Stoðir hf.

Separate Financial Statements
for the year 2010

Stoðir hf.
Hátún 2B
105 Reykjavík
Iceland

Reg. no. 601273-0129

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Endorsement and Statement by the Board of Directors and the CEO

The financial statements comprise the separate financial statements of Stoðir hf. ("Stodir" or "the Company").

In the year 2010, Stodir´s Management and the Board of Directors have focused on maintaining and supporting the Company´s assets, with the intention of maximizing value. Stodir´s main assets are a 99.9% stake in Tryggingamidstodin (TM), the Icelandic insurance company, and a 40% stake in the European private-label juice and soft drinks producer Refresco.

The management has further worked on simplifing the Company´s structure as a number of subsidiaries were liquidated. An effort has also been made to reduce uncertainty in regard to tax matters, dispute claims and guarantees.

On 17 May 2010 Julius Thorfinnsson was appointed as CEO of the Company.

According to the statement of comprehensive income for the year ending 31 December 2010, profit for the year amounted to ISK 6,755 million. According to the statement of financial position, equity at the end of the year 2010 amounted to ISK 30,236 million, including share capital in the amount of ISK 21,633 million.

The Company's issued share capital amounted to ISK 21,643 million at year-end 2010. Own shares amounted to ISK 10 million at year-end 2010. The share capital was increased in March and June 2010, by ISK 18 million and ISK 22 million respectively, in relation to dispute claims which were settled.

Shareholders at the end of the year 2010 were 106 of which three shareholders held more than 10% of voting rights. They are Glitnir Bank hf. with 26.7%, Landsbanki-NBI hf. with 25.6% and Arion banki hf. with 13.8%.

Statement by the Board of Directors and the CEO

The annual separate financial statements for the year ending 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements.

According to our best knowledge, it is our opinion that the annual financial statements give a true and fair view of the separate financial performance of the Company for the financial year 2010, its assets, liabilities and financial position as at 31 December 2010 and its cash flows for the financial year 2010.

It is the opinion of the Board of Directors that the fair value of loans and receivables, non-listed securities and other unlisted assets are uncertain due to the situation on financial markets. The valuation of assets at the end of December 2010 is based on the management's estimation and third party valuation.

Further, in our opinion, the separate financial statements and the 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 financial position and fairly describes the principal risks and uncertainties faced by the Company, as outlined in notes to the financial statements.

The Board of Directors and the CEO have today discussed the annual separate financial statements of Stoðir hf. for the year 2010 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the separate financial statements will be approved at the Annual General Meeting of Stoðir hf.

Reykjavík, 11 April 2011.

The Board of Directors:

Eiríkur Elís Þorláksson
Sigurður Jón Björnsson
Sigurjón Pálsson

CEO:

Júlíus Þorfinnsson

Independent Auditor´s Report

To the Board of Directors and Shareholders of Stoðir hf.

We have audited the accompanying financial statements of Stoðir hf., which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 Stoðir hf. as at 31 December 2010, 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.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 106, Paragraph 1, Item 5 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the Financial Statements.

Reykjavík, 11 April 2011.

KPMG ehf.

Jón S. Helgason
Sæmundur Valdimarsson

Statement of Comprehensive Income for the year 2010

	Notes	2010	2009
Net investment income (expense):			
Net income (expense) from investment securities	5	6,394	(5,297)
Interest income	6	52	242
Interest expense	6	(143)	(11,809)
Net foreign exchange gain		97	6,086
		6,400	(10,778)
Reduction of debts:			
Reduction of debts		578	224,700
Operating expenses:			
Operating expenses	7	(223)	(243)
Impairment and depreciation	8	0	(1,898)
		(223)	(2,141)
Profit for the year		6,755	211,781
Other comprehensive income:			
Foreign currency translation differences for foreign operations		0	(5,669)
Total comprehensive income for the year		6,755	206,112

The notes on pages 9 to 23 are an integral part of these separate financial statements.

Amounts are in ISK million

Statement of Financial Position
as at 31 December 2010

	Notes	2010	2009
Assets			
Cash and cash equivalents	11	1,267	1,274
Investments	12	37,521	30,988
Loans and other receivables	14,15	677	1,207
Total assets		39,465	33,469
Equity			
Ordinary share capital	16	11,885	11,855
Preference share capital	16	9,748	9,748
Reserves		320	320
Retained earnings		8,283	1,528
Total equity		30,236	23,451
Liabilities			
Trade and other payables	17	51	241
Borrowings	18,19	9,178	9,777
Total liabilities		9,229	10,018
Total equity and liabilities		39,465	33,469

The notes on pages 9 to 23 are an integral part of these separate financial statements.

