20 February 09
Annual and fourth quarter results 2008

Icelandair Group Annual Results 2008

- The total turnover was ISK 112.7 billion as compared to ISK 63.5 billion , increasing by 77% from the corresponding quarter of last year
- EBITDAR was ISK 17.2 billion, as compared to ISK 11.1 billion in the corresponding period last year
- EBITDA was ISK 4.8 billion, as compared to ISK 5.5 billion in the corresponding period of last year
- Impairment of intangible assets was ISK 6.4 billion
- EBIT was negative by ISK 5.7 billion, as compared to ISK 2.3 billion in the corresponding period of last year
- Net loss after taxes was ISK 7.5 billion, as compared to a net profit of ISK 0.3 billion in 2007
- Total assets amounted to ISK 98.8 billion at year-end 2008, as compared to ISK 66.8 billion at year-end 2007
- The equity ratio was 20.3% at year-end 2008, as compared to 37.5% at the end of 2007
- Net cash from operations was ISK 2.9 billion at during 2008, as compared to ISK 3.9 in 2007
- Profits from the sales of aircraft amounted to ISK 0.2 billion, as compared to ISK 1.8 billion in 2007

Icelandair Group results for the fourth quarter of 2008

- Total turnover was ISK 28.3 billion, as compared to ISK 15.3 billion in the corresponding quarter last year, increasing by 85% from last year
- EBITDAR was ISK 2.4 billion, as compared to ISK 2.1 billion in the corresponding quarter last year
- EBITDA was negative by ISK 2.3 billion, as compared to ISK 0.5 billion in the corresponding quarter last year
- Impairment of intangible assets was ISK 6.4 billion
- EBIT was negative by ISK 10.0 billion, as compared to a negative EBIT of ISK 0.3 billion in the corresponding quarter of 2007
- Net loss after taxes 2008 was ISK 10.6 billion, as compared to a net loss of ISK 0.8 billion in the corresponding quarter of 2007

Björgólfur Jóhannsson, CEO of Icelandair Group:

"In the first nine months of 2008, the Group's operations were successful and a good operating year was expected despite a projected fourth-quarter loss. The events that transpired in Iceland in October and their consequences drastically altered the operating conditions of the quarter, and for that reason we regard the operating results of the year relatively strong. While EBITDA for the year amounted to ISK 4.8 billion, EBITDA was negative by ISK 2.3 billion for the fourth quarter.   The loss over the year amounted to ISK 7.5 billion, while the loss of the fourth quarter was ISK 10.6 billion. Of this figure, impairment of intangible assets amounted to just over ISK 6.4 billion, based on the prospect that individual companies of the Group are facing a more challenging business environment than before.

In the past few months we have worked with the Company's bank on improving the Company's maturity profile. The goal is to adapt the debt repayment process to the Group's long-term payment capacity. We expect this work to be completed in the coming months.

It is clear that 2009 will be a challenging operating year for Icelandair Group. A large drop in private consumption in Iceland is projected, in addition to a significant reduction in passenger transport and air freight on a global basis. The streamlining measures that have already been taken will benefit the Group, and efforts to find ways of cutting costs will continue. In our opinion, the situation which has come up presents various opportunities for all of the companies within the Group. We are therefore convinced that our flexible and diversified operations, and in particular our outstanding workforce, will enable the Company to achieve satisfactory operating results in 2009."

Financial Highlights of the fourth quarter and the whole year 2008

ISK´000.000	Q4 08	Q4 07	12M 08	12M 07
Transport revenue	9.523	7.954	45.913	35.949
Aircraft and aircrew lease	15.529	4.532	53.055	15.510
Other	3.258	2.857	13.771	12.018
Operating Income	28.310	15.343	112.739	63.477
Salaries and related expenses	6.416	5.405	24.105	20.008
Aircraft fuel	6.750	2.470	25.887	9.769
Aircraft and aircrew lease	5.322	1.955	15.345	7.353
Aircraft servicing, handling and comm.	4.362	1.060	15.515	4.367
Aircraft maintenance	3.967	1.638	11.314	5.128
Other	3.826	2.300	15.725	11.375
EBITDA	-2.333	515	4.848	5.477
Depreciation and amortisation of intangible assets	-7.702	-824	-10.537	-3.140
EBIT	-10.035	-309	-5.689	2.337
EBT	-10.503	-1.119	-6.825	129
Net Profit	-10.570	-780	-7.468	257
EBITDAR	2.377	2.116	17.166	11.056

