

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2013

USD

Icelandair Group hf.
Reykjavíkurlugvöllur
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Iceland
Reg. no. 631205-1780

Contents

Endorsement and Statement of the Board of Directors and the CEO	3
Consolidated Statement of Comprehensive Income	4
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Financial Statements	9

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 31 March 2013 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. (the "Company") and its subsidiaries together referred to as the "Group". The condensed consolidated Interim financial statements are stated in thousands of USD.

According to the consolidated statement of comprehensive income, loss for the period from 1 January to 31 March amounted to USD 18.3 million. Total comprehensive income for the period was USD 16.7 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 267.3 million, including share capital in the amount of USD 40.6 million. Reference is made to the notes to the consolidated statement of changes in equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2013 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 knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the three month period ended 31 March 2013, its assets, liabilities and consolidated financial position as at 31 March 2013 and its consolidated cash flows for the period then ended.

Further, in our opinion the condensed consolidated interim 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 31 March and confirm them by means of their signatures.

Reykjavík, 30 April 2013

Board of Directors:

Sigurður Helgason, Chairman of the Board

Úlfar Steindórsson

Ásthildur M. Otharsdóttir

Herdís Dröfn Fjeldsted

Katrín Olga Jóhannesdóttir

Magnús Magnússon

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income

for the period from 1 January to 31 March 2013

	Notes	2013 1.1.-31.3	2012 1.1.-31.3
Operating income			
Transport revenue	7	110.067	90.694
Aircraft and aircrew lease		28.352	30.411
Other operating revenue	7	34.626	36.593
		173.045	157.698
Operating expenses			
Salaries and other personnel expenses	8	52.086	43.137
Aircraft fuel		43.423	38.067
Aircraft and aircrew lease		16.954	18.559
Aircraft handling, landing and communication		12.393	10.788
Aircraft maintenance expenses		12.358	12.157
Other operating expenses	8	44.145	38.038
		181.359	160.746
Operating loss before depreciation and amortisation (EBITDA)		(8.314)	(3.048)
Depreciation and amortisation		(14.684)	(13.675)
Operating loss (EBIT)		(22.998)	(16.723)
Finance income		2.550	3.403
Finance costs		(2.521)	(3.264)
Net finance income	9	29	139
Share of profit (loss) of associates, net of tax		46	(43)
Loss before tax		(22.923)	(16.627)
Income tax		4.634	3.438
Loss for the period		(18.289)	(13.189)
Other comprehensive (loss) income:			
Currency translation differences		1.066	(1.579)
Foreign currency translation differences reclassified to profit or loss		0	(1.417)
Net profit on hedge of investment, net of tax		87	(65)
Effective portion of changes in fair value of cash flow hedge, net of tax		396	491
Other comprehensive profit (loss) for the period		1.549	(2.570)
Total comprehensive loss for the period		(16.740)	(15.759)

The notes on pages 9 to 14 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Comprehensive Income

for the period from 1 January to 31 March 2013, contd.:

	2013	2012
	1.1.-31.3	1.1.-31.3
Loss attributable to:		
Owners of the Company	(18.264)	(13.166)
Non-controlling interest	(25)	(23)
Loss for the period	<u>(18.289)</u>	<u>(13.189)</u>
Total Comprehensive loss attributable to:		
Owners of the Company	(16.651)	(15.725)
Non-controlling interest	(89)	(34)
Total comprehensive loss for the period	<u>(16.740)</u>	<u>(15.759)</u>
Loss per share:		
Basic loss per share expressed in USD cent per share	(0,45)	(0,33)
Diluted loss per share expressed in USD cent per share	(0,45)	(0,33)

The notes on pages 9 to 14 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Financial Position as at 31 March 2013

	Notes	31.3.2013	31.12.2012
Assets			
Operating assets	10	309.376	282.997
Intangible assets and goodwill		177.507	176.715
Investments in associates		1.395	1.327
Long-term cost		1.462	3.648
Non-current receivables and deposits		10.427	9.223
Non-current assets		500.167	473.910
Inventories		20.188	17.417
Trade and other receivables		149.331	135.085
Marketable securities		21.266	15.734
Cash and cash equivalents		143.958	117.060
Assets classified as held for sale	6	0	3.689
Current assets		334.743	288.985
Total assets		834.910	762.895
Equity			
Share capital		40.576	40.576
Share premium		154.705	154.705
Reserves	11	27.713	26.164
Retained earnings		44.146	74.230
Equity attributable to equity holders of the Company		267.140	295.675
Non-controlling interest		168	257
Total equity		267.308	295.932
Liabilities			
Loans and borrowings	12	91.088	119.358
Other payables		21.436	22.060
Deferred tax liabilities		15.210	19.671
Non-current liabilities		127.734	161.089
Loans and borrowings	12	49.418	31.548
Trade and other payables		174.500	152.237
Deferred income		215.950	122.089
Current liabilities		439.868	305.874
Total liabilities		567.602	466.963
Total equity and liabilities		834.910	762.895

