Eyrir Invest ehf.

Financial Statements for the year 2008

ISK

Eyrir Invest ehf.
Skólavörðustígur 13
101 Reykjavík
Iceland

Reg. no. 480600-2150

Contents

Endorsement and Statement by the Board of Directors and the CEO

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

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies.

According to the Income Statement, profit for the year amounted to ISK 1,504 million. According to the Balance Sheet, equity at the end of the year amounted to ISK 31,392 million.

Various analysis were made to calculate the values of the core holdings of the Company in Marel Food Systems hf. and Össur hf. The most reliable one is discounted cash flow (DCF) valuation based on conservative assumptions on future growth and operational performance. The DCF values that are used are both calculated by the Company's analysts as well as supported by independent analysts. The impairment tests use free cash flow projections based en managament forecasts, as well as the Company‘s conservative views on operational performance and future growth. The calculated value of core holdings is well above the Company's book value.

Marel Food Systems‘ functional currency is EUR and Ossur‘s accounts are denominated in USD. Shares in both companies are currently traded in ISK but both Marel and Ossur intend to transfer trading of shares to EUR or USD in the first half of 2009. Eyrir Invest uses equity method in accounting for the holdings in those companys since mid 2008 and has subsequently been granted authorisation to change Eyrir´s functional currency to EUR starting 1 January 2009.

The Company has unsettled currency derivatives at year end 2008. The closing dates of these derivatives are after the reporting date. In the financial statements an accrual has been recognised based on the Central Bank‘s official year-end rate of EUR /ISK 170.44. It is the management‘s opinion that these derivatives and derivatives settled after the Icelandic bank collapse but prior to the reporting date should be settled at Central Bank‘s official rate at the bank‘s default day or at EUR/ISK 136.59.

In November shares with nominal value of ISK 277 million were sold to new shareholders for ISK 7,675 million, net of selling cost.

Shareholders at the end of the year were 16, but were 15 at the beginning of the year. Three shareholders held more than 10% of outstanding shares each at the end of the year 2008. They are:

Þórður Magnússon*	20,2%
Árni Oddur Þórðarson*	17,3%
NBI hf.	27,5%

*Shares held by Þórður Magnússon, Árni Oddur Þórðarson and by companies fully under their control and ownership. Þórður Magnússon Chairman of the Board and Árni Oddur Þórðarson CEO.

The Board of Directors proposes that no dividends will be paid to shareholders in 2009.

Statement by the Board of Directors and the CEO

According to our best knowledge it is our opinion that the Annual Financial Statements give a true and fair view of the financial performance of the Company for the financial year 2008, its assets, liabilities and financial position as at 31 December 2008 and its cash flows for the financial year 2008.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Further, in our opinion the Financial Statements and Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Company's operations and its position and describes the principal risks and uncertainties faced by the Company.

The Board of Directors and the CEO have today discussed the Annual Financial Statements of Eyrir Invest ehf. for the year 2008 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the Financial Statements will be approved at the Annual General Meeting of Eyrir Invest ehf.

Reykjavík, 27 March 2009.

The Board of Directors:

Thórdur Magnússon, Chairman

Sigurjón Jónsson

Jón Helgi Gudmundsson

Ólafur Guðmundsson

Steinunn Jónsdóttir

CEO:

Árni Oddur Thórdarson

Independent Auditor's Report

To the Board of Directors and Shareholders of Eyrir Invest ehf.

We have audited the accompanying financial statements of Eyrir Invest ehf., which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Eyrir Invest ehf. as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 27 March 2009.

KPMG hf.

Sæmundur Valdimarsson

Income Statement for the year 2008

	Notes	2008	2007
Investment income:			
Net income from securities and derivatives	6	6.973.376	1.761.577
Share of loss of equity accounted associates	15	(723.907)	0
Interest income		3.281.455	279.305
Interest expenses		(3.656.853)	(1.653.272)
Net foreign exchange (loss) gain	7	(5.848.888)	821.259
Net operating revenue		25.183	1.208.869
Operating expenses:			
Salaries and salary related expenses	8	178.244	236.102
Other operating expenses	9	87.200	64.943
Operating expenses		265.444	301.045
(Loss) profit before income tax		**(240.261)**	**907.824**
Income tax	10,24	1.744.472	(111.143)
Profit for the year		**1.504.212**	**796.681**
Earnings per share:			
Basic earnings per share (ISK)	11	1,95	1,28
Diluted earnings per share (ISK)	11	1,95	1,27

The notes on pages 10 to 34 are an integral part of these financial statements.

Amounts are in ISK thousand

Balance Sheet as at 31 December 2008

	Notes	2008	2007
Assets:			
Cash and cash equivalents	12	1.776.242	6.958.889
Restricted cash	13	5.166.037	0
Investment securities	14	28.675.486	40.508.576
Investments in equity accounted associates	15,16	38.810.892	0
Derivatives	17	2.039.100	484.873
Trade and other receivables	18	132.536	33.210
Operating assets	19	371.624	218.073
Total assets		76.971.917	48.203.621
Equity:			
Share capital	20	1.007.681	730.305
Share premium		16.678.409	9.280.785
Reserves		4.300.763	21.526
Retained earnings		9.405.603	8.100.561
Total equity		31.392.457	18.133.177
Liabilities:			
Derivatives	17	4.757.426	298.498
Trade and other payables	21	245.221	2.358.992
Borrowings	22,23	40.576.812	25.668.482
Deferred tax liability	24	0	1.744.472
Total liabilities		45.579.459	30.070.444
Total equity and liabilities		76.971.917	48.203.621

The notes on pages 10 to 34 are an integral part of these financial statements.