Net profit/Loss

EBITDA for the year amounted to ISK 4.8 billion, as compared to ISK 5.5 billion in 2007. Profits from sales of aircraft amounted to ISK 0.2 billion, as compared to ISK 1.8 billion in 2007. EBITDA in the fourth quarter was negative by ISK 2.3 billion, as compared to an EBITDA of ISK 0.5 billion for the same period in 2007. Impairment of intangible assets amounted to ISK 6.4 billion. EBIT for 2008 was negative by ISK 5.7 billion, as compared to an EBIT of ISK 2.3 billion in 2007. EBIT in the fourth quarter was negative by ISK 10.0 billion, as compared to a negative EBIT of ISK 0.3 billion for the same period in 2007.

The loss over the year amounted to ISK 7.5 billion, as compared to a profit of ISK 0.3 billion in 2007. The loss in the fourth quarter of 2008 amounted to ISK 10.6 billion, as compared to ISK 0.8 billion for the same period in 2007.

Segments- 2008

ISK´000.000			12M 2008		
	Scheduled airline	Capacity solutions	Shared Services	Elimi-nations	Con-solidated
Segment revenue	73.592	56.648	860	-18.361	112.739
Segment cost	-71.656	-52.733	-1.863	18.361	-107.891
EBITDA	1.936	3.915	-1.003		4.848
EBIT	-5.197	1.146	-1.638		-5.689
Net finance cost	-751	855	-1.418		-1.314
Share of profit of associates	1	177	0		178
EBT	-5.947	2.178	-3.056		-6.825
Income tax	318	-1.152	191		-643
Net Profit/Loss	-5.629	1.026	-2.865		-7.468

Segments fourth quarter 2008

ISK´000.000	Q4 2008				
	Scheduled airline	Capacity solutions	Shared Services	Elimi- nations	Con- solidated
Segment revenue	17.378	16.365	18	-5.451	28.310
Segment cost	-18.693	-16.983	-418	5.451	-30.643
EBITDA	-1.315	-618	-400		-2.333
EBIT	-6.306	-2.715	-1.014		-10.035
Net finance cost	-565	430	-390		-525
Share of profit of associates	0	57	0		57
EBT	-6.871	-2.228	-1.404		-10.503
Income tax	340	-335	-72		-67
Net Profit/Loss	-6.531	-2.563	-1.476		-10.570

Fourth-quarter operations in 2008

Total income amounted to ISK 28.3 billion, as compared to ISK 15.3 billion in the corresponding quarter of last year, representing an increase of 85%. A large part of this increase in revenues, about 70%, can be attributed to the inclusion of Travel Service in the Group on 1 April 2008. Operating losses before financial items amounted to ISK 10.0 billion, as compared to ISK 0.3 billion in the fourth quarter of 2007.

Impairment of intangible assets amounted to ISK 6.4 billion in 2008, all accrued in the fourth quarter. The Group’s intangible assets have been allocated to individual subsidiaries. Impairment tests are conducted in compliance with IFRS 36. A number of factors are taken into account when conducting the tests, including future operating and investment plans, required cost of capital. Capital costs, and in particular risk premiums, have increased of late, as has the required return on equity. These factors have adversely affected the test results.

Changes in the operating environment of two companies, SmartLynx and Icelandair Cargo, since the original allocation of their goodwill has resulted in substantial write-downs. Intangible assets relating to SmartLynx appreciated in value by ISK 0.8 during the year through equity as a result of the weakening of the Icelandic króna. The amount, which previously was entered through equity, is subsequently expensed in the profit and loss account.

A substantial impairment has also been entered on account of Air Iceland, even though the company returned good operating results in 2008. The primary reason for this is that the company’s aircraft fleet is capitalised in foreign currency and its book value has increased during the course of the year as a result of the weakening of the Icelandic króna. This increase was entered through equity. The book value of all assets, both tangible and intangible, must be supported by future cash flow.

In the case of impairments, the book value of intangible assets is written down first. As a result, substantial amounts in the income statement for 2008 have been expensed against increases entered under equity.

