



## Record after tax profit of ISK 44.6 billion (EUR 475.8 million) Profit more than doubles in 2006

### Key financial highlights

- Profits after tax up by 158% to ISK 44,559 million (EUR 475.8 million)
- Q4 2006 Profits after tax up by 215% to ISK 33,581 million (EUR 358.4 million)
- Total assets up by 98% to ISK 262.9 billion (EUR 2.81 billion)
- Shareholders equity up by 92% to ISK 142.7 billion (EUR 1.52 billion)
- Return on equity of 42.9%
- Equity ratio of 54.3%
- The Board of Directors proposes a dividend payment of ISK 15,000 million (EUR 160.2 million) which is 33,7% of profit for the year, and 1,93% of the nominal value of the share capital

### Key investment and operating highlights

- Successful transformation of FL Group into a pure investment company with the disposal of its entire shareholding in the two operating subsidiaries Icelandair Group and Sterling
- Increased stake in Glitnir to 30.4%
- Acquired 6% stake in AMR Corporation
- Disposed of 22.6% share in Straumur-Burdaras Investment Bank and simultaneously increased share in Finnair to 22.4%
- Disposed of 16.9% share in easyJet
- ISK 47 billion of available cash to make further acquisitions

### Commenting on the results, Hannes Smárason, CEO of FL Group, said:

"2006 was a very successful year for FL Group. Through the diversification and active management of our holdings we achieved record results, more than doubling net profits to ISK 44.6 billion (EUR 476 million).

"The last quarter saw the transformation of FL Group with the sale of Icelandair and Sterling Airlines. This left us with an investment company with significant liquidity and investment power. We are very excited about 2007 and the goal is to make this year even more exciting and successful than 2006."

### Key figures from operations

million ISK	2006	2005	2004	2003	2002
<b>Income statement</b>					
Investment income	43,168	22,195			
Operating expenses	-2,770	-1,652			
Profit before income tax	40,398	20,543	4,318	1,406	3,347
Income tax	2,631	-3,292	-713	-285	-726
Profit from discontinued oper.	1,531				
<b>Profit for the year</b>	<b>44,559</b>	<b>17,251</b>	<b>3,605</b>	<b>1,121</b>	<b>2,621</b>
<b>Balance sheet at end of year:</b>					
Total assets	262,871	132,618	43,482	37,296	36,845
Total liabilities	120,195	58,175	28,721	28,086	28,223
Equity	142,676	74,443	14,761	9,210	8,622
Equity ratio	54%	56%	34%	25%	23%
ROE	43%	55%	38%	13%	42%
EPS	6.65	5.90	1.58	0.52	1.21

## **Overview of 2006**

In 2006 FL Group completed the process started in 2005 to transform the Group into an investment company focusing on major investments in listed and unlisted securities in various sectors, mainly in Northern Europe. The sales of all its shares in both Icelandair Group and Sterling, the largest operating companies fully owned by FL Group, were important steps in that transformation.

At the same time, FL Group continued to grow and diversify its investment portfolio. FL Group strengthened its position in Glitnir Bank, Royal Unibrew and Finnair and acquired 6% of AMR Corporation (which operates American Airlines, the world's largest airline) and acquired 49% in Refresco, a private label beverage producer. As a result, FL Group now has investments across various sectors including financial services, aviation, beverages and retail across Iceland, Norway, Denmark, the UK, US and the Netherlands.

These successful investments reflect FL Group's dynamic and flexible approach to investing across sectors and geographic markets.

In 2006 FL Group opened up offices in London and Copenhagen - both are seen as important growth areas for the company. FL Group also established representative offices in Amsterdam and Oslo as a support to administrative and financing activity in Netherlands and Norway.

## **Outlook**

Following the sale of Icelandair Group, Sterling, easyJet, and Straumur-Burdaras and its successful international funding activity, FL Group now has some ISK 47 billion of cash available for further acquisitions.

This considerable liquidity, combined with FL Group's very strong equity base, gives the company great flexibility for further investments and the possibility of making significant acquisitions.

The investment skills of our employees, our flexible approach to investing, the quality of our investment portfolio and the firepower at our disposal give us every confidence that FL Group will be as successful in 2007 as it has been in 2006.

## **Financial performance**

FL Group's after-tax profit was ISK 44.6 billion in 2006, thereof ISK 33.6 billion in the fourth quarter.

