

### Icelandair Group results for the third quarter of 2008

- The total turnover of the Company was ISK 41.5 billion, increasing by 107% from the corresponding quarter of last year
- EBITDA was ISK 6.2 billion, as compared to ISK 3.7 billion in the corresponding period of last year
- EBIT was ISK 5.1 billion, as compared to ISK 2.8 billion in the corresponding period of last year
- Profit after taxes was ISK 4.4 billion, as compared to ISK 2.1 billion for the corresponding period of last year
- Net cash at the end of the quarter was ISK 7.4 billion, as compared to ISK 3.8 billion for the corresponding period of last year.

### Icelandair Group results for first nine months of 2008

- The total turnover of the Company was ISK 84.4 billion, increasing by 75% from the corresponding quarter of last year
- EBITDA was ISK 7.2 billion in 2008, as compared to ISK 5.0 billion in the corresponding period of last year
- EBIT was ISK 4.3 billion, as compared to ISK 2.6 billion in the corresponding period of last year
- Profit after taxes was ISK 3.1 billion, as compared to ISK 1.0 billion for the corresponding period of last year
- Total assets amounted to ISK 101.5 billion at the end of September 2008, as compared to ISK 66.8 billion at year-end 2007
- The equity ratio was 33.1% at the end of the third quarter of 2008, as compared to 37.5% at the end of 2007
- Net cash from operations was ISK 9.3 billion, as compared to ISK 3.9 billion at the corresponding time last year.

### *Björgólfur Jóhannsson, CEO of Icelandair Group:*

"We are pleased with our third-quarter performance, particularly in light of the difficult external conditions. The results show the strength and flexibility of the Group and our ability to respond swiftly to changes. The results in the first three quarters of the year are better than at the same time in 2007, particularly if we take into account that there were no gains from aircraft sales, which amounted to ISK 1.2 billion in 2007

Icelandair Group is an international group of companies with operations around the world. Income is generated in numerous regions and from various service factors, and only 22% of the Group's income is in Icelandic krónur. The Company does business in various currencies, although the greatest part of the turnover is in Euros, US dollars and Czech korunas. This diversity in income generation is a source of great strength in the current turbulence, and it is worth noting that Icelandic passengers account for only 12% of the Group's income.

The operation of Travel Service in the Czech Republic, the Group's second largest company, was successful over the quarter; the new company was included in the consolidated accounts as of 1 April 2008.

In Icelandair, the Group's largest company, extensive streamlining measures have been taken to respond to the changed operating environment. Capacity has been reduced by 20%, and costs have been cut even further. This autumn the company has focused on increased efforts to market Iceland abroad, with excellent results, in order to meet the recession in Iceland.

Measures have also been taken in other companies in the light of their respective circumstances. This applies in particular to Icelandair Cargo and SmartLynx, who performed below expectations.

The Group's net cash at the end of September was ISK 7.4 billion. In October, conditions in the financial markets have deteriorated significantly, particularly in Iceland. Suppliers have cut credit times, foreign financial institutions have been keen to reduce their exposure to Iceland and the Icelandic financial market has been more or less dysfunctional. Despite all this, the Group has met all its obligations. At the end of January, the Company will have notes falling due amounting to ISK 2.5 billion. Work is in progress on refinancing these notes in co-operation with its creditors.

The position that has come up in the Icelandic economic and operating environment, together with the global liquidity and credit crunch, has transformed the Company's operating climate. There is great uncertainty and no doubt this will have a negative impact on the fourth-quarter figures and operations in 2009. At this point in time it is impossible to predict the extent of the impact, but the Group's strength lies in its flexibility and diversification of risk, which will be an advantage in times like these. We are convinced that the actions that were taken earlier in the year and the streamlining measures that are currently in progress will enable us to overcome the challenges ahead in the current economic climate.