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Statement of Changes in Equity
for the year 2010

	Notes	Ordinary share capital	Preference share capital	Share premium	Reserves: Share option reserve	Reserves: Translation reserve	(Accumulated deficit) retained earnings	Total equity
Year 2009								
Balance at 1 January 2009		11,413	0	148,532	572	5,989	(370,774)	(204,268)
Total comprehensive income for the year						(5,669)	211,781	206,112
Capital decrease		(11,413)	0	(148,532)			159,945	0
Capital increase		11,855	9,748					21,603
Stock options expired					(572)		572	0
Balance at 31 December 2009		11,855	9,748	0	0	320	1,528	23,451
Year 2010								
Balance at 1 January 2010		11,855	9,748	0	0	320	1,528	23,451
Total comprehensive income for the year							6,755	6,755
Capital increase		40						40
Own shares, acquired		(10)						(10)
Balance at 31 December 2010		11,885	9,748	0	0	320	8,283	30,236

The notes on pages 9 to 23 are an integral part of these separate financial statements.

Amounts are in ISK million

Statement of Cash Flows for the year 2010

	Notes	2010	2009
Cash flows from operating activities:			
Profit for the year		6,755	211,781
Adjustments for:			
Depreciation and amortisation		0	1,897
Reduction of debts		(578)	(224,700)
Other operating items		(6,893)	16,245
Working capital (used in) provided by operations		(716)	5,223
Net change in operating assets and liabilities		951	(18,909)
Net cash provided by (used in) operating activities		235	(13,686)
Cash flows from investing activities:			
Investment securities, change		431	(619)
Derivatives, change		0	(5,187)
Restricted cash, change		0	16,723
Proceeds from sold operating assets and intangible assets		0	197
Net cash provided by investing activities		431	11,114
Cash flows from financing activities:			
Repayment of borrowings		(742)	0
Receivables and debts to subsidiaries, change		0	2,805
Net cash (used in) provided by financing activities		(742)	2,805
Net (decrease) increase in cash and cash equivalents		(76)	233
Cash and cash equivalents at 1 January		1,274	1,041
Effect of exchange rate fluctuations on cash held		69	0
Cash and cash equivalents at 31 December		1,267	1,274
Investing and financing transactions without cash flow effect:			
Reduction of debts		(40)	(21,603)
Issued ordinary share capital		40	11,855
Issued preference share capital		0	9,748
Other information:			
Interest income received		33	242
Dividends received		10	56

The notes on pages 9 to 23 are an integral part of these separate financial statements.

Amounts are in ISK million

Notes

1. Reporting Entity

Stoðir hf.'s registered office is at Hátún 2B in Reykjavík, Iceland. The separate financial statements of Stoðir hf. ("Stodir" or "the Company") as at and for the year ended 31 December 2010 comprise the financial statements of the Company.

Stodir is a holding company, which owns the Icelandic insurance company Tryggingamiðstöðin hf. (TM) and a significant stake in Refresco, Europe's largest manufacturer of private label fruit juice and soft drinks.

2. Basis of preparation

a. *Statement of compliance*

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The separate financial statements were approved by the Board of Directors of Stodir on 11 April 2011.

b. *Basis of measurement*

The separate financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

* financial assets and liabilities held for trading are measured at fair value;
* financial assets designated at fair value through profit or loss are measured at fair value, including investments in associates

c. *Functional and presentation currency*

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

d. *Use of estimates and judgements*

The preparation of the separate 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 estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the separate financial statements is described in note 4h.

e. *Changes in accounting policies*

(i) Overview

Starting as of 1 January 2010, the Company has changed its accounting policies in the following areas:
* Accounting for business combinations

(ii) Accounting for business combinations

From 1 January 2010 the Company has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

2. Basis of preparation, contd.:

e. *Changes in accounting policies, contd.:*

(ii) Accounting for business combinations, contd.:

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Company takes into consideration potential voting rights that currently are exercisable.