Income from scheduled airlines and tourism amounted to ISK 17.4 billion in 2008, as compared to ISK 13.9 billion in the corresponding period of 2007, increasing by 25% between years. Expenses amounted to ISK 18.7 billion, as compared to ISK 13.9 billion in the corresponding period of 2007, which represents an increase of 35% between years. EBITDA was negative by ISK 1.3 billion, as compared to ISK 23 million in the corresponding period of last year Impairment losses amounted to ISK 4.1 billion. Loss after tax for the segment was ISK 6.5 billion, as compared to a loss of ISK 0.5 billion for the corresponding period of last year. EBITDA was ISK 0.8 billion, as compared to ISK 1.0 billion in the corresponding period of last year

Income from capacity solutions amounted to ISK 16.4 billion, as compared to ISK 4.8 billion in the corresponding period of 2007. Expenses amounted to ISK 17.0 billion, as compared to ISK 4.0 billion over the same period in 2007. EBITDA was negative by ISK 0.6 billion, as compared to an EBITDA of ISK 0.7 billion in the corresponding period of last year Impairment losses amounted to ISK 1,7 billion. Loss after tax for the segment was ISK 2.6 billion, as compared to a profit of ISK 0.3 billion in the corresponding period of last year. EBITDAR was ISK 2.0 billion, as compared to ISK 1.3 billion in the corresponding period of last year.

Transport revenues increased by ISK 1.6 billion between the fourth quarters of 2007 and 2008, or by 20%. Revenue from passenger transport increased by 16.9% between years, or ISK 1.1 billion, while revenue from cargo and mail transport increased by 35%, or ISK 0.5 million. For Icelandair, passenger revenues decreased by 12.2% between the fourth quarters of 2007 and 2008, with the number of passengers falling by 24.2%, to 250,000, in the fourth quarter of 2008. The load factor decreased to 69.4% from 73.9%, i.e. by 4.5 percentage points, and unit price calculated at fixed exchange rate increased by 12.3%.

Charter revenues increased by ISK 11.0 billion between the fourth quarters of 2007 and 2008. This increase is primarily a result of the inclusion of Travel Service in the Group, which accounts for ISK 8.1 billion.

Other revenues increased by ISK 0.3 billion between the fourth quarters of 2007 and 2008, i.e. by 9%.

Salaries and related expenses increased by ISK 1.0 billion, or 19%, between the fourth quarters of 2007 and 2008, with the bulk of this figure, or ISK 939 million, resulting from the inclusion of Travel Service.

Fuel costs rose by ISK 4.3 billion, which corresponds to a 173% increase. The impact of the inclusion of Travel Service accounts for approximately ISK 2.5 billion of this figure. The average price of fuel in the fourth quarter was USD 643 per ton, as compared to USD 865 per ton at the corresponding time last year.

Aircraft and aircrew lease increased by ISK 3.4 billion between years, or 172%. Of this figure, approximately ISK 2.0 billion can be attributed to Travel Service.

Aircraft servicing, handling and navigation increased by ISK 3.3 billion between years, of which 87% can be attributed to Travel Service.

Aircraft maintenance rose by ISK 2.3 billion between years, just under half of which can be attributed to Travel Service.

Financials

ISK´000.000	12M 08	12M 07	Q4 08	Q4 07
Interest income	183	339	-128	116
Interest expenses	-3.697	-2.545	-1.182	-723
Currency effect	1.724	57	785	31
Gain from sale of derivatives	476	0	0	0
Net finance cost	-1.314	-2.149	-525	-576

Financials

Net financial costs in the fourth quarter of 2008 amounted to ISK 0.5 billion, as compared to ISK 0.6 billion in the corresponding quarter of 2007. Net financial costs for the year 2008 amounted to ISK 1.3 billion, as compared to ISK 2.1 billion in 2007.

Financial income rose by ISK 510 million between the fourth quarters of 2007 and 2008.

Financial costs rose by ISK 0.5 billion between quarters.

Balance Sheet

ISK´000.000	31/12/08	31/12/07	Diff.
Operating Assets	36.798	22.832	13.966
Intangible assets	29.306	26.846	2.460
Investment in associates	1.008	2.335	-1.327
Aircraft purchase prepayments	4.226	249	3.977
Long-term receivables	6.054	1.788	4.266
Cash and cash equivalents	4.065	2.006	2.059
Other assets	17.373	10.704	6.669
Total assets	98.830	66.760	32.070
Stockholders equity	20.080	25.033	-4.953
Total non-current liabilities	25.112	14.174	10.938
Total current liabilities	53.638	27.553	26.085
Total equity and liabilities	98.830	66.760	32.070

Balance Sheet

Total assets amounted to ISK 98.8 billion at the end of 2008, as compared to ISK 66.8 billion at year-end 2007. The increase in total assets is largely a result of the weakening of the króna against other currencies and the inclusion of Travel Service in the Group.