Amounts are in ISK thousand

Statement of Changes in Equity
for the year 2008

	Notes	Share capital	Share premium	Reserves: Share option reserve	Reserves: Translation reserve	Retained earnings	Total equity
2007							
Equity 1.1.2007		530.005	3.892.423	102.248	0	7.470.306	11.994.982
Profit for the year						796.681	796.681
Dividends (ISK 0.31 per share)						(166.426)	(166.426)
Issued share capital		164.000	4.555.764				4.719.764
Exercise of share options		36.300	653.400				689.700
Share option reserve				98.476			98.476
Transfer of share option reserve			179.198	(179.198)			0
Equity 31.12.2007	20	730.305	9.280.785	21.526	0	8.100.561	18.133.177
2008							
Equity 1.1.2008		730.305	9.280.785	21.526	0	8.100.561	18.133.177
Foreign currency translation difference of foreign associates					11.061.386		11.061.386
Net loss on hedges of net investments in foreign associates					(6.804.666)		(6.804.666)
Income and expenses recognised directly in equity					4.256.720	0	4.256.720
Profit for the year						1.504.212	1.504.212
Total income for the year					4.256.720	1.504.212	5.760.932
Dividends (ISK 0.27 per share)						(199.170)	(199.170)
Issued share capital		277.376	7.397.624				7.675.000
Share option reserve				22.517			22.517
Equity 31.12.2008	20	1.007.681	16.678.409	44.043	4.256.720	9.405.603	31.392.457

The notes on pages 10 to 34 are an integral part of these financial statements.

Amounts are in ISK thousand

Statement of Cash Flows for the year 2008

	Notes	2008	2007
Cash flows from operating activities:			
Profit for the year		1.504.212	796.681
Adjustments for:			
Net loss on the sale of shares in other companies		7.028.894	54.663
Unrealised gain on securities	6	(14.509.830)	(1.415.920)
Share of loss of associates		723.907	0
Share options expensed	8	22.517	98.476
Depreciation	19	12.328	9.494
Income tax	10	(1.744.472)	111.143
Working capital used in operations		(6.962.444)	(345.463)
Change in operating assets and liabilities		(2.213.097)	(7.425)
Net cash used in operating activities		(9.175.541)	(352.888)
Cash flows from investing activities:			
Restricted cash, increase		(5.166.037)	0
Investments in shares		(70.687.053)	(49.898.287)
Proceeds from the sale of shares		74.341.417	38.579.903
Derivatives, change		2.904.701	(134.091)
Investments in bonds		(6.375.473)	(164.610)
Acquisition of operating assets	19	(165.880)	(76.493)
Net cash used in investing activities		(5.148.325)	(11.693.578)
Cash flows from financing activities:			
Proceeds from the issue of share capital		0	5.382.190
Dividend paid		(199.170)	(166.426)
Proceeds from borrowings		13.305.270	15.110.162
Repayment of borrowings		(3.964.881)	(1.581.623)
Net cash provided by financing activities		9.141.219	18.744.303
(Decrease) increase in cash and cash equivalents		(5.182.647)	6.697.837
Cash and cash equivalents at 1 January		6.958.889	261.052
Cash and cash equivalents at 31 December	12	1.776.242	6.958.889
Investing and financing activities without cash flow effect:			
Investments in shares		(7.675.000)	0
Proceeds from issue of new share capital		7.675.000	0
Other information:			
Interest income received		663.118	277.839
Interest expense paid		2.447.926	1.284.941
Dividends received		71.388	251.613

The notes on pages 10 to 34 are an integral part of these financial statements.

Amounts are in ISK thousand

Notes

1. **Reporting Entity**

Eyrir Invest ehf. (the "Company") is a company incorporated and domiciled in Iceland. The registered office of the Company is at Skólavörðustígur 13 in Reykjavík, Iceland. The financial statements of Eyrir Invest ehf. as at and for the year ended 31 December 2008 comprise the Company.

Eyrir Invest ehf. is an investment company, aiming to own, buy and sell shares, bonds and other financial instruments. 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 Company 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The Financial Statements were approved by the Board of Directors of Eyrir Invest ehf. on 27 March 2009.

b. ***Basis of measurement***

The Financial Statements have been 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.

The methods used to measure fair values are discussed further in note 3b.

c. ***Functional and presentation currency***

The Financial Statements are prepared in Icelandic Krona (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest thousand.

d. ***Use of estimates and judgements***

The preparation of financial statements in conformity with IFRSs 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 4i.

