

FL GROUP hf.

(now called Stodir)

Condensed Consolidated Interim Financial Statements 1 January - 30 June 2008

FL GROUP hf.

Síðumúli 24

108 Reykjavík

Reg. no. 601273-0129

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Endorsement and Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of FL GROUP hf. (now called Stodir) for the period from 1 January to 30 June 2008 have been prepared in accordance with International Financial Reporting Standard (IFRS) for Interim Financial Statements (IAS 34). The Interim Financial Statements comprise the consolidated interim financial statements of FL GROUP hf. and its subsidiaries.

According to the Consolidated Interim Income Statement net loss for the period amounted to ISK 59,456 million. According to the Consolidated Interim Balance Sheet, equity at the end of the period amounted to ISK 86,946 million, including share capital in the amount of ISK 11,413 million.

The Company's Board of Directors called an Extraordinary General Meeting on 9 May 2008 which approved delisting of the Company. The Company's shares were on 3 June 2008 delisted from the OMX Nordic Exchange, Iceland.

On 3 July 2008 the Company made an agreement to acquire A and B shares in Baugur Group hf. presenting 39% of voting rights and as a part of the transaction, Stodir's equity will increase by ISK 25 billion. The agreement is expected to be concluded in September 2008.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

To the best of our knowledge the Condensed Consolidated Interim Financial Statements give a true and fair view of the consolidated financial performance of the Company for the period from 1 January to 30 June 2008, its assets, liabilities and consolidated financial position as at 30 June 2008 and its consolidated cash flows for the period then ended.

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

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of FL GROUP hf. for the six-month period ended 30 June 2008 and confirm them by means of their signatures.

Reykjavík, 29 August 2008

The Board of Directors:

Ingibjörg Pálmadóttir, Chairman of the Board of Directors

Árni Hauksson

Eiríkur S. Jóhannsson

Katrín Pétursdóttir

Þorsteinn M. Jónsson

CEO:

Jón Sigurðsson

Independent Auditors' Review Report

To the Board of FL GROUP hf.

We have reviewed the accompanying Condensed Consolidated Financial Statements of FL GROUP hf., which comprise the consolidated balance sheet as at 30 June 2008 and the consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 June 2008 and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 29 August 2008

KPMG hf.

Jón S. Helgason
Sæmundur Valdimarsson

Consolidated Interim Income Statement

for the Six Months Ended 30 June 2008

		Q2		Q1 - 2	
	Notes	1 April - 30 June 2008	2007	1 January - 30 June 2008	2007
Investment income:					
Net (expense) income from investment securities and derivatives	3	(4,273)	7,658	(27,208)	20,131
Interest income		3,248	473	5,831	1,970
Interest expenses		(8,491)	(3,263)	(15,829)	(6,280)
Net foreign exchange gain (loss)		937	4,208	(18,028)	8,834
		(8,579)	9,076	(55,234)	24,655
Net insurance income:					
Insurance premium		3,460	0	6,636	0
Operating expenses:					
Insurance claims		(3,588)	0	(6,915)	0
Operating expenses - investments		(634)	(1,022)	(1,222)	(1,905)
Operating expenses - insurance		(865)	0	(1,738)	0
		(5,087)	(1,022)	(9,875)	(1,905)
(Loss) profit before income tax		(10,206)	8,054	(58,473)	22,750
Income tax	4	(1,435)	(12)	(983)	376
(Loss) profit for the period		(11,641)	8,042	(59,456)	23,126
Attributable to:					
Equity holders of the Company		(11,647)	8,042	(59,478)	23,126
Minority interest		6	0	22	0
(Loss) profit for the period		(11,641)	8,042	(59,456)	23,126
Earnings per share:					
Basic (loss) earnings per share (ISK)		(0.88)	1.09	(4.50)	3.03
Diluted (loss) earnings per share (ISK)		(0.88)	1.08	(4.48)	3.00

Consolidated Interim Balance Sheet

as at 30 June 2008

	Notes	30.6.2008	31.12.2007
Assets:			
Cash and cash equivalents		15,311	21,125
Unpaid share capital		0	7,500
Equity investments	5	156,258	218,998
Bonds and debt investments		22,855	16,021
Derivatives		5,506	6,604
Restricted cash		19,672	53,060
Loans and receivables, including insurance receivables		69,166	42,348
Reinsurance assets		20,475	13,937
Deferred tax asset		7,530	8,623
Operating assets		1,518	2,167
Intangible assets		34,027	31,937
Total assets		352,318	422,320
 Equity:			
Share capital		11,413	13,494
Share premium		148,688	160,965
Other reserves		6,571	1,626
Accumulated deficit		(80,015)	(20,559)
Total equity attributable to equity holders of the Company		86,657	155,526
Minority interest		289	318
Total equity		86,946	155,844
 Liabilities:			
Derivatives		14,566	13,488
Short positions		0	3,350
Trade and other payables		16,076	14,469
Insurance liabilities		41,374	29,626
Borrowings	6	192,728	204,979
Income tax liability		628	564
Total liabilities		265,372	266,476
Total equity and liabilities		352,318	422,320

