

Atorka Group hf

**Parent Company Separate
Financial Statements 2007**



Index

Pages

The Board of Director's and the CEO Report.....	2
Independent Auditors' s Report.....	3
Income Statement.....	4
Balance Sheet.....	5
Statement of Changes in Shareholders' Equity.....	6
Statement of Cash Flow.....	7
Notes to the Financial Statements.....	8 - 21

Atorka Group hf., Id no. 600390-2289
Hlíðasmára 1
201 Kópavogur
www.atorka.com

The Board of Director's and the CEO Report

Atorka Group hf, (the Company), is a progressive international investment company. Atorka's main investment strategy is to invest in companies with strong cash flow generation, experienced management and growth potential, organic or external. Atorka looks, in general, to hold its investments for three to five years depending on an overall estimate for each given investment.

These Financial Statements for the parent company Atorka Group hf have been prepared in addition to the Group's Consolidated Financial Statements for the same period. The reason for preparation of the Separate Parent Company Financial Statements is to present all investments, controlling and non-controlling, at fair value based on the management's view and intention to develop and resell all investments rather than operate these companies for a long period of time.

It is the Board's opinion that all information necessary to perceive the parent company's status as at 31 December 2007, its operational results for the year 2007 and the parent company's financial development is presented in the Financial Statements. The parent company's net profit after taxes amounted to ISK 8.141 million. The parent company's equity amounted to ISK 23.376 million and the parent company's equity ratio is 37,51% at the end of the year.

Users of these Separate Parent Company Financial Statements should read them together with the Consolidated Financial Statements for the Group for the year 2007 in order to obtain complete information on the financial position, results of operations and changes in financial position of the Company and the Group. The Consolidated Financial Statements have been approved and publicly filed at the same time as these Separate Financial Statements.

At year-end the Company's shareholders numbered 4.901 compared to 5.053 as of beginning of the year. Skessa ehf which holds 10,89% in the Company, is the only shareholder with a stake over 10%.

The board of directors suggests that a dividend amounting to 2.111 million, 0,65 per share, to be paid in the year 2008, but refers to the financial statements regarding appropriation of the year's net profit and changes in shareholders' equity.

The Board of Directors and Chief Executive Officer hereby ratify the Parent Company Separate Financial Statements of Atorka Group hf for the year 2007 with their signatures.

Kópavogur, 21 February 2008.

Board of Directors of Atorka Group hf

Þorsteinn Vilhelmsson

Karl Axelsson

Hrafn Magnússon

Örn Andrésson

Ólafur Njáll Sigurðsson

Chief Executive Officer of Atorka Group hf

Magnús Jónsson

Independent Auditor's Report

To the shareholders and Board of Directors of Atorka Group hf.

We have audited the accompanying parent company separate financial statements of Atorka Group hf. which comprise the income statement for the year 2007 and the balance sheet as of 31 December 2007, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these parent 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 parent company separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from

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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying parent company separate financial statements give a true and fair view of the financial position of the Company 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.

Reykjavík, 21 February 2008.

PricewaterhouseCoopers hf

Kristinn Freyr Kristinsson

Sighvatur Halldórsson

Income Statement for the year 2007

		2007	2006	2007	2006
	Notes	01.10 - 31.12	01.10 - 31.12	01.01 - 31.12	01.01 - 31.12
Financial income					
Interest income and other financial income.....		561.185	127.664	826.668	384.994
Dividend income.....	5	42.766	5.475	155.603	1.121.835
Fair value changes on investments and other financial assets.....	6	751.313	2.121.772	10.034.043	9.240.468
(Loss) gain on forward currency and interest rate swaps.....		(402.207)	0	(65.743)	0
		<u>953.058</u>	<u>2.254.911</u>	<u>10.950.572</u>	<u>10.747.297</u>
Financial expenses					
Interest expenses.....		(1.052.123)	(492.192)	(3.954.430)	(1.876.484)
Net foreign exchange loss.....		(217.599)	(42.236)	127.110	(42.236)
		<u>(1.269.722)</u>	<u>(534.428)</u>	<u>(3.827.320)</u>	<u>(1.918.720)</u>
Net financial income		<u>(316.665)</u>	<u>1.720.483</u>	<u>7.123.252</u>	<u>8.828.577</u>
Operating expenses					
Administration cost.....		158.734	95.923	632.162	475.499
Other operating expenses.....		<u>112.833</u>	<u>25.956</u>	<u>274.603</u>	<u>381.397</u>
		271.567	121.880	906.765	856.896
Net (loss) profit before taxes		(588.232)	1.598.603	6.216.487	7.971.681
Income tax.....	7	<u>1.958.869</u>	<u>(286.763)</u>	<u>1.924.330</u>	<u>(1.232.740)</u>
Net profit		<u><u>1.370.637</u></u>	<u><u>1.311.840</u></u>	<u><u>8.140.818</u></u>	<u><u>6.738.941</u></u>
Earnings per share					
	15	0,46	0,46	2,58	2,32
Diluted earnings per share					
	15	0,44	0,46	2,55	2,32
Income statement by quarters	22				

