

FL Group | Second quarter results

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Investor presentation

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About FL Group

- FL Group is an investment company operating two main functions : Private equity and trading operations
- Investment operations
 - Use of own balance sheet when investing
 - Not managing funds
 - Gives flexibility in view of investments
 - No maturity date as in normal funds
- FL Group has invested in companies in Iceland, UK, Netherlands and Nordics in various sectors:
 - Banks and financial services
 - Airlines
 - Brewery and beverages
 - Retail
- Deal flow will drive further expansion in Northern Europe, particularly in Nordics and UK
- The company is listed on the Icelandic Stock Exchange
- Head office in Reykjavík, Iceland
- Operations in Copenhagen and London

Operating companies



Strategic and trading investments



Financial highlights

- Net profit in the first half of the year amounted to ISK 5.7 bn
 - Compared to ISK 1.9bn in the first half of 2005
 - Net profit in Q2 amounted to ISK -0.1bn compared to ISK 1.9bn for the same period in the previous year
- Strong results for the operating companies
 - Icelandair Group produced its strongest first half results ever, with an EBITDA of Icelandair Group ISK 1.3 bn improving by ISK 0.5 bn from the previous year
 - Sterling's EBITDA for the same period was ISK -2.2 bn, in line with expectations, Q2 was profitable for the first time with a net profit of ISK 0.3 bn
- The results are very good despite difficult market conditions
 - ICEX15 -7.1% in Q2
 - OMX Copenhagen -6.1% in Q2
 - OBX in Norway -3.9% in Q2
 - Market conditions for operating companies also proving to be difficult with fuel prices at high levels and increased competition
- Strong balance sheet at 30 June
 - Total assets amounted to ISK 203 bn
 - Total equity was ISK 83.4 bn
 - Equity ratio w/o PDP 44%
 - Marketable securities amounted to ISK 65.5 bn
- Strong liquidity
 - Cash and cash equivalents of ISK 20.9 bn
- Results in line with analyst expectations

Key events

- Sale of 16.9% stake in easyJet in April
- Investment in 49% of Refresco Holding
- Holdings in Glitnir increased from 16.2% to 24.4%
- New offices in Copenhagen and London have been established
- FL Group, Baugur Group and Kevin Stanford have formed an investment vehicle called Unity with a key focus to take strategic stakes in listed companies, in particular within the UK retail sector
- The company's share in Royal Unibrew, Bang & Olufsen, Finnair and Aktiv Kapital was increased
- Investment in 24.2% of Straumur-Burdaras for a consideration of ISK 47 bn
- FL Group's equity increased by ISK 34 bn in relation to the Straumur-Burdaras acquisition, finalised on 4 August

Financials

Income statement

Group income 6M million ISK	2006	2005	%
Investment income	9,587	3,015	218%
Operating income	45,970	20,064	129%
Operating expenses	-49,247	-20,743	137%
Profit before income tax	6,310	2,336	170%
Income tax	-589	-403	46%
Profit after income tax	5,721	1,933	196%

Group income Q2 million ISK	2006	2005	%
Investment income	-862	1,421	-161%
Operating income	28,404	12,248	132%
Operating expenses	-27,876	-11,361	145%
Profit before income tax	-334	2,308	-114%
Income tax	216	-400	-154%
Profit after income tax	-118	1,908	-106%

- Considerable increase in investment income between years with investment income in the first six months amounted to ISK 9.5 bn
 - Investment income in Q2 was ISK -0.8 bn
- Operating income amounted to ISK 46 bn in the first six months and ISK 28 bn in Q2
 - The consolidation of Sterling into the Group's accounts from 6 January this year explains the great increase between years.
- Profit before tax in the first six months amounted to ISK 6.3 bn compared with 2.3 bn in the year before
 - Profit before tax amounted to ISK -0.3 bn in Q2 compared with ISK 2.3 bn in the same period in the previous year.

Balance sheet

million ISK	30 / 06	31 / 12	%
Assets:			
Cash and cash equivalents	20,945	10,350	102%
Securities	65,563	68,658	-5%
Restricted cash	13,148	0	nm
Derivatives	4,832	6,341	-24%
Investments in companies	11,405	480	2,276%
Tax assets	1,778	0	nm
Inventories	1,034	876	18%
Trade and other receivables	13,839	7,222	92%
Operating assets	25,372	20,731	22%
Prepaid aircraft acquisitions	15,782	14,490	9%
Intangible assets	28,853	3,470	731%
Total assets	202,551	132,618	

Assets

- At 30 June the Company held ISK 20.9 bn in cash and cash equivalents
- Securities decreased by ISK 3 bn from the beginning of the year
- Investment in companies increases by ISK 11 bn during the year primarily due to investment in Refresco and Unity
- The majority of the increase in intangible assets in 2006 is largely explained by goodwill in Sterling and Latcharter

Balance sheet

million ISK	30 / 06	31 / 12
Total equity	83,365	74,443
Liabilities		
Interest-bearing loans and borrowings	66,331	39,668
Derivatives	9,739	277
Deferred income tax liability	6,058	4,694
Pension liability	345	345
Trade and other payables	20,511	10,550
Prepaid income	16,202	2,641
Total liabilities	119,186	58,175
Total equity and liabilities	202,551	132,618

