

## Improved results despite difficult external conditions

### Cash flow considerably stronger than last year

#### Second quarter performance, 2010

- + Total turnover was ISK 21.9 billion, up by 12.2% from the corresponding quarter of last year
- + EBITDA was ISK 2.1 billion, as compared to ISK 1.4 billion in the corresponding quarter of last year
- + The EBITDA ratio was 9.8%, as compared to 7.2% at the same time last year
- + Depreciation was ISK 1.3 billion
- + The EBITDAR ratio was 20.3%, as compared to 20.1% at the same time last year
- + Financial expenses amounted to ISK 1.1 billion, as compared to ISK 1.2 billion last year
- + Losses after taxes came to ISK 161 million, as compared to ISK 1.3 billion over the corresponding period of last year

#### Performance in the first six months of 2010

- + Total turnover was ISK 38.2 billion, increasing by 14% between years.
- + EBITDA was ISK 2.3 billion (6.1%), as compared to ISK 1.5 billion (4.4%) in the preceding year.
- + Depreciation was ISK 2.6 billion, up by ISK 220 million from last year.
- + The EBITDAR ratio was 17.4%, as compared to 17.2% at the same time last year.
- + Financial expenses amounted to ISK 1.8 billion, as compared to ISK 1.7 billion at the same time last year.
- + Net cash from operating activities amounted to 9.4 billion as compared to 5.0 billion at the same time last year.
- + Cash on 30 June amounted to ISK 7.5 billion, as compared to ISK 6.2 billion for the corresponding period of last year.
- + Total assets amounted to ISK 97.8 billion at the end of the period and the equity ratio was 13.4%, as compared to 17.8% at the same time last year

#### Operational Highlights Q2 and 6M (mISK)

	Q2 2010	Q2 2009	6M 2010	6M 2009
Operating Income	21,885	19,511	38,168	33,583
EBITDA	2,149	1,407	2,327	1,465
EBITDA ratio	9.8%	7.2%	6.1%	4.4%
EBIT	843	123	-320	-962
EBT	-207	-1,008	-2,043	-2,630
Net loss from continuing operations	-161	-849	-1,646	-2,232
Net loss for the period	-161	-1,340	-2,046	-4,979
EBITDAR	4,450	3,928	6,629	5,779
EBITDAR ratio	20.3%	20.1%	17.4%	17.2%

#### Björgólfur Jóhannsson, CEO:

*“Despite difficult external conditions, the Company’s total income increased in the first half of the year in excess of added capacity. The improved operation of the Company is reflected in increased EBITDA in the first half of the year by ISK 862 million. The EBITDA ratio was 6.1%, as compared to 4.4% in the first six months of last year.*

*The volcanic activity in Eyjafjallajökull had a severe impact on operations, as the Company reported earlier. In our assessment, the negative impact of the flight restrictions amounted to about ISK 1.5 billion. In our opinion the Company's staff showed extraordinary flexibility and nerve, which is best illustrated by the EBITDA from continuing operations in the first half of the year, which exceeded the budget in spite of the impact of the volcanic eruption. As a result, the decision has been made to increase the EBITDA forecast for the year from ISK 7.6 billion to ISK 8.5 billion in 2010, which corresponds to a 12% increase from the previously published forecast.*

*The Company's loss in the second quarter came to ISK 161 million, as compared to a loss of ISK 1.3 billion in the corresponding quarter of last year. Losses in the first six months of the year amounted to ISK 2 billion, as compared to almost five billion over the same period last year. At the end of June the Company's cash position was satisfactory, at ISK 7.5 billion.*

*The Company is optimistic for the success of the "Inspired by Iceland" campaign launched by Icelandair and other travel service companies in partnership with the Icelandic government early this summer. The campaign will be a powerful tool in our endeavour to increase the flow of tourists to Iceland in the spring and autumn months. On the whole, I am optimistic as regards the Company's future prospects and for the Icelandic tourist industry as a whole. The best months of the year in airline operations and tourist services lie ahead, and the Company expects that this will be reflected in the report for the third quarter.*