The notes on pages 8 - 21 are an integral part of these financial statements.

Balance Sheet as of 31 December 2007

	Notes	31.12.2007	31.12.2006
Assets			
Non-current assets			
Loans and other receivables.....	8	<u>2.453.506</u>	<u>4.293.996</u>
Current assets			
Loans and other receivables.....	8	617.354	741.235
Financial assets at fair value through profit and loss.....	9	48.928.606	33.271.552
Derivative financial instruments.....	14	51.397	0
Cash and cash equivalents.....	10	<u>10.274.627</u>	<u>4.721.197</u>
		59.871.983	38.733.984
Total assets		<u><u>62.325.489</u></u>	<u><u>43.027.980</u></u>
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital.....	11	3.248.045	3.066.617
Share premium.....		5.862.131	4.688.972
Other reserve.....	17	841.252	650.872
Retained earnings.....		<u>13.424.294</u>	<u>8.819.559</u>
Total shareholders' equity		23.375.723	17.226.020
Liabilities			
Non-current liabilities			
Deferred tax liability.....	7	0	1.924.330
Borrowings.....	12	<u>34.384.934</u>	<u>18.854.738</u>
		34.384.934	20.779.069
Current liabilities			
Trade and other payables.....	13	650.138	357.551
Borrowings.....	12	3.349.105	4.665.341
Derivative financial instruments.....	14	<u>565.589</u>	<u>0</u>
		4.564.832	5.022.892
Total liabilities		38.949.766	25.801.960
Total shareholders' equity and liabilities		<u><u>62.325.489</u></u>	<u><u>43.027.980</u></u>

The notes on pages 8 - 21 are an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Other reserve	Retained earnings	Total
Balance at 1 January 2006	2.741.737	3.114.687	315.975	3.571.830	9.744.229
Net profit for the year.....				6.738.941	6.738.941
Total recognized income for the period	0	0	0	6.738.941	6.738.941
Purchase of treasury shares.....	(713.510)	(3.674.965)			(4.388.475)
Sales of treasury shares.....	1.038.390	5.249.250			6.287.640
Merger with Volcano Finance ehf.....				1.037	1.037
Merger with Lif hf.....				(182.310)	(182.310)
Dividend.....				(975.041)	(975.041)
Contribution to legal reserve.....			334.897	(334.897)	0
Balance at 31 December 2006	<u>3.066.617</u>	<u>4.688.972</u>	<u>650.872</u>	<u>8.819.559</u>	<u>17.226.020</u>
Balance at 1 January 2007	3.066.617	4.688.972	650.872	8.819.559	17.226.020
Net profit for the year.....				8.140.818	8.140.818
Total recognized income for the period	0	0	0	8.140.818	8.140.818
Purchase of treasury shares.....	(375.462)	(2.773.493)			(3.148.955)
Sales of treasury shares.....	556.891	3.946.652			4.503.543
Dividend.....				(3.374.944)	(3.374.944)
Accrued stock options.....			29.241		29.241
Contribution to legal reserve.....			161.139	(161.139)	0
Balance at 31 December 2007	<u>3.248.045</u>	<u>5.862.131</u>	<u>841.252</u>	<u>13.424.294</u>	<u>23.375.723</u>

Further explanation of shareholders equity items, see note 11, 15, 16 and 17.

