Icelandair Group hf.

Condensed Consolidated Interim Financial Information 1 January - 30 September 2009

ISK

Icelandair Group hf.
Reykjavíkurflugvöllur
101 Reykjavík
Iceland
Reg. no. 631205-1780

Contents

Endorsement and Statement of the Board of Directors and the CEO

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 September 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Icelandair Group hf. and its subsidiaries, which were fourteen at the end of September 2009. Travel Service is now part of the consolidated financial statements but it was not for the 1st quarter of 2008. At the end of second quarter the share capital in the Travel Service was increased and the non-controlling shareholders in the company subscribed for the increase. Following the share capital increase, Icelandair Group's share in the company decreased from 66,0% to 50,1%. As stated in note 17, Icelandair Group sold 20% of its shares in Travel Service on 25 November 2009 so the Company will not be part of the consolidated financial statements as of that date.

On 6 August 2009 the Company's shareholders meeting authorized the Board of Directors to increase the shareholders capital by 4.000 million shares. The subscription rate can be decided by means of invitation to tender for new shares. Shareholders may pay, partially or in full, for the shares by means of set-off of indebtness, as may be further decided by the Board of Directors. This authorized share capital increase is part of the Company's plan, in cooperation with its largest shareholder and creditor, to improve the Company's debt maturity profile and equity ratio. This authorization is valid until 1 July 2010. As a part of the restructuring plan the Board of Directors has after the reporting date in addition with the dilution of Travel Service (note 17), proposed redefinition of the business model of the company, leading to subsidiaries being split between core and non-core. Accordingly the main focus of the Group will be on scheduled airline operations and tourism evolving around Iceland, and related services. Bluebird Cargo ehf. and Smartlynx Latvia are defined as non-core, leading to reclassification on these companies assets and liabilities as held for sale.

During the period Islandsbanki hf. (46,9%) and the Resolution committee of Landsbanki hf. (23,8%) became the largest shareholders of the Company. At 30 September 2009 these were the only two shareholders holding more than 10,0% in the Company.

According to the consolidated statement of comprehensive income loss for the period from 1 January to 30 September 2009 amounted to ISK 1.018 million. Total comprehensive income for the period was ISK 4.900 million. According to the consolidated statement of financial position, equity at the end of the period amounted to ISK 24.816 million, including share capital in the amount of ISK 975 million.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the nine months ended 30 September 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

According to our best acknowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the consolidated financial performance of the Company for the nine-month period ended 30 September 2009, its assets, liabilities and consolidated financial position as at 30 September 2009 and its consolidated cash flows for the period then ended.

Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 September 2009 and confirm them by means of their signatures.

Reykjavík, 30 November 2009.

Board of Directors:
Sigurður Helgason
Finnur Reyr Stefánsson
Jón Ármann Guðjónsson
Katrín Olga Jóhannesdóttir
Kristín Einarsdóttir
Magnús Magnússon

CEO:
Björgólfur Jóhannsson

Independent Auditor's Review Report

To the Board of Directors of Icelandair Group hf.

Introduction

We have reviewed the accompanying condensed consolidated financial statements of Icelandair Group hf., which comprise the consolidated balance sheet as at September 30, 2009 and the consolidated income statement, statement of changes in equity and cash flow statement for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information 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 International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying conolidated interim financial information does not give a true and fair view of the financial position of the entity as at September 30, 2009, and of its financial performance and its cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of matter

Without qualifying our opinion we would like to draw attention to note 18 in the financial statements disclosing the restructuring process of the Group. It is pointed out that as a part of the restructuring plan, the Board of Directors has redefined the business model of the company , leading to subsidiaries being split between core and non-core. Bluebird Cargo ehf. and Smartlynx Latvia are classified as non-core. This change will lead to reclassification of these companies assets and liabilities as held for sale. When classified as held for sale, assets and liabilities are measured at the lower of carrying value and fair value less cost to sell. Due to difficult current market conditions this might lead to negative impacts on the Group´s equity.

Reykjavík, 30 November 2009.

KPMG hf.

