

Press release

Third quarter and first nine months of 2009
30 November 2009



Icelandair Group results in the third quarter of 2009

- Icelandair Group's total turnover was ISK 53.6 billion, increasing by 29% from the preceding year
- EBITDA was ISK 8.4 billion, as compared to ISK 6.2 billion in the corresponding period of last year
- EBIT was ISK 6.9 billion, as compared to ISK 5.1 billion at the same time last year. Depreciation amounted to ISK 1.6 billion, which represents an increase of ISK 0.5 billion from the preceding year
- Net finance cost was ISK 2.1 billion, as compared to ISK 50 million in the preceding year
- The Company's profit after taxes was ISK 4.0 billion, as compared to a profit of ISK 4.4 billion at the same time last year
- The results of foreign subsidiaries before taxes fell ISK 1.3 billion short of the results for the same period of last year

Icelandair Group results in the first nine months of 2009

- EBITDA was ISK 7.5 billion, as compared to ISK 7.2 billion in the corresponding period of last year
- EBIT was ISK 3.3 billion, as compared to ISK 4.3 billion in the corresponding period of last year. Depreciation amounted to ISK 4.1 billion, which represents an increase of ISK 1.3 billion from the preceding year
- Net finance cost was ISK 4.2 billion, as compared to ISK 0.8 billion in the preceding year
- The Company's loss after taxes was ISK 1.1 billion, as compared to a profit of ISK 3.1 billion for the same time last year
- Cash at the end of the period amounted to ISK 6.1 billion, as compared to ISK 7.4 billion for the corresponding period of last year
- The equity ratio was 23.5 % at the end of September 2009, up from 20.3% at the end of 2008
- Assets were ISK 105.6 billion at the end of September 2009, as compared to ISK 98.8 billion at year-end 2008

Income Statement ISKm	Q3 09	Q3 08	9M 09	9M 08
Operating Income.....	53.638	41.465	108.098	84.429
EBITDA.....	8.447	6.183	7.456	7.181
EBIT	6.875	5.108	3.335	4.346
Net Finance Cost.....	(2.109)	(49)	(4.201)	(789)
Profit for the period.....	3.961	4.385	(1.018)	3.102

Icelandair Group CEO Björgólfur Jóhannsson:

"Icelandair Group's core business in the third quarter was successful, and improvements between years are evident in all the income statement ratios, with the exception of depreciation and financial items. We are pleased with the results of the quarter, and we are grateful to our staff for their excellent contribution under these trying circumstances. This year is probably the toughest our industry has experienced, and our foreign subsidiaries' operations show that clearly, where we see less demand and lower prices having negative effect on the bottom line.

Our main focus all this year has been the restructuring of the Group's balance sheet. It has been clear for a long time that leverage needs to be decreased, liquidity improved and the equity ratio strengthened. This process has taken more time than originally anticipated, but now the first steps have been taken in the restructuring. The decision has been made to simplify Icelandair Group's business model, emphasising the opportunities inherent in Icelandair's route network, tourism in Iceland and related operations, and our sights have been set on organic growth in these fields. This change is a consequence of changed financial markets, which have created the foundation for the business model we have been operating for quite some time. In time, and given the proper market conditions, we will sell again the strategic investments that the Company undertook in the years 2005-2007. The first step in that direction was taken last week, when we sold a 20% share in Travel Service and thereby ceased to be majority shareholders. Work on the restructuring will continue in the coming weeks. Assets that the Company intends to sell in the coming months will be re-assessed, and this could affect equity."

Our target for the year as a whole, ISK 6.5 billion in EBITDA, remains unchanged. In our opinion, this would be a very acceptable operating result in light of the operating environment. However, the Company's financial costs are far too high, and great efforts are being focused on reducing them."

Press release

Third quarter and first nine months of 2009

30 November 2009



Financial highlights of the third quarter of 2009

ISK'000.000			
	Q3 09	Q3 08	% Chg.
Transport revenue	21.595	17.409	24%
Aircraft and aircrew lease	25.809	19.441	33%
Other	6.234	4.615	35%
Operating Income	53.638	41.465	29%
Salaries and related expenses	6.572	6.455	2%
Aircraft fuel	11.464	9.977	15%
Aircraft and aircrew lease	6.743	3.788	78%
Aircraft servicing, handling and comm.	10.588	6.405	65%
Aircraft maintenance	4.091	3.528	16%
Other	5.733	5.129	12%
EBITDA	8.447	6.183	37%
EBIT	6.875	5.108	35%
EBT	4.799	5.104	-6%
Net Profit	3.961	4.385	-10%
EBITDAR	14.171	8.805	61%

Third Quarter Operations in 2009

EBITDA was ISK 8.4 billion, as compared to ISK 6.2 billion in the corresponding period of last year. EBIT was ISK 6.9 billion, as compared to ISK 5.1 billion for the same period of last year. Profit after taxes over the quarter amounted to ISK 4.0 billion, as compared to ISK 4.4 billion over the corresponding period of 2008. EBITDAR amounted to ISK 14.2 billion, as compared to ISK 8.8 billion in 2008.