*Yesterday, Icelandair Group reached a milestone. Since October 2008 the Company has worked on the restructuring of its balance sheet. Now an agreement has been reached with our main creditors and investors, which connotes and the Company's debts and debt burden will decrease, In addition, new equity will be received, both as cash and with the conversion of debt into equity. For the first time in a long period of time the Company has a healthy and strong Balance Sheet. I think the future prospects in the operations of Icelandair Group are good."*

## Highlights from operations in the second quarter of 2010

As shown in the table below, **EBITDA** was ISK 2.1 billion, as compared to ISK 1.4 billion over the same quarter last year. The **EBITDA** ratio was 9.8% in the second quarter, as compared to 7.2% at the same time last year

**EBIT** was ISK 843 million, as compared to ISK 123 million at the same time last year. Losses after taxes over the quarter amounted to ISK 161 billion, as compared to ISK 1.3 billion over the corresponding period in 2009.

**Net cash from operating activities** amounted to 9.4 billion as compared to 5.0 billion at the same time last year.

**EBITDAR** amounted to ISK 4.5 billion, as compared to ISK 3.9 billion in the second quarter of 2009.

The **EBITDAR** ratio was 20.3% in the second quarter of 2010, as compared to 20.1% over the same quarter last year.

Financial Highlights of Q2 2010 and Q2 2009			
	Q2 2010	Q2 2009	% Chg.
Transport revenue.....	13.314	11.631	14%
Aircraft and aircrew lease.....	4.875	4.409	11%
Other.....	3.696	3.471	6%
<b>Operating Income.....</b>	<b>21.885</b>	<b>19.511</b>	<b>12%</b>
Salaries and related expenses.....	5.337	4.758	12%
Aircraft fuel.....	3.973	3.568	11%
Aircraft and aircrew lease.....	3.091	2.971	4%
Aircraft servicing, handling and comm.....	1.649	1.585	4%
Aircraft maintenance.....	1.836	1.553	18%
Other.....	3.850	3.669	5%
<b>EBITDA.....</b>	<b>2.149</b>	<b>1.407</b>	<b>53%</b>
<b>EBITDA ratio.....</b>	<b>9,8%</b>	<b>7,2%</b>	
<b>EBIT.....</b>	<b>843</b>	<b>123</b>	<b>-</b>
<b>EBT from continuing operations.....</b>	<b>-207</b>	<b>-1.008</b>	<b>-</b>
<b>Net Loss from continuing operations.....</b>	<b>-161</b>	<b>-849</b>	<b>-</b>
<b>Loss from discontinuing operations.....</b>	<b>0</b>	<b>-491</b>	<b>-</b>
<b>Loss for the period.....</b>	<b>-161</b>	<b>-1.340</b>	<b>-</b>
<b>EBITDAR.....</b>	<b>4.450</b>	<b>3.928</b>	<b>13%</b>
<b>EBITDAR ratio.....</b>	<b>20,3%</b>	<b>20,1%</b>	

**Total income** amounted to ISK 21.9 billion, as compared to ISK 19.5 billion in the corresponding quarter of last year, representing an increase of 12% between years.

**Total expenses**, net of depreciation, amounted to ISK 19.7 billion, as compared to ISK 18.1 billion in the second quarter of 2009.

**Transport revenues** increased by ISK 1.7 billion between the second quarters of 2009 and 2010, or by 15%.

**Charter revenues** increased by ISK 0.5 billion, or 11%, as compared to the second quarter of 2009.

**Other income** increased by ISK 0.2 billion from the second quarter of 2009, or by 7%.

**Salaries and personnel expenses** increased by ISK 0.6 billion, or by 12%, in comparison with the second quarter of 2009.

**Fuel costs** increased by ISK 0.4 billion, which represents an increase of 11% from the preceding year. The average world price of fuel in the second quarter of 2009 was USD 497 per ton, as compared to USD 704 per ton in the second quarter of 2010; this corresponds to an increase of 42%.

