



# registration document

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PROSPECTUS SEPTEMBER 2007

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# REGISTRATION DOCUMENT

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# 1 RISK FACTORS

Investing in shares is subject to numerous risks. Prior to making any investment decision regarding shares in FL Group hf., please consider all the information in this document and, in particular, the risks and uncertainties described below. The risks and uncertainties described below are some of those that may materially affect the Issuer and any investment made in its shares. If any combination of these events occurs, the trading price of the shares could decline and investors might lose part or even all of their investment. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Issuer is unaware, may also impair the business and operation of the Issuer. These risks and uncertainties could have a material adverse impact on the business, income, profits, assets, liquidity and share price of the Issuer.

## RISK RELATING TO THE ISSUER'S OPERATIONS

Below is a brief description of the main risks relating to the Issuer:

### Operational risk – Market risk

In general, the Issuer's business is affected by conditions in the global financial markets and economic conditions, especially in Europe and the USA, that are outside the Issuer's control, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions. The market conditions have been favorable for a number of years. Future market conditions may not continue to be as favorable. In the event of a market downturn, the Issuer could be affected in different ways.

The governmental, economic, fiscal, monetary and political policies in Iceland and in other jurisdictions in which the Issuer carries out its business or holds assets, for example in Denmark, Finland, Norway, Luxembourg, the UK and the USA could materially affect, directly or indirectly, the Issuer's operations.

The risk related to the Issuer's operations is primarily linked to the performance of domestic and foreign securities in which the Issuer invests.

Currently, the majority of the Issuer's assets consist of listed securities issued by other companies. One of the principal risks facing the Issuer is market risk on domestic and foreign securities markets. Should the market value of the securities drop, this could have a significant impact on the Issuer's profitability. In the event of the bankruptcy of the issuers of the relevant securities, their value might be eliminated altogether. The Issuer endeavours to invest in securities in markets that are most likely to develop favourably. Decisions regarding significant investments are always presented to the Issuer's Board of Directors for approval. The Issuer's Board also sets out a framework for daily transactions. Shares are generally subject to greater risk and more volatility than for example fixed income securities. Listed equity investment assets are marked to market on a current basis and the Issuer's investment portfolio is therefore affected by fluctuations on the equity markets.

Attention is drawn to the fact that some of the individual assets form a substantial portion of the Issuer's total assets. The Issuers' largest investment is its 31.97% stake (as at September 25, 2007) in Glitnir Banki hf., an Icelandic bank listed on the Icelandic stock exchange. Chapter 10 of this prospectus contains information on Glitnir Banki hf. and other significant investments of the Issuer.

In addition there are a considerable number of other factors which can also affect its operations and performance, such as employee negligence, violations of rules, problems with information systems and loss of key personnel.

### Interest rate risk

Interest rate risk arises from the Issuer's exposure, due to its financial obligations, to adverse movements in interest rates. All assets and liabilities are directly or indirectly affected by interest rates, as rises in interest rates generally have a negative effect on the stock market and vice versa. The Issuer's financial

obligations are often linked to inter-bank interest rates, for example the LIBOR (London Inter Bank Offered Rate), in addition to a certain margin. If interest rates relating to the relevant currency rise this has a direct effect on the interest rates paid under these loan agreements or financial obligations. Adverse interest rates fluctuations may have a negative impact on the Issuer. The Issuer actively manages such risk, for example by entering into hedging arrangements, but such arrangements do not eliminate such risk.

### **Currency risk**

The Issuer's reporting currency is the Icelandic krona and the Issuer owns assets reported in other currencies, for example the Euro. Currency fluctuations, especially relating to the Icelandic krona, therefore have a direct impact on the financial results of the Issuer. The Issuer trades currency for its own account and maintains open currency positions in currencies other than the Icelandic krona. The Issuer may borrow funds in one currency to invest in another currency, creating a currency risk between the value of the relevant loan and the value of the relevant asset. The Issuer has taken steps to hedge a part of its foreign currency exposure. Currency mismatches between assets and liabilities do exist at present and future mismatches may also occur. As a result, fluctuations in exchange rates may adversely affect the Issuer's operating results and financial position.

### **Key employees**

The Issuer is dependent on its key employees and their willingness to continue working for it. There is, however, no guarantee that it will be able to retain all of them in the future. If the Issuer loses any of its key employees, it could be affected. The Issuer offers competitive remuneration to its key employees to reduce this risk and may agree on non-competition restrictions and longer notice periods in employment contracts. Should members of key personnel decide to join competitors or start competing independently with the Issuer, this may have consequences for the Issuer's business.

### **Internal controls**

Internal control refers to the controls, affected by the Issuer's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to the (1) effectiveness and efficiency of operations, (2) reliability of financial reporting and (3) compliance with applicable laws and regulations.

The Issuer is dependent on having sufficient internal controls in place to ensure that the Issuer obtains its objectives, operates effectively, reports its results reliably and complies with all applicable laws and regulations. The Issuer has focused on strengthening such internal controls. Should such controls prove, however, to be insufficient or not at hand, this may have a negative impact on the Issuer. As the Issuer's balance sheet and its scope of operations grow, the need for sound internal controls will grow.

### **Managing growth**

FL Group intends to continue to grow its investment portfolio both in listed and private companies, bonds, currencies, derivatives and other instruments, both domestically as well as internationally. This growth requires significant investment, increased operating costs, greater allocation of management resources away from daily operations, continued development and integration of information systems, continued training of management and other personnel among other things. The failure of the Issuer to effectively manage these issues and its growth, whilst at the same time maintain an adequate focus on its current operations, could have a materially adverse effect on its financial condition, and results of operations.

### **Liquidity risk**

Liquidity risk refers to the risk that arises from the difficulty of selling an asset. The Issuer may not be able to convert an investment to cash without a negative impact on either capital or return, as the Issuer may not find a buyer for the relevant asset within a reasonable time at a price that reasonably reflects the value of the asset. A large part of the Issuer's portfolio is listed securities that are generally highly liquid. A part of the Issuer's portfolio, however, is in unlisted securities that are not as easily sold. The Issuer also has a large shareholding (sometimes the largest shareholder) in many of its investments which may prove difficult to liquidate quickly, if large parts of the investment need to be disposed of. The Issuer therefore faces the risk of having insufficient funds to meet current liabilities and finance future projects, for example due to inability or difficulties in liquidating its assets, and being forced to sell illiquid assets below their fair market

value to be able to meet current liabilities. This risk is mitigated to some extent by maintaining liquid assets and having available funds to meet future liabilities.

The Issuer focuses on gaining large holdings as a principal investor in companies, securing a large enough holding to enable it to significantly influence the operations and development of these companies. This strategy requires that the investments are sufficiently large to justify resources allocated to them and to enable its management to influence the operations and decision making. The Issuer's holdings are therefore relatively few in number and large, which exposes it to a liquidity risk and overall dependence on the development of the value of any individual investment.

### **Refinancing risk**

Refinancing risk is defined as the risk that the refinancing of maturing loans becomes difficult or costly. A part of the Issuer's borrowings regularly fall due and need to be refinanced. For example, in the next 12 months, ISK 116 billion will fall due and need to be repaid or refinanced. The Issuer depends in large part on being able to raise funds in the loan or bond market to be able to refinance its obligations. Generally, refinancing risk is only considered to be substantial in cases of financial crisis, when borrowing funds may be extremely difficult, but if the Issuer cannot refinance its existing debt and does not have sufficient funds on hand to pay its lenders it may be forced to sell its assets (and then being exposed to the liquidity risk stated above).

### **Covenants - contractual risk**

The Issuer is contractually bound to honour various terms and covenants in financing agreements. Such covenants may include financial covenants that for example obligate the Issuer to maintain certain equity ratios or equity levels or other standard covenants found in loan documents such as no change of business. Should the Issuer become unable to fulfil the relevant covenants, or for some reason discontinue to do so, the lessors and financiers may become entitled to terminate the relevant agreements or declare any and all amounts under the relevant agreements immediately due and payable which might have negative financial consequences for the Issuer.

### **Applicable law**

The Issuer and its subsidiaries are subject to various laws and regulations in the countries in which it operates or has any assets. Changes to the applicable laws, or the Issuer becoming subject to different laws, might have an impact on how it continues to conduct its business. In general, the rules and regulations of Iceland have the largest impact on the Issuer, but it may also be materially affected by legislation where assets or securities are held, for example in Denmark, Finland, Norway, Luxembourg, the UK and the USA.

### **Legal risk**

FL Group operates within a complex regulatory framework and a variety of specific regulations apply to its operations, especially relating to the legislation in Iceland, as the Issuer is incorporated under Icelandic law and is listed on a regulated securities exchange in Iceland. Financial markets develop rapidly, which leads to laws and regulations being reviewed regularly. Amendments to legislation can have an impact on FL Group's operations, financial situation, and performance. In addition, ministerial regulations and rules, or guidelines issued by the Financial Supervisory Authority in Iceland or other public authority can have a substantial effect on the Company's operating environment. Close watch is kept on pending changes to legislation and rules applicable to FL Group, and an assessment is made of the most suitable response in each case. FL Group furthermore studies, when faced with new ventures, how they will affect the company from a regulatory standpoint. Given the Issuer's size and the scope of its operations, it tends to be involved in some form of litigation at any given time. The Issuer is currently not involved in litigation that could have material effect on the Issuer's operations.

### **Tax issues**

The Issuer could be affected by changes in tax legislation in any country that affect its financial results. FL Group is not aware of any current tax inspection concerning the Group's subsidiaries which may have a material impact on its shares and has no reason to believe that any such inspection is imminent. Investigation of the Issuer's tax filings, as for any other company, may be initiated at a later stage in accordance with relevant regulations and affect the prospects of the Issuer.

The Issuer and the tax authorities may potentially have different opinions on how various financial arrangements within the Issuer should be treated from a tax perspective.

### **Securities regulation**

Since the Issuer's shares are traded on the OMX Nordic Exchange Iceland hf., the Issuer is subject to the provisions of Icelandic regulations on securities, contained, i.a. in the Icelandic Securities Act, governmental regulations and rules adopted by the OMX Nordic Exchange Iceland hf. The Issuer endeavours to comply with the said provisions, and any violation of these provisions may have a financial impact on it. Serious breaches may result in the OMX Nordic Exchange Iceland hf. ceasing to list the Issuer's securities. Should the Issuer violate the relevant rules, this may furthermore impact its reputation and consequently result in the price of its shares dropping.

### **Trends**

The Issuer is not involved in any operating activities<sup>1</sup> and is therefore not subject to any significant trends relating to production, sales and inventory, and costs and selling prices relating to its products or services. The Issuer, however, invests in operating companies that might be subject to such trends. The Issuer is not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects for the current financial year. The Issuer has a large portion of its capital tied up in listed companies, mainly in Iceland, the Nordic countries, Germany and USA. Economic factors having a general effect on the stock market are likely to influence the Issuer's profit.

## **RISK RELATED TO THE ISSUER'S INVESTMENTS**

### **Exchange rate and interest rate**

The Issuer is exposed to the effect of foreign exchange rate and interest-rate fluctuations. The Issuer is actively managing its currency balance and interest rate risk.

### **The banking and financial services industry**

A large part of the Issuer's investments are in banking and financial services. Additional risk factors facing these industries are credit risk, solvency risk and refinancing risk. Credit risk refers to the danger that a client of a financial undertaking may fail to fulfil its obligations, resulting in a partial or total loss of the undertaking's claim against it. Banks must always have sufficient liquidity to meet both foreseeable as well as unexpected payment obligations. Financial undertakings may be subject to fines, or liability for compensation, and lose their operating licences if they violate the laws under which they operate. Currency exchange rates, market interest rates and share prices are highly dependent upon the current economic situation and can have a major impact on the performance of financial undertakings. Financial undertakings are subject to risks of changes in market interest rates and interest spread in addition to changes in the market value of trading bonds. The Issuer is currently authorised to hold its shares in relevant financial undertakings (save as for the proposed acquisition of over 80% of the shares in Tryggingamiðstöðin hf., which was acquired subject to approval from the relevant Icelandic authorities). The Issuer notes that the shareholders of financial undertakings are subject to regulations and certain requirements and monitored by the local Financial Supervisory Authority. FL Group hf. has approval from the Financial Supervisory Authority (FSA) to hold up to 33% of the shares of Glitnir Banki hf. In April 2007 FL Group hf. entered into a shareholders agreement with Jötunn Holding ehf. in relation to election of board members in Glitnir Banki hf. Jötunn Holding ehf. and FL Group hf. have therefore applied for approval from the FSA to jointly hold up to 39.99% of the shares of Glitnir Banki hf. Jötunn Holding ehf. has declared that it will not exercise voting rights in Glitnir Banki hf. that it holds jointly with FL Group hf. exceeding 33% while the FSA deals with the application. Baugur, one of the shareholders in FL, owns 30% in Jötunn Holding ehf.

### **The insurance industry**

The Issuer owns 83.7% in Tryggingamiðstöðin hf., an Icelandic insurance company. One of the most important aspects of running an insurance company is ensuring that insurance premiums adequately cover insured risk. Risk assessment, and consequently determining premiums, is for the most part based on the

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<sup>1</sup> Please note that the Issuer acquired 83.7% share in Tryggingamiðstöðin. See chapter 12 for details.

experience gained during past periods, in conjunction with an assessment of new factors, decisions or events that may affect the assessment. Consequently, there is always some uncertainty as to whether premiums reflect the company's risk. In addition, other factors such as market competition and decisions by government authorities have an effect on premiums.

Claims risk is the risk of underestimating the amount or the number of claims. In accordance with the insurance protection provided to its clients, one of the main functions of any insurance company is paying claims incurred to the insured. Non-disbursed costs of reported but unsettled claims, and the costs of incurred but yet unreported claims, need to be continually estimated. These estimates are the claims provisions reported in the financial reports. The estimates are based on past experience and likely changes in claims trends.

### **The aviation and tourism industry**

Two airlines, AMR Corporation and Finnair Oyj (see chapter 11), form a large part of the Issuer's portfolio. The aviation and tourism industry is heavily competitive. Pricing decisions are dependent on competition from other airlines, and in some markets also from other forms of transportation. Air transportation is subject to intensive regulations. There is no guarantee that the necessary licences will be issued in the future, or that rules will not be changed, resulting in significant cost for the Issuer. Aircraft operations are heavily dependent on jet fuel prices and availability. The travel industry is seasonal and dependent on the state of the economy in the countries in which it operates. Unfavourable weather can have costly effects.

### **The beverage industry**

Investments in the beverage industry are a considerable part of the Issuer's share portfolio. The beverage industry is highly competitive and can be significantly affected by demographic and product trends, environmental factors, economic conditions, evolving consumer preferences and nutritional and health-related concerns. There are also risks regarding raw materials and the suppliers of raw materials pertaining to prices, which can easily fluctuate due to a number of factors, such as changes in international agricultural and trading policies, weather and other conditions which might arise during harvesting seasons.

## 2 PERSONS RESPONSIBLE

### THE ISSUER

The Issuer, FL GROUP hf., Icelandic ID-No. 601273-0129, registered office being Suðurlandsbraut 12, 108 Reykjavík, Iceland, and the Chairman of the Board of Directors and the CEO, hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, September 25, 2007  
On behalf of the Board of Directors and the Issuer

Jón Ásgeir Jóhannesson  
Chairman of the Board of Directors  
Icelandic ID No. 270168-4509

Hannes Smárason  
CEO  
Icelandic ID No. 251167-3389

### STATUTORY AUDITORS

KPMG hf., ID No. 590975-0449, registered office being Borgartún 27, 105 Reykjavík, Iceland, hereby declares that it has audited and expressed an opinion on the financial statements of the Issuer for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 and performed review for the financial statements of the Issuer for the first half of 2007 and the first half of 2006. KPMG declares that nothing has come to its attention that causes it to believe that the consolidated financial statements for these financial years do not give a true and fair view of the financial position of the Issuer as at 31 December 2004, 31 December 2005 and 31 December 2006 and of the results of the Issuer's operations and cash flows for the years then ended. Furthermore KPMG hf. confirms that any information in this Registration Document regarding such financial statements is consistent with the said financial statements.

The auditors did not resign and were not removed during the period covered by the historical information.

Reykjavík, September 25, 2007  
On behalf of KPMG hf.

Jón Sigurður Helgason  
State authorised public accountant  
ID No. 050269-3619

Sæmundur Valdimarsson  
State authorised public accountant  
Icelandic ID No. 070263-4409

**MANAGER**

Glitnir Banki hf., Icelandic ID No. 550500-3530, Kirkjusandur 2, 155 Reykjavík, Iceland, is the Manager and has been advisor to the Issuer on the preparation of this Registration Document.

Glitnir Banki hf., in its capacity as Manager, declares that in preparing this Registration Document it has gathered the data which, in its estimation, are necessary to provide a true and fair view of the Issuer and its shares. Glitnir Banki hf. hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, Iceland, September 25, 2007  
On behalf of the Manager

Lárus Welding  
CEO  
Icelandic ID No. 111276-4399

### **3 DOCUMENTS INCORPORATED BY REFERENCE**

The following documents shall be deemed to be incorporated in, and to form part of, this Registration Document:

- The Issuer's audited consolidated annual financial statements for each of the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 (including the auditors' reports issued in respect thereof).
- The Issuer's interim reports for Q2 2006 and Q2 2007 (including the auditors' review reports issued in respect thereof)
- The Issuer's Articles of Association

Copies of documents incorporated by reference in this Registration Document can be obtained from the registered office of the Issuer and electronically from the Company's website <http://www.flgroup.is>.

### **4 DOCUMENTS ON DISPLAY**

For the life of the Registration Document, the following documents may be inspected:

- The Registration Document of the Issuer may be inspected on the OMX Nordic Exchange Iceland hf. news webpage, <http://www.omxgroup.com/nordicexchange>, dated September 27, 2007 and on FL Group's website, <http://www.flgroup.is>. These documents are filed with the Financial Supervisory Authority in Iceland, webpage <http://www.fme.is>.
- The Issuer's Articles of Association may be inspected on the OMX Nordic Exchange Iceland hf. news webpage, <http://www.omxgroup.com/nordicexchange> and on FL Group's website, <http://www.flgroup.is>.
- The consolidated historical financial information for the Issuer's undertakings for more than three financial years preceding the publication of the Registration Document may be inspected on FL Group's website, <http://www.flgroup.is>.

### **5 CONFIRMATION RELATING TO THIRD PARTY INFORMATION**

Information sourced from third parties has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this Registration Document, the source of such information has been identified.

## 6 NOTICE TO INVESTORS

This Prospectus is compiled in accordance with Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 ("the Prospectus Directive"). The Prospectus Directive has been implemented into Icelandic Law. The OMX Nordic Exchange Iceland hf. has, in its authority under agreement between it and the Icelandic Financial Supervisory Authority regarding the review and approval of prospectuses, reviewed and approved this Registration Document, which is published in English only.

This Registration Document, and any document forming a part of the Prospectus published on September 27, 2007 is not being distributed in, and must not be mailed or otherwise distributed or sent in or into any country in which distribution would require any additional registration measures or other measures to be taken, other than as applicable under Icelandic law and regulations, or would be in conflict with any law or regulation in such country. The Prospectus may be passported in accordance with the provisions of the Prospectus Directive into other jurisdictions within the European Economic Area.

This Registration Document shall not be sent out, directly or indirectly, by use of mail or any other means or instrumentality (including, without limitation, facsimile transmission, electronic mail, telex, telephone and the Internet) in or into USA, Australia, Canada or Japan. Accordingly, this Registration Document, and any related documents shall not be and may not be mailed or otherwise distributed, forwarded or sent in or into the United States.