*Financial highlights of the third quarter and first nine months of 2008*

ISK '000.000						
	Q3 08	Q3 07		9M 08	9M 07	
Transport revenue	17.409	11.994	45%	36.390	27.995	30%
Aircraft and aircrew lease	19.441	4.615	321%	37.526	10.978	242%
Other	4.615	3.429	35%	10.513	9.161	15%
Operating Income	41.465	20.038	107%	84.429	48.134	75%
Salaries and related expenses	6.455	4.672	38%	17.689	14.603	21%
Aircraft fuel	9.977	3.039	228%	19.137	7.299	162%
Aircraft and aircrew lease	3.788	2.297	65%	10.023	5.398	86%
Aircraft servicing, handling and comm.	6.405	1.366	369%	11.153	3.307	237%
Aircraft maintenance	3.528	1.384	155%	7.347	3.490	111%
Other	5.129	3.559	44%	11.899	9.075	31%
EBITDA	6.183	3.721	66%	7.181	4.962	45%
EBIT	5.108	2.843	80%	4.346	2.646	64%
EBT	5.104	2.519	103%	3.678	1.248	195%
Net Profit	4.385	2.061	113%	3.102	1.037	199%
EBITDAR	8.805	5.289	66%	14.789	8.940	65%

**Net profit**

EBITDA was ISK 6.2 billion, as compared to ISK 3.7 billion in the corresponding period of last year. EBIT was ISK 5.1 billion, as compared to ISK 2.8 billion in the corresponding period of last year. Profit was ISK 4.4 billion, as compared to ISK 2.1 billion in the corresponding period of 2007.

EBITDAR is a performance indicator frequently used in air carrier operations, where rent is excluded from the EBITDA in order to give a clearer picture of the operations themselves, as cost of ownership represents an unusually high proportion of operating cost. EBITDAR in the third quarter of 2008 was ISK 9 billion, as compared to ISK 5.4 billion in the third quarter of 2007.

**Segments – third quarter – comparison between years**

ISK '000.000						
	Scheduled Airline and Tourism			Capacity Solutions		
	3Q 08	3Q 07	Diff	3Q 08	3Q 07	Diff
Segment revenue	24.271	19.265	26%	21.698	4.234	412%
Segment cost	-20.998	-15.866	32%	-18.682	-3.830	388%
EBITDA	3.273	3.399	-4%	3.016	404	647%
EBIT	2.476	2.725	-9%	2.746	204	1246%
Net finance cost	-74	17	N/A	225	-60	N/A
Share of profit of associates	0	0	N/A	45	48	-6%
EBT	2.402	2.742	-12%	3.016	192	1471%
Income tax	-251	-481	-48%	-623	-92	577%
Net Profit	2.151	2.261	-5%	2.393	100	2293%
EBITDAR	4.360	4.439	-2%	4.601	932	394%

### Third-quarter operations in 2008

Total income amounted to ISK 41.5 billion, as compared to ISK 20.0 billion in the corresponding quarter of last year, representing an increase of 107% between years. A large part of the increase in income, i.e. 58%, stems from the inclusion of Travel Service in the Group as of 1 April 2008; the remaining increase in turnover is explained by factors which include increased charter operations and the weakening of the Icelandic króna against other currencies. Earnings before financial items amounted to ISK 5.1 billion, as compared to ISK 2.8 billion in the third quarter of 2007.

Income from Scheduled Airlines and Tourism amounted to ISK 24.3 billion in 2008, as compared to ISK 19.3 billion in the corresponding period of 2007, increasing by 26% between years. Expenses amounted to ISK 21.0 billion in 2008, as compared to ISK 15.9 billion in the corresponding period of 2007, which represents an increase of 32% between years. EBITDA was ISK 3.3 billion, as compared to ISK 3.4 billion in the corresponding period of last year, down by 4%. The profit of the segment after taxes was ISK 2.2 in 2008, as compared to ISK 2.3 billion in the corresponding period of 2007. EBITDAR was ISK 4.4 billion, and also ISK 4.4 billion in the corresponding period of last year

