

## Icelandair Group results for the second quarter of 2008

- Better results than last year
- Operations adapted to difficult external conditions
- The total turnover of the Company in the second quarter of 2008 was ISK 29 billion, increasing by 79% from the corresponding quarter of last year
- EBITDA was ISK 1.9 billion, as compared to ISK 1.3 billion in the corresponding period of last year
- EBIT was ISK 901 million, as compared to ISK 636 in the corresponding period of last year
- Profit after taxes amounted to ISK 395 million, as compared to ISK 205 million in the corresponding period of the preceding year
- Assets amounted to ISK 89.8 billion in June 2008, as compared to ISK 66.8 billion at year-end 2007
- The Group equity ratio stood at 30% at the end of June 2008, as compared to 37% at the beginning of the year
- EBITDAR for the second quarter of 2008 amounted to ISK 5.3 billion, as compared to ISK 2.6 billion in the second quarter of 2007.
- The substantial increase in turnover is largely a result of the inclusion of Travel Service in the Group and the weakness of the Icelandic króna in relation to other currencies
- The Group's responses to the difficult external operating climate have returned results, and work is continuing based on an action plan designed to adapt the Group's operations to difficult economic conditions and high fuel prices

## First half of the year 2008

- The total turnover of the Company was ISK 43 billion, increasing by 53% from the corresponding period of last year
- Profit from sales of assets over the period was ISK 97 million, as compared to a ISK 1.3 billion profit from sales of assets over the corresponding period of last year
- Net cash provided by operating activities amounted to ISK 7.6 billion in the first half of 2008, as compared to ISK 3.6 billion in the corresponding period of the preceding year
- EBITDA was ISK 998 million, as compared to ISK 1.2 billion in the corresponding period of last year
- EBIT was negative by ISK 762 million, as compared to a negative result of ISK 197 million in the corresponding period of last year
- The net loss in the first half of 2008 amounted to ISK 1.3 billion, as compared to a loss of ISK 1 billion in the corresponding period of last year.
- EBITDAR for the first half of 2008 amounted to ISK 6 billion, as compared to ISK 3.7 billion in the second quarter of 2007.

### *Björgólfur Jóhannsson, CEO of Icelandair Group:*

"Icelandair Group's second-quarter results show an improvement compared to the same time last year, which is better than might have been anticipated in the difficult operating environment of the international aviation industry. Icelandair Group now operates on all continents with 75% of its operating revenues deriving from outside Iceland and only 25% from Iceland.

The period was characterised by extensive growth, largely as a result of the addition of the Czech airline Travel Service to the Group. This is now the second largest subsidiary of Icelandair Group and showed good second-quarter results.

Companies within the Group have responded to high fuel prices and dwindling demand through cost containment and income management. The operation of Icelandair, the Group's largest company, is around breakeven, but the company has launched efficiency measures which look promising.

On the whole, we are witnessing positive results from the diversification of Icelandair Group and the improving cash position. Work is in progress pursuant to action plans in all companies and we have a solid team of dedicated employees who possess the skills to steer the company through the economic turbulence."

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**Financial highlights of the first half and second quarter of 2008**

