Nýsir hf

Consolidated Financial Statements
for the year ended 31 December 2007

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Nýsir hf, id. no.690191-1219
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Board of Directors' and the CEO Report

General information

Nýsir hf is an international group that fully integrates property investments and facilities management into a core business concept. The Group adds value by providing various services such as health, education, sports and leisure. About 2/3 of the Group's income is in the UK and 1/4 in Iceland. In addition the Group operates business in Denmark, Ireland, Malta and the United Arab Emirates. In addition the Group has invested in fishing vessels that are leased to a fishing operation in Morocco.

The Group

These consolidated financial statements are the consolidated financial statements for Nýsir hf and its subsidiaries. The subsidiaries of the Group are further discussed in notes to the financial statements.

International Financial Reporting Standards

These consolidated financial statements are the first annual financial statements presented under International Financial Reporting Standards (IFRS) as adopted by the EU. The net effect of the adoption of the IFRS on the Group's equity at the beginning of the year 2007 is a decrease in the recorded equity of ISK 2 million, or from ISK 6.272 million to ISK 6.270 million. In addition, the presentation of various asset and liability items are changed. These changes are further detailed in the notes to the financial statements.

Operation during the year

It is the opinion of the Company's Board of Directors' that all necessary information required to obtain a clear overview of the Group financial position at year end, its operating result for the year and the financial development during the year, are included in the financial statements.

Ownership

At year-end the Company was owned by 3 shareholders. One of the shareholders is Sneis ehf., is holding a 99.9% interest.

Dividends

The board of directors proposes that no dividend payments will be made for 2007.

Project development

The Group acquired a few new projects and developed further projects already acquired. Of the new projects the Aberdeen 3R's project involving 10 schools and 1 sports centre is by far the largest. It invovles GBP 131-132 million capital expenditure and a 30 years PPP contract. The East Harbour Project, signed in 2006, progressed successfully. It involves a concert and conference hall, hotel, car parking and 3 commercial buildings. Once complete the project will transform the city centre of Reykjavik. Mörkin senior citizen accommodation project was further develop and will be complete in 2008 and 2009. An extension of the Reykjavík Arena, Egilshöllin, was carried out, to be complete in 2008.

Finances

The turnover of the Group grew from nearly 4 billion ISK in 2006 to over 9 billion ISK in 2007. This was mainly due to the acquisition of 69% of the shares in the facilities management company Operon in September 2006. The origin of the Group's income in 2007 became much more internationally based with 3/4 coming from abroad. Nearly 2/3 of the Group's income was from operations, largely facilities management contracts, and only 1/3 from lease of investment properties, either PPP/PFI projects or commercial buildings.

Board of Directors' and the CEO Report, cont.

Financial position

The Board refer to note 30 about the financial position and restructing programme.

Statement of the Board of Directors

The Board of Directors declares that to the best of the Directors knowledge, the consolidated financial statements, which have been prepared in accordance with the IFRS as adopted by the EU and in accordance with the Annual Accounts Act no 3/2006, give a true and fair view of the assets, liabilities, financial position of the Group for the year 2007

Directors are of the opinion that the consolidated financial statements and this Board of Director´s Report give a fair review of the development and performance of the business and the position of the Group in 2007 and describe the principal risks and uncertainties that the Group may face.

Hafnarfjörður 2. April 2008.

Board of Director´s:

Stefán Þórarinsson

Sigfús Jónsson

Guðbjörg H. Gylfadóttir

CEO:

Höskuldur Ásgeirsson

Independent auditor's report

To the Shareholders and Board of Directors of the Nýsir hf

We have audited the accompanying consolidated financial statements of Nýsir hf. and it´s subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (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 consolidated financial statements based on our audit. Except as discussed below, 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.

Basis for Qualified Opinion

The Group operates five fishing vessels which are leased through a leasing agreement dated 31.12.2006 to a related party, Sæblóm hf, the lessee. The book value of the vessels at December 31, 2007 is ISK 3.575 million as reflected in note 11 to the financial statements. The criteria for the valuation of those vessels is that the lessee will be able in the foreseeable future to honor the leasing agreement. Among accounts receivable is a short term loan granted by the Group to Sæblóm hf. in the amount of ISK 470 million. We have not received satisfactory information regarding Sæblóm hf. and therefore we were not able to confirm whether Sæblóm hf. will be able to meet the provisions of the leasing agreement and the terms of payment of the short term loan.

Opinion

In our opinion, except for the possible effects of the matter described in the preceding paragraph, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 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 the EU.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to Note 30 in the financial statements which discusses the Board of Directors plan in refinancing of the Group. As stated in the Note 30, should the plan not fully materialize, for whatever reasons, a material uncertainty may arise which could cast significant doubt about the Group's ability to carry on as a going concern.

Reykjavík, 2 April 2008.

PricewaterhouseCoopers hf

Vignir Rafn Gíslason

Sighvatur Halldórsson

Consolidated Balance Sheet as of 31 December 2007

Assets	Notes	31.12. 2007	31.12. 2006
Non-current assets			
Investment properties	10	27.110.845	25.401.129
Buildings under construction	11	5.741.699	4.070.366
Other properties and equipment	11	4.918.457	3.002.399
Intangible assets	9	3.509.324	3.967.058
Investments in associates	12	3.067.969	2.568.125
Investments in other companies		3.468	3.044
Long-term receivables	13,15	4.289.985	1.742.572
Subordinated loan to associated company	27	76.327	35.423
		48.718.073	40.790.115
Current assets			
Trade and other receivables	14,15	2.790.767	2.180.317
Inventories		184.854	164.909
Receivables from associates and other related parties	27	597.125	114.868
Cash and cash equivalents	16	1.183.101	1.289.446
		4.755.848	3.749.540
Total assets		53.473.920	44.539.655

Equity

Shareholder's equity			
Share capital		90.000	90.000
Legal reserve		29.833	29.833
Revaluation reserve		2.564.220	2.666.780
Translation difference		(124.335)	7.495
Fair value reserve of investment properties		2.973.092	3.170.877
Retained earnings		(2.786.836)	(696.795)
		2.745.973	5.268.190
Minority interest		1.001.399	1.002.014
Total equity		3.747.373	6.270.204

Liabilities

Subordinated loans and obligations			
Subordinated loans	18	136.527	10.451
Deferred income tax liability	17	2.544.077	3.133.851
Borrowings	19	29.811.389	18.751.449
Deferred revenue and other obligations	28	212.224	102.358
		32.704.217	21.998.109
Current liabilities			
Borrowings	19	13.535.786	13.337.400
Trade and other payables		3.133.723	2.867.339
Borrowings related parties	27	109.273	0
Current portion of deferred revenue		54.375	52.946
Taxes payable	23	189.175	13.657
		17.022.331	16.271.342
Total liabilities		49.726.547	38.269.451
Total equity and liabilities		53.473.920	44.539.655

Nýsir hf. Consolidated Financial Statements 31 December 2007. Amounts in thousands of ISK.

Consolidated Income Statement 1 January - 31 December 2007

	Notes	2007 1/1 - 31/12	2006 1/1 - 31/12
Revenue	7	9.254.028	3.947.166
Change in fair value adjustments of investment properties	10	(186.324)	366.340
Operating cost of investment properties		(276.720)	(243.889)
Wages and related expenses	21	(3.258.762)	(1.073.012)
Depreciation and amortisation	9,11	(349.071)	(104.016)
Other operating costs		(4.589.799)	(1.571.517)
Operating profit		593.353	1.321.072
Financial income (expenses)			
Finance costs - net	22	(3.168.597)	(2.188.676)
Share in (loss) profit of associates	12	(213.166)	323.106
Loss before taxes		(2.788.411)	(544.498)
Calculated income tax	23	445.173	78.395
Net loss for the year		(2.343.238)	(466.103)
Loss allocation:			
Nýsir hf shareholders' share		(2.242.826)	(331.388)
Minority interest		(100.412)	(134.715)
		(2.343.238)	(466.103)
Nýsir hf. shareholders' loss per share:			
Basic and diluted	8	(24,92)	(3,68)
Statement of half-year operation	6		

Nýsir hf. Consolidated Financial Statements 31 December 2007. Amounts in thousands of ISK.

Consolidated Statement of Changes in Equity

	Share capital	Reserves	Revaluation reserve	Translation difference	Fair value reserve of investment property	Retained earnings	Total	Minority interest	Total
Equity 1 January 2005	90.000	30.000			1.303.944	210.923	1.634.867	656.510	2.291.378
Effect of deconsolidation	(500)	(167)					(667)		(667)
Net profit (loss)					1.269.534	70.490	1.340.024	283.335	1.623.359
Net profit (loss) January - Dec. 2005 put on equity	89.500	29.833	0	0	2.573.478	281.413	2.974.224	939.845	3.914.070
Change in minority interest								(11.000)	(11.000)
Dividends paid						(18.000)	(18.000)		(18.000)
Equity 31 December 2005	89.500	29.833	0	0	2.573.478	263.413	2.956.224	928.845	3.885.070
Equity 1 January 2006	89.500	29.833	0	0	2.573.478	263.413	2.956.224	928.845	3.885.070
Changes due to conversion to IFRS						13.578	13.578		13.578
Equity 1 January 2006 - adjusted	89.500	29.833	0	0	2.573.478	276.991	2.969.802	928.845	3.898.648
Translation difference of foreign subsidiaries				7.495			7.495		7.495
Share in revaluation of land and buildings rights.			2.666.780				2.666.780		2.666.780
Net profit (loss)					597.399	(928.787)	(331.388)	(134.715)	(466.103)
Net profit (loss) January - Dec. 2006 put on equity	89.500	29.833	2.666.780	7.495	3.170.877	(651.796)	5.312.689	794.130	6.106.820
Increase in share capital	500						500		500
Change in minority interest								207.884	207.884
Dividends paid						(45.000)	(45.000)		(45.000)
Equity 31 December 2006	90.000	29.833	2.666.780	7.495	3.170.877	(696.795)	5.268.190	1.002.014	6.270.204
Translation difference of foreign subsidiaries				(131.830)			(131.830)		(131.830)
Share in revaluation of land and buildings rights.			(102.560)				(102.560)	133.976	31.416
Net profit (loss) of the period					(152.785)	(2.090.041)	(2.242.826)	(100.412)	(2.343.238)
Net profit (loss) January - Dec. 2007 put on equity	0	0	(102.560)	(131.830)	(152.785)	(2.090.041)	(2.477.217)	33.564	(2.443.653)
Change in minority interest								(34.179)	(34.179)
Dividends paid					(45.000)		(45.000)		(45.000)
Equity 31 December 2007	90.000	29.833	2.564.220	(124.335)	2.973.092	(2.786.836)	2.745.973	1.001.399	3.747.373

Amounts in thousands of ISK.