Consolidated Statement of Comprehensive Income
for the period from 1 January to 30 September 2009

	Notes	Q3 2009 1.7.-30.9.	Q3 2008 1.7.-30.9.	Q1-Q3 2009 1.1.-30.9.	Q1-Q3 2008 1.1.-30.9.
Operating income					
Transport revenue		21.595	17.409	42.353	36.390
Aircraft and aircrew lease		25.809	19.441	53.401	37.526
Other operating revenue		6.234	4.615	12.344	10.513
		53.638	41.465	108.098	84.429
Operating expenses					
Salaries and other personnel expenses		6.572	6.455	18.229	17.689
Aircraft fuel		11.464	9.977	22.160	19.137
Aircraft and aircrew lease		6.743	3.788	17.636	10.023
Aircraft servicing, handling and communication		10.588	6.405	18.869	11.153
Aircraft maintenance expenses		4.091	3.528	10.155	7.347
Other operating expenses		5.733	5.129	13.593	11.899
		45.191	35.282	100.642	77.248
Operating profit before depreciation and amortisation		8.447	6.183	7.456	7.181
Depreciation and amortisation		(1.572)	(1.075)	(4.121)	(2.835)
Operating profit before net finance costs (EBIT)		6.875	5.108	3.335	4.346
Finance income		52	795	137	1.726
Finance expense		(2.161)	(844)	(4.338)	(2.515)
Net finance costs	8	(2.109)	(49)	(4.201)	(789)
Share of profit of associates		33	45	80	121
Profit (loss) before income tax		4.799	5.104	(786)	3.678
Income tax		(838)	(719)	(232)	(576)
Profit (loss) for the period		3.961	4.385	(1.018)	3.102
Other comprehensive income					
Foreign currency translation differences for foreign operations		72	3.852	1.182	6.596
Net profit (loss) on hedge of net investment in foreign operation, net of tax		93	(68)	69	(125)
Effective portion of changes in fair value of cash flow hedge, net of tax		1.875	(1.877)	4.667	(821)
Other comprehensive income for the period		2.040	1.907	5.918	5.650
Total comprehensive income for the period		6.001	6.292	4.900	8.752
Profit (loss) attributable to:					
Owners of the Company		3.459	3.940	(1.205)	2.537
Non-controlling interest		502	445	187	565
Profit (loss) for the period		3.961	4.385	(1.018)	3.102
Total Comprehensive income attributable to:					
Owners of the Company		4.855	5.890	3.487	8.222
Non-controlling interest		1.146	402	1.413	530
Total comprehensive income for the period		6.001	6.292	4.900	8.752
Profit (loss) per share:					
Basic profit (loss) per share (ISK)		4,06	4,48	(1,04)	3,17
Diluted profit (loss) per share (ISK)		4,06	4,48	(1,04)	3,17

Interim Financial Information of Icelandair Group hf. 30 September 2009 5 Amounts are in ISK million

Consolidated Statement of Financial Position as at 30 September 2009

	Notes	30.9.2009	31.12.2008
Assets			
Operating assets		35.177	36.798
Intangible assets		29.590	29.306
Investments in associates		594	1.008
Prepaid aircraft acquisitions		4.486	4.226
Long-term receivables and deposits		7.135	6.054
Total non-current assets		76.982	77.392
Inventories		2.511	2.309
Trade and other receivables		13.977	13.836
Assets classified as held for sale	7	4.505	0
Prepayments		1.511	1.228
Cash and cash equivalents		6.122	4.065
Total current assets		28.626	21.438
Total assets		105.608	98.830
Equity			
Share capital		975	975
Share premium		25.450	25.450
Reserves		6.573	1.856
Accumulated deficit		(9.731)	(8.216)
Total equity attributable to equity holders of the Company		23.267	20.065
Non-controlling interest		1.549	15
Total equity		24.816	20.080
Liabilities			
Loans and borrowings	10	14.562	22.900
Prepayments		2.239	2.189
Deferred income tax liability		661	23
Total non-current liabilities		17.462	25.112
Loans and borrowings	10	25.433	20.735
Trade and other payables		25.994	25.471
Liabilities classified as held for sale	7	3.883	0
Deferred income		8.020	7.432
Total current liabilities		63.330	53.638
Total liabilities		80.792	78.750
Total equity and liabilities		105.608	98.830

