

# **FL GROUP hf.**

**Condensed Consolidated  
Interim Financial Statements  
1 January - 30 September 2007**

FL GROUP hf.  
Síðumúli 24  
108 Reykjavík

Reg. no. 601273-0129

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# Endorsement and Signatures of the Board of Directors and the CEO

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The condensed consolidated interim financial statements of FL GROUP hf. for the period from 1 January to 30 September 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 consolidated interim income statement net loss for the period amounted to ISK 4,020 million. According to the consolidated interim balance sheet, equity at the end of the period amounted to ISK 149,187 million, including share capital in the amount of ISK 8,830 million.

The Company's share capital amounted ISK 8,918 million at the end of September, from which the Company held own shares in the amount of ISK 88 million. The share capital was increased in September by ISK 974 million which was sold at ISK 23,656 million in relation to the purchase of 46.1% stake in Tryggingamiðstöðin hf. The share capital has been further increased in October by ISK 326 million and was sold at ISK 7,922 million in relation to further purchase of shares in Tryggingamiðstöðin hf.

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 30 September 2007 by means of their signatures.

Reykjavík, 1 November 2007

The Board of Directors:

CEO:

# Independent Auditors' Review Report

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To the Board of Directors of FL GROUP hf.

## **Introduction**

We have reviewed the accompanying consolidated interim balance sheet of FL GROUP hf. as of 30 September 2007 and the related consolidated statements of income, changes in equity and condensed cash flows for the nine 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 30 September 2007, and of its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 1 November 2007

**KPMG hf.**

# Consolidated Interim Income Statement

## for the Nine Months Ended 30 September 2007

		<b>Q3</b>		<b>Q1 - 3</b>	
	Notes	July 1 - September 30 2007	2006	January 1 - September 30 2007	2006
<b>Investment income:</b>					
Net (loss) income from securities and derivatives .....	2	( 23,651)	4,409	( 3,520)	12,809
Interest income .....		973	211	2,944	526
Interest expenses .....		( 4,972)	( 1,655)	( 11,252)	( 3,291)
Net foreign exchange (loss) gain .....		( 3,121)	( 1,754)	5,713	279
		( 30,771)	1,211	( 6,115)	10,323
Other operating expenses .....		( 1,193)	( 695)	( 3,098)	( 1,703)
<b>(Loss) profit before income tax .....</b>		( 31,964)	516	( 9,213)	8,620
Income tax (expense) .....		4,817	1,101	5,193	( 49)
<b>(Loss) profit from continuing operations .....</b>		( 27,147)	1,617	( 4,020)	8,571
Profit from discontinued operations (net of income tax) .....		0	3,640	0	2,407
<b>(Loss) profit for the period .....</b>		<b>( 27,147)</b>	<b>5,257</b>	<b>( 4,020)</b>	<b>10,978</b>
<b>Attributable to:</b>					
Equity holders of the parent .....		( 27,147)	5,254	( 4,020)	10,977
Minority interest .....		0	3	0	1
<b>(Loss) profit for the period .....</b>		<b>( 27,147)</b>	<b>5,257</b>	<b>( 4,020)</b>	<b>10,978</b>
<b>Earnings per share:</b>					
Basic (loss) earnings per share .....		( 3.55)	0.68	( 0.52)	1.65
Diluted (loss) earnings per share .....		( 3.51)	0.68	( 0.51)	1.63

# Consolidated Interim Balance Sheet

## as at 30 September 2007

	Notes	30.9.2007	31.12.2006
<b>Assets:</b>			
Cash and cash equivalents .....		29,515	47,022
Listed securities .....	3	234,432	166,960
Unlisted securities .....	3	31,777	14,201
Derivatives .....		19,161	4,309
Restricted cash .....		26,976	9,572
Assets classified as held for sale .....		0	904
Loans in relation to investments in unlisted shares .....		16,648	12,512
Loans, trade and other receivables .....		5,704	6,966
Operating assets .....		830	425
Tax assets .....		4,397	0
<b>Total assets</b>		<b>369,440</b>	<b>262,871</b>
 <b>Equity:</b>			
Share capital .....	4	8,830	7,763
Share premium .....		94,553	70,530
Reserves .....		1,383	948
Retained earnings .....		44,421	63,425
Total equity attributable to equity holders of the parent		149,187	142,666
Minority interest .....		0	10
Total equity		149,187	142,676
 <b>Liabilities:</b>			
Derivatives .....		9,441	7,021
Trade and other payables .....		9,726	5,908
Current tax liability .....		782	782
Borrowings .....	5	200,299	104,955
Deferred income tax liability .....		5	895
Liabilities classified as held for sale .....		0	634
Total liabilities		220,253	120,195
<b>Total equity and liabilities</b>		<b>369,440</b>	<b>262,871</b>