Consolidated Interim Statement of Changes in Equity for the Six Months Ended 30 June 2008

			Other reserves			(Accumulated deficit)	Equity holders of the Company	Minority interest	Total equity
	Share capital	Share premium	Share option reserve	Translation reserve	retained earnings				
1 January to 30 June 2008									
Equity 1.1.2008	13,494	160,965	759	867	(20,559)	155,526	318		155,844
Translation difference				4,679		4,679			4,679
Loss for the period					(59,456)	(59,456)			(59,456)
Total loss for the period				4,679	(59,456)	(54,777)	0	0	(54,777)
Sale of subsidiary						0	(29)		(29)
Own shares, change	(2,081)	(12,277)				(14,358)			(14,358)
Stock options			266			266			266
Equity 30.6.2008	11,413	148,688	1,025	5,546	(80,015)	86,657	289		86,946
1 January to 30 June 2007									
Equity 1.1.2007	7,763	70,530	339	609	63,425	142,666	10		142,676
Translation difference				(794)		(794)			(794)
Profit for the period					23,126	23,126			23,126
Total profit for the period				(794)	23,126	22,332	0		22,332
Dividends (ISK 1.93 per share)					(14,983)	(14,983)			(14,983)
Sale of subsidiary						0	(10)		(10)
Own shares, change	4	(918)				(914)			(914)
Stock options		157	194			351			351
Equity 30.6.2007	7,767	69,769	533	(185)	71,568	149,452	0		149,452

Condensed Consolidated Interim Statement of Cash Flows for the Six Months ended 30 June 2008

		Q1 - 2	
		1 January - 30 June	
	Notes	2008	2007
Net cash (used in) provided by operating activities	(22,745)	8,722
Net cash provided by (used in) investing activities		54,082 (59,032)
Net cash (used in) provided by financing activities	(<u>37,428)</u>	<u>35,182</u>
Decrease in cash and cash equivalents	(6,091)	(15,128)
Effect of exchange rate fluctuations on cash held		277	167
Cash and cash equivalents at 1 January		<u>21,125</u>	<u>46,233</u>
Cash and cash equivalents at 30 June		<u><u>15,311</u></u>	<u><u>31,272</u></u>

Notes

1. Significant accounting policies

a. Reporting entity

FL GROUP hf.'s registered office is at Síðumúli 24, Reykjavík, Iceland. The Condensed Consolidated Interim Financial Statements of FL GROUP hf. ("the Company") as at and for the six months ended 30 June 2008 comprise the Company and its subsidiaries, together referred to as the "Group".

FL GROUP hf. is an international investment company with core investments in financials and insurance along with private equity investments with special focus on property companies as well as proprietary trading. The company operates offices in Reykjavík and London.

b. Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements, and should be read in conjunction with the Consolidated Financial Statements of the Company as at and for the year ended 31 December 2007.

The Interim Financial Statements were authorised for issue by the Board of Directors on 29 August 2008.

c. Basis of preparation

The accounting policies and methods of computation applied by the Company in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended 31 December 2007. The Consolidated Financial Statements for the Group as at and for the year ended 31 December 2007 are available upon request from the Company's registered office at Síðumúli 24, Reykjavík or at www.stodir.is or at The OMX Nordic Exchange website, www.omxnordicexchange.com.

The Condensed Consolidated Interim Financial Statements are prepared in Icelandic Krona, which is the Company's functional currency. All financial information has been rounded to the nearest million, unless otherwise stated.

d. Use of estimates and judgements

The preparation of interim 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.

Notes, contd.:

Segment reporting

2. Segment information is presented in the Condensed Consolidated Interim Financial Statements to reflect the Group's management and internal reporting structure for the year 2008 and is divided into two segments, investment and insurance. The investment segment consists of FL GROUP's operations excluding TM hf. and its subsidiaries, which represent the insurance operations of the Group.

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

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

1 January - 30 June 2008	Investment activities	Insurance	Eliminations	Consolidated
Net investment loss	(57,607)	(1,050)	3,423	(55,234)
Net insurance income:				
Insurance premium	0	6,636	0	6,636
Operating expenses:				
Insurance claims	0	(6,915)	0	(6,915)
Other expenses	(1,222)	(1,738)	0	(2,960)
Segment result before income tax	(58,829)	(3,067)	3,423	(58,473)
Income tax	(649)	(334)	0	(983)
Loss for the period	(59,478)	(3,401)	3,423	(59,456)

Segment information is not reported for first half of 2007 as the Group's activities were solely investment activities.

