Interim financial report for the first quarter of 2010

First quarter performance

- The total turnover was ISK 16.3 billion, up by 16% from the corresponding quarter of the preceding year
- EBITDA was ISK 178 million, as compared to ISK 58 million at the same time last year
- EBIT was negative by ISK 1.2 billion, as compared to a negative result of ISK 1.1 billion at the same time last year. Depreciation was ISK 1.3 billion, as compared to ISK 1.1 billion in the corresponding period of last year
- Financial expenses amounted to ISK 736 million, as compared to ISK 555 million at the same time last year
- Losses after taxes came to ISK 1.9 billion, as compared to ISK 3.6 billion over the corresponding period of last year. Loss from continuing operations amounted ISK 1.5 billion over the period
- Net cash at the end of the first quarter of 2010 was ISK 4.1 billion, as compared to ISK 1.9 billion in the preceding year
- Total assets amounted to ISK 93.6 billion at the end of the first quarter of 2010,and the equity ratio was 14%

Operational Highlights Q1 2010 and Q1 2009 (mISK)	Q1 10	Q1 09
Operating Income	16,283	14,072
EBITDA	178	58
EBIT	-1,163	-1,085
EBT from continuing operations	-1,836	-1,622
Loss from continuing operations	-1,485	-1,383
Loss for the period	-1,885	-3,639
EBITDAR	2,179	1,851

Björgólfur Jóhannsson, CEO:

The total income of the Company increased by approximately 16% between years, which exceeds the capacity increase of the period. Although the Company's loss amounted to ISK 1.8 billion, the loss was reduced by almost 50% from the preceding year. Loss from continuing operation of the Group amounted to ISK 1.5 billion, EBITDA was 178 million and EBITDAR 2.2 billion. At the end of the quarter, the Company's net cash position is quite satisfactory, as the Group has approximately ISK four billion in cash, an increase of ISK 2.1 billion from the start of the year. The Group's equity stands at ISK 13 billion in the first quarter of the year and the equity ratio is 14% and budget projections assume a significant strengthening of the equity ratio following the ongoing financial restructuring, which is now in its final stages.

It is clear that the Group suffered a setback owing to the restrictions on airline traffic during the eruption in Eyjafjallajökull. The Company's staff responded swiftly to the restrictions, and I can confidently assert that few companies in the world responded to the changed circumstances as resolutely as we did last month. Nevertheless, the Company suffered some loss of income, and in addition there were considerable expenses as well. The negative impact on operations has not been *calculated, but it can be estimated in the range of 1.0 to 1.5 billion. However, it should be borne in mind that demand increased significantly in the first quarter, and ahead of us are the best months of the year in airline operations and tourist services. We are determined to take advantage of the extensive attention that has been focused on Iceland for the benefit of Icelandic tourist services as a whole."*

Highlights from operations in the first quarter of 2010

As shown in the table below, **EBITDA** was ISK 0.2 billion, as compared to ISK 0.6 billion over the same period last year. **EBIT** was negative by ISK 1.2 billion, as compared to a negative result of ISK 1.1 billion over the same period last year. **Losses after taxes** over the quarter amounted to ISK 1.9 billion, as compared to ISK 3.6 billion over the corresponding period in 2009. **Loss from continuing operations** amounted ISK 1.5 billion. **EBITDAR** amounted to ISK 2.2 billion, as compared to ISK 1.9 billion in the first quarter of 2009.

Financial Higlights of Q1 2010 and Q1 2009

	Q1 10	Q1 09	% Chg.
Transport revenue	8,702	7,132	22%
Aircraft and aircrew lease	4,844	4,655	4%
Other	2,737	2,285	20%
Operating Income	**16,283**	**14,072**	**16%**
Salaries and related expenses	4,503	4,236	6%
Aircraft fuel	2,671	1,981	35%
Aircraft and aircrew lease	2,850	2,678	6%
Aircraft servicing, handling and comm	1,134	960	18%
Aircraft maintenance	1,564	1,302	20%
Other	3,382	2,857	18%
EBITDA	**178**	**58**	**208%**
EBIT	**-1,163**	**-1,085**	**-7%**
EBT from continuing operations	**-1,836**	**-1,622**	**-13%**
Net Loss from continuing operations	**-1,485**	**-1,383**	**-7%**
Loss from discontinuing operations	**-400**	**-2,256**	**82%**
Loss for the year	**-1,885**	**-3,639**	**48%**
EBITDAR	**2,179**	**1,851**	**18%**

Total income amounted to ISK 16.3 billion, as compared to ISK 14.1 billion in the corresponding quarter of last year, which represents an increase of 16% between years.