Income from Capacity solutions amounted to ISK 21.7 billion, as compared to ISK 4.2 billion in the corresponding period of 2007. Expenses amounted to ISK 18.7 billion, as compared to ISK 3.8 billion in 2007. EBITDA was ISK 3.0 billion, as compared to ISK 0.4 billion in the corresponding period of last year. Profit after taxes for the segment was ISK 2.4 billion, as compared to ISK 0.1 billion for the corresponding period of last year. EBITDAR was ISK 4.6 billion, as compared to ISK 0.9 billion in the corresponding period of last year.

Transport revenues increased by ISK 5.4 billion between the third quarters of 2007 and 2008, or by 45%. Revenue from passenger transport increased by 48.3% between years, or ISK 5.2 billion, while revenue from cargo and mail transport increased by 15.7 %, or ISK 183 million. For Icelandair, passenger revenues increased by 3.1% between the third quarters of 2007 and 2008, while the number of passengers fell by 8% to 527,000 in the third quarter of 2008. The load factor increased in the third quarter of 2008 from 79.3% to 80.8%, i.e. by 1.5 percentage points, and unit price calculated at fixed exchange rate increased by 14.7% as a result of an improved "to/from/via" passenger mix.

Charter revenues increased by ISK 14.8 billion between the third quarters of 2007 and 2008. This increase is primarily the result of the inclusion of Travel Service, which accounted for ISK 13.1 billion, and also of increased business activities amounting to ISK 1.7 billion, taking the increase between quarters to 37%.

Other revenues increased by ISK 1.2 billion between the third quarters of 2007 and 2008, i.e. by 35%. The principal reason is that handling- and service revenues from air cargo increased by ISK 394 million, or 89%.

Salaries and related expenses increased by ISK 1.8 billion, or 38%, between the third quarters of 2007 and 2008, with over half of this figure, or ISK 1.1 billion, resulting from the inclusion of Travel Service. The total number of average full-time positions per month in the third quarter of 2008 was 3,683, which represents an increase of 19% from the corresponding period of 2007. The total number of full-time equivalent positions at Icelandair has fallen by 93, or 7%, but the number of positions at SmartLynx increased by 26, or 16%, as a result of increased business. The number of full-time positions at Travel Service is 656, and if adjustments are made for this figure, the reduction in the number of full-time position equivalents was 2% from last year.

In the first nine months of the year, salaries and related expenses have increased by 21%, or ISK 3.1 billion, between years. Adjusted for the impact of Travel Service, the real-term increase in salaries was 9% between years, as compared to an 8% rise in the wage index over the first nine months of the year.

Fuel costs rose in the third quarter by ISK 6.9 billion, which corresponds to a 228% increase from the same period last year. The impact of Travel Service was approximately 4.1 billion, so that adjusted for this impact the increase was 92%. The average price of fuel in the third quarter of 2008 was USD 1,184 per ton, as compared to USD 716 per ton at the corresponding time last year, representing an increase of 65% between periods.

Aircraft and aircrew lease in the third quarter increased by ISK 1.5 billion between years, or 65%. This is in fact a minor increase, as ISK 1.3 billion of this figure can be attributed to Travel Service.

Aircraft servicing, handling and navigation increased by ISK 5.0 billion between years, of which 89% can be attributed to Travel Service.

Aircraft maintenance in the third quarter increased by ISK 2.1 billion between years, of which half can be attributed to Travel Service.