Notwithstanding a special statement to the contrary references to any Acts or regulations are references to Acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

This Registration Document has been prepared to provide clear and thorough information on the consolidated company FL Group. Investors are advised to consider all announcements and communications from the Issuer. Investors are encouraged to acquaint themselves thoroughly with the Registration Document. They are advised to pay particular attention to the Chapter on Risk Factors. They are reminded of the fact that the Issuer has in the recent past changed its focus from being a holding company of aviation and tourism-related companies to an investment company and has therefore undergone organisational changes, which reduces the usefulness of reference to its historical success.

The information provided in this Registration Document is based on premises that are current on the date of its publication. These premises may change from the date of publication. Investors are therefore advised to study all public information issued by or relating to FL Group and not to rely exclusively on information in this Registration Document.

This Registration Document should by no means be viewed or construed as a promise by the Issuer, Glitnir Banki hf. (the Manager) or other parties of future success either in operations or return on investments. Investors are reminded that investing in shares entails risk, as the decision to invest is based on expectations and not promises. Investors must rely primarily on their own judgement regarding any decision to invest in Issuer's shares, bearing in mind the business environment in which the Issuer operates, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts such as licensed financial institutions to assist them in their assessment of the shares in the Issuer as an investment option. Investors are advised to consider their legal status, including taxation issues that may concern the purchase or sale of shares in FL Group and seek external and independent advice in that respect.

Attention is drawn to the Issuer's shareholdings in the Manager. FL Group holds a 31.97% share in Glitnir Banki hf. as of September 25, 2007 and is the largest shareholder. Glitnir Banki hf. holds a 3.35% share in the Issuer as of September 24, 2007. GLB Hedge which is fully owned by Glitnir Banki hf. owns 1.06% in FL Group hf., The shares owned by GLB Hedge have been sold in accordance with forward agreements under which the relevant buyer has the right to dividends and voting rights.

On September 17, 2007 Glitnir Banki hf. sent a notification to OMX ICE stating that the shareholding of Glitnir Banki hf in the Issuer was up to 13.80% of FL Group's share capital, taking into account the shares

to be issued in relations to the purchase of Tryggingamiðstöðin hf. (see chapter 12 about the purchase). Glitnir banki hf. has already sold these shares to third parties, as was originally notified (and currently holds a 4.7% interest, as stated above).

Attention is drawn to that the Financial Information in this Registration Document is based on accounts disclosed by the Issuer containing information until the end of the second financial quarter 2007 (June 30, 2007). In the third financial quarter 2007 market fluctuations have affected the market value of listed assets owned by the Issuer, and some have decreased as further stipulated in Chapter 10.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Registration Document which is capable of affecting the assessment of the offered shares, prepare a supplement to this Registration Document in accordance with Article 24 of the Securities Transaction Act, No. 33/2003, or publish a new Registration Document. If a supplement is prepared, statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Registration Document or in a document which is incorporated by reference in this document. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this document.

## 7 REFERENCES AND GLOSSARY OF TERMS AND ABBREVIATIONS

References to “the Issuer” in this Registration Document shall be construed as referring to FL GROUP hf., Icelandic ID No. 601273-0129, unless otherwise clear from the context. References to “FL Group hf.”, “FL Group”, “the Group” and “the Company” shall be construed as referring to FL GROUP hf. and its subsidiaries and affiliates, unless otherwise clear from the context. FL GROUP hf. is the legal Icelandic name of the Issuer.

References to “the OMX ICE” in this Registration Document shall be construed as referring to the OMX Nordic Exchange Iceland hf., incorporated under the laws of Iceland, ID No. 681298-2829, fully owned by Eignarhaldsfélagið Verðbréfabíng hf., incorporated under the laws of Iceland, ID-No. 650602-4390, unless otherwise clear from the context. Eignarhaldsfélagið Verðbréfabíng hf., the owner of OMX ICE, is currently fully owned by OMX AB, a Nordic securities exchange group, incorporated under the laws of Sweden, currently operating exchanges in Copenhagen, Stockholm, Helsinki, Reykjavík, Riga, Tallinn and Vilnius.

References to “the ISD” in this Registration Document shall be construed as referring to the Icelandic Securities Depository, i.e. to Verðbréfasráning Íslands hf., incorporated under the laws of Iceland, ID No. 500797-3209, unless otherwise clear from the context.

References to “the Manager” in this Registration Document shall be construed as referring to Glitnir Banki hf. Icelandic ID No. 550500-3530, unless otherwise clear from the context.

### ABBREVIATIONS USED IN THIS REGISTRATION DOCUMENT

Companies Act	Act No. 2/1995 on Public Limited Companies
CEO	Chief Executive Officer
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EUR	Euro, the currency of many European Union countries
GAAP	Generally Accepted Accounting Principles
FME	The Financial Supervisory Authority, Iceland
OMX ICE	OMX Nordic Exchange Iceland hf.
OMXI15	OMXI15 is comprised of companies listed on the OMX ICE Main List. The index is reviewed twice annually, in June and December. The selection is based on on-exchange turnover over the prior 12-month period and the companies' market value.
IFRS	International Financial Reporting Standards
ISD	Icelandic Securities Depository
ISK	Icelandic krona, the currency of Iceland
Securities Act	Act No. 33/2003 on Securities Transactions
Q1, Q2, Q3, Q4	Quarters of the year
Q1-Q2	First six months of the year
REPO	Repurchase agreements (RPs or Repos) are financial instruments used in the money markets and capital markets.

## 8 SELECTED FINANCIAL INFORMATION

Following is a summary of the consolidated financial accounts relating to the Issuer. This information is not complete and should be read together with the financial statements for the financial years 2004, 2005 and 2006 and interim report for Q1-Q2 2007. These financial statements are incorporated into this Registration Document by reference, cf. Chapter 3.

*Table 1. Key financial information extracted from the consolidated financial statements 2004-2006 and Q1-Q2 2006 and Q1-Q2 2007 of FL Group. Figures in million ISK.*

Financial highlights	2007 6 months	2006 6 months	2006	2005
Income Statement				
Investment income .....	24.655	9.112	17.491	20.349
Operating expenses .....	( 1.905)	( 1.008)	( 2.771)	( 1.652)
Profit before income tax .....	22.750	8.104	14.720	18.697
Income tax .....	376	( 1.150)	2.631	( 3.292)
Profit (loss) from discontinued operations .....	0	( 1.233)	27.208	1.846
Profit for the period .....	23.126	5.721	44.559	17.251
Balance Sheet				
Total assets .....	319.597	202.551	262.871	132.618
Liabilities .....	170.145	119.186	120.195	58.175
Equities .....	149.452	83.365	142.676	74.443
Earnings per share .....	3,03	0,95	6,65	5,90
Equity ratio .....	47%	41%	54%	56%
Return on equity .....			43%	55%
Financial highlights	2004			
Income Statement				
Investment income .....				2.154
Operating income .....				42.587
Operating expenses .....				( 40.422)
Profit before income tax .....				4.318
Income tax .....				( 713)
Profit for the year .....				3.605
Balance Sheet				
Total assets .....				43.482
Liabilities .....				28.721
Equities .....				14.761

The selected financial information for the year 2006 is from the 2006 annual account. The selected financial information for the year 2005 is comparative figures presented in the 2006 annual account. The selected financial information for the year 2004 is comparative figures presented in the 2005 annual account. The selected financial information for the six months ending June 30, 2007 and 2006 is from the Q1-Q2 2007 interim report. All the information is reported in accordance with IFRS.

In general, the transformation of the Issuer from aviation and tourism-related operations to an investment company is reflected in the Issuer's consolidated financial statements, for example as the 2006 accounts provide for "discontinued operations". Income from investments has now become the sole component of overall income and the balance sheet now does not include operating subsidiaries as the Issuer does not hold any such subsidiaries. This means that all comparison between years is difficult and must take the aforementioned transformation into account. More detailed information on the companies FL Group has invested in can be found in chapters 10-11. Description of material financial changes between periods is given in chapter 18.

## 9 INFORMATION ABOUT THE ISSUER

The legal name of the Issuer is FL GROUP hf. and its commercial name is FL Group. The Issuer is registered with the Registry of Enterprises in Iceland, registration number 601273-0129. FL Group's domicile and headquarters are at Suðurlandsbraut 12, IS-108 Reykjavík, Iceland, telephone number +354 591 4400. FL Group is a public limited company incorporated in Iceland and operates pursuant to the Icelandic Companies Act. The date of incorporation is 20 July 1973.

According to the Issuer's Articles of Association the Issuer's object is to earn interest on money that shareholders have tied to activities in the operation of the company, investments, including those in subsidiaries and associated companies working especially in the field of flight operations, the tourism industry, transport and any kind of investment activities.

### HISTORY AND DEVELOPMENT

FL Group was established in Reykjavík on 20 July 1973, initially bearing the name Flugleiðir hf., by a merger between Flugfélag Íslands hf. and Loftleiðir hf., the two largest aviation companies in Iceland at that time. Flugleiðir's and its predecessors' main operations during the period 1937-2005 were in aviation. At the Issuer's annual general meeting 2005, its name was changed to FL GROUP hf.

The year 2005 was a one of great transformation at FL Group. This transformation started in the beginning of 2004, when a new subsidiary, FL Investment, was established operating as an investment company. Around the middle of 2005, a decision was made to complete the process and make investment activities FL Group's main field of operations. This decision was reinforced in November 2005 when new key investors bought into the Issuer and solidly supported the transformation process. The transformation was completed in 2006 when Icelandair Group was sold to investors with realised profit of ISK 26 billion.

In the years 2004 and 2005 the main operations of the Issuer was in investment activities and operations related to aviation and tourism service, such as commercial flight, charter flight, cargo flight, hotel operations, car rental services, aircraft maintenance and aviation ground services. In the period October 2006 to March 2007 the Issuer sold all of its operating subsidiaries and has thereafter only been involved in investment activities.

### KEY MILESTONES

1973 The Issuer is formally established. Originally by the name Flugleiðir (later Icelandair). The formation derives from a merger of aviation companies.

1992 Flugleiðir is listed on the OMX ICE Main List.

- 2003 The transformation of Flugleiðir starts by the establishment of several subsidiaries which take over part of the operations in the travel and tourism industry in Iceland.
- 2005 Flugleiðir becomes FL Group. The holding company announces its emphasis on investment. This is followed by increased investment activities and several acquisitions mainly in the aviation sector.
- 2005 Fundamental changes take place in October whereby investments become the focus of FL Group and its airline and tourist service operations are transferred to operating subsidiaries with Icelandair Group on top.
- 2006 In October FL Group sells all its shares in Icelandair Group, following the sale of Icelandair and other significant subsidiaries and later the sale of Sterling Airlines FL Group does not have any significant operating subsidiaries and the transformation from an operating company in the aviation and tourism sector to an investment company is finished.

## ORGANISATIONAL STRUCTURE

Today FL Group focuses primarily on investments. The Company operates a simple organisational structure where the two main functions, Private Equity and Strategic Investments on one hand and Capital Markets on the other are supported by Finance and Administration. FL Group has set up offices both in Denmark and UK, bringing the Company's focus closer to its primary markets. The organisational structure is outlined in Figure 1.

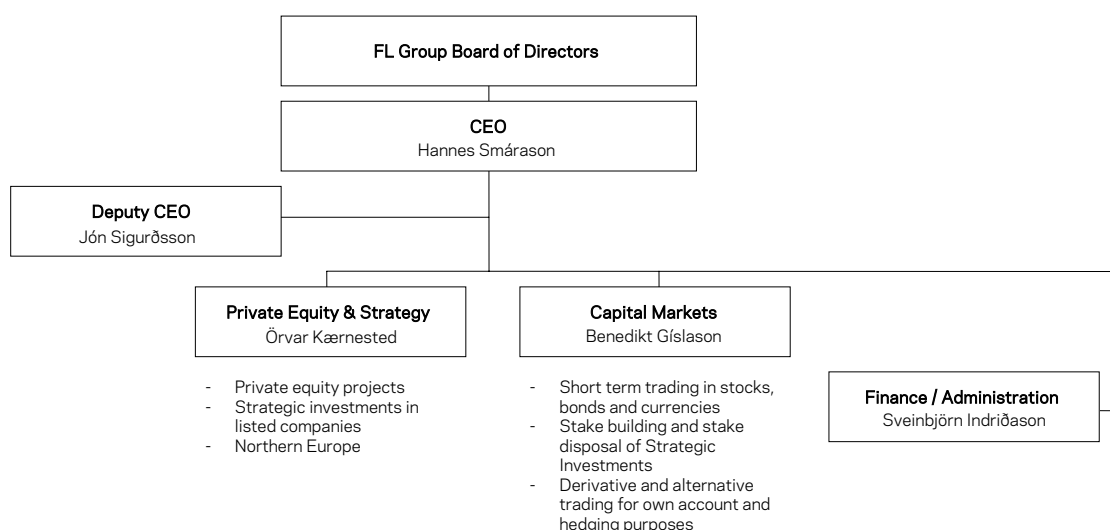


Figure 1. The organisational structure of FL Group.

The Issuer owns a number of holding companies for its investments, not categorised as subsidiaries or associate companies under accounting standards. The Issuer owns no significant subsidiary<sup>2</sup>, however the Issuer owns minor subsidiaries listed in table 2. The Issuer owns associates as listed in table 2, description of these associates may be found in chapter 10 and 11. The Issuer records the associates on fair value.

<sup>2</sup> Please note that the Issuer acquired 83.7% share in Tryggingamiðstöðin. See chapter 12 for details.

Table 2. Subsidiaries and associate companies of FL Group.

Legal name	Ownership	Country of incorporation
FL Group Denmark ApS	100%	Denmark
FL Group's offices in Denmark. Operating subsidiary with employees, monitoring current investments and identify new investments.		
FL Group UK Limited	100%	UK
FL Group's offices in England. Operating subsidiary with employees, monitoring current investments and identify new investments.		
FL Trading AS	100%	Norway
Trading platform for listed Scandinavian and European shares.		
Finnair Oyj	23.37%	Finnland
Glitnir Bank hf.	31.97%	Iceland
Northern Travel Holding hf.	34.78%	Iceland
Refresco Holding B.V.	49%	Holland
Royal Unibrew B.V.	24.38%	Denmark
Unity Investment ehf.	37.5%	Iceland
Wyndeham Press Group Limited	49%	United Kingdom
Tryggingamiðstöðin hf.	83.7%	Iceland
Geysir Green Energy ehf.	43.1%	Iceland

## PRIVATE EQUITY AND STRATEGIC INVESTMENTS

FL Group seeks to channel 50-80% of total assets into private equity and strategic investments. Its investment focus is on Northern Europe. The team pools its sector and company knowledge and expertise to be able to seek opportunities in both the public markets and the private sphere.

The criteria for Private Equity investments include:

- Few, but large investments, or investments with considerable growth potential, either through acquisition or organic growth.
- Established businesses with good cash flows.
- Enterprise value of individual private equity investments being at least EUR 200 million.
- Flexibility with time span (short-term vs. long-term), sectors and geography
- Return requirement takes in account the risk of individual projects but minimum IRR criteria is normally around 20%.

The criteria for Strategic investments include:

- Large investments, typically 5-25% of a listed company
- Targets in sectors the Issuer knows and can add value to
- Being able to act as an active investor, with the intention of working closely with the management as well as supporting it
- Flexibility with time span (short-term vs. long-term), sectors and geography

## CAPITAL MARKETS

FL Group aims to have 20-50% of total assets in short-term investments in stocks, bonds and currencies. The Company's Capital Markets function oversees this type of investment as well as derivative and other alternative trading for hedging or investment purposes. In addition to this Capital Markets handles stake building and stake disposal on behalf of FL Group's Private Equity and Strategic Investments.

The intention is to invest the Issuer's funds in profitable investments, with consideration given to returns and risk. The portfolio is very actively managed within a strategy approved by the board of directors.

## **FINANCE AND ADMINISTRATION**

FL Group's Finance and Administration Department is a support division handling corporate financing, book keeping, back office and other related functions.

## **INVESTMENT APPROACH**

FL Group invests in companies worldwide, with a special focus on Europe. The Company's approach to investment can be summarised in a few key words:

**Relationship:** FL Group uses the group's international relationship network in its investments. Future deal flow and access to new investment opportunities stems from the Company's close relationship with shareholders, management and other intuitive parties. New investments have also opened up further opportunities and potential deals.

**Flexibility:** FL Group's goal is to show a high degree of flexibility in its investments with respect to sectors, geography, size and time. By investing using the Company's balance sheet, it is able to retain this flexibility. FL Group does not manage funds like traditional private equity firms do which generally focus their investment strategy on one or few sectors. FL Group therefore has fewer restrictions in its investment approach.

**Influence:** When FL Group invests in companies it often aims to use influence to achieve the changes needed to add value to the investment. FL Group achieves this by being an active investor, either through board representation or using outside influence to add value to its investments.

**Experience and knowledge:** Both the Company's management and its largest shareholders have extensive experience and knowledge in a number of sectors. The Issuer taps into these attributes when investing. Sectors where the company has industry knowledge or access to industry knowledge include: banking and financial services, aviation and tourism, beverages, retail and energy. In addition FL Group looks for experience and strong management teams in the companies in which it invests.

## 10 INVESTMENTS IN LISTED COMPANIES

The market value of the Issuers investments in listed companies was ISK 336 billion as of 30 June 2007, which includes forward agreements where listed companies are the underlying asset.

The largest part of the Group's investment activities in listed companies involves financial services such as banks. Table 3 shows holdings in listed companies, sorted by industry and geographic, broken down for the year end 2004, 2005 and 2006 and June 30, 2007.

*Table 3. Investment income and total holdings in listed companies, sorted by industry and geographic. All figures in ISK million. Investment income in foreign stocks excludes changes in currency fluctuations due to that the shares are mostly financed with loans in foreign currency. Investment income for 2006 includes realised profit for the sale of Icelandair Group.*

Date	Foreign Stocks	Domestic Stocks	Total	Airline industry	Financial service sector
June 30, 2007					
Investment income	3.534	34.867	38.401	-6.876	42.222
Share	9,2%	90,8%	100,0%	-17,9%	110,0%
Dec 31, 2006					
Investment income	-4.578	43.932	39.354	25.056	16.778
Share	-11,6%	111,6%	100,0%	63,7%	42,6%
Dec 31, 2005					
Investment income	9.658	3.482	13.140	9.658	3.336
Share	73,5%	26,5%	100,0%	73,5%	25,4%
Dec 31, 2004					
Investment income	1.950	370	2.320	1.950	-222
Share	84,1%	15,9%	100,0%	84,1%	-9,6%
Date	Foreign Stocks	Domestic Stocks	Total	Airline industry	Financial service sector
June 30, 2007					
Total holdings	169.962	165.850	335.812	56.669	201.551
Share	50,6%	49,4%	100,0%	16,9%	60,0%
Dec 31, 2006					
Total holdings	151.302	93.118	244.420	50.752	100.892
Share	61,9%	38,1%	100,0%	20,8%	41,3%
Dec 31, 2005					
Total holdings	29.333	84.661	113.994	26.697	75.325
Share	25,7%	74,3%	100,0%	23,4%	66,1%
Dec 31, 2004					
Share	9.599	3.647	13.246	9.599	3.647
Share	72,5%	27,5%	100,0%	72,5%	27,5%

Table 4 shows major holdings of the Issuer in listed companies as of June 30, 2007.