ISK 000.000						
	Q2 08	Q2 07		6M 08	6M 07	
Transport revenue	12.208	9.686	26%	18.981	16.001	19%
Aircraft and aircrew lease	12.898	3.750	244%	18.085	6.363	184%
Other	3.848	2.755	40%	5.898	5.732	3%
<b>Operating Income</b>	<b>28.954</b>	<b>16.191</b>	<b>79%</b>	<b>42.964</b>	<b>28.096</b>	<b>53%</b>
Salaries and related expenses	6.229	5.329	17%	11.234	9.931	13%
Aircraft fuel	6.538	2.581	153%	9.160	4.260	115%
Aircraft and aircrew lease	3.684	1.665	121%	6.235	3.101	101%
Aircraft servicing, handling and comm.	3.752	1.203	212%	4.748	1.941	145%
Aircraft maintenance	2.707	1.079	151%	3.819	2.106	81%
Other	4.189	3.012	39%	6.770	5.516	23%
<b>EBITDA</b>	<b>1.855</b>	<b>1.322</b>	<b>40%</b>	<b>998</b>	<b>1.241</b>	<b>-20%</b>
<b>EBIT</b>	<b>901</b>	<b>636</b>	<b>42%</b>	<b>-762</b>	<b>-197</b>	<b>287%</b>
<b>EBT</b>	<b>655</b>	<b>270</b>	<b>143%</b>	<b>-1.426</b>	<b>-1.271</b>	<b>12%</b>
<b>Net Profit/Loss</b>	<b>395</b>	<b>205</b>	<b>93%</b>	<b>-1.283</b>	<b>-1.024</b>	<b>25%</b>
<b>EBITDAR</b>	<b>5.279</b>	<b>2.624</b>	<b>101%</b>	<b>5.984</b>	<b>3.651</b>	<b>64%</b>

**Profit/loss**

EBITDA for the second quarter of 2008 was ISK 1.9 billion, as compared to ISK 1.3 billion for the corresponding period of last year. EBIT for the second quarter of 2008 was ISK 901 million, as compared to ISK 636 million for the corresponding quarter of last year. Profit for the second quarter of 2008 amounted to ISK 395 million, as compared to ISK 205 million for the second quarter of 2007.

EBITDAR is a performance measure frequently used in air carrier operations, where Rent is excluded from the EBITDA in order to give a clearer picture of the operations themselves, as cost of ownership is an unusually high proportion of operating cost. EBITDAR for the second quarter of 2008 amounted to ISK 5.3 billion, as compared to ISK 2.6 billion in the second quarter of 2007.

**Segments – second quarter – comparison between years**

ISK 000.000					
	Scheduled Airline and Tourism			Capacity Solutions	
	2Q 08	2Q 07	Diff	2Q 08	2Q 07
Segment revenue	18.917	15.907	19%	13.905	3.464
Segment cost	-17.949	-14.625	23%	-12.683	-3.348
<b>EBITDA</b>	<b>968</b>	<b>1.282</b>	<b>-24%</b>	<b>1.222</b>	<b>116</b>
<b>EBIT</b>	<b>229</b>	<b>669</b>	<b>-66%</b>	<b>951</b>	<b>-84</b>
Net finance cost	-204	-167	22%	250	-94
Share of profit of associates	1	0	N/A	126	66
<b>EBT</b>	<b>26</b>	<b>502</b>	<b>-95%</b>	<b>1.327</b>	<b>-112</b>
Income tax	-37	-103	-64%	-163	-28
<b>Net Profit/Loss</b>	<b>-11</b>	<b>399</b>	<b>-103%</b>	<b>1.164</b>	<b>-140</b>
<b>EBITDAR</b>	<b>2.109</b>	<b>2.140</b>	<b>-1%</b>	<b>3.505</b>	<b>560</b>

### Segments for the second quarter of 2008

ISK' 000.000	Q2 2008				
	Scheduled airline	Capacity solutions	Shared Services	Elimi- nations	Con- solidated
Segment revenue	18.917	13.905	215	-4.083	28.954
Segment cost	-17.949	-12.683	-551	4.083	-27.099
EBITDA	968	1.222	-336	0	1.855
EBIT	229	951	-279	0	901
Net finance cost	-204	250	-419	0	-373
Share of profit of associates	1	126	0	0	127
EBT	26	1.327	-699	0	655
Income tax	-37	-163	-60	0	-260
Net Profit/Loss	-11	1.164	-758	0	395

### Operation

Total income for the second quarter of 2008 amounted to ISK 29 billion, as compared to ISK 16.2 billion in the corresponding quarter of last year, representing an increase of 79% between years. A large part of the increase in income, i.e. 67%, resulted from the inclusion of Travel Service in the Group; the remaining increase in turnover is explained by the weakening of the Icelandic króna against other currencies. Operating expenses net of depreciation amounted to ISK 27.1 billion for the second quarter of 2008, as compared to ISK 14.9 billion for the second quarter of 2007.