3. Accounting policies related to financial instruments

The accounting policies set out below have been applied consistently to all periods presented in the separate financial statements. Certain comparative amounts have been reclassified to conform with the current year's presentation.

a. *Financial assets and liabilities*

(i) Non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities in the Company's separate statement of financial position comprise equity investments, loans and receivables, cash and cash equivalents, trade and other payables and borrowings.

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

A financial instrument is recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company´s contractual rights to the cash flows from the financial assets expire or if the Company 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 Company commits itself to purchase or sell the asset. Loans and receivables are recognised on the date that they are originated. Financial liabilities are derecognised if the Company’s obligations specified in the contract expire or are discharged or cancelled.

Financial assets at fair value through profit and loss

Financial assets are designated at fair value through profit or loss if the Company manages such investments with a view to profiting from their total return in the form of fair value changes, interest and dividend and makes purchase and sale decisions based on their fair value. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

Financial assets and liabilities held for trading

Financial assets and liabilities are classified as held for trading if acquired or incurred principally for the purpose of selling or repurchasing in the short term and if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit-taking. Financial assets and liabilities classified as held for trading are measured at fair value, and changes therein are recognised in profit or loss. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus any directly attributable transactions costs, and subsequently measured at amortised cost using effective interest method.

Financial liabilities measured at amortised cost

Other non-derivative financial liabilities are measured at amortised cost using the effective interest method.

3. Accounting policies related to financial instruments, contd.:

b. *Investment income*

(i) Net income (expense) from investment securities

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

(ii) Interest income and expense

Interest income and expense is recognised in profit or loss using the effective interest method.

(iii) Net foreign exchange gain

Net foreign exchange gain comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies.

c. *Impairment of financial assets measured at amortised cost*

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. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

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 profit or loss.

d. *Fair value measurement principles for financial instruments*

(i) Investment securities

The fair value of investment 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.

(iii) Loans and receivables

The fair value of loans and 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.

3. Accounting policies related to financial instruments, contd.:

d. *Fair value measurement principles for financial instruments, contd.:*

(iv) Non-derivative financial liabilities

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

(v) Uncertainty in valuation of assets

The fair value of loans and receivables, non-listed securities and other unlisted assets are uncertain due to the situation on financial markets. The valuation of these assets at year-end are based on management's estimate and third party valuations.

e. *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, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs net of tax, 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 or reissued subsequently, the amount received is recognised as an increase in equity.

Dividends

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

4. Other accounting policies

a. *Basis for accounting for subsidiaries and associates*

(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 not consolidated in these financial statements as these are separate financial statements for the Parent Company. In the consolidated financial statements of the Group, Stoðir hf. and its subsidiaries, the financial statements of subsidiaries are included from the date that control commences until the date that control ceases. In the consolidated financial statements the accounting policies of subsidiaries were changed when necessary to align them with the policies adopted by the Company.

Investments in subsidiaries are designated at fair value through profit or loss on initial recognition and are included within equity investments in the statement of financial position.

(ii) Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are designated at fair value through profit or loss on initial recognition and are included within equity investments in the statement of financial position. The Company defines its operations partly as venture capital organisation and that part of the business is clearly and objectively distinct from other operations.

4. Other accounting policies, contd.:

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Company 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 profit or loss. 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 translation differences are recognised directly in other comprehensive income. 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.

c. Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets not carried at fair value through profit or loss is assessed 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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. 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.

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.

d. Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

4. Other accounting policies, contd.:

d. Income tax, contd.:

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. Deferred tax is not recognized for the following temporary differences: 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. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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.

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, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

e. New standards and interpretations not yet adopted

A new standard, IFRS 9 *Financial Instruments*, becomes mandatory for the Company's financial statements for the year 2013 and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has net been determined. A number of new standards, amendments to standards and interpretations became effective in the year 2010 but are not relevant for the Company´s operations or have immaterial effect on the Company´s financial statements. This refers i.e. to the following standards, amendments and interpretations: Amendment to IAS 32 – *Classification of Rights Issues* (issued in October 2009), IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (issued in November 2009), IAS 24 *Related Party Disclosures* (revised in November 2009), Amendment to IFRIC 14 - *Prepayments of a Minimum Funding Requirement* (issued in November 2009), Amendments to IFRS 1 - *Limited Exemption from Comparative IFRS 7 Disclosures* (issued in January 2010).

