

Interim financial report for the fourth quarter of 2009 and for 2009

Results in the fourth quarter of 2009

- + Total turnover was ISK 18.2 billion, increasing by 4% in the corresponding period of last year.
- + EBITDA was negative by ISK 219 million, as compared to a negative result of ISK 894 million in the corresponding period of last year.
- + EBIT was negative by ISK 2.4 billion, as compared to a negative result of ISK 8.7 billion at the same time last year. Depreciation amounted to ISK 2.7 billion, down by ISK 5.1 billion from the preceding year.
- + Financial expenses amounted to ISK 2.9 billion, as compared to ISK 630 million in the preceding year.
- + Losses after taxes came to ISK 9.6 billion, as compared to ISK 10.6 billion over the corresponding period of last year.

Results in 2009

- + Total turnover was ISK 80.3 billion, increasing by 11% between years.
- + EBITDA was ISK 8.1 billion, as compared to ISK 3.1 billion in the previous year.
- + EBIT was negative by ISK 1.5 billion, as compared to a negative result of ISK 7.4 billion in the previous year. Depreciation amounted to ISK 6.7 billion, down by ISK 3.7 billion from the preceding year.
- + Financial costs amounted to ISK 6.0 billion, as compared to ISK 1.9 billion in the preceding year.
- + Losses after taxes came to ISK 10.7 billion, as compared to ISK 7.5 billion in the year before.
- + Cash at the end of the year amounted to ISK 1.9 billion, as compared to ISK 4.1 billion for the at the same time last year.
- + Total assets amounted to ISK 89.1 billion at year-end 2009 and the equity ratio was 16.4% at the end of 2009, as compared to 20.1% at the end of 2008.

Operational Highlights 2009 and 2008 (mISK)

	Q4 09	Q4 08	2009	2008
Operating Income	18,196	17,479	80,321	72,199
EBITDA	-219	-894	8,135	3,053
EBIT	-2,941	-8,671	1,483	-7,351
EBT	-5,833	-9,303	-4,469	-8,985
Net loss from continuing operations	-5,126	-9,399	-3,984	-8,905
Net loss for the year / quarter	-9,646	-10,570	-10,665	-7,468
EBITDAR	1,768	1,255	16,332	8,821

*All 2008 figures have been re-stated on a pro-forma basis

CEO Björgólfur Jóhannsson:

"It is evident that 2009 was a challenging year in international aviation. However, the operations of Icelandair and Air Iceland were profitable and both companies are reporting their best annual results in years. In addition, Lofleidir, Bluebird and Iceland Travel reported a net profit in 2009. I want to use this opportunity to thank our employees for their dedication and professionalism which is the driving force of these good results."

The Group's loss of ISK 10.7 billion mainly stem from parent company guarantees for SmartLynx from 2007, losses from oil hedges of Travel Service and due to excessive leverage of the parent company dating back to 2006.

Financial expenses in 2009 amounted to ISK 6 billion, increasing by over ISK 4 billion from 2008. The biggest contributing factor was an ISK 2 billion loss on forward contracts relating to currency hedging in 2009; conversely, 2008 returned an ISK 1.4 billion profit from forward contracts. Interest expenses increased by ISK 0.5 billion from 2008, amounting to a total of ISK 4.2 billion in 2009.

Icelandair Group's foreign investments have caused great difficulties for the Group. In 2009, ISK 4.2 billion were expensed as a result of operating losses and written-off receivables and intangible assets of the Latvian airline SmartLynx. In addition, expensed items relating to the Czech airline Travel Service amounted to approximately ISK 1.9 billion. Of this figure, losses on fuel hedging amounted to ISK one billion, and ISK 900 million resulted from the sale of a share in the company under its book value. Neither company forms a part of Icelandair Group's core business, and the board of directors of the company has therefore resolved to sell both companies.

The business model has been simplified in significant respects, and the company's focus will be on services to travellers and on the operation of an international air route network. The changes will strengthen the position of Icelandair Group as an operating company in international travel services. The board of directors of the company has resolved to discontinue the Company's definition of itself as an investment company, as evidenced by the board's decision to sell the Group's holdings in SmartLynx, Bluebird and Travel Service.

The financial restructuring of the company is in its final stages. It has been clear for a long time that Icelandair Group is excessively leveraged and its interest burden is too heavy. It is important that the restructuring of the Company's balance sheet, which was in progress throughout 2009, should be brought to a conclusion so that the Company's operations can support the service and payment of its debts.

It is my belief that following the restructuring, Icelandair Group will be in a good position to move forward with its operation of an international route network and universal services to travellers."

Highlights from operations in the fourth quarter of 2009

As illustrated in the table below, **EBITDA** was neikvæð by ISK 0.2 billion, as compared to a negative result of ISK 0.9 billion over the same period last year. **EBIT** was negative by ISK 2.9 billion, as compared to a negative result of ISK 8.7 billion over the same period last year. **Losses** after taxes over the quarter amounted to ISK 9.6 billion, as compared to ISK 10.6 billion over the corresponding period in 2008. **EBITDAR** amounted to ISK 1.8 billion, as compared to ISK 1.3 billion in the fourth quarter of 2008.

