

Icelandair Group hf.

**Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2008**

ISK

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

Contents

Endorsement and Statement of the Board of Directors and the CEO	3	Consolidated Statement of Changes in Equity	7
Independent Auditor's Review Report	4	Consolidated Statement of Cash Flows	8
Consolidated Income Statement	5	Notes to the consolidated financial statements	9
Consolidated Balance Sheet	6		

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 2008 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. and its subsidiaries, which were thirteen at the end of March 2008.

According to the income statement net loss for the period from 1 January to 31 March 2008 amounted to ISK 1.678 million. According to the balance sheet, equity at the end of the period amounted to ISK 25,446 million, including share capital in the amount of ISK 981 million.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2008 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 consolidated financial performance of the Company for the three-month period ended 31 March 2008, its assets, liabilities and consolidated financial position as at 31 March 2008 and its consolidated cash flows for the period then ended.

Further, in our opinion the consolidated 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 2008 and confirm them by means of their signatures.

Reykjavík, 20 May 2008.

Board of Directors:

Gunnlaugur M. Sigmundsson, Chairman of the Board of Directors

Ómar Benediktsson

Ásgeir Baldurs

Einar Sveinsson

Finnur Reyr Stefánsson

Jón Benediktsson

Martha Eiríksdóttir

Sigurður Atli Jónsson

CEO:

Björgólfur Jóhannsson

Independent Auditor's Review Report

To the Board of Directors of Icelandair Group hf.

Introduction

We have reviewed the accompanying condensed consolidated financial statements of Icelandair Group hf., which comprise the consolidated balance sheet as at 31 March 2008 and the consolidated income statement, statement of changes in equity and cash flow statement for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the entity as at 31 March 2008, and of its financial performance and its cash flows for the three-month period then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 20 May 2008.

KPMG hf.

Jón S. Helgason
Guðný H. Guðmundsdóttir

Consolidated Income Statement

for the period from 1 January to 31 March 2008

	Notes	2008	2007
		1.1.-31.3.	1.1.-31.3.
Operating income:			
Transport revenue		6.773	6.315
Aircraft and aircrew lease		5.187	2.613
Other operating revenue		2.050	2.977
		14.010	11.905
Operating expenses:			
Salaries and other personnel expenses		5.005	4.602
Aircraft fuel		2.622	1.679
Aircraft and aircrew lease		2.551	1.436
Aircraft servicing, handling and communication		996	738
Aircraft maintenance expenses		1.112	1.027
Other operating expenses		2.581	2.504
		14.867	11.986
Operating loss before depreciation and amortisation (EBITDA)		(857)	(81)
Depreciation and amortisation		(806)	(752)
Operating loss before net finance costs (EBIT)		(1.663)	(833)
Net finance costs	2	(367)	(769)
Share of (loss) profit of associates		(51)	61
Loss before income tax		(2.081)	(1.541)
Income tax		403	312
Loss for the period		(1.678)	(1.229)
Attributable to:			
Equity holders of the Company		(1.680)	(1.230)
Minority Interest		2	1
Loss for the period		(1.678)	(1.229)
Loss per share:			
Basic loss per share (ISK)		(1,68)	(1,23)
Diluted loss per share (ISK)		(1,68)	(1,23)

Consolidated Balance Sheet

as at 31 March 2008

	Notes	31.3.2008	31.12.2007
Assets:			
Operating assets		26.715	22.832
Intangible assets		28.339	26.846
Deferred tax asset		241	0
Investments in associates		2.944	2.335
Prepaid aircraft acquisitions		300	249
Long-term receivables and deposits		1.366	1.788
Total non-current assets		59.905	54.050
Inventories		1.398	1.301
Trade and other receivables		8.577	7.284
Receivables from sale of aircrafts		0	1.753
Prepayments		656	366
Cash and cash equivalents		3.274	2.006
Total current assets		13.905	12.710
Total assets		73.810	66.760
Equity:			
Share capital		981	981
Share premium		25.593	25.593
Reserves		797	(1.296)
Accumulated deficit		(1.971)	(293)
Total equity attributable to equity holders of the Company		25.400	24.985
Minority interest		46	48
Total equity		25.446	25.033
Liabilities:			
Loans and borrowings		17.190	14.040
Deferred income tax liability		0	134
Total non-current liabilities		17.190	14.174
Loans and borrowings		9.963	11.058
Trade and other payables		13.905	12.591
Deferred income		7.306	3.904
Total current liabilities		31.174	27.553
Total liabilities		48.364	41.727
Total equity and liabilities		73.810	66.760

Consolidated Statement of Changes in Equity for the period from 1 January to 31 March 2008

