Jarðboranir hf.

Financial Statements of 2005

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Jarðboranir hf.
kt. 590286-1419
Skipholti 50d, Reykjavík

Report of the board of directors and managing director

The financial statements for Jarðboranir hf comprise the Consolidated Financial Statement of the parent company and its subsidiaries; Björgun, Byggingafélagið Hús and Iceland Drilling UK Ltd.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The total effect of adopting the IFRS on the company's equity at the beginning of the year 2005 is a decrease in the book value of shareholders equity of ISK 23 million, that is from ISK 2.659 million to ISK 2.636 million. This is explained in more details in notes to the financial statements.

Total turn-over of the company for the year 2005 amounted to ISK 4.515 million which is an increase of 16.7% from the year 2004. Net profit for the year was ISK 634 million compared to ISK 458 million for the year 2004.

In September 2005, Jarðboranir hf. sold its associate Einingaverksmiðjan ehf. Profit from the sale before tax was 90 million krona. The associates operations are included in the Income Statement of the Consolidated Financial Statements until the day of sale. The directors do not regard the sale as an discontinued operations and therefore the effect of the sale is not reported seperatly in the Income Statement in the Financial Statements.

The Board of directors suggests that a dividend of 1.000 million ISK will be paid but refers to the annual report regarding appropriation to the years profit.

At the year's end there were 617 shareholders of Jarðboranir hf., but 612 in the beginning of the year. Atorka Group hf. had a holding interest of 56,25% and Orkuveita Reykjavíkur (Reykjavík Municipal District Heating Service) 12,98%. Other shareholders had a holding interest less than 10%.

The board of directors' of Jarðboranir hf. and managing director hereby ratify the Financial Statements for Jarðboranir hf for the year 2005 with their signatures.

Reykjavík 20. February 2006

Board of directors of Jarðboranir hf.

Guðmundur Þóroddsson

Hrafn Magnússon

Magnús Jónsson

Þorsteinn Vilhelmsson

Managing director of Jarðboranir hf.

Bent S. Einarsson

Auditor's Report

To the Board of Directors and Shareholders of Jarðboranir hf.

We have audited the 2005 consolidated annual accounts of Jarðboranir hf. and the annual accounts of its subsidiaries. The Annual Accounts consist of the Report of the Board of Directors, the profit and loss account, balance sheet, statement of cash flow and notes no. 1 - 23. These annual accounts are the responsibility of management. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with the International Standard of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes, based on our assessment of materiality and risk, an analytical review and an examination, on a test basis, of evidence supporting the amounts and disclosures in the annual accounts. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the annual accounts present fairly the 2005 results of the operations of 2005, the financial position as at 31 December 2005 and cash flows for the year then ended, in accordance with law and International Financial Reporting Standards as adopted by the EU.

Reykjavík, 20. February 2006

PricewaterhouseCoopers hf.

Sighvatur Halldórsson   Þórir Ólafsson

Consolidated Income Statement

	Note	2005	2004
Sales	6	4.515.351	3.870.535
Processing cost		3.228.283	2.807.917
Gross profit		1.287.068	1.062.618
Administrative and other operating expenses		343.843	328.321
Operating profit		943.226	734.297
Finance costs – net	22	(229.166)	(176.680)
Profit from sale of associate		90.158	0
Profit before taxes		804.217	557.617
Income tax expense	19	(170.224)	(99.177)
Net profit		633.993	458.440
Earnings per share (in ISK)	7	1,61	1,15
Diluted earnings per share (in ISK)	7	1,59	1,14

The notes on pages 7 to 24 are an integral part of these consolidated financial statements