Consolidated Statement of Cash Flow 1 January - 31 December 2007

	2007 1/1 - 31/12	2006 1/1 - 31/12
Cash flows from operating activities		
Cash generated from operations:		
Net loss	(2.343.238)	(466.103)
Items not affecting cash:		
Calculated taxes	(473.135)	(78.395)
Share in associated income	213.166	(323.106)
Depreciation, amortisation and impairment	349.071	104.016
Changes in fair value of investment properties	186.324	(366.340)
Interest expenses and other items	1.546.508	1.252.404
	(521.304)	122.476
Increase (decrease) in operating assets:		
Receivables	(610.450)	(389.939)
Inventories	(19.945)	0
Increase (decrease) in operating liabilities:		
Current liabilities	1.173.834	702.180
	543.439	312.241
Cash flows from operating activities	22.135	434.717
Cash flows to investing activities		
Purchase of properties and equipment	(3.913.041)	(4.580.204)
Purchase of intangible assets	(111.793)	(498.553)
Purchase of investment properties	(2.238.049)	(392.025)
Change in bonds' balances	(2.557.749)	(450.238)
Investments in other companies	(630.000)	(200.000)
Paid due to purchase agreements	25.939	0
Acquisition of subsidiary, net of cash acquired	0	(6.489.823)
Receivables from related parties	(246.908)	39.710
	(9.671.601)	(12.571.133)
Cash flows from financing activities		
Dividends paid	(45.000)	(45.000)
Proceeds from borrowings	16.342.193	13.403.915
Changes in short-term loans	(677.557)	812.557
Repayments of borrowings	(5.997.782)	(1.274.398)
	9.621.854	12.897.074
Net (decrease) increase in cash and cash equivalents	(27.612)	760.658
Cash and cash equivalents at the beginning of year	1.289.446	489.801
Translation difference due to foreign subsidiaries	(78.733)	38.987
Cash and cash equivalents at end of the year	1.183.101	1.289.446

Nýsir hf. Consolidated Financial Statements 31 December 2007. Amounts in thousands of ISK.

Notes

1. General information

Nýsir hf (the Company) and subsidiaries (collectively the Group) are companies that operate in the area of privatization of public service, PFI/PPP projects, facilities management, business development, operation and management consulting and investments. The Company has issued bonds that are listed on the Icelandic stock exchange.

The Company's legal residence is at Reykjavíkurvegi 74, 220 Hafnarfjörður, Iceland.

The Company's Board of Directors approved the publication of these consolidated financial statements on 2. April 2008.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements for Nýsir hf cover the year ended 31 December 2007. The consolidated financial statements are prepared in accordance with International Accounting Standard and IFRS 1, First-time Adoption of International Financial Reporting Standards, as these statements are part of the first financial statements published by the Group, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The accounting methods described below have been adopted to for the year covered by these financial statements, unless otherwise stated.

These consolidated financial statements were prepared in accordance with the Icelandic generally accepted accounting standards (IS GAAP) until year end 2006. The IS GAAP differs in some instances from IFRS. In preparing these financial statements certain accounting methods had to be changed in order to conform to IFRS. Comparison amounts for the year 2006 have been adjusted to reflect these changes.

Reconciliation and description of the effect of IFRS on equity, the balance sheet and net result are shown in note nr. 5

These Consolidated financial statements have been prepared in accordance with the cost valuation method, except for the deviation in two important instances, where investment properties are valued at fair value and land property has been valued using a special revaluation.

IFRS, as adopted by the EU, depart from full IFRS in the following areas, relating to the Group´s operations:
Standards not adopted by the EU:

IAS 23 (Amendment), ´Borrowing costs´ (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. This amendment is not yet effective and has not been adopted by the EU. The Group will apply it as soon as it has been adopted by the EU.

Interpretations to existing standards not adopted by the EU:
IFRIC 12, ´Service concession arrangements´ (effective from 1 January 2008).
IFRIC 13, ´Customer loyalty programmes´ (effective from 1 July 2008).
IFRIC 14, ´IAS 19 - The limit of a defined benefit asset, minimum funding requirements and their interaction´ (effective from 1 January 2008).

Notes

Standards, amendment, and interpretations adopted by the EU and effective in 2007:
Standards:

IFRS 7, ´Financial instruments: Disclosures´, and the complementary amendment to IAS 1, ´Presentation of financial statements - Capital disclosures´, introduces new disclosures to improve the information about financial instruments, including quantitative aspects of risk exposures and the method of risk managements. The new disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity´s key management. Qualitative and quantitative disclosures over exposure to credit risk, liquidity risk and market risk. IFRS 7 supersedes IAS 30 ´Disclosures in the financial statements of banks and similar financial institutions´ and some of the disclosure requirements of IAS 32 ´Financial instruments, disclosure and presentation´. The amendment to IAS 1 introduced disclosures about the level of the entity´s capital and how it manages capital.

The Company has implemented both standards into its accounting policies and applied them in preparing these consolidated financial statements.

IFRS 4, ´Insurance contracts´: This standard does not have any impact on the Group´s consolidated financial statements.

Interpretations:
IFRIC 7, ´Applying the restatements approach under IAS 29, Financial reporting in hyperinflationary economies´
IFRIC 8, ´Scope of IFRS 2´
IFRIC 9, ´Re-assessment of embedded derivatives´
IFRIC 10, ´Interim financial reporting and impairment´
IFRIC 11, ´IFRS 2 - Group and treasury share transactions´

IFRS 8, ´Operating segments´ (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, ´Disclosures about segments of an enterprise and related information´. The new standard requires a ´management approach´, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009.

The preparation of financial statements in accordance with International Accounting Standards demands the use of specific accounting estimates. Management is also required to value or estimate certain items of the Group's accounting methods. Important accounting estimates are specifically described in note nr. 4.

2.2 Consolidated financial statements

Companies included in the Group are those entities in which the parent company, or other companies of the Group, have an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. In the consolidated financial statements all comparable assets, liabilities, revenues and expenses of the individual companies are added up but all intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

The purchase method is used when recording the Group's acquisition of a subsidiary. The purchase price is mesured as the fair value of the assets given, issued equity instruments and liability incurred taken over on the date of exchange, in addition to costs incurred that can be traced directly to the acquisition. Indentifiable assets and liabilities and contingent liabilities assumed in a business combination are mesured initially at fair value at the acqusition date. The amount of the acquisition price in excess og the fair value of the Group's portion of the indentifiable net assets is recorded as goodwill. If the purchase price is below the fair value of the net assets of the subsidiary aquired, then the difference is recorded in the income statement (see note 2.7).

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (“the functional currency”). The consolidated financial statements are presented in Icelandic krona (ISK), which is the Group´s functional and presentation currency.

Notes

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

The results and financial position of all the Group entities (none of which use the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate on the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity (Translation difference).

On consolidation, the exchange difference, arising from the translation of a net investment in foreign entities, is recognised in equity. When a foreign operation is disposed off, such exchange difference is recognised in the income statement as part of gain or loss on sale.

2.4 Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

2.5 Investment properties

The Group's investment properties are real estate (buildings, lands and lots) held for long term rental yields or for the purpose of representing a part of the investment strategy, and that is not occupied by companies in the consolidated Group.

At the initial investment or acquisition all of the Group's defined investment properties are initially recognised at cost. Subsequently, investment properties are carried at fair value based on a valuation on the reporting date. The fair value evaluation is based on the value of the assets or the present value of future cash flows projections of the individual property or by an evaluation based on the appraisal of an independent valuer. When the evaluation is based on the present value of future cash flow, the flow of revenue of the properties is estimated based mainly on current leases. Estimated operating expenses and real estate maintenance cost are deducted from rental yields. In calculating the present value the interest rate currently available to the Group is used.

Changes in fair value of property investments are recorded in the income statement, as fair value change of investment properties. Investment properties are not depreciated.

Maintenance cost is expensed when incurred. Cost incurred as a result of major renovations to non-current assets is capitalised if the renovations result in increased revenue generation or increased life/usage of the property.

Buildings in construction or being developed, representing future investment properties, are classified as Building under construction and recorded at cost until construction or development completion. At such time the assets are reclassified as investment properties and recorded in accordance with the appropriate accounting method in the Group.

2.6 Properties, plant and equipment

Properties, plant and equipment are stated at historical cost or at revalued value less depreciation. Lots and building rights are stated at revalued value, but other assets are stated at cost less depreciation. Cost value represents the cost that is directly attributed to the item, but revalued value is based on the appraisal of lots and building rights by an independent valuer.

Revaluation of building rights is recorded as a separate item under equity.

Notes

Depreciation is based on the straight-line method in order to allocate the difference between cost and the residual value over the estimated useful life of the assets as follows:

Buildings for own use	25 years
Other assets	7-15 years

Lots and building rights are not depreciated. Buildings under construction is not depreciated as utilisation has not yet begun. The same applies to ship and related equipment as their lease period has not yet begun.

Depreciation is calculated proportionally based on the length of ownership within the period.

Residual value of assets is reviewed at least once a year.

