



Gothenburg, Sweden, August 31, 2006  
Interim Report January – June 2006  
Fly Me Europe AB (publ)  
CIN 556306-9847

## Interim Report for FlyMe Pertaining to First Half of 2006

### Financial Information and Significant Events for the Second Quarter 2006

- Group net turnover for the period January to June amounted to MSEK 337.8 (192.8) of which MSEK 187.1 (102.0) pertains to the second quarter.
- Profit/loss after tax for the period January to June amounted to MSEK -115.7 (-59.3) of which MSEK -52.5 (-35.4) pertains to the second quarter.
- Profit/loss per share for the period January to June amounted to SEK -1.67 (-6.96).
- Group cash equivalents as of June 30, 2006 amounted to MSEK 182.8 (88.6).
- During the period January to June FlyMe transported 446 766 (268 635) passengers, of which 240 696 (137 430) pertain to the second quarter. The increase during the second quarter amounts to 75 percent compared with the same period the preceding year. Of the total number of passengers during the second quarter, 63 % were domestic and 37 % were international.
- On April 1, FlyMe drew up a one-year leasing agreement with Lithuanian Airlines for the purpose of increasing the fleet to five aircraft which it will operate itself.
- May 3, 2006 was the settlement date for the adopted reverse split of shares in which each hundred old shares were converted to one new share. This meant that the final date for trade on the First North market (formerly Nya Marknaden) with old B shares was April 27, 2006 and the first date for trade with the new shares was April 28, 2006. The reverse split gave the company 2 488 921 A shares and 97 193 653 B shares.
- On June 1, the company started direct flights from Gothenburg-Landvetter Airport to Barcelona.

### Significant Events after the Close of the Period

- The Board has after deliberation with principle shareholders agreed to hold an extraordinary AGM on August 31, 2006, to propose a preferential share issue of MSEK 194 to the shareholders.
- At the extraordinary AGM, shareholders will also be asked to decide on lowering share price by reducing share capital.

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*FlyMe is Sweden's low fare airline. With Gothenburg-Landvetter Airport as a hub, FlyMe offers direct flights to and from eleven major European cities and vacation resorts. With Stockholm-Arlanda Airport as a hub, FlyMe also flies to and from Gothenburg and Malmö. FlyMe is listed on the Stockholm stock exchange First North market (formerly Nya Marknaden).*

## **The CEO Comments:**

The second half of the year has been focused on the start of our European routes. We have successfully nearly doubled both the number of passengers as well as turnover. We have also phased in another machine in operations and substantially increased the degree of utilization of all our aircraft.

Starting the new routes and establishing our flight program at the end of the last quarter required a number of actions, such as overhauling our fleet, hiring personnel and leasing additional flight capacity. This led to significantly higher expenses for the last quarter. The profit/loss of MSEK -115.7 for the period shall be seen in light of these expenses which nearly half, MSEK 51.5, are attributable to investments in expansion from the last quarter. The profit/loss of MSEK -52.5 during the last quarter is attributable on the whole to our establishment on the international market with the purpose of acquiring market shares. It is also worth mentioning that the price of oil increased during the quarter and the unrest in the Middle East has impacted our fuel expenses.

We are approaching a positive result for the quarter on domestic routes, and we have succeeded in maintaining a high cabin factor despite that we have invested in more departures, a natural investment since we intend to be the first choice for the frequent flyer. This factor together with weakened competition on the domestic market puts FlyMe in a good position. We are happy to say that our domestic routes are in the black on a monthly basis.

FlyMe's new international routes have got off to a good start, on the whole, with a continuously increasing cabin factor. From April to June 88 900 passengers flew to one of our European destinations. We are continuously evaluating these flights to adapt the number of departures and the number of destinations to demand and attain profitability.

I can confirm that the change in ownership and in the Board implemented one year ago has clearly led to very positive developments for the company.

We strive continuously and purposefully to attain sustainable profitability, and as high season approaches, we can see that we are headed in the right direction.

## **Business Operations**

FlyMe is Sweden's low fare airline. With Gothenburg-Landvetter Airport as a hub, FlyMe offers direct flights to and from eleven major European cities and vacation resorts. With Stockholm-Arlanda Airport as a hub, FlyMe also flies to and from Gothenburg and Malmö. The company, which began operating flights in 2004, consists of Fly Me Europe AB, with B shares listed on the First North market, (formerly Nya Marknaden), and the wholly owned subsidiary Fly Me Sweden AB which runs all flight operations. The number of employees as of June 30, 2006 amounted to 195 persons.