3. Accounting policies related to financial instruments

The accounting policies and methods of computation applied by the Company in these financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2007, except for the investments held in the associated companies Marel Food Systems hf. and Össur hf., are accounted for using the equity method starting from 1 July 2008, but were previously accounted for as financial assets at fair value through profit or loss. The change in the measurement basis of these associates is due to the change in the Company's investment strategy and objective for these investments, i.e. the Company no longer holds these investments for current income and capital appreciation and they are no longer managed based on their fair value. The fair value of the Company's investment in these associates as at 30 June 2008 is deemed to be their carrying amount for the purpose of applying the equity method prospectively from 1 July 2008.

Because the functional currencies of associates are different than the Company’s functional currency, the Company started to apply hedge accounting from 1 July 2008 to foreign exchange differences arising between the functional currencies of the associates and the Company’s functional currency.

The Company designated foreign currency denominated borrowings as hedging instruments of the net investments in foreign associates. The item being hedged in each designated hedging relationship is an amount equal to or less than the carrying amounts of the net investments in the foreign associates in the Company’s financial statements. See note 4 b (iii) for application of hedge accounting.

a. *Financial instruments*

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, loans, trade and other receivables, cash and cash equivalents, borrowings, trade and other payables.

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.

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

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

Financial assets at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company 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 for financial assets.

3. Contd:

(ii) *Derivative financial instruments*

The Company holds derivative financial instruments to hedge its interest rate and currency risk exposure.

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.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(iii) *Share capital*

Ordinary shares

Ordinary shares are classified as equity. 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, which includes 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. When treasury shares are sold subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from share premium.

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***

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) *Securities*

Securities in the Balance Sheet consist of investments in equity and debt securities. The fair value of securities is determined by reference to their quoted market bid price at the reporting date without any deduction for estimated future selling costs.

When 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.

3. Contd:

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.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Investments in associates were designated at fair value through profit or loss on initial recognition until 30 June 2008 and were classified as securities in the Balance Sheet. The Company defined its operations partly as venture capital organisation and that part of the business was clearly and objectively distinct from other operations.

(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 reporting date.

(iii) *Trade and other receivables*

The fair value of 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.

(iv) *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(v) *Share-based payment transactions*

The fair value of employee stock options is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behaviour, expected dividends, and the risk-free interest rate based on government bonds. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

c. *Investment income*

(i) *Net income from securities and derivatives*

Net income from investments in securities and derivatives comprise net gain or loss on the sale of shares, changes in the fair value of the investments and derivatives, other than foreign exchange economic hedges, transaction costs and dividend income. Dividend income is recognised in the Income Statement on the date the entity's right to receive payments is established.

(ii) *Interest income*

Interest income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

3. Contd.:

Net foreign exchange gain (loss) comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies and gains and losses arising from derivatives hedging economically the foreign currency risk. Net currency gains and losses are reported on a net basis.

4. Other accounting policies

a. *Foreign currency*

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates 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 currency gain or loss arising on translation are recognised in the Income Statement.

(ii) *Foreign operations*

The assets and liabilities of foreign operations are translated to ISK at exchange rates at the reporting date. The income and expenses of foreign operations are translated to ISK at exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

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

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a 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 part of a net investment is disposed of, the associated cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

b. *Associates*

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The operating results and assets and liabilities of associates are accounted for in these financial statements using the equity method of accounting (equity accounted investees) and are recognised initially at cost.

The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence ceases.

When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

4. Contd.:

c. ***Operating assets***

(i) *Buildings and other operating assets*

Buildings and other operating assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

(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 within the part will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the Income Statement as an expense as incurred.

(iii) *Depreciation*

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful live of each part of operating assets. The estimated useful lives are as follows:

Buildings	50 years
Other operating assets	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

d. ***Impairment***

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in the Income Statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the Income Statement.

(ii) *Non-financial assets*

The carrying amounts of the Company'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 estimated 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 the Income Statement.

4. Contd.:

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.

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.

e. ***Employee benefits***

(i) *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Income Statement when they are due.

(ii) *Share-based payment transactions*

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

f. ***Income tax expense***

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 recognised 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. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

g. ***Earnings per share***

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4. Contd:

h. ***New standards and interpretations not yet adopted***

The Company has adopted all IFRSs, interpretations and amendments to existing standards that are applicable for the year ended 31 December 2008 and relevant to the Company. The Company has not adopted early any IFRSs, interpretations or amendments effective after 31 December 2008.

i. ***Accounting estimates and judgements***

Key sources of estimation uncertainty

Determination of fair values of financial instruments

As indicated in note 3b the Company's securities and derivatives are measured at fair value on the Balance Sheet. For part 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 4d(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.

Determination of impairment of non-financial assets

Non-financial assets are regularly valuated for impairment. The assessment for impairment is based upon management's estimates of future cash flows and discount rate.

Determination of fair value of share-based payment transactions

The fair value of options at grant date is determined as disclosed in accounting policy 3b(v). For share options granted to employees, in many cases market prices are not available, because the options granted are subject to terms and conditions that do not apply to traded options. If traded options with similar terms and conditions do not exist, the fair value of the options granted are estimated by applying an option pricing model. In estimating the fair value of options at grant date, the management considers factors that knowledgeable, willing market participants would consider in selecting the option pricing model to be used for this purpose.