Gain and loss on sale of assets is the difference between the sales price and the carrying amount of the asset on the date of the sale and is included in the income statement.

Maintenance cost is expensed when incurred. Cost incurred as a result of major renovations to non-current assets is capitalised if the renovations result in increased revenue generation or increased life/usage of the property.

Borrowing cost that is directly related to the acquisition or construction of buildings that are subject to a long period of construction is capitalised when it is probable that the cost will lead to an economic benefit for the Group in the future.

2.7 Intangible assets

Goodwill:

Capitalised goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised but is instead subject to tho Groups annual impairment test. If the results of the impairment test is lower than the carrying amount of goodwill, the difference is expensed in the income statement.

Development cost:

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overhead. Capitalised development costs associated with software development are depreciated over the estimated useful life (no longer than three to five year). An impairment value test is performed on an annual basis as per note 2.8.

2.8 Impairment of non-financial assets

Assets including goodwill that have an indefinate useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstance indicate that carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flow (cash-generating units).

2.9 Investments in associated companies

Investments in associates are accounted for using the equity method of accounting. According to this method, the Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in equity is recognised in a separate equity account. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Unrealised gains on transactions between the Group and its associates are eliminated proportionally based on the Group's interest in the associates.

Notes

Unrealised losses are also eliminated proportionally, unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill identified on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless it has provided guarantees for or loaned funds to the associate.

2.10 Financial assets

The Group classifies its investments in the following categories: receivables and financial assets at fair value through profit and loss. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. Negative position of derivative is recognised in the balance sheet as a part of trade and other payables.

Recievables
Long-term receivables are financial assets that are not derivatives with fixed payments or payments that can be determined and that are not listed on an active exchange. Long-term receivables have a maturity of more than 12 months and are thus classified as non-current assets. The receivables are created when the Group loans funds, products or services directly to the debtor and does not intend to trade the receivable. Loans and short-term receivable for a maturity of less than 12 months are classified as trade receivables and other short term receivables on the balance sheet (note 2.11). Long-term receivables are capitalised at cost less provision for asset impairment.

Included in long-term receivables are receivables resulting from agreements for long-term leases and facility management of public buildings in the UK, which provides the Group with cash flow for a long period of time. As these agreements do not involve formal ownership of the buildings, they are treated as a financial asset as opposed to an investment property. The long-term agreements are capitalised at amortisied cost, using the current interest method among non-current assets. However, the portion that is payable within the next 12 months is recorded and shown among trade receivables and other short-term receivables.

Trade receivables and other short-term receivables are financial assets that are not derivatives with fixed payments or payments that can be determined and that are not listed on an active exchange. The receivables are created when the Group loans funds, products or services directly to the debtor and does not intend to trade the receivable. The receivables are classified as current assets on the balance sheet. Receivables are recorded at cost less provision for asset impairment. Lost receivables are written off fully.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using first-in, first-out method (FIFO-method). The cost of finished goods and work in progress comprises design cost, raw material, direct labour, other direct cost and related production overhead (based on normal operating capability), less borrowing cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdraft is classified as a loan under short-term liabilities on the balance sheet.

Notes

2.13 Share Capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental cost (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction cost and related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Earnings per share

Earnings per share equals profit over weighted average outstanding share capital during the period and shows the profit per each krona (ISK) of equity.

2.15 Borrowings

Borrowings are initially recognised at fair value, net of transaction cost incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (less transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liability unless the Group has an unconditional right to defere settlement of the liability for at least 12 months after the balance sheet date.

2.16 Subordinated loans

Shareholders of the subsidiaries, other than the parent Company, have provided them with subordinated loans. The conditions of the loans are that they are subordinate to all other liabilities in case of bankruptcy. The loans are recognised amongst liabilities in the balance sheet as the Group does not have the right to delay repayment nor to convert the subordinated loans to shares.

2.17 Deferred income taxes

Deferred income tax is provided in full, using the liabilites medhod, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than an business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the defferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The companies' (within the Group) deferred income tax assets are recorded to the extent it is likely that future taxable profit will be available against which the temporary differences can be utilised.

2.18 Lease purchase agreements

Leases of property, plant and equipment where the Groupe has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the assets useful life and the lease term.

Notes

2.19 Indexed linked assets and liabilities

Index linked assets and liabilities in foreign currencies are translated to ISK using the exchange rates prevailing at the end of the period. Indexed assets and liabilities are converted using index valid in January 2008. The accrued exchange rate difference and indexation on the principal of assets and liabilities are recorded in the income statement.

2.20 Revenue recognition

Revenue includes rental income, service charges and facility management charges from properties, income from property trading and sales and use of software.

Rental income from operating leases is recognised in income on straight-line basis over the lease term. When the Group 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. Service and management charges are recognised in the accounting period in which the services are rendered. Other service sales are recorded in the accounting period during which the service is rendered using the phase method of accounting where the service rendered is mesured as a percentage of the total service to be rendered.

2.21 Interest and dividend income

Interest income relating to cash, cash equivalents and financial instruments, recorded at cost, using the effective interest method.

Dividend income is recorded when a decision for a dividend payment has been taken at the relevant company's general shareholder meeting.

2.22 Interest expense

Interest expenses for borrowings and other liabilities, are recognised within "financial cost" in the income statement using the effective interest rate method. The effective method is a method of calculating the amortised cost of financial asset or financial liability and of allocating the intrest income or interest expense over the relevant period.

2.23 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. Most of the companies have defined contribution plans, where companies are paying fixed contribution to pubicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once these contributions have been paid. The contributions ae recognised as expenses when they become due.

The Group companies in the UK operate a defined benefit pension scheme for employees. A defined benefit pension scheme is a pension plan that defines an amount of pension benefit that an employee will recieve on retirement, usually dependent on one or more factors, such as age, years if service and compensation. The assest of the scheme are held separately from those of the Group.

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value at the balance sheet date. Pension scheme assets are valued at fair value at the balance sheet date. Pension scheme surplus is recognised in full on the balance sheet, as a part of other recievables. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to income statement in the period in which they arise.

(b) Share-based compensation

The group operates a equity-settled, share-based compensation plan for some of the directors. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Cost related to the stock-option agreements is expensed during the vesting period based on the related terms.

Notes

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recorded as the Group's liability in the period in which the Company's shareholders approve the dividend distribution.

2.25 Comparatives

Where applicable comparative amounts in the income statement have been transferred between items to reflect changes in the presentation for this period. It doesn't affect the net operating income for the year.

3. Financial risk management

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, cash flow risk and fair value interest-rate risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out within the group where applicable under policies approved by the Management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Great Britain Pounds (GBP) and Danish Krona (DKK).

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group’s foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies

The breakdown of financial assets and liabilities by foreign currencies:

2007	**Assets**	**Liabilities**	**Net**
GBP	10.453.658	10.514.607	(60.949)
DKK	12.118.945	11.131.001	987.944
EUR	6.354	5.210.330	(5.203.977)
USD	0	982.308	(982.308)
CHF	0	2.856.098	(2.856.098)
JPY	0	1.984.256	(1.984.256)
Other currencies	0	824.599	(824.599)
	22.578.957	33.503.200	(10.924.243)

2006	**Assets**	**Liabilities**	**Net**
GBP	7.860.599	6.230.708	1.629.891
DKK	12.911.928	12.497.961	413.966
EUR	19.942	2.873.259	(3.404.411)
USD	0	633.544	(633.544)
CHF	0	1.255.238	(1.686.876)
JPY	0	1.017.377	(1.330.059)
Other currencies	0	532.568	(532.568)
	20.792.468	25.040.655	(5.543.601)

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Notes

At 31 December 2007, if the functional currency had weakened/strengthened by 15% against all currencies with all other variables held constant, post-tax effect at equity would have been ISK 1.639 million lower/higher as a result of foreign exchange gains/losses.

(ii) Price risk

The Group is exposed to a very immaterial equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as financial assets through profit and loss. The Group is not exposed to commodity price risk.

iii) Interest rate risk

At 31 December 2007, if interest rates on functional currency-denominated borrowings had been 0.1% higher/lower with all other variables held constant, post-tax profit for the year would have been ISK million 100,3 lower/higher, as a result of higher/lower interest expense on floating rate borrowings.

iii) Inflation risk

Inflation risk is the result of adverse movements in inflation rates.

The Group´s assets and liabilities are affected by inflation, and compensate by aiming at including CPI adjustments in its rental agreements. Accordingly, the majority of the rental agreements are linked to the CPI or similar index that reflects price movements in the respective country. As approximately 74,1% of the loans are not indexed to the CPI, all things being equal, inflation has a positive effect on the Group through increased revenue as well as via valuation adjustment of investment properties, as the rental agreements being valued become more valuable due to higher revenue stream from the underlying lease contracts.

Approximately 25,9% of the debt is CPI indexed and related to ISK denominated debt. Higher inflation levels in Iceland would therefore increase the value of the liabilities and increase debt service payments in the long run. However, the effect is offset both by CPI indexed rental contracts and generally by higher property prices. Furthermore, higher inflation levels generally increase nominal interest rates, which affect the Group as described above.

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The credit quality of the customer is assessed, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

Exposure to credit risk

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

	Maximum exposure	
	2007	**2006**
Trade and other receivables	2.790.767	2.180.317
Receivables from associates and other related parties	597.125	114.868
Long-term receivables	4.289.985	1.742.572
Subordinated loan to associated company	76.327	35.423
Cash and cash equivalents	1.183.101	1.289.446
	8.937.305	5.362.626

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Notes

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Carrying amount	Contractual cash flow	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings	43.347.175	54.110.296	17.327.037	3.198.319	18.386.024	15.198.915
Trade and other payables	3.191.488	3.191.488	3.191.488	0	0	0

At 31 December 2006	Carrying amount	Carrying amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings	32.088.849	39.960.686	15.738.387	5.035.390	9.142.277	10.044.631
Trade and other payables	2.867.339	2.867.339	2.867.339	0	0	0

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

	2007	2006
Total borrowings (note 19)	43.347.175	32.088.849
Less: cash and cash equivalents (note 16)	(1.183.101)	(1.289.446)
Net debt	42.164.074	30.799.403
Total equity	3.747.373	6.270.204
Total capital	45.911.447	37.069.607
Gearing ratio	92%	83%

3.3 Fair value estimation of financial instruments

The fair value of financial assets and liabilities at year-end is not significantly different from the carrying amounts in the balance sheet.

4. Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

4.1 Critical accounting valuations and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related acutal results. The estimates and assumptions that have a significant risk of causing a material adjustment of the carrying amount of assets and liabilities within the next financial year are outlined below.

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(a) Estimate of fair value of investment properties
The best evidence for fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determins the value within a range of reasonable fair value estimates. In making its judgment the Group considers information from a variety of sources including:

i) Recent prices for comparable assets that are being used in a comparable manner and at a similar location.

ii) Asset appraisal by an independent valuer.

iii) Discounted cash flow projections based on reliable estimates of future cash flow, derived from the terms of any existing lease and other contracts and (were possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market asssessments of uncertainty in the amount and timing of the cash flows.

(b) Estimated impairment of goodwill
The Group's tests, on an annual basis, whether goodwill has been subject to impairment, in accordance with the accounting method described in note 2.8.

(c) Income taxes
The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the worldwide provisin for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain.

5. Transition to International Financial Reporting Standards (IFRS)

5.1 Basis of transition to IFRS

5.1.1 Application of IFRS 1

These consolidated financial statements are the first annual financial statements that comply with IFRS. These financial statements have been prepared as described in note 2.1 above. The Group has applied IFRS 1 in preparing these consolidated financial statements.

The Group transition date is 1. January 2006. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these consolidated financial statements is 31. December 2007 The Group's IFRS adoption date 1 January 2007.

In preparing these financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective of IFRS.

5.1.2 Optional exemptions

The Group has elected to apply the following optional exemptions in IFRS from full retroactive application.

(a) Business compinations exemption

The Group has appplied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2006 transition date.

(b) Reclassification of assets and liabilities

The presentation of various items in the balance has been changed as a result of the adoption of IFRS. In tables 5.2.5 to 5.2.9 the effect of the changes on the Group's balance sheet is shown.

5.1.3 Mandatory exemptions

(a) Accounting estimates

Accounting under IFRS at 1. January 2006 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

Notes

5.2 Reconciliation between IFRS and GAAP

Equity reconciliation	1/1 2006	30/06 2006	31/12 2006
Equity (previously published)	3.885.070	3.719.530	6.272.154
Changes to depreciation and valuation of non-current assets (IAS 16)	2.267	3.862	(172)
Changes due to borrowing costs, discounts and premiums (IAS 39)	14.291	4.983	(5.595)
Changes to provisions and valuation of intangible assets (IAS 38)		(4.218)	(4.218)
Effect of changes on taxation (IAS 12)	(2.980)	1.611	1.797
Equity under new standards (IFRS)	3.898.648	3.725.768	6.283.782

5.2.1 Notes to the effects of the implementation of IFRS

The total effect of the changes is to decrease equity as at 31 December 2006 by ISK 1.950 thousand after the caclculated effect of income tax. Individual items, after changes, as per the table above, are shown before taxes.

5.2.2 Non-current assets

Useful life and residual value of non-current assets were revaluated. Previously recorded depreciation was reversed and depreciation was recalculated as residual value was deducted from carrying amount and straight line depreciation was calculated based on useful life in accordance with IAS standard 16. The cumulative effect of these changes was a decrease in depreciation by ISK 3.690 thousand for the year 2006. In connection with this revaluation the equity value was adusted as of 1 January 2006 by ISK 2.267 thousand, effectively increasing equity by said amount.

5.2.3 Borrowing cost and discount and premium distribution of borrowings

In accordance with IAS standard 39, borrowing cost, borrowing discounts and premiums are distributed based on the effictive interest rate. According to the previous method these items were distributed evenly through the borrowing term or, in some cases, were expensed when paid. The resulting changes amount to ISK 101 thousand, of which the change on 1 January 2006 resulted in an increase in equity by ISK 14.291 thousand.

5.2.4 Intangible assets, changes in valuation and provisions

With the adoption of IFRS the classification within intangible assets was changed in accordance with IAS standard 38. A portion of the assets which were previously classified as intangible assets were reclassified as non-current assets and real estate under construction. There were also classification changes within intangible assets. This change led to changes in the provision of intangible assets during the year 2006 by an amount of ISK 8.436 thousand.

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Notes

5.2.5 Reconciliation of equity 1.January 2006 / Opening balance sheet

Balance sheet 1. January 2006

Previously published financial statement					Financial statement according to IFRS
Assets		**Valuation changes**	**Change in presentation**		**Assets**
Fixed assets					**Non-current assets**
Investment properties	11.965.901			11.965.901	Investment properties
Buildings under construction	903.867			903.867	Buildings under construction
Buildings for own use	27.159		(27.159)		
Other properties and equipments	367.732	2.267	27.159	397.159	Other properties and equipments
Intangible assets	469.361			469.361	Intangible assets
Instruments in associates	210.272			210.272	Instruments in associates
Instruments in other companies	2.878			2.878	Instruments in other companies
Long-term receivables	1.337.978			1.337.978	Long-term receivables
	15.285.149	2.267	0	15.287.416	
Current assets					**Current assets**
Trade and other short-term receivables	382.740			382.740	Trade and other short-term receivables
Inventory	1.300			1.300	Inventory
Receivables from associates and other related parties..	190.001			190.001	Receivables from associates and other related parties
Cash on hand	489.801			489.801	Cash on hand
	1.063.842	0	0	1.063.842	
Total assets	16.348.991	2.267	0	16.351.258	
Equity and liabilities					**Equity and liabilities**
Equity					**Equity**
Share capital	89.500			89.500	Share capital
Legal reserve	29.833			29.833	Legal reserve
Fair value reserve of investment properties	2.573.478			2.573.478	Fair value reserve of investm. properties
Retained earnings	263.413	13.578		276.991	Retained earnings
	2.956.225	13.578	0	2.969.802	
Minority interest	928.845			928.845	Minority interest
	3.885.070	13.578	0	3.898.648	
Liabilities					**Liabilities**
Long-term liabilities					**Subordinated loan and obligations**
Subordinated loan	123.286		(123.286)	0	Subordinated loan and obligations
Borrowings	9.637.473		(9.514.187)	123.286	Subordinated loan
Deferred income tax liability	892.153	2.980		895.133	Deferred income tax liability
Deffered income and other obligations	75.926				
					Long-term liabilities
		(14.291)	9.637.473	9.623.182	Borrowings
			75.926	75.926	Deferred income and other obligations
	10.728.838	(11.310)	(9.637.473)	10.717.527	
Short-term liabilities					**Short-term liabilities**
Borrowings	1.047.945			1.047.945	Borrowings
Trade and other payables	663.403			663.403	Trade and other payables
Deferred income, short-term portion	2.684			2.684	Deferred income, short-term portion
Current taxes	21.052			21.052	Current taxes
	1.735.083	0	0	1.735.083	
Total liabilities	12.463.921	(11.310)	(9.637.473)	12.452.611	**Total liabilities**
Total equity and liability	16.348.991	2.267	(9.637.473)	16.351.258	

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5.2.6 Reconciliation of equity 30. June 2006

Balance sheet 30. June 2006

Previously published financial statement		Valuation changes	Change in presentation		Financial statement according to IFRS
Assets					**Assets**
Fixed assets					**Non-current assets**
Investment properties	24.965.647			24.965.647	Investment properties
Buildings under construction	2.460.850		22.246	2.483.096	Buildings under construction
Buildings for own use	26.495		(26.495)		
Other properties and equipments	416.278	6.130	26.495	448.903	Other properties and equipments
Intangible assets	640.382	(4.218)	(22.246)	613.918	Intangible assets
Instruments in associates	410.995			410.995	Instruments in associates
Instruments in other companies	3.190			3.190	Instruments in other companies
Privatization agreements in Britain	1.703.057		(1.703.057)		
Long-term receivables	9.780		1.703.057	1.712.838	Long-term receivables
	30.636.675	1.912	0	30.638.586	
Current assets					**Current assets**
Pre-payments for comp. acquisitions	732.891			732.891	Pre-payments for comp. acquisitions
Trade and other short-term receivables	544.382			544.382	Trade and other short-term receivables
Inventory	1.300			1.300	Inventory
Receivables from associates and other related parties	1.119.764			1.119.764	Receivables from associates and other related parties
Cash on hand	1.778.768			1.778.768	Cash on hand
	4.177.104	0	0	4.177.104	
Total assets	34.813.779	1.912	0	34.815.690	
Equity and liabilities					**Equity and liabilities**
Equity					**Equity**
Share capital	90.000			90.000	Share capital
Legal reserve	29.833			29.833	Legal reserve
Special revaluation	836.400			836.400	Special revaluation
Translation difference	1.817			1.817	Translation difference
Fair value reserve of investment properties	2.551.904			2.551.904	Fair value reserve of investm. properties
Retained earnings	(507.036)	6.238		(500.798)	Retained earnings
	3.002.918	6.238	0	3.009.156	
Minority interest	716.612			716.612	Minority interest
	3.719.530	6.238	0	3.725.768	
Liabilities					**Liabilities**
Long-term liabilities					**Subordinated loan and obligations**
Subordinated loan	121.682		121.682		Subordinated loan and other obligations
Borrowing	21.248.843		(21.127.162)	121.682	Subordinated loan
Deferred income tax liability	2.679.455	1.369		2.680.824	Deferred income tax liability
Deferred income and other obligations	97.499		(97.499)	0	
					Long-term liabilities
		(5.696)	21.248.843	21.243.148	Borrowings
			97.499	97.499	Deferred income and other obligations
	24.147.479	(4.326)	243.363	24.143.153	
Short-term liability					**Short-term liability**
Borrowings	5.357.786			5.357.786	Borrowings
Trade and other payables	1.375.404			1.375.404	Trade and other payables
Deferred income, short-term portion	200.567			200.567	Deferred income, short-term portion
Current taxes	13.013			13.013	Current taxes
	6.946.769	0	0	6.946.769	
Total liabilities	31.094.249	(4.326)	243.363	31.089.922	**Total liabilities**
Total equity and liability	34.813.779	1.912	243.363	34.815.690	

