
FL GROUP



securities note

FL 08 0320

PROSPECTUS SEPTEMBER 2007

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SECURITIES NOTE

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1 RISK FACTORS

1.1 GENERAL

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds and/or they are of importance when evaluating the market risks associated with the Bonds. Most of these risk factors are contingencies which may or may not occur and do not necessarily have an impact on the Bonds.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds but the inability of the issuer to pay interest, principal or other amounts on or in connection with any Bonds may occur for other reasons that do not currently exist, that are not presently considered material, or of which the Issuer is unaware. The statement below regarding the risks of holding any Bonds is therefore not exhaustive and prospective investors should base their decision about investing in any Bonds on their own independent review and such professional advice as they deem appropriate.

1.2 ISSUER'S LIABILITY TO MAKE PAYMENTS

The Issuer is liable to make payments when due on the Bonds. The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank pari passu among themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations. Thus, they rank behind secured obligations and other priority claims but have priority over subordinate and remaining obligations.

The Bonds are subject to credit risk. Credit risk is essentially the risk that the principal will not be repaid by the Issuer. If the Issuer fails to repay the principal, the Issuer will default on the Bonds. As with other debt instruments investors must evaluate the issuer's liquidity and capacity to meet his obligations. They must also evaluate whether the premium on the Bonds is in line with the risk they involve.

The Issuer is not subject to any kind of limits on further borrowings and can therefore take on further debt with equal ranking as the Bonds in this issue.

1.3 MARKET RISK

Market risk refers to the risk related to all commercial papers of the same type. The most important market risk related to bonds is changes in the level of interest rates in the relevant market. If general interest rates rise, the market price of the bond will fall and vice versa. Interest rate risk is higher for bonds with longer maturities/duration. Investors shall study the market risk related to bonds and evaluate the impact caused by changes in the interest rate level on the bonds' market price.

1.4 CHANGES IN LAW

The terms and conditions of the Bonds are based on Icelandic law in force as of the date of this Securities Note. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Securities Note.

1.5 TRADING IN THE SECONDARY MARKET

Trading with the Bonds in the secondary market needs to be active and the volume sufficient for investors to profit from their investment. The possibility exists that investors will not be able to sell their bonds easily or only at a discount to comparable securities from other issuers.

1.6 THE BONDS ARE NOT SUITABLE FOR ALL INVESTORS

Investors must make their own decision on whether investing in the Bonds is suitable for them. In particular, the following must be kept in mind:

Investors must possess sufficient knowledge and experience to adequately evaluate the Bonds and the Issuer's liquidity.

Investors must appreciate the risks related to investment in the Bonds and familiarize themselves thoroughly with the information provided in the prospectus or other documents about the Issuer.

Investors must be able to estimate what impact an investment in the Bonds has on their asset position and financial resources. Investors must have sufficient resources and liquidity to bear all of the risks of an investment in the Bonds.

Investors must study and understand the terms that apply to the Bonds and be familiar with the behaviour of the financial markets.

Investors must be able to evaluate (either on their own accord or with the aid of advisor) the impact of business cycles, changes in the level of interest rates and other comparable factors that may affect investment in the Bonds.

2 PERSONS RESPONSIBLE

FL GROUP hf, ID No. 601273-0129, Suðurlandsbraut 12, 108 Reykjavík, Iceland, in its capacity as the Issuer, declares that it has taken all reasonable care to ensure that the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 25 September 2007
On behalf of the Issuer

Jón Ásgeir Jóhannesson
Chairman of the board

Hannes Þór Smárason
CEO

3 MANAGER

The Manager, Glitnir banki hf., ID No. 550500-3530, registered office at Kirkjusandur 2, 155 Reykjavík, Iceland, has been the advisor to the Issuer in the preparation of this Securities Note. The Manager has advised on e.g. the size of the issue and the Bonds' yield and market value at time of sale. The Manager has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager as to the accuracy or completeness of the information contained or incorporated in this document or any other information provided by the Issuer in connection with the Bonds. The Manager does not accept any liability in relation to the information contained or incorporated by reference in this document or any other information provided by the Issuer in connection with the Bonds.

Reykjavík, 25 September 2007
On behalf of the Manager

Jóhannes Baldursson
Managing Director

4 NOTICE TO INVESTORS

This Securities Note concerns FL GROUP hf., ID No. 601273-0129, Suðurlandsbraut 12, 108 Reykjavík, Iceland, issue of and admission to trading of, Bonds for the amount of ISK 15,000,000,000,- on OMX Nordic Exchange Iceland hf. It has been prepared in accordance with chapter IV in the Act. No. 33/2003 on securities transactions. This Securities Note is part of a Prospectus that consists of two independent documents; this Securities Note and a Registration Document published 27 September 2007. The admission to trading will proceed pursuant to Icelandic law and regulations. OMX Nordic Exchange Iceland hf. has scrutinized and approved this Securities Note.

Only the Issuer is entitled to procure information about conditions described in the Securities Note. Information procured by any other person is of no relevance in relation to the Securities Note and cannot be relied on.

This Securities Note is not an offer to sell or a request to buy bonds.