Amounts are in thousands of ISK

Consolidated balance sheet

ASSETS	Note	2005	2004
Non-current assets			
Property, plant and equipment	8	2.677.440	2.996.649
Goodwill	9	1.455.233	1.462.233
Investments in other companies	10	72.872	63.747
		4.205.545	4.522.629
Current assets			
Inventories	11	412.000	278.750
Construction contracts in progress		60.000	52.273
Land and building construction	12	374.246	331.860
Trade and other receivables	13	1.625.484	1.855.820
Derivative financial instruments	14	3.959	0
Cash and cash equivalents	15	1.770.408	276.312
		4.246.097	2.795.016
Total assets		8.451.642	7.317.645
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	16	390.251	397.529
Other reserves		904.725	1.071.751
Retained earnings		1.698.243	1.167.217
		2.993.219	2.636.497
LIABILITIES			
Non-current liabilities			
Borrowings	17	3.691.094	2.180.339
Deferred income tax liabilities	18	493.657	406.744
Provision for other liabilities and charges		24.800	33.600
		4.209.551	2.620.683
Current liabilities			
Trade and other payables		915.084	632.881
Current income tax liabilities		38.227	5.293
Borrowings	17	288.051	1.422.292
Derivative financial instruments	14	7.511	0
		1.248.872	2.060.465
Total liabilities		5.458.422	4.681.148
Total equity and liabilities		8.451.642	7.317.645

The notes on pages 7 to 24 are an integral part of these consolidated financial statements

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Consolidated statement of changes in shareholders' equity

	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2004	397.940	1.096.291	814.635	2.308.866
Bought own shares	(411)	(50.810)	0	(51.221)
Revaluation reserve transferred	0	(9.013)	9.013	0
Dividend	0	0	(79.588)	(79.588)
Legal reserve appropriation	0	35.283	(35.283)	0
Net profit	0	0	458.440	458.440
Balance at 31 December 2004	397.529	1.071.751	1.167.217	2.636.497
Balance at 1 January 2005	397.529	1.071.751	1.167.217	2.636.497
Bought own shares	(7.278)	(167.026)	0	(174.304)
Dividend	0	0	(99.399)	(99.399)
Translation difference			(3.567)	(3.567)
Net profit	0	0	633.993	633.993
Balance at 31 December 2005	390.251	904.725	1.698.244	2.993.219

The notes on pages 7 to 24 are an integral part of these consolidated financial statements

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Consolidated cash flow statement

	Notes	2005	2004
Cash flows from operating activities			
Cash generated from operations		633.993	458.440
Adjustments for:			
Taxes		86.913	97.069
Depreciation		237.234	197.794
Profit from sale of associate		(90.158)	0
Profit form sale of property, plant and equipment		(41.835)	(5.949)
Other adjustments		115.222	34.854
Net working capital		941.370	782.208
Change in operating assets and liabilities:			
Inventories		(133.250)	(72.033)
Trade receivables and construction in process		180.224	(947.874)
Trade liabilities and other liabilities		315.137	278.197
Net cash from operating activities		1.303.481	40.498
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(383.156)	(928.463)
Proceeds from sale of PPE		101.637	20.048
Purchase and sale of shares		(63.300)	2.752
Sale of associate		417.109	0
Net cash used in investing activities		72.291	(905.664)
Cash flows from financing activities			
Purchase of own shares		(174.304)	(51.221)
Proceeds from borrowings		1.853.276	2.784.746
Repayments of borrowings		(1.433.944)	(1.683.516)
Dividends paid to parent company's shareholders		(99.399)	(79.588)
Net cash generated from financing activities		145.628	970.421
Net increase in cash and cash equivalents		1.521.401	105.256
Cash and cash equivalents at beginning of year		276.312	171.056
Cash and cash equivalents in subsitiary at sale		(27.304)	0
Cash and cash equivalents at year end	15	1.770.408	276.312

The notes on pages 7 to 24 are an integral part of these consolidated financial statements

Amounts are in thousands of ISK

Notes to the consolidated Financial statements

1. General information

Jarðboranir hf. (the Company) and its subsidiarie´s (together the Group) main purpose is to make use of natural resources below the surface of the earth, processing minerals, generating land, building properties and manufacturing precast concrete products for the building industry.

The Company is a limited liability company incorporated and domiciled in Iceland. The address of its registered office is Skipholt 50d, Reykjavík.

The Company had its primary listing on the Iceland Stock Exchange (ICEX) all year of 2005 but delisted at 30 January 2006.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 February 2006.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statement is in accordance with International Financial Reporting Standards (IFRS). These standards have been presented by International Accounting Standards Board (IASB) and confirmed by the European Union. This are the Group´s first Consolidated Financial Statements that are in appliance of IFRS. The International Financial Reporting Standard , IFRS 1, covers the implementation of IFRS to the Financial Statements.

The accounting policies, as adopted by the EU, depart from full IFRS in few standards, interpretations and amendments that will have minor effects on future reporting of the group.

