

Annual results, 10 March 2006

## FL Group earns pre-tax profit in 2005 of ISK 20.5 billion

- Best performance in the company's history -

The pre-tax profit of the FL Group in 2005 exceeded ISK 20.5 billion, compared with a profit of more than ISK 4.3 billion the year before. After taxes the profit for the period was nearly ISK 17.3 billion, compared with nearly ISK 3.6 billion the year before. The return on equity for the period was 55.2%. The earnings from financial activities were nearly ISK 18.4 billion before taxes; of this, about ISK 13.3 billion were attributed to the fourth quarter.

From January 1 through March 9, the pre-tax performance of investment activities has been positive by ISK 17.6 billion.

### HIGH POINTS OF 2005:

- 2005 marked a turning point in the history of FL Group, the most prominent feature of which was a share capital increase of ISK 44 billion.
- Today FL Group is a leading, influential investor in Northern Europe and one of the biggest investment companies in Iceland.
- The group's pre-tax profit was ISK 20.5 billion.
- The total assets at year-end were ISK 132.6 billion, increasing by ISK 89.1 billion
- Equity at year-end was ISK 74.4 billion, and the return on equity was therefore 55.2%.
- The equity ratio at year-end was 62.9%.<sup>1</sup>
- The EBITDA of the operating companies was ISK 4.8 billion in 2005, improving slightly between the years.
- The pre-tax profit of the operating companies was ISK 2.2 billion, a slight improvement between the years.
- The cash inflow from operating activities of the operating companies was ISK 5,7 billion.
- Bluebird Cargo and Flugflutningar were purchased.
- An agreement on the purchase of the low-air fare company Sterling was signed.

### PROSPECTS:

- From January 1 to March 9, the performance of investment activities was positive by ISK 17.6 billion.<sup>2</sup>
- The assets of FL Group in market securities on 9 March was about ISK 150,4 billion, of which ISK 67,7 billion were in foreign securities.
- Agreements were signed on the sale of Ferðaskrifstofa Íslands (travel agency) and Bílaleiga Flugleiða (car rental)
- Decision taken to register Icelandair Group on the stock market in the first part of the year

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<sup>1</sup> The equity ratio after taking into account the financing of prepayments for 15 Boeing 737 800 aircraft

<sup>2</sup> Unaudited status on 9 March 2006

Hannes Smárason, CEO of FL Group:

„This is by far the best performance in the history of the company and reflects the results of the changes made in the activities. With the share offering in November last year, an important step was taken in making FL Group a powerful investment company, and the biggest part of the current performance is from the company's investment activities. The changes have been successfully implemented to build up a dynamic group of employees that get results. Likewise, the performance of the operating companies was good, which is very gratifying in light of how very expensive fuel has been, and how unfavourable the exchange rate of the Icelandic krona has been. The operating companies have shown great strength in adapting their operations quickly and surely to variable external circumstances.“

**KEY FIGURES FROM OPERATIONS**

million ISK	Investments		Flight operations and tourism		Group	
	2005	2004	2005	2004	2005	2004
<b>Income statement</b>						
Investment income	19.794	2.560	-204	-406	19.590	2.154
Operating income	232	0	47.412	42.586	47.644	42.586
Operating expenses	-1.652	-150	-42.631	-37.832	-44.283	-37.982
Depreciation	0	0	-2.408	-2.440	-2.408	-2.440
EBITDA	-1.420	-150	4.781	4.754	3.361	4.604
EBIT	-1.420	-150	2.373	2.314	953	2.164
Profit before income tax	18.374	2.354	2.169	1.908	20.543	4.262
Income tax expense	-2.969	-530	-323	-183	-3.292	-713
<b>Profit for the year</b>	<b>15.405</b>	<b>1.824</b>	<b>1.846</b>	<b>1.725 0</b>	<b>17.251</b>	<b>3.549</b>
<b>Balance sheet</b>						
Total assets					132.341	43.492
Total liabilities					58.175	28.721
Equity					74.443	14.761
<b>Cash flow</b>						
Cash flow from operations	278	923	5.750	4.198	6.028	5.121

For the first time, the company is publishing performance figures where the performances of the investment activities and the operational companies is split up. The Group's investment activities include those of the FL Group parent company and FL Investment along with Icelease.