**Aircraft and aircrew lease** increased by ISK 0.1 billion between quarters, or 4%.

**Aircraft servicing, handling and navigation expenses increased** by ISK 63 million between years, or 4%.

**Maintenance costs** increased by ISK 0.3 billion between years, or 18%.

## Financial items in the second quarter of 2010

**Net finance cost** amounted to ISK 1.1 billion in the second quarter of 2010, as compared to ISK 1.2 billion in the corresponding period last year.

**Foreign currency loss** in the second quarter of 2010 amounted to ISK 163 billion, as compared to ISK 86 million in the corresponding quarter of last year.

<b>Net Finance Cost (mISK)</b>			
	<b>Q2 2010</b>	<b>Q2 2009</b>	<b>Diff.</b>
Interest income.....	83	48	35
Interest expenses.....	-971	-1.167	196
Currency effect.....	-163	86	-249
Gain from sale of derivatives.....	0	-126	126
<b>Net finance cost.....</b>	<b>-1.051</b>	<b>-1.160</b>	<b>109</b>

## First six months of 2010

The table below shows the highlights of Icelandair Group's financial report for the first six months of 2010.

**EBITDA** was ISK 2.3 billion, as compared to ISK 1.5 billion at the same time last year. The **EBITDA ratio** was 6.1%, as compared to 4.4% at the same time last year.

**EBIT** was negative by ISK 320 million, as compared to a negative result of ISK 962 million over the same period last year. Losses after taxes over the period amounted to ISK 2.0 billion, as compared to ISK 5.0 billion over the corresponding period in 2009.

**EBITDAR** amounted to ISK 6.6 billion, as compared to ISK 5.8 billion in the first six months of 2009. The **EBITDAR ratio** was 17.4% in the first six months of the year, as compared to 17.2% in the first half of last year.

<b>Financial Highlights of 6M 2010 and 6M 2009</b>			
	<b>6M 2010</b>	<b>6M 2009</b>	<b>% Chg.</b>
Transport revenue.....	22.016	18.763	17%
Aircraft and aircrew lease.....	9.719	9.064	7%
Other.....	6.433	5.756	12%
<b>Operating Income.....</b>	<b>38.168</b>	<b>33.583</b>	<b>14%</b>
Salaries and related expenses.....	9.841	8.994	9%
Aircraft fuel.....	6.644	5.549	20%
Aircraft and aircrew lease.....	5.941	5.649	5%
Aircraft servicing, handling and comm.....	2.783	2.545	9%
Aircraft maintenance.....	3.400	2.855	19%
Other.....	7.232	6.526	11%
<b>EBITDA.....</b>	<b>2.327</b>	<b>1.465</b>	<b>59%</b>
<b>EBITDA ratio.....</b>	<b>6,1%</b>	<b>4,4%</b>	
<b>EBIT.....</b>	<b>-320</b>	<b>-962</b>	<b>67%</b>
<b>EBT from continuing operations.....</b>	<b>-2.043</b>	<b>-2.630</b>	<b>22%</b>
<b>Net Loss from continuing operations.....</b>	<b>-1.646</b>	<b>-2.232</b>	<b>26%</b>
<b>Loss from discontinuing operations.....</b>	<b>-400</b>	<b>-2.747</b>	<b>-</b>
<b>Loss for the period.....</b>	<b>-2.046</b>	<b>-4.979</b>	<b>-</b>
<b>EBITDAR.....</b>	<b>6.629</b>	<b>5.779</b>	<b>15%</b>
<b>EBITDAR ratio.....</b>	<b>17,4%</b>	<b>17,2%</b>	

## Balance Sheet

Balance Sheet (mISK)	30.6.2010	31.12.2009	Diff.
Operating Assets.....	30.391	27.014	3.377
Intangible assets.....	23.781	23.598	183
Investment in associates.....	635	545	90
Aircraft purchase prepayments.....	1.179	1.134	45
Long-term receivables.....	3.365	3.449	-84
Long-term cost.....	1.318	1.347	-29
Assets held for sale.....	12.824	17.500	-4.676
Other assets.....	16.853	12.608	4.245
Cash and cash equivalents.....	7.471	1.909	5.562
<b>Total assets.....</b>	<b>97.817</b>	<b>89.104</b>	<b>8.713</b>
Stockholders equity.....	13.128	14.605	-1.477
Total non-current liabilities.....	18.976	19.618	-642
Liabilities held for sale.....	6.708	10.597	-3.889
Other liabilities.....	59.005	44.284	14.721
<b>Total equity and liabilities.....</b>	<b>97.817</b>	<b>89.104</b>	<b>8.713</b>
Equity ratio.....	13,4%	16,4%	
Current ratio.....	0,50	0,68	
Net interest-bearing debt.....	34.109	41.227	

