Icelandair Group hf.

Condensed Consolidated Interim Financial Information

1 January - 30 June 2010

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 June 2010 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 thirteen at the end of June 2010.

For the past year the Group has been working on improving its debt maturity profile and equity ratio. In March 2010 the Company entered into an agreement with its major stakeholders which sets forth the basic terms and conditions and the intensions of the Parties regarding the financial restructuring plan. The restructuring process has been finalised in August 2010. More detailed information are in note 16.

According to the consolidated statement of comprehensive income, loss for the period from 1 January to 30 June amounted to ISK 2.046 million. Total comprehensive loss for the period was ISK 1.477 million. According to the consolidated statement of financial position, equity at the end of the period amounted to ISK 13.128 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 six months ended 30 June 2010 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 six-month period ended 30 June 2010, its assets, liabilities and consolidated financial position as at 30 June 2010 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 June 2010 and confirm them by means of their signatures.

Reykjavík, 13 August 2010.

Board of Directors:

Sigurður Helgason, chairman of the board
Finnur Reyr Stefánsson
Jón Ármann Guðjónsson
Katrín Olga Jóhannesdóttir
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 statement of financial position of Icelandair Group hf. as at June 30, 2010, the condenced consolidated statement of comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and fair presentation of this condenced consolidated interim financial information in accordance with IAS 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this condenced consolidated 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 condenced consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 “Interim Financial Reporting”.

Reykjavík, 13 August 2010.

KPMG hf.

Jón S. Helgason
Guðný H. Guðmundsdóttir

Consolidated Statement of Comprehensive Income
for the period from 1 January to 30 June 2010

	Notes	Q2 2010 1.4.-30.6.	Q2 2009 1.4.-30.6. Re-presented*	Q1-Q2 2010 1.1.-30.6.	Q1-Q2 2009 1.1.-30.6. Re-presented*
Continuing operations					
Operating income					
Transport revenue		13.314	11.631	22.016	18.763
Aircraft and aircrew lease		4.875	4.409	9.719	9.064
Other operating revenue		3.696	3.471	6.433	5.756
		21.885	19.511	38.168	33.583
Operating expenses					
Salaries and other personnel expenses		5.337	4.758	9.841	8.994
Aircraft fuel		3.973	3.568	6.644	5.549
Aircraft and aircrew lease		3.091	2.971	5.941	5.649
Aircraft handling, landing and communication		1.649	1.585	2.783	2.545
Aircraft maintenance expenses		1.836	1.553	3.400	2.855
Other operating expenses		3.850	3.669	7.232	6.526
		19.736	18.104	35.841	32.118
Operating profit before depreciation and amortisation (EBITDA)		2.149	1.407	2.327	1.465
Depreciation and amortisation		(1.306)	(1.284)	(2.647)	(2.427)
Operating loss before net finance expense (EBIT)		843	123	(320)	(962)
Finance income		(57)	56	125	540
Finance expense		(994)	(1.216)	(1.912)	(2.255)
Net finance costs	9	(1.051)	(1.160)	(1.787)	(1.715)
Share of profit of associates, net of income tax		1	29	64	47
Loss before income tax		(207)	(1.008)	(2.043)	(2.630)
Income tax		46	159	397	398
Loss from continuing operations		(161)	(849)	(1.646)	(2.232)
Discontinuing operations					
Loss from discontinued operation, net of income tax	6	0	(491)	(400)	(2.747)
Loss for the period		(161)	(1.340)	(2.046)	(4.979)
Other comprehensive income					
Foreign currency translation differences for foreign operations		43	1.498	270	1.110
Net loss on hedge of net investment in foreign operation		25	(75)	51	(24)
Effective portion of changes in fair value of cash flow hedge		164	1.983	248	2.792
Other comprehensive income for the period		232	3.406	569	3.878
Total comprehensive income (expense) for the period		71	2.066	(1.477)	(1.101)

* see discontinued operation - note 6

The notes on pages 10 to 16 are an integral part of these interim consolidation financial statement

Interim Financial Information of Icelandair Group hf. 30 June 2010 5 Amounts are in ISK million

Consolidated Statement of Comprehensive Income for the period from 1 January to 30 June 2010, contd.:

	Notes	Q2 2010 1.4.-30.6.	Q2 2009 1.4.-30.6. Re-presented *	Q1-Q2 2010 1.1.-30.6.	Q1-Q2 2009 1.1.-30.6. Re-presented *
Loss attributable to:					
Owners of the Company		(158)	(1.320)	(2.040)	(4.664)
Non-controlling interest		(3)	(20)	(6)	(315)
Loss for the period		(161)	(1.340)	(2.046)	(4.979)
Total Comprehensive loss attributable to:					
Owners of the Company		74	1.623	(1.471)	(1.368)
Non-controlling interest		(3)	443	(6)	267
Total comprehensive loss for the period		71	2.066	(1.477)	(1.101)
Loss per share:					
Basic loss per share (ISK)		(0,17)	(1,38)	(2,10)	(5,11)
Diluted loss per share (ISK)		(0,17)	(1,38)	(2,10)	(5,11)
Continuing operations					
Basic loss per share (ISK)		(0,17)	(0,87)	(1,69)	(2,29)
Diluted loss per share (ISK)		(0,17)	(0,87)	(1,69)	(2,29)

The notes on pages 10 to 16 are an integral part of these interim consolidation financial statement

Interim Financial Information of Icelandair Group hf. 30 June 2010 6 Amounts are in ISK million

Consolidated Statement of Financial Position
as at 30 June 2010

	Notes	30.6.2010	31.12.2009
Assets			
Operating assets		30.391	27.014
Intangible assets		23.781	23.598
Investments in associates		635	545
Prepaid aircraft acquisitions		1.179	1.134
Long-term cost		1.318	1.347
Long-term receivables and deposits		3.365	3.449
Deferred tax asset		439	140
Total non-current assets		61.108	57.227
Inventories		1.619	1.393
Trade and other receivables		13.332	9.725
Assets classified as held for sale	8	12.824	17.500
Prepayments		1.463	1.350
Cash and cash equivalents		7.471	1.909
Total current assets		36.709	31.877
Total assets		97.817	89.104
Equity			
Share capital		975	975
Share premium		25.450	25.450
Reserves		7.368	6.899
Accumulated deficit		(20.695)	(18.755)
Total equity attributable to equity holders of the Company		13.098	14.569
Non-controlling interest		30	36
Total equity		13.128	14.605
Liabilities			
Loans and borrowings	10	12.541	13.676
Prepayments		2.303	2.254
Long-term payables		4.132	3.688
Total non-current liabilities		18.976	19.618
Loans and borrowings	10	26.252	22.714
Trade and other payables		16.682	14.392
Liabilities classified as held for sale	8	6.708	10.597
Deferred income		16.071	7.178
Total current liabilities		65.713	54.881
Total liabilities		84.689	74.499
Total equity and liabilities		97.817	89.104

The notes on pages 10 to 16 are an integral part of these interim consolidation financial statement

Interim Financial Information of Icelandair Group hf. 30 June 2010 7 Amounts are in ISK million

Consolidated Statement of changes in Shareholders' Equity
for the period from 1 January to 30 June 2010

	Attributable to equity holders of the Company								
			Reserves						
1 January to 30 June 2009	**Share capital**	**Share premium**	**Share option reserve**	**Hedging reserve**	**Translation reserve**	**Accumulated deficit**	**Total**	**Non-controlling interest**	**Total equity**
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						(4.664)	(4.664)	(315)	(4.979)
Other comprehensive income									
Foreign currency translation differences					993		993	117	1.110
Net loss on hedge of net investment in foreign operation					(24)		(24)		(24)
Effective portion of changes in fair value of cash flow hedges, net of tax				2.327			2.327	465	2.792
Total other comprehensive income	0	0	0	2.327	969	0	3.296	582	3.878
Total comprehensive loss for the period	0	0	0	2.327	969	(4.664)	(1.368)	267	(1.101)
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Share based payments			16				16		16
Total contributions by and distributions to owners			16	0	0	0	16		16
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	(310)	(310)	121	(189)	(189)
Balance at 30 June 2009			16	2.327	659	(310)	1.130	(72)	18.806
1 January to 30 June 2010									
Equity 1.1.2010	975	25.450	100	(302)	7.101	(18.755)	14.569	36	14.605
Total comprehensive income for the period									
Loss for the period						(2.040)	(2.040)	(6)	(2.046)
Other comprehensive income									
Foreign currency translation differences					270		270		270
Net profit on hedge of net investment in foreign operation					51		51		51
Effective portion of changes in fair value of cash flow hedges, net of tax				248			248		248
Total other comprehensive income	0	0	0	248	321	0	569	0	569
Total comprehensive loss for the period	0	0	0	248	321	(2.040)	(1.471)	(6)	(1.477)
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Share based payments			(100)			100			
Total contributions by and distributions to owners	0	0	(100)	0	0	100	0	0	0
Balance at 30 June 2010	975	25.450	0	(54)	7.422	(20.695)	13.098	30	13.128