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5.2.7 Reconciliation of equity 31. December 2006

Balance sheet 31. December 2006

Previously published financial statement		Valuation changes	Change in presentation	Financial statement according to IFRS	
Assets					**Assets**
Fixed assets					**Non-current assets**
Investment properties	25.401.129			25.401.129	Investment properties
Buildings under construction	4.350.263		(279.897)	4.070.366	Buildings under construction
Buildings for own use	522.997		(522.997)		
Vessel and related equipment for lease	1.634.107		(1.634.107)		
Other properties and equipments	567.092	5.957	2.429.350	3.002.400	Other properties and equipments
Intangible assets	4.269.986	(8.436)	(294.492)	3.967.058	Intangible assets
Instruments in associates	2.568.125			2.568.125	Instruments in associates
Instruments in other companies	3.044			3.044	Instruments in other companies
Privatization agreements in Britain	1.717.173		(1.717.173)		
Long-term receivables	51.857		1.690.715	1.742.572	Long-term receivables
Subordinated loans to subsidiaries	35.423			35.423	Subordinated loans to subsidiaries
	41.121.196	(2.480)	(328.601)	40.790.115	
Current assets					**Current assets**
Trade and other short-term receivables	2.199.503		(19.186)	2.180.317	Trade and other short-term receivables
Inventory	164.909			164.909	Inventory
Receivables from associates and other related parties	114.868			114.868	Receivables from associates and other related parties
Cash on hand	1.289.446			1.289.446	Cash on hand
	3.768.726	0	(19.186)	3.749.540	
Total assets	44.889.922	(2.480)	(347.787)	44.539.655	
Equity and liabilities					**Equity and liabilities**
Equity					**Equity**
Share capital	90.000			90.000	Share capital
Legal reserve	29.833			29.833	Legal reserve
Special revaluation	2.666.780			2.666.780	Special revaluation
Translation difference	7.495			7.495	Translation difference
Fair value reserve of investment properties	3.170.877			3.170.877	Fair value reserve of investm. properties
Retained earnings	(694.845)	(1.950)		(696.795)	Retained earnings
	5.270.140	(1.950)	0	5.268.190	
Minority interest	1.002.014			1.002.014	Minority interest
	6.272.154	(1.950)	0	6.270.204	
Liabilities					**Liabilities**
Long-term liabilities					**Subordinated loans and obligations**
Subordinated loans and obligations					Subordinated loans and obligations
Subordinated loan	10.451			10.451	Subordinated loan
Deferred income tax liability	3.134.279	(428)		3.133.851	Deferred income tax liability
	3.144.730	(428)		3.144.302	
Long-term liabilities:					**Long-term liabilities**
Borrowings	18.739.300	(101)	12.250	18.751.449	Borrowings
Deferred income and other obligations	141.065		(38.707)	102.358	Deferred income and other obligations
	22.025.095	(529)	(26.458)	21.998.108	
Short-term liabilities					**Short-term liabilities**
Borrowings	13.295.166		42.234	13.337.400	Borrowings
Trade and other short-term receivables	3.169.482		(302.143)	2.867.339	Trade and other short-term receivables
Deferred income, short-term portion	114.366		(61.420)	52.946	Deferred income, short-term portion
Current taxes	13.657			13.657	Current taxes
	16.592.672	0	(321.329)	16.271.342	
Total liabilities	38.617.767	(529)	(347.787)	38.269.452	**Total liabilities**
Total equity and liability	44.889.921	(2.479)	(347.787)	44.539.655	

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5.2.8 Reconciliation of net income for first 6 months of 2006

Income statement 1. January to 30. June 2006

	Previously published	Change due to IFRS	IFRS
Revenue	1.196.223		1.196.223
Change in fair value adjustments of investment properties	(28.147)		(28.147)
Operating expenses of investment properties	(138.928)		(138.928)
Wages and related expenses	(225.208)		(225.208)
Depreciation and amortisation	(36.564)	(356)	(36.920)
Other operating costs	(364.343)		(364.343)
Operating profit	403.034	(356)	402.678
Financial income and (expenses)			
Finance costs - net	(1.530.438)	(8.595)	(1.539.033)
Share in profit (loss) of associates	(7.332)		(7.332)
(Loss) before taxes	(1.134.736)	(8.951)	(1.143.687)
Calculated income- and net worth tax	197.979	1.611	199.590
Net profit (loss)	(936.757)	(7.340)	(944.097)
Profit allocation:			
Nýsir's shareholders' share	(747.024)	(7.340)	(754.363)
Minority interest	(189.733)		(189.733)
	(936.757)	(7.340)	(944.097)

5.2.9 Reconciliation of net income for the year 2006

Income statement for the year 2006

	Previously published	Change due to IFRS	IFRS
Revenue	3.947.166		3.947.166
Change in fair value adjustments of investment properties	366.340		366.340
Operating expenses of investment properties	(243.889)		(243.889)
Wages and related expenses	(1.073.012)		(1.073.012)
Depreciation and amortisation	(99.270)	(4.746)	(104.016)
Other operating costs	(1.571.517)		(1.571.517)
Operating profit	1.325.818	(4.746)	1.321.071
Financial income and (expenses)			
Finance costs - net	(2.174.486)	(14.190)	(2.188.676)
Share in profit (loss) of associates	323.106		323.106
(Loss) before taxes	(525.562)	(18.936)	(544.498)
Calculated income- and net worth tax	74.987	3.409	78.395
Net profit (loss)	(450.575)	(15.528)	(466.103)
Profit allocation:			
Nýsir's shareholders' share	(315.860)	(15.528)	(331.388)
Minority interest	(134.715)		(134.715)
	(450.575)	(15.528)	(466.103)

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6. Statements of half-year operation

	Jul-Dec 2007	Jan-Jun 2007	Jul-Dec 2006	Jan-Jun 2006	Jul-Dec 2005	Jan-Jun 2005
Revenue	4.457.114	4.796.914	2.750.943	1.196.223	788.397	570.046
Change in fair value adj. of invest. prop.	(302.965)	116.641	394.487	(28.147)	1.543.020	391.562
Operating exp. of invest. properties	(124.705)	(152.015)	(104.961)	(138.928)	(58.387)	(42.570)
Wages and related expenses	(1.637.448)	(1.621.313)	(847.804)	(225.208)	(185.036)	(152.351)
Depreciation and amortisation	(262.548)	(86.523)	(67.097)	(36.920)	(27.725)	(12.638)
Other operating costs	(2.254.584)	(2.335.215)	(1.207.174)	(364.343)	(344.386)	(141.063)
Operating profit (loss)	(125.136)	718.489	918.394	402.678	1.715.883	612.986
Finance costs - net	(2.431.430)	(737.167)	(649.643)	(1.539.033)	(212.985)	(131.230)
Share in (loss) profit of associates	(194.330)	(18.836)	330.438	(7.332)	(4.520)	(830)
(Loss) profit before taxes	(2.750.897)	(37.514)	599.189	(1.143.687)	1.498.378	480.927
Calculated income tax	339.239	105.934	(121.195)	199.590	(269.741)	(86.205)
Net (loss) profit	(2.411.658)	68.420	477.994	(944.097)	1.228.637	394.722
(Loss) profit allocation						
Nýsi´s shareholders' share	(2.272.293)	29.467	422.976	(754.364)	1.005.985	334.039
Minority interest	(139.365)	38.953	55.018	(189.733)	222.652	60.683
	(2.411.658)	68.420	477.994	(944.097)	1.228.637	394.722

7. Segment information

Geographical segments

At the end of the year, the Group is divided into four geographical segments; Iceland, UK, Denmark and other countries.

All companies within the Group located in Iceland belong to the Iceland operation; this includes, among other, Nýsir hf (the parent company) in addition to three sub-Group companies, such as Nýsir fasteignir hf and its subsidiaries Stofn fjárfestingarfélag ehf and subsidiaries and Nýsir þróunarfélag.

The UK operation includes Nysir UK limited Group and its subsidiaries, which are all located in United Kingdom.

Denmark includes Nysir Danmark ApS and its subsidiaries.

The business segment "other" includes Malta and other countries.

Income statement per geographical segment for the year 2007 is as follows:

	Iceland	UK	Denmark	Other	Total
Revenue	2.274.032	6.412.066	567.262	668	9.254.028
Operarting profit (loss)	(5.231)	218.236	414.504	(34.156)	593.353
Finance costs - net	(2.354.549)	(296.231)	(514.435)	(3.382)	(3.168.597)
Share in profit (loss) of associates	(218.545)	5.379	0	0	(213.166)
Loss before taxes	(2.578.325)	(72.616)	(99.931)	(37.539)	(2.788.411)
Income tax	249.492	(55.840)	251.521	0	445.173
(Loss) profit for the year	(2.328.833)	(128.456)	151.590	(37.539)	(2.343.238)

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Additional information on items included in operating profit (loss):

	Iceland	UK	Denmark	Other	Total
Depreciation of non-current assets	(173.452)	(49.052)	0	(655)	(223.158)
Impairment and amortisation for intangible assets	(125.913)	0	0	0	(125.913)
Change in fair value adj. of invest. prop.	(186.324)	0	0	0	(186.324)
Additions in PPE and investments properties	5.994.375	82.735	45.887	2.155	6.125.152

Equity and liabilities of business segments as at 31. December 2007:

	Iceland	UK	Denmark	Other	Total
Assets	27.899.083	10.381.570	12.118.945	6.354	50.405.951
Subsidiaries and associates	2.995.881	72.088	0	0	3.067.969
Total assets	30.894.964	10.453.658	12.118.945	6.354	53.473.920
Total liabilities	28.280.749	10.339.684	11.053.125	52.989	49.726.547

Business segments assets consist mainly of investment properties and non-current assets. Assets in UK consist, to a large extent, of long-term receivables related to privatization and other receivables. The majority portion of the Group's intangible assets is located in the UK.

