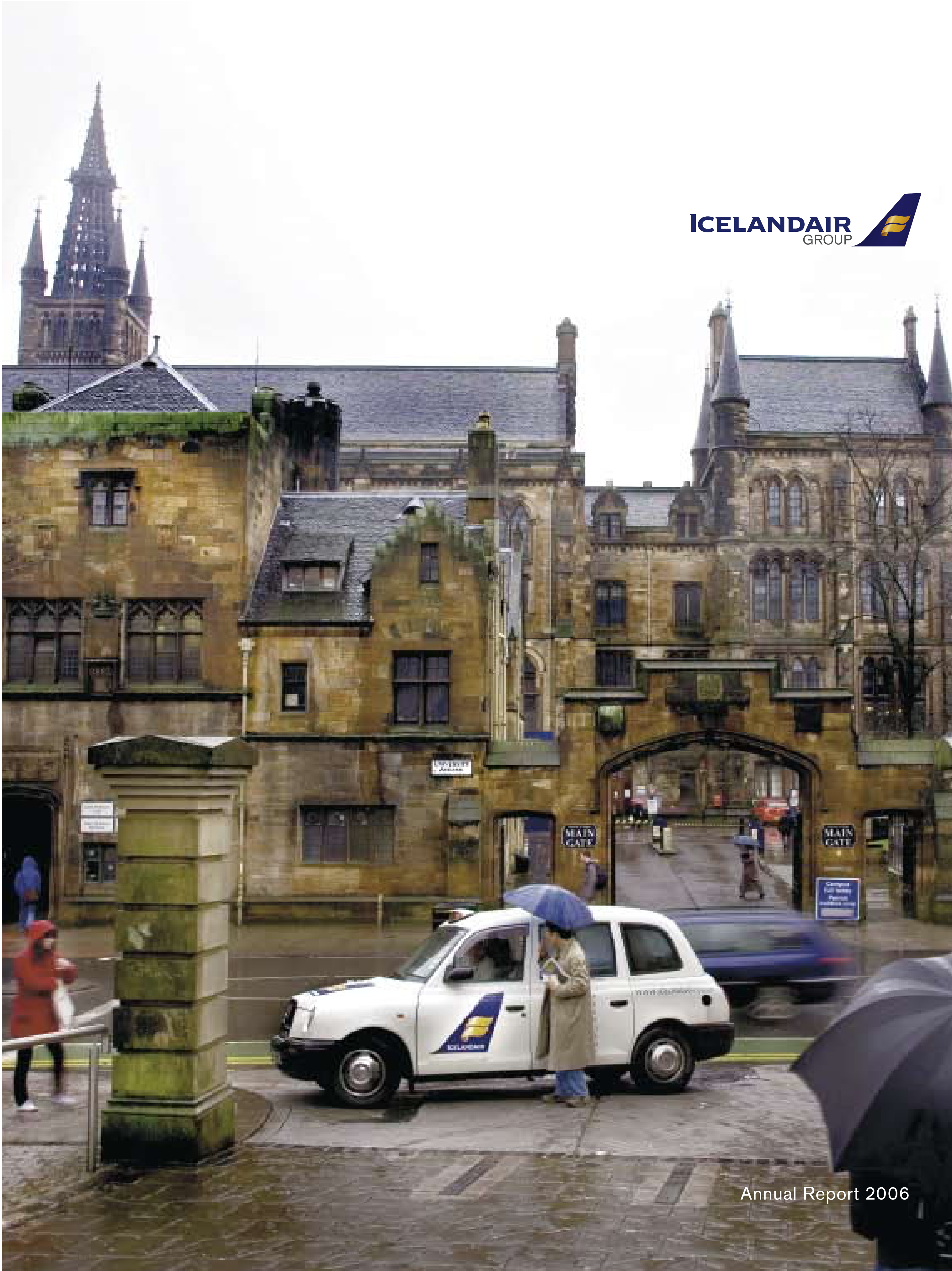
ICELANDAIR
GROUP
Annual Report 2006
MAIN GATE
MAIN GATE
ICELANDAIR

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ABOUT THE ILLUSTRATIONS

The photos in this annual report were taken in various cities around the world in the last few days before publication in early March 2007. The Icelandair Group's primary source of income is through selling products on the general consumer markets throughout the world, using the Group's brand names. These photos represent some of the methods used to promote the brand and the products in different markets.

Design: Íslenska
Printing: Prentmet


LOUIS II

Paris 03.03.2007

Icelandair Group at glance

The purpose of the Icelandair Group is to provide its shareholders with a good return on their investment. The Group achieves this by owning and operating profitable and dynamic service companies with strong growth potential in the airline, transportation and tourism industries. The strategy is to efficiently align the operations of the companies within the Group in order to maximise each company's potential for outstanding performance and capability of growth, both organic and through mergers and acquisitions.

ORGANISATIONAL STRUCTURE

The operation of Icelandair Group is divided into 12 subsidiaries. Each business is managed to create value through strategic and business development decisions.

The largest subsidiary is the international airline Icelandair, which accounts for approximately 52% of the Group's turnover in 2006. Other companies are Icelandair Technical Services, Icelandair Ground Services, Lofteiðir-Icelandic, Icelandair Cargo, Bluebird Cargo, Air Iceland, Iceland Travel, Icelandair Hotels, Icelease, Icelandair Shared Services and Icecap. On 31 December 2006, the Company employed 2,747 people.

To enhance the Group's performance further, it has been structured in three business platforms and one support area which consists of two companies that provide shared services for the Group. These support units are a financial services provider, Icelandair Shared services, and an internal insurance company, IceCap.

FINNUR INGÓLFSSON
CHAIRMAN OF THE BOARD

"The Company possesses financial strength, experience and business contacts which will be utilised to their fullest extent."

See pages 8-9

JÓN KARL ÓLAFSSON
PRESIDENT AND CEO

"It is a matter of great satisfaction, now that Icelandair Group is being publicly traded, to be able to present our new shareholders with reports of good profits."

See pages 10-11

INTERNATIONAL SCHEDULED AIRLINE OPERATIONS

Icelandair, Icelandair Cargo, Icelandair Ground Services (IGS) and Icelandair Technical Services (ITS) are part of this business platform of Icelandair Group. Their common task is to grow and fine tune a profitable international scheduled airline operation through the Icelandair hub in Iceland. This is obtained by aggressive sales and marketing activity as well as tight revenue management and operational cost control.

See pages 33-37

CAPACITY SOLUTIONS AND AIRCRAFT TRADING

Loftleiðir-Icelandic, a capacity provider for the international airline and tour operator industry Bluebird Cargo, a transportation services provider, and Icelease, an aircraft brokerage, form this Business Platform. Their role is to capitalise internal know-how by offering aircraft leasing and trading services to third parties and to take advantage of international expansion is this field, as well as to look for opportunities for mergers and acquisitions.

See pages 39-43

TRAVEL AND TOURISM

Iceland Travel, a tour operator and travel agency in incoming tourism, Icelandair Hotels, which markets and operates two hotel chains, Icelandair Hotels and Edda Hotels, and Air Iceland, a scheduled domestic carrier which also offers regular flights to Greenland and the Faeroe Islands, form this Business Platform of Icelandair Group. Their main function is to show profitable results, as well as to provide strategic support to the international scheduled operations, and to harvest the growth of tourists coming to Iceland.

See pages 45-47

FINANCIALS

Net earnings
2.6 billion

EBITDA
6.1 billion – up 22%

Revenue growth
23%

Total assets
77 billion

Equity ratio
34%

Net operating cash
6.4 billion

See pages 26-27

‘07 70YEARS OF AVIATION

This year Icelandair Group celebrates it's seventieth year of operation.

1937

Flugfélag Akureyrar was founded on the north coast of Iceland.

1943

The company moved its headquarters to the capital, Reykjavík, and changed its name to Flugfélag Íslands, which then later assumed the international brand name Icelandair.

1944

Three young Icelandic pilots, returning from flight training in Canada, founded Loftleiðir, later also known as Icelandic Airlines.

1987

A breakthrough agreement was signed with the Boeing company to renew the fleet of Flugleiðir that served international flights under with a new route network.

1992

Flugleiðir was listed on the ICEX Main List.

1997

Flugleiðir domestic flight operation was turned into Air Iceland, a wholly owned subsidiary of Flugleiðir. Loftleiðir-Icelandic was founded in 2002 when the wet lease and charter arm of Flugleiðir became a distinct subsidiary.

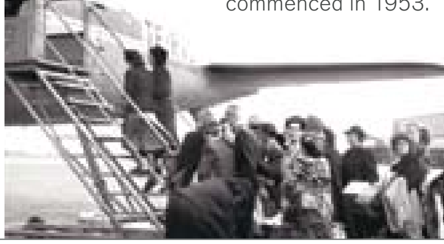
2003

Flugleiðir became a holding company with 11 subsidiaries in the travel and tourist industry in Iceland. The largest subsidiary, the international airline operation, was named Icelandair.

1937-2007

1945

Flugfélag Íslands made its first international flights to Scotland and Denmark. Loftleiðir began international operations in 1947, and its pioneering low-fare services across the North-Atlantic commenced in 1953.



1973

Flugfélag Íslands and Loftleiðir merged under a new holding company named Flugleiðir.

1979

Flugleiðir assumed all operating responsibilities of its two predecessors, and decided to use Icelandair as its international brand name, only retaining the Flugleiðir name in the Icelandic domestic market.

2005

The name Flugleiðir was changed to FL GROUP, and the holding company announced its emphasis on investment. This was followed by increased investment activities and the acquisitions of Bluebird and Sterling.

2005

Icelandair Group hf. was established on 20 December 2005 as a private limited company wholly owned by FL Group hf. and transformed to a public limited liability company on 17 February 2006.

2006

In February 2006, the Board of Directors of FL GROUP announced its intention to list Icelandair Group on ICEX.

On 15 December 2006, Icelandair Group was listed on the Iceland Stock Exchange, ICEX.

Towards Expansion

"The Company possesses financial strength, experience and business contacts which will be utilised to their fullest extent."

Icelandair Group has an extremely brief history, having been established only last year. Nevertheless, the Company has a background of 70 years. It is rooted in the soil ploughed by its predecessors, the airline companies Loftleiðir, Flugfélag Íslands and Flugleiðir. These predecessors were active participants in the Icelandic community and business life from the time that Iceland became a republic. The 70-year history of the Company is a history of an enterprise operating in times of profound changes. It is the history of men and women who had the courage and vision to take on the colossal and ambitious task of building for the people and businesses of an isolated island state a bridge to the continents on both sides of the Atlantic. It is also a history of turmoil, struggle, revolutions, sorrow, happiness, victories and defeats.

Icelandair Group was founded last year as a holding company with 12 independent subsidiaries and 2,700 employees. The Company was originally owned by FL Group. In October, three core investors joined forces in acquiring the Company from FL Group with the support and advice of Glitnir Bank. The investment was founded on four principal assumptions: in the first place, it was the assessment of the investors that the Company was profitable, with numerous opportunities for growth in Iceland and elsewhere; in the second place, the decision was seen as a long-term investment in a growing and profitable sector; in the third place, the investors had faith in the management and employees of the Company; and in the fourth place, it was seen as a challenge to take on the operation of a new and unshaped company, which at the same time was about to celebrate its 70th anniversary. This paradox is in itself an opportunity.

The new owners, through their investment, will have an opportunity to involve themselves in the reinvention of the Company and in shaping its organisation, future vision and focus in co-operation with the Company management, which has great ambitions for the Company's growth and prosperity. Icelandair Group is intended to be a well-known international travel and air service company, with Iceland as its cornerstone, a service-oriented public company capable of reacting quickly and confidently to changes in circumstances. In order to meet these requirements, the Company will always need to have in its service a tightly knit group of employees possessing knowledge and experience of the complex world of international air transport and tourist services. There are few things that could take the highly educated and extensively trained staff of the Company by surprise. Icelandair's specialised knowledge and firmly established international reputation, which is based on decades of business relationships throughout the world, provide a strong foundation for the future.

Growth has always characterised Icelandair Group and will continue to do so. Substantial growth is foreseen in passenger air transport, cargo air transport and tourism in the world in the coming years and decades. Tourism is set to be among the fastest growing sectors of the world in the coming years. It is therefore a challenge for the staff and management to take advantage of the opportunities presented by this prospective growth.

This will take place in two ways:
On the one hand through profitable growth in the Company's core activities, that is to say Icelandair's international flights transporting passengers and goods to and from Iceland. The keywords in these operations are precision, efficiency, flexibility, drive and innovation. In these activities, the Company is working in the consumer markets around

the world, customers number in the millions and the turnover is huge. External influences can have a significant impact on the operations in an extremely short time, which makes it important to be able to react quickly and confidently to changed conditions.

The other route is rapid growth in charter services, international air cargo services and aircraft trade. Here, the opportunities for growth are based both on organic and external growth and on large-scale individual business deals, whether they involve acquisitions or take-overs of companies or large business contracts. The Company will expand this year, both through internal and external growth. In these fields, as in its other business, the Company possesses financial strength, experience and business contacts which will be utilised to their fullest extent.

Immediately following the change in ownership of the Company in October, the largest owners expressed their will to involve further investors and list the Company on the Iceland Stock Exchange. In connection with the sale of the Company and its listing on the Iceland Stock Exchange, a detailed presentation was given of the Company. The infrastructure of the Company, its organisation, financial position and vision were presented at numerous meetings with investors, the press, employees and market players, in addition to the detailed prospectus itself that was prepared for the listing. The Company was subsequently listed, and trading in the Company's shares began on 14 December 2006. For the investors who were first involved in the acquisition of the Company, the substantial number new of investors that decided to join the Company on its listing on the Iceland Stock Exchange is a matter of great satisfaction.

Looking at the 70-year history of Icelandair Group's predecessors and the transformations that have occurred reveals that the transformations reflect important milestones in Iceland's economic history and its progress toward active participation in the international community. They also reflect the energy and unstinting work of the managers and employees of the Company, who have shown their Company extraordinary loyalty. At the present milestone, this history serves as an incentive to the Company's new owners to raise its standards still higher and to do even better than in the last 70 years.

I would like to thank the entire staff for their important contribution and for a job well done in the past year; at the same time, we are grateful for the trust that our customers have shown the Company. In addition, I would like to thank our shareholders for the confidence that they have shown in the Board of Directors of the Company over the year.

Finnur Ingólfsson
Chairman of the Board

Focusing on solid operation and fulfilling growth potential

"It is a matter of great satisfaction, now that Icelandair Group is being publicly traded, to be able to present our new shareholders with reports of good profits."

It gives me special pleasure to address you here for the first time following the profound transformations that our company has now undergone. Last year was, in every way, an extremely interesting year for our company. In February, it was announced that the company would be listed on the Iceland Stock Exchange, a process that was eventually to take a large part of the year. Our staff nevertheless managed to maintain a very clear focus on the day-to-day operation of the company, which explains the good results achieved over the year. It is quite clear that a selling process of this kind can be quite draining and distracting, as it creates a certain atmosphere of uncertainty. All our employees therefore deserve great praise for the excellent outcome of this year. It is a matter of great satisfaction, now that Icelandair Group is being publicly traded, to be able to present our new shareholders with reports of good profits – in fact some of the best results in the company's history. The good results, ISK 6.1 billion in EBITDA, can be attributed to our exceptional employees and their vast pool of knowledge and experience that they have placed at our disposal. We expect continued growth for the company in the near future. General economic prospects are favourable, and there are forecasts of growth in the industry.

We have divided the operation of Icelandair Group into three principal Business Platforms. The largest Platform is International Scheduled Airline Operations which comprises Icelandair, Icelandair Cargo, Icelandair Technical Services (ITS) and Icelandair Ground Services (IGS). The total turnover of those companies in 2006 was ISK 42 billion, and EBITDA was ISK 3,484 million.

The Icelandair route network is the cornerstone of our operation, and in fact the key to the success of many of the companies within the Group. The network centres on connections in Keflavik between Iceland and Europe and Iceland and North America, resulting in a high frequency and good quality of flight connections between Iceland and other markets. The results in 2006 were good in all markets, but our greatest growth was in the number of passengers travelling from Iceland. Overall, both the number of passengers travelling with Icelandair and the tonnage of cargo carried by Icelandair Cargo grew in 2006.

Our goal is to continue to improve the results of the International Scheduled Airline Operations Platform, and we are taking some very important steps to achieve this goal. Ahead lies the implementation of a new revenue management system, the installation of an in-flight entertainment system and new aircraft interiors. The new arrangements in our aircraft will completely transform our passengers' in-flight experience. This summer we are adding three exciting new destinations to our route network, Halifax, Bergen and Gothenburg, and we are also planning morning flights from Europe to Iceland and from Iceland to North America. We also forecast substantial growth for Icelandair Cargo, where demand has increased rapidly in recent years. Economic conditions in our markets are generally favourable, we intend to grow and to increase our profits in this core business of Icelandair Group.

Strong growth characterised our operations in the Global Capacity Solutions and Aircraft Trading Platform, and profits in 2006 substantially exceeded expectations. The companies Loftleiðir-Icelandic, Bluebird and Icelease operate within this Platform. Loftleiðir-Icelandic acquired in mid-year 2006 a majority share in the Latvian charter airline Latcharter, and then doubled the size of their fleet later in the year. Icelease received and distributed nine new Boeing 737-800 aircraft. Bluebird Cargo bought two Boeing 737-400 passenger aircraft, which are now being converted into cargo aircraft. The total turnover in 2006 of the companies in this Platform was ISK 10.7 billion, and EBITDA was ISK 1,589 million.

In recent years, we have amassed extensive and important experience in aircraft leasing and aircraft trading. Our brand name is already well known and widely respected. The company has participated in numerous business projects across the world, and our employees in this line of work have formed extremely important business connections. We perceive enormous growth potentials through our participation in the fast-growing business of aircraft trade. We intend to grow rapidly this year and are particularly looking to markets in Eastern Europe, Africa and Southeast Asia, where we have already developed solid and profitable business relationships.

Our third Business Platform operates under the heading of Travel and Tourism, where we have three strong companies: Air Iceland, Icelandair Hotels and Iceland Travel. The total turnover of these companies in 2006 was ISK 8.7 billion, and EBITDA was ISK 1.1 billion. The operation of Iceland Travel and Icelandair Hotels underwent a profound transformation in the course of the year after several difficult operating years. The number of hotel guests grew over the year, and conference and catering activities were more successful than in recent years. The operation of Iceland Travel has been restructured from the ground up. The company's overseas offices were sold or closed during the year, and the company is now concentrating on its core business, which is to serve foreign tourists travelling to Iceland. It has been a pleasure to witness this splendid recovery by Icelandair Hotels and Iceland Travel in 2006, and the employees of these companies deserve great credit for their role in the turnaround. Air Iceland continues to show good results, and it is satisfying to see growth on almost all routes. We foresee continued profitability for these companies with the growing number of incoming tourists and increasing economic growth in Iceland.

Fjárvakur, the financial services business of Icelandair Group, did very well in 2006. The company acquired the Estonian accountancy firm ASE. The company specialises in revenue accounting for airlines.

In 2007, we will strive to increase and strengthen our core business, that is to say international scheduled airline operations and transport of passengers and cargo, and to expand rapidly in our charter and aircraft trading activities. The economic climate in our principal markets is good and counters the very high current fuel costs. We expect strong growth in the international airline business, and we also expect the number of tourists visiting Iceland and travelling around the world to increase in the years to come. Competition is fierce in this industry, but the companies within Icelandair Group are well run and have great potential for internal and external growth. We expect 2007 to be even more prosperous than 2006. I would like to thank all the employees of all the companies of the Group for an immensely satisfying team effort this year, and I would also like to thank our shareholders for their support and co-operation. Our company is sound and commands an outstanding staff, which is the key to all our success. There are tremendous opportunities ahead, and I look forward to continued work on achieving good results in good company.

Jón Karl Ólafsson
President and CEO


MILK

London 24.02.2007

Shareholder Information

Icelandair Group's main objective is to create value for its shareholders. Icelandair Group was listed on the Iceland Stock Exchange in December 2006, so the history of the shares on the stock market is short.

CHANGES IN SHARE CAPITAL

At a shareholders' meeting held on 15 November 2006, it was decided to decrease the company's share capital by ISK 2,000,000,000 in nominal value. As a result, the share capital of the Company is now ISK 1,000,000,000 in nominal value, divided into an equal number of shares, each with a nominal value of ISK 1.0. All the shares have been fully paid. This measure was taken in connection with the merger of Icelandair Group Holding and Icelandair.