# Consolidated Interim Statement of Changes in Equity for the Nine Months Ended 30 September 2007

	Reserves								
	Share capital	Share premium	Share option reserve	Hedging reserve	Translation reserve	Retained earnings	Equity holders of the Parent	Minority interest	Total equity
<b>1 January to 30 September 2006</b>									
Equity 1.1.2006 .....	5,802	43,169	68	187	179	25,027	74,432	11	74,443
Translation difference .....					2,908		2,908		2,908
Hedge accounting.....				54			54		54
Net income recognised directly in equity.....				54	2,908		2,962		2,962
Profit for the period .....						10,977	10,977	2	10,979
Total profit for the period ...				54	2,908	10,977	13,939	2	13,941
Dividends (ISK 1.04 per share).....						( 6,341 )	( 6,341 )		( 6,341 )
Issued share capital .....	2,100	29,943					32,043		32,043
Own shares, change .....	( 118 )	( 2,166 )					( 2,284 )		( 2,284 )
Translation reserve 1.1.2006 transferred.....					( 179 )	179	0		0
Stock options.....			349				349		349
Equity 30.9.2006 .....	7,784	70,946	417	241	2,908	29,842	112,138	13	112,151
<b>1 January to 30 September 2007</b>									
Equity 1.1.2007 .....	7,763	70,530	339	0	609	63,425	142,666	10	142,676
Translation difference .....					67		67		67
Net income recognised directly in equity.....					67		67		67
Loss for the period .....						( 4,020 )	( 4,020 )		( 4,020 )
Total loss for the period .....					67	( 4,020 )	( 3,953 )	0	( 3,953 )
Dividends (ISK 1.93 per share).....						( 14,984 )	( 14,984 )		( 14,984 )
Sale of subsidiary.....							0	( 10 )	( 10 )
Issued share capital .....	974	22,682					23,656		23,656
Own shares, change .....	93	1,157					1,250		1,250
Stock options.....		184	368				552		552
Equity 30.9.2007 .....	8,830	94,553	707	0	676	44,421	149,187	0	149,187

# Condensed Consolidated Interim Statement of Cash Flows for the Nine Months Ended 30 September 2007

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	Notes	<b>Q1 - Q3</b>	
		January 1 - September 30	
		2007	2006
Net cash (used in) provided by operating activities .....	(	14,002 )	4,570
Net cash used in investing activities .....	(	86,744 )	( 54,031 )
Net cash provided by financing activities .....		82,469	54,980
		<hr/>	<hr/>
(Decrease) increase in cash and cash equivalents .....	(	18,277 )	5,519
Effect of exchange rate fluctuations on cash held .....		770	308
Cash and cash equivalents at 1 January .....		47,022	10,350
		<hr/>	<hr/>
Cash and cash equivalents at 30 September .....		29,515	16,177
		<hr/> <hr/>	<hr/> <hr/>
 Investment and financing without cash flow effect:			
Acquisition of subsidiary .....		0	( 4,022 )
Acquisition of securities .....		(23,656)	0
Proceeds from the sale of share capital .....		23,656	4,022

# Notes

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## Significant accounting policies

a. **Reporting entity**

FL GROUP hf.'s legal residence is at Síðumúli 24, Reykjavík, Iceland. The condensed consolidated interim financial statements of the Company for the nine months ended 30 September 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 1 November 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 Síðumúli 24, Reykjavík or at [www.flgroup.is](http://www.flgroup.is) or at The Nordic Stock Exchange website, [www.omxgroup.com](http://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.:

### Changes in the Group

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 of 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 (loss) income from securities and derivatives* in the consolidated interim income statement.