**Segments in the third quarter of 2008**

ISK '000.000	Q3 2008				
	Scheduled Airline	Capacity solutions	Shared Services	Elimi- nations	Con- solidated
Segment revenue	24.271	21.698	433	-4.937	41.465
Segment cost	-20.998	-18.682	-539	4.937	-35.282
EBITDA	3.273	3.016	-106	0	6.183
EBIT	2.476	2.746	-114	0	5.108
Net finance cost	-74	225	-200	0	-49
Share of profit of associates	0	45	0	0	45
EBT	2.402	3.016	-314	0	5.104
Income tax	-251	-623	155	0	-719
Net Profit/Loss	2.151	2.393	-159	0	4.385

**Financials**

ISK '000.000	Q3 2008 vs Q3 2007		
	Q3 08	Q3 07	Diff.
Interest income	122	101	21
Interest expenses	-844	-525	-319
Currency effect	673	52	621
Net finance cost	-49	-372	323

Net financial cost was negative by ISK 49 million, as compared to a negative result of ISK 372 million in the corresponding period of 2007.

Financial income amounted to ISK 122 million, as compared to ISK 101 million in the corresponding quarter of last year.

Finance cost increased by ISK 319 million between the third quarters of 2007 and 2008.

Currency gains increased by ISK 621 between the third quarters of 2007 and 2008.

**Balance Sheet**

ISK '000.000	30/09/08	31/12/07	Diff.
Operating Assets	34.341	22.832	11.509
Intangible assets	34.472	26.846	7.626
Investment in associates	828	2.335	-1.507
Aircraft purchase prepayments	2.857	249	2.608
Long-term receivables	4.781	1.788	2.993
Cash and cash equivalents	7.417	2.006	5.411
Other assets	16.796	10.704	6.092
<b>Total assets</b>	<b>101.492</b>	<b>66.760</b>	<b>34.732</b>
Stockholders equity	33.578	25.033	8.545
Total non-current liabilities	23.685	14.174	9.511
Total current liabilities	44.229	27.553	16.676
<b>Total equity and liabilities</b>	<b>101.492</b>	<b>66.760</b>	<b>34.732</b>

Total assets amounted to ISK 101.5 billion at the end of September 2008, as compared to ISK 66.8 billion at year-end 2007. The increase in total assets is largely a result of the weakening of the króna against other currencies and the inclusion of Travel Service in the Group.

Operating assets have increased by ISK 11.5 billion since the turn of the year. The increase is largely a result of two factors: on the one hand the impact the weakening of the Icelandic króna, and on the other hand due to investments over the period amounting to ISK 4.3 billion.

Investments in operating assets over the period January to September amounted to ISK 4.3 billion, of which 1.7 were invested in new seats and entertainment systems for Icelandair's aircraft. Investments in engine hours amounted to ISK 1.0 billion.

Intangible assets have increased by ISK 7.6 billion from year-end. The increase resulting from the inclusion of Travel Service amounted to ISK 2.5 billion, but in other respects the increase is a result of the weakening of the Icelandic króna.

Long-term liabilities have increased by ISK 9.5 billion from year-end.

Short-term liabilities have increased by ISK 16.7 billion from year-end.

Interest-bearing debts amounted to ISK 35.2 billion, having increased by ISK 10.2 billion from year-end

## Cash flow

ISK '000.000		
	9M 08	9M 07
Working capital from operations	8.131	2.054
Net cash from operating activities	9.318	3.924
Net cash used in investing activities	-3.245	-2.369
Net cash used in financing activities	-2.106	-463
<b>Increase in cash and cash equivalents</b>	<b>3.967</b>	<b>1.092</b>
Effect of exchange rate fluctuations on cash held	1.444	-106
Cash and cash equivalents at 1 January	2.006	2.776
<b>Cash and cash equivalents at 30 September</b>	<b>7.417</b>	<b>3.762</b>

Working capital provided by operating activities amounted to ISK 8.1 billion in the first nine months of the year, as compared to ISK 2.1 billion in the corresponding period of the preceding year.

Net cash provided by operating activities in the first nine months of 2008 amounted to ISK 9.3 billion, as compared to ISK 3.9 billion in the first 9 months of 2007.

Net cash at the end of the period was ISK 7.4 billion, as compared to ISK 3.8 billion at the corresponding time last year.