Other than those adopted as explained in note 2e, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these separate financial statements. None of these is expected to have a significant effect on the separate financial statements of the Company.

f. Determination of fair values

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.

Key sources of estimation uncertainty

Financial instruments

As indicated in note 3c the Company’s securities and investments in associates are measured at fair value. For the part of these financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, 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.

4. Other accounting policies, contd.:

f. *Determination of fair values, contd.:*

Key sources of estimation uncertainty, contd.:

Financial instruments, contd.:

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.

Impairment of financial assets

Financial assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3c. 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.

Impairment of non-financial assets

Non-financial assets, such as goodwill and intangible assets, are reviewed at each reporting date for impairment. The assessment for impairment is based upon management's estimates of future cash flows and discount rates.

Critical accounting judgements in applying the Company's accounting policies

Critical accounting judgements made in applying the Company's accounting policies include:

Financial assets and liability classification

The Company's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In designating financial assets or liabilities at fair value through profit or loss, the Company has determined that it has met the criteria for this designation set out in accounting policy 3a.

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.

5. Net investment income (expense)

Net income (expense) from investment securities is specified as follows:

	2010	2009
Net income (loss) on financial assets designated at fair value through profit and loss	6,827	(5,297)
Income from discontinuation of subsidiaries	257	0
Impairment on payables and receivables recognised in relation with composition with creditors and reduction of debts	(610)	0
Impairment on loans and receivables	(80)	0
Net income (expense) from investment securities	6,394	(5,297)

Dividend income included in net investment income (expense) amounts to ISK 10 million (2009: ISK 56 million).

6. Interest income and expense

Interest income and expense are specified as follows:

	2010	2009
Interest income on:		
Cash and cash equivalents	52	242
Interest expense on:		
Borrowings	143	11,783
Trade and other payables	0	26
Total interest expense	143	11,809

7. Operating expenses

Operating expenses are specified as follows:

	2010	2009
Salaries	57	82
Board of Directors' fees	11	9
Salary-related expenses	22	47
Domestic and foreign lawyers' expenses	78	36
Accounting, tax and salary services' expenses	23	17
Expert service and valuation expenses	24	29
Tax and VAT correction payments due to tax investigation	23	0
Rent and office expenses	18	59
Repayments and correction of budget expenses	(33)	(36)
Total operating expenses	223	243
Average number of employees during the year	2.7	5.0

8. Impairment and depreciation

Impairment and depreciation is specified as follows:

	2010	2009
Impairment on intangible assets	0	1,894
Depreciation of operating assets	0	4
Total impairment and depreciation	0	1,898

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9. Effective tax rate

Reconciliation of effective tax rate:

	2010	2010	2009	2009
Profit before income tax		6,755		211,781
Income tax using the Company's domestic tax rate	18.0%	1,216	15.0%	31,767
Tax exempt revenue	(3.8%)	(257)	(2.8%)	(5,890)
Additions through business combination	0.0%	0	(0.2%)	(501)
Non-deductible expenses	2.5%	168	0.7%	1,409
Impairment on deferred tax asset	(28.7%)	(1,938)	(5.1%)	(10,772)
Other items	12.0%	811	(7.6%)	(16,013)
Effective tax rate	0.0%	0	0.0%	0

A deferred tax asset is only 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 asset for the Company amounting to ISK 23,862 million is impaired at year-end 2010 as realization of tax benefits is unprobable. Tax loss carry forwards for the Company is estimated to be ISK 95,367 million at year-end 2010.

10. Financial assets and liabilities

Financial assets and liabilities are classified as follows:

31.12.2010	**Designated at fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Total**
Financial assets:				
Cash and cash equivalents		1,267		1,267
Investments	37,521			37,521
Loans and receivables		677		677
Total financial assets	37,521	1,944	0	39,465
Financial liabilities:				
Trade and other payables			51	51
Borrowings			9,178	9,178
Total financial liabilities	0	0	9,229	9,229
31.12.2009				
Financial assets:				
Cash and cash equivalents		1,274		1,274
Investments	30,988			30,988
Loans and receivables		1,207		1,207
Total financial assets	30,988	2,481	0	33,469
Financial liabilities:				
Trade and other payables			241	241
Borrowings			9,777	9,777
Total financial liabilities	0	0	10,018	10,018

11. Cash and cash equivalents

Cash and cash equivalents consist of demand deposits.

