

FL GROUP hf.

Condensed Consolidated Interim Financial Statements 1 January - 30 June 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 June 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 three at the end of June 2006.

At the beginning of the year 2006 the Company announced its intention to float Icelandair Group hf. on the Icelandic Stock Exchange. A total of 14 subsidiaries of FL GROUP hf. form Icelandair Group hf. at the end of the year 2005.

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.

At the end of June 2006 the Company entered into a contract to acquire a 24.2% share in Straumur - Burðarás Fjárfestingabanki hf. for the price of ISK 18.9 per share. According to the contract the consideration for the shares will be settled with shares in Kaupþing banki hf. and FL GROUP hf. These transactions are not included in the interim financial statements as of 30 June 2006 because the acquisition agreements contain clauses regarding the formal approval of FL GROUP hf.'s shareholders' meeting and the Financial Supervisory Authority of Iceland's approval of FL GROUP hf. as an effective shareholder of Straumur - Burðarás Fjárfestingabanki hf. At FL GROUP hf.'s Shareholders' meeting on 7 July 2006 the acquisition was approved, as well as the issue of new shares at a nominal value of ISK 1,804 million at ISK 18.52 per share. The Financial Supervisory Authority of Iceland has not yet approved FL GROUP hf. as an effective shareholder of Straumur - Burðarás Fjárfestingabanki hf.

According to the income statement net profit for the period amounted to ISK 5,721 million. According to the balance sheet, equity at the end of the period amounted to ISK 83,365 million, including share capital in the amount of ISK 6,034 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 2006 by means of their signatures.

Reykjavík, 14 August 2006

The Board of Directors:

Þorsteinn M. Jónsson
Peter Möllerup
Kristinn Björnsson
Magnús Ármann
Smári S. Sigurðsson

CEO:

Hannes Smárason

Auditors' Review Report

Board of Directors of FL GROUP hf.

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of FL GROUP hf. as of June 30, 2006 and the related condensed consolidated statements of income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and 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 consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting

Reykjavík, 14 August 2006

Jón S. Helgason

Sæmundur Valdimarsson

KPMG Endurskoðun hf.

Income Statement for the Six Months Ended 30 June 2006

		Q2 1.4.-30.6.		Q1 - Q2 1.1.-30.6.	
	Note	2006	2005	2006	2005
Investment income:					
Profits from investments and derivatives	5	(1,896)	1,880	8,337	3,736
Interest income		143	204	628	376
Interest expenses		(1,584)	(475)	(2,464)	(830)
Net foreign exchange gain (loss)		2,475	(188)	3,086	(267)
		(862)	1,421	9,587	3,015
Operating income:					
Aviation, tourism service and other income	6	28,404	12,248	45,970	20,064
Operating expenses:					
Aviation and tourism service expenses	7	27,353	11,201	48,239	20,533
Other operating expenses		523	160	1,008	210
		27,876	11,361	49,247	20,743
(Loss) profit before income tax		(334)	2,308	6,310	2,336
Income tax expense		216	(400)	(589)	(403)
(Loss) profit for the period		(118)	1,908	5,721	1,933
Attributable to:					
Equity holders of the parent		(118)	1,907	5,723	1,937
Minority interest		0	1	(2)	(4)
(Loss) profit for the period		(118)	1,908	5,721	1,933
(Loss) earnings per share:					
Basic (loss) earnings per share		(0.02)	0.75	0.95	0.76
Diluted (loss) earnings per share		(0.02)	0.73	0.93	0.74

