Good performance in 2010 and financial restructuring completed

Performance in 2010

- Total turnover was ISK 88.0 billion, increasing by 10% between years
- EBITDA was ISK 12.6 billion, as compared to ISK 8.1 billion at the same time last year
- EBIT was ISK 6.3 billion, as compared to ISK 1.5 billion last year. Depreciation amounted to ISK 6.3 billion, down by ISK 0.3 billion from the preceding year
- Financial costs amounted to ISK 3.5 billion, as compared to ISK 6.0 billion in the preceding year
- Profit after tax was ISK 4.6 billion, while the loss after tax amounted to ISK 10.7 billion in 2009
- Cash and cash equivalents and marketable securities at the end of 2010 amounted to ISK 13 billion, as compared to ISK 1.9 billion in the preceding year
- Total assets amounted to ISK 84.2 billion and the equity ratio was 33.7% at the end of 2010, as compared to ISK 89.1 billion and 16.4% respectively at the end of 2009

Fourth quarter performance in 2010

- Total turnover was ISK 18.8 billion, increasing by 3% between years
- EBITDA was ISK 1.1 billion, as compared to a negative result of ISK 0.2 million in the corresponding period of last year
- EBIT was negative by ISK 1.0 billion, as compared to a negative result of ISK 2.9 billion at the same time last year. Depreciation and amortisation amounted to ISK 2.1 billion, down by ISK 0.6 billion from the preceding year
- Gains on sales of assets in connection with the restructuring of the Company's balance sheet amounted to ISK 4.2 billion
- Financial costs amounted to ISK 0.6 billion, as compared to ISK 2.9 billion in the preceding year
- Profit after tax was ISK 1.4 billion, as compared to a loss of ISK 9.6 billion for the corresponding period of last year

Operational Highlights Q4 and 12M mISK	Q4 2010	Q4 2009	12M 2010	12M 2009
Operating Income	18,765	18,195	88,015	80,321
EBITDA	1,116	-219	12,578	8,135
EBITDA ratio	5.9%	-1.2%	14.3%	10.1%
EBIT	-971	-2,941	6,254	1,483
Gain on disposals in relation to financial restructuring	4,245	0	4,245	0
EBT	2,235	-5,834	6,576	-4,469
Profit (loss) from continuing operations	1,567	-5,127	5,118	-3,984
Profit (loss) for the period	1,405	-9,647	4,556	-10,665
EBITDAR	2,991	2,089	21,254	17,435
EBITDAR ratio	15.9%	11.5%	24.1%	21.7%

Björgólfur Jóhannsson, President and CEO:

"One of the most eventful years in the history of the Company is now behind us. Firstly, the Company returned the best operating results in its history, with EBITDA at ISK 12.6 billion, ISK 4.4 billion over the 2009 figure. This performance is much better than anticipated in our original budget and also exceeds our last profit warning, which projected an EBITDA of ISK 11.5 billion. The improved performance is primarily a result of the significant increase in Icelandair's passenger revenues. The number of passengers in the North Atlantic market grew substantially, accounting for 38% of the company's total number of passengers, as compared to 28% in 2009. Also, the improved load factor and good revenue control increased passenger revenues. On top of that, it is satisfying to be able to report that most of our subsidiaries showed good results in 2010.

Secondly, the Company and its staff showed unprecedented resilience and nerve following the Eyjafjallajökull eruption last April. At the same time that virtually all airline communications in Europe were paralysed for a week or so, we managed to maintain our schedule by transferring our hub to Glasgow and flying to Akureyri instead of Keflavik. Even though the volcanic eruption proved expensive for the Company in the short term, it is my belief that the promotional value of the eruption for Iceland will, over the long term, result in an increase in the number of passengers visiting Iceland.