Statement of Cash Flow for the year 2007

	2007	2006
Cash flow from operating activities		
Net earnings.....	8.140.818	6.738.941
Items not affecting cash:		
Fair value changes on investments and other financial assets.....	(10.111.936)	(9.366.849)
Income tax.....	(1.924.330)	1.601.148
Other changes.....	2.031.443	(270.133)
Working capital to operating activities	(1.864.006)	(1.296.893)
Changes in operating assets:		
Trade and other receivables, decrease (increase).....	181.489	(417.937)
Current liabilities, increase (decrease).....	(463.207)	(84.673)
	(281.718)	(502.610)
Net cash (to) from operating activities	(2.145.724)	(1.799.503)
Cash flows (to) investment activities		
Purchase of shares in companies.....	(40.680.579)	(18.008.046)
Proceeds from sale of shares in companies.....	35.128.876	15.111.400
Loans granted.....	1.784.965	(2.084.796)
	(3.766.738)	(4.981.442)
Cash flows from financing activities		
Proceeds from issue of shares.....	(669.602)	(2.331.157)
Dividends paid.....	(1.344.759)	(975.041)
New long-term liabilities.....	27.728.458	10.841.465
Payments of long term liability.....	(14.248.206)	(900.000)
	11.465.891	6.635.267
Increase (decrease) of cash	5.553.429	(145.678)
Cash at beginning of the year.....	4.721.198	878.991
Cash from Volcano Finance ehf and Líf hf.....	0	3.987.885
Cash at end of year	10.274.627	4.721.198

The notes on pages 8 - 21 are an integral part of these financial statements.

Notes to the Financial Statements

1. General information

Atorka Group hf (the Company) is an investment company, listed on the OMX Nordic Exchange in Iceland and is included in the OMXI-15 index. Atorka invests in companies on global growth markets and supports growth both internal and external. In its investments, Atorka emphasises companies characterised by solid operations and strong cash flow, strong management, promising conditions for internal and external growth, and opportunities for value enhancement.

The Company is a limited liability company incorporated and domiciled in Iceland. The address of its registered office is Hlíðasmári 1, Kópavogur.

These Parent Company Separate Financial Statements have been approved by the Board of Directors on 21 February 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set forth below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Parent Company Separate Financial Statements of Atorka Group hf have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Parent Company Separate Financial Statements reflect the IFRS and interpretations issued and effective as of 31 December 2007.

IFRS, as adopted by the EU, depart from full IFRS in the following areas, relating to the Company'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 Company will apply it as soon as 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).

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 Separate Financial Statements.

IFRS 4, 'Insurance contracts': This standard does not have any impact on the Company's Separate 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'

The following standard has been published and is mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods. The standard has been adopted by the EU, but the Company has not early adopted it:

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 Company will apply IFRS 8 from 1 January 2009.

Notes to the Financial Statements

The Company has also prepared Consolidated Financial Statements in accordance with IFRS for the Company and its subsidiaries ("the Group"). In the Consolidated Financial Statements all subsidiaries are accounted for in accordance with IAS 27 - Consolidated and Separate Financial Statements. The substance for such accounting in the Consolidated Financial Statements and in the Separate Parent Company Financial Statements is the requirement in IAS 27 - Consolidated and Separate Financial Statements. Further explanation of different accounting and measurements are given in relevant notes.

Users of these Separate Parent Company Financial Statements should read them together with the Consolidated Financial Statements for the Group for the year ended 2007 in order to obtain complete information on the financial position, results of operations and changes in financial position of the Company and the Group. The Consolidated Financial Statements have been approved and publicly filed at the same time as these Separate Parent Company Financial Statements.

The difference in the results for the year 2007 between these two reporting entities e.g. Separate Parent Company Financial Statements and the Consolidated Financial Statements for the Group relate to different measurements and presentation of investments in subsidiaries. In these Separate Financial Statements the fair value adjustments of the investments in subsidiaries are accounted in the income statement, as described in note 2.5, together with dividend income from the subsidiaries. In the Consolidated Financial Statements all subsidiaries are consolidated in accordance with the equity accounting method. The difference in the after tax net result, for these two reporting entities, for the year can be described as follows:

	2007	2006
The Parent Company net profit for the year	8.140.818	6.738.941
Fair value adjustments and dividend income from controlling companies	(13.765.566)	(6.615.098)
Share in net profit (loss) of controlling companies (subsidiaries)	4.880.758	(539.599)
Other differences	(155.414)	(70.435)
The Group's net profit	<u>(899.404)</u>	<u>(486.191)</u>

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 Company will apply IFRS 8 from 1 January 2009.

