

FLAGA  GROUP

Annual General Shareholders Meeting

Reykjavik, 17 April 2008

Agenda

- Report from the Board of Directors
- Operation and Financial Statement from 2007
- Questions and Answers
- Decision on Allocation of Profits/Loss
- Election of the Board of Directors
- Election of Auditor
- Decision on Board Remuneration
- Proposal to amend the Articles of Association
- Other matters legally introduced

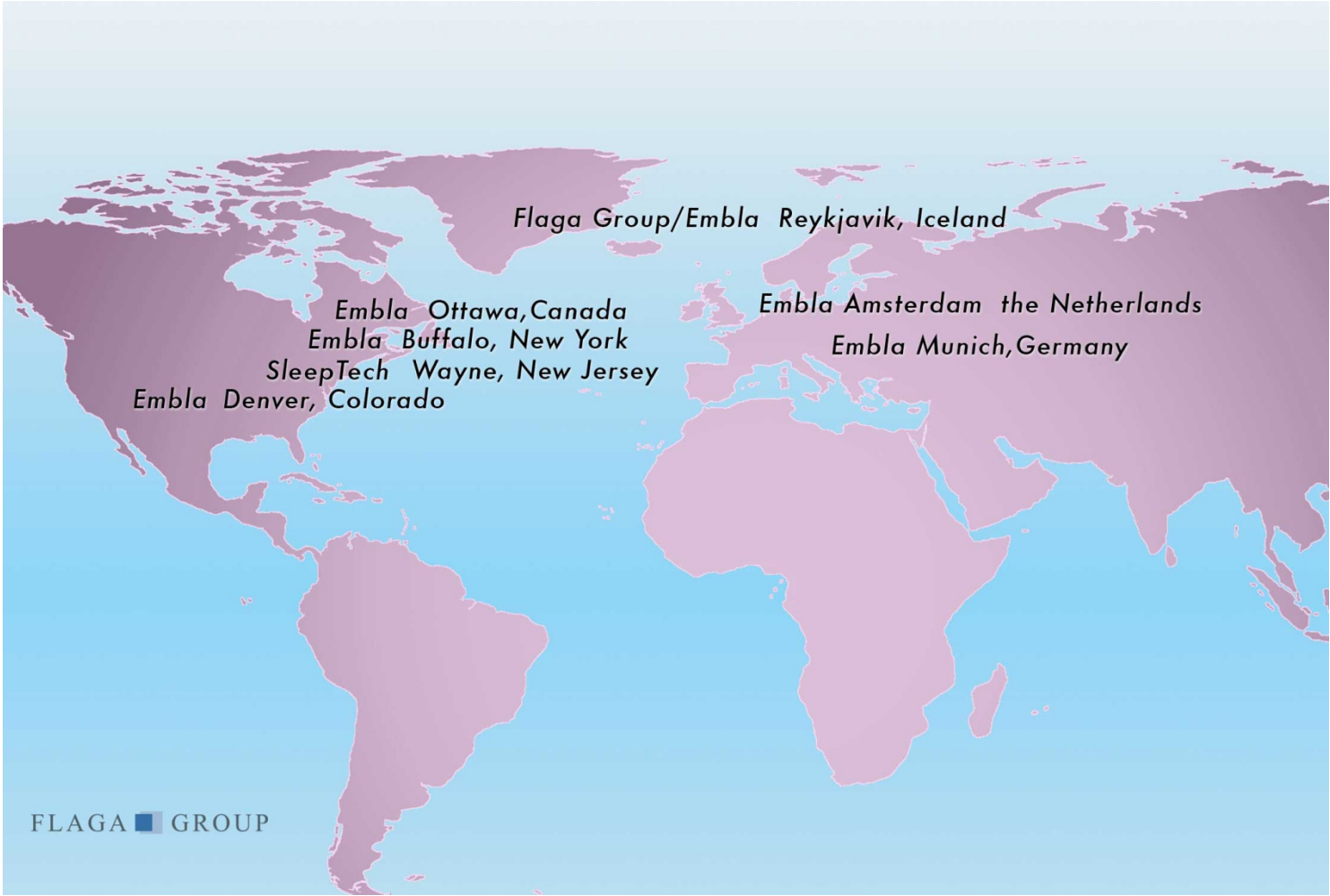
Report from Board of Directors

- Bogi Palsson
 - Executive Chairman of the Board

Operations Report

- David Baker
 - CEO Flaga Group

The Flaga Group



The Flaga Group

- Operates two separate companies in the international sleep business:
- Embla, a global leader in the design, manufacture, development and sale of sleep diagnostic systems;
- SleepTech, a leading U.S. service provider for hospital-based, physician owned and private sleep diagnostic centers in the United States.

Flaga Sleep Market

- Divided into two areas

- Sleep Diagnostics



- The provision of the equipment, software and associated technical support to physicians and care givers to operate sleep testing facilities
- 250 million \$ market worldwide

- Sleep Services



- The provision of logistics, billing, contractual and technical support to physicians and care givers to operate sleep testing facilities in the United States
- Billion \$ market in the US alone



Closer to our Customers

■ 2007 overview:

- Embla offices in the US - Denver and Buffalo; Canada - Ottawa; Europe; Holland - Amsterdam and Germany - Munich
- Year of strategic development through some significant changes in the US sleep diagnostic market.
- Development of new business opportunity that will expand the Companies market presence and opportunities.
- Sale of the Icelandic distribution rights of ResMed products
- 2007 Revenue shortfall



Closer to our Customers

- Two Major changes in the US Sleep market:
 - American Academy of Sleep Medicine (AASM) announced new guidelines for the sleep lab accreditation.
 - Impacted both the software and hardware components of the embla product line.
 - Deadline for compliance is July 2008
 - Reimbursement of home sleep testing announced in the United States by the Centers for Medicare and Medicaid Services (CMS)
 - Although commonly reimbursed in Europe, the CMS has just recently announced they will reimbursement CPAP based on home sleep studies.
 - This opens the door to home care dealers and primary care physicians to potentially start home testing the 50-60m Americans who are believed suffer from a sleep disorder.