Finally, the financial restructuring of the Company was brought to a conclusion at the end of the year. I am very pleased with the results of that work. The restructuring was divided into three principal factors: an issue of new shares, a conversion of the debts to the company's largest creditors into shares, and a reduction in interest-bearing debt resulting from a sale of assets. This resulted in an increased equity ratio from 16.4% at the end of 2009 to 33.7% at the end of 2010.

We have simplified the Company's strategy, and the focus will now be on the Company's core operation, which is based on Icelandair's route network and related operations. We do not expect the results of 2011 to match those of 2010. Higher fuel prices will cut into profits, and in addition we anticipate reductions in passenger yields. Also, it is likely that the expected rises in taxes and charges will have a negative impact on demand, and thereby the operations of the Group. Wage contracts with all Group employees have expired. Such circumstances certainly entail significant uncertainty, but I am hopeful that the conclusion of negotiations will be acceptable for all parties. Competition will harden in the course of the year, and it is important for us to enter the increased competition with agreements in place with all the Group's employees. Nevertheless, I see no reason for anything but optimism in the coming months. The long-term prospects of the Group are favourable, our business model has, in our opinion, proven its worth and following the restructuring the Company's balance sheet is sound, and our liquidity position is good."

Highlights from operations in the fourth quarter of 2010

As shown in the table below, EBITDA was ISK 1.1 billion, as compared to a negative figure of ISK 0.2 billion over the same quarter last year. EBIT was negative by ISK 1.0 billion, as compared to a negative figure of ISK 2.9 billion in the year before. Profit after taxes over the quarter amounted to ISK 1.4 billion, as compared to a loss of ISK 9.7 billion over the corresponding period of 2009. EBITDAR amounted to ISK 3.0 billion, as compared to ISK 2.1 billion in the fourth quarter of 2009.

Financial Higlights mISK	Q4 2010	Q4 2009	% Chg.
Transport revenue	10,863	9,869	10%
Aircraft and aircrew lease	4,978	5,454	-9%
Other	2,924	2,873	2%
Operating Income	**18,765**	**18,195**	**3%**
Salaries and related expenses	5,342	4,894	9%
Aircraft fuel	3,293	2,817	17%
Aircraft and aircrew lease	2,496	3,706	-33%
Aircraft servicing, handling and communication	1,105	1,236	-11%
Aircraft maintenance	1,324	2,100	-37%
Other	4,089	3,661	12%
EBITDA	**1,116**	**-219**	**-**
EBITDA ratio	**5.9%**	**-1.2%**	**-**
EBIT	**-971**	**-2,941**	**-**
Gain on disposals in relation to financial restructuring	4,245	0	-
EBT from continuing operations	**2,235**	**-5,834**	**-**
Profit from continuing operations	**1,567**	**-5,127**	**-**
Profit / loss from discontinuing operations	**-162**	**-4,520**	**-**
Profit / loss for the period	**1,405**	**-9,647**	**-**
EBITDAR	2,991	2,089	-
EBITDAR ratio	15.9%	11.5%	-

Total income amounted to ISK 18.8 billion, as compared to ISK 18.2 billion in the corresponding quarter of last year, representing an increase of 3% between years.

Total expenses, net of depreciation, amounted to ISK 17.6 billion, as compared to ISK 18.4 billion in the fourth quarter of 2009.

Transport revenues increased by ISK 1.0 billion between the fourth quarters of 2009 and 2010, or by 10%. Revenue from passenger transport increased by ISK 1.1 billion between years, while revenue from cargo and mail transport fell by ISK 0.1 billion.

Charter revenues decreased by ISK 0.5 billion, or 9%, as compared to the fourth quarter of 2009.

Salaries and personnel expenses increased by ISK 0.5 million, or by 9%, in comparison with the fourth quarter of 2009.

Fuel costs increased by 17% from the corresponding period of last year. The average JET fuel price in the fourth quarter of 2010 was USD 788 per ton, as compared to USD 667 per ton in the corresponding period 2009.

Aircraft and aircrew lease decreased by ISK 1.2 billion between years, or 33%.

