

Reitir II ehf.

Condensed Interim Financial Statements
30 June 2010
ISK

Reitir II ehf.
Kringlunni 4-12
103 Reykjavík

Reg.no. 670492-2069

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Endorsement and Signatures of the Board of Directors and the Managing Director

The Company is a real estate company, its main operations are investment and leasing of assets in Iceland.

The Company's condensed interim financial statements have been prepared according to the International Financial Reporting Standards as adopted by EU, IAS 34.

According to the condensed statement of comprehensive income, net loss for the six months ended 30 June 2010 amounted to ISK 375 million. The Company's equity amounted to ISK 3,474 million at the end of June 2010 according to the statement of financial position, including share capital amounting to ISK 2 million. Reitir fasteignafélag hf. owns all the outstanding shares in the company.

Statement by the Board of Directors and the Managing Director

To the best of our knowledge the financial statements give a true and fair view of the financial performance of the Company for the six months ended 30 June 2010, its assets, liabilities and financial position as at 30 June 2010 and its cash flows for the period then ended in accordance with IFRS as adopted by the EU.

Further, in our opinion the interim financial statements and the endorsement by the Board of Directors and the Managing Director give a fair view of the development and performance of the Company's operations and its position and describe the principal risks and uncertainties faced by the Company.

Last year the Company finished the financial restructuring that started in 2008. Since the restructuring the Company has operated well in a very difficult environment. Great uncertainty in the economic environment has and will continue to affect the Company. Continued uncertainty prevails over the real value of assets

The Board of Directors and the Managing Director have today discussed the condensed interim financial statements of Reitir II ehf. for the period from 1 January to 30 June 2010 and confirm them by means of their signatures.

Reykjavík, 31 August 2010

Board of Directors:

Klemens Arnarson

Guðjón Auðunsson

Einar Þorsteinsson

Managing Director:

Guðjón Auðunsson

Independent Auditor's Review Report

To the Board of Directors and Shareholder of Reitir II ehf.

We have reviewed the accompanying condensed statement of financial position of Reitir II hf. as at 30 June 2010, the condensed statement of comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review. We have not reviewed comparative figures in the statement of comprehensive income and cash flows.

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 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Emphasis of Matter

We draw attention to endorsement of the board of directors and the managing director in the financial statements, which describes the great uncertainty that has emerged in the Icelandic economy and its potential impact on the final outcome of the fair value of assets.

Reykjavík, 31 August 2010.

KPMG hf.

Anna Þórðardóttir

Statement of Comprehensive Income

1 January to 30 June 2010

	Note	1 January - 30 June 2010	2009 <small>not reviewed</small>
Operating revenue and expenses			
Revenue		806.345	905.611
Operating expenses of investment properties		(191.304)	(166.328)
Operating income		<u>615.041</u>	<u>739.283</u>
Administrative expenses		(48.849)	(10.878)
Profit before financial cost		566.192	728.405
Financial income		7.683	2.298
Financial expenses		(949.289)	(1.848.716)
Net financial cost	4	<u>(941.606)</u>	<u>(1.846.418)</u>
Comprehensive loss for the period		<u>(375.414)</u>	<u>(1.118.013)</u>
Loss per share			
Basic and diluted loss per share of ISK 1		(197,59)	(1,29)

The notes on pages 9 to 10 are an integral part of these financial statements

Statement of Financial Position

as at 30 June 2010

	Note	30.06.2010	31.12.2009
Assets			
Investment properties		21.097.696	21.021.623
Trade receivables and other receivables		62.192	41.769
Prepaid cost		14.720	0
Restricted cash and cash equivalents		24.857	26.036
Cash and cash equivalents		57.316	142.797
Total current assets		159.085	210.602
Total assets		21.256.781	21.232.225
Equity			
Share capital		1.900	1.900
Investment properties value adjustment reserve		5.109.767	5.109.767
Accumulated deficit		(1.637.494)	(1.262.080)
Total equity		3.474.173	3.849.587
Liabilities			
Loans and borrowings		17.490.430	17.127.976
Loans and borrowings		148.140	140.398
Payable to related parties	5	10.106	124
Trade and other payables		133.932	114.140
Total current liabilities		292.178	254.662
Total liabilities		17.782.608	17.382.638
Total equity and liabilities		21.256.781	21.232.225