FlyMe's business model is built on a modern low cost structure with cost effective flight operations providing transport to the most frequent destinations. The primary domestic passengers are people who travel often and who previously were used to paying a high price for tickets. FlyMe offers these travelers an attractive ticket price, reservations that can be rescheduled and easy accessibility. Today, FlyMe operates five leased Boeing 737, of which four are 737-300 and one is a 737-500.

FlyMe plans to gradually add domestic destinations to its routes as well as destinations in other Nordic countries and the rest of Europe. Additional expansion is required to achieve sustainable profitability.

## **Market and Sales**

The number of passengers for the second quarter 2006 was 240 696 compared with 137 430 for the corresponding period last year which is an increase of 75 percent. The majority of all tickets are booked and paid for via FlyMe's website. To make it easier for companies and travel agencies to book reservations FlyMe is also available via the global booking system Amadeus.

On March 30, 2006, FlyMe began flying twelve new European routes from the Gothenburg-Landvetter Airport. In June, direct flights from the Gothenburg-Landvetter Airport to Barcelona began.

Competition on the domestic market is subsiding. A number of competitors have reduced their capacity at the same time as FlyMe has increased the number of departures. This gives us a prominent position among our competitors.

2005 was a new record year for Swedish aviation with nearly 25 million passengers. International flights have seen a dramatic upswing. The expected economic growth, the global liberalization of aviation currently underway along with low ticket prices are expected to lead to more direct flights, more routes, and a greater number of passengers. The market share for low fare airlines is expected to continue to grow through new routes and price competition with conventional airlines on existing routes. In 2004, low fare airlines had approximately a 16 percent share of the European market. Forecasts indicate that the equivalent figure for 2007 is estimated to be around 20 percent. The market on which FlyMe operates is showing steady growth.

### Turnover and Profit/Loss

Group turnover for the period January to June amounted to MSEK 337.8 (192.8) of which MSEK 187.1 (102.0) pertains to the second quarter. Group net income after tax amounted to MSEK -115.7 (-59.3) of which MSEK -52.5 (-35.4) pertains to the second quarter. Group operating expenses amounted to MSEK -455.5 (-254.2) of which MSEK -240.1 (-139.5) pertains to the second quarter. The profit/loss per share for the period January to June amounted to SEK -1.67 (-6.96).

Group expenses were attributed to the following main items for each period:

	<b>Apr-June 2006</b>	<b>Apr-June 2005</b>	<b>Jan-June 2006</b>	<b>Jan-June 2005</b>
Operating flight expenses <sup>1</sup>	-212.0	-116.7	-395.7	-214.6
Other payroll expenses	-9.3	-7.6	-18.2	-14.7
Marketing	-5.8	-5.9	-15.7	-8.8
Other expenses	-12.1	-8.2	-24.2	-14.3
Impairments	-0.9	-1.1	-1.7	-1.8

<sup>1</sup> Operating flight expenses consist primarily of fuel expenses, start and landing fees, expenses for "handling," variable leasing fees, expenses for technical maintenance, charges incurred during transit (for using airspace) and payroll expenses for "flight personnel," as well as fixed leasing and insurance expenses.

The increase in operating flight expenses is attributable primarily to a dramatic increase in the traffic program during the first half of 2006, especially owing to the start of the new European routes. The increase amounts to slightly more than 54 percent pertaining to the number of rotations compared with the corresponding period of the preceding year. Besides the increase in the number of rotations, the distances for the flights have become longer, which impacts fuel expenses as well as expenses incurred during transit (for using airspace). Start and landing fees are higher at European airports than at domestic airports. The expanded flight program also entails hiring new pilots and cabin personnel, which leads to higher payroll expenses.

The profit/loss of MSEK -52.5 for the second quarter is largely attributable to our establishment on the international market with the purpose of entering the market and taking market shares. We are approaching plus results on the domestic market. Our domestic flights have reported figures in the black the most recent months.

Expenses for fuel are currently approximately 22 % of the company's total expenses. During the first half of 2006 the fuel price increased by roughly 35 % compared with the corresponding period of the preceding year. The increase during the first half of 2006 compared with the average price for all of 2005 was approximately 16 %. Slightly more than 70 % of the fuel volume was hedged for the first quarter 2006.

### Investments

Group reported investments during the period are mainly attributable to IT and office equipment.