**Assets** amounted to ISK 97.8 billion at the end of the second 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 13,4% at the end of the period.

**Investments in operating assets** over the period amounted to ISK 1.072 million.

**Net interest-bearing liabilities** amounted to ISK 34.0 billion, as compared to ISK 41.2 million at the beginning of the year.

## Cash Flow

Statement of Cash Flow (mISK)	6M 2010	6M 2009
Working capital from (used in) operations.....	1.708	-749
Net cash from operating activities.....	9.386	5.010
Net cash used in investing activities.....	-2.304	-1.780
Net cash used in financing activities.....	-1.543	-1.397
<b>Increase in cash and cash equivalents.....</b>	<b>5.539</b>	<b>1.833</b>
Effect of exchange rate fluctuations on cash held.....	23	287
Cash and cash equivalents at 1 January.....	1.909	4.065
<b>Cash and cash equivalents at 30 June.....</b>	<b>7.471</b>	<b>6.185</b>

**Working capital from operations** amounted to ISK 1.7 billion in the first six months of 2010, as compared to ISK 749 billion in **working capital used in operations** in the corresponding period of last year. The **cash flow** in the first half of the year was significantly stronger than over the same period last year.

**Net cash from operating activities** in the first six months of the year was ISK 9.4 billion, as compared to ISK 5.0 billion in the corresponding period of 2009.

**Cash at the end of the period** amounted to ISK 7.5 billion, as compared to ISK 6.2 billion for the corresponding period of last year.

## Highlights of operations by quarter

<b>Financial Highlights by Quarters (mISK)</b>					
	<b>Q2 2010</b>	<b>Q1 2010</b>	<b>Q4 2009</b>	<b>Q3 2009</b>	<b>Q2 2009</b>
Transport revenue.....	13.314	8.702	9.869	18.507	11.631
Aircraft and aircrew lease.....	4.875	4.844	5.454	4.908	4.409
Other.....	3.696	2.737	2.873	5.128	3.471
<b>Operating Income.....</b>	<b>21.885</b>	<b>16.283</b>	<b>18.196</b>	<b>28.543</b>	<b>19.511</b>
Salaries and related expenses.....	5.337	4.503	4.893	4.764	4.758
Aircraft fuel.....	3.973	2.671	2.816	4.885	3.568
Aircraft and aircrew lease.....	3.091	2.850	3.706	3.442	2.971
Aircraft servicing, handling and navigation.....	1.649	1.134	1.236	2.100	1.586
Aircraft maintenance.....	1.836	1.564	2.100	1.870	1.553
Other.....	3.850	3.382	3.663	4.593	3.669
<b>EBITDA.....</b>	<b>2.149</b>	<b>178</b>	<b>-219</b>	<b>6.890</b>	<b>1.407</b>
<b>EBIT.....</b>	<b>843</b>	<b>-1.163</b>	<b>-2.941</b>	<b>5.386</b>	<b>123</b>
<b>EBT from continuing operations.....</b>	<b>-207</b>	<b>-1.836</b>	<b>-5.833</b>	<b>3.995</b>	<b>-1.008</b>
<b>Net Profit.....</b>	<b>-161</b>	<b>-1.485</b>	<b>-5.126</b>	<b>3.374</b>	<b>-849</b>
Profit (Loss) from discontinuing operations.....	0	-400	-4.520	586	-490
<b>Profit/Loss for the period.....</b>	<b>-161</b>	<b>-1.885</b>	<b>-9.646</b>	<b>3.961</b>	<b>-1.340</b>

## Outlook for Icelandair Group hf.

In the assessment of the Company, the volcanic activity in Eyjafjallajökull cost the Group approximately ISK 1.5 billion. In the face of this fact, the Company's EBITDA in the first half of the year exceeded the projections made at the start of the year. As a result, the decision has been made to increase the EBITDA forecast for the year from ISK 7.6 billion to ISK 8.5 billion in 2010, which corresponds to a 12% increase from the previously published forecast.