MARKET CAPITALISATION

At the end of 2005, the market capitalisation of Icelandair Group was ISK 26.7 billion.

Neither the Company itself nor its subsidiaries hold any shares in the Company.

STOCK OPTION PLAN

A shareholders meeting held at 29 December 2006,agreed two motions for empowerment of the Board of Directors, on the one hand by an authorisation to approve a stock option scheme for key managers of the company and/or its subsidiaries, including authorisation for the issue and sale of new shares in connection with the stock option scheme and, on the other hand, by an authorisation to buy treasury shares in the company.

The purpose of the stock option plan is to enable Icelandair Group to attract and retain qualified employees through an attractive system of renuneration and at the same time provide employees with an opportunity to acquire an interest in the Company and thereby contribute to increased incentives and rewards for promoting the increased growth and prosperity of the company in the long term. With 669 employees holding stock in the company, employee ownership of shares amounts to over 6% of the total outstanding shares in Icelandair Group Holding.

The authorisation of the Board of Directors to issue stock options is limited, so that the outstanding options at any time must never amount to a proportion greater than 6% of the total shares in the Company at any time. The amount of the stock option of any single employee must not exceed 10% of the total issued stock options, although this rule does not apply to the CEO of the Company. The company is permitted to use its own shares, purchase shares, or issue new shares as authorised by a shareholders' meeting, in order to meet Company obligations pursuant to stock option contracts.

On the delivery of stock options to employees, the Company enters into a written stock option contract with the employee. The terms and conditions of stock option contracts need not be uniform, and options may be adapted to the needs of individual employees.

The selling price of shares in the company to holders of stock options is decided by the Board of Directors of the company at any time; the price must not be lower than 27 times the nominal value, but is in other respects determined by the average price of market trading in the company's stock ten days prior to the signature of each stock option contract. The authorisation granted to the Board of Directors to increase the company's share capital is effective for five years from its approval and may be exercised by the Board in part or in full, at the discretion of the Board.

Shareholders' pre-emptive rights pursuant to the Company's Articles of Association do not apply to increases in share capital pursuant to the authorisation held by the Board of Directors. In the event that the share capital of the Company is increased during the period of the authorisation beyond ISK 1,000,000,000 the authorisation will be increased so as to remain always at the level of 6% of the total share capital of the company at any time. Shares acquired through the exercise of options are not subject to any trading restrictions. New shares carry rights in the company from the date of their listing.

FINANCIAL CALENDAR FOR 2007
Publishing dates for the financial reports of Icelandair Group Holding are as follows.

1st quarter – 8 May 2007
2nd quarter – 7 August 2007
3rd quarter – 13 November 2007
4th quarter and annual results –
In week 8 2008

DIVIDEND POLICY
The Board of Directors of Icelandair Group has set a policy of paying 35-50% of each year's earnings before interest and taxes in dividends to shareholders.

The Board of Directors of Icelandair Group has decided to propose to the Annual General Meeting that no dividends should be paid with respect to the financial year 2006.

SHAREHOLDERS
At the end of the year shareholders in Icelandair Group numbered 1507, with just over 3% of the shares held by foreign investors.

20 LARGEST SHAREHOLDERS AS OF 31.12.2006

SHAREHOLDER'S NAME	HOLDINGS	SHARE
Langflug ehf	320,000,000.00	32.00
Naust ehf	148,148,148.00	14.81
Fjárfestingafélagið Máttur ehf	111,111,111.00	11.11
GLB Hedge	67,321,581.00	6.73
Urður ehf	55,555,556.00	5.56
Glitnir banki hf	48,480,659.00	4.85
Flugval ehf	18,518,519.00	1.85
Lífeyrissjóðir Bankastræti 7	12,769,600.00	1.28
Lífeyrissjóður verslunarmanna	11,111,111.00	1.11
Saxbygg ehf	10,000,000.00	1.00
Magt ehf	9,259,260.00	0.93
Credit Suisse Securities(Eu)Ltd	9,000,000.00	0.90
Samvinnulífeyrissjóðurinn	8,148,148.00	0.81
Almenni lífeyrissjóðurinn	8,071,047.00	0.81
Barclays Capital Securities Ltd.	8,000,000.00	0.80
Straumur - Burðarás Fjárfesting	7,488,000.00	0.75
Glitnir Sjóðir hf,sjóður 10	7,277,778.00	0.73
Lífeyrissjóður Norðurlands	6,051,162.00	0.61
Gildi - lífeyrissjóður	5,896,500.00	0.59
Lífeyrissjóðurinn Lífiðn	5,743,519.00	0.57
Total	**877,951,699.00**	**87.8**

	SHARES	PROPORTION OF SHARES	SHARE-HOLDERS	PROPORTION OF SHARE-HOLDERS
0-10,000	2,945,157	0.3%	614	41%
10,001-100,000	16,036,913	1.6%	741	49%
100,001-1,000,000	28,798,011	2.9%	101	7%
1,000,001-10,000,000	159,203,634	15.9%	42	3%
Over 10,000,001	793,016,285	79.3%	9	1%
	1.000.000.000	**100%**	**1,507**	**100%**

Corporate Governance

MEMBERS OF THE BOARD
OF ICELANDAIR GROUP
Finnur Ingólfsson, Chairman
Ómar Benediktsson, Vice-chairman
Hermann Guðmundsson
Einar Sveinsson
Jóhann Magnússon
Marta Eiríksdóttir
Helgi S. Guðmundsson

ALTERNATIVE BOARD MEMBERS
Jón Benediktsson
Guðsteinn Einarsson

Icelandair Group holds the view that well functioning corporate governance principles are essential for assuring shareholders and other stakeholders that the company is doing its best to ensure sound and effective control of the company's affairs and a high level of business ethics. Exercising good corporate governance will, in the long run, build a solid company returning shareholders satisfactory profits on their investment. Corporate governance serves to ensure an open and transparent relationship between the company's management, its Board of Directors, its shareholders and other stakeholders.

SHAREHOLDERS' MEETINGS
Shareholders exercise their powers at shareholders' meetings, which represent the supreme authority in all the affairs of Icelandair Group within the limits provided for by the company's Articles of Association and statutory law. All shareholders are permitted to attend shareholders' meetings, express their views and exercise their voting rights. Shareholders may be represented by proxies, and they may be accompanied by advisors. The auditor of the company and the CEO also have full rights to speak and submit motions at shareholders' meetings whether they are shareholders or not.

Notices of shareholders' meetings must specify the business to be addressed at the meeting. If the agenda includes motions to amend the Articles of Association of the company, the substance of the motion must be included in the notice of the meeting. Seven days before a shareholders' meeting, at the latest, an agenda, final submissions and, in the case of annual general meetings, the annual accounts, report of the Board of Directors and the auditor's report must be laid open for inspection by shareholders at the company office.

Each shareholder is entitled to have a specific item of business included on the agenda of a shareholders' meeting, provided that such shareholder submits a written request to this effect to the Board of Directors of the company with sufficient advance notice for the item to be included on the agenda in accordance with the company's Articles of Association.

Items of business which are not included on the agenda may not be accepted for final decision at a shareholders' meeting except with the consent of all the shareholders in the company, but a resolution may be passed to provide guidance to the Board of Directors of the company. Lawfully submitted motions for amendments may be put to a vote at the meeting itself, even if they have not been laid open for inspection by shareholders. An Annual General Meeting is always permitted to conclude matters which it is required to address pursuant to statutory law or the company's Articles of Association.

RIGHTS, PREFERENCES AND RESTRICTIONS ON SHARES
All voting shares carry equal rights, and no privileges are attached to any shares in the company. All the shares are freely transferable except as otherwise provided by law.

ACTIONS NECESSARY TO CHANGE SHAREHOLDERS' RIGHTS
According to Article 23 of the company's Articles of Association, the Articles may be amended only at a lawful Annual General Meeting or extraordinary shareholders' meeting, provided that the notice of the meeting clearly indicates that such an amendment is proposed and outlines the main substance of the amendment. A decision to amend the Articles is valid only if it has the support of at least 2/3 of the cast votes and the support of shareholders controlling at least 2/3 of

the share capital represented at the meeting, provided always that no other force of vote is required by the Articles or statutory law, as further provided in Article 93 of the Companies Act.

The Annual General Meeting shall be held before the end of May each year.

BOARD PRACTICES

The company's Board of Directors exercises the supreme authority in the company's affairs between shareholders' meetings, and it is entrusted with the task of ensuring that the organisation and activities of the company's operation are at all times in correct and proper order.

The Board of Directors is instructed in the company's Articles of Association to appoint a CEO for the company and decide the terms of his or her employment.

The Board of Directors and CEO are responsible for the management of the company. The company's Board of Directors must at all times ensure that there is adequate supervision of the company's accounts and the disposal of its assets and shall adopt working procedures in compliance with the Companies Act. Only the Board of Directors may assign powers of procuration on behalf of the company. The signatures of the majority of the members of the Board are required to bind the company.

The CEO has charge of the day-to-day operation of the company and is required in his work to observe the policy and instructions set out by the company's Board of Directors. Day-to-day operation does not include measures which are unusual or extraordinary. Such measures can only be taken by the CEO with the specific authorisation of the Board of Directors, unless it is impossible to await the decision of the Board without seriously disadvantaging the operation of the company. In such instances, the CEO is required to consult with the Chairman of the Board, if possible, after which the Board of Directors must immediately be notified of the measures. The CEO shall ensure that the accounts and finances of the company conform to the law and accepted practices and that all assets belonging to the company are securely safeguarded. The CEO is required to provide the members of the Board of Directors and company auditors with any information pertaining to the operation of the company which they may request, as required by law.

The company's Board of Directors consists of seven members and two alternate members, elected at the Annual General Meeting for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board in writing of their intention at least five days before the Annual General Meeting, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have informed the Board of their candidacy are eligible.

The Board of Directors elects a Chairman and Vice chairman from among its members, and otherwise allocates its obligations among its members as needed. The Chairman calls board meetings. A meeting must also be held if requested by a member of the Board of Directors or the CEO. Meetings of the Board are valid if attended by a majority of its members. However, important decisions shall not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote, and in the event of an equality of votes, the issue is regarded as rejected. The CEO attends meetings of the Board of Directors, even if he or she is not a member of the Board, and has the right to participate in the discussion and submit proposals unless otherwise decided by the Board in individual cases. A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board member who disagrees with a decision made by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes. The same applies to the CEO.

AUDIT COMMITTEE

The main tasks of the Audit Committee include co-ordinating all auditing work within the Group in co-operation with the company's internal auditors, and acting in an advisory capacity to the Board of Directors with respect to financial reporting. The Audit Committee is appointed by the company's Board of Directors and is composed of three members. The current members of the Committee are three members of the Board of Directors: Ómar Benediktsson, Chairman, Jóhann Magnússon and Martha Eiríksdóttir.

WAGE TERMS COMMITTEE

The purpose of appointing a Wage Terms Committee was to avoid placing the company's managers in control of their own remuneration and furthermore to ensure that the management's remuneration is structured so as to serve the long-term interests of the shareholders. The main tasks of the Wage Terms Committee are policy making with respect to the management's performance-related bonuses, including stock options. The Committee conducts evaluations of management remuneration and monitors the management's acquisition of stock in the company. The current members of the Committee are three members of the Board of Directors: Finnur Ingólfsson, Chairman, Hermann S. Guðmundsson and Helgi Sigurður Guðmundsson.


STARBUCKS COFFEE

Boston 04.03.2007

Expanding Business Environment

"Throughout its long history, the company has consistently been able to renew itself and adapt to change, and this has been one of its key strengths."

Icelandair Group and its subsidiaries operate on many markets throughout the world. The airline, transportation and tourism sectors are expanding both in and around Iceland and throughout the world, and Icelandair Group participates actively in these dynamic markets, which present opportunities for both organic and acquired growth. The outlook in general is bright:

- Icelandair's route network, which forms the basis of the Group's scheduled airlines operations, has grown in recent years, is growing in 2007 and has the potential and opportunity to grow further into international markets.
- Worldwide cargo and charter operations have achieved an even faster growth rate than passenger transport and also within Icelandair Group, and further increase is forecasted.
- Travel services within Iceland have been growing steadily; the current situation is strong and the number of tourists travelling to Iceland is growing faster than the average tourism growth in Europe and the world.
- Icelandair has a long history of successful aircraft trading which has been gaining momentum through the foundation of Icelease and the expanding aircraft trading activity in recent months.

According to the International Air Transport Association, IATA, which represents airlines comprising over 95% of the world market, passenger flights grew by 5.9% and profits of world airlines improved in the year 2006. Cost reduction, improved efficiencies and careful capacity management have positioned the industry to achieve higher profitability.

According to IATA surveys within the industry, the focus of airline executives in 2007 is efficiency. Industry-wide revenue growth is expected to be 4.5% in 2007. While lower oil prices are a welcome relief, they remain more than double the price in 2000. Airlines have reduced non-fuel unit costs by an average of 3.5% per year over the last five years.

In general, Icelandair Group has developed a healthy business which generates more than 70% of its revenue in markets outside Iceland.

Icelandair Group earned solid profits in 2006, as it has done in recent years, with improved operating efficiency and cost control, focused distribution, strong marketing, sales and revenue management, and has shown strength in a time that has been volatile for many airline-related industries.

The company has a workforce of great experience and expertise in the airline, transportation and tourism sectors, which is a must for running a profitable business in this very competitive environment. Throughout its long history, the company has consistently been able to renew itself and adapt to change, and this has been one of its key strengths.

The strategy is to expand, both in Iceland and internationally, and at the same time focus on profitable operation.

The Icelandair Group Aircraft Fleet and Aircraft Market

Approximately 60 aircraft were involved in Icelandair Group's operations in one way or another at the turn of the year. They included, on the one hand, aircraft being operated by airlines within the Group and, on the other hand, aircraft leased by the Company to airlines outside the Group. Both categories involve a combination of aircraft which are either owned by companies within the Group or leased from third parties.

The most prominent type of aircraft in the operation of the Group is the Boeing 757, of which there are 19, five owned by the Group. These aircraft are involved in tasks undertaken by Icelandair, Icelandair Cargo and Loftleiðir Icelandic. Icelease owns shares in twelve Boeing 737-800 aircraft which are under lease in China and Germany. This is the most recent generation of Boeing 737s, and also the most popular since the original introduction of the model. Other aircraft which are prominent in the operation are earlier versions of the Boeing 737, of which Bluebird had seven in operation at year-end, and in addition, Icelease has interests in three aircraft of this type. Additional aircraft which play a prominent role in the operation include the Boeing 767-300ER, which are mostly involved in projects undertaken by Loftleiðir, in addition to the Fokker 50, of which Air Iceland operates six.

GENERAL PROSPECTS IN THE AIRCRAFT MARKET

The aircraft trade sector has been characterised in recent months by strong demand for new aircraft, which reflects the growth and improving financial results of airline companies. Looking at the composition of the backlog of undelivered aircraft reveals a preponderance of orders from budget airlines in Europe, in addition to orders from Asian airlines, particularly in China. The current situation is that the principal aircraft models are sold out until 2010, and certain models are not available for delivery until 2013. In particular, the demand for Boeing 787s has exceeded the most optimistic anticipations, and Icelandair has four such aircraft on order, scheduled for delivery in 2010 and 2012.

Icelandair Group has adopted the strategy of taking advantage of the current situation to cash in on any profit situations which have materialised through shares and/or lease contracts. At the same time, opportunities are being sought for investments in used aircraft, as orders for new aircraft may be expected to increase until the pressure of demand eases off.

THE BOEING 757 MARKET RECOVERS

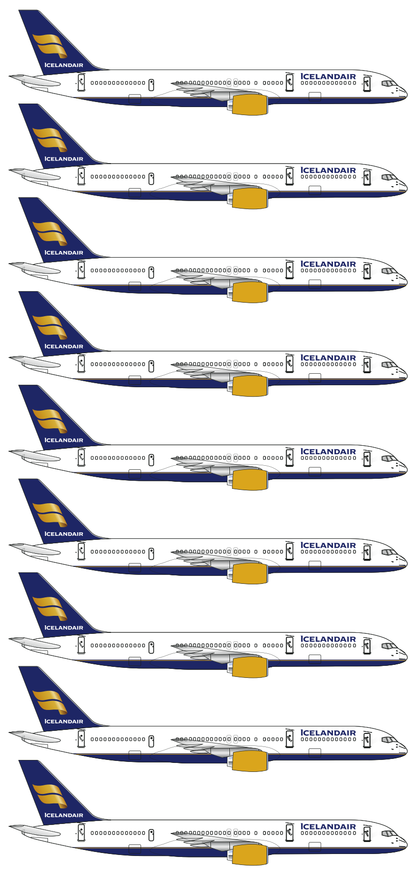
The market for Boeing 757 aircraft is now recovering its former strength after a sharp drop in prices following the events of 11 September 2001, much like other aircraft models. This was followed by reports that production of the aircraft would be discontinued, which put even further pressure on prices. In recent months, however, prices have recovered significantly, particularly as a result of the increase in the coast-to-coast use of this model in the United States and on Atlantic flights, but also because of the strong demand for older aircraft of this kind for conversion to cargo use. It is quite possible that Icelandair Group could take advantage of the favourable state of the market in the coming months to enter into sale and sale-leaseback contracts for its 757 aircraft.

"The aircraft trade sector has been characterised in recent months by strong demand for new aircraft, which reflects the growth and improving financial results of airline companies."

