



Highlights of the year

Market turmoil

The value of listed holdings decreased significantly during the second half of the year when very difficult market conditions prevailed, eliminating value increases that had accumulated during the first half of the year, and resulting in net loss after tax of ISK 67 billion in 2007.

Acquisition of TM

A large majority of shares in Tryggingamidstodin (TM), an Icelandic insurance company, were acquired in 2007. The acquisition was largely funded with an increase in equity. TM was consolidated into the Group's accounts as of 1 October 2007.

Private equity activity

The company continued to build up its private equity operations. Highlights of the year include acquisition of shares in Landic Property and other property companies towards the end of the year, as well as the approach to Inspired Gaming Group, subsequently withdrawn.

Portfolio restructuring

The company has undertaken a thoughtful restructuring process within its investment portfolio. Non-core assets have been sold with exposure to aviation significantly reduced. In total the market exposure of the company was reduced by more than ISK 100 billion.

Increased assets

Total assets increased to ISK 422 billion at the end of 2007 from ISK 263 billion at the end of 2006, representing a 60.7% increase.

Strong financial position

Total shareholders' equity was ISK 155.8 billion at the end of 2007, an increase of ISK 13.2 billion since the end of 2006. Financial position and liquidity remain strong, with an equity ratio at the end of 2007 of 36.9% and direct liquidity of ISK 28.6 billion.

Healthy maturity profile

At the time of publishing the annual results, 85% of borrowings maturing in 2008 had been refinanced, with only ISK 8.5 billion remaining.

Operation streamlined

Following the change in top management, FL Group has taken steps to streamline the company's operations and reduce operating expenses significantly. The closure of the Copenhagen office was the first step towards this goal.

Investment portfolio highlights



TRYGGINGAMIDSTÖÐIN

Glitnir Bank

FL Group is the largest shareholder in Glitnir Bank with a 32% shareholding. During the last two years, FL Group has helped to develop and implement the bank's strategy

The bank had a decent year where net income increased by 17.2% from the previous year and core income continued to increase

Changes in top management during the year, including Larus Welding's appointment as CEO, represent an important step towards future growth

In 2007 FL Group was approved as a qualified holder of up to 33% of shares in Glitnir Bank

Tryggingamidstodin

Acquired in 2007, Tryggingamidstodin (TM) provided a strategic fit for FL Group and underlined its emphasis on the financial sector

TM has experienced significant growth in its operations and FL Group believes that the company has potential for further expansion and improved profitability

TM acquired the Norwegian insurance company Nemi Forsikring in 2007, marking its first step out of the Icelandic market



LANDIC

PROPERTY

Landic Property

Stake in Landic Property increased to 39.2% in December 2007

The company is a leading Nordic real estate company with significant operations in Sweden, Iceland and Denmark. Assets total around EUR 4.8 billion

In 2007, Landic Property enjoyed a good year with the acquisition of Keops a key highlight

Opening of a new office in Helsinki has provided a window for further growth in Finland and the Baltic region

Other investments

FL Group co-founded Geysir Green Energy in 2007 and helped build up a specialised geothermal company through various acquisitions

Stake building and indicative offer made for Inspired Gaming Group. Indicative offer later retracted but FL Group remains a supportive shareholder

Continued execution of Refresco's buy and build strategy which has made the company the largest private label soft drink producer in Europe

Major reduction of the company's airline exposure with the divestment of stake in AMR and halving of stake in Finnair



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THE INSTITUTION OF SPINAL CORD INJURY, ICELAND

"FL Group played a major role in the establishment of the Institution of Spinal Cord Injury, Iceland and the company's continued support and active involvement enables us to pursue our goal of encouraging worldwide advances in the treatment of spinal cord injury."

Audur Gudjonsdottir,

Executive Director of the Institution of Spinal Cord Injury, Iceland

1.1 Chairman's Statement

Flexible and focused

In my first statement as the Chairman of the Board of FL Group, I am pleased to report that the Group has emerged in a positive position after what proved to be a very tough year. Despite the sudden and precipitous decline in global stock markets, FL Group succeeded in raising a substantial amount of new funding, forming a number of strategically important alliances, streamlining its investment portfolio to make it better aligned with the Group's investment profile, implementing an ongoing cost reduction programme and carrying out comprehensive internal restructuring. Whilst 2007 was an extremely difficult year, FL Group has addressed the challenges it posed and is well positioned as we enter 2008, with a solid balance sheet and a more focused investment approach.

The success of the private placement at the end of 2007 is a clear sign of investors' confidence in FL Group and its strategy. Our investment portfolio is well balanced across our three core assets - banking, insurance and property - and our fundamentals remain strong.



The big picture

The turbulence in the markets has had a significant impact on many sectors. Responding swiftly and decisively, FL Group has undertaken a review of every aspect of its operations and continues to scrutinise cost and streamline operations to minimise potential problems arising from market uncertainty.

The company's investment strategy is now more sharply focused on the financial, insurance and property sectors, which all offer attractive long-term prospects for FL Group's overall performance.

FL Group remains an active investor and seeks to work closely with the management of its portfolio companies, helping them devise and implement the strategy that would best suit their vision for the company while supporting them in building partnerships and alliances in the market.

2007 developments

Despite a very demanding second half of 2007, FL Group has entered 2008 with a clear objective to consolidate progress in its core business areas. As a result of its restructuring efforts and management expertise, the company has built a solid platform for future growth.

Although a number of key investments underperformed during 2007, FL Group has seen respectable earnings from its portfolio companies, both listed and unlisted, in 2007.

Part of the restructuring we undertook last year was designed to mitigate risk and as a result we have diversified and increased our private equity investments, notably in the property sector. These investments present an excellent opportunity as they deliver the right balance of strong cash flows and growth opportunities while possessing significant upside potential and the possibility of a range of interesting projects down the line.

1.1 Chairman's Statement

Investor confidence

FL Group has demonstrated that it is prepared to do what is needed and, where necessary, it will make difficult decisions – and our investors have supported this approach. In our recent institutional share placement (December 2007), we successfully raised ISK15bn in the Icelandic market.

Furthermore, new shares were issued to Baugur Group in return for its entire property portfolio in a deal that saw Baugur emerge as FL Group's largest shareholder. Together the private placement and the new shares issued to Baugur increased FL Group's share capital by 49 per cent.

Strong leadership

In addition to restructuring the group, reviewing its investment policy and streamlining the portfolio, FL Group also made important changes to its Board and management team.

Jon Sigurdsson replaced Hannes Smarason in December 2007 as our new CEO. I have great faith in Jon and believe that he has the leadership skills, commitment and experience to take FL Group forward. As a veteran of FL Group, I also believe that he represents an excellent fit with the rest of the team.

After three years as the CEO, Hannes Smarason stepped down from day-to-day management but is retaining his connections to FL Group through his role as a member of the Board of Directors and one of the leading shareholder. Our thanks go to Hannes and to Skarphedinn Berg Steinarsson, our outgoing Chairman, for their invaluable contributions.

Looking ahead

The result of the recent changes at FL Group is a sharper investment focus, more streamlined portfolio, stronger balance sheet and an organisation that is flexible and better able to react quickly to change. All this puts FL Group in a good position to take advantage of the investment opportunities ahead. The past year has demonstrated that the company is willing to consolidate a long-term strategy for success in the context of a difficult short-term period. FL Group has a talented team that is able to take decisions quickly and execute them effectively.

We have an exciting year ahead of us. With our clear sense of direction, supportive shareholders, strong funding and enhanced liquidity, I believe we are well on track to deliver the growth and value creation appropriate for a leading investment company.

Jon Asgeir Johannesson
Chairman of the Board, FL Group

1.2 CEO's Statement

Building a stronger business

The volatility of recent months impacted our results for 2007. Tough times around the world have left few companies unaffected. The value of our listed holdings decreased significantly during the second half of the year when very difficult market conditions prevailed, eliminating value increases that had accumulated during the first half of the year, and resulting in net loss after tax of ISK 67 billion in 2007. However FL Group's core assets remain strong, as does our determination to ride out the storm and build on the opportunities that are emerging in its wake.



Clear direction

Following the recent restructuring of our investment portfolio, our focus is clear. Our core assets of banking, insurance and property concerns are investments that have delivered a new level of stability for FL Group and are assets that will continue to perform well in the long term, supporting our wider portfolio.

Organisationally we have complemented our portfolio by streamlining the business into three distinct units, each with clear objectives and responsibilities. The Financial Institutions Group (FIG) focuses on strategic investments in banking, insurance and financial services, taking a long-term view on global opportunities that are a good fit with FL Group. The Private Equity division leads leveraged buyouts in established companies and

maintains our property portfolio, whilst the Capital Markets division oversees our short-term trading position in listed securities and currencies, helping us build or dispose of stakes in companies on behalf of our other units.

A steady hand

In my new role as CEO of FL Group, my immediate aim has been to stabilise the business. The extreme fluctuations of recent months have certainly been dramatic. Nevertheless we have taken stock of the situation and acted quickly.

1.2 CEO's Statement

Divesting our interests in AMR Corporation and half of our shareholding in Finnair in late 2007, was part of our strategy to reduce our exposure to the airline industry, a sector where FL Group is clearly no longer a major player. Alerted by significant increases in fuel costs coupled with an anticipated slowdown in the world economy, the aviation sector in general continues to suffer. Decisions to cut your connections to any major investment are always difficult. But we have faced those issues head on and our strategy has proved to be the right one.

It is also true to say that we have steadied our pace somewhat. We now have a more targeted approach which will help us to make the most of the opportunities on the horizon. The experience of the past few months has tested and improved our adaptability and we continue to fine tune our strategy to suit market conditions.

Recent activity

Our main priorities late 2007 and in the first months of 2008 were threefold: to decrease market risk; to focus our investment portfolio in a more structured way whilst acquiring property concerns; and to increase the capital of the business. In addition, strong efforts have been made to reduce operating costs, including the closure of our Copenhagen office and the merging of its operations with those of our London base.

Delivering on those priorities has prepared us for potential turbulence ahead and given us a strong footing from which to build the business in 2008.

During 2007, FL Group acquired a 99% stake in the insurance company TM which has been part of our accounts since 1 October 2007. We have also increased our holding in Glitnir Bank to 32% and are actively involved in its growth and development. Following a focused execution of our strategy, FL Group announced in December that it had made significant investments in a number of property companies and funds, with Landic Property being the largest asset in that portfolio and one of our three core assets.

Our assets and investment priorities have been streamlined along with our internal functions and offices. Our exposure to the market and consequent risk has been decreased, whilst banking and insurance remain strong investments. Our growing property portfolio is designed to weather any market difficulty. Made up of primary assets in primary locations with long leases, these assets are mainly commercial properties in Sweden, Iceland and Denmark.

Financial capacity

FL Group possesses the necessary financial capacity and firepower to support our assets and simultaneously explore new opportunities. Through our share issues during 2007 the equity base of the company was increased by ISK 64 billion and the liquidity of the company has been strengthened as well. Demand was strong in response to December's private placement to institutional investors and the placement was at one time oversubscribed. The company has been able to achieve this despite adverse market conditions.

1.2 CEO's Statement

The share increase in December was significant, with one of our largest shareholders, Baugur Group, showing great confidence in the business by undertaking a deal which saw FL Group acquire all its property assets in return for shares worth approximately ISK 55 billion.

The company's equity base at year end 2007 is very strong at ISK 156 billion (equity ratio of 36.9%) and coupled with our more stable asset base for a total of ISK 422 billion, means we are better placed to face volatile market conditions. Furthermore, we have a very healthy maturity profile. At the time of publishing the annual results, February 2008, 85% of borrowings maturing in 2008 had been refinanced with only ISK 8.5 billion remaining.

Investment approach

FL Group continues a flexible, yet hands-on approach to its investments. Working closely with the management to develop strategy and enhance shareholder value, we maintain close involvement with the companies that represent our largest investments. We also pursue long-term investment objectives by building key relationships and teaming up with leading strategic partners. Where our stakes are smaller but our role still important, we aim for constructive and continuous dialogue with management and good communication with other shareholders.

New opportunities

Although market conditions remain challenging, we have confidence that 2008 will present us with opportunities. The conditions the market has endured have reduced valuations and created opportunities internationally for our portfolio companies to grow their businesses.

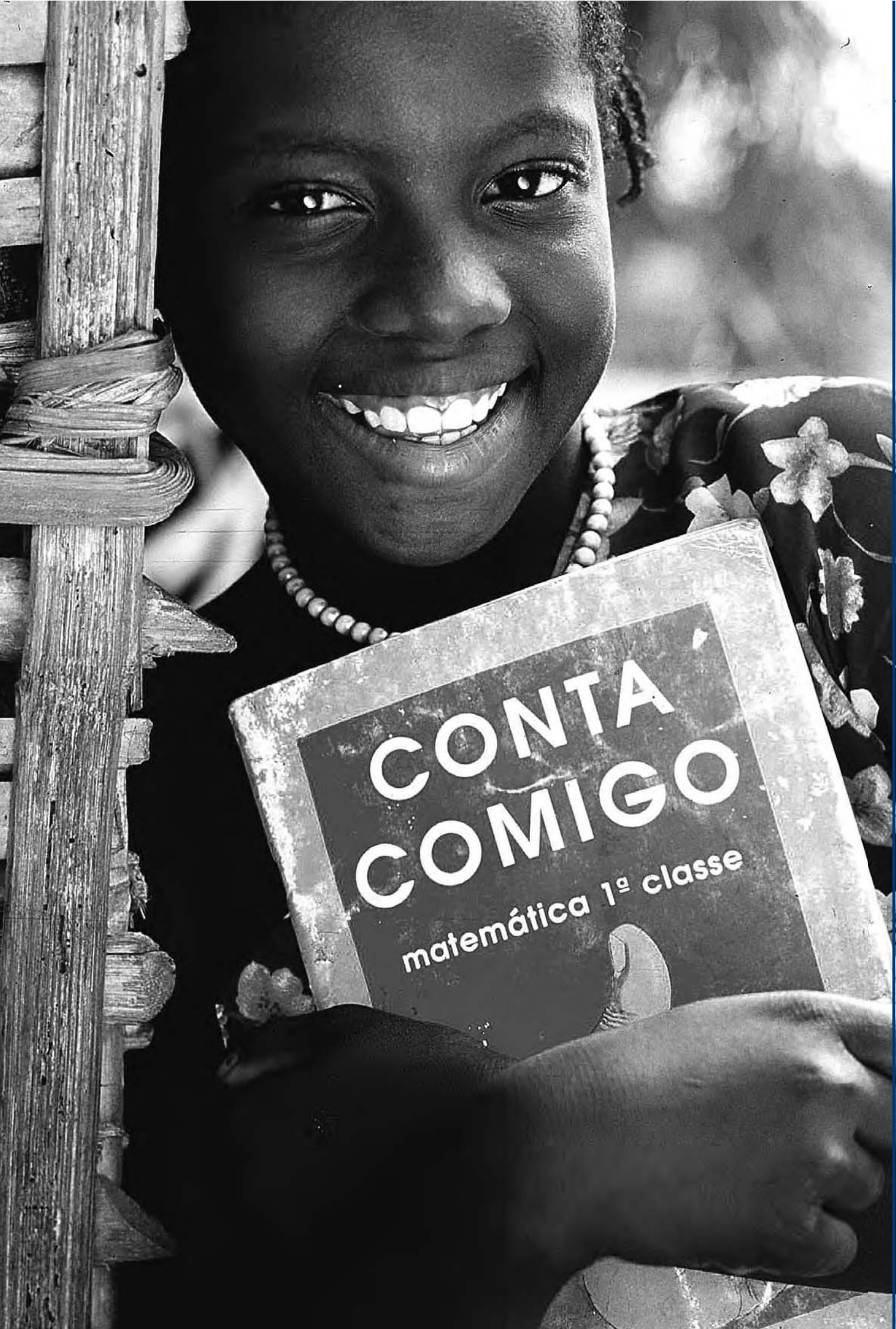
In confronting the challenges we face, we are steadily building our business. We are committed to supporting our three core assets – Glitnir Bank, TM and Landic Property – and to expanding our investments in other areas. We will continuously evaluate market conditions and adapt our strategy accordingly.

A talented team

Looking ahead, I have great confidence in the talented and highly motivated team at FL Group and I thank them for their contribution. I would also like to thank the board and the shareholders for their support during these difficult times. Together we will rebuild our business, with determination, skill and a clear focus.

Jon Sigurdsson

Chief Executive Officer, FL Group



CONTA COMIGO

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UNICEF

"FL Group's generous support ensures the continuance of UNICEF's work in Guinea-Bissau where, among other things, we are building an education system and fighting malaria infections; helping children in severe need."

*Stefan Stefansson,
Executive Director of UNICEF in Iceland*

2.1 Investment Strategy

Each of FL Group's business units approaches its investment in a different manner. The common characteristic throughout each unit is an active and flexible approach to investing in companies that excel in their class, with strong management and steady cash flows. FL Group remains an active investor as it seeks to work constructively with the management of portfolio companies and help them realise their vision.

FIG (Financial Institutions Group)

FIG handles investments in companies in financials and insurance which are of strategic importance to the company. FL Group has a long-term vision of creating value within these sectors and is committed to these investments for the long haul.

FIG uses the group-wide expertise to develop and help execute the strategy of the portfolio companies.

At year-end 2007, FIG investments accounted for 45% of the company's total investments.



Private Equity

Private Equity aims to execute and lead leveraged buyouts, investing alongside strong management teams in established companies within mature industries. The unit does not focus on specific sectors but aims to use the flexibility of the group for its investments.

Private Equity also invests in publicly traded companies that have traditional private equity attributes or potential for private equity activity.

At year-end 2007, Private Equity investments accounted for 35% of the company's total investments.



Capital Markets

Capital Markets' goal is to take advantage of volatility in capital markets and profit from price movements. Its approach is very opportunistic with a short to medium-term holding period for investments in the trading book. The unit invests in all kinds of instruments: stock, bonds, currencies and derivatives.

Capital Markets collaborates closely with FL Group's other business units to develop and execute trading and hedging strategies as well as monitoring the risk profile of the total group.

At year-end 2007, Capital Markets accounted for 20% of the company's total investments.



Highlights:

- **Operations in 10 countries**
- **Home markets are Iceland and Norway which generate 71% of its profits**
- **Focus on three specialized industry sectors: seafood, sustainable energy and offshore service vessels**
- **Second largest equity broker by turnover in the Nordic region**
- **Mr. Larus Welding appointed CEO**
- **Launched a depository taking in Finland in October which had reached EUR 400 million by year-end**
- **Acquired FIM, a Finnish asset management company**
- **Mr. Thorsteinn Baldvinsson appointed Chairman of the Board in February 2008**
- **Voted Marketing Company of the Year 2007 in Iceland in February 2008**

GLITNIR



GLITNIR



As a leading shareholder in Glitnir, with a 32% stakeholding, FL Group has been involved in all major decision making within the company for several years and has supported the company's strategy for growth.