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12. Investments

Investments are specified as follows:

	2010	2009
Listed on foreign stock exchanges	4,857	3,098
Unlisted investments	32,664	27,889
Total investments	37,521	30,988

13. Associates

As presented in note 4a(ii), investments in associates are accounted for at fair value through profit or loss and presented within equity investments in the separate statement of financial position. At year-end, based on both direct and indirect ownership, the following investments are defined as associates:

	2010	2009
Glacier Renewable Energy Fund	37%	37%
Refresco Holding B.V., The Netherlands (through Ferskur Holding 1 B.V.)	40%	51%
Stytta ehf., Iceland	36%	36%
VC Holdings Limited, United Kingdom	-	42%

The Company's investment in Stytta ehf. was sold in March 2011. VC Holdings Limited declared bankrupt in the year 2010. The Company's share therefore has no value.

14. Loans and receivables

Loans and receivables are specified as follows:

	2010	2009
Investment related trade receivables	185	749
Other receivables	492	458
Total loans and receivables	677	1,207

Allowance account for impairment at year-end 2010 amounts to ISK 194 million (2009: ISK 204 million) and is deducted from loans and receivables in the statement of financial position.

15. Repayments of loans and receivables

Repayments of loans and receivables are specified as follows:

	2010	2009
Repayments in 2010	-	1,207
Repayments in 2011	606	0
Repayments in 2012	66	0
Repayments in 2013	5	0
Total loans and receivables	677	1,207

16. Equity

Share capital

Share capital at the beginning of the year amounted to ISK 21,603 million. In March and June 2010 additional type A shares were issued in the amount of ISK 40 million due to settled claims that had been negotiated but not fully settled.

Type B shares grant their shareholders preference over A shares for fund distribution if the Company ends its operations, decreases its share capital with payments to its shareholders or if fund distributions are made up to the original sale price. Shareholders of B shares do not hold right to fund distributions in excess of the original sales price.

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16. Equity, contd.:

Share capital, contd.:

According to its Articles of Association, share capital amounted to ISK 21,643 million at year-end 2010. Own shares amounted to ISK 10 million at year-end 2010.

The holders of A shares are entitled to dividends as declared from time to time. A shares are entitled to four votes per share and B shares one vote per share at meetings of the Company.

	Amounts	Ratio	Voting rights
Issued A shares at the end of December 2010	11,895	55.0%	82.9%
Issued B shares at the end of December 2010	9,748	45.0%	17.1%
Share capital according to the Articles of Association	21,643	100.0%	100.0%
Own shares type A	(10)		
Share capital according to the statement of financial position	21,633		

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 the 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.

17. Trade and other payables

Trade and other payables are specified as follows:

	2010	2009
Trade payables	4	202
Other payables	47	39
Total trade and other payables	51	241

18. Borrowings

Borrowings are specified as follows:

		2010	2009
	Currency	Carrying amount	Carrying amount
Bank loan	ISK	9,178	9,777

The Company's investments are pledged as collateral for the Company's borrowings.

19. Repayment of borrowings

Repayment of borrowings are specified as follows:

	2010	2009
Repayments in 2016	9,178	9,756

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20. Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

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 Company.

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

	2010	2009
Cash and cash equivalents	1,267	1,274
Loans and receivables	677	1,207
Maximum exposure to credit risk at year-end	1,944	2,481

Liquidity risk

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

The following is a breakdown by contractual maturity of financial liabilities:

31 December 2010	0-12 months	1-5 years	Over 5 years	No stated maturity	Total
Liabilities:					
Trade and other payables	51	0	0	0	51
Borrowings	0	0	9,178	0	9,178
Total financial liabilities	51	0	9,178	0	9,229
31 December 2009					
Liabilities:					
Trade and other payables	241	0	0	0	241
Borrowings	0	0	9,777	0	9,777
Total financial liabilities	241	0	9,777	0	10,018

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.

Currency risk

The Company owns investments largely denominated in currencies other than its functional currency, ISK. The borrowings of the Company are in ISK. Consequently, the Company is exposed to risk that the exchange rate of ISK relative to foreign currencies may change in a manner that has an adverse affect on the Company's operations. Stodir's management are not able to hedge its currency risk due to the situation on financial markets.

