart from estimates, which may have considerable influence on the amounts recognised in the financial statements.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes, cont.:

4 (ii) Cont.:

Fair value adjustment of investment properties

Investment properties are measured by the end of the period at fair value, and the value adjustments are taken to the income statement. Measurement to fair value is made on the basis of a discounted cash flow model. The model includes several elements based on Management's estimates of the current market terms, including operating and cash flow budgets for the properties.

The return requirement is estimated by management since no independent broker or valuation firm is able to provide a reliable discounted factor.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

5. Financial risk management

The company has exposure to the following risks from its use of financial instruments:

- * credit risk
- * liquidity risk
- * currency risk
- * interest rate 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 disclosure are included throughout these financial statements.

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 managements policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

5.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the company. The company's management looks to minimize this risk factor by only entering agreements with solid and well known institutions in addition to closely monitoring the credit risk on an ongoing basis.

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

	2007	2006
Cash and cash equivalents	234.703	79.972
Trade and other receivables	555.267	60.265
Maximum exposure to credit risk	<u>789.970</u>	<u>140.237</u>

Notes, cont.:

5.2 *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, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company guideline is to raise longer-term loans to reduce the risk. Going forward, the aim is to create a smooth maturity profile in order to minimize the exposure to refinancing conditions at any given point in time.

Furthermore, in order to reduce refinancing risk, the company funding is mainly based on bank loans with reputable banks. Secondly, the company has issued bonds on OMX Nordic Exchange Iceland. Bank loans and mortgage debt account for 92% and bonds for 8%.

The breakdown by contractual maturity of financial liabilities

2007	0-12 months	1-5 years	Over 5 years	Total
Liabilities				
Loans and borrowing	9.151.077	293.397	1.264.306	10.708.780
Payable to parent company	2.860.405			2.860.405
Trade and other payables	78.785			78.785
Total financial liabilities	12.090.267	293.397	1.264.306	13.647.970
2006	0-12 months	1-5 years	Over 5 years	Total
Liabilities				
Loans and borrowing	2.168.270	915.405	6.748.777	9.832.452
Payable to parent company	0			0
Trade and other payables	2.649.708			2.649.708
Total financial liabilities	4.817.978	915.405	6.748.777	12.482.160

5.3 *Currency risk*

Currency risk is the result of adverse movements in foreign exchange rates. The company is exposed to currency risk on borrowings that are denominated in a currency other than the company's respective functional currency.

The company's total net currency balance is monitored as associated risk is managed on a group basis with parent company.

The breakdown of financial assets and financial liabilities by foreign currency. (All assets and liabilities at 31.12.2006 were in Icelandic krona.)

2007	Assets	Liabilities	Net
EUR	0	6.092.875	6.092.875
CHF	0	1.508.427	1.508.427
JPY	0	1.269.731	1.269.731
USD	0	166.611	166.611
Total	0	9.037.644	9.037.644

Notes, cont.:

5.3 Cont.:

A 10% weakening of the Icelandic krona against above currencies at 31 December 2007 would have increased post-tax loss by ISK 741 million. A 10% strengthening of the Icelandic kronas against the above currencies at 31 December would have increased post-tax profit by ISK 741 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

5.4 *Interest rate risk*

Most of the company's financial assets are non-interest bearing. As a result, the company is subject to limited exposure to fair value interest rate risk due to prevailing levels of market interest rates when it comes to assets. The company is however exposed to interest risk from interest bearing liabilities and that risk is mitigated by active risk

A change of 1% in interest rates at the reporting date would have changed post-tax profit by ISK 88 million (2006: ISK 81 million). This analysis assumes that all other variables, in particular foreign currency rate, remains constant.

6. Segment reporting

The company does not present business nor geographical segments as its' investments is only in investments properties in Iceland.

7. Operating expenses of investment properties

Operating expenses of investment properties are specified as follows:

	2007	2006
Property tax	200.286	131.200
Insurance	13.749	8.086
Maintenance and other expenses	56.531	95.016
Total operating expenses of investment properties	<u>270.566</u>	<u>234.302</u>

8. Other operating expenses

Other operating expenses are specified as follows:

Salaries and salary-related expenses	32.785	77.098
Consultants	376.898	0
Administrative expenses	14.884	4.074
Total other operating expenses	<u>424.567</u>	<u>81.172</u>

Salaries and salary-related expenses are specified as follows:

Salaries	25.228	53.759
Pension cost	5.534	19.011
Salary-related expenses	1.673	3.882
Other employee cost	350	446
Total salaries and salary-related expenses	<u>32.785</u>	<u>77.098</u>

Notes, cont.:

	2007	2006
8. Cont.:		
Positions with the Company at the end of the year	0	5
Average number of employees	2	5

The Company pays contributions, as a part of employees' salaries, into separate entities/pension funds and will have no obligation to pay further contributions if the fund does not hold sufficient assets to pay employees post-employment benefits.