*Table 4. Major holdings in listed companies as of 30 June 2007. All figures in ISK million.*

<b>Domestic</b>	<b>Market value 30 June 2007</b>	<b>Shareholdings 30 June 2007</b>	<b>Share of the Issuer's portfolio in listed companies</b>
Glitnir Banki	137,733	31.97%	41.0%
Other companies	28,117	n/a	8.4%
<b>Total Domestic</b>	<b>165,850</b>		<b>49.4%</b>
<b>Foreign</b>	<b>Market value 30 June 2007</b>	<b>Shareholdings 30 June 2007</b>	
Commerzbank AG	63,818	3.24%	19.0%
AMR Corporation	33,660	8.25%	10.0%
Finnair Oyj	23,009	23.37%	6.9%
Royal Unibrew AS	13,133	24.38%	3.9%
Aktiv Kapital ASA	6,357	13.27%	1.9%
Other companies	29,985	n/a	8.9%
<b>Total Foreign</b>	<b>169,962</b>		<b>50.6%</b>
<b>Total Holdings</b>	<b>335,812</b>		

#### **PRINCIPAL INVESTMENTS AFTER 30 JUNE 2007**

No major changes have been made to the portfolio since June 30, 2007 to the date of this document other than the following:

- The Issuer currently holds 83.7% in Tryggingamiðstöðin hf. The Issuer increased its holding in Kjarrhólmi ehf. from 45% share to 100% in September 2007. Kjarrhólmi holds 37.6% share in Tryggingamiðstöðin. The ownership of Kjarrhólmi was recorded as an asset in unlisted securities and therefore the ownership in Tryggingamiðstöðin is not included in table 4. Furthermore the Issuer announced on September 17, 2007 a purchase of 46.2% share in Tryggingamiðstöðin. See chapter 12 for details.

Also note that the Issuer has increased its share in Commerzbank to 4.2% and AMR Corporation to 9.0% since June 30, 2007. Further details can be found in chapter 10 and 12.

## DESCRIPTION AND KEY FIGURES OF LISTED COMPANIES

The sources for all key figures are the annual reports of each company. Source for stock price and currency exchange rates is Bloomberg.

### GLITNIR BANKI HF., ICELAND

**Holdings: 31.97% (25 September 2007)**

Glitnir Banki is a Nordic bank offering comprehensive banking services. The bank's main activities are in Iceland but it also has offices in Denmark, Canada, China and the USA, a branch in the UK, and subsidiaries in Finland, Sweden, Norway and Luxembourg. FL Group hf. has approval from the Financial Supervisory Authority (FSA) to hold up to 33% of the shares of Glitnir Banki hf. In April 2007 FL Group hf. entered into a shareholders agreement with Jötunn Holding ehf. in relation to election of board members in Glitnir Banki hf. Jötunn Holding ehf. and FL Group hf. have therefore applied for approval from the FSA to jointly hold up to 39.99% of the shares of Glitnir Banki hf. Jötunn Holding ehf. has declared that it will not exercise voting rights in Glitnir banki hf. that it holds jointly with FL Group hf. exceeding 33% while the FSA deals with the application. Baugur, one of the shareholders in FL Group, owns 30% in Jötunn Holding ehf

The bank's business extends throughout the world, focusing mainly on three niche sectors: seafood, shipping and sustainable energy. Glitnir has defined Iceland and Norway as its home markets. The bank's comprehensive banking services include retail banking, investment banking, brokerage and asset management. With the experience and expertise of its employees, as well as links to international financial markets, Glitnir Banki is able to offer value-added solutions tailored to the needs of its clients. Glitnir is traded on the OMX ICE and its ticker is GLB. The company's website is [www.glitnir.is](http://www.glitnir.is).

Þorsteinn M. Jónsson, and Skarphéðinn Berg Steinarsson, Members of the Board of Directors of FL Group are Members of the Board of Directors of Glitnir Banki hf. Þorsteinn M. Jónsson, acting as the Chairman of the Board of Directors of Glitnir Banki hf. Jón Sigurðsson, FL Group's deputy CEO is a member of the Board of Directors of Glitnir Banki hf.

*ISK million*

Key Figures	Q1-Q2 2007	2006	2005		30.06.07	24.09.07
Net Interest Income	17,601	37,084	22,351	Share price ISK	28.95	28.35
Net profit	16,529	38,231	18,886	Share price	-2.1%	
Total assets	2,335,008	2,246,339	1,471,945	development from 30.06.07 to 24.09.07:		
Total liabilities	2,183,739	2,100,220	1,387,408	Total shares owned	4,757,618,606	

### COMMERZBANK AG, GERMANY

**Holdings: 4.25% (25 September 2007)**

Commerzbank is the second largest bank in Germany<sup>3</sup> and a leading bank in Europe. The bank maintains a nationwide network of some 800 branches in Germany and has offices in more than 40 countries outside of Germany.

The bank is an efficient provider of financial services for private customers in Germany as well as for major corporations, institutions and multinationals from all over the world. The bank's operating business is organised into three divisions, which achieve mutual synergy effects: retail banking and asset management, corporate and investment banking, and commercial real estate, public finance and treasury. Commerzbank is listed on stock exchanges in Germany, London, Switzerland and North-America. The company's website is [www.commerzbank.de](http://www.commerzbank.de). The Issuer owns as of 25 September, 2007 27,957,692 shares in Commerzbank.

<sup>3</sup> Source: <https://www.commerzbank.de/en/hauptnavigation/konzern/konzerninfo/konzerninfo.html>

EUR million

Key Figures	Q1-Q2 2007	2006	2005		30.06.07	24.09.07
Net Interest Income	2,048	3,916	3,167	Share price EUR	35.49	28.60
Operating profit	1,983	2,628	1,757	Currency EUR /ISK	84.34	87.96
Net profit	1,433	1,788	1,293	Share price	-16.0%	
Total assets	638,179	608,339	444,893	development from 30.06.07 to 24.09.07:		
Total liabilities	621,096	593,028	431,375			

#### AMR CORPORATION, USA

**Holdings: 9.02% (30 June 2007)**

AMR is the parent company of American Airlines and American Eagle Airlines. American Airlines is the world's largest airline. American, American Eagle and the AmericanConnection regional airlines serve more than 250 cities in more than 40 countries and territories with approximately 3,900 daily flights. The combined network fleet numbers more than 1,000 aircraft. The company is listed for on the New York Stock Exchange (NYSE). The company's website is [www.aa.com](http://www.aa.com). The Issuer owns as of 25 September, 2007 22,358,000 shares in AMR.

USD million

Key Figures	Q1-Q2 2007	2006	2005		30.06.07	24.09.07
Income	11,306	22,563	20,712	Share price USD	26.35	20.77
Operating profit	715	1,060	(89)	Currency USD/ISK	62.44	62.31
Net profit	398	231	(857)	Share price	-16.0%	
Total assets	n/a	29,145	29,495	development from 30.06.07 to 24.09.07:		
Total liabilities	n/a	29,751	30,925			

#### FINNAIR OYJ, FINLAND

**Holdings: 23.37% (30 June 2007)**

Finnair Oyj operates scheduled passenger traffic, technical and ground handling operations, catering, travel agencies, and reservation services. The company offers domestic flight services and provides scheduled passenger services to many international destinations. Finnair Oyj also offers leisure flights to holiday resorts in the Mediterranean, the Caribbean and other places. Finnair Oyj is traded on the Helsinki Stock Exchange, and its ticker is FIA1S. The company's website is [www.finnair.com](http://www.finnair.com).

EUR million

Key Figures	Q1-Q2 2007	2006	2005		30.06.07	24.09.07
Income	1,084.5	1,990	1,871	Share price EUR	13.15	11.70
Operating profit (loss)	50.8	(11)	82	Currency EUR/ISK	84.34	87.96
Net profit (loss)	35.3	(13)	62	Share price	-7.2%	
Total assets	1,829.9	1,660.1	1,638.4	development from 30.06.07 to 24.09.07:		
Total liabilities	1,184.1	1,058.6	964.4	Total shares owned	20,746,161	

#### ROYAL UNIBREW A/S, DENMARK

**Holdings: 24.38% (30 June 2007)**

Royal Unibrew A/S is Scandinavia's second largest brewery. The group consists of four Danish breweries, two Lithuanian, two Polish and one Latvian and one Latvian soft-drink producer. Royal Unibrew A/S has about 2,300 employees worldwide and exports to about 65 countries. The company produces beer, ale and soft drinks under brand names such as Albani, Faxé, Ceres, Mairbo and Thor. The company also

produces a variety of sodas, orange juice and mineral waters. Royal Unibrew A/S is traded on the Copenhagen Nordic Exchange, and its ticker is RBREW. The company's website is [www.royalunibrew.com](http://www.royalunibrew.com).

*DKK million*

<b>Key Figures</b>	<b>Q1-Q2 2007</b>	<b>2006</b>	<b>2005</b>		<b>30.06.07</b>	<b>24.09.07</b>
Income	1,826.0	3,439.0	3,191.0	Share price DKK	769.00	628.00
Operating profit	55.8	347.7	302.7	Currency DKK/ISK	11.33	11.80
Net profit	41.2	230.3	220.6	Share price development from 30.06.07 to 24.09.07:	-14.9%	
Total assets	3,927.9	3,413.6	3,187.8			
Total liabilities	2,824.0	2,265.5	2,038.0	Total shares owned	1,506,939	

#### **AKTIV KAPITAL ASA, NORWAY**

**Holdings: 13.27% (30 June 2007)**

Aktiv Kapital ASA operates a collection agency. The company collects past due and defaulted payments for banks and finance companies. Aktiv Kapital ASA also buys larger credit portfolios from creditors for reduced prices and makes profits by collecting the full amounts due. The company is active in Norway, Sweden, Finland, Denmark and United Kingdom. The company is traded on the Oslo Børs, and its ticker is AIK. The company's website is [www.aktivkapital.co.uk](http://www.aktivkapital.co.uk). Martin Niclasen, MD of the Issuer is Member of the Board of Directors of Aktiv Kapital ASA.

*NOK million*

<b>Key Figures</b>	<b>Q1-Q2 2007</b>	<b>2006</b>	<b>2005</b>		<b>30.06.07</b>	<b>24.09.07</b>
Income	815.8	1,461.5	1,438.3	Share price NOK	96.00	93.50
Operating profit	363.7	-124.2	392.9	Currency NOK/ISK	10.58	11.31
Net profit	264.1	-289.7	210.9	Share price development from 30.06.07 to 24.09.07:	4.1%	
Total assets	5,409.1	5,663.9	5,584.4			
Total liabilities	3,636.0	4,046.0	3,524.1	Total shares owned	6,262,197	

**TRYGGINGAMIÐSTÖÐIN HF.****Holdings: 83.7% (17 September 2007)**

The Issuer became a shareholder of Tryggingamiðstöðin hf. in the beginning of April 2007 when the company acquired a 45% equity stake in Kjarrhólmi ehf. Kjarrhólmi ehf. holds a 37.6% stake in Tryggingamiðstöðin hf, one of Iceland's leading insurance companies. As of September 2007 the Issuer became the sole shareholder of Kjarrhólmi ehf. In September 17, 2007 the Issuer announced a purchase of another 46.2% share in Tryggingamiðstöðin hf (see chapter 12 for details). Total shares owned as of September 17, 2007 was accordingly 913.054.048 shares or 83.7% of issued shares. Investors should note that 46.2% of the shares are to be delivered on September 25, 2007, against delivery of shares in the Issuer. The information on total ownership is based on the premise that the delivery will be successful on that date. Tryggingamiðstöðin hf. is an Icelandic insurer offering a full range of personal insurance (including home insurance, car insurance and credit card insurance) and business insurance (for example operational insurance, e.g. for the fishing industry, construction and manufacturing industry). Further information on the operations of Tryggingamiðstöðin hf. and the services offered by the insurer may be found on [www.tmhf.is](http://www.tmhf.is). If the acquisition of Tryggingamiðstöðin hf. will be successful the company will become a subsidiary of the Issuer.

*ISK million*

<b>Key Figures</b>	<b>Q1-Q2 2007</b>	<b>2006</b>	<b>2005</b>		<b>30.06.07</b>	<b>24.09.07</b>
Net insurance premium reserve	5,032	6,652	4,890	Share price ISK	39.3	47.0
Net income	9,098	11,460	12,597	Share price		
Results of oper. activities	3,245	2,820	6,059	development from	19.6%	
Profit for the year	2,428	696	7,198	30.06.07 to		
Total assets	75,245	69,379	30,777	24.09.07:		
Total liabilities	52,245	47,407	14,687			

## 11 INVESTMENTS IN PRIVATE COMPANIES

Following is a list of the principal investments by FL Group in non-listed companies. The shares in these companies are not traded on a regulated securities market, making it difficult to estimate the current market value of the investments. The total book value of investments in private companies as at 30 June 2007 is ISK 16.8 billion. No major changes have been made to the portfolio since 30 June 2007 to the date of this document except for an increase in the ownership in Geysir Green Energy ehf. which is now 43.1%. FL Group's representatives act as Members of the Board of Directors in most of the private companies FL Group has invested in.

### REFRESCO HOLDING BV, THE NETHERLANDS

**Holdings: 49% (30 June 2007)**

Refresco is an European manufacturer of private label fruit juice and soft drinks. The company employs 1,200 people across five countries and is recognised as the largest manufacturer of private label fruit juices and soft drinks in Europe. Refresco's product portfolio comprises of juices, still drinks, carbonated soft drinks, ice tea and sport drinks. About 65% of total sales are private label products. The company's website is [www.refrescoholding.com](http://www.refrescoholding.com).

*EUR million*

<b>Key Figures</b>	<b>2006</b>	<b>2005</b>
Income	660	606
Adjusted EBITDA	65	64
Net profit	(6)	8
Total assets	624	436
Total liabilities	521	384

### NORTHERN TRAVEL HOLDING EHF.

**Holdings: 34.78% (30 June 2007)**

Northern Travel Holding is a newly established leisure company. Shareholders are the Icelandic investment companies, Fons hf., FL Group and Sund ehf. Northern Travel also holds all of the shares in Iceland Express, 51% of the UK based charter airline Astraeus, 29.26% of the listed Swedish travel agent Ticket and all of the shares in Danish travel agent Hekla Travel. Northern Travel Holding has no official website.

### HOUSE OF FRASER

**Holdings: 13.89% (30 June 2007)**

House of Fraser is one of Britain's largest department store operators, with more than 60 stores nationwide. As a market leader in Britain's retail sector, House of Fraser sells a wide range of branded fashion and home merchandise to customers throughout the country. The company's website is [www.hof.co.uk](http://www.hof.co.uk).

*GBP million*

<b>Key Figures</b>	<b>2006</b>	<b>2005</b>
Income	709.1	649.6
EBITDA	61.2	55.5
Net profit	23.5	23.3
Total assets	649.5	522.1
Total liabilities	558.6	425.3

### UNITY INVESTMENTS EHF.

**Holdings: 37.5% (30 June 2007)**

Unity Investments ehf. is an investment company with the objective of investing in companies in the retail sector in the UK. Unity Investments holds a 20% stake in French Connection, 29% in Moss Bros., 10% in Woolworths, and 6.75% in Debenhams. Unity Investments ehf. has no official website.

**GEYSIR GREEN ENERGY****Holdings: 43.1% (15 August 2007)**

Geysir Green Energy is an investment company with the objective of investing in sustainable energy. Geysir Green Energy intends to seek leading market opportunities in the harnessing of geothermal energy, invest in the development and construction of geothermal plants, acquire geothermal plants currently owned by power utilities and participate in the privatisation of energy companies all over the world. The company's website is [www.geysirgreenenergy.com](http://www.geysirgreenenergy.com).

No financial information for Geysir Green Energy is currently available as its operations started in the year 2007. Geysir Green Energy's share capital as of August 15, 2007 was ISK 17,385,000,000.

**OTHER INVESTMENTS**

FL Group has furthermore minor stakes in other unlisted companies.

## 12 PRINCIPAL INVESTMENTS

### PRINCIPAL INVESTMENTS

**The total investment amount for the principal investments from January 1, 2007 up to the date of this document was ISK 152.6 billion. Total investment amount for the principal investments for 2006, 2005 and 2004 was ISK 134.5 billion, ISK 54.2 billion and ISK 15.6 billion respectively.** The Issuer notes that this Prospectus does not include information on the purchase price for each individual principal investment due to contractual restrictions. Potential investors should determine whether they need to take this into consideration when assessing the Issuer. The Issuer believes that this should not influence any investment considerations, as the quality of any investment decision by the Issuer is reflected in the Issuer's financial statements.

The principal investments all relate to investments in listed companies. Further information on the operations of Commerzbank AG, Tryggingamiðstöðin hf., AMR Corporation and Glitnir Banki hf. may be found in Chapter 10. Straumur Burðarás, in which the Issuer currently does not have any relevant interest, is an investment bank focusing mainly on Northern Europe. Further information may be found on [www.straumur.net](http://www.straumur.net). Kaupping Banki hf., in which the Issuer currently does not have any relevant interest, is the largest Icelandic commercial bank, with operations mainly in Northern Europe. Further information may be found on [www.kaupthing.com](http://www.kaupthing.com). EasyJet, in which the Issuer currently does not have any relevant interest, is a low cost airline operating within Europe. Further information may be found on [www.easyjet.com](http://www.easyjet.com).

### PRINCIPAL INVESTMENTS IN 2007

#### **Kjarrhólmi and Tryggingamiðstöðin hf.**

The Issuer became a shareholder of Tryggingamiðstöðin hf. in the beginning of April 2007 when the company acquired a 45% equity stake in Kjarrhólmi ehf. The only asset in Kjarrhólmi ehf. is a 37.6% stake (409,644,318 shares) in Tryggingamiðstöðin hf, one of Iceland's leading insurance companies. The 37.6% stake was bought at the average price of 38.05 per share in Tryggingamiðstöðin hf. on April 2, 2007. As of September 2007 the Issuer became the sole shareholder of Kjarrhólmi ehf. when the Issuer acquired a 55% stake in Kjarrhólmi ehf. The purchase price was based on ISK 46.5 for each share in Tryggingamiðstöðin hf. The purchase was partly financed with available cash and partly with sale of FL Group's own shares.

On September 17, 2007 the Issuer signed an agreement with Glitnir Banki hf., Hnotskurn ehf. and Samherji hf. to buy their shares in Tryggingamiðstöðin hf., amounting to a total of 46.2% of shares in Tryggingamiðstöðin hf. at the price of ISK 47 per share. As payment, the sellers will receive 973,673,140 shares in the Issuer at the price of ISK 24.3 a share. This agreement was subject to approval of the shareholders of the Issuer (which granted such acceptance at a shareholders meeting held on September 25<sup>th</sup>). This agreement is also subject to approval by the Financial Supervisory Authority (FSA). Before this transaction the Issuer held 37.6% of the shares and after it controls 83.7% (subject to the above mentioned conditions). The Issuer intends to make a voluntary offer to acquire the remaining shares.

#### **Commerzbank AG.**

On June 30, 2007, FL Group held interest in shares in Commerzbank amounting to 3.24% of the share capital and the market value of the position was 63.8 billion. As of September 24, 2007 the issuer held interest in 4.25% stake in Commerzbank AG with the market value of ISK 69.8 billion. The interest is held through derivative instruments and financed as such and partly with available cash.

#### **AMR Corporation.**

FL Group increased its equity stake in AMR Corporation in February 2007. FL Group became the largest announced shareholder in AMR Corporation with 8.63% of issued shares. The market value of the shareholding in the end of February was ISK 46.4 billion, an increase by ISK 18.8 billion in the year 2007. AMR Corporation recently offered new shares which diluted the holding to 8.25% of issued shares. As of September 24, 2007 the issuer held interest in 9.0% stake in AMR Corporation with the market value of ISK 28.9 billion. The investment was financed with borrowing and available cash.

**Glitnir Banki hf.**

In the year 2007, FL Group increased its shareholding in Glitnir Banki hf. to 32.95%. A total of 369,874,516 shares were purchased on 23 February 2007 at the price of ISK 28.46 per share. This shareholding was diluted when the share capital in Glitnir Banki hf. was increased in April 2007 as a result of the acquisition of FIM Group OY. The Issuer now holds 31.97%. The investment was financed with borrowing and available cash. It should be noted that the Issuer received 57,618,606 shares as a dividend payment from Glitnir Banki hf. in March 2007 which is not part of total principal investment amount for the year 2007.