Income from scheduled airlines and tourism in the second quarter of 2008 amounted to ISK 18.9 billion, as compared to ISK 15.9 billion in the corresponding quarter of 2007, which corresponds to an increase of 19% between years. Expenses in the second quarter of 2008 amounted to ISK 17.9 billion, as compared to ISK 14.6 billion in the corresponding quarter of 2007, which represents an increase of 23% between years. EBITDA from scheduled airlines and tourism was ISK 968 million, as compared to ISK 1.3 billion in the corresponding quarter of last year. The net loss of the segment in the second quarter of 2008 amounted to ISK 11 million, as compared to a profit of ISK 399 million in the first quarter of last year. EBITDAR in the second quarter of 2008 was ISK 2.1 billion, as compared to ISK 2.1 billion in the corresponding quarter of last year.

Income from capacity solutions in the second quarter of 2008 amounted to ISK 13.9 billion, as compared to ISK 3.5 billion in the corresponding quarter of 2007. Expenses in the second quarter of 2008 amounted to ISK 12.7 billion, as compared to ISK 3.3 billion in the corresponding quarter of 2007. EBITDA from capacity solutions was ISK 1.2 billion, as compared to ISK 116 million in the corresponding quarter of last year. The profit from the segment in the second quarter of 2008 amounted to ISK 1.2 billion, as compared to a loss of ISK 140 million in the first quarter of last year. EBITDAR in the second quarter of 2008 was ISK 3.5 billion, as compared to ISK 560 million in the corresponding quarter of last year.

### Operational deviations

Transport revenues increased by ISK 2.5 billion between the second quarters of 2007 and 2008, i.e. by 26%. Revenue from passenger transport increased by 26.7 % between years, while revenue from cargo and mail transport increased by 21.5 %. For Icelandair, passenger revenue increased between the first half of 2007 and 2008 by 5%, as the number of passengers fell by 6.3 % to 649,000 for the first half of 2008. The load factor increased in the first half of 2008 from 72.2% to 72.8%, i.e. by 0.6 percentage points, and unit price calculated at fixed exchange rate increased by 15.5% as a result of an improved "to/from/via" passenger mix.

Charter revenues increased by ISK 9.1 billion between the second quarters of 2007 and 2008. The increase is primarily a result of the inclusion of Travel Service in the Group, which accounts for an amount of to ISK 7.1 billion.

Other revenues increased by ISK 1.1 billion between the second quarters of 2007 and 2008, i.e. by 40%, of which ISK 300 million is a result of the inclusion of Travel Service.

Salaries and related expenses increased by ISK 900 million, or 17% between quarters. The total number of average full time positions per month in the second quarter of 2008 was 3.456, which represents an increase of 21% from the corresponding period of 2007. The total number of full-time equivalent positions has fallen by 102 at Icelandair, or by 8%, but the number

## Results for the second quarter and first half of the year 2008

of positions at LatCharter increased by 63, or 50%, as a result of increased business. The number of full-time equivalent positions at Travel Service is 656; adjusted for Travel Service the number of positions fell by 2%, while salary expenses rose by ISK 84 million, or 1.6%.

In the first six months of the year, salaries increased by 13%, or ISK 1.3 billion between years. Adjusted for the impact of Travel Service, salaries increased by 4.9% from last year. The year-on-year increase in the wage index based on 30 June 2008 was 8.5%.