Glitnir is a Nordic bank, headquartered in Iceland, with operations in 10 countries. The company's home markets are Iceland and Norway where Glitnir offers a broad range of financial services, including corporate banking, investment banking, capital markets, investment management and retail banking. Glitnir is traded on OMX Nordic Exchange Iceland and its ticker is GLB.

www.glitnirbank.com

2.2 Portfolio Snapshot

Glitnir Bank

Company overview

Glitnir is a Nordic bank, headquartered in Iceland, with operations in 10 countries. Glitnir's home markets are Iceland and Norway where the bank offers a broad range of financial services, including corporate banking, investment banking, capital markets, investment management and retail banking. Outside of Glitnir's home markets, the bank has operations in Finland, Sweden, UK, Luxembourg, US, Canada, China and Russia. Glitnir drives the bank's international expansion, based on two specialized industry sectors: seafood and sustainable energy, where Glitnir has developed significant industry expertise and built on the bank's Icelandic and Norwegian heritage. Glitnir's shares are listed on OMX in Iceland under the symbol, GLB.

Key figures

ISK million	2007	2006
Profit	27,651	38,231
Total assets	2,947,910	2,246,340
Equity	169,969	146,119
CAD ratio (end of period)	11.2%	15.0%
Return on equity after taxes	19.3%	39.4%
Earnings per share (ISK)	1.86	2.68
Cost/income ratio	57%	38%
Price/earnings (end of period)	11.7	8.7
Outstanding shares (end of period)	14,730	14,161
Share price/book value (end of period)	1.90	2.26
Market capital (ISK bn end of period)	323,302	329,951

Highlights for 2007

Financial highlights

- Healthy revenue growth of 17%
- Solid core income growth of 20.6%
- Earnings after taxes ISK 27.7 billion (EUR 315 m)
- Cost/Income ratio of 56.6%
- Return on Equity 19.3%
- Earnings per share of ISK 1.86
- Total assets increased by 31%

Operational highlights

- Glitnir Bank acquires FIM, a Finnish asset management company, in February 2007
- Glitnir Bank launches a depositary taking in Finland in October which reaches EUR 400 million by year-end 2007
- Larus Welding takes over as CEO in May
- Glitnir Bank becomes second largest equity broker by turnover in the Nordic region
- Glitnir Bank establishes an office in New York in September, making the first niche related transaction in October

Prospects/objectives for 2008

- Maintain good momentum in core income
- Focus on bringing operating expenses down
- Greater focus on quality of loan portfolio than on growth
- Moderate equity exposure
- Debt markets remain challenging but Glitnir Bank has a strong liquidity position and is focusing on increasing the deposit base

2.2 Portfolio Snapshot

Top Management

Chief Executive Officer



Larus Welding

Mr. Welding was appointed Chief Executive Officer of Glitnir Bank in May 2007. He first joined Glitnir (then the Icelandic Investment Bank FBA hf.) in 1999. In 2003, he joined Landsbanki as General Manager for the London branch, with operations primarily in Corporate and Investment Banking. He previously worked for the accounting firm JHR ehf. (1997-1999) and the Central Bank of Iceland (1998).

He holds a degree in business administration from the University of Iceland and is a licensed securities broker and a graduate in Corporate Finance from the UK Securities Institute.

Managing Directors

Magnus Bjarnason

Executive Vice President, International Banking

Morten Bjørnsen

Executive Vice President,
Nordic Region (including Russia)

Birna Einarsdottir

Executive Vice President, Glitnir Iceland
Commercial

Helgi Anton Eiriksson

Executive Vice President, Europe

Alexander K Gudmundsson

Executive Vice President, CFO
Finance and Risk Management

Sveinung Hartvedt

Executive Vice President, Capital Markets
and Corporate Finance in Norway and Sweden

Gisli Heimisson

Executive Vice President, Shared Services and IT

Gudmundur Hjaltason

Executive Vice President, Glitnir Iceland Corporate

Chairman of the Board of Directors



Thorsteinn Mar Baldvinsson

Mr. Baldvinsson was elected to the Board of Directors of Glitnir at the Annual General Meeting in February 2008 and appointed Chairman by the Board.

Mr. Baldvinsson is one of the founders of Samherji Ltd., a leading seafood company in Iceland. Since 1983, he has been the CEO of Samherji and has been very influential in the seafood sector and Icelandic society. He currently serves as Chairman of the Board of Sildarvinnslan Ltd. (SVN) and is a member of the Board of Directors in a number of other companies and organisations.

Mr. Baldvinsson acquired a Master's certificate from the College of Navigation of Reykjavik in 1975 and graduated as a Civil Engineer from The Norwegian University of Science and Technology in 1980.

Board of Directors

Bjorn Ingi Sveinsson

Hans Kristian Hustad

Jon Sigurdsson

Kristinn Thor Geirsson

Kristin Edwald

Sigurdur G Gudjonsson

Thorsteinn Mar Baldvinsson



Highlights:

- Iceland's third largest general insurance company
- Sigurdur Vidarsson appointed CEO
- TM's image and customer service consistently ranked no. 1 in its market
- TM has the happiest customers according to a nationwide survey, third year in a row
- TM received BBB credit rating from Standard & Poor's
- TM's website voted the most accessible service website in Iceland



TRYGGINGAMIÐSTÖÐIN



In 2007, FL Group acquired a 99% stake in TM. FL Group's acquisition and consolidation of TM brings more stable cash flow and strengthens the company's operations.

TM is an Icelandic insurance company, offering comprehensive insurance and financing services, with a strong market position in Iceland. The company established a foothold in Norway by acquiring the Norwegian insurance company Nemi Forsikring. Following the acquisition, the company has experienced further growth in Norway which presents further opportunities for the development of the company.

www.tm.is

2.2 Portfolio Snapshot

TM

Company overview

Tryggingamidstodin (TM) is Iceland's third largest general insurance company. TM has built its business steadily, focusing initially on insuring parties in the fisheries sector. In 1967, the company started to insure automobiles and began to place greater emphasis on providing comprehensive insurance services to individuals as well as companies. Today TM sells insurance products through its own distribution channels in Iceland. Furthermore, through its subsidiary Liftryggingamidstodin (TM Life), it offers life and health insurance. In 2006, TM acquired NEMI Forsikring, a multiline and niche oriented general insurance company in Norway that offers a broad spectrum of insurance cover.

TM's brand promise, "If you are insured - you will be compensated", indicates that TM values – simplicity, honesty and fairness inspire its staff to exceed customer expectations whenever possible. TM's image and customer service has consistently been ranked as no.1 in its market.

TM has over 190 employees, most of whom are located at its headquarters in Reykjavik.

Financial highlights

- Profit for the year was ISK 4,375m, up from ISK 696m in 2006
- Written premiums were ISK 20,219m, compared with ISK 9,682m in 2006
- Insurance operations made an operating profit of ISK 349m, compared with a loss of ISK 358m in the preceding year
- Earnings per share were ISK 4.05
- Investment income in 2007 was ISK 3,878m, compared with ISK 4,808m in 2006
- TM's total assets stood at ISK 70,444m at year-end 2007, up from ISK 69,661m at year-end 2006

Key figures

ISK million	2007	2006
Profit	4,375	696
Assets	70,444	69,661
EPS	ISK 4.05	ISK 0.75
Equity	25,616	22,134
Cash	12,684	8,702
Operating expenses	2,960	2,264
ROE	18.6%	4.4%
Equity ratio	36.4%	31.8%

2.2 Portfolio Snapshot

Top Management

CEO



Sigurdur Vidarsson was appointed CEO of TM in 2007. In 1997 Sigurdur began working at Kaupthing Life Insurance, where he was responsible for product development, communication with re-insurers and operation of the company's insurance portfolio. Before Sigurdur joined Tryggingamidstodin, he was the manager of finance and insurance at Kaupthing Life Insurance, and deputy to the CEO. Sigurdur holds a B.Sc. degree in business from the University of Iceland.

Managing Directors

Ragnheidur Agnarsdottir
Insurance and finance

Hjalmar Sigurthorsson
Claims

Oskar B Hauksson
Finance and operations

Operational highlights

- TM receives BBB credit rating from Standard & Poor's
- TM and Margret Lara strengthen the foothold for Icelandic women's football
- Sigurdur Vidarsson appointed CEO of TM
- TM's website certified as the most accessible service website in Iceland.
- TM has the happiest customers according to a nationwide survey, for a third consecutive year
- FL Group acquires a 99% stake in TM

Chairman



Gunnar Karl Gudmundsson is the CEO of Shell in Iceland. He began working at Shell in Iceland in 1998 as a divisional manager of financial operations and later assumed responsibilities of purchasing and risk management. He became the CFO in 1998 and was appointed deputy to the CEO in 2000. He graduated with a BA in Economics from Ohio University in 1984.

Board Members

Gunnar Karl Gudmundsson

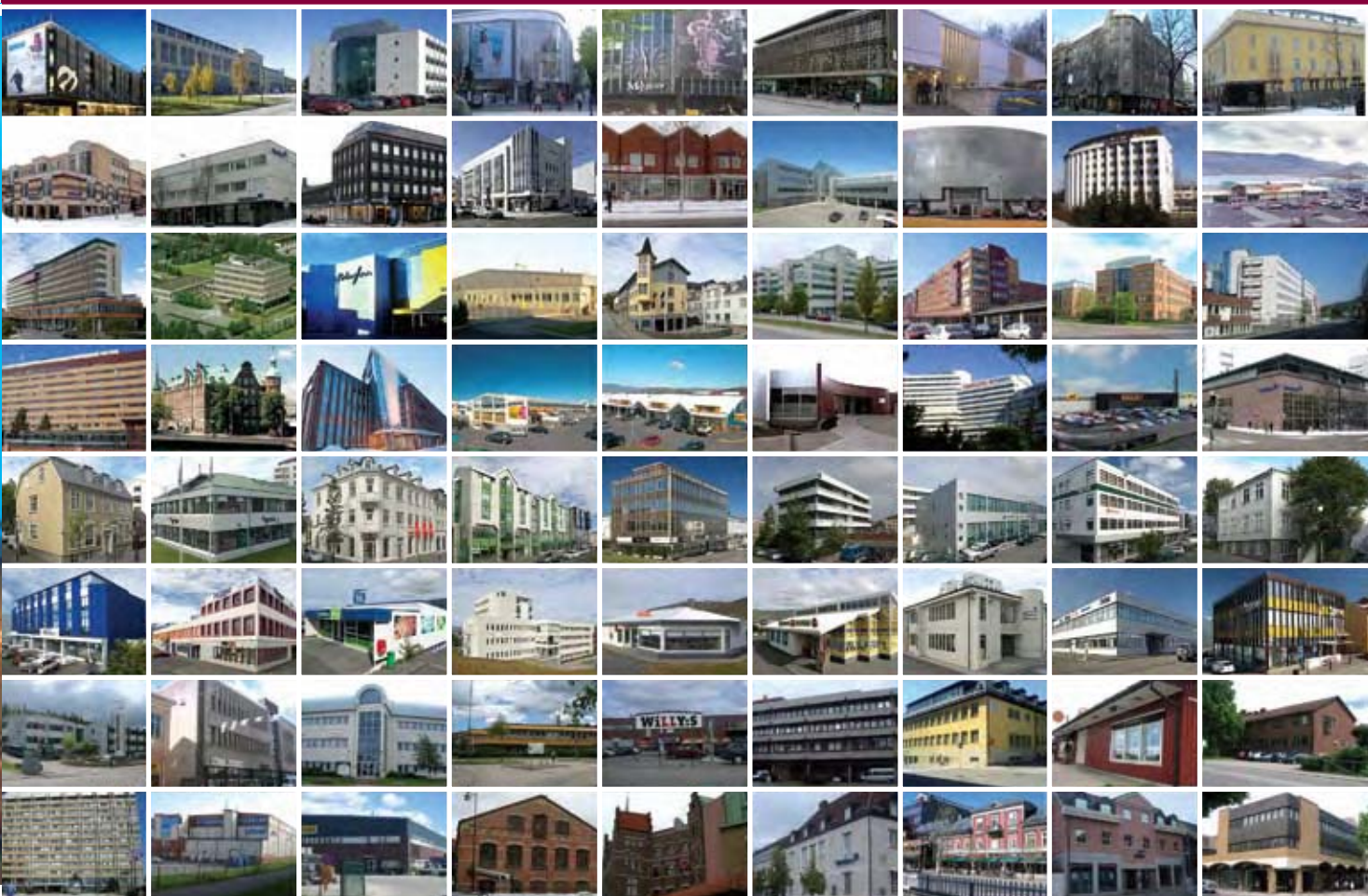
Arni Hauksson

Petur Gudmundarson

Prospects/objectives 2008

Under new ownership in 2008, TM's main focus will be on streamlining and focusing the company's efforts towards offering insurance solutions in profitable segments. Efforts in 2008 will be focused on:

- New product development efforts both in consumer and corporate segments
- Continuous risk management of seaman insurance program
- Clearer focus on foreign insurance opportunities
- More co-operation and partnership with Icelandic interests abroad
- Improvement on sales channels
- Continue to offer the best claims service available in Iceland
- Achieving a stable rating from Standard & Poor's (leading providers of financial market intelligence)
- Maintain visibility and high awareness of the company through effective marketing communications



Highlights:

- **Total rental space: 2,670,418 m²**
- **Around 500 properties valued at over EUR 4.8 billion**
- **Re-branded as Landic Property in 2007 after Stodir acquired Keops A/S**
- **Four real estate management units in Sweden, Iceland, Denmark and Finland**

LANDIC PROPERTY



LANDIC
PROPERTY



In 2007, FL Group increased its stake in Landic Property to 39.2%, an acquisition which complemented FL Group's existing property holdings well.

Landic Property is a leading real estate company in the Nordic countries, maintaining a market leading position in Iceland, with substantial market shares in Sweden and Denmark, and a solid foothold in Finland. Landic Property's asset portfolio is diversified and the company has a strong tenant base, including governmental bodies, leading retail companies, airlines and banks.

www.landiciproperty.com

2.2 Portfolio Snapshot

Landic Property

Company overview

Landic Property is a leading Nordic real estate company with a substantial market share in Iceland, Sweden and Denmark with around 500 properties valued at over EUR 4.8 billion. Landic Property specialises in property leasing services to public and corporate customers. Landic Property aims to fulfill the needs of its customer through an expanding portfolio. The company currently has properties in Iceland, Sweden, Denmark and Finland, and operates within seven business units:

- Four geographical real estate management units in Sweden, Iceland, Denmark and Finland
- Keops Investment: Mediation of investment properties in Northern Europe
- Property Funds: Investment in property in Europe, UK and India through specialized private property fund partners. Currently establishing property funds managed by Landic Property
- Keops Development: Development of real estate, primarily in the Nordic region

m ²	Denmark	Iceland	Sweden	Finland	Total
Rental space	390,824	413,694	1,818,900	47,000	2,670,418

Landic Property's portfolio consists mainly of retail and office spaces and the total rental floor space is approximately 2.7 million square metres. The company's portfolio consists of many landmark buildings, for example Tietgens Hus and Illum in Copenhagen, Kringlan shopping mall and the Hilton Reykjavik - Nordica Hotel in Iceland to name a few. Landic Property's client base is quite extensive and diversified. Among their 3,400 tenants are large and small, public and corporate clients such as the Swedish Police Department, TeliaSonera, SAS, Magasin, LM Ericsson, Nordea Bank, Hagar, Stockholm City Council and Illum.

2.2 Portfolio Snapshot

Top Management

CEO

Skarphedinn Berg Steinarsson



Mr. Steinarsson was appointed CEO of Landic Property in 2007. He was Managing Director for Nordic Investments at Baugur Group from 2002 to 2007. Prior to joining Baugur Group, he was Head of Department at the Prime Minister's Office in Iceland from 1998-2002 and Head of Division at the Ministry of Finance in Iceland from 1991-1998.

He graduated with a Cand.Oecon degree from the University of Iceland in 1987 and obtained his MBA from the University of Minnesota in 1990.

Chairman of Landic Property

Kristin Johannesdottir



Mrs. Johannesdottir has been the Managing Director of Gaumur investment company since 1999. Prior to joining Gaumur, she was a district court attorney at the law offices of Logmenn, Gardastraeti.

Mrs. Johannesdottir graduated with a Cand.Jur. degree in law from the University of Iceland in 1988 and has obtained an investment management certificate from the Icelandic Ministry of Commerce, along with further studies in law and business at Aarhus University from 1996 to 1999.

Managing Directors

Gunnar Petersen, COO

Karina Deacon, CFO

Michael Sheikh, CDO

Board of Directors

Kristin Johannesdottir

Eirikur S Johannsson

Gunnar Jonsson

Petur Mar Halldorsson

Elin Thordardottir

Thomas Plenborg

Ingibjorg S Palmadottir

Highlights for 2007

Overall business risk reduced through a wider geographical footprint and a more diversified tenant base.

- Keops acquisition a key highlight
- Acquired Landsafl
- Re-branding the merged company of Stodir and Keops as Landic Property

Prospects/objectives for 2008

- Opening of new office in Helsinki provides a window to further growth in Finland and the Baltic region
- Acquisition of property funds
- Establishing new property funds managed by Landic Property
- Completing the integration process of Landic Property and Keops
- Seeking opportunities in current markets
- Keeping an eye on opportunities with further geographical expansion in mind
- Preparation for listing and IPO

Other Investments

FL Group's core investments span the financial, insurance and property sectors, which constitute approximately 75% of the company's investments. Other investments include unlisted and listed assets in companies in various sectors, managed by the Private Equity and Capital Markets business units.

Geysir Green Energy

FL Group co-founded Geysir Green Energy in January 2007 and played an active role in an acquisitive year for the company, substantially increasing its size. In a short period of time Geysir acquired stakes in Iceland Drilling, Hitaveita Sudurnesja and several geothermal developers. Geysir has received significant attention from both foreign and domestic investors, potential partners in new projects and has successfully put itself on the map as one of the leading companies within its field. In February 2008, FL Group sold all of its holding in Geysir and simultaneously invested in a new fund, Glacier Renewable Energy Fund, which is one of the lead investors in Geysir.

Royal Unibrew

The second largest brewery in Scandinavia, Royal Unibrew, produces, distributes, markets and sells beer, malt and soft drinks in 65 markets, primarily in Europe, US, Canada and Africa. The company has shown strong growth, both organically and through aggressive but well-targeted acquisitions. During the past few years, Royal Unibrew has completed over ten acquisitions outside Scandinavia. The Group comprises 12 breweries and one soft drink producer located in Denmark, Lithuania, Poland, Latvia and the Caribbean. Royal Unibrew is listed on the OMX Nordic Exchange in Copenhagen (ticker RBREW).

