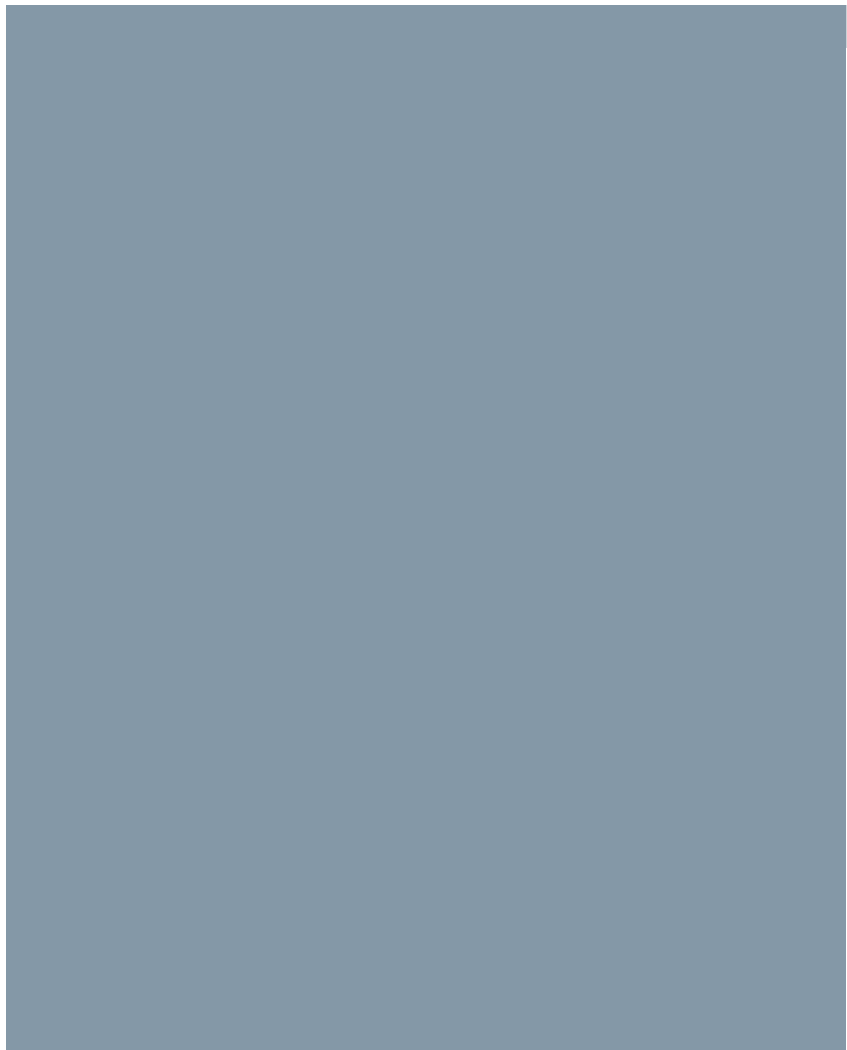




ÚTGEFANDALÝSING

MILESTONE EHF.



EFNISYFIRLIT

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1 ÁHÆTTUÞÆTTIR

Útgefandi telur að neðangreindir áhættuþættir geti haft áhrif á möguleika hans til að standa við skuldbindingar sínar. Áhættuþættir þessir eru háðir óvissu og því er Útgefanda ekki mögulegt að segja til um líkur á því að þeir geti átt sér stað. Upptalningin er ekki tæmandi og því er mögulegt að Útgefandi geti ekki staðið við skuldbindingar sínar vegna annarra þátta sem ekki eru taldir áhættuþættir á grundvelli þeirra upplýsinga sem nú liggja fyrir. Þeir þættir sem taldir eru upp hér að neðan geta haft áhrif á tekjur, eigið fé, eignir og/eða aðra þætti í rekstri félagsins.

Fjárfestar eru hvattir til að leita sér ráðgjafar áður en ákvörðun um fjárfestingu er tekin. Einkum er fjárfestum bent á að leggja mat á þau atriði sem upp eru talin hér að neðan.

1.1 Áhætta vegna samningsskuldbindinga

Standi gagnaðili ekki við samningsskuldbindingar sínar getur það haft áhrif á tekjur Útgefanda. Til að draga úr þeirri áhættu er lagt mat á þá aðila sem Útgefandi gengur til samninga við með það að markmiði að meta getu þeirra til að standa við skuldbindingar sínar. Slíkt mat verður hins vegar alltaf ófullkomið og því er aldrei hægt að útiloka hættu á að ekki verði staðið við gerða samninga. Á sama hátt geta gagnaðilar Útgefanda rift samningum við félagið standi það ekki við samningsskuldbindingar sínar.

1.2 Markaðsáhætta

Sveiflur á fjármálamörkuðum geta haft áhrif á tekjur Milestone ehf. Markaðir með hlutabréf, skuldabréf, hrávörur og gjaldeyri sveiflast með þeim hætti að ómögulegt getur verið að segja til um framtíðarstefnu þeirra og jafnvel þó mögulegt sé að merkja ákveðna stefnu getur markaðurinn sveiflast tímabundið gegn henni. Markaðsáhættu er hægt að minnka með fjármálagerningum en Útgefanda er slíkt hins vegar ekki skylt. Þar sem Útgefandi er fjárfestingafélag geta sveiflur á fjármálamörkuðum haft mikil áhrif á tekjur þess.

1.3 Vaxtaáhætta

Milestone ehf. er fjármagnað með útgáfu verðbréfa sem og með lánsfé. Skuldir félagsins bera vexti og því geta sveiflur á vaxtastigi haft áhrif á afkomu félagsins. Vextir hafa auk þess bein eða óbein áhrif á þær vörur sem Útgefandi fjárfestir í og leiða hærri vextir yfirleitt til lægri tekna og hærri fjármagnskostnaðar.

1.4 Verðbólguáhætta

Verðbólga getur haft áhrif á eignir Útgefanda þannig að verði aukning á verðbólgu getur það leitt til hækkunar verðtryggðra skulda sem og hærri vaxta með þeim afleiðingum sem að ofan greinir.

1.5 Gjaldreyrisáhætta

Þar sem skuldir Útgefanda annars vegar og tekjur hans hins vegar þurfa ekki að vera í sömu mynt geta sveiflur í gengi gjaldmiðla haft áhrif á afkomu félagsins. Á sama hátt getur sú staðreynd að Útgefandi gerir upp í íslenskum krónum en getur t.d. kosið að hafa eigið fé sitt í öðrum gjaldmiðli haft áhrif á afkomu félagsins.

1.6 Lausafjár- og fjármögnunaráhætta

Útgefandi getur lent í þeirri stöðu að eiga ekki nægilegt lausafé til að mæta greiðsluskuldbindingum sínum þegar þær falla í gjalddaga án þess að það hafi áhrif á tekjur eða eignir félagsins til lækkunar. Eins geta leiðir Útgefanda til fjármögnunar á starfsemi sinni lokast eða þeim fækkað með tilheyrandi áhrifum á lausafjárstöðu félagsins og/eða möguleika til endurfjármögnunar.

1.7 Rekstraráhætta

Rekstur Útgefanda er háður ýmsum hættum sem ekki eru fyrirsjáanlegar á hverjum tíma. Orðspor Útgefanda gæti beðið hnekki vegna gjörða starfsfólks, tölvukerfi gætu bilað eða innri ferlar gætu verið ófullnægjandi í ákveðnum tilvikum. Eins gætu ytri atburðir haft áhrif á rekstur félagsins.

1.8 Stjórnunaráhætta

Rekstur Milestone ehf. og eftirlit með fjárfestingum félagsins krefst mikillar einbeitingar og vinnu af hálfu stjórnenda. Fjárfestingar félagsins eru fjölbreyttar og á fleiri en einum markaði. Ekki er hægt að útiloka að stjórnendum takist ekki að öllu leyti að stýra ytri vexti og veita á sama tíma núverandi starfsemi nægilega athygli.

1.9 Starfsmannaáhætta

Hæft starfsfólk er lykillinn að árangri Milestone ehf. Félaginu gæti reynt erfitt að ráða og/eða halda í hæft starfsfólk í framtíðinni og gæti slíkur skortur á hæfu starfsfólki haft neikvæð áhrif á rekstur Útgefanda.

1.10 Lagaleg áhætta

Rekstur Útgefanda heyrir undir lög um einkahlutafélög nr. 138/1994. Fjárfestingar Útgefanda geta hins vegar verið háðar hinum ýmsu lögum sem kunna að breytast með neikvæðum afleiðingum fyrir fjárfestingar félagsins og þ.a.l. rekstur Útgefanda. Eins er möguleiki á málssókn alltaf fyrir hendi. Útgefandi er ekki aðili að neinum dómsmálum við dagsetningu þessarar útgefendalýsingar.

1.11 Skattar

Milestone ehf. gæti orðið fyrir áhrifum vegna breytinga á skattalögum í þeim löndum sem félagið er með starfsemi og/eða hefur fjárfest. Útgefandi telur sig starfa í samræmi við þær skattalegu reglur sem félagið á undir. Það er hins vegar ekki útilokað að skattayfirvöld og Útgefandi séu ekki sammála um hvernig fara skuli með tiltekna gjörninga Útgefanda frá skattalegu tilliti.

2 ÁBYRGIR AÐILAR

2.1 Yfirlýsing útgefanda

Stjórn Milestone ehf., kt. 640388-1109, Suðurlandsbraut 12, 108 Reykjavík, sem útgefandi, lýsir því yfir að samkvæmt okkar bestu vitund séu upplýsingarnar, sem útgefendalýsingin hefur að geyma, í samræmi við staðreyndir og að engum upplýsingum er sleppt sem kunna að skipta máli varðandi áreiðanleika hennar.

Reykjavík, 23. október 2007
f.h. stjórnar Milestone ehf.

Karl Wernersson, kt. 241062-3769
formaður

Steingrímur Wernersson, kt. 010466-4239
Stjórnarmaður

2.2 Yfirlýsing umsjónaraðila

Glitnir banki hf., kt. 550500-3530, Kirkjusandi 2, 155 Reykjavík, sem umsjónaraðili, lýsir því yfir að samkvæmt bestu vitund félagsins eru upplýsingarnar, sem útgefendalýsingin hefur að geyma, í samræmi við staðreyndir og að engum upplýsingum er sleppt sem kunna að skipta máli varðandi áreiðanleika hennar.

Reykjavík, 23. október 2007
f.h. Glitnis banka hf.

Jóhannes Baldursson, kt. 211171-3919
framkvæmdastjóri markaðsviðskipta

3 LÖGGILTIR ENDURSKOÐENDUR

Löggiltir endurskoðendur Milestone ehf. á því tímabili sem sögulegar fjárhagsupplýsingar taka til í lýsingunni eru KPMG hf. og hafa þeir áritað reikninga félagsins án athugasemda. Guðjón Ásmundsson, endurskoðandi fyrir árið 2005, er nú starfsmaður Milestone ehf.

Fyrri hluti ársins 2007
KPMG hf.
Sigurþór C. Guðmundsson.
Margrét Guðjónsdóttir.

Fyrir árið 2006
KPMG hf.
Sigurbór Ch. Guðmundsson.

Fyrir árið 2005
KPMG Endurskoðun hf.
Sigurbór C. Guðmundsson.
Guðjón Ásmundsson.

4 UPPLÝSINGAR UM MILESTONE EHF.

4.1 Almenn

Útgefandi heitir, Milestone ehf., kt. 640388-1109, til heimils að Suðurlandsbraut 12, 108 Reykjavík. Sími á skrifstofu félagsins er (+354) 414 1800, slóð heimasíðu félagsins er www.milestone.is og almennt netfang er milestone@milestone.is.

Félagið er einkahlutafélag, skráð á Íslandi árið 1988, og starfar eftir lögum nr. 138/1994 um einkahlutafélög. Hjá félaginu starfa 12 manns.

4.2 Saga og þróun

Félagið var stofnað á grunni annars félags og rekstur þess var í lágmarki til ársins 1998 enda hélt félagið aðeins utan um nokkurra prósentu hlut í ýmsum félögum. Þegar Werner Rasmusson seldi lyfjaverslun sína til Lyf og Heilsu og tók þá Karl Wernersson við sem stjórnarformaður fyrirtækisins. Á þeim tíma átti Milestone ehf. 18% hlut í Lyf og heilsu og einnig hlut í lyfjaframleiðandanum Delta.

- Árin 1999-2003 fjölgaði lyfjaverslunum Lyf og Heilsu úr 12 í 30. Árið 2002 sameinaðist Delta Pharmaco (nú Actavis) í skiptum hlut fyrir hlut. Árið 2003 jók Milestone ehf. hlut sinn í Lyf og Heilsu í 98,8% og endurfjármagnaði fyrirtækið.
- 2003 og 2004 byrjaði Milestone ehf. að kaupa hluti í Íslandsbanka hf. (nú Glitni Banka hf.). Í apríl 2005 eignaðist Milestone ehf. 66,6% hlut í tryggingafélaginu Sjóvá-Almennar tryggingar hf. (Sjóvá) af Glitni Banka hf. eftir að Fjármálaeftirlitið hafði samþykkt viðskiptin.
- Í janúar 2006 jók Milestone ehf. við hlut sinn í Glitni Banka hf. um 4,6% og átti þá samtals 21,6% hlut og var jafnframt orðinn stærsti hluthafinn í bankanum.
- Í maí 2006 eignaðist Milestone ehf. 33,4% í Sjóvá fyrir ISK 9,5 milljarða og átti þar með orðið allt hlutafé félagsins. Kaupin voru fjármögnuð með eigið fé og lánnum m.a. frá JP Morgan.
- Í desember 2006 stofnaði Milestone ehf. og varð jafnframt stærsti eigandi í Askar Capital hf. (Askar).
- Í apríl 2007 seldi Milestone ehf. 13% hlut í Glitni banka hf. fyrir ISK 54 milljarða. Glitnir banki hefur verið lykilfjárfesting hjá Milestone ehf. og hefur skilað félaginu góðum arði. Milestone var leiðandi fjárfestir í bankanum frá árinu 2005 og fylgdi honum í gegnum mikið vaxtarskeið. Milestone ehf. og tengdir aðilar eiga 7% hlut í Glitni banka hf. eftir söluna.

- 26. apríl 2006 var tilkynnt um ISK 70 milljarða tilboð Milestone ehf. í Invik Group og var því lokið í júní 2007. Invik er fjármálafyrirtæki á sænskum markaði og færir Milestone ehf. aðgang að trygginga-, banka- og sjóðastarfsemi þar í landi.

4.3 Yfirlit yfir starfsemi Milestone ehf.

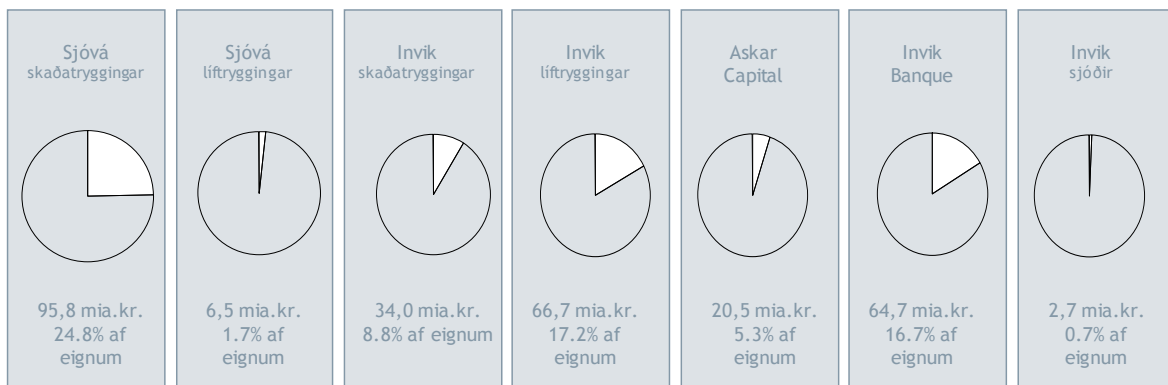
Í samþykktum Milestone ehf. kemur fram að tilgangur félagsins er eignarhald í öðrum félögum og fjárfestingarstarfsemi, inn- og útflutningur, leigu- og lánastarfsemi, rekstur fasteigna og annar skyldur rekstur. Félagið hefur lagt megináherslu á að fjárfesta í fyrirtækjum á sviði fjármálaþjónustu og er yfir 75% af eignum Milestone ehf. í slíkri þjónustu.

Helstu eignir Milestone ehf. eru Sjóvá-Almennar tryggingar hf., Glitnir banki hf., sem Milestone á (með tengdum aðilum) 7% hlut í og Askar Capital, sem Milestone ehf. á 83,5% hlut í. Milestone ehf. eignaðist auk þess Invik & Co., sem er sænskt fjármálafyrirtæki, í júní 2007.

Þessar fjárfestingar Milestone ehf. gera félaginu kleift að bjóða alhliða fjármálaþjónustu og auka markaðshlutdeild sína á Norrænum mörkuðum. Auk þess gera kaupin á Invik félaginu kleift að ná tengslum við stjórnendateymi Invik byggð á þeirri reynslu sem Milestone ehf. hefur aflað sér við rekstur tryggingastarfsemi á Íslandi. Milestone ehf. stefnir á að breyta félaginu í fjármálasamstæðu og telur að þær eignir sem félagið á í dag gefi möguleika á samræmingu ýmissa þátta í starfsemi þess.

Milestone ehf. er í eigu Karls Wernerssonar, Steingríms Wernerssonar, Sáttar ehf. og Leiftra Ltd.. Félagið og eignir þess mynda samstæðu þar sem Milestone ehf. er móðurfélagið. Félagið lýtur eftirliti Fjármálaeftirlitsins og sjö af dótturfélögum þess lúta fjármálaeftirliti á Íslandi, Svíþjóð, Lúxemborg og/eða Hollandi.

Yfir 75% af eignum Milestone tengjast fjármálaþjónustu eins og dregið er fram í neðangreindri mynd úr sex mánaða uppgjöri félagsins 2007:



Aðrar eignir og óúthlutað viðskiptavíld nema 24,8% af heildareignum (96 mia.kr.)

