

Icelandair Group Financial Results for the first half and Q2 2007

- Total revenue for H1 2007 was ISK 28.1 billion compared to ISK 24.1 billion for H1 2006, an increase of 17%. Total revenue for Q2 2007 was ISK 16.2 billion compared to ISK 14.5 billion for 2006, an increase of 12%
- EBITDA for H1 2007 was ISK 1.2 billion compared to ISK 1.3 billion for H1 2006. EBITDA for Q2 2007 was ISK 1.3 billion compared to ISK 1.6 billion for Q2 2006.
- EBIT was negative by ISK 197 million in H1 2007, a difference of ISK -180 million compared to H1 2006. EBIT was ISK 636 million in Q2 2007 compared to ISK 1.1 billion in Q2 2006.
- Net loss in H1 á 2007 was ISK 1 billion compared to a net profit of ISK 658 million in H1 2006. Net profit in Q2 2007 was ISK 205 million compared to ISK 1.2 billion in Q2 2006.
- Total Assets at the end of H1 ISK 71.6 billion compared to ISK 76.6 billion at year end 2006.
- The acquisition of the Czech airline Travel Service being finalized.
- Nordica becomes Hilton Reykjavik Nordica
- Equity ratio is 33% at the end of H1 compared to 34% at year end 2006.
- Net operating cash ISK 3.6 billion at the end of H1 2007 compared to ISK 3.9 billion at H1 2006.
- Changes in the Group organizational structure coming up
- EBITDAR for H1 2007 was ISK 3.7 billion compared to ISK 3 billion for H1 2006. EBITDAR for Q2 2007 was ISK 2.6 billion compared to ISK 2.5 billion for Q2 2006.

Jón Karl Ólafsson, CEO of Icelandair Group, comments

"The EBITDA of Icelandair Group for the first half of 2007 is in line with management expectations. However, fluctuation in the exchange rate of the Icelandic krona has a major impact on our bottom line. Extensive investment in added capacity and fleet enlargement throughout the Group characterizes the first six months and opens up new opportunities for increased revenue in the second half of 2007. Results from our Scheduled Airline Operation are below expectations as increased network capacity has not led to the passenger revenue growth we had hoped for. Booking figures for the summer and autumn are looking better, but we foresee ongoing pressure on yield, due to hard competition.

We are in the latest stages of the acquisition of the Czech airline, Travel Service, which will become part of the Group in the second half of the year. This underlines our rapid growth and the need for a new Group organizational structure which will be implemented in the next weeks. We still expect a good profit in 2007 and a better result than in 2006; however we will have to work hard to reach our goals in 2007".

Financial Highlights –Q2 and first half 2007

| ISK'000.000 | | | | | | |
|-------------------------------|---------------|---------------|------------|---------------|---------------|------------|
| | Actuals | Proforma | Chg. | Actuals | Proforma | Chg. |
| | Q2 07 | Q2 06 | | H1 07 | H1 06 | |
| Transport revenue | 9.686 | 9.613 | 1% | 16.001 | 15.188 | 5% |
| Aircraft and aircrew lease | 3.750 | 2.268 | 65% | 6.363 | 4.485 | 42% |
| Other | 2.755 | 2.600 | 6% | 5.732 | 4.423 | 30% |
| Operating Income | 16.191 | 14.481 | 12% | 28.096 | 24.076 | 17% |
| Salaries and related expenses | 5.329 | 4.447 | 20% | 9.931 | 8.287 | 20% |
| Aircraft fuel | 2.334 | 2.575 | -9% | 4.013 | 4.229 | -5% |
| Aircraft and aircrew lease | 2.416 | 1.253 | 93% | 3.852 | 2.128 | 81% |
| Aircraft maintenance | 836 | 808 | 3% | 1.863 | 1.503 | 24% |
| Other | 6.598 | 6.962 | -5% | 9.678 | 9.228 | 5% |
| EBITDA | 1.322 | 1.564 | | 1.241 | 1.299 | |
| EBIT | 636 | 1.115 | | -197 | -17 | |
| EBT | 270 | 1.520 | | -1.271 | 803 | |
| Net Profit/Loss | 205 | 1.246 | | -1.024 | 658 | |
| EBITDAR | 2.624 | 2.504 | | 3.651 | 2.952 | |

