14 August 2009
Press Release -Second Quarter and First Half Results

Results of Icelandair Group in the second quarter of 2009

- Improved performance for Icelandair ehf. compared to the corresponding period of last year
- Icelandair Group's total turnover was ISK 33.7 billion, increasing by 17% from the preceding year
- EBITDA was ISK 1.3 billion, as compared to ISK 1.9 billion in the corresponding period of last year
- EBIT was negative by ISK 36 million, as compared to a positive figure of ISK 0.9 billion for the same period last year
- Net financial costs amounted to ISK 1.5 billion, as compared to ISK 0.4 billion in the preceding year
- The Company's loss after taxes was ISK 1.3 billion, as compared to a profit of ISK 0.4 billion at the same time last year

Icelandair Group results in the first six months of 2009

- Results better than anticipated in spite of the challenging operating environment
- The Company's total turnover was ISK 54.5 billion, up by 27% from the preceding year
- EBITDA was negative by ISK 1.0 billion, as compared to a positive result of ISK 1.0 billion in the corresponding period of last year
- EBIT was negative by ISK 3.5 billion, as compared to a negative result of ISK 0.8 billion for the same period of last year
- The results of foreign subsidiaries before taxes fell ISK 3.8 billion short of the results for the same period of last year
- Net financial cost amounted to ISK 2.1 million, as compared to ISK 0.7 billion in the corresponding period of last year
- Losses after taxes came to ISK 5.0 billion, as compared to ISK 1.3 billion over the corresponding period of last year
- Cash at the end of the period amounted to ISK 6.2 billion, as compared to ISK 6.3 billion at the same time last year
- The equity ratio was 17.8 % at the end of June 2009, down from 20.3% at the end of 2008
- Assets amounted to ISK 105.9 billion at the end of June 2009, as compared to ISK 98.8 billion at year-end 2008

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Icelandair Group CEO Björgólfur Jóhannsson:

"The Company's results clearly reflect the challenging environment faced by Icelandair Group. Nevertheless, they are better than we envisioned in our budget, and the prospects for the summer and autumn justify moderate optimism. The global air transport industry is currently being operating at a significant loss, and market conditions in Iceland have taken a sharp turn for the worse. A disadvantageous capital structure, combined with the high interest rates in Iceland, is also causing difficulties, and the Company is coping with higher capital costs than its foreign competitors. Icelandair Group is normally operated at a loss in the first half of the year, but losses of over one billion ISK in the second quarter, and approximately five billion in the first six months of the year, are not acceptable results for the longer term. However, it is a matter of great satisfaction that we are doing better than we envisioned in our plans for the first half of the year, and we have seen some improvements between years in the operation of the Group's largest company, Icelandair ehf.

Results before taxes in the second quarter were just over ISK two billion short of the results for the same period last year. A significant factor here was net financial cost, which exceeded last year's cost by over ISK one billion. The operation of SmartLynx in Latvia was significantly worse in the second quarter of 2009 than in 2008, in addition to the fact that fuel hedges had a negative impact on the operation of Travel Service in the Czech Republic over the period. However, earnings before financial items and income tax (EBITDA) of the Group's Icelandic companies increased somewhat between years, which is an extremely satisfying trend.

Work on capital restructuring has continued. Our work with the Company's partner bank is progressing well, and both parties have set themselves the goal of finalising the restructuring before the onset of winter.

It is clear that the operating environment in the coming months will be challenging, but the results in July and short-term prospects give some cause for moderate optimism. With extreme dedication and hard work, the Group's staff has managed to create a scenario that shows numerous positive signs for the future. Dynamic capacity and revenue management, combined with positive marketing abroad, have resulted in improved operations at Icelandair between years. Also, flexibility and cost containment at Air Iceland have returned excellent results in the face of substantial downswing; also, streamlining measures and revenue control at Travel Service had the result that performance exceeded budget projections. We intend to continue in this vein, and the Company's EBITDA target for the year as a whole has now been set at ISK 6.5 billion, as compared to the projected ISK 6.0 billion at the time of publication of our report for the first quarter." If achieved, this is a significant improvement, particularly when considering that the projected EBITDA of SmartLynx is negative by ISK 1.9 billion for the whole year, and negative oil hedges at Travel Service amounting to ISK 2.9 billion.