The Company has also prepared Consolidated Financial Statements in accordance with IFRS for the Company and its subsidiaries ("the Group"). In the Consolidated Financial Statements all subsidiaries are accounted for in accordance with IAS 27 - Consolidated and Separate Financial Statements. The substance for such accounting in the Consolidated Financial Statements and in the Separate Parent Company Financial Statements is the requirement in IAS 27 - Consolidated and Separate Financial Statements. Further explanation of different accounting and measurements are given in relevant notes.

Users of these Separate Parent Company Financial Statements should read them together with the Consolidated Financial Statements for the Group for the year ended 2007 in order to obtain complete information on the financial position, results of operations and changes in financial position of the Company and the Group. The Consolidated Financial Statements have been approved and publicly filed at the same time as these Separate Parent Company Financial Statements.

The difference in the results for the year 2007 between these two reporting entities e.g. Separate Parent Company Financial Statements and the Consolidated Financial Statements for the Group relate to different measurements and presentation of investments in subsidiaries. In these Separate Financial Statements the fair value adjustments of the investments in subsidiaries are accounted in the income statement, as described in note 2.6, together with dividend income from the subsidiaries. In the Consolidated Financial Statements all subsidiaries are consolidated in accordance with the equity accounting method. The difference in the after tax net result, for these two reporting entities, for the year can be described as follows:

The Separate Parent Company Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets (including derivative instruments) at fair value through profit or loss. In separate statements, such as these, the focus is upon the performance of all the assets as investments.

The preparation of Separate Parent Company Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

2.2 Consolidation and accounting treatment of controlling investments

Controlling companies (subsidiaries):

The Separate Parent Company Financial Statements are separate financial statements for the parent company, prepared in addition to the Consolidated Financial Statements. Consolidated Financial Statements for the Company and all its principal subsidiaries ("the Group") as listed in note 24 have also been prepared. All investments in subsidiaries are accounted at fair value in accordance with IAS 39 - Financial instruments: Recognition and Measurement, based on article 37 b) in IAS 27 - Consolidated and Separated Financial Statements in these Parent Company Financial Statements. Further analysis of the accounting treatment is in note 2.6.

Notes to the Financial Statements

2.3 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with a positive market value are capitalized but derivatives with negative market value are recorded as a liability.

The Company has committed in derivatives to diminish its currency risk. All shifts in derivatives fair value are immediately declared to the income statement. The Company does not designate any derivative as an hedging instruments and therefore does not use hedge accounting based on the IFRS requirements.

2.4 Foreign currency translation

Functional and presentation currency

The Parent Company Separate Financial Statements are presented in thousand ISK, which is the Company's functional and presentation currency.

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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.5 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's 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 flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Investments

The Company classifies its investments as financial assets at fair value through profit or 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

According to IAS 39, management may classify financial assets in this category when initially recognised. Financial assets are classified as designated at fair value through profit or loss when:

Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personell on that basis are designated at fair value through profit and loss.

Such financial assets are reported on the balance sheet at current fair value and changes recognised in the income statement. Dividend income is recognised in the income statement as part of dividend income when the Company's right to receive payments is established. The classification of financial assets placed in this category cannot be changed after their original classification.

Purchases and sales of investments are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. Transaction costs are, however, not included in the initial cost of financial assets designated at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Realized and unrealized gains and losses, arising from changes in the fair value of the financial assets at fair value through profit or loss category, are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

If the fair value is based on discounted cash flow analysis valuation it is performed by independent third party.

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

Notes to the Financial Statements

2.7 Loans and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The changes of the provision is recognized in the income statement.

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

2.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

2.11 Borrowings

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

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

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. 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 deferred income tax liability is settled.

The principal temporary differences arise from fair value changes of certain financial assets. Temporary differences also include tax losses carried forward.

2.13 Revenue recognition

Interest income:

Interest income is recognized in the income statement using the effective interest method for all financial instruments stated at cost.

Dividend income:

Dividend income is recognized when the right to receive payment is established.

Notes to the Financial Statements

2.14 Share capital

Share issue costs

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Share premium

Share premium represents excess payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company.

Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the period in which the dividends are approved by the Company's shareholders.

Treasury shares

Where the Company purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.15 Employee benefits

Pension obligation

The Company has defined contribution plan, where the Company pay fixed contributions to publicly or privately administered pension insurance plans on a mandatory, contractual, or voluntary basis. The Company has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense when they become due.

