

Results of Icelandair Group in the first quarter of 2008

- The total turnover of the Company was ISK 14 billion, increasing by 18% from the corresponding quarter of last year
- Owing to seasonal fluctuations in airline services and tourism, results are normally negative in the first quarter, and at this time EBITDA was negative by ISK 857 million
- EBIT was negative by ISK 1.7 billion
- Losses after taxes amounted to ISK 1.7 billion, as compared to ISK 1.2 billion for the corresponding period of the preceding year.
- No sales profit of aircraft entered into books in the first quarter 2008, 1.2 billion in the first quarter 2007.
- Core operations stronger
- Assets amounted to ISK 73.8 billion at the end of Q1, as compared to ISK 66.8 at year-end 2007
- The equity ratio was 34%
- Net cash from operations was ISK 3.1 billion
- Icelandair Group's organisation chart has been streamlined, Sigþór Einarsson becomes deputy CEO
- New managers have been appointed at Icelandair and restructuring projects have been launched
- The first Boeing 787 Dreamliner aircraft has been leased out

Björgólfur Jóhannsson CEO of Icelandair Group:

"Icelandair's operation in the first quarter was somewhat better than anticipated in much more difficult conditions than last year. The Company's fuel costs have increased by just short of ISK one billion from the corresponding period of 2007, and in addition gains on sold assets amounting to ISK 1.2 billion were entered in the book in Q1 of last year.

Our backlog in charter operations is good, and the same is true of the booking position in Scheduled Airline. However, we foresee continued high fuel prices, and we are working on the assumption that these prices, together with the uncertain economic climate, will impact demand in airline services and tourism. One of our principal challenges now is to react to the changed circumstances and prepare the Company for a new future.

We are in the process of adapting the companies within Icelandair Group to the new reality through streamlining and improved flexibility. We have simplified the structure of the Group, and Sigþór Einarsson becomes the Groups' deputy CEO. The recently appointed CEO of Icelandair, Birkir Hólm Gudnason, has already made changes in Icelandair and there are further changes ahead. An agreement has been concluded on leasing the first Boeing 787 Dreamliner that the company has on order. Icelandair Cargo growth plans have been discontinued. A decision has been made for the company to re-enter the travel agency market. Short-term wage contracts have been negotiated with airline staff.

Through these and other actions we are solidifying our core operations, reducing risk and strengthening Icelandair Group for the future.

Contract on the lease of the Boeing 787 Dreamliner aircraft

Icelandair has negotiated with the air carrier Air Niugini on the lease of one of the Boeing 787 aircraft that the Company has on order at the Boeing factories. Icelandair Group has a total of four Boeing 787 aircraft on order, and options on an additional three; in addition, Travel Service has one aircraft on order and on purchase option. The aircraft leased to Air Niugini is the first aircraft scheduled for delivery. Originally the aircraft was scheduled to take to the air in 2010, but owing to manufacturing delays at Boeing, delivery has been postponed to spring 2012. This price of the lease is confidential between the parties. Icelandair Group's subsidiary, Icelease, concluded the contract on behalf of the Group.

No final decision has been made regarding the use of the four additional Boeing 787 aircraft, including Travel Service, that Icelandair Group has on order, which are scheduled for delivery in 2012 to 2015, but it is clear, however, that no aircraft of this type will be added to the Icelandair fleet until 2014, at the earliest.

“The Boeing 787 Dreamliner is the most sought-after aircraft type in history. Its large size and huge range makes it unsuitable for Icelandair’s route network in the current climate of airline services and tourism. The contracts with Boeing represent great value, and through the lease of this first aircraft Icelandair Group is securing for the Group a source of significant income in the coming years.

Financial highlights in the first quarter of 2008

ISK '000,000			
	Q1 08	Q1 07	% Chg.
Transport revenue	6.773	6.315	7%
Charter revenue	5.187	2.613	99%
Other	2.050	2.977	-31%
Operating Income	14.010	11.905	18%
Salaries and related expenses	5.005	4.602	9%
Aircraft fuel	2.622	1.679	56%
Aircraft and aircrew lease	2.551	1.436	78%
Aircraft servicing, handling and navigation	996	738	35%
Aircraft maintenance	1.112	1.027	8%
Other	2.581	2.504	3%
EBITDA	-857	-81	-958%
EBIT	-1.663	-833	-100%
EBT	-2.081	-1.541	-35%
Net Profit/Loss	-1.678	-1.229	-37%
EBITDAR	705	1.027	-31%

Profit/loss

EBITDA in the first quarter of 2008 was negative by ISK 857 million, as compared to a negative result of ISK 81 million in the corresponding quarter of last year. EBIT in the first quarter of 2008 was negative by ISK 1.7 billion, as compared to a negative result of ISK 833 million in the corresponding quarter of last year. The loss over the first quarter of 2008 amounted to ISK 1.7 billion, as compared to a loss of ISK 1.2 billion in the first quarter of 2008.