Milestone ehf. telur að félagið sé háð dótturfélögum við rekstur félagsins þar sem afkoma þeirra hefur bein áhrif á afkomu Milestone ehf.

4.4 Nánar um stærstu eignir

- Sjóvá, sem er að fullu í eigu Milestone ehf., er eitt af stærstu váttryggingafélögum Íslands ef miðað er við bókfærð iðgjöld. Félagið rekur 9 útibú og 24 umboð og þjónustuaðila um allt land. Forstjóri félagsins er Þór Sigfússon og er Karl Wernersson formaður stjórnar. Á fyrri helmingi ársins 2007 voru tekjur af starfsemi Sjóvá ISK 6,295

milljónir samanborið við ISK 6,259 milljónir fyrir sama tíma árið 2006. Nánari upplýsingar um félagið er að finna á heimasíðu þess www.sjova.is.

- Askar Capital hf. fékk fjárfestingabankaleyfi frá Fjármálaeftirlitinu þann 29. ágúst 2007 og getur því frá þeim tíma stundað öll hefðbundin bankaviðskipti fyrir utan móttöku fjár frá almenningi í formi innlagna. Höfuðstöðvar félagsins eru í Reykjavík en einnig eru skrifstofur í Lúxemborg og Rúmeníu. Haukur Harðarson er formaður stjórnar og forstjóri félagsins er Tryggvi Þór Herbertsson PhD. Á fyrri helmingi ársins var hagnaður af starfsemi félagsins ISK 207 milljónir. Ekki eru til sambærilegar tölur fyrir árið 2006. Nánari upplýsingar um félagið er að finna á heimasíðu þess www.askar.is.
- Invik & Co. AB í Svíþjóð hefur með höndum trygginga- og fjárfestingabankastarfsemi. Milestone ehf. á yfir 98% hlut í félaginu. Fjármálaeftirlitið í Svíþjóð, Hollandi og Lúxemborg samþykkti kaupin í lok júní 2007 og því kemur Invik ekki inn í reikninga Milestone ehf. fyrr en frá og með 1. júlí 2007. Félagið var afskráð af OMX kauphöllinni í Stokkhólmi þann 17. ágúst 2007. Nánari upplýsingar um félagið er að finna á heimasíðu þess www.invik.se.
- Glitnir banki hf. er eitt af stærstu fjármála fyrirtækjum landsins. Bankinn lítur á Noreg og Ísland sem sinn heimamarkað en er auk þess með starfsstöðvar víða um heim. Í apríl seldi Milestone ehf. um 13% hlut í bankanum og á nú í gegnum Þátt International ehf. 7% hlut ásamt tengdum aðilum. Við söluna innleysti Milestone ehf. töluverðan söluhagnað sem endurspeglar góðri afkomu félagsins af fjárfestingum á fyrri helmingi ársins 2007. Nánari upplýsingar um félagið er að finna á heimasíðu þess www.glitnir.is.

5 STJÓRN FÉLAGSINS OG FORSTJÓRI

Stjórn Milestone ehf. fer með öll málefni félagsins milli hluthafafunda og gætir hagsmuna þess gagnvart þriðja aðila. Forstjóri félagsins ber hins vegar ábyrgð á daglegum rekstri og kemur fram fyrir hönd félagsins í þeim málum er snerta daglegan rekstur. Hann stjórnar reikningum félagsins, sér um ráðningar starfsfólks og skal gefa stjórn og endurskoðendum allar nauðsynlegar upplýsingar um rekstur félagsins. Viðskiptaheimilisfang neðangreindra aðila er að Suðurlandsbraut 12, 108 Reykjavík.

Í stjórninni sitja:

Karl Wernersson,

stjórnarformaður, fæddur 1962. Hann útskrifaðist úr viðskiptafræði við Háskóla Íslands 1986. Í framhaldi af því vann hann hjá Endurskoðun hf. auk þess að sinna stjórnunarstöðum hjá hinum ýmsu upplýsingatækifyrirtækjum.

Hann var einn af stofnendum Lyf og heilsu hf. sem átti stóran þátt í þeim breytingum sem urðu á lyfja- og lyfsöllumarkaðnum á Íslandi. Hann var forstjóri félagsins frá október 1999 og er nú stjórnarformaður þess. Sem stjórnarformaður í lyfjafyrirtækinu Delta lagði Karl grunninn að stækkun og alþjóðavæðingu Actavis Group.

Á undanförunum árum hefur Karl einbeitt sér að fjárfestingum í fjármálageiranum sem meirihlutaeigandi og stjórnarformaður Milestone ehf. Hann er stjórnarformaður í Milestone, Sjóvá, Lyf og heilsu sem og Invik & Co. AB.

Steingrímur Wernersson,

stjórnarmaður, fæddur 1966. Hann útskrifaðist úr lyfjafræði frá Háskóla Íslands og er með MBA gráðu frá Háskólanum í Edinborg. Steingrímur er einn af aðaleigendum Milestone ehf. og hefur setið í stjórn félagsins frá upphafi.

Steingrímur hefur verið stjórnarmaður í Lyf og heilsu hf. frá 2002, í stjórn Aska Capital frá 2006 og í varastjórn hjá Glitni banka hf. frá 2004-2007.

Forstjóri Milestone ehf.

Guðmundur Ólason er forstjóri Milestone ehf. Hann er fæddur 1972 og er með BA-gráðu í stjórn málafræði frá Háskóla Íslands og MS-gráðu í stjórn málahagfræði frá Háskólanum í Árósum. Árin 1997-2002 starfaði Guðmundur í fjármálaráðuneytinu auk þess að sitja í framkvæmdanefnd um einkavæðingu og tók þar þátt í hinum miklu breytingum á íslensku fjármálaumhverfi sem fólust m.a. í einkavæðingu ríkisbankanna.

Árið 2002 tók hann við starfi hjá Norræna fjárfestingabankanum í Finnlandi þar sem hann vann þar til hann tók við sem forstjóri Milestone ehf. Guðmundur situr í stjórn nokkurra fyrirtækja þ.á.m. Sjóvá, Invik, Askar Capital og Lyf og heilsu.

Aðstoðarforstjóri Milestone ehf.

Jóhannes Sigurðsson er aðstoðarforstjóri Milestone ehf. Hann er fæddur árið 1960 og er með kandidateitpróf í lögfræði frá Háskóla Íslands og hann lauk LLM-gráðu í lögfræði frá háskólanum í Virginíu-ríki í Bandaríkjunum árið 1987. Jóhannes var meðeigandi og starfsmaður lögmannsstofunnar LOGOS á árunum 1991-2001. Hann starfaði hjá Eftirlitsstofnun EFTA á árunum 2001-2003 og gegndi starfi lögfræðings Actavis Group hf. á árunum 2004-2005. Jóhannes sat í stjórn Lyfja og heilsu hf. á árunum 1999-2002 og gegndi stöðu prófessors við Háskólann í Reykjavík á árunum 2004-2006. Hann er höfundur bókarinnar Verðbréfamarkaðsréttur og hefur að auki ritað fjöldann allan af fræðigreinum um lögfræðileg málefni. Jóhannes situr í stjórn nokkurra fyrirtækja, þ.á.m. Invik og Askar Capital.

Engir augljósir hagsmunaáreksstrar eru milli stjórnarmanna og forstjóra í störfum sínum fyrir útgefanda og persónulegra hagsmuna þeirra og eða starfa fyrir aðra aðila.

6 STÆRSTU HLUTHAFAR MILESTONE EHF.

Karl Wernersson og Steingrímur Wernersson eiga beint eða í gegnum félög í þeirra eigu um 98,5% hlutafjár í Milestone ehf.

7 MIKILVÆGIR SAMNINGAR

Nettó kröfur félagsins á hluthafa (og félög þeim tengdum), hlutdeildarfélög og forstjóra námu 4,857 millj. kr. í lok júní 2007.

8 DÓMSMÁL EÐA GERÐARDÓMSMÁL

Engin dómsmál eða gerðardómsmál eru til staðar, né hafa verið til staðar á síðastliðnum 12 mánuðum, sem geta haft verulega áhrif á fjárhagsstöðu útgefanda.

9 MIKILVÆGAR BREYTINGAR Á FJÁRHAGS- EÐA VIÐSKIPTASTÖÐU ÚTGEFANDA

Frá hálfársuppgjöri félagsins fyrir árið 2007 hafa Milestone og tengd félög losað um eignarhlut sinn í Actavis Group hf. að fjárhæð 17,8 milljarðar króna. Invik & Co. AB, dótturfélag Milestone ehf. flaggaði þann 1. október s.l. 9,7% eignarhlut í sænska fjármálafyrirtækinu D Carnegie & Co. AB sem skráð er í OMX Kauphöllina í Stokkhólmi.

10 ENDURSKOÐENDUR

Á aðalfundi félagsins skal kjósa löggiltan endurskoðanda eða endurskoðunarfélag til eins árs í senn. Kosnir endurskoðendur Milestone ehf. eru KPMG hf.

11 SKJÖL TIL SÝNIS

Eftirfarandi skjöl er að finna í viðauka I - III með útgefendalýsingu þessari og verður hægt að nálgast afrit þeirra á vefsíðunni www.milestone.is meðan útgefendalýsing þessi er í gildi:

- a. Samþykktir Milestone ehf.
- b. Ársreikningur félagsins fyrir fjárhagsárið 2005.
- c. Ársreikningur félagsins fyrir fjárhagsárið 2006.
- d. Uppgjör fyrra hluta ársins 2007.

SAMÞYKKTIR

FYRIR EINKAHLUTAFÉLAGIÐ MILESTONE ehf.

ARTICLES OF ASSOCIATION – BY LAWS –

FOR MILESTONE EHF.

1. HEITI FÉLAGSINS, HEIMILI OG TILGANGUR

THE NAME OF THE COMPANY, ADDRESS AND OBJECTIVES

- 1.01 Félagið er einkahlutafélag. Nafn þess er Milestone ehf.
The Company is a private limited liability company. The name of the Company is Milestone ehf.
- 1.02 Heimilisfang félagsins er að Suðurlandsbraut 12, 108 Reykjavík.
The Company's registered office is at Suðurlandsbraut 12, 108 Reykjavík.
- 1.03 Tilgangur félagsins er eignarhald í öðrum félögum og fjárfestingarstarfsemi, inn- og útflutningur, leigu- og lánastarfsemi, rekstur fasteigna og annar skyldur rekstur.
The objectives of the Company are ownership in other companies and investment activity, import and export, lease and loan activity, management of real estate and other related activity.

2. HLUTAFÉ FÉLAGSINS

THE SHARE CAPITAL OF THE COMPANY

- 2.01 Hlutafé félagsins er kr. 2.857.000.000 og skiptist það í jafn marga einnar krónu hluti og fylgir eitt atkvæði hverjum hlut.
The Share Capital of the Company is ISK 2.857.000.000 and divides to equal number of one ISK shares and each carrying one vote.

Hluthafafundi einum er heimilt að hækka hlutafé félagsins og þarf sama magn atkvæða og við breytingu á samþykktum þessum. Hluthafar skulu hafa forgangsrétt að hinum nýju hlutum í hlutfalli við skráða hlutafjáreign sína, en að öðru leyti fer um útgáfu slíkra hluta eftir þeim reglum, sem að stjórn félagsins setur í samræmi við ákvörðun hluthafafundar hverju sinni.

The Share Capital of the Company can only be increased with the approval of a shareholders' meeting with the same amount of votes needed to amend these Articles of Association. Shareholders shall have priority right of purchase of all new shares in direct proportion to their holdings, apart from that rules that the Board of Directors issues in accordance to a shareholders meeting decision shall govern each case.

- 2.02 Stjórn félagsins skal halda hlutaskrá samkvæmt lögum.
The Company's Board of Directors shall keep a register of shares in the Company.

2.03 Gagnvart félaginu skal hlutaskráin skoðast sem fullgild sönnun fyrir eignarétti að hlutum í félaginu og öðlast eigendaskipti að hlutum ekki gildi gagnvart því fyrr en stjórn þess hefur verið tilkynnt um það skriflega. *The register of shares shall be deemed as a valid proof of ownership of shares in the company and changes in ownership of shares in the Company will not take effect until its Board of Directors has been given notice thereof in writing.*

2.04 Stjórn félagsins hefur forkaupsrétt fyrir félagsins hönd að fölum hlutum. Að félaginu frágengnu hafa hluthafar forkaupsrétt að hlutum í hlutfalli við hlutfjáreign sína. Verði ágreiningur um verð hluta skal það ákveðið með mati tveggja óvilhallra manna sem dómkvaddir skulu til þess starfa. Forkaupsrétthafi hefur tveggja mánaða frest til að beita forkaupsrétti sínum og telst fresturinn frá tilkynningu til stjórnar um tilboð. Þá mega eigi líða fleiri en þrjú mánuðir frá því að kaup voru ákveðin þar til kaupverð er greitt.

The Company's Board of Directors has priority right of purchase of shares for and on behalf of the Company. After the Company, the shareholders have a priority right of purchase of shares in proportion to their holdings. In case a dispute arises regarding the price of the shares, this shall be determined by means of assessment by two impartial persons who shall be appointed by a Court of Law for this purpose. The holder of a priority right of purchase has 2- two - months to exercise his priority right of purchase, counting from the date of notice of an offer to the Board of Directors. No more than 3 - three - months may pass from the time the purchase was decided until the purchase price is paid.

Eigendaskipti vegna arfsals til lögerfingja við andlát hluthafa lúta ekki framangreindum forkaupsréttarreglum.

Changes of ownership for reasons of bequest to legal heirs upon demise of shareholders are not subject to the aforementioned rules of priority rights of purchase.

Óheimilt er að veðsetja eða gefa hluti í félaginu án samþykkis félagsstjórnar.

Shares in the Company may not be pledged or given away without the approval of the Company's Board of Directors.

2.05 Hluthafar bera ekki ábyrgð á skuldbindingum félagsins fram yfir hlut sinn í félaginu.

Shareholders are not responsible for liabilities of the Company in excess of their holdings in the Company.

2.06 Engin sérréttindi fylgja hlutum í félaginu. Hluthafar þurfa ekki að sæta innlausn hluta sinna nema lög standi til annars.

None of the Company's initial shares grant their holders any privileges. The shares are not subject to redemption unless otherwise stipulated by Law.

2. STJÓRNSKIPULAG OG HLUTHAFAFUNDUR REGIME AND SHAREHOLDERS' MEETING

2.07 Æðsta vald i málefnum félagsins er í höndum lögmætra hluthafafunda. *Lawful shareholders' meetings wield the supreme power in the Company.*

3.01 Aðalfundur skal haldinn fyrir lok júní mánaðar ár hvert. *An Annual General Meeting of the Company shall be held before the end of*

June each year.

Aukafundi skal halda eftir ákvörðun stjórnar eða kröfu kjörinna endurskoðanda eða hluthafa sem ráða a.m.k. einum tíunda hluta hlutafjár í félaginu. Skal krafan skriflega gerð og fundarefni tilgreint og fundur boðaður þá innan fjórtán daga. Ef stjórnin skirrist við að boða fund eftir móttöku slíkrar kröfu má leita atbeina hlutafélagaskrár skv. 62. gr. laga um einkahlutafélög.

Additional meetings shall be held in accordance with decisions by the Board of Directors or upon the request of its auditor or shareholders controlling a minimum of ten percent of the shares in the Company. The request shall be made in writing and the agenda shall be specified. A meeting shall then be called within 14 - fourteen - days from the receipt of such a demand. If the Board fails to call such a meeting, the assistance of the Registry of Limited Companies may be sought, cf. the Act on Private Limited Liability Companies.

- 3.03 Félagsstjórn skal boða til hluthafafunda með tilkynningu til hvers hluthafa í ábyrgðabréfi eða símskeyti eða á annan jafn sannanlegan hátt. Aðalfund og aukafund skal boða með minnst sjö daga fyrirvara. Fundarefnis skal getið í fundarboði.

The Company's Board of Directors shall call Shareholder's Meetings by means of a notice to each shareholder in a registered letter or telegram or in another equally verifiable manner. An Annual General Meeting and additional meetings shall be called with a minimum advance notice of 7 - seven - days. The agenda shall be specified in the call to a meeting.

Hluthafafundur er lögmætur ef hann er löglega boðaður og hann sækja hluthafar eða umboðsmenn þeirra sem hafa yfir að ráða helmingi hlutafjár í félaginu að minnsta kosti. Verði fundur ólögmætur vegna annmarka að þessu leyti skal boðað til nýs fundar innan mánaðar með sjö daga fyrirvara og verður sá fundur lögmætur til að ræða þau mál sem ræða átti á fyrri fundinum ef hann sækja tveir hluthafar eða fleiri eða umboðsmenn þeirra enda ráði þeir yfir fimmtungi hlutafjár í félaginu hið minnsta.

A shareholders meeting is lawful if it is lawfully convened and there are present shareholders or their representatives controlling at least half the share capital in the Company. In case a meeting becomes unlawful due to shortcomings in this respect, a new meeting shall be called with a seven days advance notice and that meeting will be lawful to debate the issues which were to be discussed at the former meeting, if it is attended by two or more shareholders or their representatives, provided that they control a minimum of a fifth of the share capital of the Company.

Hluthafafundur kýs fundarstjóra og fundarritara.

A Shareholders' Meeting shall elect a Chairman and Secretary for the meeting.

- 3.04 Eitt atkvæði fylgir hverjum hlut í félaginu. Hluthafar geta með skriflegu umboði veitt umboðsmönnum heimild til að sækja hluthafafund og fara með atkvæðisrétt sinn.

Each share carries one vote. Shareholders may by means of a written Power of Attorney authorize representatives attend a shareholders meeting' and wield their voting rights.

Á hluthafafundi ræður afl atkvæða nema öðruvísi sé fyrir mælt í landslögum eða samþykktum þessum.

Plurality of votes decides issues at shareholder's meetings unless otherwise

stipulated by Icelandic law or these Articles of Association.

Mál sem ekki eru sérstaklega greind í dagskrá aðalfundar eða annarra hluthafafunda, er ekki unnt að taka til endanlegrar úrlausnar á fundinum nema með samþykki allra hluthafa félagsins.

