



# FL GROUP HF.

## SHARE SECURITIES NOTE

### **3,659,265,291 Consideration Shares Admitted to Trading**

This Share Securities Note relates to 3,659,265,291 new shares (the "New Shares") in FL GROUP hf. ("the Issuer" or "FL Group") to be admitted to trading on the Main Market of OMX Nordic Exchange Iceland hf. (the "OMX ICE"), where shares in FL Group are traded under the symbol "FL". The New Shares are expected to commence trading on the OMX ICE on 2 April 2008.

The New Shares were issued to Baugur Group hf. at the price of ISK 14.7 per share and a total value of ISK 53.8 billion as consideration for a property portfolio consisting of shares and preference shares in a number of real estate companies and funds as well as shareholder loans provided to some of those real estate companies and funds as described under the heading "The New Shares" - "Consideration for the New Shares". The New Shares were registered with the Internal Revenue's Registry of Enterprises on 21 December 2007 and issued at the Icelandic Securities Depository (the "ISD") on the same date, according to the resolution of the Issuer's Board of Directors on 20 December 2007, based on an authorisation granted at a shareholders' meeting on 14 December 2007. The New Shares are equal to a 36.9% share increase.

This document constitutes a "Share Securities Note" for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the "European Prospectus Directive") on the prospectus to be published when securities are offered to the public or admitted to trading, and the Commission Regulation no. 809/2004 on the implementation of the Directive. The Commission Regulation has been adopted into relevant Icelandic law by Icelandic Regulation no. 243/2006. The OMX ICE has approved this Share Securities Note on behalf of the Icelandic Financial Supervisory Authority (the "FME") and admits the New Shares to trading on the OMX ICE following the publication of the Prospectus which this Share Securities Note is a part of.

This Share Securities Note does not constitute an offer to sell, or a solicitation of an offer to buy, the New Shares or any other securities and no offers of the New Shares will be made to the public in any member state of the European Economic Area. The New Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"), or the laws of any state of the United States. The new shares have not been and will not be registered under the securities laws of Australia, Canada or Japan.

Manager



KAUPTHING BANK

The date of this Share Securities Note is 31 March 2008.

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## **RISK FACTORS**

Investing in shares is subject to numerous risks. Prior to making any investment decision regarding the Issuer's shares, investors should consider all the information provided in this Share Securities Note dated 31 March 2008, and in particular to consider the risks and uncertainties described below in this Share Securities Note, along with all information provided in the Issuer's Share Registration Document which was published on 27 September 2007 as a part of a Prospectus dated 25 September 2007 and its Supplement published on 29 October 2007, and in particular to consider the risks and uncertainties described under the heading Recent Developments in this Share Securities Note. The risks and uncertainties described in this document are those that the Issuer believes are material to FL Group shares in order to assess the market risk associated with them. If any or a combination of these events occurs, the trading price of the Issuer's shares could decline and investors might lose part of their investment or even all of it. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Issuer is unaware may also impair the value of the Issuer's shares. These risks and uncertainties could have a materially adverse impact on the price of the Issuer's shares. The following discussion is not exhaustive, although the Issuer is of the opinion that the discussion covers the risks that are material to investments made in the Issuer's shares.

### ***Risks inherent in equity investments***

Equity investments involve a variety of risks. Examples of such risk factors that may have a material effect on the price of the Issuer's shares, and thereby on the investment value, are market risk, liquidity risk and counterparty risk. The share price can fluctuate considerably due to factors such as variations in operating income or cost, changes in the market environment, adverse media coverage of the Issuer and its operations and services, and changes to the Issuer's competitive position. Moreover, it must be kept in mind that shares are a subordinated claim on the assets of companies. This means that in the event of the Issuer's liquidation, the shareholders will receive what is left of assets after all other claims have been paid. In many countries, shares have yielded a better return than bonds measured over long periods of time. Nevertheless, long periods can also be found where the return on shares has been worse than on bonds and even negative. Those who intend to invest in the Issuer should know that there is no guarantee of a return on their investment in the future and investors should bear in mind that even though stocks can provide a good return in general, there is always a risk that an investment in the shares of individual companies will decline in value. It is therefore suggested that those who intend to invest in stocks pay close attention to diversifying their risk and seek investment advice. Investors should notice that there is risk both in terms of market risk in general and business risk which might have a negative effect on their share price.

### ***Securities regulation***

The Issuer is subject to the provisions of Icelandic law and regulations on securities, contained i.a. in the Icelandic Act No. 108/2007 on Securities Transactions, governmental regulations and rules of the FME. Due to the fact that the Issuer's shares have been admitted to trading on OMX ICE Main Market and bonds issued by FL Group have been admitted to trading on OMX ICE, the Issuer is also subject to rules on issuers' securities adopted by OMX ICE. The Issuer endeavours to comply with the said rules and regulations, and any violation of these provisions may have a financial impact on the Issuer. Serious breaches may result in OMX ICE ceasing to the admission to trade the Issuer's securities. Should the Issuer violate the respective rules, it may furthermore have an impact on the Issuer's reputation and consequently result in the price of the shares dropping. Investors investing in the Issuer's shares are subject to laws and regulations relating to securities transactions, such as rules relating to takeover bids, rules on disclosure of major proportions of voting rights (flagging rules), rules on handling of insider information and insider trading, rules that prohibit market abuse etc.

### ***Further share capital increase can dilute shareholdings***

If the Issuer increases its share capital by issuing new shares, the proportional shareholding of existing shareholders will be reduced accordingly, unless they themselves acquire the new shares pro rata to their existing holdings. The Issuer's purpose in increasing capital is generally to finance projects with the long-term intention of making the Issuer more valuable in the future. Shareholders may therefore be faced with increased risk for their investment alongside the dilution of their shares.

### ***The market price of FL Group's shares may be volatile***

FL Group's share price may be volatile. Consequently, the current or historical share price may not be indicative of prices that will subsequently prevail in the market. If investors purchase the Issuer's shares they may not be able to resell their shares at or above their purchase price. Factors that could affect the market price of FL Group's shares include changes in FL Group's results of operations, changes in general economic conditions, stock market analyst recommendations regarding FL Group and volatility in the financial markets. In particular, the equity markets have experienced extreme volatility that has at times been unrelated to the operating performance of individual companies. Volatility in the equity markets may have a materially adverse effect on the price of FL Group's shares.

### ***Shareholder structure***

The structure of shareholder ownership and voting rights can be a risk factor for investors. A lack of leading investors or large concentrations of ownership and voting rights are examples of circumstances that can have negative effects. Investors should be aware of the fact that ownership and voting rights of the Issuer can change rapidly and without any prior warning.

As of 28 March 2008 there were 4,310 shareholders in FL Group. To the knowledge of FL Group, there are four legal entities which have direct or indirect interests of more than 5% of FL Group's total share capital and/or voting rights as of 28 March 2008, which is the first notification threshold of major holdings under Act. No. 108/2007 on Securities Transactions. In addition it was announced in an insider trading announcement on 30 March that BG Capital ehf. bought 111,864,407 shares on 30 March 2008. According to the insider's dealing announcement dated 30 March 2008, BG Capital ehf. holds voting rights, right to dividend and other right to 5,066,579,194 shares in FL Group hf. These 5,066,579,194 shares equal 37.30% of FL Group's 13,584,265,973 total issued shares. The four largest shareholders in FL Group owned 66.64% of the total issued share capital. These are Baugur Group hf. (and its subsidiary BG Capital ehf.), Fons hf., Oddaflug B.V. and Materia Invest ehf. These shareholders may be able to significantly influence matters submitted to voting by the shareholders. These shareholders may also have the power to prevent a change of control and may take actions that could have a materially adverse effect on the value of the shares. On 6 December 2007, Oddaflug B.V. and Materia Invest ehf. announced that they would jointly exercise their voting rights in FL Group. The Issuer has no knowledge of any other agreements between shareholders on the treatment of voting rights or knowledge of any arrangements which may at a subsequent date result in a change of control of the Issuer. However, investors are advised to study the relationship between the largest shareholders and the information under the heading "Main Shareholders" in this Share Securities Note.

### ***Purchasers of shares in FL Group are exposed to currency risk***

FL Group's shares are traded on the OMX ICE in Icelandic króna. Accordingly, there is a currency risk for those shareholders that calculate their return in another currency. In addition, FL Group is an Icelandic public limited company and its shares are denominated in Icelandic króna. Consequently, all payments or distributions relating to the shares, including payments of dividend, if made, will be made in Icelandic króna.

### ***Shareholders in certain jurisdictions outside Iceland, including the United States, may not be able to exercise their pre-emptive rights to acquire additional shares***

Under Icelandic law, holders of shares of FL Group generally have the right to subscribe for and pay for a sufficient number of shares to maintain their relative ownership and voting rights percentages prior to the issuance of any new shares, although this right may be waived. However, certain holders of FL Group's shares may not be able to exercise their pre-emptive rights. For example, US holders may not be able to exercise such rights unless a registration statement under the US Securities Act is effective with respect to such rights and the related shares, or an exemption from the registration requirements is available. FL Group currently does not intend to register its shares under the US Securities Act and no assurance can be given that an exemption from such registration requirements will be available to US holders of FL Group's shares. To the extent that holders of FL Group's shares are not able to, or select not to, exercise pre-emptive rights, such pre-emptive rights will lapse and the proportional interest of such shareholders in FL Group may be reduced in the event of any issuance of new shares in FL Group.

## NOTICE TO INVESTORS

This Share Securities Note forms a part of a Prospectus which consists of the three independent documents listed below.

- (1) This Share Securities Note dated 31 March 2008;
- (2) A Share Registration Document dated 25 September 2007 which was published on 27 September 2007 as a part of a Prospectus and its Supplement published on 29 October 2007, of which Glitnir Bank hf. was the Manager;
- (3) A Summary dated 31 March 2008, which is a summary of the information provided in this Share Securities Note, the Share Registration Document dated 25 September 2007 and the Supplement published on 29 October 2007.

This Share Securities Note relates to 3,659,265,291 new shares in FL Group hf. to be admitted to trading on the Main Market of OMX Nordic Exchange Iceland hf. (the OMX ICE), where shares in FL Group hf. are traded under the symbol "FL". The new shares are expected to commence trading on the OMX ICE on 2 April 2008.

This Share Securities Note is only published in English.

Any financial information more recent than at 31 December 2007 which is provided in this Share Securities Note is based on the Issuer's preliminary accounts and prepared by its Management.

Investors are reminded that FL Group's operations and purpose have changed substantially in recent years. In 2005 its investment activities increased following fundamental changes, whereby investments became its prime focus of operation instead of its prior focus of operation in the fields of air travel, tourism along with investment activities. In 2006 this transformation was completed by the sale of Icelandair Group hf., an airline operation which before had accounted for the majority of all revenue generated by FL Group. And in 2007 the insurance company Tryggingamiðstöðin hf. was consolidated into FL Group's accounts. Such fundamental organisational changes reduce the usefulness of references to historical performances. Investment risk in companies operating under such circumstances is generally greater than in companies operating in a more stable environment. Investors are encouraged to familiarise themselves thoroughly with this Share Securities Note and other documents which form the Prospectus along with this Share Securities Note, and to pay particular attention to the chapters on Risk Factors. Investors are advised to consider statements made by the Issuer regarding this Prospectus. Information provided in this Share Securities Note is based on facts that are current at the date of this Share Securities Note. These facts may change between the date of this Share Securities Note and the date when the New Shares will commence trading. To the extent which is required by law the Issuer will make such changes public by an announcement and notify OMX ICE for supervision purposes. Investors are advised to study all public information from FL Group, and not to rely exclusively on information in this Share Securities Note or other documents which form the Prospectus along with this Share Securities Note.

Information in this Share Securities Note or other documents which form the Prospectus along with this Share Securities Note, should not be considered or construed as a promise by the Issuer, Manager or other parties, of future success in either operations or return on investment. Investors are reminded that investing in shares entails risk as the decision to invest is based on expectations and not promises. Investors must primarily rely on their own judgement regarding any decision to invest in the Issuer's shares, bearing in mind the business environment in which FL Group operates, anticipated profits, external conditions, and the risk inherent in the investment itself. Prospective investors are advised to contact independent experts such as financial institutions to assist them in their assessment of the shares in FL Group hf. as an investment opportunity. Investors are advised to consider their legal status and any tax implications, which a purchase of the Issuer's shares may have, and seek independent advice in that respect.

Since FL Group's shares are admitted to trading on Main Market of OMX ICE, any information that the Issuer feels could have a significant impact on the market price of its securities is to be published in accordance with governing rules effective at the time. The current Rules for Issuers of Financial Instruments listed on the OMX Nordic Exchange Iceland hf. effective as of 1 November 2007 stipulate that all material documentation regarding

the Issuer shall be made publicly available in the European Economic Area and sent to OMX ICE for supervision purposes.

## **Declaration of Interest**

The investor's attention is drawn to the interests of the Manager, Kaupthing Bank hf. and the acquirer of the New Shares, Baugur Group hf., in the Issuer.

FL Group is a customer of Kaupthing Bank's Investment Banking, Capital Markets and Corporate Banking divisions. Kaupthing Bank provided a fairness opinion to FL Group on the methodology used to value the assets within the property portfolio paid for by the New Shares. Kaupthing Bank was the manager of FL Group's share offering in December 2007. Kaupthing Bank is a creditor of FL Group. Kaupthing Bank holds shares in FL Group hf. in its own name which as of 28 March 2008 were equal to 1.51% of FL Group's total issued shares, along with shares held on a nominee account, as a hedge against forward contracts with clients, which equalled 0.22% of FL Group's total issued shares.

One of FL Group's largest shareholders prior to the issue of the New Shares was Baugur Group hf. and as all the New Shares are issued to Baugur Group hf. it has become the largest single shareholder of FL Group.

Attention is drawn to the interests of FL Group's Senior Management, the members of the Company's Board of Directors and Baugur Group described under the heading "Recent Developments" – "Related Party Transactions".

## **References and Glossary of Terms and Abbreviations**

In this Share Securities Note, unless the context otherwise requires, references to:

- "the Issuer" are to FL GROUP hf. which is the Issuer's legal Icelandic name;
- "FL Group hf.", "FL Group", "FL", "the Company" and "the Group" are to FL GROUP hf., Síðumúli 24, 108 Reykjavík, Iceland, ID-No. 601273-0129 together with its subsidiaries unless otherwise clear from the context;
- "the FME" are to Fjármálaeftirlitið which is the Icelandic Financial Supervisory Authority;
- "the OMX ICE" are to the OMX Nordic Exchange Iceland hf.;
- "the Main Market" shall be construed as referring to the Main Market at OMX ICE, unless otherwise clear from the context;
- "the ISD" are to Verðbréfasráning Íslands hf. which is the Icelandic Securities Depository;
- "the New Shares" in this Share Securities Note shall be construed as referring to 3,659,265,291 shares in FL Group hf., to be admitted to trading on OMX ICE following the publication of the Prospectus of which this Share Securities Note is a part.
- "the Shares" in this Share Securities Note shall be construed as referring to any/all issued shares in FL Group hf.

Certain numerical information and other amounts and percentages presented in this Share Securities Note may not sum due to rounding. In addition, certain figures in this Share Securities Note have been rounded to the nearest whole number or percentage point.

References in this Share Securities Note to:

- "Icelandic króna" or "ISK" refer to the currency of Iceland;
- "Vacancy ratio" is lost revenue of properties not in rent as a proportion of total estimated revenue of fully let properties within or for each year;
- "IFRS" are to the International Financial Reporting Standards (IFRSs), as adopted by the European Union. The standards forming IFRS are also known as "IAS" (International Accounting Standards).

## **Forward-looking Statements**

This Share Securities Note and other documents which form the Prospectus along with this Share Securities Note, contain various forward-looking statements that reflect the Issuer's current views with respect to future events and financial and operational performance. The words "believe," "expect," "anticipate," "intend," "may," "plan," "estimate," "will," "should," "could," "aim" or "might," or, in each case, their negative, or similar expressions, identify certain examples of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements appear in a number of places in this Share Securities Note, including, without limitation, in the sections under the headings "Risk Factors", "Background to the Issue" and "Related Transactions".

Although the Issuer believes that the expectations reflected in these forward-looking statements are reasonable, the Issuer can give no assurances that they will materialize or prove to be correct. Because these statements involve risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements.

These forward-looking statements are valid only as of the date of this Share Securities Note. FL Group undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein.

## CAPITALISATION

### Working Capital Statement

The Chairman of the Board of Directors and the CEO on behalf of the Issuer declare that in their opinion the Issuer's working capital is sufficient for the Issuer's present requirements.

### Capitalisation and Indebtedness

The following tables set forth the consolidated capitalisation and indebtedness as at 31 December 2007 according to the Issuer's audited accounts. In the capitalisation table, all liabilities (secured and unsecured) are unguaranteed. All figures are in ISK millions. To provide information on the Issuer's indebtedness the indebtedness table analyses the Issuer's net indebtedness in the short term and in the medium to long term. The information in these tables includes the issue of the New Shares and transactions in December 2007 related to the New Shares.

<b>Capitalisation</b> <i>(ISK million)</i>	<b>31 December 2007</b> <i>(Audited Accounts)</i>	
<b><i>Total current borrowings</i></b>	<b><i>Unsecured</i></b>	<b><i>Secured</i></b>
Issued bonds .....	26,933	0
Loans from credit institution .....	8,515	11,703
Other borrowings .....	0	8,458
	35,448	20,161
<b><i>Total non-current borrowings</i></b>	<b><i>Unsecured</i></b>	<b><i>Secured</i></b>
Issued bonds .....	40,165	0
Subordinated loans .....	3,291	0
Loans from credit institutions.....	0	105,914
	43,456	105,914
<b><i>Total borrowings</i></b>	<b><i>78,904</i></b>	<b><i>126,075</i></b>
<b><i>Total borrowings secured and unsecured</i></b>		<b><i>204,979</i></b>
<b><i>Equity</i></b>		
Share capital .....		13,494
Other equity .....		142,350
<b><i>Total Equity</i></b>		<b><i>155,844</i></b>
<b><i>Total Capitalisation</i></b>		<b><i>360,823</i></b>



<b>Indebtedness</b> <i>(ISK million)</i>	<b>31 December 2007</b> <i>(Audited Accounts)</i>
A. Cash.....	15,947
B. Cash equivalent .....	5,178
C. Equity investments .....	218,998
<b>D. Total Liquidity (A)+(B)+(C).....</b>	<b>240,123</b>
<b>E. Current Financial Receivable.....</b>	<b>35,464</b>
F. Current Bank debt .....	20,218
G. Current Bonds issued.....	26,933
H. Other current financial debt .....	8,458
<b>I. Total Current Financial Debt (F)+(G)+(H)</b>	<b>55,609</b>
<b>J. Total Net Current Financial Indebtedness (I)-(E)-(D).....</b>	<b>-219,978</b>
K. Non current Bank loans.....	105,914
L. Bonds Issued .....	40,165
M. Other non current loans.....	3,291
<b>N. Total Non Current Financial Indebtedness (K)+(L)+(M).....</b>	<b>149,370</b>
<b>O. Total Net Financial Indebtedness (J)+(N).....</b>	<b>-70,608</b>

Since year end, FL Group has continued to refinance short-term debt. At the end of 2007 the Group had ISK 55.6 billion of debt maturing in 2008 but as of 31 March 2008 the Group has already refinanced or received commitments to refinance ISK 47.1 billion of the 2008 maturities until 2009-2013, resulting in only ISK 8.5 billion of refinancing outstanding. Thereof ISK 3.5 billion are REPO contracts which are easily refundable by nature. There has not been other material change in FL Group's consolidated capitalisation and indebtedness since 31 December 2007.

## **THE REGISTRATION OF THE ISSUER'S SHARES AND THE ADMISSION TO TRADING**

All issued Shares in FL Group hf. have been created under Act No. 2/1995 on Public Limited Companies.

### **Current Share Capital**

FL Group's total number of issued shares is 13,584,265,973, with a nominal value of ISK 1 per share, of which all shares are fully paid, by the transfer of economic interests from Baugur Group hf. and affiliates (BG Holding ehf., BG Equity 1 ehf. and Baugur Holding AB) of a property portfolio consisting of shares and preference shares in the real estate companies and funds as well as shareholder loans granted to those real estate companies and funds. The purchase price of the property portfolio was ISK 53.8 billion, of which approximately 55% was for a stake in Landic Property hf., approximately 30% for interests in foreign property funds sold on to Landic Property hf. and approximately 15% for other investments. The consideration for the new shares is further described under the section heading "Consideration for the New Shares".

FL Group held 163,163,273 own shares on 28 March 2008, which equals 1.20% of total issues shares. The annual general meeting on 11 March 2008 agreed, with reference to Article 55 of Act No. 2/1995 on Public Limited Companies, to authorise the Company's Board of Directors to purchase, over the next 18 months, up to 10% of the Company's own shares. The purchase price of the shares may be up to 20% above the average sales price of shares on the OMX ICE in the two weeks immediately preceding the purchase. As no lower limit was set on this authorisation, either regarding the purchase price or the amount of shares purchased each time, any amount of shares may be bought at any price lower than the market price and up to 20% above the market price.

### **Authorisation for Further Share Capital Increase**

According to Article 4 of the Articles of Association of FL Group hf., its Board of Directors is authorised to increase the Issuer's share capital by up to a total of 3,000,000,000 shares as follows:

(a) The Company's Board of Directors is authorised to increase the Company's share capital by up to a nominal value of ISK 2,500,000,000. The Board of Directors may implement the increase in stages over the next five years from 11 March 2008. The Board of Directors is authorised to sell the increased share capital without the pre-emptive purchase provisions of Article 34 of Act No. 2/1995 on Public Limited Companies and the provisions of Article 4 of the Company's Articles of Association being applicable. The Company's Board of Directors decides the tender price of shares, justifies it, decides the rules of sale each time along with the subscription and payment period, and whether it is permitted to pay for the shares by other means than cash payment. The new shares shall grant rights in the Company from the date on which they are registered and they shall be governed by the Company's Articles of Association.

(b) The Company's Board of Directors is authorised to increase the Company's share capital by up to a nominal value of ISK 500,000,000. The Board of Directors may implement the increase in stages over the next five years from 25 September 2007. The increase is subject to the pre-emptive rights of Article 34 of Act No. 2/1995 on Public Limited Companies and the provisions of Article 4 of the Company's Articles of Association. The Company's Board of Directors decides the tender price of shares, justifies it, and decides the rules of sale each time along with the subscription and payment period and whether it is permitted to pay for the shares by other means than cash payment. The new shares shall grant rights in the Company from the date on which they are registered and they shall be governed by the Company's Articles of Association.