**PRINCIPAL INVESTMENTS IN 2006****AMR Corporation**

In December 2006 FL Group announced its ownership of 5.98% of the share capital of AMR Corporation. The investment was financed with borrowing and available cash. The Issuer built the stake for a considerable period and announced the transaction when the shareholding exceeded 5%. In the notification to OMX ICE, dated 27 December 2006, it was noted that FL Group had purchased 5.98% shares in AMR Corporation with the market value of USD 400 million.

**Straumur Burðarás**

FL Group sold 22.6% share in Stramur Burðarás Investment Bank in December 2006 to the bank itself and its clients for ISK 42.1 billion. FL Group acquired in June 2006 24.2% share in Straumur-Burdaras Investment Bank which was financed with new shares in FL Group for ISK 35 billion and shares in Kaupþing Banki hf. for ISK 12 billion.

**Glitnir Banki hf.**

In the year 2006, FL Group increased its share in Glitnir Banki from 9.8% to 30.4%. The investment was financed with borrowing and available cash. The shareholding was built throughout the year, being a total of 3,039,913,822 shares. The notified trades amounted to 2,886,215,054 shares and are as follows:

- A total of 860,215,054 shares were purchased on 9 January 2006. When markets closed on January 9, 2006 the market value of these shares was ISK 15.7 billion.
- On 18 April 2006 a total of 80,000,000 shares were purchased at the price of 16.6 ISK per share.
- On 4 May 2006 a total of 380,000,000 shares were purchased at the price of 16.7 ISK per share.
- On 16 May 2006 a total of 80,000,000 shares were purchased at the price of ISK 17.1 per share.
- On 6 June 2006 a total of 437,000,000 shares were purchased at the price of ISK 18.29 per share.
- On 28 June 2006 a total of 202,000,000 shares were purchased at the price of ISK 17.7 per share.
- On 16 August 2006 a total of 457,000,000 shares were purchased at the price of ISK 17.7 per share.
- On 31 November 2006 a total of 240,000,000 shares were purchased at the price of ISK 23.5 per share.
- On 8 December 2006 a total of 100,000,000 shares were purchased at the price of ISK 23.3 per share.
- On 22 December 2006 a total of 50,000,000 shares were purchased at the price of ISK 23.4 per share.

Notified trades (from 18 April to 22 December, which included the purchase price) amounted to ISK 37.8 billion

In addition to the notified trades the Issuer acquired 153,698,768 shares in January and March 2006 which had a market value of ISK 2.7 billion as of end of March 2007.

## PRINCIPAL INVESTMENTS IN 2005

### **Glitnir Banki hf.**

During 2005, FL Group acquired a 9.8% share in Glitnir. The market value of FL Group's holding in the bank at the end of 2005 was ISK 22.3 billion. Glitnir's average share price in the year 2005 was ISK 13.89 per share.<sup>4</sup> The investment was financed with borrowing and available cash.

### **Kaupping Banki hf.**

During the fourth quarter of 2005, FL Group increased its share in Kaupping Banki hf. from 1.25% to 6.3%. The market value of the increase (5.05%) was ISK 25.0 billion in the end of 2005. The market value of total holding in the bank at the end of 2005 was ISK 31.3 billion, compared to ISK 3.6 billion in the end of 2004. The investment was financed with borrowing and available cash.

### **easyJet Airline Company Limited**

FL Group increased its share in easyJet from 10.1% to 16.1%. The market value of the increase (6.0%) was ISK 10.0 billion in the end of 2005. The market value of total holding amounted to ISK 26.7 billion at the end of 2005, compared to ISK 9.6 billion in the end of 2004. The Issuer increased the holding in easyJet to 16.9% in 2006 and sold its stake in April 2006 for EUR 600 million, realising profit of EUR 140 million. The investment was financed with borrowing and available cash.<sup>5</sup>

## PRINCIPAL INVESTMENTS IN 2004

### **Burðarás hf.**

The Issuer announced in February 2004 the investment of a 10% share in Eimskip Holding, which later became Burðarás hf. The investment was financed with borrowing and available cash.<sup>6</sup> The share was sold in 2004. As announced in the then named Icelandic Stock Exchange in April 2004 the Issuer sold the share for ISK 4.5 billion realising a profit of ISK 450 million.

### **Kaupping Banki hf.**

The Issuer acquired a 1.25% share in Kaupping Banki hf. in 2004. The investment was financed with borrowing and available cash. The market value in the end of 2004 amounted to ISK 3.6 billion.

### **easyJet Airline Company Limited**

As announced on October 22, 2004 the Issuer acquired an 8.4% share in easyJet for ISK 6.2 billion and in October 26, 2004 1.7% share in addition, a total of 10.1% share. The investment was financed with borrowing and available cash.<sup>7</sup> The market value in the end of 2004 amounted to ISK 9.6 billion.

## OTHER INVESTMENTS OF INTEREST

### **Geysir Green Energy. - 2007**

In July and August 2007 FL Group invested in Geysir Green Energy for total amount of ISK 7,115 million. The investment was financed with available cash.

### **Joint venture with Bayrock Group. - 2007**

FL Group invested USD 50 million in four active US-based real estate development projects alongside Bayrock Group. The projects are the development of hotel condominiums in Manhattan, Fort Lauderdale, and Phoenix and development of 13 acres of land for future construction of luxury homes. In July, FL

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<sup>4</sup> The average share price is calculated as the mean of share price in the closing of market for each day when markets are open in the year.

<sup>5</sup> The shares were purchased gradually throughout the year in trades notified on 4 July 2005, 10 August 2005 and 26 October 2005.

<sup>6</sup> In a notification to OMX ICE, dated 13 February 2004, it was notified that Flugleiðir hf. (now the Issuer) had purchased 444,000,000 shares in Eimskip Holding, making the total shareholding 10%. A total of 217,071,130 shares were then sold on 27 February 2004 at the price of 9.2 per share as a part of forward arrangements. The total shareholding was sold on 1 April 2004 for the price of 10.15 per share.

<sup>7</sup> In a notification to OMX ICE, dated 22 October 2004, the Issuer notified of the purchase of a 8.4% shareholding in EasyJet for the value of 6.2 billion ISK. In a second notification, dated 26 October 2004 it was notified that the Issue had purchased additional shares, moving the shareholding to 10.1% of issued shares.

Group and Bayrock Group announced their first joint venture investment, a 30% stake in the Midtown Miami project. The project includes the construction of eight high-rise condominium towers, an office tower and a mixed-use facility in the heart of Miami, Florida. Later, the companies acquired an additional 10% stake in the project. The investment was paid with available cash.

#### **House of Fraser PLC. - 2006**

FL Group participated in a consortium to acquire the issued and to be issued capital of Houser of Fraser in August 2006. The proposed acquisition was at a price of 148 pence per share in cash, which represented an enterprise value of approximately £453.4 million at the time and FL Group acquired 13.9% share. The investment was financed with available cash.

#### **Northern Travel Holding - 2006**

In December 2006 FL Group sold Sterling Airlines for ISK 20 billion to Northern Travel Holding. More information about Northern Travel Holding is in chapter 14. The Issuer received ISK 6 billion in cash (which was used to acquire shares in Northern Travel Holding) and ISK 14 billion in the form of a three year shareholder loan.

#### **Icelandair Group hf. - 2006**

FL Group sold its wholly owned subsidiary, Icelandair Group, in October 2006. Realised profit of the sale was ISK 26 billion.

#### **Refresco Holding B.V. - 2006**

In April 2006, a consortium led by FL Group, acquired Refresco for EUR 461 million (enterprise value). FL Group is the largest shareholder in the company with a 49% holding. FL Group's investment totals EUR 56 million, paid in cash. The investment was financed with available cash.

#### **Sterling Airlines A/S - 2006**

In January 2006, FL Group finalised the acquisition of the Danish low-cost airline Sterling and took over its daily operations. The purchase price was DKK 1,500 million but could be reduced/increased by up to DKK 500 million if operating results were better/worse. A correction in the acquisition price will be tied to EBITDA performance in 2006, where 3.5 times any deviation from EBITDA of DKK 345 million will be added or subtracted from the purchase price. The purchase price was paid in cash DKK 1,100 million and DKK 400 million was paid with shares in FL Group at the price of DKK 13.6 per share.

#### **Royal Unibrew A/S - 2006**

In February 2006 FL Group purchased a 10.7% share in the Danish company Royal Unibrew A/S with a market value of ISK 4.2 billion. By 30 June 2006, FL Group had increased the share to 22.1%, up to a market value of ISK 11.8 billion. The investment was financed with borrowing and available cash.<sup>8</sup>

#### **Bang & Olufsen A/S - 2006**

FL Group acquired an 8.2% share in the Danish company Bang & Olufsen A/S in February 2006 (market value ISK 7.5 billion). FL Group had increased its stake to 11.3% as of 30 June 2006, with a market value of ISK 11.8 billion. FL Group sold all the shares in May 2007. The investment was financed with borrowing and available cash.

#### **Aktiv Kapital ASA - 2006**

FL Group purchased a 10.3% share in the Norwegian company Aktiv Kapital in March 2006. The market value of the share was ISK 4.7 billion at the time. FL Group had increased its stake to 13% as of 30 June 2006, with a market value of ISK 8.1 billion. The investment was financed with borrowing and available cash.

#### **Finnair Oyj - 2006**

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<sup>8</sup> In a notification to OMX ICE, dated 1 March 2006, it was notified that FL Group has increased its share in Royal Unibrew and owns 16,35% after the purchase. In a notification to OMX ICE, dated 28 June 2006, it was notified that FL Group has increased its share in Royal Unibrew and owns 20,47% after the purchase.

In January 2006 FL Group increased its share in Finnair Oyj from 2,129,900 shares (2.4% stake) to 5,300,822 shares (6.1% stake). On 30 June 2006 FL Group had increased its share in Finnair to 10.8% with a market value of ISK 11.2 billion. The investment was financed with borrowing and available cash.

**French Connection Group PLC - 2006**

FL Group acquired a 5.07% share in the British fashion retailer French Connection in May 2006. The market value of the holding was ISK 1.4 billion at the time. The share has been transferred to Unity Investments ehf. The investment was financed with borrowing and available cash.

**PRINCIPAL INVESTMENTS IN PROGRESS**

The Issuer has not made any firm commitments to future investments.

## 13 CAPITAL RESOURCES

### BORROWING REQUIREMENTS AND FUNDING STRUCTURE

The Issuer expects to continue to increase the maturity of its loan portfolio both by the means of senior debt and equity structured funding.

*Table 5. Funding Structure of the Issuer as of June 30, 2007. Figures in million ISK.*

Borrowings	151,903
Equity	149,452

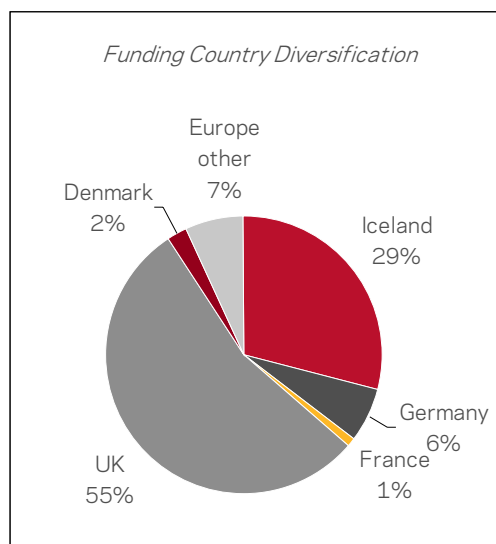
### DEBT

The financial information set out in this chapter is based on balance sheet ending June 30, 2007 which have been reviewed by the Issuers auditors.

The Issuer main source of funding is secured and unsecured senior debt financing and issuance of bonds. Bonds issued by the issuer have only been issued in the Icelandic market. A great effort has been placed on enlarging and broadening the Issuers investor base, both by widening the geographical distribution of investors and by seeking new sources of funding.

#### Borrowing requirements for the next 12 months

Debt on maturity for the next 12 months amounts to ISK 116 billion. Thereof is ISK 75 billion funding of highly liquid listed foreign shares<sup>9</sup> which the Issuer expect to be easily refundable. The remaining, ISK 41 billion are REPO contracts and issued bonds which will mature in the next 12 months and need to be refinanced. This will partly be refinanced by short term rollovers and the remaining with longer term issuance of structured bonds or debt financing. In addition the Issuer has unused committed equity funding lines in the amount of EUR 283 million which equals to approximately ISK 23 billion.<sup>10</sup>



#### Debt maturity profile, figures in ISK

Year	Amount	
2007	51.337.303.295	25%
2008	65.096.251.469	32%
2009	47.561.832.070	23%
2010	27.229.063.680	13%
2011	0	0%
2012	11.364.205.257	6%
	<b>202.588.655.771</b>	

### EQUITY

As of June 30, 2007 the equity of the Group was ISK 149.5 billion compared to ISK 142.7 billion as of December 31, 2006.

<sup>9</sup> Listed shares with stable and high volume trades are considered highly liquid.

<sup>10</sup> In addition there is forward funding of ISK 103 billion against listed shares with 1-3 months maturity.

## 14 BOARD OF DIRECTORS AND MANAGEMENT

### BOARD OF DIRECTORS

The Board of Directors of FL Group has supreme authority in the Issuer's general affairs between shareholders' meetings and endeavours to keep its organisation and operations on course. The Issuer's Board of Directors directs company affairs and sets its objective and future vision, deals with the annual budgets and company's goals presented by the CEO and the strategy to be taken to reach them. The Issuer's Board of Directors ensures the sufficient supervision of the accounting and handling of the Issuer'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 Issuer. In such instances the CEO shall report promptly to the chairman of the Board of Directors. Furthermore the Board of Directors have appointed an Investment Committee which consists of three Board Members. The mandate for the Investment Committee stipulates that the committee may approve transactions proposed by the CEO up to a certain amount. Transactions exceeding the relevant amount must be resolved by the Board. Only the Issuer's Board of Directors can grant power of procuration.

The Board of Directors appoints the CEO of FL Group and decides on the terms of his or her employment or entrusts the Chairman of the Board of Directors to complete that task. The CEO is responsible for day to day operations.

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

The following section lists the current members of the Board of Directors and their principal activities. It details the main occupations and/or other occupations that are linked to the ownership or operations of FL Group.

**Jón Ásgeir Jóhannesson**, (Born 1968) - Chairman of the Board as of June 2007. Director as of July 2005, but was also a member of the Board from March 2003 to June 2004.  
Business Address: Baugur Group, Túngötu 6, 101 Reykjavík, Iceland.

Jón Ásgeir Jóhannesson is the Executive Chairman of the Board of Baugur Group and an 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 Bónus supermarket chain in 1989 with his father Jóhannes Jónsson and has led Baugur Group's expansion in recent years. Jón Ásgeir has been at the forefront in Icelandic business for more than a decade and has significant influence in the UK and Denmark retail sector through Baugur Group and other companies. In June 2007 Jón Ásgeir became Executive Chairman of the Board of Baugur Group, but in recent years he has been the CEO of the company.

Remuneration and benefits in 2006 was ISK 2.9 million.

Holdings of financially related parties: Chairman of the Board of Baugur Group hf., which holds 1,553.281,023 shares in FL Group partly through forward contracts and through ownership in BG Capital ehf. BG Capital ehf. purchased additional 82,304,527 shares in FL Group on September 17, 2007. The purchase was subject to approval by the FL Group shareholder meeting at September 25, 2007, of intended issue of new shares. The issue was approved at the shareholders meeting. Therefore the total shareholdings of Baugur Group hf. is 1.635.585.550 shares (18.34% of the Issuer's share capital after share increase). Jón Ásgeir and his family members own Fjárfestingafélagið Gaumur ehf. which holds 72% in Baugur Group hf. Other financially related parties hold totally 350,149,759 shares in FL Group, share increase on September 25, 2007.

Own holding of shares: 0

**Þorsteinn M. Jónsson**, (Born 1963) - Director and Vice-Chairman of The Board as of July 2005.  
Business Address: Laufásvegi 73, 101 Reykjavík, Iceland.

Þorsteinn M. Jónsson earned a Cand. Oecon degree from the University of Iceland and an MA degree in Economics from Northwestern University in 1991. He worked as an economist for the Central bank of Iceland for four years, followed by two years as Chief Economist for the Federation of Icelandic Industries. In 1996, Mr. Jónsson was appointed CEO of Vífilfell 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. Mr. Jónsson was appointed Chairman of the Board of Glitnir Banki at the last shareholders meeting in April 2007

Remuneration and benefits in 2006 was ISK 2.9 million.

Holdings of financially related parties: One-third owner, procurator and member of the Board of Directors of Materia Invest ehf., which holds 404,411,765 shares in FL Group. Procurator, one third owner and member of the Board of Directors of Icon ehf., which holds 448,487,889 shares in FL Group.<sup>11</sup> Sólmon ehf. a company jointly held by Sólstafir ehf. (a company held by Þorsteinn M Jónsson) and lmon ehf. (a company held by Magnús Ármann) purchased 90,000,000 shares in FL Group on September 10, 2007. Sólmon ehf. purchased again 123,456,791 shares in FL Group on September 17, 2007. The later purchase was subject to approval by the FL Group shareholder meeting at September 25, 2007, of intended issue of new shares. The issue was approved at the shareholders meeting. Therefore the total shareholdings of Sólmon ehf. is 213,456,791 shares (2.39% of the Issuer's share capital after share increase).

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

**Jón Kristjánsson**, (Born 1965) - Director as of February 2007  
Business Address: Sund ehf., Kringlunni 4-6, 103 Reykjavík, Iceland.

Jón Kristjánsson is, and has been since 1995, the Acting Chairman of the Board of Sund ehf. which is an investment company that Jón holds a part in.

Holdings of financially related parties: CEO and partly owner (33%) of Sund ehf., which holds 398,964,457 shares in FL Group. Sund ehf. purchased 41,152,262 shares in FL Group on September 19, 2007. The purchase was subject to approval by the FL Group shareholder meeting at September 25, 2007, of intended issue of new shares. The issue was approved at the shareholders meeting. Therefore the total shareholdings of Sund ehf. is 440.116.719 shares (4.93% of the Issuer's share capital after share increase).

Own holding of shares: None.

**Magnús Ármann**, (Born 1974) - Director as of July 2005  
Address: Laufásvegur 69, 101 Reykjavík, Iceland.

Magnús Ármann is a private investor. He has been involved in various investment and transformation projects in both Iceland and the UK, amongst them the acquisition of Karen Millen in 2000, Shoe Studio Group in 2003 and Rubicon Retail a year later.

Remuneration and benefits in 2006 was ISK 2.9 million.

Holdings of financially related parties: One-third owner, procurator and chairman of the Board of Directors of Materia Invest ehf., which holds 404,411,765 shares in FL Group. One-third owner, procurator and chairman of the Board of Directors of Icon ehf., which holds 448,487,889 shares in FL Group.<sup>11</sup> Sólmon ehf. a company jointly held by Sólstafir ehf. (a company held by Þorsteinn M Jónsson) and lmon ehf. (a

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<sup>11</sup> In September 25, 2007 Materia Invest ehf. and Icon ehf. merged, Materia Invest will assume all assets and obligations of Icon. Icon's entire share capital in FL Group hf., a total of 448,487,889 shares, was transferred to Materia Invest. After the transfer, Materia Invest holds 852,899,654 shares in FL Group, or 10.74% of all outstanding shares.

company held by Magnús Ármann) purchased 90,000,000 shares in FL Group on September 10, 2007. Sólmon ehf. purchased again 123,456,791 shares in FL Group on September 17, 2007. The later purchase was subject to approval by the FL Group shareholder meeting at September 25, 2007, of intended issue of new shares. The issue was approved at the shareholders meeting. Therefore the total shareholdings of Sólmon ehf. is 213,456,791 shares (2.39% of the Issuer's share capital after share increase).

