

FL GROUP hf.

Condensed Consolidated Interim Financial Statements 1 January - 31 March 2008

FL GROUP hf.

Síðumúli 24

108 Reykjavík

Reg. no. 601273-0129

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Endorsement and Statement by 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 2008 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 47,815 million. According to the consolidated interim balance sheet, equity at the end of the period amounted to ISK 115,181 million, including share capital in the amount of ISK 13,421 million.

The Company's Board of Directors has called an Extraordinary General Meeting on 9 May 2008 to put to vote the Board's recommendation to proceed with an application for the de-listing of the Company's shares from the OMX Nordic Exchange, Iceland.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the consolidated financial performance of the Company for the three-month period ended 31 March 2008, its assets, liabilities and consolidated financial position as at 31 March 2008 and its consolidated cash flows for the period then ended.

Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of FL GROUP hf. for the period from 1 January to 31 March 2008 and confirm them by means of their signatures.

Reykjavík, 8 May 2008

The Board of Directors:

Jón Ásgeir Jóhannesson, Chairman of the Board of Directors

Pálmi Haraldsson

Árni Hauksson

Eiríkur S. Jóhannsson

Hannes Smárason

Katrín Pétursdóttir

Þorsteinn M. Jónsson

CEO:

Jón Sigurðsson

Independent Auditors' Review Report

To the board of FL GROUP hf.

We have reviewed the accompanying condensed consolidated interim financial statements of FL GROUP hf., which comprise the consolidated balance sheet as at 31 March 2008 and the consolidated income statement, statement of changes in equity and cash flow statement 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 Standards as adopted by the EU. 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 2008, and of its financial performance and its cash flows for the three-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 8 May 2008

KPMG hf.

Jón S. Helgason
Sæmundur Valdimarsson

Consolidated Interim Income Statement

for the Three Months Ended 31 March 2008

			Q1	
			1 January - 31 March	
	Note		2008	2007
Investment income:				
Net (expense) income from investment securities and derivatives	4	(22,935)		12,472
Interest income		2,583		1,498
Interest expenses		(7,338)	(3,017)	
Net foreign exchange (loss) gain		(18,965)		4,627
		(46,655)		15,580
Net insurance income:				
Insurance premium		3,176		0
Operating expenses:				
Insurance claims		(3,327)		0
Operating expenses - investments		(588)	(884)	
Operating expenses - insurance		(873)		0
		(4,788)	(884)	
(Loss) profit before income tax		(48,267)		14,696
Income tax		452		388
(Loss) profit for the period		(47,815)		15,084
Attributable to:				
Equity holders of the Company		(47,815)		15,084
(Loss) profit for the period		(47,815)		15,084
Earnings per share:				
Basic (loss) earnings per share (ISK)		(3.55)		1.94
Diluted (loss) earnings per share (ISK)		(3.55)		1.92

Consolidated Interim Balance Sheet

as at 31 March 2008

	Notes	31.3.2008	31.12.2007
Assets:			
Cash and cash equivalents		18,941	21,125
Unpaid share capital		0	7,500
Equity investments	5	177,291	218,998
Bonds and debt investments		18,697	16,021
Derivatives		6,450	6,604
Restricted cash		25,960	53,060
Assets classified as held for sale	3	19,864	0
Loans and receivables, including insurance receivables		69,195	42,348
Reinsurance assets		19,826	13,937
Deferred tax asset		9,020	8,623
Operating assets		2,290	2,167
Intangible assets		33,855	31,937
Total assets		<u>401,389</u>	<u>422,320</u>
Equity:			
Share capital		13,421	13,494
Share premium		160,093	160,965
Other reserves		8,860	1,626
Accumulated deficit		(68,374)	(20,559)
Total equity attributable to equity holders of the Company		114,000	155,526
Minority interest		1,181	318
Total equity		<u>115,181</u>	<u>155,844</u>
Liabilities:			
Derivatives		13,835	13,488
Short positions		4,914	3,350
Trade and other payables		20,575	14,469
Liabilities classified as held for sale	3	17,043	0
Insurance liabilities		40,148	29,626
Borrowings	6	189,023	204,979
Income tax liability		670	564
Total liabilities		<u>286,208</u>	<u>266,476</u>
Total equity and liabilities		<u>401,389</u>	<u>422,320</u>