Interim Financial Information of Icelandair Group hf. 30 September 2009 6 Amounts are in ISK million

Consolidated Statement of changes in Shareholders' Equity
for the period from 1 January to 30 September 2009

	Attributable to equity holders of the Company								
			Reserves						
1 January to 30 September 2008	**Share capital**	**Share premium**	**Share option reserve**	**Hedging reserve**	**Translation reserve**	**Accumulated deficit**	**Total**	**Non-controlling interest**	**Total equity**
Equity 1.1.2008	981	25.593	168	(24)	(1.440)	(293)	24.985	48	25.033
Total comprehensive income for the period									
Profit or (loss)						2.537	2.537	565	3.102
Other comprehensive income									
Foreign currency translation differences					6.528		6.528	68	6.596
Net loss on hedge of net investment in foreign operation					(125)		(125)		(125)
Effective portion of changes in fair value of cash flow hedges, net of tax				(718)			(718)	(103)	(821)
Total other comprehensive income	0	0	0	(718)	6.403	0	5.685	-35	5.650
Total comprehensive income for the period	0	0	0	(718)	6.403	2.537	8.222	530	8.752
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Own shares, change	(7)	(143)					(150)		(150)
Share based payments			53				53		53
Total contributions by and distributions to owners	(7)	(143)	53	0	0	0	(97)		(97)
Changes in ownership interests in subsidiaries that do not result in a loss of control									
Minority interest arising on business combination								(110)	(110)
Total transactions with owners	0	0	0	0	0			(110)	(110)
Balance at 30 September 2008	974	25.450	221	(742)	4.963	2.244	33.110	468	33.578
1 January to 30 September 2009									
Equity 1.1.2009	975	25.450	153	(4.207)	5.910	(8.216)	20.065	15	20.080
Total comprehensive income for the period									
Loss for the period						(1.205)	(1.205)	187	(1.018)
Other comprehensive income									
Foreign currency translation differences					923		923	259	1.182
Net profit on hedge of net investment in foreign operation					69		69		69
Effective portion of changes in fair value of cash flow hedges, net of tax				3.700			3.700	967	4.667
Total other comprehensive income	0	0	0	3.700	992	0	4.692	1226	5.918
Total comprehensive income for the period	0	0	0	3.700	992	(1.205)	3.487	1.413	4.900
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Share based payments			25				25		25
Total contributions by and distributions to owners	0	0	25	0	0	0	25		25
Changes in ownership interests in subsidiaries that do not result in a loss of control									
Change in ownership interest in subsidiary						(310)	(310)	121	(189)
Total transactions with owners	0	0	0	0	0	(310)	(310)	121	(189)
Balance at 30 September 2009	975	25.450	178	(507)	6.902	(9.731)	23.267	1.549	24.816

Interim Financial Information of Icelandair Group hf. 30 September 2009 7 Amounts are in ISK million

Consolidated Statement of Cash Flows for the Nine Months Ended 30 September 2009

	Notes	2009 1.1.-30.9.	2008 1.1.-30.9.
Cash flows from operating activities			
(Loss) profit for the period		(1.018)	3.102
Adjustments for:			
Depreciation and amortisation		4.121	2.835
Other operating items	14	2.205	2.194
Working capital from operations		5.308	8.131
Net change in operating assets and liabilities		1.909	1.187
Net cash from operating activities		7.217	9.318
Cash flows from investing activities:			
Acquisition of operating assets		(1.702)	(4.275)
Proceeds from the sale of operating assets		119	301
Acquisition of intangible assets		(47)	(111)
Long-term receivables, decrease		265	1.590
Current receivables, change		0	(750)
Net cash used in investing activities		(1.365)	(3.245)
Cash flows from financing activities:			
Acquisition of own shares		0	(149)
Proceeds from non-controlling interest		254	0
Proceeds from borrowings		0	4.064
Repayment of long term borrowings		(2.632)	(9.838)
Short term borrowings, change		(1.937)	2.450
Prepayments		0	1.367
Net cash used in financing activities		(4.315)	(2.106)
Increase in cash and cash equivalents		1.537	3.967
Effect of exchange rate fluctuations on cash held		520	1.444
Cash and cash equivalents at 1 January		4.065	2.006
Cash and cash equivalents at 30 September		6.122	7.417

Interim Financial Information of Icelandair Group hf. 30 September 2009 8 Amounts are in ISK million

Notes

1. ***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 interim financial statements of the Company as at and for the nine-month period ended 30 September 2009 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 consolidated financial statements for the year ended 31 December 2008 are available at the Company's office and website, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.omxgroup.com.