Critical accounting judgements in applying the Company's accounting policies

Classification of securities

The Company'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).

5. Financial risk management

Overview

The Company maintains positions in both derivative and non-derivative financial instruments in accordance with its investment strategy. The Company's investment portfolio comprises quoted and non-quoted equity and debt investments.

The Company'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 Company is exposed from its use of financial instruments are:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management. The Board has commended the CEO day to day developing and monitoring of the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company aims to minimize this risk factor by only entering agreements with solid and well known financial 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 Company 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.

There were no significant concentrations of credit risk to counterparties at 31 December 2008.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due and not risking damage to the Company's reputation.

The Company'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 Company 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. Unlisted financial instruments were 39.8% of total assets at year-end 2008 (2007: 0.8%).

5. Contd.:

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

The Company maintains no lines of credit with financial institutions at year-end 2008.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company’s market risk is managed on a daily basis by the employees in accordance with policies and procedures in place.

Details of the Company’s investment portfolio at the reporting date are disclosed in the schedule of investments included in note 14.

Currency risk

The Company is exposed to currency risk on sales and purchases of equity and debt securities, and borrowings that are denominated in a currency other than the functional currency of the Company.

The Company uses forward exchange contracts to hedge its currency risk. When necessary, forward exchange contracts are rolled over at maturity. At year-end 2008, there was no active forward exchange contract market in Iceland.

The Company’s borrowings denominated in foreign currencies, especially in euro and USD, proposes currency risk which is economically hedged with assets in the same currency.

The Company’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 Company’s financial assets are non-interest-bearing. Interest-bearing financial assets are subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. The Company is 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 Company are invested in short-term money market loans to banks.

The Company adopts a policy of ensuring that some of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps.

5. Contd.:

Other market price risk

Equity price risk arises from financial assets at fair value through profit or loss, primarily equity securities.

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 Company'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.

Price risk is mitigated by the Company's Management by constructing a diversified portfolio of investments and instruments traded on various markets. In addition market fluctuations are monitored on intraday basis which enables the Company to react quickly to any changes in the market.

The Company's financial investments in shares and equity accounted associates is diversified by industries as follows:

	2008	2007
Food systems; Marel and Stork Food Systems	39.5%	37.8%
Financial	0.0%	22.5%
Health services; Össur	18.6%	20.8%
Technical services - Oil & gas; Stork	29.4%	11.4%
Aerospace services; Stork	12.5%	7.5%

Capital management

The Board's policy is to maintain a strong capital base to sustain future development of the business. The Board of Directors have proposed to Annual General Meetings in recent years that 10% - 25% of each year profit is paid as dividend to shareholders.

The Board's target is to connect the interests of the shareholders and employees of the Company. For that purpose the Board has entered into share option agreements with the employees. At year-end 2008 options for 13 million shares have been granted and will vest in the next four years (2007: 12 million shares).

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Company’s return on capital was 7.5% (2007: 5.7%).

There were no changes in the Company’s approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

Amounts are in ISK thousand

Investment income

6. Net income from securities and derivatives is specified as follows:

	2008	2007
Loss on the sale of securities	(7.028.894)	(54.663)
Dividends earned	71.388	251.613
Change in fair value of securities	14.509.830	1.415.920
Change in fair value of derivatives	(578.948)	148.707
Net income from securities and derivatives	6.973.376	1.761.577

7. Net foreign exchange (loss) gain are specified as follows:

Translation exchange (loss) gain	(1.845.761)	464.809
Net (loss) gain on currency and interest rate derivatives	(4.003.127)	356.450
Net foreign exchange (loss) gain total	(5.848.888)	821.259

Salaries and salary-related expenses

8. Salaries and salary-related expenses are specified as follows:

Salaries and performance-based payments	130.854	104.846
Equity-settled shared-based payment transactions	22.517	98.476
Contributions to defined contribution plans	12.827	10.281
Other salary-related expenses	12.046	22.499
Total salaries and salary-related expenses	178.244	236.102
Full time equivalent positions at the end of the year	9	10

Salaries to the Chairman of the Board and the CEO are specified as follows:

	Salaries	Bonus	Other benefits	Total salaries & benefits
Thórdur Magnússon, Chairman	12.600	0	2.074	14.674
Árni Oddur Thórdarson, CEO	33.600	0	2.110	35.710

Contribution to defined contribution plans paid in 2008 amounted to ISK 1.26 million for the Chairman of the Board and ISK 3.36 million for the CEO (2007: 1.26 million and 2.76 million).

The CEO and the Chairman of the Board do not have any share options at year-end 2008. Share options can only be issued to them if approved by a Shareholders' meeting.

No salaries were paid to other members of the board during the year 2008 (2007: Nil).

In March 2009, the salary of the CEO was decreased by 25%, the salary of the Chairman of the Board was decreased by 10% and other staff members accepted 5-10% salary decrease.