Fuel costs rose significantly in the second quarter, by approximately ISK 4 million, which corresponds to a 153% increase compared to the same period last year. Adjusted for the activities of Travel Service the real-term increase was 44%. The average price of fuel in the second quarter of 2008 was USD 1.253 per ton, as compared to USD 669 per ton at the corresponding time last year, representing an increase of 87% between years.

Aircraft and aircrew lease in the second quarter increased by ISK 2 billion between years, or 121%. The increase is primarily a result of the inclusion of Travel Service, or ISK 1.1 billion.

Aircraft servicing, handling and navigation expenses increased by ISK 2.5 billion between years as a result of expanded business activities, in addition to the fact that the króna was weaker in the second quarter of 2008 than in the same period last year. Maintenance cost in the second quarter increased by ISK 1.6 billion between years.

## Financials

ISK '000.000			
	Q2 08	Q2 07	Diff.
Interest income	102	76	26
Interest expenses	-808	-597	-211
Currency effect	30	89	119
Gain from sale of derivatives	303		
<b>Net finance cost</b>	<b>-373</b>	<b>-432</b>	<b>59</b>

Net financial expense for the second quarter of 2008 was negative by ISK 373 million, as compared to a negative result of ISK 432 million for the corresponding quarter of 2007

Financial income amounted to ISK 102 million for the second quarter of 2008, as compared to ISK 76 million for the corresponding quarter of 2007.

Finance cost increased by ISK 211 million between the second quarters of 2007 and 2008. The increase is a result of the increase in market interest and margins, as new bonds were sold during the quarter for the sum of ISK 3.8 billion. The principal of debts increased by ISK 80 million as a result of the weakening of the Icelandic króna

The currency gain of the quarter are the result of the Company's favourable asset position in foreign currencies.

Gain from the sale of derivates amounted to ISK 303 million.

### Balance Sheet

ISK 000.000	30/06/08	31/12/07	Diff.
Operating Assets	27.762	22.832	4.930
Intangible assets	31.351	26.846	4.505
Investment in associates	938	2.335	-1.397
Aircraft purchase prepayments	2.188	249	1.939
Long-term receivables	3.909	1.788	2.121
Cash and cash equivalents	6.299	2.006	4.293
Other current assets	17.377	10.704	6.673
<b>Total assets</b>	<b>89.824</b>	<b>66.760</b>	<b>23.064</b>
Stockholders equity	27.271	25.033	2.238
Total non-current liabilities	18.850	14.174	4.676
Total current liabilities	43.703	27.553	16.150
<b>Total equity and liabilities</b>	<b>89.824</b>	<b>66.760</b>	<b>23.064</b>

Total assets amounted to ISK 89.8 billion in June 2008, as compared to ISK 66.8 billion at year-end 2007

Fixed assets have increased by ISK 4.9 billion between years from year-end, or by 22%. The increase is the result of the impact of the currency exchange rate, as part of the Group's fixed assets is held in foreign currencies.

Investments in the first half of the year amounted to ISK 3.2 billion, of which ISK 1.7 million resulted from new seats and entertainment systems in Icelandair's aircraft, together with investments in engine hours. Deposits due to aircraft purchase amounted to ISK 900 million for the period.

With the inclusion of Travel Service, Aircraft purchase prepayment, rose by ISK 1.5 billion as a result of a payment on a 737-800 aircraft. In addition to that ISK 300 million was paid because of the purchase of a 787 aircraft.

Intangible assets have increased by ISK 4.5 billion from year-end, or by 17%. The increase is the result of the inclusion of Travel Service, which accounts for ISK 2.7 billion of the total increase, as well as the weakening of the króna against other currencies.

Long-term assets have increased by ISK 2.1 billion year-to-date. A payment on a lease contract with Air Niguni for a 787 Dreamliner aircraft amounted to approximately ISK 870 million. ISK 593 million of the increase can be traced to Travel Service.

Receivables increased by ISK 7.2 million year-to-date. This reflects a significant increase in turnover, mostly due to Travel Service.

