

FL GROUP hf.

Condensed Consolidated Interim Financial Statements 1 January - 30 September 2006

FL GROUP hf.
Suðurlandsbraut 12
108 Reykjavík
Reg. no. 601273-0129

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Endorsement and Signatures of the Board of Directors and the CEO

The condensed consolidated interim financial statements of FL GROUP hf. for the period from 1 January to 30 September 2006 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, which were seven at the end of September 2006.

In October 2006 the Company sold its subsidiary, Icelandair Group hf. Icelandair Group hf. is therefore not a part of FL GROUP hf.'s consolidated financial statements from that time.

The Company took over operations of Sterling Airlines A/S on January 6, 2006 and the company is therefore a part of FL GROUP hf.'s consolidated financial statements as of that date.

According to the income statement net profit for the period amounted to ISK 10,978 million. According to the balance sheet, equity at the end of the period amounted to ISK 112,151 million, including share capital in the amount of ISK 7,784 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 September 2006 by means of their signatures.

Reykjavík, 13 November 2006

The Board of Directors:

Skarphéðinn Berg Steinarsson, Chairman of the board
Jón Ásgeir Jóhannesson
Kristinn Björnsson
Magnús Ármann
Paul Davidson
Smári S. Sigurðsson
Þorsteinn M. Jónsson

CEO:

Hannes Smárason

Auditors' Report

Board of Directors of FL GROUP hf.

We have compiled the interim consolidated balance sheet of FL GROUP hf. and its subsidiaries as of 30 September 2006 and the related consolidated income statement and statement of cash flows for the nine months then ended. These interim consolidated financial statements are presented in accordance with International Financial Reporting Standards. All information included in these interim consolidated financial statements is the representation of the management of FL GROUP hf.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying interim consolidated financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Reykjavík, 13 November 2006

Jón S. Helgason

Sæmundur Valdimarsson

KPMG Endurskoðun hf.

Income Statement for the Nine Months Ended 30 September 2006

		3rd Quarter		Year to Date	
	Note	July 1, - September 30, 2006	2005	January 1, - September 30, 2006	2005
Investment income:					
Profits from investments and derivatives	5	4,563	2,600	12,900	6,336
Interest income		310	289	938	665
Interest expenses		(1,980)	(479)	(4,444)	(1,309)
Net foreign exchange (loss) gain		(2,328)	225	758	(42)
		<u>565</u>	<u>2,635</u>	<u>10,152</u>	<u>5,650</u>
Operating income:					
Aviation, tourism service and other income	6	<u>35,212</u>	<u>16,774</u>	<u>81,182</u>	<u>36,838</u>
Operating expenses:					
Aviation and tourism service expenses	7	30,075	13,106	78,314	32,632
Other operating expenses		695	609	1,703	1,826
		<u>30,770</u>	<u>13,715</u>	<u>80,017</u>	<u>34,458</u>
Profit before income tax		5,007	5,694	11,317	8,030
Income tax expense		250	(1,052)	(339)	(1,455)
Profit for the period		<u>5,257</u>	<u>4,642</u>	<u>10,978</u>	<u>6,575</u>
Attributable to:					
Equity holders of the parent		5,254	4,638	10,977	6,571
Minority interest		3	4	1	4
Profit for the period		<u>5,257</u>	<u>4,642</u>	<u>10,978</u>	<u>6,575</u>
Earnings per share:					
Basic earnings per share		0.68	1.83	1.65	2.60
Diluted earnings per share		0.68		1.63	

Balance Sheet as at 30 September 2006

	Note	30.9.2006	31.12.2005
Assets:			
Cash and cash equivalents		16,177	10,350
Securities	8	117,897	68,658
Derivatives		5,959	6,341
Restricted cash		10,227	0
Inventories		1,167	876
Trade and other receivables		15,520	7,222
Investments in companies		6,963	480
Tax assets		1,302	0
Prepaid aircraft acquisitions		12,095	14,490
Operating assets		24,500	20,731
Intangible assets		27,658	3,470
Total assets		239,465	132,618
 Equity:			
Share capital	9	7,784	5,802
Share premium		70,946	43,169
Other reserves		417	434
Retained earnings		32,991	25,027
Total equity attributable to equity holders of the parent		112,138	74,432
Minority interest		13	11
Total equity		112,151	74,443
 Liabilities:			
Interest-bearing loans and borrowings		71,351	39,668
Derivatives		12,354	277
Deferred income tax liability		5,638	4,694
Pension liability		378	345
Trade and other payables		28,643	10,550
Prepaid income		8,950	2,641
Total liabilities		127,314	58,175
Total equity and liabilities		239,465	132,618