2. ***Statement of compliance***

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* . They do not include all of the information required for a full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2008.

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 30 November 2009.

3. ***Basis of preparation and significant accounting policies***

The accounting policies and methods of computation applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2008.

The condensed consolidated interim financial statements are prepared in Icelandic kronas, which is the Company's functional currency, rounded to the nearest million. They are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

4. ***Use of estimates and judgements***

The preparation of interim financial statements in conformity with IFRSs 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.

5. ***New standards and interpretations***

On 1 January 2009 IFRS 8 Operating Segments became mandatory for the Group's financial statements. The Group concluded that the operating segment determined in accordance with IFRS 8 are the same as the business segment previously identified under IAS 14.

On 1 January 2009 IFRIC 13 Customer Loyalty Programmes became mandatory as stated in the Group's financial statements for 2008. This change has immaterial impact on the consolidated financial statements.

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these condensed interim financial statements as of and for the nine months period ended on 30 September 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

6. Segment reporting

Business segments

1 January to 30 September 2009

	Scheduled airline & tourism operations	Global capacity and aircraft trading	Shared services	Eliminations	Consolidated
External revenue	49.435	58.584	79		108.098
Inter-segment revenue	12.688	3.192	639	(16.519)	
Segment revenue	62.123	61.776	718	(16.519)	108.098
Segment EBITDAR	12.893	10.848	(160)		23.581
Segment EBITDA	7.491	234	(269)		7.456
Segment results	4.269	(642)	(292)		3.335
Net finance costs	(481)	(1.266)	(2.454)		(4.201)
Share of profit of associates	0	80	0		80
Income tax	(578)	(66)	412		(232)
Profit (loss) for the period	3.210	(1.894)	(2.334)		(1.018)
Segment assets	58.152	38.281	62.210	(53.602)	105.041
Investments in associates	110	454	3		567
Total assets	58.262	38.735	62.213	(53.602)	105.608
Segment liabilities	51.403	31.190	37.735	(39.536)	80.792
Total liabilities	51.403	31.190	37.735	(39.536)	80.792
Capital expenditure	1.159	587	3		1.749
Depreciation	3.047	685	18		3.750
Amortisation of intangible assets	175	191	5		371

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6. contd.:

1 January to 30 September 2008

	Scheduled airline & tourism operations	Global capacity and aircraft trading	Shared services	Eliminations	Consolidated
External revenue	44.687	39.517	225		84.429
Inter-segment revenue	11.527	766	617	(12.910)	
Segment revenue	56.214	40.283	842	(12.910)	84.429
Segment EBITDAR	6.434	9.008	(653)		14.789
Segment EBITDA	3.251	4.533	(603)		7.181
Segment results	1.109	3.861	(624)		4.346
Net finance (costs) income	(186)	425	(1.028)		(789)
Share of profit of associates	1	120	0		121
Income tax	(22)	(817)	263		(576)
Profit (loss) for the period	902	3.589	(1.389)		3.102
Segment assets	51.605	28.770	64.178	(43.889)	100.664
Investments in associates	116	709	3		828
Total assets	51.721	29.479	64.181	(43.889)	101.492
Segment liabilities	45.500	22.133	29.634	(29.353)	67.914
Total liabilities	45.500	22.133	29.634	(29.353)	67.914
Capital expenditure	2.475	1.895	16		4.386
Depreciation	1.941	513	18		2.472
Amortisation of intangible assets	201	159	3		363

Interim Financial Information of Icelandair Group hf. 30 September 2009 11 Amounts are in ISK million

7. Assets and liabilities classified as held for sale

On 1 July 2009 the Group acquired 51% ownership in three companies; Siglo FIU, Siglo FIR and Siglo FIJ. Previously the Group owned 49% of the shares and accounted for them as shares in associates. Since the acquisition of the 51% share is considered as temporary and process of disposal has commenced, the shares are classified as held for sale. Due to temporary control over the Companies they are consolidated in one line consolidation at 30 September 2009.