EBITDAR is a performance measure frequently used in air carrier operations, where Rent is excluded from the bottom line in order to give a clearer picture of the operations themselves, as cost of ownership is an unusually high proportion of operating cost. EBITDAR in the first quarter of 2008 amounted to ISK 705 million, as compared to ISK 1 billion in the first quarter of 2007.

Segments – first quarter – comparison between years

	Scheduled Airline and Tourism			Capacity Solutions		
	1Q 08	1Q 07	Diff	1Q 08	1Q 07	Diff
Segment revenue	13.026	11.749	11%	4.681	3.198	46%
Segment cost	-14.016	-12.560	12%	-4.386	-2.289	92%
EBITDA	-990	-811	22%	295	909	-68%
EBIT	-1.618	-1.375	18%	122	726	-83%
Net finance cost	92	-211	-144%	-50	-96	-48%
Share of profit of associates	0	0	N/A	-51	61	N/A
EBT	-1.526	-1.586	-4%	21	691	-97%
Income tax	266	277	-4%	-31	-117	-74%
Net Profit/Loss	-1.259	-1.309	-4%	-10	574	N/A
EBITDAR	-35	55	N/A	901	1.151	N/A

Total income in the first quarter of 2008 amounted to ISK 14 billion, as compared to ISK 11.9 billion in the corresponding quarter of last year, which represents an increase of 18% between years. Operating expenses net of depreciation amounted to ISK 14.9 billion in the first quarter of 2008, as compared to ISK 12 billion in the first quarter of 2007, representing an increase of 24% between years.

Income from Scheduled Airline and Tourism in the first quarter of 2008 amounted to ISK 13 billion, as compared to ISK 11.7 billion in the corresponding quarter of last year, which represents an increase of 11% between years. Expenses in the first quarter of 2008 amounted to ISK 14 billion, as compared to ISK 12.6 billion in the corresponding quarter of last year, which represents an increase of 12% between years. EBITDA from Scheduled Airlines and Tourism in the first quarter of 2008 was negative by ISK 990 million, as compared to a negative result of ISK 811 million in the corresponding quarter of last year. The net loss of the segment in the first quarter of 2008 amounted to ISK 1.3 million, as compared to a loss of ISK 1.3 billion in the first quarter of last year.

Income from Capacity Solutions in the first quarter of 2008 amounted to ISK 4.7 billion, as compared to ISK 3.2 billion in the corresponding quarter of 2007, which represents an increase of 46% between years. Expenses in the first quarter of 2008 amounted to ISK 4.4 billion, as compared to ISK 2.3 billion in the corresponding quarter of last year, which represents an increase of 92% between years. EBITDA from capacity solutions was ISK 295 million, as compared to ISK 909 million in the corresponding quarter of last year. The net loss of the segment in the first quarter of 2008 amounted to ISK 10 million, as compared to a profit of ISK 574 billion in the first quarter of last year.

Operational Deviations

Transport revenues increased by ISK 458 million between years, i.e. 7%. Revenue from passenger transport increased by 11% between years, while revenue from cargo transport decreased by 6%. For Icelandair, passenger revenues increased by approximately 16% between years, as the number of passengers increased by 7% to 261,000 in the first quarter of 2008. Load Factor increased in the first quarter from 66.5% to 70.4% and unit price at fixed exchange rate increased by 9% as a result of improved "to/from/via" passenger mix.

Charter revenues increased by ISK 2.6 billion, or 99% between years. The increase is primarily a result of increased scope of business, as 8 new aircraft were taken into use by Loftleidir and Latcharter last year.

Other revenues increased by ISK 927 million between years, or 31%. The reduction is a result of sales profit in the first quarter of 2007 amounting to ISK 1.2 billion. Adjusting for this amount reveals that income from the Company's core operation increased by approximately 15% between the first quarters of 2007 and 2008.

Salaries and related expenses increased by ISK 403 million, or 9%. Over the same period, the wage index rose by 7.8%. The total number of average full time positions in the first quarter of 2008 was 2400, which represents an increase of 2% from the first quarter of 2007.

Fuel costs rose significantly between years, by approximately ISK 943 million, which corresponds to a 56% increase from the same period last year. Fuel use was similar between years, but the world market price of fuel has increased significantly. The average price in the first quarter of 2008 was USD 938 per ton, as compared to USD 589 per ton at the corresponding time last year; this represents an increase of 59% between years.

Aircraft and aircrew lease increased by ISK 1.1 billion between years, or 78%. The increase is primarily a result of the increased scope of business, as 9 aircraft were added to the fleet last year.

Aircraft servicing, handling and navigation expenses increased by 35% between years as a result of the increased number of flights, in addition to the fact that the Icelandic króna has been weaker in the first half of 2008 than at the same time last year. Maintenance costs increased by ISK 85 million between years, or 8%.

