

Icelandair Group hf.
Condensed Consolidated
Interim Financial Information
1 January - 30 September 2010

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 30 September 2010 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 September 2010.

For the past two years the Group has been working on improving its debt maturity profile and equity ratio. On 21 October the Company and its lenders finalized all documentation related to the restructuring. Investors have Invested ISK 5.5 billion in new shares which were paid into the Company on 2 November. Also as part of the restructuring, the Group's largest creditors converted debt into equity amounting to ISK 3.6 billion. More detailed information are in note 18.

According to the consolidated statement of comprehensive income, profit for the period from 1 January to 30 September amounted to ISK 3.151 million. Total comprehensive income for the period was ISK 2.364 million. According to the consolidated statement of financial position, equity at the end of the period amounted to ISK 16.969 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 nine months ended 30 September 2010 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 nine-month period ended 30 September 2010, its assets, liabilities and consolidated financial position as at 30 September 2010 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 30 September 2010 and confirm them by means of their signatures.

Reykjavík, 15 November 2010.

Board of Directors:

Sigurður Helgason, chairman of the board
Finnbogi Jónsson
Auður Finnbogadóttir
Katrín Olga Jóhannesdóttir
Úlfar Steindórsson
Herdís Dröfn Fjeldsted
Magnús Magnússon
Vilborg Lofts

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 statement of financial position of Icelandair Group hf. as at 30 September 2010 and the related condensed consolidated statement of comprehensive income, changes in equity and cash flows for the nine month period then ended. Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated 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 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Reykjavík, 15 November 2010.

KPMG hf.

Jón S. Helgason
Guðný H. Guðmundsdóttir

Consolidated Statement of Comprehensive Income for the period from 1 January to 30 September 2010

	Notes	Q3		Q1-Q3	
		2010 1.7.-30.9. Re-presented*	2009 1.7.-30.9. Re-presented*	2010 1.1.-30.9. Re-presented*	2009 1.1.-30.9. Re-presented*
Continuing operations					
Operating income					
Transport revenue		21.065	18.507	43.081	37.270
Aircraft and aircrew lease		5.275	4.908	14.994	13.972
Other operating revenue		4.742	5.128	11.175	10.884
		<u>31.082</u>	<u>28.543</u>	<u>69.250</u>	<u>62.126</u>
Operating expenses					
Salaries and other personnel expenses		5.232	4.764	15.073	13.758
Aircraft fuel		4.990	4.884	11.634	10.433
Aircraft and aircrew lease		3.429	3.442	9.370	9.091
Aircraft handling, landing and communication		2.215	2.100	4.998	4.645
Aircraft maintenance expenses		1.751	1.870	5.151	4.725
Other operating expenses		4.330	4.594	11.562	11.120
		<u>21.947</u>	<u>21.654</u>	<u>57.788</u>	<u>53.772</u>
Operating profit before depreciation and amortisation (EBITDA) .		9.135	6.889	11.462	8.354
Depreciation and amortisation		(1.590)	(1.503)	(4.237)	(3.930)
Operating profit before net finance expense (EBIT)		7.545	5.386	7.225	4.424
Finance income		40	(367)	165	173
Finance expense		(1.211)	(1.057)	(3.123)	(3.312)
Net finance costs	9	(1.171)	(1.424)	(2.958)	(3.139)
Share of profit of associates, net of income tax		10	33	74	80
Profit before income tax		6.384	3.995	4.341	1.365
Income tax		(1.187)	(620)	(790)	(222)
Profit from continuing operations		5.197	3.375	3.551	1.143
Discontinuing operations					
Profit (loss) from discontinued operation, net of income tax	6	0	586	(400)	(2.161)
Profit (loss) for the period		5.197	3.961	3.151	(1.018)
Other comprehensive income					
Foreign currency translation differences for foreign operations		(1.300)	72	(1.030)	1.182
Net (loss) profit on hedge of net investment in foreign operation		(71)	93	(20)	69
Effective portion of changes in fair value of cash flow hedge		15	1.875	263	4.667
Other comprehensive income for the period		(1.356)	2.040	(787)	5.918
Total comprehensive income for the period		3.841	6.001	2.364	4.900

* see discontinued operation - note 6

The notes on pages 10 to 17 are an integral part of these interim consolidation financial statement