The authorisation according to section (a) above was granted at an annual general meeting on 11 March 2008. The authorisation remains unused from the original approval and remains effective until 11 March 2013, to the extent that it has not been exercised before that date.

The authorisation according to section (b) above was granted at a shareholders' meeting on 25 September 2007. The authorisation remains unused from the original approval and remains effective until 25 September 2012, to the extent that it has not been exercised before that date.

## **Listing and Admission to Trading**

Shares in FL Group hf. are listed on the OMX ICE under the symbol "FL" and admitted to trading on the Main Market of the OMX ICE. The shares' ticker symbol in the trading system of OMX ICE is FL. The Issuer's shares are included in the OMX ICE 15 index. Trading in the New Shares on the OMX ICE is expected to commence on 2 April 2008. FL Group's Board of Directors has not adopted any resolution on seeking an admission to trading for the Company's shares on any other regulated markets than OMX ICE.

## **Market Making**

Kaupthing Bank hf., Landsbanki Íslands hf., Glitnir Bank hf. and Saga Capital hf. act as market makers through their own accounts for FL Group hf.'s shares on the OMX ICE. The market making is pursuant to an agreement with Kaupthing Bank hf. of 7 October 2004, an agreement with Landsbanki Íslands hf. of 2 November 2005 and agreements with Glitnir Bank hf. and Saga Capital hf. of 14 January 2008. The purpose of the agreements is to facilitate trading and improve liquidity in FL Group's shares on the OMX ICE and to promote efficient and transparent price formation. The terms of the market making agreements are as follows:

Kaupthing Bank hf. shall submit daily bids and asks for a minimum of 500,000 shares on each side at a price determined by the market maker on any given occasion. The maximum bid/ask spread may not exceed 1.5% and the deviation from the last transaction price may not exceed 5%. The market maker is obliged to provide liquidity for up to ISK 30 million per day. The maximum obligated total trades per day is ISK 30 million at market value.

Landsbanki Íslands hf. shall submit daily bids and asks to the OMX ICE for a minimum of 500,000 shares on each side at a price determined by the market maker on any given occasion. The maximum bid/ask spread may not exceed 1.5%. The maximum obligated total trades per day is ISK 70 million at market value.

Glitnir Bank hf. and Saga Capital hf. shall each submit daily bid and asks for a minimum of 500,000 shares on each side at a price determined by the market maker. The maximum bid/ask spread may not exceed 1.0% and the deviation from the last transaction price may not exceed 2.0%. The maximum obligated total trades per day is ISK 200 million at market value.

## **ISD Registration**

FL Group's shares are all issued electronically at the ISD and are registered there under the name of the relevant shareholder or his/her nominee. "IAIR" is the symbol for FL Group's shares in the ISD clearing and settlement system. The ISIN number of the shares is IS0000000289. ISD's business address is at Laugavegur 182, 5<sup>th</sup> floor, 105 Reykjavík, Iceland.

## **RIGHTS ATTACHED TO THE ISSUER'S SHARES**

All the shares of FL Group are of the same class and carry equal rights. The Issuer's shares carry no special rights and no restrictions are placed on them. The Issuer's shares enjoy all rights provided for according to Act No. 2/1995 on Public Limited Companies, including but not limited to: the right to vote at shareholders' meetings, the right to receive dividend when declared, the right to exercise pre-emptive rights to new shares, unless waived, and the right to a portion of the Issuer's assets upon liquidation, all proportionately according to share ownership, statutes and the Issuer's Articles of Association in effect at any given time. Shareholders do not have other rights to a share in the Issuer's profit. Shareholders are not obliged to redeem their shares unless otherwise provided by law.

According to Article 4 of the Issuer's Articles of Association, classes of shares with different rights to dividend and voting rights may be issued and permitted to issue classes of shares without voting rights. The voting rights of share classes with different voting weights depend on the decision of a shareholders' meeting on the issue of such classes. No such classes have been issued.

FL Group's shares are in an electronic registered book-entry form. Rights to electronic shares must be registered at the ISD if they are to enjoy legal protection against legal executions and disposal by means of an agreement. It is forbidden to issue physical share certificates for registered rights according to an electronic share or endorse them, and such transactions are void. Registration of the ownership of an electronic share at the ISD, subsequent to the ISD's final entry, formally gives a registered owner legal authorisation to the rights for which he is registered. Priority of incompatible rights is determined by the chronological order of requests from the account operators reaching the ISD.

### **Right of Ownership and Transfer**

FL Group's Articles of Association do not contain any limitations on the ability to transfer the Company's shares and shareholders may freely pledge their shares, unless otherwise prohibited by law. Pre-emptive rights to increases in the Company's share capital are transferable according to Act No. 2/1995 on Public Limited Companies.

Parties acquiring FL Group's shares cannot exercise their rights as shareholders until their names have been registered in FL Group's share registry. The electronic registration of securities is governed by Act No. 131/1997 on Electronic Registration of Title to Securities and Regulation No. 397/2000 which is based on this act.

The Issuer keeps its registry of shareholders based on information provided by the ISD on the ownership of FL Group's shares. FL Group considers the share registry as full proof of ownership to shares and the rights attached to the shares. Dividend and all announcements to shareholders are sent to the party registered in FL Group's share registry as owner of the shares. FL Group does not accept any liability if a shareholder does not receive payments or announcements due to the failure to notify the Company of changes of ownership or address.

Rights to electronic shares must be registered at the ISD, in respect of the Issuer's shares. Share certificates may not be issued or endorsed for registered rights to an electronic share and any such attempted transactions are void. Registration of the ownership of an electronic share at the ISD, subsequent to a Securities Depository final entry, formally gives a registered owner legal authorization to the rights to which they are registered. Priority of incompatible rights is determined by and when a request for their registration reaches the Securities Depository.

### **Nominee Accounts**

Provisions on nominee accounts are contained in Act No. 108/2007 on Securities Transactions, Act No. 131/1997 on Electronic Registration of Title to Securities and Act No. 2/1995 on Public Limited Companies.

Under Icelandic law, shares registered in nominee accounts do not confer voting rights at shareholders' meetings. According to Article 31 of Act No. 2/1995, shareholders cannot exercise their voting rights unless their holding has been registered in the share registry of a company.

Article 12 of Act No. 108/2007 provides that a financial institution, which is authorised to hold in custody financial instruments owned by its customers, may hold the instruments in a special nominee account and accept payments on behalf of its customers from individual issuers of financial instruments, provided that the financial undertaking has explained to the customer the legal consequences thereof and the customer has consented thereto. The financial undertaking must keep a record of the holdings of each individual customer within such nominee accounts. In the event that a financial undertaking is sent into receivership or granted a debt moratorium, or the undertaking is wound up or comparable measures taken, the customer can, on the basis of the financial undertaking's records provided for in the first paragraph, withdraw his/her financial instruments from the nominee account, provided there is no dispute as to the holding.

## **Dividend**

### ***Right to Dividend and Dividend Restrictions***

A resolution on the distribution of dividend shall be made by the Issuer's Annual General Meeting, which shall be held before the end of May each year. A shareholder who holds shares at closing of trading on the date of the Annual General Meeting is entitled to the dividend for the relevant year. This right to a dividend lapses four years later according to the Act No. 150/2007 on the Expiry of Claim Rights. Under the Act No. 2/1995 on Public Limited Companies the Issuer and its subsidiaries are subject to legal restrictions on the amount of dividend that can be paid to shareholders. There are no special restrictions or procedures regarding dividend payment for non-resident shareholders. No redemption provisions, conversion provisions or special restrictions regarding dividend have been attached to the securities.

### ***Dividend Policy***

The Issuer policy is to pay dividend of 30-40% of each year's profit. No dividend was paid in the year 2008. FL Group paid dividend in the amounts of ISK 14,984 million, ISK 6,341 million and ISK 1,466 million in the years 2007, 2006 and 2005 respectively. This corresponds to dividend per share of ISK 1.93, 1.04 and ISK 0.60. In 2007, the dividend amounted of 193% of the nominal (par) value of the share capital, which was 33.6% of the Issuer's after-tax profit in 2006. The Issuer paid 40.7% of after-tax profits as dividend for the year 2004 and 36.8% of after-tax profits for the year 2005. As described under the heading "Risk related to financial resources", there are some restrictions related to a minimum book equity on the payment of dividends to shareholders.

## **General Meetings and Voting Rights**

Pursuant to FL Group's Articles of Association, the Annual General Meeting of shareholders shall be held before the end of May each year. Shareholders are entitled to participate in the shareholders' meeting pursuant to the Articles of Association and Act No. 2/1995 on Public Limited Companies. Shareholders' meetings shall be called by means of an advertisement in a daily newspaper or in another verifiable manner, with at least one week's notice. The invitation to the meeting shall specify the Agenda of the meeting. If a proposal to amend the Articles of Association is to be put forward, the main subject of the motion shall be specified in the invitation to the meeting. The Company's Board of Directors shall call a shareholders' meeting when it decides it is necessary, in accordance with a resolution passed at a meeting, or when shareholders controlling 1/10 (one tenth) of the share capital request a meeting in writing. They shall also send a report to the Board of Directors specifying why they request the meeting and the Board of Directors shall inform the shareholders of the topic of the meeting in the invitation to the meeting. When a legitimate request to hold a meeting has been put forward, the Board of Directors is obliged to call the meeting within at least 14 days of receiving the request. If the Board of Directors has not called the meeting within this period, shareholders can demand that a meeting be called pursuant to the provisions of the act on public limited companies. The Agenda and the final proposals to be dealt with at the meeting shall be made available to shareholders at the Company's offices at least seven days before a shareholders' meeting.

The Agenda of the Annual General Meeting includes:

- 1. The Company's Board of Directors reports on the financial position of the Company and activities during the past operating year.*
- 2. The audited annual accounts are submitted for approval.*
- 3. How the Company's profit or loss during the fiscal year shall be handled.*
- 4. The Board of Directors proposal for a Remuneration Policy*
- 5. Decision shall be made on remuneration to the Company's Board of Directors.*
- 6. Election of the Company's Board of Directors pursuant to Art. 12.*
- 7. Election of auditors pursuant to Art. 16.*
- 8. Discussion of, and voting on, other business which may be legitimately raised by the meeting.*

All shareholders are entitled to raise particular issues for discussion at shareholders' meetings provided that they send a written request to the Board of Directors with sufficient notice so that the matter can be included in the Agenda of the meeting.

The Board of Directors may determine that shareholders' meetings are held wholly or partly, by electronic means. If the Board of Directors is of the opinion that sufficiently secure equipment is available to be able to hold shareholders' meetings, wholly or partly, electronically and decides to use this authorisation it shall be clearly noted in the invitation to the meeting. The invitation to the meeting shall contain information on the necessary equipment shareholders need for participation, information on how shareholders notify the Company of their electronic participation, how the voting will proceed and where shareholders can get instructions on the electronic devices to be used, passwords for participation and other information. The entered password is equal to the shareholder's signature and deemed as confirmation of his participation in the meeting. Shareholders who intend to take advantage of their right to participate electronically shall notify the Company's office with 5 days' prior notice and submit, in writing within the same time limit, any questions they might have regarding the Agenda or presented documents they wish to have answered at the meeting. If the Board of Directors is of the opinion that it is not feasible to hold a shareholders' meeting by electronic means, the shareholders shall be entitled to vote on all items on the Agenda in writing. The invitation to the meeting shall specify how such a vote can be performed. Shareholders can request to have their ballots sent by post and such request should be delivered to the Company's headquarters 5 days prior to the shareholders' meeting. The shareholders can also collect their ballots at the Company's headquarters with the same notice or vote there.

Matters which have not been specified on the Agenda cannot be decided upon at a shareholders' meeting without the approval of all shareholders in the Company, but a resolution thereon may be adopted for the guidance of the Board of Directors.

One vote is attached to each share in the Company. At shareholders' meetings all normal business is decided by voting, unless otherwise provided for in these Articles of Association.

The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that this is clearly stated in the invitation to the meeting that it is intended to amend the Articles of Association and what the main aspects of such amendment are. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented by votes at the shareholders' meeting.

The approval of all shareholders or a qualified majority is necessary to approve special proposals on amendments to the Articles of Association and this depends on the provisions of current legislation on public limited companies.

## **Reports to Shareholders**

Shareholders are entitled to attend and free to speak at the Annual General Meeting of the Company and at extraordinary meetings. At the Annual General Meeting the Board of Directors reports to the shareholders on the activities of the Company during the previous year of operation. Furthermore, the Consolidated Financial Statements for the preceding year's activities are submitted for approval, together with the Auditor's Report.

According to Article 85 of Act No. 2/1995 on Public Limited Companies, shareholders controlling more than 10% of the total share capital of the Company can submit a request for an extraordinary shareholders' meeting. In that case, the Board of Directors must call the extraordinary meeting within 14 days.

## **Major holdings**

As FL Group is a listed company on the OMX ICE Main Market, shareholders in FL Group are subject to the disclosure requirements set out in Act No. 108/2007 on Securities Transactions and in government regulations. Act No. 108/2007 contains, for example, rules that apply to changes in the direct or indirect ownership of major holdings in a company which has had one or more classes of its shares listed on a regulated securities market. According to the Act, a substantial holding is 5% of voting rights, and multiples thereof of up to 40%, as well as 50%, 66<sup>2</sup>/<sub>3</sub>% and 90%. When a party makes an acquisition or disposes of voting rights which results in its voting rights exceeding or falling below these limits, the party must immediately give notice to the FME and the Issuer, which shall make the notice public no later than 12:00 GMT on the next business day after receiving the notice.

## **Mandatory Takeover Bids**

No public mandatory or tender takeover bid has been offered by third parties for shares in FL Group hf. Neither have such bids been placed during the current year, last year or earlier.

Chapter X of the Icelandic Act No. 108/2007 on Securities Transactions provides that if a party has directly or indirectly acquired control of a listed company it shall make other shareholders a takeover bid. Control shall mean that a party alone has, or parties acting in concert, have (1) acquired a total of at least 40% of the voting rights in a listed company, (2) the right, based on an agreement with other shareholders, to control at least 40% of the votes in a listed company, or (3) acquired the right to appoint or dismiss a majority of a listed company's Board of Directors. A takeover bid to other shareholders is to be made no later than 4 weeks from the time when control was acquired. The offering party shall offer all the shareholders in the same class the same terms. The price offered shall be at least equal to the highest price which the offering party or parties acting in concert with the party have paid for shares in the relevant listed company during the past 6 months prior to making the bid. The offered price shall, however, at least be equal or greater than the closing price on the last trading day prior to the date when the control was acquired or the making the bid.

The Takeover Panel has on several occasions examined whether a takeover obligation has arisen regarding the shares of the Issuer. In its opinion dated 17 August 2005 the Takeover Panel concluded that Eignarhaldsfélagið Oddaflug ehf. was not obliged to submit a takeover bid for the shares of the Issuer as a result of the changes in ownership/voting rights of the shares of the Issuer which took place on 1 July 2005.

In the Takeover Panel's opinion, dated 13 December 2005 and made public the following day, the Takeover Panel concluded that Baugur Group hf. was acting in concert with Eignarhaldsfélagið Oddaflug ehf. and was therefore obliged to submit a takeover bid for the shares of the Issuer as a result of the changes in ownership/voting rights of the shares of the Issuer following a share offering in November 2005. On the same day that the Takeover Panel made its opinion public, i.e. 14 December 2005, both Eignarhaldsfélagið Oddaflug ehf. and Baugur Group hf. announced that each company had sold 5% of its holding in the Issuer. Following these announcements the Takeover Panel announced that since Eignarhaldsfélagið Oddaflug ehf. and Baugur Group hf. had sold part of their holdings in the Issuer so that their combined holding was less than 40% of company's share capital, Baugur Group hf.'s obligation to make a takeover bid no longer existed.

In the Takeover Panel's opinion dated 18 January 2006 the Takeover Panel concluded that shares sold by Eignarhaldsfélagið Oddaflug ehf. and Baugur Group hf. to Landsbanki Íslands hf., in relation to which swaps had been entered into between Landsbanki Íslands hf. and Eignarhaldsfélagið Oddaflug ehf. and Baugur Group hf. respectively, should not be included in determining whether the parties concerned had joint control of a holding of 40% or more in the Issuer.

On 26 April 2006 the FME made public its opinion that Eignarhaldsfélagið Oddaflug ehf., Baugur Group hf., Materia Invest ehf. and Icon ehf. were not obliged to make a takeover bid to other shareholders of the Issuer on the grounds that they were acting in concert in relation to the changes in ownership/voting rights in July and November 2005. It was the opinion of the FME, however, that Materia Invest ehf. and Icon ehf. were acting in concert since the boards of directors of the companies were comprised mostly of the same members.

The Takeover Panel has on other occasions discussed matters relating to ownership in FL Group hf.'s shares, without issuing formal opinions on the subject. On 15 January, 2008, the Panel reviewed recent changes in the company's ownership structure and concluded that unless further information came to light it saw no reason to continue its study of those changes.

## **Squeeze-out and Sell-out Rules**

In Chapter X of the Icelandic Act No. 108/2007 on Securities Transactions it is stated that if the offering party in a takeover bid has acquired more than 9/10 of the share capital of a listed company then the offering party and the Board of Directors of the company can jointly agree to unilaterally squeeze out the remaining shareholders. The acquisition price will then be the same as in the takeover bid, subject to the squeeze-out taking place within 3 months of the expiry of the takeover bid. Furthermore, if the offering party has acquired more than 9/10 of the share capital of the company then the remaining shareholders can unilaterally request that the offering party acquire their remaining shares at the same price as in the takeover bid.

## **Redemption and Conversion Rights**

FL Group's shareholders are not required to submit their shares for redemption unless so required by law, and the consent of all shareholders is required to oblige shareholders to suffer redemption of their shares to a greater extent than provided for by law, unless the Issuer is dissolved or the share capital lawfully reduced. Any decision on the dissolution of the Company must be supported by 2/3 of the cast votes and the consent of shareholders controlling at least 2/3 of the shares in the Company represented at the meeting. A shareholders' meeting, which has made a lawful decision on the division or dissolution of the Company, shall also decide on how the assets of the Company should be disbursed and debts paid. The meeting shall also decide if the Company is to be divided by a public authority or a Winding-up Committee is elected in accordance with provisions in the Act No. 2/1995 on Public Limited Companies. If a shareholders' meeting has decided on dissolution of the Company, it shall without delay be announced to the Internal Revenue's Registry of Enterprises. Otherwise, dissolution or a division of the Company, or a merger with another company shall be governed by the current Act No. 2/1995 on Public Limited Companies as the provisions are set out in Chapter XIII and Chapter XIV.

## **Taxation**

The shares of FL Group hf. ("the Shares") are subject to taxation according to Icelandic tax law in effect at any given time. The following is a general summary of certain tax consequences for shareholders. The tax treatment for shareholders depends in part on their particular circumstances and can differ depending on their residence. Each shareholder should consult a tax advisor regarding the tax consequences which may arise for such person as a result of buying or selling the Shares, including the applicability and effect of foreign income tax regulations and provisions contained in treaties entered into by Iceland to avoid double taxation. The summary does not cover tax issues where the Shares are held as assets in business operations or by a partnership.

### ***Tax Considerations for Residents of Iceland***

#### ***Dividend***

FL Group is obliged to withhold a tax at the rate of 10% on dividend payments, according to Art. 3, paragraph 2 and Art. 5, paragraph 4 of Act No. 94/1996 on Capital Income Tax. For individuals this withholding tax is the final taxation, i.e. the applicable income tax rate is the same as the withholding rate. Most taxable legal entities may for income tax purposes declare a deemed deduction of the same amount as the dividend received and consequently there is no effective taxation of dividend income of such companies. If the withholding tax is higher than tax levied on the income of a company the difference will be refunded upon assessment of tax returns.

#### ***Sale of Shares - Individuals***

Gains from the sale of shares is taxable in Iceland. The tax rate is 10%. In the case of individuals, losses from the sale of shares can be deducted from the profit from the sale of shares, provided the loss and profit occur within



the same year. Losses from the sale of shares cannot be carried forward and offset against future capital gains from the sale of shares.

#### *Sale of Shares - Taxable Legal Entities*

For taxable limited liability companies, all gains from the sale of shares will be taxed at a rate of 18%. Gains on shares are taxable in full irrespective of how long the company has owned the shares. Other taxable entities might be treated differently, for example partnerships which are independently taxable entities, which are taxed at a rate of 26% instead of 18%.

Taxable legal entities may defer the payment of capital gains tax from the sale of shares for a period of up to two years starting at the end of the year when the shares are sold. The deferral can become indefinite if the relevant entity reinvests an amount corresponding to the capital gains in other shares within the two-year period.

Capital losses from the sale of shares within the same tax year can be deducted from the capital gains on shares. Losses from the sale of shares can neither be carried forward nor deducted from other income than capital gains from the sale of shares.

Specific tax consequences may be applicable to certain categories of companies, such as mutual funds and investment companies.

### ***Tax Considerations for Non-Residents of Iceland***

#### *Dividend*

FL Group is obliged to withhold 10% tax on dividend paid to individuals not resident in Iceland. FL Group is obliged to withhold 15% tax on dividend paid to foreign legal entities unless there is a tax treaty in place lowering the percentage. Qualified companies may apply for a reimbursement and/or an advance relief under the relevant provisions in double taxation treaties.

Limited liability companies (and some other forms of companies also) within the European Economic Area receiving dividend income from Iceland are allowed to file an Icelandic tax return and declare a deemed deduction in the same amount as the dividend received and, subsequently, obtain a refund. Consequently there should be no effective tax burden for such companies in Iceland.

#### *Sale of Shares*

Non-Resident entities' gains from the sale of shares in Icelandic companies are subject to taxation in Iceland. The tax rate is 10% for individuals and 15% for legal entities. Double taxation treaties which Iceland has entered into with other nations generally exempts the gain of eligible Non-Residents from such taxation. According to the tax treaty between Iceland, Denmark, Norway, Sweden and Finland, Non-Residents of Iceland, selling shares in FL Group will pay tax in their country of residence. However, this does not apply if an individual has been resident in Iceland for the five years preceding the sale. Similar provisions may also be in other double tax treaties Iceland has signed with other countries. Each shareholder must therefore consider what possible consequences selling shares in FL Group will have.

