

Icelandair Group results for the first quarter of 2009

- Results better than anticipated in spite of extremely challenging operating environment
- Best performance of the Icelandic airline, Icelandair in the first quarter since the company was organised in its present form
- Travel Service was not a part of Icelandair Group in the first quarter of 2008
- The company's total turnover was ISK 20.7 billion, increasing by 48% from the preceding year
- EBITDA was negative by ISK 2.3 billion, as compared to a negative result of ISK 0.9 billion in the corresponding period of last year. Q1 plans expected a negative EBITDA amounting to ISK 4,1 billion.
- EBIT was negative by ISK 3.5 billion, as compared to a negative result of ISK 1.7 billion for the corresponding period of last year
- Loss after taxes came to ISK 3.6 billion, as compared to ISK 1.7 billion for the corresponding period of last year
- Cash at the end of the period amounted to ISK 2.8 billion, as compared to ISK 3.3 billion at the end of the corresponding period of last year
- Assets amounted to ISK 98.1 billion at the end of March 2009, as compared to ISK 98.9 billion at year-end 2008
- The equity ratio was 17.2% at the end of March 2009, down from 20.3% at the end of 2008
- EBITDA for the whole year 2009 estimated to be approximately ISK 6 billion

Icelandair Group CEO Björgólfur Jóhannsson:

„Due to seasonality, the first quarter results generally show an after tax loss, however Icelandair Group's operations were better than anticipated. The most decisive factor was that the performance of the largest companies in the Group, the Icelandic airline Icelandair and Travel Service in the Czech Republic, was considerably in excess of expectations; Icelandair has not returned a better EBITDA in the first quarter since the company was formed in its current form in 2002. Also, the operation of Loftleidir-Icelandic exceeded expectations. On the other hand, the operation of SmartLynx in Latvia was less successful than we had hoped.

In the difficult environment of our home market and abroad we have managed a defensive victory in the operations of most of the companies within the Group. Our streamlining efforts returned successful results and played a major role in the satisfactory operation of our companies across the board.

Icelandair Group has been working in close co-operation with its partner bank on restructuring its finances; these efforts have shown good progress. The objective of our work has been to adapt our outlays to the cash flow returned by the Group over the long term. We are anticipating the completion of these efforts over the coming weeks, and at the end of April we finalised the extension of an ISK 2.5 billion loan for a period consistent with the projected completion of our restructuring efforts.

We are still facing significant global economic uncertainties which could impact the demand for airline and tourist services. Uncertainties relating to exchange rates and access to capital contribute to even more difficult conditions. On the other hand, our charter flight situation is favourable at this point in time, and the Icelandair booking status for the summer is good. This is cause for cautious optimism, and in any case all changes bring with them some opportunities. Our staff have been indefatigable in looking out for new opportunities throughout this period, and Icelandair's Seattle flights, starting in July, is a case in point. The new route will strengthen the pillars of Icelandair's network while at the same time creating jobs for our crews and supporting staff.“

Financial highlights of the first quarter of 2009

ISK' 000.000	Proforma *					
	Q1 09	%	Q1 08	%	Q1 08	%
Transport revenue	7.310	35%	6.773	48%	7.109	41%
Aircraft and aircrew lease	11.273	54%	5.187	37%	8.257	47%
Other	2.133	10%	2.050	15%	2.158	12%
Operating Income	20.716	100%	14.010	100%	17.524	100%
Salaries and related expenses	5.392	26%	5.005	36%	5.600	32%
Aircraft fuel	3.847	19%	2.622	19%	3.628	21%
Aircraft and aircrew lease	4.892	24%	2.551	18%	3.149	18%
Aircraft servicing, handling and comm.	2.568	12%	996	7%	1.730	10%
Aircraft maintenance	2.777	13%	1.112	8%	1.712	10%
Other	3.546	17%	2.581	18%	2.917	17%
EBITDA	-2.306	-11%	-857	-6%	-1.212	-7%
EBIT	-3.504	-17%	-1.663	-12%	-2.032	-12%
EBT	-4.055	-20%	-2.081	-15%	-2.379	-14%
Net Profit	-3.639	-18%	-1.678	-12%	-1.916	-11%
EBITDAR	2.388	12%	705	5%	1.528	9%