Refresco

Under FL Group's ownership, Refresco has grown to be Europe's largest manufacturer of private label fruit juice and soft drinks. The company has performed strongly in recent years and in 2007, Refresco managed to maintain its profitability in a difficult market environment, significantly outperforming most of its peers. Since acquiring Refresco in May 2006, FL Group has

implemented a successful "buy and build" strategy, as a result the company has made four strategic acquisitions during 2007 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. Our strategic goal for Refresco is to continue to support its growth, both through organic growth and further acquisitions.

Northern Travel Holding

Co-founded by FL Group in 2006, Northern Travel Holding (NTH) is a leading provider of travel-related services in the Nordic region. NTH owns Sterling, the largest Scandinavian low cost carrier; Iceland Express, an Icelandic low cost carrier; the Danish-based travel agent Hekla Travel; and the UK-based low cost carrier Astraeus. NTH also has a 30% holding in the Swedish-based travel agent Ticket, which is the largest independent player in the Nordic region. 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.

House of Fraser

House of Fraser is Britain's leading retailer of designer brands. It operates more than 60 department stores across the UK and Ireland. The company's strategy is to invest in the store portfolio to create a "house of brands" with multi branded retail offering in its markets. This is being done through a process of investment in rebranding and updating the stores whilst building relationships with key brands. An online store has also been established. FL Group participated in the acquisition of House of Fraser in August 2006 when Baugur led a consortium of investors in a public-to-private take over of the company.

Inspired Gaming Group

The leading provider of analogue and digital gaming and leisure machines in the UK, Inspired Gaming operates some 100,000 machines worldwide, with 22,000 of them set up on its open server-based gaming (SBG) platform. Inspired's SBG is a unique platform that allows for centralised software downloads, maintenance, upgrading and monitoring of the machines, making estate management far more cost-efficient whilst allowing revenue improvements through game management. Some of Inspired Gaming's largest clients include Gala Bingo, William Hill and Coca Cola Company. In February FL Group acquired an initial stake in Inspired Gaming Group and 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 did not proceed with the offer but remains a supportive shareholder to the company. Inspired Gaming is listed on the London Stock Exchange (ticker INGG).

Bayrock Group

Bayrock Group is an international real estate development firm specialising in luxury hospitality, residential, commercial and mixed-use projects. Bayrock is behind some of the most successful new condominium and hotel projects in the United States and Europe. In 2007, FL Group established a strategic partnership with Bayrock Group and has invested in five large property development projects alongside Bayrock including the construction of Trump Soho, a 46 floor, 5-star hotel condominium in Soho, New York.

Thyrping

Thyrping is a progressive development company operating primarily within Iceland. The company specialises in regional planning and construction and has been involved in most of the major regional development projects in Iceland in recent years. The company's primary development projects currently are Borgartun 26, a high-profile office and service complex in the heart of Reykjavik's central business district; 101 Skuggi (Phase 2 and 3), a high-rise residential tower of 250 luxury apartments on the seafront in downtown Reykjavik; and Nesgardar where 190 luxury apartments will be built on the north side of the town of Seltjarnarnes, adjacent to Reykjavik.

Fasteignafelag Islands

Fasteignafelag Islands is an established property company that owns and manages Smaralind, one of Iceland's two leading shopping malls. The company also owns prime plots in close proximity to Smaralind that have significant development potential and building rights.

Capital Markets

A number of listed and unlisted stakes in companies in various sectors is managed by the Capital Markets unit. Capital Markets takes advantage of volatility in markets through short-term positions and execution of hedging for other business units.

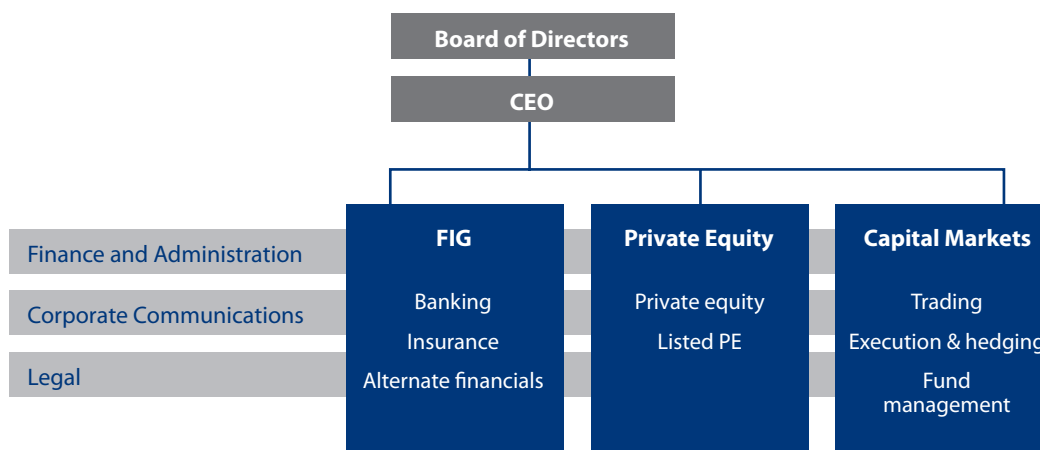


BUGL

"With the help of FL Group, our goal of developing a good therapeutic outreach programme for suicidal youth and their families has been reached. We are now able to extend better service for this fast growing group of children that have difficulties in coping with life. FL Group's support makes an old dream of our treatment team here at BUGL come true".

*Hrefna Olafsdottir,
Chief Social Worker at BUGL*

3.1 Organisation and Operations



FL Group is an international investment company focusing on three areas of investment, Financials Institutions Group (FIG), Private Equity and Capital Markets. The company's core investments are in financials, insurance and property in addition to various listed and private equity holdings throughout Europe.

The organisational structure is strong and focused. Majority owned investments provide cash flow to the respective business unit and other investments provide dividend payments and capital gains.

FIG is a business unit responsible for strategic investments in banking, insurance and financials and it represents FL Group's single largest asset area. Its goal is to be a long-term strategic investor in financial institutions that comprise a good platform for development and growth. While FL Group's FIG division primarily focuses on investments in Europe, we are constantly seeking opportunities worldwide that demonstrate a good fit with our business and revenue model. The FIG division is headed by Jon Sigurdsson.

Private Equity executes and leads leveraged buyouts in established companies within mature industries. The division also takes minority stakes in listed companies which it sees as good value opportunities. In its private equity investments, FL Group maintains the flexible time horizon that comes from investing directly from its balance sheet. The division's headquarters are in London. The Private Equity division is headed by Orvar Kaernested.

Capital Markets has three main functions: overseeing the company's short-term trading positions in listed securities and currencies; stake building and disposal on behalf of other business units; and advice on and execution of derivative and security trading related to FL Group's asset portfolio, for hedging or investment purposes. Capital Markets is headed by Benedikt Gislason.

As a support for the revenue generating units, FL Group operates two units that handle finance, administration, communication and legal affairs for the company.

Finance and Administration oversees the company's accounting, funding and risk management as well as general administration for the company. In addition the unit handles all communication matters, public and investor relations. Finance and administration is headed by Vidar Thorkelsson, CFO.

The Legal division handles all legal affairs for the company and is responsible for correspondence with authorities, and compliance, as well as handling tax issues together with Finance and Administration. Legal is headed by Bernhard Bogason.

3.2 Corporate Governance

FL Group's corporate governance policies define the way in which the company is controlled and provide guidance to the Board of Directors and the company's management. The purpose of these policies is to increase transparency and ensure appropriate disclosure; to define the responsibilities of Board committees; to define shareholders' rights; to ensure fair treatment of shareholders and to avoid conflicts of interest.

FL Group has always emphasised the importance of its corporate governance policies and demanded that they be implemented with the utmost diligence. By doing so, the Board of Directors ensures trust and confidence in the management of the company. This consistent emphasis improves the quality of all internal procedures and infrastructure in the company, which in turn results in increased confidence from shareholders and market participants.

In producing its policies, FL Group complies with the "Guidelines on Corporate Governance" issued by the OMX Nordic Exchange Iceland, Iceland Chamber of Commerce and the Confederation of Icelandic Employers. Corporate Governance is defined as the guidelines by which FL Group is operated and how internal and external relationships are managed.

Governance structure

Shareholders' meetings

A legitimate shareholders' meeting is the supreme authority in all FL Group's affairs, within the limitations set out in the Articles of Association. Shareholders may attend the shareholders' meetings as well as their proxies and advisors. Shareholders' meetings are open to representatives of the press and stock exchanges. 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.

One vote is attached to each krona owned in the company. At shareholders' meetings all normal business is decided by voting, unless otherwise provided for in the Articles of Association. The approval of all shareholders or a qualified majority is necessary to approve special proposals on amendments to the Articles of Association.

The Annual General Meeting of FL Group is held before the end of May every year.

3.2 Corporate Governance

Board of Directors

Election of the Board of Directors

FL Group's Board of Directors consists of seven members and two alternate members. Members on the Board of Directors are elected at Annual General Meetings or at a shareholders' meeting where an election of board members is conducted. Those planning to be candidates for a seat on the board shall give written notice to the company's Board of Directors at least five calendar days before the start of such meetings. The Board of Directors was last elected at the shareholders' meeting on 14 December 2007. Four former members continued in their role as Members of the Board of Directors or their alternatives, but five former members were replaced.

The Board of Directors' authority and rules of procedure

The Board of Directors has supreme authority in FL Group's general affairs between shareholders' meetings and endeavours to keep the company's organisation and operations on course. The members of the Board of Directors are non-executive. The Board of Directors directs company affairs, setting FL Group's objectives and future vision; dealing with annual budgets and the company's goals as presented by the CEO; and setting and overseeing the strategy to be taken to reach them. The Board of Directors is expected to ensure that the company's strategy is in accordance with its vision and overall goals. The company's Board of Directors ensures adequate supervision of accounting procedures and the handling of the company's funds.

The Board of Directors resolve on all matters that are deemed extraordinary or significant. The Board of Directors can grant the CEO the authority to resolve such issues. The CEO can also execute such matters if there is no opportunity to wait for the Board of Directors' approval without this resulting in great disadvantage to the operations of the company.

The Board of Directors operate according to its "Rules of Procedures" which deal inter alia with the board's tasks and duties, including the duty of secrecy and confidentiality, provision of information to the board, quorum and rules for voting and the role of the Chairman. Emphasis is on good practices and facilitating management's and directors' fulfilment of their duties.

The rules state that board members should familiarise themselves with the provisions of law, the company's Articles of Association, general securities regulations and regulations on the handling of inside information and insider trading.

3.2 Corporate Governance

Board meetings and board resolutions

The Board of Directors elects a chairman from its members. The chairman will call board meetings and ensure that other board members are invited to attend. A meeting shall also be held at all times if requested by a board member or the CEO. The CEO is authorised to attend the Board Meetings and has the right to debate and to submit proposals to the meetings, unless the Board of Directors decides otherwise.

Minutes shall be kept to record what occurs at board meetings and shall be signed by those attending a meeting.

The Board of Directors is competent to make decisions when the majority of board members attend a meeting. A significant resolution may not be made, unless all board members have been able to discuss the relevant matter, if possible. Simple majority decides issues at board meetings.

CEO

The Board of Directors appoints the CEO of FL Group and decides on the terms of his or her employment. The CEO undertakes the day-to-day management of the company and shall adhere to the policy and instructions set out by the company's Board of Directors.

Board committees

The Board of Directors operate three subcommittees: a Compensation Committee, a Compliance Committee and an Investment Committee. Each subcommittee consists of three members of the Board of Directors.

The subcommittees act under the "Guidelines on Corporate Governance" issued by the OMX Nordic Exchange Iceland, Iceland Chamber of Commerce and the Confederation of Icelandic Employers.

Compensation Committee

The role of the Compensation Committee (also known as the Remuneration Committee) is to form a policy and advise the Board of Directors in relation to the terms of executive compensations and incentives. Furthermore the Compensation Committee sets the policy regarding the employee stock option plan.

Members of the Compensation Committee at the end of 2007 were:

Jon Asgeir Johannesson
Thorsteinn M Jonsson
Hannes Smarason

Compliance Committee

The role of the Compliance Committee (also known as the Audit Committee) is to advise the Board of Directors on the monitoring of the financial status of the company, selecting auditors and evaluating accounting and regulatory compliance issues. In order to fulfil its duties the Compliance Committee stays in regular contact with external auditors and FL Group's staff in order to make independent judgements regarding accounting principles and to make sure that observations from external auditors are honoured.

Members of the Compliance Committee at the end of 2007 were:

Kristin Edwald
Thordur Mar Johannesson
Gunnar Sigurdsson

Investment Committee

The role of the Investment Committee is to advise FL Group's Board of Directors on the company's investment policy as well as on investment opportunities. The Investment Committee is therefore responsible for monitoring the company's investment strategy, evaluating major individual investments and exit opportunities and setting a frame of reference for the company's investment portfolio. The Board of Directors has delegated certain tasks to the Investment Committee and the committee is authorised to approve transactions on behalf of FL Group up to a predetermined level. FL Group's Board of Directors appoints an Investment Committee comprising three board members which would work closely with the management and accelerate the approval of transactions.

Members of the Investment Committee at the end of 2007 were:

Gunnar Sigurdsson
Palmi Haraldsson
Kristin Edwald

3.2 Corporate Governance

Auditing

External auditing

The company's auditors are elected at the Annual General Meeting for a term of one year. At the Annual General Meeting for 2006, KPMG hf. was elected to serve as the company's auditors.

Internal auditing

In the year 2007, FL Group's internal processes and internal audit methods were under constant review with the aim of improving further these important items. KPMG has been appointed as the company's internal auditor. A team separate from the external audit team handles the internal audit.

Compliance

The Board of Directors of FL Group appoints a compliance officer and his/her alternative. The compliance officer's function is to monitor adherence to the Issuer's internal rules. He also ensures compliance with notification vis-à-vis the OMX Nordic Exchange Iceland on the handling of insider information and insider transactions. Before an insider concludes transactions with FL Group's securities, the insider must notify the compliance officer and obtain approval. The compliance officer ensures that FL Group's internal rules on the handling of insider information and insider trading are followed.

FL Group's compliance procedures comply with the Guidelines of Corporate Governance issued by the OMX Nordic Exchange Iceland, Iceland Chamber of Commerce and the Confederation of Icelandic Employers.

FL Group's compliance officer is Bernhard Bogason, Managing Director of Legal, and his alternate is Vidar Thorkelsson, CFO.

Rules on the handling of insider information and insider trading

FL Group's rules on the handling of insider information and insider trading apply to FL Group, FL Group's insiders, parties financially related to insiders and FL Group's employees. The purpose of these rules is to ensure that handling of insider information and insider trading conforms to applicable legislation and regulatory provisions at any time. They are also intended to promote equality among investors and a proper price formation of FL Group's listed securities. The rules are supplementary to the rules issued by the Icelandic Financial Supervisory Authority and in conformity with the provisions of Chapter XIII, on Treatment of Insider Information and Insider Trading, of the Act on Securities Transactions No. 108/2007.

3.3 Corporate Social Responsibility

FL Group is very aware of the importance of corporate support for charitable and worthy projects. Investing time as well as money in the communities where we live and work, our employees actively contribute their expertise to help advance the work of several organisations.

We believe in supporting cultural and humanitarian concerns, focusing on specific projects in order to evaluate better the progress of each scheme and ensure that the company's contribution makes a difference. Our efforts are currently concentrated within five major projects:

- **The Institution of Spinal Cord Injury** – an international research project based in Iceland and run in association with the World Health Organisation, which aims to encourage and support pioneers in the treatment of spinal cord injury.
- **UNICEF** – an educational project that reaches out to disadvantaged children in one of Africa's smallest nations, Guinea-Bissau.
- **The Iceland Symphony Orchestra** – a four-year sponsorship of the orchestra that has been a pillar of the nation's culture for more than half a century.
- **Tonvis** – an investment company founded by FL Group focused on supporting musicians and helping to enhance Iceland's musical tradition.
- **"A Call for Life"** – an initiative run by the University Hospital's department of child and adolescent psychiatry aimed at helping young people at risk of suicide.

FL Group's long-term participation in these initiatives ranges from sponsorship and business consultancy, to fundraising and Board membership. We hope that by sharing our knowledge, experience and contacts we can have a positive impact on society.

3.3 Corporate Social Responsibility

Institution of Spinal Cord Injury

FL Group is the main sponsor and one of the co-founders of the Institution of Spinal Cord Injury (ISCI). This remarkable and influential project, the first of its kind anywhere in the world, was initiated by Audur Gudjonsdottir. Her daughter, Hrafnhildur Thoroddsen, was left paralyzed after a car accident in 1989 and Audur has fought a global battle on behalf of those suffering spinal cord injuries ever since.



Pioneering research

The purpose of ISCI is to encourage advances in the treatment of this devastating injury by raising funds to support pioneering research and sponsor experimental procedures for people with spinal cord injuries.

It is estimated that approximately four million people suffer from spinal cord injury, as well as the many others who have damaged spines as a result of multiple sclerosis (MS) or cancer. Although the world has witnessed great progress in medical science generally, advances in the treatment for spinal cord injuries have not kept pace.

A force for change

Young people form the majority of those who suffer spinal cord injuries, usually as a result of car accidents or sporting activities. These youngsters are cut down in their prime, often relegated to a wheelchair for the rest of their lives.

Motivated to tackle this issue and help people to become fully participating members of society once again, Audur Gudjonsdottir has created a database of spinal cord injury sufferers. Working in collaboration with the Icelandic Ministry of Health and Social Security and the World Health Organisation (WHO), the ISCI is now positioned to become a leading international force for advancement in this complex scientific field.

FL Group is assisting the ISCI in its promotional and educational efforts, including a national fundraising initiative planned for May 2008. The honorary patron of ISCI is Vigdis Finnbogadottir, President of Iceland from 1980-1996.

3.3 Corporate Social Responsibility

UNICEF

The photos below reflect FL Group's commitment to two projects that are vital for the future of the people of Guinea-Bissau, one of Africa's smallest and poorest nations. We are proud to support these health and education projects for a third consecutive year.



Sleep safely

Our initial involvement included the co-hosting of a charity gala dinner with "Agent 007, James Bond" Sir Roger Moore as guest of honour, an event which raised ISK 80 million. This was enough to cover 80% of the costs associated with buying and distributing special nets for every child in Guinea-Bissau to lie under.

Treated with insecticide, the nets prevent the deadly malaria-carrying mosquitoes from infecting the bloodstream while children sleep. Malaria is a critical health issue in the country and the use of these nets is considered the most effective form of prevention against Infection. Already, It Is estimated that the nets have saved the lives of 4,000 children.

A better future

FL Group has also made a significant contribution to the construction of 135 schools in Guinea-Bissau, as well as helping to train 50 teachers and provide educational material for 60,000 children.

By introducing new educational opportunities we hope to increase considerably the chance of a better future for tens of thousands of children. Already, more than 13,000 youngsters have been offered schooling as a result. The project places special emphasis on getting more girls to enter the school system and encouraging a change in local people's attitudes concerning the education of women generally.