Consolidated Interim Statement of Changes in Equity

for the Three Months Ended 31 March 2008

			Other reserves		(Accumulated deficit)	Equity holders of the Company	Minority interest	Total equity
	Share capital	Share premium	Share option reserve	Translation reserve	retained earnings			
1 January to 31 March 2007								
Equity 1.1.2007	7,763	70,530	339	609	63,425	142,666	10	142,676
Translation difference				(532)		(532)		(532)
Profit for the period					15,084	15,084		15,084
Total profit for the period				(532)	15,084	14,552	0	14,552
Dividends (ISK 1.93 per share)					(14,983)	(14,983)		(14,983)
Sale of subsidiary						0	(10)	(10)
Own shares, change		(586)				(586)		(586)
Stock options		76	77			153		153
Equity 31.3.2007	7,763	70,020	416	77	63,526	141,802	0	141,802
1 January to 31 March 2008								
Equity 1.1.2008	13,494	160,965	759	867	(20,559)	155,526	318	155,844
Translation difference				7,079		7,079		7,079
Loss for the period					(47,815)	(47,815)		(47,815)
Total loss for the period				7,079	(47,815)	(40,736)	0	(40,736)
Own shares, change	(73)	(872)				(945)		(945)
Minority interest arising on business combination						0	863	863
Stock options			155			155		155
Equity 31.3.2008	13,421	160,093	914	7,946	(68,374)	114,000	1,181	115,181

Condensed Consolidated Interim Statement of Cash Flows

for the Three Months ended 31 March 2008

	Notes	Q1	
		1 January - 31 March	
		2008	2007
Net cash (used in) provided by operating activities	(10,805)	1,287
Net cash provided by (used in) investing activities		29,959	(44,557)
Net cash (used in) provided by financing activities	(21,462)	28,391
Decrease in cash and cash equivalents	(2,308)	(14,879)
Effect of exchange rate fluctuations on cash held		124	(1,149)
Cash and cash equivalents at 1 January		21,125	47,022
Cash and cash equivalents at 31 March		18,941	30,994
Investment and financing without cash flow effect:			
Unpaid dividend		0	14,983

Notes

1. Significant accounting policies

a. *Reporting entity*

FL GROUP hf.'s registered office is at Síðumúli 24, Reykjavík, Iceland. The condensed consolidated interim financial statements of FL GROUP hf. ("the Company") as at and for the three months ended 31 March 2008 comprise the Company and its subsidiaries, together referred to as the "Group".

FL GROUP hf. is an international investment company with core investments in financials and insurance along with private equity investments with special focus on property companies as well as proprietary trading. The company operates offices in Reykjavík and London.

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 2007.

The interim financial statements were authorised for issue by the board of directors on 8 May 2008.

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 2007. The consolidated financial statements for the Group as at and for the year ended 31 December 2007 are available upon request from the Company's registered office at Síðumúli 24, Reykjavík or at www.flgroup.is or at The OMX Nordic Exchange website, www.omxnordicexchange.com.

The condensed interim consolidated financial statements are prepared in Icelandic Krona, which is the Company's functional currency. All financial information has been rounded to the nearest million, unless otherwise stated.

d. *Use of estimates and judgements*

The preparation of interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Notes, contd.:

Segment reporting

2. Segment information is presented in the interim consolidated financial statements to reflect the Group's management and internal reporting structure for the year 2008 and is divided into two segments, investment and insurance. The investment segment consists of FL Group's operations excluding TM and its subsidiaries, which represent the insurance operations of the Group.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

1 January - 31 March 2008	Investment activities	Insurance	Eliminations	Consolidated
Net investment loss	(47,239)	(2,726)	3,310	(46,655)
Net insurance income:				
Insurance premium	0	3,176	0	3,176
Operating expenses:				
Insurance claims	0	(3,327)	0	(3,327)
Other operating expenses	(588)	(873)	0	(1,461)
Segment result before income tax	(47,827)	(3,750)	3,310	(48,267)
Income tax	(4)	456	0	452
Loss for the period	(47,831)	(3,294)	3,310	(47,815)

Segment information is not reported for first quarter 2007 as the Group's activities were solely investment activities.