The group's total assets were ISK 262.9 billion at the end of 2006, increased by ISK 130.3 billion during the year. The largest portion of the increase (ISK 112.0 billion) can be attributed to investments in market securities. At the end of the year FL Group's investments in listed securities amounted to ISK 253 billion. The largest single investment was Glitnir Bank, ISK 100.9 billion, then AMR Corporation in the amount of ISK 27.6 billion and Finnair in the amount of ISK 23.1 billion. The book value of the company's listed securities assets is, however, only ISK 166.3 billion since part of the company's shares are in forward agreements, the net value of which is entered into the Annual Financial Statement.

FL Group's equity capital at the end of 2006 was ISK 142.7 billion, the increase from 2005 is ISK 68.2 billion. This increase can be attributed to the year's profit and the issue of new shares. The company's financial condition is therefore extremely strong with an equity ratio of 54.3%. Accordingly, the company is more than well placed to deal with continuing projects. The return on equity was 42.9%, based on the average equity during the year.

At the beginning of this year FL Group's settlement currency was changed from US dollars (USD) to Icelandic krona (ISK) since the Icelandic krona had become the company's largest single currency. Consequently the company entered into a position where foreign assets exceeded foreign debt which did prove to be a profitable position with the Icelandic krona depreciating in value.

## Investment activities

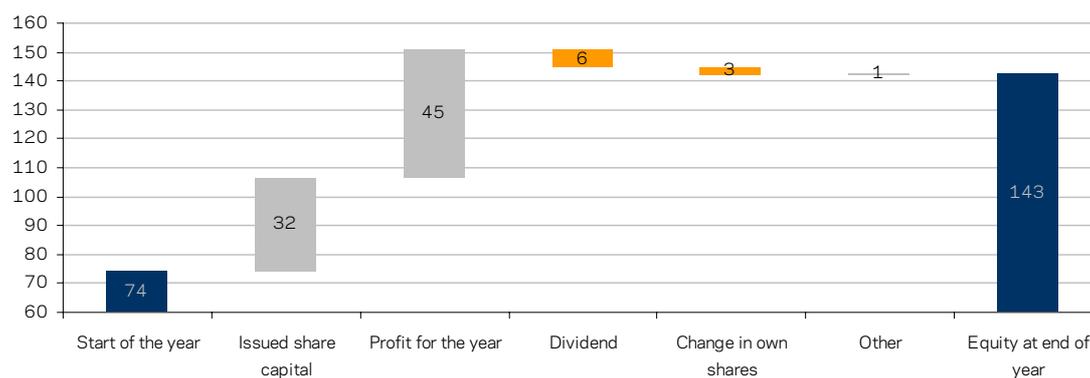
The investment portfolio changed quite dramatically during 2006, especially in listed shares, as the company took on new strategic investments and sold out of other investments. In addition to the investments shown in the table below, FL Group made a considerable investment in Straumur-Burdaras Investment Bank, which was sold before the end of 2006.

31 / 12 / 2006		
Investments	Market value	% holding
<b>Significant holdings</b>		
Glitnir	100,892	30.4%
AMR Corporation	27,626	6.0%
Finnair Oyj	23,126	22.4%
Royal Unibrew A/S	14,013	24.4%
Bang & Olufsen A/S	11,834	10.4%
Aktiv Kapital ASA	6,671	13.3%
	<b>184,161</b>	
Trading portfolio	68,987	
<b>Total investment in listed securities</b>	<b>253,149</b>	
<b>Total investment in unlisted securities</b>	<b>14,819</b>	
<b>Total investments</b>	<b>267,968</b>	
Financed with forward contracts	86,807	
Investments recognised on balance sheet	181,161	

The company also increased its investments in private companies. The investment in Refresco was the first investment, followed by an investment in House of Fraser and Northern Travel Holding. These investments have all performed as expected.

## Strong equity base

The total equity base of FL Group increased substantially during the year both due to profitable investment activities and also successful share issuance in a difficult equity market in Iceland.



## Funding activity

In 2006 FL Group arranged close to ISK 100 billion ( more than EUR 1 billion) in funding and available facilities from international banks. This is not only a recognition of the strength of the relationships FL Group has built in the capital markets, but also a major step in the company's development, funding activities and access to finance for future investments. As a result, at the end of 2006, FL Group has more investment power than ever before and is well placed to make future investments.

## **Major transactions in 2006**

### Sale of Icelandair Group

FL Group declared its intentions to list Icelandair Group on the Icelandic Stock Exchange (ICEX now OMX from Jan. 2007) in February. In October Icelandair Group was sold to a group of investors for a profit of ISK 26.5 billion. In December Icelandair Group was listed on the ISEX after a successful IPO.

### Sale of Sterling / Investment in Northern Travel Holding

Orchestrating a major turnaround of the merged Danish airlines, Maersk and Sterling under the name of the latter, FL Group managed in just under a year to build a viable company which was then sold in December to Northern Travel Holding for ISK 20 billion.