### ***Stamp Duty on Shares***

The issue of the Shares is subject to stamp duty in Iceland, which FL Group has paid for all issued Shares. The sale of shares is not subject to Icelandic stamp duty.

## **THE NEW SHARES**

### **Admission to Trading**

This Share Securities Note relates to 3,659,265,291 New Shares in FL Group hf. to be admitted to trading on the Main Market of the OMX ICE, where shares in FL Group hf. are listed under the symbol "FL". Trading in the New Shares on OMX ICE is expected to commence on 2 April 2008.

This document constitutes a "Share Securities Note" for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the "European Prospectus Directive") on the prospectus to be published when securities are offered to the public or admitted to trading, and the Commission Regulation no. 809/2004 on the implementation of the Directive. The Commission Regulation has been adopted into relevant Icelandic law by Icelandic Regulation no. 243/2006. The OMX ICE has approved this Share Securities Note on behalf of the FME and admits the New Shares to trading on the OMX ICE following the publication of the Prospectus of which this Share Securities Note is a part.

This Share Securities Note does not constitute an offer to sell, or a solicitation of an offer to buy, any shares or any other securities, and no offers of the New Shares will be made to the public in any member state of the European Economic Area. The New Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"), or the laws of any state of the United States. The New Shares have not been and will not be registered under the securities laws of Australia, Canada or Japan.

### **Authorisation, Registration, Issuance and Settlement**

The 3,659,265,291 New Shares were issued to Baugur Group hf. at the price ISK 14.7 per share and a total value of ISK 53.8 billion as consideration for a property portfolio consisting of shares and preference shares in a number of real estate companies and funds as well as shareholder loans in some of those real estate companies and funds as described under the heading "The New Shares" - "Consideration for the New Shares". On 21 December 2007, the New Shares were granted the same rights as other shares in the Company.

The New Shares were registered with the Internal Revenue's Registry of Enterprises on 21 December 2007 and issued at the ISD and delivered to Baugur Group hf. on the same date, according to the resolution of the Board of Directors of FL Group hf. on 20 December 2007, based on an authorisation granted at a shareholders' meeting on 14 December 2007 which resolved the following:

The Board of Directors may increase the share capital of the Company with sale of new shares as follows: The Company's Board of Directors is authorized to increase the Company's share capital by issuing up to 3,659,265,291 New Shares of nominal value 1 ISK each at the rate 14.7. The shares may only be used to finance a purchase of a Property Portfolio from Baugur Group hf. and affiliates and allotted to Baugur Group hf., in accordance with an agreement as of December 4, 2007. The Board of Directors is authorized to issue the new shares without the pre-emptive purchase provisions of Article 34 of Act Respecting Public Limited Liability Companies No. 2/1995 and the provisions of Article 4 of the Company's Articles of Association being applicable. In accordance with the above the Company's Board of Directors decides on the issues stipulated in Article 36 of the Act on Public Limited Companies, i.e. the subscription period and payment method and from which time the New Shares are granted rights in the Company. In accordance with the above it shall be permitted to pay for the shares by the means of other valuables than cash.

Payment for the New Shares has been made with a property portfolio consisting of shares and preference shares in a number of real estate companies and funds as well as shareholder loans granted to some of those real estate companies and funds as described under the heading "The New Shares" - "Consideration for the New Shares". The transfer of legal title to any of these shares, preference shares or shareholder loans shall be finalised no later than 15 October 2008. Baugur Group hf. is bound to pay in cash the difference if the final transfer of legal title to any of the underlying assets does not materialise before 15 October 2008.

Baugur Group hf. assumed the obligations towards FL Group to guarantee and compensate any losses which may be sustained by FL Group during the period spanning 15 months from the transaction (from 4 December 2007 until 4 March 2009), should it transpire that information on these assets sold to FL Group is to a significant extent incorrect and would have affected the valuation price of the assets received.

### **Selling Restrictions – Lock-up**

Baugur Group hf. holds right to 5,066,579,194 shares in FL Group hf., which equals 37.30% of FL Group's total issued shares. These 5,066,579,194 shares are subject to a lock-up arrangement for twelve months which became effective on 21 December 2007. Baugur Group hf. has agreed, according to an agreement with the Issuer, that neither Baugur Group hf. nor any of its subsidiaries will, during this lock-up period, sell any of those 5,066,579,194 Shares in FL Group or sell any other Shares (over and above those 5,066,579,194 Shares) in FL Group that Baugur Group hf. or any of its subsidiaries may acquire during this lock-up period. However, Baugur Group and its subsidiaries are allowed to sell shares in FL Group according to a sale and repurchase (forward) agreement as well as honour any contracts where shares in FL Group have been placed as collateral. During the lock-up, Baugur Group hf. holds the voting rights of the shares held in its own name and its subsidiary, BG Capital ehf. holds the voting rights of the shares held in the name of the subsidiary, but it may be different from one forward contract to another whether Baugur Group hf. holds the voting rights. Furthermore, Baugur Group hf. and its subsidiaries agreed that they would not participate in a rights issue that was intended for the first quarter of 2008.

Baugur Group hf. held 17.69% of FL Group's 9,244,728,573 total issued shares, prior to a private placement in December 2007 and the issue of the New Shares. This stake was held through its subsidiary, BG Capital ehf. which held 1,635,585,550 shares. Pursuant to the private placement, FL Group sold 680,272,109 new shares (which increased its total issued share capital to 9,925,000,682 shares) and Baugur Group hf. sold 340,136,054 shares on behalf of BG Capital ehf. As a part of the conclusion of FL Group's purchase of the property portfolio, the Issuer delivered the 3,659,265,291 New Shares to Baugur Group hf. which transferred the New Shares on to BG Capital ehf. BG Capital ehf. bought 111,864,407 shares on 30 March 2008. According to an insider's dealing announcement dated 30 March 2008, BG Capital ehf. holds voting rights, right to dividend and other right to 5,066,579,194 shares in FL Group hf. Of these BG Capital ehf. holds 3,151,440,428 shares in own name and 1,915,138,766 shares through forward agreements. These 5,066,579,194 shares equal 37.30% of FL Group's 13,584,265,973 total issued shares.

### **Dilution**

The New Shares are equal to a share increase of 36.9%, calculated as a percentage of the total issued shares prior to the issue of the New Shares.

As existing shareholders in FL Group waived their pre-emptive rights in respect of any of the New Shares, the proportional holdings of shareholders other than Baugur Group hf. was diluted by 26.9% (calculated as a percentage of the total issued shares past the issue of the New Shares) by the issue of the New Shares.

### **Background to the Issue**

On 4 December 2007, FL Group announced that it had made significant investments in major property companies, through its acquisition of a property portfolio bought from Baugur Group hf. The investments have been fully financed through the issue of new shares in FL Group at ISK 14.7 per share and a total value of ISK 53.8 billion. In light of the size of the share issue and market conditions, characterised by turbulence and a general economic downturn at that time, conditions which still prevail, FL Group's Board of Directors concluded that the issuance of new shares should be at a price lower than current market price at that time. This price was 24% lower than the closing price on OMX ICE on 3 December 2007, i.e. the day before the transaction was announced, and 6% lower than the closing price on OMX ICE on 6 December 2007 when trading in FL Group hf. was resumed.

At the same time, FL Group announced on 4 December 2007 that it would offer new equity worth ISK 10 billion to institutional investors at the same price, ISK 14.7 per share. In the event of higher demand (which was the

case), Baugur Group hf. had undertaken to sell up to ISK 5 billion of its stake in FL Group, potentially making the total offering ISK 15 billion in value, at ISK 14.7 per share. The offering was arranged by Kaupthing in December 2007. Pursuant to the private placement, FL Group sold 680,272,109 new shares (which increased its total issued share capital to 9,925,000,682 shares) and Baugur Group hf. sold 340,136,054 shares on behalf of BG Capital ehf. Concurrently, FL Group announced its intention to offer additional new shares through a rights issue to shareholders at the price of ISK 14.7 per share, a total amount of ISK 3 billion in value, and Baugur Group hf. undertook not to participate in the offering. The current market price of FL Group's shares on OMX ICE is lower than this price and therefore no further decision has been made concerning this intended rights issue.

Following the purchase of these assets, FL Group's property portfolio in Europe had total assets of ISK 574 billion (EUR 6.4 billion) and a total of 3.3 million square meters of rental space and more than 4,000 tenants. The acquired interests will be held within the Private Equity division and complement FL Group's existing property investments with US based Bayrock Group and Eik property company. It is FL Group's opinion that the abovementioned investments are in line with the Group's strategy to continue to strengthen its Private Equity division.

In December 2007, FL Group also finalized a long-term financing amounting to ISK 45 billion of long-term financing. A part of the financing was used to repay the Company's short-term debt.

The reason for these transactions was to strengthen the Issuer's capital base. Owing to the general decline on the stock markets, including the drop in the share price of listed companies in which FL Group had invested heavily, the Company's financial position was such that the Board of Directors and executive management thought it necessary to take action.

By purchasing this property portfolio FL Group is strengthening its total asset portfolio and the acquisition represents part of the process of restructuring its asset portfolio according to the Company's new policy of increasing the weight of unlisted assets in its activities and reducing market risk. In the near term FL Group will also increase its focus on private equity.

The Company also sold certain shareholdings, which lowered the market exposure considerably. A description of these transactions is to be found within "Highlights of key business development activities" under the heading "Capital markets". The company is also trying to reinforce its financial position by taking measures to cut operating expenses by 50% from the 2007 figure of ISK 6.2 billion.

By completing these transactions, the Company's financial position is substantially stronger than before and its liquidity provides it with better flexibility for current operations and to meet potential market volatility. Information on capitalisation is to be found in sections under the headings "Capitalisation" and "Recent Developments" – "Annual Results for 2007".

## **Consideration for the New Shares**

The purchase price of the assets was ISK 53.8 billion, of which approximately 55% was paid for a stake in Landic Property hf., approximately 30% for interests in foreign property funds sold on to Landic Property hf. and approximately 15% for other investments. New Shares were issued to Baugur Group hf. at the price ISK 14.7 per share as consideration for this portfolio consisting of shares and preference shares in a number of real estate companies and funds as well as shareholder loans provided to some of the real estate companies and funds in accordance with the table below. The issue of the New Shares is also described under the heading "The New Shares" – "Background to the Issue" and "Recent Developments" – "Related Transactions". The foreign property funds were sold on to Landic Property hf. in February 2008. The transaction which was closed 13 February 2008 had a transaction value of ISK 20.6 billion. The purchase price was the same in the relevant currencies as in the agreement with Baugur Group hf., with the exception that shareholder loans that FL Group granted after its acquisition of the property interests were assumed by Landic Property hf., and financing cost from 4 December 2007 to 12 February 2008 was added to the purchase price. Included in the ISK 20.6 billion purchase value was furthermore one asset, the Issuer's own stake in LXB3 Limited, which was not a part of the agreement between Baugur Group hf. and the Issuer was sold to Landic in the same transaction.

Payment for the New Shares has been made by transferring economic interests from Baugur Group hf. and affiliates (BG Holding ehf., BG Equity 1 ehf. and Baugur Holding AB) of a property portfolio consisting of

shares and preference shares in the following real estate companies and funds as well as shareholder loans granted to those real estate companies and funds.

The full legal title to all the assets shall be duly transferred by 15 October 2008. In case the relevant assets can only in part or not at all be transferred the value of the consideration shares allotted for the relevant asset shall be paid to FL Group in cash. At the time of the publication of this prospectus, over 80% of the full legal title to the assets had been transferred.

#### Breakdown of the property portfolio which forms the consideration for the New Shares

Company/Fund	Consideration – <i>Type of financial instrument and percentage of a stake</i>	Notification
Landic Property hf.	2,148,641,923 ordinary shares of ISK 1 each - 39.8%	
Fasteignafélag Íslands hf.	570,449,555 ordinary shares of ISK 1 each - 33.7%	
Eikarhald ehf.	637,643,000 ordinary shares of ISK 1 each – 22.7%	FL Group owned 49.0% shares in Eikarhald ehf. prior to the acquisition from Baugur Group. The shareholding increases to 71.7% subject to waiver of preemptive rights.
Pyrping hf.	578,655,000 ordinary shares of ISK 1 each - 49.3%	Thereof 70,932,939 ordinary shares on forward contract
Nordicom A/S	678,983 ordinary shares of DKK 100 each - 21.7%	All ordinary shares held through forward contracts
BG Fasteignir ehf.	500,000 ordinary shares of ISK 1 each - 100%	Interest sold to Landic Property hf.
Baugur Group BV	221,500 ordinary shares of €25.772404 each - 100%	Interest sold to Landic Property hf.
Catalyst Samsara India Opportunity Fund I LP	2,000 units - 30.3% Participation for £11,790,569	The financial instruments have not yet been transferred, but will be later in 2008 subject to the consent of other shareholders in the company. Interest has been sold on to Landic Property hf.
LXB Smallco Limited	16,666 ordinary shares of £0.01 each - 25.1% 249,750 preference shares of £1.00 each - 25.1% Shareholder loan for £600,020.72	The financial instruments have not yet been transferred, but will be later in 2008. Interest has been sold on to Landic Property hf.
WCC Europe S.a.r.l.	343 ordinary shares of €25.00 each - 23.8% Shareholder loan for €27,050,259	The financial instruments have not yet been transferred, but will be later in 2008 subject to the consent of other shareholders in the company. Interest has been sold on to Landic Property hf.
Dial Square Holdings ehf.	500,000 ordinary shares of ISK 1 each - 100% Shareholder loan for €800,000	The financial instruments have not yet been transferred, but there is an option until 15 October 2008 to buy 100% of the total share capital of the company. Interest has been sold on to Landic Property hf.

The following is information on the real estate companies and funds acquired by FL Group.

*Landic Property hf. - Holdings: 39.8%*

Landic Property is a Nordic real estate company, which specialises in leasing real estate to public and corporate customers with the aim of fulfilling their changing needs. For that purpose Landic Property is engaged in the development of existing assets and additions to them. Landic Property completed the takeover of Keops A/S on 3 September 2007, after which the largest assets of the company are in Iceland, Sweden and Denmark.

The company operates within the following six business units:

- Four geographical real estate management units in Sweden, Iceland, Denmark and Finland.
- Keops Investment – Mediation of investment properties in northern Europe
- Keops Development A/S – Property development, primarily in the Nordic region

Landic Property is the largest real estate group in Iceland and after its acquisition of Keops A/S, which was Denmark’s largest listed property group, Landic Property has become one of the largest real estate companies in the Nordic region with approximately 500 properties and total assets valued at over ISK 470 billion (€4.8 billion), offering approximately 2.7 million square meters of rental space with more than 3,400 lease agreements.

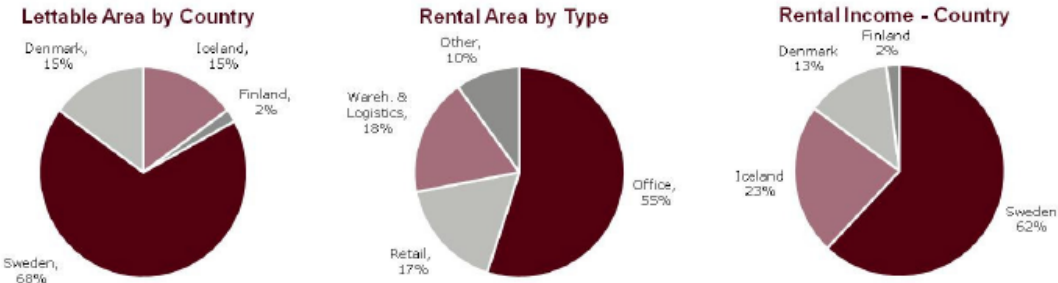
Landic Property employs approximately 270 people. Of these, Keops Development A/S has 100 employees.

Largest Tenants	Industry
Swedish Police Department	Government
Hagar	Consumer Retail
TeliaSonera	Telecommunications
Scandinavian Airlines	Airline
Magasin	Consumer Retail
Illum	Consumer Retail
Icelandair Hotels	Hotels
Stockholm County Council	Municipality
LM Ericsson	Electronics
Nordea Bank	Banking

Landic Property, originally named Fasteignafélagið Stoðir hf., was created in 1999 by Kaupthing Bank hf. and Baugur Group hf. As of 28 March 2008, Kaupthing Bank hf. held a 3.82% stake in Landic Property, of which shares in its own name were equal to 0.84% of Landic Property’s total issued shares and shares held on a nominee account, as a hedge against forward contracts with clients, equalled 2.98% of Landic Property’s total issued shares.

The company is well diversified. No single tenant accounts for more than 5% of total rental revenue and the sqm and revenue mix is balanced between the Nordic countries.

Following are charts that show the revenue split and asset split in square meters based on the status at 31 December 2007.



Landic Property completed its takeover of Keops A/S on 3 September 2007. Consequently, accounts have not been prepared for the company since the acquisition. The last published accounts for Landic Property hf. (then

Fasteignafélagið Stoðir hf.) and Keops A/S are the interim reports for the six months ending 30 June 2007 and 31 March 2007, respectively.

<b>Key Figures</b> <b>The income statement includes Keops A/S's operations</b> <b>from 3 September 2007</b>	<b>Landic Property hf.</b> <b>2007</b> <b>(ISKmillion)</b>
Revenue	16,588
Value adjustment of investment properties	6,872
Operating profit (including value adjustments)	15,842
Profit for the year	2,524
Total assets at the end of period	452,075
Total liabilities at the end of period	381,479

FL Group's investment of ISK 29.8 billion in Landic Property is defined as one of its principal investments. The registered office of Landic Property hf. is Kringlan 4-12, 103 Reykjavík, Iceland. Its total issued share capital is ISK 5,398,055,016 nominal value divided into shares with a nominal value of ISK 1.0 each, of which Landic Property hf. holds 4,440,690 of its own shares, and 5,393,614,326 shares are outstanding. The company paid ISK 999 million, or ISK 0.454 per share of which FL Group held 160,716,919 shares at that time, as dividends in 2007 in relation to the financial year ended 31 December 2006.

*Fasteignafélag Íslands hf. - Holdings: 33.7%*

Fasteignafélag Íslands hf. owns 100% of shares in Smáralind ehf. which in turn owns Smáralind, one of Iceland's two largest shopping malls. Smáralind ehf. is the main asset of Fasteignafélag Íslands, but in addition the company owns plots and building rights in the vicinity of Smáralind, offering great potential for development.

<b>Smáralind ehf.</b> <b>Key Figures (ISK millions)</b>	<b>2007</b>
Revenue	1,177.8
EBITDA	678.3*
Realised gains and value adjustments	-119.1
Net profit	155.5
Total assets at the end of period	15,237.3
Total liabilities at the end of period	8,786.6

*\*including realised gains and value adjustments.*

*Pyrping hf. - Direct Holdings: 49.3% - Landic Property holds 48.8%*

Pyrping hf. is a real estate development company. Its primary development projects are currently: Borgartún 26, a high-profile office and service complex in the heart of Reykjavík's Central Business District; 101 Skuggi (Phase 2 and 3), a high-rise residential tower of 250 luxury apartments on the seafront in downtown Reykjavík; and Nesgarðar where 190 luxury apartments will be built on the north side of the town of Seltjarnarnes, adjacent to Reykjavík.

*Eikarhald ehf. - Holdings before Property Portfolio acquiring: 49%. Holdings acquired by purchase of Property Portfolio: 22.7%. Total holdings post transaction: 71.7%*

Eikarhald ehf. acquired 100% in Eik Fasteignafélag hf. in April 2007, Eik Fasteignafélag hf. is a large real estate company specializing in renting out commercial property, the majority of which is in Reykjavík, Kópavogur, Hafnarfjörður and Akureyri. It owns about 50 properties.

<b>Eik Fasteignafélag hf. Key Figures (ISK millions)</b>	<b>Annual Report 2007</b>
Revenue	1,414.0
EBITDA	1,043.0
Realised gains and value adjustments	1,915.6
Net profit	1,724.0
Total assets	17,252.8
Total liabilities	14,290.9

*Nordicom A/S – Holdings: 21.7%*

Nordicom A/S is a Danish company in the real estate industry operating within two main areas. It invests in property suitable for leasing, and it develops property for the purpose of sale or lease. Nordicom is listed on OMX Nordic Exchange Copenhagen (Ticker: NRDC). As of 31 December 2007 it had total assets of DKK 5,798 million.

*LXB SmallCo Limited - Holdings: 25.1%*

A small investment fund with the purpose of investing in property assets that require minimal management time, but still have the potential to yield good returns within a few years. The total equity commitment is approximately EUR 10 million. The fund has yet to invest.

*Baugur Group BV – 100% - Interest sold on to Landic Property hf.*

Baugur Group BV holds 16.5% in Terra Firma India Sarl which is an investment fund that started in April 2007 and invests in development projects in India. The total fund equity commitment is EUR 47 million. The fund is managed by the Bangalore based company Embassy Group ([www.embassyindia.com](http://www.embassyindia.com)) which has extensive experience in property development in India. The main projects of Terra Firma India Sarl to date are a 51 acre commercial technology park in Chennai, a 20 acre residential development in Kerala and a 67 acre technology park in Pune.

*Dial Square Holdings ehf. – Holdings 100% Interest sold on to Landic Property hf.*

The assets of Dial Square, being currently subject to a takeover process, are excluded from the scope of the transaction. Upon completion of the takeover process, FL Group will be entitled to exercise an option to acquire these assets.

*BG Fasteignir ehf. – 100% - Interest sold on to Landic Property hf.*

BG Fasteignir ehf. holds shares in Prestbury 1 Limited Partnership, LXB3 Limited, and LXB Developments (Orange) Limited. The LXB funds are managed by LXB Property Partners LLP, a property management company based in London. Further information about each of the funds follows.

*LXB3 Limited - Holdings: 26.7%*

Real estate investment fund formed in August 2006. The fund currently owns retail, warehousing, edge of town development, shopping centres, garden centres and mixed use properties, including residential, in the London area. The main focus remains on situations where significant value can be added and often involves working jointly with the investors and other businesses in which they have an interest.



*LXB Developments (Orange) Limited - Holdings: 35.0%*

An investment fund owning and focusing on the House of Fraser real estate portfolio.<sup>1</sup>

*Prestbury 1 Limited Partnership - Holdings: 21.1%*

Created in June 2006 as an English Ltd. Partnership. It focuses on sale and leasebacks in the UK. The fund is a partnership with GBP 475 million of available equity. The fund has already made the following investments in the UK: Portfolios of private hospitals, portfolio of bars, restaurants and clubs, real estate portfolio of theme parks and hotels including Madame Tussauds London, residential real estate reversions portfolio and prime London office buildings. The fund is operated by Prestbury Investment Holdings Ltd., based in the UK.