Reconciliation and descriptions of the impact of the transition from GAAP to IFRS on the Group's equity, balance sheet and net income are provided in Note 5. There are some alterations in comparative figures of equity, other balance sheet figures and the groups earnings as they were stated before IFRS and the difference in compliance to IFRS.

The consolidated financial statements of Jarðboranir Group have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets (including derivative instruments) at fair value through profit or loss. All figures are in thousands of kronas.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated interim financial statements, are disclosed in Note 4.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

Notes to the consolidated Financial statements

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. As the Group does not define its operation by geographical areas it provides no such statement.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in thousand ISK, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) *Group companies*

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet, and income and expenses for each income statement are translated at average exchange rates.

2.5 Property, plant and equipment

Land and buildings comprise mainly factories, storehouses, tool shed, offices and land. Property, plant and equipment are presented at historical cost, less subsequent depreciation for buildings. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

An increase in book value of tools, land and buildings derived from revaluation are allocated to reserves among equity. Every year the difference between depreciation from revaluation of book value of the asset is charged to Income. Depriciation derived from original cost of assets are transferred from reserves to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful live, as follows:

- Drills and other equipment	3-20 years
- Ships	15-20 years
- Motor vehicles	4-10 years
- Buildings	25-50 years
- Office equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves relating to these assets, are transferred to retained earnings.

Notes to the consolidated Financial statements

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Inventories include substitutes and spare parts for the Group's equipment, raw-materials for drilling constructions, raw materials for building constructions and other supplies.

2.8 Construction contracts in progress

Contractual construction in progress are stated at its foreseeable sales price related to its percentage of completeness. Construction in progress are generally drilling- and construction works. If a loss on work in progress is foreseeable it is immediately charged to income.

2.9 Land- and building construction

Land, land- and building constructions are capitalized at cost. When operational effect of sales of land and building constructions can be estimated specifically, cost and revenue are stated using the percentage of completion method. Percentage of completion is measured by taking the percentage of accrued cost in relation to estimated total cost of each contracted work in progress.

2.10 Trade receivables

Trade receivables are carried at original invoice amount less allowance made for doubtful receivables. The allowance is based on an assessment of individual accounts and the accounts in whole. Bad debts are written off when identified.

2.11 Cash and cash equivalents

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

2.12 Share capital

Share capital is stated at nominal price and premium on other reserves. Share capital in the balance sheet is total share capital of the company after deducting nominal price of own shares.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where any Group company purchases the company's equity share capital (own shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company´s equity holders.

2.13 Borrowings

Borrowings are recognised initially at fair value. Interest and index income is recognised in the income statement using the effective interest method.

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

Notes to the consolidated Financial statements

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has engaged in one pension plan with one director of the Group. The plans net present value is stated among obligations.

2.16 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods and services*
Sales of goods and services are recognised in the accounting period in which the services are rendered by the Percentage- of Completion Method. Sales of the Group analyses mainly as follows: Drilling construction, buildings, raw material for land manufacture, land and land construction, building assembly and raw material related to building construction.

(*b) Sale of materials*
Sales of materials is recognized by billing and delivery to customer.

(c) Land construction revenue
Land construction revenue is recognized in accordance with progress of construction and sale of land to constructors.

(d) Building construction revenue
Building construction revenue is recognized in accordance to selling contracts and progress of buildings.

(e) *Interest income*
Interest income is recognised in the income statement using the effective interest method for all financial instruments stated at cost.

(f) *Dividend income*
Dividend income is recognised when the right to receive payment is established.

Notes to the consolidated Financial statements

(g) Construction costs
Construction costs include all direct costs of drilling, land construction, mining from sea, processing costs, production costs, construction costs, depreciation and more.

2.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.18 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential averse effects on the Group's financial performance.

3.1 Accounting for derivative financial instruments and hedging activities

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

The Group has committed in derivatives to diminish its currency risk. All shifts in derivatives fair value are immediately declared to the income statement. The Group does not participate in hedging activities.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

5. Transition to International Financial Reporting Standards (IFRS)

5.1 Basis of the transition

5.1.1 Application of IFRS 1

The Group's financial statements for the year ended 31 December 2005 will be the first annual financial statements that comply with IFRS. The Group has applied IFRS 1 in preparing these consolidated financial statements.