Own holding of shares: None

**Paul Richmond Davidson**, (Born 1965) – Director as of March 2006

Business Address: West Coast Capital, Marathon House, Olympic Business Park, Drybridge Road, Dundonald, Ayrshire, Scotland KA2 9AE.

Paul Richmond Davidson is a partner at West Coast Capital. He educated at Glasgow University where he got a LLB Hons 1st. He joined McGrigors as a trainee solicitor and remained as a solicitor at the company until 1994 when he was seconded to the oil and gas company JKC. Shortly after that, he became Legal Director of JKC on a full-time basis, becoming the company's Country Manager in the Ukraine in 1997. In 1999 Paul returned to Scotland and rejoined McGrigors where he headed the UK corporate team. Paul joined West Coast Capital as the third partner in February 2006.

Remuneration and benefits in 2006 was ISK 2.9 million.

Holdings of financially related parties: Partner in West Coast Capital, which currently holds no shares in FL Group but does through one of its wholly owned subsidiaries hold an interest in 83,000,000 shares in FL Group through a hedging arrangement.

Own holding of shares: None.

**Skarphéðinn Berg Steinarsson** (Born 1963) - Director as of July 2005

Business Address: Fasteignafélagið Stoðir hf., Kringlunni 4-12, 103 Reykjavík, Iceland.

Skarphéðinn Berg Steinarsson is the Chief Executive Officer of Fasteignafélagið Stoðir hf. He graduated with a Cand. Oecon. in Business Administration from the University of Iceland and completed an MBA at the University of Minnesota in 1990. He then attended Oklahoma State University 1990-1991. Skarphéðinn was Head of Department at the Office of the Prime Minister 1998-2002, a Head of Division in the Ministry of Finance 1991-1998 and the Executive director of the Privatisation Committee 1992-2002. Before he became Chief Executive Officer of Fasteignafélagið Stoðir hf. he was the Managing Director of Property & Investments at Baugur Group.

Remuneration and benefits in 2006 was ISK 4.0 million.

Holdings of financially related parties: None.

Own holding of shares: 680,000.

**Smári S. Sigurðsson**, (Born 1947) - Director as of November 2005

Business Address: Síðumúli 24-26, 105 Reykjavík, Iceland.

He graduated with a B.Sc. in Production Engineering from the Technical University in Odense, Denmark, 1975, and a M.Sc. in Entrepreneurial Studies from the University of Stirling, Scotland 1999. His professional experience has included being a part time teacher and lecturer at the University of Akureyri and project manager and quality manager at the Technological Institute of Iceland. He previously worked as the Director of the Finance and Business Department of the Technological Institute of Iceland. Has been a part-time teacher of Entrepreneurial Studies at Reykjavík University. Smári is a co-author of the book "Skólastarf og Gæðastjórnun" published by the Icelandic College of Education in 1999. He has over 10 years experience in Nordic Development Projects and was elected by Nordic Innovation Centre on a panel of experts in Creative Industries. Smári is currently the Investment Director of Primus Ltd.

Remuneration and benefits in 2006 was ISK 2.9 million.

Holdings of financially related parties: None. Smári S. Sigurðsson is the father of FL Group's CEO, Hannes Smárason.

Own holding of shares: None.

**Peter Møllerup**, (Born 1973) - Alternate Director as of July 2006

Business Address: Johan Schlüter law firm, Højbro Plads 10, DK-1200 Copenhagen K, Denmark.

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

Remuneration and benefits in 2006 was ISK 1.4 million.

Holdings of financially related parties: None.

Own holding of shares: None.

**Pórður Bogason**, (Born 1963) - Alternate Director as of November 2005

Address: Ægissíða 113, 107 Reykjavík.

Pórður graduated with a Cand. Jur. from the University of Iceland in 1989. He worked at the Secretariat of Althingi 1989-1992, the EFTA Secretariat in Brussels 1992-1995, Head of Committee department of the Secretariat of Althingi 1995-2000 and since then he has been acting as an independent attorney at law and operates the company Lögmenn Höfðabakki ehf. with Hreinn Loftsson, attorney at law.

Remuneration and benefits in 2006 was ISK 0.2 million.

Holdings of financially related parties: None.

Own holding of shares: None.

## SENIOR MANAGEMENT

The senior management has the appropriate expertise and experience for the management of the Issuer's business.

The CEO is in charge of the daily operations of the Company and represents the Company in all matters concerning normal operations. The CEO manages the accounts of the Company and hires its employees. The CEO provides the board of directors and auditors with all necessary information on the operations of the Company which they might request and should be granted according to statutory law. In the year 2006 Jón Sigurðsson was appointed deputy CEO.

**Hannes Smárason**, Chief Executive Officer (CEO) as of October 2005

Business Address: FL Group hf., Suðurlandsbraut 12, 108 Reykjavík.

Hannes Smárason was born 1967. He joined FL Group as Chief Executive Officer on 19 October 2005. Previously, he was the chairman of the Board of Directors of FL Group from 11 March 2004 to 19 October 2005. Prior to joining FL Group, Hannes was Executive Vice President and Senior Business Officer of deCode Genetics Inc. Hannes worked with McKinsey & Co. in Boston from 1992 until December 1996 as a consultant. He received his B.Sc. in Mechanical Engineering and Management from the Massachusetts Institute of Technology and his MBA from the Massachusetts Institute of Technology Sloan School of Management.

Remuneration and benefits in 2006 was ISK 51 million.

Holdings of financially related parties: Hannes Smárason is the beneficial owner of Oddaflug eignarhaldsfélag ehf. which subsequently holds all shares in Oddaflug B.V. and, on the basis of this, is the largest shareholder in FL Group with 1,649,808,425 (20.77% of the Issuer's share capital). Oddaflug B.V.

purchased 246,913,581 shares in FL Group on September 17, 2007. The purchase was subject to approval by the FL Group shareholder meeting at September 25, 2007, of intended issue of new shares. The issue was approved at the shareholders meeting. Therefore the total shareholdings of Oddaflug B.V. is 1,897,722,006 shares (21.28% of the Issuer's share capital after share increase).  
Own holding of shares: None

**Jón Sigurðsson**, Deputy CEO as of December 2006  
Business Address: FL Group, Suðurlandsbraut 12, 108 Reykjavík.

Jón Sigurdsson was born 1978. He joined FL Group as managing director on 20 September 2005. He has relevant investment and private equity experience from his earlier work at Landsbanki Íslands hf. – Corporate Finance department and Búnaðarbanki Íslands hf. (now Kaupthing Bank hf.) – Corporate Finance department. He received his B.Sc. in Business Administration from Reykjavík University.

Remuneration and benefits in 2006 was ISK 86.4 million and share options of a) 51.5 million shares with the strike price 13.6 issued in December 2005, and b) 25.0 million shares with the strike price 33.0 issued in February 2007. The options stipulated under a) here above are exercisable once a year for the next three years in equal proportions, but the options stipulated under b) are only exercisable in February 2010.

Holdings of financially related parties: None.  
Own holding of shares: None.

#### **OTHER KEY MEMBERS OF THE ISSUER'S MANAGEMENT.**

The issuer's key management members all have significant experience in their field of operations.

**Benedikt Gíslason**, Managing Director of Capital Markets as of June 2007  
Business Address: FL Group hf., Suðurlandsbraut 12, 108 Reykjavík.

Benedikt Gíslason was born 1974. Benedikt joined FL Group in 2007. Prior to joining FL Group he was Managing Director of Proprietary Trading at Straumur-Burðarás Investment Bank. Other previous occupations include working 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.

Holdings of financially related parties: None.  
Own holding of shares: None.

**Sveinbjörn Indriðason**, Chief Financial Officer (CFO) as of May 2005  
Business Address: FL Group hf., Suðurlandsbraut 12, 108 Reykjavík.

Sveinbjörn Indriðason was born 1972. He has been responsible for finance and administration since 3 May 2005. He joined FL Group in 1999 in the Risk Management Department and served as a director from 2000. Before that he worked for Fjárfestingabanki Atvinnulífsins – FBA hf. (now Glitnir Banki hf.).

Holdings of financially related parties: None.  
Own holding of shares: 15,500.

**Örvar Kærnested**, Managing Director of Private Equity and Strategic Investments as of December 2006  
Business Address: FL Group UK Ltd., 42 Berkeley Square, London W1J 5AW.

Örvar Kærnested was born 1976. Örvar 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.

Holdings of financially related parties: 5,000 shares.  
Own holding of shares: None.

## **CONFLICTS OF INTERESTS**

The Directors and key management are not aware of any conflicts of interest between individual members of the board of directors of FL Group, its managers, auditors and compliance personnel, on one hand, and the Company, on the other.

There are no family relationships between any of the Directors, or between any of the members of the Senior Management. The only family relationship between members of the Board of Directors and the members of the Senior Management is between Smári S. Sigurðsson and his son Hannes Smárason, CEO of the issuer.

Hannes Smárason has not, in the last five years, nor anyone in the management team, been the subject to any official incrimination and/or sanctions by statutory or regulatory authorities and has not been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer in the previous five years.

## OTHER DIRECTORSHIPS AND PARTNERSHIPS

In addition to their directorships of the Issuer, the Directors and the members of the Senior Management hold, or have held within the past five years, the following directorships and partnerships:

*Table 6. Directors and FL Group's management director- and partnerships*

<b>Name</b>	<b>Current</b>	<b>Past</b>
Jón Ásgeir Jóhannesson	<p>CEO: Þú Blásól ehf.</p> <p>Power of procuration: Þú Blásól ehf., Baugur Group hf., BG Holding ehf., Fjárfestingafélagið Gaumur ehf., Baugur Invest ehf., BG Aviation ehf., F-Capital ehf., Hagar hf., Milton ehf.</p> <p>Board member:</p> <p>Icelandic companies: Þú Blásól ehf. (Board Member), Baugur Group hf. (Chairman), Baugur Invest ehf. (Chairman), Reykjavík Records ehf. (Board Member), BGE Eignarhaldsfélag ehf. (Chairman), Hagar hf. (Board Member), Eignafoss ehf. (Alternate Board Member), F-Capital ehf. (Chairman), BG Holding ehf. (Chairman), Fjárfestingafélagið Gaumur ehf. (Board Member), M-Holding ehf. (Chairman), I Holding ehf. (Chairman), M-Invest ehf. (Chairman), Milton ehf. (Chairman), BG Capital ehf. (Chairman), BG Aviation ehf. (Chairman), 365 hf. (formerly: Dagsbrún) (Chairman), Cidea ehf. (Board Member), Arctic Investment ehf. (Chairman), 365 – miðlar ehf. (Chairman)</p> <p>Britain and Ireland based Companies: Baugur UK Limited, Giant Midco Limited, Giant Bidco Limited, W F Group Holdings Limited, W F Group Limited, Giant Property Consortium Limited, Highland Group Holdings Limited, Highland Acquisitions Limited, House of Fraser (Finance) Limited, HOF Property Investment Holdings Limited, House of Fraser (Stores Management) Limited, James Beattie Limited, Beatties Card Handling Services Limited, House of Fraser Limited, House of Fraser (Stores) Limited, House of Fraser (PIH) Limited, House of Fraser (Properties) Limited, House of Fraser (Storecard) Limited, House of Fraser (Investments) Limited, Jenners, Princes Street, Edinburgh Limited, House of Fraser Finance (Ireland) Ltd [Irish Company], Iceland Foods Group Limited</p> <p>Scandinavia based Companies: Aktieselskabet Th. Wessel &amp; Vett, Magasin du Nord, Denmark (Chairman), Illum Administration ApS, Denmark (Chairman), Holdingselskabet Illum ApS, Denmark (Chairman), Ejendomsselskabet A.C. Illum ApS, Denmark (Chairman), BG Danmark Aps., Denmark (Board Member), Baugur DK ApS, Denmark (Board Member), ADD Mikkelsen A/S, Denmark (Board Member), Baugur SE AB, Sweden (Board Member), Baugur Holding SE AB, Sweden (Board Member).</p> <p>Companies based in other countries: A Holding S.A., Luxembourg (Board Member).</p>	<p>CEO: Baugur Group hf., Baugur Invest ehf., Mundur ehf., Skin og skúrir ehf.</p> <p>Icelandic Companies: Straumur-Burðarás Fjárfestingabanki hf., Buy National á Íslandi ehf., Ferskvatn ehf., Eignarhaldsfélagið Gaumur ehf., Viðskiptatraust hf., Mundur ehf., Skin og skúrir ehf., Dúkur ehf., Smáralyf ehf., Tíu ellefu hf., Hagkaup hf., Gaumur hf., Vöruveltan hf., Bónusbirgðir ehf., Íslensk pizza ehf., Baugur-Aðföng ehf., Ísþor ehf., Selberg ehf., Lyfjabúðir hf., Rekstrarfélag Lyfjabúða ehf.</p> <p>Board Member in the following Britain and Ireland based Companies: Oasis Stores Limited, Sierra Acquisitions Limited, Sierra Holdings Limited, Corporal Limited, Woodward Foodservice Limited, Deep Freeze Supplied Limited, Booker Overseas Trading Limited, Expert Group Limited, Expert Group (No.2) Limited, Booker Cash &amp; Carry Limited, Fitch Lovell Limited, Booker Mariculture US, Booker Mariculture UK, Booker US Limited, BF Limited, Booker Limited, The Big Food Group Limited, Giant Booker Limited, Linfood Properties Limited, Booker Nominees Limited, Hub Wholesale Limited, Linfood Cash &amp; Carry Limited, Rubicon Retail Limited, Soldier Limited, Femin Limited, Glitnir Banki hf., UK Branch.</p> <p>Board member: Þórður Sveinsson &amp; Co. ehf., Sól-Víking hf., Leikfélag Íslands ehf., Víking hf., Þórður Sveinsson &amp; Co., Heimsferðir ehf., NOCI ehf. Runnur ehf.</p>
Þorsteinn M. Jónsson	<p>CEO: Sólstafr ehf., V Holding ehf., Stuðlaháls ehf.</p> <p>Power of procuration: Materia Invest ehf., Icon ehf., MogS ehf., Gramophone ehf., Sólstafr ehf., Tónvís ehf., Materia Aviation ehf., V Holding ehf., Stuðlaháls ehf., Metúsalem ehf., Menningarfélagið Íslandssól ehf.</p> <p>Board Member: Grænahlíð fasteignafélag ehf., Materia Invest ehf., Icon ehf., MogS ehf., Vífilfell hf. (Chairman), Gramophone ehf., Sólstafr ehf., V Holding ehf., Stuðlaháls ehf., Metúsalem ehf., Glitnir Banki hf. (Chairman), Reykjavík Records ehf., Menningarfélagið Íslandssól ehf., Smjörliki ehf. (Chairman) Arena Holding ehf., Tónvís ehf., Teymi hf., 365 hf., 365 – miðlar ehf., Materia Aviation ehf., Sólmon ehf.</p> <p>Companies based in other countries: Refresco Holding B.V.,</p>	

Jón Kristjánsson	<p>CEO: Skýli 37 ehf.  Power of procuration: Sund ehf., Skýli 37 ehf.  Board member: 3X Holding ehf. (Alternate Board Member), Eignarhaldsfélagið Sævarhöfði ehf. (Alternate Board Member), Húsasund ehf. (Alternate Board Member), IceCapital ehf., Sund Holding ehf., Sund ehf. (Chairman), , VBS Fjárfestingabanki hf. (Alternate Board Member), Líftryggingamiðstöðin hf., Skýli 37 ehf. (Chairman), Ingvar Helgason ehf. (Alternate Board Member), G3 fjárfestingafélag ehf., Blue Ice Finance Íslandi ehf., Paint ehf., D-1 ehf., Skýli 37 ehf.</p>	<p>Board member: Blue Ice Finance Íslandi ehf (Chairman), Samskip hf., Ker hf., Olúfélagið ehf., Fjárfestingafélagið Grettir hf. (chairman), Tryggingamiðstöðin hf. and Icelandic Group hf., Sölumiðstöð hraðfrystihúsanna ehf.</p>
Magnús Ármann	<p>Power of procuration: Materia Invest ehf., Icon ehf. MogS ehf., Maggi ehf., Materia Aviation ehf.  Board member: BYR savings Bank. Materia Invest ehf. (Chairman), Icon ehf. (Chairman), MogS ehf. (Chairman), Gramophone ehf., AMS eignarhaldsfélag ehf., Maggi ehf., Ágúst Ármann ehf., Imon ehf., 365 - miðlar ehf., Sena ehf., Materia Aviation ehf. (Chairman)., 365 hf., D3 miðlar ehf., Sólmon ehf.</p>	<p>Power of procuration: Íslensk Veitingahús ehf.  Board member: Pizza Austurland ehf., Íslensk veitingahús ehf., Mógúllinn ehf., Runnur ehf., Dagsbrún hf., Sparisjóður Hafnarfjarðar, savings bank.</p>
Paul Richmond Davidson	<p>Board Member:  Britain and Ireland based Companies:: Mother Midco Limited, Mother Bidco Limited, West Coast Capital Retirement Homes Limited, Young Enterprise - Scotland, Pacific Shelf 1348 Limited, West Coast Capital Biosciences Limited, West Coast Capital (Lios) Limited, West Coast Capital (Hortis) Limited, West Coast Capital Trading Limited, West Coast Capital Consumer Products Limited, West Coast Capital Prestven (GP) Limited, TBH Retail Limited, Office Holdings Limited, TBH Investments Limited, West Coast Capital (Retail Parks) Limited, West Coast Capital (Sif) Limited, LXB3 Limited, West Coast Capital Aviation Limited, West Coast Capital Midco 2 Limited, TBH (Jets) PLC, West Coast Capital Properties (Marathon House) Limited, West Coast Capital Enterprises Limited, West Coast Capital Holdings Limited, GS 1909 Investments Limited, West Coast Capital Midco 1 Limited, AJT (IP) Limited, AJT Footwear Limited, Corporate Jets Limited, D2 Concessions Limited, D2 Finance Limited, West Coast Capital Prestven, Limited, Dundonald Holdings Limited, D2 Trading Limited, A J T Trading Limited, West Coast Capital *Investmetns( Limited, Continental Shelf 398 Limited, Grant West Property Limited, Star Securities Limited, West Coast Capital (Floris) Limited, THB Homes Limited, Pacific Shelf 1413 Limited, West Coast Capital (Shopping Centres) Limited, Mother Topco Limited, E-Commera Limited, E-Commera Holdings Limited, West Coast Capital Prestven (CI) Limited, Pacific Shelf 1428 Limited, West Coast Capital (Inpartnership) Limited, Inpartnership Limited, Burrell Inpartnership Limited, Pacific Shelf 1437 Limited, Pacific Shelf 1435 Limited, Pacific Shelf 1436 Limited, West Coast Capital (Hortis) Group Limited, West Coast Capital (Lios) Bidco Limited.</p>	
Skarphéðinn Berg Steinarsson	<p>CEO: Fasteignafélagið Stoðir hf., FS6 ehf., Hjáleiga ehf.  Power of procuration: Fasteignafélagið Stoðir hf., Hjáleiga ehf.  Icelandic Companies: Þyrping hf. (Board Member), Glitnir Banki hf. (Board Member), F-Capital ehf. (Board Member), Milton ehf. (Board Member), Landsafl ehf. (Chairman), Áttahagar ehf. (Chairman), Hjáleiga ehf., Austurstræti 14 ehf., FS6 ehf., Líf fasteignir ehf., Langastétt ehf.    Scandinavia based Companies:  Keops A/S, Denmark, Lyngby Retail Properties A/S, Denmark, BG Danmark Aps., Denmark, Baugur DK ApS, Denmark, Hólakot A/S, Denmark, Stodir Holding A/S, Denmark, Stodir</p>	<p>Icelandic companies:  Fasteignafélagið Stoðir hf. (Board Member), Húasmiðjan hf., BG Holding ehf., A-Holding ehf., BG Capital ehf., Hrafnabjörg ehf., BG Aviation ehf., BGE Eignarhaldsfélag ehf., BG Equity 1 ehf., BG Fasteignir ehf., M-Invest ehf., M-Holding ehf., I Holding ehf., Á bleiku skýi ehf., Internetkaup ehf., Storm ehf., Eignarhaldsfélag Húasmiðjunnar ehf., 365 hf., S-12 ehf., Ísak ehf.,</p>