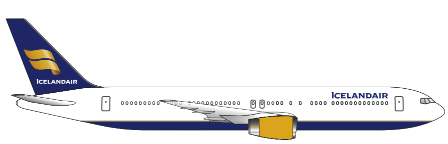
In total 60 aircraft were involved in Icelandair Group's operation at the end of 2006

ICELANDAIR

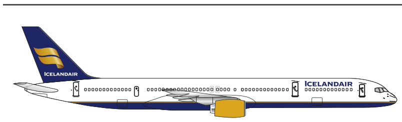
9 Boeing 757-200



1 Boeing 767-300



1 Boeing 757-300

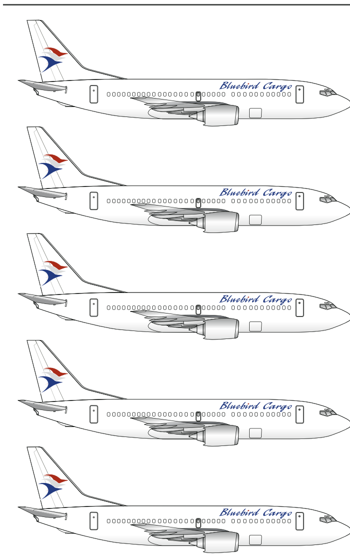


ICELANDAIR CARGO

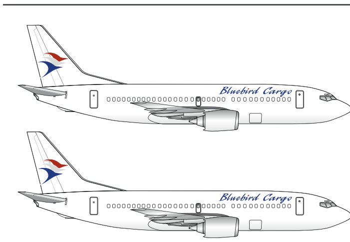
5 Boeing 757-200

Bluebird Cargo

5 Boeing 737-300

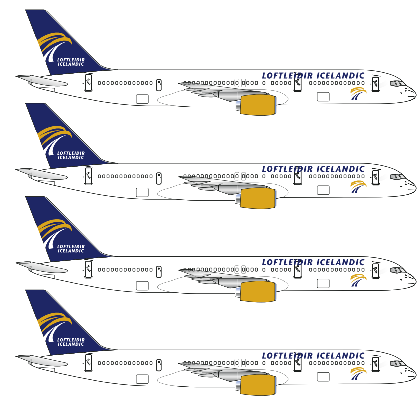


2 Boeing 737-400

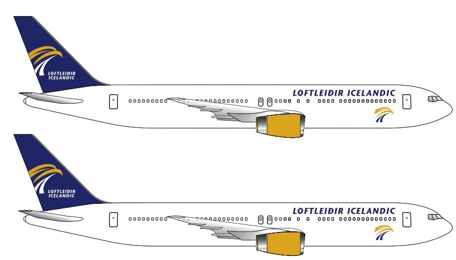


LOFTLEIDIR ICELANDIC

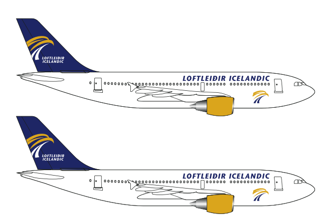
4 Boeing 757-200



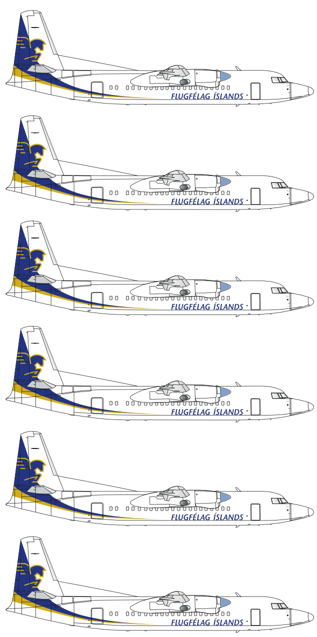
2 Boeing 767-300



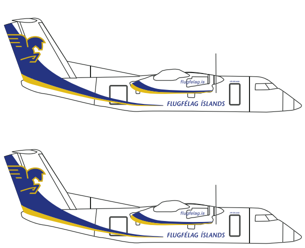
2 Airbus 320-200



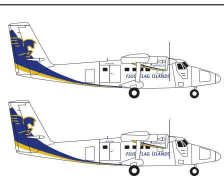
6 Fokker Friendship



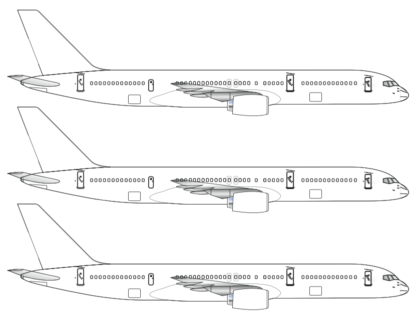
2 Dash 8



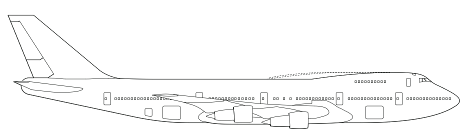
2 Twin Otter



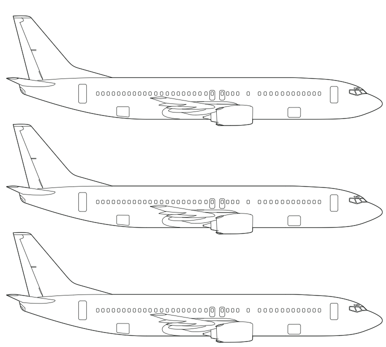
3 Boeing 757-200



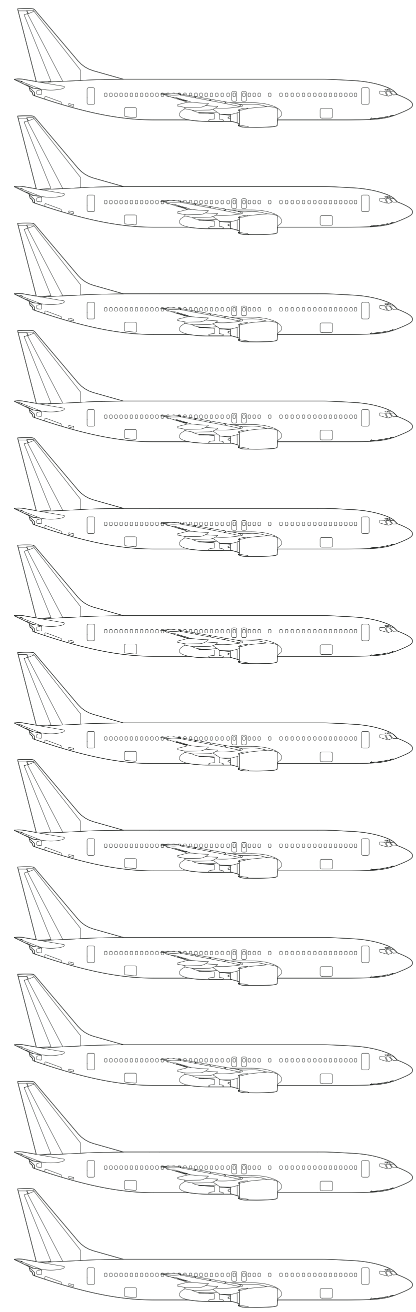
1 Boeing 747-400 F



3 Boeing 737-500



12 Boeing 737-800

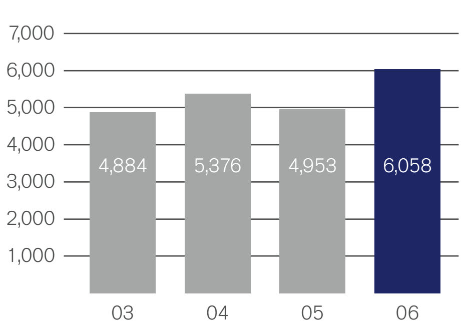


Reykjavík 06.03.2007

Financials

- Net earnings ISK 2.6 billion
- EBITDA ISK 6.1 billion – up 22%
- Revenue growth 23%
- Total assets ISK 77 billion
- Equity ratio 34%
- Net operating cash ISK 6.4 billion
- All business platforms are performing well

EBITDA 2003-2006 (ISK´000.000 Proforma)



INCOME STATEMENT

Net earnings amounted to ISK 2.6 billion in 2006. A comparison with 2005 is not available. The group posted EBITDA of ISK 6.1 billion for 2006, as compared to a pro forma figure of ISK 5 billion in 2005.

INCOME

Operating income for 2006 totalled ISK 56.1 billion, an increase of 23% from 2005. Transport Revenues in 2006 totalled ISK 35 billion, as compared to 29.4 billion in 2005, an increase of 19%. The increase can be attributed to a greater number of passengers, a better passenger mix, more freight transport and favourable exchange rates. Revenues from Charter and AC lease amounted to ISK 10.7 billion, as compared to ISK 8.1 billion in 2005, increasing by 32%. The acquisition of Lat Charter at mid-year 2006 and increased leasing activities by Icelandair Cargo and Bluebird Cargo explain this increase. Other operating revenue totalled ISK 10.5 billion, increasing by 31% from 2005.

EXPENSES

Operating expenses in 2006 totalled ISK 50.1 billion, increasing by ISK 23% from 2005. Salaries and salary related expenses totalled ISK 17.8 billion in 2006, as compared to ISK 15.5 billion in 2005, which represents an increase of 15%. The reason for this increase is growth in the operation, salary hikes and wage drift. Fuel expenses totalled ISK 9.5 billion in 2006, as compared to ISK 7.3 billion in 2005, which represents an increase of 30%. Increased production, the price of the USD and higher fuel prices explain this increase. Aircraft and Aircrew lease amounted to ISK 5.2 billion, increasing by ISK 2.2 billion from 2005 due to the increased number of aircraft in the Group's fleet. Aircraft maintenance totalled ISK 3.1 billion, as compared to ISK 1.9 billion in 2005. Maintenance cost fluctuates considerably, and the main reason for this increase is the number of large inspections on engines performed in 2006, which are very costly. In addition, modifications were made to aircraft in the Icelandair fleet, including the installation of winglets and renewal of cabin interiors. Other operating expenses totalled ISK 17.2 billion, as compared to ISK 15.3 billion in 2005, an increase of 12%.

Net finance cost totalled ISK 426 billion. Financial income totalled ISK 1.6 billion, and financial expense totalled ISK 2 billion. A comparison with last year is not available.

BALANCE SHEET

ASSETS

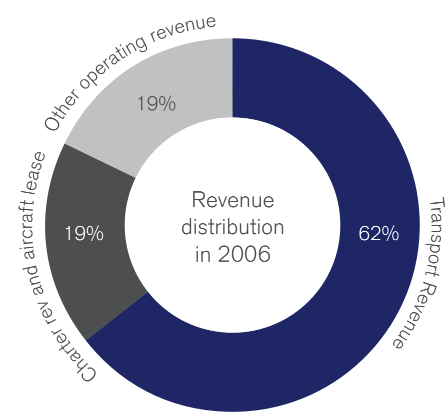
Icelandair Group's total assets as of 31 December 2006 totalled ISK 77.2 billion. Operating assets totalled ISK 22.9 billion and consist mainly of aircraft, which account for ISK 19 billion. The book value of five Boeing 757 aircraft was adjusted to market value according to IRFS standards. Intangible assets amounted to ISK 27.8 billion. Goodwill created through the acquisition of companies from FL Group to Icelandair Group hf. accounts for ISK 21.1 billion of this figure. Prepaid aircraft acquisitions totalled ISK 9.7 billion, mainly resulting from the purchase of six Boeing 737-800 aircraft which are scheduled for delivery to the company in 2007. The intention is to lease or sell all of these aircraft. The company also has agreements with Boeing regarding the purchase of four Boeing 787 Dreamliner aircraft to be delivered in the year 2010. The resulting borrowing cost, amounting to ISK 508 million, has been capitalised. Cash and cash equivalents totalled ISK 2.8 billion. The reason for this low cash balance at the year-end is payments of long-term debt and investments in new aircraft.

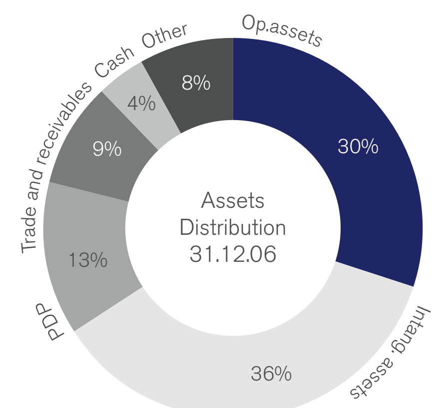
LIABILITIES

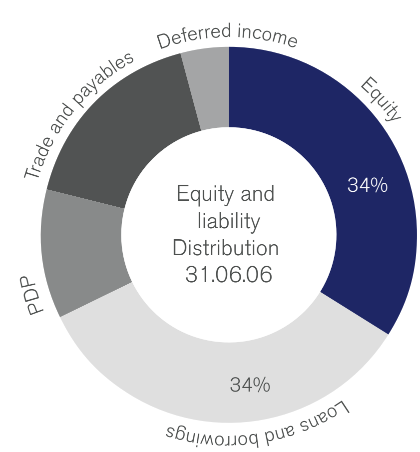
Icelandair Group's total loans and borrowings as of 31 December 2006 totalled ISK 35 billion. Of this figure, total prepaid aircraft acquisitions account for ISK 8.5 billion. Loans in connection with the purchase of aircraft and real estate amounted to ISK 14.2 billion, and loans connected with the acquisition of companies from FL Group and Icelandair Group amounted to ISK 12 billion. The company is working on restructuring unfavourable loans in the amount of ISK 5 billion. The new loan will have a different composition of currencies, and the restructuring will be finalised at the end of February.

EQUITY

The Group's total equity amounted to ISK 26 billion. The equity ratio is 34%. The total number of shareholders as of 31 December 2006 was 1,507. Three shareholders owned over 10% of the share capital: Langflug with 32%, Naust ehf. with 14.8% and Fjárfestingafélagið Máttur ehf. with 11.1%.







Risk Management

Various sources of financial risk inevitably play some part on the Group's operations by nature. The Board of Directors is responsible for defining treasury policy measures to reduce the exposure of risk. The approved treasury policy, outlines the parameters and framework to which the Group is subject to, when dealing with financial risk arising from cash, liquidity, asset management and corporate financing. An internal Risk Management Team, chaired by the CEO, actively controls the risk exposure within the policy limits.
The objectives aimed for, are approached by focusing on and minimising costs arising from three fundamental financial factors: price volatility, cost of capital and uncertainty.

FOREIGN CURRENCY RISK

The Group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Never the less, the US dollar cash inflow falls short of dollar outflow by around USD 100 millions due to fuel costs and capital related payments that are to a large extent denominated in US dollars. This shortage is financed by a surplus of European currencies, most importantly the euro but also by the Icelandic and Swedish krona. The Group follows a hedging policy of 40-90%, 12 months in advance, and uses a portfolio of instruments, mainly collar options, but also barrier options and forwards.

FUEL PRICE RISK

The jet fuel price has proved to be increasingly volatile in recent years. Not only has the price development been characterised by a steep upward trend, generated by excessive world demand, but also vicious periodic cycles. Moreover, swap prices have for the past two years followed a positive curvature as opposed to the more familiar “backwardation”, which used to be the case. In 2006, the monthly average of jet fuel prices reached a record level of USD 735 pr tonne in July with swaps trading at USD 850 per tonne, but in August, oil prices fell by 20% reaching a low in November. Due to the volatility and expensive swaps, the Group has exchanged the traditional instruments of swaps and collars for capped swaps and related types of options to acquire improved prices and reduce the downside risk. The Group follows a policy of 40-80% hedging ratio, 12-18 months in advance and has recently maintained its ratio closer to the lower boundaries to benefit from lower prices.

INTEREST RATE RISK

The largest share of outstanding loans are directly related to aircraft financing and denominated in US dollars. This is a consequence of the fact that the most liquid market for commercial aircraft denominates prices in US dollars. The Group follows a policy of hedging 40-70% of interest rate exposure of long term financing, 3-5 years in advance. Currently, only the aircraft loans are hedged against interest rate fluctuations with swap contracts, where the 6 month floating rate is exchanged for fixed interest rates. Forward rate agreements and options have occasionally also been used to that end. The contracts amount to USD 100 million and are currently considerably favourable, as the floating rate has been increasing in recent years. The average fixed interest rate is 3.59% compared to the 6 month floating rate, mid year 2006 of 5.11%

LIQUIDITY RISK

It is the Group´s policy to keep the equivalent of 20-25% of the Group's estimated annual fixed costs in the form of liquid assets.


USD per tonne 2002-2006
800
700
600
500
400
300
200
100
0
Jan 02
Dec 02
Jan 03
Dec 03
Jan 04
Dec 04
Jan 05
Dec 05
Jan 06
Dec 06


USD 6 Month Interest Rate Swaps for 5 years
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
Jan 02
Dec 02
Jan 03
Dec 03
Jan 04
Dec 04
Jan 05
Dec 05
Jan 06
Dec 06


EUR/USD 2002-2006
1.4
1.3
1.2
1.1
1.0
0.9
0.8
0.7
Jan 02
Dec 02
Jan 03
Dec 03
Jan 04
Dec 04
Jan 05
Dec 05
Jan 06
Dec 06


ICELANDAIR

Manchester 28.02.2007

International Scheduled Airline Operations

Scheduled Airline Operations is an Icelandair Group Business Platform comprising four companies: Icelandair, the international full-service airline with a hub in Iceland; Icelandair Cargo, a full-service air-freight company; Icelandair Ground Services, which handles airlines and passenger services at Keflavik Airport, and Icelandair Technical Services, which provides maintenance for Icelandair and other airlines. These companies work closely together and have long historical ties. In 2006 they accounted for roughly 65% of the Group's income. Their main joint task is to run a profitable airline network operation and take advantage of any potential opportunities for growth. This involves aggressive sales and marketing activities on the part of all companies, as well as tight revenue management and cost control throughout the operation.

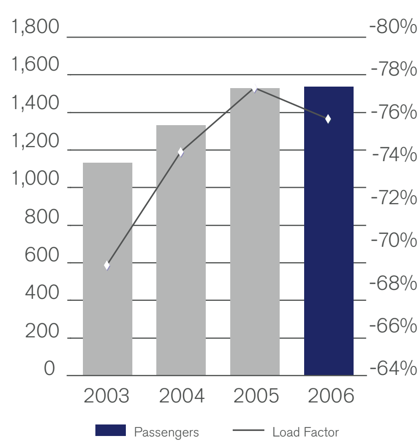
The total turnover in Scheduled Airlines Operations was ISK 42 billion, and EBITDA was ISK 3.5 billion, an improvement of ISK 456 million from 2005.

Characterising the year was an increase in revenue through increased numbers of passengers, higher unit prices, expansion in the cargo fleet and more cargo activities.

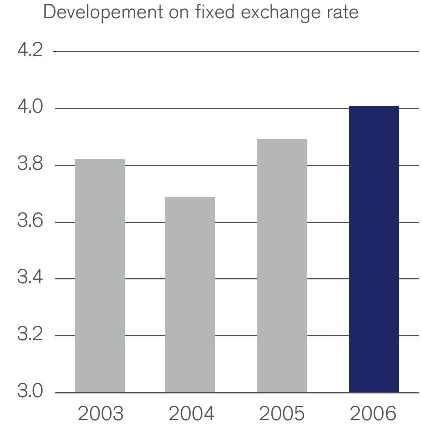
Icelandair

"By combining in its aircraft passengers visiting Iceland, passengers departing from Iceland and passengers travelling across the Atlantic via Iceland, Icelandair has been able to expand its network steadily over the past decades, with further growth planned for 2007."

Passenger and Load Factor



Unit Revenues
Developement on fixed exchange rate



OPERATIONS
Icelandair is the largest subsidiary within the Group, accounting for around 53% of its income. Icelandair carried 1,534 million passengers on its scheduled flights between Iceland, Europe and North America to a total of 23 destinations. The company operates a fleet of up to 12 aircraft at any given time for its scheduled operations.

The Icelandair business strategy is based on the geographical position of Iceland on the flight route between northern Europe and the eastern shore of the USA/Canada. By combining in its aircraft, passengers visiting Iceland, passengers departing from Iceland and passengers travelling across the Atlantic via Iceland, Icelandair has been able to expand its network steadily over the past decades, with further growth planned for 2007.

In 2006 Icelandair Network revenue grew by 11%, while the number of passengers grew by 1% and load factors were down by 1.5 percentage points. The revenue growth is partly due to an improved "mix" of passengers, that is; a larger share of passengers flying on business class, and/or flying on to/from routes rather than on via routes. Other revenues also grew significantly in accordance with Icelandair's goal to increase ancillary revenues.

MARKETS
Icelandair divides its customer base into three main markets:

Passengers from Iceland (28% of passengers): With its large network Icelandair offered Icelandic customers direct scheduled flights to 23 destinations in Europe and North-America, an astounding range for a market of 300 thousand people. The biggest routes in the Network are to London and Copenhagen. The year 2006 saw continued strong demand for all travel from Iceland.

Icelandair's revenue from passengers from Iceland has grown by 15-20% annually over the last 3 years. The Icelandair frequent flyer program (Vildarklúbbur) now has over 100,000 members in Iceland and is still growing. The company's pricing policy and schedule is designed to attract both business travellers, who schedule their trip at short notice, and leisure / tourist traffic.

Passengers to Iceland (36% of passengers): Iceland has enjoyed increasing popularity as a tourist destination over the past 25 years. The number of tourists visiting Iceland grew from 72 thousand in 1981 to 400 thousand in 2006, which corresponds to an increase of over 7% annually. The vast majority of these tourists travel to Iceland by Icelandair. The company has fuelled this increase by the establishment and development of a network with a very high frequency of flights to Iceland and by strong marketing efforts in Europe and North America.

Transatlantic passengers travelling via Iceland (36% of passengers): Even though itss market share on the North Atlantic market is less than 1%, it is a key factor in Icelandair's operation. Due to the immense size of this market and the nominal market share held by Icelandair, it serves in effect as a gigantic reservoir of passengers. In its "via" marketing Icelandair focuses on city pairs with limited direct flights, and with its centrally located hub and quick turnaround times at Keflavik International Airport the company is able to offer competitive prices and flying times.

Marketing and selling the product
Icelandair has decades of experience in selling its products globally on the general consumer market. Among airlines, Icelandair attracts an unusually high percentage, or 70% of its customers, from outside its home market. In 2006 Icelandair reached its customers through four main channels:

01 Websites in local languages in all key markets. An increasing number of tickets are sold through the Internet, both on Icelandair's own websites and third-party websites.

02 Own sales offices in key markets, i.e. Iceland, the USA, the UK, Denmark, Sweden, Norway, Finland, France, the Netherlands, Germany, Spain and Italy with call centres staffed by people who speak the local languages.

03 Sales through more than 12,000 travel agents, tour operators and airlines all over the world through various contracts and agreements. Icelandair uses the Amadeus CRS system, which enables travel agents to book tickets with Icelandair instantly at their offices or on websites.

04 An Internet Club of about 550,000 active members, who receive special offers and information on a regular basis.

In 2006 Icelandair was voted the Marketing Company of the Year by IMARK, the Association of Icelandic Marketing People. The Icelandair website was also voted the best Icelandic website by IMARK. The website was also nominated the Best Website Design of the year by Technology for Marketing. The reward is given once a year and is accepted in the "internet world" to be the most important in Europe. Icelandair and The Icelandic Ad Agency got 11 nominations in 9 categories at the Icelandic Advertising Awards and won 4. Icelandair faces competition in all its markets and always has done, however, the company has shown the ability to grow and return profits in this competitive environment.