Equity and liabilities

- Equity at end of Q2 amounted to ISK 83.4 bn and increased by ISK 9 bn in the first six months
- Equity ratio w/o PDP is 44%
- Interest bearing loans increase by ISK 26.6 bn in the first six months
 - Bond issue
 - New long term loan
- Trade and other payables and prepaid income increase because of seasonality and the inclusion of Sterling to the Group's accounts

Investment operations

Investments | Shareholdings in listed companies

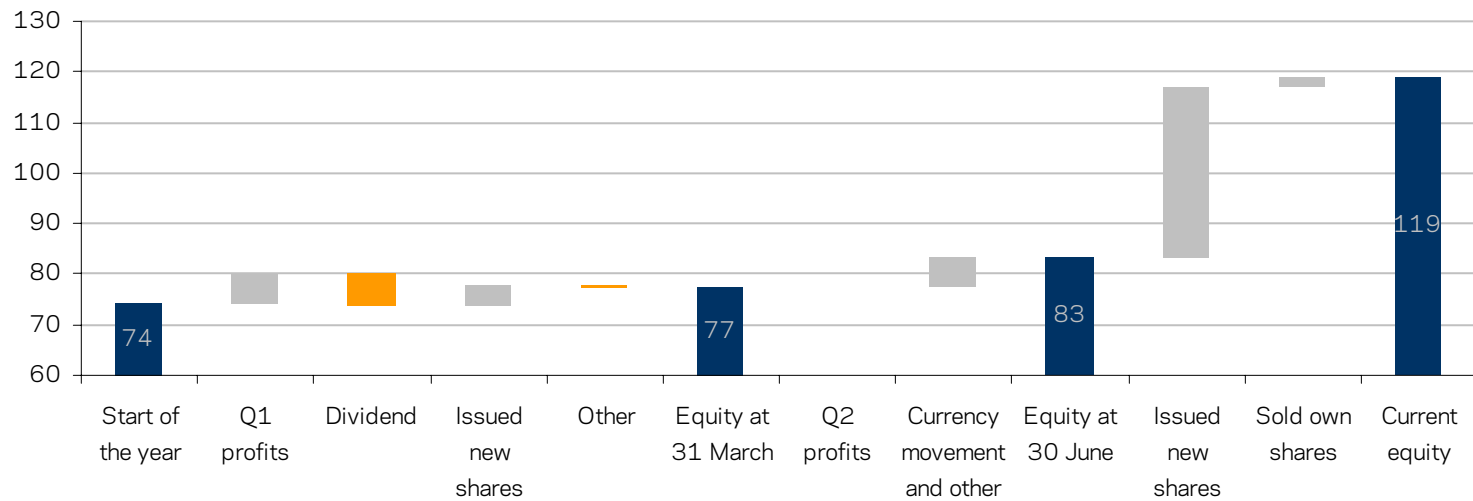
<u>Share portfolio</u>	30 / 06 / 2006	
	<u>Market value</u>	<u>% holding</u>
Glitnir	62,000	24.4%
Straumur-Burdaras	4,285	2.4%
Kaupthing	28,167	5.7%
Other	7,954	
	102,406	69%
Royal Unibrew A/S	11,854	22.1%
Bang & Olufsen A/S	11,847	11.3%
Finnair Oyj	11,205	10.8%
Aktiv Kapital ASA	8,141	13.0%
Other	3,272	
	46,319	31%
	148,725	

- Shareholdings in listed companies amounted to ISK 149 bn at the end of Q2
- Shareholdings financed through forward contracts amounted to ISK 94 bn at 30 June