### Financing and Liquidity

Group cash equivalents including frozen assets as of June 30, 2006 amounted to MSEK 182.8. The Group has had a positive cash flow of MSEK 152.8 for the period January to June after the new share issue.

Current operations in the Group excluding changes in working capital have during the period generated a negative cash flow of MSEK -113.3. The change in working capital and particularly in advances from customers has generated a positive cash flow of MSEK 12.9. The total cash flow from current operation for the period January to June amounted to MSEK -100.4.

Investments amounted to MSEK 0.8 (0.3). Deposits to suppliers have increased by MSEK 2.5.

Contributions from the new issue have been received during the period for the interim report at a net of MSEK 265,5 (70.2).

Group equity amounts to MSEK 57.3. The equity ratio amounts to 22.4 percent.

### **Group Structure and Personnel**

The Group consists of the parent company Fly Me Europe AB, an operating wholly owned subsidiary, Fly Me Sweden AB, and two dormant subsidiaries. The number of permanent employees in the Group at the time of this report was 195 people, of which 101 men.

### **The Parent Company**

The parent company's operating profit/loss during the period amounted to MSEK -2.1. The parent company's expenses for the period January to June amounted to MSEK -4.3. Expenses are primarily attributable to payroll overhead. The parent company has also provided a guarantee for Fly Me Sweden AB's leasing commitments for a three-year period, of which MSEK 27 remains as of June 30, 2006, and has pledged a capital cover guarantee for Fly Me Sweden AB for the period up to the AGM in the spring 2007. In accordance with the capital cover guarantee, a Group or shareholder contribution has been provided to the subsidiary Fly Me Sweden for a total of MSEK 113.9. The capital contribution is reported by Fly Me Europe AB as an increase in shares in the subsidiary in accordance with URA 7, after which an impairment of MSEK 65 was made. The deficit for the period amounts to MSEK 65.9.

During the period for the report the Parent company has received an increase in Equity at a net of MSEK 132.2, through a new share issue registered in March 2006. The Equity in the Parent company as of June 30, 2006 is distributed as follows:

<u>Share capital</u>	129.6
<u>Statutory reserve</u>	46.9
Accumulated deficit	<u>- 68.1</u>
	108.4

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No investments have been made. The Parent company has no loans.

There were five people employed by the parent company at the time of this report.

### **Loss Carried Forward for Tax Purposes**

Accumulated loss carried forward in the parent company at the time of the report was approximately MSEK 450 excluding the loss of MSEK 173 for the year 2005. The loss carried forward has not been assigned any value on the Balance Sheet. The value of the loss carried forward depends on the potential to use the losses to reduce future tax burdens. Taxation legislation has regulations that govern limitations. For example, a major change in ownership can limit and/or eliminate the potential to utilized loss carried forward.

### **Significant Events after Close of Report Period**

In preparation for the extraordinary AGM on August 31, 2006, the Board has after deliberation with principle shareholders who represent approximately 95% of the votes at the AGM, agreed to propose to the AGM a preferential issue of MSEK 194 of which 67% will be guaranteed by the principle shareholders.

The AGM has also proposed to lower the current share price of SEK 1.30 to SEK 0.65 by reducing share capital from approximately MSEK 130 to MSEK 65. The subscription period for the adopted new issue is proposed to be September 30, 2006 to October 30, 2006 with settlement date on Friday, September 29, 2006. A complete prospectus for the adopted preferential issue is proposed to be published on September 29, 2006.

### **Outlook**

FlyMe's position on the market and continued strong growth indicate that low fare air travel has come to Sweden to stay. Since its start, FlyMe has taken a substantial share of the domestic market in Sweden. To attain sustainable profitability, the company has taken extensive action to increase volumes organically as well as through acquisitions in 2006. This action is estimated to triple the previous utilization ratio and to continuously develop routes and traffic programs. Extensive investments were made during the first half of this year to make possible the organic growth that during financial year 2006 is estimated to double turnover compared with the preceding year. FlyMe has up to now built up a strong trademark and flight operations that function well.

The low fare airline industry has many exciting years ahead and is expected to face major changes and continued total volume growth. The old high cost companies will be given tough competition for customers that tend to prefer to transport themselves safely from point A to point B, rather than pay for a brief "experience of luxury" during the trip itself. "Travel cheaply and treat yourself to other luxury" will be the motto of the future.

Increasingly more people in Sweden and Europe who had not flown much previously are now becoming used to traveling more frequently by air. This trend has been visible for a long time in the USA. The changes in price that have occurred owing to the low fare airlines are so radical that the number of low fare passengers will probably continue to grow regardless of tax increases or hikes in oil prices.