Consolidated Statement of Comprehensive Income for the period from 1 January to 30 Sept. 2010, contd.:

	Notes	Q3		Q1-Q3	
		2010 1.7.-30.9. Re-presented *	2009 1.7.-30.9.	2010 1.1.-30.9. Re-presented *	2009 1.1.-30.9.
Profit (loss) attributable to:					
Owners of the Company		5.187	3.459	3.147	(1.205)
Non-controlling interest		10	502	4	187
Profit (loss) for the period		<u>5.197</u>	<u>3.961</u>	<u>3.151</u>	<u>(1.018)</u>
Total Comprehensive profit attributable to:					
Owners of the Company		3.831	4.855	2.360	3.487
Non-controlling interest		10	1.146	4	1.413
Total comprehensive profit for the period		<u>3.841</u>	<u>6.001</u>	<u>2.364</u>	<u>4.900</u>
Profit (loss) per share:					
Basic profit (loss) per share (ISK)		5,33	4,07	3,23	(1,04)
Diluted profit (loss) per share (ISK)		5,33	4,07	3,23	(1,04)
Continuing operations					
Basic profit per share (ISK)		5,33	3,46	3,64	1,17
Diluted profit per share (ISK)		5,33	3,46	3,64	1,17

The notes on pages 10 to 17 are an integral part of these interim consolidation financial statement

Consolidated Statement of Financial Position

as at 30 September 2010

	Notes	30.9.2010	31.12.2009
Assets			
Operating assets		27.355	27.014
Intangible assets		22.604	23.598
Investments in associates		592	545
Prepaid aircraft acquisitions		1.058	1.134
Long-term cost		1.009	1.347
Long-term receivables and deposits		3.102	3.449
Deferred tax asset		0	140
Total non-current assets		55.720	57.227
Inventories		1.653	1.393
Trade and other receivables		13.557	9.725
Assets classified as held for sale	8	11.681	17.500
Prepayments		1.174	1.350
Cash and cash equivalents		7.382	1.909
Total current assets		35.447	31.877
Total assets		91.167	89.104
Equity			
Share capital		975	975
Share premium		25.450	25.450
Reserves		6.012	6.899
Accumulated deficit		(15.508)	(18.755)
Total equity attributable to equity holders of the Company		16.929	14.569
Non-controlling interest		40	36
Total equity		16.969	14.605
Liabilities			
Loans and borrowings	10	11.690	13.676
Prepayments		2.051	2.254
Long-term payables		4.261	3.688
Deferred income tax liability		589	0
Total non-current liabilities		18.591	19.618
Loans and borrowings	10	24.402	22.714
Trade and other payables		16.884	14.392
Liabilities classified as held for sale	8	5.581	10.597
Deferred income		8.740	7.178
Total current liabilities		55.607	54.881
Total liabilities		74.198	74.499
Total equity and liabilities		91.167	89.104

The notes on pages 10 to 17 are an integral part of these interim consolidation financial statement

Consolidated Statement of changes in Shareholders' Equity for the period from 1 January to 30 September 2010

	Attributable to equity holders of the Company								
	Reserves								
	Share capital	Share premium	Share option reserve	Hedging reserve	Translation reserve	Accumulated deficit	Total	Non-control ing interest	Total equity
1 January to 30 September 2009									
Equity 1.1.2009	975	25.450	153	(4.207)	5.910	(8.216)	20.065	15	20.080
Total comprehensive income for the period									
Loss for the period						(1.205)	(1.205)	187	(1.018)
Other comprehensive income									
Foreign currency translation differences					923		923	259	1.182
Net profit on hedge of net investment in foreign operation					69		69		69
Effective portion of changes in fair value of cash flow hedges, net of tax				3.700			3.700	967	4.667
Total other comprehensive income	0	0	0	3.700	992	0	4.692	1226	5.918
Total comprehensive profit (loss) for the period	0	0	0	3.700	992	(1.205)	3.487	1.413	4.900
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Share based payments			25				25		25
Total contributions by and distributions to owners			25	0	0	0	25		25
Changes in ownership interests in subsidiaries that do not result in a loss of control									
Change in ownership interest in subsidiary						(310)	(310)	121	(189)
Total transactions with owners	0	0	0	0	0	(310)	(310)	121	(189)
Balance at 30 September 2009	975	25.450	178	(507)	6.902	(9.731)	23.267	1.549	24.816
1 January to 30 September 2010									
Equity 1.1.2010	975	25.450	100	(302)	7.101	(18.755)	14.569	36	14.605
Total comprehensive income for the period									
Profit for the period						3.147	3.147	4	3.151
Other comprehensive income									
Foreign currency translation differences					(1.030)		(1.030)		(1.030)
Net loss on hedge of net investment in foreign operation					(20)		(20)		(20)
Effective portion of changes in fair value of cash flow hedges, net of tax				263			263		263
Total other comprehensive income	0	0	0	263	(1.050)	0	(787)	0	(787)
Total comprehensive profit (loss) for the period	0	0	0	263	(1.050)	3.147	2.360	4	2.364
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Share based payments			(100)			100			0
Total contributions by and distributions to owners	0	0	(100)	0	0	100	0	0	0
Balance at 30 September 2010	975	25.450	0	(39)	6.051	(15.508)	16.929	40	16.969