*Catalyst Samsara India Opportunity Fund I LP - Holdings: 30.3% - Interest sold on to Landic Property hf.*

An investment fund established in July 2007, which invests in real estate development in India, including residential, commercial, office, hotel and shopping centre properties or in companies pursuing such development opportunities. The fund is operated by Catalyst Capital LLP in a joint venture with a local Indian partner, Samsara Capital. Catalyst Capital is a property management company with its headquarters in the United Kingdom ([www.catalystcapital.com](http://www.catalystcapital.com)). Samsara Capital is based in Mumbai, India. The transfer of the interest of Catalyst Samsara is subject to the consent of other parties to the fund.

*WCC Europe S.a.r.l. – Holdings: 23.8% - Interest sold on to Landic Property hf.*

FL Group will be entitled to exercise an option to acquire WCC Europe S.a.r.l. subject to consent from other parties to the fund. WCC Europe S.a.r.l. is a real estate investment fund established in August 2006 and managed by Catalyst Capital. The fund has investor equity of EUR 200 million and focuses on the Pan European area. The principal target of the fund is to invest in retail, office and warehouse properties across mainland Europe that provides opportunities to add value. Many of the current investments include both the refurbishment and re-configuration of accommodation, lease reviews and restructuring and also the exploration of development opportunities and initiatives. It currently holds properties in Germany, Italy, Poland, Hungary and Romania.

## **Opinions from Independent Parties**

### ***Fairness Opinion***

Concurrently with the acquisition, Kaupthing Bank hf. provided a fairness opinion to FL Group on the methodology used to value the assets within the portfolio. Kaupthing Bank's conclusion was that the valuation methods employed by FL Group were carried out using reasonable assumptions. Furthermore, Kaupthing Bank found the total consideration amounting to ISK 53.8 billion to be a likely fair value in an arm's length transaction between a willing buyer and willing seller with each party acting knowledgeably. Kaupthing Bank had slightly different views on the valuation of individual assets in the portfolio but on balance the difference in total outcome was within a reasonable margin of error. Kaupthing Bank believed that FL Group had sufficient information to value the assets. This opinion did not include an opinion on the value of the currency that was assigned in return for the assets.

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<sup>1</sup> Since the purchase of LXB III and LXB Developments (Orange) Limited, the two companies have been merged.

### ***Statement***

Kaupthing Bank hf. declares that, having taken all reasonable care to ensure that such is the case, that the information contained in this Share Securities Note on this fairness opinion is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Reykjavík, 31 March 2008  
On behalf of Kaupthing Bank hf.

Þórólfur Jónsson  
Managing Director of Kaupthing Bank hf. – Investment Banking

### ***Specialised Report***

Concurrently with FL Group's issue of the New Shares, KPMG hf. prepared, at the request of the Company, a specialised report in accordance with Article 37, cf. Articles 5-8, of Act No. 2/1995 on Public Limited Companies. The specialised report has been submitted to the Enterprise register of the Director of Internal Revenue (Fyrirtækjaskrá Ríkisskattstjóra), Laugavegur 166, Reykjavík. In accordance with Article 6 of Act No. 2/1995 on Public Limited Companies, KPMG hf. declared that nothing had emerged which indicated anything other than the assets received by FL Group corresponded at least to the nominal value of the shares which the Company will issue, plus a premium. As it was FL Group's intention to receive valuables other than cash as remuneration for the New Shares, KPMG hf. prepared, at the request of the Company, a specialised report in accordance with Article 37, cf. Articles 5-8, of Act no. 2/1995 on Public Limited Companies. This report was based on the conclusions of Kaupthing Bank that the methods used in valuing the assets on the part of FL Group are appropriate, are based on realistic criteria and that the value of the assets reflects their total fair value. When preparing the report, account was taken of the obligations that Baugur Group hf. assumed towards FL Group to guarantee and compensate any losses which may be sustained by FL Group during the period spanning 15 months from the transaction, should it transpire that information on these assets sold to FL Group is to a significant extent incorrect and would have affected the valuation price of the assets received. The report used the acknowledged trading price of share capital in Landic Property hf. when the company took over the Danish real estate company KEOPS A/S and paid with new shares in Landic Property hf. at the end of June 2007.

### ***Statement***

KPMG hf. declares that, having taken all reasonable care to ensure that such is the case, that the information contained in this Share Securities Note on this specialised report is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Reykjavík, 31 March 2008  
On behalf of KPMG hf.

Jón S. Helgason

Sæmundur Valdimarsson

### ***Other Information***

FL Group estimates that the total cost of the issue and admission to trading of the New Shares on the OMX ICE is approximately ISK 100,000,000, including advisory fees, charges from OMX ICE, stamp duty, and other consultant fees and charges. All costs of the admission to trading will be borne by the Issuer.

The ISIN code of the New Shares are identical to the ISIN code of the previously issued shares of the Company. ISIN code of the Issuer's shares is IS0000000289.

The New Shares are in the same class and have the same rights as the previously issued shares in FL Group hf.

## RECENT DEVELOPMENTS

This chapter covers the Issuer's most relevant developments, other than described above in this document, since the date of the Issuer's Share Registration Document which was published as a part of a Prospectus dated 25 September 2007 and its Supplement published 29 October 2007. The most relevant developments refer to information on material change or recent development which could affect investors' assessments since its Supplement published 29 October 2007, including but not limited to, changes in main shareholders, changes in organisational structure, changes in key management, changes in senior management, arrangements for involving the employees in the capital of the Issuer, latest published key financial figures, and investments and divestments. Any financial information more recent than at 31 December 2007 which is provided in this Share Securities Note is based on the Issuer's preliminary accounts and prepared by its Management.

### **Risk Factors**

Investing in shares is subject to numerous risks. Prior to making any investment decision regarding the Issuer's shares, investors should consider all the information provided in this Share Securities Note dated 31 March 2008, along with all information provided in the Issuer's Share Registration Document which was published on 27 September 2007 as a part of a Prospectus dated 25 September 2007 and its Supplement published on 29 October 2007. The risks and uncertainties described in these documents are those that the Issuer believes are most likely to materially affect the Issuer and any investment made in its shares. If any or a combination of these events occurs, the trading price of the Issuer's shares could decline and investors might lose part of their investment or even all of it. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Issuer is unaware may also impair its business and operation. These risks and uncertainties could have a materially adverse impact on the business, income, profit, assets, liquidity and/or the share price of the Issuer's shares. The discussion to be found in the above mentioned documents is not exhaustive, although the Issuer is of the opinion that the discussion covers the risks that are material to investments made in the Issuer's shares.

### ***Risk Factors Relevant to the Acquisition of the Property Assets***

This section covers risks associated with the real estate companies and funds recently acquired by FL Group in accordance to the agreement announced on 4 December 2007. The purchase price of the assets is ISK 53.8 billion, of which approximately 55% was paid for a stake in Landic Property hf., approximately 30% for interests in foreign property funds sold on to Landic Property hf. and approximately 15% for other investments.

In addition to the risk that FL Group was subject to before this acquisition of real estate companies and funds, FL Group is now subject to risks associated with property assets. Property assets, including property funds and real estate companies, are subject to various sector specific risks. The following is a discussion of some relevant risk factors in relation to the real estate companies and funds acquired by FL Group. The book value of FL's equity at the end of 2007 was ISK 155.8 million. The purchase price of the real estate companies and funds amount to approximately 34.5% of the book value of the equity. Consequently, should the following risks materialise, resulting in a lower value of the real estate companies and funds, the value of FL Group will be impacted.

#### *Demand*

The demand for commercial space, i.e. office, retail, hotel and warehousing facilities is influenced by several factors. Negative changes in the economy and general business climate may adversely affect the demand for commercial space which in turn reduces both property values and rent levels and increases vacancy levels. Supply of commercial property is influenced by construction activity. Historically, positive developments in the property market are followed by increased construction of properties. Because of the long construction lead time, and since construction generally is finalised regardless of market conditions, significant property market cycles are at times generated with oversupply of properties, lower rent levels and increased vacancies. Excess supply or low demand may have a materially adverse effect on a property asset's business, results of operations or financial condition. These fluctuations are out of management's control. Vacancy management is an important tool for value creation, but at the same time having large vacancies at the start of a downturn in the business

cycle creates added risk for unsatisfactory long-term yields of investments, which may have materially adverse effects on a property asset's financial performance.

#### *Tenants*

Property assets receive revenue from tenants under contracts with a stated term and, in some cases, with termination clauses permitting the tenant to cancel the contract, at the customer's discretion, following the expiration of an agreed notice period. There can be no assurance that the property assets' customers will not exercise their rights to terminate their contracts prior to expiration or that the property assets will be successful in negotiating new contracts with customers as such contracts expire.

A tenant's financial status and strength is a decisive factor both when renting property and evaluating property project risk. Any tenant can run into financial difficulty which might lead to early termination of leases. Early termination affects property assets mainly in three ways. Firstly, forgone rental income in cases where the tenant becomes insolvent. Secondly, possibly lower rent level following termination of lease, and thirdly a potential subsequent vacancy following the termination of the lease.

Property assets are exposed to risk relating to the financial health of certain sectors, which make up a large part of their tenant base such as Consumer Retail, Financial Services and Hotels. A systemic downturn in any of those sectors may have a material adverse effect on property assets' business, results of operations or financial condition.

#### *Necessities*

The largest non-financial and non-maintenance cost items in managing property are heating, electricity, water and sewage. In most cases a property asset does not have a choice of vendor supplying those services and is generally subject to the risk that prices are increased. A property asset in some cases minimises this risk by charging separately for these services by consumption. If prices are increased it may, however, have a materially adverse effect on the property asset's business, results of operations or financial condition.

#### *Icelandic land lease*

In general, the extension or creation of new land lease agreements in Iceland is not problematic. Furthermore, it is not uncommon that the renewal process takes several months or years where the lessor is a municipality in Iceland and the common practice by the municipalities is to start the renewal process only after the agreements have expired. However, the owner of a piece of land where a land lease agreement has expired has the right to claim the land but, depending on the terms of the agreements, may have to pay damages for the buildings that have been built on the land during the term of the land lease agreement. Landic Property hf. has a large portfolio of real estate in Iceland.

### ***General risk associated with FL Group's business***

Legal claims could adversely impact FL Group's financial condition and results of operations and impair its reputation. FL Group is and may in the future be subject to legal claims or orders from authorities, including tax authorities, and other third parties. No assurance can be given to the outcome of such claims. For further information on current legal disputes refer to the section under the heading "Recent Developments – Legal and Arbitration Proceedings".

### ***Risk related to financial resources***

FL Group uses leverage to maximize shareholder return, which exposes FL Group to refinancing risk and the restrictions of debt covenants.

FL Group depends on external financing in its business. An adverse liquidity event might force financing under unfavourable terms and even cause unfortunately timed property divestments. There is also a risk of FL Group not being able to refinance current portfolios.

FL Group's strategy is to have an equity ratio of 30% to 40% although from time to time it may go below or above such equity ratio due to factors such as fluctuations in cash flow, property acquisitions or divestments,

M&A transactions, share offerings, or sudden movements in the financial markets. FL Group's management believes that this equity ratio will in the long run maximise the return to shareholders.

At 31 December 2007 the total borrowings were ISK 205.0 billion out of a total capitalisation of ISK 360.8 billion, or 56.8%. Consequently, should any of the risks related to financial resources materialise, it may have a materially adverse effect on the Company.

Certain financial loan covenants are to be found in all of FL Group's loan agreements. The loan covenants relate to e.g. FL Group's equity ratio, interest coverage, debt service coverage ratio, loan-to-value, fluctuations on average trading volumes, sale or other dispersion of assets, change of ownership and / or control of FL Group, a change of applicable law, the lender's decreased access to refinancing etc. Not fulfilling the covenants could mean immediate or accelerated repayment of bonds, loans, cross-defaults, and/or technical default requiring prohibition of dividend and re-negotiation with creditors under distress. FL Group or its subsidiaries may not have sufficient liquid assets to repay the accelerated indebtedness. Such an event would almost always be preceded by a significant adverse development in FL Group's financial performance. Furthermore, events such as a drop in market prices could mean that loan-to-value covenants would trigger the need for more equity or added collateral. Not fulfilling the covenants could also limit FL Group's ability to operate its business, for example by preventing it from necessary investments. However, such circumstances would normally be met with a temporary waiver from creditors or, should a waiver not be obtained, by providing added collateral or with a share capital increase or an asset sale in order to repay accelerated indebtedness. The Company is currently operating within the limits of all relevant covenants, even though drop in value of FL Group's assets has meant in certain circumstances FL Group has been required to provide further collateral

FL Group has signed eleven loan agreements with 13 financial institutions. These loan agreements represent around 60% of FL Group's borrowings and mature in the years 2008 to 2010. There are covenants in these loan agreements that are valid until the loans are repaid. The loan agreements include financial covenants that relate to the book equity of the company, market value of assets and liquidity. The most relevant ones are minimum book equity, security coverage and market value of liquid assets. There are some restrictions on disposals of assets and on payment of dividends to shareholders. The restrictions on payments of dividends are all related to covenants relating to a minimum book equity.

## **Legal and Arbitration Proceedings**

FL Group is and may in the future be subject to legal claims and/or proceedings from contracting parties, including from public authorities, including tax authorities and other third parties. No assurance can be given to the outcome of any such claims and/or proceedings. Below is a description of legal and arbitration proceedings, which may have significant effects on the Issuer's financial position or profitability:

### ***The Icelandic Financial Supervisory Authority***

The FME has from time to time requested, and may in the future request, certain information and documents from FL Group pertaining to individual transactions and contracts where FL Group is a party. Such requests may be routine and may or may not lead to further investigation or action on behalf of the FME.

The FME has requested certain documents regarding FL Group's purchase of shares in Finnair, Bang & Olufsen, Royal Unibrew and Aktiv Kapital, which took place in June 2006, to see if any laws or rules have been broken regarding those purchases. The requested documents were sent to the FME in October 2007. The FME's review of the documents is pending.

The FME also requested documents and information regarding FL Group's involvement with and investment in the merged entity of Geysir Green Energy ehf. and Reykjavik Energy Invest hf. in October 2007, to see if any laws or rules have been broken regarding FL Group's involvement. The requested documents and information were sent to the FME in October 2007 and the FME's review is pending.

In 2007, FL Group started to purchase shares in the insurance company Tryggingamiðstöðin hf. FL Group holds (direct and indirect) 99.9% of the outstanding share capital in Tryggingamiðstöðin hf.. On 21 September 2007, FL Group requested the FME's authorisation to own, control and have voting rights on over 50% of the share

capital of Tryggingamiðstöðin hf. The matter is still pending before the FME. According to the purchase agreements for the shares in Tryggingamiðstöðin hf., FL Group bears the risk regardless of whether or not the FME's authorisation is obtained. If the FME does not grant the requested authorisation FL Group may be forced to sell a large portion of its share capital in Tryggingamiðstöðin hf.

On 12 December 2007, the FME refused FL Group's and Jötunn Holding ehf.'s application to own and control more than 32.99% of the share capital of Glitnir Bank hf. Consequently, the FME has requested that FL Group and Jötunn Holding ehf. sell their share capital in Glitnir Bank hf. so that their combined holding of shares in the bank drops below 32.99% before 1 June 2008. Jötunn Holding ehf. has declared that it will sell its shares so the combined shareholding drops below 32.99%. According to a publication on 13 December 2007, Jötunn Holding ehf. is owned by Baugur Group hf., Fons hf. and WCC (Iceland) ehf.

### ***The Icelandic Competition Authority***

The Icelandic Competition Authority has FL Group's acquisition of Tryggingamiðstöðin hf. under review and the authority is examining the effect that the merger will have on the casualty insurance market, the possible overlap with other markets in which FL Group has influence and relations among the shareholders of FL Group and their ownership in other companies. If the Competition Authority disqualifies the acquisition, this might have implications for FL Group.

In November 2007 the Icelandic Competition Authority reported that it had under review whether FL Group, Baugur Group, Sund, Saxhóll, BYGG, Imon and Materia Invest should, on account of their alleged common interests, be considered to have gained joint control over Glitnir Bank hf. and BYR savings bank. FL Group rejected this assertion of the Icelandic Competition Authority in December 2007, but the matter is still pending.

The merger of Stoðir fasteignafélag hf. (now Landic Property hf., in which FL Group holds 39.8% of the share capital) and Landsafl hf. was announced in May 2007. The merger of the real estate companies Eikarhald ehf. and Eik fasteignafélag ehf. was announced in June 2007. The Icelandic Competition Authority has under review whether common interests and shareholdings in the companies might constitute a merger of Landic Property hf. and Eik fasteignafélag ehf. within the meaning of the Icelandic Competition Act No. 44/2005. FL Group has rejected the suggestion, but the matter is still under review before the Icelandic Competition Authority. If a merger between Landic Property hf. and Eik fasteignafélag ehf. is determined to have occurred this might have implications for FL Group as the owner of 39.8% of the share capital in Landic Property hf., due to the restrictions and duties that accompany the consequent dominant position of Landic Property hf., and it could possibly affect Landic Property hf.'s acquisition of Landsafl hf.

## **The Annual General Meeting and Financial Calendar**

FL Group held its Annual General Meeting on 11 March 2008.

FL Group published its annual results for 2007 on 13 February 2008 and announced that the results for the first quarter of 2008 are expected to be published between 28 April and 2 May 2008, the results for the second quarter between 28 July and 1 August 2008, the results for the third quarter between 27 and 31 October 2008 and the annual results for 2008 are expected to be published between 2 and 6 February 2009.

## **Annual Results for 2007**

The following chapter includes a management discussion and the figures from the audited consolidated financial statements of FL Group for the year and year-end 2007 along with figures from the audited consolidated financial statements for the year and year-end 2006. Any financial information more recent than at 31 December 2007 which is provided in this Share Securities Note is based on the Issuer's preliminary accounts and prepared by its Management.

Financial statements are reported in ISK. All of the Company's listed holdings are reported at market value, which results in market fluctuations having a direct effect on the Group's income statement. An alternative reporting method for some of our strategic holdings is the equity method, where investment income equals a share of net profit proportional to the size of the equity investment. The portfolio of the Company's unlisted assets is re-valued on a regular basis to fair market value in accordance with IFRS. As of 1 October 2007, the insurance company Tryggingamiðstöðin hf. (TM) was consolidated into FL Group's accounts. This follows FL Group's acquisition of 99.1% of TM's share capital. The Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and the accounts have been audited and approved by the Group's auditors, KPMG hf.

## Selected Financial Information

<b>Financial Highlights</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004*</b>
<i>(ISK '000,000)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Income Statement</b>				
Net investment income	-73,790	17,491	20,349	2,154
Operating income	0	0	0	42,586
Operating expenses	-6,153	-2,771	-1,652	-40,422
Net insurance premium	171	0	0	0
Profit (loss) before income tax	-79,772	14,720	18,697	4,318
Income tax	12,534	2,631	-3,292	-713
Profit from discontinued operations	0	27,208	1,846	0
Profit (loss) for the year	-67,238	44,559	17,251	3,605
<b>Balance sheet</b>				
Total assets	422,320	262,871	132,618	43,482
Liabilities	266,476	120,195	58,175	28,721
Equity	155,844	142,676	74,443	14,761
Earnings per share	-8.18	6.65	5.90	1.63
Equity ratio	37%	54%	56%	34%
Return on equity	-45%	41%	39%	30%

\*Discontinued operations for the year 2004 have not been reclassified.

The selected financial information for the year 2005, 2006 and 2007 is from the 2007 Annual Report. The selected financial information for the year 2004 is the comparative figures presented in the 2005 annual account.

## The Year 2007 and Changes from 2006

The Issuer's loss was ISK 67.2 billion in 2007. The decrease from 2006 is mainly attributed to unfavourable share price development in the Issuer's investments. The Issuer's total assets were ISK 422.3 billion at the end of 2007, increasing by ISK 159.4 billion during the year. The largest portion of the increase can be attributed to the consolidation of Tryggingamiðstöðin hf. into the accounts and to equity investments, including Landic Property hf. At the end of 2007, listed equity investments were ISK 197.1 billion where the largest investments were Glitnir Bank hf.; market value ISK 104.4 billion, Commerzbank; valued at ISK 45.9 billion, and Finnair Oyj. which was valued at ISK 12.1 billion. Total book value of investments in unlisted securities amounts to ISK 90.0 billion. However, the book value of the Company's securities assets in the financial statements is only ISK 219.0 billion since part of the Company's shares are financed with forward agreements where only the net value is entered into the balance sheet. Equity capital at the end of 2007 was ISK 155.8 billion, an increase of ISK 13.2 billion from the end of 2006. The Issuer's equity ratio was 36.9% at the year-end 2007.

## Income Statement

<b>Consolidated Income Statement</b>	<b>2007</b>	<b>2006</b>
<i>(ISK '000,000)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Net investment (expense) income</b>		
Net (expense) income from investment securities and derivatives.....	-63,682	23,956
Interest income.....	4,982	854
Interest expenses.....	-17,566	-4,948
Net foreign exchange gain (loss).....	2,476	-2,371
	<u>-73,790</u>	<u>17,491</u>
<b>Net insurance income</b>		
Insurance premium.....	2,769	0
	<u>2,769</u>	<u>0</u>
<b>Operating expenses</b>		
Insurance claims.....	-2,598	0
Other operating expenses.....	-6,153	-2,771
	<u>-8,751</u>	<u>-2,771</u>
<b>(Loss) profit before income tax.....</b>	<b>-79,772</b>	<b>14,720</b>
Income tax .....	12,534	2,631
<b>(Loss) profit from continuing operations.....</b>	<b>-67,238</b>	<b>17,351</b>
Profit from discontinued operations (net of income tax).....	0	27,208
<b>(Loss) profit for the year.....</b>	<b>-67,238</b>	<b>44,559</b>
<b>Attributable to:</b>		
Equity holders of the Company.....	-67,247	44,560
Minority interest.....	9	-1
(Loss) profit for the year .....	<u>-67,238</u>	<u>44,559</u>
<b>(Loss) earnings per share:</b>		
Basic (loss) earnings per share (ISK).....	-8.18	6.65
Diluted (loss) earnings per share (ISK).....	-7.96	6.60

## Earnings

Net loss before taxes amounted to ISK 79.8 billion in 2007 (2006: ISK 14.7 billion in profit), which was mainly originated in the fourth quarter, which represented a ISK 70.6 billion loss (Q4 2006: ISK 30.9 billion in profit). After tax, net loss was ISK 67.2 billion in 2007 (2006: ISK 44.6 billion profit) and of which it was ISK 63.2 billion in the fourth quarter (Q4 2006: ISK 33.6 billion profit). This performance was driven by market turmoil resulting in negative marked to market adjustments of the underlying listed assets of the Group. This negative impact is fully disclosed in the Company's results, since all listed investments are reported at market value.