Amounts are in ISK million

21. Financial Guarantees

During the year 2010, a number of guarantees provided by the Company expired or the Company was released from them. In one case, a guarantee was claimed and settled by the Company according to the composition agreement.

At 31 December 2010, the Company is aware of two guarantees outstanding, both of which were provided a few years ago in relation to contracts made by former subsidiaries of the Company. Uncertainty exists regarding the amounts and the probability of the guarantees coming into effect. According to Management estimate, these two outstanding guarantees could result in claims of maximum gross value of approx. ISK 1 billion. If claims will be declared, based on above mentioned outstanding guarantees, they will fall under the approved and confirmed composition proposal of the Company from June 2009, and claims will be settled with a cash payment of ISK 1 million and 5% of the remainder of the claim will be paid in form of common shares in Stodir.

22. Settlement with Lehman Brothers International Europe

In accordance with a prime brokerage agreement with Lehman Brothers International Europe (LBIE) signed in the year 2007, the Company invested in listed bonds and equity investments. On 15 September 2008, LBIE filed for bankruptcy. Since then, there has been significant uncertainty about whether the net balance between the Company and LBIE will be positive or negative and the timing of debt set-off. If the final settlement will result in a claim from LBIE towards the Company, the claim will be settled with a cash payment of ISK 1 million and 5% of the remainder of the claim will be paid in the form of common shares in Stodir, as stipulated in the approved and confirmed composition proposal from June 2009.

23. Dispute claims

At 31 December 2010, all known dispute claims in relation to Stodir´s composition have been settled, except for salary claims made by five former employees which claim that their salary and pension claims should be settled as priority claims and therefore paid in full. Stodir refused and settled these claims under the composition proposal, with cash and shares in Stodir. Two of these dispute claims are currently subject to court rulings. If these five salary claims were to be ruled as priority claims, that could result in maximum cash payment of ISK 213 million plus interest.

24. Rescindable transactions

After the completion of Stodir’s composition with creditors in July 2009, the Company’s new Board of Directors conducted a thorough review of the Company’s transaction and operations two years prior to Stodir entering into moratorium on 29 September 2008. This was done in line with laws and regulations that permit rescinding of transactions that are believed to have decreased recovery of creditors, or resulted in distinction between creditors. Two law firms as well as an independent accounting firm reviewed all aspects of the Company’s operations six months prior to the moratorium, from 29 March 2008, and all transactions with related parties from 29 September 2006, two years prior to the moratorium. All asset allocations were reviewed, as well as funding and payment of debt, pledging of assets and all operational expense items.

With regards to the findings of the comprehensive review, the Board of Directors of Stodir made arrangements to rescind four transactions in September 2009. A settlement has been reached in one case, resulting in a repayment of ISK 19 million to Stodir. The other three cases relate to pledges and asset sales from Stodir to Teymi hf. and Glitnir Bank hf. in the year 2008. Significant uncertainty remains whether rescinding of any of these transactions will be successful, or if any value will be retrieved.

25. Related parties

Identity of related parties

The Company has a related party relationship with entities with significant influence over the Company, its associates as disclosed in note 13 and with its Board of Directors and CEO. Three entities had significant influence over the Company and held above 10% of voting rights at year-end 2010. They are Glitnir Bank hf. with 26.7%, Landsbanki-NBI hf. with 25.6% and Arion banki hf. with 13.8%.

25. Related parties, contd.:

Transactions with key management

Salaries paid to the CEO amounted to ISK 19 million. Severance payments due to retirement of former CEO amounted to ISK 36 million in the year 2010. No share option agreements were outstanding at year-end and no shares in the Company were owned by management. Salaries paid to the Board of Directors amounted to ISK 11 million in the year 2010.

Other transactions with related parties

During the year 2010, the Company made transactions with related parties. These transactions were priced on an arm's length basis.

Transactions with related parties in the year 2010 only relate to the composition of the Company. In the year 2010 Stodir hf. received repayment on claims related to Arion Bank hf. with shares in the Company in the amount of ISK 10 million. Long-term borrowings with related parties amounted to ISK 9,178 million. The Company paid interests and installments in the amount of ISK 742 million in the year 2010 but received interest income from its cash equivalents placed at the bank accounts of the related parties.

At year-end 2010 outstanding borrowings to Glitnir Bank hf. and NBI hf. amounted to ISK 9,178 million.