	Properties Holding A/S, Denmark, Glitnir Bank, Branch CHP, Denmark, Baugur SE AB, Sweden, Baugur Holding SE AB, Sweden.	Rýni hf., Eiríksstaðir ehf., Laugaból fasteignir ehf., AK fasteignir ehf., Borgarból ehf., Kaldbakur hf., Hringur-eignarhaldsfélag ehf., Skallagrímur hf., Minjavernd hf., Allianz Ísland hf. Söluumboð, Norðurljós hf. Kjarlarmorg ehf.
	Companies based in other countries: A Holding S.A., Luxembourg, Glitnir Banki hf. (UK Branch), UK.	Scandinavia based companies: Kgs. Nytorv ApS, Denmark, Illum Administration ApS, Denmark, Holdingselskabet Illum ApS, Denmark, Ejendomsselskabet A.C. Illum ApS, Denmark, Atlas Ejendomme A/S, Denmark, Aktieselskabet Th. Wessel & Velt, Magasin du Nord.
		Companies based in other countries: Ice Capital (UK). Senior Management: lðntækni., Ari ehf
Smári S. Sigurðsson	CEO: Ari - Fornverslunin ehf. , Senior Management Fjárfestingafélagið Prímus ehf. Board Member: Hörgá ehf. (Chairman), 3S ehf. (Chairman), Novel Group Ltd. Uk (Chairman), Eikarhald ehf., Eik fasteignafélag ehf, Ari - Fornverslunin ehf., Glitnir Banki hf (Alternate Board Member). Eignarhaldsfélagið Oddaflug ehf. (Alternate Board Member)	Board Member Novel Olive Ltd. UK, Novel Cheese Ltd. UK, Málmís ehf, Rannsókn- og háskólanet Íslands, Íslensk Nanótækni ehf, Straumur Burðarás Fjárfestingarbanki hf. JJ trading A/S.
Peter Møllerup	CEO: Advokatanpartsselskabet Peter Møllerup, Hauchsvej 10 ApS. Board Member: Johan Schlüter advokatfirma, IJ Trading ApS, IJ Trading holding ApS, Nysir Denmark ApS, Smiðjutorg ehf.	
Þórður Bogason	Senior Manager: Justitia ehf., Lögmenn Höfðabakka ehf. Power of procuration: Justitia ehf., Lögmenn Höfðabakka ehf. Board Member: Eignarhaldsfélagið AREV ehf. (Chairman), Justitia ehf. (Board Member), Lögmenn Höfðabakka ehf. (Board Member), Fasteignafélagið Stoðir hf. (Alternate Board Member), AL-Holding ehf. (Alternate Board Member), Y-Holding ehf. (Alternate Board Member), JST Holding ehf. (Alternate Board Member).	Board Member: Örfirisey ehf.
Hannes Smárasón	Power of procuration: Tónvís ehf. Board Member: Icelandic Companies: Eignarhaldsfélagið Oddaflug ehf., Fjárfestingafélagið Primus ehf. (Alternate Board Member), Gramophone ehf., Hótel Búðir ehf. (Alternate Board Member), Fjölhisvegur 9 ehf. (Alternate Board Member), Hlíðarsmári 6 ehf., Eignarhaldsfélagið Sveipur ehf., Geysir Green Energy (Chairman), Tónvís ehf. (Chairman), FL Holding ehf. (Chairman), FL Travel Group ehf. Companies based in other countries: FL GLB Holding B.V., FL Group Holding Netherlands B.V., Minx Netherlands B.V., FL Scandinavian Holdings B.V., Oddaflug B.V.	Power of procuration: Íslensk náttúruufni ehf., Fjárfestingafélagið Freyr ehf. Board Member: Straumur-Burðarás Fjárfestingabanki hf., Bláfugl hf., Flugflutningar ehf., Fjárfestingafélagið Freyr ehf., Íslensk náttúruufni ehf., Digitalis ehf.
Jón Sigurðsson	Board Member: Glitnir Banki hf., Unity One ehf., Geysir Green Energy ehf. (Alternate Board Member), FL Travel Group ehf. (Alternate Board Member), Unity Investments ehf.	None.

Save as set out above, no Director or member of the Senior Management holds or has held in the past five years, any directorships in addition to his directorships of the Company and other members of the Group or has been a partner in any partnerships in the past five years.

## CONFIRMATIONS

In the past five years, apart from discussion in the paragraphs below, none of the board members or members of the senior management or key members of the issuers' management have been:

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

In August 2002, an investigation started on certain affairs of Baugur Group hf., Jón Ásgeir Jóhannesson is the Executive Chairman of Baugur Group hf. The investigation conducted by the National Commissioner of the Icelandic Police lead to the issue of an indictment of Jón Ásgeir Jóhannesson in July 2005. In October 2005, the Supreme Court of Iceland dismissed the majority of the indictment and with a final judgement of the Supreme Court in January 2007, Jón Ásgeir was acquitted of all remaining charges. In April 2006 a new indictment was issued, based on the charges in the first indictment. With recent judgements, nearly five years after the investigation began, one charge was dismissed, because it lacked the necessary legal substance and the indictment lacked clarity, Jón Ásgeir was acquitted for 17 charges but convicted for one for violation of Article 158 of the General Penal Code (incorrect statement in a legally required document) and was sentenced for 3 months suspended sentence. Overall, of two indictments, containing a total of 59 charges one has resulted in conviction. Both the prosecution and Jón Ásgeir have appealed all substantial parts of the judgements to the Supreme Court.

Paul Richmond Davidson, director of the Issuer, held the position of a non-executive director of Aquados (UK) Limited, a company registered in Scotland under company number SC204974. This appointment was made by way of a director's resolution dated on or around May 2006 and lasted until his resignation in December 2006. This directorship was not formerly registered at the companies' house. Aquados (UK) Limited had an administrator appointed on 8 March 2006 pursuant to paragraph 14 of schedule B1 of the Insolvency Act 1986.

Magnús Ármann, director of the Issuer, has been informed by the office of the National Commissioner of the Icelandic Police that he has the position of a defendant in the investigation of transactions with shares in the savings bank Sparisjóður Hafnarfjarðar, initiated following the notification by the FME on 16 December 2005.

## 15 EMPLOYEES, REMUNERATION AND BENEFITS

Remuneration and benefits paid to the Board of Directors and FL Group's Senior Management for their work for the Issuer, including stock option agreements and shares in the Issuer, in 2006 are shown in Table 7.

### REMUNERATION PAID TO THE BOARD OF DIRECTORS IN 2006

*Table 7. Remuneration and benefits paid to the Board of Directors in 2006. (All figures in ISK million.)*

Board of Directors as of December 31, 2006	Salaries and benefits
Skarphéðinn Berg Steinarsson, Chairman of the Board	4.0
Jón Ásgeir Jóhannesson, Director	2.9
Kristinn Björnsson, Director	1.5
Magnús Ármann, Director	2.9
Paul Davidson, Director	2.9
Smári S. Sigurðsson, Director	2.9
Þorsteinn M. Jónsson, Director	2.9
Peter Mollerup, alternate board member	1.4
Þórður Bogason, former alternate board member	0.2
Kristinn Bjarnason, former alternate board member	0.1

The Annual General Meeting of FL Group, held on February 22, 2007, agreed that the remuneration to the Board of Directors for 2007 will be as follows: Chairman of the Board ISK 700,000 per month, Vice Chairman ISK 500,000 per month and the directors ISK 350,000 per month. Alternates will be paid ISK 100,000 for each meeting attended. However, monthly payments to alternates will not exceed monthly payments to board members.

### PENSION LIABILITY

No pension liability exists towards current Directors of the Board and management.

### NUMBER OF EMPLOYEES

FL Group believes that one of its principal strengths lies in its employees. In 2007, FL Group became a pure holding company with no operating subsidiaries<sup>12</sup>. This explains the drop in employee average numbers. Today, the issuer employs 36 people.

*Table 8. Employee numbers. FL Group and subsidiaries*

Year	Average number of employees
July 2007	36
2006	4,612
2005	2,574
2004	2,465
2003	2,289
2002	2,181

### ARRANGEMENTS FOR INVOLVING THE EMPLOYEES IN THE CAPITAL OF THE ISSUER

FL Group is running a stock-option plan with the Issuer's employees. The number of options varied between employees, as is usual with employee stock-option plans. The option agreements were set up so that employees were allocated a fixed number of options and one third of the allocated options are to be vested once a year for the next three years. The strike price is the market price at the entry date of the options and is adjusted for dividends paid in the period. The total number of allocated options as at June 30, 2007 corresponds to 282,493,523 shares. The strike price in the stock option agreements are in the range of 13.6 – 33.0. Currently stock options that were issued at strike 13.6 are 89,166,667 shares with final maturity in November 2008, at strike 16.5 are 49,560,190 shares with final maturity in September 2009, at strike 24.0 are 62,500,000 shares with final maturity in December 27, 2009, at strike 29.0 are

<sup>12</sup> Please note that the Issuer is in the process of acquiring 83.7% share in Tryggingamiðstöðin. See chapter 12 for details.

4,100,000 shares with final maturity in September 2010, at strike 29.6 are 34,000,000 shares with final maturity in September 2010 and at strike 33.0 are 43,166,666 shares with final maturity in February 22, 2010. The company will expense ISK 656 million in the year 2007, ISK 460 million in the year 2008, ISK 288 million in the year 2009 and ISK 30 million in the year 2010 from the already issued stock options at the end of June 2007.

## **16 BOARD PRACTICES**

### **TERM OF EMPLOYMENT FOR SENIOR MANAGEMENT AND THE BOARD OF DIRECTORS**

The CEO has been in office since October 2005 and has a notice period of 12 months. The Deputy CEO has been in office since December 2006 and has a notice period of 24 months. The members of the Board of Directors are elected at the Annual General Meeting (or other shareholders meetings) for a term of one year.

No member of FL Group's Board of Directors or management has stated his intention of leaving his post.

### **SERVICE CONTRACTS**

The CEO's and the Deputy CEO's employment agreement contains no provisions for any retirement benefits additional to the notice periods. No specific contract exists regarding retirement benefits with any member of the management.

### **BOARD SUB-COMMITTEES**

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

- The role of the Compliance Committee (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 are: Smári Sigurðsson, Skarphéðinn Berg Steinarsson and Jón Kristjánsson.
- The Compensation Committee's (Remuneration Committee) role is to form a policy and advise the Board of Directors in relations 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 are: Þorsteinn M. Jónsson, Jón Ásgeir Jóhannesson and Paul Richmond Davidson.
- The role of FL Group's 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 decided to appoint an Investment Committee constituting of three Board members which would be working closely with the management and to accelerate the approval of transactions. Members of the Investment Committee are: Jón Ásgeir Jóhannesson, Magnús Ármann and Þorsteinn M. Jónsson.

The Sub-Committees act under the guidelines on Corporate Governance issued by the OMX ICE, Iceland Chamber of Commerce and the Confederation of Icelandic Employers.

### **AUDITORS**

The Issuer's auditors are elected at the Annual General Meeting for a term of one year. At the Annual General Meeting for 2004, KPMG hf. was elected to serve as the Issuer's auditors in 2005. The auditors were re-elected at the Annual General Meeting for 2005 and again for the year 2006 and 2007.

**Internal auditing**

The Issuer's auditors, along with the Compliance Committee carries out the internal monitoring.

**COMPLIANCE**

The Issuer complies with the Guidelines of Corporate Governance issued by the OMX ICE, Iceland Chamber of Commerce and the Confederation of Icelandic Employers.

The Issuer's Board of Directors appoints a compliance officer and his substitute. 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 ICE and rules on the handling of insider information and insider transactions issued by the local regulator.

## 17 MAJOR SHAREHOLDERS

### LIST OF MAJOR SHAREHOLDERS

The fifteen largest shareholders of FL Group owned over 88.41% of the share capital as of September 24, 2007. The major shareholders and their holdings are listed in Table 9. The table is according to the share register and therefore not in line with flagging on the Stock Exchange. The total number of shareholders as of September 19, 2007 was 4,364.

*Table 9. The Major Shareholder of FL Group as of September 24, 2007. Figures in thousands.*

Shareholders	Shares	%	
Oddaflug B.V.	1.649.808.425,00	20,77%	*
Gnúpur fjárfestingafélag hf	1.603.625.403,00	20,18%	**
BG Capital ehf	1.465.281.023,00	18,44%	***
Icon ehf	448.487.889,00	5,64%	****
Materia Invest ehf	404.411.765,00	5,09%	****
Sund ehf	398.964.457,00	5,02%	*****
Glitnir banki hf	266.282.254,00	3,35%	
LI-Hedge	151.664.190,00	1,91%	
Fasteignafélagið Stoðir hf	111.864.407,00	1,41%	
Sólmon ehf	90.000.000,00	1,13%	
FL GROUP hf	88.190.754,00	1,11%	
Icebank hf	88.080.000,00	1,11%	
Lífeyrissjóðir Bankastræti 7	88.008.168,00	1,11%	
Gildi -Lífeyrissjóður	85.502.582,00	1,08%	
GLB Hedge	84.092.639,00	1,06%	
<b>Fifteen largest shareholders total</b>		<b>88,41%</b>	

*\*) Eignarhaldsfélagið Oddaflug: Owned by FL Group's CEO, Hannes Smárason.*

*\*\*) Gnúpur Fjárfestingafélag hf. is owned by companies owned by Þórður Már Jóhannesson (7.1%), companies owned by Magnús Kristinsson (46.5%) and companies owned by Kristinn Björnsson and his family (46.4%) according to shareholder announcement in June 8, 2007.*

*\*\*\*) BG Capital ehf. and Hagar hf. owned by Baugur Group hf., Jón Ásgeir Jóhannesson is the Chairman of the Board and a large shareholder in Baugur Group hf.*

*\*\*\*\*) Icon ehf. and Materia Invest ehf.: Holding companies partly owned by Þorsteinn M. Jónsson (33%) and Magnús Ármann (33%).<sup>13</sup>*

*\*\*\*\*\*) Sund ehf. is partly held by Jón Kristjánsson (33%) which is the acting chairman of the board of Sund ehf.*

The Issuer notes that the information above is extracted from the Issuer's shareholders registry. Parties may have an interest or control in the Issuer without that being reflected in the shareholders registry, for example because of forward transactions. Such transactions are not notified to the Issuer. Each relevant shareholder is obligated to notify substantial holding or a change in substantial holding relating to the Issuer, as further defined in Chapter V of the Securities Act. Substantial holding is usually at hand when a party holds 5% of voting rights or the nominal value of share capital.

In so far as the Issuer is aware of no persons excluding the shareholders in table 9 (and the directors and senior managers owning part of such shareholders) have a direct or indirect interest in the Issuer's capital or voting rights which is notifiable under Icelandic law, including members of the administrative, management or supervisory bodies of the Issuer.

<sup>13</sup> In September 25, 2007 Materia Invest ehf. and Icon ehf. merged, Materia Invest will assume all assets and obligations of Icon. Icon's entire share capital in FL Group hf., a total of 448,487,889 shares, was transferred to Materia Invest. After the transfer, Materia Invest holds 852,899,654 shares in FL Group, or 10.74% of all outstanding shares.

## VOTING RIGHTS

All issued shares carry one vote each. Accordingly, all shareholders should hold voting rights in proportion with their shareholdings.

## CHANGE IN CONTROL OF THE ISSUER

The Issuer does not know of any arrangements between shareholders or other parties that may result in change in control of the Issuer.

## DIRECT OR INDIRECT OWNERSHIP OR CONTROL BY INDIVIDUAL SHAREHOLDERS

The Issuer's management states that the Issuer is not directly or indirectly owned or controlled.

## RELATED PARTY TRANSACTIONS.

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

Overview of transactions that involve shareholders that hold more than 10% of the shares in FL Group hf.

### 1. **Transactions with Oddaflug B.V. / Oddaflug ehf./ Fjárfestingafélagið Primus ehf. (Owned by Hannes Smáráson)**

On March 27, 2007, FL Group hf., Baugur Group hf., Saxbygg ehf. and Fjárfestingafélagið Primus ehf., purchased all the shares in Eikarhald ehf. from a third party. FL Group holds 49% of the shares of Eikarhald ehf. and Fjárfestingafélagið Primus ehf. holds 10.15%. Eikarhald ehf. is a holding company for shares in Eik fasteignafélag hf. No other transactions have taken place between the parties.

### 2. **Transactions with Baugur Group hf.**

On March 27, 2007, FL Group, Baugur Group hf., Saxbygg ehf. and Fjárfestingafélagið Primus ehf., purchased all the shares in Eikarhald ehf. from a third party. Eikarhald ehf. is a holding company for shares in Eik Fasteignafélag hf. Baugur Group hf. holds 22.7% of the shares in Eikarhald ehf. and FL Group hf. 49% of the shares.

FL Group hf. and Jötunn Holding ehf., which Baugur Group hf. holds 30% of, have entered into a shareholders agreement in relation to shares in Glitnir Banki hf. which FL Group holds 19.97% of but Jötunn Holding ehf. 6.85%. The Parties have applied for approval from The Financial Supervisory Authority to hold jointly 39.9% of the shares in Glitnir banki hf.

FL Group hf. holds 13.9% in Highland Acquisitions Ltd. a parent of House of Fraser, Baugur Group hf. is also a shareholder of Highland Acquisitions Ltd.

FL Group ehf. and Baugur Group hf. jointly hold majority of Unity Investments ehf., each holding 37.5%. On May 29, 2007, the Shareholders provided funds to the Company both in the form of share capital and shareholder loans on arms-length basis.

### 3. **Gnúpur fjárfestingafélag hf.**

No transactions have taken place between FL Group hf. and Gnúpur fjárfestingafélag hf.

### 4. **Materia Invest ehf. and Icon ehf.**

No transactions have taken place between FL Group hf. on one hand and Materia Invest ehf. and Icon ehf. on the other.

Certain transactions have been concluded between FL Group hf. and its subsidiaries and holding companies which all have taken place on arm's length terms.

As described in the Company's annual account for year 2006, dated 1 February 2007, it is still bound to certain guarantees provided in favour of Sterling's creditors. FL Group hf. is also still bound to certain guarantees in favour of Icelandair Group hf. while transfer of obligation take place and in relation to certain aircraft financing, pre-delivery payments and lease payments.

## 18 FINANCIAL INFORMATION

Financial information concerning the Issuer's assets and liabilities, financial position and profits and losses are presented in Tables 10-15.<sup>14</sup>

The selected financial information for the year 2006 is from the 2006 annual account. The selected financial information for the year 2005 is comparative figures presented in the 2006 annual account. The selected financial information for the year 2004 is comparative figures presented in the 2005 annual account. The selected financial information for the six months ending June 30, 2007 and 2006 is from the 2Q 2007 interim report. All the information is reported in accordance with IFRS.