OUTLOOK

Icelandair is making several significant changes in order to increase the profitability of its operation.

- Three new destinations will be added to the Icelandair route network – Halifax in Canada, Bergen in Norway and Gothenburg in Sweden. The flights to Bergen and Gothenburg are an addition to the flights already offered to the four Nordic capitals of Copenhagen, Oslo, Stockholm and Helsinki. On average Icelandair will fly 10 times each day to the Nordic countries next summer, and by that Icelandair will have more flights from Sweden, Norway and Finland to the US than our competitors combined. In addition to the introduction of these three new destinations, Icelandair has scheduled an increase in the number of flights to Paris, Frankfurt, Amsterdam and Helsinki next summer, while the summer route to San Francisco has been closed.

- As of summer 2007, Icelandair will introduce new Iceland connections into the route network, including early morning departures from Scandinavia (Copenhagen, Stockholm and Oslo) to Keflavik and late morning departures to North America (Boston and New York) from Keflavik in addition to afternoon departures from North America (Boston and New York) to Keflavik and night departures from Keflavik to Scandinavia (Copenhagen, Stockholm and Oslo). One of the main reasons for this increase is to provide better services and flexibility for business passengers.

A new income-generating operation in connection with in-flight entertainment, shopping and services for passengers has been set up following the purchase of a new in-flight entertainment system and new seats for the Icelandair fleet. In early 2008 Icelandair will start offering its passenger a whole new flying experience. The new seats and in-flight entertainment system will be installed in all of Icelandair's Boeing 757 passenger jets that are used on the company's scheduled routes

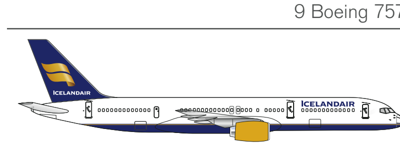
- A new Operations Control Centre will be opened in 2007 in order to increase the flexibility, efficiency and safety of the Icelandair network operation and improve passenger services. Fleet and crew management will be reorganised in connection with the establishment of the Centre.

- A new Revenue Management System has been implemented and resources have been placed at the disposal of the company management in order to increase passenger revenue for 2007.

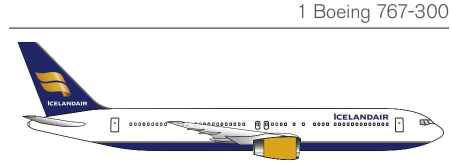
Icelandair will continue on-going efforts to lower cost through increased utilisation of resources and by constantly looking for the most cost efficient ways of providing customers with a highly valuable service. As part of this Icelandair will increasingly use information technology to simplify operation and make live easier for it's customers.

Number of aircraft by aircraft type Icelandair

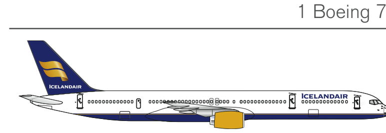
9 Boeing 757-200



1 Boeing 767-300



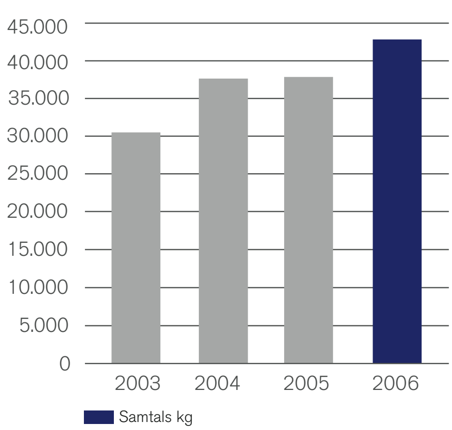
1 Boeing 757-300



Icelandair Cargo

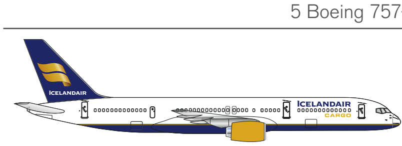
"Icelandair Cargo offers its customers competitive and quick global services through its extensive interline and special prorate agreements with other airlines."

Total transported tons 2003-2006
Icelandair Cargo



Number of aircraft by aircraft type Icelandair Cargo

5 Boeing 757-200



OPERATION

The main business of Icelandair Cargo is scheduled freight services on its own freighters and in the lower holds of Icelandair´s passenger aircraft. There are five Boeing 757-200 freighters in the fleet, of which two came into service in August and November 2006. All aircraft are leased and crews are leased from Icelandair. Some 82% of the cargo is carried on freighters and 18% on passenger aircraft. At the end of the year three freighters were on ACMI (Aircraft, Crew, Maintenance and Insurance) leases to TNT during weekdays and were operated on Icelandair Cargo's scheduled services at weekends.

The year 2006 was a period of expansion and growth for Icelandair Cargo. Tonnage on scheduled flights grew by 13.7% to 41,000 tons. Two new Boeing 757-200SF aircraft joined the fleet and three destinations, Brussels, Jönköping and Charlotte, were added to the network.

There were nine flights per week to Liege in Belgium, four to Brussels, four to Humberside in the UK, one to East Midlands, two to Jönköping in Sweden, six to New York (JFK), one to Charlotte in North Carolina, and one to Halifax in Canada. This network of freighter aircraft is enhanced by the 23 destinations of the Icelandair passenger network. Imports to and exports from Iceland account for about 75% of the tonnage, while the rest is freight carried between other European countries and North America.

MARKETS

Icelandair Cargo offers its customers competitive and quick global services through its extensive interline and special prorate agreements with other airlines. The company also operates trucking networks in Europe and, by demand, in the USA. Sales are made by the company's own staff in Iceland, the Benelux countries and North America, and by general sales agents (GSAs) in other markets. The company has a number of GSAs in all of the larger and growing markets in Asia and in most countries in Europe.

For a number of years, Icelandair Cargo has carried express freight for TNT to Iceland and across the Atlantic, as well as freight for DHL from Brussels. Icelandair Cargo also counts FedEx among its most important customers.

In 2007 Icelandair Cargo expects the company to carry 46,000 tonnes, of which a third is expected to consist of exports from Iceland, a third in imports and a third in freight between Europe and North America. Eighty-five per cent of the exports consist of fresh seafood, whereas the imports include produce, high-tech products and spare parts. Fish exports from Iceland grew by 11% in 2006 and a similar growth was seen in imports. There is a strong and growing demand for fresh seafood in most European markets, fuelling growth in exports although the supply of fish may eventually become a limiting factor. Imports to Iceland are expected to decline moderately while strong growth is expected in transit freight.

OUTLOOK

The current strategy pursued by Icelandair Cargo assumes a considerable annual growth over the next five years. The emphasis is on making the company less dependent on the Icelandic market and gradually increasing its participation in the global markets. This calls for larger and longer-range aircraft. The Boeing 757-200 fleet is expected to grow by one or two aircraft by 2008, and conversion of the company's Boeing 767-200 is also being contemplated.

Icelandair Ground Service (IGS)

OPERATION

IGS provides aircraft ground handling services for passengers and aircraft, a first-class flight kitchen and bonded stores, a new state-of-the-art cargo centre and a restaurant division at Keflavik International Airport. IGS also produces meals and services for off-airport companies and schools. All these units are organised and represented in the company accounts as profit units.

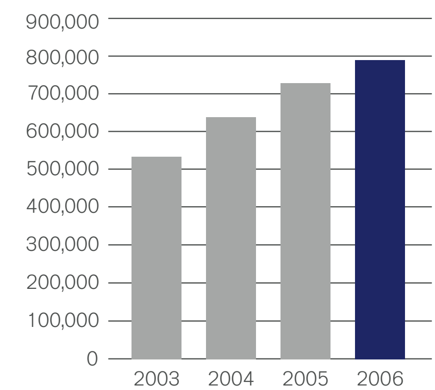
MARKETS

IGS competes with two other suppliers of ground handling services at Keflavík Airport. Icelandair is by far the biggest client of IGS, but the company has contracts with other airlines for ground handling services and catering. The turnover has grown in 2006 in all its business units. New markets have opened up, such as restaurant operations for schools and companies outside the Icelandair Group. Future growth is expected in that area.

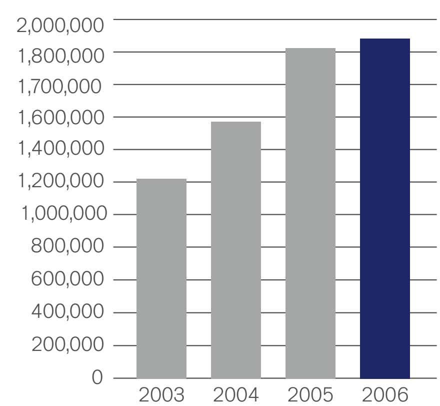
OUTLOOK

IGS has contracts with most airlines using Keflavik Airport and aims to maintain its market share. Opportunities for growth go hand in hand with the expected growth in the number of passengers passing through the airport. New restaurants will be opened in the Leifur Eiriksson air terminal in the spring of 2007 which will meet the anticipated passenger growth in the coming years. The company will achieve ISO 9001 certification in the year 2007, which will underline the high quality and standards of the company's services.

Number of checked in passengers in Kef



Number of produced servings



Icelandair Technical Services (ITS)

OPERATION

Icelandair Technical Services' core business in 2006 was to provide Icelandair Group and its subsidiaries with high-quality maintenance and technical services. ITS also provides services to aircraft landing in Keflavík, heavy maintenance and technical services for several operators. It is also active in maintenance at several locations outside Iceland.

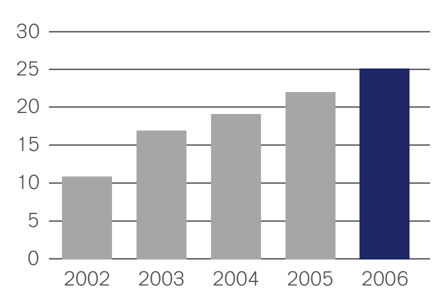
MARKETS

ITS is Iceland's largest company in its field, operating a first-rate maintenance centre for aircraft in Iceland. The market in Iceland has been growing, as Icelandair has increased its operations every year. However, the company is also an experienced Boeing 757 service provider and has offered its services to other operators in cooperation with Volvo and British Airways Maintenance – this service has been offered under the heading "Team 757"

OUTLOOK

ITS will be merged back into Icelandair in early 2007 as a profit centre to simplify the operational processes. Air traffic in Iceland is expanding. Therefore ITS foresees considerable opportunities to exploit new markets and new businesses.

Number of aircraft with full service contract



Capacity Solutions and Aircraft Trading

Three companies are grouped together to emphasise Icelandair Group's increased focus on international expansion in this field. The companies forming this Business Platform are: Loftleiðir-Icelandic, Bluebird Cargo and Icelease. Their role is to capitalise internal know-how by offering aircraft operation services to third parties and taking advantage of trading opportunities in a fast-growing world market, as well as looking for opportunities for mergers and acquisitions.

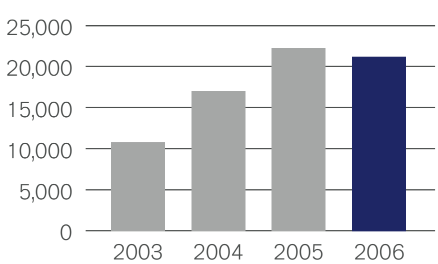
Total turnover of Capacity Solutions and Aircraft Trading was ISK 10.7 billion and EBITDA was ISK 1.6 billion, an improvement of ISK 486 million from 2005.

What characterised the year 2006 was growth, both organic and external. In the field of aircraft trading, Icelease sold it's positions in three aircraft, and Loftleiðir and LatCharter bought and sold one aircraft each, all deals yielding substantial profits.

Loftleiðir – Icelandic

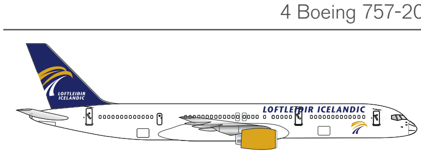
"It has developed from being a marketing vehicle operating in the international ACMI (Aircraft Crew Maintenance and Insurance) and charter markets, to serving as a capacity solution provider."

Total number of block hours 2003-2006 Loftleiðir

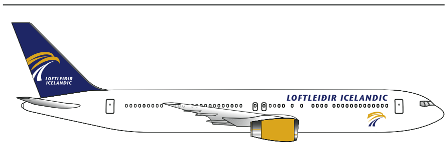


Number of aircraft by aircraft type Loftleiðir

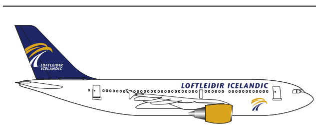
4 Boeing 757-200



2 Boeing 767-300



2 Airbus 320



OPERATION

Loftleiðir–Icelandic is a capacity solution company for the international passenger airlines and tour operator industries. Loftleiðir-Icelandic was formed as a subsidiary of FL Group in 2002, though international charter operations had been a part of the general operations of the airline and its predecessors for decades. It has developed from being a marketing vehicle operating in the international ACMI (Aircraft Crew Maintenance and Insurance) and charter markets, to serving as a capacity solution provider, thus expanding its horizon above the aircraft types traditionally operated under the Icelandair Air Operator's Certificate. In early 2006, the company bought a majority of the shares in the Latvian charter operator LatCharter Airlines as part of Loftleiðir-Icelandic's strategy to strengthen its position in the Baltic and CIS region and add the Airbus family into its worldwide ACMI product line.

The Company currently operates AM (Aircraft and Maintenance), ACMI (Aircraft, Crew, Maintenance and Insurance) and full charter contracts in Europe, Africa, the Middle East and North and South America. Furthermore, Loftleiðir-Icelandic has established itself as a business class operator serving one of the most prestigious operators in the USA, A&K (Abercrombie & Kent), by operating first-class flights around the world where all seats are business class. The Company has five Boeing 757-200 and three Boeing 767-300ER aircraft, all but one of which are operated under Icelandair's AOC (Air Operator's Certificate). In addition, the company has two Airbus 320 aircraft operated under the LatCharter Airline's AOC.

MARKETS

Current market conditions are favourable, especially on the wide-body market due to a lack of aircraft availability. Thus, the wide-ranging aircraft market knowledge accumulated within Loftleiðir-Icelandic has put the company in a good position to meet demand. In mid-2003, the Company introduced its first wide-body aircraft by adding a Boeing 767 to its fleet, which opened up new markets. This led to an increase in the proportion of ACMI projects at the expense of all-inclusive projects, which has helped to increase profitability and reduce sensitivity to external fluctuations.

The company has been successful in establishing itself on the European market and enjoys increasing awareness internationally.

OUTLOOK

Loftleiðir-Icelandic is currently seeking to use its extensive market knowledge to widen its spectrum of services further with the objective of securing continued growth in revenue and profitability. In addition to the current charter and ACMI operations, the company has increased its brokering activities, both in terms of arranging for third-party dry and wet leases and in terms of aircraft brokering.

Bluebird Cargo

OPERATION

Bluebird Cargo currently operates seven freighter aircraft, two B737-400s and five B737-300s. General cargo services are offered to freight forwarders and large shippers to and from Iceland on daily, scheduled services. In addition, Bluebird Cargo operates several aircraft on a wet-lease basis for other airlines and for some of the major global express parcel service companies.

The operation of Bluebird Cargo was successful in 2006 and returned satisfactory results. The company purchased two B737-400 aircraft in the second half of the year, and initiated a process of converting the aircraft to pure freighters in November. The two aircraft will be back in revenue-generating service in the spring of 2007.

MARKETS

Bluebird Cargo has carved out a niche for itself in operating short-haul freighter flights in time sensitive markets within Europe. As such, the company enjoys a fairly favourable market position. The target customer group consists of express service companies, post offices, and airlines operating their own overnight networks within Europe.

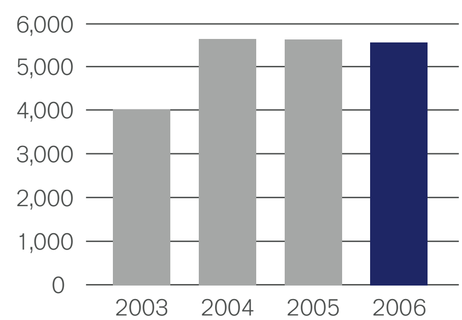
The air cargo sales function of Bluebird Cargo in Iceland dates back to 1994 and through the year the company has focused on providing local sales and marketing representation for airlines such as Cargolux Airlines, UPS Air Cargo and others. Through these companies, Bluebird Cargo has obtained valuable access to the world-wide air cargo networks of some of the world's leading air freight companies. Using these networks Bluebird Cargo is able to offer the Icelandic market reliable and fast access to and from almost any major destination in the world.

OUTLOOK

Most leading experts agree that the global air freight market will grow rapidly in the coming years. Air freight is projected to grow considerably faster than the passenger side of the industry. The future growth strategy of Bluebird Cargo is based on a two-pronged approach to the market. On the one hand, the company will continue to grow with the Icelandic air freight market, building on the strengths outlined above. On the other hand, there is tremendous potential in providing aircraft and air freight capacity to the various segments of the air freight industry, including wet lease services to other airlines, contract operations for freight forwarders, and dedicated services to postal services and express parcel corporations.

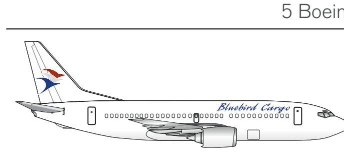
"The operation of Bluebird Cargo was successful in 2006 and returned satisfactory results."

Total number of block hours 2003-2006 Bluebird Cargo

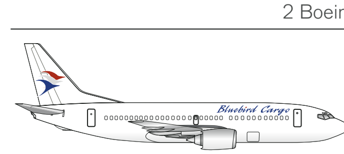


Number of aircraft by aircraft type Bluebird Cargo

5 Boeing 737-300



2 Boeing 737-400



Icelease

"Aircraft leasing is a large-scale worldwide branch of financial services."

OPERATION
Icelease is a business unit specialising in aircraft trading in the international marketplace. Icelease is an arrangement company which ties together and utilises the vast knowledge, experience and business contacts within Icelandair Group in the business of buying, selling and leasing aircraft. All aircraft related assets for aircraft trading purposes are kept in the holding company IG Invest which is managed by Icelease.

Icelease has been involved in numerous aircraft transactions in the past two years. The transactions can be categorised either as investment or trading. Trading is when an aircraft is bought and sold with back to back agreements, usually kept for a short period of time and does not affect the balance sheet. Investment is when an aircraft is bought and kept for a period of time in a rising market, and will be sold later for a higher price.

Whenever Icelease arranges an aircraft purchase for investment purposes, a new limited-liability company (special purpose company, SPC) is set up in co-operation with outside investors. Icelease manages the holding company, IG-Invest, which in turn holds the shares of the SPCs. The aircraft is then leased to financially trustworthy airlines on a long-term lease agreement that fully covers the aircraft investment company's operations. The SPCs are eventually sold out of Icelandair Group with the attached leasing contract when market conditions are right, yielding a profit. By negotiating long-term lease agreements, the company increases the likelihood of being able to exit when the market cycle is at a favourable stage.

Additionally, Icelease arranges back-to-back aircraft trading, where aircraft are sold immediately upon purchase, thereby eliminating the need for the SPC-structure.

In 2006 Icelease received 9 new generation Boeing 737-800 aircraft. One aircraft was sold outright but 8 aircraft were sold into SPC's, in which IG Invest holds 40% of the shares. These aircraft are a part of a 15 aircraft agreement with Boeing in 2005 and were bought as an investment. During 2006, two of the SPC's were sold, yielding acceptable sale profits.

THE ASSETS
IG Invest's current portfolio consists of thirteen passenger aircraft, one cargo freighter and nine future deliveries of passenger aircraft with three additional purchase options. Four of the future deliveries and all three purchase options are B787-8 Dreamliner aircraft, which are expected to be used in Icelandair Group's operations as discussed above.

Of the 12 remaining B737-800's, five are leased to each of Hainan Airlines of China and Air China respectively, and two have been leased to Air Berlin in Germany.

MARKETS
The company's main focus has so far been on the market in South-East Asia, but also Europe. These two markets are the two strongest growing markets in the current aircraft market.