**Quarterly comparison – highlights**

ISK '000.000					
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Transport revenue	11.994	7.954	6.773	12.208	17.409
Charter revenue	4.615	4.532	5.187	12.898	19.441
Other	3.429	2.857	2.050	3.848	4.615
Operating Income	20.038	15.343	14.010	28.954	41.465
Salaries and related expenses	4.672	5.405	5.005	6.229	6.455
Aircraft fuel	2.609	2.900	2.622	6.538	9.977
Aircraft and aircrew lease	3.583	669	2.551	3.684	3.788
Aircraft servicing, handling and navigation	969	1.457	996	3.752	6.405
Aircraft maintenance	996	2.026	1.112	2.707	3.528
Other	3.488	2.371	2.581	4.189	5.129
EBITDA	3.721	515	-857	1.855	6.183
EBIT	2.843	963	-1.663	901	5.108
EBT	2.585	-1.119	-2.081	655	5.104
Net Profit	2.062	-780	-1.678	395	4.385
EBITDAR	5.288	2.116	705	5.279	8.805

**Outlook for Icelandair Group**

The operation of the Group in the first nine months of the year was better than projected. Nevertheless, there are challenges ahead. Icelandic companies have probably never before confronted uncertainties of today's magnitude. In the first two weeks following the collapse of the Icelandic banks, there were numerous cancellations by Icelandair passengers travelling from Iceland, and at the same time imports fell significantly, which had a negative impact on Icelandair Cargo. Action is being taken to respond to the changed climate. Among other things, increased attention has been focused on marketing efforts abroad, with a resulting increase in bookings to Iceland.

Concurrently with the economic difficulties in Iceland, the operating environment in the airline and tourist industry in the world is subject to great uncertainty as regards demand. A considerable reduction is foreseeable between the years 2008 and 2009, and this will be countered through reduced capacity and other streamlining measures in the Group's operation.

In times like these it works to the advantage of the Group that its operations are diversified, both as regards regional distribution and lines of service. Notwithstanding the short-term uncertainty, the weakening of the króna represents an opportunity for the tourist industry in Iceland. Our cross-border expansion into Central Europe has further supported the Group's operation. For these and other reasons the Group's prospects are favourable.

**Events since the end of the reporting period**

In November Loftleidir Icelandic, a subsidiary of Icelandair Group, and Yakutia Air Company in the Republic of Sakha in Siberia signed a contract for the lease of a third Boeing 757-200 aircraft. The aircraft was formerly used within the Icelandair route network, but due to worsening economic circumstances, Icelandair has decreased its capacity. Icelandair will continue to provide maintenance service for the aircraft, supervised by Icelandair Technical Services. This is the fourth contract signed by Loftleidir Icelandic in a short period of time for the lease of aircraft to partners in four continents. The total value of these contracts is USD 125 million, and includes leasing of six aircraft, one Boeing 767-300ER and five Boeing 757-200. The shortest contract has duration of six months, and the longest is for a term of six years.

Icelandair Group sees a reason to state that the company has deposits in the Luxemburg branches of Landsbanki and Kaupthing amounting to ISK 500 million. At this time it is not known how much of that amount will be redeemed.

**Audit**

The consolidated accounts of Icelandair Group for the third quarter of 2008 were approved at a meeting of the Board of Directors on 11 November 2008. The interim statement has been reviewed by the Company's auditors. Their report notes that an impairment review has not been carried out; the operation of two companies within the Group fell short of projections, and this could create conditions for write-downs of intangible assets connected with these companies amounting to ISK 2.6 billion.

### Market Presentation 12 November

An open presentation for stakeholders and shareholders will be held on Wednesday 12 November 2008 at the Hilton Hotel 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](http://www.icelandairgroup.is) and the news network of the Iceland Stock Exchange/Nasdaq OMX.

### Financial Calendar 2008

Publication of fourth quarter results and annual results of 2008: 17 February-2009

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