*Travel Service included in Q108

Results

EBITDA was negative by ISK 2.3 billion, as compared to a negative result of ISK 0.9 billion for the corresponding period of last year. EBIT was negative by ISK 3.5 billion, as compared to a negative result of ISK 1.7 billion for the same period of last year. Losses after taxes over the quarter amounted to ISK 3.6 billion, as compared to ISK 1.7 billion over the corresponding period of last year. EBITDAR amounted to ISK 2.4 billion, as compared to ISK 0.7 billion in 2008.

The operating environment in air transport and tourist services was much worse in the first three months of 2009 than in the same period of 2008. It also needs to be kept in mind in any comparison between years that Travel Service was included in the Group as of 1 April 2008. Also, SmartLynx returned losses over the quarter which were substantially in excess of the losses in 2008. The following table shows a comparison between the operations of the Icelandic companies within Icelandair Group, i.e. excluding SmartLynx and Travel Service.

Financial highlights of the first quarter of 2009, excluding SmartLynx and Travel Service

ISK' 000.000	Q1 09		Q1 08	
	14.072		12.621	
EBITDA	58	0%	-808	-6%
EBIT	-1.085	-8%	-1.578	-13%

As the table shows, there were significant improvements in these segments, which is excellent performance in light of the operating environment.

Segments in the first quarter of 2008 – comparison

ISK'000.000						
	Scheduled Airline and Tourism			Capacity Solutions		
	Q1 09	Q1 08	Diff	Q1 09	Q1 08	Diff
Segment revenue	13.999	13.026	7%	11.826	4.681	153%
Segment cost	-14.249	-14.016	2%	-13.676	-4.386	212%
EBITDA	-250	-990	-75%	-1.850	295	N/A
EBIT	-1.180	-1.596	-26%	-2.109	164	N/A
Net finance cost	215	92	134%	-69	-50	38%
Share of profit(loss) of associates	0	0	N/A	18	-51	N/A
EBT	-965	-1.504	-36%	-2.160	63	N/A
Income tax	144	266	-46%	129	-31	N/A
Net Profit/Loss	-821	-1.238	-34%	-2.031	32	N/A
EBITDAR	1.410	-35	-4129%	1.181	902	31%

Segments in the first quarter of 2009

ISK'000.000					
	Q1 2009				
	Scheduled airline	Capacity solutions	Shared Services	Elimi- nations	Con- solidated
Segment revenue	13.999	11.826	178	-5.287	20.716
Segment cost	-14.249	-13.676	-384	5.287	-23.022
EBITDA	-250	-1.850	-206		-2.306
EBIT	-1.180	-2.109	-215		-3.504
Net finance cost	215	-69	-715		-569
Share of profit of associates	0	18	0		18
EBT	-965	-2.160	-930		-4.055
Income tax	144	129	143		416
Net Loss	-821	-2.031	-787		-3.639

First-Quarter Operation in 2009

Total income amounted to ISK 20.7 billion, as compared to ISK 14.0 billion in the corresponding quarter of last year, representing an increase of 48% between years. A large part of the increase can be attributed to the inclusion of Travel Service, in addition to the weakening of the Icelandic króna.

Income from scheduled airlines and tourism, which includes the companies Icelandair, IGS, Icelandair Hotels, Iceland Travel, Air Iceland and Icelandair Cargo, amounted to ISK 14.0 billion in 2009, as compared to ISK 13.0 billion in the corresponding period of 2008, increasing by 7% between years. Expenses amounted to ISK 14.2 billion, as compared to ISK 14.0 billion in the corresponding period of 2008, which represents an increase of 2% between years. EBITDA was negative by ISK 0.25 million, as compared to a negative result of ISK 1.0 billion in the corresponding period of last year. Loss after tax for the segment was ISK 0.8 billion, as compared to a loss of ISK 1.2 billion for the corresponding period of last year. The results of Icelandair Cargo fell considerably short of expectations, but this was offset, by a considerable margin, by the performance of Icelandair. EBITDAR was ISK 1.4 billion, as compared to a negative result of ISK 35 million in the corresponding period of last year.