The Group had large investments in financials and airlines, both sectors which came under extraordinary pressure in the second half of 2007.

Dividend income totalled ISK 4,297 million in 2007, compared to ISK 806 million in 2006. The largest part of the dividend income came from Glitnir Bank hf. (ISK 2,479 million) and Commerzbank AG (ISK 1,111 million). Dividend income is accounted for in the income statement under net (loss) income from securities and derivatives.

TM was consolidated into the Group's accounts as of 1 October 2007. TM recorded a loss before taxes of ISK 1.5 billion in Q4, but both the insurance operation and the investment operation had a difficult quarter. The insurance operation made an operating loss of ISK 10 million during the quarter, but the combined ratio amounted to 117%. There were no large claims during the quarter but many small claims were made, especially



in seamen's accident insurance. Investment operation made an operating loss of ISK 1.2 billion, which is mostly explained by difficult equity markets.

#### *Investment income*

Net income from securities and derivatives in the year 2007 amounted to a loss of ISK 63.7 billion (2006: 24.0 billion profit). This is attributable to a loss of ISK 43.1 billion on listed shares and ISK 0.2 billion on unlisted shares. The currency effect from holdings in shares and forward contracts was negative by ISK 10.3 billion, but against those effects there was a positive currency effect of ISK 2.5 billion which gives a net negative currency effect of ISK 7.8 billion. In addition, included in the net income from securities and derivatives are interest expenses of ISK 9.9 billion deriving from forward contracts.

Unlisted assets were re-valued in light of the current market conditions. The net re-valuation was negative by ISK 3.7 billion in the fourth quarter. FL Group made a positive re-valuation of the portfolio of unlisted assets in the third quarter, which means that for the year 2007 the effect on holdings in unlisted assets is negative by ISK 166 million.

Interest income in Q4 totalled ISK 2.0 billion and was ISK 5.0 billion for 2007, compared to ISK 0.9 billion in the previous year.

Interest expense increased to ISK 6.3 billion (ISK 428 million related to TM) in the fourth quarter and was ISK 17.6 billion in 2007, compared to ISK 4.9 billion in 2006. The increase in interest expense can be attributed to the fast growing investment portfolio and related funding, in addition to increased debt margins in the second half of 2007.

TM had a negative investment income of ISK 900 million. Interest and dividend income amounted to ISK 900 million, realised gain from financial assets was ISK 400 million and fair value change of financial assets was negative by ISK 1.6 billion.

#### *Operating expenses*

Operating expenses in the fourth quarter totalled ISK 3,054 million (Q4 2006: ISK 1,068 million from investment operation). Operating expenses amounted to ISK 6.2 billion in 2007. During 2007, the Group continued to expand its headcount, re-locate offices, and increase project activity significantly. This inevitably increased the Group's salary expenses and administration costs. Employees of the parent company were approximately 40 in the year-end 2007, compared to approximately 20 employees at the year-end 2006. A significant part of the increase in operating costs is also driven by one-time events (terminations of employee contracts, pension agreements etc.) to the tune of ISK 693 million and non-cash charges of ISK 567 million (primarily due to expense of stock options). The cost related to the departure of the former CEO, Hannes Smárason, was ISK 90 million and was fully expensed in the fourth quarter. Hannes does not have any stock option agreements with the Company.

The main items which fall under operational expenses in 2007 are listed in the following table which shows the total costs (excluding TM) amounting to 5,3 billion. TM is excluded in this cost analysis, but operating expenses of TM during Q4 amounted to ISK 841 million, including a non-recurring item of ISK 100 million.

<b>Main cost drivers - Year 2007 (ISK million)</b>	
Salary expenses	701
One off charges	693
Non cash charges deriving from share options	566
Investment related cost (advisory and legal fees)	1,353
Other costs	1,999
<b>Total costs (excluding TM)</b>	<b>5,312</b>

The company is also trying to reinforce its financial position by taking measures to cut operating expenses by 50% from the 2007 figure of ISK 6.2 billion. The closure of the Copenhagen office is an example of an action

which aims to reduce operating costs during 2008. One-off operating expenses, such as those relating to former employees and pension agreements were expensed in full in 2007.

The following table shows a summary of the Group's results by quarters. Figures are from unaudited quarterly statements.

<b>Year 2007</b> (amounts are in ISK billion)	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
Net income (expense) from securities and derivatives	12,472	7,658	-23,651	-60,161	-63,682
Interest income	1,498	473	973	2,038	4,982
Interest expense	-3,017	-3,263	-4,972	-6,314	-17,566
Net foreign exchange gain (loss)	4,627	4,208	-3,121	-3,238	2,476
<b>Net investment income (expense)</b>	<b>15,580</b>	<b>9,076</b>	<b>-30,771</b>	<b>-67,675</b>	<b>-73,790</b>
Insurance premium	0	0	0	2,769	2,769
Insurance claims	0	0	0	-2,598	-2,598
Other operating expenses	-884	-1,022	-1,193	-3,054	-6,153
<b>Profit (loss) before income tax</b>	<b>14,696</b>	<b>8,054</b>	<b>-31,964</b>	<b>-70,558</b>	<b>-79,772</b>
Income tax	388	-12	4,817	7,341	12,534
<b>Profit (loss) for the period</b>	<b>15,084</b>	<b>8,042</b>	<b>-27,147</b>	<b>-63,217</b>	<b>-67,238</b>
<b>Year 2006</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
Net income (expense) from securities and derivatives	10,537	-2,137	4,409	11,147	23,956
Interest income	172	143	211	328	854
Interest expense	-326	-1,310	-1,655	-1,657	-4,948
Net foreign exchange gain (loss)	75	1,958	-1,754	-2,650	-2,371
<b>Net investment income (expense)</b>	<b>10,458</b>	<b>-1,346</b>	<b>1,211</b>	<b>7,168</b>	<b>17,491</b>
Other operating expenses	-485	-523	-695	-1,068	-2,771
<b>Profit (loss) before income tax</b>	<b>9,973</b>	<b>-1,869</b>	<b>516</b>	<b>6,100</b>	<b>14,720</b>
Income tax	-1,684	534	1,101	2,680	2,631
<b>Profit (loss) from continuing operations</b>	<b>8,289</b>	<b>-1,335</b>	<b>1,617</b>	<b>8,780</b>	<b>17,351</b>
(Loss) profit from discontinued operations net of income tax	-2,450	1,217	3,640	24,801	27,208
<b>Profit (loss) for the period</b>	<b>5,839</b>	<b>-118</b>	<b>5,257</b>	<b>33,581</b>	<b>44,559</b>

## Balance Sheet

<b>Consolidated Balance Sheet</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
<i>(ISK '000,000)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash and cash equivalents.....	21,125	47,022
Unpaid share capital.....	7,500	0
Equity investments.....	218,998	181,037
Bonds and debt investments.....	16,021	124
Derivatives.....	6,604	4,309
Restricted cash.....	53,060	9,572
Assets classified as held for sale.....	0	904
Loans and receivables, including insurance receivables.....	42,348	19,478
Reinsurance assets.....	13,937	0
Deferred tax assets.....	8,623	0
Operating assets.....	2,167	425
Intangible assets.....	31,937	0
<b>Total assets</b>	<b>422,320</b>	<b>262,871</b>
<b>Equity</b>		
Share capital.....	13,494	7,763
Share premium.....	160,965	70,530
Other reserves.....	1,626	948
(Accumulated deficit) retained earnings.....	-20,559	63,425
Total equity attributable to equity holders of the Company	155,526	142,666
Minority interest.....	318	10
Total equity	155,844	142,676
<b>Liabilities</b>		
Derivatives.....	13,488	7,021
Short positions.....	3,350	0
Trade and other payables.....	14,469	5,908
Liabilities classified as held for sale.....	0	634
Insurance liabilities.....	29,626	0
Borrowings.....	204,979	104,955
Income tax liability.....	564	1,677
Total liabilities	266,476	120,195
<b>Total equity and liabilities</b>	<b>422,320</b>	<b>262,871</b>

### Assets

The Group's total assets on 31 December 2007 amounted to ISK 422.3 billion, increasing by 60.7% from the beginning of the year. The cash position of ISK 28.6 billion, including unpaid share capital at the end of the year (shares sold for ISK 10 billion by private placement, of which 25% was paid in December and 75% paid on due date 4 January 2008) demonstrated the Group's ability to maintain its liquidity in the year end market turmoil. Off balance sheet funding of equities through derivatives amounted to ISK 71.4 billion and decreased by ISK 6.8 billion year on year. The net position of equity derivatives was negative ISK 6.9 billion at the end of 2007.

Investments are divided into three categories: Equity investments (ISK 287.0 billion), Loans in relation to investments (ISK 19.4 billion), and bonds and debt investments (ISK 16.0 billion). Holdings in listed securities amount to ISK 197.1 billion, which represent 69% of the total equity portfolio. The five largest listed investments as of the end of 2007 were Glitnir Bank hf., Commerzbank, Finnair, Royal Unibrew and Nordicom. The value of the five largest holdings is ISK 179.2 billion at the end of the year, which represented 62% of the total share portfolio. As announced on 21 January 2007, FL Group's partially divested its stake in Commerzbank to 1.15%.

#### The five largest investments of the Listed Portfolio at year-end 2007

Comany	Sector	Holding	Market value (ISK million)	Change Q4
Glitnir Bank hf.	Banking	32.0%	104,430	-23.0%
Commerzbank AG	Banking	2.9%	45,931	-9.3%
Finnair Oyj	Aviation	12.7%	12,091	-30.6%
Royal Unibrew A/S	Beverage	25.6%	9,927	-18.5%
Nordicom A/S	Property	21.7%	6,859	-11.4%
<b>Total of five largest</b>			<b>179,238</b>	

The portfolio of unlisted companies consists of companies with various operations and locations, mainly in Europe. The portfolio was valued at the end of the year at ISK 90.0 billion, representing 31% of the Group's securities portfolio. In addition loans to the Group's unlisted companies total ISK 19.4 billion. FL Group undertook at the end of the year a re-valuation on its portfolio of unlisted assets, which resulted in negative re-valuation of the unlisted portfolio of ISK 3.7 billion.

Derivatives on the asset side of ISK 6.6 billion represent profitable derivatives contracts as of the end of the year. However, derivatives under liabilities in the amount of ISK 13.5 billion account for derivative contracts with negative value at the same date. The net fair value on the derivative portfolio is therefore negative in the amount of ISK 6.9 billion.

#### *Liabilities and equity*

Liabilities totalled ISK 266.5 billion at the end of the year and increased by ISK 146.3 billion from the beginning of the year. The growth in liabilities follows the Group's rapidly expanding investment portfolio including the consolidation of TM.

Shareholders' equity was ISK 155.8 billion as of year end, an increase of ISK 13.2 billion compared with the previous year. During 2007, FL Group increased its share capital by a total of ISK 5.6 billion in nominal value (ISK 94.7 billion market value net of selling costs), mainly in relation to the acquisition of TM and the recent investments in a portfolio of companies investing in real estate projects. In relation to the consolidation of TM ISK 1.8 billion of initial investment in TM was restated through equity due to step acquisition (negative effect on equity).

With a net loss in 2007, the return on equity was a negative 45.1% on an annualized basis, compared to a positive return on equity of 41.0% in 2006.

#### *Financing and liquidity*

Given the turbulent global markets, the Group has put considerable effort into maintaining liquidity.

In the fourth quarter, the Group undertook several funding exercises with the goal of extending the maturity profile where part of the short-term debt was replaced with long-term debt, resulting in a stronger maturity profile.

Since year end, FL Group has continued to refinance short-term debt. At the end of 2007 the Group had ISK 55.6 billion of debt maturing in 2008 but as of today the Group has already refinanced or received commitments to refinance ISK 47.1 billion of the 2008 maturities until 2009-2013, resulting in only ISK 8.5 billion of refinancing outstanding. Thereof ISK 3.5 billion are REPO contracts which are easily refundable by nature.

FL Group's total equity increased in 2007 and amounted to ISK 94.7 billion at the end of 2007. This demonstrates the support of FL's shareholders for its chosen strategy. The equity ratio at the end of the year was 36.9% compared to 54.3% at the end of 2006.

### **Cash Flows**

<b>Consolidated Statement of Cash Flows</b>	<b>2007</b>	<b>2006</b>
<i>(ISK '000,000)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Cash flows from operating activities</b>		
(Loss) profit for the year.....	-67,238	44,559
Adjustments for:		
Depreciation.....	113	23
Other operating items.....	21,355	784
Discontinued operations.....	0	1,982
Working capital (to) from operations	-45,770	47,348
Net change in operating assets and liabilities.....	-12,067	-1,099
Net cash (used in) provided by operating activities	-57,837	46,249
<b>Cash flows from investing activities</b>		
Investment securities, change.....	48,083	-92,518
Acquisition of subsidiary, net of cash acquired.....	-36,510	-9,399
Disposals of subsidiaries, net of cash sold.....	544	29,304
Derivatives, change.....	4,143	8,776
Restricted cash, change.....	-37,514	-9,572
Trade receivables and bonds.....	-1,839	8,274
Acquisition of operating assets.....	-706	-448
Proceeds from the sale of operating assets.....	555	0
Acquisition of intangible assets.....	-123	0
Discontinued operations.....	0	2,822
Net cash used in investing activities	-23,367	-62,761
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital.....	2,500	0
Own shares, change.....	1,902	-3,119
Dividend paid.....	-15,745	-6,341
Proceeds from borrowings.....	92,666	133,271
Repayment of borrowings.....	-25,905	-72,566
Discontinued operations.....	0	-584
Net cash provided by financing activities	55,418	50,661
<b>Net (decrease) increase in cash and cash equivalents.....</b>	<b>-25,786</b>	<b>34,149</b>
<b>Cash and cash equivalents at 1 January.....</b>	<b>47,022</b>	<b>10,350</b>
<b>Effect of exchange rate fluctuations on cash held.....</b>	<b>-111</b>	<b>2,523</b>
<b>Cash and cash equivalents at 31 December.....</b>	<b>21,125</b>	<b>47,022</b>

## ***Highlights of key business development activities***

The year 2007 was an exceptionally turbulent year for the global financial markets, but was also a very active year for FL Group and was characterised by continued investments both in listed companies and private equity. FL Group's investment approach during these challenging times has been to actively manage its portfolio and dispose of underperforming assets.

The turbulent times in the financial markets saw many of FL Group's key investments lose its value, however FL Group remains confident that both its listed and unlisted portfolio companies have strong fundamentals. FL Group remains an active and supportive shareholder of its core investments and seeks to work closely with its management teams in order to help them realise their vision and long-term objectives.

Key developments within the Group's business divisions for 2007 include the following.

### **FIG (Financial Institutions Group)**

#### *Glitnir Bank hf. ("Glitnir")*

On 13 December 2007 FL Group announced that the FME had rejected a joint request from FL Group and Jötunn Holding ehf. for permission to own up to 39.9% in Glitnir. FL Group is still authorised to hold up to 33% of the share capital and the ruling does not change FL Group's objective of continuing long-term strategic investments in Glitnir.

Glitnir made a profit of ISK 27.7 billion in 2007, which equalled a 19.3% ROE. It is a satisfying result, particularly given that it happened against a backdrop of significant management changes that took place during the year, including the integration with FIM Group Corporation which was acquired in Q1 2007, and in light of the difficult market conditions in the second half of 2007. FIM Group Corporation is a Finnish investment company, active in asset management, brokerage and investment banking. The name of FIM Group Corporation has been changed to Glitnir Corporation. There was strong momentum in core income generation during the second half of 2007 setting the tone for 2008. Asset quality is strong and the bank has negligible exposure to risky asset classes. The main focus in 2008 will be on bringing operating expenses down as these were too high in 2007, partly explained by one-off expenses.

#### *Tryggingamiðstöðin hf. ("TM")*

FL Group acquired TM in 2007, and it constitutes part of FL Group's core investment portfolio. On 19 October 2007 FL Group submitted to the shareholders of TM a tender offer which expired on 28 November 2007. 220 shareholders accepted the offer and thus following the settlement, FL Group's direct and indirect stake in TM increased to 99.1%, FL Group now holds (direct and indirect) 99.9% of the outstanding share capital in TM. The acquisition is still awaiting approval from the FME, as FL Group has applied to the FME for permission to hold a qualified holding in TM, and a decision is expected in Q1 2008. TM became consolidated into FL Group's accounts on 1 October 2007.

At the time of the acquisition, TM was not performing well. TM recorded a net income of ISK 2.5 billion in Q4. This was due to the positive income tax as TM had a loss before taxes of ISK 1.5 billion. The insurance operation continued to deliver unacceptable results with a combined ratio of 117% for Q4. Voluntary car insurance and seamen's accident insurance have particularly contributed to the weak results of the insurance operation in 2007. Investment income was negative by ISK 0.9 billion but that is mostly explained by difficult equity markets during the quarter.

Since FL Group's acquisition, some management changes have been made and measures have been taken to improve the results of the insurance operation, including revising the company's insurance premium structure in loss-making insurance classes such as seaman's accident insurance. An improvement in the insurance operation in Iceland is expected and the target is to achieve a combined ratio of below 100% in the next two years. Nemi, the Norwegian subsidiary of TM, is expected to achieve strong growth in premiums for its own account as it is now part of a larger entity which can take larger part of the insurances that it underwrites. The Issuer therefore expects the operating profit of the insurance operation to increase in 2008.

## Private Equity

The development of the Group's private equity activities progressed well in 2007. In September the private equity business was formally separated into its own division headed by Örvar Kærneded. This separation led to a review of the private equity operations and the decision to close the Copenhagen office.

The private equity division has focused on developing the assets within its existing portfolio in 2007. Significant progress was made with Refresco, a drinks business, acquired by FL Group in 2006 and the monitoring and developing the Company's newly purchased property portfolio has been quite a task.

The disruptions to the financial markets in the second half of 2007 had a material impact on some of the major transactions that were pursued by the private equity division, largely due to the reduced willingness of banks to lend into leveraged buyouts. Of particular note was the impact of financial market volatility on the planned take-private of Inspired Gaming Group plc. The take-private had to be halted in its later stages, which resulted in significant abort costs for the Group. Whilst abort costs are a risk associated with private equity operations, the costs incurred during the latter half of 2007 were exceptionally high due to market conditions at the time.

Some of FL Group's key private equity assets are discussed in more detail below, along with its stake in GGE / Glacier Renewable Energy.

### *Refresco Holding B.V. ("Refresco")*

2007 was a tough year for beverage companies due to adverse summer weather conditions and increasing raw material and energy costs. Despite this, Refresco managed to maintain its profitability, significantly outperforming most of its peers. The company made four strategic acquisitions during the year, which have almost doubled the size of the business and taken the company from being the second largest private label soft drink producer in Europe to being the largest. Early stage discussions with the next set of acquisition targets have already started and the outlook for 2008 is positive.

### *Inspired Gaming Group plc. ("Inspired Gaming Group")*

In February 2007, FL Group acquired an initial stake in Inspired Gaming Group, a large provider of open server-based gaming machines in the UK. In September it was announced that FL Group had approached the company with a view to making a possible bid to take the company private. Due to financial market conditions, FL Group announced on 19 December 2007 that it would not proceed with the offer, which will prevent FL Group from making such an offer for the next 6 months. FL Group's current stake in the company is 19.97% and FL Group remains a supportive shareholder to the company.

### *Landic Property hf. ("Landic Property")*

As described above in this document, FL Group made a significant investment in the property sector in December 2007. The acquisition was valued at ISK 53.8 billion and the purchase price was paid by issuing new shares in FL Group. The deal included the acquisition of a 39.8% stake in Landic Property as well as a number of smaller real estate companies and holdings in international property funds. The property funds were subsequently sold to Landic Property in exchange for subordinated convertible bonds issued by Landic Property, as described further in "Transactions and agreements with Baugur Group hf. and related parties". FL Group currently holds 39.8% of the total share capital in Landic Property.

### *Northern Travel Holding ("NTH")*

Despite difficult market conditions due to high fuel prices, the main NTH assets made significant operational progress in 2007. Sterling continued a significant turnaround and Iceland Express had a record year, sharply increasing its profitability, number of passengers and market share. In September Þorsteinn Örn Guðmundsson was hired as the CEO of NTH and he will lead the continued successful development of the NTH portfolio companies.

### *Geysir Green Energy ehf. ("GGE")*

FL Group divested its 43.1% share in GGE in February 2008 to a newly founded investment fund, Glacier Renewable Energy Fund, VGK Invest ehf. and Renewable Energy Resources. The total value of the transaction amounted to ISK 10.5 billion which represented FL Group's book value of GGE at the end of 2007 and therefore has a negligible effect on the company's results in Q1 2008.

As consideration for the shares in GGE, FL Group in February received cash, liquid shares and a holding in Glacier Renewable Energy. The liquid shares received were in Landsbanki Íslands hf., Marel Food Systems hf., Teymi hf., and Bakkavör Group hf. and have all been sold. The cash has also been received. The holding in the Glacier Renewable Energy will be completed once the fund has been formally set up. Glacier Renewable Energy is a "green" investment fund, run by Glitnir Sjóðir hf., and its goal is to invest in projects related to self-sufficient energy projects. FL Group's holding in Glacier Renewable Energy amounts to around ISK 4.5 billion. It is expected that FL Group will have one representative out of three in the Investment Committee which will run the fund.

GGE is a participant in the international geothermal industry. Following turbulent weeks in which the anticipated merger of GGE and Reykjavík Energy Invest hf. ("REI") was cancelled GGE is back on track re-orienting and sharpening its focus.

The company's investments include:

Hitaveita Suðurnesja hf. (32%), a power producer and utility in Iceland.

Iceland Drilling Company Ltd. (100%), a high technical company in geothermal drilling.