Amounts are in ISK thousand

Other operating expenses

9. Other operating expenses specify as follows:

	2008	2007
Depreciation	12.223	9.494
Contribution and grants	0	3.900
Other operating expenses	74.977	51.549
Total other operating expenses	87.200	64.943

Income tax

10. Income tax recognised in the Income Statement is specified as follows:

	2008	2007
Change in deferred tax due to origination and reversal of temporary differences	1.744.472	(111.143)
Total income tax in Income Statement	1.744.472	(111.143)

Reconciliation of effective tax rate:

		2008		2007
(Loss) profit before income tax		(240.261)		907.824
Income tax using the Company's tax rate	15,0%	36.039	18,0%	(163.408)
Tax exempt dividend income	(4,5%)	(10.708)	(5,0%)	45.290
Share options exercised	-	0	(2,7%)	24.667
Changes in value of shares and taxable loss not expected to be utilized	(10,5%)	(25.331)	-	0
Deferred tax liability decrease due to changes in tax law	726,1%	1.744.472	-	0
Other changes	-	0	1,9%	(17.692)
Effective tax rate	726,1%	1.744.472	12,2%	(111.143)

In May 2008 the Icelandic Parliament approved a decrease in the income tax rate from 18% to 15% as of 1 January 2008.

In May 2008 the Icelandic Parliament also approved to authorise companies, with certain conditions fulfilled, to deduct from taxable income profit from the sale of shares. The deduction is only authorised if tax loss carry-forward, including loss for the current year, has been utilised. The authorisation is effective for profit arising in the year 2008 or later. As a result a deferred tax liability relating to shares in companies is no longer recognised in the balance sheet. In addition a deferred tax asset is not recognised due to tax loss carry-forward when it is likely that it will be utilised against profit from the sale of shares. Due to this, the deferred tax liability, which has been expensed in the income statement, is decreased by ISK 1,744 million in the year 2008 and the decrease is recognised as income tax in the income statement. The decrease is comprised of ISK 2,171 million due to shares in companies, less ISK 422 million of tax loss carry-forward and ISK 5 million of other items.

Amounts are in ISK thousand

Earnings per share

11. **Profit attributable to ordinary equity holders of the Company:**

	2008	2007
Profit for the year	1.504.212	796.681
Weighted average number of ordinary shares		
in thousand shares		
Issued ordinary shares at 1 January	730.305	530.005
Effect of the increase of share capital in January 2007	0	11.178
Effect of the increase of share capital in February 2007	0	7.036
Effect of stock options exercised in April 2007	0	26.454
Effect of the increase of share capital in September 2007	0	47.035
Effect of the increase of share capital in November 2008	41.036	0
Weighted average number of ordinary shares at 31 December	771.341	621.708
Weighted average number of ordinary shares (diluted)		
in thousand shares		
Weighted average number of ordinary shares (basic)	771.341	621.708
Effect of share options	950	3.631
Weighted average number of ordinary shares (diluted) at 31 December	772.291	625.339
Earnings per share:		
Basic earnings per share (ISK)	1,95	1,28
Diluted earnings per share (ISK)	1,95	1,27

Cash and cash equivalents

12. Cash and cash equivalents are specified as follows:

Bank deposits	1.776.242	6.388.176
Mutual-fund certificates	0	570.713
Total cash and cash equivalents	1.776.242	6.958.889

Restricted cash

13. Bank deposits amounting to ISK 5,166 million (2007: ISK 0) are restricted to use for the Company at year-end. Deposits are cash held by financial institutions as collaterals for derivative transactions and borrowings.

Investment securities

14. Investment securities are specified as follows:

	Ownership	Fair value 31.12.2008	Ownership	Fair value 31.12.2007
Listed securities:				
Listed on the Iceland Stock Exchange:				
Marel Food Systems hf.*	-	0	31,2%	12.869.385
Össur hf.*	-	0	19,9%	8.277.961
Other companies		0		2.905.553
Total listed on the Iceland Stock Exchange		0		24.052.899
Listed on foreign stock exchanges:				
Listed on stock exchange in Stockholm		90.772		4.758.873
Listed on stock exchange in Oslo		0		507.541
Listed on stock exchange in Frankfurt		0		1.184.512
Total listed on foreign stock exchanges		90.772		6.450.926
Total listed securities		90.772		30.503.825
Unlisted securities:				
London Acquisition** / LME ehf.		27.936.712	40,0%	9.635.471
Unlisted foreign shares		278.781		204.670
Unlisted bonds		369.221		164.610
Total unlisted securities		28.584.714		10.004.751
Fair value of investment securities at year-end		28.675.486		40.508.576

* Shares in Marel Food Systems hf. and Össur hf. were recognised as investments securities until 30 June 2008. From 1 July 2008, the shares are recognised as investments in equity accounted associates using the equity method. See note 3 for further information.

** London Acqusition B.V. is a holding company owned by funds that are controlled by Candover Investments plc. and Eyrir Invest ehf. London Acquisiton sole asset is the Dutch company Stork N.V. The 19% share in the company could be diluted to 17% if certain goals in the operation of Stork N.V. will be reached.