Net income per geographical segment for the year 2006 was as follows:

	Iceland	UK	Denmark	Other	Total
Revenue	1.698.040	1.691.798	557.007	320	3.947.166
Operarting profit (loss)	685.857	218.145	433.655	(16.585)	1.321.072
Finance costs - net	(1.615.113)	(83.601)	(487.708)	(2.254)	(2.188.676)
Share in profit (loss) of associates)	294.876	28.230	0	0	323.106
(Loss) profit before taxes	(634.381)	162.775	(54.053)	(18.839)	(544.498)
Income tax	63.402	14.992.688	0	0	78.395
Profit (loss) for the year	(570.978)	177.767	(54.053)	(18.839)	(466.103)

Additional information on items included in operating profit (loss):

	Iceland	UK	Denmark	Other	Total
Depreciation of non-current assets	(54.669)	(11.108)	0	(83)	(65.860)
Provisions for intangible assets	(25.700)	(12.457)	0	0	(38.157)
Change in fair value adj. of invest. prop.	366.340	0	0	0	366.340
Additions in PPE and investments property	4.929.028	129.551	10.101.022	256	15.159.857

Equity and liabilities of segments as at 31. December 2006:

	Iceland	UK	Denmark	Other	Total
Assets	21.255.010	7.784.650	12.911.928	19.942	41.971.530
Subsidiaries and associates	2.492.176	75.949	0	0	2.568.125
Total assets	23.747.187	7.860.599	12.911.928	19.942	44.539.655
Total liabilities	18.879.401	7.491.263	11.861.761	37.026	38.269.451

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Business segments

	2007	2006
Revenue		
Lease revenue	1.485.380	1.358.067
Revenue from facility management and other revenue	7.768.648	2.589.099
	9.254.028	3.947.166
Assets		
Assets subject to long-term leases	26.992.322	27.757.202
Assets related to facility management and other operations	26.481.598	16.782.453
	53.473.920	44.539.655

8. Loss per share

Base earnings (loss) per share is calculated by dividing the loss that can be distributed to shareholders in the parent company with the weighted average of common shares outstanding during the year, less the common shares the company has repurchased and holds as own shares. Diluted profit takes into consideration all potential common shares, if they were to be converted to common shares. There are no potential ordinary shares at the Group and therefore base profit per share and diluted profit per share is the same.

	2007	2006
Loss for the year, belonging to the company's shareholders	(2.242.826)	(331.388)
Weighted average of outstanding shares during the year	90.000	90.000
Basic and diluted loss per share	(24,92)	(3,68)

9. Intangible assets

Goodwill is generated from purchase of companies and businesses. Development cost is related to software for resale at Midi.is.

	Goodwill	Development cost	Total
Book value 1/1 2006	467.350	2.011	469.361
Additions during the year	3.098.555	82.328	3.180.883
Impairment and amortisation	(13.460)	(24.697)	(38.157)
Exchange difference	354.970	0	354.970
Book value 31/12 2006	3.907.415	59.642	3.967.058
Book value 1/1 2007	3.915.518	51.540	3.967.058
Additions during the year	0	111.793	111.793
Impairment and amortisation	(97.200)	(28.713)	(125.913)
Exchange difference	(443.613)	0	(443.613)
Book value 31/12 2007	3.374.705	134.620	3.509.324

At year-end the goodwill was tested for impairment. The conclusion was that ISK 97,2 million was impaired and expensed in the income statement.

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10. Investment properties

	2007	2006
Book value 1/1	25.401.129	11.965.901
Additions during the year	2.238.049	10.517.207
Transferred from buildings in construction	144.472	181.576
Sold during the year	0	(24.160)
Translation difference	(486.482)	2.394.265
Change in fair value adjustments of investment properties	(186.324)	366.340
Book value 31/12	27.110.845	25.401.129

11. Property, plant and equipment

	Buildings in construction and land	Buildings for own use	Vessels and rel. equip. for lease	Other assets	Total
At 1. January 2006					
Cost or valuation	903.867	33.223	0	428.362	1.365.452
Accumulated depreciation	0	(6.064)	0	(58.363)	(64.426)
	903.867	27.159	0	370.000	1.301.026
Year ended 31. December 2006					
Net book value 1/1	903.867	27.159	0	370.000	1.301.026
New subsidiaries	0	0	0	113.244	113.244
Additions during the year	2.497.214	4.127	1.906.353	180.129	4.587.823
Sold during the year	0	(26.384)	0	(7.873)	(34.257)
Transferred between items	(522.997)	522.997	0	0	0
Transferred to intangleble assets	0	0	0	(27.012)	(27.012)
Transferred to investment properties	(181.576)	0	0	0	(181.576)
Revaluation of assets	1.380.870	0	0	0	1.380.870
Translation difference	0	0	0	(1.493)	(1.493)
Depreciation	(7.013)	(4.902)	0	(53.945)	(65.860)
Closing net book amount	4.070.366	522.997	1.906.353	573.050	7.072.766
At 31 December 2006					
Cost or valuation	4.077.379	527.123	1.906.353	684.694	7.195.549
Accumulated depreciation	(7.013)	(4.126)	0	(111.644)	(122.783)
	4.070.366	522.997	1.906.353	573.050	7.072.766
Year ended 31. December 2007					
Net book value 1/1 2007	4.070.366	522.997	1.906.353	573.050	7.072.766
Additions during the year	1.961.998	466	1.736.296	214.281	3.913.041
Sold during the year	0	0	0	(25.939)	(25.939)
Transferred between items	(226.140)	0	0	226.140	0
Transferred to investment properties	(144.472)	0	0	0	(144.472)
Revaluation of assets	82.525	0	0	0	82.525
Translation difference	0	0	0	(14.608)	(14.608)
Depreciation	(2.577)	(15.828)	(68.062)	(136.691)	(223.158)
Book value 31/12 2007	5.741.699	507.636	3.574.587	836.233	10.660.156
At 31 December 2007					
Cost or valuation	5.746.786	527.590	3.732.648	1.197.782	11.204.807
Accumulated depreciation	(5.087)	(19.954)	(158.062)	(361.549)	(544.652)
	5.741.699	507.636	3.574.587	836.233	10.660.156

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Depreciation, amortisation and impairment recognised in the income statement, in the total amount of ISK 349.071 thousand are as follows:

	2007	2006
Depreciation of property, plant and equipments (note 11)	223.158	65.860
Intangible assets (note 9)	125.913	38.157
	349.071	104.016

The insurance value of ship, vessel and relate equipments amounted to ISK 1.630 million at year-end.

12. Investments in associates

Share in profit (loss) in associates is as follows:

	Owner. share	Book value	Profit (loss) from associates	
Eignahaldsfélagið Portus hf. og Situs ehf.	50%	2.916.300	0	0
Fasteignafélagið Lækjarhlíð ehf	50%	79.580	(216.040)	295.621
Hosma ehf	33%	0	(2.000)	0
Dulheimar	49%	0	0	(745)
Huliðsheimar ehf	85%	0	(255)	0
Austurgata ehf	50%	0	(250)	0
NYOP Education(Yorkshire) ltd	49%	72.088	5.379	28.230
		3.067.969	(213.166)	323.106

Eignarhaldsfélagið Portus and Situs ehf. are projects on construction stage. Of the net loss from Fasteignafélagið Lækjarhlíð ISK 190.713 thousand relates to loss in fair value changes of investment property.

13. Long-term receivables

Long-term receivables are as follows:

	2007	2006
Privatization agreements (PFI) in (UK)	4.088.395	1.717.173
Other long-term receivables	205.225	29.035
	4.293.620	1.746.208
Current portion of receivables	(3.636)	(3.636)
	4.289.985	1.742.572

Privatization agreements (PFI) in UK consist of control over lease revenue and operations of public buildings located in UK. The agreements do not involve official ownership of the buildings or land and therefore the assets are classified as long-term receivables instead of investment properties. The assets are to be returned in 25 to 30 years. Except for the above, the nature of the operation projects in UK are similar to ownership and operations projects relating to real estate owned and operated by the Group in UK.

Annual maturates of long-term recievables:

Year 2008	8.319
Year 2009	35.290
Year 2010	40.013
Year 2011	44.860
Year 2012	49.708
Later	4.111.797
	4.289.985

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14. Trade and other receivables

	2007	2006
Current receivables and prepayments:		
Trade recivables	1.710.077	1.611.904
Current portion of long-term receivables	3.636	3.636
Less: Provision for impairment of receivables	(23.124)	(1.100)
Trade receivables – net	1.690.589	1.614.440
Other receivables and prepayments	1.100.178	565.877
	2.790.767	2.180.317

The carrying amounts of receivables and prepayments approximate their fair value.

As of 31 December 2007, trade receivables of ISK 819.663 thousands were fully performing

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of ISK 760.282 thousands were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. As of 31 December 2007, trade receivables of ISK 130.132 thousands were impaired and provided for. The amount of the provision was ISK 23.124 thousands as of 31 December 2007. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Gross amount	Impairment
Up to 3 months	760.282	0
Over 3 months	130.132	23.124
	890.414	23.124

	2007
Movements on the provision for impairment of trade receivables are as follows:	
At 1 January 2007	1.100
Provision for receivables impairment	22.559
Receivables written off during the year as uncollectible	(213)
Translation difference	(322)
At 31 December 2007	23.124

The other classes within trade and other receivables do not contain impaired assets.