Enex hf. (71%), Enex China ehf. (33%) and Exorka ehf. (65%), geothermal developers.

Western Geopower (20%), a Canadian geothermal company, which is listed on the TSX Venture Exchange in Canada (Ticker: WGP-V), The Frankfurt Exchange (Ticker WE6.F) and USA OTCBB (Ticker: WGPWF)..

### **Capital markets**

Market risk in FL Group's portfolio is actively managed through hedging and active trading of positions. By selling FL Group's stake in AMR Corporation and part of the stakes in Commerzbank AG and Finnair Oyj, as well as through hedging, Capital Markets brought down market exposure by ISK 72 billion in Q4.

Exposure from other trading positions was also reduced by ISK 29 billion in the quarter. Icelandic equities holdings were also kept low throughout the quarter, avoiding risk correlation with other business units.

### *AMR Corporation ("AMR")*

On 30 November 2007 FL Group announced that it had divested its direct and indirect stake in AMR from 9.1% to 1.1%. FL Group's investment in AMR started in 2006 and from that time FL Group's hands-on approach to the investment resulted in a progress on a number of operational fronts. FL Group still believed that further shareholder value could be unlocked but since AMR's management team has been unable to unlock that value FL Group decided that other investment alternatives would be more appealing to its shareholders.

Selling its stake in AMR is in line with FL Group's strategy of lowering its exposure to the aviation sector as well as increasing its emphasis on FIG and PE investments.

### *Commerzbank AG ("Commerzbank")*

On 18 January 2008, FL Group's holding in Commerzbank was approximately 1.15%. Its holding in Commerzbank was approximately 2.1% as of 15 January 2008, 2.9% at year end 2007 and 4.3% at the end of third quarter 2007. The divestment is part of FL Group's regular review of its investment trading portfolio and was announced in the light of recent share price fluctuation in Commerzbank. As of 15 January, the total realised and unrealised loss of the trading position was approximately ISK 2.6 billion (EUR 27.4 million), including mark to market gains on hedges.



### *Finnair Oyj ("Finnair")*

On 19 December 2007 FL Group divested 11.7% of its direct and indirect stake in Finnair and on 31 March 2008 FL Group divested the remaining shares in Finnair. This is in line with the Company's strategy of lowering its exposure to the aviation sector as well as increasing its emphasis on FIG and PE investments. After the sale on 31 March 2008, FL Group holds no shares in listed airline companies..

### **Management Outlook**

During the year 2007 and in recent weeks, FL Group has placed a strong focus on reducing market exposure, strengthening its balance sheet, streamlining its investment portfolio, clarifying its strategy and implementing a cost-reduction program. FL Group has addressed the challenges of 2007 and is poised to enter 2008 in a stronger position, and the newly restructured investment portfolio continues to offer good opportunities for future growth. The Issuer has decreased the portion of its capital tied up in listed companies since the end of the last financial year. As an example, FL Group announced on 21 January 2007, that it had partially divested its stake in Commerzbank to 1.15% as of 18 January 2008 (from 2.90% stake at end of 2007). However, the Issuer still has a large portion of its capital tied up in listed companies, mainly in Iceland, UK, and Scandinavia. Therefore, stock market fluctuations will influence the Issuer's profit. Since the end of 2007 considerable stock market fluctuations have occurred leading to assets owned by the Issuer having decreased in value. Glitnir Bank hf. has decreased in value by 22% resulting in a loss for the Issuer of ISK 23.0 billion. January 15 2008 the issuer announced that it had divested part of its shares in Commerzbank and at that time the total realized and unrealized loss of the trading position was approximately ISK 2.6 billion (EUR 27.4 million), including mark to market gains on hedges. The issuer divested further stake in Commerzbank in January as announced on 21 January 2008 leading to further losses being realized. Furthermore, the Issuer has disclosed sale of ownership in Aktiv Kapital and Finnair leading to the realization of losses of ISK 2.1 billion. Since 31 December 2007 some other assets owned by the Issuer have also decreased in value but not resulting in significant change in the financial or trading position of the FL Group since 31 December 2007.

### **Objective and Address**

The purpose the Company, according to Article 3 of its Articles of Association, is to act as an investment company, that is to earn interest on money that shareholders have tied in the Company, with investments, including those in subsidiaries and associated companies.

The domicile and headquarters of FL Group are at Síðumúli 24, 108 Reykjavík, Iceland. The address is according to Article 2 of the Issuer's Articles of Association.

The Articles 2 and 3 of the Issuer's Articles of Association were amended at a shareholders' meeting on 14 December 2007. Before, the objective pointed out subsidiaries and associated companies working especially in the field of flight operations, the tourism industry, transport and any kind of investment activities.

## Main Shareholders

### FL Group hf. - Share Registry 28 March 2008

<i>Shareholder</i>	<i>Shares</i>	<i>% of issued shares</i>	<i>% of outstanding shares</i>
BG Capital ehf. *	3,039,576,021	22.38%	22.65%
Oddaflug B.V.	1,475,101,748	10.86%	10.99%
GLB Hedge	1,327,491,940	9.77%	9.89%
LI-Hedge	907,066,977	6.68%	6.76%
Landsbanki Luxembourg S.A.	853,392,502	6.28%	6.36%
Materia Invest ehf.	852,899,654	6.28%	6.35%
Fons hf. **	635,077,258	4.68%	4.73%
Sund ehf.	440,006,721	3.24%	3.28%
Stím ehf.	429,369,651	3.16%	3.20%
Glitnir Bank hf.	417,711,169	3.07%	3.11%
<b>Total of 10 largest</b>	<b>10,370,263,641</b>	<b>76.34%</b>	<b>77.27%</b>
Icebank hf	365,966,393	2.69%	2.73%
Gnúpur fjárfestingafélag hf. ***	314,228,416	2.31%	2.34%
Smáey ehf	271,836,735	2.00%	2.03%
VBS Fjárfestingabanki hf	203,217,067	1.50%	1.51%
Lífeyrissjóðir Bankastræti 7 (Pension Fund)	159,018,127	1.17%	1.18%
Den Danske Bank A/S	150,006,501	1.10%	1.12%
Gildi -lífeyrissjóður (Pension Fund)	131,348,111	0.97%	0.98%
Landic Property hf	111,864,407	0.82%	0.83%
Landsbanki Íslands hf., headquarters	102,050,231	0.75%	0.76%
Lífeyrissjóður verslunarmanna (Pension Fund)	101,129,082	0.74%	0.75%
<b>Total of 20 largest</b>	<b>12,288,358,711</b>	<b>90.46%</b>	<b>91.56%</b>
Other shareholders	1,132,743,989	8.34%	8.44%
<b>Total of outstanding shares</b>	<b>13,421,102,700</b>	<b>98.80%</b>	<b>100.00%</b>
<b>FL Group hf. - Own shares</b>	<b>163,163,273</b>	<b>1.20%</b>	
<b>Total of issued shares</b>	<b>13,584,265,973</b>	<b>100.00%</b>	

\* According to an insider dealing announcement, dated 30.3.2008: BG Capital ehf. holds the voting rights, right for dividend and other right to 5,066,579,194 shares, which equals 37.30% of the total issued share capital.

After the purchase of 111,864,407 shares on 30 March 2008 BG Capital ehf. holds 3,151,440,428 shares in own name and 1,915,138,766 shares through forward agreements. Baugur Group hf. is the sole owner of BG Capital ehf.

\*\* According to an insider dealing announcement, dated 9.1.2008: Fons hf. holds 1,659,002,144 shares which equals 12.21% of total issued share capital.

\*\*\* According to an insider dealing announcement, dated 9.1.2008: Gnúpur fjárfestingafélag hf. holds 334,228,416 shares which equals 2.46% of total issued share capital.

To the knowledge of FL Group, there are four legal entities which have direct or indirect interests of more than 5% in FL Group's total share capital and/or voting rights as of 28 March 2008; 5% is the first notification threshold of major holdings under Act. No. 108/2007 on Securities Transactions. These four largest shareholders in FL Group own a total of 66.64% of the total issued share capital. These are Baugur Group hf., Fons hf.,

Oddaflug B.V. and Materia Invest ehf. Three nominee accounts (LI-Hedge, Landsbanki Luxembourg S.A. and GLB Hedge) are additionally registered with over 5% stake.

The Issuer's largest shareholder is Baugur Group hf. with a 37.30% stake of total issued shares, according to an insider's dealing announcements dated 21 December 2007, 27 March 2008 and 30 March 2008. Baugur Group hf.'s stake is held by its subsidiary BG Capital ehf. which partly holds the shares through forward agreements. Financially related parties holding shares in FL Group are Fjárfestingafélagið Gaumur ehf., Eignarhaldsfélagið ISP ehf., Hagar hf. and 101 Capital ehf. Financial related parties of Baugur Group hf. which hold shares in FL Group hold together 238,285,352 shares in FL Group which equal 1.75% of total issued shares according to Baugur Group hf. / BG Capital ehf. insider dealings announcement from 30 March 2008. Jón Ásgeir Jóhannesson, Executive Chairman of Baugur Group hf., is the Chairman of the Board of Directors of FL Group.

Other shareholders with more than a 10% stake, according to major shareholders announcements made public through the OMX ICE news system, were Fons hf. (12.21%) and Oddaflug B.V. (10.86%). Materia Invest ehf. held a 6.28% stake according to the share registry as of 28 March 2008. Pálmi Haraldsson is the majority owner of Fons hf. Oddaflug B.V. is held by Eignarhaldsfélagið Oddaflug ehf. which is held by Hannes Smáráson, Director on the Board of FL Group. Materia Invest ehf. is owned by Þorsteinn M. Jónsson, Director on the Board of FL Group, Magnús Ármann and Kevin Stanford, each holding one third of the company. On 6 December 2007, Oddaflug B.V. and Materia Invest ehf. announced that they would jointly exercise their voting rights in FL Group.

According to the Issuer's share registry on 28 March 2008 the 20 largest shareholders owned a total of 90.46% of the total issued shares in FL Group. The table above sets out information regarding these 20 largest shareholders. The Issuer is not aware that any of these 20 shareholders hold interests in each other.

Holdings of parties financially related to the Issuer's Board of Directors can be found in the section regarding the Board of Directors.

## Share Capital Development

In December 2007, the Issuer's total share capital was increased by 46.94% and its outstanding shares increased by 47.39%. In February 2008, the Issuer has increased its own shares, by purchasing approximately 0.48% of its total issued shares. The following table outlines the share capital development since September 2007.

Date	Transaction	Price ISK/Share	Change in no. of shares	Shares outstanding	Own shares	Shares issued
01.09.07	Opening balance			7,856,795,166	88,190,754	7,944,985,920
25.09.07	Shares issued – as consideration for shares in TM in connection with a takeover bid	24.3	973,673,140	8,830,468,306	88,190,754	8,918,659,060
14.10.07	Shares issued – as consideration for shares in TM in connection with a takeover bid	24.3	326,069,513	9,156,537,819	88,190,754	9,244,728,573
14.12.07	Shares issued – private placement - to strengthen financial profile	14.7	680,272,109	9,836,809,928	88,190,754	9,925,000,682
20.12.07	Shares issued – as consideration to Baugur Group for a property portfolio	14.7	3,659,265,291	13,496,075,219	88,190,754	13,584,265,973
15.02.08	Own shares increased	9.896	14,940,909	13,481,134,310	103,131,663	13,584,265,973
18.02.08	Own shares increased	10.21	3,880,000	13,477,254,310	107,011,663	13,584,265,973
19.02.08	Own shares increased	10.10	2,000,000	13,475,254,310	109,011,663	13,584,265,973
20.02.08	Own shares increased	10.048	5,000,000	13,470,254,310	114,011,663	13,584,265,973
21.02.08	Own shares increased	9.95	8,015,000	13,462,239,310	122,026,663	13,584,265,973
22.02.08	Own shares increased	9.91	10,437,394	13,451,801,916	132,464,057	13,584,265,973

Share capital development continued.

Date	Transaction	Price ISK/Share	Change in no. of shares	Shares outstanding	Own shares	Shares issued
25.02.08	Own shares increased	9.96	2,015,000	13,449,786,916	134,479,057	13,584,265,973
27.02.08	Own shares increased	9.79	10,608,000	13,439,178,916	145,087,057	13,584,265,973
28.02.08	Own shares increased	9.54	8,130,000	13,431,048,916	153,217,057	13,584,265,973
14.03.08	Own shares increased	8.48	9,946,216	13,421,102,700	163,163,273	13,584,265,973
28.03.08	Share capital outstanding			13,421,102,700		
28.03.08	Holdings of own shares				163,163,273	
28.03.08	Issued shares					13,584,265,973

## Market Information

FL Group is the 8th largest company on the OMX ICE with a market capitalisation of ISK 84.9 billion for the total issued shares according to the closing price on 28 March 2008. The average daily trading volume of its shares from 1 September 2007 through 28 March 2008 was ISK 943 million market value at each time. Share price in FL Group declined by approximately 76% between 1 September 2007 and 28 March 2008, whereas the OMX ICE 15 index declined approximately 40%.

The table sets forth for the period indicated, the high, low and month-end closing prices and the average daily volume of the Issuer's shares on the OMX ICE, as well as the month-end closing value and the average daily volume of the OMX ICE 15 index.

### FL - Share Statistics on the OMX ICE

	High	Low	Close	Average Daily Volume
	(ISK per share)			(Market value, ISK '000,000)
September 2007	26.90	23.65	24.40	1,314
October 2007	27.15	24.05	24.90	823
November 2007	24.60	19.30	20.90	956
December 2007	20.85	14.15	14.58	1,246
January 2008	14.55	9.47	10.20	1,167
February 2008	10.45	8.94	9.45	251
1-28 March 2008	9.39	5.97	6.25	938

### OMX ICE 15 - Index Statistics

	Close	Average Daily Volume
	(Index Value)	(Market value, ISK '000,000)
September 2007	7,978	9,353
October 2007	8,115	7,153
November 2007	6,984	10,012
December 2007	6,318	10,236
January 2008	5,481	9,424
February 2008	4,887	6,307
1-28 March 2008	4,929	7,395

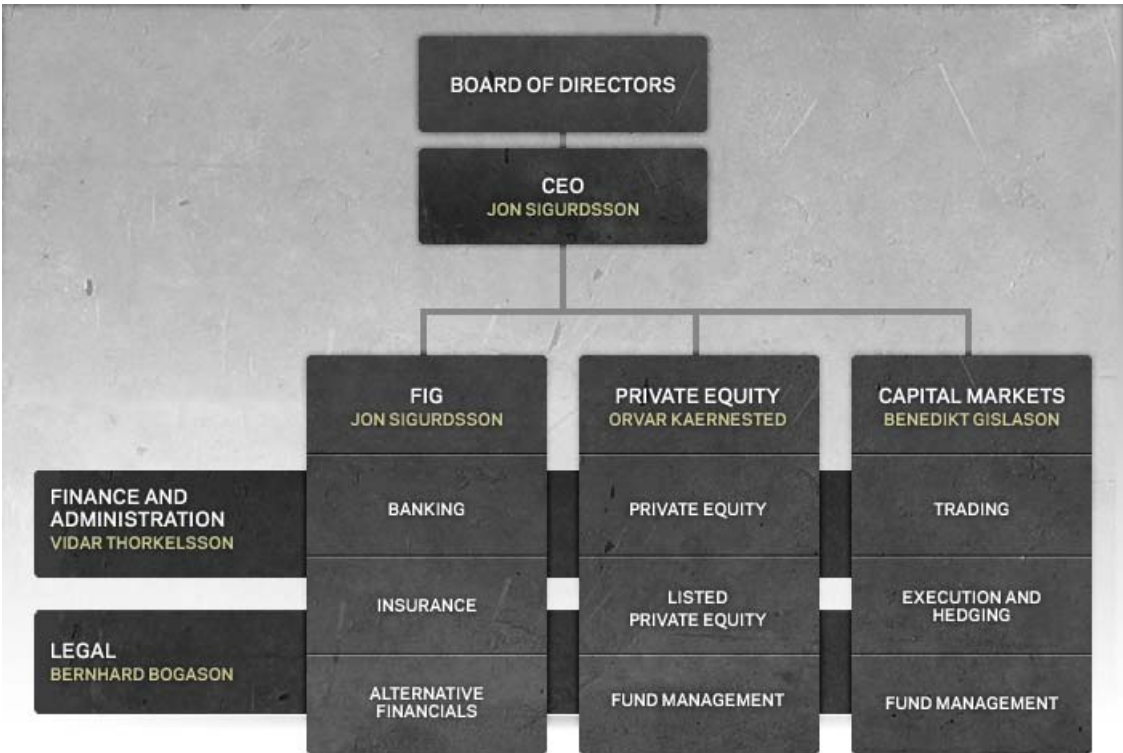
The market information above is based on information from OMX ICE.

**Organisational Structure**

FL Group is an international investment company with core investments in financials and insurance. The Company maintains a flexible approach to value creating investments in private equity with a special focus on property companies, along with capital markets activities. FL Group invests using the Company’s balance sheet, bringing flexibility in asset allocation and horizons.

The weighted average number of FL Group’s employees was 78 during the year 2007. Today, the parent company employs approximately 40 people, compared to approximately 20 employees at the year-end 2006, and TM, its subsidiary since 1 October 2007, employs approximately 190 people. The parent company has two offices, its headquarters in Reykjavík, Iceland and one in London, UK. TM is located in Reykjavík.

The following chart shows the organisational structure of FL Group.



The Company’s top management includes the CEO and four Managing Directors in charge of its main divisions; three business units and two divisions for support, Finance and Administration along with Legal. The FIG (Financial Institutions Group) is the business unit responsible for strategic investments in banking, insurance and other financials. The Private Equity business unit executes and leads leveraged buyouts in established companies within mature industries. The Capital Markets business unit has three main functions: Overseeing the Company’s short-term trading positions in listed securities and currencies; stakebuilding/disposal on behalf of FL Group’s Private Equity and Strategic Investments; and advice on and execution of derivative and security trading related to FL Group’s asset portfolio, for hedging or investment purposes.

**Key Management**

*Changes in December 2007, February 2008 and March 2008*

Jón Sigurðsson, former Deputy CEO, replaced Hannes Smárason as the CEO of FL Group on 4 December 2007. His former role of a Deputy CEO was discontinued but he still remains the head of Financial Institutions Group (FIG). The Senior Management now consists of one person: Jón Sigurðsson, CEO & Head of FIG. Hannes

Smárason still remains one of the leading shareholders in FL Group, as the beneficial owner of Oddaflug B.V. and takes on the role of a Board Director.

On 14 December 2007 a shareholder's meeting announced changes to the Issuer's Board of Directors. It was announced who would serve on the Board until the Issuer's next Annual General Meeting which took place on 11 March 2008. Four former members continued their role as Members of the Board of Directors or their alternates. These members were Jón Ásgeir Jóhannesson (Chairman of the Board), Þorsteinn M. Jónsson (former Vice Chairman of the Board), Smári S. Sigurðsson (now Alternate Director) and Peter Møllerup (Alternate Director). New Board Directors as of 14 December 2007 were Pálmi Haraldsson (Vice Chairman of the Board), Gunnar S. Sigurðsson, Hannes Smárason, Kristín Edwald and Þórður Már Jóhannesson. The five former members who were replaced are Jón Kristjánsson, Magnús Ármann, Paul Richmond Davidson, Skarphéðinn Berg Steinarsson and Þórður Bogason (Alternate Director).

In addition FL Group announced on 4 December 2007 that a decision had been made to close down the Company's office in Denmark where five employees are located. The office's operations will be merged with the London operations which will streamline operations and reduce operating costs.

On 13 February 2008, FL Group announced further management changes: Viðar Þorkelsson was appointed CFO and Managing Director of FL Group's Finance and Administration. He joined the Company in March 2008. From 2006-2008, Viðar has been the managing director of finance and IT at the media company 365. Before he joined 365, he had worked at Vodafone in Iceland and other Icelandic companies. Viðar will replace Sveinbjörn Indriðason, who has resigned. In addition, Halldór Kristmannsson, Managing Director of Corporate Communications and Investor Relations has also resigned from the management team to pursue other business interests. Júlíus Þorfinnsson, who has been the director of Corporate Branding, will head the corporate communications team and will in the future report to the CFO. Both resigning directors will fulfill all outstanding commitments and complete certain projects in the next few weeks.

On 11 March 2008 the Annual General Meeting announced changes to the Issuer's Board of Directors. It was announced who will serve on the Board until the Issuer's next Annual General Meeting. Five former members continued their role as Members of the Board of Directors or their alternates. These members are Jón Ásgeir Jóhannesson (Chairman of the Board), Pálmi Haraldsson (Vice Chairman of the Board), Hannes Smárason, Þorsteinn M. Jónsson and Peter Møllerup (Alternate Director). New Board of Directors as of 11 March 2008 are Árni Hauksson, Eiríkur Jóhannesson, Katrín Pétursdóttir and Þórður Bogason (Alternate Director). The four former members who were replaced are Gunnar Sigurðsson, Kristín Edwald, Smári S. Sigurðsson (Alternate Director) and Þórður Már Jóhannesson.

### ***Board of Directors***

The following section lists the current members of the Board of Directors and their principal activities and experience based on information from the individuals themselves and from Lánstraust hf. - Creditinfo Ísland. It details the main occupations and/or other occupations that are linked to ownership or operations of FL Group.

#### *Jón Ásgeir Jóhannesson*

Chairman of the Board of Directors as of June 2007. Director since July 2005, but was also a Board Member from March 2003 to June 2004.

Business Address: Baugur Group, Túngata 6, 101 Reykjavík, Iceland.

Jón Ásgeir Jóhannesson is the Executive Chairman of the Board of Baugur Group and an investor and entrepreneur. He was born in 1968 and graduated from the Commercial College of Iceland and has been involved in various investment projects in Iceland and abroad. Among other things he founded the Bonus supermarket chain in 1989 with his father Jóhannes Jónsson and has led Baugur Group's expansion in recent years. Jón Ásgeir has been a leading player in Icelandic business for more than a decade and has a significant influence in the UK and Denmark retail sector through Baugur Group and other companies. In June 2007 Jón

Ásgeir became Executive Chairman of the Board of Baugur Group, and in recent years he has been the CEO of the company.

Remuneration and benefits in 2007 totalled ISK 5.8 million.