## INVESTMENT ACTIVITIES

The pre-tax profit of FL Group investment activities was ISK 18.4 billion in 2005; ISK 13.3 billion of this profit came in the fourth quarter. The after-tax profit was ISK 15.4 billion in 2005, and ISK 11.2 billion came in the fourth quarter. Considerable costs were incurred during the year because of the company's transformation, and the one-time cost because of this was about ISK 1.2 billion.

Following the share offering in November last year, FL Group joined the group of the largest companies on the Iceland Stock Exchange; in addition, the company's financial strength increased substantially. The company issued new share capital in the amount of ISK 44 billion, and during the share offering investors paid ISK 24.5 billion in cash and ISK 19.5 billion in shares. Offering investors the choice of paying for share capital with shares of stock in the 10 biggest companies on the Iceland Stock Exchange was extremely favourable for the company. In this way, the company managed to build up a good portfolio of shares in a single day.

The group's total assets were ISK 132.6 billion at the end of 2005, having therefore increased by ISK 89.1 billion during the year. The largest portion of the increase (ISK 55.7 billion) can be attributed to the position taken in market securities, but part of the increase was financed by the company's share offering last year. Depreciable assets increased by ISK 14.7 billion, but the largest portion of the increase can be attributed to prepayment for the purchase of 15 737-800 aircraft. These prepayments will be deducted from the company's balance sheet upon delivery of the planes in the period 2006-2007. The increase in interest-bearing debt can be entirely attributed to the prepayment for the aircraft and other investments in securities.

FL Group's intangible assets increased by ISK 3.2 billion during the quarter, which can be entirely attributed to goodwill from the purchase of Bláfugl and Flugflutningar.

At the end of the year FL Group's investments in shares was ISK 114 billion. The largest single investments were in Kaupthing Bank in the amount of ISK 31.2 billion, easyJet in the amount of ISK 26.7 billion and Íslandsbanki in the amount of ISK 22.3 billion. The book value of the company's securities assets is, however, only ISK 75.0 billion since part of the company's shares are in futures agreements, the net value of which is entered into the Annual Financial Statement.

FL Group's equity capital at the end of 2005 was about ISK 74.4 billion, having increased by ISK 59.6 billion during the period. The increase can be attributed to the year's profit and the previously mentioned share offering. The company's financial condition is therefore extremely strong, and the equity ratio is 56.3%. Taking into account the financing of the prepayment for the purchase of 15 Boeing 737-800 aircraft, the equity ratio is 62.9%. The company is therefore extremely well set to deal with continuing projects. The return on equity was 55.2%, 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 by far. The change resulted in a considerable currency risk because of foreign loans taken at New Year's. Following this, the exchange-rate risk was fully hedged by mid-January.

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Also, the financing of foreign share positions has been done, for the most part, in Icelandic krona, and the company's foreign assets now exceed foreign debt.

Since year end 2005, several changes have occurred in FL Group's operating companies. The purchase of Sterling was completed at the beginning of the year, while Ferðaskrifstofa Íslands and Bíllaleiga Flugleiða have been sold. The estimated sales proceeds from the sale of the companies is about ISK 1.6 billion. Also, the registration of Icelandair Group on the Iceland Stock Exchange was announced, and the plans are to complete this work in the first part of the year.

## **OPERATING COMPANIES**

The turnover of FL Group's operating companies in 2005 was ISK 47.4 billion, compared with ISK 42.6 billion the year before. EBITDA was about ISK 4.8 billion in 2005, compared with ISK 4.8 billion the year before. EBIT was about ISK 2.4 billion in 2005, compared with ISK 2.3 billion in 2004. Also, the companies' fixed capital formation continued to be very strong, and the cash inflow from operating activities was ISK 5.7 billion, which is an increase from the year before of well toward ISK 1.4 billion. The number of operating companies owned by FL Group increased last year when the company completed purchase of Bláfugl and Flugflutningar. These companies entered into the Group's financial statement as of 16 August 2005.