The notes on pages 9 to 14 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Changes in Equity for the period from 1 January to 31 March 2013

Attributable to equity holders of the Company							
1 January to 31 March 2012	Share capital	Share premium	Reserves	Retained earnings	Total	Non-con- trolling interest	Total equity
Equity 1.1.2012	40.576	154.705	31.558	36.309	263.148	237	263.385
Total comprehensive loss			(2.570)	(13.166)	(15.736)	(34)	(15.770)
Dividend (0.16 USD per share) ...				(6.277)	(6.277)		(6.277)
Equity 31.3.2012	40.576	154.705	28.988	16.866	241.135	203	241.338
1 January to 31 March 2013							
Equity 1.1.2013	40.576	154.705	26.164	74.230	295.675	257	295.932
Total comprehensive loss			1.549	(18.264)	(16.715)	(89)	(16.804)
Dividend (0.30 USD per share) ...				(11.820)	(11.820)		(11.820)
Equity 31.3.2013	40.576	154.705	27.713	44.146	267.140	168	267.308

Information on changes in reserves are provided in note 11.

The notes on pages 9 to 14 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Cash Flows for the three months ended 31 March 2013

	Notes	2013 1.1.-31.3	2012 1.1.-31.3
Cash flows from operating activities			
Loss for the period		(18.289)	(13.189)
Adjustments for:			
Depreciation and amortisation		14.684	13.675
Other operating items	18	2.124	1.971
Working capital (used in) from operations		(1.481)	2.457
Net change in operating assets and liabilities	19	79.934	83.681
Net cash from operating activities		78.453	86.138
Cash flows used in investing activities:			
Acquisition of operating assets	10	(41.031)	(21.012)
Proceeds from the sale of operating assets		175	113
Acquisition of intangible assets		(529)	(98)
Acquisition of long-term cost		(1.542)	(1.868)
Long-term receivables, change		(1.111)	2.704
Marketable securities, change		3.243	7.652
Net cash used in investing activities		(40.795)	(12.509)
Cash flows used in financing activities:			
Repayment of long term borrowings		(11.239)	(25.714)
Net cash used in financing activities		(11.239)	(25.714)
Increase in cash and cash equivalents		26.419	47.915
Effect of exchange rate fluctuations on cash held		479	(740)
Cash and cash equivalents at beginning of the period		117.060	79.405
Cash and cash equivalents at 31 March		143.958	126.580
Investment and financing without cash flow effect:			
Sale of operating assets		0	4.950
Trade and other receivables		0	(4.950)
Dividend issued		(11.820)	(6.277)
Trade and other payables		11.820	6.277

Information on interest paid and received are provided in note 20.

The notes on pages 9 to 14 are an integral part of these interim consolidation financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group is primarily involved in the airline transportation and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

The Group's consolidated financial statements as at and for the year ended 31 December 2012 are available upon request from the Company's registered office at Reykjavíkurlugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.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*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2012. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 30 April 2013.

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 2012.

3. Significant accounting policies

Functional and presentation currency

These condensed Consolidated Interim Financial Statements are presented in U.S. dollars (USD), which is the Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand, except when otherwise indicated.

4. Judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2012.

Notes, contd.:

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.

Route network

Seven companies are categorised as part of the Route Network: Icelandair, Icelandair Cargo, Loftleidir, Air Iceland, Icelandair Ground Services, FERIA ehf. and Fjárnvörðun - Icelandair Shared Services.

Tourism services

Two companies are categorized as part of the Tourism Services: Iceland Travel and Icelandair Hotels.