Holdings of financially related parties: Chairman of the Board of Baugur Group hf., which holds 5,066,579,194, shares (37.30% of the Issuer's share capital) in FL Group partly through its subsidiary BG Capital ehf. and partly through forward contracts. Jón Ásgeir and his family members own Fjárfestingafélagið Gaumur ehf. which holds 72% in Baugur Group hf. Other financially related parties hold a total of 238,285,352 shares in FL Group.

Own holding of shares: 0

Current directorships and partnerships, in addition to his directorship of the Issuer:

CEO: Þú Blásól ehf.

Power of procuracy: Þú Blásól ehf., Baugur Group hf., BG Holding ehf., Fjárfestingafélagið Gaumur ehf., Baugur Invest ehf., BG Aviation ehf., F-Capital ehf., Hagar hf., Milton ehf.

Board member:

Icelandic companies: Þú Blásól ehf. (Board Member), Baugur Group hf. (Chairman), Baugur Invest ehf. (Chairman), Reykjavík Records ehf. (Alternate Board Member and former Board Member), BGE Eignarhaldsfélag ehf. (Chairman), Hagar hf. (Board Member), Eignafoss ehf. (Alternate Board Member), F-Capital ehf. (Chairman), BG Holding ehf. (Chairman), Fjárfestingafélagið Gaumur ehf. (Board Member), M-Holding ehf. (Chairman), M Fashions hf. (Board Member), M-Invest ehf. (Chairman), Milton ehf. (Chairman), BG Capital ehf. (Chairman), BG Aviation ehf. (Chairman), 365 hf. (Chairman), Cidea ehf. (Board Member), Arctic Investment ehf. (Chairman), 365 – miðlar ehf. (Chairman)

UK and Ireland based Companies: Baugur UK Limited, Giant Midco Limited, Giant Bidco Limited, W F Group Holdings Limited, W F Group Limited, Giant Property Consortium Limited, Highland Group Holdings Limited, Highland Acquisitions Limited, House of Fraser (Finance) Limited, HOF Property Investment Holdings Limited, House of Fraser (Stores Management) Limited, James Beattie Limited, House of Fraser Limited, House of Fraser (Stores) Limited, House of Fraser (Properties) Limited, House of Fraser (Storecard) Limited, House of Fraser (Investments) Limited, Jenners, Princes Street, House of Fraser Finance (Ireland) Ltd, Iceland Foods Group Limited

Scandinavia based Companies: Aktieselskabet Th. Wessel & Vett, Magasin du Nord, Denmark (Chairman), Illum Administration ApS, Denmark (Chairman), Holdingselskabet Illum ApS, Denmark (Chairman), Ejendomsselskabet A.C. Illum ApS, Denmark (Chairman), BG Danmark Aps., Denmark (Board Member), Baugur DK ApS, Denmark (Board Member), ADD Mikkelsen A/S, Denmark (Board Member), Baugur SE AB, Sweden (Board Member), Baugur Holding SE AB, Sweden (Board Member).

Companies based in other countries: A Holding S.A., Luxembourg (Board Member).

Former directorships and partnerships for the past five years, in addition to his directorship of the Issuer:

CEO: Baugur Group hf., Baugur Invest ehf., Mundur ehf., Skin og skúrir ehf.

Board member:

Icelandic Companies: Straumur-Burðarás Fjárfestingabanki hf., Buy National á Íslandi ehf., Ferskvatn ehf., Eignarhaldsfélagið Gaumur ehf., Viðskiptatraust hf., Mundur ehf., Skin og skúrir ehf., Dúkur ehf., Smáralyf ehf., Tíu ellefu hf., Hagkaup hf., Gaumur hf., Vöruveltan hf., Bónusbirgðir ehf., Íslensk pizza ehf., Baugur-Aðföng ehf., Ísþor ehf., Selberg ehf., Lyfjabúðir hf., Rekstrarfélag Lyfjabúða ehf., I Holding ehf. (Chairman),

Britain and Ireland based Companies: Oasis Stores Limited, Sierra Acquisitions Limited, Sierra Holdings Limited, Corporal Limited, Woodward Foodservice Limited, Deep Freeze Supplied Limited, Booker Overseas Trading Limited, Expert Group Limited, Expert Group (No.2) Limited, Booker Cash & Carry Limited, Fitch Lovell Limited, Booker Mariculture US, Booker Mariculture UK, Booker US Limited, BF Limited, Booker Limited, The Big Food Group Limited, Giant Booker Limited, Linfood Properties Limited, Booker Nominees Limited, Hub Wholesale Limited, Linfood Cash & Carry Limited, Rubicon Retail Limited, Soldier Limited, Femin Limited, Glitnir Bank hf., UK Branch, Beatties Card Handling Services Limited, House of Fraser (PIH) Limited, Edinburgh Limited.

*Pálmi Haraldsson*

Vice-Chairman of the Board of Directors since December 2007.

Business Address: Fons hf., Suðurgata 22, 101 Reykjavik, Iceland.

Pálmi Haraldsson was born in 1960. He has been the CEO of Fons hf., an international investment company in Iceland since 2003. He is also the CEO of Fengur ehf. Pálmi Graduated with a BA from Gothenburg University and Master's (MSc) degree from the same university.

Remuneration and benefits in 2007 totalled ISK 0.3 million.

Holdings of financially related parties: Majority shareholder, procurator, CEO and member of the Board of Directors of Fons hf., which holds 1,659,002,144 shares in FL Group (12.21% of the Issuer's share capital).

Own holding of shares: 0.

Current directorships and partnerships, in addition to his directorship of the Issuer:

CEO: Sikker ehf., Eignarhaldsfélagið Fengur hf., Fons hf.

Power of procurator: Sikker ehf., Eignarhaldsfélagið Fengur hf., Fons hf.

Board Member: Plastprent hf., Sikker ehf., 365 – miðlar ehf., Vesturfarar ehf., Melkot hf., 365 hf., Securitas hf., Eignarhaldsfélagið Fengur hf., Northern Travel Holding hf. (Chairman), Fons hf., Ísland Express ehf., Hekla Travel A/S (Denmark), Ticket Travel Group AB (Sweden), Sterling Airlines A/S (Denmark), Icebox Holdings Ltd (Britain), WF Group Holdings Ltd. (Britain), Julian Graves Ltd. (Britain), Booker Group (Britain)

Former directorships and partnerships for the past five years, in addition to his directorship of the Issuer:

CEO: S fasteignir ehf.

Power of procurator: S fasteignir ehf.

Board Member: Eimskipafélag Íslands hf., Brim hf., HB Grandi hf., Flugleiðir ehf., Flugfélag Íslands ehf., Burðarás ehf., Hagar hf., Bensínorkan hf., Hollt og gott ehf., Bananar ehf., Ávaxtahúsið, Nýtt og ferskt ehf. Skeljungur hf. (Chairman), Bensínorkan ehf. (Chairman), S fasteignir ehf., Uppspretta eignarhaldsfélag ehf. (Chairman).

*Árni Hauksson*

Director since March 2008.

Business Address: Tjaldanes 5, 210 Garðabær, Iceland.

Árni Hauksson was born in 1966. He has been a director and procurator of his investment company, Klapparás ehf., since 2005. In 2002-2005 he was the CEO of Húsasmiðjan hf. and its CFO in 2000-2002. Árni was the CFO and deputy CEO of Frjáls fjölmiðlun ehf. in 1996-1999 and the CEO of Skyggnir ehf. in 1995-1996. He was the Director of Finance at the Ministry of Justice in 1993-1995. Árni received his degree in Mechanical Engineering from the University of Iceland in 1990, an MS in Mechanical Engineering from California Institute of Technology 1991 and an MS in Industrial Engineering from Stanford University 1992.

Remuneration and benefits in 2007: None.

Holdings of financially related parties: 1,000,000 shares.

Own holding of shares: 0.

Current directorships and partnerships, in addition to his directorship of the Issuer:

CEO: GMG ehf., Miðhlíð ehf.

Power of procurator: GMG ehf., Klapparás ehf., Miðhlíð ehf., Vogabakki ehf.

Board Member: Klapparás ehf., GMG ehf., Miðhlíð ehf., Vogabakki ehf. (Chairman), 365 hf., 365 – miðlar ehf., Tryggingamiðstöðin hf. (Alternate Board Member).

Former directorships and partnerships for the past five years, in addition to his directorships of the Issuer:

Board Member: Íslenski hugbúnaðarsjóðurinn hf., Eignarhaldsfélag Húsasmiðjunnar ehf., Interseafood Íslandi hf., Metro-Áral ehf., S.P. Fiskvinnsla hf., Steinull ehf., Ískraft ehf., H.G. Guðjónsson ehf., Blómaval ehf., Brum ehf., Múli eignarhaldsfélag ehf., Amerísk-Íslenska viðskiptaráðið, Kjalarvogur ehf. Norðurljós hf., Frétt ehf., Húsasmiðjan hf.



*Eiríkur S. Jóhannsson*

Director since March 2008.

Business Address: Baugur Group, Túngata 6, 101 Reykjavík, Iceland.

Eiríkur S. Jóhannsson was born in 1968. He is a managing director at Baugur Group hf. In 2004-2005 he was the CEO of Og fjarskipti hf. Eiríkur was the CEO of Kaldbakur hf. in 2002-2004, the Director of KEA in 1998-2002, and the regional manager at Landsbanki Íslands 1996-1998. He has a BSc in economics from the University of Iceland. Between 1992 and 1994 he studied international economics and finance at Vanderbilt University.

Remuneration and benefits in 2007: None.

Holdings of financially related parties: 0 shares.

Own holding of shares: 0.

Current directorships and partnerships, in addition to his directorship of the Issuer:

CEO: Lítá ehf., Fjárhús ehf.

Power of procuration: Lítá ehf., Baugur Group hf., Fjárhús ehf.

Board Member: Lítá ehf., Fjárhús ehf., Heir ehf. (Alternate Board Member), Landic Property hf., Dial Square Holdings ehf., Kaldbakur ehf., BG Holding ehf., A-Holding ehf., BG Ventures ehf., Baugur Invest ehf., BG Capital ehf., BG Aviation ehf., F-Capital ehf., BGE Eignarhaldsfélag ehf., BG Equity 1 ehf., DBH Holding ehf. Samherji hf. (Chairman), 101 Skuggahverfi hf. (Chairman), Glitnir Bank hf. (Alternate Board Member), Farice hf., Íslandsfugl ehf. (bankrupt estate) (Alternate Board Member, no activity in the company), Immo Croissance Sivac (Chairman) (Luxembourg), Keops A/S (Denmark), Capinordic A/S (Denmark), Capinordic Bank A/S (Denmark).

Former directorships and partnerships for the past five years, in addition to his directorships of the Issuer:

Board Member: Íslandsbanki hf., Tryggingarmiðstöðin hf., Goldsmiths Ltd., Icelandic Group hf., Lífeyrissjóður Norðurlands, Samvinnusjóðurinn, BG Fasteignir ehf., Eignarhaldsfélagið Farice ehf., Sauðahellir ehf. (Alternate Board Member), P/F Kall, Atlas Ejendom A/S, Atlas II A/S, Straumur Burðarás hf., M-Holding ehf., I-Holding ehf., Norðlenska ehf., Nýja Kaffibrenslan ehf., Efnaverksmiðjan Sjöfn hf..

*Hannes Smárason*

Director since December 2007. Chairman of the Board of Directors in 2004-2005.

Business Address: Fjölnisvegur 9, 101 Reykjavík, Iceland

Hannes was born in 1967. He joined FL Group as the Chairman of the Board of Directors in 2004 and was Chief Executive Officer of FL Group from 2005 to December 2007. Before joining FL Group, Hannes was Executive Vice President and Senior Business Officer of deCode Genetics Inc, helping grow the company from a leader in human genetics research to an integrated biopharmaceutical company. Prior to that, Hannes worked at the strategy and consulting firm McKinsey & Co. at their U.S. headquarters in Boston from 1992 to 1996. He received his B.Sc. in Mechanical Engineering and Management from the Massachusetts Institute of Technology and his MBA from the Massachusetts Institute of Technology Sloan School of Management.

Remuneration and benefits in 2007 totalled ISK 139.5 million, mainly for his role and retirement as a CEO.

Holdings of financially related parties: Hannes Smárason is the beneficial owner of Eignarhaldsfélagið Oddaflug ehf. which subsequently holds all shares in Oddaflug B.V. and, on the basis of this, is one of the largest shareholders in FL Group with 1,475,101,748 shares (10.86% of the Issuer's share capital).

Own holding of shares: 0.

Current directorships and partnerships, in addition to his directorship of the Issuer:

Board Member:

Icelandic Companies: Eignarhaldsfélagið Oddaflug ehf. (Chairman), Fjárfestingafélagið Primus ehf. (Alternate Board Member), Gramophone ehf., Hótel Búðir ehf. (Alternate Board Member), Fjölnisvegur 9 ehf. (Alternate Board Member), Hlíðasmári 6 ehf., Eignarhaldsfélagið Sveipur ehf., Geysir Green Energy ehf. (Chairman), Runnur 4 ehf. (Alternate Board Member).

Companies based in other countries (all based in the Netherlands): FL GLB Holding B.V., FL Group Holding Netherlands B.V., Minx Netherlands B.V., FL Scandinavian Holdings B.V., FL Europe Holding B.V., Oddaflug B.V.

Former directorships and partnerships for the past five years, in addition to his directorship of the Issuer:

Power of procuration: Íslensk náttúruæfni ehf., Fjárfestingafélagið Freyr ehf., Tónvís ehf.

Board Member: Straumur-Burðarás Fjárfestingabanki hf., Bláfugl hf., Flugflutningar ehf., Fjárfestingafélagið Freyr ehf., Íslensk náttúruæfni ehf., Digitalis ehf., FL Holding ehf. (Chairman), FL Travel Group ehf., Kjarrhólmi ehf. (Chairman), Tónvís ehf. (Chairman), Glitnir Bank hf.

#### *Katrín Pétursdóttir*

Director since March 2008.

Business Address: Lýsi hf., Fiskislóð 5-9, 101 Reykjavík, Iceland.

Katrín was born in 1962. She is the CEO of Lýsi hf. since 1999. Katrín received her degree in Industrial Management from the Technical University of Iceland.

Remuneration and benefits in 2007: None.

Holdings of financially related parties: 68,085,856 shares.

Own holding of shares: 0.

Current directorships and partnerships, in addition to her directorship of the Issuer:

CEO: Hnotskurn ehf., Lýsi hf., Ifex ehf., Þórugnúpur ehf., Félagsvöllur ehf., Hydrol ehf.

Power of procuration: Hnotskurn ehf., Lýsi hf., Ifex ehf., Þórugnúpur ehf., Félagsvöllur ehf., Hydrol ehf.

Board Member: Bakkavör Group hf., Hnotskurn ehf., Lýsi hf. (Alternate Board Member), Fiskafurðir-umboðssala ehf., Háskólinn í Reykjavík ehf., Fiskafurðir hf. (Alternate Board Member), SVÍV ses., Interfeed á Íslandi ehf. (Alternate Board Member), Ifex ehf., Þórugnúpur ehf., Félagsvöllur ehf., Hydrol ehf., Vor ehf. (Chairman), Glitnir banki hf.

Former directorships and partnerships for the past five years, in addition to her directorship of the Issuer:

Board Member:

Glitnir Bank hf., Maritech International AS.

#### *Þorsteinn M. Jónsson*

Director and Vice-Chairman of the Board of Directors between July 2005 and December 2007.

Business Address: Laufásvegur 73, 101 Reykjavík, Iceland.

Þorsteinn M. Jónsson was born in 1963 and earned a Cand. Oecon degree from the University of Iceland and an MA degree in Economics from Northwestern University in 1991. He worked as an economist for the Central bank of Iceland for four years, followed by two years as Chief Economist for the Federation of Icelandic Industries. In 1996, Þorsteinn was appointed CEO of Vífilfell hf. (The Coca-Cola Bottling Company of Iceland) and was elected Executive Chairman in 2005.

Remuneration and benefits in 2007 totalled ISK 5.5 million.

Holdings of financially related parties: One-third owner, procurator and member of the Board of Directors of Materia Invest ehf., which holds 852,899,654 shares in FL Group (6.28% of the Issuer's share capital).

Own holding of shares: 24,771,499 through forward contracts.

Current directorships and partnerships, in addition to his directorship of the Issuer:

CEO: Sólstafir ehf., V Holding ehf., Stuðlaháls ehf.

Power of procuracy: Materia Invest ehf., MogS ehf., Gramophone ehf., Sólstafir ehf., Tónvís ehf., Materia Aviation ehf., V Holding ehf., Stuðlaháls ehf., Metúsalem ehf., Menningarfélagið Íslandssól ehf.

Board Member:

Icelandic companies: Grænahlíð fasteignafélag ehf., Materia Invest ehf., MogS ehf., Vífilfell hf. (Chairman), Gramophone ehf., Sólstafir ehf., V Holding ehf., Stuðlaháls ehf., Metúsalem ehf., Reykjavík Records ehf. (Alternate Board Member), Menningarfélagið Íslandssól ehf., Smjörlíki ehf. (Chairman) Arena Holding ehf., Tónvís ehf., Teymi hf., 365 hf., 365 – miðlar ehf., Materia Aviation ehf., Sólmon ehf., Runnur 2 ehf.

Companies based in other countries (based in the Netherlands): Refresco Holding B.V.

Former directorships and partnerships for the past five years, in addition to his directorship of the Issuer:

CEO: Vífilfell hf.

Board member: Glitnir Bank hf. (Chairman), Þórður Sveinsson & Co. ehf., Sól-Víking hf., Leikfélag Íslands ehf., Víking hf., Þórður Sveinsson & Co., Heimsferðir ehf., NOCI ehf., Runnur ehf., Icon ehf.

*Peter Møllerup*

Alternate Director since July 2006.

Business Address: LOGOS Legal Services Copenhagen, Codanhus á Gammel Kongevej 60, 5. Sal, Codanhus, DK-1850 Frederiksberg C, Denmark.

Peter was born in 1973. He is partner at the law firm LOGOS Legal Services, based in Copenhagen. He holds a Master's degree in Law from the University of Copenhagen and King's College London. In 1999 he received permission to practice law in Denmark, passing the Danish Bar examination in 2002. Peter has been a teacher at the University of Copenhagen and the University of Iceland. Since 1999 Peter has been an attorney at the law firms Gorrissen Federspiel Kierkegaard, LOGOS Legal Services and was a partner at the law firm Johan Schlüter until December 2007.

Remuneration and benefits in 2007 was none.

Holdings of financially related parties: None.

Own holding of shares: None.

Current directorships and partnerships, in addition to his directorship of the Issuer:

CEO: Advokatanpartsselskabet Peter Møllerup, Hauchsvej 10 ApS.

Board Member: IJ Trading ApS, IJ Trading holding ApS, Nysir Denmark ApS.

Former directorships and partnerships for the past five years, in addition to his directorship of the Issuer:

Board Member: Johan Schlüter advokatfirma, JJ trading A/S, Smiðjutorg ehf.

*Þórður Bogason*

Alternate Director since March 2008 (and November 2005 – December 2007).

Business Address: Lögmenn Höfðabakka ehf., Höfðabakki 9, 110 Reykjavík, Iceland.

Þórður was born in 1963. He graduated with a Cand.Jur. from the University of Iceland in 1989. Þórður worked at the Secretariat of Althingi 1989-1992, the EFTA Secretariat in Brussels 1992-1995, Head of Committee department of the Secretariat of Althingi 1995-2000 and since then he has been acting as an independent attorney at law and operates the company Lögmenn Höfðabakka ehf. with Hreinn Loftsson, attorney at law. Þórður became a Supreme Court Attorney in 2007.

Remuneration and benefits in 2007 was none.

Holdings of financially related parties: None.

Current directorships and partnerships, in addition to his directorship of the Issuer:

Senior Manager: Justitia ehf., Lögmenn Höfðabakka ehf.

Power of procuration: Justitia ehf., Lögmenn Höfðabakka ehf.

Board Member: Eignarhaldsfélagið AREV ehf. (Chairman), Justitia ehf., Lögmenn Höfðabakka ehf., Sólin skín ehf., AL-Holding ehf. (Alternate Board Member), Y-Holding ehf. (Alternate Board Member), JST Holding ehf. (Alternate Board Member).

Former directorships and partnerships for the past five years, in addition to his directorship of the Issuer:

Board Member: Örfirisey ehf., Fasteignafélagið Stoðir hf. (Alternate Board Member).

### ***Senior Management - CEO***

This section lists the Senior Management who is relevant to establishing that the Issuer has the appropriate expertise and experience for the management of the Issuer's business. The Senior Management consists of one person: Jón Sigurðsson, CEO & Head of FIG. The following section covers information on the current CEO and his principal activities and experience. It details the main occupations and/or other occupations that are linked to ownership or operations of FL Group.

#### *Jón Sigurðsson*

Chief Executive Officer (CEO) as of December 2007. Deputy CEO from December 2006 to December 2007.

Business Address: FL Group, Síðumúli 24, 108 Reykjavík.

Jón Sigurðsson was born in 1978. He joined FL Group as Managing Director in September 2005 and was appointed Deputy CEO in December 2006. Jón was appointed CEO of FL Group in December 2007. Jón has relevant private equity experience from his earlier work at Landsbanki Íslands hf. – Corporate Finance department and Búnaðarbanki Íslands hf. (now Kaupthing Bank hf.) – Corporate Finance department. He received his B.Sc. in Business Administration from Reykjavík University in 2001.

Remuneration and benefits in 2007 totalled ISK 32.5 million. The Issuer has granted him the following share options: a) 51.5 million shares with the strike price of 13.6 issued in December 2005; and b) 150 million shares with the strike price of 14.7 issued in December 2007; and c) previously announced 25.0 million shares with the strike price of 33.0 issued in February 2007 has been terminated. The options stipulated under a) above are exercisable in a three-year period from November 10 until December 10 each year 2006-2008, and 1/3 of the options can be executed annually. The options stipulated under b) above are exercisable in a three-year period on 1 March each year from 2009 until 2011, and 1/3 of the options can be executed annually. Jón has not exercised any share options.

Holdings of financially related parties: None.

Own holding of shares: None.

Current directorships and partnerships, in addition to his directorships of the Issuer:

Power of procuration: FL Holding ehf.

Board Member: Glitnir Bank hf., Unity One ehf., Geysir Green Energy ehf. (Alternate Board Member), FL Travel Group ehf. (Alternate Board Member), Unity Investments ehf., Hitaveita Suðurnesja hf., FL Holding ehf. (Chairman), FL Group UK (Britain), Ferskur Holding 1 B.V. (The Netherlands).