UNICEF operations

Last year we made an additional commitment to co-sponsor the UNICEF national office in Iceland for the next three years and to help promote "Red Nose Day" as UNICEF day in Iceland, using the opportunity to seek increasing support and understanding for children in need all over the world.

FL Group is contributing a total of ISK 57 million, as well as its time and expertise, to these vital and life-changing projects. It is working in conjunction with two other Icelandic companies on the initiatives, Baugur Group and Fons.

3.3 Corporate Social Responsibility

Iceland Symphony Orchestra

The Iceland Symphony Orchestra, founded in 1950, has been a pillar of the nation's cultural life for more than half a century. Its achievements and continuing ambitions are admirable and it is with great pride that FL Group remains the orchestra's biggest sponsor.



Musical talent

Currently involved in a four-year sponsorship agreement with the orchestra, FL Group is contributing a total of ISK 40 million, one of the biggest cultural grants ever made by a private company in Iceland. Part of the grant is being used for a new position - an educational representative of the orchestra whose role will be to increase the level of musical education for children and to increase awareness of the country's largest orchestra.

In 2009, the Iceland Symphony Orchestra will be a major attraction at the new and long-awaited concert and conference centre in Reykjavik harbour. Here, the orchestra and its audiences will benefit from a much larger and acoustically more sophisticated concert auditorium.

3.3 Corporate Social Responsibility

Tonvis Music Fund

Tonvis is a special investment company set up by FL Group to assist up and coming Icelandic musicians in developing their careers and gaining a stronger profile abroad.



Helping musicians to build a solid foundation from which to establish their careers, Tonvis concentrates its efforts in several specific projects. The risks and possible profits of each are shared with participating artists, and future profits will be used to enlarge the funds available for Tonvis and strengthen its operations.

We firmly believe that Tonvis will be of great value to musicians. As well as broadening the possibilities of Icelandic artists, the project will help to enrich the already blossoming music scene in the country.

Musical ambassadors

The company's first three investments are with the operatic tenor Gardar Thor Cortes; the musician, composer and performer Bardi Johannsson of the group Bang Gang; and guitar virtuoso Fridrik Karlsson, formerly of Mezzoforte.

Gardar Thor Cortes has already released his first album in England, a recording which was nominated for the Brit Classic Awards 2007 Album of the Year. Bardi Johannesson has toured the US with his band and has already made a name for himself in Europe, particularly in France. Besides playing with Mezzoforte, Fridrik Karlsson has earned a reputation as a studio musician in the UK.

3.3 Corporate Social Responsibility

A Call for Life

Mental shock and trauma can sometimes be the reason behind teenage suicide. Tackling this tragic issue is a relatively new project at the child and adolescent psychiatric department of Landspítali University Hospital in Iceland. Aptly named "A Call for Life", the four-year project is supported by FL Group.



Reaching out

A Call for Life is aimed at 12 to 18 year olds who, after suffering serious mental shock, have been identified by the institution's specialists as being at risk of suicide. The project reaches out to the children's families, aiming to recreate an environment of trust and rekindle the joy of life. All family members take an active part in the treatment sessions that are specially designed to deal with this type of situation.

The specialist work now underway at the University Hospital will be closely monitored and the results made public in the appropriate way.

FL Group is pleased to assist such an important initiative for our society. Working with the Iceland Symphony Orchestra, another organisation we are proud to support, we are jointly organising annual benefit concerts to help fund the project. In December 2007, FL Group sponsored the first such charity concert, which featured the renowned opera singer Dame Kiri Te Kanawa performing with the Icelandic tenor Gardar Thor Cortes and the Iceland Symphony Orchestra.

The December benefit concert raised more than ISK 6 million. The overall cost of the four-year programme is estimated to be around ISK 20 million.

3.4 Our Team



3.4 Our Team

Ambitious, flexible, hard working, good team players – that’s how FL Group describes its employees. Our aim is to cultivate a healthy working environment where our staff feels challenged, engaged and fulfilled.

FL Group has offices in Reykjavik and London, where 38 highly-skilled and dedicated professionals work together across national boundaries to grow the company and build on its success. The team is responsible for identifying new investment opportunities, researching, analysing and structuring transactions. Our follow-up activities include monitoring portfolio companies and the development of strategies to increase investment values.

Selective recruitment

FL Group’s commitment to excellence means that the company recruits only the best people. That careful selection process helps create a strong internal rapport that promotes intellectual exchange and boosts professional development.

Diversified background

Our skilled professionals are drawn from diverse backgrounds, countries and universities, bringing a wide range of disciplines and experience to the table. It is this diversity which contributes greatly to the collective talent of FL Group’s staff, helping them spot great investment opportunities and turn them into revenue-generating and profile-building activities for the company.

An exciting environment

Our staff work in a fast-paced, flexible environment with the freedom to be creative and innovative. FL Group is committed to providing each and every employee with a superior working environment, which encompasses top-level information and communication systems, flexible working hours and the opportunity for personal and professional development.

Team spirit

Maintaining positive morale is a crucial element of our human resources policy. FL Group encourages social activity amongst employees and believes this to be a vital part of building and maintaining efficient teamwork. This effort was evident in New York City in November 2007, when the majority of FL Group employees ran the NYC Marathon, after participating in training programmes for several months.

Job satisfaction

A recent survey showed that 96% of FL Group’s employees strongly agree that the team spirit is high and see themselves as future employees of the company. When asked to apply certain words in relation to company culture, 100% rated the key words “Initiative” and “Ambition” well or very well, and 87% believed FL Group to be “Progressive” and “Flexible”. A recent external survey showed that more than 80% of the general public in Iceland considers FL Group to be a good place to work.

3.4 Our Team

Management board

JON SIGURDSSON

Chief Executive Officer (CEO)

Jon Sigurdsson was appointed CEO in December 2007. He joined FL Group as Managing Director in September 2005 and was appointed Deputy CEO in December 2006. Prior to joining FL Group, Jon worked at Landsbanki and Kaupthing Bank. He received his BSc in Business Administration from Reykjavik University.



VIDAR THORKELSSON

Chief Financial Officer (CFO)

Vidar Thorkelsson was appointed CFO in February 2008. Before joining FL Group, Vidar was the managing director of finance and IT at the media company 365 from 2006-2008. Before he joined 365, he worked at Vodafone in Iceland and Landsbanki. He graduated with a B.Sc. in Business from the University of Iceland in 1988 and graduated with a MBA degree from the Peter F. Drucker Management Center in 1993.



3.4 Our Team

BENEDIKT GISLASON

Managing Director of Capital Markets

Benedikt Gislason joined FL Group in 2007. Prior to that he was Managing Director of Proprietary Trading at Straumur-Burðarás Investment Bank. Other previous roles include work in capital markets for the Icelandic Investment Bank (FBA) and Íslandsbanki. Benedikt holds a CSc in Engineering from the University of Iceland and is a certified stock broker.



BERNHARD BOGASON

Managing Director of Legal

Bernhard Bogason became Managing Director of Legal at FL Group in 2006. Prior to joining the team, Bernhard was a partner at KPMG Iceland, heading the firm's tax department. From 1993-1995 he served as a Deputy Judge in the District Court and from 1996-1999 he ran his own law office. Bernhard graduated with a Cand. Jur. degree from the University of Iceland in 1993.



ORVAR KAERNESTED

Managing Director of Private Equity

Orvar Kaernested was appointed a Managing Director in December 2006. Previously he worked as the deputy head of Investment Banking for Kaupthing bank hf. He received his BSc in Business Administration from the University of Iceland in 1999.



3.4 Our Team

Board of Directors

JON ASGEIR JOHANNESON

Chairman of the Board (since June 2007)

Director since July 2005, and previously from March 2003 to June 2004

Jon Asgeir Johannesson is also the Executive Chairman of the Board of Baugur Group and an internationally-renowned investor and entrepreneur. He 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 Johannes Jonsson. Jon Asgeir has led Baugur Group's expansion in recent years as CEO of the company. He has been at the forefront of Icelandic business for more than a decade and has exerted significant influence on the British and Danish retail sectors through Baugur Group and other companies.

Holding of financially related parties: Baugur Group hf. is among others owned by Jon Asgeir Johannesson and related parties. Baugur Group hf. is the largest shareholder in FL Group hf., holding in total 4,954,717,787 shares in FL Group hf. at year-end 2007 which represents 36.47% of the Issuer's capital

Own holding of shares: None.

PALMI HARALDSSON

Vice-Chairman of the Board (since December 2007)

Palmi Haraldsson is the CEO of Fons, an international investment company in Iceland and has been since 2003. He is also the CEO of Fengur ehf. Palmi graduated with a MSc degree in Economics from Gothenburg University.

Holding of financially related parties: Palmi Haraldsson is among others owner of Fons hf. which in the year-end 2007 held in total 832,555,863 shares or 6.12% of total share capital, partly through forwards agreements.

Own holding of shares: None.

HANNES SMARASON

Director (since December 2007)

Chairman of the Board of Directors 2004 - 2005

Hannes Smarason joined FL Group as the Chairman of the Board in 2004 and was named Chief Executive Officer in 2005. Before joining FL Group, Hannes was Executive Vice President and Senior Business Officer at deCode Genetics Inc, helping to grow the company from a leading research organisation in human genetics to an integrated bio-pharmaceutical company. From 1992 to 1996 Hannes worked at the strategy and consulting firm McKinsey & Co, at their US headquarters in Boston. He received his BSc in Mechanical Engineering and Management from the Massachusetts Institute of Technology (MIT) and his MBA from the MIT's Sloan School of Management.

Holding of financially related parties: Hannes Smarason owns all of the shares in Oddaflug eignarhaldsfelag ehf. Which subsequently holds all shares in Oddaflug B.V. and, on the basis of this, is the second largest shareholder in FL Group with 1,475,101,748 shares which represents 10.86% of the Issuer's capital.

Own holding of shares: None.

THORSTEINN M JONSSON

Director (since July 2005)

Thorsteinn M Jonsson earned a Cand. Oecon degree from the University of Iceland and an MA 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, Thorsteinn was appointed CEO of Vifilfell hf (the Coca-Cola Bottling Company of Iceland) and was elected Executive Chairman in 2005. He currently is a board member of Refresco Holding BV, 365 hf and Teymi hf.

Holding of financially related parties: Thorsteinn M Jonsson is among others owner of Materia Investments ehf. which in the year-end held 852,899,654 shares in FL Group hf. or 6.27%.

Own holding of shares: 24,771,499 shares or 0.18% of total share capital.

3.4 Our Team

KRISTIN EDWALD

Director (since December 2007)

Kristin Edwald is a Senior Partner at Lex Law Offices in Iceland. She graduated from the Faculty of Law at the University of Iceland in 1997. Kristin was admitted to practice before the District Courts of Iceland in January 1998 and to practice before the country's Supreme Court in May 2005. She worked at Logos Legal Services from 1997 to 2000 and at the Prosecution of Economic Crime Division of the National Commissioner of Police from 2000 to 2002. In August 2002 she began working at Lex Law Offices and became a partner in January 2004.

Holding of financially related parties: None.

Own holding of shares: None.

GUNNAR S SIGURDSSON

Director (since December 2007)

Gunnar S Sigurdsson is currently the CEO of Baugur Group. He graduated with an MBA from Pennsylvania State University. Following his graduation, Gunnar worked at Bank One in the United States for four years. He began working at Baugur Group as Chief Financial Officer in 2003. He assumed the management of the company's UK investment portfolio in February 2004 and in January 2007 became Managing Director of retail investment at Baugur Group.

Holding of financially related parties: None.

Own holding of shares: None.

THORDUR MAR JOHANNESON

Director (since December 2007)

Thordur Mar Johannesson has been active within the investment banking sector for the past 11 years, acting as the CEO of an investment company and an investment bank, and as a board member of many companies. He was the CEO of Straumur-Burdaras Investment Bank from 2001 to 2006, during which period the company changed from being an equity fund into an investment bank. Prior to that Thordur worked with Kaupthing Bank for some five years. He has a BSc in Business Administration from the University of Iceland.

Holding of financially related parties: None.

Own holding of shares: None.

PETER MOLLERUP

Alternate Director (since July 2006)

Peter Mollerup is a Partner at the law firm Logos, 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 and Logos Legal Services, and was a partner at the law firm Johan Schlüter until December 2007.

Holding of financially related parties: None.

Own holding of shares: None.

SMARI S SIGURDSSON

Alternate Director (since December 2007)

Director (since November 2005)

Smari S Sigurdsson graduated with a BSc in Production Engineering from the Technical University in Odense, Denmark, 1975, and an MSc in Entrepreneurial Studies from the University of Stirling, Scotland, 1999. His professional experience includes roles as a part-time teacher and lecturer at the University of Akureyri and project manager and quality manager at the Technological Institute of Iceland, where he worked previously as director of the Finance and Business Department. Smari has over 10 years' experience in Nordic development projects and was elected by the Nordic Innovation Centre on to a panel of experts in creative industries. He is currently the Investment Director of Primus Ltd.

Holding of financially related parties: None.

Own holding of shares: None.



ICELAND SYMPHONY ORCHESTRA

"The Iceland Symphony Orchestra sees the cooperation with FL Group as an opportunity to enlarge its future audience, put more emphasis on the educational part, and hopefully evoke an increasing interest and love of classical music."

*Throstur Olafsson,
Executive Director of the Iceland Symphony Orchestra*

4.1 Financial Summary

During a turbulent year many of FL Group's investments came under significant pressure, which affected the company's profitability. All of the company's listed holdings are reported at market value, which results in market fluctuations having direct effect on the Group's income statement. During the year FL Group acquired 99% of shares in the insurance company Tryggingamidstodin (TM), which was consolidated into the Group's accounts as of 1 October 2007.

The company's financial statements are reported in Icelandic krona and prepared in accordance with the International Financial Reporting Standards (IFRS). The accounts have been audited and approved by the Group's auditors, KPMG.

Group income

FL Group's loss after tax in 2007 was ISK 67.3 billion compared to a profit of ISK 44.6 billion during the previous year. This performance was primarily driven by market turmoil resulting in negative marked to market adjustments of the underlying listed assets of the Group. Dividend income totalled ISK 4.3 billion in 2007, compared to ISK 806 million in 2006. The largest part of the dividend income came from Glitnir (ISK 2.5 billion) and Commerzbank (ISK 1.1 billion).

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. Insurance premiums amounted to ISK 2.8 bn and insurance claims to ISK 2.6 bn. 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 ones, especially in seamen's accident insurances.

Net loss from securities and derivatives during 2007 amounted to ISK 63.7 billion compared to a net income of ISK 24.0 billion in 2006. This loss is mainly attributed to a ISK 43.1 billion loss from listed shares, ISK 0.2 billion negative revaluation of unlisted holdings, a net negative currency effect of ISK 7.8 billion and interest expenses of ISK 9.9 billion deriving from forward contracts.

Interest income during the year amounted to ISK 5.0 billion in 2007 compared to ISK 0.9 billion in the previous year. This is explained primarily by a larger cash balance held by the company during the year.

4.1 Financial Summary

Interest expense increased and was ISK 17.6 billion in 2007 compared to ISK 4.9 billion in the previous year. The increase in interest expense can be contributed to the fast growing investment portfolio and related funding, in addition to increased debt margins in the second half of the year 2007.

Operating expenses amounted to ISK 6.2 billion in 2007. During the year the Group continued to expand its headcount, re-locate offices and increased project activity significantly, resulting in increased salary expenses and administration costs. A significant part of the increase in operating costs is also driven by one-time events (terminations of employee contracts, pension agreements etc.). The company has already undergone changes that will reduce operating expenses and will continue on that path in 2008.

Income Statement (ISK billion)	2007	2006
Net income (expense) from inv. securities and derivatives	(63.7)	24.0
Interest income	5.0	0.9
Interest expenses	(17.6)	(4.9)
Net foreign exchange gain (loss)	2.5	(2.4)
	(73.8)	
Insurance premium	2.8	
Insurance claims	(2.6)	
	(73.6)	17.5
Operating expenses	(6.2)	(2.8)
Profit (loss) before income tax	(79.8)	14.7
Income tax	12.5	2.6
Profit from discontinued operations (net of income tax)	0.0	27.2
Profit (loss) for the year	(67.3)	44.6

4.1 Financial Summary

Group's assets

The Group's total assets on 31 December 2007 amounted to ISK 422.3 billion, increasing by 60.7% during the year.

At year-end the Group had a strong cash position of ISK 28.6 billion, including unpaid share capital, providing strong liquidity in a turbulent market environment. In addition the company has ISK 53.1 billion in cash that is restricted as collateral against debt and forward contracts.

Investments in equities for the Group amounted to ISK 287 billion at year-end 2007 and increased by ISK 27.8 billion during the year. In total ISK 71.4 billion was financed through forward contracts off balance sheet and ISK 3.3 billion of short sales were recognised as liabilities resulting in a net position of equities on FL Group's balance sheet of ISK 219.0 billion.

Holdings in listed securities amounted to ISK 197.1 billion at year-end. The five largest listed investments were Glitnir Bank, Commerzbank, Finnair, Royal Unibrew and Nordicom. During 2008 FL Group has reduced its exposure to listed securities significantly providing more stability in turbulent markets. Holdings in bonds amounted to ISK 16 billion at year-end.

The portfolio of private companies consists of companies with various operations and locations, predominantly in Europe. At the end of 2007 the value of the portfolio amounted to ISK 90.0 billion. In addition the company had ISK 19.4 billion in loans to the Group's unlisted companies.

Derivatives on the asset side of the company's balance sheet 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. Net fair value on the derivative portfolio is therefore negative to the amount of ISK 6.9 billion.

Intangible assets amounted to ISK 31.9 billion at year-end, entirely related to the acquisition of TM.

Assets (ISK billion)	Year-end 2007	Year-end 2006
Cash and cash equivalents	21.1	47.0
Unpaid share capital	7.5	0.0
Equity investments	219.0	181.2
Bond and debt investments	16.0	0.0
Derivatives	6.6	4.3
Restricted cash	53.1	9.6
Assets classified as held for sale	0.0	0.9
Loans and receivables including insurance receivable	42.3	19.5
Reinsurance assets	13.9	0.0
Deferred tax asset	8.6	0.0
Operating assets	2.2	0.4
Intangible assets	31.9	0.0
Total assets	422.3	262.8

4.1 Financial Summary

Group's equity and liabilities

Shareholders' equity was ISK 155.8 billion at year-end which represents an increase of ISK 13.2 billion during the year. During 2007, FL Group increased its share capital by a total of ISK 5.6 billion in nominal value (ISK 94.8 billion market value), mainly in relation to the acquisition of Tryggingamidstodin and investments in its portfolio of property companies and funds in December 2007. In relation to the consolidation of Tryggingamidstodin ISK 1.8 billion of initial investment was restated through equity due to step acquisition (negative effect on equity).

The company's equity ratio at the end of the year was 36.9% compared to 54.3% at the end of 2006.