*Table 10. Income statements covering the periods 2005, 2006, Q1-Q2 2006 and Q1-Q2 2007. Figures in million ISK.*

Income Statement	2007 Q1-Q2	2006 Q1-Q2	2006	2005
Investment income:				
Net income from securities and derivatives .....	20.131	8.400	23.956	21.958
Interest income .....	1.970	315	854	1.270
Interest expenses .....	( 6.280)	( 1.636)	( 4.948)	( 2.258)
Net foreign exchange gain (loss) .....	8.834	2.033	( 2.371)	( 621)
	<u>24.655</u>	<u>9.112</u>	<u>17.491</u>	<u>20.349</u>
Operating expenses .....	( 1.905)	( 1.008)	( 2.771)	( 1.652)
Profit before income tax .....	22.750	8.104	14.720	18.697
Income tax (expense) .....	<u>376</u>	<u>( 1.150)</u>	<u>2.631</u>	<u>( 3.292)</u>
Profit from continuing operations .....	23.126	6.954	17.351	15.405
Profit from disc. operations (net of income tax) .....	<u>0</u>	<u>( 1.233)</u>	<u>27.208</u>	<u>1.846</u>
Profit for the period .....	<u>23.126</u>	<u>5.721</u>	<u>44.559</u>	<u>17.251</u>
Attributable to:				
Equity holders of the parent .....	23.126	5.723	44.560	17.249
Minority interest .....	<u>0</u>	<u>( 2)</u>	<u>( 1)</u>	<u>2</u>
Profit for the period .....	<u>23.126</u>	<u>5.721</u>	<u>44.559</u>	<u>17.251</u>
Earnings per share				
Basic earnings per share (ISK) .....	3,03	0,95	6,65	5,90
Diluted earnings per share (ISK) .....	3,00	0,93	6,60	5,84

<sup>14</sup> For detailed information regarding the items in the income statement, cash flow and balance sheet please refer to policies and explanatory notes in the annual and interim reports.

Table 11. Income statements covering the period 2004. Figures in million ISK.

Income Statement	2004
Investment income:	
Profits from investments and derivatives .....	2.319
Interest income .....	545
Interest expenses ..... (	928)
Net foreign exchange (loss) gain .....	218
	<u>2.154</u>
Operating income:	
Income from aviation services .....	31.234
Other income .....	11.352
	<u>42.586</u>
Operating expenses:	
Aviation services expenses .....	29.522
Other operating expenses .....	10.900
	<u>40.422</u>
Profit before income tax .....	4.318
Income tax expense ..... (	713)
Profit for the year .....	<u>3.605</u>
Attributable to:	
Equity holders of the parent .....	3.602
Minority interest .....	3
Profit for the year .....	<u>3.605</u>
Earnings per share:	
Basic earnings per share (ISK) .....	1,63
Diluted earnings per share (ISK) .....	1,61

Table 12. Balance Sheets as of December 31, 2005, December 31, 2006 and June 30, 2007. Figures in million ISK.

Balance Sheet	2007 June 30	2006 Dec. 31	2005 Dec. 31
Assets:			
Cash and cash equivalents .....	31.273	47.022	10.350
Securities .....	224.369	181.161	69.138
Derivatives .....	24.723	4.309	6.341
Restricted cash .....	14.117	9.572	0
Assets classified as held for sale .....	0	904	0
Loans, trade and other receivables .....	24.600	19.478	7.222
Inventories .....	0	0	876
Prepaid aircraft acquisitions .....	0	0	14.490
Operating assets .....	515	425	20.731
Intangible assets .....	0	0	3.470
Total assets	<u>319.597</u>	<u>262.871</u>	<u>132.618</u>
Equity:			
Share capital .....	7.767	7.763	5.802
Share premium .....	69.769	70.530	43.169
Reserves .....	348	948	434
Retained earnings .....	71.568	63.425	25.027
Total equity attrib. to equity holders of the parent	<u>149.452</u>	<u>142.666</u>	<u>74.432</u>
Minority interest .....	0	10	11
Total equity	<u>149.452</u>	<u>142.676</u>	<u>74.443</u>
Liabilities:			
Derivatives .....	8.698	7.021	277
Trade and other payables .....	8.368	5.908	10.895
Deferred income .....	0	0	2.641
Liabilities classified as held for sale .....	0	634	0
Current income tax liability .....	782	782	0
Borrowings .....	151.903	104.955	39.668
Deferred income tax liability .....	394	895	4.694
Total liabilities	<u>170.145</u>	<u>120.195</u>	<u>58.175</u>
Total equity and liabilities	<u>319.597</u>	<u>262.871</u>	<u>132.618</u>

Table 13. Balance Sheet as of December 31, 2004. Figures in million ISK.

Balance Sheet	2004 Dec. 31
Assets:	
Cash and cash equivalents .....	2.819
Securities .....	12.912
Derivatives .....	462
Investments in companies .....	384
Inventories .....	832
Trade and other receivables .....	5.267
Operating assets .....	20.522
Intangible assets .....	284
Total assets	<u>43.482</u>
Equity:	
Share capital .....	2.525
Share premium .....	3.609
Other reserves .....	( 636 )
Retained earnings .....	9.242
Total equity attributable to equity holders of the parent	<u>14.740</u>
Minority interest .....	21
Total equity	<u>14.761</u>
Liabilities:	
Interest-bearing loans and borrowings .....	17.355
Derivatives .....	285
Deferred income tax liability .....	1.451
Pension liability .....	191
Trade and other payables .....	7.290
Prepaid income .....	2.149
Total liabilities	<u>28.721</u>
Total equity and liabilities	<u>43.482</u>

Table 14. Cash flow statement covering the periods 2005, 2006, Q1-Q2 2006 and Q1-Q2 2007. Figures in million ISK.

Cash Flow Statement	2007 Q1-Q2	2006 Q1-Q2	2006	2005
Cash flows from operating activities:				
Profit for the period .....			44.559	17.251
Adjustments for:				
Depreciation .....			23	2.408
Other operating items .....			784	( 16.093)
Discontinued operations .....			1.982	0
Working capital from operations			47.348	3.566
Net change in operating assets and liabilities .....			( 1.099)	1.855
Net cash provided by operating activities	8.722	388	46.249	5.421
Cash flows from investing activities:				
Securities, change .....			( 92.518)	( 24.607)
Acquisition of subsidiary, net of cash acquired .....			( 9.399)	( 2.626)
Disposals of subsidiaries, net of cash sold .....			29.304	0
Derivatives, change .....			8.776	0
Restricted cash, change .....			( 9.572)	0
Trade receivables and bonds .....			8.274	0
Acquisition of operating assets .....			( 448)	( 18.157)
Proceeds from the sale of operating assets .....			0	5.269
Acquisition of intangible assets .....			0	( 113)
Discontinued operations .....			2.822	0
Net cash used in investing activities	( 59.032)	( 4.988)	( 62.761)	( 40.234)
Cash flows from financing activities:				
Proceeds from the issue of share capital .....			0	24.399
Own shares, change .....			( 3.119)	( 1.471)
Dividend paid .....			( 6.341)	( 1.466)
Proceeds from borrowings .....			133.271	24.190
Repayment of borrowings .....			( 72.566)	( 3.916)
Discontinued operations .....			( 584)	0
Net cash provided by financing activities	35.182	14.394	50.661	41.736
Net (decrease) increase in cash and cash equivalents .....	( 15.128)	9.794	34.149	6.923
Cash and cash equivalents at 1 January .....	46.233	10.350	10.350	2.819
Effect of exchange rate fluctuations on cash held .....	167	801	2.523	608
Cash and cash equivalents at end of period .....	31.272	20.945	47.022	10.350
Investing and financing transactions without cash flow effect:				
Acquisition of securities .....	0	( 4.022)	( 28.322)	( 19.513)
Acquisition of subsidiary .....	0	4.022	( 4.022)	0
Issued share capital .....	0	0	32.344	19.513

Table 15. Cash Flow Statement covering the year 2004. Figures in million ISK.

Cash Flow Statement	2004
Cash flows from operating activities:	
Profit for the year .....	3.605
Adjustments for:	
Depreciation .....	2.440
Other operating items .....	( 1.183)
Working capital from operations	<u>4.862</u>
Net change in operating assets and liabilities .....	( 266)
Net cash provided by operating activities	<u>4.596</u>
Cash flows from investing activities:	
Securities, change .....	( 14.599)
Investments in companies and receivables .....	( 300)
Acquisition of operating assets .....	( 2.921)
Acquisition of intangible assets .....	( 296)
Proceeds from the sale of assets .....	83
Net cash used in investing activities	<u>( 18.033)</u>
Cash flows from financing activities:	
Proceeds from the issue of share capital .....	2.025
Own shares, change .....	1.445
Dividend paid .....	( 640)
Proceeds from borrowing .....	6.819
Repayment of borrowings .....	( 1.660)
Net cash provided by financing activities	<u>7.989</u>
Increase (decrease) in cash and cash equivalents .....	( 5.448)
Effect of exchange rate fluctuations on cash held .....	525
Cash and cash equivalents at 1 January .....	<u>7.742</u>
Cash and cash equivalents at 31 December .....	<u><u>2.819</u></u>
Other information:	
Interest income received .....	581
Interest expenses paid .....	820

*Table 16. The Changes in stockholders equity for years 2004, 2005 and 2006, and Q1-Q2 2007. Figures in million ISK.*

	Share capital	Share premium	Sh. option reserve	Hedging reserve	Translation reserve	Retained earnings	Equity holders of the Parent	Minority interest	Total equity
<b>2004</b>									
Equity 1.1.2004 .....	2.132	533	1			6.544	<b>9.210</b>	20	<b>9.230</b>
IFRS adoption .....			6			( 72)	<b>( 66)</b>	( 2)	<b>( 68)</b>
Equity 1.1.2004, restated .....	2.132	533	7	0	0	6.472	<b>9.144</b>	18	<b>9.162</b>
Issued share capital .....	230	1.795					<b>2.025</b>		<b>2.025</b>
Dividends to shareholders .....						( 640)	<b>( 640)</b>		<b>( 640)</b>
Own shares, change .....	163	1.281					<b>1.444</b>		<b>1.444</b>
Net profit (loss) for the year .....			80	223	( 958)	3.602	<b>2.947</b>	3	<b>2.950</b>
Equity 31.12.2004 .....	2.525	3.609	87	223	( 958)	9.434	<b>14.920</b>	21	<b>14.941</b>
Adoption of IAS 32 / 39 .....				( 323)	335	( 192)	<b>( 180)</b>		<b>( 180)</b>
Restated equity 1.1.2005 .....	2.525	3.609	87	( 100)	( 623)	9.242	<b>14.740</b>	21	<b>14.761</b>
<b>2005</b>									
Equity 1.1.2005 .....	2.525	3.609	87	( 100)	( 623)	9.242	<b>14.740</b>	21	<b>14.761</b>
Translation difference .....					802		<b>802</b>		<b>802</b>
Effective portion of changes in fair value of cash flow hedges ..				287			<b>287</b>		<b>287</b>
Net income recognised directly in equity .....				287	802		<b>1.089</b>		<b>1.089</b>
Profit for the year .....						17.249	<b>17.249</b>	2	<b>17.251</b>
Total profit for the year .....				287	802	17.249	<b>18.338</b>	2	<b>18.340</b>
Dividends (ISK 0.60 per share) .....						( 1.466)	<b>( 1.466)</b>		<b>( 1.466)</b>
Issued share capital .....	3.308	40.839					<b>44.147</b>		<b>44.147</b>
Own shares, change .....	( 31)	( 1.440)					<b>( 1.471)</b>		<b>( 1.471)</b>
Stock options.....		161	( 19)				<b>142</b>		<b>142</b>
Acquisition of minority interest .....								( 12)	<b>( 12)</b>
Equity 31.12.2005 .....	5.802	43.169	68	187	179	25.027	<b>74.432</b>	11	<b>74.443</b>
<b>2006</b>									
Equity 1.1.2006 .....	5.802	43.169	68	187	179	25.027	<b>74.432</b>	11	<b>74.443</b>
Translation difference .....					3.519		<b>3.519</b>		<b>3.519</b>
Effective portion of changes in fair value of cash flow hedges ..				54			<b>54</b>		<b>54</b>
Hedging and translation reserves transferred to profit and loss .....				( 241)	( 2.910)		<b>( 3.151)</b>		<b>( 3.151)</b>
Net income recognised directly in equity .....				( 187)	609		<b>422</b>		<b>422</b>
Profit for the year .....						44.560	<b>44.560</b>	( 1)	<b>44.559</b>
Total profit for the year .....				( 187)	609	44.560	<b>44.982</b>	( 1)	<b>44.981</b>
Dividends (ISK 1.04 per share) .....						( 6.341)	<b>( 6.341)</b>		<b>( 6.341)</b>
Issued share capital .....	2.100	30.244					<b>32.344</b>		<b>32.344</b>
Own shares, change .....	( 139)	( 2.980)					<b>( 3.119)</b>		<b>( 3.119)</b>
Translation reserve 1.1.2006 transferred .....					( 179)	179	<b>0</b>		<b>0</b>
Stock options.....		97	271				<b>368</b>		<b>368</b>
Equity 31.12.2006 .....	7.763	70.530	339	0	609	63.425	<b>142.666</b>	10	<b>142.676</b>
<b>1 January to 30 June 2007</b>									
Equity 1.1.2007 .....	7.763	70.530	339		609	63.425	<b>142.666</b>	10	<b>142.676</b>
Translation difference .....					( 794)		<b>( 794)</b>		<b>( 794)</b>
Net income recognised directly in equity .....					( 794)		<b>( 794)</b>		<b>( 794)</b>
Net profit for the period .....						23.126	<b>23.126</b>		<b>23.126</b>
Total profit for the period .....					( 794)	23.126	<b>22.332</b>		<b>22.332</b>
Dividends to shareholders .....						( 14.983)	<b>( 14.983)</b>		<b>( 14.983)</b>
Sale of subsidiary.....								( 10)	<b>( 10)</b>
Own shares, change .....	4	( 918)					<b>( 914)</b>		<b>( 914)</b>
Stock options.....		157	194				<b>351</b>		<b>351</b>
Equity 30.6.2007 .....	7.767	69.769	533	0	( 185)	71.568	<b>149.452</b>	0	<b>149.452</b>

For detailed information on items in the income statement, cash flow and balance sheet, please refer to policies and explanatory notes in the annual and interim reports, for details see chapter 3 (Documents Incorporated by Reference) in this Registration Document.

## **OPERATIONS**

The financial statements contain the consolidated accounts of FL Group hf. and its subsidiaries. The Company's primary activity is investment activity in listed and unlisted shares.

In general, the transformation of the Issuer from aviation and tourism-related operations to an investment company is clearly reflected in the Issuer's consolidated financial statements, for example as the 2006 accounts provide for "discontinued operations". Income from investments has now become the sole component of overall income and the balance sheet now does not include operating subsidiaries as the Issuer does not hold any such subsidiaries. This means that all comparison between years is difficult and must take the aforementioned transformation into account.

Increase in investment income and interest expenses between periods can be explained by increased investment activities of the Issuer. Price fluctuation on shares owned by the Issuer also affects the Issuer's investment income. Increase in operating expenses is a consequence of increased business activities by the Issuer.

### **THE YEAR 2004**

The Group's net income in 2004 amounted to ISK 3.6 billion, at that time the highest profit in the Issuer's history. Profit before taxes in 2004 amounted to ISK 4.3 billion. Working capital provided by operating activities amounted to ISK 4.9 billion. Profit from investment activities, mainly from investments in Icelandic and foreign transportation companies, amounted to ISK 2.3 billion. Cash and marketable securities at the end of 2004 amounted to 15.7 billion.

### **THE YEAR 2005 AND CHANGES FROM 2004**

Profit for the year 2005 amounted to ISK 17,251 million. Total assets of FL Group and its subsidiaries in the end of 2005 amounted to ISK 132,618 million and the equity at year end 2005 was ISK 74,443 million. In October 2005 FL Group announced organisational changes where investment activity was made the prime focus and the airline and tourism service operations were separated from the investment activity. At the same time Sterling Airlines A/S, a Danish low cost carrier was acquired and became a subsidiary of FL Group. Sterling then discontinued being a subsidiary in December 2006. These changes are reflected both in the setup of the statements and the investment income for the year when compared to investment income for 2004. In November 10, 2005 an increase of 3,235,294,118 shares was completed. The shares were sold on ISK 13.6 per share. The new shares increased total issued shares by 127%. The amount raised from the share offer was used for investment activities. Financial markets were favourable post the share offer which is the main reason for the increase in profit and total assets. The Issuer increased borrowing for investment activities which result in increase interest expense. Principal investments for the year 2005 are shown in chapter 12.

### **THE YEAR 2006 AND CHANGES FROM 2005**

The Issuer's profit was ISK 44.6 billion in 2006. Total assets were ISK 262.9 billion at the end of 2006, increased by ISK 130.3 billion during the year. The largest portion of the increase (ISK 112.0 billion) can be attributed to investments in market securities. At the end of the year investments in listed securities amounted to ISK 253 billion. The largest single investment was Glitnir Banki, ISK 100.9 billion, then AMR Corporation in the amount of ISK 27.6 billion and Finnair in the amount of ISK 23.1 billion. The book value of the Company's listed securities assets is, however, only ISK 166.3 billion since part of the Issuer's shares are in forward agreements, the net value of which is entered into the Annual Financial Statement. Equity at the end of 2006 was ISK 142.7 billion, the increase from 2005 is ISK 68.2 billion. This increase can be attributed to the year's profit and the issue of new shares in relations to the purchase of 24.2% share in Straumur-Burdaras Investment Bank. The return on equity was 42.9%, based on the average equity during the year. In October FL Group sold all its shares in Icelandair Group and in December it sold all its shares in Sterling Airlines A/S so these companies discontinued being a part of the FL Group consolidated accounts. The sale of Icelandair Group explains the increase in profit from discontinuing operations. In the year 2006 79% of the operating income came from Iceland and 21% from abroad. It should however be noted that large part of the operating income originated in Iceland came from investments in Icelandic companies with more than half of its revenues originated out of Iceland. The Issuer

increased borrowing for investment activities which result in increase interest expense. Principal investments for the year 2006 are shown in chapter 12.

## **THE 6 MONTHS ENDING JUNE 30, 2007 AND CHANGES FROM 2006**

The Issuer's profit in the first half of 2007 was ISK 23.1 billion compared to ISK 5.7 billion for the same period in 2006. The increase is mainly attributed to favourable share price development in the Issuer's investments. The Issuer's total assets were ISK 319.6 billion at the end of June 2007, increasing by ISK 56.7 billion in the first half of the year. The largest portion of the increase can be attributed to investments in listed and unlisted securities in addition to increases in share prices. At the end of the second quarter of 2007, investments in listed and unlisted securities were ISK 352.7 billion where the largest investments were Glitnir Bank; market value ISK 137.7 billion, Commerzbank; valued at ISK 63.8 billion, AMR Corporation; valued at ISK 33.7 billion and Finnair which was valued at ISK 23.0 billion. Total book value of investments in unlisted securities amounts to ISK 16.8 billion. However, the book value of the Company's securities assets in the financial statements is only ISK 224.4 billion since part of the Company's shares are financed with forward agreements where only the net value is entered into the balance sheet. Equity capital at the end of June 2007 was ISK 149.5 billion, an increase of ISK 6.8 billion from the end of 2006. The Issuer's financial condition continues to be strong with an equity ratio of 46.8%. The return on equity on an annual basis was 22.1% for the second quarter and 31.7% for the first six months of the year.

## **BREAKDOWN OF REVENUE**

### **Investment income**

Investment income for the six months ending June 30, 2007 amounted to ISK 24.7 billion, compared to ISK 43.2 billion, ISK 19.8 billion and ISK 2.2 billion for the full years 2006, 2005 and 2004 respectively.

### **Aviation and tourism services in Iceland**

No income from aviation and tourism services was for the six months ending June 30, 2007 due to the sale of Icelandair Group and Sterling in 2006. Income from aviation and tourism services in Iceland amounted to ISK 45.1 billion 2006, compared to ISK 47.4 billion and ISK 42.6 billion for the full years 2005 and 2004 respectively.

### **Aviation and tourism services in Denmark**

Income from aviation in Denmark for the year 2006 amounted to ISK 49.6 billion. The Issuer acquired Sterling, the Danish aviation company in 2006.