Reportable segments for three months ended 31 March

	Route network		Tourism services		Total	
	2013	2012	2013	2012	2013	2012
External revenue	159.978	147.664	12.304	8.937	172.282	156.601
Inter-segment revenue	35.745	39.697	521	349	36.266	40.046
Segment revenue	<u>195.723</u>	<u>187.361</u>	<u>12.825</u>	<u>9.286</u>	<u>208.548</u>	<u>196.647</u>
Segment EBITDAR*	5.948	11.383	(714)	(371)	5.234	11.012
Segment EBITDA	<u>(4.392)</u>	<u>(1.272)</u>	<u>(2.810)</u>	<u>(1.900)</u>	<u>(7.202)</u>	<u>(3.172)</u>
Reportable segment loss before income tax	<u>(17.634)</u>	<u>(12.165)</u>	<u>(3.268)</u>	<u>(2.543)</u>	<u>(20.902)</u>	<u>(14.708)</u>
Segment assets	<u>694.855</u>	<u>653.793</u>	<u>25.408</u>	<u>20.958</u>	<u>720.263</u>	<u>674.751</u>

Reconciliation of reportable segment income

	2013	2012
Total loss for reportable segments	(20.902)	(14.708)
Unallocated amounts:		
Other corporate expenses	(2.067)	(1.876)
Share of profit (loss) of equity accounted investees	46	(43)
Consolidated loss before income tax	<u>(22.923)</u>	<u>(16.627)</u>

Other material items 31 March 2013

	Reportable segment	Adjust- ments	Consolid- ated
Segment EBITDAR*	5.234	(1.112)	4.122
Segment EBITDA	<u>(7.202)</u>	<u>(1.112)</u>	<u>(8.314)</u>

* EBITDAR means EBITDA before operating lease expenses.

Seasonality

The Group's business is highly seasonal with highest demand during the summer months. Accordingly higher revenue and operating profit is expected in the second and third quarter of the year.

Notes, contd.:

6. Assets and liabilities classified as held for sale

At year end 2012 assets held for sale consist of 30% share in Travel Service. In January 2013 an agreement was reached on the sale of the shares for USD 3.7 million.

	31.3.2013	31.12.2012
Assets classified as held for sale		
Investments in other companies	0	3.689
	<u>0</u>	<u>3.689</u>

7. Operating income

Transport revenue is specified as follows:

	2013	2012
	1.1.-31.3	1.1.-31.3
Passengers	99.976	80.705
Cargo and mail	10.091	9.989
Total transport revenue	<u>110.067</u>	<u>90.694</u>

Other operating revenue is specified as follows:

Sale at airports and hotels	7.827	6.661
Revenue from tourism	11.727	11.367
Aircraft and cargo handling services	7.413	6.458
Maintenance revenue	1.289	3.628
Gain on sale of operating assets	61	2.550
Other operating revenue	6.309	5.929
Total other operating revenue	<u>34.626</u>	<u>36.593</u>

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	32.211	26.867
Salary related expenses	10.749	8.716
Other personnel expenses	9.126	7.554
Total salaries and other personnel expenses	<u>52.086</u>	<u>43.137</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	4.700	4.027
Communication	3.504	3.070
Advertising	5.267	5.575
Booking fees and commission expenses	9.387	7.566
Cost of goods sold	3.921	3.310
Customer services	2.230	2.016
Tourism expenses	6.136	5.129
Allowance for bad debt	2.115	1.442
Other operating expenses	6.885	5.903
Total other operating expenses	<u>44.145</u>	<u>38.038</u>

Notes, contd.:

9. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2013	2012
	1.1.-31.3	1.1.-31.3
Interest income on bank deposits	157	203
Other interest income	541	728
Net currency exchange gain	1.852	2.472
Finance income total	<u>2.550</u>	<u>3.403</u>
Interest expenses on loans and borrowings	2.195	3.104
Other interest expenses	326	160
Finance costs total	<u>2.521</u>	<u>3.264</u>
Net finance income (costs)	<u>29</u>	<u>139</u>

10. Operating assets

Aquisition of operating assets in the first three months of 2013 amounted to USD 41.0 million. These include two Boeing 757 aircraft and overhaul of own engine of USD 25.0 million and a PDP payment in the amount of 8.1 million.

11. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Total reserves
Reserves 1.1.2012	329	31.229	31.558
Changes during the period	492	(3.062)	(2.570)
Reserves 31.3.2012	<u>821</u>	<u>28.167</u>	<u>28.988</u>
Reserves 1.1.2013	(1.338)	27.502	26.164
Changes during the period	396	1.153	1.549
Reserves 31.3.2013	<u>(942)</u>	<u>28.655</u>	<u>27.713</u>

12. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	31.3.2013	31.12.2012
Non-current loans and borrowings are specified as follows:		
Secured bank loans	127.374	137.532
Unsecured loans	13.132	13.374
	<u>140.506</u>	<u>150.906</u>
Current maturities	(49.418)	(31.548)
Total non-current loans and borrowings	<u>91.088</u>	<u>119.358</u>

