

FL GROUP hf.
Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2006

FL GROUP hf.
Sudurlandsbraut 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 31 March 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 March 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 March 2006.

FL GROUP hf. took over operations of Sterling Airlines A/S on 6 January 2006. The subsidiary is consolidated from that time.

According to the income statement net profit for the period amounted to ISK 5,839 million. According to the balance sheet, equity at the end of the period amounted to ISK 77,383 million, including share capital in the amount of ISK 6,073 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 31 March 2006 by means of their signatures.

Reykjavík, 18 May 2006

The Board of Directors:

Skarphéðinn Berg Steinarsson, stjórnarformaður

Magnús Ármann

Smári S. Sigurðsson

Þorsteinn M. Jónsson

Peter Mollerup

Paul Davidson

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 31 March 2006 and the related consolidated income statement and statement of cash flows for the three 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, 18 May 2006

Jón S. Helgason

Sæmundur Valdimarsson

KPMG Endurskoðun hf.

Income Statement for the Three Months Ended 31 March 2006

	Notes	2006 1.1.-31.3.	2005 1.1.-31.3.
Investment income:			
Profits from investments and derivatives	5	10,233	1,856
Interest income		485	172
Interest expenses	(880)	(355)
Net foreign exchange gain (loss)		611	(79)
		10,449	1,594
Operating income:			
Aviation, tourism service and other income	6	17,566	7,816
Operating expenses:			
Aviation and tourism service expenses	7	20,886	9,345
Other operating expenses		485	37
		21,371	9,382
Profit before income tax		6,644	28
Income tax expense	(805)	(3)
Profit for the period		5,839	25
Attributable to:			
Equity holders of the parent		5,841	26
Minority interest	(2)	(1)
Profit for the period		5,839	25
Earnings per share:			
Basic earnings per share		0.958	0.010
Diluted earnings per share		0.947	0.010

Balance Sheet as at 31 March 2006

	Notes	31.3.2006	31.12.2005
Assets:			
Cash and cash equivalents		7,812	10,350
Securities	8	83,699	68,658
Derivatives		8,243	6,341
Restricted cash		2,864	0
Investments in companies		3,681	480
Tax assets		1,678	0
Inventories		993	876
Trade and other receivables		15,607	7,222
Operating assets		25,269	20,731
Prepaid aircraft acquisitions		17,101	14,490
Intangible assets		21,151	3,470
Total assets		188,098	132,618
 Equity:			
Share capital	9	6,073	5,802
Share premium		46,394	43,169
Other reserves		201	434
Retained earnings		24,706	25,027
Total equity attributable to equity holders of the parent		77,374	74,432
Minority interest		9	11
Total equity	11	77,383	74,443
 Liabilities:			
Interest-bearing loans and borrowings		62,949	39,668
Derivatives		4,499	277
Deferred income tax liability		6,275	4,694
Pension liability		342	345
Trade and other payables		23,491	10,550
Prepaid income		13,159	2,641
Total liabilities		110,715	58,175
Total equity and liabilities		188,098	132,618

Statement of Cash Flows for the Three Months Ended 31 March 2006

	Notes	2006 1.1.-31.3.	2005 1.1.-31.3.
Cash flows from operating activities:			
Profit for the period		5,839	25
Adjustments for:			
Depreciation		633	542
Other operating items		(9,958)	(1,770)
Working capital to operations		(3,486)	(1,203)
Net change in operating assets and liabilities		2,649	2,610
Net cash (used in) provided by operating activities		(837)	1,407
Cash flows from investing activities:			
Securities, change		(14,528)	1,142
Derivatives, change		7,563	0
Restricted cash		(2,864)	0
Investments in companies and receivables		(2,904)	(1,614)
Acquisition of subsidiary, net of cash acquired		(8,701)	0
Disposal of subsidiaries, net of cash disposed of		897	0
Acquisition of operating assets		(1,957)	(10,047)
Acquisition of intangible assets		(41)	(62)
Proceeds from sale of assets		1,747	180
Short term liabilities, change		1,073	0
Net cash used in investing activities		(19,715)	(10,401)
Cash flows from financing activities:			
Own shares, change		(526)	40
Proceeds from borrowing		18,789	17,838
Repayment of borrowings		(496)	(417)
Short term liabilities, change		(135)	(2,013)
Net cash provided by financing activities		17,632	15,448
(Decrease) increase in cash and cash equivalents		(2,920)	6,454
Effect of exchange rate fluctuations on cash held		382	0
Cash and cash equivalents at 1 January		10,350	2,819
Cash and cash equivalents at 31 March		7,812	9,273
Investment and financing without cash flow effect:			
Acquisition of subsidiary		(4,022)	0
Proceeds from the sale of own shares		4,022	0
Declared unpaid dividend		6,341	0

Notes

Significant accounting policies

FL GROUP hf.'s legal residence is at Sudurlandsbraut 12, Reykjavík, Iceland. The condensed consolidated interim financial statements of the Company for the three months ended 31 March 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 18 May 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 31 March 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.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.
Income statement:										
Investment income	10,458	1,753	381	(159)	(77)	0	(313)		10,449	1,594
Operating income	0	0	9,846	7,816	7,719	0			17,566	7,816
Operating expenses without depreciation ...	(485)	(37)	(10,119)	(8,803)	(10,133)	0			(20,738)	(8,840)
Depreciation	0	0	(850)	(542)	(96)	0	313		(633)	(542)
Profit before income tax .	9,973	1,716	(742)	(1,688)	(2,587)	0			6,644	28
Income tax expense	(1,684)	(314)	133	311	746	0			(805)	(3)
Profit for the period	8,289	1,402	(609)	(1,377)	(1,841)	0			5,839	25
EBITDA	(485)	(37)	(273)	(987)	(2,414)	0			(3,172)	(1,024)
EBIT	(485)	(37)	(1,123)	(1,529)	(2,510)	0	313		(3,805)	(1,566)