15. Credit quality of receivables

The Group assesses the credit quality of receivables by reference to the counterparty operational risk. The receivables are broken into two groups public entities and other entities.

	2007	2006
Trade and other short term receivables:		
Public entities	888.040	973.867
Other entities	1.902.727	1.206.451
	2.790.767	2.180.318
Long-term receivables:		
Public entities	4.110.892	1.738.292
Other entities	179.093	4.280
	4.289.985	1.742.572

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16. Cash and cash equivalents

	2007	2006
Cash at bank and on hand	1.010.111	1.217.755
Short-term bank deposits	172.990	71.692
	1.183.101	1.289.446

17. Deferred income tax liability

Changes to the deferred income tax liability during the year are as follows:

Deferred income tax liability at the beginning of the year	3.133.851
Translation difference	(100.292)
Other items	93.755
Changes due to decrease in tax rate in Denmark, recognised in income statement	(161.710)
Calculated income tax from revaluation moved to equity	51.109
Income tax recognised in income statement	(283.463)
Income tax to be paid for the year	(189.175)
	2.544.077

Deferred income tax liability is as follows:

	2007	2006
Investment properties	2.574.029	2.920.127
Land	299.666	248.557
Instruments in associates	345.189	336.834
Accumulated losses and other items	(674.807)	(371.667)
	2.544.077	3.133.851

Deferred income tax liability is generally equal to the income tax that would be payable, in accordance with tax laws in effect, if the Group's assets were sold or realised at book value.

18. Subordinated loans

Nýsir's previous co-owner of Stofn fjárfestingafélag ehf, has granted it a subordianted loan. According to the terms and conditions of the loan, it is subordinated to other obligations in the event of bankruptcy. The term of the loan is 25 years, indexed and not subject to repayment of principal until 2014. The loan was interest free until the end of 2004, but subsequently it was subject to an increasing interest rate.

Nýsir's co-owners in Salus ehf, have granted it a subordianted loan. According to the terms and conditions of the loan, it is subordianted to other obligations in the event of bankruptcy. The term of the loan is 8 years and is not subject to repayment until the year 2007. The loan bears an interest rate of 7,5%.

Nýsir's co-owner in Hraðbraut ehf. has granted it a subordinated loan. According to the terms and conditions of the loan, it is subordinated to other obligations in the event of bankruptcy. The term of the loan is 8 years, indexed and bearing an interest rate of 5%.

Subordinated loans amounted to ISK 137 million at the end of the year.

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19. Borrowings

Borrowings are as follows:	2007	2006
Long-term portion	29.811.389	18.751.449
Short-term portion:		
Current portion of subordinated loans	2.151	4.070
Payables and other short-term bank loans	530.398	11.178.859
Current portion of long-term borrowings	13.003.237	2.154.471
	13.535.786	13.337.400
Debt in foreign currency:		
Debt owed in foreign currencies:		
Debt owed in USD	982.308	633.544
Debt owed in GBP	4.291.532	3.450.035
Debt owed in JPY	1.984.256	845.888
Debt owed in EUR	5.157.341	2.377.028
Debt owed in CAD	795.391	226.656
Debt owed in DKK	8.991.100	636.200
Debt owed in CHF	2.856.098	1.029.770
Debt owed in ROL	2.093	0
Debt owed in SP2 (currency basket)	27.114	39.423
	25.087.234	9.238.543
Debt in Icelandic krona:		
Non-indexed debt	6.509.679	501.137
Indexed debt	11.217.712	11.166.240
	17.727.391	11.667.376
Total long-term borrowings	42.814.626	20.905.920

Long-term borrowings of the Group, for a total of ISK 42.815 million, are presented as follows in the balance sheet:

	2007	2006
Current portion due within 12 months shown under short-term debt	13.003.237	2.154.471
Repayments with a maturity of one year or later	29.811.389	18.751.449
	42.814.626	20.905.920

Re-payments of the Group´s long-term borrowings are as follows:

Year 2008	13.003.237
Year 2009	1.757.849
Year 2010	3.019.113
Year 2011	3.924.323
Year 2012	10.072.806
Later	11.037.298
	42.814.626

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20. Mortgages

The Group's real estate is subject to registered mortgages and obligations to insure its debt obligations, which contractual payments amounted to 24.696 million at the end of the year.

The following assets have been mortgaged as insurance against debt:

	Contractual payments
Iðnskóli, Flatahrauni 12 Hafnarfirði	740.000
Austurbær, Snorrabraut 37 Reykjavík	69.218
Pre-school, Háholti 17 Hafnarfirði	136.560
Fimleikahús, Haukahrauni 1 Hafnarfirði	356.518
Lækjarskóli, Sólvangsvegi 4 Hafnarfirði	2.184.309
Heilsumiðstöð Laugardal..	3.624.346
Egilshöllin, Fossaleyni 1	3.100.514
Pre-school Vesturbrú 7 í Garðabæ	216.487
Menntaskólinn Hraðbraut, Faxafeni 10	370.037
Real estate and land of Gránufélag ehf	1.162.000
Pre-school, Króki 1 Grindavík	133.559
Reykjavíkurvegur 74, Hafnarfirði	462.379
Apartments at Suðurlandsbraut 58-62	1.852.889
Vessels and related equipment	1.374.629
Buildings in Denmark	8.913.225
	24.696.672

21. Wages, salaries and related expenses

	2007	2006
Salary	2.894.461	948.152
Salary related expenses	405.483	143.940
Capitalized salary and related expenses	(41.182)	(19.080)
	3.258.762	1.073.012

Total compensation to key management personell amounted to ISK 30,8 million.

22. Finance cost - net

Interest expense:		
- borrowings	(3.475.560)	(1.932.388)
- other interest expenses	(198.692)	(119.432)
	(3.674.252)	(2.051.820)
Interest income	243.227	277.677
Foreign exchange gain (loss)	262.428	(414.533)
	(3.168.597)	(2.188.676)

Total capitalised borrowing cost amounted to ISK 110,6 million in the year 2007.

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23. Income tax

	2007	2006
Current tax	(189.175)	(13.657)
Deferred tax	634.347	92.052
	445.173	78.395

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows

Tax calculated at domestic tax rates applicable to profits in the respective countries	536.581	104.779
Permanent differences for tax purposes	(33.136)	(6.580)
Change in tax percentage	161.710	0
Impacts from previously unrecogn. tax losses/asset not recognized and other items	(219.982)	(19.804)
Tax charge	445.173	78.395

The weighted average applicable tax rate was 16% (2006: 14,4%).

Tax calculated at domestic tax rates applicable to profits in the respective countries

24. Retirement benefit obligation

The Group companies in the UK operate a defined benefit pension scheme for employees. The amounts recognised in the balance sheet are determined as follows:

	2007
Present value of scheme liabilities	(75.252)
Fair value of plan assets	107.521
Present value of surplus in in the plan	32.269
Net deferred tax effect	(9.681)
Net pension asset, as a part of other recievables	22.588

The movement in the defined benefit surplus over the year is as follows:

	2007
Beginning of year	26.662
Current service cost (expensed in the income statement as part of salary expenses)	(13.082)
Expected return on assets in the scheme (interest income in the income statement)	5.233
Interest cost (expensed in the income statement as interest expenses)	(3.115)
Actuarial gain (recognised in the income statement as part of salary expenses)	249
Contributions	16.321
Calculated tax	(9.681)
End of year	22.588

The principal actuarial assumptions used were as follows:

	2007
Discount rate	5,4%
Inflation rate	3,3%
Expected return on plan assets	4,8%
Future salary increases	3,0%
Future pension increases	3,3%

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25. Commitments

a) A put option rights of minority shareholders in Nýsir fasteignir hf

The Group has entered into an agreement with some of the shareholders of the subsidiary Nýsir fasteignir hf regarding their right to sell to Nýsi hf their shares (a put option) in Nýsir fasteignir hf at a pre-determined share value in the year 2008. The maximum obligation according to this agreement amounts to ISK 450 million. This obligation is not recognised in balance sheet due to uncertain actual amount.

b) Capital commitments related to current projects

The Aberdeen project:

In December the UK subsidiary NYOP Education (Aberdeen) Limited signed a Private Finance Initiative (PFI) agreement with Aberdeen City Council for the construction, maintenance and operation over a 30 year period of 10 schools and 1 sports centre. Under the terms of this contract substantial construction expenditure will be made under the terms of a fixed price contract negotiated with a third party. Other capital expenditure will also be made and interest payments on loans will be deferred until the schools are commissioned and payments to the company under the contract begin. For these purposes senior loan facilities of ISK 14.913 million (GBP 119,7 million) have been contracted for and this total will be drawn down between December 2007 and September 2010. In addition to the senior loan the Parent company has paid in the project with a ISK 654 million (GBP 5,25 million) sub-debt and has an obligation to provide total of ISK 685 million (GBP 5,5 million) from September 2008 to June 2010. In relation to this obligation a bank guarantee has been provided by a financial institution unrelated to the senior loan provider. The un-paid sub-debt has been offer

The total capitalised amount in the balance sheet at end of year 2007 related to this project is ISK 2.618 million (GBP 21 million) as a long-term recievable (PFI agreement).

The project related to the subsidiary Golf ehf:

The Group is under a contractual obligation to increase the equity in its subsidiary Golf ehf by 60 m ISK in 2008 and 30 m ISK in 2009. The Group has decided to postpone the project until further notice.

The extension of the Reykjavík Arena (Egilshöllin):

The extension of the Reykjavík Arena (Egilshöllin) began in 2006. The new wing will contain various leisure services such as a cinema, bowling alley and restaurant. In June 2007, the Group entered into an agreement with Kringlubíó ehf regarding the construction and lease of four cinema halls in the new wing. A subsidiary of the Nysir Group will rent and operate the bowling alley. The estimated total construction costs of teh new wing is ISK 1.344 million ISK. According to the agreement, the lease is intended to begin in 2008. The lease term, according to the agreement for the cinema is 25 years. The is project has been financed by equity and senior debt from a financial institution.