The notes on pages 10 to 17 are an integral part of these interim consolidation financial statement

Consolidated Statement of Cash Flows for the Nine Months ended 30 September 2010

	Notes	2010 1.1.-30.9.	2009 1.1.-30.9. Re-presented*
Cash flows from operating activities			
Profit (loss) for the period		3.151	(1.018)
Adjustments for:			
Depreciation and amortisation		4.237	3.930
Depreciation and amortisation of discontinued operations		131	191
Other operating items	16	3.762	4.762
Working capital from operations		11.281	7.865
Net change in operating assets and liabilities		661	2.587
Net cash from operating activities		11.942	10.452
Cash flows from investing activities:			
Acquisition of operating assets		(1.299)	(1.702)
Proceeds from the sale of operating assets		82	119
Acquisition of intangible assets		(66)	(47)
Prepaid aircraft acquisition, increase		(29)	0
Cash of subsidiaries held for sale, change		7	0
Acquisition of long-term cost		(1.712)	(2.760)
Long-term receivables, change		254	(209)
Net cash used in investing activities		(2.763)	(4.599)
Cash flows from financing activities:			
Proceeds from non-controlling interest		0	254
Repayment of long term borrowings		(2.785)	(2.632)
Proceeds from short term borrowings		(645)	(1.937)
Net cash used in financing activities		(3.430)	(4.315)
Increase in cash and cash equivalents		5.749	1.538
Effect of exchange rate fluctuations on cash held		(276)	520
Cash and cash equivalents at 1 January		1.909	4.065
Cash and cash equivalents at 30 September		7.382	6.123

The notes on pages 10 to 17 are an integral part of these interim consolidation financial statement

Notes

1. 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 nine-month period ended 30 September 2010 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. The consolidated financial statements for the year ended 31 December 2009 are available at the Company's office and website, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.omxgroup.com.

2. Statement of compliance

The 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 full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 15 November 2010.

3. Basis of preparation and significant accounting policies

The accounting policies and methods of computation applied by the Group in these condensed interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009.

The condensed consolidated interim financial statements are prepared in Icelandic kronas, which is the Group'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.

4. 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.:

5. Operating segment

Segment information is presented in the interim consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into two segments, Route network and Tourism services.

As a part of the ongoing restructuring plan the Board of Directors has proposed redefinition of the business model of the company, leading to subsidiaries being split between core and non-core. Accordingly the main focus of the Group will be on scheduled airline operations and tourism evolving around Iceland, and related services. Bluebird Cargo ehf., Travel Service and Smartlynx Latvia are defined as non-core, leading to reclassification on these companies as discontinued and held for sale.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Route network

Four companies are categorised as being part of the Route Network focus of the Group: Icelandair, Icelandair Cargo, Bluebird Cargo and Icelandair Ground Services.

Tourism services

Seven companies are categorized as being part of the Tourism Services focus of the Group: Iceland Travel, Icelandair Hotels, Air Iceland, Loftleidir-Icelandic, Icelandair Shared Services, Icelease, and IG Invest.