Aircraft leasing is large-scale worldwide branch of financial services. During the past 25 years the number of aircraft owned by leasing companies has been on the rise, relative to airlines direct ownership, although both the world fleet of aircraft and the proportion of the fleet owned by leasing companies have increased in size. Today around 35% of the world's commercial fleet is owned by leasing companies. Aircraft are critical assets for airlines and they pay around USD 115 billion annually in leases. Many companies have seen opportunities to enter the aircraft leasing business. These companies include General Electric, Daimler Chrysler and Royal Bank of Scotland.

Boeing Market Outlook forecasts the average annual passenger and cargo growth over the next 20 years at 4.8% and 6.2% respectively. Such growth will in turn increase the size of the aircraft market, resulting in improved liquidity of assets.

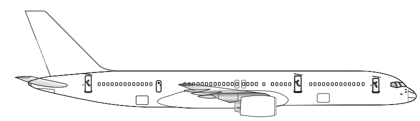
OUTLOOK

Icelease is fully aware that the success of its operation is highly dependent on the market cycle. The company intends to utilise the market cycle to maximize the return on equity. Ideally, the company seeks long-term leasing contracts on its aircraft, preferably 5-10 year contracts.

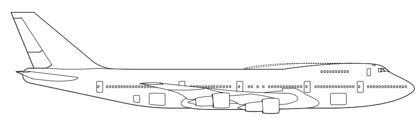
At the present Icelease has no new orders due to high market pressure and long delivery lines with aircraft manufacturers along with higher risk. The company is seeking opportunities trading with older aircraft, and offering leasing and financial services to airlines as well as the brokering of equity holders with long-term investment opportunities in the aircraft market.

Number of aircraft by aircraft type Icelease

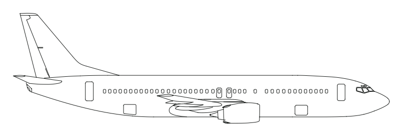
3 Boeing 757-200



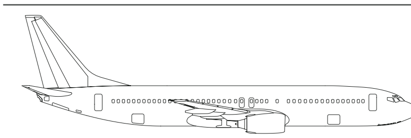
1 Boeing 747-400F



3 Boeing 737-500



12 Boeing 737-800



Travel & Tourism

Three companies form the Travel and Tourism Business Platform of the Group. They are Iceland Travel, a tour operator and travel agency in incoming tourism, Icelandair Hotels, which markets and operates two hotel chains, Icelandair Hotels and Edda Hotels, and Air Iceland a scheduled domestic carrier that also offers regular flights to Greenland and the Faeroe Islands.

Their main function is to show profitable results, as well as to provide strategic support to the international scheduled operations, and to harvest the growth of tourists coming to Iceland. All these companies have recently shown improved results.

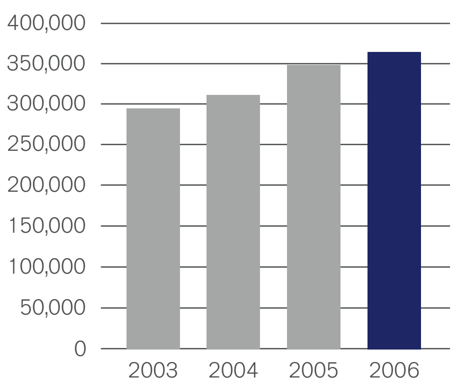
The total turnover of these companies in 2006 was ISK 8.7 billion and their EBITDA was ISK 1.1 billion, an increase of ISK 463 millions.

What characterised the operations of the year 2006 was improved sales focus, and tight cost control at the hotels, restructuring of Iceland Travel by selling off sales offices abroad, and investment in new aircraft type and an increase in passenger numbers at Air Iceland.

Air Iceland

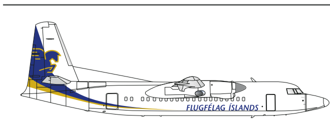
"Demand is strong and growing for all destinations within Iceland and in Greenland."

Total passenger 2003-2006
Air Iceland

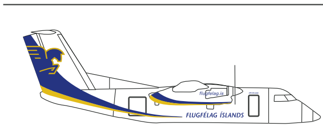


Number of aircraft by aircraft type Air Iceland

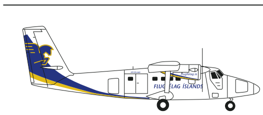
6 Fokker Friendship



2 Twin Otter



2 Dash 8



OPERATION
Air Iceland is a market-driven service company offering eight scheduled domestic destinations as well as routes from Iceland to the Faeroe Islands and Greenland.

In total, around 380,000 passengers were carried on Air Iceland flights in 2006, an increase of 7.4% from 2005, which is more than ever in the history of the company. The total turnover of the company increased by 18% in 2006 from the previous year, and the company is showing positive results for the 5th year in a row. About 90% of the company's passenger traffic on scheduled flights is on the routes between Reykjavík, Akureyri, Ísafjördur and Egilsstadir. In October, Air Iceland signed a 10-month contract with the Icelandic government for flights between Reykjavík and Vestmannaeyjar.

Air Iceland purchased two 37 seated DASH 8 aircraft in 2006, which are primarily used for the further development of the operation to/from and within Greenland. Following a contract with Arctic Travel Group, Air Iceland operated an extensive schedule from the beginning of June until mid-September between Iceland and Greenland including flights within Greenland between Nuuk, Kangerlussuaq and Ilulissat. The newly purchased DASH 8 aircraft give Air Iceland a full new range of opportunities on flights within Greenland, as these aircraft are able to use very short runways and can be converted for cargo work. At the beginning of 2006, Air Iceland started up a new operation under a 5-year contract with Greenland's home rule government covering flights between Reykjavík and Kulusuk and Constable Point.

In 2006, flight operations were continued to the Faeroe Islands in co-operation with Atlantic Airways. In October, Air Iceland entered into a 6-month lease contract with the Maltese company Medavia for the operation of one DASH 8 aircraft in Libya. This contract is a lucrative addition to the winter operation of Air Iceland, as it helps to even out seasonality in the operation. In 2004, the company acquired three Fokker 50 aircraft and today has six such aircraft in operation. With the two DASH 8 aircraft and the two smaller DHC-6/Twin Otters the company's fleet consists of 10 aircraft.

MARKETS
Air Iceland holds a very strong position on the Icelandic domestic market and has operated with very good profits over the past few years. With the strong economy and large-scale industrial projects in East Iceland, demand has been high on Air Iceland's main routes. With around 80% of Air Iceland's customers having purchased their trips on the company website, Air Iceland has reaped benefits from its extremely effective distribution system, which is important in a competitive environment where time and money play a significant role in customers' decisions.

OUTLOOK
Air Iceland plans to grow and increase its profitability by offering the Icelandic market, and the tourism market in Iceland and Greenland, the best possible service. Demand is strong and growing for all destinations within Iceland and in Greenland. In 2007, Air Iceland will for the first time operate, in cooperation with Icelandair, a direct flight from Akureyri to Icelandair's main hub, Keflavik, which will give connecting passengers a fast and efficient transfer to most of Icelandair's international destinations. Additionally, Air Iceland will offer a new link from Keflavik directly to the capital of Greenland, Nuuk. These flights will be operated on DASH 8 aircraft, three times a week during the summer period.

Icelandair Hotels

OPERATION

Icelandair Hotels is the largest and the leading hotel company in Iceland. The company runs and franchises two hotel chains, Icelandair Hotels a chain of 3 and 4 star hotels and Hotel Edda a chain of summer hotels with a total 1500 rooms, which are located all around the country. All hotels are committed to outstanding service. With a clear focus on cost and aggressive marketing the company managed to show a remarkable turnaround in 2006, and the flagship, Hotel Nordica was in its first year of full operations.

MARKETS

In an ever-changing market environment dominated by a steadily growing last-minute booking trend, Icelandair Hotels has focused primarily on flexibility. The Internet plays a bigger role than before, resulting in a higher yield per guest. Being the sole provider in Iceland of a one-stop solution centre in the higher-quality accommodation category, the company's effective key account management strategy has brought co-operation with the biggest wholesalers to a new and highly improved level. Furthermore, the company's leading position in the domestic market has secured for the company's flagship hotel, the Nordica, an excellent reputation and a high level of credibility in the very demanding local corporate market.

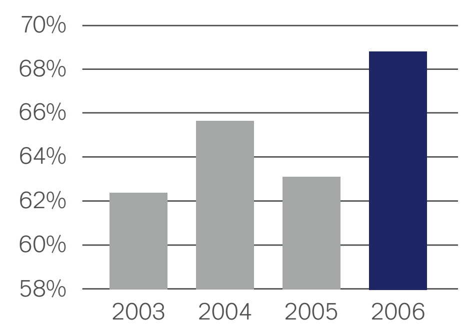
OUTLOOK

The competition in the 4 star category in Reykjavík will grow by close to 500 new rooms in 2007. Measures have already been taken to secure the company's continued leading position as a reliable quality hotel provider in Iceland. Aggressive sales & marketing targets have been set and a strong emphasis has been put on a distinction in the market based on tangible quality service that is unavailable from any other local player. Our intentions are to survive in a fierce market, where supply outweighs demand, by maintaining a position of leadership founded on quality and professionalism.

With a clear focus on cost and aggressive marketing, Icelandair Hotels expects to return to profitability this year and grow over the next few years. The company is keeping a close eye on the current developments in central Reykjavik with the intention of being an active partner in hotel operations in the city centre.

"All hotels are committed to outstanding service. With a clear focus on cost and aggressive marketing the company managed to show a remarkable turnaround in 2006."

Occupancy 2003-2006
Icelandair Hotels



Iceland Travel

"As new hotels, routes, places and activities are being brought into the market and as the knowledge needed to provide professional services to the market increases, Iceland Travel's mission is to lead the market growth."

OPERATION

Iceland Travel is a leading inbound tour operating & travel company specialising in conference and meeting facilities, special events and incentive travels in Iceland. Iceland Travel pursues a strategy of working exclusively with reliable and licensed vendors and offering the best quality service available at all time.

The company's main revenue comes from Foreign Individual Traveller (FIT) service, special tours, organised and pre-packaged by Iceland Travel, series and scheduled tours, pre-packed by foreign tour operators and 3rd party providers, meeting and incentive services as well as conference and event services

The year 2006 was a special year for Iceland Travel. The focus of the company was changed from being a production company to a more aggressive sales and service oriented company. A new company structure was introduced early in the year with key management changes, five profit units and two support units, this was one of the key turning points for the turnaround. This was followed by new sales- and operational system that was implemented at end of the year. Some critical changes were implemented in the market strategy approach. One further important change was to increase the flow of information to the personnel, which was crucial for a good operation and success in general.

MARKETS

The main markets are Northern and Southern Europe, North America and the domestic market in Iceland. Iceland Travel serviced 35,000 passengers in 2006. The infrastructure for accommodating foreign guests in Iceland has improved in recent years, with better hotels, deeper knowledge of travellers' needs and a greater variety of service. The current market situation bodes well for the year 2007. The general economic situation in Iceland and the price of the Icelandic krona are among the deciding factors for the number of tourists coming to Iceland in 2007. Iceland Travel has a strong market position as a leading company in the market, with a good reputation among both customers and vendors. The focus is on profitable packages with increasing attention to Internet sale channels. About 75% of Iceland Travel's customers are contracted customers, foreign travel wholesalers and Icelandic companies and organisations.

OUTLOOK

Iceland Travel intends to focus on using the Internet for sales- and marketing in the future, while at the same time concentrating on the products and markets that provide the highest margins, i.e. the high-end conference and incentive markets. As new hotels, routes, places and activities are being brought into the market and as the knowledge needed to provide professional services to the market increases, Iceland Travel's mission is to lead the market growth.

Supporting Subsidiaries

Support units form the remaining two subsidiaries of Icelandair Group. They are Icelandair Shared Services, a financial service company, and Icecap, an insurance company.

ICELANDAIR SHARED SERVICES

Icelandair Shared Services handles all accounting, collection, payments, payroll, tax reporting and preparation of financial statements within Icelandair Group, in addition to other specialised services for managers of the Group. Icelandair Shared Services is a front-runner in Iceland in its field of operation. Icelandair Shared Services acquired in 2006 the Estonian accountancy firm ASE. The company specializes in revenue accounting for airlines.

Icelandair Shared Services aims to continue streamlining with unit-cost reduction as a main target and to push forward timelines for publication of financial data, both internal and external, in order to increase the value of financial information within the group.

ICECAP

Icecap underwrites a part of Icelandair Group's insurance risk. Instead of insuring with a typical insurance company, a similar premium is paid to Icelandair Group's own company, which then underwrites part of the risk and reinsures the remaining risk on market terms. Icecap plans to underwrite more of Icelandair Group's insurance risk with the aim of minimising the reinsurance that the company buys in the market.

Kópavogur 05.03.2007

Our Roots in the Community

"Icelandair is the founder and main sponsor of Iceland Airwaves (or Icelandair Waves!), a music event that started in 1999 as a showcase of Icelandic music talent."

Icelandair Group has for 70 years had an extensive influence on Icelandic history and through its operation the company has played a key role in shaping modern Iceland. With a network providing Icelanders with direct regular flights to over 20 major cities in Europe and North-America, Icelandair Group has been responsible for providing this small island nation with transport services and communication opportunities that are second to none, and at the same time the company has built up tourism as an important sector of the Icelandic economy.

The transportation of passengers and freight creates value for individuals and for society at large. Icelandair Group contributes to a long-term high standard of living and quality of life for its employees. It aims to provide a physically and mentally favourable working environment and opportunities for all its employees to develop as professionals and as human beings. By its existence and activities, the Group also contributes to economic and social welfare in the countries and societies where it operates.

The various companies within Icelandair Group also support a wide variety of community activities throughout the year. They are among the main sponsors of various public events, as well as directly supporting the activities of numerous organisations. Icelandair, the Group's largest subsidiary, is a major supporter of countless worthy causes. The following is a brief list of some of its principal beneficiaries.

SPECIAL CHILDREN TRAVEL FUND
The main objective of this fund is to help children suffering from long-term illness or other adverse circumstances to see something of the world. The fund is supported both directly by Icelandair and through the generous donations of its customers. Each year, the Icelandair Special Children Travel Fund enables about 50 children and their families, from all over the world, to go on their „dream journey". Vigdis Finnbogadottir, former President of Iceland, is the patron of the fund. Detailed information is available on www.vildarborn.is

ICELANDIC MUSICAL TALENT
Icelandair is proud of its support for Icelandic musical talent, support that takes talent by the hand right from the start, from the time of the first performance at Musiktilraunir (Musical Experiments), an Icelandic musical competition which provides an opportunity for "garage bands" to step into the limelight and perform their music – the winners are rewarded by Icelandair with a performance spot at the annual music festival Iceland Airwaves. Icelandair is the founder and main sponsor of Iceland Airwaves (or Icelandair Waves!), a music event that started in 1999 as a showcase of Icelandic music talent for foreign record company executives. Since then, Iceland Airwaves has grown and blossomed and is now an integral part of the cultural life in Reykjavik with over 150 artists performing in various Reykjavik downtown locations. The fruits of the festival's labour have been ripening and today many Icelandic artists have made their way into the international music scene. For this reason, the logical next step was the formation of the fund Reykjavik Loftbrú (Reykjavik Airbridge) which Icelandair, along with the city of Reykjavik and the Association of Icelandic Musicians, initiated. The fund enables Icelandic musical talent to travel abroad to perform, promote and market their music outside Iceland.

Icelandair is also one of the main sponsors of the annual Icelandic Music Awards (Íslensku Tónlistarverðlaunin) thereby closing the circle in supporting Icelandic Musical talent from the garage level to the highest eschelons.

CULTURAL SUPPORT

Icelandair is proud of its support for various cultural events, and is a pioneer in this field. The first sponsorship agreement, signed in Iceland back in 1972, was when Icelandair became the main sponsor of The Reykjavik Arts Festival, which has been held biannually since 1970 and annually since 2004. The Festival is one of the oldest and most respected arts festivals in Northern Europe with the purpose of promoting Icelandic and international culture in all fields of art.

With food-related travel as an ever growing market segment, Icelandair established in 2001 the Food & Fun festival, an event which combines outstanding culinary skills, fresh natural ingredients, Icelandic outdoor adventure and the world-famous Reykjavik nightlife to create the ultimate recipe for fun. The core element of the festival involves world-acclaimed chefs collaborating with Reykjavik's best restaurants. Each chef is assigned to one of the participating restaurants, where they prepare a special menu made exclusively out of Icelandic ingredients. The menu is offered at all the restaurants for an entire week. In addition, the chefs themselves are on site for three nights during the festival week. Icelandair is the founder and owner of the Food and Fun event.

Icelandic theatrical talent is growing in popularity outside Iceland and Icelandair has provided support by partnering with The National Theatre of Iceland to enable it to promote Icelandic theatre abroad. In addition, the fund Talia Airbridge was established for Icelandic actors, directors and writers. The aim of the fund is to support participants in the theatrical arts to perform and market themselves abroad. Icelandair, in co-operation with the city of Reykjavik, the Actors' Association and Glitnir Bank, is a sponsor of this fund.

SPORTS

Icelandair prides itself in supporting many of the Icelandic national sports teams, as they travel abroad and symbolise Iceland wherever they go. The Football Association of Iceland (KSÍ) was established in 1947, and Icelandair has been its faithful sponsor for a long time, a fact bought home in Icelandair's latest advertising campaign. The Icelandic Handball Federation (HSÍ) is another sports association whose athletes have travelled the world, proudly bearing the Icelandic flag on their hearts and the Icelandair logo on their chests. With the aim of attracting more and more runners each year, Icelandair has from the beginning been one of the main sponsors of the Reykjavik Marathon, which is held on the third weekend in August every year and has been running for more than 20 years. Icelandair is the main sponsor of the Icelandair Open Bridge Tournament, which is an annual event, held each February. The tournament has been staged for a quarter of a century and has attracted some of the best bridge players in the world, many of whom have returned again and again. Icelandic horses are unique animals, and as such they have their own event, the Icelandair Horse Festival. Landsmót is the Icelandic name of this biannual National Horse Show of Iceland, a unique and unforgettable occasion - the biggest event involving Icelandic horses in the world. At the Landsmót people come from all over the world to see the best horses in Iceland performing in various different types of equestrian competitions.

- Special Children Travel Fund
- Musiktilraunir
- Iceland Airwaves
- Reykavík Airbridge
- Icelandic Music Awards
- Food and Fun
- Reykjavik Arts Festival
- Talia Airbridge
- The National Theatre of Iceland
- Reykjavík Marathon
- Icelandair Horse Festival
- Icelandair Open Bridge Tournament
- The Football Association of Iceland
- The Icelandic Handball Federation

The Environment

"The Group also contributes to economic and social welfare in the countries and societies where it operates through its operations."

The Icelandair Group aims to create long-term growth in shareholder value through sustainability. The Company's focus is therefore on high quality resource management in all its operations, which leads to a lower environmental impact and lower costs.

For international airlines, three key subjects relate to their contribution to environmental protection. Number one is the amount of fuel consumed by the aircraft, as fuel combustion causes a rise in carbon dioxide, assumed to cause global climate change. Secondly, it is the noise generated by air traffic at airports. And thirdly, it is the emission of pollutants by aircraft engines.

FUEL CONSUMPTION
AND FUEL EFFICIENCY

The production of so-called greenhouse gases of which CO2 is the most important, is in direct relation to the fuel consumed. Therefore lower fuel consumption results in lower levels of CO2. The aircraft types operated by Icelandair are amongst the most fuel-efficient available. They generally use on the average of about 2.8 litres of fuel per 100 passenger kilometers. By comparison today's modern aircraft consume, on average 3.5 litres per 100 passenger kilometers. This is similar to a small compact car but with 6 times the speed. Next generation aircraft, the Boeing 787, is already on order and expected to enter Icelandair service in 2010 and is expected to improve fuel efficiency by 20%.

AIRCRAFT NOISE

International requirements in this field are stated in ICAO Annex 16, "Environmental Protection", Vol. I. It prescribes certain maximum noise levels for aircraft at three designated noise-measuring points. All aircraft operated by Icelandair have since October 1990 fully complied with the most stringent international requirements of ICAO Annex 16, Vol. I.

AIRCRAFT ENGINE EMISSIONS

According to ICAO Annex 16, "Environmental Protection", Vol. II, unburned Hydrocarbons (HC), Carbon Monoxide (CO), Oxides of Nitrogen (Nox) and smoke, emitted by aircraft engines, shall be controlled. All aircraft operated by Icelandair have since October 1990 fully complied with the most stringent requirements of ICAO Annex 16, Vol. II concerning aircraft engine emissions.