## **CASH FLOW**

From 2004 to 2007 the Issuer has gradually transformed from being mostly an operating company to being an investment company. Due to this transformation the cash flow statement is not fully comparative between years. The change of net cash flow between 2004 and 2005 can mainly be explained by proceeds of the share offer in November 2005. The change of net cash flow between 2005 and 2006 can mainly be explained by proceeds from the sale of Icelandair Group. The change of net cash flow between 2006 and June 30, 2007 can mainly be explained by dividend payment in April 2007 of ISK 15 billion.

## **CASH FLOW PROVIDED BY OPERATING ACTIVITIES**

Net cash generated by operating activities came to ISK 8,722 million in the six months ending 30 June 2007, compared to ISK 388 million generated by operating activities for the corresponding period in 2006. The difference can be mostly explained by increase in investment income. Net cash generated by operating activities in 2006 amounted to ISK 46,249 million, compared to ISK 5,421 million in 2005 and ISK 4,596 million in 2004. The difference can be mostly explained by increase in investment income between years which is mainly due to the transformation of the Issuer from aviation and tourism-related operations to an investment company.

## **CASH FLOW USED IN INVESTING ACTIVITIES**

Net cash used in investing activities came to ISK 59,032 million in the six months ending 30 June 2007, compared to ISK 4,988 million in the corresponding period in 2006. Net cash used in investing activities in 2006 came to ISK 62,761 million, compared to ISK 40,234 million used in 2005 and ISK 18,033 million in 2004. The difference between years can be mostly explained by increasing investment activities of the

Issuer and acquisition on operating assets by subsidiaries (Icelandair acquired aircraft for ISK 18 billion in 2005) in 2005 and the sale of Icelandair in 2006.

## **CASH PROVIDED FROM FINANCING ACTIVITIES**

Net cash provided by financing activities amounted to 35,182 million ISK in the six months ended 30 June 2007, compared to ISK 14,394 million provided for the corresponding period in 2006. Net cash provided by financing activities in 2006 came to ISK 50,661 million, compared to ISK 41,736 million in 2005 and ISK 7,989 million in 2004. The difference between years can be mostly explained by increased borrowings between years due to increased investment activities of the Issuer and proceeds of sale of new shares in 2005.

## **RECENT DEVELOPMENTS**

Since the end of the last financial period for which interim financial information has been published the value of listed assets owned by the Issuer has decreased as stipulated in Chapter 10.

Since the publishing of the second quarter financial statements in 2007, the Issuer has not entered into any engagements which will have a material effect on its financial statements.

### **Approach to Inspired Gaming Group plc**

In a notification to OMX ICE, dated September 7, 2007, the Issuer confirmed that it had made an approach to the Board of Inspired Gaming Group plc (INGG) with an indicative all cash offer to acquire all issued and to be issued ordinary shares in INGG at the price of 385p per share. The Issuer notes that there can be no certainty that a formal offer will be made. Further announcements will be made as appropriate at the news page of OMX ICE. INGG is listed on the London Stock Exchange. The Issuer holds 18.9% share in Inspired Gaming Group plc. which had market value as of September 10, 2007 of GBP 41.8 million.

## **AUDITING OF HISTORICAL FINANCIAL INFORMATION**

The historical annual financial information for the years 2004, 2005 and 2006 has been audited. FL Group's 2006 and 2007 Interim Reports underwent review by the auditors.

The most recent financial information for a full year is from 2006.

## **DIVIDEND POLICY**

FL Group paid dividend in the amount of ISK 14,983 million, ISK 6,341 million and ISK 1,466 million in the years 2007, 2006 and 2005 respectively. This corresponds to dividend per share of ISK 1.93, 1.04 and ISK 0.60.

The Issuer has set the policy of paying dividend of 30-40% of each year's profit. The Board of Directors proposed, at the Annual General Meeting held on February 22, 2007, to approve the payment of dividend in the amount of 193% of the nominal (par) value of the share capital, which corresponds to ISK 14,983 million. This is 33.7% of the Issuer's profit in 2006.

## **LEGAL AND ARBITRATION PROCEEDINGS**

Because of the size of the Issuer and the scope of its operations, it is involved in litigation from time to time. Several matters have been being litigated over the last 12 months on behalf of the Group. The management of FL Group believes that any of the litigations over the last 12 months will not affect the value of the Issuer. The Issuer has secured an opinion from the law firm that represents FL Group stating that the law firm does not believe that the outcome of any litigation over the last 12 months will have an adverse material effect on the Issuer performance, financial position or the value of the Group's shares.

## **SIGNIFICANT CHANGE IN THE ISSUER'S FINANCIAL OR TRADING POSITION**

The Issuer has a large portion of its capital tied up in listed companies, mainly in Iceland, UK, Germany, USA and Scandinavia. Therefore, stock market fluctuations will influence the Issuer's profit. Since the end of the last financial period for which interim financial information has been published considerable stock market fluctuations have occurred leading to assets owned by the Issuer having decreased in value as stipulated in Chapter 10. The recent market fluctuations have not had other significant negative impact for the Issuer's

financial strength or liquidity. No major changes have been made to the portfolio since 30 June 2007 to the date of this document other than the investment in Tryggingamiðstöðin hf. See Chapter 12 for details.

## **FIXED ASSETS**

The Issuer has no material fixed assets and no material investments in fixed assets are planned.

## **RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES**

The Issuer does not have any research and development policies in place and does not allocate funds to such activities. The Issuer does not own any patents and is not working towards obtaining any patents.

## IFRS

Since the beginning of 2005 the Issuer has reported in accordance with IFRS. The interim financial statements for 2006 and 2007 and the full-year financial statements for 2004, 2005 and 2006 presented in this Chapter are in accordance with IFRS.

### Changes due to Adoption of International Financial Reporting Standards

In preparing its opening IFRS balance sheet for the 2005 statements, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to IFRS

#### Equity 1.1. 2005:

Equity according to previous GAAP 31.12.2004 .....	14.935
Equity according to IFRS 1.1.2005 .....	14.740
Net change from previous GAAP to IFRSs .....	195

	1.1.2004	31.12.2000	Total
Changes in measurements:			
Intangible assets ..... IAS 38	( 121)	4	( 117)
Fair value of stock options ..... IFRS 2	1	( 21)	( 20)
Impairment of prepayments ..... IAS 36	( 44)	4	( 40)
Pension liabilities ..... IAS 19	( 9)	0	( 9)
Engine overhaul liability derecognised ..... IAS 16, 37	97	112	209
Derivatives and financial assets to fair value ..... IAS 39		( 180)	( 180)
Other changes .....	8	( 46)	( 38)
Net change from previous GAAP to IFRSs .....	( 68)	( 127)	( 195)

Changes in equity are stated after the deduction of income tax

#### Balance Sheet 1.1.2005

	Icelandic GAAP 31.12.2004	Changes in presentation	Changes in measurement	IFRS
<b>Assets:</b>				
Cash and cash equivalents .....	5.898	( 3.079)		2.819
Securities .....	13.246	( 147)	( 187)	12.912
Derivatives .....	0	462		462
Investments in companies .....	384			384
Inventories .....	832			832
Trade and other receivables .....	5.799	( 441)	( 91)	5.267
Operating assets .....	19.893	374	255	20.522
Intangible assets .....	501	( 74)	( 143)	284
Total assets	46.553	( 2.905)	( 166)	43.482
<b>Equity:</b>				
Share capital .....	2.525			2.525
Share premium .....	3.609			3.609
Reserves .....	895	( 1.405)	( 126)	( 636)
Retained earnings .....	7.906	1.405	( 69)	9.242
Total equity attributable to equity holders of the Parent	14.935	0	( 195)	14.740
Minority interest .....		21		21
Total equity	14.935	21	( 195)	14.761

	Icelandic GAAP 31.12.2004	Changes in presentation	Changes in measurement	IFRS
<b>Liabilities:</b>				
Interest-bearing loans and borrowings .....	20.545	( 3.190)		17.355
Derivatives .....	0	285		285
Deferred income tax liability .....	1.466		( 15)	1.451
Pension plan obligation .....	180		11	191
Trade and other payables .....	7.278	( 21)	33	7.290
Prepaid income .....	2.149			2.149
<b>Total liabilities</b>	<b>31.618</b>	<b>( 2.926)</b>	<b>29</b>	<b>28.721</b>
<b>Total equity and liabilities</b>	<b>46.553</b>	<b>( 2.905)</b>	<b>( 166)</b>	<b>43.482</b>

Balance sheet changes are presented without the effect of income tax, changes in equity were presented with regards to income tax effects.

#### Income statement for the year 2004

	Icelandic GAAP	Changes	IFRS
<b>Investment income:</b>			
Profits from investments and derivatives .....	2.319		2.319
Interest income .....	545		545
Interest expenses .....	( 924)	( 4)	( 928)
Net foreign exchange gain .....	218		218
	<u>2.158</u>	<u>( 4)</u>	<u>2.154</u>
<b>Operating expenses:</b>			
Income from aviation services .....	31.234		31.234
Other income .....	11.352		11.352
	<u>42.586</u>	<u>0</u>	<u>42.586</u>
<b>Operating expenses:</b>			
Aviation services expenses .....	29.757	( 235)	29.522
Other operating expenses .....	10.900		10.900
	<u>40.657</u>	<u>( 235)</u>	<u>40.422</u>
<b>Profit before income tax</b> .....	<b>4.087</b>	<b>231</b>	<b>4.318</b>
Income tax expense .....	( 668)	( 45)	( 713)
<b>Profit for the year</b> .....	<b>3.419</b>	<b>186</b>	<b>3.605</b>
<b>Attributable to:</b>			
Equity holders of the parent .....	3.419	183	3.602
Minority interest .....	0	3	3
<b>Profit for the year</b> .....	<b>3.419</b>	<b>186</b>	<b>3.605</b>

## 19 ADDITIONAL INFORMATION

### SHARE CAPITAL

FL Group had 7,944,985,920 shares with a nominal value of ISK 1 per share, all issued and fully paid at June 30, 2007. All shares are identical and have equal rights. The Issuer issued 973,673,140 new shares on September 25, 2007, the shares have been issued but not listed on the OMX ICE. The shares were issued to finance the purchase of shares in Tryggingamiðstöðin hf. (see chapter 12 for details). Total issued shares is therefore 8,918,659,060.

Number of own shares is 178.2 million with face value of ISK 5,257 billion and is 2.2% of total share issued as at June 30, 2007. The book value of own shares as of June 30, 2007 was ISK 4,147 billion.

The Issuer's number of own shares as of September 25, 2007 was 88.190.754.

### SHARE CAPITAL INCREASE - AUTHORISATION

The Board of Directors may increase the share capital of the Issuer by up to ISK 2,342,803,798 of nominal value with sale of new shares as follows:

1. The Issuer's Board of Directors may increase the Issuer's share capital by issuing and selling new shares by up to nominal value of ISK 342,803,797 for the purpose of financing the purchase of shares in Tryggingamiðstöðin hf. The shareholders shall not have pre-emptive rights to purchase the new shares. The Issuer's Board of Directors decides the price of the shares, justifies it, decides the subscription period and payment method and from which time the new shares are granted rights in the Issuer. It shall be permitted to pay for the new shares with shares in Tryggingamiðstöðin hf.
2. The Issuer's Board of Directors is authorized to increase the Issuer's share capital by up to nominal value of ISK 1,500,000,000. The Board of Directors may implement the increase in stages over the next five years as of from September 25, 2007. The Board of Directors is authorized to sell the increased share capital without the pre-emptive purchase provisions of Article 34 of Act Respecting Public Limited Liability Companies No. 2/1995 and the provisions of Article 4 of the company's Articles of Association being applicable. The Issuer's Board of Directors decides the tender price of shares, justifies it, decides the rules of sale each time along with the subscription and payment period, and whether it is permitted to pay for the shares by other means than cash payment. The new shares shall grant rights in the company from the date on which they are registered and they shall be governed by the Issuer's Articles of Association.
3. The Issuer's Board of Directors is authorized to increase the Issuer's share capital by up to nominal value of ISK 500,000,000. The Board of Directors may implement the increase in stages over the next five years as of from September 25, 2007. The increase is subject to the pre-emptive purchase provisions of Article 34 of the Act Respecting Public Limited Liability Companies No. 2/1995 and the provisions of Article 4 of the Issuer's Articles of Association being applicable. The Issuer's Board of Directors decides the tender price of shares, justifies it, and decides the rules of sale each time along with the subscription and payment period and whether it is permitted to pay for the shares by other means than cash payment. The new shares shall grant rights in the Issuer from the date on which they are registered and they shall be governed by the Issuer's Articles of Association.

The new shares shall grant rights in the Issuer from the date on which they are registered and they shall be governed by the Issuer's articles of association.

The offering price of the shares and the rules of sale shall be determined by the board of directors in accordance with section V of Act no. 2/1995 on Public Limited Companies. This authorisation shall be exercised within five years of being approved. The authorisation may be exercised in its entirety or in part as decided by the board of directors. Share capital is divided into shares of one króna or multiples thereof.

Any increase in share capital, further to the authorisations described above, must be approved by a shareholders' meeting.

## 20 HISTORY OF SHARE CAPITAL

FL Group's total issued share capital remained the same from 2000 to 2003. Table 17 lists the changes since 1 January 2004.

Table 17. Changes in share capital since 1 January 2004. Figures in thousands.

Date	Transaction	Price (ISK) per share	Change in number of shares	Number of shares outstanding	Own shares	Number of shares issued
01.01.04	Opening balance			2.131.725	175.275	2.307.000
10.11.04	Increased holdings of own shares					
	year 2004 before offering		17.564	2.114.161	192.839	2.307.000
10.11.04	Offering by book building process					
	- new shares sold	9,10	-230.000			
	- own shares sold	9,10	-190.000	2.534.161	2.839	2.537.000
31.12.04	Increased holdings of own shares					
	year 2004 after offering		9.200	2.524.961	12.039	2.537.000
10.11.05	Decreased holding of own shares					
	year 2005 before offering		-6.803	2.531.765	5.235	2.537.000
10.11.05	Private offering - new shares sold at fixed price	13,60	3.235.294	5.767.059	5.235	5.772.294
05.12.05	Shares issued to meet the terms of employees stock-options	5,97	73.000	5.841.880	3.414	5.845.294
28.12.05	Increase holding of own shares 10.11.-28.12.2005		40.290	5.801.590	43.704	5.845.294
30.01.06	Shares issued		295.735	6.097.325	43.704	6.141.029
27.03.06	Increased holdings of own shares	21,00	5.000	6.092.325	48.704	6.141.029
31.03.06	Increased holdings of own shares	21,00	20.000	6.072.325	68.704	6.141.029
05.04.06	Increased holdings of own shares	19,33	38.200	6.034.125	106.904	6.141.029
04.07.06	Increased holdings of own shares	17,94	160.608	5.980.421	267.512	6.141.029
04.08.06	Shares issued		1.803.957	5.873.517	2.071.469	7.944.986
04.08.06	Decreased holdings of own shares		-1.910.861	7.784.378	160.608	7.944.986
12.12.06	Increased holdings of own shares		397.249	7.387.129	557.857	7.944.986
20.12.06	Decreased holdings of own shares		-6.000	7.393.129	551.857	7.944.986
27.12.06	Decreased holdings of own shares		-370.000	7.763.129	181.857	7.944.986
27.04.07	Shares sold		-3.667	7.766.796	178.190	7.944.986
09.09.07	Shares sold		-90.000	7.856.796	88.190	7.944.986
25.09.07	Shares issued*		973.673	8.830.469	88.190	8.918.659
25.09.07	Share capital outstanding		8.830.469			
25.09.07	Holdings of own shares		88.190			
25.09.07	Issued shares		8.918.659			

\* The shares have been issued but not listed on the OMX ICE

## 21 MEMORANDUM AND ARTICLES OF ASSOCIATION

### OBJECT AND PURPOSES

The object of FL Group hf., according to Article 3 of its Articles of Association, is to earn interest on money that shareholders have tied to activities in the operation of the Issuer, investments, including those in subsidiaries and associated companies, working especially in the field of flight operations, the tourism industry, transport and any kind of investment activities. These objects have not changed during the historical financial period covered.

### PROVISIONS OF THE ISSUER'S ARTICLES OF ASSOCIATION, STATUTES, CHARTER OR BYLAWS

The Issuer's Board of Directors shall consist of seven members and two alternate members, elected at the Annual General Meeting for a term of one year. Their qualifications shall be according to law. Eligibility for a seat on the Board of Directors is subject to having made a notice in writing to the Board of Directors at least five days before the annual general meeting.

The Issuer's Board of Directors is the supreme authority in the Issuer's affairs between shareholders' meetings and shall ensure that the organisation and activities of the Issuer are generally in correct and good order. The Board of Directors appoints the CEO and together they are responsible for managing the Issuer.

The Issuer's Board of Directors establishes a strategy for the Issuer and sets its targets with the interests of shareholders as a guiding principle in accordance with the Issuer's object. The Issuer's Board of Directors works in accordance with working rules which the Board of Directors establishes on the basis of the Act on Public Limited companies. The Issuer's Board of Directors shall ensure that there is sufficient supervision of the Issuer's accounts and the handling of the Issuer's funds. Only the Board of Directors can issue the power of procuration.

The CEO undertakes the day-to-day management of the Issuer and shall adhere to the policy and instructions set out by the Issuer's Board of Directors. Day-to-day management does not include measures which are considered of an unusual or major nature. The CEO can only take such measures in accordance with special authorisation from the Issuer's Board of Directors, unless it is not possible to wait for the decision without considerable inconvenience to the Issuer's operations. The CEO shall ensure that the Issuer's accounts are entered in accordance with legislation and customs and that the Issuer's assets are handled securely.

The Board of Directors elects a chairman from its members. The chairman calls board meetings and ensures that other board members are invited to attend. A meeting shall also be held if requested by a member of the Board of Directors or the CEO.

The CEO attends meetings of the Board of Directors and has the right to debate and submit proposals unless otherwise decided by the Board of Directors in individual cases.

A book of minutes shall be kept to record what occurs at board meetings and this shall be signed by those attending a meeting. A board member or CEO who is not in agreement with a decision by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes.

The Issuer's Board of Directors is competent to make decisions when the majority of Board members attend a meeting. However, an important decision may not be made unless all board members have been able to discuss the matter, if possible. Issues at board meetings are decided by a simple majority. The signatures of the majority of board members obligate the Issuer.

According to Article 4, subparagraph 2, item b, of the Articles of Association the Board of Directors is authorised to increase the share capital of the Issuer by up to 5% of the current share capital and the shareholders have waived their pre-emptive rights to this capital increase. Such provisions can, generally speaking, have the effect of delaying, deferring or preventing a change in control of the Issuer.

## **RIGHTS, PREFERENCES AND RESTRICTIONS OF SHARES**

All voting shares which have unrestricted voting rights have equal rights, and there is one vote for each ISK of share capital in the Issuer.

## **ACTION NECESSARY TO CHANGE THE RIGHTS OF HOLDERS OF SHARES**

According to Article 11 of the Articles of Association the articles of association can only be amended at a legitimate shareholders' meeting, provided that it is clearly stated in the invitation to the meeting that it is intended to amend the articles of association and what the main aspects of such amendment are. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented by votes at the shareholder's meeting. This is in accordance with article 93 of the Companies Act. According to article 94 of the Companies Act more stringent rules apply in some cases.

## **GENERAL MEETINGS**

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. An annual general meeting shall be called with at least two weeks' notice.

A legitimate shareholder's meeting is the supreme authority in all the Issuer's affairs, within the limitations set out in the articles of association.

The invitation to the meeting shall specify the agenda of the meeting. If a proposal to amend the articles of association is to be put forward, the main subject of the motion shall be specified in the invitation to the meeting.

All shareholders are authorised to attend shareholders' meetings, shareholders exercise their executive power at those meetings. Shareholders may have a representative attend the meeting on their behalf. Also, shareholders may attend the meeting together with an advisor.