Matters that are not specified in the agenda of the General Meeting or additional meetings, can not be taken into final decision on the meeting except all the shareholders of the Company agrees.

3.05 Á aðalfundi skulu tekin fyrir þessi mál:

- 1) Skýrsla stjórnar félagsins um starfsemina á liðnu ári.
- 2) Ársreikningur félagsins fyrir liðið starfsár ásamt skýrslu endurskoðenda skal lagður fram til samþykktar.
- 3) Tekin skal ákvörðun um hvernig fara skuli með hagnað eða tap og um arð og framlög í varasjóð.
- 4) Ákvörðun skal tekin um þóknun til stjórnarmanna fyrir störf þeirra á starfsárinu.
- 5) Breytingar á samþykktum.
- 6) Stjórn félagsins skal kjörin og endurskoðandi.
- 7) Umræður og atkvæðagreiðslur um önnur málefni sem löglega eru borin upp.

At the Annual General Meeting the following matters shall be discussed:

- 1) *The Company's Board of Directors reports on the Company's standings and operations for the preceding operational year.*
- 2) *The Company's Financial Statements for the preceding year, along with a report by the Company's Auditors shall be submitted for approval.*
- 3) *A decision shall be made as to the handling of profit or loss and on the payment of dividend and contributions to a reserve fund.*
- 4) *A decision shall be made concerning payments to directors for their work during the year of operations.*
- 5) *Changes on the Company's Articles of Association.*
- 6) *The Company's Board of Directors and the Company's auditor shall be elected.*
- 7) *Discussions and votes on other matters if they are lawfully brought forward.*

3.06 Fundargerðarbók skal haldin og í hana skráð það sem gerist á hluthafafundum.

A Record of Minutes shall be kept and therein shall be entered what occurs at shareholders' meetings.

4. STJÓRN FÉLAGSINS OG FRAMKVÆMDASTJÓRI BOARD OF DIRECTORS AND MANAGING DIRECTOR

4.01 Stjórn félagsins skal skipuð tveimur mönnum kjörnum á aðalfundi til eins árs í senn. Stjórn félagsins stýrir öllum málefnum félagsins milli hluthafafunda og gætir hagsmuna þess gagnvart þriðja manni. Undirskriftir tveggja stjórnarmanna skuldbinda félagið. Stjórnarfundir eru lögmatir ef meirihluti stjórnarmanna sækir fund. Stjórnarmönnum er heimilt að taka þátt í stjórnarfundum í gegnum síma og teljast þeir með fundarmönnum. Afl atkvæða ræður afgreiðslu mála. Verði atkvæði jöfn ræður atkvæði formanns úrslitum. Halda skal fundargerð um stjórnarfundum.

The Board of Directors of the Company shall consist of two Directors elected

for one year at a time. The Company's Board of Directors directs the Company's affairs between shareholders' meetings and shall safeguard its interests against any third party. The signature of two Directors of the Company is binding upon the Company. Board meetings are lawful if majority of the Directors are present. Board members are permitted to participate the meeting through phone and are counted with the present Board members. Number of votes count on matters that are voted on. If votes are even, the vote of the Chairman of the Board governs the result. Record of meetings shall be entered.

- 4.02 Stjórnin skiptir sjálf með sér verkum. Formaður boðar til stjórnarfundu. Hver stjórnarmaður getur krafist stjórnarfundu. Sama rétt á framkvæmdastjóri.

The Board of Directors itself divides tasks among the Directors. The Chairman calls board meetings. Each Director may demand that a board meeting be called. The Managing Director has the same right.

Stjórn skal setja sér starfsreglur þar sem nánar skal kveðið á um framkvæmd starfa hennar.

The Board of Directors shall lay down guidelines wherein the procedures regarding the performance of its tasks shall be laid down.

Framkvæmdastjóri hefur með höndum stjórn á daglegum rekstri félagsins og kemur fram fyrir þess hönd í öllum málum sem varða venjulegan rekstur. Hann sér um reikningshald og ráðningu starfslíðs. Framkvæmdastjóra ber að veita stjórnarmönnum og endurskoðanda allar upplýsingar um rekstur félagsins sem þeir kunna að óska og veita ber samkvæmt lögum.

The Managing Director undertakes the management of the Company's daily operations and represents the Company in all matters pertaining to ordinary operations. The Managing Director is responsible for the bookkeeping and handles the hiring of employees. The Managing Directors shall provide all information about the management of the Company that the Directors and auditors might request and shall be granted according to law.

5. REIKNINGSHALD OG ENDURSKOÐUN BOOKKEEPING AND AUDITING

- 5.01 Á aðalfundi félagsins skal kjósa löggiltan endurskoðanda eða endurskoðunarfélag til eins árs í senn.

At the Annual General Meeting of the Company State Authorized Public Accountant or Audit Firm shall be elected.

- 5.02 Reikningsár félagsins er almanaksárið. Skal gerð ársreiknings lokið eigi síðar en einum mánuði fyrir aðalfund ár hvert og hann þá lagður fyrir endurskoðanda.

The Company's fiscal year shall be from January 1 to December 31. The Company's financial statement shall be ready not later than one month before the General Meeting each year and submit the statement to the auditor.

6. BREYTINGAR Á SAMÞYKKTUM AMENDMENTS TO THE ARTICLES OF ASSOCIATION

- 6.01 Samþykktum þessum má breyta á lögmætum hluthafafundi með 2/3 hlutum greiddra atkvæða, svo og með samþykki hluthafa sem ráða yfir a.m.k.

2/3 hlutum af því hlutafé í félaginu sem farið er með atkvæði fyrir á fundinum.

These Articles of Association may be amended at a lawful Shareholders' Meeting with 2/3 - two thirds- of the votes cast as well as with the approval of shareholders controlling a minimum of 2/3 -two thirds- of the share capital in the Company represented at the meeting.

- 6.02 Með tillögur um slit og skipti á félaginu eða samruna við önnur félög skal fara sem um breytingar á samþykktum þessum. Þarf atkvæði hluthafa sem ráða minnst 2/3 hlutum af heildarfé félagsins til að slík ákvörðun sé gild. Hluthafafundur, sem tekið hefur löglega ákvörðun um slit eða skipti félagsins, skal einnig ákveða ráðstöfun eigna og greiðslu skulda.

Motions relating to the dissolution and liquidation of the Company or a merger with another company or other companies shall be handled in the same manner as amendments to these Articles of Association. The votes of shareholders controlling a minimum of 2/3 - two thirds- of the Company's total share capital are required in order that a decision of dissolution or merger be valid. A shareholders' meeting having made a lawful decision on the dissolution or liquidation of the Company shall also decide upon the appropriation of assets and the settlement of liabilities.

7. ÝMIS ÁKVÆÐI MISCELLANEOUS

- 7.01 Þar sem ákvæði samþykkt þessara segja ekki til um hvernig með skuli farið skal hlíta ákvæðum laga um einkahlutafélög, svo og öðrum lagaákvæðum er við geta átt.

Where the provisions of the present Articles of Association do not stipulate the mode of proceedings, the provisions of the Act on Private Limited Liability Companies and other applicable Laws of Iceland, shall apply.

Samþykktir þessar voru staðfestar á hluthafa fundi þann 7. júní 2005 og koma í stað eldri samþykkt. Samþykktunum var breytt á aðalfundi félagsins þann 31. mars 2006.

These Articles of Association were confirmed at a shareholders' meeting on June 7, 2005, and replaces older Articles of Association. The Article of Association were amended on the company's general shareholders meeting on 31 March 2006

15. október 2006

Guðmundur Ólason forstjóri

Milestone ehf.

**Ársreikningur
samstæðunnar
2005**

Milestone ehf.
Suðurlandsbraut 12
108 Reykjavík

Kt. 640388-1109

EFNISYFIRLIT

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Áritun endurskoðenda	4	Yfirlit um sjóðstreymi	8
Rekstrarreikningur	5	Skýringar	9

SKÝRSLA OG ÁRITUN STJÓRNAR OG FRAMKVÆMDASTJÓRA

Tilgangur félagsins felst í fjárfestingastarfsemi og öðrum skyldum rekstri. Ársreikningurinn hefur að geyma samstæðureikning Milestone ehf. og dótturfélags þess. Ársreikningurinn er gerður eftir sömu reikningsskilaaðferðum og árið áður.

Í apríl 2005 keypti félagið 66,7% eignarhuta í Sjóvá-Almennum tryggingum hf. Kaupin voru háð samþykki Fjármálaeftirlitsins en samþykki þess lá fyrir í lok júní, og eru áhrif Milestone í afkomu Sjóvá-Almennta trygginga hf. bókfærð frá þeim tíma.

Hagnaður var af rekstri samstæðunnar á árinu sem nam 13.999 millj. kr. samkvæmt rekstrarreikningi. Eigið fé samstæðunnar nam í lok ársins 23.626 millj. kr. samkvæmt efnahagsreikningi og eiginfjárlutfall var 28,2%. Stjórn félagsins leggur til að 300 millj. kr. arður verði greiddur til hluthafa á árinu 2006 vegna rekstrarársins 2005 en vísað er að öðru leyti til ársreikningsins um ráðstöfun hagnaðar og aðrar breytingar á eigin fé.

Það er álit stjórnar félagsins að allar upplýsingar sem nauðsynlegar eru til að glöggva sig á stöðu félagsins í lok ársins, rekstrarárangri ársins og fjárhagslegri þróun komi fram í ársreikningnum.

Í árslok voru hluthafar í félaginu fjórir en þeir voru þrír í upphafi ársins. Eignarhlutur þeirra af virku hlutafé greinist þannig:

	Eignarhlutur
Leiftri Ltd.....	31,6%
Karl E. Wernersson.....	29,7%
Steingrímur Wernersson.....	23,4%
Ingunn Wernersdóttir.....	15,3%

Stjórn og framkvæmdastjóri Milestone ehf. staðfesta hér með ársreikning félagsins fyrir árið 2005 með undirritun sinni.

Reykjavík, 31. mars 2006.

Stjórn:

Karl E. Wernersson
Steingrímur Wernersson
Ingunn G. Wernersdóttir

Framkvæmdastjóri:

Guðmundur Ólafsson

ÁRITUN ENDURSKOÐENDA

Stjórn og hlutahafi Milestone ehf.

Við höfum endurskoðað ársreikning Milestone ehf. fyrir árið 2005. Ársreikningurinn hefur að geyma skýrslu stjórnar, rekstrarreikning, efnahagsreikning, yfirlit um sjóðstreymi og skýringar. Ársreikningurinn er lagður fram af stjórnendum félagsins og á ábyrgð þeirra í samræmi við lög og reglur. Ábyrgð okkar felst í því álitum sem við látum í ljós á ársreikningnum á grundvelli endurskoðunarinnar.

Endurskoðað var í samræmi við góða endurskoðunarvenju. Samkvæmt því ber okkur að skipuleggja og haga endurskoðuninni þannig að nægjanleg víska fái um að ársreikningurinn sé í meginatriðum án annmarka. Endurskoðunin felur í sér greiningaraðgerðir, úrtakskannanir og athuganir á gögnum til að sannreyna fjárhæðir og aðrar upplýsingar sem fram koma í ársreikningnum. Endurskoðunin felur einnig í sér athugun á þeim reikningsskilaaðferðum og matsreglum sem notaðar eru við gerð ársreiknings og mat á framsetningu hans í heild. Við teljum að endurskoðunin sé nægjanlega traustur grunnur til að byggja álit okkar á.

Það er álit okkar að ársreikningurinn gefi glögga mynd af afkomu félagsins á árinu 2005, efnahag þess 31. desember 2005 og breytingu á handbæru fé á árinu 2005, í samræmi við lög og góða reikningsskilavenju.

Reykjavík, 31. mars 2006.

Sigurpór C. Guðmundsson
Guðjón Ásmundsson

KPMG Endurskoðun hf.

REKSTRARREIKNINGUR ÁRSINS 2005

	Skýr.	Samstæða	Móðurfélag	
		2005	2005	2004
Hreinar tekjur af váttryggingarekstri				
Eigin iðgjöld		3.882.168	0	0
Óinnl. tekjur v/lífr. með fjárfest.áhættu lífr.taka		293.839	0	0
Eigin tjón		(3.497.426)	0	0
Umboðslaun og ágóðahlutdeild		(38.124)	0	0
Hreinar tekjur af váttryggingarekstri		<u>640.457</u>	<u>0</u>	<u>0</u>
Fjárfestingartekjur og fjárfestingargjöld				
Tekjur frá dóttur- og hlutdeildarfélögum	7	644.155	1.583.370	(39.051)
Tekjur af öðrum eignarhlutum		337.940	337.772	0
Gjöld af húseignum og lóðum		(15.362)	0	0
Tekjur vegna matsbreytinga á fjárfestingum	10	16.230.682	13.717.778	849.111
Tap af sölu fjárfestinga		(17.450)	167.048	0
Vaxtatekjur og gengismunur	8	2.659.998	1.890.849	492.550
Vaxtagjöld		(1.047.564)	(982.629)	(103.889)
		<u>18.792.399</u>	<u>16.714.188</u>	<u>1.198.721</u>
Rekstrarkostnaður	22	<u>(1.573.420)</u>	<u>(80.912)</u>	<u>(7.911)</u>
Hagnaður fyrir tekjuskatt		17.859.436	16.633.276	1.190.810
Tekjuskattur	6,20	<u>(3.069.170)</u>	<u>(2.634.576)</u>	<u>(216.074)</u>
Hagnaður án hlutdeildar minnihluta		14.790.266	13.998.700	974.736
Hlutdeild minnihluta í afkomu dótturfélags		(791.566)	0	0
Hagnaður ársins	15	<u><u>13.998.700</u></u>	<u><u>13.998.700</u></u>	<u><u>974.736</u></u>

EFNAHAGSREIKNINGUR

Eignir	Skýr.	Samstæða	Móðurfélag	
		2005	2005	2004
Óefnislegar eignir				
Viðskiptavild	2	11.114.802	0	0
Fjárfestingar				
Húseignir og lóðir	10,19	167.989	45.000	0
<i>Dóttur- og hlutdeildarfélag</i>				
Hlutir í dótturfélagum	10	0	15.187.156	2.551.112
Hlutir í hlutdeildarfélagum	10	5.335.515	2.353.051	0
		<u>5.335.515</u>	<u>17.540.207</u>	<u>2.551.112</u>
<i>Aðrar fjárfestingar</i>				
Verðbréf með breytilegum tekjum	10,11	45.185.981	31.458.139	8.645.492
Verðbréf með föstum tekjum		4.951.439	104.684	167.624
Veðlán		2.346.171	0	0
Önnur útlán		1.752.812	0	0
		<u>54.236.403</u>	<u>31.562.823</u>	<u>8.813.116</u>
Fjárfestingar v/lífr. með fjárf.áhættu lífr.taka	12	2.931.738	0	0
Geymslufé vegna endurtrygginga		20.159	0	0
		<u>62.691.804</u>	<u>49.148.030</u>	<u>11.364.228</u>
Hluti endurtryggjenda í váttryggingaskuld				
lögjaldaskuld		331.146	0	0
Tjónaskuld		724.022	0	0
Bótaskuld		179.679	0	0
		<u>1.234.847</u>	<u>0</u>	<u>0</u>
Kröfur				
Kröfur á dóttur- og hlutdeildarfélag		0	12.698	0
Kröfur á váttryggingataka		2.007.272	0	0
Aðrar kröfur vegna frumtryggingastarfsemi		120.435	0	0
Kröfur vegna endurtryggingastarfsemi		150	0	0
Aðrar kröfur		2.021.468	1.667.631	29.960
		<u>4.149.325</u>	<u>1.680.329</u>	<u>29.960</u>
Aðrar eignir				
Rekstrarfjármunir	13	258.184	59.000	0
Sjóður og bankainnstæður		4.372.105	2.156.999	498
		<u>4.630.289</u>	<u>2.215.999</u>	<u>498</u>
Eignir samtals		<u><u>83.821.067</u></u>	<u><u>53.044.358</u></u>	<u><u>11.394.686</u></u>

31. DESEMBER 2005

Eigið fé og skuldir		Samstæða		Móðurfélag	
		2005	2005	2004	2004
	Skýr.				
Eigið fé					
Hlutfé	14	2.714.169	2.714.169	40.000	
Yfirverðsreikningur hlutfjár		6.014.594	6.014.594	0	
Óráðstafað eigið fé		14.897.648	14.897.648	2.908.948	
	15	<u>23.626.411</u>	<u>23.626.411</u>	<u>2.948.948</u>	
Hlutdeild minnihluta í dótturfélagi		<u>2.245.406</u>	<u>0</u>	<u>0</u>	
Vátryggingaskuld					
Iðgjaldaskuld		4.173.234	0	0	
Tjónaskuld		15.627.164	0	0	
Bótaskuld		480.610	0	0	
Ágóðaskuld		450.533	0	0	
		<u>20.731.541</u>	<u>0</u>	<u>0</u>	
Líftr.skuld með fjárfestingaráhættu líftr.taka		<u>2.931.738</u>	<u>0</u>	<u>0</u>	
Aðrar skuldbindingar					
Lífeyrisskuldbinding	18	70.352	0	0	
Tekjuskattskuldbinding	20	5.517.860	3.043.854	763.028	
		<u>5.588.212</u>	<u>3.043.854</u>	<u>763.028</u>	
Viðskiptaskuldir					
Skuldir vegna frumtryggingastarfsemi		55.342	0	0	
Skuldir vegna endurtryggingastarfsemi		54.702	0	0	
Skuldir við lánastofnanir og önnur skuldabréfalán	21	25.853.651	25.705.110	7.418.224	
Aðrar skuldir		1.924.482	668.983	264.486	
		<u>27.888.177</u>	<u>26.374.093</u>	<u>7.682.710</u>	
Áfallinn kostnaður og fyrirframinnheimtar tekjur		<u>809.582</u>	<u>0</u>	<u>0</u>	
Eigið fé og skuldir samtals		<u><u>83.821.067</u></u>	<u><u>53.044.358</u></u>	<u><u>11.394.686</u></u>	