Financial Highlights of Q4 2009 and Q4 2008			
	Q4 09	Q4 08	% Chg.
Transport revenue	9,869	9,105	8%
Aircraft and aircrew lease	5,454	5,286	3%
Other	2,873	3,088	-7%
Operating Income	18,196	17,479	4%
Salaries and related expenses	4,894	5,208	-6%
Aircraft fuel	2,816	3,953	-29%
Aircraft and aircrew lease	3,706	2,564	45%
Aircraft servicing, handling and comm.	1,236	1,285	-4%
Aircraft maintenance	2,100	1,727	22%
Other	3,663	3,635	1%
EBITDA	-219	-895	-76%
EBIT	-2,941	-8,672	-66%
EBT from continuing operations	-5,834	-9,303	-37%
Net Loss from continuing operations	-5,126	-9,398	-45%
Loss from discontinuing operations	-4,520	-1,172	286%
Loss for the year	-9,646	-10,570	-9%
EBITDAR	1,768	1,255	41%

Total income amounted to ISK 18.2 billion, as compared to ISK 17.5 billion in the corresponding quarter of last year, representing an increase of 4% between years.

Total expenses without depreciation amounted to ISK 18.4 billion, which represents no change from the fourth quarter of 2008.

Transport revenues increased by ISK 0.8 billion between the fourth quarters of 2008 and 2009, or by 8.4%. Revenue from passenger transport increased by 13.3%, or ISK 1.0 billion, between years, while revenue from cargo and mail transport fell by ISK 0.2 billion.

Charter revenues increased by ISK 0.2 billion, or 3%, as compared to the fourth quarter of 2008.

Other income fell by ISK 0.2 billion or 7% from the fourth quarter of 2008.

Salaries and personnel expenses fell by ISK 0.3 billion, or by 6%, in comparison with the fourth quarter of 2008. The average number of full-time equivalent positions fell by 10%, down to 2,182 positions, as compared to 2,437 at the same time last year.

Fuel costs fell by ISK 1.1 billion, which represents a reduction of 29% from the preceding year. The average world price of fuel in the fourth quarter of 2009 was USD 667 per ton, as compared to USD 643 per ton over the same period last year; this corresponds to an increase of 4% between periods.

Aircraft and aircrew lease increased by ISK 1.1 billion between years, or 45%.

Aircraft servicing, handling and navigation expenses fell by ISK 49 million between years, or 4%.

Maintenance costs increased by ISK 0.4 billion between years, or 22%.

Financial items in the fourth quarter of 2009

Net finance costs amounted to ISK 2.9 billion in the fourth quarter of 2009, as compared to ISK 0.7 million in the corresponding period last year.

Foreign exchange loss amounted ISK 2.0 billion in the fourth quarter of 2009, but was ISK 0.5 billion in the corresponding period of last year.

Net Finance Cost (mISK)			
	Q4 09	Q4 08	Diff.
Interest income	51	-117	168
Interest expenses	-866	-1,178	312
Currency effect	-2,044	466	-2,510
Loss / Gain from sale of derivatives	0	140	-140
Net finance cost	-2,860	-688	-2,171

2009 Financial Statement

The table below shows the principal items of Icelandair Group's annual financial statement for 2009.

Financial highlights

Financial Highlights 2009 and 2008 (mISK)			
	2009	2008	% Chg.
Transport revenue	47,139	41,885	13%
Aircraft and aircrew lease	19,425	16,951	15%
Other	13,757	13,363	3%
Operating Income	80,321	72,199	11%
Salaries and related expenses	18,652	20,275	-8%
Aircraft fuel	13,250	15,703	-16%
Aircraft and aircrew lease	12,797	8,921	43%
Aircraft servicing, handling and comm.	5,881	5,060	16%
Aircraft maintenance	6,825	5,499	24%
Other	14,781	13,688	8%
EBITDA	8,135	3,053	166%
EBIT	1,483	-7,351	-120%
EBT from continuing operations	-4,469	-8,985	-50%
Net Loss from continuing operations	-3,984	-8,905	-55%
(Loss) Profit from discontinuing operations	-6,681	1,437	-565%
Loss for the year	-10,665	-7,468	43%
EBITDAR	16,332	8,821	85%

EBITDA was ISK 8.1 billion, as compared to ISK 3.1 billion in the year before. **EBIT** was negative by ISK 1.5 billion, as compared to a negative result of ISK 7.4 billion in the year before. Losses after taxes over the year amounted to ISK 10.7 billion, as compared to ISK 7.5 billion in 2008. **EBITDAR** amounted to ISK 16.3 billion, as compared to ISK 8.8 billion in 2008.