Financial highlights in the second quarter of 2009

ISK´000.000	Q2 09	%	Q2 08	%
Transport revenue	13.448	40%	12.208	42%
Aircraft and aircrew lease	16.319	48%	12.898	45%
Other	3.977	12%	3.848	13%
Operating Income	**33.744**	**100%**	**28.954**	**100%**
Salaries and related expenses	6.265	19%	6.229	22%
Aircraft fuel	6.849	20%	6.538	23%
Aircraft and aircrew lease	6.001	18%	3.684	13%
Aircraft servicing, handling and comm.	5.713	17%	3.752	13%
Aircraft maintenance	3.287	10%	2.707	9%
Other	4.314	13%	4.189	14%
EBITDA	**1.315**	**4%**	**1.855**	**6%**
EBIT	**-36**	**0%**	**901**	**3%**
EBT	**-1.530**	**-5%**	**655**	**2%**
Net Profit	**-1.340**	**-4%**	**395**	**1%**
EBITDAR	**7.022**	**21%**	**5.279**	**20%**

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Results

EBITDA was ISK 1.3 billion, as compared to ISK 1.9 billion in the corresponding period of last year. EBIT was negative by ISK 36 million, as compared to a positive figure of ISK 0.9 billion for the same period last year. Losses after taxes over the quarter amounted to ISK 1.3 billion, as compared to a profit of ISK 0.4 billion over the corresponding period of 2008. EBITDAR amounted to ISK 7.0 billion, as compared to ISK 5.7 billion in 2008.

Financial highlights of the second quarter and first six months of 2009, excluding foreign subsidiaries

ISK´000.000

Icelandair Group without foreign subsidiaries								
	Q2 09		Q2 08		6M 09		6M 08	
Revenue	19.511		18.523		33.583		31.144	
EBITDA	**1.407**	**7%**	**1.149**	**6%**	**1.465**	**4%**	**341**	**1%**
EBIT	**123**	**1%**	**270**	**1%**	**-962**	**-3%**	**-1.308**	**-4%**

In spite of the difficult operating environment, Icelandair Group's Icelandic companies showed improved operations between years. The principal reasons for the improvement are the following:

- Dynamic capacity and revenue management, combined with positive marketing abroad, improved operations at Icelandair between years. The increase in the number of Icelandair passengers to Iceland was 11% between years for the period of January-June
- Lower fuel prices last year and the favourable trend of the US dollar against the euro had a positive impact
- Notwithstanding the significant drop in the number of passengers, Air Iceland's operating results have been successfully improved through supply management and cost containment

Second-Quarter Operation in 2009

Segments in the second quarter of 2008 – comparison

ISK´000.000

	Scheduled Airline and Tourism			Capacity Solutions		
	Q2 09	Q2 08	Diff	Q2 09	Q2 08	Diff
Segment revenue	19.682	18.917	4%	19.030	13.905	37%
Segment cost	-18.242	-17.949	2%	-19.006	-12.683	50%
EBITDA	**1.440**	**968**	**49%**	**24**	**1.222**	**-**
EBIT	**370**	**229**	**62%**	**-249**	**951**	**-**
Net finance cost	-453	-204	122%	-369	250	-
Share of profit of associates	0	1	-	29	126	-77%
EBT	**-83**	**26**	**-**	**-589**	**1.327**	**-**
Income tax	8	-37	-	37	-163	-
Net Profit/Loss	**-75**	**-11**	**582%**	**-552**	**1.164**	**-**
EBITDAR	**3.291**	**2.109**	**56%**	**3.877**	**3.505**	**11%**