Share based compensation

The Company has entered into share-based contracts with its employees, which enable employees to buy shares in the Company at market price. Under these contracts the employee has the right to receive, and the Company the obligation to pay, a cash payment, representing the shortfall between the market share price and the strike price according to the contract. These contracts are cash settled share based contracts under IFRS 2. On each reporting date an obligation will be treated as a liability, if the fair value of the strike price under the contract exceeds the market price, and treated as an employee cost in the income statement.

The Company has entered into stock contracts with its employees enabling them to acquire shares in the Company. In all instances the exercise price corresponds to the market value of the shares at grant date. Cost related to the stock option agreements is expensed during the vesting period based on the related terms.

All stock options are equity settled share-based compensation, and the Group recognises the fair value of the services received as an expense in the period that these services are received.

The Company uses the Black-Scholes valuation model to determine the fair value of options granted. The significant inputs into the model were share prices at grant date, exercise price, the volatility of standard deviation of expected share price, dividend yield and the a risk free interest rate.

Profit-sharing and bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.16 Comparatives

Where applicable comparative amounts have been adjusted to conform with changes in presentation in the current year.

3. Critical accounting estimates and judgements in applying accounting policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimate based on these assumptions will by definition seldom be equivalent to the relevant real outcome. The discussion below examines estimates and assumptions, which involve a substantial risk of causing material correction to the carrying amounts of assets and liabilities within the next financial year.

Fair value of investments:

The Company reviews the fair value of all investments, including investments in controlling companies, on every reporting date. The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as market risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Notes to the Financial Statements

4. Financial risk management

4.1 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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.

The table below analyses the Company's financial liabilities and net-settled derivative 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, including estimated interest payments.

It is the company's policy to have at any given time minimum available cash or highly liquid assets to meet current commitments.

	Carrying amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2007					
Trade and other payables	650.138	650.138	0	0	0
Derivative financial instruments	514.192	(100.227)	(182.610)	(243.612)	0
Borrowings	37.734.039	5.764.853	16.677.877	21.348.970	0
	<u>38.898.369</u>	<u>6.314.765</u>	<u>16.495.267</u>	<u>21.105.359</u>	<u>0</u>
	Carrying amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2006					
Trade and other payables	357.551	357.551	0	0	0
Derivative financial instruments	0	0	0	0	0
Borrowings	23.520.079	6.550.570	1.684.840	13.003.041	7.164.660
	<u>23.877.630</u>	<u>6.908.120</u>	<u>1.684.840</u>	<u>13.003.041</u>	<u>7.164.660</u>

4.2 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions and loans and other receivables.

The following table represents a worst case scenario of credit risk exposure to the Company at 31 December 2007 and 2006. For on balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.

	Maximum exposures	
	2007	2006
Loans and other receivables	3.070.860	5.035.231
Bonds	25.292	43.918
Derivative financial instruments	51.397	0
Cash and cash equivalents	10.274.627	4.721.197
	<u>13.422.175</u>	<u>9.800.346</u>

None of loans and receivables are past due.

Notes to the Financial Statements

4.3 Market risk

Market risk is the risk arising from the impact of changes in market prices on the value of the Company's assets and liabilities. This includes interest rate, equity risk as well as currency risk.

Interest rate risk

If the market interest rates had been 100 basis points higher (lower) at December 31, 2007, profit or loss would have been ISK 348,2 million (December 31, 2006: ISK 187,8 million) higher (lower) .

Currency risk

If the ISK had gained (lost) 10 percent against all currencies at December 31, 2007, net financial income would have been ISK 1.047,9 million (December 31, 2006: ISK 1.427,5 million) higher (lower).

Notes to the Financial Statements

5. Dividend income	2007	2006
Dividend income from controlling investments	0	1.000.000
Dividend income from other investments	155.603	121.835
	<u>155.603</u>	<u>1.121.835</u>

6. Fair value changes on investments and other financial assets	2007	2006
Realized profit on shares	430.064	1.072.872
Net gain on controlling investments designated at fair value through p/l	9.639.378	7.816.892
Net (loss) gain on other financial assets designated at fair value through p/l	(26.299)	767.696
Fair value adjustments of derivatives	(9.100)	(416.992)
	<u>10.034.043</u>	<u>9.240.468</u>

The fair values of listed investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The fair value of the controlling investments are based on discounted cash flow analysis performed by independent party. Future cash flows from the underlying operation of these investments are discounted to current value based on standard discounted cash flows techniques. Underlying assumptions are based on management operational and capital expenditures budgets, taking into account a conservative future growth and conservative discount rates.