The notes on pages 10 to 16 are an integral part of these interim consolidation financial statement

Amounts are in ISK million

Consolidated Statement of Cash Flows for the Six Months ended 30 June 2010

	Notes	2010 1.1.-30.6.	2009 1.1.-30.6.
Cash flows from operating activities			
Loss for the period		(2.046)	(4.979)
Adjustments for:			
Depreciation and amortisation		2.647	2.427
Depreciation and amortisation of discontinued operations		83	121
Other operating items	15	1.024	1.682
Working capital from (used in) operations		1.708	(749)
Net change in operating assets and liabilities		7.678	5.759
Net cash from operating activities		9.386	5.010
Cash flows from investing activities:			
Acquisition of operating assets		(1.072)	(893)
Proceeds from the sale of operating assets		41	72
Acquisition of intangible assets		(48)	(8)
Prepaid aircraft acquisition, increase		(20)	(100)
Cash of subsidiaries held for sale, change		1	0
Acquisition of long-term cost		(1.396)	(913)
Long-term receivables, change		190	62
Net cash used in investing activities		(2.304)	(1.780)
Cash flows from financing activities:			
Repayment of long term borrowings		(1.857)	(1.779)
Proceeds from long term payables		400	0
Proceeds from short term borrowings		(86)	382
Net cash used in financing activities		(1.543)	(1.397)
Increase in cash and cash equivalents		5.539	1.833
Effect of exchange rate fluctuations on cash held		23	287
Cash and cash equivalents at 1 January		1.909	4.065
Cash and cash equivalents at 30 June		7.471	6.185

The notes on pages 10 to 16 are an integral part of these interim consolidation financial statement

Interim Financial Information of Icelandair Group hf. 30 June 2010 9 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 six-month period ended 30 June 2010 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 2009 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 2009.

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 12 August 2010.

3. Basis of preparation and significant accounting policies

The accounting policies and methods of computation applied by the Group in these condensed interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009.

The condensed consolidated interim financial statements are prepared in Icelandic kronas, which is the Group'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. Operating segment

Segment information is presented in the interim consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into two segments, Route network and Tourism services.

As a part of the ongoing restructuring plan the Board of Directors has 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., Travel Service and Smartlynx Latvia are defined as non-core, leading to reclassification on these companies as discontinued and held for sale.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Route network

Four companies are categorised as being part of the Route Network focus of the Group: Icelandair, Icelandair Cargo, Bluebird Cargo and Icelandair Ground Services.

Tourism services

Seven companies are catagorized as being part of the Tourism Services focus of the Group: Iceland Travel, Icelandair Hotels, Air Iceland, Loftleidir-Icelandic, Icelandair Shared Services, Icelease, and IG Invest.

Information about reportable segments
for the six months ended 30 June

	Route network		Tourism services		Total	
	2010	2009	2010	2009	2010	2009
External revenues	27.016	23.395	11.059	10.188	38.075	33.583
Inter-segment revenue	8.446	8.149	818	411	9.264	8.560
Segment revenue	35.462	31.544	11.877	10.599	47.339	42.143
Segment EBITDAR	4.031	3.847	2.803	2.316	6.834	6.163
Segment EBITDA	1.721	1.287	811	562	2.532	1.849
Reportable segment loss before income tax	(1.182)	(691)	175	(135)	(1.007)	(826)
Segment assets	78.234	73.591	32.298	28.859	110.532	102.450

Reconciliation of reportable segment loss

	2010	2009
Total loss for reportable segments	(1.007)	(826)
Elimination of discontinued operations	(400)	(2.747)
Unallocated amounts:		
Other corporate expenses	(1.100)	(1.851)
Share of profit of equity accounted investees	64	47
Consolidated loss before income tax	(2.443)	(5.377)

Segment reporting for the year 2010 could possibly change due to restructuring of the Group.

Interim Financial Information of Icelandair Group hf. 30 June 2010 11 Amounts are in ISK million

Notes, contd.:

6. Discontinued operation

As stated in the financial statements for the year 2009 the Group classified its subsidiaries, SmartLynx, Siglo FIU, Siglo FIJ and Siglo FIR as discontinued operations. During the first quarter the Group reclassifed its ownership in the Siglo companies as part of continuing operations (see note 7). SmartLynx is still classified as discontinued and is therefore not part of the continuing operations. Amounts for the period January-June 2009 have been re-presented in the profit and loss statement for comparative reasons, including the operations of Travel Service.