SJÓÐSTREYMISYFIRLIT ÁRSINS 2005

		Samstæða	Móðurfélag	
	Skýr.	2005	2005	2004
HANDBÆRT FÉ FRÁ REKSTRI:				
Hagnaður ársins	15	13.998.700	13.998.700	974.736
Rekstrarliðir, sem hafa ekki áhrif á fjárstreymi:				
Afskriftir rekstrarfjármuna og húseigna		46.012	0	0
Tekjuskattsskuldbinding, hækkun.....		2.690.336	2.280.826	154.943
Vátryggingaskuld, lækkun		(63.371)	0	0
Verðbætur og gengismunur		(1.514.840)	(1.342.797)	(489.967)
Matsbreyting á fjárfestingum		(15.524.702)	(12.531.832)	(849.111)
Breyting niðurfærslu á verðbréfum og kröfum	5	70.714	0	0
Afkoma dóttur- og hlutdeildarfélaga	7	(644.155)	(1.583.370)	39.051
Hagnaður af sölu eigna		(23.018)	(167.048)	0
Hlutdeild minnihluta		791.566	0	0
Veltufé (til) frá rekstri		(172.758)	654.479	(170.348)
Breytingar á rekstrartengdum eignum og skuldum:				
Kröfur og geymslufé, lækkun (hækkun).....		745.609	(462.664)	75.433
Seld bílalan.....		5.834.898	0	0
Veltubríf, hækkun.....		(214.118)	0	0
Lífeyrisskuldbinding, lækkun	18	(428.659)	0	0
Viðskiptaskuldir, hækkun		1.172.730	300.498	74.646
Handbært fé frá rekstri (til rekstrar)		6.937.702	492.313	(20.269)
FJÁRFESTINGARHREYFINGAR:				
Húseignir		191.362	0	0
Rekstrarfjármunir		(74.272)	0	0
Fjárfesting í dóttur- og hlutdeildarfélögum		(17.306.347)	(17.724.286)	0
Fjárfesting í eignarhlutum í öðrum félögum		(15.053.707)	(14.951.311)	(7.796.381)
Seldir eignarhlutir í dóttur- og hlutdeildarfélögum		1.593.261	0	0
Seldir eignarhlutir í öðrum félögum		5.129.264	5.036.104	0
Fenginn arður frá dótturfélagi		0	4.120.000	0
Verðbréf, breyting		(1.302.911)	(1.120.370)	0
		(26.823.350)	(24.639.863)	(7.796.381)
FJÁRMÖGNUNARHREYFINGAR:				
Hlutfjárukning.....		7.634.348	7.634.348	0
Keypt og seld eigin hlutabréf.....		(905.585)	(905.585)	0
Arður til hluthafa móðurfélags		(50.000)	(50.000)	0
Arður til minnihluta í dótturfélagi		(2.000.000)	0	0
Tekin ný langtímalán		22.903.511	22.903.511	7.893.068
Afborganir lána		(6.784.590)	(6.737.794)	(82.322)
Skammtímalán, breyting		3.459.571	3.459.571	0
		24.257.255	26.304.051	7.810.746
Breyting á handbæru fé		4.371.607	2.156.501	(5.904)
Handbært fé í ársbyrjun		498	498	6.402
Handbært fé í lok árs		4.372.105	2.156.999	498

SKÝRINGAR

Reikningsskilaaðferðir

1. Ársreikningurinn er gerður í samræmi við lög um ársreikninga og reglugerð um ársreikninga og samstæðureikninga. Ársreikningurinn er gerður í samræmi við góða reikningsskilavenju og gerður eftir sömu reikningsskilaaðferðum og árið áður.

Reglur Kauphallar Íslands kveða á um að félög með skráð skuldabréf skuli breyta reikningsskilum sínum til samræmis við alþjóðlegar reglur við gerð samstæðureikninga frá og með árinu 2007. Stjórn félagsins hefur ákveðið að nýta sér heimildarákvæði ársreikningalaga til að beita alþjóðlegum reikningsskilum (IFRS) við framsetningu á ársreikningi félagsins frá og með árinu 2006. Hafin er vinna við innleiðinguna en ekki liggur fyrir hversu mikil áhrif breytingarnar kunna að hafa á bókfært eigið fé félagsins.

2. Eignarhlutir í dóttur- og hlutdeildarfélagum eru færðir samkvæmt hlutdeildaraðferð. Eignarhlutir í félagum á hlutabréfamarkaði eru metnir á markaðsvirði í lok ársins. Aðrir eignarhlutir eru metnir á kostnaðarverði.

Á liðinn óefnislegar eignir er færð viðskiptavild sem myndaðist við kaup móður- og dótturfélaga á öðrum félagum, sem svarar til mismunar á upphaflegu kaupverði eignarhlutanna annars vegar og hlutdeild í eigin fé félaganna hins vegar. Félagið hefur hætt að afskrifa viðskiptavildina en þess í stað er hún árlega skoðuð með tilliti til virðisyrnunar.

3. Viðskipti í erlendum gjaldmiðlum eru færð á gengi viðskiptadags. Gengismunur og vextir á höfuðstóligna og skulda eru færðir í rekstrarreikning. Eignir og skuldir í erlendum gjaldmiðlum eru umreiknaðar í íslenskar krónur á gengi í lok ársins.

4. Afleiðusamningar eru upphaflega færðir á gangvirði á þeim degi sem afleiðusamningurinn er gerður og endurmetin eftir það á gangvirði þeirra.

5. Í efnahagsreikningi samstæðunnar eru verðbréf færð niður um 449 millj. kr og aðrar kröfur um 119 millj. kr. eða samtals 568 millj. kr. Hér er ekki um endanlega afskrift að ræða heldur er myndaður mótreikningur, sem mæta á því sem kann að tapast. Á árinu eru gjaldfærðar hjá samstæðunni 324 millj. kr. vegna tapaðra verðbréfa og krafna og breytinga á niðurfærslu.

6. Tekjuskattsskuldbinding er reiknuð og færð í ársreikninginn. Útreikningur hennar byggist á mismun efnahagsliða samkvæmt skattuppgjöri annars vegar og ársreikningi félagsins hins vegar. Mismunur efnahagsliða, sem þannig kemur fram, stafar af því að álagning tekjuskatts er miðuð við aðrar forsendur en reikningsskil félagsins og er þar í meginatriðum um að ræða tímabundinn mismun vegna frestunar á söluhagnaði hlutabréfa samkvæmt skattalögum sem færður er niður á móti kaupverði annarra hlutabréfa, og tímabundnum mismuni vegna óinnleysts gengismunar hlutabréfa.

Tekjur og gjöld af fjármálarekstri

7. Tekjur frá dóttur- og hlutdeildarfélagum sundurliðast þannig:	Samstæða	Móðurfélag
Íslensk endurtrygging hf.	5.533	0
Sjóvá-Almennar tryggingar hf.	0	1.583.370
Securitas hf.	32.858	0
Tónlistarfélagið Litur ehf.	3.811	0
33 ehf.	36.324	0
Klasi hf.	565.629	0
	<u>644.155</u>	<u>1.583.370</u>
8. Vaxtatekjur og gengismunur sundurliðast þannig:		
Vextir og verðbætur af verðbréfum	499.514	6.576
Vextir og verðbætur af kröfum	116.005	144
Vextir og verðbætur af innlánnum	504.736	336.754
Gengismunur	1.539.743	1.547.375
	<u>2.659.998</u>	<u>1.890.849</u>

SKÝRINGAR

Fjárfestingar

9. Húseignir og lóðir greinast þannig:	Samstæða	Móðurfélag
Yfirtekið við kaup á dótturfélagi	1.578.829	0
Keypt á árinu	45.000	45.000
Selt á árinu	(1.432.510)	0
Heildarverð í lok árs	<u>191.319</u>	<u>45.000</u>
Yfirtekið við kaup á dótturfélagi	432.364	0
Fyrnt á árinu	8.827	0
Fyrningar færðar út	(417.861)	0
Fyrning samtals í lok árs	<u>23.330</u>	<u>0</u>
Bókfært verð í lok árs	<u>167.989</u>	<u>45.000</u>

Fasteignamat húsa og lóða nemur 164 millj. kr. Í lok ársins voru húseignir samstæðunnar brunatryggðar fyrir 228 millj. kr.

10. Eignarhlutir í félögum greinast þannig:

	Eignarhlutur	Samstæða		Móðurfélag	
		Nafnverð	Bókfært verð	Nafnverð	Bókfært verð
Dótturfélög:					
Sjóvá-Almennar tryggingar hf.	66,70%	0	0	350.000	15.187.156
		<u>0</u>	<u>0</u>	<u>350.000</u>	<u>15.187.156</u>
Hlutdeildarfélög:					
Fragrance Investments ehf.	47,00%	239.700	240.000	0	0
Inglewood Ltd.	100,00%	179.091	2.352.551	179.091	2.352.551
Íslensk endurtrygging hf.	29,91%	105.766	156.048	0	0
Klasi hf.	40,00%	573.884	907.119	0	0
Securitas hf.	100,00%	150.000	1.053.090	0	0
SJ-fasteignir ehf.	100,00%	500	500	0	0
SJ- fjármögnun hf.	73,33%	450.000	450.000	0	0
Tónlistarfélagið Litur ehf.	100,00%	625	33.811	0	0
Þáttur eignarhaldsfélag ehf.	100,00%	500	500	500	500
33 ehf.	33,33%	86.182	141.896	0	0
		<u>1.786.248</u>	<u>5.335.515</u>	<u>179.591</u>	<u>2.353.051</u>

Félög á hlutabréfamarkaði:	Eignarhlutur	Samstæða Bókfært verð	Móðurfélag Bókfært verð
<i>Innlend félög:</i>			
Íslandsbanki hf.	9,57%	21.868.632	19.339.346
Actavis Group hf.	2,63%	7.325.036	6.067.381
Landsbanki Íslands hf.	0,39%	1.087.900	0
Kaupþing Búnaðarbanki hf.	0,19%	965.063	0
HB Grandi hf.	5,79%	914.682	0
Önnur félög (10/3)		<u>1.767.914</u>	<u>464.174</u>
		33.929.227	25.870.901
Erlend félög (6/3)		<u>3.964.895</u>	<u>1.936.341</u>
Félög á hlutabréfamarkaði samtals		<u>37.894.122</u>	<u>27.807.242</u>
Aðrir eignarhlutir (15)		<u>784.205</u>	<u>0</u>
Hlutafélög önnur en dóttur og hlutdeildarfélög		<u>38.678.327</u>	<u>27.807.242</u>

SKÝRINGAR

11. Verðbréf með breytilegum tekjum sundurliðast þannig:	Samstæða	Móðurfélag
Hlutafélög, önnur en dóttur- og hlutdeildarfélag	38.678.327	27.807.242
Hlutdeildarskírteini og afleiðusamningar	6.507.654	3.650.897
	45.185.981	31.458.139

Hlutdeildarskírteini eru bókfærð á skráðu markaðsgengi í lok ársins.

Móðurfélagið er með níu framvirka samninga um hlutabréfakaup í lok ársins 2005. Um er að ræða fjóra samninga vegna hlutabréfakaupa í Íslandsbanka hf., að nafnverði 1.032 millj. kr., þrjá samninga vegna kaupa á hlutabréfum í Actavis Group hf. að nafnverði 70 millj. kr., einn samning vegna kaupa á hlutabréfum í Dagsbrún hf. að nafnverði 42 millj. kr. og einn samning vegna kaupa á hlutabréfum í Danske Bank A/S að nafnverði 0,8 millj. kr. Lokadagar samninganna eru á tímabilinu janúar til júní 2006. Jákvæð staða samninganna í árslok er færð á meðal verðbréfa með breytilegum tekjum í efnahagsreikningi.

Að auki er félagið með framvirka samninga vegna gjaldeyrisviðskipta. Samningarnir eru færðir á meðal eigna í efnahagsreikningi miðað við stöðu á uppgjörstigi.

12. Fjárfestingar vegna líftrygginga með fjárfestingaráhættu líftryggingataka tengjast skuld samstæðunnar við þá sem eru í reglulegum sparnaði í sparnaðarlíftryggingu og lífeyrissparnaði. Skuldbindingin er reiknuð og færð í ársreikninginn í samræmi við val viðskiptavina á fjárfestingarstefnu og miðuð við skráð markaðsgengi sjóða í lok ársins.

Aðrar eignir

13. Rekstrarfjármunir greinast þannig:	Samstæða	Móðurfélag
Yfirtekið við kaup á dótturfélagi	151.164	
Keypt á árinu	238.147	59.000
Selt og niðurlagt	(39.888)	0
Heildarverð í lok árs	349.423	59.000
Yfirtekið við kaup á dótturfélagi	68.906	0
Fyrnt á árinu	28.616	0
Fyrning færð út	(6.283)	0
Fyrning samtals í lok árs.....	91.239	0
Bókfært verð í lok árs	258.184	59.000

Vátryggingarverðmæti rekstrarfjármuna samstæðunnar er 452 millj. kr.

Eigið fé

14. Heildarhlutafé félagsins samkvæmt samþykktum þess er 2.857 millj. kr. í lok ársins. Félagið á eigin hlutabréf að nafnverði 143 millj. kr. sem færð eru til lækkunar á eigin fé. Eitt atkvæði fylgir hverjum einnar krónu hlut í félaginu.

15. Yfirlit um eiginfjárreikninga:

	Hlutafé	Yfirverðsreikn. hlutafjár	Óráðstafað eigið fé	Samtals
Eigið fé í ársbyrjun.....	40.000	0	2.908.948	2.948.948
Jöfnun hlutafjár	1.960.000		(1.960.000)	
Hlutafjárhækkun	857.000	6.777.348		7.634.348
Arður til hluthafa			(50.000)	(50.000)
Keypt eigin bréf	(142.831)	(762.754)		(905.585)
Hagnaður ársins.....			13.998.700	13.998.700
Eigið fé í lok árs.....	2.714.169	6.014.594	14.897.648	23.626.411

SKÝRINGAR

16. Samkvæmt lögum um váttryggingastarfsemi nam lágmarksgjaldþol dótturfélagsins, Sjóvá-Almennar tryggingar hf., 1.632 millj. kr. í lok ársins og reiknað gjaldþol var 4.818 millj. kr. Gjaldþolshlutfall dótturfélagsins er því 2,95. Lágmarksgjaldþol Sjóvá-Almennra líftrygginga hf. nam 351 millj. kr. og reiknað gjaldþol var 624 millj. kr. Gjaldþolshlutfall Sjóvá-Almennra líftrygginga hf. var því 1,78. Gjaldþolshlutfall aðlagaðs gjaldþols er 2,35.

Aðrar skuldbindingar

17. Dótturfélag félagsins, Sjóvá Almennar tryggingar hf., hefur gert áhættuskiptasamning við Íslandsbanka hf. um hlutfallslega þátttöku í erlendri fjárfestingu. Samningurinn nær til fjárfestingar allt að 6 milljónum evra og er gerður án gengisáhættu félagsins. Undirritaðar höfðu verið skuldbindingar að upphæð um 3 milljónir evra í lok ársins.
18. Samstæðan hefur látið reikna út þær lífeyrisskuldbindingar sem á henni hvíla. Samkvæmt mati tryggingastærð-fræðings námu þær 70 millj. kr. í lok ársins.
19. Á árinu seldi dótturfélagið, Sjóvá-Almennar tryggingar hf., stóran hluta fasteigna sinna til fasteignafélagsins Klasa hf. Eignarhlutur Sjóvá-Almennra trygginga hf. í Klasa hf. er 40%. Félagið hefur gert leigusamninga á þessum fasteignum til 30 ára með forkaups- og forleigurétti. Leigugreiðslur eru færðar til gjalda í rekstrarreikningi á leigutíma.

20. Tekjuskattsskuldbinding í lok ársins og greinist þannig:

	Samstæða	Móðurfélag
Tekjuskattsskuldbinding í ársbyrjun	0	763.028
Yfirtekið við kaup á dótturfélagi	2.820.767	0
Reiknaður tekjuskattur vegna ársins	3.069.170	2.634.576
Tekjuskattur til greiðslu 2006 vegna ársins 2005	(372.077)	(353.750)
Tekjuskattsskuldbinding í lok ársins	5.517.860	3.043.854

Skuldir við lánastofnanir og önnur skuldabréfalán

21. Skuldir við lánastofnanir og önnur skuldabréfalán greinast þannig:

Skuldir í CHF	7.891.713	7.891.713
Skuldir í JPY	2.938.872	2.938.872
Skuldir í USD	2.258.416	2.258.416
Skuldir í EUR	1.320.714	1.320.714
Skuldir í SEK	560.362	560.362
Skuldir í GBP	5.678	5.678
	14.975.755	14.975.755
Skuldir í ISK	10.877.896	10.729.355
	25.853.651	25.705.110
Næsta árs afborganir	(3.327.068)	(3.299.049)
	22.526.583	22.406.061
Afborganir greinast þannig á næstu ár:		
Árið 2006	3.327.068	3.299.046
Árið 2007	5.115.527	5.108.942
Árið 2008	3.824.912	3.818.327
Árið 2009	7.299	714
Árið 2010	13.482.520	13.475.935
Síðar	96.325	2.146
	25.853.651	25.705.110

SKÝRINGAR

Starfsmannamál

22. Laun og launatengd gjöld greinast þannig:

Laun	542.974	17.496
Launatengd gjöld	91.968	5.174
	<u>634.942</u>	<u>22.670</u>
Starfsmannafjöldi, meðaltal á ársgrundvelli.....	199	3

23. Laun framkvæmdastjóra móðurfélagsins námu samtals 13,1 millj. kr. á árinu. Engin laun voru greidd til stjórnar móðurfélagsins á árinu.

Veðsetningar

24. Hlutabréf móðurfélagsins, sem bókfærð eru á 41.257 millj. kr. eru handveðsett lánastofnunum til tryggingar á lánum vegna hlutabréfakaupanna. Þá er hluti bankareikninga móðurfélagsins, sem bókfærðir eru á 2.126 millj.kr. í árslok, veðsettir til tryggingar á skuldum.