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 and the consolidation of Tryggingamidstodin.

Borrowings totalled ISK 205 billion at year-end compared to ISK 105 billion at the beginning of the year.

Insurance liability amounted to ISK 29.6 billion but part of that is reinsurers' share. Net insurance liability was ISK 15.7 billion at end of 2007.

Equity (ISK billion)	Year-end 2007	Year-end 2006
Share capital	13.5	7.8
Share premium	161.0	70.5
Other reserves	1.6	0.9
Retained earnings	(20.6)	63.4
Minority interest	0.3	0.0
Total equity	155.8	142.7

Liabilities (ISK billion)	Year-end 2007	Year-end 2006
Derivatives	13.5	7.0
Short positions	3.4	0.0
Trade and other payables	14.5	5.9
Liabilities classified as held for sale	0.0	0.6
Insurance liability	29.6	0.0
Borrowings	205.0	105.0
Income tax liability	0.6	1.7
Total liabilities	266.5	120.2

4.1 Financial Summary

Financing and liquidity

Given the turbulent global markets, the Group has put heavy effort into maintaining liquidity. Towards the end of 2007 and in the first months of 2008 the Group has worked on reducing liabilities and extending and strengthening the maturity profile where part of the short term debt was replaced with long term debt.

At the end of 2007 debt maturing in the year 2008 amounted to ISK 55.6 billion. This debt has to a large extent already been refinanced with new debt maturing between 2009 and 2013. Only ISK 8.5 billion remain on maturity in 2008 with ISK 3.5 billion being in repurchase contracts which are easily refundable by nature.

Five year financial highlights

ISK million	2007	2006	2005	2004	2003
Income Statement					
Net investment income (expense)	(73,790)	17,491	20,349		
Operating expenses	(6,153)	(2,771)	(1,652)		
Net insurance premium	171				
Profit (loss) before income tax	(79,772)	14,720	18,697	4,318	1,406
Income tax	12,534	2,631	(3,292)	(713)	(285)
Profit from discontinued operations	0	27,208	1,846	0	0
Profit (loss) for the year	(67,238)	44,559	17,251	3,605	1,121
Balance Sheet					
Total assets	422,320	262,871	132,618	43,482	37,296
Liabilities	266,476	120,195	58,175	28,721	28,086
Equity	155,844	142,676	74,443	14,761	9,210
Earnings per share	(8.18)	6.65	5.90	1.63	0.52
Equity ratio	37%	54%	56%	34%	25%
Return on equity	(45%)	41%	39%	30%	13%

4.2 Risk Management

Overview

This chapter presents information about the Group's risk exposure, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The frame for asset allocation is monitored by a sub Committee of the Board of Directors, the Investment Committee. The Committee advises on the investment policy as well as on investment opportunities, exit opportunities and evaluates major individual investments. The Committee is authorised to approve transactions on behalf of the Group up to a predetermined level. Divergence from target asset allocations and the composition of the portfolio is monitored on intraday basis by the Group's employees.

The Group maintains positions in a variety of derivative and non-derivative financial instruments in accordance with its investment strategy. The Group's investment portfolio comprises quoted and non-quoted equity and debt investments.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. The Group's management looks to minimize this risk factor by only entering agreements with solid and well known institutions in addition to closely monitoring the credit risk on an ongoing basis.

Transactions involving derivative financial instruments are usually with counterparties with whom the Group has signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk.

Regarding loans and trade receivables internal procedures are used to manage the default risk, settlement risk, exposure risk and collateral risk. The subsidiary TM hf. is defined according to Icelandic law as a financial institution and is regulated by the FSA and reports quarterly to the FSA on defaulted customers, exposure concentration and equity limits.

TM hf. holds collateral against loans to customers in the form of mortgage interests over vehicles, properties, ships and machinery. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

The Group's policy is to provide only financial guarantees to wholly-owned subsidiaries.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The risk management of the Group mitigates the liquidity by assuring adequate liquidity through unforeseen changes in funding sources or market disruption. The Group's financial instruments include investments in unlisted equity investments and derivative contracts traded over-the-counter, which are not traded in an organised public market and which generally may be illiquid. As a result, the Group may not be able to liquidate quickly some of its investments in these instruments at an amount close to its fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the credit-worthiness of any particular issuer.

To mitigate this risk the Group has a policy of minimum available cash at any given time and in addition to that, the Group's listed financial investments, which represent large part of the total assets, are considered to be readily realisable.

4.2 Risk Management

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's strategy on the management of market risk is driven by the Group's investment objectives. Market risk is managed on a daily basis in accordance with policies and procedures in place. The Group's overall market positions are monitored on a monthly basis, or in some cases more frequently, by the Board of Directors.

Currency risk

The Group entities may invest in financial instruments and enter into transactions denominated in currencies other than their functional currencies. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Icelandic krona (ISK).

The Group's total net currency balance is monitored on daily basis and traded as any other calculated financial position.

Interest rate risk

The majority of the Group's financial assets are non-interest-bearing. Interest-bearing financial assets reprice in the short-term, no longer than twelve months. As a result, the Group is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates when it comes to assets. The Group is however exposed to interest risk from interest bearing liabilities and that risk is mitigated by active risk management. Any excess cash and cash equivalents of the Group are invested in short-term commercial paper or reverse repurchase agreements with the term to maturity no longer than one month.

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in equity prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Group's equity investments are carried at fair value with fair value changes recognised in the income statement, all changes in market conditions will directly affect investment income.

Market fluctuations are monitored by the Group's management on intraday basis which enables the Group to react quickly to any changes in the market.

The investment portfolio of TM is also monitored by the Icelandic Financial Supervisory Authority (FSA), but the portfolio of the respective subsidiaries is structured to ensure that capitalisation is adequate and financial strength is maintained at all times.

Insurance risk

The customer base of the insurance operation is well diversified and the company is not reliant on any individual client or customer. The insurance companies in the Group are TM and its subsidiaries.

In order to limit the underwriting risk of the insurance operation, part of the risk is transferred to reinsurers. The amount of risk that the companies carry for their own account is determined with respect to the financial strength of each of the insurance company and the nature of the risk.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Policies have been implied regarding equity ratio and loan to value ratios both in respect of on and off balance sheet financing. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

To maintain its balance and desirable loan to value ratios the Group increased the share capital during the year.

The subsidiary TM is subject to externally imposed capital requirements by the FSA. TM has complied with all imposed capital requirements throughout the year.

4.3 Share Information

FL Group's trade in own shares

FL Group's own shareholding amounted to 181,857,421 at the beginning of 2007. During the year, the company purchased a total of 27,520,064 of own shares and sold a total of 121,186,730. These transactions were made in order to fulfill stock option agreements and in relation to the purchase of Kjarrholmi, a holding company with a 37% stake in TM. At the end of 2007, FL Group's own shareholding amounted to 88,190,755.

Employee stock options

On 27 December 2007, FL Group hf. implemented a new share option plan in relation to options granted to employees. At the same time options for 136 million shares have been terminated. The new plan, which is in line with the company's remuneration policy, consists of up to 361 million shares at nominal value ISK 1 each. At the same time options for 136 million shares have been terminated. The options granted under the plan are exercisable in a three year period on 1 March each year from 2009 until 2011. One-third of the options can be executed annually.

On the basis of the new plan options to 342 million shares have been granted to employees at the rate ISK 14.7. As of today FL has in total granted employees options to 501 million shares at the weighted average price of ISK15.29.

Ownership structure 1 January 2008

Shareholding	Total no. of shares	%	No. of shareholders	%
1 - 100,000	66,323,375	0.5%	3,762	87.8%
100,001 - 1,000,000	102,826,052	0.8%	412	9.6%
1,000,001 - 10,000,000	193,338,363	1.4%	67	1.6%
10,000,001 - 100,000,000	884,809,288	6.5%	26	0.6%
over 100,000,000	12,336,968,895	90.8%	16	0.4%
Total	13,584,265,973	100.0%	4,283	100.0%

Largest shareholders at year-end 2007

Shareholder's name	Holdings	Share
BG Capital ehf	3,435,023,954	25.29% ¹⁾
Oddaflug B.V	1,475,101,748	10.86%
Gnúpur fjárfestingafélag ehf	1,367,782,849	10.07%
Baugur Group hf.	1,295,520,000	9.54% ¹⁾
Kauping banki hf.	999,046,308	7.35%
Materia Invest ehf.	852,899,654	6.28%
Fons hf.	635,077,258	4.68% ²⁾
Sund ehf.	440,116,721	3.24%
Stím ehf.	380,000,000	2.80%
GLB Hedge	372,309,944	2.74%

Notes to the list:

1) At year-end Baugur Group and related parties held in total 36.47% of total share capital, partly through forward agreements.

2) At year-end Fons held 6.12% of total share capital, partly through forward agreements.

4.3 Share Information

Largest shareholders at end of February 2008

Shareholder's name	Holdings	Share
BG Capital ehf.	3,435,023,954	25.29% ¹⁾
Oddaflug B.V.	1,475,101,748	10.86%
Baugur Group hf.	1,295,520,000	9.54% ¹⁾
Landsbanki Luxembourg S.A.	868,666,860	6.39% ³⁾
Materia Invest ehf.	852,899,654	6.28%
Fons hf.	635,077,258	4.68% ²⁾
GLB Hedge	545,150,549	4.01%
Sund ehf.	440,006,721	3.24%
Stím ehf.	429,369,651	3.16%
Glitnir banki hf.	376,566,107	2.77%

Notes to the list:

1) At end of February Baugur Group and related parties held in total 36.47% of total share capital, partly through forward agreements.

2) At end of February Fons held 12.21% of total share capital, partly through forward agreements.

3) Mostly held as hedge against forward contract with customer

4.4 Shareholder Information

FL Group investor relations

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Julius Thorfinnsson

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Mobile: +354 896 6612

Information on the internet

For FL Group shareholder information, please see the FL Group website, which contains extensive information on the Company:
www.flgroup.is

Financial calendar

FL Group will report its result for the year at quarterly intervals on the following dates:

Q1 results	28 April – 2 May 2008
Q2 results	28 July – 1 August 2008
Q3 results	27 October – 31 October 2008
Q4 and annual results	2 February – 6 February 2009

The financial calendar is also available on the FL Group website: www.flgroup.is

Annual Report

The annual report is published in English and is available on FL Group's website: www.flgroup.is. For printed copies contact us at info@flgroup.is.

Stock Exchange

FL Group shares are quoted on the OMX Nordic Exchange in Iceland.
<http://omxgroup.com/nordicexchange>
Symbol: FL
Trading currency: ISK

Analyst coverage

Analyst coverage for FL Group can be accessed on the website of the following financial institutions:

Landsbanki Islands hf.

Karl K Masson

email: karl.masson@landsbanki.is
Tel: +354 410 7394
www.landsbanki.com

Glitnir hf.

Asmundur Gislason

email: asmundur.gislason@glitnir.is
Tel: +354 440 4768
www.glitnirbank.com

Kaupthing Bank hf.

Eggert Thor Adalsteinsson

email: eggert.adalsteinsson@kaupthing.com
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FL GROUP hf.

Consolidated Financial Statements
for the year 2007

ISK

4.5 Contents

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4.5 Endorsement and Statement by the Board of Directors and the CEO

Operations in the year 2007

The financial statements comprise the consolidated financial statements of FL GROUP hf. ("the Company") and its subsidiaries together referred to as the "Group".

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

In January 2007 the Company sold all its shares in the fully owned subsidiary Kynnisferdir hf. The Company generated profit before taxes of ISK 486 million on this transaction in the first quarter.

During the year FL GROUP hf. acquired the majority of the shares in Tryggingamiðstöðin hf. (TM hf.) and at year-end it owned 99.9% of outstanding shares in the Company. TM hf. became a part of the consolidated financial statements in the beginning of October 2007. In relation to the acquisition of TM hf. the share capital was increased in September and October 2007 by ISK 1,300 million at the price of ISK 24.3 per share.

The share capital was further increased in two stages in December 2007. First by ISK 680 million which was sold for ISK 10,000 million in a share offering and then by ISK 3,659 million sold for ISK 53,791 million in relation to the investment in Landic Properties hf. and other real-estate companies and funds.

According to the consolidated income statement, loss for the year amounted to ISK 67,238 million. According to the consolidated balance sheet, equity at the end of the year amounted to ISK 155,844 million, including share capital in the amount of ISK 13,494 million. Reference is made to the notes to the consolidated financial statements regarding information on changes in equity.

The Board of Directors proposes that no dividends will be paid to shareholders in 2008.

Share capital and Articles of Association

The share capital amounted to ISK 13,584 million at the end of the year, from which the Company held own shares in the amount of ISK 90 million. The share capital is divided into shares of ISK 1, each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (OMX Iceland). The Board of Directors has the right to increase the share capital until 25 September 2012 by up to ISK 1,320 million with sale of new shares. Thereof are up to ISK 500 million subject to the pre-emptive purchase provisions of the Articles of Association. The Board of Directors decides the rules of sale each time, i.e. price, payments, subscription period etc. Additionally the Board of Directors can increase the share capital up to ISK 17 million for the purpose of financing the purchase of TM hf. The Board of Directors has the right to purchase up to 10% of the nominal value of the shares of the Company until 22 August 2008. The shares' purchase price may be up to 20% above the average sales price of shares on the Icelandic Stock Exchange.

Share-option agreements have been made with employees of the Group, which enables them to purchase shares in the Company at the average exercise price of ISK 14.7 per share after a vesting period of 12 to 36 months. Further information on the share option agreements is disclosed in note 39.

4.5 Endorsement and statement by the Board of Directors and the CEO, contd.:

The Company's Board of Directors comprises seven members and two reserve members elected on the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least five days before the annual general meeting. The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. 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 at the shareholders' meeting.

Shareholders at the end of the year 2007 were 4,319, but were 4,622 at the beginning of the year, a decrease of 303 during the year. When forward agreements are taken into account, two shareholders held more than 10% of outstanding shares each at year end 2007. They are Baugur Group hf. and related Companies with 36.2% share, Oddaflug B.V. with 10.9% share and Gnúpur fjárfestingafélag hf. with 10.9% share.

Further information on matters related to share capital is disclosed in note 30.

Statement by the Board of Directors and the CEO

The annual consolidated financial statements for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

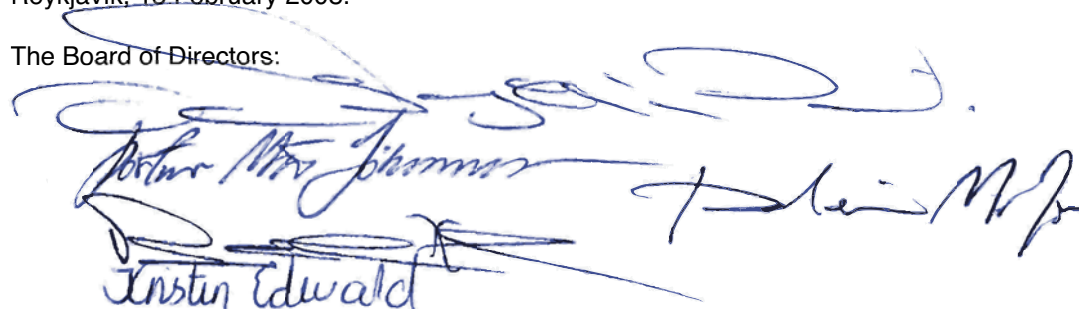
According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Company for the financial year 2007, its assets, liabilities and consolidated financial position as at 31 December 2007 and its consolidated cash flows for the financial year 2007.

Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the annual consolidated financial statements of FL GROUP hf. for the year 2007 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements will be approved at the annual general meeting of FL GROUP hf.

Reykjavík, 13 February 2008.

The Board of Directors:

The image shows several handwritten signatures in blue ink. The most prominent one is a large, stylized signature that spans across the top of the signature area. Below it, there are several other signatures, including one that appears to read 'Arnstin Edwald'.

CEO:

A handwritten signature in blue ink, which appears to be 'Jón Jónsson'.

4.5 Independent Auditor's Report

To the Board of Directors and Shareholders of FL GROUP hf.

We have audited the accompanying consolidated financial statements of FL GROUP hf. and its subsidiaries, (the "Group"), which comprise the consolidated balance sheet as at December 31, 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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.

Reykjavík, 13 February 2008.

KPMG hf.

Jon S Helgason
Saemundur Valdimarsson

4.5 Consolidated Income Statement for the year 2007

	Notes	2007	2006
Net investment (expense) income:			
Net (expense) income from investment securities and derivatives ...	8	(63,682)	23,956
Interest income	9	4,982	854
Interest expense	9	(17,566)	(4,948)
Net foreign exchange gain (loss)		2,476	(2,371)
		<u>(73,790)</u>	<u>17,491</u>
Net insurance income:			
Insurance premium	10	2,769	0
		<u>2,769</u>	<u>0</u>
Operating expenses:			
Insurance claims	11	(2,598)	0
Other operating expenses	12	(6,153)	(2,771)
		<u>(8,751)</u>	<u>(2,771)</u>
(Loss) profit before income tax		(79,772)	14,720
Income tax	15,16	12,534	2,631
(Loss) profit from continuing operations		(67,238)	17,351
Profit from discontinued operations, net of income tax		0	27,208
(Loss) profit for the year		(67,238)	44,559
Attributable to:			
Equity holders of the Company		(67,247)	44,560
Minority interest		9	(1)
(Loss) profit for the year		(67,238)	44,559
(Loss) earnings per share:			
Basic (loss) earnings per share (ISK)	18	(8.18)	6.65
Diluted (loss) earnings per share (ISK)	18	(7.96)	6.60

The notes on pages 75 to 114 are an integral part of these consolidated financial statements.

4.5 Consolidated Balance Sheet as at 31 December 2007

	Notes	2007	2006
Assets:			
Cash and cash equivalents	20	21,125	47,022
Unpaid share capital		7,500	0
Equity investments	21	218,998	181,037
Bonds and debt investments	22	16,021	124
Derivatives	24	6,604	4,309
Restricted cash	25	53,060	9,572
Assets classified as held for sale		0	904
Loans and receivables, including insurance receivables	26,27	42,348	19,478
Reinsurance assets	32	13,937	0
Deferred tax asset	35	8,623	0
Operating assets	28	2,167	425
Intangible assets	29	31,937	0
		<u>422,320</u>	<u>262,871</u>
Total assets			
Equity:			
Share capital	30	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		<u>155,526</u>	<u>142,666</u>
Minority interest		318	10
		<u>155,844</u>	<u>142,676</u>
Total equity			
Liabilities:			
Derivatives	24	13,488	7,021
Short positions		3,350	0
Trade and other payables	31	14,469	5,908
Liabilities classified as held for sale		0	634
Insurance liabilities	32	29,626	0
Borrowings	34,35	204,979	104,955
Income tax liability	36	564	1,677
		<u>266,476</u>	<u>120,195</u>
Total liabilities			
Total equity and liabilities		<u>422,320</u>	<u>262,871</u>

The notes on pages 75 to 114 are an integral part of these consolidated financial statements.