 - The final rules are not published, but this will benefit Embla.



Closer to our Customers

- New business opportunities to expand the companies market potential:
 - Enterprise: a sleep lab business development package to assist sleep labs to operate their business.
 - Development started in 2006.
 - Currently used as a differentiator for the PSG system sales
 - Development in 2008 will move to integrate the "MySleepTech.com" tool used by SleepTech and to expand the application to Home Care management and consumable supplies



Closer to our Customers

- Sleep Today:
 - Uses 39 year old technology to measure events that occur during sleep
 - Criteria is manually “scored” resulting in poor agreement between different technologists for the same record
 - Criteria is random, driven by subjective rules and measurements
 - There is no measure of sleep “Quality” only counts of events and “states” that occur during sleep – all these can have a different impact on a persons real sleep quality depending on age, sex weight etc.
 - Full Polysomnography requires multiple, invasive leads, an overnight stay in a sleep lab and extensive manual interpretation
 - Equipment costs US\$18-22k per bed and about \$10-15 per test
- What is really needed?
 - A simple, low cost, reproducible way to measure sleep quality and distinguish different types of sleep disorder
 - A “sleep thermometer”

Cardio Pulmonary Coupling (CPC)

- Based on an analysis of how the heart rate varies with the rate of breathing, researchers at the Beth Israel Deaconess Medical Center, part of the Harvard Medical School have developed a technology that allows us to characterize sleep into different types
- So far the research has allowed us to differentiate between a range of different sleep disorders
- The only channel that is necessary is the ECG, a simple heart rate channel recording
- CPC gives us:
 - Simple – needs only one channel
 - Low cost – in the hundreds of \$
 - Low cost per use – less than \$1
 - Reproducible – automated analysis that can be run in seconds.
 - A real quantitative measure of sleep quality – a sleep thermometer

Strategic Objective

- Develop the CPC technology in the Embla PSG equipment to validate and create evidence based peer reviewed research on the technology.
- Implement the CPC technology into the existing Home study recorders sold by Embla
- Create a new low cost hardware recorder for measuring CPC
- Develop a WEB site for data upload and analysis for sleep physicians, Primary Care Physicians and eventually the general public to use the CPC technology.