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:

	Q1 2006	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Investment income	10,449	1,594	1,421	2,635	13,940
Operating income	17,566	7,816	12,248	16,774	10,806
Total income	28,015	9,410	13,669	19,409	24,746
Operating expenses without aircraft leases and depreciation	18,742	8,544	10,407	12,531	10,991
Aircraft leases	1,996	296	328	558	628
Depreciation	633	542	626	626	614
Total operating expenses	21,371	9,382	11,361	13,715	12,233
Profit before income tax	6,644	28	2,308	5,694	12,513
Income tax expense	(805)	(3)	(400)	(1,052)	(1,837)
Profit for the period	5,839	25	1,908	4,642	10,676
Attributable to:					
Equity holders of the parent	5,841	26	1,907	4,638	10,678
Minority interest	(2)	(1)	1	4	(2)
Profit for the period	5,839	25	1,908	4,642	10,676
Operating profit without depreciation and aircraft leases (EBITDAR)	(1,176)	(728)	1,841	4,243	(185)
Operating pr. before depr. (EBITDA)	(3,172)	(1,024)	1,513	3,685	(813)
Operating profit (EBIT)	(3,805)	(1,566)	887	3,059	(1,427)

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	2,358
Tax assets	751
Trade and other receivables	3,457
Operating assets	2,410
Investments in companies	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	(2,358)
Acquisition of subsidiary, net of cash acquired according to the statement of cash flows	<u>8,701</u>

Sale of subsidiaries

4. FL GROUP hf. sold its shares in Ferdaskrifstofa Íslands hf. and Bálaleiga 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:

	31.3.2006	31.3.2005
Gain on shares	5,809	1,232
Share of profit of associates	10	(3)
Change in the fair value of derivatives	4,414	627
Profit from investments and derivatives total	<u>10,233</u>	<u>1,856</u>

Operating income

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

Passengers	9,929	3,820
Cargo and mail	1,053	766
Charter revenue and aircraft lease	4,276	1,143
Other operating revenue	2,308	2,087
Total aviation, tourism service and other income	<u>17,566</u>	<u>7,816</u>

Notes, contd.:

Operating expenses

7. Aviation and tourism service expenses are specified as follows:

	31.3.2006	31.3.2005
Salaries, salary-related expenses and other personnel expenses	5,525	3,703
Aircraft fuel	3,518	1,141
Depreciation	633	426
Other operating expenses	11,210	4,075
Total aviation and tourism service expenses	<u>20,886</u>	<u>9,345</u>

Securities

8. Securities are specified as follows:

	Market value 31.3.2006	Thereof assets in forward agreements	Carrying amount 31.3.2006
<i>Listed stock on foreign stock exchanges:</i>			
easyJet Plc.	29,220		
Finnair Oyj	9,694		
Aktiv Kapital ASA	6,144		
Bang & Olufsen A/S	10,932		
Royal Unibrew A/S	8,212		
Other companies	<u>3,552</u>		
Total listed stock on foreign stock exchanges	<u>67,754</u>		
<i>Listed stock on the Icelandic Stock Exchange:</i>			
Glitnir Banki hf.	41,520		
Kaupping Banki hf.	34,281		
Other companies	<u>7,868</u>		
Total listed stock on the Icelandic Stock Exchange	<u>83,669</u>		
<i>Other securities:</i>			
Mutual-fund certificate	1,945		
Debt securities held for trading	<u>216</u>		
Total other securities	<u>2,161</u>		
Total securities	<u>153,584</u>	<u>69,885</u>	<u>83,699</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. The Company bought own shares at a nominal value of ISK 25 million during the period for ISK 526 million. Share capital according to the balance sheet amounted to ISK 6,073 million at the end of the period and is specified as follows:

	Amounts	Ratio
Total issued shares at the end of the period	6,073	98.9%
Own shares	68	1.1%
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 comprise 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:

	31/03/2006	31/03/2005
Working capital used in operating activities	(3,486)	(1,203)
	31/03/2006	31/12/2005
Equity ratio - equity / capital employed	41.1%	56.1%
Intrinsic value of share capital	12.74	12.83

Notes, contd.:

11. Summary of equity:

	Other reserves					Retained earnings	Equity holders of the Parent	Minority interest	Total equity
	Share capital	Share premium	Share option reserve	Hedging reserve	Translation reserve				
#####	2,525	3,609	87	(100)	(623)	9,242	14,740	21	14,761
Dividends to shareholders						(1,466)	(1,466)		(1,466)
Own shares, change	7	(12)	(20)				(25)		(25)
Net profit (loss) for the period			5	346	(61)	25	315	(1)	314
Equity 31.3.2005	<u>2,532</u>	<u>3,597</u>	<u>72</u>	<u>246</u>	<u>(684)</u>	<u>7,801</u>	<u>13,564</u>	<u>20</u>	<u>13,584</u>
Equity 1.1.2006	5,802	43,169	68	187	179	25,027	74,432	11	74,443
Translation reserve transferred					(179)	179	0		0
Issued share capital	296	3,726					4,022		4,022
Dividends to shareholders						(6,341)	(6,341)		(6,341)
Own shares, change	(25)	(501)					(526)		(526)
Net profit (loss) for the period			102	283	(439)	5,841	5,787	(2)	5,785
Equity 31.3.2006	<u>6,073</u>	<u>46,394</u>	<u>170</u>	<u>470</u>	<u>(439)</u>	<u>24,706</u>	<u>77,374</u>	<u>9</u>	<u>77,383</u>