4.5 Consolidated Statement of Changes in Equity for the year 2007

	Notes	Other reserves					Equity holders of the Company	Minority interest	Total equity
		Share capital	Share premium	Share option reserve	Hedging reserve	Translation reserve				(Accumulated deficit) retained earnings of the Company
2006									
Equity 1.1.2006		5,802	43,169	68	187	179	25,027	74,432	74,443
Translation difference						3,519		3,519	3,519
Effective portion of changes in fair value of cash flow hedges					54			54	54
Hedging and translation reserves transferred to profit and loss					(241)	(2,910)		(3,151)	(3,151)
Net income recognised directly in equity					(187)	609		422	422
Profit for the year							44,560	44,560	44,559
Total profit for the year					(187)	609	44,560	44,982	44,981
Dividends (ISK 1.04 per share)							(6,341)	(6,341)	(6,341)
Issued share capital		2,100	30,244					32,344	32,344
Own shares, change		(139)	(2,980)					(3,119)	(3,119)
Translation reserve 1.1.2006 transferred						(179)	179	0	0
Stock options			97	271				368	368
Equity 31.12.2006		7,763	70,530	339	0	609	63,425	142,666	142,676
2007									
Equity 1.1.2007		7,763	70,530	339		609	63,425	142,666	142,676
Translation difference						258		258	258
Loss for the year							(67,247)	(67,247)	(67,238)
Total loss for the year						258	(67,247)	(66,989)	(66,980)
Dividends (ISK 1.93 per share)							(14,984)	(14,984)	(14,984)
Issued share capital	30	5,639	89,069					94,708	94,708
Own shares, acquired		(22)	(600)					(622)	(622)
Own shares, sold		114	2,480					2,594	2,594
Restatement of initial investment in TM hf. due to step acquisition	7						(1,753)	(1,753)	(1,753)
Sale of subsidiary	6						0	0	0
Minority interest arising on business combination	7						309	0	309
Stock options	36			420				(94)	(94)
Equity 31.12.2007		13,494	160,965	759	0	867	(20,559)	155,526	155,844

The notes on pages 75 to 114 are an integral part of these consolidated financial statements.

4.5 Consolidated Statement of Cash Flows for the year 2007

	Notes	2007	2006
Cash flows from operating activities:			
(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
Cash flows from investing activities:			
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)
Cash flows from financing activities:			
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
Net (decrease) increase in cash and cash equivalents ....	(	25,786)	34,149
Cash and cash equivalents at 1 January		47,022	10,350
Effect of exchange rate fluctuations on cash held .....	(	111)	2,523
Cash and cash equivalents at 31 December		21,125	47,022

The notes on pages 75 to 114 are an integral part of these consolidated financial statements.

4.5 Consolidated Statement of Cash Flows for the year 2007, contd.:

	Notes	2007	2006
Investing and financing transactions without cash flow effect:			
Acquisition of investment securities .....	(	53,791)	(28,322)
Acquisition of subsidiary .....	(	31,584)	(4,022)
Unpaid share capital .....	(	7,500)	0
Issued share capital		92,875	32,344
Other information:			
Interest income received		2,439	818
Interest expense paid		11,552	2,663
Income taxes paid		782	0
Dividends received		4,297	806

The notes on pages 75 to 114 are an integral part of these consolidated financial statements.

4.5 Notes

1. Reporting Entity

FL GROUP hf.'s registered office is at Síðumúli 24 in Reykjavík, Iceland. The consolidated financial statements of FL GROUP hf. ("the Company") as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities".

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

2. Basis of preparation

a. *Statement of compliance*

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

The financial statements were approved by the Board of Directors of FL GROUP hf. on 13 February 2008.

b. *Basis of measurement*

The consolidated financial statements are prepared on the historical cost basis except for the

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

c. *Functional and presentation currency*

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

d. *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in note 4m.

4.5 Notes, contd.:

3. Accounting policies related to financial instruments

a. *Financial assets and liabilities*

(i) *Non-derivative financial assets and liabilities*

Non-derivative financial assets and liabilities in the Group's balance sheet comprise equity and debt investments, loans and receivables, cash and cash equivalents, restricted cash, short positions, trade and other payables and borrowings.

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

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Loans and receivables are recognised on the date that they are originated. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets designated at fair value through profit and loss

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

Financial assets and liabilities held for trading

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

4.5 Notes, contd.:

3. contd.:

Held to maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Financial liabilities measured at amortised cost

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

(ii) *Derivative financial assets and liabilities*

The Group holds derivative financial instruments for investment purposes but also to hedge its interest rate and currency risk. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for through profit or loss. Derivatives with positive fair value at the reporting date are recognised as assets in the balance sheet while derivatives with negative fair value are recognised as liabilities. Because the Group does not apply hedge accounting, all derivative assets and liabilities are classified as held for trading.

b. **Investment income**

(i) *Net (expense) income from investment securities and derivatives*

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

(ii) *Interest income and expense*

Interest income and expense is recognised in the income statement using the effective interest method.

(iii) *Net foreign exchange gain (loss)*

Net foreign exchange gain (loss) comprises foreign exchange changes arising from assets and liabilities denominated in foreign currencies, other than equity derivatives, and gains and losses arising from derivatives hedging the foreign currency risk.

4.5 Notes, contd.:

3. contd.:

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

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

d. ***Fair value measurement principles for financial instruments***

(i) *Investment securities*

The fair value of investment securities is based on their quoted market bid prices at the reporting date without any deduction for estimated future selling costs.

If a quoted market price is not available on a stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the investment is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date. Fair values for unquoted equity investments are estimated, if possible, using applicable price / earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

(ii) *Derivatives*

The fair value of forward exchange contracts and equity derivatives are based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

4.5 Notes, contd.:

3. contd.:

(iii) *Loans and receivables including insurance receivables*

The fair value of loans and receivables, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iv) *Non-derivative financial liabilities*

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

e. **Insurance contracts**

As part of its insurance operations the Group's entities issue contracts that transfer both financial and insurance risk from the customers to the Group.

(i) *Insurance contracts - definition*

Insurance contracts are contracts under which the insurer accepts significant insurance risk from policyholders by agreeing to compensate the policyholders if a specified uncertain future event would occur.

Insurance risk is all risk, other than financial risk, that is transferred from the policyholder to the insurer such as accident, death or damage.

(ii) *Insurance contracts - classification*

The Group's insurance contracts are categorized in two groups according to how long the insurance risk lasts and whether the contract are fixed or changeable.

Property and casualty insurance:

Insurance contracts that are categorized as in this section are liability insurance, casualty insurance and property insurance.

Liability and casualty insurance contracts protect the customers against the risk of causing harm to third parties as a result of their legitimate activities and compensates the policyholders own damage in accordance with the terms of the insurance contracts.

Property insurance contracts mainly compensate the customers for damage suffered to their properties or for the value of property lost. Customers in business could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business.

Life insurance:

These contracts insure events associated with human life, for example death or survival over a long duration. Premiums are entered as income in the period they are issued and claims paid are entered as expense in the period that the insured event incurs.

4.5 Notes, contd.:

3. contd.:

(iii) *Investments with investments risk of the life assurance policyholders*

Investments with the investment risk of life assurance policyholders are financial assets owned by the Group that the policyholders have selected and carry the investment risk in accordance with the life assurance policy. Technical provision for life assurance policies where the investment risk is borne by the policyholders is the Group's liability towards these policyholders in the same amount.

(iv) *Technical provisions*

The Group assesses, at the end of the fiscal year, whether the recorded insurance liability can carry out the Group's estimated obligations by assessing future cash flows of the insurance liability. All changes in the insurance liability are recognized in the income statement. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.

(v) *Reinsurance contracts*

Reinsurance contracts are made in order to reduce the Group's risks. Reinsurance contracts can be either proportional or carry the entire risk in the case of a damage exceeding a fixed damage cost.

Claims on reinsurers due to premiums and claims are recognized as reinsurance assets. The claims concern the reinsurers share in damages according to reinsured insurance contracts and share in premium liability. Obligations due to reinsurance are the reinsurers share in premiums for reinsurance contracts which are recognized in the income statement at the time of the renewal of the reinsurance contracts.

(vi) *Insurance operations*

Premiums recognised as income comprise the premiums contracted during the period including premiums transferred from last years but excluding next periods premiums, which are recognised as premium reserve. Premium reserve in the balance sheet forms the part of premiums due to insurance risk during the period which belongs to the next fiscal year.

Claims recognised in the income statements are the period's claims including increases due to claims of previous fiscal year. Claims reserved in the balance sheet are the total amount of reported but unpaid claims as well as actuarial provision for claims occurred but unreported.

f. **Share capital**

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs net of tax, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus of deficit on the transaction is transferred to/from share premium/retained earnings.

4.5 Notes, contd.:

3. contd.:

Dividends

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

4. **Other accounting policies**

a. ***Basis of consolidation***

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

When an acquisition is completed by a series of successive transactions, each significant transaction is considered individually for the purpose of the determination of the identifiable assets, liabilities and contingent liabilities acquired and hence for the goodwill associated with the acquisition.

(ii) *Minority interests*

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the Company. The Group accounts for transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Company that is recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised immediately as income in the income statement.

(iii) *Associates*

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

(iv) *Transactions eliminated on consolidation*

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

4.5 Notes, contd.:

4. contd.:

(v) *Discontinued operations*

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of or is classified held for sale. Subsidiaries acquired exclusively with a view to resale are also defined as discontinued operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

b. **Foreign currency**

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Acquisition of operating assets in foreign currencies is translated at the foreign exchange rate ruling at the date of the transaction. Operating expenses and sales in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

(ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at the average exchange rate.

Foreign currency translation differences are recognised directly in equity in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

c. **Operating assets**

(i) *Measurement*

Operating assets are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Subsequent costs*

The cost of replacing part of an item of operating asset is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the income statement as an expense as incurred.

(iii) *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of operating assets. The estimated useful lives are as follows:

Buildings	33 years
Other operating assets	3-10 years

4.5 Notes, contd.:

4. contd.:

The depreciation method, useful lives and residual values are reassessed at the reporting date.

d. **Intangible assets**

(i) *Goodwill and intangible assets with indefinite useful lives*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill and trademarks with indefinite useful lives are stated at cost less accumulated impairment losses.

(ii) *Other intangible assets*

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the relevant asset. The estimated useful lives are specified as follows:

Software	3 years
Customer relations	6 years
Other intangible assets	6-10 years

(iii) *Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

e. **Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

4.5 Notes, contd.:

4. contd.:

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

f. **Share-based payment transactions**

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behaviour, expected dividends, and the risk-free interest rate based on government bonds. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

g. **Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

h. **Income tax**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

4.5 Notes, contd.:

4. contd.:

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

i. **Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees.

j. **Segment reporting**

A segment is a distinguishable component of the Group that is engaged in providing products or services and which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting at year-end is based on one hand on the investment activities and the other hand the insurance activities that consist of TM hf. and its subsidiaries acquired during the year.

k. **New standards and interpretations effective in 2007**

IFRS 7 Financial Instruments: Disclosures and the Amendment to *IAS 1 Presentation of Financial Statements: Capital Disclosures* became mandatory for the Group's 2007 financial statements. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information.

IFRIC 7 – 10 became mandatory for the Group's 2007 financial statements but their adoption had no impact on the Group's 2007 financial statements.

4.5 Notes, contd.:

I. **New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

IFRS 8 Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 financial statements, will require the disclosure of segment information based on the internal reports. The Group has not yet determined the potential effect of IFRS 8 on the consolidated financial statements.

IAS 1 Presentation of Financial Statements (revised in 2007) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. IAS 1 (Revised 2007) sets the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Unlike under current IAS 1, it is not permitted to present components of comprehensive income in the statement of changes in equity. IAS 1 (revised in 2007), which becomes mandatory for the Group’s 2009 financial statements if endorsed by the EU, is expected to impact the presentation of the Group’s income statement and statement of changes in equity.

Revised *IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. If endorsed by the EU, the revised IAS 23 will become mandatory for the Group’s 2009 financial statements and will have no effect on the Group’s accounting policies.

The amendments to *IFRS 2 Share Based Payment – Vesting Conditions and Cancellations* (January 2008) clarify the definition of vesting conditions and the accounting treatment of cancellations. If endorsed by the EU, the amendments become mandatory for the Group’s 2009 financial statements, with retrospective application required. The amendments are not expected to have any effect on the consolidated financial statements of the Group.

IFRS 3 Business Combinations (revised in 2008) and amended *IAS 27 Consolidated and Separate Financial Statements* introduce changes to the accounting for business combinations and for non-controlling (minority) interest. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:

- IFRS 3 (2008) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
- The definition of a business combination has been revised to focus on control;
- The definition of a business has been amended;
- Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;
- Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
- Disposals of equity interests while retaining control are accounted for as equity transactions;
- New disclosures are required.

4.5 Notes, contd.:

4. contd.:

IFRS 3 (revised in 2008) and amended *IAS 27* will become mandatory for the Group's 2010 Financial Statements, if endorsed by the EU. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. The Group has not yet determined the potential effect of IFRS 3 (revised in 2008) and amended IAS 27 on the consolidated financial statements.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. IFRIC 11 is not expected to have any impact on the consolidated financial statements.

IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements if endorsed by the EU, will have no effect on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements if endorsed by the EU, is not expected to have a material impact on the consolidated financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements if endorsed by the EU, with retrospective application required. The Group has not yet determined the potential effect of the interpretation on the consolidated financial statements.

m. **Accounting estimates and judgements**

Key sources of estimation uncertainty

Determination of fair values of financial instruments

As indicated in note 3a the Group's securities, derivatives and investments in associates are measured at fair value. For the majority of these financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques, including reference to the current fair values of other instruments that are substantially the same, subject to the appropriate adjustments.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows etc.) and therefore, cannot be determined with precision.

4.5 Notes, contd.:

4. contd.:

Determination of impairment of financial assets

Financial assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3c. The assessment for impairment is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

Determination of impairment of non-financial assets

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

Determination of fair value of share-based payment transactions

The fair value of options at grant date is determined as disclosed in accounting policy 4f. For share options granted to employees, in many cases market prices are not available, because the options granted are subject to terms and conditions that do not apply to traded options. If traded options with similar terms and conditions do not exist, the fair value of the options granted are estimated by applying an option pricing model. In estimating the fair value of options at grant date, the management considers factors that knowledgeable, willing market participants would consider in selecting the option pricing model to be used for this purpose.

Critical accounting judgements in applying the Group's accounting poli

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

Financial assets and liability classification

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

In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3a.

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

In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3a.

Deferred tax assets

Deferred tax assets are recognised for most deductible temporary differences and for tax losses carried forward to the extent that it is probable that taxable profit will be available against which they can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies.

4.5 Notes, contd.:

Segment reporting

5. Segment information is presented in the consolidated financial statements to reflect the Group's management and internal reporting structure for the year 2007 and is divided into two segments, investment and insurance. The investment segment consists of FL Group's operations excluding TM and its subsidiaries, which represent the insurance operations of the Group.

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

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

	Investment activities	Insurance	Eliminations	Consolidated
2007				
Net investment (loss) income	<u>(72,885)</u>	<u>(905)</u>	<u>0</u>	<u>(73,790)</u>
Operating income:				
Insurance premium	<u>0</u>	<u>2,769</u>	<u>0</u>	<u>2,769</u>
Operating expenses:				
Insurance claims	<u>0</u>	<u>(2,598)</u>	<u>0</u>	<u>(2,598)</u>
Other operating expenses	<u>(5,227)</u>	<u>(712)</u>	<u>0</u>	<u>(5,939)</u>
Depreciation and amortisation	<u>(85)</u>	<u>(129)</u>	<u>0</u>	<u>(214)</u>
Segment result before income tax	<u>(78,197)</u>	<u>(1,575)</u>	<u>0</u>	<u>(79,772)</u>
Income tax	<u>8,510</u>	<u>4,024</u>	<u>0</u>	<u>12,534</u>
Profit for the year	<u>(69,687)</u>	<u>2,449</u>	<u>0</u>	<u>(67,238)</u>
Segment assets	377,221	70,431	(25,332)	422,320
Segment liabilities	221,648	44,828		266,476
	Investment	Discontinued		
2006	activities	operations	Eliminations	Consolidated
Net investment (loss) income	<u>43,191</u>	<u>(226)</u>	<u>0</u>	<u>42,965</u>
Operating income	<u>0</u>	<u>93,363</u>	<u>0</u>	<u>93,363</u>
Operating expenses:				
Operating expenses	<u>(2,772)</u>	<u>(88,860)</u>	<u>0</u>	<u>(91,632)</u>
Depreciation and amortisation	<u>(24)</u>	<u>(2,744)</u>	<u>0</u>	<u>(2,768)</u>
Segment result before income tax	<u>40,395</u>	<u>1,533</u>	<u>0</u>	<u>41,928</u>
Income tax	<u>2,633</u>	<u>(2)</u>	<u>0</u>	<u>2,631</u>
Profit for the year	<u>43,028</u>	<u>1,531</u>	<u>0</u>	<u>44,559</u>
Segment assets	262,226	904	(259)	262,871
Segment liabilities	119,562	633	0	120,195

4.5 Notes, contd.:

Disposal of Kynniserðir ehf.

6. Kynniserðir ehf., a subsidiary operating in the tourism industry, was presented as of 31 December 2006 as a disposal group held for sale, was sold in January 2007. Comparative amounts in the consolidated financial statements contain amounts from the financial statements of the aforementioned company. Total assets the company at year-end 2006 amounted to ISK 904 million and total liabilities amounted to ISK 634 million. The gain on the sale, ISK 486 million, is included as gain on shares in the line Net income from securities and derivatives in the income statement.

Business combination

7. During the year the Company in stages acquired 99.9% of outstanding shares in Tryggingamiðstöðin hf. (TM hf.), an insurance company. The acquisition date was determined 1 October 2007. Until 1 October, 2007 TM hf. was accounted for at fair value but the fair value change was reversed on acquisition date through equity. Comparative amounts in the consolidated financial statements do not contain amounts from the financial statements of TM hf.

The acquisition, accounted for according to the purchase method, had the following effect on the Group's balance sheet:

	Pre-acquisition carrying amounts	Provisional fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	5,073		5,073
Equity investments	28,274		28,274
Bonds and debt investments	2,494		2,494
Loans and receivables, including insurance receivables	16,412		16,412
Reinsurance assets	13,899		13,899
Deferred tax asset	565		565
Operating assets	544	549	1,093
Intangible assets	986	2,428	3,414
Trade and other payables	(6,653)		(6,653)
Insurance liabilities	(30,567)		(30,567)
Borrowings	(8,438)		(8,438)
Income tax liability	(4,230)	(99)	(4,329)
Net identifiable assets and liabilities	18,359	2,878	21,237
Minority interest			(309)
Goodwill on acquisition			28,446
Total purchase consideration			49,374
Consideration satisfied by shares issued at fair value			(33,897)
Consideration satisfied in cash			15,477
Net cash acquired			(5,073)
Cash outflow on acquisition			10,404

Included in the consideration satisfied by cash are acquisition related expenses, i.e. advisers fees and other fees amounting to ISK 290 million. Part of the consideration was satisfied with 1,390 million shares at the average price of ISK 24.4 per share in accordance with the market price at each time.