7. Deferred tax liability

Change in income tax liability during the year is as follows:

	2007	2006
Beginning of year	1.924.330	323.183
Merger with Lif hf	0	368.407
Income statement charge	(1.924.330)	1.232.740
Income tax payable	0	0
Income tax liability at end of the year	<u>0</u>	<u>1.924.330</u>

Deferred income tax liability analyses on the following items:

Financial assets	0	2.277.798
Taxable loss carried forward	(985.255)	(350.945)
Other items	(14.004)	(2.522)
Net deferred tax asset not recognized	999.259	0
	<u>0</u>	<u>1.924.330</u>

At 31 December 2007 deferred tax liability is not recognized for temporary differences related to an investment in subsidiaries because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future. For the same reason the company is not recognizing net deferred tax asset which is in major aspects coming from taxable loss carried forward. Even though the deferred tax asset is not recognized the company's management believe it will be used in foreseeable future against taxable income.

Notes to the Financial Statements

The tax on the company's profit before tax differs from domestic tax rate (18%) as follows:

	2007	2006
Profit before tax	6.216.487	7.971.681
Calculated tax (18%)	1.118.968	1.434.903
Tax charge	(2.887.695)	0
Dividend income	(155.603)	(202.163)
	<u>(1.924.330)</u>	<u>1.232.740</u>

8. Loans and other receivables

	2007	2006
Loans to controlling companies	2.014.443	4.317.096
Other receivables	1.056.417	718.135
	<u>3.070.860</u>	<u>5.035.231</u>
Non-current portion of loans and other receivables	2.453.506	4.293.996
Current portion of loans and other receivables	617.354	741.235
	<u>3.070.860</u>	<u>5.035.231</u>

The maturity of non-current loans and other receivables is as follows:

Payments between 1 and 2 years	72.966	464.143
Payments between 3 and 5 years	2.046.464	3.829.853
Over 5 years	334.076	0
	<u>2.453.506</u>	<u>4.293.996</u>

Terms of loans to controlling companies are comparable to market terms. No impairment charges have been made against loans or other receivables.

9. Financial assets at fair value through profit and loss

	2007	2006
Equity securities		
Domestic		
Listed	5.699.149	791.682
Unlisted in controlling companies	27.584.785	27.347.827
Other unlisted	53.014	138.236
	<u>33.336.948</u>	<u>28.277.745</u>
Foreign		
Listed	15.422.988	4.942.766
Unlisted	143.377	7.122
	<u>15.566.365</u>	<u>4.949.889</u>
Domestic bonds	25.292	43.918
Total	<u>48.928.606</u>	<u>33.271.552</u>

The above equity securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy, and where information about the groups of financial instruments is reported to management on that basis.

In third quarter 2007 share capital in controlling company was decreased by ISK 7.500 millions due to transfer of cash and cash equivalents from subsidiary to parent company. The net result for the parent company (Atorka) is that cash and cash equivalents are increased by same amount that investment in unlisted controlling companies decreased by.

Notes to the Financial Statements

10. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2007	2006
Bank balance	896.992	4.721.197
Marketable securities	9.377.634	0
Cash and cash equivalents	<u>10.274.627</u>	<u>4.721.197</u>

11. Share capital

Summary of share capital:

	2007	2006
Total authorized number of shares	3.373.650	3.373.650
Treasury shares	(125.605)	(307.033)
	<u>3.248.045</u>	<u>3.066.617</u>

12. Borrowings

Summary of borrowings:

	2007	2006
Non-current		
Bank borrowings, ISK REIBOR (1, 3 and 6 months) plus fixed premium	15.950.882	4.480.680
Bank borrowings, ISK Fixed 15,55% interest	1.135.319	0
Bank borrowings, GBP 3 months LIBOR plus fixed premium	3.764.037	2.034.041
Bank borrowings, EUR 3 months LIBOR plus fixed premium	516.096	526.064
Bank borrowings, EURIBOR (3-6 months) plus fixed premium	2.537.064	0
Index linked liabilities, ISK fixed 4,9% - 5,8% interest	<u>10.481.536</u>	<u>11.813.953</u>
	34.384.934	18.854.738
Current		
Borrowings, ISK	393.897	4.423.487
Bank borrowings, LIBOR and EURIBOR plus fixed premium	2.100.671	0
Index linked liabilities, ISK	<u>854.536</u>	<u>241.854</u>
	3.349.105	4.665.341
Total borrowings	<u>37.734.039</u>	<u>23.520.079</u>