The results of the discontinued operation are specfied as follows:

Results of discontinued operation	**2010 1.1.-30.6.**	**2009 1.1.-30.6.**
Revenue	3.908	22.728
Expenses	(4.949)	(25.306)
Results from operating activities	(1.041)	(2.578)
Financial expenses	(275)	(377)
Income tax	0	208
Results from operating activities, net of income tax	(1.316)	(2.747)
Guarantees of discontinued operation reversed	916	0
Loss for the period	(400)	(2.747)
Basic loss per share	(0,41)	(2,82)
Diluted loss per share	(0,41)	(2,82)
Cash flows used in discontinued operation		
Net cash used in operating activities	(576)	(1.245)
Net cash used in investing activities	(282)	(8)
Net cash from financing activities	858	1.427
Net cash used in discontinued operation	0	174

7. Acquisition of subsidiary

In July 2009 the Group acquired 51% in the companies Siglo FIU, Siglo FIJ and Siglo FIR. Previously the Group owned 49% of the shares and accounted for them as shares in associates. At the date of acquisition the companies were classified as discontinued operations since the ownership was considered as temporary and process of disposal had commenced. Assets and liabilities were accounted for at fair value less cost to sell at year end 2009.

During the first quarter of 2010 the Group reclassified its shares in Siglo FIU, Siglo FIR and Siglo FIJ as part of the continuing operations. Following are the effects on the financial position in the year 2010.

Operating assets	4.053
Intangible assets	60
Trade and other receivables	10
Cash and cash equivalents	18
Loans and borrowings	(3.527)
Trade and other payables	(4)
Net assets and liabilities	610

Interim Financial Information of Icelandair Group hf. 30 June 2010 12 Amounts are in ISK million

Notes, contd.:

8. Assets and liabilities classified as held for sale

On 30 June 2010 assets and liabilities classified as held for sale consist of the assets and liabilities of SmartLynx (classified as discontinued opertation note 6), Bluebird Cargo (classfied as held for sale) and the remaining 30% share in Travel Service.

Assets and liabilities classified as held for sale are specfied as follows:

Assets classified as held for sale	
Operating assets	6.624
Intangible assets	2.732
Other non-current assets	1.800
Inventories	113
Trade and other receivables	1.352
Cash and cash equivalents	203
	12.824
Liabilities classified as held for sale	
Non-current loans and borrowings	1.501
Deferred income tax liability	298
Current loans and borrowings	1.414
Trade and other payables	3.006
Deferred income	489
	6.708

In the 2009 Financial Statements the shares in Siglo FIU, Siglo FIR and Siglo FIJ were classified as assets held for sale. During the first quarter of 2010 the Company reclassified these assets as part of continuing operations. As a result the assets, mainly aircrafts, and the liabilities are now part of the statement of financial position (see note 7).

9. Finance income and finance expense

Finance income and finance expense are specified as follows:

	2010 1.1.-30.6	2009 1.1.-30.6
Interest income on bank deposits	27	27
Other interest income	98	43
Net foreign exchange gain	0	470
Finance income total	125	540
Interest expense on loans and borrowings	1.807	1.872
Other interest expenses	82	335
Loss from sale of derivatives	0	48
Net foreign exchange loss	23	0
Finance costs total	1.912	2.255
Net finance costs	(1.787)	(1.715)

Interim Financial Information of Icelandair Group hf. 30 June 2010 13 Amounts are in ISK million

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.

	30.6.2010	31.12.2009
Non-current loans and borrowings are specified as follows:		
Secured bank loans	13.713	11.211
Unsecured bank loans	2.688	2.727
Convertible notes	1.961	1.947
	18.362	15.885
Current maturities	(5.821)	(2.209)
Total non-current loans and borrowings	12.541	13.676
Current loans and borrowings are specified as follows:		
Current maturities of non-current liabilities	5.821	2.209
Short-term notes	1.160	1.160
Short-term loans from credit institutions	19.271	19.345
Total current loans and borrowings	26.252	22.714
Total loans and borrowings	38.793	36.390

Due to breach of covenants at the end of June 2010, loans amounting to ISK 8.472 million have been reclassified as short-term loans. As the financial resctructuring has been finalised as stated in note 16, loans will be reclassified as a long term loans in accordance with the financial restructuring as of August 2010.