Segments in the third quarter of 2009 – comparison

ISK'000.000						
	Scheduled Airline and Tourism			Capacity Solutions		
	Q3 09	Q3 08	Diff	Q3 09	Q3 08	Diff
Segment revenue	28.442	24.271	17%	30.920	21.698	43%
Segment cost	-22.141	-20.998	5%	-28.860	-18.682	54%
EBITDA	6.301	3.273	93%	2.060	3.016	-32%
EBIT	5.079	2.476	105%	1.716	2.745	-37%
Net finance cost	-243	-74	228%	-828	225	-
Share of profit of associates	0	0	-	33	45	-27%
EBT	4.836	2.402	101%	921	3.016	-
Income tax	-730	-251	191%	-232	-623	-
Net Profit	4.106	2.151	91%	689	2.393	-
EBITDAR	8.192	4.360	88%	5.790	4.601	26%

Press release

Third quarter and first nine months of 2009

30 November 2009



Segments in the third quarter of 2009

ISK '000.000	Q3 2009				
	Scheduled airline	Capacity solutions	Shared Services	Elimi- nations	Con- solidated
Segment revenue	28.442	30.920	381	-6.105	53.638
Segment cost	-22.141	-28.860	-295	6.105	-45.191
EBITDA	6.301	2.060	86		8.447
EBIT	5.079	1.716	80		6.875
Net finance cost	-243	-828	-1.038		-2.109
Share of profit of associates	0	33	0		33
EBT	4.836	921	-958		4.799
Income tax	-730	-232	124		-838
Net Profit/Loss	4.106	689	-834		3.961
EBITDAR	8.192	5.790	189		14.171

Total income amounted to ISK 53.6 billion, as compared to ISK 41.5 billion in the corresponding quarter of last year, representing an increase of 29% 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 28.4 billion in Q3 2009, as compared to ISK 24.3 billion in the corresponding period of 2008. Expenses amounted to ISK 22.1 billion, as compared to ISK 21.0 billion over the same period in 2008. EBITDA was ISK 6.3 billion, as compared to ISK 3.3 billion in the corresponding period of last year. Profit after tax for the segment was ISK 4.1 billion, as compared to ISK 2.2 billion for the corresponding period of last year. EBITDAR was ISK 8.2 billion, as compared to ISK 4.4 billion in the corresponding period of last year.

Owing to the falling demand following the international financial crisis, Icelandair reduced its supply of seats in the summer. The number of passengers fell accordingly, by 5.3% in the third quarter of 2009, with the result that passenger income fell by 6.3%. 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 82%, the same as for the corresponding period of last year. Fare sales to Iceland increased by 12% in the third quarter with incoming passengers accounting for half of the company's total passengers over the period.

Income from capacity solutions, which includes the companies Travel Service, Loftleidir Icelandic, SmartLynx, Icelease and Bluebird Cargo, amounted to ISK 30.9 billion, as compared to ISK 21.7 billion in the corresponding period of 2008. Expenses amounted to ISK 28.9 billion, as compared to ISK 18.7 billion over the same period in 2008. EBITDA was ISK 2.1 billion, as compared to ISK 3.0 billion in the corresponding period of last year. Profit after tax for the segment was ISK 0.7 billion, as compared to a profit of ISK 2.4 billion in the corresponding period of last year. EBITDAR was ISK 5.8 billion, as compared to ISK 4.6 billion in the corresponding period of last year.

The deterioration in results of the business unit reflects the recession that has prevailed in the worldwide airline industry during the past year. The principal reasons are the poor backlog endured by SmartLynx in the early months of the year, as the company lost large customers without warning in the autumn of 2008, with the result that a large part of the fleet was mostly idle until summer 2009. Negative oil hedges at Travel Service were expensed to the amount of ISK 1.7 billion over the quarter, resulting in worse performance than for the same period of last year.