Long-term liabilities have increased by ISK 6.1 billion from year end. Changes in exchange rates have an impact on foreign currency denominated loans, as the consolidation of Travel Service brings in loan of ISK 1.4 billion (payments for 737-800 aircraft). Also, a five-year bond was issued in the amount of ISK 1.3 billion. Deposits due to the lease contract on the 787 Dreamliner amounts to ISK 1.4 billion.

Short-term liabilities have increased by ISK 14.7 billion from year-end, or by 53%. The increase is largely a result of increased turnover, and advances from customers have increased by ISK 6.8 billion since the year-end. The impact of Travel Service accounts for approximately ISK 1.5 billion of this amount.

### Cash flow

ISK '000.000		
	H1 08	H1 07
Working capital from (to) operations	1.365	-1.681
Net cash from operating activities	7.619	3.585
Net cash from (used in) investing activities	-2.354	-1.270
Net cash (used in) from financing activities	-1.485	-801
Increase (decrease) in cash and cash equivalents	3.780	1.514
Effect of exchange rate fluctuations on cash held	513	-104
Cash and cash equivalents at 1 January	2.006	2.776
Cash and cash equivalents at 30 June	6.299	4.186

Working capital provided by operating activities amounted to ISK 1.4 billion for the first half of the year, as compared to a negative figure of ISK 1.7 billion in the corresponding period of the preceding year  
 Net cash provided by operating activities amounted to ISK 7.6 billion for the first half of 2008, as compared to ISK 3.6 billion for the first half of the preceding year.

### Quarterly comparison – highlights

ISK '000.000					
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
Transport revenue	9.686	11.994	7.954	6.773	12.208
Charter revenue	3.750	4.615	4.532	5.187	12.898
Other	2.755	3.429	2.857	2.050	3.848
Operating Income	16.191	20.038	15.343	14.010	28.954
Salaries and related expenses	5.329	4.672	5.405	5.005	6.229
Aircraft fuel	2.334	2.856	2.900	2.622	6.538
Aircraft and aircrew lease	2.416	2.832	669	2.551	3.684
Aircraft servicing, handling and navigation	985	1.187	1.457	996	3.752
Aircraft maintenance	836	1.239	2.026	1.112	2.707
Other	2.969	3.531	2.371	2.581	4.189
EBITDA	1.322	3.721	515	-857	1.855
EBIT	636	2.843	963	-1.663	901
EBT	270	2.519	-1.119	-2.081	655
Net Profit	205	2.061	-780	-1.678	395
EBITDAR	2.624	5.288	2.116	705	5.279

### Prospects

- The year 2008 will be a challenging year for the aviation industry, but flexibility combined with a strong team of employees will enable Icelandair Group to achieve acceptable results
- Icelandair has a broad scope of activities and varied, global line of business, which will open opportunities in the threats that lie ahead
- The increased strength of the Central European economies will continue to be the focus of Icelandair Group's growth
- Action plans are in place in all the Group's undertakings to respond to the economic conditions and high fuel prices
- Acceptable results are anticipated for Icelandair in 2008 in spite of continued difficult market conditions. The fall in demand is being met by reduced supply
- The charter project backlog is favourable for the remainder of 2008

### Audit

The consolidated accounts of Icelandair Group for the second quarter of 2008 and the first half of 2008 were approved at a meeting of the Board of Directors on 18 August 2008. The interim statement has been reviewed by the Company's auditors without comment.

### Presentation 19 August

An open presentation will be held on Tuesday 19 August 2008 at the Hilton Hotel Reykjavik Nordica (Room I). Björgólfur Jóhannsson, Icelandair Group CEO, will present the Company's results and answer questions, together 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](http://www.icelandairgroup.is) and the news network of the Iceland Stock Exchange/Nasdaq OMX

### Financial Calendar 2008

Publication of third quarter results: Tuesday 18 November 2008

2008 Financial Report: Week 8 - 2009

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