

## Highlights of the Consolidated Financial Statements of Flaga Group hf

### Q2 2007:

- Revenue was \$8.9m in Q2, an increase of 11.6% compared to the same period last year.
- Revenue was \$16.1m YTD, an increase of 4.8% compared to the same period last year.
- EBITDA was \$303k in Q2 compared with \$196k in the same period last year.
- Operating Expenses were \$5.5m compared to \$4.9m in the same period the prior year.
- Net loss before taxes was negative \$176k in Q2 2007 compared to a Net loss of negative \$532k in Q2 2006.

### Key figures from the consolidated accounts:

STATEMENT OF OPERATIONS USD '000	Q2 2007	Q2 2006	Jan 1,- June 30, 2007	Jan 1,- June 30, 2006
Sales	8.855	7.934	16.059	15.318
Cost of goods sold	3.445	3.222	6.256	5.953
<b>Gross profit</b>	<b>5.410</b>	<b>4.713</b>	<b>9.803</b>	<b>9.365</b>
<b>Operating Expenses</b>				
Sales, general and admin expenses	4.873	4.361	9.204	8.627
Research and development	719	506	1.295	1.341
Restructuring cost	-96	0	-96	267
<b>Total operating expenses</b>	<b>5.496</b>	<b>4.868</b>	<b>10.403</b>	<b>10.235</b>
<b>Operating profit (loss)</b>	<b>-86</b>	<b>-155</b>	<b>-600</b>	<b>-870</b>
Net financial expenses	-90	-377	-318	-804
<b>Operating profit (loss) before taxes</b>	<b>-176</b>	<b>-532</b>	<b>-918</b>	<b>-1.674</b>
Taxes	-252	164	-115	430
<b>Profit (loss)</b>	<b>-428</b>	<b>-368</b>	<b>-1.033</b>	<b>-1.244</b>
<b>EBITDA before restructuring cost</b>				<b>125</b>
<b>EBITDA after restructuring costs</b>	<b>303</b>	<b>196</b>	<b>101</b>	<b>-142</b>

### BALANCE SHEET

USD '000	June 30,	Dec 31,	%
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	2007	2006	Change
Fixed assets	44.535	44.975	-1,0%
Current assets	16.267	17.149	-5,1%
<b>Total assets</b>	<b>60.801</b>	<b>62.124</b>	<b>-2,1%</b>
Equity	39.181	40.213	-2,6%
Long-term debt	5.009	4.287	16,8%
Current liabilities	16.612	17.624	-5,7%
<b>Equity and total liabilities</b>	<b>60.801</b>	<b>62.124</b>	<b>-2,1%</b>

#### KEY RATIOS

	30.jún.07	2006	2005	2004	2003
Current ratio	0,98	0,97	1,18	1,59	2,75
Equity ratio	64%	65%	66%	66%	68%

#### QUARTERLY STATEMENTS

USD '000	Q2	Q1	Q4	Q3	Q2
	2007	2007	2006	2006	2006
Sales	8.855	7.204	9.659	7.498	7.934
Cost of goods sold	3.445	2.811	4.149	3.066	3.222
<b>Gross profit</b>	<b>5.410</b>	<b>4.393</b>	<b>5.510</b>	<b>4.432</b>	<b>4.712</b>
<b>Operating expenses</b>					
Sales, general and admin exp.	4.873	4.331	4.467	3.968	4.361
Research and development	719	576	564	458	506
Restructuring cost	-96	0	0	0	0
<b>Total operating expenses</b>	<b>5.496</b>	<b>4.907</b>	<b>5.031</b>	<b>4.426</b>	<b>4.868</b>
<b>Operating profit (loss)</b>	<b>-86</b>	<b>-514</b>	<b>480</b>	<b>6</b>	<b>-156</b>
Net financial income (expenses)	-90	-228	-158	-109	-377
<b>Operating profit (loss) bef. taxes</b>	<b>-176</b>	<b>-742</b>	<b>322</b>	<b>-103</b>	<b>-532</b>
Taxes	-252	137	341	-5	164
Profit (loss)	<b>-428</b>	<b>-605</b>	<b>662</b>	<b>-107</b>	<b>-368</b>
<b>EBITDA before restructuring cost</b>		<b>0</b>	<b>0</b>		
<b>EBITDA after restructuring costs</b>	<b>303</b>	<b>-202</b>	<b>828</b>	<b>316</b>	<b>196</b>

## **Summary Q2 2007**

SleepTech continued to see strong demand for its services in the North East of the United States. A number of the Company's partner hospital contracts have been renegotiated and SleepTech remains one of the largest providers of sleep services in the Tri-State area. The new marketing position that was announced in Q1 has been successful and the Company has already started to work with sleep professionals to provide service contracts to sleep labs outside the Tri-State area, which is expected to start showing results during Q3.

Embla is now working on cementing our relationships with our customers and distribution partners throughout the world, implementing the product road map and continuing to economize and becoming more efficient. In the United States, new regulations on portable studies are anticipated in September 2007 that the Company believes will provide new opportunities. The Company believes that this, in conjunction with the American Academy of Sleep Medicine selecting the Embletta as the Study Standard for a recent contract award for examining the effectiveness of home diagnostic testing, will create a new market for the Embletta in the US. To take advantage of this opportunity the Company is looking for a US distributor for the unit and an agreement with a third party distributor should be confirmed in the near future. The Embletta is currently the "gold standard" for this type of ambulatory testing in Europe and is ideally suited for the anticipated reimbursement ruling in the United States. Embla continues to look for new opportunities in all its markets throughout the world.

## **Operations in Q2 2007**

Revenue for the Flaga Group in Q2 2007 aggregated \$8.9m, an increase of 11.6% compared to Q2 2006. The gross profit margin was 61% compared to 59% in the previous year

EBITDA for Q2 2007 was positive \$303k or 3% compared to EBITDA before restructuring cost of \$196k or 2% for Q2 2006.

Net profit before taxes was negative \$176k for the quarter in comparison to net loss before taxes of \$532k for the same period last year.

## **Balance Sheet**

Total assets at the end of Q2 2007 were \$60.8m, a decrease of \$1.3m from the end of the year 2006.

Deferred tax assets are capitalized and amounted to \$4.2m.

Shareholders' equity was \$39.2m at June 30, in comparison to \$40.2m at the beginning of the year. Equity ratio was 64% in comparison to 65% at year-end 2006.

## **Cash Flow**

Working capital provided by operating activities was negative of \$464k for the first six months of 2007 compared to negative working capital of \$579k in the previous year.

## **Future Prospects**

The market for sleep diagnostic products remains highly competitive and fluctuating. The Company expects to improve its competitive position in the US market, with expected regulatory changes regarding reimbursement for home studies. The Company also expects to continue building relationships with distributors around the world for Embla to increase the Company's sales and reputation as the "gold standard" of sleep diagnostic systems.

The Company expects to further build a presence for SleepTech outside of the United States Tri-State area with a successful integration of its disciplined standards, as well as moving out of the "hospital only" relationships to build business relationships with physicians directly for their own practices.

The near future will continue to fluctuate, although it is the firm belief of the Management team of Flaga Group that the future prospect for the Company remains solid. It is further expected that this year's targets will be achieved and that the long term prosperity for the Company remains positive.

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