The transition date for Jarðboranir Group is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these consolidated financial statements is 31 December 2005. The Groups´s IFRS adoption date is 1 January 2005.

In preparing these interim consolidated financial statements in accordance with IFRS 1, the Group must restate all its assets and liabilities retroactively in accordance with IFRS.

Notes to the consolidated Financial statements

5.1.2 Exceptions followed by the Group

(a) Accounting estimates

Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

5.2. Reconciliation between IFRS and GAAP.

Reconciliation of equity	1/1 2004	31/12 2004
Equity (as previous)	2.344.033	2.659.095
Changes in depreciation of property, plant and equipment	0	5.249
Change in estimation of property, plant and equipment	(12.692)	(12.692)
Changes in estimation of inventories	11.385	(9.260)
Change in estimation of trade receivables	(10.000)	(10.000)
Change in estimation of ownership in domestic companies	(31.581)	(856)
Changes in deferred tax liability	7.721	4.961
Total equity under IFRS	2.308.866	2.636.497

5.2.1 Explanation of the effect of the transition to IFRS

The total impact of changes are that equity is 22.598 thousand less under IFRS than previously GAAP. Transition changes in equity are presented before tax deduction.

5.2.2 Property, plant and equipment.

Useful lifetime and residual value of property, plant and equipment was revaluated. Depreciation according to GAAP was neutralized and depreciation accounted for under IFRS, were the residual value is deducted from the accounted value and straight line depreciation applied in relation to useful life time. The combined effect of these changes were that depreciation decreased by ISK 5.249 thousand in 2004. According to this revaluation, asset estimation 1/1 2004 was corrected which decreased equity by ISK 12.692 thousand.

5.2.3 Investments in other companies

When adopting IFRS, ownership in other companies were accounted for at fair value. The effect of these changes are ISK 856 thousand reduction in equity 1/1 2005.

5.2.4 Inventory

According to IAS 2 the valuation method of inventory reforms into lower of cost or sale. Thus book value of inventory of spare parts was reduced by ISK 9.260 thousand in the year 2004.

5.2.5 Trade receivables

Estimates of trade receivables have been altered so that receivables with higher credit days ratio than normal have been discounted to their present value.

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Notes to the consolidated Financial statements

5.2.6 Reconciliation of equity at 1 January 2004 / Opening Balance Sheet

Balance Sheet 1 January 2004

Assets	**Previous GAAP**	**Changes by IFRS**	**IFRS**
Fixed assets			
Property, plant and equipment	2.289.839	(9.192)	2.280.647
Goodwill	1.462.233		1.462.233
Long term cost	3.500	(3.500)	0
Investment in other companies	99.938	(31.581)	68.357
	3.855.510	(44.273)	3.811.237
Current assets			
Inventory	195.332	11.385	206.717
Construction contracts in progress	85.234		85.234
Land- and building construction	306.770		306.770
Securities	39.190	(39.190)	0
Trade receivables and other receivables	898.253	1.823	900.076
Cash	143.689	27.367	171.056
	1.668.468	1.385	1.669.853
Total assets	5.523.978	(42.888)	5.481.090
Equity			
Share capital	397.940		397.940
Additional paid in capital	1.023.179	(1.023.179)	0
Statutory reserve	64.099	(64.099)	0
Revaluation Account	9.013	(9.013)	0
Other reserves	0	1.096.291	1.096.291
Retained earnings	849.802	(35.167)	814.635
	2.344.033	(35.167)	2.308.866
Liabilities			
Long-term liabilities			
Borrowings	1.661.788		1.661.788
Deferred tax liability	317.396	(7.721)	309.675
Obligations	18.600		18.600
	1.997.784	(7.721)	1.990.063
Current liabilities			
Trade payable and other payables	341.001		341.001
Accrued taxes payable	18.975		18.975
Borrowings	822.184		822.184
	1.182.160		1.182.160
Total Liabilities	3.179.944	(7.721)	3.172.223
Total Equity and Liabilities	5.523.978	(42.888)	5.481.090

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Notes to the consolidated Financial statements