Applications

- Identification of Complex Sleep Apnea in the sleep lab patient population
- Use as a compliant measure for the 25 to 30 million CPAP users throughout the world
- Pharmaceutical intervention
- Pre-operative screening for sleep disorders
- Sports Medicine
- Occupational Health Medicine
- More.....



- Largest service provider of sleep diagnostic and management services in the New York Metropolitan Area (New York, New Jersey and Connecticut).
- Service agreements with 15 hospitals/healthcare/physician systems and provides remote access and on-line interpretation services for over 50 physicians.
- MySleepTech: State-of-the-art system physician interpretation system.
- Accreditation: Received accreditation from the AASM for clinical training and education programs making SleepTech one of only a few such programs in the United States.



■ Strategic new direction in 2007

- Go from “single service line” with only the hospital model to a more diverse service offering to increase SleepTech’s control of the business
- Diversification through looking at hospital contract business, physician owned practices and wholly owned programs
- Appointed new VP of marketing to expand and diversify business
- In 2007 negotiations started on three new labs that will see revenue in 2008:
 - California
 - Florida
 - Mississippi
- Occupancy levels in the existing beds has been increased and we are aggressively growing our base business.



■ Other opportunities;

- Introducing therapy compliance programs into our sleep labs to drive additional sleep lab business
- Embracing the home testing as an avenue to increase referrals into the sleep labs by engaging the Primary Care Physicians through home testing
- Reducing per test costs through streamlining systems and improving efficiency.

Future Prospects



- Well positioned with new products and technologies expanding our market size
- Strengthening our distribution network built in 2007
- Strengthening the product line with new products
- Forecasting above market growth in 2008 and become profitable



- Expansion of services in the current footprint
- Expand into different markets with existing and new health care provider partners
- Continued positive financial results and forecasted annual growth rates at or above industry norms

Financial Results 2007

- Criss Sakala
 - CFO Flaga Group

Financial Highlights

- Revenue was \$33.16 million up from \$32.47 million, in 2006, an increase of 2%
- EBITDA was positive \$127k compared to \$1.0 million in 2006.
- Net income was negative of \$12,6m for the year.