Northern Travel Holding was formed late December by FL Group and two other Icelandic investment companies. The aim is for Northern Travel Holding to become a market leading low cost carrier supported by Scandinavia's largest retailer in the travel industry. Along with the acquisition of Sterling Airlines, Northern Travel Holding acquired all of the shares in Iceland Express, 51% of shares in Astraeus, all of the shares in Hekla Travel and approximately 30% of outstanding shares in Ticket. The turnover of the companies forming Northern Travel will be around ISK 120 billion and the number of passengers flown around 7.5 million.

### Increased share in Glitnir Bank

FL Group is the largest shareholder in Glitnir Bank one of three major banks in Iceland. This investment is a solid foundation for FL Group and a pillar to build upon. Glitnir Bank is regarded by FL management as a long term investment and indeed as a cornerstone in FL Groups future strategy. A testament to this policy is the build up of FL Groups stake in Glitnir Bank throughout the year.

### Sale of easyJet

FL Group started building its stake in easyJet in October 2004. In April 2006 the decision was taken to sell the 16.9% share that the company had acquired. By selling the stake FL Group realised a profit of approximately ISK 13 billion giving an annual return of around 70%, far surpassing the firms' target investment objective of 20%.

### Investment in Refresco Holding

In April a consortium led by FL Group acquired Refresco Holding B.V. (Refresco), a Dutch private label beverage manufacturer for a consideration (enterprise value) of EUR 461 million. FL Group is the largest shareholder with 49%. The company's investment totalled EUR 56 million, paid in cash. Refresco has performed strongly in recent years, out-performing the market, growing by 10% a year between 2000 and 2004. FL Group intends to enlarge the company even more by mergers and acquisitions some more than well under way by now. Among other investors are Vifilfell hf. and Refresco's key management.

### Investment in Straumur-Burdaras Investment bank

FL Group acquired a 24.2% share in Straumur Burdaras, Iceland's largest investment bank in June. Included in the transaction was a share capital increase in FL Group amounting to ISK 35 billion. With the issuance of new shares in FL Group in relation to this transaction the company strengthened its equity base considerably at a time when capital was scarce in the market. In December FL Group sold the majority of its shares in Straumur-Burdaras for ISK 42.1 billion.

### Investment in AMR Corporation

This investment opportunity was spotted late in 2006 and in December FL Group announced that it had build up a stake of 6.0% in AMR, the world largest airline. Since the release of the announcement on December 26th the share price of AMR Corporation has risen considerable.

### Increased shareholding in Finnair

FL Group added a further 10.4% share in Finnair - the Finnish flag carrier - to its portfolio in connection with the sale of FL Group's shares in Straumur-Burdaras in December. FL Group is now the second largest shareholder in Finnair after the Finnish state. FL Group strongly believes that Finnair has great growth potential and a valuable position in the marketplace, especially with its routes eastwards towards Asia.

### Investment in House of Fraser

FL Group participated in the acquisition of House of Fraser in 2006 when Baugur led a consortium of investors in a public-to-private acquisition of the company. FL Group holds 13.9% of shares.

## Enquiries:

### FL Group

Hannes Smárason  
CEO  
Tel: +354 591 4400

Kristjan Kristjánsson  
Director Corporate Communications  
Tel: +354 591 4427 / 354 899 9352

Sveinbjörn Indriðason  
CFO  
+354 591 4400

### UK / Brunswick Group LLP

Anita Scott, Nigel Prideaux, Leonora Pou  
Tel: +44 (0) 20 7404 5959

### Denmark / Jöp, Ove & Myrthu A/S

Lars Jörgensen  
Tel: +45 29 78 49 32  
+45 39 27 50 50

## Notes to Editors:

### About FL Group

FL Group is a unique international investment company, focusing primarily on private equity and strategic investments. FL Group's business also includes proprietary trading, with a particular emphasis on active participation in markets with listed securities. With its head office in Reykjavik and offices in Copenhagen and London, FL Group invests in companies in Northern Europe, focusing primarily on the Nordics and the UK.

