

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2009

ISK

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

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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 2009 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 fourteen at the end of March 2009. Travel Service is now part of the consolidated financial statements but it was not for the 1st quarter of 2008.

According to the income statement net loss for the period from 1 January to 31 March 2009 amounted to ISK 3.639 million. According to the balance sheet, equity at the end of the period amounted to ISK 16.921 million, including share capital in the amount of ISK 975 million.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2009 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 2009, its assets, liabilities and consolidated financial position as at 31 March 2009 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 2009 and confirm them by means of their signatures.

Reykjavík, 8 May 2009.

Board of Directors:

Gunnlaugur M. Sigmundsson

Einar Sveinsson

Ásgeir Baldurs

Finnur Reyf Stefánsson

Jón Benediktsson

Martha Eiríksdóttir

Ómar Benediktsson

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 March 30, 2009 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 March 31, 2009, 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, 8 May 2009.

KPMG hf.

Jón S. Helgason

Guðný H. Guðmundsdóttir

Consolidated Income Statement

for the period from 1 January to 31 March 2009

	Notes	2009	2008	
		1.1.-31.3.	1.1.-31.3.	
Operating income				
Transport revenue		7.310	6.773	
Aircraft and aircrew lease		11.273	5.187	
Other operating revenue		2.133	2.050	
		20.716	14.010	
Operating expenses				
Salaries and other personnel expenses		5.392	5.005	
Aircraft fuel		3.847	2.622	
Aircraft and aircrew lease		4.892	2.551	
Aircraft servicing, handling and communication		2.568	996	
Aircraft maintenance expenses		2.777	1.112	
Other operating expenses		3.546	2.581	
		23.022	14.867	
Operating loss before depreciation and amortisation (EBITDA)	(2.306)	(857)
Depreciation and amortisation	(1.198)	(806)
Operating loss before net finance costs (EBIT)	(3.504)	(1.663)
Finance income		489	494	
Finance expense	(1.058)	(861)
Net finance costs	2	(569)	(367)
Share of profit (loss) of associates		18	(51)
Loss before income tax	(4.055)	(2.081)
Income tax		416		403
Loss for the period	(3.639)	(1.678)
Attributable to:				
Equity holders of the Company	(3.344)	(1.680)
Minority Interest	(295)	(2
Loss for the period	(3.639)	(1.678)
Loss per share:				
Basic loss per share (ISK)	(3,63)	(1,68)
Diluted loss per share (ISK)	(3,63)	(1,68)

Consolidated Balance Sheet

as at 31 March 2009

	Notes	31.3.2009	31.12.2008
Assets			
Operating assets		36.571	36.798
Intangible assets		29.217	29.306
Deferred income tax asset		327	0
Investments in associates		1.009	1.008
Prepaid aircraft acquisitions		4.365	4.226
Long-term receivables and deposits		6.243	6.054
Total non-current assets		77.732	77.392
Inventories		2.370	2.309
Trade and other receivables		13.868	13.836
Prepayments		1.309	1.228
Cash and cash equivalents		2.824	4.065
Total current assets		20.371	21.438
Total assets		98.103	98.830
 Equity			
Share capital		975	975
Share premium		25.450	25.450
Reserves		2.217	1.856
Accumulated deficit		(11.560)	(8.216)
Total equity attributable to equity holders of the Company		17.082	20.065
Minority interest		(161)	15
Total equity		16.921	20.080
 Liabilities			
Loans and borrowings	5	21.679	22.900
Prepayments		2.228	2.189
Deferred income tax liability		0	23
Total non-current liabilities		23.907	25.112
Loans and borrowings	6	22.866	20.735
Trade and other payables		24.176	25.471
Deferred income		10.233	7.432
Total current liabilities		57.275	53.638
Total liabilities		81.182	78.750
Total equity and liabilities		98.103	98.830

Consolidated Statement of Changes in Equity for the period from 1 January to 31 March 2009

	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 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
Share based payments			23				23		23
Equity 31.3.2008	981	25.593	191	3	603	(1.971)	25.400	46	25.446
1 January to 31 March 2009									
Equity 1.1.2009	975	25.450	153	(4.207)	5.910	(8.216)	20.065	15	20.080
Foreign currency translation differences for foreign operations					(383)		(383)	(5)	(388)
Net profit on hedge of net investment in foreign operation					51		51		51
Effective portion of changes in fair value of cash flow hedges, net of tax				685			685	124	809
Net income and (expense) recognised directly in equity				685	(332)	0	353	119	472
Loss for the period						(3.344)	(3.344)	(295)	(3.639)
Total recognised income (expense)				685	(332)	(3.344)	(2.991)	(176)	(3.167)
Share based payments			8				8		8
Equity 31.3.2009	975	25.450	161	(3.522)	5.578	(11.560)	17.082	(161)	16.921