	Attributable to equity holders of the Company							Minority Interest	Total equity
	Share capital	Share premium	Share option reserve	Reserves			Total		
				Hedging reserve	Translation reserve	Accumulated deficit			
1 January to 31 March 2007									
Equity 1.1.2007	1.000	26.090	0	(159)	(425)	(544)	25.962	42	26.004
Foreign currency translation differences for foreign operations					(708)		(708)		(708)
Net profit on hedge of net investment in foreign operation					9		9		9
Effective portion of changes in fair value of cash flow hedges, net of tax				234			234		234
Net income and expense recognised directly in equity				234	(699)	0	(465)	0	(465)
Loss for the period						(1.230)	(1.230)	1	(1.229)
Total recognised income (expense)				234	(699)	(1.230)	(1.695)	1	(1.694)
Own shares, change	(11)	(297)					(308)		(308)
Stock option expense			49				49		49
Equity 31.3.2007	989	25.793	49	75	(1.124)	(1.774)	24.008	43	24.051
1 January to 31 March 2008									
Equity 1.1.2008	981	25.593	168	(24)	(1.440)	(293)	24.985	48	25.033
Foreign currency translation differences for foreign operations					2.076		2.076		2.076
Net profit on hedge of net investment in foreign operation					(33)		(33)		(33)
Effective portion of changes in fair value of cash flow hedges, net of tax				27			27		27
Net income and (expense) recognised directly in equity				27	2.043	0	2.070	0	2.070
Loss for the period						(1.678)	(1.678)	(2)	(1.680)
Total recognised income (expense)				27	2.043	(1.678)	392	(2)	390
Stock option expense			23				23		23
Equity 31.3.2008	981	25.593	191	3	603	(1.971)	25.400	46	25.446

Consolidated Statement of Cash Flows for the Three Months Ended 31 March 2008

	Notes	2008 1.1.-31.3.	2007 1.1.-31.3.
Cash flows from operating activities:			
Loss for the period	(1.678	(1.229)
Adjustments for:			
Depreciation and amortisation		806	752
Other operating items	5	1.028	(1.774)
Working capital from (to) operations		156	(2.251)
Net change in operating assets and liabilities		2.925	2.937
Net cash from operating activities		3.081	686
Cash flows from investing activities:			
Acquisition of operating assets	(811	(2.650)
Proceeds from the sale of operating assets		26	225
Acquisition of intangible assets	(30	(1)
Long-term receivables, decrease, (increase)		321	(200)
Current receivables, change		690	0
Net cash from (used in) from investing activities		196	(2.626)
Cash flows from financing activities:			
Acquisition of own shares		0	(308)
Proceeds from borrowings		3.446	7.723
Repayment of long term borrowings	(6.970	(7.444)
Repayment of short term borrowings		1.231	468
Net cash (used in) from financing activities		(2.293)	439
Increase (decrease) in cash and cash equivalents		984	(1.501)
Effect of exchange rate fluctuations on cash held		284	(42)
Cash and cash equivalents at 1 January		2.006	2.776
Cash and cash equivalents at 31 March		3.274	1.233
Investment and financing without cash flow effect:			
Receivables from sale of operating assets		0	11.665

Notes

Significant accounting policies

a. **Reporting entity**

Icelandair Group hf. (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is at Reykjavíkflugvöllur in Reykjavík, Iceland. The consolidated interim financial statements of the Company as at and for the three-month period ended 31 March 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group's operations are in the airline transportation and tourism industry.

b. **Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended 31 December 2007.

The interim financial statements were authorised for issue by the board of directors on 20 May 2008.

c. **Basis of preparation**

The accounting policies and methods of computation applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2007. The consolidated financial statements for the year ended 31 December 2007 are available at the Company's office and website, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.omxgroup.com.

The condensed consolidated interim financial statements are prepared in Icelandic kronas, which is the Company's functional currency, rounded to the nearest million. They are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

d. **Use of estimates and judgements**

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

Notes, contd.:

Segment reporting

1. Business segments

1 January to 31 March 2008

	Scheduled airline & tourism operations	Global capacity and aircraft trading	Shared services	Eliminations	Consolidated
External revenue	9.318	4.642	50		14.010
Inter-segment revenue	3.708	39	143	(3.890)	
Segment revenue	13.026	4.681	193	(3.890)	14.010
Segment EBITDAR	(35)	902	(162)		705
Segment EBITDA	(990)	295	(162)		(857)
Segment results	(1.596)	164	(231)		(1.663)
Net finance costs	92	(50)	(409)		(367)
Share of loss of associates	0	(51)	0		(51)
Income tax	266	(31)	168		403
(Loss) profit for the period	(1.238)	32	(472)		(1.678)
Segment assets	40.807	11.433	48.132	(29.506)	70.866
Investments in associates	88	2.853	3		2.944
Total assets	40.895	14.286	48.135	(29.506)	73.810
Segment liabilities	36.142	9.387	21.774	(18.939)	48.364
Capital expenditure	815	19	7		841
Depreciation	565	131	6		702
Amortisation of intangible assets	62	42	0		104