Information Technology

Information technology plays a major role in the global business of Icelandair Group. During the last few years, efforts have been made in transforming the IT-architecture in the Group to strengthen the business and make the companies better prepared for growing competition. Now the focus is increasingly on e-business where security, flexibility and standards compliance is crucial for the companies, to be able to dynamically use the technology to simplify and streamline their businesses.

The core of the IT strategy is to have the best IT solutions for each purpose, and to cater for synergies and build additional business values with solid and effective use of integration tools and methods. Icelandair Group has been in the forefront of Icelandic companies practicing outsourcing strategy, and building up effective partner relationships. By this strategy the focus is to have the companies within the group as effective users of the information technology but to look for the best partners to develop, operate and service the IT systems. Responsibility for getting the most business value out of information technology lies with the management of each company in the group, while responsibility for corporate IT contracts, overall efficiency, information security and best practices is in the hands of the VP for information technology of Icelandair.

The travel and tourist industry is increasingly dependent on the internet, where automation and self service are the key words. Icelandair Group has proven to be a leader among Icelandic companies when it comes to using the web in its business, and two of the biggest e-commerce webs in Iceland are the webs of Icelandair and Air Iceland. The companies also provide additional services to their customers through the internet, and by offering other related services, such as check in through self service kiosks. Icelandair went through a major redesign of it's web environment in 2006. The new web was launched in the autumn, and has already received several highly rated web awards both in Iceland and abroad. This is a great motivation for the companies in the group to use this technology to do even better in 2007.

The increased competition also encourages the companies in the group to re-evaluate their core business applications, and to look for ways to strengthen their operation and core processes. One of the biggest projects in 2006 was the successful migration of Icelandair´s inventory system to Amadeus Altea from the SAS Resaid system, and the implementation of a new revenue management system. The new systems are hosted and serviced by Amadeus. This project was followed by an implementation of a new revenue accounting system in cooperation with Fjarvakur, and the new system will be hosted and serviced in Estonia.

In 2007 the companies will still focus on strengthen their business with IT. The main focus will be on building a more dynamic workplace environment for the employees, that will lead to more effective use of information and improve the performance of each and every person.

“The main focus will be on building a more dynamic workplace environment for the employees, that will lead to more effective use of information.”


Römer/
Paulskirche
Römer/
Paulskirche
REYKJAVIK

Frankfurt 28.02.2007

Endorsement and Signatures of the Board of Directors and the CEO

Icelandair Group hf. was a subsidiary of FL GROUP hf. until October 2006, when it was acquired by Icelandair Group Holding hf., a company incorporated in Iceland in October 2006. The acquisition of Icelandair Group hf. is accounted for by applying the purchase method, where Icelandair Group hf. is the acquiree and Icelandair Group Holding hf. is the acquirer. After the acquisition, Icelandair Group hf. legally merged with Icelandair Group Holding hf. on 1 November 2006, with Icelandair Group hf. as the continuing company. The acquisition and subsequent merger result in that the consolidated income statement and statement of cash flows only cover the three months period from 1 October 2006 to 31 December 2006.

To provide users of the Group´s consolidated financial statements with more appropriate information of the Group's operations and cash flows, audited pro forma figures based on audited financial statements of all subsidiaries of Icelandair Group hf. for the whole year 2006 are presented in the income statement and statement of cash flows with relevant disclosures in the notes. The basis for preparation of the pro forma figures is described further in note 2e.

The consolidated financial statements of Icelandair Group hf. for the period from 1 October to 31 December 2006 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by EU. The financial statements comprise the consolidated financial statements of Icelandair Group hf. and its subsidiaries, which were fourteen at the end of December 2006.

According to the income statement net loss for the period from 1 October to 31 December 2006 amounted to ISK 550 million. According to the balance sheet, equity at the end of the year amounted to ISK 26,004 million, including share capital in the amount of ISK 1,000 million. At year-end the shareholders were 1,507 and three of them held more than 10% in the Company, Langflug ehf. 32.0%, Naust ehf. 14.8% and Fjárfestingafélagið Máttur ehf. 11.1%.

The Board of Directors proposes that no dividend will be paid to shareholders in the year 2007.

The Board of Directors and the CEO of Icelandair Group hf. hereby confirm the Company's consolidated financial statements for the period from 1 October to 31 December 2006 by means of their signatures.

Reykjavík, 20 February 2007

Board of Directors:
Finnur Ingólfsson
Ómar Benediktsson
Helgi S. Guðmundsson
Hermann S. Guðmundsson
Jóhann Magnússon
Jón Benediktsson
Martha Eiríksdóttir

CEO:
Jón Karl Ólafsson

Independent Auditors' Report

To the Board of Directors and Shareholders of Icelandair Group hf.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
We have audited the accompanying consolidated financial statements of Icelandair Group hf. and its subsidiaries, ("the Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the three months period from 1 October 2006 to 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

We have also audited the pro forma financial information presented in the consolidated income statement and consolidated statement of cash flows and the related disclosures made in the notes to these consolidated financial statements, which have been compiled on the basis described in note 2e to these consolidated financial statements, for illustrative purposes only, to provide information about how the Group's operations and cash flows might have been if the acquisition of Icelandair Group hf. had been effected at the beginning of the year 2006.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management is also responsible for the preparation and fair presentation of the pro forma financial information presented in these consolidated financial statements on the basis described in note 2e to these consolidated financial statements.

AUDITOR'S RESPONSIBILITY
Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to express an opinion as to the proper compilation of the pro forma financial information. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial information has been properly compiled on the basis stated.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2006, and of its financial performance and its consolidated cash flows for the three months period then ended in accordance with International Financial Reporting Standards as adopted the EU.

In our opinion, the pro forma financial information has been properly compiled on the basis stated in note 2e to these consolidated financial statements. Without qualifying our opinion, we draw attention to note 2e, which states that the pro forma financial information is not necessarily indicative of the operations and cash flows that would have been attained if the acquisition of Icelandair Group hf. had indeed taken place at the beginning of the year 2006.

Reykjavík, 20 February 2007

KPMG hf.

Jón S. Helgason
Sæmundur Valdimarsson

Consolidated Income Statement for the period from 1 October to 31 December 2006

	Notes	2006	Pro forma 2006
		1.10.-31.12.	1.1.-31.12.
OPERATING INCOME:			
Transport revenue	7	7,306	34,954
Aircraft and aircrew lease		2,900	10,675
Other operating revenue	8	2,384	10,514
		12,590	56,143
OPERATING EXPENSES:			
Salaries and other personnel expenses	9	4,753	17,761
Aircraft fuel		2,135	9,524
Aircraft and aircrew lease		1,619	5,207
Aircraft servicing, handling and communication		1,163	4,110
Aircraft maintenance expenses		746	3,111
Other operating expenses	10	1,836	10,372
		12,252	50,085
OPERATING PROFIT BEFORE DEPRECIATION (EBITDA)		338	6,058
Depreciation and amortisation	12	(732)	(2,732)
OPERATING (LOSS) PROFIT BEFORE NET FINANCE COST (EBIT)		(394)	3,326
Finance income	13	447	1,599
Finance expense	13	(879)	(2,025)
NET FINANCE COSTS		(432)	(426)
Share of profit of associates		69	160
(LOSS) PROFIT BEFORE INCOME TAX		(757)	3,060
Income tax	14-15	207	(445)
(LOSS) PROFIT FOR THE PERIOD		(550)	2,615
ATTRIBUTABLE TO:			
Equity holders of the Company		(544)	2,621
Minority Interest		(6)	(6)
(LOSS) PROFIT FOR THE PERIOD		(550)	2,615
EARNINGS PER SHARE:			
Basic and diluted earnings per share (ISK)	31	(0.54)	2.62

The notes on pages 64 to 94 are an integral part of these consolidated financial statements.

Amounts are in ISK million

Consolidated Balance Sheet as at 31 December 2006

	Notes	2006
ASSETS:		
Operating assets	17-20	22,935
Intangible assets	21-22	27,845
Investments in associates	23	2,058
Prepaid aircraft acquisitions	24	9,669
Long-term receivables and deposits	25	2,689
Total non-current assets		65,196
Inventories	26	1,131
Trade and other receivables	27	7,243
Prepayments	28	271
Cash and cash equivalents	29	2,776
Total current assets		11,421
TOTAL ASSETS		76,617
EQUITY:		
Share capital		1,000
Share premium		26,090
Reserves		(584)
Accumulated deficit		(544)
Total equity attributable to equity holders of the Company	30	25,962
Minority interest		42
Total equity		26,004
LIABILITIES:		
Loans and borrowings	32-35	21,607
Deferred income tax liability	36	360
Total non-current liabilities		21,967
Loans and borrowings	32	4,614
Loans to finance prepaid aircraft acquisition	32	8,545
Trade and other payables	37	12,428
Deferred income	38	3,059
Total current liabilities		28,646
Total liabilities		50,613
TOTAL EQUITY AND LIABILITIES		76,617

The notes on pages 64 to 94 are an integral part of these consolidated financial statements.

Amounts are in ISK million

Consolidated Statement of Changes in Equity for the period from 1 October to 31 December 2006

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY							
			Reserves					
	Share capital	Share premium	Hedging reserve	Translation reserve	Accumulated deficit	Total	Minority Interest	Total equity
Issued and sold share capital	1,000	26,000				27,000		27,000
Foreign currency translation differences for foreign operations				(418)		(418)		(418)
Net loss on hedge of net investment in foreign operation				(7)		(7)		(7)
Effective portion of changes in fair value of cash flow hedges, net of tax			(159)			(159)		(159)
Net income and expense recognised directly in equity			(159)	(425)		(584)		(584)
Loss for the period					(544)	(544)	(6)	(550)
Total recognised income			(159)	(425)	(544)	(1,128)	(6)	(1,134)
Issue of convertible notes, net of tax		90				90		90
Minority, change							48	48
Equity 31.12.2006	1,000	26,090	(159)	(425)	(544)	25,962	42	26,004

The notes on pages 64 to 94 are an integral part of these consolidated financial statements.

Amounts are in ISK million

Consolidated Statement of Cash Flows for the period from 1 October to 31 December 2006

	Notes	2006 1.10.-31.12	Pro forma 2006 1.1.-31.12.
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss) profit for the period		(550)	2,615
Adjustments for:			
Depreciation	12	732	2,732
Other operating items	46	(384)	(434)
Working capital (used in) from operations		(202)	4,913
Net change in operating assets and liabilities	47	177	1,455
Net cash (used in) from operating activities		(25)	6,368
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of operating assets		(3,424)	(7,671)
Proceeds from the sale of operating assets		1,580	3,476
Acquisition of intangible assets		(87)	(232)
Acquisition of subsidiaries, net of cash acquired		(15,548)	(15,953)
Long-term receivables, increase		(288)	(660)
Net cash used in investing activities		(17,767)	(21,040)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of share capital		13,600	13,600
Proceeds from long term borrowings		15,915	19,961
Repayment of long term borrowings		(10,996)	(18,186)
Proceeds from short term borrowings		1,945	1,945
Net cash used in financing activities		20,464	17,320
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		2,672	2,648
EFFECT OF EXCHANGE RATE FLUCTUATIONS ON CASH HELD		104	128
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		0	0
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2006	29	2,776	2,776
INVESTMENT AND FINANCING WITHOUT CASH FLOW EFFECT:	6		

The notes on pages 64 to 94 are an integral part of these consolidated financial statements.

Amounts are in ISK million

Notes

01 REPORTING ENTITY

Icelandair Group hf. ("the Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company´s registered office is at Reykjavíkurflugvöllur in Reykjavík, Iceland. The consolidated financial statements of the Company as at and for the three months period ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group´s interests in associates. The Group´s operations are in the airline transportation and tourism industry. The Group was listed on the Iceland Stock Exchange in December 2006.

Icelandair Group hf. was a subsidiary of FL GROUP hf. until October 2006, when it was acquired by Icelandair Group Holding hf., a company incorporated in Iceland in October 2006. The acquisition of Icelandair Group hf. is accounted for by applying the purchase method, where Icelandair Group hf. is the acquiree and Icelandair Group Holding hf. is the acquirer. After the acquisition, Icelandair Group hf. legally merged with Icelandair Group Holding hf. on 1 November 2006, with Icelandair Group hf. as the continuing company. The acquisition and subsequent merger result in that the consolidated income statement and statement of cash flows only cover the three months period from 1 October 2006 to 31 December 2006.

To provide users of the Group´s consolidated financial statements with more appropriate information of the Group's operations and cash flows, audited pro forma figures based on audited financial statements of all subsidiaries of Icelandair Group hf. for the whole year 2006 are presented in the income statement and statement of cash flows with relevant disclosures in the notes. The basis for preparation of the pro forma figures is described further in note 2e.

02 BASIS OF PREPARATION

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by EU.

The financial statements were approved by the Board of Directors on 20 February 2007.

b. *Basis of measurement*

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

c. *Functional and presentation currency*

The consolidated financial statements are prepared in Icelandic krona (ISK), which is the Company's functional currency. All financial information has been rounded to the nearest million.

d. *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Notes, contd.:

2.d. contd.:

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are: business combinations, measurement of the recoverable amounts of cash-generating units, utilisation of tax losses, accounting for an arrangement containing a lease, provisions and valuation of financial instruments.

e. Pro forma information

As stated in note 1, audited pro forma figures for the whole year 2006 are presented in the income statement and statement of cash flows with certain disclosures in the notes. The pro forma figures consist of the consolidated income statement and statement of cash flows of the Group for the whole year 2006, as if the acquisition of Icelandair Group hf. had been effected at the beginning of the year 2006. For this purpose, the consolidated pro forma income statement and statement of cash flows of the Group for the whole year 2006 have been prepared in accordance with the accounting policies disclosed in these consolidated financial statements and are based on the audited financial statements of all subsidiaries of Icelandair Group hf. for the whole year 2006, whereby depreciation and amortisation have been calculated for the whole year 2006 based on the fair values of operating and intangible assets determined as at the acquisition date in October 2006. This adjustment resulted in an increase of depreciation and amortisation for the amount of ISK 122 million and decrease in income tax expense amounting to ISK 22 million.

03 SIGNIFICANT ACCOUNTING PRINCIPLES

a. Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group‘s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group‘s share of losses exceeds its interest in an associate, the Group‘s carrying amount

Notes, contd.:

3.a. contd.:

is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) *Transactions eliminated on consolidation*
Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

(i) *Foreign currency transactions*
Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign currency differences arising on re-translation are recognised in the income statement.

(ii) *Foreign operations*
The assets and liabilities of foreign operations including goodwill and fair value adjustments arising on acquisitions are translated to Icelandic kronas at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Icelandic kronas at the average exchange rate for the period. Foreign currency differences arising on re-translation are recognised directly in a separate component of equity.

(iii) *Hedge of net investment in foreign operations*
Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operation are recognised directly in equity, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

c. Financial instruments

(i) *Non-derivative financial instruments*
Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Notes, contd.:

3.c. contd.:

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(m).

Other non-derivative financial instruments
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) *Derivative financial instruments*
The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described hereafter.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as foreign currency gains and losses.

(iii) *Compound financial instruments*
Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

Notes, contd.:

3.c. contd.:

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instruments is measured at amortised cost using the effective interest method. The equity component of a compound financial instruments is not remeasured subsequent to initial recognition.

(iv) *Share capital*
Incremental costs directly attributable to issue of shares are recognised as a deduction from equity.

Repurchase of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends
Dividends are recognised as a decrease in equity in the period in which they are declared.

d. Operating assets

(i) *Aircrafts and flight equipment*
Aircrafts and flight equipment, e.g. aircraft engines and aircraft spare parts, are measured at cost less accumulated depreciation and impairment losses. When aircrafts are acquired the purchase price is divided between the aircraft itself and engines. Aircrafts are depreciated over the estimated useful life of the relevant aircraft until a residual value is met. Engines are depreciated according to flown hours. When an engine is overhauled the cost of the overhaul is capitalised and the remainder of the cost of the previous overhaul that has not already been depreciated, if there is any, is expensed in full.

(ii) *Buildings and other operating assets*
Buildings and other operating assets are stated at cost less accumulated depreciation and impairment losses.

(iii) *Subsequent costs*
The cost of replacing part of an item of operating asset is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Notes, contd.:

3.d. contd.:

(iv) *Depreciation*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each item of operating assets. The estimated useful lives are as follows:

	Useful life
Aircrafts and flight equipment	10-14 years
Engines	Flying hrs.
Buildings	15-50 years
Other property and equipment	3-8 years

The depreciation method, useful lives and residual values are reassesed at each reporting date.

e. *Intangible assets*

(i) *Goodwill and other intangible assets with indefinite useful lives*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill, trademarks and slots with indefinite useful lives are stated at cost less accumulated impairment losses.

(ii) *Other intangible assets*

Other intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives as follows:

Software	3 years
Customer relations	7-10 years
Favourable aircraft lease contracts	2-3 years
Other intangible assets	6-10 years

(iii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

f. *Prepaid aircraft acquisitions*

Prepaid aircraft acquisitions consist of pre-payments on Boeing aircrafts that are still to be delivered. Borrowing cost related to these pre-payments is capitalised based on the interest rate on the directly related financing.

Notes, contd.:

3. contd.:

g. Inventories

Goods for resale and supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Aircraft equipment is capitalised at the foreign exchange rate ruling at the date of acquisition.

h. Impairment

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Notes, contd.:

3.h. contd.:

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) *Frequent flyer program*

Frequent flyer points earned or sold are accounted for as a liability on a fair value basis of the services that can be purchased for the points. The points are recognized as revenue when they are utilized or when they expire.

(ii) *Overhaul commitments relating to aircrafts under operating lease*

With respect to the Group´s operating lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the income statement calculated by reference to the number of hours or cycles operated during the year.

j. Deferred income

Sold unused tickets and other prepayments are presented as deferred income in the balance sheet.

k. Operating income

(i) *Transport revenue*

Passenger ticket sales are not recognised as revenue until transportation has been provided. Sold documents not used within nine months from the month of sale are recognised as revenue. Revenue from mail and cargo transportation is recognised in the income statement after transportation has been provided.

Notes, contd.:

3.k. contd.:

(ii) *Aircraft and aircrew lease*
Revenue from aircraft and aircrew lease is recognised in the income statement when the service has been provided at the end of each charter flight.

(iii) *Other operating revenue*
Revenue from other services rendered is recognised in the income statement when the service has been provided.

Gain on sale of operating assets is recognised in the income statement after the risks and rewards of ownership have been transferred to the buyer.

l. Expenses

(i) *Operating lease payments*
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

m. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group´s right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

n. Income tax expense

Income tax on the profit or loss for the year comprises only deferred tax.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Notes, contd.:

3. contd.:

o. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

p. Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segments) and which is subject to risks and rewards that are different from those of other segments. The Group´s primary format for segment reporting is based on business segments. The major revenue-earning asset of the Group is the aircraft fleet, the majority of which are registered in Iceland. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

q. New standards and interpretations not yet adopted

„A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

IFRS 8 Operating Segments sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. If adopted by the EU, IFRS 8, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot

Notes, contd.:

3.q. contd.:

be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions deals with how certain types of agreements on securities related payments shall be recognized in the financial statements of a company and its subsidiaries. If adopted by the EU, IFRIC 11 applies for accounting periods starting as of March 1, 2007.

IFRIC 12 Service Concession Arrangements. If adopted by the EU, IFRIC 12 will become mandatory for the Group's 2007 financial statements. IFRIC 12 is not expected to have any impact on the consolidated financial statements of the Group.

04 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) *Operating assets*

The fair value of operating assets recognised as a result of a business combination is based on market values. The market value of aircrafts and properties is the estimated amount for which they could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) *Intangible assets*

The fair value of intangible assets acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the parent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Notes, contd.:

4. contd.:

(iii) *Inventory*

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

(iv) *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(v) *Derivatives*

The fair value of forward exchange contracts and are based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(vi) *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

05 SEGMENT REPORTING

Segment information is presented in the consolidated financial statements in respect of the Group‘s business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group‘s management and internal reporting structure and is divided into four segments, scheduled airline operations, global capacity solutions and aircraft trading, travel and tourism infrastructure and shared services.

Scheduled airlines operations

Four companies are categorized as being part of the Scheduled Airline Operation focus of the Group: Icelandair, the international full-service airline with a hub in Iceland; Icelandair Cargo, a full-service air-freight company; Icelandair Ground Services, which handles airlines and passenger services at Keflavik Airport and Icelandair Technical Services, which provides maintenance for Icelandair and other airlines. These companies work closely together and have long historical ties.