Actors on the Northern Europe low fare airline market agree that we are facing consolidation in the low fare branch. The driving force behind this consolidation is that a low fare airline must attain a certain size within a limited time to attain sustainable profitability. With sufficient size and effective utilization of capacity, the fixed costs can be spread over more travelers and result in continued low ticket prices. With the action that FlyMe has taken, and the extensive investments in expansion that FlyMe has made, the company is well equipped for the growth in volume that is necessary for the future and to attain sustainable profitability.

## Shares and Shareholders

The number of shares, after the reverse split 100:1 at the end of April amounted to 99 682 574 shares, of which 2 488 921 were A shares and 97 193 653 were B shares.

The company's B shares are traded on the First North market (formerly Nya Marknaden).

The number of shareholders as of June 30, 2006 was 17 825.

The ten largest shareholders were as of June 30, 2006<sup>2</sup>:

Name	Share of votes %
Kaupthing Bank Luxembourg (SA m.fl)	28.2
Cognition AS	11.2
Raiffeisen Zentralbank Österreich	5.2
SEB Private Bank SA	3.7
Prioritet Capital AB	2.5
Skandinaviska Enskilda Banken AB	0.9
Arion Swedish Custody Nominee Account	0.9
Provobis Holding AB	0.9
Landsbanki Luxembourg SA	0.7
Islandsbanki FBA Custody Account	0.7

## Future Reports

- The interim report for the period January-September 2006 will be made public on November 30, 2006.
- Monthly traffic reports will be provided continuously shortly after the end of each month.

## Accounting Policy

This interim report was prepared in accordance with IAS no. 34 for interim reporting. The accounting policy used in the Group to prepare this interim report does not divert from the policy of the Annual Report for 2005.

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<sup>2</sup> Source: VPC

<b>CONSOLIDATED INCOME STATEMENT (MSEK) (Abridged)</b>	<b>Apr- June 2006</b>	<b>Apr- June 2005</b>	<b>Jan-June 2006</b>	<b>Jan-June 2005</b>	<b>Jan-Dec 2005</b>
Net sales	187.1	102.0	337.8	192.8	402.0
Other external expenses	-210.4	-119.9	-402.4	-216.2	-494.4
Payroll expenses	-28.8	-18.5	-51.4	-36.2	-79.9
Depreciation	-0.9	-1.1	-1.7	-1.8	-3.2
<b>Operating profit/loss</b>	<b>-53.0</b>	<b>-37.5</b>	<b>-117.7</b>	<b>-61.4</b>	<b>-175.5</b>
Net financial income/expense	0.3	1.6	1.7	1.6	2.0
<b>Profit/loss for the period before tax</b>	<b>-52.7</b>	<b>-35.9</b>	<b>-116.0</b>	<b>-59.8</b>	<b>-173.6</b>
Tax	<b>0.2</b>	<b>0.5</b>	<b>0.3</b>	<b>0.5</b>	<b>0.6</b>
<b>Profit/loss for the period after tax</b>	<b>-52.5</b>	<b>-35.4</b>	<b>-115.7</b>	<b>-59.3</b>	<b>-173.0</b>
Profit/loss per share <sup>3</sup>	-0.53	-4	-1.67	-6.96	-19.68
<b>CONSOLIDATED BALANCE SHEET (MSEK)</b>			<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>Dec. 31, 2005</b>
<b>(Abridged)</b>					
<b>Subscribed capital unpaid</b>			0.0	0.0	126.5
<b>Fixed assets</b>					
Equipment			1.9	2.3	1.8
Manuals			5.7	7.6	6.8
Other intangible assets			0.1	0.1	0.1
Deposits			12.6	10.9	11.1
<b>Current assets</b>					
Current receivables			53.1	61.2	21.7
Derivative instruments			0.0	0.0	2.2
Cash equivalents			182.8	88.6	29.9
<b>TOTAL ASSETS</b>			<b>256.2</b>	<b>170.8</b>	<b>200.1</b>
<b>Equity</b>					
			57.3	44.1	43.2
<b>Long-term liabilities</b>					
Deferred tax liability			1.6	2.2	1.9
<b>Current liabilities</b>					
Accounts payable - trade			60.9	27.5	46.5
Other noninterest-bearing liabilities			136.4	97.0	108.5
<b>TOTAL EQUITY AND LIABILITIES</b>			<b>256.2</b>	<b>170.8</b>	<b>200.1</b>
<b>PLEDGED ASSETS</b>					
Frozen bank funds			10.7	10.6	0.0

<sup>3</sup> The comparative figures for 2005 have been adjusted owing to the reverse split (merging of shares).