The content of the Securities Note does not constitute legal, financial or tax advice and bond owners should seek legal, financial and/or tax advice.

This Securities Note and any document forming a part of the Prospectus shall not be distributed or mailed or otherwise distributed or sent within or into any country in which distribution would require any additional registration measures or other measures apart from those applicable under Icelandic law and regulations, or where it would be in conflict with any law or regulation in such country.

Contact the Issuer to receive copies of the documents forming the Prospectus.

5 GENERAL INFORMATION

5.1 CONFLICT OF INTEREST

The 30 August 2007 the Issuer held through his subsidiaries 30.23% of the Manager's shares. FL Group Holding Netherlands B.V. held 17.12% and FL GLB Holding B.V. held 13.11%. The Manager held 2.9% of the Issuer's shares. The Issuer believes these holdings do not constitute any conflict of interest related to this issue.

5.2 REASONS FOR THE ISSUE AND THE USE OF PROCEEDS

The issue is part of regular financing. The proceeds from the issue are used to finance the Issuer's regular activities.

The total expenses related to the admission to trading of the Bonds are ISK 87,762,006.

The Bonds are sold to institutional investors in the primary market and can be traded in the secondary market during the lifetime of the Bonds.

6 INFORMATION CONCERNING THE SECURITIES

Authorisation

The Board of FL GROUP hf, ID No. 601273-0129, Suðurlandsbraut 12, 108 Reykjavík, Iceland, authorised a bond issue for ISK 15,000,000,000 on the 19.3.2007. This issuer has at the date of this Securities Note issued bonds amounting in total to ISK 15,000,000,000 under FL 08 0320.

Issue and Bond characteristics

The Bonds are interest-bearing securities issued electronically at the Icelandic Securities Depository (Verðbréfaskráning Íslands hf.), ID No. 500797-3209, Laugavegur 182, 105 Reykjavík, in accordance with Act No. 131/1997 on electronic registration of title securities and registered there under the name of the relevant bondholder or his/her nominee. The Bonds will bear the symbol FL 08 0320 and the ISIN code IS0000014546.

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

The Bonds are denominated in ISK. They do not influence the Issuer's other commitments and they do not include any fringe benefits.

The issue date of the Bonds was 20 March 2007. The issued amount is ISK 15,000,000,000. Denomination of each Bond is ISK 5,000,000.

Interest shall be determined at the start of each interest period and should be equivalent to 3 month REIBOR rates as published on the website of the Central Bank of Iceland at the end of the day two business days prior to each coupon date, plus a 195 basis point premium (REIBOR + 195bp). Interest will be calculated from 20 March 2007. The first coupon date is 20 June 2007 and then every three months until maturity which is 20 March 2008 (20.6.2007, 20.9.2007, 20.12.2007 and 20.3.2008). The principal will be repaid in one payment on the final maturity date, 20 March 2008. The day basis used is Actual/360.

Indication of yield is approximately 16.643% at the first date of the selling period.

All amounts payable under the Bonds will be paid to relevant financial institution where the registered owner has his/her VS account.

The depository agent is the Icelandic Securities Depository (Verðbréfaskráning Íslands hf.), ID No. 500797-3209, Laugavegur 182, 105 Reykjavík. The calculating agent is Glitnir banki hf.

The Bonds shall in change of ownership be endorsed to a named party. No other restrictions are on transferring the Bonds.

Event of default, Acceleration and Enforcement

If payment of the principal or interest on the Bonds default, it is permitted to declare the Bonds immediately due and payable. The Issuer shall then pay penalty interest as determined by the Central Bank of Iceland, cf. paragraph 1, article 6 of Act No. 38/2001, on a mature or called amount according to the aforesaid.

Prescription

The Bonds will become void in accordance with Act. No. 14/1905 unless presented for payment within 10 years (in the case of the principal) and four years (in the case of interest or any other amount) after the relevant date.

Taxation

All payments in respect of the Bonds by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any tax jurisdiction unless such withholding or deduction is required by law according to Act No. 94/1996. In such event, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction. The Issuer does not guarantee that tax on capital gains is paid to the national treasury.

Governing law

The governing law is Icelandic law. The Issuer irrevocably agrees that any dispute shall be subject to the exclusive jurisdiction of the District Court of Reykjavík. Legal action regarding the Bonds may be initiated in accordance with the Act on Civil Procedure No. 91/1991, Chapter 17.

7 ADMISSION TO TRADING

The Issuer has applied for the Bonds' listing in an organised securities market, run by OMX Nordic Exchange Iceland hf. OMX Nordic Exchange Iceland hf. operates in pursuance of the Act. No. 34/1998 on the activities of stock exchanges and regulated OTC markets.

The Bonds will be listed in the market no earlier than 28 September 2007.

8 FURTHER INFORMATION

8.1 ADVISORS

Glitnir banki hf. has been the Issuer's advisor on the listing of the Bonds. Glitnir banki hf. has advised on e.g. the size of the issue and the Bonds' yield and market value at time of sale.

8.2 EXTERNAL INFORMATION

This Securities Note is not based on the statements of external specialists or another third party.

8.3 CREDIT RATING

N/A