Önnur mál

25. Í desember 2005 gerði Milestone ehf. áskriftar- og hluthafasamning við Baug Group hf. Samkvæmt samningnum skal Milestone framselja eignarhluti sína í Íslandsbanka hf. að nafnverði 2.150 millj. kr., að uppfylltum ákveðnum skilyrðum, og að meðtöldum framvirkum samningum, til Þáttar eignarhaldsfélags ehf., dótturfélags Milestone ehf. Auk þess mun Milestone ehf. framselja eignarhlut sinn í Sjóvá-Almennum tryggingum hf. til Þáttar eignarhaldsfélags ehf. Framsalið er háð samþykki Fjármálaeftirlitsins sem ekki liggur og því hafa viðskiptin ekki verið bókfærð í ársreikningum félaganna. Samkvæmt samningnum mun eignarhluti Milestone ehf. í Þætti eignarhaldsfélagi ehf. lækka í 80%.

Milestone ehf.
Consolidated Financial Statements
for the year 2006
ISK

Milestone ehf.
Suðurlandsbraut 12
108 Reykjavík
Iceland
Reg. no. 640388-1109

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Endorsement and Signatures of the Board of Directors and the CEO

The consolidated financial statements of Milestone ehf. for the year 2006 have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted by EU. The financial statements comprise the consolidated financial statements of Milestone ehf. ("the Company") and its subsidiaries.

In the previous years the financial statements have been prepared in accordance to Icelandic law and generally accepted accounting principles (IS-GAAP). The total effect of change in accounting policies on the company's financial statements is that the book value of equity as at 31 December 2006 decreases by ISK 38 million. An explanation of how the transition to IFRSs has affected the company is provided in the notes.

Milestone ehf. is an investment company, focusing on strategic and private equity investments as well as proprietary trading.

At the end of November 2006 Milestone Group concluded a shareholders agreement, in association with other parties, of foundation of the investment bank Askar Capital hf. in the year 2007. Estimated equity of the new bank is ISK 10,9 billion and 85% of the bank's ownership will be part of Milestone's Group.

According to the consolidated income statement, profit for the year amounted to ISK 21,444 million. According to the consolidated balance sheet, equity at the end of the year amounted to ISK 43,727 million, including share capital in the amount of ISK 2,714 million.

Shareholders at the end of the year 2006 were four as in the beginning of the year. All shareholders held more than 10% of outstanding shares each at year end 2006. They are Leiftri Ltd. with 31.6% share, Karl Wernersson with 29.7% share, Steingrímur Wernersson with 23.4% share and Ingunn Wernersdóttir with 15.3% share.

The Board of Directors proposes a dividend payment amounting to ISK 300 million will be paid to shareholders in 2007 for operation in the year 2006. Reference is made to the notes to the consolidated financial statements regarding information on other changes in equity.

In beginning of February 2007 Milestone concluded a loan agreement in the amount of ISK 16.5 billion with the international investment bank Morgan Stanley. This agreement will have positive effect on the borrowings maturity portfolio.

The Board of Directors and the CEO of Milestone ehf. hereby confirm the Company's consolidated financial statements for the year 2006 by means of their signatures.

Reykjavík, 23 February 2007.

The Board of Directors:

CEO:

Independent Auditors' Report

To the Board of Directors and Shareholders of Milestone ehf.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Milestone ehf. and its subsidiaries, ("the Group"), which comprise the consolidated balance sheet as at December 31, 2006, 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 Consolidated 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 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 misstatements, 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. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2006, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted the EU.

Reykjavík, 23 February 2007.

KPMG hf.

Consolidated Income Statement for the year 2006

	Notes	2006	2005
Investment income:			
Net income from securities, associates and derivatives	7	26.213	17.196
Interest income		2.758	1.120
Interest expenses .....	(	5.728)	(984)
Net foreign exchange (loss) gain .....	(	3.869)	1.540
		19.374	18.872
Operating income:			
Sale of goods and services		2.748	0
Insurance premium	8	8.293	4.176
Other revenue	9	1.494	9
		12.535	4.185
Operation expenses:			
Cost of goods sold		(1.859)	0
Insurance claims	10	(8.035)	(3.536)
Other operating expenses	11-12	(4.099)	(1.702)
		(13.993)	(5.238)
Profit before income tax		17.916	17.819
Tax income (expense)	13-14	3.528	(3.080)
Profit for the year		21.444	14.739
Attributable to:			
Equity holders of the parent		20.295	13.948
Minority interest		1.149	791
Profit for the year		21.444	14.739
Earnings per share:			
Basic earnings per share (ISK)	15	7,48	9,63
Diluted earnings per share (ISK)	15	7,48	9,63

The notes on pages 10 to 40 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet as at 31 December 2006

	Notes	2006	2005
Assets:			
Cash and cash equivalents	16	5.475	2.246
Securities	17	78.831	49.418
Investments in associates	18	4.265	3.833
Derivatives	19	2.378	3.666
Restricted cash	20	2.303	2.126
Assets classified as held for sale	21	244	1.690
Trade and other receivables	22	9.187	2.489
Inventories		667	0
Loans	23-24	11.651	6.209
Reinsurance assets		1.645	1.255
Investment properties	25	30.588	0
Operating assets	26	1.530	426
Intangible assets	27	21.311	11.011
Total assets		170.075	84.369
 Equity:			
	28		
Share capital		2.714	2.714
Share premium		6.014	6.014
Retained earnings		34.855	14.860
Total equity attributable to equity holders of the parent		43.583	23.588
Minority interest		144	2.245
Total equity		43.727	25.833
 Liabilities:			
Derivatives	19	1.999	37
Trade and other payables	29	13.589	2.892
Liabilities classified as held for sale	21	0	637
Technical provision	30	22.713	20.732
Technical provision for life-assurance policies where the investment risk is borne by the policyholders		3.125	2.932
Borrowings	31-32	82.701	25.773
Deferred income tax liability	33	2.221	5.533
Total liabilities		126.348	58.536
Total equity and liabilities		170.075	84.369

The notes on pages 10 to 40 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year 2006

	Share capital	Share premium	Retained earnings	Equity holders of the Parent	Minority interest	Total equity
Year 2005						
Equity 31.12.2004	40	0	2.909	2.949	0	2.949
Change due to IFRSs			13	13		13
Equity as at 1.1.2005 (IFRS)	40	0	2.922	2.962	0	2.962
Profit for the year			13.948	13.948	791	14.739
Dividends			(50)	(50)		(50)
Issue of bonus shares	1.960		(1.960)	0		0
Issued new share capital	857	6.777		7.634		7.634
Purchased own shares	(143)	(763)		(906)		(906)
Minority interest, change				0	1.454	1.454
Equity 31.12.2005	2.714	6.014	14.860	23.588	2.245	25.833
Year 2006						
Equity 31.12.2005	2.714	6.014	14.898	23.626	2.245	25.871
Change due to IFRSs			(38)	(38)		(38)
Equity as at 1.1.2006 (IFRS)	2.714	6.014	14.860	23.588	2.245	25.833
Profit for the year			20.295	20.295	1.149	21.444
Dividends			(300)	(300)		(300)
Acquisition of minority interest				0	(3.319)	(3.319)
Minority interest, change				0	69	69
Equity 31.12.2006	2.714	6.014	34.855	43.583	144	43.727

The notes on pages 10 to 40 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year 2006

	Notes	2006	2005
Cash flows from operating activities:			
Profit for the year		21.444	14.739
Adjustments for:			
Indexation and foreign exchange loss (gain)		4.368	(1.515)
Depreciation		396	141
Deferred income tax, change .....	(	3.312)	2.708
Other operating items		149	(721)
Working capital from operations		23.045	15.352
Changes in operating assets and liabilities:			
Inventories, increase .....	(	12)	0
Receivables, (increase) decrease .....	(	3.792)	746
Payables, decrease		6.975	530
Net cash provided by operating activities		26.216	16.628
Cash flows from investing activities:			
Securities, change .....	(	32.855)	(21.091)
Acquisition of subsidiary, net of cash acquired	6	132	(17.724)
Acquisition of minority interest	6	(9.500)	0
Acquisition of associates companies .....	(	1.223)	0
Derivatives, change		3.250	(3.651)
Restricted cash, change .....	(	177)	(2.126)
Loans, change .....	(	7.040)	6.130
Acquisition of investment properties .....	(	23.487)	0
Acquisition of operating assets .....	(	231)	(179)
Proceeds from the sale of operating assets		22	0
Acquisition of intangible assets .....	(	2)	0
Net cash used in investing activities		(71.111)	(38.641)
Cash flows from financing activities:			
Proceeds from the issue of share capital		0	7.634
Purchased own shares		0	(906)
Minority interest in issue of share capital in subsidiaries		47	0
Dividend paid to shareholders of parent company .....	(	300)	(50)
Dividend paid to minority of subsidiary		0	(2.000)
Proceeds from borrowings		54.627	25.868
Repayment of borrowings .....	(	6.298)	(6.785)
Net cash provided by financing activities		48.076	23.761
Net increase in cash and cash equivalents		3.181	1.748
Cash and cash equivalents at 1 January		2.246	498
Effect of exchange rate fluctuations on cash held		48	0
Cash and cash equivalents at 31 December		5.475	2.246

Consolidated Statement of Cash Flows for the year 2006, contd.:

	Notes	2006	2005
Investing and financing transactions without cash flow effect:			
Sales price of shares		3.104	0
Acquisition of subsidiary	6	(1.676)	0
Acquisition of investment properties		(7.101)	0
Borrowings		5.673	0
Other information:			
Interest income received		261	83
Interest expenses paid		4.319	833
Income taxes paid		120	0
Dividends received		1.433	338

The notes on pages 10 to 40 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Reporting Entity

Milestone ehf.'s registered office is at Suðurlandsbraut 12 in Reykjavík, Iceland. The consolidated financial statements of Milestone ehf. ("the Company") as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries, together referred to as the "Group". Milestone ehf. is an investment company and the Company has listed bonds on the Iceland Stock Exchange.

2. Basis of preparation

Assets and liabilities in the Balance Sheet are presented in liquidity order which is considered more appropriate for the Group than the current/non-current presentation. For each asset and liability item that combines amounts expected to be recovered or settled after more than 12 months, a payment schedule is disclosed.

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. These are the Group's first consolidated financial statements prepared according to IFRS and IFRS 1, First-time Adoption of IFRS, has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 39. In the note, the changes in equity's comparative figures and the Group's results as they were disclosed according to Icelandic GAAP for the year 2005 and as they are according to IFRS, are explained.

The financial statements were approved by the Board of Directors of Milestone ehf. on 23 February 2007.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- * derivative financial instruments are measured at fair value;
- * financial instruments at fair value through profit or loss are measured at fair value;

c. Functional and presentation currency

The consolidated financial statements are prepared in Icelandic Krona (ISK), which is the Company's functional currency. All financial information has been rounded to the nearest million.

d. Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in note 4p.

3. Accounting policies related to financial instruments

a. *Financial instruments*

(i) *Non-derivative financial instruments*

Non-derivative financial instruments in the Group's balance sheet comprise securities, loans, trade and other receivables, cash and cash equivalents, restricted cash, borrowings, trade and other payables and ordinary shares.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances, demand deposits that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Restricted cash comprise of cash collaterals held by counterparties as guarantee for debts.

Accounting for finance income and expense is discussed in note 3c.

Investments at fair value through profit and loss

Securities in the balance sheet are financial assets classified as at fair value through profit or loss and designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) *Derivative financial instruments*

The Group holds derivative financial instruments for investment purposes but also to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for through profit or loss. Derivatives with positive fair value at the reporting date are recognised as assets in the balance sheet while derivatives with negative fair value are recognised as liabilities.

Notes, contd.:

a. contd.:

(iii) *Share capital*

Ordinary shares

Incremental costs directly attributable to issue of shares and share options are recognised as a deduction from equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends

Dividends are recognised as a decrease in equity in the period in which they are declared.

b. ***Fair value measurement principles for financial instruments***

(i) *Securities*

Securities in the balance sheet consist of investments in equity and debt securities. The fair value of securities is based on their quoted market bid prices at the reporting date without any deduction for estimated future selling costs.

If a quoted market price is not available on a stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the investment is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date. Fair values for unquoted equity investments are estimated, if possible, using applicable price / earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

(ii) *Derivatives*

The fair value of forward exchange contracts are based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(iii) *Loans, trade and other receivables*

The fair value of loans (financial leases included), trade and other receivables, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Notes, contd.:

b. contd.:

(iv) *Non-derivative financial liabilities*

The fair value of non-derivative financial liabilities which is determined for disclosure purpose is based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

c. **Investment income**

(i) *Net income from securities, associates and derivatives*

Net income from investments in securities, associates and derivatives comprise gain on the sale of shares, changes in the fair value of the investments and derivatives, other than foreign exchange hedges, share of profit (loss) of associates and dividend income from companies other than associates. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(ii) *Interest income and expense*

Interest income and expense is recognised in the income statement, using the effective interest method.

(iii) *Net foreign exchange (loss) gain*

Net foreign exchange (loss) gain comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies and gains and losses arising from derivatives hedging the foreign currency risk.

4. Other accounting policies

a. **Basis of consolidation**

(i) *Subsidiaries*

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) *Transactions eliminated on consolidation*

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Notes, contd.:

b. **Foreign currency**

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Acquisition of operating assets in foreign currencies is translated at the foreign exchange rate ruling at the date of the transaction. Operating expenses and sales in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

(ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at the average exchange rate.

Foreign currency differences are recognised directly in equity in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation differences is transferred to profit or loss.

(iii) *Hedge of net investments in foreign operation*

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operation are recognised directly in equity, in the foreign currency translation reserve, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

c. **Intangible assets**

(i) *Goodwill*

Goodwill (negative goodwill) arises on the acquisition of subsidiaries.

Acquisitions prior to 1 January 2005

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2005. In respect of acquisitions prior to 1 January 2005, goodwill represents the amount recognised under the Group's previous accounting framework, IS-GAAP.

Acquisitions on or after 1 January 2005

For acquisitions on or after 1 January 2005, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interest

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Notes, contd.:

c. contd.:

(ii) *Other intangible assets*

Trademarks are measured at cost less impairment losses. Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(iv) *Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and trademarks, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Customer relationship	12 years
Patents	5-10 years

d. *Investment property*

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as operating asset, its fair value at the date of reclassification becomes its cost for subsequent accounting.

e. *Operating assets*

(i) *Buildings and other operating assets*

Buildings and other operating assets are stated at cost less accumulated depreciation and impairment losses.

(ii) *Subsequent costs*

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

(iii) *Depreciation*

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

Buildings	25-50 years
Other operating assets	3-5 years

The depreciation method, useful lives and residual values are reassessed at the reporting date.

Notes, contd.:

f. **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

g. **Impairment**

(i) *Financial assets*

Financial assets that are stated at cost or amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes, contd.:

g. contd.:

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) *Assets classified as held for sale*

Non-current assets or disposal groups, comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, generally the disposal group is measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories and financial assets which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Assets and liabilities classified as held for sale are presented in special line items in the balance sheet.

h. **Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i. **Insurance contracts**

The subsidiaries, Sjóvá-Almennar tryggingar hf. og Sjóvá-Almennar líftryggingar hf., issue contracts that transfer both financial and insurance risk from the customers to the subsidiaries.

(i) *Insurance contracts - definition*

Insurance contracts are contracts under which the insurer accepts significant insurance risk from policyholders by agreeing to compensate the policyholders if a specified uncertain future event would occur.

Insurance risk is all risk, other than financial risk, that is moved from the policyholder to the insurer such as accident, death or damage. Financial risk is however the risk of changes in the market environment.

(ii) *Insurance contracts - classification*

The Company's insurance contracts are categorized in two groups according to how long the insurance risk lasts and whether the contract are fixed or changeable.

Property and casualty insurance:

Insurance contracts that are categorized as in this section are liability insurance, casualty insurance and property insurance.

Notes, contd.:

i. contd.:

Liability and casualty insurance contracts protect the customers against the risk of causing harm to third parties as a result of their legitimate activities and compensates the policyholders own damage in accordance with the terms of the insurance contracts.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers in business could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business.

Life insurance:

These contracts insure events associated with human life, for example death or survival over a long duration. Premiums are entered as income in the period they are issued and claims paid are entered as expense in the period that the insured event incurs.

(iii) *Investments with investment risk of the life assurance policyholders*

Investments with the investment risk of life assurance policyholders are financial assets owned by the Company that the policyholders have selected and carry the investment risk in accordance with the life assurance policy. Technical provision for life assurance policies where the investment risk is borne by the policyholders is the Company's liability towards these policyholders in the same amount.

(iv) *Technical provisions*

The Company assesses, at the end of the fiscal year, whether the recorded insurance liability can carry out the Group's estimated obligations by assessing future cash flows of the insurance liability. All changes in the insurance liability are recognized in the income statement. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.

(v) *Reinsurance contracts*

Reinsurance contracts are made in order to reduce the Group's risks. Reinsurance contracts can be either proportional or carry the entire risk in the case of a damage exceeding a fixed damage cost.

Claims on reinsurers due to premiums and claims are recognized as reinsurance assets. The claims concern the reinsurers share in damages according to reinsured insurance contracts and share in premium liability. Obligations due to reinsurance are the reinsurers share in premiums for reinsurance contracts which are recognized in the income statement at the time of the renewal of the reinsurance contracts.

j. **Revenue**

(i) *Goods sold*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Notes, contd.:

j. contd.:

(ii) *Rental income*

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(iii) *Insurance operations*

Premiums entered as income comprise the premiums contracted during the period including premiums transferred from last years but excluding next periods premiums, which are entered as premium reserve. Premium reserve in the balance sheet forms the part of premiums due to insurance risk during the period which belongs to the next fiscal year.

Claims stated in the income statements are the periods claims including increases due to claims previous fiscal year. Claims reserved in the balance sheet are the total amount of reported but unpaid claims as well as actuarial provision for claims accrued but unreported.

k. *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

l. *Income tax expense*

Income tax on the profit or loss for the year comprises current tax and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

m. *Earnings per share*

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is equal to basic EPS.

Notes, contd.:

n. *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is business segment.

o. *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements : Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.