Changes in the Group

3. During the period FL Group hf. obtained control over the subsidiary Eikarhald ehf. Eikarhald ehf. is consolidated and presented as of 31 March 2008 as disposal group held for sale following the commitment of the Board of Directors to sell the shares, representing 71.7% of the shares in the company.

Investment income

4. Net (expense) income from investment securities and derivatives is specified as follows:

	2008 1.1.-31.3.	2007 1.1.-31.3.
Net (loss) gain on financial assets designated at fair value through profit or loss	(25,563)	5,538
Net gain on financial assets held for trading	2,628	6,934
Net (expense) income from investment securities and derivatives	(22,935)	12,472

Notes, contd.:

Investment securities

5. Equity investments are specified as follows:

		Fair value including related derivatives		Fair value including related derivatives
	Ownership	31.3.2008	Ownership	31.12.2007
Listed equity investments:				
<i>Listed on the Iceland Stock Exchange:</i>				
Glitnir banki hf.	32.25%	82,765	31.97%	104,430
Other companies		10,735		15,309
Total listed on the Icelandic Stock Exchange		93,500		119,739
<i>Listed on foreign stock exchanges:</i>				
Aktiv Kapital ASA	-	0	13.27%	6,400
Comerzbank AG	-	0	2.90%	45,931
Inspired Gaming Group PLC	19.29%	2,445	18.97%	4,054
Finnair Oyj	-	0	12.69%	12,091
Royal Unibrew A/S	26.19%	12,227	25.57%	9,927
Nordicom A/S	22.29%	6,757	21.71%	6,859
Other companies		4,997	(7,944)
Mutual-fund certificates		9,619		0
Total listed on foreign stock exchanges		36,045		77,318
Total listed equity investments		129,545		197,057
Unlisted securities:				
Eikarhald ehf.	-		71.70%	
Pyrping hf.	49.33%		49.33%	
Refresco Holding B.V.	49.00%		49.00%	
Geysir Green Energy ehf.	-		43.14%	
Landic Property hf.	39.23%		39.23%	
Northern Travel Holding ehf.	34.78%		34.78%	
Highland Group Holding Limited	13.89%		13.89%	
Other companies				
Mutual-fund certificates				
Total unlisted equity investments		67,702		90,019
Total equity investments		197,247		287,076
Thereof equity derivatives		(24,870)	(71,428)
Thereof equity short positions		4,914		3,350
Fair value of equity investments at end of period		177,291		218,998

Notes, contd.:

Borrowings

6. Repayments of borrowings are specified as follows:

	31.3.2008	31.12.2007
Repayments in 2008	24,237	55,609
Repayments in 2009	123,860	89,753
Repayments in 2010	22,298	44,697
Repayments in 2011	3,445	0
Repayments in 2012 and later	15,183	14,920
	<u>189,023</u>	<u>204,979</u>

In the beginning of April 2008 the Company refinanced or received commitment from financial institutions to refinance debt maturing in 2008 amounting to ISK 17.0 billion.

Ratios

7. The Group's primary ratios are specified as follows:

Equity ratio - equity / capital employed	28.7%	36.9%
Internal value of shares - equity attributable to equity holders of the Company / share capital	8.49	11.55

Quarterly Statements

8. Summary of the Group's operating results by quarters:

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Investment income:					
Net income (expense) from investment					
securities and derivatives	12,472	7,658	(23,651)	(60,161)	(22,935)
Interest income	1,498	473	973	2,038	2,583
Interest expenses	(3,017)	(3,263)	(4,972)	(6,314)	(7,338)
Net foreign exchange gain (loss)	4,627	4,208	(3,121)	(3,238)	(18,965)
	<u>15,580</u>	<u>9,076</u>	<u>(30,771)</u>	<u>(67,675)</u>	<u>(46,655)</u>
Insurance premium	0	0	0	2,769	3,176
Insurance claims	0	0	0	(2,598)	(3,327)
Other operating expenses	(884)	(1,022)	(1,193)	(3,054)	(1,461)
Profit (loss) before income tax	14,696	8,054	(31,964)	(70,558)	(48,267)
Income tax	388	(12)	4,817	7,341	452
Profit (loss) for the period	<u>15,084</u>	<u>8,042</u>	<u>(27,147)</u>	<u>(63,217)</u>	<u>(47,815)</u>