Transport revenues increased by ISK 4.2 billion between the third quarters of 2008 and 2009, or by 24.1%. Revenue from passenger transport increased by 25.5%, or ISK 4.1 billion, between years, while revenue from cargo and mail transport increased by 7.1%.

Charter revenues increased by ISK 6.4 billion, or 32.8%, as compared to the third quarter of 2008.

Other income increased by ISK 1.6 billion from the third quarter of 2008, or by 35%.

Salaries and personnel expenses increased by ISK 117 million, or by 1.8%, in comparison with the third quarter of 2008. Salaries increased in the foreign companies Travel Service and SmartLynx by ISK 0.5 billion, but decreased in the other companies by ISK

Press release

Third quarter and first nine months of 2009

30 November 2009



0.3 billion. The average number of full-time equivalent positions fell by 10.6%, down to 3,205 positions, as compared to 3,585 at the same time last year.

Fuel costs increased by ISK 1.5 billion, which represents an increase of 14.9 % from the preceding year. The average World fuel price in the third quarter of 2009 was USD 608 per ton, as compared to USD 1.189 per ton at the same time last year; this corresponds to a reduction of 49% between periods. Costs increased as a result of the negative impact of fuel hedges at Travel Service.

Aircraft and aircrew lease increased by ISK 2.9 billion between years, or 78%.

Aircraft servicing, handling and navigation expenses increased by ISK 4.2 billion between years, or 65.3%. 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.

Maintenance costs increased by ISK 0.6 billion between years, or 15.9%.

Financials

ISK'000.000	Q3 09	Q3 08	Diff.
Interest income	52	119	-67
Interest expenses	-1.092	-844	-248
Currency effect	-671	673	-1.344
Loss / Gain from sale of derivatives	-2	3	-5
Loss from assets held for sale	-396	0	-396
Net finance cost	-2.109	-49	-2.060

Net finance costs amounted to ISK 2.1 billion, as compared to ISK 50 million in the corresponding period last year.

Currency effect was negative by ISK 0.7 billion.

Balance Sheet

ISK'000.000	30/09/09	31/12/08	Diff.
Operating Assets	35.177	36.798	-1.621
Intangible assets	29.590	29.306	284
Investment in associates	594	1.008	-414
Aircraft purchase prepayments	4.486	4.226	260
Long-term receivables	7.135	6.054	1.081
Cash and cash equivalents	6.122	4.065	2.057
Other assets	22.504	17.373	5.131
Total assets	105.608	98.830	6.778
Stockholders equity	24.816	20.080	4.736
Total non-current liabilities	17.462	25.112	-7.650
Total current liabilities	63.330	53.638	9.692
Total equity and liabilities	105.608	98.830	6.778

Total assets amounted to ISK 105.6 billion at the end of September 2009, as compared to ISK 98.8 billion at year-end 2008.

Investments in operating assets in the first nine months of 2009 amounted to ISK 1.7 billion, the largest factor being investments in engine hours and maintenance parts

Press release

Third quarter and first nine months of 2009
30 November 2009



Net interest bearing debt amounted to ISK 33.9 billion, down by ISK 5.7 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 service of interest bearing loans is too large in proportion to 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 up to ISK 4 billion in nominal value. A decision on the increase in share capital will be taken concurrently with the restructuring of the payment burden of interest-bearing liabilities, which is being conducted in co-operation with the Company's partner banks.

Cash Flow

ISK'000.000	9M 09	9M 08
Working capital from operations	5.308	8.131
Net cash from operating activities	7.217	9.318
Net cash (used in) investing activities	-1.365	-3.245
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

Working capital from operations amounted to ISK 5.3 billion in the first nine months of the year, as compared to ISK 8.1 billion in the corresponding period of the preceding year.

Net cash from operating activities in the first 9 months of the year amounted to ISK 7.2 billion, as compared to ISK 9.3 billion in the first nine months of 2008.

The decline in net cash from operating activities is explained by the poorer results of foreign subsidiaries.

Cash at the end of the period amounted to ISK 6.1 billion, as compared to ISK 7.4 billion for the corresponding period of last year.