Total expenses, net of depreciation, amounted to ISK 16.1 billion, as compared to ISK 14.0 billion in the first quarter of 2009.

Transport revenues increased by ISK 1.6 billion between the first quarters of 2009 and 2010, or by 22%.

Charter revenues increased by ISK 0.2 billion, or 4%, as compared to the first quarter of 2009.

Other income increased by ISK 0.5 billion from the first quarter of 2009, or by 20%.

Salaries and personnel expenses increased by ISK 0.3 billion, or by 6%, in comparison with the first quarter of 2009.

Fuel costs increased by ISK 0.7 billion, which represents an increase of 35% from the preceding year. The average world price of fuel in the first quarter of 2010 was USD 455 per ton, as compared to USD 688 per ton over the same period last year; this corresponds to an increase of 51% between periods.

Aircraft and aircrew lease increased by ISK 0.2 billion between quarters, or 6%.

Aircraft servicing, handling and navigation expenses increased by ISK 174 million between years, or 18%.

Maintenance costs increased by ISK 0.3 billion between years, or 20%.

Financial items in the first quarter of 2010

Net finance cost amounted to ISK 736 million in the first quarter of 2010, as compared to ISK 555 million in the corresponding period last year.

Currency gains in the first quarter of 2010 amounted to ISK 140 billion, as compared to ISK 383 million in the corresponding quarter of last year.

Net Finance Cost (mISK)	Q1 10	Q1 09	Diff.
Interest income	42	23	19
Interest expenses	-918	-1,039	121
Currency effect	140	383	-243
Loss / Gain from sale of derivatives	0	78	-78
Net finance cost	**-736**	**-555**	**-181**

BalanceSheet

Balance Sheet (mISK)	31/3/10	31/12/09	Diff.
Operating Assets	30,734	27,014	3,720
Intangible assets	23,782	23,598	184
Investment in associates	611	545	66
Aircraft purchase prepayments	1,167	1,134	33
Long-term receivables	3,324	3,449	-125
Long-term cost	1,398	1,347	51
Cash and cash equivalents	4,054	1,909	2,145
Assets held for sale	13,413	17,500	-4,087
Other assets	15,100	12,608	2,492
Total assets	**93,583**	**89,104**	**4,479**
Stockholders equity	13,057	14,605	-1,548
Total non-current liabilities	19,126	19,618	-492
Liabilities held for sale	6,859	10,597	-3,738
Other liabilities	54,541	44,284	10,257
Total equity and liabilities	**93,583**	**89,104**	**4,479**
Equity ratio	14.0%	16.4%	
Current ratio	0.35	0.33	
Net interestbering debt	42,645	41,227	

Assets amounted to ISK 93.6 billion at the end of the first quarter of 2010, as compared to ISK 89.1 billion at year-end 2009.

Equity amounted to ISK 13 billion, and the equity ratio was 14% at the end of the period.

Investments in operating assets over the period amounted to ISK 260 million.

Net interest-bearing debt amounted to ISK 42.6 billion.

Cash Flow

Statement of Cash Flow (mISK)	Q1 2010	Q1 2009
Working capital from (used in) operations	80	-1,769
Net cash from operating activities	3,967	281
Net cash used in investing activities	-690	-1,848
Net cash (used in) from financing activities	-1,161	472
Increase (Decrease) in cash and cash equivalents	**2,116**	**-1,095**
Effect of exchange rate fluctuations on cash held	29	-146
Cash and cash equivalents at 1 January	1,909	4,065
Cash and cash equivalents at 31 March	**4,054**	**2,824**

Working capital from operations amounted to ISK 80 million in the first quarter of 2010, as compared to ISK 1.8 billion in **working capital to operations** in the corresponding period of last year.

