

# **FL GROUP hf.**

## **Condensed Consolidated Interim Financial Statements 1 January - 30 June 2007**

FL GROUP hf.  
Suðurlandsbraut 12  
108 Reykjavík  
ICELAND

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 June 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 profit for the period amounted to ISK 23,126 million. According to the consolidated interim balance sheet, equity at the end of the period amounted to ISK 149,452 million, including share capital in the amount of ISK 7,767 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 30 June 2007 by means of their signatures.

Reykjavík, 1 August 2007

The Board of Directors:

Jón Ásgeir Jóhannesson, Chairman of the board

Jón Kristjánsson

Magnús Ármann

Paul Davidson

Skarphéðinn Berg Steinarsson

Smári S. Sigurðsson

Þorsteinn M. Jónsson

CEO:

Hannes Smárason

# 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 June 2007 and the related consolidated interim statements of income, changes in equity and cash flows for the six-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 June 2007, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 1 August 2007

**KPMG hf.**

Jón S. Helgason

Sæmundur Valdimarsson

# Consolidated Interim Income Statement for the Six Months Ended 30 June 2007

		Q2		Q1 - Q2	
	Notes	April 1 - June 30		January 1 - June 30	
		2007	2006	2007	2006
<b>Investment income:</b>					
Net income (loss) from securities and derivatives .....	2	7.658	( 2.137)	20.131	8.400
Interest income .....		473	143	1.970	315
Interest expenses .....	(	3.263)	( 1.310)	( 6.280)	( 1.636)
Net foreign exchange gain .....		4.208	1.958	8.834	2.033
		9.076	( 1.346)	24.655	9.112
Other operating expenses .....	(	1.022)	( 523)	( 1.905)	( 1.008)
<b>Profit (loss) before income tax</b> .....		8.054	( 1.869)	22.750	8.104
Income tax (expense) .....	(	12)	534	376	( 1.150)
<b>Profit (loss) from continuing operations</b> .....		8.042	( 1.335)	23.126	6.954
Profit (loss) from discontinued operations (net of income tax) ....		0	1.217	0	( 1.233)
<b>Profit (loss) for the period</b> .....		<b>8.042</b>	<b>( 118)</b>	<b>23.126</b>	<b>5.721</b>
<b>Attributable to:</b>					
Equity holders of the parent .....		8.042	( 118)	23.126	5.723
Minority interest .....		0	0	0	( 2)
<b>Profit (loss) for the period</b> .....		<b>8.042</b>	<b>( 118)</b>	<b>23.126</b>	<b>5.721</b>
<b>Earnings (loss) per share:</b>					
Basic earnings (loss) per share .....		1,09	( 0,02)	3,03	0,95
Diluted earnings (loss) per share .....		1,08	( 0,02)	3,00	0,93

# Consolidated Interim Balance Sheet

## as at 30 June 2007

	Notes	30.6.2007	31.12.2006
<b>Assets:</b>			
Cash and cash equivalents .....		31.273	47.022
Securities .....	3	224.369	181.161
Derivatives .....		24.723	4.309
Restricted cash .....		14.117	9.572
Assets classified as held for sale .....		0	904
Loans, trade and other receivables .....		24.600	19.478
Operating assets .....		515	425
<b>Total assets</b>		319.597	262.871
 <b>Equity:</b>			
Share capital .....	4	7.767	7.763
Share premium .....		69.769	70.530
Reserves .....		348	948
Retained earnings .....		71.568	63.425
Total equity attributable to equity holders of the parent		149.452	142.666
Minority interest .....		0	10
Total equity		149.452	142.676
 <b>Liabilities:</b>			
Derivatives .....		8.698	7.021
Trade and other payables .....		8.368	5.908
Current tax liability .....		782	782
Borrowings .....		151.903	104.955
Deferred income tax liability .....		394	895
Liabilities classified as held for sale .....		0	634
Total liabilities		170.145	120.195
<b>Total equity and liabilities</b>		319.597	262.871