Segments- first half 2007

| ISK'000.000 | | | | | | |
|-------------------------------|--------------|--------------|------------|---------------|---------|---------------|
| | Scheduled | Capacity | Travel and | Shared | Elimi- | Con- |
| | airline | solutions | tourism | Services | nations | solidated |
| Segment revenue | 19.639 | 6.663 | 3.937 | 334 | -2.477 | 28.096 |
| Segment cost | -19.387 | -5.638 | -3.718 | -589 | 2.477 | -26.855 |
| Segment EBITDA | 252 | 1.025 | 219 | -255 | | 1.241 |
| Segment EBIT | -574 | 872 | -26 | -469 | | -197 |
| Net finance cost | -400 | -190 | 22 | -633 | | -1.201 |
| Share of profit of associates | | 127 | | | | 127 |
| EBT | -974 | 809 | -4 | -1.102 | | -1.271 |
| Income tax | 174 | -145 | 0 | 218 | | 247 |
| Net Profit | -800 | 664 | -4 | -884 | | -1.024 |
| Segment EBITDAR | 1.772 | 1.675 | 459 | -255 | | 3.651 |

Segments-Q2 2007

| ISK'000.000 | | | | | | |
|-------------------------------|--------------|------------|------------|-------------|---------|--------------|
| | Scheduled | Capacity | Travel and | Shared | Elimi- | Con- |
| | airline | solutions | tourism | Services | nations | solidated |
| Segment revenue | 9.411 | 3.465 | 2.416 | 170 | 729 | 16.191 |
| Segment cost | -8.347 | -3.349 | -2.199 | -245 | -729 | -14.869 |
| Segment EBITDA | 1.064 | 116 | 217 | -75 | | 1.322 |
| Segment EBIT | 639 | 58 | 94 | -155 | | 636 |
| Net finance cost | -201 | -95 | 34 | -170 | | -432 |
| Share of profit of associates | 0 | 66 | 0 | 0 | | 66 |
| EBT | 438 | 29 | 128 | -325 | | 270 |
| Income tax | -79 | -28 | -24 | 66 | | -65 |
| Net Profit | 359 | 1 | 104 | -259 | | 205 |
| Segment EBITDAR | 1.841 | 524 | 334 | -75 | | 2.624 |

Press Release First Half Results 2007**Revenue**

Total revenue for H1 amounted to ISK 28.1 billion compared to ISK 24.1 billion in H1 2006, which is a 17% increase from last year. Total revenue for Q2 amounted to ISK 16.2 billion compared to ISK 14.5 billion in Q2 2006, which is a 12% increase compared to last year. This revenue growth is mainly represented by the sale of aircraft in Q1 amounting to ISK 1.2 billion as well as increased charter activity.

- **Scheduled Airline Operations** revenue were ISK 19.6 billion for H1 2007 compared ISK 18.6 billion in H1 2006 and ISK 9.4 billion for Q2 2007 compared ISK 11.5 billion in Q2 2006. Passenger revenue was somewhat lower because the yield for Icelandair was somewhat lower than expected. The capacity increase is still unutilized to some extent and the unit price lower due to fierce competition.
- **Global Capacity and Aircraft trading** revenue were ISK 6.7 billion for H1 2007 compared to ISK 4.8 billion in H1 2006 and ISK 3.5 billion for Q2 2007 compared to ISK 2.2 billion in Q2 2006. New aircraft additions at Bluebird started service later than planned, and aircraft utilization dropped from 2006 as a result of a lower contract volume. Loftleiðir however increased its aircraft utilization, thereby enjoying a healthier project environment compared to 2006.
- **Travel and Tourism** revenue were ISK 3.9 billion for H1 2007, compared to ISK 3.5 billion in H1 2006 and ISK 2.4 billion for Q2 2007 compared to ISK 2.2 billion in Q2 2006. Higher revenue at Icelandair Hotels due to better room utilization. Air Iceland is generating more passenger revenues due to more demand and a new destination (Westman Islands).
- **Shared Services** revenue were ISK 334 million for H1 2007 compared to ISK 283 million in H1 2006, and ISK 170 million for Q2 2007 compared to ISK 159 million in Q2 2006.

Operating Expenses

Operating expenses amounted to ISK 26.9 billion for H1 2007 compared to ISK 22.8 billion in H1 2006. Operating expenses amounted to ISK 14.9 billion in Q2 2007 compared to ISK 12.9 billion in Q2 2006.