Segments in the second quarter of 2009

ISK´000.000	Q2 2009				
	Scheduled airline	Capacity solutions	Shared Services	Elimi-nations	Con-solidated
Segment revenue	19.682	19.030	159	-5.127	33.744
Segment cost	-18.242	-19.006	-308	5.127	-32.429
EBITDA	**1.440**	**24**	**-149**		**1.315**
EBIT	**370**	**-249**	**-157**		**-36**
Net finance cost	-453	-369	-701		-1.523
Share of profit of associates	0	29	0		29
EBT	**-83**	**-589**	**-858**		**-1.530**
Income tax	8	37	145		190
Net Profit/Loss	**-75**	**-552**	**-713**		**-1.340**
EBITDAR	**3.291**	**3.877**	**-146**		**7.022**

Total income amounted to ISK 33.7 billion, as compared to ISK 29,0 billion in the corresponding quarter of last year, representing an increase of 17% between years.

Income from scheduled airlines and tourism, which includes the companies Icelandair, IGS, Icelandair Hotels, Iceland Travel, Air Iceland and Icelandair Cargo, amounted to ISK 19.7 billion in 2009, as compared to ISK 18.9 billion in the corresponding period of 2008. Expenses amounted to ISK 18.2 billion, as compared to ISK 17.9 billion in the corresponding period of 2008. EBITDA was ISK 1.4 billion, as compared to ISK 1.0 billion in the corresponding period of last year. Loss after tax for the segment was ISK 75 million, as compared to a loss of ISK 11 million for the corresponding period of last year. EBITDAR was ISK 3.3 billion, as compared to ISK 2.1 billion for the corresponding period of last year.

Owing to the falling demand following the international financial crisis, Icelandair reduced its supply of seats in the winter and spring. The number of passengers fell accordingly, by 10.6% in the second quarter of 2009, with the result that passenger income fell by 16.6%. However, the reduction in expenses exceeded this figure, particularly as a result of reduced fuel prices and the effects of extensive streamlining. The passenger load factor was 73.6%, as compared to 74.8% for the same period last year. Fare sales to Iceland increased by 11% in the second quarter and for the first time in Icelandair's history incoming accounted for half of the company's total passengers in the period.

Income from capacity solutions, which includes the companies Travel Service, Loftleidir Icelandic, SmartLynx, Icelease and Bluebird Cargo, amounted to ISK 19.0 billion, as compared to ISK 13.9 billion in the corresponding period of 2008. Expenses amounted to ISK 19.0 billion, as compared to ISK 12.7 billion over the same period in 2008. EBITDA was ISK 24 million, as compared to ISK 1.2 billion for the same period of last year. Loss after tax for the segment was ISK 0.6 billion, as compared to a profit of ISK 1.2 billion for the corresponding period of last year. EBITDAR was ISK 3.9 billion, as compared to ISK 3.5 billion for the corresponding period of last year.

The principal reasons for the deterioration in results from the same time last year are the poor backlog endured by SmartLynx in the early months of the year, as the company suddenly lost large customers in the autumn of 2008, with the result that a large part of the fleet was largely idle until the start of summer. Negative oil hedges at Travel Service amounting to ISK 1.7 billion were expensed, with the consequence that the company's performance was far short of the same period last year. Changes in the price of the króna also had a significant leverage impact on the loss. The operations at Smart Lynx have improved in the past weeks, and it is expected that further loss has been stopped.

Transport revenues increased by ISK 1.2 billion between the second quarters of 2008 and 2009, or by 10.2%. Revenue from passenger transport increased by 13.1% between years, or ISK 1.4 billion, while revenue from cargo and mail transport fell by 10.6 %, or ISK 0.2 billion.

Charter revenues increased by ISK 3.4 billion, as compared to the second quarter of 2008.

Other income increased by ISK 0.1 billion from the second quarter of 2008, or by 3%.

Salaries and personnel expenses increased by ISK 36 million, or by 1% in comparison with the second quarter of 2008. The average number of full-time equivalent positions fell by 8.3%, down to 3,304 positions, as compared to ISK 3,602 in the preceding year.

Fuel costs increased by ISK 0.3 billion, which represents an increase of 4.8 % from the preceding year. The average fuel price in the second quarter of 2009 was USD 538 per ton, as compared to USD 1.253 per ton for the same period of last year; this corresponds to a reduction of 57% between periods. Costs increased as a result of the impact of fuel hedges and the weakening of the Icelandic króna.