FL Group is listed on the Icelandic Stock Exchange (ICEX: FL). At the end of 2006 FL Group's total assets amounted to ISK 262.9 billion (EUR 2.81 billion). Its market capitalisation at the end of the year was ISK 203 billion (EUR 2.17 billion). The largest shareholders of FL Group are Oddaflug BV (19.8%), owned by Hannes Smárason, CEO; Baugur Group (18.1%), Gnúpur fjárfestingafélag hf. (17.2%), Icon and Materia Invest (10.7%). The shareholding can in some cases be in the name of Icelandic financial institutions because of forward contracts. More information on [www.flgroup.is](http://www.flgroup.is)

### About FL Group's largest investments:

#### Listed investments

##### Glitnir Bank

[www.glitnir.is](http://www.glitnir.is)

The financial group Glitnir offers universal banking and is a leading niche player in three global segments; seafood/food, sustainable energy, and offshore supply vessels. Glitnir consider Iceland and Norway as home markets. Services include retail, corporate and investment banking, stock trade and capital management. Glitnir is listed on the Icelandic Stock Exchange. Glitnir recently announced a profit of ISK 38.2 billion for 2006, with a return on equity after tax of 39.4%.

##### AMR Corporation

[www.aa.com](http://www.aa.com)

American Airlines is the world's largest airline. American, American Eagle and the AmericanConnection® airlines serve 250 cities in over 40 countries with more than 4,000 daily flights. The combined network fleet numbers more than 1,000 aircraft. AMR Corp realised a profit of USD 231 million in 2006.

##### Finnair

[www.finnair.com](http://www.finnair.com)

Finnair was established on 1st November 1923. In 2005, Finnair carried over 8.5 million passengers. The number of personnel of Finnair Group is approximately 9700. The subsidiaries provide air traffic support services or operate in closely related areas. Finnair's major shareholder is the Finnish government with a 56.3 per cent holding.

##### Royal Unibrew

[www.royalunibrew.com](http://www.royalunibrew.com)

Royal Unibrew is the second largest brewery group in Scandinavia. Its head office is located in Faxe, Denmark. The company comprises four Danish, two Lithuanian breweries, two Polish breweries, one Latvian brewery and one Latvian soft drinks producer. Royal Unibrew has approx. 2,300 employees worldwide and exports to approx. 65 countries throughout the world.

#### Bang & Olufsen

[www.bang-olufsen.com](http://www.bang-olufsen.com)

Founded in 1925 in Struer, Denmark, Bang & Olufsen a/s is world renowned for its distinctive range of quality consumer electronic products that represent its vision. With more than 2,400 employees and products sold in more than 60 countries worldwide, Bang & Olufsen turnover for the 2005/2006 financial year was DKK 4,225 million (EUR 566.5 million).

#### Aktiv Kapital

[www.aktivkapital.com](http://www.aktivkapital.com)

Aktiv Kapital is a supplier of comprehensive financial services designed to free resources bound up in clients' outstanding receivables. The group has three core business areas - acquisition of defaulted credit portfolios, debt collection and invoice administration and associated financing. Today, Aktiv Kapital has around 1,010 employees in Norway, Sweden, Finland, Denmark, United Kingdom, Germany, Switzerland, Austria, France, Spain and Canada.

### **Unlisted investments**

#### Refresco

[www.refresco.nl](http://www.refresco.nl)

Refresco is a European manufacturer of private label fruit juice and soft drinks. The company employs 1,200 people across five countries and is recognized as the second largest manufacturer of private label fruit juices and soft drinks in Europe. Refresco's product portfolio comprises of juices, still drinks, carbonated soft drinks, ice tea and sport drinks. About 65% of total sales are private label products.

#### Northern Travel Holding

Northern Travel Holding is a leisure company that was established in 2006 by FL Group along with Icelandic investment companies Fons and Sund. The company acquired certain assets in the travel industry within Northern Europe and is aiming to take a leading role in consolidating the industry further. Combining Scandinavia's largest low cost carrier with Scandinavia's largest retailer in the travel industry. One of Northern Travel Holdings assets in Sterling Airlines which FL Group sold to the company for a consideration of ISK 20 billion late in 2006. Northern Travel also holds all of the shares in Iceland Express, 51% of the UK based charter airline Astraesus, 29.26% of the listed Swedish travel agent Ticket and all of the shares in Danish travel agent Hekla Travel.

#### House of Fraser

House of Fraser is Britain's leading retailer of designer brands. It operates 61 department stores across the United Kingdom and Ireland under several trading names including House of Fraser, Frasers, Howells, Dickins & Jones, Rackhams, Army & Navy, Jenners and Beatties. House of Fraser's offering encompasses womenswear, menswear, childrenswear, fashion accessories, beauty and home products, restaurants and food halls and includes many well-known brands. In addition, the House of Fraser Group has a number of own-label brands including Linea and Therapy.

#### Unity Investment

Unity is an investment vehicle FL Group formed with Baugur Group and Kevin Stanford. The company's key focus will be to take strategic stakes in listed companies, in particular within the UK retail sector. Unity currently holds shareholdings in a number of UK companies, including French Connection, Moss Bros and Woolworths. FL Group holds 37.5% of shares in Unity.