Notes, contd.:

5. contd.:

Capacity solutions and aircraft trading
The four companies forming this part of Icelandair Group hf. are Loftleiðir-Icelandic, a capacity provider for the international airline and tour operator industry, Bluebird Cargo, a transportation services provider and Icelease, which handles the buying, selling and leasing of aircraft using IG Invest as its holding company. The four companies are grouped together to emphasize Icelandair Group's increased focus on international expansion in this field. Their role is to capitalize on internal know-how by offering aircraft operation services to third parties and taking advantage of trading opportunities in a fast-growing world market, as well as looking for opportunities for mergers and acquisitions.

Travel and tourism
Three companies; Iceland Travel, a tour operator and travel agency in in-coming tourism, Icelandair Hotels, which markets and operates two hotel chains, Icelandair Hotels and Edda Hotels, and Air Iceland a scheduled domestic carrier which also offers regular flights to Greenland and the Faeroe Islands form the travel and tourism part of the Group. These companies all provide strategic support to the international scheduled operations, their main focus is on profitable operations.

Shared services
This segment comprises IceCap Guernsey and Icelandair Shared Services ehf. besides operations of the Parent Company. Icelandair Shared Services handles the accounting, reporting and salary processing for the companies within Icelandair Group. Icecap underwrites a part of Icelandair Group's insurance risk.

Notes, contd.:

5. contd.:

Business segments for the period from 1 October to 31 December 2006:

	Scheduled airline operations	Global capacity and aircraft trading	Travel and tourism infrastructure	Shared services	Eliminations	Consolidated
External revenue	11,806	3,033	1,481	148	(3,878)	12,590
Intersegment revenue	(2,512)			(2)	2,514	
Total segment revenue	9,294	3,033	1,481	146	(1,364)	12,590
Segment EBITDA	(216)	675	(45)	(76)		338
Segment results	(625)	589	(169)	(189)		(394)
Net finance cost	109	(113)	(74)	(354)		(432)
Share of profit of associates	0	67	2	0		69
Income tax	126	(52)	46	87		207
(Loss) profit for the period	(390)	491	(195)	(456)		(550)
Segment assets	33,997	19,965	5,232	48,539	(33,174)	74,559
Investments in associates	0	2,058	0	0		2,058
Total assets	33,997	22,023	5,232	48,539	(33,174)	76,617
Segment liabilities	27,750	19,682	4,202	21,882	(22,903)	50,613
Capital expenditure	3,698	915	1,130	(23)		5,720
Depreciation	380	70	120	3		573
Amortisation of intangible assets	57	90	8	4		159

Amounts are in ISK million

Notes, contd.:

BUSINESS COMBINATION

6. On acquisition date in October 2006 Icelandair Group Holding hf. took over operations of Icelandair Group hf. and its subsidiaries listed in note 45. On 1 November 2006 the two companies legally merged with Icelandair Group hf. as the continuing company.
   The acquisition is accounted for using the purchase method in accordance with IFRS 3, where Icelandair Group hf. is the acquiree based on the balance sheet 1 October 2006.

   If the acquisitions had occurred on 1 January 2006, management estimates that consolidated revenue would have been ISK 56,143 million and consolidated profit for the year 2006 would have been ISK 2,615 million as stated in the pro forma figures in the consolidated income statement.

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

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Operating assets	22,684	(2,132)	20,552
Intangible assets	4,743	2,069	6,812
Investments in associates	1,744		1,744
Prepaid aircraft acquisitions	11,499		11,499
Long-term receivables and deposits	2,071		2,071
Inventories	1,156		1,156
Trade and other receivables	7,793		7,793
Cash and cash equivalents	4,976		4,976
Loans and borrowings	(27,855)		(27,855)
Deferred income tax liability	(988)	384	(604)
Trade and other payables	(11,658)		(11,658)
Deferred income	(4,009)		(4,009)
Net assets			12,477
Goodwill on acquisition			21,447
Total purchase consideration			33,924
Consideration satisfied by share issue at fair value			(13,400)
Consideration satisfied by cash payment			20,524

The share issue equals 496 million shares at the price of ISK 27 per share.

Included in the consideration satisfied by cash are acquisition related expenses, i.e. expert advisors fees and other fees amounting to ISK 424 million.

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values (see note 4 for methods used in determining fair values).

Amounts are in ISK million

Notes, contd.:

6. contd.:

The goodwill recognised on the acquisition is attributable mainly to the location of Iceland in the North Atlantic between North America and Europe as the key to the Group´s network strategy and operations. Part of the goodwill is also attributable to the skills and technical talent of the acquired business's work force.

The purchase price allocation has not been completed.

OPERATING INCOME

	2006 1.10.-31.12.	Pro forma 2006 1.1.-31.12.
7. Transport revenue is specified as follows:		
Passengers	5,907	29,975
Cargo and mail	1,399	4,979
Total transport revenue	7,306	34,954
8. Other operating revenue is specified as follows:		
Sale at airports and hotels	559	2,127
Revenue from tourism	127	2,276
Other operating revenue	1,227	5,116
Gain on sale of operating assets	471	995
Total other operating revenue	2,384	10,514

OPERATING EXPENSES

	2006 1.10.-31.12.	Pro forma 2006 1.1.-31.12.
9. Salaries and other personnel expenses are specified as follows:		
Salaries	3,226	11,937
Salary-related expenses	751	2,746
Other personnel expenses	776	3,078
Total salaries and other personnel expenses	4,753	17,761
10. Other operating expenses are specified as follows:		
Operating cost of real estates and fixtures	317	1,468
Communication expenses	299	1,144
Advertising expenses	294	1,155
Booking fee and commission expenses	302	1,633
Customer services	278	1,133
Tourism expenses	45	1,545
Other operating expenses	301	2,294
Total other operating expenses	1,836	10,372

Amounts are in ISK million

Notes, contd.:

AUDITORS' FEES

11. Fees to the Groups auditors is specified as follows:

	2006 1.10.-31.12.	2006 1.1.-31.12.
Audit of financial statements	14	29
Review of interim accounts	0	10
Other services	10	16
Total auditors' fees	24	55

The abovementioned figures include fees to the auditors of all companies within the Group. Fees to auditors, other than the auditors of the Parent Company amounted to ISK 10 million during the year 2006.

DEPRECIATION AND AMORTISATION

12. The depreciation and amortisation charge in the income statement is specified as follows:
.

Depreciation of operating assets, see note 17	573	2,177
Amortisation of intangible assets, see note 21	159	555
Depreciation and amortisation recognised in the income statement	732	2,732

FINANCE INCOME AND FINANCE EXPENSE

13. Finance income and finance expense are specified as follows:

Interest income on bank deposits	369	688
Other interest income	78	398
Net foreign exchange gain	0	513
Finance income total	447	1,599
Interest expense on loans and borrowings	446	1,014
Other interest expenses	350	1,011
Net foreign exchange loss	83	0
Finance expense total	879	2,025
Net finance costs	(432)	(426)

INCOME TAX EXPENSE

14. Income tax recognised in the income statement is specified as follows:

Deferred tax expense		
Origination and reversal of temporary differences	(207)	445
Total income tax (income) expense in income statement	(207)	445

Amounts are in ISK million

Notes, contd.:

15. Reconciliation of effective tax rate:

		2006 1.10.-31.12.		2006 1.1.-31.12.
(Loss) profit before tax		(757)		3,060
Income tax according to current tax rate	18.0%	(136)	18.0%	551
Tax exempt revenues	0.9%	(7)	(0.3%)	(9)
Non-deductible expenses	(0.4%)	3	0.2%	6
Deferred tax assets of subsidiaries	9.2%	(70)	(2.8%)	(87)
Other items	(0.4%)	3	(0.5%)	(16)
Effective tax	27.3%	(207)	14.5%	445

16. Income tax recognised directly in equity:

Derivatives	(35)
Convertible notes	20
Total income tax recognised directly in equity	(15)

OPERATING ASSETS

17. Operating assets are specified as follows:

Gross carrying amounts	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Additions through business combinations	16,998	2,063	1,491	20,552
Additions during the period	3,023	363	363	3,749
Exchange rate difference	273	0	4	277
Sales and disposals during the period	(983)	0	(237)	(1,220)
Balance 31.12.2006	19,311	2,426	1,621	23,358
Depreciation				
Depreciation	438	29	106	573
Exchange rate difference	3	0	0	3
Sales and disposals during the period	(106)	0	(47)	(153)
Balance 31.12.2006	335	29	59	423
Carrying amounts				
1.10.2006	16,998	2,063	1,491	20,552
31.12.2006	18,976	2,397	1,562	22,935

Mortgages and commitments

18. The Group's operating assets are mortgaged to secure debt. The remaining balance of the debt amounted to ISK 26,034 million at the end of the year 2006.

Amounts are in ISK million

Notes, contd.:

Insurance value of aircraft and flight equipment

19. The insurance value and book value of aircraft and related equipment of the Company at year-end 2006 are specified as follows:

	Insurance value	Carrying amount
Boeing - 9 aircrafts	25,433	14,984
Other aircrafts	4,938	1,622
Flight equipment	3,582	2,370
Total aircraft and flight equipment	33,953	18,976

Insurance value of other operating assets

20. The principal buildings owned by the Group at 31 December 2006 are the following:

	Official assessment value	Insurance value	Carrying amount
Maintenance hangar, Keflavík Airport	1,370	2,045	658
Freight building, Keflavík Airport	364	543	397
Office building, Reykjavík Airport	720	839	317
Service building, Keflavík Airport	355	561	263
Hangar 4 and other buildings, Reykjavík Airport	546	732	272
Other buildings	377	816	490
Buildings total	3,732	5,536	2,397

Official valuation of the Group's leased land for buildings at 31 December 2006 amounted to ISK 583 million and is not included in the Balance Sheet.

The insurance value of the Group's other operating assets and equipment amounted to ISK 2,991 million at the end of the year 2006. The carrying amount at the same time was ISK 1,562 million.

INTANGIBLE ASSETS

21. Intangible assets are specified as follows:

Gross carrying amounts	Goodwill	Slots and trademarks	Customer relations	Other intangibles	Total
Additions through business combinations	21,447	4,637	1,137	1,037	28,258
Additions during the period	0	0	0	87	87
Exchange rate difference	(333)	(50)	11	32	(340)
Balance 31.12.2006	21,114	4,587	1,148	1,156	28,005

Amounts are in ISK million

Notes, contd.:

21. contd:

	Goodwill	Slots and trademarks	Customer relations	Other intangibles	Total
Amortisation					
Amortisation	0	0	31	128	159
Exchange rate difference	0	0	1	0	1
Balance 31.12.2006	0	0	32	128	160
Carrying amounts					
1.10.2006	21,447	4,637	1,137	1,037	28,258
31.12.2006	21,114	4,587	1,116	1,028	27,845

Impairment test

22. Goodwill and other intangible assets that have indefinite live are tested for impairment at each reporting date. These assets were recognized at fair value when Icelandair Group Holding hf. acquired the Company in October 2006. Goodwill and other intangible assets with indefinite live are specified as follows:

Goodwill	21,117
Trademarks and slots	4,587
Total	25,704

These assets were tested for impairment by comparing their carrying amounts to their fair value less cost to sell. Trademarks are tested by using the royalty relief method. The main assumption consist of royalty rate 0.7 -1.5% and the discount rate 14-18% and revenue growth rate of 2.5-5.0%.

For the purpose of impairment testing on goodwill, goodwill is allocated to the Group´s segments which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amount of goodwill allocated to each unit are as follows:

Scheduled airline operations	10,777
Global capacity and aircraft trading	6,841
Travel and tourism infrastructure	2,310
Shared services	1,189
Total goodwill	21,117

For the purpose of impairment testing on goodwill, fair value less cost to sell is determined by discounting the future cash flows generated from the continuing use of each unit and was based on the following key assumptions:

Cash flows were projected based on actual operating results and the 5-year business plan. Cash flows were extrapolated for determining the residual value using a constant growth rate which was consistent with the long-term average growth rate for the industry. Management believes that this forecast period was justified due to the long-term nature of the

Amounts are in ISK million

Notes, contd.:

22. contd:

business. The anticipated annual revenue growth included in the cash flow projections was 5.0-10.0% for the years 2007 to 2011. A post-tax discount rate of 12.5-18.0% was applied in determining the recoverable amount of the units. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of average 40 percent at a market interest rate of 7.5-9.5%.

The values assigned to the key assumptions represent management's assessment of future trends in the airline, transportation and the tourism industry and are based on both external sources and internal sources (historical data).

INVESTMENTS IN ASSOCIATES

23. Summary of aggregate financial information for the year 2006 for significant associates, not adjusted for the percentage ownership held by the Group:

	Share
Barkham Associates SA	49%
China Ice No 1 ehf.	40%
China Ice No 1 slf.	40%
China Ice No 2 ehf.	40%
China Ice No 2 slf.	40%
China Ice No 3 ehf.	40%
China Ice No 3 slf.	40%
China Ice No 4 ehf.	40%
China Ice No 4 slf.	40%
China Ice No 5 ehf.	40%
China Ice No 5 slf.	40%
China Ice No 6 ehf.	40%
China Ice No 6 slf.	40%
Icesing ehf.	49%
Siglo FIJ Ltd.	49%
Siglo FIR Ltd.	49%
Siglo FIU Ltd.	49%
Assets	29,774
Liabilities	25,261
Revenues	2,259
Expenses	1,909
Net profit	350
Proforma share of profit of associates	160

All of the associates are structured around ownership of aircrafts. None of them has quoted published price and all of them have the same accounting period as the Group.

Amounts are in ISK million

Notes, contd.:

PREPAID AIRCRAFT ACQUISITIONS

24. Prepaid aircraft acquisitions in the balance sheet is for the purchase of six Boeing 737-800 aircrafts which will be delivered to the Company in the year 2007. The intention is to lease or sell all of the aforementioned aircrafts. The Company also has agreements with Boeing regarding the purchase of four Boeing 787 Dreamliner aircrafts to be delivered in the year 2010. The Company has capitalised borrowing cost amounting to ISK 508 million related to these prepayments based on the interest rate on the directly related financing which was 6.6% at year-end. The Company also has an option to purchase three additional 787 Dreamliner aircrafts with delivery after the year 2012.

LONG-TERM RECEIVABLES

25. Long-term receivables and deposits are specified as follows:

Loans, effective interest rate 7.6%	1,012
Deposits	757
Other long-term receivables	943
	2,712
Current maturities of long-term receivables	(23)
Long-term receivables and deposits total	2,689

Long-term receivables contractual repayments are specified as follows:

Repayments in 2007	23
Repayments in 2008	23
Repayments in 2009	24
Repayments in 2010	25
Repayments in 2011	26
Subsequent	891
Total long-term receivables, including current maturities	1,012

INVENTORIES

26. Inventories are specified as follows:

Spare parts	872
Other inventories	259
Inventories total	1,131

In 2006 the write-down of inventories to net realisable value amounted to ISK 21 million. The write-down is included in other operating expenses.

Amounts are in ISK million

Notes, contd.:

TRADE AND OTHER RECEIVABLES

27. Trade and other receivables are specified as follows:

Trade receivables	6,103
Derivatives	215
Current maturities of long term-receivables	23
Other receivables	902
Trade and other receivables total	7,243

At 31 December 2006 trade receivables are shown net of an allowance for doubtful debts of ISK 257 million arising from the likely bankruptcy of a significant customer.

Receivables denominated in currencies other than the functional currency comprise ISK 2,616 million of trade receivables.

PREPAYMENTS

28. Prepaid expenses which relates to subsequent periods amounted to ISK 271 million at year end. The prepayments consist mainly of insurance expenses and prepaid rental expenses.

CASH AND CASH EQUIVALENTS

29. Cash and cash equivalents are specified as follows:

Bank deposits	2,757
Cash on hand	19
Cash and cash equivalents total	2,776

EQUITY

30. The Company's share capital amounts to ISK 1,000 million as decided in its Articles of Association. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share of one ISK.

On a shareholders meeting 29 December 2006 the Board of Directors received authority to purchase own shares of maximum 10% of the total nominal value of the ordinary shares for a 18 month period. Furthermore the meeting agreed upon authorisation to the Board of Directors to increase the share capital by 6% for issue against share option plan to employees. Early January 2007 the Board of Directors granted options to key employees amounting to ISK 60 millions with the exercise price 27.5.

Share premium
Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Amounts are in ISK million

Notes, contd.:

30. contd:

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

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge net investment in a foreign subsidiary.

EARNINGS PER SHARE

31. Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Parent by the weighted average outstanding number of shares during the period and shows the earnings per each share. The calculation of diluted earnings per share takes into consideration the issued convertible notes when calculating the share capital.

	2006
Basic earnings per share:	
Loss for the period attributable to equity holders of the Parent	(544)
Average share capital	1,000
Earnings per share of ISK 1	(0.54)

Diluted earnings per share is equal to earnings per share as the conversion of convertible notes is not dilutive.

LOANS AND BORROWINGS

32. Loans and borrowings are specified as follows:

Non-current borrowings from credit institutions	30,961
Convertible notes	1,860
Short-term loans from credit institutions	1,945
Total loans and borrowings	34,766
Current maturities and short-term loans	(4,614)
Loans to finance prepaid aircraft acquisition	(8,545)
Non-current loans and borrowings total	21,607

Amounts are in ISK million

Notes, contd.:

33. Non-current borrowings from credit institutions are specified as follows:

	Average Interest rates	Total Remaining Balance
Debt in USD	6.1%	24,430
Debt in EUR	6.3%	2,623
Debt in GBP	8.6%	353
Debt in NOK	7.2%	167
Debt in JPY	3.7%	124
		27,697
Debt in ISK indexed	6.5%	781
Debt in ISK not indexed	17.5%	2,483
Total non-current borrowings		30,961

The Company is working on restructuring unfavourable loans in the amount of ISK 5,000 millions. The loan will be in different compositions of currencies and the restructuring will be finalized at the end of February.

34. Contractual repayments of non-current borrowings are specified as follows:

Financing of prepaid aircraft acquisition	8,545
Other repayments	2,669
Repayments in 2007	11,214
Repayments in 2008	3,526
Repayments in 2009	2,025
Repayments in 2010	7,211
Repayments in 2011	3,394
Subsequent repayments	3,591
Total non-current borrowings	30,961

CONVERTIBLE NOTES

35. Convertible notes were issued in October 2006. They are specified as follows:

Proceeds from issue of convertible notes - nominal amount	2,000
Transaction cost	(39)
Net proceeds	1,961
Amount classified as equity	(110)
Expenced transaction cost	9
Carrying amount of liability at 31 December 2006	1,860

The nominal amount will be paid in a single amount in 2011. They are convertible at the option of the holder into ordinary shares over the 5 year period at the rate 29.7, 20% each year. The effective interest rate was 19.5% at year-end.

Amounts are in ISK million

Notes, contd.:

DEFERRED INCOME TAX LIABILITY

36. The deferred income tax liability is specified as follows:

Additions through business combination	604
Exchange rate difference	(22)
Income tax recognised in income statement	(207)
Income tax recognised in equity	(15)
Deferred income tax liability 31.12.	360

The deferred income tax liability is attributable to the following items:

	Assets	Liabilities	Net deferred income tax liability
Operating assets	427	0	427
Intangible assets	30	0	30
Derivatives	0	35	(35)
Convertible notes	20	0	20
Trade receivables	104	0	104
	581	35	546
Tax loss carry-forwards	0	265	(265)
Other items	79	0	79
Deferred income tax	660	300	360

	Additions through business combination	Recognised in income statement	Exchange rate difference	Recognised in equity	31 Dec
Operating assets	611	(162)	(22)		427
Intangible assets	33	(3)			30
Derivatives				(35)	(35)
Convertible notes				20	20
Trade receivables	16	88			104
Tax loss carry-forwards	4	(269)			(265)
Other items	(60)	139			79
	604	(207)	(22)	(15)	360

TRADE AND OTHER PAYABLES

37. Trade and other payables are specified as follows:

Trade payables	5,009
Derivatives	409
Other payables	7,010
Total trade and other payables	12,428

Amounts are in ISK million

Notes, contd.:

DEFERRED INCOME

38. Sold unused tickets and other prepayments are presented as deferred income in the balance sheet. These deferred revenues amounted to ISK 3,059 million at year end 2006.