Income from capacity solutions, which includes the companies Travel Service, Loftleidir Icelandic, SmartLynx, Icelease and Bluebird Cargo, amounted to ISK 11.8 billion, as compared to ISK 4.7 billion in the corresponding period of 2008. Expenses amounted to ISK 13.7 billion, as compared to ISK 4.4 billion over the same period in

2008. EBITDA was negative by ISK 1.9 billion, as compared to a positive figure of ISK 0.3 billion in the corresponding period of last year. Loss after tax for the segment was ISK 2.0 billion, as compared to a profit of ISK 32 million in the corresponding period of last year. A large part of the increase can be attributed to the inclusion of Travel Service, and also the price trend of the Icelandic króna. The operation of SmartLynx was difficult in the first quarter, but the results of the segment as a whole were nevertheless in line with expectations. The reason is that both Loftleidir-Icelandic and Travel Service returned significantly better results than anticipated.

EBITDAR was ISK 1.2 billion, as compared to ISK 0.9 billion in the corresponding period of last year.

Transport revenues increased by ISK 0.5 billion between the first quarters of 2008 and 2009, or by 8%. Revenue from passenger transport increased by 7.8% between years, or ISK 0.4 billion, while revenue from cargo and mail transport increased by 8.3 %, or ISK 0.1 billion. For Icelandair, passenger revenues decreased by 21.9% between the first quarters of 2008 and 2009, with the number of passengers falling by 27.8%, to 189,000, in the first quarter of 2009. The passenger load factor fell from 72% to 69%, i.e. by 3 percentage points, but unit revenues calculated at a fixed exchange rate increased by 6% as a result of an improved “to/from/via” passenger mix.

Charter revenues increased by ISK 6.1 billion from the first quarter of 2008.

Other income increased by ISK 1.0 billion from the first quarter of 2008, or by 4%.

Salaries and personnel expenses increased by ISK 0.4 billion, or 8%, from the first quarter of 2008, which in fact amounts to a 10% reduction in real terms from the preceding year, as ISK 0.9 billion can be attributed to the inclusion of Travel Service. The average number of full-time equivalent positions in the first quarter of 2009 was 2618, as compared to 2958 positions last year, including Travel Service. This represents a reduction of 11%.

Fuel costs increased by ISK 1.2 billion, which represents an increase of 47 % from the preceding year. Taking the fuel costs of Travel Service into account the increase was 6%. The average fuel price in the first quarter of 2009 was USD 455 per ton, as compared to USD 947 per ton at the same time last year; this corresponds to a reduction of 52% between periods.

Aircraft and aircrew lease increased by ISK 2.3 billion between years, or 92%. Adjusted for Travel Service the real-term increase between periods was 55%.

Aircraft servicing, handling and navigation increased by ISK 1.6 billion between years, or 158%. Adjusted for Travel Service, the increase amounted to 48%.

Aircraft maintenance increased by ISK 1.7 billion between years, or 150%; most of the increase can be attributed to Travel Service, or ISK 1.5 billion. Adjusted for Travel Service, the increase was 62%.

Financials

ISK'000.000	Q1 09	Q1 08	Diff.
Interest income	35	88	-53
Interest expenses	-1.058	-861	-197
Currency effect	376	406	-30
Gain from sale of derivatives	78	0	78
Net finance cost	-569	-367	-202

Net financial costs were negative by ISK 0.6 billion, as compared to a negative result of ISK 0.4 billion in the corresponding quarter of 2008.

Financial income was ISK 0.1 billion the same as it was in the corresponding period of last year.

Finance cost rose by ISK 0.2 billion between the first quarters of 2008 and 2009.

Currency Effects were ISK 0.4 billion in the first quarter; the same as in the corresponding quarter of last year.