Loss amounting to ISK 396 million is recognised as financial expenses since the fair value less cost to sell is considered lower than the carrying value.

Assets classified as held for sale

Operating assets	4.371
Intangible assets	100
Trade and other receivables	19
Cash and cash equivalents	15
	4.505

Liabilities classified as held for sale

Non-current loans and borrowings	2.432
Current loans and borrowings	1.437
Trade and other payables	14
	3.883

8. Finance income and finance expense

Finance income and finance expense are specified as follows:	**2009 1.1.-30.9.**	**2008 1.1.-30.9.**
Interest income on bank deposits	78	140
Other interest income	59	171
Gain from sale of derivatives	0	306
Net foreign exchange gain	0	1.109
Finance income total	137	1.726
Interest expense on loans and borrowings	2.951	2.394
Other interest expenses	454	121
Loss from assets held for sale	396	0
Loss from sale of derivatives	26	0
Net foreign exchange loss	511	0
Finance expense total	4.338	2.515
Net finance expense	(4.201)	(789)

9. Equity

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. At the end of the period the Company holds ISK 25 million of own shares.

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.

Interim Financial Information of Icelandair Group hf. 30 September 2009 12 Amounts are in ISK million

9. contd.:

Share option reserve

The reserve includes the accrued part of the fair value of share options. This reserve is reversed if share options are forfeited and is transferred to share premium if share options are exercised.

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.

10. Loans and borrowings

This note provides information about the contractual terms of the Group´s interest-bearing loans and borrowings, which are measured at amortised cost.

Non-current loans and borrowings are specified as follows:	**30.9.2009**	**31.12.2008**
Secured bank loans	23.083	25.542
Convertible notes	1.939	1.918
Current maturities	(10.460)	(4.560)
Total non-current loans and borrowings	14.562	22.900
Current loans and borrowings are specified as follows:		
Current maturities of non-current liabilities	10.460	4.560
Short-term loans from credit institutions	14.973	16.175
Total current loans and borrowings	25.433	20.735
Total loans and borrowings	39.995	43.635

At the end of September 2009 loans and borrowings due within one year amounted to ISK 25,433 million. Thereof ISK 5,213 million are current maturities of long term loans, ISK 5,247million are non-current loans reclassified as short term loans and ISK 14,973 million are revolvers and other short term loan facilities. At the same time the current ratio was 0.45 which is below the Company's target. The Company is working with its commercial bank, Islandsbanki, on improving its debt maturity profile and equity ratio.

11. Secured bank loans

Secured bank loans are specified as follows:

	Average interest rates	**Total remaining balance 30.9.2009**	**Average interest rates**	**Total remaining balance 31.12.2008**
Debt in USD	5,6%	18.550	5,3%	20.776
Debt in EUR	2,4%	2.042	4,3%	1.995
		20.592		22.771
Debt in ISK indexed	8,7%	2.491	8,7%	2.387
Debt in ISK not indexed		0	18,0%	384
Total secured bank loans		23.083		25.542

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12. Contractual repayments of loans and borrowings

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1.10.2009 - 30.9.2010	25.433
Repayments in 1.10.2010 - 30.9.2011	2.324
Repayments in 1.10.2011 - 30.9.2012	4.239
Repayments in 1.10.2012 - 30.9.2013	4.059
Repayments in 1.10.2013 - 30.9.2014	3.579
Subsequent repayments	361
Total loans and borrowings	39.995

13. Convertible notes

Convertible notes are specified as follows:

	30.9.2009	31.12.2008
Proceeds from issue of convertible notes - nominal amount	2.000	2.000
Transaction cost	(39)	(29)
Net proceeds	1.961	1.971
Amount classified as equity	(110)	(82)
Expensed transaction cost	88	29
Carrying amount of liability	1.939	1.918

Convertible notes were issued in October 2006. The nominal amount in ISK 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 price ISK 29.7 per share, 20% each year. The effective interest was 16,75% at period-end.