- **Scheduled Airline Operations** expenses were ISK 19.4 billion for H1 2007 compared to ISK 18.1 billion in H1 2006 and ISK 8.3 billion for Q2 2007 compared to ISK 10.2 billion in Q2 2006. This is mainly explained by higher maintenance cost both for Icelandair and Icelandair Cargo, introduction cost of new aircraft and higher crew cost.
- **Global Capacity and Aircraft trading** expenses were ISK 5.6 billion for H1 2007 compared to ISK 4.3 billion in H1 2006 and ISK 3.3 billion for Q2 2007 compared to ISK 2.3 billion in Q2 2006. Bluebird used unexpected downtime to perform maintenance tasks leading to higher maintenance costs in the quarter. Latcharter, a subsidiary of Loftleiðir had to tackle late arrival of new aircraft leading to expenses for sub-leasing etc.
- **Travel and Tourism** expenses were ISK 3.7 billion for H1 2007 compared to ISK 3.2 billion in H1 2006 and ISK 2.2 billion for Q2 2007 compared to ISK 2 billion in Q2 2006. Cost increases because of higher maintenance cost and higher salaries due to wage contracts
- **Shared Services** expenses were ISK 589 million for H1 2007 compared to ISK 283 million in H1 2006, and ISK 245 million for Q2 2007 compared to ISK 119 million in Q2 2006.

Quarterly Overview-Key figures

| ISK'000,000 | | | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| | Proforma | Proforma | Proforma | Actuals | Actuals |
| | Q2 06 | Q3 06 | Q4 06 | Q1 07 | Q2 07 |
| Transport revenue | 9.613 | 12.480 | 7.306 | 6.315 | 9.686 |
| Aircraft and aircrew lease | 2.268 | 3.290 | 2.900 | 2.613 | 3.750 |
| Other | 2.600 | 3.707 | 2.384 | 2.977 | 2.755 |
| Operating Income | 14.481 | 19.477 | 12.590 | 11.905 | 16.191 |
| Salaries and related expenses | 4.447 | 4.721 | 4.753 | 4.802 | 5.329 |
| Aircraft fuel | 2.575 | 3.160 | 2.135 | 1.679 | 2.334 |
| Aircraft and aircrew lease | 1.253 | 1.460 | 1.619 | 1.436 | 2.416 |
| Aircraft maintenance | 808 | 862 | 746 | 1.027 | 836 |
| Other | 6.962 | 13.695 | 3.675 | 3.080 | 6.598 |
| EBITDA | 1.564 | 4.421 | 338 | -81 | 1.322 |
| EBIT | 1.115 | 3.739 | -396 | -833 | 636 |
| EBT | 1.520 | 3.016 | -759 | -1.541 | 270 |
| Net Profit | 1.246 | 2.508 | -551 | -1.229 | 205 |
| EBITDAR | 2.504 | 5.512 | 1.535 | 1.027 | 2.624 |

Finance costs

Net finance costs for H1 2007 totaled ISK 1.2 billion compared to a net finance income of ISK 753 million in H1 2006. Net finance costs for Q2 2007 totaled ISK 432 million compared to a net finance income of ISK 347 million for Q2 2006. These costs are represented by high interest cost on additional loans taken for financing and investment, higher interest rates, higher margins, a lower cash position due to bridge financing for aircraft trading and costs for restructuring debt and refinancing. The foreign exchange rates had heavy impact on the group, whereas the Icelandic krona strengthened by 9,4% in 2007 compared to a weakening by 30% in 2006.

Profitability

EBITDA for H1 2007 was ISK 1.2 billion compared to ISK 1.3 billion in H1 2006. EBITDA for Q2 2007 was ISK 1.3 billion compared to ISK 1.6 billion in Q2 2006. EBIT was negative by ISK 197 million in H1 2007, a difference of ISK -180 million compared to H1 2006. EBIT was ISK 636 million in Q2 2007 compared to ISK 1.1 billion in Q2 2006.

Icelandair Group is now introducing EBITDAR for the first time. EBITDAR is an indicator often used in the airline industry where rent is excluded from the results in order to get a clearer picture of the operations themselves whereas rent of aircraft is unusually high. EBITDAR for H1 2007 was ISK 3.7 billion compared to ISK 3 billion for H1 2006. EBITDAR for Q2 2007 was ISK 2.6 billion compared to ISK 2.5 billion for Q2 2006.