The operating companies' performance is very good despite a difficult operational environment. The high price of fuel and the strength of the Icelandic krona had great impact, both on the companies with international flight operations and, no less, on the companies in the domestic tourism industry. A considerable improvement in operations occurred in Q4 2005, compared with Q4 2004. This was especially due to a great increase in Icelandair's sales in its home market, Iceland, and Loftleidir Icelandair's increased international chartering operations.

The operating companies' turnover in 2005 increased by 11.3%, compared with the same period last year, and there was especially good growth for passenger flight (17.3%). Icelandair's seat occupancy was 77.5%, increasing by 3% from last year. Also, costs increased by 12.7% from last year, and this is attributable, for the most part, to increased wage and fuel costs. Increased wage costs stem from increased operations and wage-scale increases.

The companies' prospects are bright, in the opinion of the management, and the companies' performance in 2006 is projected to be considerably better than in 2005.

## **STERLING**

FL Group signed an agreement for the purchase of the Danish low-air fare company Sterling in 2005. The purchase was completed at the start of 2006, and the company was therefore not a part of the FL Group in 2005. Sterling changed greatly in 2005 when the company was merged with Maersk Air, and the company's aircraft fleet increased from 10 to 30 planes. The merger resulted in the fourth largest low-air fare company in Europe and one of the most dynamic low-air fare company in Scandinavia. The merger process of Sterling and Maersk Air is going well, but plans call for it to continue most of this year.

Sterling operations have gone well in 2006 to date. The company's sales in the first two months of the year have exceeded expectations and are better than at the same time last year. The number of passengers has exceeded plans in January and February despite difficult external

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conditions in Denmark in Europe. Stiff competition is expected to continue in the market, but Sterling is well prepared to cope with that competition.

## AIRCRAFT TRANSACTIONS

As previously announced, the company entered into an agreement last year with Boeing to purchase 15 new Boeing 737-800 aircraft. Ten planes will be delivered in 2006, and five will be delivered in 2007. These planes are not planned for the flight operations of the operating companies; rather the company will lease the planes to third parties through special limited partnerships in which a group of investors is involved.

Nine of the planes scheduled for delivery in 2006 have been leased, and one has been sold to a third-party. The company has therefore made provisions for all of the planes scheduled for delivery in 2006, and work has begun to lease or sell directly the five planes scheduled for delivery in 2007.

The company has also entered into a shareholder arrangement for the first 9 planes with Kaupthing Bank, Sojitz Aircraft Leasing and UFJ Aircraft Iceland. FL Group will own 40% in each company. The proceeds of the project are in accordance with the company's plans.

## FL GROUP'S OWNERSHIP OF SHARES

FL Group have increased its ownership of shares since the beginning of this year. On 9 March the company's share ownership was about ISK 150,4 billion, ISK 67,7 billion of which were in foreign shares. Of the total portfolio ISK 78 billion were in futures agreements.

Portfolio on million ISK	31 December 2005		9 March 2006	
	Market value	Shareholdings	Market value	Shareholdings
Íslandsbanki	22.320	10%	43.792	16%
Kaupþing banki	31.250	6%	33.400	6%
Landsbanki Íslands	11.375	4%	-	-
Straumur-Burðarás	10.380	6%	-	-
Kögun	2.134	18%	-	-
Other (incl. bonds)	7.202	-	5.443	-
<b>Total on ICEX</b>	<b>84.661</b>	<b>74%</b>	<b>82.634</b>	<b>55%</b>
easyJet	26.697	16%	30.933	17%
Bang & Olufsen	-	-	10.650	11%
Finnair	-	-	8.572	10%
Royal Unibrew	-	-	7.878	17%
Aktiv Kapital	-	-	5.484	10%
Other	2.636	-	4.200	-
<b>Total abroad</b>	<b>29.333</b>	<b>26%</b>	<b>67.717</b>	<b>45%</b>
<b>Total</b>	<b>113.994</b>	<b>100%</b>	<b>150.351</b>	<b>100%</b>



**Íslandsbanki is an Icelandic-Norwegian bank group with operations in five countries.** The bank is a comprehensive financial company, providing extensive services in the field of investment banking activities, lending and general bank business. The company is registered on the Icelandic Stock Exchange.