Investment income

3. Net (expense) income from investment securities and derivatives is specified as follows:

	2008 1.1.-30.6.	2007 1.1.-30.6.
Net (loss) gain on financial assets designated at fair value through profit or loss	(30,013)	25,978
Net gain (loss) on financial assets held for trading	2,805	(5,847)
Net (expense) income from investment securities and derivatives	(27,208)	20,131

Notes, contd.:

Income tax

4. The effective income tax rate of the Company in the first six months of the year 2008 was minus 1.7%. The difference between the expected and effective income tax rate for the period is partly attributable to two factors:

In May 2008 the Icelandic Parliament approved a decrease in the income tax rate from 18% to 15% as of 1 January 2008. Due to this the deferred tax asset at year-end 2007 has decreased by ISK 1,400 million compared to 31 December 2007. The decrease was recognised in the current period, ISK 1,397 million as expense in the income statement and ISK 3 million as a decrease in equity due to items previously recognised in equity.

Further amendments to Icelandic taxation legislation, adopted in May 2008, include that capital gains on equities will be tax exempt under certain conditions. The amendments take effect as of 1 January 2008. Due to this, the deferred tax asset has decreased by ISK 517 million compared to 31 December 2007. The decrease was recognised in the current period, ISK 505 million as expense in the income statement and ISK 12 million as a decrease in equity due to items previously recognised in equity.

Equity investments

5. Equity investments are specified as follows:

		Fair value including related derivatives		Fair value including related derivatives
	Ownership	30.6.2008	Ownership	31.12.2007
Listed equity investments:				
<i>Listed on the Iceland Stock Exchange:</i>				
Glitnir banki hf.	32.28%	73,977	31.97%	104,430
Other companies		9,562		15,309
Total listed on the Icelandic Stock Exchange		<u>83,539</u>		<u>119,739</u>
<i>Listed on foreign stock exchanges:</i>				
Total listed on foreign stock exchanges		<u>30,746</u>		<u>77,318</u>
Total listed equity investments		<u>114,285</u>		<u>197,057</u>
Unlisted securities:				
Total unlisted equity investments		<u>73,549</u>		<u>90,019</u>
Total equity investments		187,834		287,076
Thereof equity derivatives		(31,576)		(71,428)
Thereof equity short positions		0		3,350
Fair value of equity investments at end of June		<u>156,258</u>		<u>218,998</u>

Notes, contd.:

Borrowings

6. Repayments of borrowings are specified as follows:

	30.6.2008	31.12.2007
Repayments in 2008	5,222	55,609
Repayments in 2009	117,045	89,753
Repayments in 2010	49,807	44,697
Repayments in 2011	4,515	0
Repayments in 2012 and later	16,139	14,920
	<u>192,728</u>	<u>204,979</u>

Of repayments in the second half of the year 2008 about ISK 2 billion presents credit lines that are extendable.

Ratios

7. The Group's primary ratios are specified as follows:

Equity ratio - equity / capital employed	24.7%	36.9%
Internal value of shares - equity attributable to equity holders of the Company / share capital	7.59	11.53

Quarterly Statements

8. Summary of the Group's operating results by quarters:

	Q1 2008	Q2 2008	Q1 - 2 2008
2008			
Investment income:			
Net expense from investment securities and derivatives	(22,935)	(4,273)	(27,208)
Interest income	2,583	3,248	5,831
Interest expenses	(7,338)	(8,491)	(15,829)
Net foreign exchange (loss) gain	(18,965)	937	(18,028)
	<u>(46,655)</u>	<u>(8,579)</u>	<u>(55,234)</u>
Insurance premium	3,176	3,460	6,636
Insurance claims	(3,327)	(3,588)	(6,915)
Operating expenses	<u>(1,461)</u>	<u>(1,499)</u>	<u>(2,960)</u>
Loss before income tax	<u>(48,267)</u>	<u>(10,206)</u>	<u>(58,473)</u>
Income tax	452	(1,435)	(983)
Loss for the period	<u>(47,815)</u>	<u>(11,641)</u>	<u>(59,456)</u>

Notes, contd.:

8. Quarterly Statements, contd.:

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 - 4 2007
2007					
Investment income:					
Net income (expense) from investment					
securities and derivatives	12,473	7,658	(23,651)	(60,161)	(63,681)
Interest income	1,497	473	973	2,038	4,981
Interest expenses	(3,017)	(3,263)	(4,972)	(6,314)	(17,566)
Net foreign exchange gain (loss)	4,626	4,208	(3,121)	(3,238)	2,475
	<u>15,579</u>	<u>9,076</u>	<u>(30,771)</u>	<u>(67,675)</u>	<u>(73,791)</u>
Insurance premium	0	0	0	2,769	2,769
Insurance claims	0	0	0	(2,598)	(2,598)
Operating expenses	(883)	(1,022)	(1,193)	(3,054)	(6,152)
Profit (loss) before income tax	14,696	8,054	(31,964)	(70,558)	(79,772)
Income tax	388	(12)	4,817	7,341	12,534
Profit (loss) for the period	15,084	8,042	(27,147)	(63,217)	(67,238)