Former directorships and partnerships for the past five years, in addition to his directorships of the Issuer:

Board Member: Bláfugl hf., Flugflutningar ehf., Tryggingamiðstöðin hf., Sterling Airlines A/S (Denmark), Flyselskabet A/S (Denmark), Refresco Holding B.V. (The Netherlands).

## ***Conflicts of Interests***

The Directors and CEO are not aware of any conflicts of interest between individual members of the Board of Directors' and Senior Managers' private interest and or other duties on the one hand, and the Company on the other, apart from those ongoing issues that are disclosed under the heading "Related Party Transactions". No family relationship is between any of the Directors or the CEO.

In the past five years, apart from the discussion in the paragraphs below, none of the Board members or members of the Senior Management or key members of the Issuers' management have been:

- Convicted in relation to a fraudulent offence.
- Associated with companies that have gone into bankruptcy, receivership or liquidation.
- Subject to any official public incrimination, other than mentioned below, and/or sanctions by any statutory or regulatory authority (including any designated professional body) or have ever been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company for the past five years.

In August 2002, a police investigation started into certain affairs of Baugur Group hf. and affiliates and its parent Fjárfestingarfélagið Gaumur ehf. Jón Ásgeir Jóhannesson is the Executive Chairman of Baugur Group hf. and a board member of Fjárfestingarfélagið Gaumur ehf. The investigation conducted by the National Commissioner of the Icelandic Police led to the issue of an indictment against Jón Ásgeir Jóhannesson in July 2005 in relation to the affairs of Baugur Group hf. In October 2005, the Supreme Court of Iceland dismissed the majority of the indictment and with a final judgement of the Supreme Court in January 2007, Jón Ásgeir was acquitted of all remaining charges. In March 2006, a new indictment was issued, based on the charges in the first indictment. With a judgement on 3 May 2007, nearly five years after the investigation began, 10 charges were dismissed, because they lacked the necessary legal substance and the indictment lacked clarity, Jón Ásgeir was acquitted for 7 charges but convicted for one for violation of Article 158 of the General Penal Code (Incorrect statement in a legally required document) and received 3 months suspended sentence. Jón Ásgeir has appealed the conviction to the Supreme Court.

After a Supreme Court ruling on 1 June 2007, the dismissed charges were heard again before the District Court 13 June 2007. On 28 June 2007, Jón Ásgeir was acquitted of all the dismissed charges. The Prosecutor has appealed the ruling to the Supreme Court.

Both the appeal of Jón Ásgeir and the appeal of the Prosecutor will be heard at the same session before the Supreme Court in May 2008, which is the final stage of this case.

## **Arrangements to encourage employee involvement in the Capital of the Issuer**

On 27 December 2007 FL Group hf. implemented a new share option plan in relation to options granted to employees. The new plan consists of up to 361 million shares at a nominal value of ISK 1 each. At the same time options on 136 million shares were terminated. The options granted under the plan are exercisable in a three-year period on 1 March each year from 2009 until 2011, and 1/3 of the options can be executed annually. On the basis of the new plan options on 342 million shares have been granted to employees at the rate 14.7. Options were granted to the following employees: Jón Sigurðsson, CEO, was granted options on 150 million shares. Benedikt Gíslason, managing director, was granted options on 35 million shares. Örvar Kærnedsted, managing director, was granted options on 80 million shares. Other employees were granted options on 77 million shares. Benedikt and Örvar have no previous options to buy shares in FL Group granted by the Company. Neither Benedikt Gíslason nor any financially related party owns shares in FL Group. Örvar Kærnedsted holds no shares in FL Group but parties financially related to him hold 5,000 shares in the Company.

Jón Sigurðsson, CEO, was also granted options on 51.5 million shares in December 2005, which are exercisable in a three-year period from November 10 until December 10 each year 2006-2008, and 1/3 of the options can be executed annually. Jón has not exercised these options.

As of year-end 2007 FL had in total outstanding employees options of 488.3 million shares with an exercise price in the range of 10.6 to 31.1, a weighted average price of 14.6 and a weighted average contractual life of 1.7 years. These options are allocated in the following way: Jón Sigurðsson, CEO, has 201.5 million. Örvar Kærned, managing director, has 80 million. Benedikt Gíslason, managing director, has 35 million. Three other managing directors have 67.7 million. Other employees have 104.1 million.

The Issuer's employees do not own any put options granted by the Issuer. The Issuer's board members do not own any share options granted by the Issuer.

## **Related Party Transactions**

FL Group has a related party relationship with entities with significant influence over the Company, its associates and with its Board Directors, CEO and Managing Directors.

Entities with significant influence (10% or higher) over the Company during 2007 and during 2008 as of 31 March 2008 were Baugur Group hf. along with related parties and Oddaflug B.V. and according to an announcement on 6 December 2007, Oddaflug B.V. and Materia Invest ehf., which holds 6.28% of the share capital of FL Group, have entered into a shareholders' agreement which, inter alia, provides that Oddaflug B.V. and Materia Invest ehf. will use their voting power in FL Group in concert. Fons hf. became entity with significant influence in December 2007.

The Company's associates as disclosed in note 23 to the Issuer's consolidated financial statements for the year 2007 are the following: Glitnir Bank hf., Eikarhald ehf., Northern Travel Holding hf., Refresco Holding B.V., Unity Investment ehf., Þyrping hf., Landic property hf., Fasteignafélag Íslands hf., Íslensk endurtrygging hf., Geysir Green energy ehf., VC Holdings Limited, Wyndeham Press Group Limited.

These following sections describe the transactions with related parties:

- Salaries and benefits
- Outstanding balances at year-end 2007, income and expenses 2007
- Transactions with Imon ehf., Sólstafir ehf. and Sólmon ehf.
- Transactions and agreements with Baugur Group hf. and related parties
- Transactions with Fjárfestingafélagið Primus ehf. (owned by Hannes Smárason, member of the Board of Directors of FL Group hf., former CEO of FL Group hf. and owner of Oddaflug B.V.)

The Directors and management of FL Group declare that the Company has not entered into any transactions with its subsidiaries, shareholders, board members, employees or related parties by other means than on arm's length terms and in a context which may be regarded as being in the ordinary course of its business.

### ***Salaries and benefits***

Salaries and benefits of the Board of Directors and the CEO paid for their work for the Group in 2007, their share option agreements with FL Group and their shares in the Company are described in the sections under the headings "Recent Developments" – "Key Management". Salaries paid to five former Board Directors for 2007 were ISK 5.9 million to Skarphéðinn Berg Steinarsson former Chairman, ISK 3.4 million to Jón Kristjánsson, ISK 0.4 million to Kristinn Björnsson, ISK 3.8 million to Magnús Ármann and ISK 6.1 million to Paul Davidson. Salaries and benefits paid to the five Managing Directors of FL Group for the year 2007, totalled ISK 183.7 million. These Managing Directors were Benedikt Gíslason, Bernhard Bogason, Halldór Kristmannsson, Sveinbjörn Indriðason and Örvar Kærned. These five managers received ISK 216.8 million net gain on exercised options in 2007. At year-end 2007 they owned employee share options granted by FL Group on 182.7 million shares in total, as described under the heading "Arrangements to encourage employee involvement in the Capital of the Issuer", and held 11.0 million shares in FL Group.

The Annual General Meeting (AGM) held on 11 March 2008 approved the following proposal of the Board of Directors of FL Group on Stock Options and FL Group's Remuneration Policy: "FL Group emphasises on being able to recruit skilled personnel and hold its key personnel to secure the ongoing growth of the company and

acceptable return on equity. In relation thereto the company has granted key personnel stock options for shares in the company and issued and renewed stock options. In relation to the practice of the aforementioned goal of the company stock options granted to key personnel may at any time in total be up to 9% of the company's outstanding share capital. Purchase price (strike price) shall equal market price at the time when the option is granted. FL Group's Remuneration Policy is based on good practice of corporate governance and the company's goals on growth and return on equity. The Board of FL Group has agreed upon the following Remuneration Policy with reference to Article 79 a in Act No. 2/1995, on Public Limited Liability Companies. Members of the Board shall receive a fixed fee for their duties as Directors. The fee for both general duties as Directors and as members of the Boards' subcommittees shall be decided upon by the company's Annual General Meeting for the period from the AGM to the next AGM. Board members may take on other duties on behalf of the Company and be remunerated for such services according to a special agreement approved by the Board of Directors. The CEO's terms of employment shall be based on a written agreement. The CEO's remuneration shall be agreed upon in line with his responsibilities and on basis of his duties taking notice of the Company's size and operations in general, and in line with general remuneration development in the countries where the company operates and in line with the progress of the Company. The CEO's remuneration may consist of fixed salary, bonuses in cash payments and shares, stock options, warrants, pension fund contributions and if deemed feasible redundancy and termination payments. Remuneration of other key personnel shall also be based on the aforementioned key elements. In the Annual General Meeting the Board of Directors shall disclose to the shareholders the terms of employment of the CEO, and board members of the Company. The Board of Directors shall disclose the total amount paid in salaries in any form in the previous financial year, payments from other companies within the Group, and stock options and all other forms of payment pertaining to stock in the company and retirement payments, if any."

The Annual General Meeting approved the following salaries to the Board of Directors: ISK 350,000 per month to the Chairman, ISK 250,000 per month to the Vice-Chairman, ISK 175,000 per month to other members of the Board, ISK 50,000 for each meeting attended to alternative board members. Board members shall receive a fixed fee for each meeting they attend in the Board's subcommittees. The fee shall be ISK 100,000 for the Chairman of the relevant committee for each meeting but ISK 50,000 for other members for each meeting attended. The fee for attending meetings in subcommittees in the period shall however not exceed ISK 600,000 for the Chairman and ISK 300,000 for other members.

### ***Outstanding balances at year-end 2007, income and expenses 2007***

Outstanding balances at year-end 2007, income and expenses during the year 2007 are specified for each group of related parties as follows:

<i>(ISK '000,000)</i>	<i>Entities with significant influence</i>	<i>Associates</i>	<i>Management / Board Directors</i>
<b>Income statement</b>			
Net (expense) income from investments	0	-1,838	0
Interest income	0	958	0
Interest expense	0	-518	0
Operating expenses	-85	0	0
<b>Balance sheet</b>			
Cash and cash equivalents	0	5,908	0
Loans and trade receivables	94	18,547	73
Derivatives	0	-1,170	0
Borrowings	0	-25,296	0

The Group expensed rental payments of ISK 85 million for an aircraft to a company owned indirectly by its former CEO according to a cost sharing arrangement during the year. When the CEO left his position that same company took over airflight hours, which FL Group had pre-paid, and agreed to a payment schedule. The debt for the pre-paid hours was ISK 94 million at the end of the year 2007 and is included in Loans and trade receivables. The repayment is on schedule and the debt is to be fully repaid in June 2008.

The Group owns 31.97% in Glitnir Bank hf. During the year the Group and the bank made transactions which are included in the following amounts from associates. The Group paid the bank interest for borrowings (ISK 518 million) and received interest income from its cash equivalents placed at the bank (ISK 958 million). The Group also purchased derivatives from the bank and paid fees for services, such as investment banking and sale of new shares (ISK 1,838 million). The balances at year end of Cash and cash equivalents, Derivatives and Borrowings are all related to Glitnir Bank hf.

The Group has granted loans to two of its associates, Northern Travel Holding ehf. and Unity Investments ehf., in total ISK 18.5 billion.

Included in Loans and trade receivables is outstanding balance of Materia Invest ehf.'s, ISK 73 million debt towards the Issuer. Materia Invest ehf. is held by Kevin Stanford, Þorsteinn M. Jónsson board member and Magnús Ármann former Board member. The debt derives from an ongoing business arrangement between the Issuer and Materia Invest ehf. The debt was paid in January 2008.

The Group issued a guarantee to Sterling's creditors through the associate Northern Travel Holding ehf., amounting to ISK 2,852 million, when it sold Sterling at year-end 2006. The Group receives arms length fee for providing the guarantee.

The Group issued a guarantee to Icelandair Group hf., when it sold the company in 2006. The Group has issued guarantee on aircraft financing agreement amounting to ISK 2,700 million. The Group has also undertaken obligation of non-recourse of several associated companies of Icelandair Group hf. The associated companies own aircrafts. It is expected that the obligations will be transferred to Icelandair Group hf. during the year 2008. The buyer of Icelandair Group hf. has committed it self to hold FL GROUP hf. harmless of any claims or cost deriving from the aforementioned guarantee.

The Group has issued a guarantee to a creditor of one of its associates Fasteignafélag Íslands hf. amounting to ISK 750 million.

There follows an overview of transactions that involve shareholders which hold, or held at the time of the transaction, more than 10% of the shares in FL Group. The overview incorporates the interest of natural and legal persons involved in the issue of the New Shares, along with other transactions made in the period from and including September 2007.

### ***Transactions with Imon ehf., Sólstafir ehf. and Sólmon ehf.***

On 10 September 2007, FL Group purchased a total of 10% of the shares in Kjarrhólmi ehf. from Imon ehf. and Sólstafir ehf. (5% from each). Concurrently, Sólmon ehf. purchased shares in FL Group and held 0.97% in FL Group on 10 September 2007.

Imon ehf. is owned by Magnús Ármann former board member. Sólstafir ehf. is owned by Þorsteinn M. Jónsson board member. Sólmon ehf. (previously ELL 128 ehf.) is a company owned inter alia by Imon ehf. and Sólstafir ehf.

Parties financially related to Imon ehf., Sólstafir ehf. and Sólmon ehf. currently hold 6.28% of the shares in FL Group.

FL Group has acquired the remaining shares of Kjarrhólmi ehf. and consequently holds 100% of the share capital of Kjarrhólmi ehf. Kjarrhólmi ehf. holds 37.6% in Tryggingamiðstöðin hf. and FL Group holds 61.5% in Tryggingamiðstöðin hf.

### ***Transactions and agreements with Baugur Group hf. and related parties***

a)

On 4 December 2007, FL Group purchased shares and other interests in real estate companies from Baugur Group hf. and affiliates (BG Holding ehf., BG Equity 1 ehf. and Baugur Holding AB). The assets were paid for



with the New Shares. Further information regarding the transaction is to be found under the heading "The New Shares".

Landic Property hf., of which FL Group holds 39.8% stake, held 0.82% of the total issued shares in FL Group on 22 January 2008. Baugur Group hf. holds 37.30% of the shares in FL Group.

b)

On 30 April 2007, FL Group hf. and Jötunn Holding ehf. (in which Baugur Group hf. holds 30% of the share capital) entered into a shareholders' agreement in relation to shares in Glitnir Bank hf. On 13 December 2007, the FME declined FL Group's and Jötunn Holding ehf.'s request to hold jointly 39.9% of the shares in Glitnir Bank hf. FL Group is authorised by the FME to hold up to 33% of the share capital in Glitnir Bank hf. The shareholders' agreement has been cancelled.

c)

On 13 December 2007, Landic Property hf. sent FL Group a letter of intent regarding the purchase of shareholdings in companies and funds from FL Group on the same basis as FL Group acquired the same assets from Baugur Group hf. and affiliates in accordance with a Sale and Purchase Agreement dated 4 December 2007. This was in line with the statement made in the Sale and Purchase Agreement dated 4 December 2007 where Baugur Group hf. and related parties were at completion to use their best endeavours to procure the delivery to FL Group of a board approval from Landic Property hf. to enter into the transaction with FL Group, whereby Landic Property hf. purchases and FL Group sells the shares and other interest in the following companies and funds, subject to consent from the relevant companies and funds and co-owners:

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**Company/Fund**

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Prestbury 1 Limited Partnership

LXB3 Limited

LXB Smallco Limited

LXB Developments (Orange) Limited

WCC Europe S.a.r.l.

Dial Square Holdings ehf.

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In February 2008, FL Group sold, subject to the consent of the relevant companies and funds and co-owners, shares and other interest in the following foreign property funds to Landic Property hf. The transaction which was closed 13 February 2008 had a transaction value of ISK 20.6 billion. The purchase price was the same as in the agreement with Baugur Group hf., with the exception that shareholder loans that FL Group granted after its acquisition of the property interests were assumed by Landic Property hf., and financing cost from 4 December 2007 to 12 February 2008 was added to the purchase price. Included in the ISK 20.6 billion purchase value was furthermore one asset, the Issuer's own stake in LXB3 Limited, which was not a part of the agreement between Baugur Group hf. and the Issuer was sold to Landic in the same transaction.

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**Company/Fund**

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Prestbury 1 Limited Partnership

Catalyst Samsara India Opportunity Fund I LP

Baugur Group BV – 100%

WCC Europe S.a.r.l.

BG Fasteignir ehf.

LXB3 Limited (merged from LXB3 Limited and  
LXB Developments (Orange) Limited)

LXB Smallco Limited

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The consideration for the above mentioned assets was paid to FL Group with four bonds issued by Landic Property hf., each of €2 million and each carrying an interest of 9.3%. They are unsecured. The total amount of the four bonds is €208 million, all payable on 13 February 2013. The four bonds are all convertible to Landic

Property hf.'s shares as follows: The first bond is convertible as of 13 February 2010, the second bond is convertible as of 13 February 2011, the third bond is convertible as of 13 February 2012 and the fourth bond is convertible as of 13 February 2013. The conversion rate is based on the purchase price of the shares in Landic Property hf. that FL Group acquired from Baugur Group hf.

### ***Transactions with Fjárfestingafélagið Primus ehf.***

Fjárfestingafélagið Primus ehf. is owned by Hannes Smárason, member of the Board of Directors of FL Group, former CEO of FL Group and owner of Oddaflug B.V. The following intended transaction has been cancelled and in February 2008 the shares involved were sold to another purchaser. On 14 December 2007, FL Group signed a Letter of Intent with Fjárfestingafélagið Primus ehf., on behalf of an unincorporated company, where FL Group (seller) and Fjárfestingafélagið Primus ehf. on behalf of the unincorporated company (buyer) jointly declare that the seller wanted to sell and the buyer wanted to buy 3,998,550,000 of the seller's shares in Geysir Green Energy ehf., ID no 630605-1210, or 23.0% of the total share capital of Geysir Green Energy ehf. The alleged sale would have had an insignificant impact on FL Group's operations since the intended purchase price was close to book value, although it would have had a positive impact on FL Group's equity. FL Group's ownership in Geysir Green Energy ehf. after the intended transaction would have been 20.0%.

Oddaflug B.V. holds 10.86% of the shares in FL Group. According to an announcement on 6 December 2007, Oddaflug B.V. and Materia Invest ehf., which holds 6.28% of the share capital of FL Group, have entered into a shareholders' agreement which, inter alia, provides that Oddaflug B.V. and Materia Invest ehf. will use their voting power in FL Group in concert.

### **Documents Incorporated by Reference and for Display**

The Issuer's Consolidated Financial Statements as at 31 December 2007 and for the year ended 31 December 2007, along with the Annual Report for the year 2007, shall be deemed to be incorporated by reference to this Prospectus and to form a part of this Prospectus. For the next twelve months counting from the date of this Share Securities Note, copies of documents incorporated by reference to this Prospectus can be obtained from the Issuer's website ([www.flgroup.is](http://www.flgroup.is)) and hard copies of these documents can be obtained from the Issuer's headquarters at Síðumúli 24, 108 Reykjavík, Iceland.

A copy of the Issuer's Articles of Association can also be obtained from the Issuer's website ([www.flgroup.is](http://www.flgroup.is)) and a hard copy can be obtained from the Issuer's headquarters at Síðumúli 24, 108 Reykjavík, Iceland.

## **MANAGER AND LEGAL MATTERS**

Kaupthing Bank hf. – Investment Banking, Icelandic ID-No. 560882-0419, registered office being Borgartún 19, 105 Reykjavík, Iceland, has been the advisor to the Issuer in the preparation of this Share Securities Note and the advisor on the admission to trading on the OMX ICE. This role defines Kaupthing Bank hf. – Investment Banking as the Manager of the arrangement for the admission to trading the New Shares on the Main Market of OMX ICE. The Manager has in consultation with the management and the Board of Directors of FL Group hf. compiled this Share Securities Note, which is based on information gathered from the Issuer both directly and indirectly.

The following parties have advised on legal matters in connection with this Share Securities Note, the issue of the new shares and admission to trade the New Shares: To the Issuer as to Icelandic law, LOGOS Legal Services sf., Icelandic ID-No. 460100-2320, registered office being Efstaleiti 5, 103 Reykjavík, Iceland. To the Manager as to Icelandic law, Landslög ehf., Icelandic ID-No. 601169-0109, registered office being Köllunarklettsvegur 2, 104 Reykjavík, Iceland.

## INDEPENDENT AUDITORS

The Consolidated Financial Statements of FL Group hf. and its subsidiaries as at 31 December 2007 and for the year then ended is incorporated to this Prospectus by reference. KPMG hf. ("KPMG") audited the consolidated financial statements of FL Group hf. and its subsidiaries, which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. In KPMG's opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of FL Group hf. as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted the EU. The above mentioned financial statements include comparison figures for the preceding year, also audited by KPMG hf.

KPMG hf. has confirmed to the Issuer, that the information in this Share Securities Note on the above mentioned financial statements is consistent with the financial statements that KPMG hf. has audited. Any financial information more recent than at 31 December 2007 which is provided in this Share Securities Note is based on the Issuer's preliminary accounts and prepared by its Management.

Remuneration paid by FL Group to the Group's auditors amounted to ISK 78 million in 2007. ISK 34 million were paid for the audit of financial statements, ISK 6 million for the review of interim financial statements, and ISK 38 million for other services. These figures include fees to the auditors of all companies within the Group during the year. Fees to other auditors than the auditors of the Parent Company amounted to ISK 44 million during the year 2007..

KPMG hf. is an independent registered public accounting firm with State Authorized Public Accountants who are members of the FLE (The Institute of State Authorized Public Accountants in Iceland). The address of KPMG hf. is Borgartún 27, 105 Reykjavík, Iceland.

## PERSONS RESPONSIBLE

### *Statement from the Issuer*

FL Group hf. in its capacity as Issuer, Icelandic ID-No. 601273-0129, registered office being Síðumúli 24, 108 Reykjavík, Iceland, hereby declares that, having taken all reasonable care to ensure that such is the case, that the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Reykjavík, 31 March 2008  
On behalf of the Issuer

Jón Ásgeir Jóhannesson  
Chairman of the Board

Jón Sigurðsson  
Chief Executive Officer