4.5 Notes, contd.:

7. contd.:

The goodwill recognised on the acquisition is attributable mainly to the work force and the synergies expected to be achieved from integrating the company into the Group's existing activities. If the acquisition had occurred on 1 January 2007, management estimates that consolidated revenues from insurance operation would have been ISK 10,543 million and consolidated loss for the year would have been ISK 65,420 million.

TM hf.'s operations since 1 October 2007 are part of the consolidated income statement and consolidated cash flow statement of FL GROUP hf. Profit resulting from TM hf. since acquisition date amounts to ISK 2,449 million.

The purchase price allocation has been determined provisionally. Accordingly, the allocation of goodwill to cash-generating units could not be completed before year-end.

Investment income

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

	2007	2006
Net (loss) gain on financial assets designated at fair value through profit and loss	(48,207)	25,589
Net loss on financial assets held for trading	(15,475)	(1,633)
Net (expense) income from investment securities and derivatives	<u>(63,682)</u>	<u>23,956</u>

Dividend income included in net investment income amounts to ISK 4,297 million (2006: ISK 806 million).

Interest income and expense

9. Interest income and expense are specified as follows:

Interest income on:

Cash and cash equivalents and restricted cash	2,584	854
Loans and receivables	2,398	0
Total	<u>4,982</u>	<u>854</u>

Interest expense on:

Borrowings	17,520	4,947
Trade and other payables	46	1
Total	<u>17,566</u>	<u>4,948</u>

4.5 Notes, contd.:

Net insurance income

10. Insurance premium is specified as follows:	2007	2006
Premiums written	3,583	0
Reinsure's share	(1,744)	0
Change in the gross provision for unearned premiums	1,688	0
Change in the provision for unearned premiums, reinsure's share	(758)	0
Total insurance premium	<u>2,769</u>	<u>0</u>

Operating expenses

11. Insurance claims are specified as follows:		
Claims paid	4,099	0
Claims paid, reinsure's share	(1,553)	0
Change in the provision for claims	707	0
Change in the provision for claims, reinsures' share	(655)	0
Total insurance claims	<u>2,598</u>	<u>0</u>
12. Other operating expenses are specified as follows:		
Salaries, salary-related expenses and other personnel expenses, see note 13	2,543	1,652
Depreciation and amortisation	113	23
Other operating expenses	<u>3,497</u>	<u>1,096</u>
Total operating expenses	<u>6,153</u>	<u>2,771</u>

Salaries and salary-related expenses

13. Salaries and salary-related expenses are specified as follows:		
Salaries and bonus payments	1,459	1,071
Equity-settled shared-based payment transactions	567	435
Salary-related expenses	<u>484</u>	<u>126</u>
Total salaries and salary-related expenses	2,510	1,632
Other personnel expenses	<u>33</u>	<u>20</u>
Salaries, salary-related expenses and other personnel expenses, total	<u>2,543</u>	<u>1,652</u>
Average number of employees during the year	78	20

Auditors' fees

14. Remuneration to the Group's Auditors are specified as follows:		
Audit of Financial Statements	34	33
Review of Interim Financial Statements	6	8
Other services	<u>38</u>	<u>32</u>
Total auditors's fee	<u>78</u>	<u>73</u>

4.5 Notes, contd.:

14. contd.:

The above mentioned 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 (2006: ISK 17 million).

Income tax

15. Income tax recognised in the income statement is specified as follows:

	2007	2006
Current tax	6	782
Origination and reversal of temporary differences	(12,540)	(3,413)
Total income tax in income statement	<u>(12,534)</u>	<u>(2,631)</u>

16. Reconciliation of effective tax rate:

	2007	2006
(Loss) profit before income tax	<u>(79,772)</u>	<u>41,928</u>
Income tax using the Company's		
domestic tax rate	18.0% (14,359)	18.0% 7,547
Tax exempt revenue	0.2% (132)	(0.9%) (390)
Effect of tax rates in foreign jurisdictions	(4.5%) 3,621	(0.1%) (33)
Tax incentives	5.0% (3,997)	(22.6%) (9,485)
Non-deductible expenses	(3.2%) 2,534	0.0% 2
Other items	(0.9%) (201)	(0.9%) (272)
Effective tax rate	<u>15.7% (12,534)</u>	<u>(6.3%) (2,631)</u>

17. Income tax recognised directly in equity is specified as follows:

	2007	2006
Income tax on cost of issuing shares	<u>92</u>	<u>34</u>

(Loss) earnings per share

18. (Loss) profit attributable to ordinary equity holders of the Company:

Continuing operations	(67,247)	17,351
Discontinued operations	0	27,209
Total	<u>(67,247)</u>	<u>44,560</u>

4.5 Notes, contd.:

18. contd.:

Weighted average number of ordinary shares

in million shares

	2007	2006
Issued ordinary shares at 1 January	7,763	5,802
Effect of bought and sold own shares	(64)	(133)
Effect of the increase of share capital in January 2006	0	284
Effect of the increase of share capital in July 2006	0	752
Effect of the increase of share capital in April 2007	2	0
Effect of the increase of share capital in September 2007	266	0
Effect of the increase of share capital in October 2007	68	0
Effect of the increase of share capital in December 2007	181	0
Weighted average number of ordinary shares at 31 December	<u>8,216</u>	<u>6,705</u>

Weighted average number of ordinary shares (diluted)

in million shares

Weighted average number of ordinary shares (basic)	8,216	6,705
Effect of share options	228	49
Weighted average number of ordinary shares (diluted) at 31 December	<u>8,444</u>	<u>6,754</u>

(Loss) earnings per share:

Basic (loss) earnings per share (ISK)	(8.18)	6.65
Diluted (loss) earnings per share (ISK)	(7.96)	6.60

(Loss) earnings per share from continuing operations:

Basic (loss) earnings per share (ISK)	(8.18)	2.59
Diluted (loss) earnings per share (ISK)	(7.96)	2.57

19. Financial assets and liabilities are classified as follows:

	Held for trading	Design. at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Total
31.12.2007						
<i>Financial assets:</i>						
Cash and cash equivalents				21,125		21,125
Equity investments	3,148	215,850				218,998
Bonds and debt investments	12,271		3,750			16,021
Derivatives	6,604					6,604
Restricted cash				53,060		53,060
Loans and receivables ..				49,848		49,848
Total financial assets	<u>22,023</u>	<u>215,850</u>	<u>3,750</u>	<u>124,033</u>	<u>0</u>	<u>365,656</u>

4.5 Notes, contd.:

19. contd.:

	Held for trading	Design. at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Total
31.12.2007						
<i>Financial liabilities:</i>						
Derivatives	13,488					13,488
Short positions	3,350					3,350
Trade and other payables					14,469	14,469
Borrowings					204,979	204,979
Total financial liabilities ..	16,838	0	0	0	219,448	236,286
31.12.2006						
<i>Financial assets:</i>						
Cash and cash equivalents				47,022		47,022
Equity investments	20,859	160,178				181,037
Bonds and debt investments	124					124
Derivatives	4,309					4,309
Restricted cash				9,572		9,572
Loans and receivables ..				19,478		19,478
Total financial assets	42,130	160,178	0	76,072	0	261,542
<i>Financial liabilities:</i>						
Derivatives	7,021					7,021
Trade and other payables					5,908	5,908
Borrowings					104,955	104,955
Total financial liabilities ..	7,021	0	0	0	110,863	117,884

Cash and cash equivalents

20. Cash and cash equivalents are specified as follows:

	2007	2006
Bank balances	15,947	6,786
Short-term deposits with credit institutions	5,178	27,057
Mutual-fund certificates	0	13,179
Total cash and cash equivalents	21,125	47,022

4.5 Notes, contd.:

Investment securities

21. Equity investments are specified as follows:				
		2007		2006
		Fair value including related		Fair value including related
	Ownership	derivatives	Ownership	derivatives
Listed equity investments:				
<i>Listed on the Icelandic Stock Exchange:</i>				
Glitnir banki hf.	31.97%	104,430	30.36%	100,892
Other companies		15,309		50,410
Total listed on the Iceland Stock Exchange		<u>119,739</u>		<u>151,302</u>
<i>Listed on foreign stock exchanges:</i>				
Inspired Gaming Group PLC	18.97%	4,054		
Finnair Oyj	12.69%	12,091	22.42%	23,126
Royal Unibrew A/S	25.57%	9,927	24.38%	14,013
Aktiv Kapital ASA	13.27%	6,400	13.27%	6,671
Nordicom A/S	21.71%	6,859		
Comerzbank AG	2.90%	45,931		
AMR Corporation			6.00%	27,626
Bang & Olufsen A/S			11.45%	11,834
Other companies		(7,944)		9,848
Total listed on foreign stock exchanges		<u>77,318</u>		<u>93,118</u>
Total listed equity investments		<u>197,057</u>		<u>244,420</u>
Unlisted securities:				
Eikarhald ehf	71.70%			
Pyrping hf.	49.33%			
Refresco Holding B.V.	49.00%		49.00%	
Geysir Green Energy ehf.	43.14%			
Landic Property hf.	39.23%			
Northern Travel Holding ehf.	34.78%		34.78%	
Highland Group Holding Limited	13.89%		13.89%	
Mutual-fund certificates				
Other companies				
Total unlisted equity investments		<u>90,019</u>		<u>14,819</u>
Total equity investments		287,076		259,239
Thereof equity derivatives, see note 24		(71,428)		(78,202)
Thereof short positions		3,350		0
Fair value of equity investments at year-end		<u>218,998</u>		<u>181,037</u>

4.5 Notes, contd.:

22. Bonds and debt investments are specified as follows:

Listed bonds and debt investments:	2007	2006
<i>Listed on the Icelandic Stock Exchange:</i>		
Held for trading	14,185	8,729
Held to maturity	3,750	0
Total listed on the Iceland Stock Exchange	17,935	8,729
Thereof bonds derivatives	(1,914)	(8,605)
Fair value of bond investments at year end	16,021	124
 <i>Held to maturity bonds and debt investments are specified as follows:</i>		
Issued by the Government	74	124
Issued by financial institutions	3,617	0
Issued by municipalities	2	0
Issued by corporates	57	0
Total listed on the Iceland Stock Exchange	3,750	124

Associates

23. As presented in note 4a(iii), investments in associates are accounted for at fair value through profit or loss and presented within equity investments in the balance sheet. At year end 2007, based on both direct and indirect ownership, the following investments are defined as associates:

	Ownership
Glitnir banki hf., Iceland	31.97%
Eikarhald ehf., Iceland	71.70%
Northern Travel Holding hf., Iceland	34.78%
Refresco Holding B.V., Holland	49.00%
Unity Investment ehf., Iceland	37.50%
Pyrping hf., Iceland	49.33%
Landic Property hf., Iceland	39.23%
Fasteignafélag Íslands hf., Iceland	32.32%
Íslensk endurtrygging hf., Iceland	38.32%
Geysir Green Energy ehf., Iceland	43.14%
VC Holdings Limited, United Kingdom	41.54%
Wyndeham Press Group Limited, United Kingdom	49.00%

In December 2007 the Company acquired shares in Landic Property hf. and other real estate companies and funds. As part of the investment the Company acquired 22.7% share in Eikarhald ehf. so the ownership after the acquisition increases to 71.7%. This investment was not consolidated since control was not obtained at year-end 2007.

4.5 Notes, contd.:

Derivatives

24. Net assets in derivatives are specified as follows:

	2007	2006
Equity derivatives - receivable, see note 21	71,428	78,202
Equity derivatives - payable	(78,307)	(77,005)
Net position of equity derivatives	(6,879)	1,197
Net position of other derivatives	(5)	(3,909)
Net position of derivatives	(6,884)	(2,712)
Derivatives - assets in the balance sheet	6,604	4,309
Derivatives - liabilities in the balance sheet	(13,488)	(7,021)
Net position of derivatives	(6,884)	(2,712)

Restricted cash

25. Bank deposits amounting to ISK 53,060 million (2006: ISK 9,572 million) are restricted to use for the Group at year-end. Deposits are cash held by financial institutions as collaterals for derivative transactions and borrowings and are specified as follows:

	2007
Bank deposits as collateral for derivatives	24,995
Bank deposits as collateral for borrowings	28,065
Restricted cash total	53,060

Loans and receivables, including insurance receivables

26. Loans and receivables, including insurance receivables:	2007	2006
Investment related loan portfolio	19,375	14,745
Collateralised loans	7,879	0
Insurance receivables	5,015	0
Investment related trade receivables	3,678	2,359
Other receivables	6,401	2,374
Total loans and receivables, including insurance receivables	42,348	19,478

Allowance account for impairment at year-end 2007 amounts ISK 363 million and is deducted from insurance receivables and collateralised loans in the Balance Sheet.

27. Repayments of loans and receivables, including insurance receivables:

Repayments in 2007		6,966
Repayments in 2008	19,687	0
Repayments in 2009	14,195	12,512
Repayments in 2010	1,365	0
Repayments in 2011	1,065	0
Repayments in 2012	825	0
Subsequent payments	5,211	0
Total loans and receivables, including insurance receivables	42,348	19,478

4.5 Notes, contd.:

Operating assets

28. Operating assets are specified as follows:

	Buildings	Other operating assets	Total
Gross carrying amount			
Additions during the year	0	449	449
Balance at 31.12.2006	0	449	449
Exchange rate difference	0	(1)	(1)
Additions through business combinations	977	116	1,093
Additions during the year	211	555	766
Sales and disposals during the year	(22)	(10)	(32)
Balance 31.12.2007	1,166	1,109	2,275
Depreciation and impairment losses			
Depreciation	0	24	24
Balance 31.12.2006	0	24	24
Depreciation	15	74	89
Sales and disposals during the year	0	(5)	(5)
Balance 31.12.2007	15	93	108
Carrying amounts			
1.1.2006	0	0	0
31.12.2006	0	425	425
31.12.2007	1,151	1,016	2,167
Depreciation ratios	2-4%	4-33%	

Intangible assets

29. The Group's intangible assets are specified as follows:

	Goodwill	Trade name	Customer relationship	Other intangible assets	Total
Additions through business combination					
	28,446	2,784	575	54	31,859
Additions during the year	0	0	0	54	54
Exchange rate difference	42	4	2	0	48
Amortised during the year	0	0	(24)	0	(24)
Balance at 31 December 2007	28,488	2,788	553	108	31,937

4.5 Notes, contd.:

Equity

30. *Share capital*

The share capital was increased in September 2007 by ISK 974 million which was sold at ISK 23,656 million in relation to the purchase of 46.1% stake in Tryggingamiðstöðin hf. The share capital was further increased in October by ISK 326 million and was sold at ISK 7,922 million in relation to further purchase of shares in Tryggingamiðstöðin hf.

The share capital was increased in two stages in December 2007. First by ISK 680 million which was sold for ISK 10,000 million in a share offering, thereof ISK 7,500 million due 4 January 2008 and then by ISK 3,659 million sold for ISK 53,791 million in relation to the investment in Landic Properties hf. and other real estate companies and funds.

The Company's share capital, according to its Articles of Association amounts to ISK 13,584 million. The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Share capital was increased during the year 2007 by a nominal value of ISK 5,639 million, from ISK 7,945 million to ISK 13,584 million. The Company bought own shares at a nominal value of ISK 22 million during the year for ISK 622 million. The Company sold own shares with a nominal value of ISK 114 million for ISK 2,594 million. Share capital according to the balance sheet amounted to ISK 13,494 million at the end of the year, share capital is specified as follows:

	Amounts	Ratio
Total issued shares at the end of the year	13,494	99.3%
Shares owned by the Company and its subsidiaries	90	0.7%
Share capital according to the Articles of Association	<u>13,584</u>	<u>100.0%</u>

Share capital amounting to ISK 112 million was owned by associates.

The Board of Directors has the right to increase the share capital until 25 September 2012 by up to ISK 1,320 million with sale of new shares. Thereof are up to ISK 500 million subject to the preemptive purchase provisions of the Articles of Association. The Board of Directors decides the rules of sale each time, i.e. price, payments, subscription period etc. Additionally the Board of Directors can increase the share capital up to ISK 17 million for the purpose of financing the purchase of TM hf. The Board of Directors has the right to purchase up to 10% of the nominal value of the shares of the Company until 22 August 2008. The shares' purchase price may be up to 20% above the average sales price of shares on the Icelandic Stock Exchange.

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Share option reserve

The reserve includes the accrued part of the fair value of share options. This reserve is reversed if share options are forfeited and is transferred to share premium if share options are exercised.

Translation reserve

Foreign exchange differences arising on translation of financial statements of subsidiaries are recognised directly in a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

4.5 Notes, contd.:

Trade and other payables

31. Trade and other payables are specified as follows:

	2007	2006
Trade payables	2,634	2,410
Insurance liability	4,224	0
Other payables	7,611	3,498
Total trade and other payables	<u>14,469</u>	<u>5,908</u>

Insurance liabilities and reinsurance assets

32. Insurance liabilities and reinsurance assets are specified as follows:

	2007
Insurance liabilities (total):	
Unearned premium	6,147
Claims provisions	<u>23,479</u>
Insurance liabilities, total	<u>29,626</u>
Reinsurance assets:	
Reinsurers' share of insurance liabilities:	
Unearned premium	2,635
Claims provisions	11,017
Reinsurance receivable and retention money	<u>285</u>
Reinsurance assets, total	<u>13,937</u>
Net liability due to insurance contracts:	
Premium reserve	3,512
Claims provisions	12,462
Reinsurance receivable and retention money	<u>(285)</u>
Insurance liability (net), total	<u>15,689</u>

33. Changes in insurance claims liabilities and reinsurance assets in 2007:

	2007		
Claims provision	Total	Reinsurance	Net
Reported claims	13,946	(4,299)	9,647
Incurred but unreported claims	6,775	(4,512)	2,263
Total	<u>20,721</u>	<u>(8,811)</u>	<u>11,910</u>
Translation difference of balance	(11)	8	(3)
Claims provision total	<u>20,710</u>	<u>(8,803)</u>	<u>11,907</u>
Claims during the year	(12,739)	3,971	(8,768)
Incurred claims during the year	15,444	(5,719)	9,725
Fair value changes of receivables from previous year	273	(453)	(180)
Translation and exchange rate differences	(209)	(12)	(221)
Total	<u>2,769</u>	<u>(2,213)</u>	<u>556</u>

4.5 Notes, contd.:

33. contd.:

	2007		
	Total	Reinsurance	Net
Claims provision			
Reported claims	15,210	(5,388)	9,822
Incurred but unreported claims	8,269	(5,628)	2,641
Total	<u>23,479</u>	<u>(11,016)</u>	<u>12,463</u>
Premium liabilities			
Premium liability from previous year	5,385	(2,279)	3,106
Translation difference	(152)	34	(118)
Increase of the year	914	(390)	524
Total	<u>6,147</u>	<u>(2,635)</u>	<u>3,512</u>

Borrowings

34. Borrowings are specified as follows:

	Currency	2007	2006
		Carrying amount	Carrying amount
Bank loan	ISK	86,200	39,987
Bank loan	EUR	96,415	41,762
Bank loan	DKK	931	1,231
Bank loan	NOK	3,878	1,048
Bank loan	USD	7,771	20,927
Bank loan	CHF	3,837	0
Bank loan	JPY	2,006	0
Bank loan	CAD	650	0
Subordinated loan	ISK	3,291	0
Borrowings		<u>204,979</u>	<u>104,955</u>
Weighted average interest		9.23%	8.27%

Group's assets amounting to ISK 224,666 million (2006: ISK 163,301) are mortgaged to secure derivative contracts and debt with the remaining balance of ISK 124,137 million at the end of the year 2007 (2006: ISK 79,969).