Acquisition of shares in Straumur-Burdaras

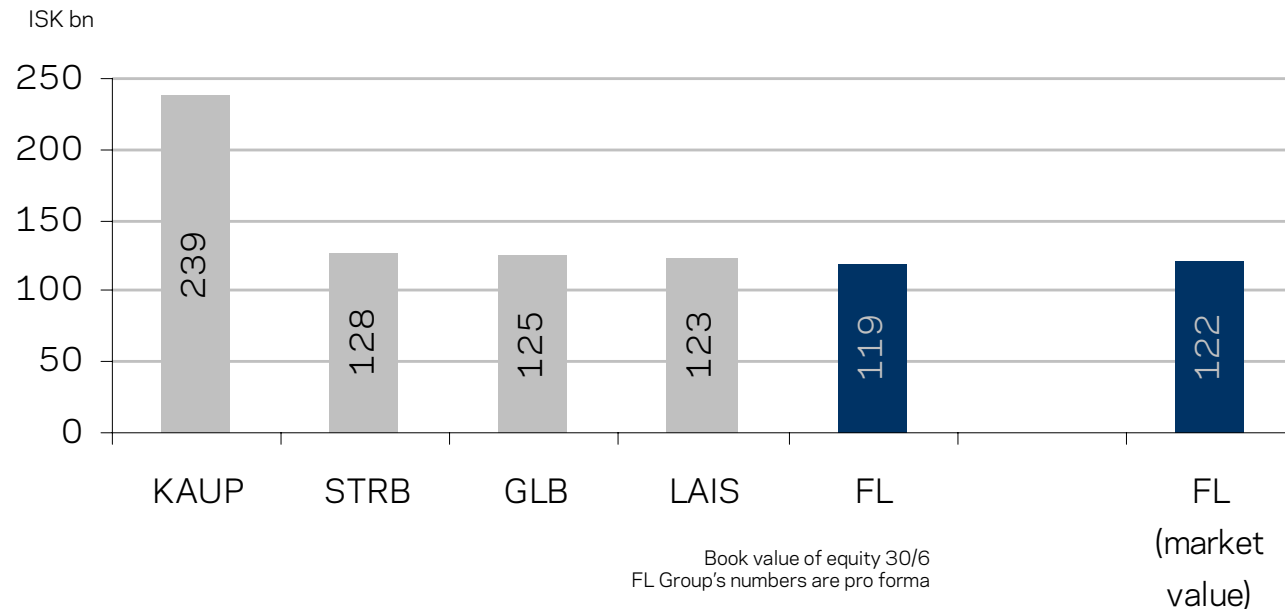
- On 28 June FL Group acquired 24.2% of shares in Straumur-Burdaras from Magnús Kristinsson, Kristinn Björnsson and related parties for a consideration of ISK 47 bn
- Transaction was settled on 4 August
- The consideration was paid for with:
 - FL Group's shares in Kaupthing worth ISK 12 bn
 - Own shares and newly issued shares worth ISK 35 bn
- Current holdings are 26.6%
- Rationale for FL Group for this transaction includes
 - Strengthens FL Group's equity base significantly in a difficult equity market
 - FL Group is a major player within the Icelandic financial sector
 - The acquisition fits well with the company's strategy of being an active investor in companies with good growth potential
 - New shareholders give more breadth and support to the company's shareholder base and strategy

Pro forma equity currently ISK 119 bn



- The Group's equity has increased further after the end of Q2
 - Pro forma equity ISK 119 bn
 - New shares issued in relation to the acquisition of shares in Straumur-Burdaras
 - Sold own shares

FL Group has a strong equity base



- FL Group's equity base is on par with the largest financial institutions on ICEX - without considering hidden value in Icelandair Group
- The book value of Icelandair Group is ISK 8.2 bn indicating significant hidden value in this asset
- Financial strength provides continued flexibility in future investments

Operating companies

Icelandair Group | Key financial figures

Icelandair Group 6M million ISK	2006	pro forma 2005	%
Operating income			
Passenger income	12,793	10,585	21%
Cargo and mail	2,375	1,904	25%
Charter revenue and lease	4,486	3,833	17%
Other income	4,422	3,268	35%
	24,076	19,590	23%
Operating expenses			
Salaries and related	8,286	7,423	12%
Aircraft fuel	4,229	3,085	37%
Aircraft lease	2,128	1,642	30%
Aircraft servicing, handling and communications	1,657	1,607	3%
Aircraft maintenance	1,503	904	66%
Other operating expenses	4,974	4,140	20%
	22,778	18,802	21%
EBITDA	1,299	788	65%
EBIT	63	-332	nm

- Icelandair Group has had a very good year despite difficulties in its operating environment
 - Record first quarter and record first half
 - The company continues to improve its results despite high fuel price
- Operating income amounted to ISK 24 bn, compared with ISK 19.5 bn the previous year
- The Group's EBITDA in the first half amounted to ISK 1.3 bn, representing an improvement of ISK 0.5 bn from the previous year
- The outlook for the Icelandair Group operation is therefore positive and the prospect is that the improvements will continue

Sterling | Key financial figures

Sterling 6M million ISK	2006
Operating income	21,317
Operating expenses	-23,494
Depreciation	-214
Net financial items	-143
Profit before income tax	-2,534
Income tax	709
Profit after tax	-1,825
EBITDA	-2,177
EBIT	-2,391

- Sterling's operating income in the first half of the year amounted to ISK 21.3 bn.
 - Over two million passengers flew with Sterling in the first six months
- The company's EBITDA in the first half was ISK -2.2 bn, which is in line with management expectations
 - In the second quarter EBITDA and EBIT were ISK 485 million and ISK 377 million respectively.
 - Included in the figures is restructuring cost for the merger of Sterling and Maersk Air, which took place last year.
- The operating environment for airlines continues to be difficult
 - Oil prices are currently near all time high.
 - Global instability and threat of terrorism
 - Increasing competition
 - Seasonality of operations

Summary

Summary

- Strong results for FL Group in the first six months
 - Investment operations and operating companies returning a good profit
 - Q2 results can be viewed as very good in light of difficult market conditions
- Net profit in the first half of the year amounted to ISK 5.7 bn
 - Pre tax profit of ISK 6.3 bn
- The company's equity base has been significantly strengthened
 - Pro forma equity of ISK 120 bn
- FL Group has considerable investment capacity for increased activity in international markets
- Strong liquidity with ISK 20.9 bn in cash