Net cash provided by operating activities was ISK 4.0 billion, as compared to ISK 0.3 billion in the corresponding quarter of 2009.

Cash at the end of the period amounted to ISK 4.1 billion, as compared to ISK 2.8 billion for the corresponding period of last year.

Highlights of operations by quarter

Financial Highlights by Quarters (mISK)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Transport revenue	7,132	11,631	18,507	9,869	8,702
Aircraft and aircrew lease	4,655	4,409	4,908	5,454	4,844
Other	2,285	3,471	5,128	2,873	2,737
Operating Income	**14,072**	**19,511**	**28,543**	**18,196**	**16,283**
Salaries and related expenses	4,236	4,758	4,764	4,893	4,503
Aircraft fuel	1,981	3,568	4,885	2,816	2,671
Aircraft and aircrew lease	2,678	2,971	3,442	3,706	2,850
Aircraft servicing, handling and navigation	960	1,586	2,100	1,236	1,134
Aircraft maintenance	1,302	1,553	1,870	2,100	1,564
Other	2,857	3,669	4,593	3,663	3,382
EBITDA	**58**	**1,407**	**6,890**	**-219**	**178**
EBIT	**-1,085**	**123**	**5,386**	**-2,941**	**-1,163**
EBT from continuing operations	**-1,622**	**-1,009**	**3,995**	**-5,833**	**-1,836**
Net Profit	**-1,383**	**-850**	**3,374**	**-5,126**	**-1,485**
Profit (Loss) from discontinuing operations	-2,256	-490	586	-4,520	-400
Profit/Loss for the period	**-3,639**	**-1,340**	**3,961**	**-9,646**	**-1,885**

Outlook for Icelandair Group

A notice published on 19 April 2010 revealed that restrictions on air traffic resulting from the volcanic activity in Eyjafjallajökull had a significant impact on the operation of the Group. The Company expressed its view that the daily cost resulting from the restrictions amounted to approximately ISK 100 million. Icelandair Group is still assessing the long-term impact of the eruption, but the Company has not revised its budget projections for 2010. Among other things, the Company takes into account the fact that revenues in the first quarter increased by over 16% from the preceding year, and in addition the Company moved its hub to Glasgow and thereby succeeded in minimizing the loss of income resulting from the air traffic restrictions. However, it is the view of the Company's management that if the volcanic activity continues, with further disruption of air traffic, the Company might have to revise its budget for 2010.

The long-term prospects for Icelandair Group's operations are favourable. In the opinion of the Company's management the financial restructuring of Icelandair Group will result in a significant downsizing of the company's balance sheet and contribute to a better adaptation of the repayment burden of loans to the payment capacity of the company.

The board of directors has decided to simplify the company's business model. SmartLynx, Bluebird and Travel Service will no longer form a part of Icelandair Group's core operations in 2010, as the companies will be sold out of the Group.

It is the belief of Icelandair Group's management that the company is in a good position to move forward by focusing on its operation of an international route network and universal services to travellers.

Audit

The consolidated accounts of Icelandair Group for first quarter report of 2010 were approved at a meeting of the Board of Directors on 5 May 2010. The iterim accounts have been reviewed by the Company's auditors, KPMG Endurskodun hf.

The largest shareholders in Icelandair Group

These are the 10 largest shareholders in Icelandair Group as of 5 May 2010.

Name	Shares in %
Íslandsbanki hf.	46.98%
Landsbanki Íslands	23.83%
Sparisjóðabanki Íslands	9.36%
Alnus ehf.	3.30%
Icelandair Group hf.	2.55%
Glitnir Banki hf.	2.09%
Sigla ehf.	2.00%
Útboð og samningar ehf.	1.81%
Arkur ehf.	1.75%
N1 hf.	1.28

Financial Calendar 2010

Financial statement for the second quarter – week 31, 2010

Financial statement for the third quarter – week 44, 2010

Financial statement for the fourth quarter – week 6, 2011

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