Quarterly comparison – highlights

ISK'000.000	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
Transport revenue	17.409	9.523	7.310	13.448	21.595
Charter revenue	19.441	15.529	11.273	16.319	25.809
Other	4.615	3.258	2.133	3.977	6.234
Operating Income	41.465	28.310	20.716	33.744	53.638
Salaries and related expenses	6.455	6.416	5.392	6.265	6.572
Aircraft fuel	9.977	6.750	3.847	6.849	11.464
Aircraft and aircrew lease	3.788	5.322	4.892	6.001	6.743
Aircraft servicing, handling and navigation	6.405	4.362	2.568	5.713	10.588
Aircraft maintenance	3.528	3.967	2.777	3.287	4.091
Other	5.129	3.826	3.546	4.314	5.733
EBITDA	6.183	-2.333	-2.306	1.315	8.447
EBIT	5.108	-10.035	-3.504	-36	6.875
EBT	5.104	-10.503	-4.055	-1.530	4.799
Net Profit	4.385	-10.570	-3.639	-1.340	3.961
EBITDAR	8.805	2.377	2.388	7.022	14.171

Press release

Third quarter and first nine months of 2009

30 November 2009



January – September 2009

Highlights of the first nine months of 2009

ISK'000.000	9M 09	9M 08	% Chg.
Transport revenue	42.353	36.390	16%
Aircraft and aircrew lease	53.401	37.526	42%
Other	12.344	10.513	17%
Operating Income	108.098	84.429	28%
Salaries and related expenses	18.229	17.689	3%
Aircraft fuel	22.160	19.137	16%
Aircraft and aircrew lease	17.636	10.023	76%
Aircraft servicing, handling and comm.	18.869	11.153	69%
Aircraft maintenance	10.155	7.347	38%
Other	13.593	11.899	14%
EBITDA	7.456	7.181	4%
EBIT	3.335	4.346	-23%
EBT	-786	3.678	-121%
Net Profit/Loss	-1.018	3.102	-133%
EBITDAR	23.581	14.789	59%

EBITDA was ISK 7.5 billion, as compared to ISK 7.2 billion in the corresponding period of last year. EBIT was ISK 3.3 billion, as compared to ISK 4.3 billion at the same time last year. Losses after taxes in the first nine months of the year amounted to ISK 1.0 billion, as compared to a profit of ISK 3.1 billion over the corresponding period of 2008. EBITDAR amounted to ISK 23.6 billion, as compared to ISK 14.8 billion in the first nine months of 2008.

Fuel costs increased by ISK 3.0 billion in the first nine months of 2009, which represents an increase of 15.8 % from the corresponding period of last year. The average World market fuel price in the first nine months of 2009 was USD 534 per ton, as compared to USD 1.131 per ton at the same time last year; this corresponds to a reduction of 53% between periods.

Outlook for Icelandair Group

As the report indicates, the core operations of the Group before financial items are in good order, and there are no indications of changes in this respect. For this reason, the Company's EBITDA target for the year remains unchanged at ISK 6.5 billion.

It has been clear for a long time that the Company is excessively leveraged and its interest burden is too heavy. It is important that the restructuring of the Company's balance sheet, which has been ongoing throughout the year in co-operation with partner banks, should be brought to a conclusion so that the Company's operations can support the service and payment of its debts.

The restructuring of the Balance Sheet could have an impact on the classification and assessment of assets, and thereby on the operations and equity of the Company.

Events since the reporting date

Throughout the year the Company has been working with its partner bank, Íslandsbanki, on adapting the Company's liabilities to its payment capacity and on improving the Company's equity ratio. Last August, a shareholders' meeting authorised the Board of Directors to increase the Company's share capital by up to ISK 4 billion in nominal value. This authorisation has not been exercised, but it is expected to form a part of the Company's financial restructuring. In connection with the restructuring, the decision has been made to simplify Icelandair Group's business model, emphasising on the the opportunities inherent in Icelandair's route network, tourism relating to Iceland and related services, and the target is organic growth in these fields.

For this reason, the decision has been made to place the subsidiaries Bluebird Cargo ehf., SmartLynx in Latvia and a 30% share in Travel service into a separate holding company. The holding company is intended to administer these companies and sell them when market conditions are favourable.

Press release

Third quarter and first nine months of 2009
30 November 2009



As part of the restructuring, Icelandair Group last week finalised the sale of a 20% share in Travel Service; following the sale Icelandair Group will own 30% of the company. This has a negative impact on the income statement of ISK 889 million in the fourth quarter and equity will be reduced by ISK 1.5 billion and the Company's assets will be reduced by ISK 12 billion. Travel Service will now pass from being a subsidiary and become an affiliate company of Icelandair Group.

Audit

The consolidated accounts of Icelandair Group for the first nine months of 2009 were approved at a meeting of the Board of Directors on 30 November 2009. The interim statement has been reviewed by the Company's auditors.

Presentation on Tuesday, 1 December

An open presentation for stakeholders will be held on Tuesday 1 December 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 16:30.**

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

2009 Financial Statement

Week 7 2010

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