Information about reportable segments for the nine months ended 30 September

	Route network		Tourism services		Total	
	2010	2009	2010	2009	2010	2009
External revenues	50.092	43.800	19.087	18.326	69.179	62.126
Inter-segment revenue	12.668	12.342	1.092	914	13.760	13.256
Segment revenue	<u>62.760</u>	<u>56.142</u>	<u>20.179</u>	<u>19.240</u>	<u>82.939</u>	<u>75.382</u>
Segment EBITDAR	<u>12.888</u>	<u>10.048</u>	<u>5.732</u>	<u>5.659</u>	<u>18.620</u>	<u>15.707</u>
Segment EBITDA	<u>9.610</u>	<u>6.691</u>	<u>2.209</u>	<u>2.024</u>	<u>11.819</u>	<u>8.715</u>
Reportable segment loss before income tax	<u>5.384</u>	<u>3.425</u>	<u>1.212</u>	<u>684</u>	<u>6.596</u>	<u>4.109</u>
Segment assets	<u>62.638</u>	<u>56.805</u>	<u>17.342</u>	<u>16.888</u>	<u>79.980</u>	<u>73.693</u>

Reconciliation of reportable segment loss

	2010	2009
Total profit for reportable segments	6.596	4.109
Elimination of discontinued operations	(400)	(2.161)
Unallocated amounts:		
Other corporate expenses	(2.329)	(2.824)
Share of profit of equity accounted investees	74	80
Consolidated profit (loss) before income tax	<u>3.941</u>	<u>(796)</u>

Segment reporting for the year 2010 could possibly change due to restructuring of the Group.

Notes, contd.:

6. Discontinued operation

As stated in the financial statements for the year 2009 the Group classified its subsidiaries, SmartLynx, Siglo FIU, Siglo FIJ and Siglo FIR as discontinued operations. During the first quarter the Group reclassified its ownership in the Siglo companies as part of continuing operations (see note 7). SmartLynx is still classified as discontinued and is therefore not part of the continuing operations. Amounts for the period January-September 2009 have been re-presented in the profit and loss statement for comparative reasons, including the operations of Travel Service.

The results of the discontinued operation are specified as follows:

Results of discontinued operation	2010	2009
	1.1.-30.9.	1.1.-30.9.
Revenue	6.894	49.063
Expenses	(7.472)	(50.549)
Results from operating activities	(578)	(1.486)
Financial expenses	(142)	(665)
Income tax	0	(10)
Results from operating activities, net of income tax	(720)	(2.161)
Guarantees of discontinued operation reversed	320	0
Loss for the period	(400)	(2.161)
Basic loss per share	(0,41)	(2,21)
Diluted loss per share	(0,41)	(2,21)
Cash flows used in discontinued operation		
Net cash used in operating activities	(770)	1.560
Net cash used in investing activities	(416)	43
Net cash from financing activities	1.186	167
Net cash used in discontinued operation	0	1.770

7. Acquisition of subsidiary

In July 2009 the Group acquired 51% in the companies Siglo FIU, Siglo FIJ and Siglo FIR. Previously the Group owned 49% of the shares and accounted for them as shares in associates. At the date of acquisition the companies were classified as discontinued operations since the ownership was considered as temporary and process of disposal had commenced. Assets and liabilities were accounted for at fair value less cost to sell at year end 2009.

During the first quarter of 2010 the Group reclassified its shares in Siglo FIU, Siglo FIR and Siglo FIJ as part of the continuing operations. Following are the effects on the financial position in the year 2010.

Operating assets	4.053
Intangible assets	60
Trade and other receivables	10
Cash and cash equivalents	18
Loans and borrowings	(3.527)
Trade and other payables	(4)
Net assets and liabilities	610

Notes, contd.:

8. Assets and liabilities classified as held for sale

On 30 September 2010 assets and liabilities classified as held for sale consist of the assets and liabilities of SmartLynx (classified as discontinued operation note 6), Bluebird Cargo (classified as held for sale) and the remaining 30% share in Travel Service.