5.2.7 Reconciliation of equity at 31 December 2004

Balance Sheet 31 December 2004

Assets	Previous GAAP	Transition for IFRS	IFRS
Fixed Assets			
Property, plant and equipment	3.004.092	(7.443)	2.996.649
Goodwill	1.462.233	0	1.462.233
Investment in other companies	64.603	(856)	63.747
	4.530.928	(8.299)	4.522.629
Current assets			
Inventory	288.010	(9.260)	278.750
Construction contracts in progress	52.273	0	52.273
Land- and building Contracts	331.860	0	331.860
Securities	44.864	(44.864)	0
Trade receivables and other receivables	1.846.487	9.333	1.855.820
Cash	250.781	25.531	276.312
	2.814.275	(19.260)	2.795.016
Total assets			
	7.345.203	(27.559)	7.317.645
Equity			
Share capital	397.529	0	397.529
Additional paid in capital	972.369	(972.369)	0
Statutory reserve	99.382	(99.382)	0
Other reserves	0	1.071.751	1.071.751
Retained earnings	1.189.815	(22.598)	1.167.217
	2.659.095	(22.598)	2.636.497
Liabilities			
Long-term liabilities			
Borrowings	2.180.339	0	2.180.339
Deferred tax liability	411.705	(4.961)	406.744
Obligations	33.600	0	33.600
	2.625.644	(4.961)	2.620.683
Current liabilities			
Trade payable and other payables	632.881	0	632.881
Accrued taxes payable	5.293	0	5.293
Borrowings	1.422.292	0	1.422.292
	2.060.466		2.060.465
Total Liability	4.686.110	(4.961)	4.681.148
Total Equity and Liabilities	7.345.205	(27.559)	7.317.645

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Notes to the consolidated Financial statements

5.2.8 Reconciliation of net income for the year ended 31 December 2004

Income Statement 1 January to 31 December 2004

	Previous GAAP	Transition for IFRS	IFRS
Sales revenue	3.870.535		3.870.535
Processing cost	2.812.021	(4.104)	2.807.917
Contribution margin	1.058.514	(4.104)	1.062.618
Administrative and other operating expenses	328.321		328.321
Operating profit	730.193	(4.104)	734.297
Financial expenses	205.229	(28.549)	176.680
Profit before tax	524.964	(32.653)	557.617
Income tax	(93.237)	(5.940)	(99.177)
Net profit	431.727	26.713	458.440

6. Segment information

At 31 December 2005, the Group is organised into two main business segments:
1) Energy Production; and 2) Land- and Building Construction.

The segment results for the year 2005 are as follows:

	Energy Production	Land- and Building Constructio	Group
Sales revenue	2.976.190	1.539.161	4.515.351
Operating expenses	(2.358.571)	(1.213.555)	(3.572.126)
Operating profit	617.619	325.606	943.226
Finance costs - net (Note 22)			(229.166)
Profit from sale of associate			90.158
Profit before income tax			804.217
Income tax expense			(170.224)
Profit for the period			633.993

The segment results for the year 2004 are as follows:

	Energy Production	Building Constructio n	Group
Sales revenue	2.188.016	1.682.519	3.870.535
Operating expenses	(1.766.331)	(1.369.907)	(3.136.238)
Operating profit	421.685	312.612	734.297
Finance costs - net (Note 22)			(176.680)
Profit before income tax			557.617
Income tax expense			(99.177)
Profit for the period			458.440

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Notes to the consolidated Financial statements

7. Earnings per share

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

	2005	2004
Net profit	633.993	458.440
Weighted average number of ordinary shares in issue	393.890	397.263
Basic earnings per share	1,61	1,15

The diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one categorie of dilutive potential ordinary shares: share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	2005	2004
Net profit	633.993	458.440
Weighted average number of ordinary shares in issue	393.890	397.263
Adjustment for share options	4.080	6.274
Weighted average number of ordinary shares for diluted earnings per share	397.970	403.537
Diluted earnings per share	1,59	1,14