The maturity of non-current borrowings is as follows:

Payments between 1 and 2 years	14.520.060	584.028
Payments between 3 and 5 years	19.864.874	11.106.050
Over 5 years	<u>0</u>	<u>7.164.660</u>
	<u>34.384.934</u>	<u>18.854.738</u>

Index linked liabilities are linked to the Icelandic Consumer Price Index.

The company has entered into currency swap agreements to hedge against currency risk from investments in currencies other than ISK. Whereas these agreements are in some cases for longer periods than 1 year the interest rate difference is calculated at net present value resulting in lower net interest income than is realized in real. Net asset and liability from the agreements are shown in note 14.

Notes to the Financial Statements

13. Trade and other payables

Trade payables	92.536	31.428
Other payables	557.602	326.123
	<u>650.138</u>	<u>357.551</u>

14. Derivative financial instruments

Summary of derivative financial instruments at year end 2007:

	Carrying amount	
	Assets	Liabilities
Forward currency option agreements	0	3.782
Interest rate swap	51.397	561.807
	<u>51.397</u>	<u>565.589</u>

15. Earnings per share

Basic

Earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2007	2006
Net profit attributable to shareholders	8.140.818	6.738.941
Weighted average number of outstanding shares in issue	3.157.331	2.904.177
Earnings per share (ISK per share)	2,58	2,32

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercised of the share options.

	2007	2006
Net profit attributable to shareholders	8.140.818	6.738.941
Weighted average number of outstanding shares in issue	3.157.331	2.904.177
Adjustments for share options	28.971	0
Weighted average number of outstanding shares in issue and diluted potential ordinary shares	<u>3.186.302</u>	<u>2.904.177</u>
Diluted earnings per share (ISK per share)	2,55	2,32

Notes to the Financial Statements

16. Dividends per share

The dividends paid in 2007 and 2006 were 3.375 million ISK and 975 million ISK respectively or ISK 1,1 per share in 2007 and ISK 0,3 per share in 2006.

17. Other reserve

Other reserves are specified as follows:

	Legal reserve	Share options reserve	Total
Other reserve 31. December 2005	315.975	0	315.975
Contribution to legal reserve	334.897		334.897
Other reserve 31. December 2006	650.872	0	650.872
Accrued stock options		29.241	29.241
Contribution to legal reserve	161.139		161.139
Other reserve 31. December 2007	812.011	29.241	841.252

Share options reserve

The reserve includes the accrued part of the fair value of share options. This reserve is reversed if the share options are forfeited and is transferred to share premium if share options are exercised.

Legal reserve

According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

18. Directors' terms of employment and related matters

Compensation to top management for their work for the Company and their shares in the Company are as follows:

	Wages and benefits	Stock options contracts 2008 - 2010	Shares at the end of year	Exercise price
Magnús Jónsson, CEO	117.434	60.000	464.088	5,716
Two managing directors and a former managing director	132.259	27.000	38.834	5,716/10,18
Þorsteinn Vilhelmsson, chairman	6.700		1.083.877	
Hrafn Magnússon, board member	3.400		1.019	
Karl Axelsson, board member	3.150		103.749	
Örn Andrússon, board member	3.200		214.081	
Ólafur Njáll Sigurðsson, board member	2.900		2.426	
	269.042	87.000	1.907.875	

Shares at the end of the year refers to holdings in the name of the parties in question themselves, their spouses, children who are not financially competent or legal entities in which they are involved

In the year 2005 the Company entered into a contractual relationship with the CEO and a managing director. These key employees of the Company have the right to receive, and the Company the obligation to pay, cash payment representing the shortfall between the market share price and the strike price according to the contract. This obligation will be active in a three years pro-rata vesting period starting from the contract date of 30 September and 28 December 2005.