Statement of Changes in Equity as at 30 September 2006

	Other reserves					Retained earnings	Equity holders of the Parent	Minority interest	Total equity
	Share capital	Share premium	Share option reserve	Hedging reserve	Translation reserve				
1 January to 30 September 2005									
Equity 1.1.2005	2,525	3,609	163	(100)	(623)	9,230	14,804	21	14,825
Translation difference					(143)		(143)		(143)
Hedge accounting				735			735		735
Net profit not posted in income statement				735	(143)		592		592
Net profit for the period						6,575	6,575	2	6,577
Total profit for the period				735	(143)	6,575	7,167	2	7,169
Dividends to shareholders						(1,466)	(1,466)		(1,466)
Own shares, change	7	34					41		41
Stock options.....		105	(60)				45		45
Equity 30.9.2005	2,532	3,748	103	635	(766)	14,339	20,591	23	20,614
1 January to 30 September 2006									
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 profit not posted in income statement				54	2,908		2,962		2,962
Net 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 to shareholders						(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 transferred					(179)	179			
Stock options.....			349				349		349
Equity 30.9.2006	7,784	70,946	417	241	2,908	29,842	112,138	13	112,151

Statement of Cash Flows for the Nine Months Ended 30 September 2006

	Note	Year to Date	
		January 1, - September 30, 2006	2005
Net cash provided by operating activities		4,570	4,892
Net cash used in investing activities	(54,031	(16,747)
Net cash provided by financing activities		54,980	13,142
Increase in cash and cash equivalents		5,519	1,287
Effect of exchange rate fluctuations on cash held		308	0
Cash and cash equivalents at 1 January		10,350	2,819
Cash and cash equivalents at 30 September		16,177	4,106
 Investment and financing without cash flow effect:			
Acquisition of subsidiary		4,022	0
Proceeds from the sale of shares	(4,022)	0

Notes

Significant accounting policies

FL GROUP hf.'s legal residence is at Suðurlandsbraut 12, Reykjavík, Iceland. The condensed consolidated interim financial statements of the Company for the nine months ended 30 September 2006 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 13 November 2006.

a. ***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 2005.

b. ***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 2005. The financial statements for the year 2005 are available at the Company's office and website, www.flgroup.is and at The Icelandic Stock Exchange website, www.icex.is.

The condensed interim consolidated financial statements are prepared in Icelandic kronas, 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.

c. ***Change in the Parent Company's functional currency***

The Parent Company has for the previous years kept its records in US dollars and prepared its financial statements in that same currency. In preparation of the consolidated financial statements, the Parent Company's financial statements have been translated to Icelandic kronas. At the beginning of the year 2006 the functional currency of the Parent Company was changed, when a part of the operations were transferred to the subsidiary Icelandair Group hf. The Parent company keeps its records, from the beginning of the year 2006, in Icelandic kronas. This change does not affect comparative amounts in the consolidated interim financial statements.

Notes, contd.:

Segment reporting

1. Business segments

1 January to 30 September

	Investment activities		Iceland Aviation and tourism services		Denmark Aviation services		Eliminations		Consolidated	
	2006 1.1.-30.9.	2005 1.1.-30.9.	2006 1.1.-30.9.	2005 1.1.-30.9.	2006 1.1.-30.9.	2005 1.1.-30.9.	2006 1.1.-30.9.	2005 1.1.-30.9.	2006 1.1.-30.9.	2005 1.1.-30.9.
Income statement:										
Investment income	10,323	5,756	28	(106)	(199)	0			10,152	5,650
Operating income	0	2,223	44,800	46,580	36,462	0	(80)	(11,965)	81,182	36,838
Operating expenses without depreciation ...	(1,703)	(1,826)	(38,892)	(43,231)	(37,338)	0		11,976	(77,933)	(33,983)
Depreciation	0	0	(1,951)	(1,377)	(327)	0	194		(2,084)	(475)
Profit before income tax .	8,620	6,153	3,985	1,866	(1,402)	0	114	11	11,317	8,030
Income tax expense	(49)	(1,128)	(683)	(327)	393	0			(339)	(1,455)
Profit for the period	8,571	5,025	3,302	1,539	(1,009)	0	114	11	10,978	6,575
EBITDA			5,908	3,349	(876)	0				
EBIT			3,957	1,972	(1,203)	0				

Included in the Icelandic aviation and tourism services segment are all international flights, domestic flights, hotel operations, car rentals and other tourism services.

Notes, contd.:

Quarterly Statements

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

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Investment income	565	(862)	10,449	13,940	2,635	1,421	1,594
Operating income	35,212	28,404	17,566	10,806	16,774	12,248	7,816
Total income	35,777	27,542	28,015	24,746	19,409	13,669	9,410
Total operating expenses	30,770	27,876	21,371	12,233	13,715	11,361	9,382
Profit before income tax	5,007	(334)	6,644	12,513	5,694	2,308	28
Income tax expense	250	216	(805)	(1,837)	(1,052)	(400)	(3)
Profit for the period	5,257	(118)	5,839	10,676	4,642	1,908	25
Attributable to:							
Equity holders of the parent	5,254	(118)	5,841	10,678	4,638	1,907	26
Minority interest	3	0	(2)	(2)	4	1	(1)
Profit for the period	5,257	(118)	5,839	10,676	4,642	1,908	25

Investments in subsidiaries

3. At the end of October 2005 the Company entered into a contract regarding the acquisition of all outstanding shares in Sterling Airlines A/S. FL GROUP hf. took over operations of the company on 6 January 2006 when the conditions in the acquisition agreement were fulfilled. The company is therefore part of FL GROUP hf.'s consolidated financial statements as of that date.