Amounts are in ISK thousand

Investments in equity accounted associates

15. Investments in equity accounted associates are specified as follows:

	Ownership	Share in profits (loss)	Carrying amount	Market value	Book value exceeding market value
Marel Food Systems hf., Iceland	39,5%	(1.093.954)	26.410.828	17.810.343	8.600.485
Össur hf., Iceland	20,0%	370.047	12.400.064	8.427.133	3.972.931
		(723.907)	38.810.892	26.237.476	12.573.416

Various analysis were made to calculate the values of the core holdings of the Company. The most reliable one is discounted cash flow (DCF) valuation based on conservative assumptions on future growth and operational performance. The DCF values that are used are both calculated by the Company's analysts as well as supported by independent analysts. These calculations use free cash flow projections based en management forecasts, as well as the Company's conservative views on operational performance and future growth. Projections are made for a 5-10 year forecast period. Cash flows beyond the forecast period are extrapolated using estimated growth rates of 3.4 – 4.5%. Weighted average cost of capital of 9.0-9.5%. The DCF values of core holdings are well above the Company's book value of these shares.

16. Key financial information of associated companies:

	Total assets	Total liabilities	Total revenue	Total expenses	Profit/ (loss)
Marel Food Systems hf.	156.849	107.715	69.128	70.202	(1.074)
Össur hf.	73.154	42.906	31.734	29.219	2.515

Derivatives

17. Net assets and liabilities in derivatives are specified as follows:

	2008	2007
Net position of bond derivatives	0	366.459
Net position of interest rate derivatives	0	95.884
Net position of currency derivatives	(2.718.326)	(275.968)
Net position of derivatives	(2.718.326)	186.375
Derivatives - assets in the Balance Sheet	2.039.100	484.873
Derivatives - liabilities in the Balance Sheet	(4.757.426)	(298.498)
Net position of derivatives	(2.718.326)	186.375

Amounts are in ISK thousand

Trade and other receivables

18. Trade and other receivables are specified as follows:

	2008	2007
Prepaid income tax	128.487	31.644
Other receivables	4.049	1.566
Total trade and other receivables	132.536	33.210

At 31 December 2008 and 31 December 2007 no allowance was conseded for doubtful receivables. No impairment loss was recognised during the years.

Operating assets

19. Operating assets are specified as follows:

Gross carrying amount	Buildings	Other operating assets	Total
Balance at 1.1.2007	138.345	23.837	162.182
Additions during the year	62.645	13.848	76.493
Balance at 31.12.2007	200.990	37.685	238.675
Additions during the year	154.399	11.481	165.880
Balance at 31.12.2008	355.389	49.166	404.555
Depreciation and impairment losses			
Balance at 1.1.2007	4.400	6.708	11.108
Depreciation	2.760	6.734	9.494
Balance at 31.12.2007	7.160	13.442	20.602
Depreciation	4.752	7.576	12.328
Balance at 31.12.2008	11.912	21.018	32.930
Carrying amounts			
1.1.2007	133.945	17.129	151.074
31.12.2007	193.830	24.243	218.073
31.12.2008	343.477	28.148	371.624
Depreciation ratios	2%	20-30%	

Equity

20. ***Issued capital***

A shareholders meeting in November 2008 approved an increase in nominal value of share capital of ISK 400 million, 277 million shares were sold for ISK 7,675 million, in exchange for NBI's hf. part in London Acquisition.

Amounts are in ISK thousand

20. Contd.:

The Company's share capital, according to its Articles of Association amounts to ISK 1,008 million and is all fully paid. The holders of ordinary 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 Board of Directors has the right to increase the share capital by up to ISK 123 million with sale of new shares. Share capital according to the Balance Sheet amounted to ISK 1,008 million at the end of year 2008, share capital is specified as follows:

	Amounts	Ratio
Total issued shares at the end of the year	1.007.681	100,0%
Own shares	0	0,0%
Share capital according to the Articles of Association	1.007.681	100,0%

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 in reserve which can not be paid out as dividend to shareholders.

Share option reserve

The reserve includes the accrued part of the fair value of share options. This reserve is transferred to share premium when share options are exercised. The reserve is transferred to retained earnings when the share options are not exercised.

Translation reserve

Foreign exchange differences arising from the translation of the financial statements of equity accounted associates, as well as from translation of liabilities that hedge the Company's net investment in foreign operations, are recognised directly in a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Trade and other payables

21. Trade and other payables are specified as follows:

	2008	2007
Trade payables	174.536	2.295.030
Other payables	70.685	63.962
Total trade and other payables	245.221	2.358.992

Amounts are in ISK thousand

Borrowings

22. Borrowings, including accrued effective interest, are specified as follows:

	2008 Carrying amount	2007 Carrying amount
EUR	23.495.025	9.727.661
ISK	8.067.119	8.710.092
SEK	5.362.415	4.304.685
USD	2.316.080	1.319.641
GBP	585.025	968.403
JPY	329.343	180.700
NOK	296.078	212.588
CHF	125.727	244.712
Borrowings	40.576.812	25.668.482

Borrowings are secured as follows:

	2008	2007
Secured bank loans	33.409.104	17.003.188
Unsecured bond issues	7.167.708	8.665.294
Borrowings total	40.576.812	25.668.482

The Company's investment securities and investments in associates in the amount of ISK 67,197 million are mortgaged to secure borrowings with the remaining balance of ISK 33,409 million at the year-end 2008.