11. Secured bank loans

Secured bank loans are specified as follows:

	Average interest rates	Total remaining balance 30.6.2010	Average interest rates	Total remaining balance 31.12.2009
Debt in USD	6,8%	13.433	5,1%	10.936
Debt in ISK indexed	7,1%	280	7,1%	275
Total secured bank loans		13.713		11.211

12. Contractual repayments of loans and borrowings

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1.7.2010 - 30.6.2011	26.253
Repayments in 1.7.2011 - 30.6.2012	5.963
Repayments in 1.7.2012 - 30.6.2013	1.817
Repayments in 1.7.2013 - 30.6.2014	4.239
Repayments in 1.7.2014 - 30.6.2015	306
Subsequent repayments	215
Total loans and borrowings	38.793

Interim Financial Information of Icelandair Group hf. 30 June 2010 14 Amounts are in ISK million

13. Convertible notes

Convertible notes are specified as follows:

	30.6.2010	31.12.2009
Proceeds from issue of convertible notes - nominal amount	2.000	2.000
Transaction cost	(39)	(39)
Net proceeds	1.961	1.961
Amount classified as equity	(110)	(110)
Expensed transaction cost	110	96
Carrying amount of liability	1.961	1.947

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 17,5% at period-end.

14. Group entities

The Company holds thirteen subsidiaries at the end of June 2010, which are all included in the consolidated interim financial statements. They are:

	Share
Route network:	
Bluebird Cargo ehf.	100%
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
Icelandair Ground Services ehf. (IGS)	100%
Tourism services:	
Air Iceland ehf.	100%
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%
Icelandair Shared Services ehf.	100%
Icelease ehf.	100%
IG Invest ehf.	100%
Loftleiðir - Icelandic ehf.	100%
Other operation:	
IceCap Ltd., Guernsey	100%
Discontinued operation:	
SmartLynx, Latvia	100%

The subsidiaries own 25 subsidiaries that are all included in the consolidated interim financial statements.

15. Statement of cash flows

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

	2010 1.1.-30.6	2009 1.1.-30.6
Expensed long term cost	2.304	1.670
Exchange rate difference and indexation of liabilities and assets	110	316
Gain on the sale of assets	(13)	(44)
Gain from assets held for sale	(916)	0
Share of profit of associates	(64)	(47)
Income tax	(397)	(213)
Total other operating items in the statement of cash flows	1.024	1.682

Interim Financial Information of Icelandair Group hf. 30 June 2010 15 Amounts are in ISK million

16. Restructuring

The Company has been working with its main creditors on improving its debt maturity profile and equity ratio. In March 2010 Icelandair Group hf. and its largest creditors, Íslandsbanki and Glitnir Bank hf., entered into framework agreement which sets forth the basic terms and conditions and the intensions of the Parties regarding the financial restructuring plan. The objectives of the restructuring plan are as follows:

- Debts amounting to ISK 3.6 billion will be converted to equity.
- Assets valued at ISK 7.6 billion, shares in Travel Service, Bluebird and IG Invest will be used to lower debts amounting to the same amount.
- Loan agreements with Íslandsbanki and Glitnir will be restated in the way that suits the Company´s maturity and currency risk profile.
- The Company will raise new share capital in 2010 from new investors in open and closed offerings for a total amount in the range of ISK 8-10 billion.
- Holders of issued bonds amounting to ISK 1.7 billion are asked to convert the debt to equity or extend the maturity of debts.

The Company commits in the agreement to hold a shareholders‘ meeting to obtain approval for the share capital increase set forth in the agreement.

In June 2010 The Enterprise Investment Fund (Framtakssjóður Íslands, FSI) and the Pension Fund of Commerce (Lífeyrissjóður verslunarmanna, PFC) have subscribed to ISD 1.6 billion in new shares at the price of 2,5 for a total of ISK 4.0 billion. This agreements was subject to conclusion of due diligence.

On 12 August 2010 the Company, its main creditors and FSI entered into agreement on executing the terms of the framework agreement signed in March 2010. New share capital amounting to ISK 5.5 billion has been raised and additional ISK 2.5 billion will be raised. Accordingly the Company has concluded that the financial restructuring process has been finalised.

17. Ratios

The Group's primary ratios are specified as follows:	30.6.2010	31.12.2009
Working capital ratio	0,56	0,58
Equity ratio	0,13	0,16
Intrinsic value of share capital	13,46	14,98

Interim Financial Information of Icelandair Group hf. 30 June 2010 16 Amounts are in ISK million