Segments in the first quarter of 2008

ISK '000.000	1Q 2008				
	Scheduled airline	Capacity solutions	Shared Services	Elimi- nations	Con- solidated
Segment revenue	13.026	4.681	193	-3.890	14.010
Segment cost	-14.016	-4.387	-354	3.890	-14.867
EBITDA	-990	294	-161		-857
EBIT	-1.618	122	-167		-1.663
Net finance cost	92	-50	-409		-367
Share of profit of associates	0	-51	0		-51
EBT	-1.526	21	-576		-2.081
Income tax	266	-31	168		403
Net Profit/Loss	-1.260	-10	-408		-1.678
EBITDAR	-35	901	-161		705

Financials

ISK '000.000	Q1 2008	Q1 2007	Diff.
Finance income	88	46	-42
Finance expense	-861	-700	-161
Currency effect	406	-115	521
Net financial costs	-367	-769	402

Net financial expense in the first quarter of 2008 amounted to ISK 367 million, as compared to ISK 769 million in the corresponding quarter of 2007.

Financial income increased by 91% between the first quarter of 2007 and the first quarter of 2008, primarily as a result of an improved cash position.

Finance cost increased by ISK 161 million between the first quarters of 2007 and 2008. The increase is a result of re-financing as well as the increase in market interest and margins, as new bonds were sold during the quarter for the sum of ISK 2.5 billion for a term of one year and ISK 1.3 billion for the term of five years. The currency gains of the quarter are the result of the Company's favourable asset position in foreign currencies.

Balance Sheet

ISK '000.000	31/03/08	31/12/07	Diff.
Operating Assets	26.715	22.832	17%
Intangible assets	28.339	26.846	6%
Investment in associates	2.944	2.335	26%
Long-term receivables	1.366	1.788	-24%
Cash and cash equivalents	3.274	2.006	63%
Other assets	11.172	10.953	2%
Total assets	73.810	66.760	11%
Stockholders' equity	25.446	25.033	2%
Total non-current liabilities	17.190	14.174	21%
Total current liabilities	31.174	27.553	13%
Total equity and liabilities	73.810	66.760	11%

Total assets amounted to ISK 73.8 billion at the end of Q1 in 2008, as compared to ISK 66.8 billion at year-end 2007. The equity ratio at the end of the first quarter of 2008 was 34%, as compared to 37% at year-end 2007.

Increases in fixed assets, current assets and investments in associated companies in the first quarter of 2008 are primarily the result of the impact of the exchange rate.

Cash flow

Working capital provided by operating activities amounted to ISK 156 million in the first quarter of 2008 as compared to a negative position of ISK 3.2 billion in the first quarter of 2007. Cash flows from operating activities in the first quarter of 2008 amounted to ISK 3.1 billion, as compared to ISK 686 billion in the first quarter of 2007.

Quarterly Comparison – highlights

ISK '000.000	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
Transport revenue	6.315	9.686	11.994	7.954	6.773
Charter revenue	2.613	3.750	4.615	4.532	5.187
Other	2.977	2.755	3.429	2.857	2.050
Operating Income	11.905	16.191	20.038	15.343	14.010
Salaries and related expenses	4.602	5.329	4.672	5.405	5.005
Aircraft fuel	1.679	2.334	2.856	2.900	2.622
Aircraft and aircrew lease	1.436	2.416	2.832	669	2.551
Aircraft servicing, handling and navigation	738	985	1.187	1.457	996
Aircraft maintenance	1.027	836	1.239	2.026	1.112
Other	2.504	2.969	3.531	2.371	2.581
EBITDA	-81	1.322	3.721	515	-857
EBIT	-833	-636	2.843	963	-1.663
EBT	-1.541	270	2.519	-1.119	-2.081
Net Profit	-1.229	205	2.061	-780	-1.678
EBITDAR	1.027	2.624	5.288	2.116	705

Outlook 2008

- The diversified operations of Icelandair Group will carry the Company through seasonal fluctuations and industrial cycles
- Icelandair is getting off to a good start in 2008
- Restructuring underway by new Icelandair management- further measures in preparation
- Less capacity on scheduled routes, focused on cost and gross margin in the light of economic conditions and increases in the prices of fuel
- The charter project backlog is favourable for the remainder of 2008
- Travel Service will become an Icelandair Group subsidiary in the second quarter of 2008

Audit

The consolidated accounts of Icelandair Group for the first quarter of 2008 were approved at a meeting of the Board of Directors on 20 May 2008. The interim statement has been reviewed by the Company's auditors without comment.

Market Presentation 21 May

An open presentation for stakeholders will be held on Wednesday 21 May 2008 at the Hilton Hotel Reykjavik Nordica (Room I). Björgólfur Jóhannsson, Icelandair Group CEO, will present the Company's results and answer questions, along with the senior management. The meeting will start at 8:30 a.m.

The presentation material will be available after the meeting on the Icelandair Group website: www.icelandairgroup.is and on the news system of the Iceland Stock Exchange.

Financial Calendar 2008

Publication of second quarter results: Tuesday 19 August 2008

Publication of third quarter results: Tuesday 18 November 2008

Publication of annual results for 2008: Week 9, 2009

For further information, please contact:

Björgólfur Jóhannsson CEO of Icelandair Group	Tel.: 896-1455
Guðjón Arngrímsson, VP Corporate Communications	Tel.: 864-5849