Aircraft servicing, handling and navigation expenses fell by ISK 0,1 billion between years, or 11%.

Maintenance costs decreased by approximately ISK 0.8 billion between years, or 37%.

Gains on sales of assets in connection with the financial restructuring of the Company amounted to ISK 4.2 billion over the quarter.

Financial items in the fourth quarter of 2010

Net finance cost amounted to ISK 0.6 billion in the fourth quarter of 2010, as compared to ISK 2.9 billion in the corresponding period last year.

Currency effect in the fourth quarter of 2010 was positive of ISK 0.1 billion, as compared to negative amount of ISK 2.0 billion in the corresponding quarter of last year.

Net Finance Cost mISK	Q4 2010	Q4 2009	Chg.
Interest income	90	-10	100
Interest expenses	-718	-867	149
Currency effect	54	-1,984	2,038
Net finance cost	**-574**	**-2,861**	**2,287**

Traffic data - fourth quarter of 2010

Icelandair	Q4 2010	Q4 2009		CHG (%)
Number of Passengers (PAX)	315.250	258.135	↑	22%
Load Factor (%)	77,4%	72,5%	↑	4,9 ppt
Available Seat Kilometers (ASK) - in thousand	1.132.467	954.967	↑	19%

Air Iceland	Q4 2010	Q4 2009		CHG (%)
Number of Passengers (PAX)	82.065	80.056	↑	3%
Load Factor (%)	68,2%	66,4%	↑	1,8 ppt
Available Seat Kilometers (ASK) - in thousand	37.397	34.416	↑	9%

Capacity	Q4 2010	Q4 2009		CHG (%)
Fleet Utilization (%)	94,2%	93,3%	↑	0,9 ppt
Sold Block Hours	14.911	13.968	↑	7%

Cargo Business	Q4 2010	Q4 2009		CHG (%)
Available Tonne Kilometers (ATK) - in thousand	38.646	41.178	↓	-6%
Freight Tonne Kilometers (FTK) - in thousand	21.388	22.711	↓	-6%

Tourism	Q4 2010	Q4 2009		CHG (%)
Available Hotel Room Nights	49.004	48.404	↑	1%
Sold Hotel Room Nights	24.942	26.979	↓	-8%
Utilization of Hotel Rooms	50,9%	55,7%	↓	-4,8 ppt

Financial highlights of 2010

EBITDA was ISK 12.6 billion, as compared to ISK 8.1 billion in the corresponding period of last year. EBIT was ISK 6.3 billion, as compared to ISK 1.5 billion at the same time last year. Profit after taxes for the year was ISK 4.6 billion, as compared to a loss in 2009 of ISK 10.7 billion. EBITDAR amounted to ISK 21.3 billion, as compared to ISK 17.4 billion in 2009.

Financial Higlights mISK	12M 2010	12M 2009	% Chg.
Transport revenue	53,944	47,139	14%
Aircraft and aircrew lease	19,972	19,425	3%
Other	14,099	13,757	2%
Operating Income	**88,015**	**80,321**	**10%**
Salaries and related expenses	20,415	18,652	9%
Aircraft fuel	14,927	13,250	13%
Aircraft and aircrew lease	11,866	12,797	-7%
Aircraft servicing, handling and communication	6,103	5,881	4%
Aircraft maintenance	6,475	6,825	-5%
Other	15,651	14,781	6%
EBITDA	**12,578**	**8,135**	**-**
EBITDA ratio	**14.3%**	**10.1%**	**-**
EBIT	**6,254**	**1,483**	**-**
Gain on disposals in relation to financial restructuring	**4,245**	0	-
EBT from continuing operations	**6,576**	**-4,469**	**-**
Profit / loss from continuing operations	**5,118**	**-3,984**	**-**
Loss from discontinuing operations	**-562**	**-6,681**	**-**
Profit / loss for the period	**4,556**	**-10,665**	**-**
EBITDAR	21,254	17,435	-
EBITDAR ratio	24.1%	21.7%	-

Balance Sheet

Total assets amounted to ISK 84.2 billion at the end of 2010, as compared to ISK 89.1 billion at year-end 2009.

