

**Eyrir Invest ehf.**  
**Interim Financial Statements**  
**Six Months Ended June 30, 2006**  
**ISK**

Eyrir Invest ehf.  
Skólavörðustígur 13  
101 Reykjavík

Reg. no. 480600-2150

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# **Endorsement by the Board of Directors and the Managing Director**

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Eyrir Invest ehf.'s aim is to own, buy and sell shares, other securities and all other financial assets. The company started its operation in the year 2000.

According to the Statement of Earnings, net loss for the period amounted to ISK 926 million. According to the Balance Sheet, Stockholders' equity amounted to ISK 8,473 million at end of June 2006.

The Board of Directors of Eyrir Invest ehf. and the Managing Director hereby confirm the Company's Interim Financial Statements for the period from January 1 to June 30, 2006, by means of their signatures.

Reykjavík, August 24, 2006.

Board of Directors:

Managing Director:

# Auditors' Review Report

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To the Shareholders of Eyrir Invest ehf.

We have reviewed the accompanying Balance Sheet of Eyrir Invest ehf. as of June 30, 2006 and the related Statement of Income and Statement of Cash Flows for the period then ended, in accordance with standards established in Iceland. All information in these Interim Financial Statements is the responsibility of the Company's management.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data and ratios. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Interim Financial Statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the Interim Financial Statements in order for them to be in conformity with generally accepted accounting principles in Iceland.

Reykjavík, August 24, 2006.

***KPMG Endurskoðun hf.***

## Statement of Earnings

### Six Months ended June 30, 2006

	Notes	2006 1.1.-30.6.	2005 1.1.-30.6.
<b>Operating revenue:</b>			
Net (loss) gain on investments in shares and shares derivatives .....	5	( 32,817 )	1,960,693
Dividend earned .....		140,263	24,165
Interest earned .....		30,778	29,245
Changes in foreign exchange rates and currency and interest rate derivatives .....	6	( 756,584 )	( 195,148 )
Financial expenses .....		( 487,733 )	( 144,392 )
Net operating revenue		<u>( 1,106,093 )</u>	<u>1,674,563</u>
<b>Operating expenses:</b>			
Salaries and salary related expenses .....		27,128	12,516
Other operating expenses .....		17,087	10,044
Contributions and grants .....		10,300	-
Operating expenses		<u>54,515</u>	<u>22,560</u>
(Loss) profit before income tax .....		( 1,160,608 )	1,652,003
Income tax .....	4,12	<u>234,157</u>	<u>( 293,011 )</u>
<b>Net (loss) earnings</b> .....	11	<u>( 926,451 )</u>	<u>1,358,992</u>

# Balance Sheet

## Assets

	Notes	30.6.2006	31.12.2005
<b>Securities:</b>	2		
Shares in other companies .....	7-10	19,747,685	15,486,620
Derivatives .....		181,661	10,890
Mutual funds .....		49,493	121,343
Bonds .....		890,460	26,262
		20,869,299	15,645,115
 <b>Receivables:</b>			
Sundry receivables .....		101,271	85,742
 <b>Other assets:</b>			
Fixed assets .....	3	154,075	157,191
Cash and cash equivalents .....		737,489	1,681,290
		891,564	1,838,481
<b>Total assets</b>		21,862,134	17,569,338

# June 30, 2006

## Stockholders' Equity and Liabilities

	Notes	30.6.2006	31.12.2005
<b>Stockholders' equity:</b>			
Capital stock .....		482,005	482,005
Contributed capital in excess of par .....		2,812,423	2,812,423
Currency translation reserve .....	(	11,496)	0
Retained earnings .....		5,190,543	6,322,331
Stockholders' equity	11	8,473,475	9,616,759
<b>Deferred income tax liability</b> .....	4,12	1,117,731	1,354,411
<b>Liabilities:</b>			
Borrowings .....	13	12,232,164	6,526,664
Taxes for the period .....		0	7,333
Other liabilities .....		38,764	64,171
		12,270,928	6,598,168
Total liabilities		13,388,659	7,952,579
<b>Total stockholders' equity and liabilities</b>		21,862,134	17,569,338