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance	
				31.3.2013	31.12.2012
Secured bank loan	USD	4,4%	2014-2018	93.692	103.110
Secured bank loan	EUR	3,9%	2017	16.032	16.972
Secured bank loan	ISK	7,5%	2017-2023	16.690	16.538
Secured bank loan, indexed	ISK	6,3%	2021-2028	960	912
Unsecured bond issue, indexed	ISK	5,7%	2023	13.132	13.374
Total interest-bearing liabilities				<u>140.506</u>	<u>150.906</u>

Notes, contd.:

13. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2013	2012
Repayments in 2013 (9 months)(2012: 12 months)	20.111	31.548
Repayments in 2014	44.848	44.678
Repayments in 2015	15.757	15.379
Repayments in 2016	15.900	15.851
Repayments in 2017	28.070	28.055
Subsequent repayments	15.820	15.395
Total loans and borrowings	140.506	150.906

14. Financial instruments and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	31.3.2013		31.12.2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables	159.758	159.758	144.308	144.308
Marketable securities	21.266	21.266	15.734	15.734
Cash and cash equivalents	143.958	143.958	117.060	117.060
Unsecured bond issue	(13.132)	(15.584)	(13.374)	(16.378)
Secured bond loans	(127.374)	(141.138)	(137.532)	(153.598)
Payables and prepayments	(195.936)	(195.936)	(174.297)	(174.297)
Total	(11.460)	(27.676)	(48.101)	(67.171)

15. Off-balance sheet items

As a lessee the Group has in place operating leases for 14 aircraft at the end of March 2013. The leases are for 8 Boeing 757 aircraft and 6 Boeing 767 aircraft. The Group also has in place operating leases for storage facilities, accommodations, equipment and fixtures for its operations, the longest until the year 2037. At the end of March 2013 the leases are payable as follows in nominal amounts for each year:

	Real estate	Aircraft	Other	Total 31.3.2013
In Q2-Q4 2013	9.914	25.363	2.199	37.476
In the year 2014	12.387	18.315	1.265	31.967
In the year 2015	11.744	14.834	851	27.429
In the year 2016	11.478	8.406	653	20.537
In the year 2017	11.512	6.249	669	18.430
Subsequent	131.181	5.480	0	136.661
Total	188.216	78.647	5.637	272.500

16. Capital commitments

In February 2013 Icelandair Group and Boeing finalized a purchase agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with purchase rights for additional eight aircraft. The first delivery to Icelandair is scheduled in the first half of 2018. The commitment for all sixteen aircraft is valued at USD 1.6 billion at Boeing list prices in 2011 USD. Through negotiations with Boeing, the Company received acceptable discounts which due to confidentiality agreements cannot be disclosed. The Company intends to fund the acquisition partly by internal resources of the Company and partly by loans from commercial banks.

Notes, contd.:

17. Group entities

The Company holds eleven subsidiaries at the end of March 2013. The subsidiaries included in the consolidated interim financial statements are as follows:

	Share
Route network:	
Air Iceland ehf.	100%
Fjárvakur - Icelandair Shared Services ehf.	100%
Feria ehf.	100%
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
IGS ehf.	100%
Loftleiðir - Icelandic ehf.	100%
Tourism services:	
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%
Other operations:	
A320 ehf.	100%
IceCap Ltd., Guernsey	100%

The subsidiaries further own 17 subsidiaries that are all included in the consolidated interim financial statements.

18. Statement of cash flows

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

	2013	2012
	1.1.-31.3	1.1.-31.3
Expensed long term cost	6.371	6.301
Exchange rate differences and indexation of liabilities and assets	494	1.615
Gain on the sale of operating assets	(61)	(2.550)
Share of (loss) income in associates	(46)	43
Income tax	(4.634)	(3.438)
Other operating items in the statement of cashflows	<u>2.124</u>	<u>1.971</u>

19. Net change in operating assets and liabilities in the statement of cash flows is specified as follows:

Inventories, increase	(2.771)	(702)
Trade and other receivables, increase	(18.956)	(8.223)
Trade and other payables, increase	7.800	4.009
Deferred income, increase	93.861	88.597
Net change in operating assets and liabilities in the statement of cash flows	<u>79.934</u>	<u>83.681</u>

20. Additional cash flow information:

Interest paid	3.415	4.272
Interest received	683	1.284

21. Ratios

The Group's primary ratios are specified as follows:

	31.3.2013	31.12.2012
Current ratio	0,76	0,94
Equity ratio	0,32	0,39
Intrinsic value of share capital	6,59	7,29