

FL GROUP hf.

Condensed Consolidated Interim Financial Statements 1 January - 31 March 2007

FL GROUP hf.
Suðurlandsbraut 12
108 Reykjavík
Reg. no. 601273-0129

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Endorsement and Signatures of the Board of Directors and the CEO

The condensed consolidated interim financial statements of FL GROUP hf. for the period from 1 January to 31 March 2007 have been prepared in accordance with International Financial Reporting Standard (IFRS) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of FL GROUP hf. and its subsidiaries.

According to the income statement net profit for the period amounted to ISK 15,084 million. According to the balance sheet, equity at the end of the period amounted to ISK 141,802 million, including share capital in the amount of ISK 7,763 million.

The Board of Directors and the CEO of FL GROUP hf. hereby confirm the Company's consolidated interim financial statements for the period from 1 January to 31 March 2007 by means of their signatures.

Reykjavík, 27 April 2007

The Board of Directors:

Skarphéðinn Berg Steinarsson, Chairman of the board

Jón Kristjánsson

Magnús Ármann

Paul Davidson

Smári S. Sigurðsson

Þorsteinn M. Jónsson

CEO:

Hannes Smárason

Independent Auditors' Review Report

To the Board of Directors of FL GROUP hf.

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of FL GROUP hf. as of 31 March 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the three-month period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 31 March 2007, and of its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 27 April 2007

KPMG hf.

Jón S. Helgason
Sæmundur Valdimarsson

Consolidated Income Statement

for the Three Months Ended 31 March 2007

		Q 1	
		January 1 - March 31	
	Note	2007	2006
Investment income:			
Net income from securities and derivatives	2	12,472	10,537
Interest income		1,498	172
Interest expenses		(3,017)	(326)
Net foreign exchange gain		4,627	75
		<u>15,580</u>	<u>10,458</u>
Other Operating expenses		(884)	(485)
Profit before income tax		14,696	9,973
Income tax (expense)		388	(1,684)
Profit from continuing operations		15,084	8,289
Loss from discontinued operations (net of income tax)		0	(2,450)
Profit for the period		<u><u>15,084</u></u>	<u><u>5,839</u></u>
Attributable to:			
Equity holders of the parent		15,084	5,841
Minority interest		0	(2)
Profit for the period		<u><u>15,084</u></u>	<u><u>5,839</u></u>
Earnings per share:			
Basic earnings per share		1.94	0.96
Diluted earnings per share		1.92	0.95

Consolidated Balance Sheet as at 31 March 2007

	Note	31.3.2007	31.12.2006
Assets:			
Cash and cash equivalents		30,994	47,022
Securities	3	217,602	181,161
Derivatives		20,833	4,309
Restricted cash		12,575	9,572
Assets classified as held for sale		0	904
Loan, trade and other receivables		20,290	19,478
Operating assets		464	425
Total assets		302,758	262,871
Equity:			
Share capital	4	7,763	7,763
Share premium		70,020	70,530
Reserves		493	948
Retained earnings		63,526	63,425
Total equity attributable to equity holders of the parent		141,802	142,666
Minority interest		0	10
Total equity		141,802	142,676
Liabilities:			
Derivatives		11,147	7,021
Unpaid dividend		14,983	0
Trade and other payables		4,111	5,908
Current tax liability		782	782
Borrowings		129,423	104,955
Deferred income tax liability		510	895
Liabilities classified as held for sale		0	634
Total liabilities		160,956	120,195
Total equity and liabilities		302,758	262,871

Statement of Changes in Equity as at 31 March 2007

	Reserves								
	Share capital	Share premium	Share option reserve	Hedging reserve	Translation reserve	Retained earnings	Equity holders of the Parent	Minority interest	Total equity
1 January to 31 March 2006									
Equity 1.1.2006	5,802	43,169	68	187	179	25,027	74,432	11	74,443
Translation difference				283	(439)		(156)		
Net income recognised									
directly in equity.....				283	(439)		(156)		
Profit for the period						5,841	5,841		5,841
Total profit for the period				283	(439)	5,841	5,685	(2)	5,683
Dividends									
(ISK 1.04 per share).....						(6,341)	(6,341)		(6,341)
Issued share capital	296	3,726					4,022		4,022
Own shares, change	(25)	(501)					(526)		(526)
Translation reserve 1.1.2006									
transferred.....					(179)	179	0		
Stock options.....			102				102		102
Equity 31.3.2006	6,073	46,394	170	470	(260)	24,527	77,374	9	77,383
1 January to 31 March 2007									
Equity 1.1.2007	7,763	70,530	339	0	609	63,425	142,666	10	142,676
Translation difference					(532)		(532)		(532)
Net income recognised									
directly in equity.....					(532)		(532)		(532)
Profit for the period						15,084	15,084		15,084
Total profit for the period					(532)	15,084	14,552		14,552
Dividends									
(ISK 1.93 per share).....						(14,983)	(14,983)		(14,983)
Sale of subsidiary.....								(10)	(10)
Own shares, change		(586)					(586)		(586)
Stock options.....		76	77				153		153
Equity 31.3.2007	7,763	70,020	416	0	77	63,526	141,802		141,802