The equity ratio was 20.3% at the end of the year, as compared to 37.5% at the beginning of the year.

Operating assets have increased by ISK 14.0 billion between years.

Investments in operating assets in the year were ISK 6.0 billion, of which ISK 1.7 billion were invested in new seats and entertainment systems for Icelandair's aircraft. Investments in engine hours amounted to ISK 1.0 billion. Pre payments in connection with aircraft purchases amounted to ISK 2.2 billion

Intangible assets increased by ISK 2.4 billion over the year despite the impairment of ISK 6.4 billion. The increase is a result of the weakening of the Icelandic krona and the acquisition of Travel Service.

Non-current liabilities have increased by ISK 10.9 billion during the year.

Current liabilities have increased by ISK 26.1 billion during the year.

Net interest bearing debt amounted to ISK 39.2 billion, increasing by ISK 16.1 billion over the year.

Cash Flow

ISK´000.000	2008	2007
Working capital from operations	2.911	1.495
Net cash from operating activities.	2.938	3.889
Net cash used in investing activities	-5.580	-5.461
Net cash from financing activities	2.892	853
Increase in cash and cash equivalents	250	-719
Effect of exchange rate fluctuations on cash held.	1.809	-51
Cash and cash equivalents at 1 January	2.006	2.776
Cash and cash equivalents at 31 December	4.065	2.006

Working capital provided by operating activities amounted to ISK 2.9 billion, as compared to ISK 1.5 billion in 2007.

Net cash provided by operating activities was ISK 2,9 billion, as compared to ISK 3.9 billion in 2007.

Net cash at the end of the year amounted to ISK 4.1 billion, as compared to ISK 2.0 billion at the beginning of the year.

Quarterly comparison-highlights

ISK´000.000	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Transport revenue	7.954	6.773	12.208	17.409	9.523
Charter revenue	4.532	5.187	12.898	19.441	15.529
Other	2.857	2.050	3.848	4.615	3.258
Operating Income	15.343	14.010	28.954	41.465	28.310
Salaries and related expenses	5.405	5.005	6.229	6.455	6.416
Aircraft fuel	2.900	2.622	6.538	9.977	6.750
Aircraft and aircrew lease	669	2.551	3.684	3.788	5.322
Aircraft servicing, handling and navigation	1.457	996	3.752	6.405	4.362
Aircraft maintenance	2.026	1.112	2.707	3.528	3.967
Other	2.371	2.581	4.189	5.129	3.826
EBITDA	515	-857	1.855	6.183	-2.333
EBIT	963	-1.663	901	5.108	-10.035
EBT	-1.119	-2.081	655	5.104	-10.503
Net Profit	-780	-1.678	395	4.385	-10.570
EBITDAR	2.116	705	5.279	8.805	2.377

Outlook for 2009

The Group's operating environment has changed dramatically since the beginning of October 2008. A large reduction in private consumption in Iceland is projected, which will result in substantially less demand for flights from Iceland as well as in domestic flights. It will also lead to a reduced demand in the other sections of the tourism sector. However, we do anticipate some increase in the number of foreign passengers travelling to and within Iceland. This presents opportunities for companies in the tourism sector, such as Iceland Travel and Icelandair Hotels whose operations are largely dependent on foreign tourists. The recent reduction in fuel prices will improve the operating conditions of airlines, although this is countered by the negative impact of the downturn in the European economy on Travel Service and Smartlynx. In light of the significant changes in the Group's operating environment, appropriate measures have been implemented in all companies within the Group.

On the whole, Icelandair Group's future prospects are decent and the Company anticipates a higher EBITDA margin in 2009 than in 2008.

Audit

The consolidated accounts of Icelandair Group for the fourth quarter and the whole year 2008 were approved at a meeting of the Board of Directors on 20 February 2008. The statement has been audited by the Company's auditors KPMG.

Market Presentation 23 February 2008

An open presentation will be held on Monday 23 February 2009 at the Hilton Hotel Reykjavik Nordica. The management of Icelandair Group will present the Company's results and answer questions. The presentation will begin at 8:30 p.m.
The presentation material will be available after the meeting on the Icelandair Group website: www.icelandairgroup.is and the news network of the Iceland Stock Exchange/Nasdaq OMX.

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