Statement of Operations

USD '000

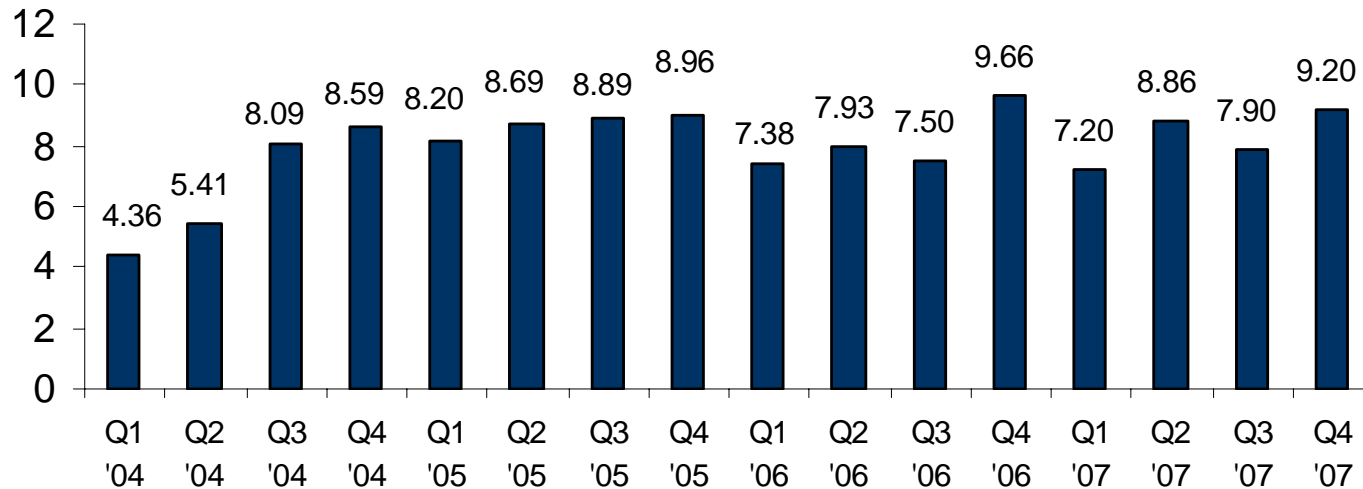
	2007	2006	2005	2004	2003*
Sales	33,161	32,474	34,747	26,446	19,134
Cost of goods sold	14,056	13,168	12,760	9,614	7,484
Gross profit	19,105	19,307	21,987	16,832	11,650
Operating expenses					
Sales, general and admin exp.	17,728	17,062	18,476	14,760	9,700
Research and development	2,652	2,363	2,693	2,529	2,507
Restructuring cost	-96	267	2,059		
Total operating expenses	20,284	19,692	23,228	17,289	12,207
Operating profit (loss)	-1,179	-386	-1,241	-457	-557
Net financial income (expenses)	-11,428	-1,071	-1,152	-56	-647
Amortization of goodwill and other expenses					
Operating profit (loss) bef. taxes	-12,607	-1,456	-2,393	-513	-1,204
Taxes	-24	766	948	583	689
Profit (loss)	-12,631	-690	-1,445	70	-515
EBITDA	127	1,001	668	765	172

* Numbers before 2004 have not been restated according to IFRS Accounting Standards or different allocation of G&A expenses to cost of goods sold and R&D cost. Therefore years prior to 2004 are not fully comparable

Sales

- Market disruption in 2007 impacted sales in Embla
- Continued Growth in SleepTech
- Remain confident with future sales potential and new initiatives
- Preliminary results for Q1-2008 show best first quarter revenues results for the Company

Revenue (USD millions)



Balance Sheet

USD '000	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004	Dec 31, 2003
Fixed assets	33,591	44,975	45,495	41,436	17,872
Current assets	14,348	17,149	16,259	15,619	13,314
Total assets	47,939	62,124	61,754	57,055	31,186
Equity	27,425	40,213	40,953	37,553	21,244
Subordinated loan	3,312	4,287	3,087	2,883	2,694
Long-term debt			3,957	6,703	2,406
Current liabilities	17,202	17,624	13,757	9,916	4,842
Equity and total liabilities	47,939	62,124	61,754	57,055	31,186
	2007	2006	2005	2004	2003
Current ratio	0.83	0.97	1.18	1.59	2.75
Equity ratio	57%	65%	66%	66%	68%

Questions and Answers

Decision on Allocation of Profits/Loss

- The Board of Directors proposes that the Company does not pay dividends for the year 2007

Election of Board of Directors

- Board Members
 - Bogi Pálsson
 - Eggert Dagbjartsson
 - Erlendur Hjaltason
 - Hildur Árnadóttir
 - Hákon Sigurhansson

- Alternates
 - Helgi Jóhannesson
 - Sveinn Þór Stefánsson

Election of Auditor

- KPMG endurskoðun hf
 - Símon Á. Gunnarsson on their behalf

Decision on Board Remuneration

- It is proposed that remuneration for Board members for the year 2008 will be ISK 600,000 and that remuneration for the Executive Chairman of the Board will be double that amount
 - Same remuneration as for 2007
- Remuneration Policy
 - Available in printed version

Proposal to amend the Articles of Association

- Amendment to Article 4, Paragraph 3, regarding authorization to increase the share capital by the amount which can result from the conversion of convertible subordinated bonds issued by the Company to Kaupthing Bank hf. on 15 October 2002 which maturity can now be extended from the original maturity day to 15 January 2009.

Other Matters Legally Introduced

- BoD intent on delisting Flaga Group from the Nasdaq OMX Nordic Exchange