Assets and liabilities classified as held for sale are specified as follows:

Assets classified as held for sale

Operating assets	5.847
Intangible assets	2.481
Other non-current assets	1.760
Inventories	106
Trade and other receivables	1.287
Cash and cash equivalents	200
	11.681

Liabilities classified as held for sale

Non-current loans and borrowings	1.199
Deferred income tax liability	321
Current loans and borrowings	1.278
Trade and other payables	2.529
Deferred income	254
	5.581

In the 2009 Financial Statements the shares in Siglo FIU, Siglo FIR and Siglo FIJ were classified as assets held for sale. During the first quarter of 2010 the Company reclassified these assets as part of continuing operations. As a result the assets, mainly aircrafts, and the liabilities are now part of the statement of financial position (see note 7).

9. Finance income and finance expense

Finance income and finance expense are specified as follows:

	2010	2009
	1.1.-30.9	1.1.-30.9
		Re-presented*
Interest income on bank deposits	36	53
Other interest income	129	60
Net foreign exchange gain	0	60
Finance income total	165	173
Interest expense on loans and borrowings	2.550	2.889
Other interest expenses	105	397
Loss from sale of derivatives	0	26
Net foreign exchange loss	468	0
Finance costs total	3.123	3.312
Net finance costs	(2.958)	(3.139)

Notes, contd.:

10. 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.

	30.9.2010	31.12.2009
Non-current loans and borrowings are specified as follows:		
Secured bank loans	11.468	11.211
Unsecured bank loans	2.696	2.727
Convertible notes	1.968	1.947
	<u>16.132</u>	<u>15.885</u>
Current maturities	(4.442)	(2.209)
Total non-current loans and borrowings	<u>11.690</u>	<u>13.676</u>
Current loans and borrowings are specified as follows:		
Current maturities of non-current liabilities	4.442	2.209
Short-term notes	1.160	1.160
Short-term loans from credit institutions	18.800	19.345
Total current loans and borrowings	<u>24.402</u>	<u>22.714</u>
Total loans and borrowings	<u>36.092</u>	<u>36.390</u>

Due to breach of covenants at the end of September 2010, loans amounting to ISK 7.941 million have been reclassified as short-term loans. As the financial restructuring has been finalised as stated in note 18, loans will be reclassified as a long term loans in accordance with the financial restructuring as of October 2010.

11. Secured bank loans

Secured bank loans are specified as follows:

	Average interest rates	Total remaining balance 30.9.2010	Average interest rates	Total remaining balance 31.12.2009
Debt in USD	4,6%	11.194	5,1%	10.936
Debt in ISK indexed	7,1%	274	7,1%	275
Total secured bank loans		<u>11.468</u>		<u>11.211</u>

12. Contractual repayments of loans and borrowings

Contractual repayments of loans and borrowings are specified as follows:

Repayments in 1.10.2010 - 30.9.2011	24.402
Repayments in 1.10.2011 - 30.9.2012	3.929
Repayments in 1.10.2012 - 30.9.2013	2.077
Repayments in 1.10.2013 - 30.9.2014	3.581
Repayments in 1.10.2014 - 30.9.2015	543
Subsequent repayments	1.560
Total loans and borrowings	<u>36.092</u>

Notes, contd.:

13. Convertible notes

Convertible notes are specified as follows:

	30.9.2010	31.12.2009
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	117	96
Carrying amount of liability	1.968	1.947

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 17,5% at period-end.

14. Off-balance sheet items

As a lessee the Group has in place operating leases for 18 aircrafts at the end of September 2010. The leases are for thirteen Boeing 757 aircrafts and five Boeing 767 aircrafts. The Group also has in place operating leases for storage facilities, accommodations, equipment and fixtures for its operations, the longest until the year 2025. At the end of September 2010 the leases are payable as follows:

	Real estate	Aircrafts	Other	Total 30.9.2010
In Q4 2010	246	1.645	61	1.952
In the year 2011	783	6.426	184	7.393
In the year 2012	790	5.456	34	6.280
In the year 2013	745	2.990	14	3.749
In the year 2014	748	959	1	1.708
Subsequent	8.483	964	1	9.448
Total	11.795	18.440	295	30.530

15. Group entities

The Company holds thirteen subsidiaries at the end of September 2010, which are all included in the consolidated interim financial statements. They are:

	Share
Route network:	
Bluebird Cargo ehf.	100%
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
Icelandair Ground Services ehf. (IGS)	100%
Tourism services:	
Air Iceland ehf.	100%
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%
Icelandair Shared Services ehf.	100%
Icelandair ehf.	100%
IG Invest ehf.	100%
Lofleiðir - Icelandic ehf.	100%
Other operation:	
IceCap Ltd., Guernsey	100%
Discontinued operation:	
SmartLynx, Latvia	100%

The subsidiaries own 28 subsidiaries that are all included in the consolidated interim financial statements.