Comparative amounts in the consolidated interim financial statements do not contain amounts from the financial statements of Sterling Airlines A/S.

The acquisition, accounted for according to the purchase method, had the following effect on the Group's balance sheet:

Cash and cash equivalents	1,660
Restricted cash	698
Tax assets	751
Trade and other receivables	3,457
Operating assets	2,410
Intangible assets	167
Interest-bearing loans and borrowings	(2,275)
Trade and other payables	(5,514)
Prepaid income	(4,148)
Net identifiable assets and liabilities, negative	(2,794)
Goodwill on acquisition	17,875

Notes, contd.:

3. Contd.:

Consideration paid	15,081
Consideration satisfied by share issue	(4,022)
Consideration satisfied in cash	11,059
Net cash acquired	(1,660)
Acquisition of subsidiary, net of cash acquired according to the statement of cash flows	<u>9,399</u>

Sale of subsidiaries

4. FL GROUP hf. sold its shares in Ferðaskrifstofa Íslands hf. and BÍlaleiga Flugleiða ehf. at the beginning of the year 2006. Comparative amounts in the consolidated interim financial statements contain amounts from the financial statements of the aforementioned companies. Total assets of these companies at year-end 2005 amounted to ISK 1,771 million and total liabilities amounted to ISK 1,209 million.

In October 2006 FL GROUP hf. sold all its shares in Icelandair Group hf. for ISK 33.5 billion. The Balance Sheet of Icelandair Group hf. will therefore not be a part of the annual consolidated financial statements of FL GROUP hf. 2006. Total assets of the company at the end of September 2006 amounted to ISK 67,892 million and total liabilities amounted to ISK 44,510 million.

Investment income

5. Profit from investments and derivatives are specified as follows:

	2006	2005
	1.1.-30.9.	1.1.-30.9.
Gain on shares	13,191	4,381
Share of profit of associates	91	0
Change in the fair value of derivatives	(382)	1,955
Total profit from investments and derivatives	<u>12,900</u>	<u>6,336</u>

Operating income

6. Aviation, tourism service and other income are specified as follows:

Passengers	49,577	20,059
Cargo and mail	3,638	2,419
Charter revenue and aircraft lease	16,878	4,252
Other operating revenue	11,089	10,108
Total aviation, tourism service and other income	<u>81,182</u>	<u>36,838</u>

Notes, contd.:

Operating expenses

7. Aviation and tourism service expenses are specified as follows:	2006	2005
	1.1.-30.9.	1.1.-30.9.
Salaries, salary-related expenses and other personnel expenses	18,949	12,404
Aircraft fuel	16,072	5,315
Depreciation	2,084	1,377
Other operating expenses	41,209	13,536
Total aviation and tourism service expenses	<u>78,314</u>	<u>32,632</u>

Securities

8. Securities are specified as follows:	Market value	Thereof assets in forward agreements	Carrying amount
	30.9.2006		30.9.2006
<i>Listed stock on foreign stock exchanges:</i>			
Aktiv Kapital ASA	5,994		
Bang & Olufsen A/S	10,804		
Finnair Oyj	12,246		
Royal Unibrew A/S	12,426		
Other companies	<u>3,886</u>		
Total listed stock on foreign stock exchanges	<u>45,356</u>		
<i>Listed stock on the Icelandic Stock Exchange:</i>			
Glitnir banki hf.	79,984		
Straumur-Burðarás fjárfestingarbanki hf.	48,164		
Other companies	<u>19,993</u>		
Total listed stock on the Icelandic Stock Exchange	<u>148,141</u>		
<i>Other securities:</i>			
Mutual-fund certificate	304		
Debt securities held for trading	<u>3,437</u>		
Total other securities	<u>3,741</u>		
Total securities	<u>197,238</u>	<u>79,341</u>	<u>117,897</u>

Notes, contd.:

Equity

9. Issued capital

The Company's share capital, according to its Articles of Association amounts to ISK 7,945 million. One vote is attached to each share of one ISK. Share capital was increased by a nominal value of ISK 2,100 million, from ISK 5,845 million to ISK 7,945 million, at a nominal value. The Company bought own shares at a nominal value of ISK 118 million during the period for ISK 2,284 million. Share capital according to the balance sheet amounted to ISK 7,784 million at the end of the period and is specified as follows:

	Amount	Ratio
Total issued shares at the end of the period	7,784	98.0%
Own shares at the end of the period	161	2.0%
Share capital according to the Articles of Association	<u>7,945</u>	<u>100.0%</u>

Other reserves

Share option reserve

The item share option reserve includes the accrued part of the fair value of share options.

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.

Translation reserve

Foreign exchange differences arising on translation of financial statements of subsidiaries are recognised directly in a separate component of equity.

Ratios

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

	30.9.2006	31.12.2005
Equity ratio - equity / capital employed	46.8%	56.1%
Intrinsic value of share capital	14.41	12.83