23. Repayment of borrowings are specified as follows:

	2008	2007
Repayments in 2008	-	692.344
Repayments in 2009	4.272.471	10.364.271
Repayments in 2010	41.147	1.417.909
Repayments in 2011	9.749.122	2.014.090
Repayments in 2012	19.025.162	11.179.868
Repayments in 2013	6.866.111	0
Subsequent	622.799	0
Borrowings	40.576.812	25.668.482

Amounts are in ISK thousand

Deferred income tax liability

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

	2008	2007
Deferred income tax liability 1.1.	1.744.472	1.660.604
Income tax income recognised in Income Statement	(1.744.472)	111.143
Income tax recognised directly in equity	0	(27.275)
Deferred income tax liability 31.12.	0	1.744.472

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

Investment securities and investments in equity accounted associates	3.063.176	2.170.948
Accrued share options expense	(7.495)	(4.940)
Derivatives	(407.749)	0
Operating assets	2.301	473
	2.650.233	2.166.481
Tax losses carried forward	(905.761)	(422.009)
Recognised in income statement due to new reglulations	(1.744.472)	-
Deferred income tax liability at end of period	0	1.744.472

When the Company pays dividends to its shareholders, it is required to pay a portion of the dividends to tax 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.

Hedges of net investments in foreign associates

25. The carrying amounts of the net investments in the foreign associates and of the borrowings designated as hedging instruments were as follows at 31 December 2008:

	Carrying amount of:	
	Investment	Hedged borrowing
Marel Food Systems hf., Iceland	26.410.828	22.997.534
Össur hf., Iceland	12.400.064	2.222.680

The amounts of foreign currency differences recognised directly in equity were as follows at 31 December 2008:

	Amount of foreign currency translation difference on:	
Hedged net investments in foreign associates:	Net investments	Borrowings
Marel Food Systems hf., Iceland	6.880.725	(6.039.484)
Össur hf., Iceland	4.180.661	(765.182)
	11.061.386	(6.804.666)

Amounts are in ISK thousand

Share-based payments

26. The terms and conditions of grants are as follows:

Grant date / employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of option
Options granted 2006	4.750	32/44 months service	3 years
Options granted 2007	7.250	23/35/47/59 months service	5 years
Options granted 2008	1.000	20/32/44 months service	4 years
Total	13.000		

All options are to be settled by physical delivery of shares. Options can be excercised during the contractual life, at the end of each 12 month period. Accordingly 24 month options can be exercised two times and the 36 month options only once at the end of the 36 month period.

The number and weighted average excercise price of share options is as follows in thousands:

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding at 1 January	22,0	12.000	19,0	41.050
Exercised during the year	-	0	19,0	(36.300)
Granted during the year	24,0	1.000	24,0	7.250
Outstanding at 31 December	22,2	13.000	22,0	12.000
Excercisable at 31 December		0		0

No options were excercised during the year.

The options outstanding at 31 December 2008 have a weighted average contractual life of 1.3 years (2007: 2.3 years).

The fair value of services received in return for share options granted based on the fair value of share options granted, mesuring using a Black-Scholes model, with the following inputs:

	Granted 2006	Granted 2007	Granted 2008
Fair value at grant date, average 12, 24, and 36 months options	6,96	9,81	11,43
Share price	25,0	25,0	25,0
Exercise price *	19,0	24,0	24,0
Expected volatility (weighted average volatility)	22,2%	23,2%	23,6%
Option life (expected weighted average life)	3,5	4,8	2,7
Expected dividends *	0,0%	0,0%	0,0%
Risk-free interest rate (based on government bonds)	12,4%	11,6%	12,8%

* Excercise price is depended on dividends paid during the life of the option.

Total recognised expenses for the year arising from share-based payment transactions amounted to ISK 23 million (2007: ISK 98 million) including accrued social security expenses related to share-based payments.

Financial instruments

27. ***Credit risk***

Exposure to credit risk

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

	Carrying amount 2008	2007
Financial assets at fair value through profit or loss	2.039.100	484.873
Loans and receivables	501.757	197.820
Cash and cash equivalents	1.776.242	6.958.889
Restricted cash	5.166.037	0
	9.483.136	7.641.582

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated future interest payments:

31 December 2008

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Financial liabilities:						
Secured bank loans	33.409.104	39.566.849	2.113.048	12.942.729	23.999.822	511.250
Unsecured bond issues	7.167.708	8.433.271	4.329.102	387.518	3.716.651	0
Trade and other payables	245.221	245.221	245.221	0	0	0
	40.822.033	48.245.341	6.687.371	13.330.247	27.716.473	511.250