The nominal amount of shares related to the contracts with the two key employees are in total 80 million ISK and the CEO holds ISK 45 millions but the managing director ISK 35 million. The market price on the contract date was 6,05 per share and the strike price, when exerciseable, will represent that price plus accrued interest calculated from the contract date. The accounting treatment of this contract in the 2007 financial statements is based on cash settled share based contract under IFRS 2 and on each reporting date an obligation will be treated as a liability if the fair value of the strike price under the contract exceeds the market price on the reporting date. At year end 2007 the strike price plus interest did not exceed the market price resulting in no liability at the year end.

Notes to the Financial Statements

19. Stock options

All open stock options are listed in the tables below in thousands of shares:

Stock options outstanding 31. December 2006	0
New options issued	99.000
Stock options outstanding 31. December 2007	99.000

	Thousand of shares	Exercise price
Options exercisable in 2008	31.000	5,716
Options exercisable in 2008	2.000	10,18
Options exercisable in 2009	31.000	5,716
Options exercisable in 2009	2.000	10,18
Options exercisable in 2010	31.000	5,716
Options exercisable in 2010	2.000	10,18
	<u>99.000</u>	

20. Related-parties

The Company has not granted any loans to the members of the Board of Directors or to the top management persons. That includes also all companies owned by these persons.

Loans to controlling companies are described in note no. 8. These loans are all granted at arms length terms and no impairment charges have been made against these loans.

21. Fee to Auditors

	2007	2006
Audit of financial statements	9.118	8.858
Review of interim financial statements	8.973	10.012
Other services	36.096	21.666
	<u>54.187</u>	<u>40.536</u>

Amounts include value added tax

22. Income statement by quarters

	4 quarter 2007	3 quarter 2007	2 quarter 2007	1 quarter 2007	4 quarter 2006
Net financial income.....	(316.665)	1.048.688	2.985.427	3.405.802	1.720.483
Operating expenses.....	<u>(271.567)</u>	<u>(158.078)</u>	<u>(181.065)</u>	<u>(296.054)</u>	<u>(121.880)</u>
Net profit before taxes.....	(588.232)	890.610	2.804.362	3.109.748	1.598.603
Income tax.....	1.958.869	(156.347)	199.839	(78.031)	(286.763)
Net profit of the period.....	<u>1.370.637</u>	<u>734.262</u>	<u>3.004.201</u>	<u>3.031.717</u>	<u>1.311.840</u>

Notes to the Financial Statements

23. Salaries and related expenses	2007	2006
Salaries	357.079	108.841
Social security and pension costs	58.774	25.114
	<u>415.853</u>	<u>133.955</u>

At year end 2007 number of employees were 10 (7 at year end 2006).

24. Principal controlling companies (subsidiaries)

At the period end the Company owned controlling stakes in the following companies (subsidiaries). The accounting treatment for these investments in the Parent Company Separate Financial Statements is in accordance with IAS 39 based on article 37 b) in IAS 27.

Name of subsidiary	Location	Ownership	Principal activity
Eignarhaldsfélagið BPF hf	Iceland	100%	Holding company
BPF hf.	Iceland	100%	Holding company
Eignarhaldsfélagið Beta ehf	Iceland	100%	Holding company
Volcano fjárfesting ehf	Iceland	100%	Holding company
Volcano Holding BV	Holland	100%	Holding company
Renewable Energy Resources ehf	Iceland	100%	Holding company
Eirhöfði 2-4 ehf	Iceland	100%	Holding company
Eirhöfði 15 ehf	Iceland	100%	Holding company
Björgun ehf	Iceland	100%	Operating company
Atorka Holding BV	Holland	100%	Holding company
Promens hf	Iceland	84%	Holding company
Star Aquisitionco AS	Norway	100%	Holding company
Polimoon ASA	Norway	100%	Operating company
Promens International	Holland	100%	Holding company
Eignarhaldsfélagið Bolar hf	Iceland	100%	Holding company

25. Other matters

Litigations

Björgun ehf, a wholly owned subsidiary, brought a case before the Icelandic Supreme Court challenging the government's decision to unilaterally remove a license to mine minerals from the bottom of the sea. The mining license expires in the year 2020. Björgun ehf has demanded compensations from the Icelandic government if the license will not be re-issued.

A court verdict regarding environmental sustainability and request for permanent mining rights in Kollafirði, Hvalfirði, and Faxaflóa is expected by mid-year 2008, but work will continue based on a temporary license which expires in the fall of 2008.

In addition, a discussion from Faxaflóahafnir and the city of Reykjavik is pending regarding development plans for a new work site and approval for redevelopment of the current location.