IFRS 8 Operating Segments sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. If adopted by the EU, IFRS 8, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. If adopted by the EU, IFRIC 10, will become mandatory for the Group's 2007 financial statements.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions deals with how certain types of agreements on securities related payments shall be recognized in the financial statements of a company and its subsidiaries. If adopted by the EU, IFRIC 11 applies for accounting periods starting as of March 1, 2007.

IFRIC 12 Service Concession Arrangements . If adopted by the EU, IFRIC 12 will become mandatory for the Group's 2007 financial statements. IFRIC 12 is not expected to have any impact on the consolidated financial statements of the Group.

p. ***Accounting estimates and judgements***

Key sources of estimation uncertainty

Determination of fair values of financial instruments

As indicated in note 3b the Group's securities and derivatives are measured at fair value on the balance sheet. For the majority of these financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques, including reference to the current fair values of other instruments that are substantially the same, subject to the appropriate adjustments.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows etc.) and therefore, cannot be determined with precision.

Determination of impairment of financial assets

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 4g(i). The assessment for impairment is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

Non-financial assets, such as goodwill and intangible assets, are regularly valued for impairment. The assessment for impairment is based upon management's estimates of future cash flows and discount rate.

Critical accounting judgements in applying the Group's accounting policies

Classification of securities

The Group's accounting policies provide scope for securities to be designated at fair value through profit or loss. By making this designation, the management has determined that it has met the necessary criteria as set out in accounting policy 3a(i).

Classification of assets as held for sale

Certain assets and related liabilities are classified as held for sale as described in note 4g(iii). By making this classification, the management has determined that their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Furthermore, the management expects the sale to be completed within one year from the date of classification and that it is unlikely that significant changes will be made to the planned sale. However, future events or circumstances may extend the period to complete the sale beyond one year or they may lead to the assets no longer meeting the requirements for classification as held for sale.

Deferred tax assets

Deferred tax assets are recognised for most deductible temporary differences and for tax losses carried forward to the extent that it is probable that taxable profit will be available against which they can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Notes, contd.:

Segment reporting

5. Segment information is presented in respect of Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure and is divided into three segments. Retail activities comprise the operation of the subsidiary L&H eignarhaldsfélag ehf. and the insurance activities comprise the operations of the subsidiary Sjóvá-Almennar tryggingar hf. Investment activities comprise the operations of the parent and other investment companies.

In presenting information on the basis of geographical segment, segments revenue and assets is based on the geographical location and of assets.

Inter-segment pricing is determined on an arms's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments

	Retail*		Insurance*		Investments		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Investment income	774	0	11.886	3.677	18.259	16.778	(11.545)	(1.583)	19.374	18.872
Operating income	2.933	0	9.826	4.185	59	0	(283)	0	12.535	4.185
Operating expenses	(2.781)	0	(10.722)	(5.053)	(508)	(185)	18	0	(13.993)	(5.238)
Segment result before										
income tax	926	0	10.990	2.809	17.810	16.593	(11.810)	(1.583)	17.916	17.819
Income tax	(145)	0	956	(435)	2.717	(2.645)	0	0	3.528	(3.080)
Profit for the year	781	0	11.946	2.374	20.527	13.948	(11.810)	(1.583)	21.444	14.739
Segment assets	7.739	0	74.294	35.918	#####	52.955	(63.410)	(4.504)	#####	84.369
Segment liabilities	6.798	0	65.007	29.181	58.510	29.367	(3.967)	(12)	#####	58.536
Capital expenditure	46	0	187	179	7.733	104	0	0	7.966	283
Depreciation, amortisation and impairment losses	68	0	49	37	279	104	0	0	396	141

* Interest of Sjóvá-Almennar tryggingar hf. was 66,7% from July 2005 until June 2006 but 100% after that. L&H eignarhaldsfélag ehf. is part of the consolidated financial statements from end of June 2006.

Geographical segments

	Iceland		Continent		Asia	USA	Eliminations		Consolidated	
	2006	2005	Europe	2006			2006	2005	2006	2005
Investment and operating income	31.082	23.057	827		0	0	0	0	31.909	23.057
Total assets	#####	84.369	22.505		7.507	266	0	0	#####	84.369
Capital expenditure	7.966	283	0		0	0	0	0	7.966	283

Notes, contd.:

Acquisitions of subsidiary and minority interests

6. In June 2005 the Financial Supervision Authority approved the company's purchase of 66.7% of shares in Sjóvá-Almennar tryggingar hf. Milestone's interest in profit of Sjóvá-Almennar tryggingar hf. are entered from the beginning of July 2005. In May 2006 the company purchased 33.3% of shares in Sjóvá-Almennum tryggingar hf. and thereby Milestone had acquired all the shares in the company. The purchase price for the 33.3% share amounted to ISK 9,500 million. The carrying amounts of Sjóvá's net assets in the consolidated financial statements at the end of June was ISK 41,576 million. The Group recognised a decrease in minority interest of ISK 3,319 million and goodwill of ISK 3,682 million, trademark of ISK 976 million and customer relationship of ISK 1,433 million. If Milestone had acquired all the shares in the company at the beginning of 2006 the interest in profit would have been 1,130 million higher.

In the end of June 2006 the company bought all the shares in L&H eignarhaldsfélag ehf. L&H eignarhaldsfélag ehf. owns, among other things, 99% of the shares in Lyf og heilsa hf. The company is part of Milestone's consolidated financial statements from the end of June 2006.

The acquisitions of L&H eignarhaldsfélag have the following effects on the Groups balance sheet:

	Carrying amounts on acquisition
Cash and cash equivalents	131
Investments in associates	24
Trade and other receivables	1.390
Inventories	654
Operating assets	935
Intangible assets	2.669
Trade and other payables	(1.729)
Borrowings	(4.041)
Net identified assets and liabilities	33
Trademark on acquisition	369
Goodwill on acquisition	1.274
Consideration satisfied by securities	1.676
	<hr/>
Cash acquired	131
Net cash outflow	131
	<hr/>

No fair value adjustments were recognised on carrying amounts on acquisition date.

Investment income

7. Net income from securities, associates and derivatives is specified as follows:

	2006	2005
Gain (loss) on the sale of shares	9.315	(17)
Dividend	1.433	338
Share of profit of associates	215	608
Change in fair value of securities and derivatives	15.250	16.267
Net income from securities, associates and derivatives	26.213	17.196

Notes, contd.:

Operating income

8. Insurance premium is specified as follows:	2006	2005
Premiums written	9.628	4.909
Reinsure's share	(1.082)	(909)
Change in the gross provision for unearned premiums	(176)	8
Change in the provision for unearned premiums, reinsure's share	(77)	168
Total insurance premium	<u>8.293</u>	<u>4.176</u>

9. Other revenue is specified as follows:

Rental	958	0
Other revenue	536	9
Total other revenue	<u>1.494</u>	<u>9</u>

Operating expenses

10. Insurance claims are specified as follows:

Claims paid	6.770	3.411
Claims paid, reinsure's share	(204)	(528)
Change in the provision for claims	1.932	474
Change in the provision for claims, reinsures' share	(463)	179
Total insurance claims	<u>8.035</u>	<u>3.536</u>

11. Other operating expenses specify as follows:

Salaries and salary-related expenses, note 12	1.930	635
Depreciation, amortisation and impairment losses	396	141
Other operating expenses	1.773	926
Total other operating expenses	<u>4.099</u>	<u>1.702</u>

12. Salaries and related expenses are specified as follows:

Salaries	1.617	543
Salary-related expenses	313	92
Salaries and salary-related expenses total	<u>1.930</u>	<u>635</u>

Number of employees at the end of the year	532	199
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Salaries to CEO of the parent company amounted to ISK 31 million. Salaries paid to board of directors amounted to ISK 15 million.

Notes, contd.:

Income tax expense

13. Income tax recognised in the income statement is specified as follows:

	2006	2005
Current tax payable	(66)	(372)
Adjustments for prior periods	278	0
Deferred income tax	3.316	(2.708)
Total income tax (expense) in income statement	<u>3.528</u>	<u>(3.080)</u>

14. Reconciliation of effective tax rate:

	2006	2005
Profit before income tax	<u>17.916</u>	<u>17.819</u>
Income tax using the Company's domestic tax rate	18,0% (3.225)	18,0% (3.214)
Tax exempt revenue	0,6% 113	0,0% 0
Deferral of gains from sale of equity investments against tax base of investments in subsidiaries	36,9% 6.611	0,0% 0
Non-deductible expenses	0,0% (1)	0,0% 0
Other items	(0,9%) 30	(0,9%) 134
Effective tax rate	<u>19,7%</u> <u>3.528</u>	<u>(17,3%)</u> <u>(3.080)</u>

Earnings per share

15. The calculation of basic earnings per share was based on the profit and a weighted average number of shares outstanding during the year. Diluted earnings per share is the same as basic earnings per share as the company has not entered into share options agreements or convertible loan agreements.

	2006	2005
Profit for the year	20.295	13.948
Weighted average number outstanding shares during the year	2.714	1.449
Basic and diluted earnings per share	7,48	9,63

Cash and cash equivalents

16. Cash and cash equivalents are specified as follows:

Cash	8	11
Bank deposits	5.467	2.235
Total cash and cash equivalents	<u>5.475</u>	<u>2.246</u>

Notes, contd.:

Securities

17. Securities are specified as follows:

	Share 2006	Fair value including related derivatives 2006	Fair value including related derivatives 2005
Listed securities:			
<i>Listed securities on the Icelandic Stock Exchange:</i>			
Glitnir Bank hf.	20,7%	68.683	39.728
Actavis Group hf.	5,5%	11.767	10.796
365 hf.	15,7%	2.465	254
Teymi hf.	15,7%	2.311	0
Landsbanki Íslands hf.		1.204	0
Other companies		2.956	4.715
Total listed shares on the Iceland Stock Exchange		89.386	55.493
Affiliated shares		586	952
Bonds		694	3.946
Listed on the Icelandic Stock Exchange		90.666	60.391
<i>Listed securities on foreign stock exchanges:</i>			
Storebrand		0	3.514
Affiliated shares		220	1.119
Affiliated shares for benefit of life-assurance policyholders who bear the investment risk		3.125	2.932
Other companies		132	267
Total listed on foreign stock exchanges		3.477	7.832
Total listed securities		94.143	68.223
Unlisted securities:			
Unlisted shares		1.099	2.139
Unlisted bonds		0	185
Unlisted bonds - held to maturity investments		250	629
Total unlisted securities		1.349	2.953
Total securities		95.492	71.176
Thereof derivatives		(16.661)	(21.758)
Fair value of securities at year end		78.831	49.418

Notes, contd.:

Associates

18. The carrying amounts of the Group's investments in associates and share of profit (loss) are specified as follows:

	Share	Share of	Carrying	Share of	Carrying
	2006	profit (loss)	amounts	profit (loss)	amounts
		2006	2006	2005	2005
Top investment Group B.V.	49,5%	0	685	0	0
Fjárfestingarfélagið Máttur ehf.	47,5%	(31)	1.833	0	0
Fragrance Investments ehf.	47,0%	0	240	0	240
Aquila Venture Partners ehf.	45,0%	0	543	0	0
Spor ehf.	35,0%	13	229	0	0
Sporbaugur ehf.	35,0%	(7)	137	0	0
Cartoon Holdings Ltd.	30,0%	0	410	0	0
Íslensk endurtrygging hf.	29,9%	17	173	6	156
Inglewood Ltd.		0	0	0	2.354
Klasi hf.		214	0	566	907
Other companies		9	15	36	175
Associates companies total		<u>215</u>	<u>4.265</u>	<u>608</u>	<u>3.833</u>

Derivatives

19. Net assets in derivatives are specified as follows:

	2006	2005
Equity derivatives - receivable, see note 17	16.661	21.758
Equity derivatives - payable	(15.035)	(18.107)
Net position of equity derivatives	<u>1.626</u>	<u>3.651</u>
Net position of other derivatives	(1.247)	(22)
Net position of derivatives	<u>379</u>	<u>3.629</u>
Derivatives - assets in the balance sheet	2.378	3.666
Derivatives - liabilities in the balance sheet	(1.999)	(37)
Net position of derivatives	<u>379</u>	<u>3.629</u>

Restricted cash

20. Bank deposits amounting to ISK 2,303 million are restricted to use for the Group at year end. These deposits are cash held by financial institutions as pledged for debts.

Notes, contd.:

Assets and Liabilities classified as held for sale

21. Shares in Wizard Holding A/S and Iðngarðar ehf. are presented as held for sale following the commitment of the Group's management to plan to sell them. The Group sold shares in the subsidiary Securitas hf. in January 2006 and the company is therefor presented as disposal group in the comparative amounts in the balance sheet. Assets and liabilities classified as held for sale are specified as follows:

	2006	2005	
	Assets	Assets	Liabilities
Wizard Holding A/S	225	0	0
Iðngarðar ehf.	19	0	0
Total assets of Securitas hf.	0	1.690	0
Total liabilities of Securitas hf.	0	0	637
Assets classified as held for sale total	244	1.690	637

Trade and other receivables

22. Trade and other receivables are specified as follows:	2006	2005
Insurance receivables	2.062	2.007
Trade receivables	340	0
Prepaid expenses	378	0
Sale of shares receivables	4.135	0
Other receivables	2.272	482
Total trade and other receivables	9.187	2.489

Loans

23. Loans are specified as follows:

Bonds with mortgage	4.514	2.346
Other loans	7.137	3.863
	11.651	6.209

24. Repayments of loans are specified as follows:

Repayments in 2007	8.339	5.244
Repayments in 2008	1.861	965
Repayments in 2009	1.198	0
Repayments in 2010	253	0
Total loans	11.651	6.209

Notes, contd.:

Investment properties

25. Investment properties are specified as follows:

Investment properties

Balance at 1.1.2006	0
Acquisitions	22.815
Balance at 31.12.2006	<u>22.815</u>

Investment properties under development

Balance at 1.1.2006	0
Acquisitions	7.773
Balance at 31.12.2006	<u>7.773</u>

Investment properties total	<u>30.588</u>
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The investment properties were all acquired during the year and changes in fair value from acquisition date are immaterial.

Operating assets

26. Operating assets are specified as follows:

Gross carrying amount	Buildings	Other operating assets	Total
Balance at 1.1.2005	0	0	0
Acquisitions through business combinations	1.579	148	1.727
Additions during the year	45	241	286
Sales and disposals during the year	(1.433)	(39)	(1.472)
Balance at 31.12.2005	<u>191</u>	<u>350</u>	<u>541</u>
Acquisitions through business combinations	777	763	1.540
Additions during the year	27	204	231
Sales and disposals during the year	(35)	(54)	(89)
Balance 31.12.2006	<u>960</u>	<u>1.263</u>	<u>2.223</u>

Depreciation and impairment losses

Balance at 1.1.2005	0	0	0
Acquisitions through business combinations	432	69	501
Depreciation	9	28	37
Sales and disposals during the year	(417)	(6)	(423)
Balance 31.12.2005	<u>24</u>	<u>91</u>	<u>115</u>
Acquisitions through business combinations	60	418	478
Depreciation	8	120	128
Sales and disposals during the year	(2)	(26)	(28)
Balance 31.12.2006	<u>90</u>	<u>603</u>	<u>693</u>

Carrying amounts

1.1.2005	0	0	0
31.12.2005	<u>167</u>	<u>259</u>	<u>426</u>
31.12.2006	<u>870</u>	<u>660</u>	<u>1.530</u>

Notes, contd.:

Intangible assets

27. The Group's intangible assets are specified as follows:

Gross carrying amount	Goodwill	Trademark	Customer relationships	Other intangible assets	Total
Balance at 1 January 2005	0	0	0	0	0
Additions during the year	6.905	1.706	2.504	0	11.115
Balance at 31 December 2005	6.905	1.706	2.504	0	11.115
Acquisitions through business combination ...	3.766	696	0	19	4.481
Acquisitions of minority interest	3.682	976	1.433	2	6.093
Balance at 31 December 2006	14.353	3.378	3.937	21	21.689

Amortisation and impairment losses

Balance at 1 January 2005	0	0	0	0	0
Amortisation	0	0	104	0	104
Balance 31.12.2005	0	0	104	0	104
Acquisitions through business combination ...	0	0	0	6	208
Amortisation	0	0	267	1	268
Balance at 31 December 2006	0	0	371	7	580

Carrying amounts

1.1.2005	0	0	0	0	0
31.12.2005	6.905	1.706	2.400	0	11.011
31.12.2006	14.353	3.378	3.566	14	21.311

Amortisation and impairment charge

The amortisation and impairment losses are allocated to operating expenses in income statement.

Impairment test

At the end of the year impairment tests were performed on the Group's goodwill and trademarks. The present value of estimated future cash flows is used to decide if impairment losses have occurred. In the present value calculations, an interest rate is used that reflects the weighted average of cost of capital, or the cost of debt and equity allowed for income tax effects. If the fair value of goodwill, which is the present value of future cash flows, is lower than the carrying amount the difference is charged to the income statement. According to the outcome of the impairment tests, performed at year-end 2006, the Group's goodwill has not suffered impairment losses.

Cash flows were projected based on the next years business plan and expected growth in the next 4 years. Cash flows for a future period are extrapolated using a constant growth rate. Management believes that a constant growth rate of 2.5% a year is close to the expected inflation for the period.

The anticipated annual revenue growth rate in cash flows projection was 3.5% - 10.0% for the years 2007-2011.

The discount rate of 12.9%-14.2% was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the companies weighted average cost of capital.

Notes, contd.:

27. contd.:

The aggregated carrying amounts of goodwill is allocated to each segment as follows:

	2006	2005
Retail	3.828	0
Insurance	10.525	6.905
Total	<u>14.353</u>	<u>6.905</u>

Equity

28. Issued capital

The company's capital stock amounted to ISK 2,857 million at year-end 2006 and 2005 according to the company's articles of association. The capital was increased by ISK 2,817 million in the year 2005. The holders of shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the company. The company bought own shares at a nominal value of ISK 143 million during the year 2005 for ISK 906 million. Share capital according to the balance sheet amounted to ISK 2,714 million at the end of the year, share capital is specified as follows:

	Amounts	Ratio
Total issued shares at the end of the year according to the balance sheet	2.714	95,0%
Own shares	143	5,0%
Share capital according to the Articles of Association	<u>2.857</u>	<u>100,0%</u>

Dividend

The company paid dividend of ISK 300 million to shareholders 2006 (2005: ISK 50 million).