31 December 2007

Financial liabilities:						
Secured bank loans	17.003.188	20.935.266	1.527.341	5.819.628	13.588.297	0
Unsecured bond issues	8.665.294	10.832.757	742.268	6.563.331	3.527.158	0
Trade and other payables	2.358.992	2.358.992	2.358.992	0	0	0
	28.027.474	34.127.015	4.628.601	12.382.959	17.115.455	0

Currency risk

Exposure to currency risk

The Company´s exposure to foreign currency risk was as follows based on notional amounts:

31 December 2008	EUR	SEK	USD	GBP	NOK	Other
Financial instruments at fair value through profit or loss	25.801.064	44.016	(209.852)	(146.188)	(72.973)	(166.968)
Loans and receivables	3.406					
Cash and equvalents	51.460	16.505	242.811	13	26.229	2.153
Restricted cash	16.932	1.685.539	249.232	2.270	169.035	
Secured bank loans	(497.301)	(5.362.415)	(93.400)	(585.025)	(296.078)	(455.069)
Net balance sheet exposure	25.375.561	(3.616.355)	188.791	(728.930)	(173.787)	(619.884)

The Company's functional currency will change from ISK to EUR at 1 January 2009.

Amounts are in ISK thousand

27. Contd.:

31 December 2007	EUR	SEK	USD	GBP	NOK	Other
Financial instruments at fair value through profit or loss	10.725.674	4.758.872	65.484	0	646.727	(6.238)
Loans and receivables	166.076	0	0	0	0	0
Cash and equvalents	3.452.578	2.432.478	158	0	319	1.458
Secured bank loans	(9.746.712)	(4.293.344)	(1.316.164)	(965.851)	(212.027)	(424.292)
Trade payables	0	(572.465)	0	0	0	0
Net balance sheet exposure	4.597.616	2.325.541	(1.250.522)	(965.851)	435.019	(429.072)

	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
EUR	127,811	87,846	170,440	91,450
SEK	13,234	9,498	15,603	9,713
USD	88,284	64,168	121,160	62,150

Sensitivity analysis

A 10% strengthening of the Icelandic krona against the following currencies at 31 December 2008 would have increased (decreased) pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 2007.

	Profit or loss	
	2008	2007
EUR	(2.537.556)	(459.761)
SEK	361.636	(232.554)
Other	133.381	221.043

A 10% weakening of the Icelandic krona against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

Fair value sensitivity analysis for fixed rate instruments

	Carrying amount	
	2008	2007
Fixed rate instruments		
Financial assets	20.615.578	164.610
Financial liabilities	(4.499.779)	(8.665.294)
	16.115.799	(8.500.684)
Variable rate instruments		
Financial assets	369.221	0
Financial liabilities	(36.077.033)	(17.003.189)
	(35.707.812)	(17.003.189)

Amounts are in ISK thousand

27. Contd.:

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	2008 Profit or loss		2007 Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(357.078)	357.078	(170.032)	170.032
Cash flow sensitivity (net)	(357.078)	357.078	(170.032)	170.032

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments designated at fair value through profit or loss	28.306.265	28.306.265	40.530.341	40.530.341
Loans and receivables	501.757	501.757	197.820	197.820
Cash and cash equivalents	1.776.242	1.776.242	6.958.889	6.958.889
Restricted cash	5.166.037	5.166.037	0	0
Secured bank loans	(33.409.104)	(31.319.682)	(17.003.188)	(16.355.055)
Unsecured bond issues	(7.167.708)	(7.190.501)	(8.665.294)	(8.378.539)
Trade and other payables	(245.221)	(245.221)	(2.358.992)	(2.358.992)
	(5.071.732)	(3.005.103)	19.659.576	20.594.464

The basis for determining fair values is disclosed in note 4.

Interest rates used for determining fair values

The interest rate used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2008	2007
Secured bank loans	4.7% - 9.0%	6.8% - 8.0%
Unsecured bond issues, indexed / non-indexed	6.7% / 22.2%	6.7% / 18.5%

Amounts are in ISK thousand

Other

Change of functional currency

28. The Company's Board of Directors has decided, after careful deliberations, that euro (EUR) is the currency of the primary economic environment that influences revenue and expenses of the Company. Therefore, in accordance with IFRS, the functional currency of the Company will change from ISK to EUR at 1 January 2009.

Related parties

Identity of related parties

29. The Company has a related party relationship with its associates, and with its directors and executive officers.

Transactions with related parties

During the year the Company paid salaries to the Chairman of the Board of Directors and the CEO. Further information is in note 8.

Balance Sheet 1 January 2009 in euro

	1.1.2009
Assets:	
Cash and cash equivalents	10.422
Restricted cash	30.310
Investment securities	168.244
Investments in equity accounted associates	227.710
Derivatives	11.964
Trade and other receivables	778
Operating assets	2.180
Total assets	451.608
Equity:	
Share capital	5.912
Share premium	97.855
Reserves	25.233
Retained earnings	55.184
Total equity	184.184
Liabilities:	
Derivatives	27.913
Trade and other payables	1.439
Borrowings	238.071
Deferred tax liability	0
Total liabilities	267.423
Total equity and liabilities	451.608

Amounts are in EUR thousand