Balance Sheet as at 30 June 2006

	Note	30.6.2006	31.12.2005
Assets:			
Cash and cash equivalents		20,945	10,350
Securities	8	65,563	68,658
Derivatives		4,832	6,341
Restricted cash		13,148	0
Investments in companies		11,405	480
Tax assets		1,778	0
Inventories		1,034	876
Trade and other receivables		13,839	7,222
Operating assets		25,372	20,731
Prepaid aircraft acquisitions		15,782	14,490
Intangible assets		28,853	3,470
Total assets		202,551	132,618
 Equity:			
Share capital	9	6,034	5,802
Share premium		45,693	43,169
Other reserves		7,041	434
Retained earnings		24,588	25,027
Total equity attributable to equity holders of the parent		83,356	74,432
Minority interest		9	11
Total equity		83,365	74,443
 Liabilities:			
Interest-bearing loans and borrowings		66,331	39,668
Derivatives		9,739	277
Deferred income tax liability		6,058	4,694
Pension liability		345	345
Trade and other payables		20,511	10,550
Prepaid income		16,202	2,641
Total liabilities		119,186	58,175
Total equity and liabilities		202,551	132,618

Statement of Changes in Equity as at 30 June 2006

1 January to 30 June 2005	Other reserves					Retained earnings	Equity holders of the Parent	Minority interest	Total equity
	Share capital	Share premium	Share option reserve	Hedging reserve	Translation reserve				
Equity 1.1.2005	2,525	3,609	163	(100)	(623)	9,230	14,804	21	14,825
Translation difference					476		476		476
Hedge accounting				486			486		486
Net profit not posted in income statement				486	476		962		962
Net profit for the period						1,933	1,933	(4)	1,929
Total profit for the period				486	476	1,933	2,895	(4)	2,891
Dividends to shareholders						(1,466)	(1,466)		(1,466)
Own shares, change	6	157					163		163
Stock options.....			(62)				(62)		(62)
Equity 30.6.2005	2,531	3,766	101	386	(147)	9,697	16,334	17	16,351
1 January to 30 June 2006									
Equity 1.1.2006	5,802	43,169	68	187	179	25,027	74,432	11	74,443
Translation difference					5,971		5,971		5,971
Hedge accounting				576			576		576
Net profit not posted in income statement				576	5,971		6,547		6,547
Net profit for the period						5,723	5,723	(2)	5,721
Total profit for the period				576	5,971	5,723	12,270	(2)	12,268
Dividends to shareholders						(6,341)	(6,341)		(6,341)
Issued share capital	296	3,726					4,022		4,022
Own shares, change	(64)	(1,202)					(1,266)		(1,266)
Translation reserve transferred					(179)	179	0		0
Stock options.....			239				239		239
Equity 30.6.2006	6,034	45,693	307	763	5,971	24,588	83,356	9	83,365

Statement of Cash Flows for the Six Months Ended 30 June 2006

	Note	Q1 - Q2 1.1.-30.6.	
		2006	2005
Net cash provided by operating activities		388	4,215
Net cash used in investing activities	(4,988)	(10,785)
Net cash provided by financing activities		14,394	14,643
Increase in cash and cash equivalents		9,794	8,073
Effect of exchange rate fluctuations on cash held		801	0
Cash and cash equivalents at 1 January		10,350	2,819
Cash and cash equivalents at 30 June		20,945	10,892
 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 six months ended 30 June 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 15 August 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 June 2006

	Investment activities		Iceland Aviation and tourism services		Denmark Aviation services		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	1.1.-30.6.		1.1.-30.6.		1.1.-30.6.		1.1.-30.6.		1.1.-30.6.	
Income statement:										
Investment income	9,112	2,834	747	181	(143)	0	(129)		9,587	3,015
Operating income	0	0	24,733	20,064	21,317	0	(80)		45,970	20,064
Operating expenses without depreciation ...	(1,008)	(210)	(23,376)	(19,576)	(23,494)	0			(47,878)	(19,786)
Depreciation	0	0	(1,284)	(957)	(214)	0	129		(1,369)	(957)
Profit before income tax .	8,104	2,624	820	(288)	(2,534)	0	(80)		6,310	2,336
Income tax expense	(1,150)	(522)	(148)	119	709	0			(589)	(403)
Profit for the period	6,954	2,102	672	(169)	(1,825)	0	(80)		5,721	1,933
EBITDA			1,357	488	(2,177)	0				
EBIT			73	(469)	(2,391)	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:

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Investment income	(862)	10,449	13,940	2,635	1,421	1,594
Operating income	28,404	17,566	10,806	16,774	12,248	7,816
Total income	27,542	28,015	24,746	19,409	13,669	9,410
Operating expenses without aircraft						
leases and depreciation	22,398	18,742	10,991	12,531	10,407	8,544
Aircraft leases	2,746	1,996	628	558	328	296
Depreciation	736	633	614	626	626	542
Total operating expenses	25,880	21,371	12,233	13,715	11,361	9,382
Profit before income tax	1,662	6,644	12,513	5,694	2,308	28
Income tax expense	216	(805)	(1,837)	(1,052)	(400)	(3)
Profit for the period	1,878	5,839	10,676	4,642	1,908	25
Attributable to:						
Equity holders of the parent	(118)	5,841	10,678	4,638	1,907	26
Minority interest	0	(2)	(2)	4	1	(1)
Profit for the period	(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

Notes, contd.:

3. Contd.:

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	<u>17,875</u>
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.

Investment income

5. Profit from investments and derivatives are specified as follows:	2006	2005
	1.1.-30.6.	1.1.-30.6.
Gain on shares	6,448	222
Share of profit of associates	67	(7)
Change in the fair value of derivatives	1,822	3,521
Profit from investments and derivatives total	<u>8,337</u>	<u>3,736</u>

Operating income

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

Passengers	29,085	10,584
Cargo and mail	2,410	1,904
Charter revenue and aircraft lease	9,654	3,833
Other operating revenue	4,821	3,743
Total aviation, tourism service and other income	<u>45,970</u>	<u>20,064</u>

Notes, contd.:

Operating expenses

7. Aviation and tourism service expenses are specified as follows:	2006	2005
	1.1.-30.6.	1.1.-30.6.
Salaries, salary-related expenses and other personnel expenses	17,416	7,775
Aircraft fuel	12,915	3,085
Depreciation	1,369	926
Other operating expenses	16,539	8,747
Total aviation and tourism service expenses	<u>48,239</u>	<u>20,533</u>

Securities

8. Securities are specified as follows:	Market value	Thereof assets in forward agreements	Carrying amount
	30.6.2006		30.6.2006
<i>Listed stock on foreign stock exchanges:</i>			
Aktiv Kapital ASA	8,141		
Bang & Olufsen A/S	11,847		
Finnair Oyj	11,205		
Royal Unibrew A/S	11,854		
Other companies	3,272		
Total listed stock on foreign stock exchanges	<u>46,319</u>		
<i>Listed stock on the Icelandic Stock Exchange:</i>			
Glitnir banki hf.	62,000		
Kaupþing banki hf.	28,167		
Other companies	12,239		
Total listed stock on the Icelandic Stock Exchange	<u>102,406</u>		
<i>Other securities:</i>			
Mutual-fund certificate	220		
Debt securities held for trading	10,713		
Total other securities	<u>10,933</u>		
Total securities	<u>159,658</u>	<u>94,095</u>	<u>65,563</u>

Notes, contd.:

Equity

9. *Issued capital*

The Company's share capital, according to its Articles of Association amounts to ISK 6,141 million. One vote is attached to each share of one ISK. Share capital was increased by a nominal value of ISK 296 million, from ISK 5,845 million to ISK 6,141 million, at a nominal value. The Company bought own shares at a nominal value of ISK 63 million during the period for ISK 1,266 million. Share capital according to the balance sheet amounted to ISK 6,034 million at the end of the period and is specified as follows:

	Amount	Ratio
Total issued shares at the end of the period	6,034	98.3%
Own shares at the end of the period	107	1.7%
Share capital according to the Articles of Association	<u>6,141</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:

	30/06/2006	31/12/2005
Equity ratio - equity / capital employed	41.2%	56.1%
Intrinsic value of share capital	13.82	12.83