The long-term prospects for Icelandair Group's operations are favourable, in the opinion of the Company's management.

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 the second quarter and first six months of 2010 were approved at a meeting of the Board of Directors on 13 August 2010. The interim accounts have been reviewed by the Company's auditors, KPMG Endurskodun hf.

## Highlights of the period and after the reporting date

Icelandair Group hf. announced on 14 and 15 June 2010 that the Enterprise Investment Fund (EIF) and the Pension Fund of Commerce (PFC) had entered into a binding agreement with the Company to the effect that the two funds would invest in Icelandair Group for ISK 4 billion at a share price of 2.5. In the agreement EIF undertook to contribute ISK 3 billion, thereby acquiring 1.2 billion new shares in the Company. The PFC undertook to contribute ISK 1 billion, thereby acquiring 400 million new shares in the Company.

*The agreements were concluded with the following conditions:*

- + Positive results of Icelandair Group due diligence
- + Exemption of the EIF by the Financial Supervisory Authority (FME) from an obligatory take-over of the Company
- + Achievement by Icelandair Group hf. of a minimum of ISK one billion in market value of new shares from other investors

All of the above conditions have been met, and investors have subscribed to a total of ISK 5.5 billion at market value in new share capital, which corresponds to 2.2 billion new shares in Icelandair Group hf.

The agreement assumes the conversion by Icelandair's largest creditors of debts in the amount of ISK 3.6 billion krona, which corresponds to a subscription to 720 million new shares. The total increase in share capital will thus amount to 2.92 million new shares at nominal value.

Icelandair Group hf. plans furthermore to raise approximately ISK 2.5 billion in additional share capital. The timing and structure of that offering will be disclosed later.

It is assumed that the sales of assets in connection with the restructuring process will be executed in the third quarter of 2010.

The balance sheet below shows the effects of the restructuring on the Company's balance sheet as of 30 June 2010, take into consideration 5.5 billion krona sale of shares.

Balance Sheet (mISK)	30.6.2010	After restructuring	Diff.
Operating Assets.....	30.391	30.444	53
Intangible assets.....	23.781	23.176	-605
Long-term receivables .....	3.365	1.576	-1.789
Long-term cost.....	1.318	1.318	0
Assets held for sale.....	12.824	0	-12.824
Other assets.....	18.667	17.950	-717
Cash and cash equivalents.....	7.471	13.175	5.704
<b>Total assets.....</b>	<b>97.817</b>	<b>87.639</b>	<b>-10.178</b>
Stockholders equity.....	13.128	23.464	10.336
Total non-current liabilities.....	18.976	28.573	9.597
Liabilities held for sale.....	6.708	0	-6.708
Other liabilities.....	59.005	35.602	-23.403
<b>Total equity and liabilities.....</b>	<b>97.817</b>	<b>87.639</b>	<b>-10.178</b>
Equity ratio.....	13,4%	26,8%	
Net interest bearing debt.....	34.237	14.418	-19.819

## The largest shareholders in Icelandair Group hf., 12 August 2010.

Shareholder	Share in %
Íslandsbanki hf.	46.98%
Landsbanki Íslands hf.	23.83%
Sparisjóðabanki Íslands hf.	9.36%
Alnus ehf.	3.30%
Icelandair Group hf.	2.55%
Glitnir banki hf.	2.09%
Sigla ehf.	2.00%
Útboð og samningar ehf.	1.82%
Arkur ehf.	1.75%
N1 hf.	1.28%

## Financial Calendar 2010

Financial statement for the third quarter – week 44, 2010

Financial statement for the fourth quarter – week 6, 2011

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