Notes, contd.:

16. Statement of cash flows

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

	2010	2009
	1.1.-30.9	1.1.-30.9
		Re-presented*
Expensed long term cost	3.491	2.504
Exchange rate difference and indexation of liabilities and assets	(93)	1.383
Gain on the sale of assets	(32)	(70)
Gain from assets held for sale	(320)	396
Share of profit of associates	(74)	(80)
Income tax	790	638
Other items	0	(9)
Total other operating items in the statement of cash flows	<u>3.762</u>	<u>4.762</u>

17. Ratios

The Group's primary ratios are specified as follows:

	30.9.2010	31.12.2009
Working capital ratio	0,64	0,58
Equity ratio	0,19	0,16
Intrinsic value of share capital	17,40	14,98

18. Restructuring

The restructuring of the Group's Balance Sheet was finalized on October 21st. The financial restructuring is based on three components:

- Firstly, investors have invested ISK 5.5 billion in new shares at the price of ISK 2.5 per share corresponding to a subscription of 2.2 billion new shares in Icelandair Group. The new share capital was paid on November 2nd.
- Secondly, the Group's largest creditors converted debt in the amount of ISK 3.6 billion into shares based on a share price of ISK 5, which corresponds to a subscription of 720 million new shares. The total increase in share capital will amount to ISK 2.9 billion in nominal value.
- Thirdly, the financial restructuring of the Group will reduce interest bearing debt by over ISK 10 billion through the transfer and sale of certain assets which formerly formed a part of the Group's core business. The sales and purchase contracts relating to these assets contain standard reservations regarding the approval of relevant authorities. Capital gain from the sale amounts to ISK 3.2 billion and equity will increase by ISK 0.5 billion

Notes, contd.:

18. contd.:

Proforma Balance Sheet based on September 30 Balance Sheet showing the affect of these restructuring components is as follows:

	30.9.2010	Restructuring	30.9.2010 Re-presented*
Assets			
Operating assets	27.355		27.355
Intangible assets	22.604	(485)	22.119
Investments in associates	592	(431)	161
Prepaid aircraft acquisitions	1.058	(1.058)	0
Long-term cost	1.009		1.009
Long-term receivables and deposits	3.102	(1.647)	1.455
Total non-current assets	<u>55.720</u>	<u>(3.621)</u>	<u>52.099</u>
Inventories	1.653		1.653
Trade and other receivables	13.557	1.362	14.919
Assets classified as held for sale	11.681	(11.681)	0
Prepayments	1.174		1.174
Cash and cash equivalents	7.382	5.736	13.118
Total current assets	<u>35.447</u>	<u>(4.583)</u>	<u>30.864</u>
Total assets	<u>91.167</u>	<u>(8.204)</u>	<u>82.963</u>
Equity			
Share capital	975	2.941	3.916
Share premium	25.450	6.212	31.662
Reserves	6.012		6.012
Accumulated deficit	(15.508)	1.694	(13.814)
Total equity attributable to equity holders of the Company	<u>16.929</u>	<u>10.847</u>	<u>27.776</u>
Non-controlling interest	40		40
Total equity	<u>16.969</u>	<u>10.847</u>	<u>27.816</u>
Liabilities			
Loans and borrowings	11.690	10.002	21.692
Prepayments	2.051	(2.051)	0
Long-term payables	4.261		4.261
Deferred income tax liability	589	547	1.136
Total non-current liabilities	<u>18.591</u>	<u>8.498</u>	<u>27.089</u>
Loans and borrowings	24.402	(21.202)	3.200
Trade and other payables	16.884	(766)	16.118
Liabilities classified as held for sale	5.581	(5.581)	0
Deferred income	8.740		8.740
Total current liabilities	<u>55.607</u>	<u>(27.549)</u>	<u>28.058</u>
Total liabilities	<u>74.198</u>	<u>(19.051)</u>	<u>55.147</u>
Total equity and liabilities	<u>91.167</u>	<u>(8.204)</u>	<u>82.963</u>