8. Property, plant and equipment

	Drills, Equipment and Vehicles	Ships	Real Estate	Total
At 1 January 2004				
Cost or valuation	1.653.703	522.661	969.493	3.145.858
Accumulated depreciation	(660.392)	(9.016)	(195.801)	(865.209)
Net book amount	993.311	513.646	773.692	2.280.649
At 31 December 2004				
Opening net book amount	993.311	513.646	773.692	2.280.649
Additions	930.942	0	1.021	931.963
Sold	(9.417)	0	(5.251)	(14.668)
Depreciation charge	(154.620)	(27.047)	(19.627)	(201.294)
Closing net book amount	1.760.216	486.599	749.835	2.996.650
At 1 January 2005				
Cost or valuation	2.575.228	522.661	965.262	4.063.152
Accumulated depreciation	(815.012)	(36.063)	(215.428)	(1.066.503)
Net book amount	1.760.216	486.599	749.834	2.996.649

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Notes to the consolidated Financial statements

	Drills, Equipment and Vehicles	Ships	Real Estate	Total
At 31 December 2005				
Opening net book amount	1.760.216	486.599	749.834	2.996.649
Sold property	(35.221)	0	(24.581)	(59.803)
Investments	380.356	0	2.800	383.156
Sold subsidiary	(111.486)	0	(294.008)	(405.494)
Accumulated depteciation	(200.143)	(28.174)	(8.751)	(237.069)
Net book amount	1.793.722	458.424	425.293	2.677.440
At 31 December 2004				
Cost or valuation	2.775.061	522.661	642.861	3.940.583
Accumulated depreciation	(981.339)	(64.237)	(217.567)	(1.263.144)
Net book amount	1.793.722	458.424	425.293	2.677.440

Official valuation of the groups propery at year end:

	State value Building	State value Site	Insurance value	Book value
Eirhöfði 15	49.750	10.150	63.350	55.507
Eirhöfði 2-4, warehouse	33.950	28.550	43.150	14.152
Summerhouse sites	0	1.509	0	772
Sævarhöfði 33	103.150	198.700	136.000	198.883
Tangabryggja 14-16	119.500	23.380	0	136.552
Tangabryggja 18-22	0	29.460	0	11.905
Land Site at Öxnarlækur	549	107	2.539	7.522
Book value	306.899	291.856	245.039	425.293

Drills, mashines and vehicles at year end:

Drills	797.560
Related mashines	838.777
Construction tools	137.631
Vehicles	12.087
Other equipment	7.667
	1.793.722

Drills at year end:

Geysir	586.183
Sleipnir	89.567
Jötunn	65.446
Saga	42.942
Other Drills	13.422
	797.560

Ships at year end:

M/s Sóley	280.897
M/s Perla	132.694
Gleypir	44.833
	458.425

Insurance cost of drills, equipment and vehicles was 1.877 milljon krona at year end.

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Notes to the consolidated Financial statements

9. Intangible assets

Intangible assets of the Group is goodwill which is the result of the Groups purchase of all shares in the subsidiary Björgun ehf. Summary of goodwill:

	Goodwill
Cost	1.462.233
Repayment of part of the purchase price of Björgun ehf	(7.000)
Net book amount at period end	1.455.233

Impairment test was completed on the group´s goodwill, where the present value of cash flows compared to the average cost of capital. Result of the impairment test presents that fair value of goodwill is higher than its book value.

10. Investments in other companies

Summary of investment:

	Ownership	Face value	Book value
Íslensk orka hf.	16,30%	26.443	1.322
Enex hf.	14,45%	32.999	42.994
Björgun og Bygg ehf.	50,00%	250	250
Íslenska kalkþörungafélagið ehf.	25,00%	21.516	21.516
Íslenskt sement ehf.	33,00%	1.433	6.087
Other shares		2.794	703
			72.872

11. Inventories

Summary of inventories:	31 Dec 2005	31 Dec 2004
Drill Bits	77.668	50.391
Casings	180.322	62.816
Bushing material	19.175	22.819
Drill mud	23.505	25.715
Consumables and spare parts	91.829	83.757
Raw materials for building construction	19.500	33.252
	412.000	278.750

12. Land and building constructions

The group had on going constructions at Sjálandshverfi in Garðabæ, Kársnesi in Kópavogur and at Bryggjuhverfi in Reykjavík at year end.

Land and building constructions at year end:	2005	2004
Land constructions	318.706	326.828
Building constructions	55.540	5.032
	374.246	331.860

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Notes to the consolidated Financial statements

13. Accounts receivables and other receivables

	2005	2004
Accounts receivable	1.478.762	1.719.326
Other receivables	126.425	127.441
Short term bonds	37.493	12.119
Reduction for potential loss	(17.196)	(3.066)
	1.625.484	1.855.820

14. Derivatives

At year end the group has engaged in 19 derivative contracts. They are presented among assets or liabilities depending on wether market value is positive or negative.