14. Group entities

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

	Share
Scheduled airline operations and tourism:	
Air Iceland ehf.	100%
Iceland Travel ehf.	100%
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
Icelandair Ground Services ehf. (IGS)	100%
Icelandair Hotels ehf.	100%
Global capacity solutions and aircraft trading:	
Bluebird Cargo ehf.	100%
Icelease ehf.	100%
IG Invest ehf.	100%
Loftleiðir - Icelandic ehf.	100%
SmartLynx, Latvia	100%
Travel Service, Czech Republic	50%
Shared services:	
IceCap Ltd., Guernsey	100%
Icelandair Shared Services ehf.	100%

The subsidiaries own 18 subsidiaries that are all included in the consolidated interim financial statements. Lerox CZ s.r.o in Czech Republic was dissolved during the period.

At the end of second quarter the share capital in Travel Service was increased and the non-controlling shareholders in the company subscribed for the increase. Following the share capital increase, Icelandair Group's share in the company decreased from 66,0% to 50,1%. The effects of the dilution are disclosed in the Condensed statement of changes in shareholders equity.

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Notes, contd.:

15. Statement of cash flows

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

	2009 1.1.-30.9.	2008 1.1.-30.9.
Gain on the sale of assets	(70)	(112)
Exchange rate difference and indexation of liabilities and assets	1.287	2.041
Share of profit of associates	(80)	(121)
Income tax	638	(160)
Stock option	25	53
Loss from assets held for sale	396	0
Other items	9	493
Total other operating items in the statement of cash flows	2.205	2.194

16. Ratios

The Group's primary ratios are specified as follows:	30.9.2009	31.12.2008
Working capital ratio	0,45	0,40
Equity ratio	0,23	0,20
Intrinsic value of share capital	25,45	20,59

17. Subsequent events

On 25 November 2009 Icelandair Group hf. sold 20% of its share in Travel Service. After the transaction the Group holds a 30% share in the Company. Accordingly, control of Travel Services ceases by Icelandair Group hf. and the 30% share in the Company will be accounted for as shares in an associate using the equity method. The effects of the sale on the income statement are negative by ISK 889 million and equity decreases by ISK 1.468 million. The Group's total assets will decrease by ISK 11,914 million.

18. For the past year the Company has been working with its commercial bank, Islandsbanki hf., on improving its debt maturity profile and equity ratio. In August 2009 the Company's shareholders meeting authorized the Board of Directors to increase the share capital by 4,000 million shares. This authorization has not been executed so far but is considered to be part of the Company's restructuring plan, in cooperation with its largest shareholder and creditor, Islandsbanki hf.

As a part of the restructuring plan the Board of Directors has after the reporting date in addition with the dilution of Travel Service (note 17), proposed redefinition of the business model of the company, leading to subsidiaries being split between core and non-core. Accordingly the main focus of the Group will be on scheduled airline operations and tourism evolving around Iceland, and related services. Bluebird Cargo ehf., and Smartlynx Latvia are defined as non-core, leading to reclassification on these companies assets and liabilities as held for sale. According to IFRS 5, when classified as held for sale, assets and liabilities are measured at the lower of carrying value and fair value less cost to sell. Due to difficult current market conditions this might lead to negative impacts on the Group's equity. The net carrying value of these subsidiaries at 30 September 2009 amount to ISK 4,938 million.

Besides these two Companies, Travel Service will not be part of the Consolidated Financial statements at year-end 2009. If the Companies have not been disposed they will appear in one line consolidation. The total carrying value at 30 September 2009 for these three companies assets amount to ISK 34,397 million and total liabilities amount to ISK 24,211 million. The turnover for the period from 1 January to 30 September 2009 would have been lower by ISK 49,567 million excluding the companies and the Groups EBITDA would have been higher by ISK 227 million.

19. Other matters

At 30 September 2009 there are still unsettled derivatives between Icelandair Group and the Resolution Committee of Glitnir Bank hf. All these derivatives have been calculated based on 7 October 2008 when Glitnir Bank hf. defaulted. If the settlement date would be considered to be the final date in the contracts, other payables would increase by approximately ISK 1,1 billion.

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