# Consolidated Interim Statement of Changes in Equity for the Six Months Ended 30 June 2007

	Reserves							Minority interest	Total equity
	Share capital	Share premium	Share option reserve	Hedging reserve	Translation reserve	Retained earnings	Equity holders of the Parent		
<b>1 January to 30 June 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 .....					5.971		<b>5.971</b>		<b>5.971</b>
Hedge accounting.....				576			<b>576</b>		<b>576</b>
Net income recognised									
directly in equity.....				576	5.971		<b>6.547</b>		<b>6.547</b>
Profit for the period .....						5.723	<b>5.723</b>	( 2 )	<b>5.721</b>
Total profit for the period .....				576	5.971	5.723	<b>12.270</b>	( 2 )	<b>12.268</b>
Dividends									
(ISK 1.04 per share).....						( 6.341 )	( <b>6.341</b> )		( <b>6.341</b> )
Issued share capital .....	296	3.726					<b>4.022</b>		<b>4.022</b>
Own shares, change .....	( 64 )	( 1.202 )					( <b>1.266</b> )		( <b>1.266</b> )
Translation reserve 1.1.2006									
transferred.....					( 179 )	179	<b>0</b>		<b>0</b>
Stock options.....			239				<b>239</b>		<b>239</b>
Equity 30.6.2006 .....	6.034	45.693	307	763	5.971	24.588	<b>83.356</b>	<b>9</b>	<b>83.365</b>
<b>1 January to 30 June 2007</b>									
Equity 1.1.2007 .....	7.763	70.530	339	0	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> )	0	( <b>794</b> )
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>	0	<b>22.332</b>
Dividends									
(ISK 1.93 per share).....						( 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>

# Condensed Consolidated Interim Statement of Cash Flows for the Six Months Ended 30 June 2007

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	Notes	<b>Q1 - Q2</b>	
		January 1 - June 30	
		2007	2006
Net cash provided by operating activities .....		8.722	388
Net cash used in investing activities .....	(	59.032 )	( 4.988 )
Net cash provided by financing activities .....		35.182	14.394
(Decrease) increase in cash and cash equivalents .....	(	15.128 )	9.794
Effect of exchange rate fluctuations on cash held .....		167	801
Cash and cash equivalents at 1 January .....		46.233	10.350
Cash and cash equivalents at 30 June .....		31.272	20.945
Investment and financing without cash flow effect:			
Acquisition of subsidiary .....		0	4.022
Proceeds from the sale of shares .....		0	( 4.022 )

# Notes to the Consolidated Interim Financial Statements

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## 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 six months ended 30 June 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 August 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](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.

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

## Notes to the Consolidated Interim Financial Statements, contd.:

### Investment income

2. Net income from securities and derivatives are specified as follows:	2007	2006
	1.1.-30.6.	1.1.-30.6.
Gain on the sale of shares .....	7.323	13.649
Change in the fair value of securities .....	9.540	( 7.071)
Change in the fair value of derivatives .....	3.268	1.822
Net income from securities and derivatives .....	<u>20.131</u>	<u>8.400</u>

### Securities

3. Securities are specified as follows:		Fair value including related derivatives
	Ownership	30.6.2007
<i>Listed stock on the Icelandic Stock Exchange:</i>		
Glitnir Bank hf. ....	31,97%	137.733
Other companies .....		28.117
Total listed stock on the Icelandic Stock Exchange		<u>165.850</u>
<i>Listed stock on foreign stock exchanges:</i>		
Commerzbank AG. ....	3,24%	63.818
AMR Corporation .....	8,25%	33.660
Finnair Oyj .....	23,37%	23.009
Royal Unibrew A/S .....	24,38%	13.133
Aktiv Kapital ASA .....	13,27%	6.357
Other companies .....		29.985
Total listed stock on foreign stock exchanges		<u>169.962</u>
Total listed securities		<u>335.812</u>
<i>Unlisted securities:</i>		
Refresco Holding B.V. ....	49,00%	
Eikarhald ehf. ....	49,00%	
Kjarrhólmi ehf. ....	45,00%	
Geysir Green Energy ehf. ....	35,30%	
Northern Travel Holding ehf. ....	34,78%	
Highland Group Holding Limited .....	13,89%	
Other companies .....		
Mutual-fund certificates .....		
Total unlisted securities		<u>16.844</u>
Total securities .....		352.656
Thereof derivatives .....		( 128.287)
Fair value of securities at end of June .....		<u>224.369</u>

## Notes to the Consolidated Interim Financial Statements, contd.:

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### 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 entitled to one vote per share at the meetings of the Company. Share capital according to the balance sheet amounted to ISK 7,767 million at the end of the period and is specified as follows:

	Amount	Ratio
Total issued shares at the end of the period .....	7.767	97,8%
Own shares at the end of the period .....	178	2,2%
Share capital according to the Articles of Association .....	<u>7.945</u>	<u>100,0%</u>

#### *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:

	30.6.2007	31.12.2006
Equity ratio - equity / capital employed .....	46,8%	54,3%