	2005	2004
Contracts with positive market value:		
Futures	3.958	0
Options	1	0
	3.959	0
Contracts with negative market value:		
Futures	5.062	0
Options	2.448	0
	7.511	0

Changes in fair value of derivative contracts to income statement.

	2005	2004
Fair value of remaining balance of futures in ISK	1.039.288	0
Remaining balance of futures in ISK	1.040.392	0
Net remaining balance of futures in ISK	(1.104)	0

15. Cash and cash equivalents

	2005	2004
Cash	1.770.408	248.945
Short term securities	0	27.367
	1.770.408	276.312

16. Shares, shares in excess of par and own shares

	Face value of shares	Shares	Shares in excess of par	Own shares	Samtals
Balance 1. janúar 2005	400.000	400.000	972.369	(2.471)	1.369.898
Bought own shares	0	0	(167.026)	(7.278)	(174.304)
Balance 31. December 2005	400.000	400.000	805.343	(9.749)	1.195.593

At year end 2005 issued shares at par value were 400 milljon krona. At year end 2005 Jardboranir hf. Own shares at par value were 9,7 milljon krona.

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Notes to the consolidated Financial statements

17. Borrowings

Summary of borrowings:

Liabilities in foreign currencies	129.554
Liabilities in ISK	3.849.592
	3.979.145
Bank borrowings	3.931.267
Lease agreements and other borrowings	47.878
	3.979.145

Summary of borrowings in currencies:

ISK	3.849.592
USD	25.698
NOK	5.139
EUR	29.702
CHF	44.199
JPY	24.815
	3.979.145

Payments of borrowings in coming years:

Year 2006	288.051
Year 2007	20.069
Year 2008	548.787
Later	3.122.238
	3.979.145

Presentation of borrowings in the financial statements:

Payments due after one year or later among long-term liabilities	3.691.094
Payments next 12 months, among current liabilities	25.095
Short-term bank borrowings among current liabilities	262.956
	288.051

Summary of remaining balance of indexed long-term borrowings:

Mortgage in ships	4.132
Mortgage in equipment	27.561
	31.693

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Notes to the consolidated Financial statements

18. Deferred income tax

Change in income tax liability during the period are as follows:

- Deferred tax liability 31 Dec 2004 (as previous GAAP)	411.705
- Changes for IFRS	(4.961)
- Deferred tax liability 1 Jan 2005 (IFRS)	406.744
- Tax payable for period 1 Jan - 30. Sept 2005	170.224
- Income tax payable 2006 for 2005	(38.227)
- Reduction of Income Tax liability, sale of associate	(45.085)
- Income tax liability at end of period	493.657

Deferred income tax liability analyses on the following items:

Property, plant and equipment	374.496
Other balance sheet items	119.161
Deferred tax liability at period end	493.657

19. Income tax

	2005	2004
Current tax	38.227	5.293
Deferred tax	131.998	93.884
	170.224	99.177

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

Profit before tax	804.217	557.617
Tax calculated based on 18% income tax	144.759	100.371
Adjustments due to sale of associate	25.465	0
Permanent differences for tax purposes	0	(1.194)
	170.224	99.177

20. Mortages and commitments

A building at Eirhöfða 15 is mortgaged to secure bank guarantee amounting to ISK 9 millions.

Ships and equipment are mortgaged to secure capital leases amounting to ISK 31,7 millions.

Íslenskt sement ehf. owns all shares in Sementsverksmiðjan hf. The Group´s liability due to subscription of shares in Íslenskt sement ehf. amounts to ISK 23 millions.

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Notes to the consolidated Financial statements

21. Other information

Cost of personnel

Summary of wages and related expenses:

Wages	927.193
Wage related expenses and other	216.404
Total	1.143.597

At the end of the period 151 people were employed by the Group.

The Group has not committed in any pension plans except for post-retirement plan with one of the executives of the Group.

Obligations

Jardboranir hf. has entered into an agreement to buy a new drill from Drillmac S.p.A. in the year 2006. This is a obligation to the amount af 838 milljon krona.