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held as reserve which can not be paid out as dividend to shareholders.

Notes, contd.:

Trade and other payables

29. Trade and other payables are specified as follows:

	2006	2005
Trade payables	1.989	1.632
Remaining purchase price of investment properties	7.099	0
Other payables	4.501	1.260
Total trade and other payables	<u>13.589</u>	<u>2.892</u>

Technical provision

30. The technical provision is specified as follows:

Technical provision (total):		
Claims reported and loss adjustment expenses	16.781	13.360
Claims incurred but not reported	1.260	2.748
Claims outstanding, total	<u>18.041</u>	<u>16.108</u>
Bonuses and premium provisions	320	451
Provision for unearned premiums	4.352	4.173
Technical provision, total	<u>22.713</u>	<u>20.732</u>
Reinsurers' share:		
Claims reported and loss adjustment expenses	1.247	904
Claims incurred but not reported	120	0
Claims outstanding, total	<u>1.367</u>	<u>904</u>
Provision for unearned premiums	254	331
Reinsurers' share, total	<u>1.621</u>	<u>1.235</u>
Own technical provisions (net)		
Claims reported and loss adjustment expenses	15.534	12.456
Claims incurred but not reported	1.140	2.748
Claims outstanding, total	<u>16.674</u>	<u>15.204</u>
Bonuses and premium provisions	320	451
Provision for unearned premiums	4.098	3.842
Own technical provisions (net), total	<u>21.092</u>	<u>19.497</u>

Notes, contd.:

Borrowings

31. Borrowings are specified as follows:

	Currency	Year of maturity	Interest rate	2006 Carrying amount	2005 Carrying amount
Bank loan	ISK	2007-2029	10,7%	37.018	10.878
Bank loan	EUR	2007-2011	5,1%	25.727	1.321
Bank loan	CHF	2007-2010	3,6%	10.982	7.892
Bank loan	JPY	2007-2010	2,0%	3.660	2.939
Bank loan	USD	2007-2009	7,1%	3.297	2.177
Bank loan	GBP	2007-2009	7,7%	1.327	6
Bank loan	SEK	2007-2010	4,9%	690	560
Borrowings				<u>82.701</u>	<u>25.773</u>

Group's assets amounting to ISK 108 billion are mortgaged to secure derivative contracts and debt with the remaining balance of ISK 73 billion at the end of the year 2006.

32. Repayment of borrowings are specified as follows:

	2006	2005
Repayments in 2006	0	3.327
Repayments in 2007	20.027	5.116
Repayments in 2008	22.451	3.825
Repayments in 2009	1.652	7
Repayments in 2010	17.062	13.402
Repayments in 2011	881	96
Subsequent repayments	<u>20.628</u>	<u>0</u>
Borrowings	<u>82.701</u>	<u>25.773</u>

Deferred income tax liability

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

Deferred income tax liability 1.1.	5.533	763
Additions through business combination	282	2.062
Income tax (expenses) recognised in income statement	(3.528)	3.080
Income tax payable	(66)	(372)
Deferred income tax liability 31.12.	<u>2.221</u>	<u>5.533</u>

Notes, contd.:

33. contd.:

The deferred income tax liability is attributable to the following items:

	Assets		Liabilities		Net deferred tax liability	
	2006	2005	2006	2005	2006	2005
Securities	0	0	1.774	4.780	1.774	4.780
Derivatives	0	0	85	657	85	657
Loans, trade receivables	(1)	(31)	12	10	11	(21)
Operating assets	0	0	128	28	128	28
Other items	0	(20)	223	109	223	89
	<u>(1)</u>	<u>(51)</u>	<u>2.222</u>	<u>5.584</u>	<u>2.221</u>	<u>5.533</u>

At 31 December 2006 deferred tax liability amounting to ISK 6,394 million is not recognised for temporary differences of ISK 35,522 million 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.

When the Group pays dividends to its shareholders, it is required to pay a portion of the dividends to taxation authorities on behalf of shareholders, i.e. withholding tax. The amount paid to taxation authorities is charged to equity as a part of the dividends.

Financial instruments and associated risks

34. The Group maintains positions in a variety of derivative and non-derivative financial instruments in accordance with its investment strategy. The Group's investment portfolio comprises quoted and non-quoted equity and debt investments.

The Group is exposed to various risks inherent in conducting financial services operations, it is necessary to identify, measure, aggregate and manage these risks effectively, and allocate the capital appropriately. The Group's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Group is exposed are market risk, credit risk, liquidity risk and underwriting risk.

The frame for asset allocation is determined by the Group's management who sets the outline for the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored on intraday bases by the Group's employees.

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Group are discussed below.

Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and price risk.

Notes, contd.:

34. contd.:

The Group's strategy on the management of market risk is driven by the Group's investment objective. The Group's market risk is managed on a daily basis by the employees in accordance with policies and procedures in place. The Group's overall market positions are monitored on a monthly basis, or in some cases more frequently, by the board of directors.

Details of the Group's investment portfolio at the reporting date are disclosed in the schedule of investments included in note 17.

Currency risk

The Group entities may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Icelandic kronas (ISK).

The Group's total net currency balance is monitored on daily basis and traded as any other calculated financial position.

Interest rate risk

The majority of the Group's financial assets are non-interest-bearing. Interest-bearing financial assets reprice in the short-term, no longer than twelve months. As a result, the Group is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates when it comes to assets. The Group is however exposed to interest risk from interest bearing liabilities and that risk is mitigated by active risk management. Any excess cash and cash equivalents of the Group are invested in short-term commercial paper or reverse repurchase agreements with the term to maturity no longer than one month.

Price risk

Price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Group's financial assets are carried at fair value with fair value changes recognised in the income statement, all changes in market conditions will directly affect investment income.

Market fluctuations are monitored by the Group's management on intraday basis which enables the Group to react quickly to any changes in the market.

The Group's main equity assets are in Glitnir banki hf. and Actavis Group hf., both of which are listed on OMX Nordic Exchange in Iceland.

The investment portfolios of Sjóvá-Almennar tryggingar hf. and Sjóvá Almennar líftryggingar hf. are also monitored by the Icelandic Financial Supervisory Authority (FSA), but the portfolios of the respective subsidiaries are structured to ensure that capitalisation is adequate and financial strength is maintained at all times.

Credit risk

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

Transactions involving derivative financial instruments are usually with counterparties with whom the Group has signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk.

Notes, contd.:

34. contd.:

Regarding loans and trade receivables internal procedures are used to manage the default risk, settlement risk, exposure risk and collateral risk. The subsidiary Sjóvá fjármögnun hf. is defined according to Icelandic law as a financial institution and is regulated by the FSA and reports quarterly to FSA on defaulted customers, exposure concentration and equity limits.

There were no significant concentrations of credit risk to counterparties at 31 December 2006.

Liquidity risk

The risk management of the Group mitigates the liquidity by assuring adequate liquidity through unforeseen changes in funding sources or market disruption. The Group's financial instruments can include investments in unlisted equity investments and derivative contracts traded over-the-counter, which are not traded in an organised public market and which generally may be illiquid. As a result, the Group may not be able to liquidate quickly some of its investments in these instruments at an amount close to its fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the credit-worthiness of any particular issuer.

To mitigate this risk the Group has a policy of minimum available cash at any given time and in addition to that, the Group's listed financial investments, which represent large part of the total assets, are considered to be readily realisable as they are all listed on stock exchanges.

Underwriting risk

The customer base of the insurance operation is well diversified and the company is not reliant on any individual client or customer. The insurance company in the Group are Sjóvá-Almennar tryggingar hf. and Sjóvá Almennar líftryggingar hf.

In order to limit the underwriting risk of the insurance operation, part of the risk is transferred to reinsurers. The amount of risk that the companies carry for their own account is determined with respect to the financial strength of each of the insurance company and the nature of the risk.

Financial instruments and fair values

35. The fair values of financial assets and liabilities is not significantly different than the carrying amounts shown in the balance sheet.

Financial Guarantees

36. According to the shareholders agreement of foundation of the investment bank Askar Capital hf., the parent company have obligation to pay with cash ISK 7 billion for share in the company in the year 2007.

The subsidiary Sjóvá-Almennar tryggingar hf. has concluded a risk swap contract with Glitnir banki hf. on a relative participation in a foreign investment. The contract comprises the company's investments up to € 6 million. Obligations amounting to of € 5 million have been signed at the end of the period.

Notes, contd.:

Related parties

37. The Group has a related party relationship with its shareholders, subsidiaries, associates, board of directors of the parent company and managing director. Company's owned by board shareholders are also considered related parties.

During the year 2006 the Group made transactions with related parties. These transactions were priced on an arm's length basis. Net outstanding loans and receivables at year end amounted to ISK 1,925 million (2005: 1,035 million). Interest expenses to related parties in the income statements amounts to ISK 184 million (2005: none).

Group entities

38. Main Group entities are specified as follows:

Company:	Country	Currency	Ownership interest	
			2006	2005
Amarel ehf.	Iceland	ISK	100,0%	-
DOC Milwaukee LP	USA	USD	100,0%	-
L&H eignarhaldsfélag ehf.	Iceland	ISK	100,0%	-
Lyf og heilsa hf.	Iceland	ISK	100,0%	-
SJ1 ehf.	Iceland	ISK	100,0%	66,7%
SJ-Fasteignir	Iceland	ISK	100,0%	-
Sjóvá-Almennar tryggingar hf.	Iceland	ISK	100,0%	66,7%
Sjóvá-Almennar líftryggingar hf.	Iceland	ISK	100,0%	66,7%
Sjóvá fjármögnun hf.	Iceland	ISK	100,0%	66,7%
SJ Properties Chocolate N.V.	Belgium	EUR	100,0%	-
SJ Properties Mjódd BuyCo ehf.	Iceland	ISK	100,0%	-
SJ Properties Sarl BuyCo & KG GmbH	Germany	EUR	94,8%	-
Páttur eignarhaldsfélag ehf.	Iceland	ISK	100,0%	100,0%

In addition there are 22 companies in Group that are included in the consolidated financial statements. Total number of Group companies are therefor 35 at year-end 2006.

Explanation of transition to IFRSs

39. As stated in the notes these are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set in notes have been applied in the preparation of the financial statements for the year ended 31 December 2006, the comparative information presented in these financial statements for the year ended 31 December 2005 and the preparation of an opening IFRS balance sheet at 1 January 2005, the Group's date of transaction. In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting rules (previous IS-GAAP). The following tables and notes shows the changes in shareholders' equity on January 1, 2006.

Notes, contd.:

39. contd.:

Explanation of changes in equity:

Shareholders' equity according to previous accounting methods 31 December 2005	23.626
Shareholders' equity according to IFRS 1 January 2006	23.588
Changes from the previous accounting methods	(38)

Change in valuation:

	1.1.2005	1.1.2006
Change in evaluation of intangible assets IFRS 3	0	(104)
Change in evaluation of borrowing IAS 39	13	66
Changes from previous accounting methods	13	(38)

Changes in equity are stated after the deduction of income tax.

As part of its transition to IFRSs, the Group restated business combinations that occurred on or after 1 January 2005. In previous years goodwill had not been amortized in accordance with IFRS but the division of premium on cash-generating units had not been performed. The Group's goodwill at the end of the year 2005 was decreased by ISK 4,210 million and trademarks (ISK 1,706 million) and customers relationships (ISK 2,504 million) entered among intangible assets. Different from goodwill and trademarks, customers relationships are amortized and therefore shareholders' equity is decreased by ISK 104 million in the beginning of the year 2006.

In accordance with IFRS the Group will recognize expenses from borrowing fee over the term of the borrowing, instead of recognize the expenses at the issue of the borrowing. As a result, the Group's equity increases by ISK 13 million January 2005 and 66 million January 2006.

Changes in presentation:

Milestone ehf. is an investment company, focusing on strategic and private equity investments as well as proprietary trading. The presentation of the financial statements and comparative amounts have been altered to investment operation.

The Group sold shares in the subsidiary Securitas hf. in January 2006. In accordance with IFRS Securitas's assets and liabilities at year-end 2006 are classified as held for sale and presented in special line in the balance sheet. Therefore total assets and liabilities in the beginning of the year 2006 increase by ISK 637 million.

Derivatives are now presented in special line in the balance sheet on net fair value. Total assets and liabilities increase therefor by ISK 15 million.

In addition, minority interest in the Group's equity, is now presented as separate item in equity.

Notes, contd.:

39. contd.:

Balance sheet 1.1. 2006:

The restatement in accordance with IFRS had the following effects on the balance sheet:

	IS-GAAP 31.12.2005	Changes in valuation	Changes in presentation	IFRS 31.12.2005
Total assets	<u>83.821</u>	<u>(104)</u>	<u>652</u>	<u>84.369</u>
Total equity	25.871	(38)		25.833
Total liabilities	<u>57.950</u>	<u>(66)</u>	<u>652</u>	<u>58.536</u>
Total equity and liabilities	<u>83.821</u>	<u>(104)</u>	<u>652</u>	<u>84.369</u>

The change in valuation on specific balance sheet item are specified as follows:

	IS-GAAP 31.12.2005	Changes in valuation	IFRS 31.12.2005
Intangible assets	11.115	(104)	11.011
Retained earnings	14.898	(38)	14.860
Borrowings	25.854	(81)	25.773
Deferred tax income liability	5.518	15	5.533

Income statement for the year 2005:

	IS-GAAP 31.12.2005	Changes in valuation	IFRS 31.12.2005
Investments income:			
Net income from securities, associates and derivatives	17.196	0	17.196
Interest income	1.120	0	1.120
Interest expenses	(1.050)	66	(984)
Net foreign exchange gain	<u>1.540</u>		<u>1.540</u>
	<u>18.806</u>	<u>66</u>	<u>18.872</u>
Operating income:			
Insurance premium	4.176	0	4.176
Other revenue	<u>9</u>	<u>0</u>	<u>9</u>
	<u>4.185</u>	<u>0</u>	<u>4.185</u>
Operating expenses:			
Insurance claims	(3.536)	0	(3.536)
Other operating expenses	<u>(1.598)</u>	<u>(104)</u>	<u>(1.702)</u>
	<u>(5.134)</u>	<u>(104)</u>	<u>(5.238)</u>
Profit before income tax	17.857	(38)	17.819
Tax expense	<u>(3.068)</u>	<u>(12)</u>	<u>(3.080)</u>
Profit for the year	<u>14.789</u>	<u>(50)</u>	<u>14.739</u>

Notes, contd.:

39. contd.:

	IS-GAAP 31.12.2005	Changes in valuation	IFRS
Attributable to:			
Equity holders of the parent	13.998	(50)	13.948
Minority interest	791	0	791
Profit for the year	<u>14.789</u>	<u>(50)</u>	<u>14.739</u>

Changes in the income statement result from the borrowings fee and amortisation of customers relationships.

Financial Ratios

40. The Group's principal financial ratios:

	2006	2005
Return on equity	91,5%	207,4%
Equity ratio	25,7%	30,6%
Internal value of shares	16,06	8,69



MILESTONE

**Condensed Consolidated
Interim Financial Statements
1 January - 30 June 2007**

Milestone ehf.
Suðurlandsbraut 12
108 Reykjavík
Iceland

Reg. no. 640388-1109

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Endorsement and Signatures of the Board of Directors and the CEO

The condensed consolidated interim financial statements of Milestone ehf. for the period from 1 January to 30 June 2007 have been prepared in accordance with International Financial Reporting Standard (IFRS) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Milestone ehf. and its subsidiaries.

In the beginning of the year a subsidiary of Milestone merged with two other companies and the operation of the investment bank Askar Capital was formally founded.

In April the company sold in excess of 13% of its total 20% shares in Glitnir bank hf. The Group still owns 7% share in Glitnir bank through its ownership in the associated company Þáttur International ehf.

A Swedish subsidiary of Milestone, Racon Holdings AB, announced, on the 26 of April 2007, cash tender offer to acquire all shares in the Swedish insurance and investment banking company Invik & Co. AB. The acquisition needed the approval of financial supervisory authorities in Sweden, Luxembourg and the Netherlands. After the acceptance period, 29 of June 2007, Milestone holds 97.9% of the share capital which represents 99.0% of the voting power. All approvals were obtained late in June 2007 and Invik is therefore just a part of Milestone's consolidated balance sheet at the end of June 2007. Invik will be part of the income statement from 1 July 2007. The effects of the acquisition on the Group's balance sheet is shown in note 4.

In July the Group accepted a sales offer in all its shares in Actavis Group. The market value of the shares at the end of June amounted to ISK 17,791 million.

According to the consolidated income statement, profit for the period amounted to ISK 27,164 million. According to the consolidated balance sheet, equity at the end of the period amounted to ISK 74,074 million, including share capital in the amount of ISK 2,758 million. During the period Milestone ehf. sold new shares at nominal value of ISK 44 million for ISK 1,000 million.

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

Reykjavík, 10 August 2007.

The Board of Directors:

Karl Wernersson
Steingrímur Wernersson

CEO:

Guðmundur Ólason

Independent Auditor's Review Report

To the Board of Directors and shareholders of Milestone ehf.

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Milestone as of 30 June 2007 and the related condensed consolidated income statement, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 June 2007, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 10 August 2007.

KPMG hf.