Remuneration and severance settlement to the former CEO amounted to ISK 25 million in the year 2007.

9. Financial income

Interest income	18.933	41.704
Net foreign exchange gain	0	85.625
Net change in financial assets at fair value through the income statement	0	74.248
Total financial income	<u>18.933</u>	<u>201.577</u>

10. Financial expenses

Interest expenses	533.506	539.936
Indexation	117.040	574.950
Net foreign exchange loss	312.826	0
Borrowing costs	25.441	0
Total financial expenses	<u>988.813</u>	<u>1.114.886</u>

11. Income tax expense

Income tax recognised in the income statement

Origination and reversal of temporary differences	(1.002.764)	86.783
Benefit of tax loss recognised	91.039	83.646
	<u>(911.725)</u>	<u>170.429</u>

Reconciliation of effective tax rate:

	2007	2006
Profit (loss) before tax	<u>5.041.819</u>	<u>(896.167)</u>
Income tax using the domestic corporation tax rate	18% 907.527	18% (161.310)
Effect of difference in base at the beginning of the year	0,1% 4.198	0,1% (9.119)
Effective income tax rate	<u>18,1% 911.725</u>	<u>18,1% (170.429)</u>

Notes, cont.:

12. Investment properties

Investment properties are specified as follows:

	2007	2006
Cost before value adjustment at 1 January	10.746.009	9.306.558
Additions during the year	4.767.377	1.485.194
Transferred from properties under construction and for sale	557.268	32.371
Sold and disposed during the year	(2.099.123)	(78.114)
Cost before value adjustment at 31 December	<u>13.971.531</u>	<u>10.746.009</u>
Value adjustment at 1 January	3.465.833	4.320.822
Increase in value adjustment	5.511.099	(843.351)
Value adjustment moved out because of sale	(206.113)	(11.637)
Value adjustment at 31 December	<u>8.770.819</u>	<u>3.465.834</u>
Balance at 31 December	<u>22.742.350</u>	<u>14.211.843</u>

Mortgages and Commitments

The Company's assets have been pledged against debts, the remaining balance of which amounts to ISK 10.709 million (2006: ISK 7.881 million) at the end of 2007.

Official assessment value and insurance value

The insurance value of the Company's buildings at the end of 2007 amounted to ISK 13.561 million (2006: ISK 12.754 million) whereas the carrying value of land and buildings amounted to ISK 22.742 million (2006: ISK 14.212 million). The official assessment value of buildings and land amounted to a total of ISK 12.393 million (2006: ISK 9.714 million).

13. Properties under construction

Balance at 1 January	557.268	175.138
Investment during the year	0	414.501
Transferred to investment properties	(557.268)	(32.371)
Balance at 31 December	<u>0</u>	<u>557.268</u>

14. Property and equipment for own use

<i>Cost or deemed cost</i>	<i>Equipment</i>
Balance at 1 January 2006	27.192
Disposals during the year	(20.158)
Balance at 31 December 2006	<u>7.034</u>

Notes, cont.:

14. Cont.:

	2007
Balance at 1 January 2007	7.034
Additions during the year	2.424
Disposals during the year	(7.034)
Balance at 31 December 2007	<u>2.424</u>
<i>Depreciation and impairment</i>	
Balance at 1 January 2006	1.876
Depreciation for the year	6.798
Disposals during the year	(7.925)
Balance at 31 December 2006	<u>749</u>
Balance at 1 January 2007	749
Depreciation for the year	455
Disposals during the year	(1.052)
Balance at 31 December 2007	<u>152</u>
<i>Carrying amounts</i>	
At 1 January 2006	25.316
At 31 December 2006	<u>6.285</u>
At 31 December 2007	<u>2.272</u>

15. Other securities and investments

Other securities and investments are specified as follows:	2007	2006
Shares in AB Capital	0	1.938.280
Other securities	0	473.050
Other securities and investments total	<u>0</u>	<u>2.411.330</u>

16. Trade and other receivables

Trade and other receivables are specified as follows:

Trade receivables	41.414	45.141
Vat receivable	500.902	0
Other receivables	12.951	15.124
Trade and receivables total	<u>555.267</u>	<u>60.265</u>

Provision for doubtful receivables is specified as follows:

Balance at the beginning of the year	1.500	6.500
Losses during the year	(650)	(5.404)
Provisions made during the year	1.250	404
Balance at the end of the year	<u>2.100</u>	<u>1.500</u>

Notes, cont.:

17. Cash and cash equivalents

Cash and cash equivalents consist of call deposits.

18. Capital and reserves

Share capital

At 31 December 2007, the authorised share capital comprised 870 million shares (2006: 870 million) according to the Company's Articles of Association. One vote is attached to each ISK one share in the Company.