**Kaupthing Bank is a Nordic bank, providing comprehensive commercial and investment banking services to individuals, companies and professional investors.** The bank is a leader in most fields of the Icelandic financial market and aims at being among the leading investment banks in Northern Europe. The company is registered on the Icelandic Stock Exchange.

**Aktiv Kapital is a financial company, specialising in the collection of receivables.** The company's activities are divided into three areas: purchase of loan portfolios that are in arrears, collection of receivables and administration of accounts. The company is registered on the Oslo Stock Exchange.

**easyJet is one of the biggest low-air fare companies in Europe.** The company has operations in many parts of Europe, flying on 258 routes between over 70 airports in Europe. The company is registered on the London Stock Exchange.

**Finnair is one of the oldest operating airlines in the world.** The company dominates the market for flights to and from Finland, flying to about 50 destinations all over the world, including key destinations in Asia. The company is registered on the Helsinki Stock Exchange.

**Bang & Olufsen develops, manufactures and sells sound and picture projection solutions under the company's famous brand.** The company has long been in the forefront of design and quality. The company is registered on the Copenhagen Stock Exchange.

**Royal Unibrew is one of the biggest beverage manufacturers in Scandinavia.** The group consists of four Danish, two Lithuanian, two Polish and two Latvian beverage manufacturers. The company sells alcoholic and non-alcoholic beverages in markets in Europe, Africa and America. The company is registered on the Danish Stock Exchange.

## PROSPECTS

The development of markets in 2006 to date has been extremely advantageous for the company. From the beginning of this year through 9 March, the estimated pre-tax profit of the company's investment activities is about ISK 17.6 billion. The profit derives from positions taken in shares, currency and the sale of operating companies. Plans also call for listing Icelandair Group in the second quarter, and it is clear that with this measure, FL Group will redeem substantial profit from the sale. If stock markets and currency markets remain stable throughout 2006, the company's performance will clearly be extremely good.

A presentation will be held for marketing parties at Hotel Nordica on Friday, 10 March at 14:00. no Hannes Smárason, President FL Group, will present the company's performance and answer questions.

The company will hold its Annual General Meeting on 21 March 2006; among other things, it will be proposed there that the company pay dividends of 35% of the year's profit, ISK 6,038 million. This payment is 104% of the share capital at nominal par at the end of 2005.

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## LARGEST SHAREHOLDERS

### Shareholder list as of 9. March 2006 \*

Name	Nominal amount	Share
Eignarhaldsfélagið Oddaflug ehf	1.158.919.071	18,87%
Baugur Group	1.124.670.139	18,31%
Landsbanki Íslands hf **	677.355.544	11,03%
Icon	448.487.889	7,30%
Materia Invest ehf	404.411.765	6,59%
Arion safnreikningur	326.848.343	5,32%
Fons Eignarhaldsfélag hf	295.735.295	4,82%
Kaupþing banki hf	173.752.655	2,83%
Gildi lífeyrissjóður	110.103.916	1,79%
Saxbygg ehf	79.287.713	1,29%

\* The shareholders list is adjusted to reflect forward agreements announced to the Icelandic Stock Exchange

\*\* Out of Landsbanki's share 9,52% stands as a hedge against derivative contracts. Thereof 4,76% is from a forward contract entered with Oddaflug ehf, and 4,76% from a forward contract entered with Baugur Group

## ABOUT FL GROUP

FL Group is a leading investment company, specialising, on the one hand, in strategic investments and transformational projects and, on the other, asset management, emphasising active participation in markets with registered securities. The company focuses on influential investments in companies in Northern Europe on a broad basis. FL Group is registered on the Icelandic Stock Exchange (ICEX: FL).

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