Sigurþór C. Guðmundsson
Margrét Guðjónsdóttir

Consolidated Income Statement for the period

1 January - 30 June 2007

	Notes	2007 1.1.-30.6.	2006 1.1.-30.6.
Investment income:			
Net income from securities, associates and derivatives	6	30.669	5.868
Interest income		2.661	1.504
Interest expenses .....	(	3.868)	(1.515)
Net foreign exchange gain (loss)		3.558	(6.280)
		33.020	(423)
Operating income:			
Sale of goods and services		2.858	0
Insurance premium	7	4.816	4.315
Other revenue	8	2.214	114
		9.888	4.429
Operation expenses:			
Cost of goods sold		(2.019)	0
Insurance claims	9	(4.067)	(3.795)
Other operating expenses	10-11	(4.032)	(1.426)
		(10.118)	(5.221)
Profit (loss) before income tax		32.790	(1.215)
Tax (expense) income		(5.626)	3.134
Profit for the period	5	27.164	1.919
Attributable to:			
Equity holders of the parent		27.006	789
Minority interest		158	1.130
Profit for the period		27.164	1.919
Earnings per share:			
Basic earnings per share (ISK)		9,87	0,29
Diluted earnings per share (ISK)		9,87	0,29

Consolidated Balance Sheet as at 30 June 2007

	Notes	30.6.2007	31.12.2006
Assets:			
Cash and cash equivalents		55.371	5.475
Securities	12	96.026	78.831
Investments in associates	13	16.007	4.265
Derivatives	14	5.537	2.378
Restricted cash		1.226	2.303
Trade receivables and other assets	15	30.861	10.098
Loans	16	54.859	11.651
Reinsurance assets		4.702	1.645
Investment properties	18	40.839	30.588
Operating assets		2.638	1.530
Intangible assets	19	78.702	21.311
Total assets		386.768	170.075
 Equity:			
Share capital		2.758	2.714
Share premium		6.970	6.014
Translation reserve		(114)	0
Retained earnings		61.561	34.855
Total equity attributable to equity holders of the parent		71.175	43.583
Minority interest		2.899	144
Total equity		74.074	43.727
 Liabilities:			
Derivatives	14	978	1.999
Trade and other payables	20	72.808	13.589
Technical provision	21	44.957	22.713
Technical provision for life-assurance policies where the investment risk is borne by the policyholders		56.080	3.125
Borrowings	22-23	129.964	82.701
Deferred income tax liability		7.907	2.221
Total liabilities		312.694	126.348
Total equity and liabilities		386.768	170.075

Statement of Changes in Equity as at 30 June 2007

	Share capital	Share premium	Transla- tion reserve	Retained earnings	Equity holders of the Parent	Minority interest	Total equity
1 January - 30 June 2006							
Equity as at 1.1.2006 (IFRS)	2.714	6.014	0	14.898	23.626	2.245	25.871
Profit for the period				789	789	1.130	1.919
Dividends				(300)	(300)		(300)
Acquisition of minority interest					0	(3.319)	(3.319)
Equity 30.6.2006	<u>2.714</u>	<u>6.014</u>	<u>0</u>	<u>15.387</u>	<u>24.115</u>	<u>56</u>	<u>24.171</u>
 1 January - 30 June 2007							
Equity 1.1.2007	2.714	6.014	0	34.855	43.583	144	43.727
Profit for the period				27.006	27.006	158	27.164
Currency fluctuations on subsidiaries not reporting in ISK ...			(114)		(114)		(114)
Total recognised profit for the period			(114)	27.006	26.892	158	27.050
Issued share capital	44	956			1.000		1.000
Dividends				(300)	(300)		(300)
Minority interest, change					0	2.597	2.597
Equity 30.6.2007	<u>2.758</u>	<u>6.970</u>	<u>(114)</u>	<u>61.561</u>	<u>71.175</u>	<u>2.899</u>	<u>74.074</u>

Statement of Cash Flows for the Six Months Ended 30 June 2007

	Notes	2007	2006
		1.1.-30.6.	1.1.-30.6.
Net cash provided by (used in) operating activities		105.843 (	737)
Net cash (used in) provided by investing activities .....	(	56.859)	11
Net cash provided by financing activities		1.563	0
Increase (decrease) in cash and cash equivalents		50.547 (	726)
Effect of exchange rate fluctuations on cash held .....	(	651)	13
Cash and cash equivalents at 1 January		5.475	2.246
Cash and cash equivalents at the end of the period		55.371	1.533
 Investing and financing transactions without cash flow effect:			
Trade receivables and other assets .....	(	1.000)	0
Sales price of shares		0	3.104
Acquisition of subsidiary		0 (	1.676)
Share of capital		1.000	0
Borrowings		0 (	1.428)

Notes to the Interim Consolidated Financial Statements

1. Reporting Entity

Milestone ehf.'s registered office is at Suðurlandsbraut 12 in Reykjavík, Iceland. The condensed consolidated interim financial statements of Milestone ehf. ("the Company") for the six months ended 30 June 2007 comprise the Company and its subsidiaries, together referred to as the "Group". Milestone ehf. is an investment company and the Company has listed bonds on the Iceland Stock Exchange.

2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at for the year ended 31 December 2006.

3. Basis of preparation

The accounting policies and methods of computation applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2006. The consolidated financial statements for the Group as at and for the year 31 December 2006 are available upon request from the Company's registered office at Suðurlandsbraut 12, Reykjavík or at www.milestone.is or at The Nordic Stock Exchange website, www.omxgroup.com.

The condensed interim consolidated financial statements are prepared in Icelandic kronas, which is the Company's functional currency, rounded to the nearest million. They are prepared on the historical cost basis except that securities and derivative financial instruments are stated at their fair value.

Notes, contd.:

Changes within the Group

4. In the beginning of the year a subsidiary of Milestone merged with two other companies and the operation of the investment bank Askar Capital was formally founded. The merger increased Milestone's net assets and liabilities of ISK 2,1 billion. Following the merger the capital of Askar Capital was increased by the nominal value of ISK 450 million for ISK 9,0 billion. The capital increase lead up to increase in intangible assets of ISK 1,5 billion. At the end of June Milestone's share in Askar Capital hf. is 83.5%.

In April the company sold in excess of 13% of it's total 20% shares in Glitnir bank hf. The Group still owns 7% share in Glitnir bank through it's ownership in the associated company Þáttur International ehf.

A Swedish subsidiary of Milestone, Racon Holdings AB, announced, on the 26 of April 2007, cash tender offer to acquire all shares in the Swedish insurance and investment banking company Invik & Co. AB. The acquisition needed the approval of financial supervisory authorities in Sweden, Luxembourg and the Netherlands. After the acceptance period, 29 of June 2007, Milestone holds 97.9% of the share capital which represents 99.0% of the voting power. All approvals were obtained late in June 2007 and Invik is therefore just a part of Milestone's consolidated balance sheet at the end of June 2007. Invik will be part of the income statement from 1 July 2007.

The acquisition of Invik and the establishment of Askar Capital had the following effects on the Group's balance sheet:

	Askar	Invik	Total
Cash and cash equivalents	64	27.047	27.111
Securities	72	75.204	75.276
Loans, trade and other receivables	241	42.398	42.639
Intangible assets	0	4.021	4.021
Other assets	4	6.576	6.580
Insurance contracts (life and non-life)	0 (	73.821) (	73.821)
Borrowings	0 (	50.699) (	50.699)
Other liabilities	(215) (	12.393) (	12.608)
Net identified assets and liabilities	166	18.333	18.499
Goodwill on acquisition or merger	1.884	49.402	51.286
Issued shares in subsidiary	(2.050)	0 (	2.050)
Cash aquired	0 (	27.047) (	27.047)
Consideration satisfied by cash	0	40.688	40.688

The allocation of the goodwill on cash-generating units has not been finalized.

Notes, contd.:

5. Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure and is divided into four segments. Retail activities comprise the operation of the subsidiary L&H eignarhaldsfélag ehf., which became a part of the Group from the beginning of July 2006. Insurance activities comprise the operations of the subsidiary Sjóvá-Almennar tryggingar hf. Investment banking activities comprises the operation of newly establish subsidiary Askar Capital hf. and investment activities comprise the operations of the parent and other investment companies. Invik AB in Sweden is part of the consolidated income statement from 1 July 2007 and has therefore no effect on the table.

Business segments

	Retail		Insurance		Investment banking		Investments		Eliminations		Consolidated	
	2007 1.1.-30.6	2007 1.1.-30.6	2006 1.1.-30.6	2007 1.1.-30.6	2007 1.1.-30.6	2006 1.1.-30.6	2007 1.1.-30.6	2006 1.1.-30.6	2007 1.1.-30.6	2006 1.1.-30.6	2007 1.1.-30.6	2006 1.1.-30.6
Investment income	260	7.560	4.744	301	41.237	1.081	(16.338)	(6.248)	33.020	(423)		
Operating income	3.354	6.494	4.425	629	29	4	(618)	0	9.888	4.429		
Operating expenses	(2.861)	(6.190)	(5.097)	(678)	(423)	(124)	34	0	(10.118)	(5.221)		
Segment result before income tax	753	7.864	4.072	252	40.843	961	(16.922)	(6.248)	32.790	(1.215)		
Income tax	(136)	(1.569)	2.187	(45)	(4.245)	836	369	111	(5.626)	3.134		
Profit for the period	<u>617</u>	<u>6.295</u>	<u>6.259</u>	<u>207</u>	<u>36.598</u>	<u>1.797</u>	<u>(16.553)</u>	<u>(6.137)</u>	<u>27.164</u>	<u>1.919</u>		

Notes, contd.:

Investment income

6. Net income from securities, associates and derivatives is specified as follows:	2007	2006
	1.1.-30.6.	1.1.-30.6.
Gain on the sale of shares	21.476	2.438
Dividend	1.942	1.140
Share of profit of associates	1.445	90
Change in fair value of securities and derivatives	5.806	2.200
Net income from securities, associates and derivatives	<u>30.669</u>	<u>5.868</u>

Operating income

7. Insurance premium is specified as follows:

Premiums written	6.606	5.946
Reinsure's share	(668)	(624)
Change in the gross provision for unearned premiums	(1.287)	(1.068)
Change in the provision for unearned premiums, reinsure's share	165	61
Total insurance premium	<u>4.816</u>	<u>4.315</u>

8. Other revenue is specified as follows:

Rental	931	4
Fees and commissions	496	0
Change in fair value of investments properties	622	0
Other revenue	165	110
Total other revenue	<u>2.214</u>	<u>114</u>

Operating expenses

9. Insurance claims are specified as follows:

Claims paid	4.013	3.401
Claims paid, reinsure's share	(585)	(163)
Change in the provision for claims	103	480
Change in the provision for claims, reinsures' share	536	77
Total insurance claims	<u>4.067</u>	<u>3.795</u>

10. Other operating expenses specify as follows:

Salaries and salary-related expenses, note 11	1.840	710
Depreciation, amortisation and impairment losses	673	20
Other operating expenses	1.519	696
Total other operating expenses	<u>4.032</u>	<u>1.426</u>

11. Salaries and related expenses are specified as follows:

Salaries	1.557	622
Salary-related expenses	283	88
Salaries and salary-related expenses total	<u>1.840</u>	<u>710</u>

Notes, contd.:

Securities

12. Securities are specified as follows:

	Fair value including related derivatives 30.6.2007	Fair value including related derivatives 31.12.2006
Listed securities:		
<i>Listed securities on the Icelandic Stock Exchange:</i>		
Glitnir Bank hf.	0	68.683
Actavis Group hf.	17.791	11.767
Teymi hf.	2.178	2.311
365 hf.	1.783	2.465
Landsbanki Íslands hf.	1.123	1.204
Other companies	1.753	2.956
Total listed shares on the Icelandic Stock Exchange	24.628	89.386
Affiliated shares	1.022	586
Bonds	527	694
Total listed on the Icelandic Stock Exchange	26.177	90.666
<i>Listed securities on foreign stock exchanges:</i>		
Affiliated shares	19.239	220
Investments for benefit of life-assurance policyholders who bear the investment risk	55.585	3.125
Shares in other companies	3.061	132
Bonds	962	0
Total listed on foreign stock exchanges	78.847	3.477
Total listed securities	105.024	94.143
Unlisted securities:		
Shares in other companies	9.556	1.099
Bonds	1.217	250
Total unlisted securities	10.773	1.349
Total securities	115.797	95.492
Thereof equity derivatives	(19.771)	(16.661)
Fair value of securities at period end	96.026	78.831

Notes, contd.:

Associates

13. The carrying amounts of the Group's investments in associates and share of profit (loss) are specified as follows:

	Share	Share of	Carrying	Share of	Carrying
	30.6.2007	profit (loss)	amounts	profit (loss)	amounts
		30.6.2007	30.6.2007	30.6.2006	31.12.2006
Skeggi ehf.	49,5%	382	3.282	0	0
Þáttur International ehf.	48,8%	964	7.894	0	0
Fjárfestingarfélag. Máttur ehf.	48,4%	95	2.915	74	1.833
Other companies		4	1.916	16	2.432
Associates companies total		<u>1.445</u>	<u>16.007</u>	<u>90</u>	<u>4.265</u>

Derivatives

14. Net assets in derivatives are specified as follows:

	30.6.2007	31.12.2006
Equity derivatives - receivable, see note 12	19.771	16.661
Equity derivatives - payable	(16.172)	(15.035)
Net position of equity derivatives	3.599	1.626
Net position of other derivatives	960	(1.247)
Net position of derivatives	<u>4.559</u>	<u>379</u>
Derivatives - assets in the balance sheet	5.537	2.378
Derivatives - liabilities in the balance sheet	(978)	(1.999)
Net position of derivatives	<u>4.559</u>	<u>379</u>

Trade and other receivables

15. Trade and other receivables are specified as follows:

Insurance receivables and trade receivables	9.182	2.402
Prepaid expenses and accrued income	2.868	378
Sale of shares receivables	10.275	4.135
Assets classified as held for sale	887	244
Inventories	683	667
Deferred tax asset	509	0
Unpaid share capital	1.000	0
Other receivables	5.457	2.272
Total trade and other receivables	<u>30.861</u>	<u>10.098</u>

Notes, contd.:

Loans

16. Loans are specified as follows:	30.6.2007	31.12.2006
Bonds with mortgage	12.487	4.514
Other loans	42.372	7.137
	<u>54.859</u>	<u>11.651</u>
17. Repayments of loans are specified as follows:		
Repayments in 2007	38.927	8.339
Repayments in 2008	7.933	1.861
Repayments in 2009	2.608	1.198
Repayments in 2010	1.846	253
Repayments in 2011	1.284	0
Repayments in 2012	1.038	0
Subsequent repayments	1.222	0
Total loans	<u>54.859</u>	<u>11.651</u>

Investment properties

18. Investment properties are specified as follows:

Investment properties

Balance at the beginning of the period	22.815	0
Acquisitions	8.432	22.815
Change in fair value	622	0
Exchange rate differences	(2.538)	0
Balance at the end of the period	<u>29.331</u>	<u>22.815</u>

Investment properties under development

Balance at the beginning of the period	7.773	0
Acquisitions	4.961	7.773
Exchange rate differences	(1.226)	0
Balance at the end of the period	<u>11.508</u>	<u>7.773</u>

Investment properties total	<u>40.839</u>	<u>30.588</u>
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Notes, contd.:

Intangible assets

19. The Group's intangible assets are specified as follows:

Gross	Goodwill	Trademark	Customer relationships	Other intangible assets	Total
Balance at 1 January 2006	6.905	1.706	2.504	0	11.115
Acquisitions through business combination	3.766	696	0	19	4.481
Acquisitions of minority interest	3.682	976	1.433	2	6.093
Balance at 31 December 2006	14.353	3.378	3.937	21	21.689
Acquisitions through business combination	54.438	0	799	2.948	58.185
Additions during the period				75	75
Balance at 30 June 2007	68.791	3.378	4.736	3.044	79.949

Amortisation and impairment losses

Balance at 1 January 2006	0	0	104	0	104
Acquisitions through business combination	0	0	0	6	6
Amortisation	0	0	267	1	268
Balance 31.12.2006	0	0	371	7	378
Acquisitions through business combination	0	0	352	353	705
Amortisation	0	0	164	0	164
Balance at 30 June 2007	0	0	887	360	1.247

Carrying amounts

1.1.2006	3.766	1.706	2.400	0	7.872
31.12.2006	14.353	3.378	3.566	14	21.311
30.6.2007	68.791	3.378	3.849	2.684	78.702

Trade and other payables

20. Trade and other payables are specified as follows:

	30.6.2007	31.12.2006
Trade payables	5.826	1.009
Remaining purchase price of investment properties and of shares	52.714	7.099
Other payables	14.268	5.481
Total trade and other payables	72.808	13.589

Notes, contd.:

Technical provision

21. The technical provision is specified as follows:	30.6.2007	31.12.2006
Technical provision (total):		
Claims reported and loss adjustment expenses	24.138	16.781
Claims incurred but not reported	5.589	1.260
Claims outstanding, total	29.727	18.041
Bonuses and premium provisions	147	320
Provision for unearned premiums	15.083	4.352
Technical provision, total	44.957	22.713
Reinsures' share:		
Claims reported and loss adjustment expenses	2.269	1.247
Claims incurred but not reported	1.179	120
Claims outstanding, total	3.448	1.367
Provision for unearned premiums	1.012	254
Reinsures' share, total	4.460	1.621
Own technical provisions (net):		
Claims reported and loss adjustment expenses	21.869	15.534
Claims incurred but not reported	4.410	1.140
Claims outstanding, total	26.279	16.674
Bonuses and premium provisions	147	320
Provision for unearned premiums	14.071	4.098
Own technical provisions (net), total	40.497	21.092

Borrowings

22. Borrowings are specified as follows:		30.6.2007	31.12.2006
		Carrying	Carrying
	Currency	amount	amount
Bank loan	EUR	39.733	25.727
Bank loan	ISK	34.580	37.018
Bank loan	USD	18.187	3.297
Bank loan	HRK	13.606	0
Bank loan	SEK	9.427	690
Bank loan	CHF	6.073	10.982
Bank loan	GBP	3.652	1.327
Bank loan	JPY	2.426	3.660
Bank loan	NOK	1.354	0
Other currencies		926	0
Borrowings		129.964	82.701

Notes, contd.:

23. Repayment of borrowings are specified as follows:	30.6.2007	31.12.2006
Repayments in 2007	64.068	20.027
Repayments in 2008	13.212	22.451
Repayments in 2009	675	1.652
Repayments in 2010	21.643	17.062
Repayments in 2011	1.210	881
Repayments in 2012	374	0
Subsequent repayments	28.782	20.628
Borrowings	<u>129.964</u>	<u>82.701</u>

Financial Ratios

24. The Group's principal financial ratios:	30.6.2007	31.12.2006	30.6.2006
Return on equity	160,1%	91,5%	16,2%
Equity ratio	19,2%	25,7%	20,9%
Internal value of shares	25,81	16,06	8,89