# Statement of Cash Flows

## Six Months ended June 30, 2006

	Notes	2006 1.1.-30.6.	2005 1.1.-30.6.
<b>Cash flows from operating activities:</b>			
Net (loss) earnings for the period.....	11 (	926,451 )	1,358,992
Difference between net (loss) earnings and cash flows from operations:			
Net gain on the sale of shares in other companies .....	(	1,269,021 ) (	2,014,685 )
Unrealized loss on shares .....		903,407	144,879
Depreciation .....		3,557	1,165
Income tax .....	(	234,157 )	293,011
Working capital used in operating activities	(	1,522,665 ) (	216,638 )
Change in assets and liabilities .....	(	48,269 ) (	29,054 )
Net cash used in operating activities	(	1,570,934 ) (	245,692 )
<b>Cash flows from investing activities:</b>			
Investments in shares .....	(	11,890,091 ) (	6,174,670 )
Proceeds from the sale of shares .....		8,120,368	5,947,650
Other securities, change .....	(	1,102,866 )	672,533
Investments in fixed assets .....	(	441 ) (	128,290 )
Net cash (used in) provided by investing activities	(	4,873,030 )	317,223
<b>Cash flows from financing activities:</b>			
Paid-in capital stock .....		0	720,000
Dividends paid .....	(	205,337 ) (	100,000 )
Borrowings, change .....		5,705,500	321,054
Net cash provided by financing activities		5,500,163	941,054
<b>(Decrease) increase in cash and cash equivalents .....</b>	(	943,801 )	1,012,585
<b>Cash and cash equivalents at beginning of the year .....</b>		1,681,290	134,710
<b>Cash and cash equivalents at the end of the period .....</b>		<u>737,489</u>	<u>1,147,295</u>

# Notes to the Financial Statements

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## Summary of accounting policies

1. The Interim Financial Statements of Eyrir Invest ehf. are prepared in accordance with the same accounting principles as the Company's 2005 Financial Statements. In the presentation of the Statement of Earnings and the Balance Sheet the Company's activity is taken into consideration.

2. Shares in other companies that are listed on stock exchanges are capitalized at their market value at the end of the period. Unlisted shares are capitalized at their cost value.

The market value of shares in other companies as a whole exceeds their cost price. The difference has been posted as retained earnings among stockholders' equity and the change over the period is presented as part of net gains or loss on investments in shares and shares derivatives in the Statement of Earnings.

Shares in mutual funds are capitalized at their market value at the end of June 2006.

Unlisted bonds are capitalized in accordance with required rate of return at the time of purchase. Bonds in foreign currencies are converted to Icelandic krónas at the period-end exchange rates.

The Company has entered into swaps on shares and bonds. Assets according to individual contracts are posted among securities and net liabilities are recorded as borrowings. Contracts on shares and bonds are presented on net basis. No swaps on shares and bonds were open at the end of June 2006.

3. Real estates and other fixed assets are capitalized at cost value, less depreciation. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the assets until scrap value is reached. Estimated useful life of the real estates is 50 years and three to five years for other fixed assets.

4. The Company's deferred income-tax liability is calculated and included in the Balance Sheet. The calculation is based on the temporary difference on shares and other items in the Balance Sheet as presented in the tax return on the one hand, and in the Financial Statements on the other. The reason for this difference is that the tax assessment is based on premises other than those used in the Financial Statements, mostly due to temporary difference because of deferred taxable income of investment securities.