Aircraft and aircrew lease increased by ISK 2.3 billion between years, or 63%. **Aircraft servicing, handling and navigation expenses** increased by ISK 2.0 billion between years, or 52%. The increase in these items is largely a result of the weakening of the Icelandic króna, but the increased business operations at Travel Service also had an impact.

Aircraft maintenance increased by just short of ISK 0.6 billion between years, or 21%, as a result of increased maintenance at Bluebird Cargo, SmartLynx and Travel Service, combined with the weakening of the Icelandic króna.

Financials

ISK´000.000	Q2 09	Q2 08	Diff.
Interest income	50	104	-54
Interest expenses	-1.255	-810	-445
Currency effect	-216	30	-246
Gain from sale of derivatives	-102	303	-405
Net finance cost	**-1.523**	**-373**	**-1.150**

Net financial costs amounted to approximately ISK 1.5 billion, as compared to ISK 0.4 billion in the corresponding period last year.

Currency effects were negative by ISK 0.2 billion, as compared to a balanced position at the same time last year.

Balance Sheet

ISK´000.000	30/06/09	31/12/08	Diff.
Operating Assets	37.024	36.798	226
Intangible assets	29.935	29.306	629
Investment in associates	1.073	1.008	65
Aircraft purchase prepayments	4.504	4.226	278
Long-term receivables	6.712	6.054	658
Cash and cash equivalents	6.184	4.065	2.119
Other assets	20.481	17.373	3.108
Total assets	**105.913**	**98.830**	**7.083**
Stockholders equity	18.806	20.080	-1.274
Total non-current liabilities	23.758	25.112	-1.354
Total current liabilities	63.349	53.638	9.711
Total equity and liabilities	**105.913**	**98.830**	**7.083**

Total assets amounted to ISK 105.9 billion at the end of June 2009, as compared to ISK 98.8 billion at year-end 2008.

Investments in operating assets over the period amounted to ISK 1.3 billion, with the largest factor being investments in engine hours and maintenance parts.

Net interest bearing debt amounted to ISK 37.1 billion, down by ISK 2.4 billion from the turn of the year.

In the opinion of the Group's management, the Company's equity ratio is too low, and the debt service of interest bearing loans is too large in proportion to the cash from operations. As revealed earlier, work has been in progress for some time on restructuring the Company's balance sheet in co-operation with partner banks. A recent shareholders' meeting approved an authorisation to the Board of Directors, to increase the Company's share capital by a nominal value of up to ISK 4 billion. A decision on the increase in share capital, will be taken alongside the restructuring of interest-bearing debts in cooperation with the Company's partner bank.

Cash flow

ISK´000.000	6M 09	6M 08
Working capital (to) from operations	-2.557	1.365
Net cash from operating activities	3.809	7.619
Net cash (used in) investing activities	-580	-2.354
Net cash (used in) financing activities	-1.397	-1.485
Increase in cash and cash equivalents	**1.832**	**3.780**
Effect of exchange rate fluctuations on cash held	287	513
Cash and cash equivalents at 1 January	4.065	2.006
Cash and cash equivalents at 30 June	**6.184**	**6.299**

Working capital to operations amounted to ISK 2.6 billion in the first six months of the year, as compared to ISK 1.4 billion in working capital from operating activities in the corresponding period of last year.

Net cash from operating activities in the first six months of the year amounted to ISK 3.8 billion, as compared to ISK 7.6 billion in the first six months of 2008.

The reduced cash from operations is largely a result of the poorer results of foreign subsidiaries.

Cash at the end of the period amounted to ISK 6.2 billion, as compared to ISK 6.3 billion for the corresponding period of last year.