The Portus Group project:

The Group is a 50% owner of the holding company Eignarhaldsfélagið Portus hf, which is the private partner and lead project developer in the East Harbour Project. The core of the development area is the new National Concert and Conference Centre. Other buildings include a five star hotel, office blocks, retail outlets, residential buildings and a bank building. Equity paid in by Nysir Group in Portus is 955 million ISK. Further equity aggred in this project is 600 million ISK in Situs intended for the hotel building and 250 million ISK for AGO, the operating company. The Groups's board of directors is aware that further equity will be needed in this project, at a minimum of 1.000 - 1.500 million ISK. If the total cost of the project will increase the Group´s obligation might increase proportionally.

The Bifröst University assets:

In August 2007 the Group purchased assets located at the Bifröst University Iceland. Related to the purchase the Group committed to pay certain maintenence and house improvements of an estimated amount of ISK 371 million. This amount can be reimbursed from the lessee through future lease payments.

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c) Operating lease commitments – group company as lessee

At 31 December 2007 the company had annual commitments under non-cancellable operating leases in the UK as set out below.

	Land and buildings	Other Items
Operating leases which expire:		
Within 1 year	9.098	5.150
Within 2 to 5 years	20.265	15.462
After more than 5 years	23.456	0
	52.819	20.611

26. Contingencies

Letters of credit have been issued in the UK arising from the ordinary course of business amounted to ISK 327 million.

27. Related party transactions.

At year-end 2006, the Group took over the vessels and related equipment, along with fishing rights and goodwill from Sæblóm hf, which is owned by the same parties as Nýsir hf. A long-term lease agreement has been entered into by and between the Group and Sæblóm hf for the lease of the assets, which represents the Group's future lease revenue. The asset lease term began in latter part of the year 2008. The receivables, relating to Sæblóm and this transaction, amount to ISK 470 million at the end of the year 2007 including the lease revenue for the year 2007 which are unpaid. Interest were accrued on the balance totalling ISK 1,5 million included in net financial income. No impairment charges have been made on that receivable.

At year end the total reivablables against assosiated companies and other related parties amounted to ISK 127 million.

Subordinated loans to associated company amounted to ISK 76,3 million at the end of the year. The loans are to Fasteignafélagið Lækjarhlíð ehf. and Austurgata ehf.

At year end borrowing from associates amounted to ISK 19 million and unpaid share capital to Eignarhaldsfélagið Portus hf. amounted to ISK 90 million.

28. Other information

a) Share options

A share option has been granted to the CEO. The exercise price of the granted options is equal to the internal value of the share capital on date of the grant 30th June 2007. The option is conditional on the employee completing at least 4 years of service. The option can be exercised starting 2010. The group has a contractual obligation to repurchase or settle the option in cash before mid-year 2012 if the CEO is a good leaver before the end of 2011.

b) Deferred revenue obligations

In 1999, the Group received, as payment in accordance with an agreement relating to the operation of Iðnskólinn í Hafnarfirði, the real estate at Reykjavíkurveg 74. The appraised value of the asset as per the agreement is recorded as debt for pre-paid revenue and will be revenue recognized over the term of the agreement or 25 years. The balance such revenue amounts to ISK 30 million at the end of the year. Other obligations are related to real estate operation in Britain amount to ISK 81,4 million and to Mörkin ehf with amount to ISK 100,6 million.

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29. Events after the balance-sheet date

In March 2008 the Group established the holding comany Meritum that purchased 90% of the shares in the Danish company Creatrix. Creatrix purchased all the shares in Billetlugen A/S, Midi.is ehf. and a Rumenian ticket company. This transaction has been financed and there are no futher obligations related to it.

In March 2008 Operon (IBSEC) purchased 65.3% of the shares in Mediterranean Technical Services Limited in Malta. The transaction has been financed and there are no other obligations related to it.

During the first 3 months of 2008 the ISK has been devalued by 23%. This has resulted in a derivative contract of amount 3.000 million ISK developing unfavourably. This devaluation has also led to an increase in the principal of foreign loans and higher finacial costs. To counter-balance this 75% of the Group's income is in foreign currency and both rental and operating income in Iceland is index linked and will increase substantially over the next few months with growing inflation. Devaluation of the ISK will have a positive effect on the value of assets outside Iceland because 45% of the Group's assets and 75% of the Group's income are foreign based.

30. Financial position of the Group

Due to difficulties in international financial markets and substantial projects under construction the liquidity position of the Group at year-end is rather tight. Current liabilities in the balance sheet are 17 billion ISK at year end. The working capital ratio is 0.28 at the year end 2007 compared to 0.23 at the end of 2006. Short term liabilities as a ratio of total equity and liabilities is lower at the end of 2007 than at year end 2006.

The Group signed an agreement with a financial institution in March 2008 relating to the refinancing of the Group, where the financial institution will be a lead agent in a financial restructuring programme based on a reasonable criteria. In accordance with the agreement the Group intends to sell some of its shares in project companies, properties and operating companies, raise new equity, refinance corporate bonds and assess the possibility of merging some of the Group's activities with another group.

The Group's agreed budget for 2008 reflects considerable growth in income and profits mainly from facilities management contracts through organic growth in the UK and with emphasis on new market areas, such as the Gulf Region, Mediterranean and the Nordic countries. Contracts have been signed that will increase third-party income considerably in some of the Group's facilities, especially sports and leisure centres. Cost savings will be made on regular operations. Business development costs will be reduced considerably in 2008. All these activities will jointly improve the profitability of the Group.

The main reason for high financial costs in 2007 are investments in large development projects under construction that will not yield a permanent income stream until 2009 and 2010. Once the financial restructuring and the budget plan has been implemented the Group´s debts will be substantially reduced, with consequently lower financial costs. It is anticipated that the Group will then be able to meet all obligations which will become due within the next twelve months.

The board of directors has full confidence and comfort in the execution of the financial restructuring plan. However, should the plan not fully materialize, for whatever reasons, a material uncertainty may arise which could cast significant doubt about the Group's ability to carry on as a going concern.

Notes

31. Subsidiaries and consolidated financial statements

At the year end, the principal subsidiaries included in the consolidated financial statements are the following:

Name	Residence	Ownership share	Activity
Nýsir fasteignir hf:	Hafnarfjörður	81,9%	Holding company for properties
Subsidiaries of Nýsir fasteignir ehf:			
Iði ehf	Hafnarfjörður	100%	Björk Sports Centre
Grípir ehf	Hafnarfjörður	100%	Krókur Nursery School
Þekkur ehf	Hafnarfjörður	100%	Álfasteinn Nursery School
Nýtak ehf	Hafnarfjörður	100%	Lækjarskóli Primary School
Engidalur ehf	Hafnarfjörður	100%	Office building, Hafnarfjörður
Hafnarslóð ehf	Hafnarfjörður	100%	Sjáland Nursery School
Teknikum ehf	Hafnarfjörður	100%	Hafnarfjörður
Laugahús ehf	Hafnarfjörður	100%	Centre
Fasteignafélag Austurbæjar ehf	Hafnarfjörður	100%	Centre
Gránufélagið ehf	Akureyri	100%	Leashold properties
Borgarhöllin hf	Hafnarfjörður	100%	Egilshöllin, Reykjavík Arena
Egilshöllin ehf	Hafnarfjörður	100%	Egilshöllin, Reykjavík Arena
Operating companies:			
Stofn fjárfestingafélag ehf	Hafnarfjörður	100%	Holding company
Subsidiaries of Stofn fjárfestingafélag ehf			
Artes ehf	Hafnarfjörður	100%	Café Konditori Copenhagen
Sjáland ehf	Hafnarfjörður	67%	Sjáland Nursery, Operations
Salus ehf	Hafnarfjörður	50%	Primary health care centre
Faxafen ehf	Hafnarfjörður	50%	School building at Faxafen 10
Hraðbraut ehf	Hafnarfjörður	50%	Hraðbraut High School
Heilsuakademían ehf	Hafnarfjörður	60%	Health Academy
Skotsilfur ehf	Hafnarfjörður	100%	Investment company
Miði.is ehf	Hafnarfjörður	55,5%	Operating company
Mostur ehf	Hafnarfjörður	100%	Bifröst Univerity assets
Laxnesbúið ehf	Hafnarfjörður	70%	Land at Laxnes II
Nýsir international ehf	Hafnarfjörður	100%	Holding company, international
Subsidiaries of Nýsir international ehf			
Nýsir Danmark ApS	Denmark	100%	Holding company
Jehl ApS Tiegtens Have	Denmark	100%	Property holding and operations
Jehl ApS Atriumhuset	Denmark	100%	Property holding and operations
Nýsir þróunarfélag ehf	Hafnarfjörður	100%	Holding company, developments
Subsidiaries of Nýsir þróunarfélag ehf			
Golf ehf	Hafnarfjörður	83%	Developments company
Viðskiptahöllin ehf	Hafnarfjörður	100%	Property holding company
Nýsir UK ltd.	Britain	100%	Property holding and operations
Subsidiaries of Nýsir UK ltd.			
NYOP Ruthin Ltd.	Britain	100%	Holding company
Neptune PFI Ruthin Limited	Britain	100,0%	PFI Special purpose company
Operon	Britain	69%	"Operon")
NYOP Education (Aberdeen) Holdings Ltd	Britain	100,0%	Holding company
NYOP Education (Aberdeen) Ltd	Britain	100,0%	PFI Special purpose company
Other subsidiaries:			
Fasteignastjórnun ehf	Hafnarfjörður	100%	Facilities management services
Fænus ehf	Hafnarfjörður	100%	Ownership of ships and tools
Nýsir Malta Ltd.	Malta	100%	Development project
Mörkin eignarhaldsfélag ehf	Hafnarfjörður	100%	Building for senior living
Operon international ehf	Hafnarfjörður	100%	Operating company

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