The notes on pages 9 to 10 are an integral part of these financial statements

Statement of Changes in Equity

1 January to 30 June 2010

	Share capital	Investment properties value adjustment reserve	Accumu- lated deficit	Total equity
1 January to 30 June 2009				
Balance 1 January 2009	870.000	7.404.364	(13.300.673)	(5.026.309)
Loss for the period		0	(1.118.013)	(1.118.013)
Balance 30 June 2009	<u>870.000</u>	<u>7.404.364</u>	<u>(14.418.686)</u>	<u>(6.144.322)</u>
1 January to 30 June 2010				
Balance 1 January 2010	1.900	5.109.767	(1.262.080)	3.849.587
Loss for the period			(375.414)	(375.414)
Balance 30 June 2010	<u>1.900</u>	<u>5.109.767</u>	<u>(1.637.494)</u>	<u>3.474.173</u>

Statement of Cash Flows

1 January to 30 June 2010

	Note	1 January - 30 June 2010	2009
Cash flows from operating activities			not reviewed
Loss for the period .....	(	375.414)	(1.118.013)
Adjustments for:			
Net finance cost		941.606	1.846.418
		566.192	728.405
 Change in current assets .....	(	15.488)	113.787
Change in current liabilities		21.556	(12.755)
Changes in other operating assets and liabilities .....	(	14.720)	0
Changes in operating assets and liabilities	(	8.652)	101.032
 Interest income received		2.744	2.283
Interest expenses paid .....	(	513.500)	(60.218)
Net cash from operating activities		46.784	771.502
 Cash flows to investing activities			
Acquisition of investment properties .....	(	76.073)	(111.294)
Change in restricted cash		1.179	0
Net cash used in investing activities	(	74.894)	(111.294)
 Cash flows to financing activities			
Long-term borrowing, change .....	(	67.353)	(233.621)
Payable to parent company, change		9.982	(385.884)
Net cash used in financing activities	(	57.371)	(619.505)
 (Decrease) increase in cash and cash equivalents .....	(	85.481)	40.703
 Cash and cash equivalents at 1 January		142.797	57.081
 Cash and cash equivalents at 30 June		57.316	97.784

The notes on pages 9 to 10 are an integral part of these financial statements

Notes to the Financial Statements

1. Reporting entity

Reitir II ehf. (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Kringlan 4-12, Reykjavík, Iceland.

The company's main operations are leasing out of investment property under operation leases.

The company is a subsidiary of Reitir fasteignafélag hf. which registered office is Kringlan 4-12, Reykjavík. The financial statements of the company are part of the consolidated financial statements of the parent company, which include information about the financial performance and the financial position of the group.

2. Basis of preparation

a. Statement of compliance

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statement as adopted by the European Union, IAS 34. They do not include all of the information required for complete set of annual financial statements, and should be read in conjunction with financial statements of the company as at and for the year ended 31 December 2009

The condensed interim financial statements were authorized for issue by the Board of Directors of Reitir II ehf. on 31 August 2010.

b. Basic of measurement

The condensed interim financial statements have been prepared on historical cost basis except that investment properties are measured at fair value.

c. Functional and presentation currency

These financial statements are presented 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 recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

a. Investment properties

Investment properties are real estate (land or buildings) held by the Company either to earn rental income, for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Notes, cont.:

4. Financial costs

Financial income are specified as follows:

	2010 01.01-30.06	2009 01.01-30.06
		Not reviewed
Interest income	7.680	2.298
Net foreign exchange gain	3	0
Total financial income	7.683	2.298

Financial expenses are specified as follows:

Interest expenses	(511.739)	(660.640)
Indexation	(437.549)	(65.149)
Net foreign exchange loss	0	(1.122.927)
Total financial expenses	(949.289)	(1.848.716)
Net financial costs	(941.606)	(1.846.418)

5. Related parties

Identity of related parties

The Company has a related party relationship with its parent company and its fellow subsidiaries.

Related parties with key management personnel

The Company was not involved in any transactions during the year with members of the Board of Directors, the Managing Director or companies outside the Group in which these parties have interests.

Related party transactions

The condensed interim financial statements have been prepared on historical cost basis except that investment properties are measured at fair value. The methods used to measure fair value are discussed further in applicable notes.

	30.6.2010	31.12.2009
Payable to Reitir I ehf.	0	124
Payable to Reitir fasteignafélag hf.	10.106	0
	01.01-30.06	01.01-30.06
		Not reviewed
Operating expenses paid to Reitir fasteignafélag hf.	(44.369)	(7.870)

All outstanding balances with related parties are valued on arm's length basis. No impairment has been recognised on related party receivables.