Quarterly comparison – highlights

ISK´000.000	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
Transport revenue	12.208	17.409	9.523	7.310	13.448
Charter revenue	12.898	19.441	15.529	11.273	16.319
Other	3.848	4.615	3.258	2.133	3.977
Operating Income	**28.954**	**41.465**	**28.310**	**20.716**	**33.744**
Salaries and related expenses	6.229	6.455	6.416	5.392	6.265
Aircraft fuel	6.538	9.977	6.750	3.847	6.849
Aircraft and aircrew lease	3.684	3.788	5.322	4.892	6.001
Aircraft servicing, handling and navigation	3.752	6.405	4.362	2.568	5.713
Aircraft maintenance	2.707	3.528	3.967	2.777	3.287
Other	4.189	5.129	3.826	3.546	4.314
EBITDA	**1.855**	**6.183**	**-2.333**	**-2.306**	**1.315**
EBIT	**901**	**5.108**	**-10.035**	**-3.504**	**-36**
EBT	**655**	**5.104**	**-10.503**	**-4.055**	**-1.530**
Net Profit	**395**	**4.385**	**-10.570**	**-3.639**	**-1.340**
EBITDAR	**5.279**	**8.805**	**2.377**	**2.388**	**7.022**

First six months of 2009

Highlights of the first six months of 2009

ISK´000.000	6M 09	%	6M 08	%
Transport revenue	20.758	38%	18.981	44%
Aircraft and aircrew lease	27.592	51%	18.085	42%
Other	6.110	11%	5.898	14%
Operating Income	**54.460**	**100%**	**42.964**	**100%**
Salaries and related expenses	11.657	21%	11.234	26%
Aircraft fuel	10.696	20%	9.160	21%
Aircraft and aircrew lease	10.893	20%	6.235	15%
Aircraft servicing, handling and comm.	8.281	15%	4.748	11%
Aircraft maintenance	6.064	11%	3.819	9%
Other	7.860	14%	6.770	16%
EBITDA	**-991**	**-2%**	**998**	**2%**
EBIT	**-3.540**	**-7%**	**-762**	**-2%**
EBT	**-5.585**	**-10%**	**-1.426**	**-3%**
Net Profit	**-4.979**	**-9%**	**-1.283**	**-3%**
EBITDAR	**9.410**	**17%**	**5.984**	**14%**

EBITDA was negative by ISK 1.0 billion, as compared to a positive result of ISK 1.0 billion in the corresponding period of last year EBIT was negative by ISK 3.5 billion, as compared to a positive figure of ISK 0.8 billion for the same period last year. Losses after taxes over the first six months amounted to ISK 5.0 billion, as compared to a loss of ISK 1.3 billion over the corresponding period of 2008. EBITDAR amounted to ISK 9.4 billion, as compared to ISK 6.0 billion in 2008.

Fuel costs increased by ISK 1.5 billion in the first six months of 2009, which represents an increase of 16.8 % from the preceding year. The average fuel price in the first six months of 2009 was USD 497 per ton, as compared to USD 1.096 per ton at the same time last year; this corresponds to a reduction of 55% between periods.

Outlook for Icelandair Group

The Group will face an extremely challenging operating environment in the coming months, but operations were successful in July, and the prospects for the third quarter are favourable. There is greater uncertainty as regards the Company's operation in the fourth quarter, but the Company's EBITDA target for the year has now been revised to ISK 6.5 billion, as compared to the projected ISK 6.0 billion at the time of publication of our report for the first quarter. If achieved, this is a significant improvement, particularly when considering that the projected EBITDA of SmartLynx is negative by ISK 1.9 billion for the whole year, and negative oil hedges at Travel Service amounting to ISK 2.9 billion.

Audit

The consolidated accounts of Icelandair Group for the first six months of 2009 were approved at a meeting of the Board of Directors on 14 August 2009. The interim statement has been reviewed by the Company's auditors.

Presentation 17 August

An open presentation for stakeholders will be held on Monday 17 August 2009 at the **Hilton Hotel Reykjavik Nordica**. Björgólfur Jóhannsson, Icelandair Group CEO, will present the Company's results and respond to questions, together with the senior management. **The presentation will begin at 8:30 a.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.

Financial Calendar 2009

Third Quarter 2009	Week 45 2009
2009 Annual Results	Week 7 2010

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