Consolidated Statement of Cash Flows for the Three Months Ended 31 March 2009

	Notes	2009 1.1.-31.3.	2008 1.1.-31.3.
Cash flows from operating activities			
Loss for the period .....	(	3.639)	(1.678)
Adjustments for:			
Depreciation and amortisation		1.198	806
Other operating items	9	(274)	1.028
Working capital (to) from operations		(2.715)	156
Net change in operating assets and liabilities		2.081	2.925
Net cash (to) from operating activities		(634)	3.081
Cash flows from investing activities:			
Acquisition of operating assets .....	(	1.089)	(811)
Proceeds from the sale of operating assets		23	26
Acquisition of intangible assets .....	(	3)	(30)
Long-term receivables, decrease		136	321
Current receivables, change		0	690
Net cash (used in) from investing activities		(933)	196
Cash flows from financing activities:			
Proceeds from long term borrowings		94	3.446
Repayment of long term borrowings .....	(	819)	(6.970)
Proceeds from short term borrowings		1.197	1.231
Net cash from (used in) financing activities		472	(2.293)
(Decrease) increase 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

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 Reykjavíkurlugvöllur in Reykjavík, Iceland. The consolidated interim financial statements of the Company as at and for the three-month period ended 31 March 2009 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 2008.

The condensed consolidated interim financial statements were approved for issue by the Board of Directors on 8 May 2009.

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 2008. The consolidated financial statements for the year ended 31 December 2008 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.:

1. Segment reporting

Business segments

1 January to 31 March 2009

	Scheduled airline & tourism operations	Global capacity and aircraft trading	Shared services	Eliminations	Consolidated
External revenue	9.694	10.997	25		20.716
Inter-segment revenue	4.305	829	153	(5.287)	
Segment revenue	<u>13.999</u>	<u>11.826</u>	<u>178</u>	<u>(5.287)</u>	<u>20.716</u>
Segment EBITDAR	1.410	1.181	(203)		2.388
Segment EBITDA	(250)	(1.850)	(206)		(2.306)
Segment results	(1.180)	(2.109)	(215)		(3.504)
Net finance costs	215	(69)	(715)		(569)
Share of profit of associates	0	18	0		18
Income tax	144	129	143		416
Loss for the period	<u>(821)</u>	<u>(2.031)</u>	<u>(787)</u>		<u>(3.639)</u>
Segment assets	54.670	31.306	56.304	(45.186)	97.094
Investments in associates	113	867	29		1.009
Total assets	<u>54.783</u>	<u>32.173</u>	<u>56.333</u>	<u>(45.186)</u>	<u>98.103</u>
Segment liabilities	53.924	28.047	38.123	(38.912)	81.182
Total liabilities	<u>53.924</u>	<u>28.047</u>	<u>38.123</u>	<u>(38.912)</u>	<u>81.182</u>
Capital expenditure	500	592	0		1.092
Depreciation	868	199	6		1.073
Amortisation of intangible assets	62	61	2		125

Notes, contd.:

	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	<u>13.026</u>	<u>4.681</u>	<u>193</u>	<u>(3.890)</u>	<u>14.010</u>
Segment EBITDAR	(35)	902	(162)		705
Segment EBITDA	<u>(990)</u>	<u>295</u>	<u>(162)</u>		<u>(857)</u>
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	<u>(1.238)</u>	<u>32</u>	<u>(472)</u>		<u>(1.678)</u>
Segment assets	40.807	11.433	48.132	(29.506)	70.866
Investments in associates	88	2.853	3		2.944
Total assets	<u>40.895</u>	<u>14.286</u>	<u>48.135</u>	<u>(29.506)</u>	<u>73.810</u>
Segment liabilities	36.142	9.387	21.774	(18.939)	48.364
Total liabilities	<u>36.142</u>	<u>9.387</u>	<u>21.774</u>	<u>(18.939)</u>	<u>48.364</u>
Capital expenditure	815	19	7		841
Depreciation	565	131	6		702
Amortisation of intangible assets	62	42	0		104

Notes, contd.:

2. Finance income and finance expense

Finance income and finance expense are specified as follows:

	2009	2008
	1.1.-31.3.	1.1.-31.3.
Interest income on bank deposits	19	35
Other interest income	16	53
Gain from sale of derivatives	78	0
Net foreign exchange gain	376	406
Finance income total	<u>489</u>	<u>494</u>
Interest expense on loans and borrowings	914	814
Other interest expenses	144	47
Finance expense total	<u>1.058</u>	<u>861</u>
Net finance expense	<u>(569)</u>	<u>(367)</u>

3. Equity

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.