Balance Sheet

ISK'000.000	31/03/09	31/12/08	Diff.
Operating Assets	36.571	36.798	-227
Intangible assets	29.217	29.306	-89
Investment in associates	1.009	1.008	1
Aircraft purchase prepayments	4.365	4.226	139
Long-term receivables	6.243	6.054	189
Cash and cash equivalents	2.824	4.065	-1.241
Other assets	17.874	17.373	501
Total assets	98.103	98.830	-727
Stockholders equity	16.921	20.080	-3.159
Total non-current liabilities	23.907	25.112	-1.205
Total current liabilities	57.275	53.638	3.637
Total equity and liabilities	98.103	98.830	-727

There have been no significant changes in the company's balance sheet since the turn of the year, apart from the reduction in equity resulting from operating losses.

Assets amounted to ISK 98.1 billion at the end of March 2009, as compared to ISK 98.8 billion at year-end 2008

Investments in operating assets over the period amounted to ISK 1.1 billion, with the largest factor being investments in engine hours and maintenance parts.

Interest bearing debt amounted to ISK 44.5 billion, increasing by ISK 0.9 billion from the turn of the year.

Cash Flow

ISK'000.000		
	Q1 09	Q1 08
Working capital (to) from operations	-2.715	156
Net cash (to) from operating activities	-634	3.081
Net cash (used in) from investing activities	-933	196
Net cash from (used in) financing activities	472	-2.293
Decrease in cash and cash equivalents	-1.095	984
Effect of exchange rate fluctuations on cash held	-146	284
Cash and cash equivalents at 1 January	4.065	2.006
Cash and cash equivalents at 31 March	2.824	3.274

Working capital to operations amounted to ISK 2.7 billion in the first three months of the year, as compared to ISK 0.2 billion in working capital from operating activities in the corresponding period of the preceding year

Net cash used in operating activities in the first three months of the year amounted to ISK 0.6 billion, as compared to ISK 3.1 billion in net cash from operating activities in the first three months of 2008.

Cash at the end of the period amounted to ISK 2.8 billion, as compared to ISK 3.3 billion at the end of the corresponding period of last year.

Quarterly comparison – highlights

ISK'000.000					
	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09
Transport revenue	6.773	12.208	17.409	9.523	7.310
Charter revenue	5.187	12.898	19.441	15.529	11.273
Other	2.050	3.848	4.615	3.258	2.133
Operating Income	14.010	28.954	41.465	28.310	20.716
Salaries and related expenses	5.005	6.229	6.455	6.416	5.392
Aircraft fuel	2.622	6.538	9.977	6.750	3.847
Aircraft and aircrew lease	2.551	3.684	3.788	5.322	4.892
Aircraft servicing, handling and navigation	996	3.752	6.405	4.362	2.568
Aircraft maintenance	1.112	2.707	3.528	3.967	2.777
Other	2.581	4.189	5.129	3.826	3.546
EBITDA	-857	1.855	6.183	-2.333	-2.306
EBIT	-1.663	901	5.108	-10.035	-3.504
EBT	-2.081	655	5.104	-10.503	-4.055
Net Profit	-1.678	395	4.385	-10.570	-3.639
EBITDAR	705	5.279	8.805	2.377	2.388

Outlook for Icelandair Group

The Group's capacity utilization in charter flights for the remainder of the year is excellent. The booking status in scheduled flights for the summer is good, but there is some uncertainty regarding demand in the autumn. The streamlining measures that the Group has taken are returning improved operations. The Group's budget assumes an improvement in EBITDA between the years 2008 and 2009, projecting an EBITDA of approximately ISK 6 billion.

Audit

The consolidated accounts of Icelandair Group for the first quarter of 2009 were approved at a meeting of the Board of Directors on 8 May 2009. The interim statement has been reviewed by the Company's auditors.

Presentation 11 May

An open presentation for stakeholders will be held on Monday, 11 May 2009, at the Hotel **Hilton Reykjavik Nordica**. Björgólfur Jóhannsson, Icelandair Group CEO, will present the Company's results and answer 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

Second Quarter 2009 Week 32 2009
Third Quarter 2009 Week 45 2009
2009 Financial Statement Week 7 2010

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