5. Net (loss) gains on investments in shares and shares derivatives are specified as follows:

	2006	2005
Gain of sale of shares .....	1,269,021	2,014,686
Unrealized loss of securities owned by the Company .....	( 903,646 )	( 144,879 )
(Loss) income from derivatives.....	( 398,192 )	90,886
Net gains on investments in shares and shares derivatives total .....	( 32,817 )	1,960,693

6. Changes in currency exchange rates and currency and interest rate derivatives are specified as follows:

Currency exchange (loss) gain .....	( 725,484 )	83,376
Currency and interest rate derivatives .....	( 31,100 )	( 278,524 )
Changes in currency exchange rates and currency and interest rate derivatives total .....	( 756,584 )	( 195,148 )

## Notes, contd.:

### Shares in other companies

7. Shares in other companies are specified as follows:

Shares listed on Iceland Stock Exchange, see note 8 .....	15,441,093
Listed foreign shares, see note 9 .....	4,225,694
Unlisted foreign shares .....	80,898
Shares in other companies total .....	<u>19,747,685</u>

The Company has also entered into forward contracts regarding purchase of shares, which are presented on net basis. At end of June 2006 no such contracts were open.

8. Shares listed on Iceland Stock Exchange are specified as follows:

	Nominal value / thous. shares*	Book value
Össur hf., Iceland .....	56,185	6,096,125
Marel hf., Iceland .....	70,408	4,970,796
Landsbanki Íslands hf., Iceland .....	164,248	3,317,809
Shares in two other companies .....		<u>1,056,363</u>
Shares in listed Icelandic companies total .....		<u>15,441,093</u>

9. Shares in listed foreign companies are specified as follows:

William Demant Holding AS, Denmark .....	321*	1,831,162
Foreningssparbanken AB (Swedbank), Sweden .....	665*	1,327,862
Shares in two other companies .....		<u>1,066,670</u>
Shares in listed foreign companies total .....		<u>4,225,694</u>

10. The Company owns 40% of shares in LME eignarhaldsfélag ehf., which was founded during the period to hold shares in Dutch subsidiary, which owns listed shares in other company. These companies made loss during the period. The Company's share in the loss is included in the item Net (loss) gain on investments in shares and shares derivatives and deducted from shares in other companies and bonds in the Balance Sheet.

### Stockholders' equity

11. Changes in stockholders' equity are as follows:

	Capital stock	Contributed capital in excess of par	Currency translation reserve	Retained earnings	Total
Stockholders' equity					
1.1.2006 .....	482,005	2,812,423		6,322,331	9,616,759
Dividends paid .....			( 11,496 )	( 205,337 )	( 216,833 )
Translation difference .....			( 11,496 )		( 11,496 )
Net loss .....				( 926,451 )	( 926,451 )
Stockholders' equity					
30.6.2006 .....	<u>482,005</u>	<u>2,812,423</u>	<u>( 11,496 )</u>	<u>5,190,543</u>	<u>8,473,475</u>

## Notes, contd.:

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### Deferred income tax liability

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

Deferred income tax liability at the beginning of the year .....	1,354,411
Income tax for the period .....	( 234,157 )
Income tax transferred to stockholders' equity .....	( 2,523 )
Deferred income tax liability at the end of June 2006 .....	<u>1,117,731</u>

### Borrowings

13. Borrowings are mostly denominated in foreign currencies with variable interest rates. The Company's foreign currency liabilities at end of June 2006 were higher than foreign currency assets by ISK 6,987 million. Borrowings include bond offer, with unsecured bonds. The bonds however included a clause that the Company's equity should be at least 25%.

#### Debt in foreign currency:

Loans in ISK .....	4,958,729
Loans in EUR .....	3,740,936
Loans in USD .....	1,597,977
Loans in GBP .....	1,053,888
Loans in CHF .....	273,269
Loans in NOK .....	226,820
Loans in JPY .....	216,807
Loans in SEK .....	101,591
Loans in DKK .....	62,147
Borrowings total .....	<u>12,232,164</u>

#### Aggregated annual maturities are as follows:

2006 .....	426,786
2007 .....	2,065,088
2008 .....	393,388
2009 .....	5,402,605
2010 .....	1,520,826
Subsequent .....	2,423,471
Total .....	<u>12,232,164</u>

#### The Company's borrowings are as follows:

Loans secured by shares .....	8,973,151
Long-term bonds .....	2,773,505
Derivatives .....	485,508
Borrowings total .....	<u>12,232,164</u>