35. Repayment of borrowings are specified as follows:

Repayments in 2007		43,838
Repayments in 2008	55,609	0
Repayments in 2009	89,753	50,144
Repayments in 2010	44,697	0
Repayments in 2011	0	0
Repayments in 2012	11,629	10,973
Subsequent repayments	3,291	0
Borrowings	<u>204,979</u>	<u>104,955</u>

4.5 Notes, contd.:

Income tax liability

36. Income tax liability is specified as follows:

	2007	2006
Current tax	6	782
Deferred income tax	558	895
Income tax liability 31.12.	564	1,677

Deferred income tax

37. The deferred income tax liability is specified as follows:

Deferred income tax liability 1.1.	895	4,694
Additions through business combination	3,764	0
Exchange rate difference	(92)	0
Income tax expense recognised in income statement	(12,534)	(3,413)
Income tax recognised in equity	(92)	(34)
Other changes	0	(352)
Net deferred income tax (asset) liability 31.12.	(8,059)	895

The deferred income tax is attributable to the following items:

Equity investments	(1,393)	22
Loans and trade receivables	(896)	(266)
Operating assets	1,918	1,310
Other balance sheet items	(807)	(171)
	(1,178)	895
Tax losses carried forward	(6,881)	0
Net deferred income tax (asset) liability 31.12.	(8,059)	895

	Assets		Liabilities		Net deferred tax (asset) liability	
	2007	2006	2007	2006	2007	2006
Equity investments			(1,393)	23	(1,393)	23
Loans and receivables, including insurance receivables	(896)	(267)		0	(896)	(267)
Investments in companies		(4)			0	(4)
Operating assets			1,918	1,310	1,918	1,310
Tax loss carry-forwards	(6,881)				(6,881)	0
Other items	(840)	(167)	33		(807)	(167)
	(8,617)	(438)	558	1,333	(8,059)	895

4.5 Notes, contd.:

37. contd.:	1 January 2007	Recognised in equity	Additions through business combination	Recognised in profit and loss	Exchange rate difference	1 December 2007
Equity investments	23		4,217	(5,627)	(6)	(1,393)
Loans and receivables	(267)			(630)	1	(896)
Operating assets	1,311		378	329	(100)	1,918
Tax loss carry-forwards	0		(307)	(6,574)		(6,881)
Other items	(172)	(92)	(524)	(32)	13	(807)
	<u>895</u>	<u>(92)</u>	<u>3,764</u>	<u>(12,534)</u>	<u>(92)</u>	<u>(8,059)</u>

38. At 31 December 2007 deferred tax liability amounting to ISK 12,942 million (2006: ISK 9,485 million) is not recognised for temporary differences of ISK 71,901 million (2006: ISK 52,694 million) related to an investment in subsidiaries because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

When the Group pays dividends to its shareholders, it is required to pay a portion of the dividends to tax authorities on behalf of shareholders, i.e. withholding tax. The amount paid to tax authorities is charged to equity as a part of the dividends.

Share-based payments

39. The terms and conditions of grants are as follows:

Grant date / employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of option
Options granted 2005	130,500	12/24/36 months service	3 years
Options granted 2006	120,460	12/24/36 months service	3 years
Options granted 2007	433,900	12/24/36 months service	3 years
Total	<u>684,860</u>		

All options are to be settled by physical delivery of shares. Options vesting in 12 months can be exercised three times during the contractual life, at the end of each 12 month period. Accordingly 24 month options can be exercised two times and the 36 month options only once at the end of the 36 month period.

The number and weighted average exercise price of share options is as follows in thousands:

	Weighted average exercise price 2007	Number of options 2007	Weighted average exercise price 2006	Number of options 2006
Outstanding at 1 January	14.3	250,960	13.6	217,650
Forfeited during the year	25.7	(144,502)	13.6	(46,100)

4.5 Notes, contd.:

39. contd.:	Weighted average exercise price 2007	Number of options 2007	Weighted average exercise price 2006	Number of options 2006
Exercised during the year	12.2	(59,087)	13.6	(41,050)
Granted during the year	18.0	440,900	20.4	120,460
Outstanding at 31 December	<u>14.6</u>	<u>488,271</u>	<u>16.9</u>	<u>252,966</u>
Excercisable at 31 December	11.2	61,937	13.6	43,500

The options outstanding at 31 December 2007 have an exercise price in the range of 10.6 to 31.1 and a weighted average contractual life of 1.7 years. The share price at the date of exercise for share options exercised in 2007 was 24.2 to 33.0.

Total recognised expenses for the year arising from share-based payment transactions amounted to ISK 567 million (2006: ISK 435 million) including adjustments for forfeited options during the year.

4.5 Notes, contd.:

40. Financial risk management

Overview

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

- credit risk
- liquidity risk
- market risk
- underwriting risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The frame for asset allocation is monitored by a sub Committee of the Board of Directors, the Investment Committee. The Committee advises on the investment policy as well as on investment opportunities, exit opportunities and evaluates major individual investments. The Committee is authorised to approve transactions on behalf of the Group up to a predetermined level. Divergence from target asset allocations and the composition of the portfolio is monitored on intraday bases by the Group's employees.

The Group maintains positions in a variety of derivative and non-derivative financial instruments in accordance with its investment strategy. The Group's investment portfolio comprises quoted and non-quoted equity and debt investments.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. The Group's management looks to minimize this risk factor by only entering agreements with solid and well known institutions in addition to closely monitoring the credit risk on an ongoing basis.

Transactions involving derivative financial instruments are usually with counterparties with whom the Group has signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk.

Regarding loans and trade receivables internal procedures are used to manage the default risk, settlement risk, exposure risk and collateral risk. The subsidiary TM hf. is defined according to Icelandic law as a financial institution and is regulated by the FSA and reports quarterly to FSA on defaulted customers, exposure concentration and equity limits.

4.5 Notes, contd.:

40. contd.:

TM hf. holds collateral against loans to customers in the form of mortgage interests over vehicles, properties, ships and machinery. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

The Group's policy is to provide only financial guarantees to wholly-owned subsidiaries. At year-end guarantees were outstanding as disclosed in note 50.

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

	2007	2006
Cash and cash equivalents	21,125	47,022
Held-to-maturity investments	3,750	0
Restricted cash	53,060	9,572
Loans and receivables	49,848	19,478
Reinsurance assets	13,937	0
Maximum exposure to credit risk at year-end	141,720	76,072

Liquidity risk

42. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The risk management of the Group mitigates the liquidity by assuring adequate liquidity through unforeseen changes in funding sources or market disruption. The Group's financial instruments include investments in unlisted equity investments and derivative contracts traded over-the-counter, which are not traded in an organised public market and which generally may be illiquid. As a result, the Group may not be able to liquidate quickly some of its investments in these instruments at an amount close to its fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the credit-worthiness of any particular issuer.

To mitigate this risk the Group has a policy of minimum available cash at any given time and in addition to that, the Group's listed financial investments, which represent large part of the total assets, are considered to be readily realisable.

The breakdown by contractual maturity of financial liabilities:

31 December 2007	0-12 months	1-5 years	Over 5 years	No stated maturity	Total
Liabilities:					
Derivatives	13,488	0	0	0	13,488
Short positions	0	3,350	0	0	3,350
Trade and other payables	14,469	0	0	0	14,469
Borrowings	55,609	146,079	3,291	0	204,979
Total financial liabilities	83,566	149,429	3,291	0	236,286

4.5 Notes, contd.:

42. contd.:

31 December 2006	0-12 months	1-5 years	Over 5 years	No stated maturity	Total
Liabilities:					
Derivatives	7,021	0	0	0	7,021
Trade and other payables	5,908	0	0	0	5,908
Borrowings	43,838	50,144	10,973	0	104,955
Total financial liabilities	<u>56,767</u>	<u>50,144</u>	<u>10,973</u>	<u>0</u>	<u>117,884</u>

Commitments amounting to ISK 18,979 million at year-end are payable on demand as disclosed in note 51.

Market risk

43. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's strategy on the management of market risk is driven by the Group's investment objectives. The Group's market risk is managed on a daily basis in accordance with policies and procedures in place. The Group's overall market positions are monitored on a monthly basis, or in some cases more frequently, by the Board of Directors.

Currency risk

44. The Group entities may invest in financial instruments and enter into transactions denominated in currencies other than their functional currencies. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Icelandic kronas (ISK).

The Group's total net currency balance is monitored on daily basis and traded as any other calculated financial position.

The breakdown of financial assets and financial liabilities by currency:

2007	Assets	Liabilities	Net
DKK	8,701	1,200	7,501
EUR	104,773	99,358	5,415
GBP	8,500	1,289	7,211
JPY	317	2,031	(1,714)
NOK	8,982	3,661	5,321
SEK	3,099	1,514	1,585
USD	4,736	13,086	(8,350)
Other currencies	817	4,594	(3,777)
Total	<u>139,925</u>	<u>126,733</u>	<u>13,192</u>

4.5 Notes, contd.:

44. contd.:

2006	Assets	Liabilities	Net
DKK	2,290	1,427	863
EUR	18,498	41,878	(23,380)
GBP	(1,695)	67	(1,762)
NOK	1,159	1,051	108
SEK	622	0	622
USD	3,615	25,043	(21,428)
Other currencies	160	0	160
Total	24,649	69,466	(44,817)

A 10% weakening of the Icelandic Krona against the above currencies at 31 December 2007 would have increased equity and decreased post-tax loss by ISK 1,081 million (2006: ISK 3,721 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

45. The majority of the Group's financial assets are non-interest-bearing. Interest-bearing financial assets reprice in the short-term, no longer than twelve months. As a result, the Group is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates when it comes to assets. The Group is however exposed to interest risk from interest bearing liabilities and that risk is mitigated by active risk management. Any excess cash and cash equivalents of the Group are invested in short-term commercial paper or reverse repurchase agreements with the term to maturity no longer than one month.

A change of 1% in interest rates at the reporting date would have increased post-tax loss by ISK 800 million. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2007		2006	
	Increase	Decrease	Increase	Decrease
Profit	(800)	800	(612)	612

Price risk

46. Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in equity prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Group's equity investments are carried at fair value with fair value changes recognised in the income statement, all changes in market conditions will directly affect investment income.

Market fluctuations are monitored by the Group's management on intraday basis which enables the Group to react quickly to any changes in the market.

4.5 Notes, contd.:

46. contd.:

The investment portfolio of TM hf. is also monitored by the Icelandic Financial Supervisory Authority (FSA), but the portfolio of the respective subsidiaries is structured to ensure that capitalisation is adequate and financial strength is maintained at all times.

Insurance risk

47. The customer base of the insurance operation is well diversified and the company is not reliant on any individual client or customer. The insurance companies in the Group are TM hf. and its subsidiaries.

In order to limit the underwriting risk of the insurance operation, part of the risk is transferred to reinsurers. The amount of risk that the companies carry for their own account is determined with respect to the financial strength of each of the insurance company and the nature of the risk.

Capital management

48. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Policies have been implied regarding equity ratio and loan to value ratios both in respect of on and off balance sheet financing. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

To maintain its balance and desirable loan to value ratios the Group increased the share capital during the year.

The subsidiary TM hf. is subject to externally imposed capital requirements by the FSA. TM hf. has complied with all imposed capital requirements throughout the year.

There have been no material changes in the Group's management of capital during the year.

4.5 Notes, contd.:

Financial instruments and fair values

49. The fair values of financial assets and liabilities at year-end is not significantly different than the carrying amounts shown in the balance sheet.

Financial Guarantees

50. The Group has provided guarantees to several companies.

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

Commitments

51. The Company has committed itself to further investments in several investment projects. Total payments, if all the projects will develop, could be up to ISK 18,979 million.

The Group has entered into operating lease agreements for offices and vehicles for the next 8 years. Non-cancellable operating lease rental payments, are not included in the balance sheet.

Related parties

Identity of related parties

52. The Group has a related party relationship with entities with significant influence over the Company, its associates as disclosed in note 23 and with its Board Directors, CEO and managing directors, referred to as the management. Entities with significant influence over the Company during the year were Baugur Group hf. and related parties, Oddaflug B.V.

4.5 Notes, contd.:

52. contd.:

Transactions with management

Salaries and benefits of management paid for their work for Group companies, share option agreements and shares in the Company are specified as follows:

	Salaries and bonuses	Net gain on exercised options	Share at year-end 2007
Board of Directors:			
Jón Ásgeir Jóhannesson, Chairman of the Board	5.8		4,954.7
Porsteinn M. Jónsson	5.5		
Gunnar Sigurðsson	0.2		
Hannes Smárason, former CEO	139.5		1,475.1
Kristín Edwald	0.2		
Pálmi Haraldsson	0.3		832.6
Pórður Már Jóhannesson	0.2		
Smári S. Sigurðsson, alternative board member	3.8		
Skarphéðinn Berg Steinarsson, former Chairman	5.9		0.7
Jón Kristjánsson, former board member	3.4		
Kristinn Björnsson, former board member	0.4		
Magnús Ármann, former board member	3.8		
Paul Davidson, former board member	6.1		
Managing directors:			
Jón Sigurðsson, CEO	32.5		201.5
Five Managing Directors of FL Group hf.	183.7	216.8	182.7
			11.0

Included in the above mentioned list of shares held by management and directors are shares held by companies controlled by them and related parties and derivative agreements entered into regarding shares in the Company.

Other transactions with related parties

During the year 2007 the Group made transactions with related parties. These transactions were priced on an arm's length basis.

The Group expensed rental payments to a company owned indirectly by its former CEO for service rendered during the year. Receivables from the same company at year-end are included in Loans and trade receivables.

The Group owns 31.97% share in Glitnir banki 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, received interest income from its cash equivalents placed at the bank. The Group also purchased derivatives from the bank and paid fees for services, such as investment banking and sale of new shares. The Group has granted loans to two of its associates, Northern Travel Holding ehf. and Unity Investments ehf.

Included in Loans and trade receivables are loans to Materia Invest ehf., which is held by Porsteinn M. Jónsson board member and Magnús Ármann former board member, for services rendered. The loan was paid in January 2008.

4.5 Notes, contd.:

52. contd.:

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

	Entities with significant influence	Associates	Management / board members
Income statement:			
Net (expense) income from investments	0	(1,838)	0
Interest income	0	958	0
Interest expense	0	(518)	0
Operating expenses	(85)	0	0
Balance sheet:			
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

In December 2007 the Company acquired shares in Landic Property hf. and other real estate companies and funds from Baugur Group hf. for ISK 53,791 million. The purchase price was paid with new shares in the Company with the nominal value of ISK 3,659 million, sold at the rate of 14.7 per share.

Group entities

The Company holds twelve subsidiaries which all are included in the consolidated financial statements. The direct subsidiaries included in the consolidated financial statements are specified as follows:

	Share 31.12.2007
Investments:	
FL GLB Holding B.V., The Netherlands	100%
FL Group Danmark ApS, Denmark	100%
FL Group Midtown Miami Ltd., USA	100%
FL Group UK limited, England	100%
FL Group Property LLC, USA	99%
FL Group USA Ltd., USA	100%
FL Holding B.V., The Netherlands	100%
FL Holding ehf., Iceland	100%
FL Trading AS, Norway	100%
Kjarrhólmi ehf., Iceland	100%
Tónvís ehf., Iceland	100%
Insurance:	
Tryggingamiðstöðin hf.	100%
Fjárvíar hf., Iceland	66%
Líftryggingamiðstöðin hf., Iceland	51%
Nemi Forsikring ASA, Norway	100%
Trygging hf., Iceland	100%
TM fé ehf., Iceland	100%

The subsidiaries own six subsidiaries that are included in the consolidated financial statements. These subsidiaries have immaterial effects on the accounts.

4.5 Notes, contd.:

52. contd.:

The Company acquired 100% of the shares in BG Fasteignir ehf., Dial Square Holdings ehf. and Baugur Group B.V., all holding companies with investments in real estate funds. These investments are recognised among equity investments in the balance sheet and are not consolidated since control was not obtained before year-end 2007. Consolidation for these companies would not have increased the Group's total assets or liabilities.

Subsequent events

53. Large part of the Group's assets are in listed companies. Subsequent to 31 December 2007 the OMXI 15 index, which is a stock market index consisting of the 15 most valuable share listed in Iceland has decreased by 21.0% on 12 February 2008 and the shares in Glitnir banki hf. have decreased by 20.3% at the same time.

Since year-end 2007 until 12 February 2008 the exchange rate of the Icelandic Krona has decreased by 8.6%.

Financial Ratios

54. The Group's principal financial ratios:

	2007	2006
Equity ratio	36.9%	54.3%
Internal value of shares	11.55	18.38

4.5 Unaudited financial information

Quarterly Statements

Summary of the Group's results by quarters:

Year 2007	Q1	Q2	Q3	Q4	Total
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
Net investment income (expense)	15,580	9,076	(30,771)	(67,675)	(73,790)
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)
Profit (loss) before income tax	14,696	8,054	(31,964)	(70,558)	(79,772)
Income tax	388	(12)	4,817	7,341	12,534
Profit (loss) for the period	15,084	8,042	(27,147)	(63,217)	(67,238)
Year 2006					
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)
Net investment income (expense)	10,458	(1,346)	1,211	7,168	17,491
Other operating expenses	(485)	(523)	(695)	(1,068)	(2,771)
Profit (loss) before income tax	9,973	(1,869)	516	6,100	14,720
Income tax	(1,684)	534	1,101	2,680	2,631
Profit (loss) from continuing operations	8,289	(1,335)	1,617	8,780	17,351
(Loss) profit from discontinued operations net of income tax	(2,450)	1,217	3,640	24,801	27,208
Profit (loss) for the period	5,839	(118)	5,257	33,581	44,559