FINANCIAL INSTRUMENTS

39. Exposure to various risks arises in the normal course of the Group's business. Companies held by Icelandair Group hf. operate on international markets and therefore the Company is subject to risks of fluctuation in currency, interest rates and fuel prices.

Foreign currency risk

The Group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Nevertheless, the USD cash inflow falls short of dollar outflow by around USD 100 million due to fuel costs and capital related payments which are to a large extent denominated in USD. This shortage is financed by a surplus of European currencies, most importantly EUR but also ISK and SEK. The Group follows a hedging policy of 40-90%, 12 months in advance and uses a portfolio of instruments, mainly collar options, but also barrier options and forwards.

Interest rate risk

The largest share of outstanding loans are directly related to aircraft financing and denominated in USD. That is a consequence of the fact that the most liquid market for commercial aircraft denominates prices in USD. The Group follows a policy of hedging 40-70% of interest rate exposure of long-term financing, 3-5 years in advance. Currently, only the aircraft loans are hedged against interest rate fluctuations with swap contracts, where the 6 month floating rate is exchanged for fixed interest rates. Forward rate agreements and options have occasionally also been used to that end. The contracts amount up to USD 100 million and are currently considerably favourable, as the floating rate has been increasing in recent years. The average fixed interest rate is 3.59% compared to the 6 month floating rate, mid year 2006 of 5.11%.

Fuel price risk

The jet fuel price has proved to be increasingly volatile in recent years. Not only has the price development been characterized by a steep upward trend, generated by excessive world demand, but also periodic cycles. Moreover, swap prices have for the past two years followed a positive curvature as opposed to the “backwardation”, which used to be the case. In 2006, the monthly average of jet fuel prices reached a record level of USD 735 per tonne in July with swaps trading at USD 850 per tonne, but in August oil prices fell by 20% reaching a low in November. Due to the volatility and expensive swaps, the Group exchanged the traditional instruments of swaps and collars for capped swaps and related types of options to acquire improved prices and reduce the downside risk. The Group follows a policy of 40-80% hedging ratio, 12-18 months in advance and has recently maintained its ratio closer to the lower boundaries to benefit from lower prices.

Notes, contd.:

39. contd:

Liquidity risk

It is the Company's policy to keep the equivalent of 20-25% of the Group's estimated annual fixed costs in the form of liquid assets.

Credit risk

Credit risk is linked to both investment of liquid assets, the management of those assets and agreements with financial institutions related to financial operations, e.g. hedging. The risk involved is directly related to the fulfilment of outstanding obligations of the Group's counterparties. The Group is aware of potential losses related to credit risk exposure and chooses its counterparties subject to business experience and satisfactory credit ratings. The Company is committed to only trade derivatives with trusted parties. The counterparty risk that arises from trading derivatives, used in risk management, is therefore minimised.

FINANCIAL INSTRUMENTS AND FAIR VALUES

40. The fair values of financial assets and liabilities is not significantly different than the carrying amounts shown in the balance sheet.

OFF-BALANCE SHEET ITEMS

41. As a lessee the Company has in place operating leases for 24 aircrafts at the end of December 2006. The leases are for seventeen Boeing 757 aircrafts, three Boeing 767 aircrafts and four smaller aircrafts. The Company also has in place operating leases for storage facilities, accommodations, equipment and fixtures for its operations, the longest until the year 2015. At the end of the year 2006 the leases are payable as follows:

	Real estate	Aircrafts	Other	Total
In the year 2007	913	3,957	109	4,979
In the year 2008	890	3,711	108	4,709
In the year 2009	859	3,293	70	4,222
In the year 2010	797	2,803	0	3,600
In the year 2011	775	2,422	0	3,197
Subsequent	1,532	2,069	0	3,601
Total	5,766	18,255	287	24,308

CAPITAL COMMITMENTS

42. The Company has entered into contracts with Boeing with an obligation to purchase 6 Boeing 737-800 aircraft in the year 2007. The intention is to lease or sell all of the aforementioned aircrafts.

Amounts are in ISK million

Notes, contd.:

43. One of the Groups company, Icelandair Ground Services ehf., has paid ISK 60 million penalty to the Competition Authorities due to an alleged breach of the competition law. The case has been appealed and there is considerable chance that the amount will be returned in part or in full. The payment, which has not been charged to the Income Statement is entered among receivables in the Balance Sheet. The case is considered to be brought to court in 2008-2009.

RELATED PARTIES

Identity of related parties

44. The Group has a related party relationship with its subsidiaries, associates, and with its directors and executive officers.

Transaction with associates

During the year 2006 the Group purchased services from associates amounting to ISK 410 million, but the Group did not sell them any services. Transactions with associates are priced on an arm's length basis.

Transactions with management and key personnel

Salaries and benefits of management paid for their work for Group companies during the year 2006, stock option agreements and shares in the Company are specified as follows:

	Salaries and benefits	Shares held at year-end 2006
Board of Directors:		
Finnur Ingólfsson, Chairman of the Board	1.6	0
Ómar Benediktsson	1.2	56
Hermann S. Guðmundsson	0.6	0
Helgi S. Guðmundsson	0.6	0
Einar Sveinsson	0.8	0
Martha Eiríksdóttir	0.6	0
Jóhann Magnússon	0.6	0
CEO:		
Jón Karl Ólafsson, CEO of Icelandair Group hf.	29	19
Managing directors:		
Thirteen MD of subsidiaries and two within the Parent	236	21

Included in the above mentioned list of shares held by management and directors are shares held by companies controlled by them and derivative agreements entered into regarding shares in the Company.

Amounts are in ISK million

Notes, contd.:

GROUP ENTITIES

45. The Company holds fourteen subsidiaries which are all included in the consolidated financial statements. They are:

	Share
Scheduled airline operations:	
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
Icelandair Technical Services ehf. (ITS)	100%
Icelandair Ground Services ehf. (IGS)	100%
Capacity solutions and aircraft trading:	
Blue Cargo ehf.	100%
Bluebird Cargo ehf.	100%
IceLease ehf.	100%
IG Invest ehf.	100%
Loftleiðir - Icelandic ehf.	100%
Travel and tourism:	
Air Iceland ehf.	100%
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%
Shared services:	
IceCap Ltd., Guernsey	100%
Icelandair Shared Services ehf.	100%

The subsidiaries own 20 subsidiaries that are also included in the consolidated financial statements.

STATEMENT OF CASH FLOWS

46. Other operating items in the statement of cash flows are specified as follows:

	2006 1.10.-31.12.
Gain on the sale of operating assets	(471)
Exchange rate difference and indexation of liabilities and assets	363
Share of profit of associates	(69)
Income tax expense	(207)
Total other operating items in the statement of cash flows	(384)

Amounts are in ISK million

Notes, contd.:

47. Net change in operating assets and liabilities in the statement of cash flows is specified as follows:

Inventories, decrease	26
Trade and other receivables, decrease	147
Trade and other payables, increase	954
Prepaid income, decrease	(950)
Net change in operating assets and liabilities in the statement of cash flows	177

48. Additional cash flow information:

Interests paid	599
Interests received	465
Income tax paid	0

RATIOS

49. The Group's primary ratios at year end 2006 are specified as follows:

Working capital ratio	0.40
Equity ratio	0.34
Intrinsic value of share capital	26.00

Amounts are in ISK million

Amsterdam 23.02.2007

The Board of Directors of Icelandair Group

FINNUR INGÓLFSSON CHAIRMAN

Finnur Ingólfsson was the CEO of VÍS - the Icelandic Insurance Company from 2002 until May 2006. In the years 2000-2002 Finnur was the Director of the Central Bank of Iceland and in the years 1995-1999, Finnur was Iceland's Minister of Industry and Commerce. He was a Member of Parliament, Reykjavík constituency, for the Progressive Party in Iceland. Finnur was a Special Assistant to the Minister of Health and Social Security in the years 1987-1991 and a Special Assistant to the Minister of Fisheries between 1983 and 1987. He was a teacher of economics at the Flensborg Secondary School in Hafnarfjörður from 1977 to 1978 and the Managing Director of the Dyngja Knitting Co. from 1977 to 1978 and of Katla Knitting Co. from 1975 to 1976. Finnur holds a BS degree in business from the University of Iceland.

ÓMAR BENEDIKTSSON VICE-CHAIRMAN

Ómar Benediktsson was the CEO of Islandsflug from 1997 until 2004 when the company merged with Air Atlanta Icelandic and then became the CEO of the joint company. After the merger was complete he left the company at the end of 2005. He was the MD of Island Tours in Germany 1986-1992. After that he was involved in several companies as an investor and a board member. Ómar was one of the founders of Icelandair Group Holding hf. on its date of establishment on 15 October 2006. Ómar has a degree in Business Administration from the University of Iceland.

HERMANN GUÐMUNDSSON

Hermann Guðmundsson was appointed CEO of Olíufélagið hf. and BNT hf. in 2006 after being the CEO of Bílanaust hf., BNT hf.'s subsidiary, from the year 2002. In the years 1994-2002, Hermann worked as a sales representative and later the CEO of Slípivörur og Verkfæri ehf. Hermann studied Development and Leadership at the IESE business school in Barcelona in 2005, and AMP studies from the Business School in Barcelona in the years 2004-2005. In the years 1978-1984, Hermann studied at Iceland's Hotel and Catering Academy.

JÓHANN MAGNÚSSON

Jóhann Magnússon was Managing Director of FBA Corporate Advisory Ltd. and subsequently ISB (Íslandsbanki now Glitnir banki hf.) Corporate Advisory from 1999 until 2002. Previously, Jóhann was Managing Director of Ker ehf., which was then a subsidiary of Olíufélagið hf. A management consultant at Stuðull ehf. for 14 years, Jóhann was one of its two founders and owners. Prior to that, he was a management consultant at Hagvangur hf. for 1 year and Marketing Manager at Vífilfell hf. (Coca Cola - Iceland) for 4 years. Currently Jóhann is the CEO of Carta Capital. He holds a Cand.Oecon. degree from the University of Iceland.

MARTHA EIRÍKSDÓTTIR,

Martha Eiríksdóttir is currently Head of Marketing and Business Relations for Landsnet which is the electricity transmission service operator in Iceland. Prior to that, Martha was Executive Director of Marketing of Consumer Products at Íslandssími. Between 1994-2000 Martha Eiríksdóttir worked as Manager Commercial Programmes for Europay International, European headquarters of MasterCard, Maestro and Eurocheque. Before joining Europay Int. she worked for five years as Head of Marketing at Eurocard Iceland. Martha has also worked as a consultant on several projects in the credit card industry. Martha holds a degree in Economics and Business Administration from the University of Iceland. She also holds a B.Ed. degree from the University College of Education in Iceland.

EINAR SVEINSSON

Einar Sveinsson graduated from Menntaskólinn í Reykjavík in 1968. Einar is the former CEO of the Sjóvá-Almennar insurance company. He was employed at Sjóvátryggingarfélag Íslands hf. from 1972 to 2004 (Sjóvá-Almennar tryggingar hf. from 1989), as Chief Executive Officer from 1984 to 2004. Einar is the chairman of the board of Glitnir banki hf. He was Chairman of the Iceland Chamber of Commerce from 1992 to 1996. Among other things, he has been Chairman of the Board of the life insurance company Sameinaða líftryggingafélagið hf., fisheries company Haraldur Böðvarsson hf., Frumherji hf., NAIG (Nordic aviation insurance group), and the Association of Icelandic Insurance Companies. He has also served on the Board of Directors of the fisheries companies Grandi hf. and Útgerðarfélag Akureyringa hf., and the financing company Lýsing hf.

HELGI S. GUÐMUNDSSON

Helgi Sigurður Guðmundsson was appointed Director of Operations at the Primary Health Care of the Capital Area in the year 1999. In the years 1989-1998 he was the director of sales at Iceland Insurance Company Ltd. and a sales manager at Samvinn Mutual Insurance in the years 1982-1989. Helgi holds a degree from the Icelandic Management Academy, where he took a program in marketing and insurance management.

Senior Management of Icelandair Group

JÓN KARL ÓLAFSSON CEO OF ICELANDAIR GROUP AND ICELANDAIR
Jón Karl was appointed Chief Executive Officer of Icelandair on 1 June 2005 and became the CEO of Icelandair Group in October 2005. He joined Flugleiðir in 1984, first in the finance department, then as the manager of Flugleiðir's route network. He then served as the general manager of Flugleiðir's office in Frankfurt, Germany, for 5 years. Before being appointed the CEO of Icelandair he was Managing Director of Air Iceland from 1999. He received his Cand. Oecon from the University of Iceland in 1984.

HLYNUR ELÍSSON CFO ICELANDAIR GROUP
Hlynur was appointed Chief Financial Officer of Icelandair Group in 2006 after being Icelandair's Senior Vice President of Finance and Resource Management since 1 April 2005. He joined Flugleiðir in 1995 as Director of Finance of the domestic airline operation and of Air Iceland from 1997. He holds a BS degree in Business from Rockford College, llinois since 1991.

SIGÞÓR EINARSSON COO ICELANDAIR GROUP
Sigþór was appointed Chief Operating OfficerCOO of Icelandair Group in March 2006. He was Managing Director of Loftleiðir-Icelandic from its foundation on January 1, 2002 until 2006. He joined Flugleiðir in April 1996, first in positions related to strategic planning, but as of May 1999 he served as Director of Resource Management where he assumed responsibility for management of all flight-related costs, including aircraft leasing, station management and fuel purchasing. He holds a master's degree in industrial engineering and management.

GUÐJÓN ARNGRÍMSSON VP CORPORATE COMMUNICATIONS OF ICELANDAIR GROUP AND ICELANDAIR
Guðjón was appointed Vice President Corporate Communications of Icelandair Group and Icelandair in 2005. He joined Flugleiðir in 2000 as Manager of Public Relations and Company Spokesman and then became Director for Communications for FL Group and Icelandair. He studied English and literature at the University of Iceland and started his carrier in journalism in 1976, working as a reporter and editor for newspapers and TV in Iceland. He also worked in advertising before starting up and managing the PR company Athygli 1990-1998. In 1999 he became Program Director for the Millennium Commission of the Icelandic Government. Gudjon has also written several historical books.

Senior Management of Subsidiaries

ANDRI ÁSS GRÉTARSSON SVP OF FINANCE AND RESOURCE MANAGEMENT, ICELANDAIR

Andri was appointed to his current position in April 2006. He joined Flugleiðir in 1998, working first in the Management and Financial Information department and then in the Strategic and Finance division at Flugleiðir. He holds a Cand.Oceon degree from the University of Iceland, and has worked in accounting since 1993.

GUÐMUNDUR PÁLSSON SVP OF FLIGHT OPERATIONS, ICELANDAIR

Guðmundur was appointed to his current position in 1996. He joined Flugleiðir in 1974, and served initially in the Budget and Long Range Planning Department. In 1980 he became Director of Cash Management and Insurance, serving in that position until 1986 when he was appointed SVP Operations, in which capacity he worked until 1988, when he was appointed SVP Technical. Guðmundur has a degree in business from the University of Iceland.

GUNNAR MÁR SIGURFINNSSON SVP OF SALES AND MARKETING, ICELANDAIR

Gunnar Már was appointed to his current position in March 2005. He started at Icelandair Domestic in Vestmannaeyjar, in 1986 and in 1994 he became Sales and Marketing Manager for Air Iceland. In 1997 he became Sales Manager for Icelandair in Germany, based in Frankfurt. Gunnar Már became Director of Sales Planning and Control in 2000 and in 2001 he became General Manager of the Germany, Netherlands & Central Europe region. Gunnar Már has a degree in business from the University of Iceland.

HJÖRTUR ÞORGILSSON VP INFORMATION TECHNOLOGY, ICELANDAIR

Hjörtur was appointed to his current position in January 2006. He joined Flugleiðir in 1985, started in the Technical Department's cost control unit, became Manager in the Planning Department 1988 and Director in 1994, and then Director of the Information Development in 1997. Hjörtur received his Cand.Oceon from the University of Iceland in 1985.

UNA EYÞÓRSDÓTTIR VP OF HUMAN RESOURCES, ICELANDAIR

Una was appointed to her current position in 2001. She joined Flugleiðir in 1975, first in Human Resources, from 1983 to 1987 in Information Technology department, first as a supervisor and later a divisional manager, and then in Information Department 1987-1996 as a Divisional Manager. She was appointed Manager of Employee Development in 1996 and Personnel Manager in 2001. Una studied English and Psychology at the University of Iceland and earned an MBA degree from the same university in 2002.

PÉTUR J. EIRÍKSSON MANAGING DIRECTOR OF ICELANDAIR CARGO
Pétur was appointed to his present position in January 2000. He joined Flugleiðir in June 1981 and has held several positions within Icelandair, including Director for Scandinavia and Finland, Senior Vice President of Marketing and Senior Vice President of Business Development before taking over his present position when Icelandair Cargo was founded. Pétur holds a B.Sc degree in economics from the University of Edinburgh and a master's degree from the University of Gothenburg, Sweden.

GUNNAR S. OLSEN MANAGING DIRECTOR OF IGS
Gunnar was appointed Managing Director when an independent company was formed to handle Icelandair's ground services in Keflavík in 2001. He has held various managerial positions within Icelandair Group hf. in Iceland and abroad.

JENS BJARNASON Managing Director of ITS
Jens was appointed to his current position on 20 September 2005. He joined Flugleiðir in September 1996 as Director of Flight Operations after working for the Icelandic CAA as Director of Flight Safety. He is an aeronautical engineer and received his Ph.D. from Northwestern University in the USA in 1992

GUÐNI HREINSSON MANAGING DIRECTOR OF LOFTLEIÐIR-ICELANDIC
Guðni Hreinsson took over as Managing Director of Loftleiðir-Icelandic in 2006.
Guðni joined Flugleiðir in 1997 as a marketing representative in Sales Control and from 2000-2003 he worked at The Icelandic Web Agency. Since 2003 Guðni has been Director Marketing at Loftleiðir-Icelandic. Guðni holds a Bachelor's degree in Humanistic Informatics & Communication from Aalborg University, Denmark.

ÞÓRARINN KJARTANSSON MANAGING DIRECTOR OF BLUEBIRD CARGO
Þórarinn has been the Managing Director of Bluebird Cargo since its incorporation in early 2001. He has been involved in the airline business for over two decades working for Loftleiðir and Cargolux in operations, scheduling and marketing and finally as Managing Director for North America and South America. He was one of the founders of Flugflutningar ehf. (Air Cargo), Bluebird Cargo and Vallarvinir ehf. (Airport Associates, an independent ground handling service company). He received his B.Sc. in economics from the University of Gothenburg in 1978.

KÁRI KÁRASON MANAGING DIRECTOR OF ICELEASE AND IG INVEST
Kári was appointed to his current position on 1 June 2006. He joined Flugleiðir in 1994, and worked in finances until 1999. From 1999 to 2005 Kári the Managing Director for Icelandair hotels. He received his Cand.Oecon from the University of Iceland.

ÁRNI GUNNARSSON MANAGING DIRECTOR OF AIR ICELAND
Árni was appointed to his current position in March 2005. He previously worked as Director of Sales and Marketing at Air Iceland, Managing Director at Ferðaskrifstofa Íslands / ITB, Managing Director of Iceland Travel and as Director of Icelandair Holidays. He worked for the German Tour Operator FTI in Münich as director of Risk Management in 1993-1997. Árni is MSc. in Economics from Augsburg University, Germany.

MAGNEA ÞÓREY HJÁLMARSDÓTTIR MANAGING DIRECTOR OF ICELANDAIR HOTELS
Magnea was appointed to her current position in July 2005 but joined Icelandair Hotels in 1994. Magnea has worked in the hotel industry since 1991 and held management positions within hotels in Iceland, Switzerland and Japan. She received her MBA from the University of Surrey UK in 2003.

JÓHANN KRISTJÁNSSON MANAGING DIRECTOR OF ICELAND TRAVEL
Jóhann was appointed in January 2006 after over 10 years as a manager in the information technology business at Skyrr and Glitnir banki hf. Previously he had obtained hands-on experience within the travel industry in Denmark. He received his Cand.Oecon from the University of Iceland in 1992 and an MBA degree from Copenhagen Business School (CBS) in 1997.

MAGNÚS KR. INGASON MANAGING DIRECTOR OF ICELANDAIR SHARED SERVICES
Magnús has been the General Manager of the Company Shared Services since its incorporation in the year end 2002. He joined Flugleiðir in 1998 and was previously Director of Flugleiðir's accounting department. Magnús received his Cand.Oceon from the University of Iceland in 1993 and became a certified public accountant in 1999.