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium

Share premium represents excess of payment above nominal value that shareholders have paid for shares sold by the Company.

Investment properties value adjustment reserve

The investment properties value adjustment reserve comprises the value adjustments of investment properties less deferred tax.

19. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders and a weighted average number of ordinary shares outstanding during the year. Basic earnings per share shows what the profit is per each ISK one share. Diluted EPS is the same as basic earnings per share since the Company has not issued convertible notes or granted share options to employees or others.

	2007	2006
Profit (loss) attributable to shareholders	4.130.094	(725.738)
Weighted average number of ordinary shares at 31 December	870.000	870.000
Basic and diluted earnings per share	4,75	(0,83)

20. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 5.

Non-current loan and borrowings

Secured bank loans	656.031	6.790.167
Bonds	901.672	874.015
Total non-current interest bearing loans	1.557.703	7.664.182

Notes, cont.:

20. Cont.:	2007	2006
Current loans and borrowing		
Current portion of non-current loans and borrowings	66.348	216.617
Bank loans	9.084.729	1.951.653
Total current interest bearing loans	<u>9.151.077</u>	<u>2.168.270</u>

Terms and debt repayment schedule of interest-bearing non-current loans and borrowings

	Effective interest rate	Year of maturity	Carrying amount 2007	Carrying amount 2006
Indexed debt in ISK	5,94%	2029	1.624.051	7.880.799
Current portion of non-current loans and borrowings			(66.348)	(216.617)
Total interest-bearing loans and borrowings			<u>1.557.703</u>	<u>7.664.182</u>

Interest-bearing non-current loans and borrowings are payable as follows:

Repayments in 2007	-	216.617
Repayments in 2008	66.348	222.018
Repayments in 2009	66.743	224.664
Repayments in 2010	70.962	230.898
Repayments in 2011	75.454	237.825
Repayments in 2012	80.238	-
Subsequently	1.264.306	6.748.777
Total interest-bearing loans and borrowings	<u>1.624.051</u>	<u>7.880.799</u>

21. Deferred income tax liability

The Company's deferred income-tax liability according to the Balance Sheet is specified as follows:

Deferred income-tax liability at the beginning of the year	772.268	942.697
Calculated income-tax	911.725	(170.429)
Deferred income-tax liability at the end of the year	<u>1.683.993</u>	<u>772.268</u>

The Company's deferred income tax liability is attributable to the following Balance Sheet items:

Investment properties	1.944.849	941.977
Trade receivable	(378)	(270)
Loss carry-forward	(260.478)	(169.439)
Deferred income-tax liability at the end of the year	<u>1.683.993</u>	<u>772.268</u>

Notes, cont.:

21. Cont.:

Income tax will not be paid in year 2008 due to taxable losses on operations in year 2007. In year 2007, no income tax was paid due to operations in year 2006. Carry forward tax losses at year-end amount to ISK 1.447 million. Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

	2007	2006
Loss for the year 2000, to be used before end of 2010	80.019	80.019
Loss for the year 2003, to be used before end of 2013	109.779	109.779
Loss for the year 2004, to be used before end of 2014	95.460	95.460
Loss for the year 2005, to be used before end of 2015	191.367	191.367
Loss for the year 2006, to be used before end of 2016	464.700	464.700
Loss for the year 2007, to be used before end of 2017	505.775	0
Carry forward loss total	<u>1.447.100</u>	<u>941.325</u>

22. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	23.922	54.011
Other payables	54.862	70.068
Payable due to acquisition of investment properties		2.525.629
Trade and other payables total	<u>78.784</u>	<u>2.649.708</u>

23. Adjustment of cash flows from profit for the year

Depreciation	455	6.798
Net finance cost	969.880	913.309
Value adjustment of investment properties	(5.511.099)	843.351
(Loss) gain on sale of equipment for own use	1.355	(5.623)
Gain on sale of investment properties	(11.430)	0
Income tax and other items	911.725	(170.429)
Total adjustments	<u>(3.639.114)</u>	<u>1.587.406</u>

24. Working capital changes

Change in current assets	8.326	(6.871)
Change in current liabilities	<u>(71.800)</u>	<u>(34.337)</u>
Total adjustments	<u>(63.474)</u>	<u>(41.208)</u>

Notes, cont.:

25. Related parties

Identity of related parties

The Company has a related party relationship with its parent company and its subsidiaries.

Related parties with a significant influence

The Company was not involved in any transactions during the year with members of the Board of Directors, the Managing Director or companies outside the Group in which these parties have interests.

Related party transactions

The income statement and balance sheet include the following transactions with parent company:

	2007	2006
Payable to parent company	2.860.450	0

All outstanding balances with related parties are valued on arm's length basis and are to be settled in cash within one month of the reporting date.