Kjarrhólmi hf. became a part of FL Group hf's Consolidated Financial Statements after FL Group hf. bought all outstanding shares of the Company. Kjarrhólmi hf. holds 37.6% shares in Tryggingamiðstöðin hf. FL Group hf. also acquired 46.1% of shares in Tryggingamiðstöðin hf., and holds at the end of September 83.7%. In October FL Group hf. has further increased the holding in Tryggingamiðstöðin and currently holds 97.9% in the company, and has made a voluntary bid for the remaining shares. Tryggingamiðstöðin hf. will become a part of consolidated financial statement in the fourth quarter. Total assets of Tryggingamiðstöðin hf. as at 30 June 2007 amounted to ISK 75,245 million. Equity at the same time amounted to ISK 22,763 million.

### Investment income

2. Net (loss) income from securities and derivatives are specified as follows	2007	2006
	1.1.-30.9.	1.1.-30.9.
Gain on the sale of shares .....	4,182	23,187
Change in the fair value of securities .....	7,947	( 9,996)
Change in the fair value of derivatives .....	( 15,649)	( 382)
Net (loss) income from securities and derivatives .....	( 3,520)	12,809

### Securities

3. Securities are specified as follows:		Fair value including related derivatives
	Ownership	30.9.2007
<i>Listed stock on the Icelandic Stock Exchange:</i>		
Glitnir Bank hf. ....	31.97%	135,354
Tryggingamiðstöðin hf. ....	83.74%	42,914
Other companies .....		14,413
Total listed stock on the Icelandic Stock Exchange		192,681
<i>Listed stock on foreign stock exchanges:</i>		
Commerzbank AG. ....	4.25%	69,728
AMR Corporation .....	9.14%	31,128
Finnair Oyj .....	24.18%	22,055
Royal Unibrew A/S .....	25.54%	12,075
Aktiv Kapital ASA .....	13.27%	6,469
Other companies .....		39,046
Total listed stock on foreign stock exchanges		180,501
<i>Listed bonds</i>		
Listed bonds .....		7,687
Total listed securities		380,869
Thereof derivatives in listed shares .....		( 138,857)
Thereof derivatives in listed bonds .....		( 7,580)
Fair value of securities at end of September .....		234,432

## Notes, contd.:

3. contd.		Fair value including related derivatives
	Ownership	30.9.2007
<i>Unlisted securities:</i>		
Refresco Holding B.V. ....	49.00%	
Eikarhald ehf. ....	49.00%	
Geysir Green Energy ehf. ....	43.14%	
Northern Travel Holding ehf. ....	34.78%	
Higland Group Holding Limited ....	13.89%	
Other companies .....		
Mutual-fund certificates .....		
	Total unlisted securities	31,777
Total securities .....		266,209

## Equity

### 4. *Issued capital*

A shareholders meeting in September 2007 approved an increase in nominal value of share capital of ISK 1,316 million. The increase is part of consideration paid for shares in Tryggingamiðstöðin hf. The Company issued new shares in September of ISK 974 million which was sold for 23,656 million, and has in October further issued new share of ISK 326 million which was sold for 7,922 million.

The Company's share capital, according to its Articles of Association amounts to ISK 8,918 million. The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company. Share capital according to the balance sheet amounted to ISK 8,830 million at the end of the period and is specified as follows:

	Amount	Ratio
Total issued shares at the end of the period .....	8,830	99.0%
Own shares at the end of the period .....	88	1.0%
Share capital according to the Articles of Association .....	8,918	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.

**Notes, contd.:**

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**Borrowings**

5. Payments of borrowings is specified as follows:

	30/09/2007	31/12/2006
Up to 1 year .....	89,636	33,882
Over 1 year and up to 2 years .....	30,005	0
Over 2 years and up to 3 years .....	69,238	59,966
Over 4 years .....	11,420	11,107
	<u>200,299</u>	<u>104,955</u>

**Ratios**

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

Equity ratio - equity / capital employed .....	40.4%	54.3%
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