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.

Notes, contd.:

4. Loans and borrowings

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

Non-current loans and borrowings are specified as follows:	31.3.2009	31.12.2008
Secured bank loans	24.476	25.542
Convertible notes	1.925	1.918
Current maturities	(4.722)	(4.560)
Total non-current loans and borrowings	<u>21.679</u>	<u>22.900</u>

Current loans and borrowings are specified as follows:

Current maturities of non-current liabilities	4.722	4.560
Short term notes	2.976	3.681
Short-term loans from credit institutions	15.168	12.494
Total current loans and borrowings	<u>22.866</u>	<u>20.735</u>
Total loans and borrowings	<u>44.545</u>	<u>43.635</u>

At the end of March 2009 loans and borrowings due within one year amounted to ISK 22.866 million. Thereof 4.722 million are current maturities of long term loans and 18.144 million are revolvers and other short term loan facilities. At the same time the current ratio was 0.36 which is below the Company's target. The Company is working with its commercial bank, Islandsbanki, on improving its debt maturity profile and equity ratio.

5. Secured bank loans

Secured bank loans are specified as follows:

	Average interest rates	Total remaining balance 31.3.2009	Average interest rates	Total remaining balance 31.12.2008
Debt in USD	5,6%	20.114	5,3%	20.776
Debt in EUR	4,0%	1.953	4,3%	1.995
		<u>22.067</u>		<u>22.771</u>
Debt in ISK indexed	8,7%	2.409	8,7%	2.387
Debt in ISK not indexed		0	18,0%	384
Total secured bank loans		<u>24.476</u>		<u>25.542</u>

6. Contractual repayments of loans and borrowings

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1.4.2009 - 31.3.2010	22.866
Repayments in 1.4.2010 - 31.3.2011	3.147
Repayments in 1.4.2011 - 31.3.2012	8.811
Repayments in 1.4.2012 - 31.3.2013	2.234
Repayments in 1.4.2013 - 31.3.2014	6.716
Subsequent repayments	771
Total loans and borrowings	<u>44.545</u>

Notes, contd.:

7. Convertible notes

Convertible notes are specified as follows:	31.3.2009	31.12.2008
Proceeds from issue of convertible notes - nominal amount	2.000	2.000
Transaction cost	(39)	(39)
Net proceeds	1.961	1.961
Amount classified as equity	(110)	(110)
Expensed transaction cost	74	67
Carrying amount of liability	1.925	1.918

Convertible notes were issued in October 2006. The nominal amount in ISK will be paid in a single amount in 2011. They are convertible at the option of the holder into ordinary shares over the 5 year period at the price ISK 29.7 per share, 20% each year. The effective interest was 16,11% at period-end.

8. Group entities

The Company holds fourteen 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%
Icelandair ehf.	100%
IG Invest ehf.	100%
Lofleiðir - Icelandic ehf.	100%
SmartLynx, Latvia	100%
Travel Service, Czech Republic	66%
Shared services:	
IceCap Ltd., Guernsey	100%
Icelandair Shared Services ehf.	100%

Lerox CZ s.r.o in Czech Republic was dissolved during the period.

The subsidiaries own 15 subsidiaries that are all included in the consolidated interim financial statements.

9. Statement of cash flows

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

	2009	2008
	1.1.-31.3.	1.1.-31.3.
Gain on the sale of assets	(16)	(2)
Exchange rate difference and indexation of liabilities and assets	116	1.155
Share of (profit) loss of associates	(18)	51
Income tax	(350)	(381)
Other items	(6)	205
Total other operating items in the statement of cash flows	(274)	1.028

Notes, contd.:

10. Ratios

The Group's primary ratios are specified as follows:	31.3.2009	31.3.2008
Working capital ratio	0,36	0,46
Equity ratio	0,17	0,34
Intrinsic value of share capital	17,35	25,94

11. Other

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.