Statement of Cash Flows for the Three Months Ended 31 March 2007

	Notes	Q 1 January 1 - March 31	
		2007	2006
Net cash provided by (used in) operating activities		1,287 (837)
Net cash used in investing activities	(44,557) (19,715)
Net cash provided by financing activities		28,391	17,632
Decrease in cash and cash equivalents	(14,879) (2,920)
Effect of exchange rate fluctuations on cash held		(1,149)	382
Cash and cash equivalents at 1 January		47,022	10,350
Cash and cash equivalents at 31 March		30,994	7,812
Investment and financing without cash flow effect:			
Acquisition of subsidiary		0 (4,022)
Proceeds from the sale of shares		0	4,022
Unpaid dividend		14,983	6,341

Notes

Significant accounting policies

a. ***Reporting entity***

FL GROUP hf.'s legal residence is at Suðurlandsbraut 12, Reykjavík, Iceland. The condensed consolidated interim financial statements of the Company for the three months ended 31 March 2007 comprise the Company and its subsidiaries, together referred to as the "Group". The interim financial statements were authorised for issue by the board of directors on 27 april 2007.

b. ***Statement of compliance***

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting. They do not include all of the information required for a complete set of consolidated annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended 31 December 2006.

c. ***Basis of preparation***

The accounting policies and methods of computation applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2006. The consolidated financial statements for the Group as at and for the year ended 31 December 2006 are available upon request from the Company's registered office at Sudurlandsbraut 12, Reykjavik or at www.flgroup.is or at The Nordic Stock Exchange website, www.omxgroup.com.

The condensed interim consolidated financial statements are prepared in Icelandic kronas, which is the Company's functional currency, rounded to the nearest million. They are prepared on the historical cost basis except that securities and derivative financial instruments are stated at their fair value.

Notes, contd.:

Sale of subsidiaries

1. FL GROUP hf. sold its shares in Kynnisferðir hf. at the beginning of the year 2007. Comparative amounts in the consolidated interim financial statements contain amounts from the financial statements of the aforementioned company. Total assets the company at year-end 2006 amounted to ISK 904 million and total liabilities amounted to ISK 634 million. The gain on the sale, ISK 486 million, is included as gain on shares in the line Net income from securities and derivatives in the income statement.

Investment income

2. Net income from securities and derivatives are specified as follows	2007	2006
	1.1.-31.3.	1.1.-31.3.
Gain on the sale of shares	1,979	5,339
Change in the fair value of securities	10,335	470
Change in the fair value of derivatives	158	4,728
Net income from securities and derivatives	12,472	10,537

Securities

3. Securities are specified as follows:		Fair value including related derivatives
	Ownership	31.3.2007
<i>Listed stock on the Icelandic Stock Exchange:</i>		
Glitnir Bank hf.	31.97%	128,456
Other companies		39,859
Total listed stock on the Icelandic Stock Exchange		168,315
<i>Listed stock on foreign stock exchanges:</i>		
Commerzbank AG	2.43%	46,510
AMR Corporation	8.53%	41,183
Finnair Oyj	23.34%	23,663
Royal Unibrew A/S	24.38%	12,013
Bang & Olufsen A/S	10.44%	10,607
Aktiv Kapital ASA	13.27%	5,765
Other companies		25,200
Total listed stock on foreign stock exchanges		164,941
Listed bonds		9,056
Total listed securities		342,312
<i>Unlisted securities:</i>		
Refresco Holding B.V.	49.00%	
Geysir Green Energy ehf.	35.30%	
Northern Travel Holding ehf.	34.78%	
Highland Group Holding Limited	13.89%	
Mutual-fund certificates		
Other companies		
Total unlisted securities		14,228
Total securities		356,540
Thereof derivatives		(138,938)
Fair value of securities at end of March		217,602

Notes, contd.:

Equity

4. *Issued capital*

The Company's share capital, according to its Articles of Association amounts to ISK 7,945 million. The holders of ordinary shares are entitled to dividends as declared from time to time and are intitled to one vote per share at the meetings of the Company. Share capital according to the balance sheet amounted to ISK 7,763 million at the end of the period and is specified as follows:

	Amount	Ratio
Total issued shares at the end of the period	7,763	97.7%
Own shares at the end of the period	182	2.3%
Share capital according to the Articles of Association	7,945	100.0%

Share premium

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

Share option reserve

The reserve includes the accrued part of the fair value of share options. This reserve is reversed if share options are exercised or forfeited.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Hedge accounting was only applied in Icelandair Group hf. and at the disposal of the company the reserve at Group level was transferred to the income statement.

Translation reserve

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

Ratios

5. The Group's primary ratios are specified as follows

	31/03/2007	31/12/2006
Equity ratio - equity / capital employed	46.8%	54.3%