Balance Sheet

Balance Sheet (m ISK)	31/12/09	31/12/08	Diff.
Operating Assets.....	27,014	36,798	-9,784
Intangible assets.....	23,598	29,306	-5,708
Investment in associates.....	545	1,008	-463
Aircraft purchase prepayments.....	1,134	4,226	-3,092
Long-term receivables.....	3,449	3,834	-385
Long-term cost.....	1,347	2,029	-682
Cash and cash equivalents.....	1,909	4,065	-2,156
Assets held for sale.....	17,500	0	17,500
Other assets.....	12,608	18,681	-6,073
Total assets.....	89,104	99,947	-10,843
Stockholders equity.....	14,605	20,080	-5,475
Total non-current liabilities.....	19,618	27,138	-7,520
Liabilities held for sale.....	10,597	0	10,597
Other liabilities.....	44,284	52,729	-8,445
Total equity and liabilities.....	89,104	99,947	-10,843

Assets amounted to ISK 89.1 billion at the end of 2009, as compared to ISK 99.9 at the end of 2008, which is largely a result of the sale of a 20% stake in Travel Service in November 2009, and Travel Service is no longer part of Icelandair Group.

Investments in operating assets in the year 2009 amounted to ISK 2.2 billion.

Net interest-bearing debt amounted to ISK 41.2 billion, down by ISK 1.7 billion over the year.

Cash Flow

Statement of Cash Flow (m ISK)	2009	2008
Working capital from operations	5,373	5,795
Net cash from operating activities	8,781	4,531
Net cash used in investing activities	-7,799	-7,452
Net cash (used in) from financing activities	-3,283	3,171
(Decrease) Increase in cash and cash equivalents	-2,301	250
Effect of exchange rate fluctuations on cash held	145	1,809
Cash and cash equivalents at 1 January	4,065	2,006
Cash and cash equivalents at 31 December	1,909	4,065

Working capital from operations amounted to ISK 5.4 billion in 2009, as compared to ISK 5.8 billion at the same time last year.

Net cash provided by operating activities over the year was ISK 8.8 billion, as compared to ISK 4.5 billion in 2008.

Cash at the end of the period amounted to ISK 1.9 billion, as compared to ISK 4.1 billion at the same time last year

The key indicators from operations by quarter

Financial Highlights by Quarters (mISK)					
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Transport revenue	9,105	7,132	11,631	18,507	9,869
Charter revenue	5,286	4,655	4,409	4,908	5,454
Other	3,088	2,285	3,471	5,128	2,873
Operating Income	17,479	14,072	19,511	28,543	18,196
Salaries and related expenses	5,208	4,236	4,758	4,764	4,893
Aircraft fuel	3,953	1,981	3,568	4,885	2,816
Aircraft and aircrew lease	2,564	2,678	2,971	3,442	3,706
Aircraft servicing, handling and navigation	1,285	960	1,586	2,100	1,236
Aircraft maintenance	1,727	1,302	1,553	1,870	2,100
Other	3,635	2,857	3,669	4,593	3,663
EBITDA	-895	58	1,407	6,890	-219
EBIT	-8,672	-1,085	123	5,386	-2,941
EBT from continuing operations	-9,303	-1,621	-1,009	3,995	-5,833
Net Profit	-9,398	-1,382	-850	3,374	-5,126
Net Profit (Loss) from discontinuing operations	-1,172	-2,257	-490	586	-4,520
Net Profit/Loss for the year / quarter	-10,570	-3,639	-1,340	3,961	-9,646

Outlook for Icelandair Group

The long-term prospects for Icelandair Group's operations are favourable, in the opinion of the company's management. It is clear that the weak Icelandic króna is having a positive impact on operations.

The financial restructuring of Icelandair Group will result in a significant downsizing of the company's balance sheet and contribute to a better adaptation of the repayment burden of loans to the payment capacity of the company.

The board of directors has decided to simplify the company's business model. SmartLynx, Bluebird and Travel Service will no longer form a part of Icelandair Group's core operations in 2010, as the companies will be sold out of the Group.

It is the belief of Icelandair Group's management that the company is in a good position to move forward by focusing on its operation of an international route network and universal services to travellers.

Events since the reporting date

As revealed in a notice from Icelandair Group on 19 April 2010, the eruption in Eyjafjallajökull caused significant restrictions in air traffic in Europe as a result of ash clouds. In the assessment of Icelandair Group, the company's cost resulting from these events amounted to approximately ISK 100 million for each day that flights were disrupted.

Audit

The consolidated accounts of Icelandair Group for 2009 were approved at a meeting of the Board of Directors on 30 April 2010. The interim statement has been audited by the Company's auditors, KPMG auditors.

Presentation meeting on Friday 30 April 2010.

An open presentation for stakeholders will be held on Friday, 30 April, at Icelandair Group's headquarters, 3d floor, by Hotel Loftleidir at Reykjavik Airport. Björgólfur Jóhannsson, Icelandair Group CEO, will present the Company's results and respond to questions, together with the senior management. The presentation will begin at 16:30.

The presentation material will be available after the meeting on the Icelandair Group website, www.icelandairgroup.is, and the news network of the Iceland Stock Exchange/Nasdaq OMX.

Financial Calendar 2010

Financial statement for the first quarter – week 18, 2010

Financial statement for the second quarter – week 31, 2010

Financial statement for the third quarter – week 44, 2010

Financial statement for the fourth quarter – week 6, 2011

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