Takeover offer and following delisting from ICEX Main List

In December 2005 Atorka Group hf. made a takeover offer for all shares in Jardboranir hf. The offer ended on 16 January 2006 at which date Atorka Group hf. was registered for 96,72% of Jardboranir hf. shares. As a result Jardboranir hf. no longer fulfills the listing requirements of ICEX and was delisted on 30 January 2006.

Stock option agreements

The Group has entered into an option schema with its employees whereby the Group's employees can obtain share, nominal value of ISK 8.760 thousand at a par value of 5,74. Stock option agreements for the nominal value of ISK 4.680 thousand have been realized. In January 2006 all outstanding stock option agreements were settled as a result of Atorka Group's takeover of all shares in Jardboranir hf.

Boards compensation

Compensation of the Board and other administrative staff for their contribution to the company, their stock options and ownership in the company is as follows:

	Wages and	Stock	Ownership
Bent Einarsson, CEO	22.454	1.491	1.773
Guðmundur Þóroddsson, Board member	2.220	0	0
Hrafn Magnússon, substitute Board member	1.100	0	135
Valdimar Kr. Jónsson, former Board member	255	0	125
Magnús Jónsson, Board Member	900	0	0
Aðalsteinn Karlsson, Board member	1.100	0	0
Þorsteinn Vilhelmsson, Board member	1.100	0	0
Valgarður Sverrisson, substitute Board Member	150	0	0
Four managing directors	45.873	1.582	949

No liabilities of the managing director, board members and general managers to the Group were present at the end of the period.

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Notes to the consolidated Financial statements

Compensation to Auditors

Compensation to Auditors dived in to:

Annual audit and finanacial statement	8.286
Review of interim financial statements	7.157
Other services	4.768
	20.211

Services to all companies in the consolidation are included.

22. Finance costs - net

	2005	2004
Interest revenue	104.161	27.342
Interest expense	(211.275)	(251.639)
Indexation	(108.315)	0
Exchange rate difference	43.990	48.505
Fair value change in derivatives	(3.551)	0
Exchange rate difference and gain of sale of shares in other companies	(54.175)	(887)
	(229.165)	(176.680)

23. Quarterly results

	2005 1. quarter	2005 2. quarter	2005 3. quarter	2005 4. quarter	2005 All Year
Sales revenue	1.005.555	1.306.234	1.249.292	954.270	4.515.351
Expenses without depreciation	780.224	976.365	934.073	644.230	3.334.892
Earnings before depreciation (EBITDA)	225.332	329.868	315.219	310.040	1.180.459
Depreciation	57.795	61.135	60.792	57.511	237.234
Earnings from operations (EBIT)	167.536	268.733	254.427	252.529	943.226
Interest revenue and (expenses)	(3.430)	(62.429)	(76.968)	(86.339)	(229.166)
Earnings before taxes	164.106	206.304	177.459	166.190	714.060
Profit from sale of subsidiary	0	0	90.158	0	90.158
Income tax	(28.117)	(43.336)	(64.716)	(34.055)	(170.224)
Net profit	135.989	162.968	202.901	132.135	633.994
EBITDA as a ratio of sales revenue	22,4%	25,3%	25,2%	32,5%	26,1%

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK

Notes to the consolidated Financial statements

	2004 1. quarter	2004 2. quarter	2004 3. quarter	2004 4. quarter	2004 All Year
Sales revenue	707.833	854.206	1.118.029	1.190.467	3.870.535
Expenses without depreciation	536.860	610.784	833.354	957.445	2.938.444
Earnings before depreciation (EBITDA)	170.973	243.422	284.675	233.022	932.091
Depreciation	45.484	46.278	52.395	53.637	197.794
Earnings from operations (EBIT)	125.489	197.143	232.280	179.385	734.297
Interest revenue and (expenses)	(25.557)	(76.682)	(61.512)	(12.929)	(176.680)
Earnings before taxes	99.932	120.461	170.768	166.456	557.617
Income tax	(19.945)	(20.100)	(30.199)	(28.933)	(99.177)
Net profit	79.987	100.361	140.569	137.523	458.440
EBITDA as a ratio of sales revenue	24,2%	28,5%	25,5%	19,6%	24,1%

Jarðboranir hf. Financial Statements 2005 Amounts are in thousands of ISK