<b>CHANGE IN EQUITY</b>	<b>Jan-June 2006</b>	<b>Jan-June 2005</b>	<b>Jan-Dec 2005</b>
<b>Opening equity</b>	<b>43.2</b>	<b>103.7</b>	<b>103.7</b>
Registered share issues	145.3	0.0	0.5
Issue expenses	-15.5	0.0	0.0
Non-registered new share issues	0.0	0.0	126.5
Expenses for new share issue in progress	0.0	-0.3	-14.5
Profit/loss for the period	-115.7	-59.3	-173.0
<b>Closing equity</b>	<b>57.3</b>	<b>44.1</b>	<b>43.2</b>

<b>CASH FLOW STATEMENT ABRIDGED</b>	<b>Jan-June 2006</b>	<b>Jan-June 2005</b>	<b>Jan-Dec 2005</b>
<b>Ther period's operations</b>			
Profit/loss after tax	-115.7	-59.3	-173.0
Adjustment for non-cash items, etc.	2.4	0.7	36.2
<b>Cash flow from the period's operations Before changes in working capital</b>	<b>-113.3</b>	<b>-58.6</b>	<b>-136.8</b>
Cash flow from changes in working capital	12.9	17.6	36.8
<b>Cash flow from the period's operations</b>	<b>-100.4</b>	<b>-41.0</b>	<b>-100.0</b>
<b>Investment activities</b>			
Acquisition of tangible fixed assets	-0.8	-0.3	-0.5
Sales of tangible fixed assets	0.0	0.0	0.3
Deposits paid	-2.5	0.0	0.0
<b>Cash flow from investment activities</b>	<b>-3.3</b>	<b>-0.3</b>	<b>-0.2</b>
<b>Financing activities</b>			
Payment pertaining to new share issue in progress 05/06	256.5	70.2	70.6
Payment of financial liabilities		-1.1	-1.1
<b>Cash flow from investment activities</b>	<b>256.5</b>	<b>69.1</b>	<b>69.4</b>
<b>Cash flow for the period</b>	<b>152.8</b>	<b>27.8</b>	<b>-30.8</b>

<b>DATA PER SHARE3</b>	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>Dec. 31, 2005</b>
Number of shares (at close of period)	99 682 574	906 201 999	906 205 208
Number of share (on average during year)	69 475 733	8 522 614	8 792 328
Share price, SEK	3.01	13.0	13.0
Equity/share, SEK	0.82	5.0	5.0
Price/adjusted equity, times	3.65	2.51	2.65
Equity ratio %	22.4%	25.8%	21.6%

	<b>Jan-June 2006</b>	<b>Jan-June 2005</b>	<b>Jan-Dec 2005</b>
<b>KEY RATIOS</b>			
<b>Domestic</b>			
ASK (millions)	249.1	193.7	342.9
RPK (millions)	162.7	111.7	209.1
Cabin factor (%)	65.3%	57.7%	61.0%
Number of passengers	320 814	219 979	408 097
<b>International</b>			
ASK (millions)	248.8	42.4	90.8
RPK (millions)	141.4	21.5	47.1
Cabin factor (%)	56.8%	50.7%	51.9%
Number of passengers	125 952	48 656	99 375

**Explanation of Key Ratios**

ASK (Available Seat Kilometer) = Available passenger capacity expressed as seat kilometers

RPK (Revenue Passengers Kilometer) = Sold passenger capacity expressed as seat kilometers

Cabin factor (Sold seat kilometers/available seat kilometers) = RPK/ASK

Gothenburg, Sweden, August 31, 2006  
Fly Me Europe AB (publ)  
Board and CEO

## **Review Report**

We have reviewed this interim report for FlyMe Europe AB (publ) for the period from January 1, 2006 up to June 30, 2006. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the Annual Accounts Act and IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. We conducted our review in accordance with the Standard on Review Engagements SÖG 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by FAR.

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as of June 30, 2006, and of the entity's financial outcome and cash flow for the six-month period that closed as of this date in accordance with IAS 34.

Gothenburg, Sweden, August 31, 2006

Öhrlings PricewaterhouseCoopers AB

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Authorized Public Accountant