Loss for H1 2007 amounted to ISK 1 billion compared to a profit of ISK 658 million for H1 2006. Profit for Q2 2007 was ISK 205 million compared to a profit of ISK 1.2 billion.

Balance Sheet

Total assets decreased from ISK 76.7 billion at the end of 2006 to ISK 71.6 billion at the end of the first half 2007

The equity ratio at the end of H1 2007 was 33% compared to 34% at the end of 2006.



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Cash Flow

The working capital available from operations totaled ISK 3.6 billion at the end of H1 2006 compared to ISK 3.8 at year end 2006. Operating assets and liabilities increased from ISK 2.5 billion at year end 2006 to ISK 5.2 billion at end of H1.

Q2 activities

Travel Service acquisition

Icelandair Group announced the signing of an LOI regarding the acquisition of the Czech airline Travel Service. Due diligence has been completed and the acquisition is being finalized. It is planned that Travel Service will be integrated into the Group in the second half of 2007.

Icelandair Cargo Expansion

In May Icelandair Cargo signed an agreement with Avion Aircraft Trading on the lease and purchase of four new Airbus A330-200 freighter aircraft. Two aircraft will be delivered in the spring of 2010 and two in 2011. With these four Airbus aircraft Icelandair Cargo is implementing its long-term strategy to operate cost efficient aircraft, run scheduled long-haul flights to markets in Asia and America, to multiply the size of the company as well as to greatly expand activities at Keflavik International Airport in Iceland.

Hilton Franchise and a Downtown Hotel

Icelandair Hotels announced that it will enter into a Franchise Agreement with the Hilton Hotel Corporation, for the 252 room 4-star Nordica Hotel in Reykjavik. The hotel is to be presented as the Hilton Reykjavik Nordica, and will be Hilton Hotel Corporation's first venture in Iceland.

Icelandair Hotels Group and Rivulus ehf (owned by Glitnir bank) signed an agreement to construct a new hotel in the centre of Reykjavik. The new hotel, which has not yet been named, will be a four-star, 133-bedroom luxury hotel with a gym in the basement, restaurant on the ground floor and a fabulous breakfast lounge on the top floor.

Prospects for second half 2007

New Group Structure

The management of Icelandair Group has been working on a new structure for the Group for the last months. The fast growth of the Group this year and now with the latest addition, Travel Service coming up calls for this. A new organizational chart will be introduced shortly. The new structure will add a business segment to the structure and stronger focus will be on individual segments, by establishing a new management board in on Group level to monitor the operations specifically. A new position of executive vice president for the Scheduled Airline Operation will be filled within the next few weeks.

Icelandair Operations

The capacity increase at Icelandair is not yielding as expected but network adjustment and group wide fleet flexibility will help optimize profit from fleet additions. Icelandair bookings for the summer and autumn are looking good, even though there will be ongoing pressure on yield. We also see opportunities in the new flexible fare structure in the second half of the year. The market from Iceland continues to be very strong, but we foresee continuing hard competition on the North Atlantic market.

Tight cost control throughout the Group will characterize second half of the year
Project status in Global Capacity Solutions very strong



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Approval of Financial Statements

Icelandair Group hf. Consolidated Financial Statements for the first half of 2007 have been reviewed by the Company's auditors without comments.

Q2 Briefing for investors 15 August 2007.

An open presentation for investors, shareholders and analysts will be held Wednesday 15 August at **Hotel Loftleiðir (room 1)**. Jón Karl Ólafsson the CEO of Icelandair Group will present the Company's results for H1 and answer questions. The presentation will start at 8:30

A presentation in English will be web-casted at 13.30 (GMT) at the website:

<https://icelandairgroup.webex.com/icelandairgroup/onstage/g.php?d=843616464&t=a>

The presentation materials will be available after the meeting on the Icelandair Group Website: www.icelandairgroup.is and in the News System of the OMX Nordic Exchange Iceland; <http://omxgroup.com/nordicexchange/>

Financial Calendar 2007

Publishing of 3rd quarter results; November 13th 2007.

Publishing of 4th quarter and annual results; Week 8 2008.

Further Information:

Jón Karl Ólafsson, CEO Icelandair Group & Icelandair tel: 505-0371
Guðjón Arngrímsson VP Corporate Communications tel: 864-5849