Group entities

The Company's subsidiaries are specified as follows:

	Share 31.12.2010	Share 31.12.2009
Investments:		
FL Bayrock Holdco ehf., Iceland	100%	100%
FL Group Midtown Miami Ltd., USA	100%	100%
FL Group Property LLC, USA	99%	99%
FL Group USA Ltd., USA	100%	100%
FL GLB Holding B.V., The Netherlands	100%	100%
FL Group Danmark ApS, Denmark	-	100%
Aktieselskabet af 21 december 2006 ApS, Denmark	-	100%
FL Group Holding B.V., The Netherlands	100%	100%
FL Group Holding Netherlands B.V., The Netherlands	100%	100%
Stoðir Holding ehf., Iceland	100%	100%
Tónvís ehf., Iceland	-	100%
Insurance:		
Tryggingamiðstöðin hf., Iceland	99.9%	99.9%

The subsidiary, Tónvís ehf., merged with the Company as of 1 July 2010.

The subsidiaries in Denmark, FL Group Danmark ApS and Aktieselskabet af 21 december 2006 ApS, were liquidated in the year 2010.

The following subsidiaries in the Netherlands are in the process of being shut down: FL GLB Holding B.V., FL Group Holding B.V., FL Group Holding Netherlands B.V.

The subsidiary in Iceland, Stoðir Holding ehf., has not begun its operations as of year-end 2010.

FL Bayrock Holdco ehf. was establised in the year 2008 and is a holding company with investments in real-estate projects in the USA.

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26. Tax investigation

In the autumn 2008 the Icelandic tax authorities started investigation on the Company taking into consideration the years 2006-2007. The investigation was completed by The Directorate of Tax Investigations in December 2010 and findings have been presented to the Company. The case is now in the hands of the Director of Internal Revenue, which will re-assess the findings of the The Directorate of Tax Investigations and determine tax payments to be paid by the Company. The definitive outcome has not been concluded when these separate financial statements are approved. The outcome is expected in the second quarter or mid-year 2011.

The findings of The Directorate of Tax Investigations can be categorized in two classes.

a) Income tax issue

The Directorate of Tax Investigations claims that the Company was not allowed to defer income tax, which resulted from profits made in the year 2006. The Company has objected this and put forward several arguments and legal opinions that contradict this unprecedented interpretation of the The Directorate of Tax Investigations.

As the Company´s profit in 2006 were significant, this matter could have a significant financial impact on the Company. However, the Company has obtained legal opinions that confirm that any tax claims that might result from the tax investigation shall be settled under the approved and confirmed composition from June 2009. All potential tax claims are therefore expected to be settled with a cash payment of ISK 1 million and 5% of the remainder of the claim will be paid in the form of common shares in Stodir.

The Directorate of Tax Investigations also claims that certain operating expenses incurred in the years 2006-2007 were not deductible from income tax. This concerns expenses such as travel cost, personnel insurance, medical services, etc. The Company has objected some of these issues, but also accepted that in some cases mistakes had been made. These matters have not a significant impact on Stodir´s tax payments. Corrected reports were submitted to tax authorities in September 2010, which resulted in the Company paying additional tax of ISK 2.2 million because of these matters, in addition to interest.

b) VAT issue

The Directorate of Tax Investigations claims that the Company should have paid VAT on top of invoices received from foreign parties, mostly foreign subsidiaries of the Company that billed the parent company for their operations expenses. The Company has objected this and put forward several arguments and legal opinions that contradict this interpretation of the The Directorate of Tax Investigations, which has no precedent.

In some cases however, the Company has accepted that VAT should have been paid. Corrected reports were submitted to tax authorities in September 2010, which resulted in the Company paying additional VAT of ISK 7.5 million in addition to interest, because of foreign invoices received in the year 2006-2007. Furthermore, the Company reviewed its accounts for the years 2008-2010 in light of this, which resulted in additional VAT payments of ISK 2.8 million in addition to interest.

On 29 April 2010, tax authorities demanded an attachment of Stodir's assets for the amount of ISK 650 million to secure pending reassessment of the company's VAT payments for the years 2006-2007. Stodir presented adequate insurance in the form of ISK 650 million in cash, with the provision of the legitimacy of the attachment. On 24 June 2010, the attachment was annulled for legal reasons. As stated above, Stodir claims correct VAT payments for the years 2006-2007 should have been ISK 7.5 million, which has already been paid with interest.