Notes, contd.:

Segment reporting

1 January to 31 March 2007	Scheduled airline & tourism operations	Global capacity and aircraft trading	Shared services	Eliminations	Consolidated
External revenue	8.682	3.188	35		11.905
Inter-segment revenue	3.067	10	129	(3.206)	
Segment revenue	<u>11.749</u>	<u>3.198</u>	<u>164</u>	<u>(3.206)</u>	<u>11.905</u>
Segment EBITDAR	55	1.151	(179)		1.027
Segment EBITDA	<u>(811)</u>	<u>909</u>	<u>(179)</u>		<u>(81)</u>
Segment results	(1.333)	814	(313)		(832)
Net finance costs	(211)	(96)	(463)		(770)
Share of profit of associates	0	61	0		61
Income tax	277	(117)	152		312
Profit (loss) for the period	<u>(1.267)</u>	<u>662</u>	<u>(624)</u>		<u>(1.229)</u>
Segment assets	35.213	25.346	45.270	(32.368)	73.461
Investments in associates	6	2.206	0		2.212
Total assets	<u>35.219</u>	<u>27.552</u>	<u>45.270</u>	<u>(32.368)</u>	<u>75.673</u>
Segment liabilities	30.008	24.781	20.557	(23.724)	51.622
Total liabilities					
Capital expenditure	<u>1.515</u>	<u>1.132</u>	<u>4</u>		<u>2.651</u>
Depreciation	<u>474</u>	<u>95</u>	<u>2</u>		<u>571</u>
Amortisation of intangible assets	<u>91</u>	<u>88</u>	<u>2</u>		<u>181</u>

Notes, contd.:

Finance income and finance expense

	2008	2007
	1.1.-31.3.	1.1.-31.3.
2. Finance income and finance expense are specified as follows:		
Interest income on bank deposits	35	27
Other interest income	53	19
Net foreign exchange gain	406	0
Finance income total	<u>494</u>	<u>46</u>
Interest expense on loans and borrowings	814	687
Other interest expenses	47	13
Net foreign exchange loss	0	115
Finance expense total	<u>861</u>	<u>815</u>
Net finance expense	<u>(367)</u>	<u>(769)</u>

Equity

3. The Company's share capital amounts to ISK 1,000 million as decided in its Articles of Association. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share of one ISK.

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Share option reserve

The reserve includes the accrued part of the fair value of share options. This reserve is reversed if share options are forfeited and is transferred to share premium if share options are exercised.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes, contd.:

3. Contd.:

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge net investment in a foreign subsidiary.

Group entities

4. The Company holds thirteen subsidiaries, which are all included in the consolidated interim financial statements. They are:

	Share
Scheduled airline operations and tourism:	
Air Iceland ehf.	100%
Iceland Travel ehf.	100%
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
Icelandair Ground Services ehf. (IGS)	100%
Icelandair Hotels ehf.	100%
Global capacity solutions and aircraft trading:	
Bluebird Cargo ehf.	100%
IceLease ehf.	100%
IG Invest ehf.	100%
Loftleiðir - Icelandic ehf.	100%
Lerox CZ s.r.o.	100%
Shared services:	
IceCap Ltd., Guernsey	100%
Icelandair Shared Services ehf.	100%

The subsidiaries own 18 subsidiaries that are all included in the consolidated interim financial statements.

Statement of cash flows

	2008	2007
	1.1.-31.3.	1.1.-31.3.
5. Other operating items in the statement of cash flows are specified as follows:		
Gain on the sale of assets	(2)	(1.196)
Exchange rate difference and indexation of liabilities and assets	1.155	(205)
Share of loss (profit) of associates	51	(61)
Income tax	(381)	(312)
Other items	205	0
Total other operating items in the statement of cash flows	<u>1.028</u>	<u>(1.774)</u>

Notes, contd.:

Ratios

	31.3.2008	31.12.2007
6. The Group's primary ratios are specified as follows:		
Working capital ratio	0,45	0,46
Equity ratio	0,34	0,37
Intrinsic value of share capital	25,94	25,52

Other

7. During the first half of 2007 the Competition Authorities fined the subsidiary, Icelandair ehf., due to an alleged breach of the competition law. The penalty amounts to ISK 130 million after it was lowered by 30% after the decision was appealed. Icelandair Group hf. has decided to take this case to court and considers it more likely than not that the fine will be withdrawn in full. Nothing has been expensed in the interim financial statements on this case.