Investments in operating assets in 2010 amounted to ISK 2.2 billion.

Net interest-bearing debt amounted to ISK 12.2 billion, as compared to ISK 41.2 billion at the same time last year.

Balance sheet mISK	31/12/2010	31/12/2009	Chg.
Assets:			
Operating Assets	27,594	27,014	580
Intangible assets	21,212	23,598	-2,386
Prepaid aircraft acquisitions	0	1,134	-1,134
Long-term cost	918	1,347	-429
Long-term receivables and deposits	1,424	3,449	-2,025
Other non-current assets	178	685	-507
Total non-current assets	**51,326**	**57,227**	**-5,901**
Assets classified as held for sale	2,815	17,500	-14,685
Other current-assets	17,104	12,468	4,636
Marketable securities	1,306	0	1,306
Cash and cash equivalents	11,688	1,909	9,779
Total current assets	**32,913**	**31,877**	**1,036**
Total assets	**84,239**	**89,104**	**-4,865**
Equity and liabilities:			
Stockholders equity	**28,403**	**14,605**	**13,798**
Loans and borrowings non-current	21,356	13,676	7,680
Other non-current liabilities	6,012	5,942	70
Total non-current liabilites	**27,368**	**19,618**	**7,750**
Loans and borrowings current	3,248	22,714	-19,466
Liabilities held for sale	2,365	10,597	-8,232
Deferred income	8,807	7,178	1,629
Other current liabilities	14,048	14,392	-344
Total current liabilites	**28,468**	**54,881**	**-26,413**
Total equity and liabilities	**84,239**	**89,104**	**-4,865**
Equity ratio	**33.7%**	**16.4%**	
Current ratio	**1.16**	**0.58**	
Net interest bearing debt	**12,129**	**41,227**	
Interest bearing debt	**24,604**	**43,136**	

Cash Flow

Statement of Cash Flow mISK	12M 2010	12M 2009
Working capital from operations	12,889	5,373
Net cash from operating activities	14,329	8,781
Net cash used in investing activities	-4,168	-7,799
Net cash used in financing activities	-49	-3,283
Increase (decrease) in cash and cash equivalents	**10,112**	**-2,301**
Effect of exchange rate fluctuations on cash held	-333	145
Cash and cash equivalents at 1 January	1,909	4,065
Cash and cash equivalents at 31 December	**11,688**	**1,909**

Working capital from operations amounted to ISK 12.9 billion in 2010, as compared to ISK 5.4 billion over the same period last year.

Net cash provided by operating activities over the year was ISK 14.3 billion, as compared to ISK 8.8 billion in 2009.

Cash and cash equivalents and marketable securities at the end of the period amounted to ISK 13.0 billion, as compared to ISK 1.9 billion at the corresponding time last year.

Traffic Data - 2010

The number of passengers increased by 14% for Icelandair and decreased by 6% for Air Iceland in 2010.

Icelandair	Jan-Dec 10	Jan-Dec 09		CHG (%)
Number of Passengers (PAX)	1.482.167	1.295.996	↑	14%
Load Factor (%)	78,4%	75,0%	↑	3,4 ppt
Available Seat Kilometers (ASK) - in thousand	5.204.754	4.540.460	↑	15%

Air Iceland	Jan-Dec 10	Jan-Dec 09		CHG (%)
Number of Passengers (PAX)	343.280	365.149	↓	-6%
Load Factor (%)	68,2%	68,8%	↓	-0,5 ppt
Available Seat Kilometers (ASK) - in thousand	167.318	168.330	↓	-1%
Revenue Passanger Kilometers (RPK) - in thousand	88.599	92.923		-5%

Capacity	Jan-Dec 10	Jan-Dec 09		CHG (%)
Fleet Utilization (%)	91,7%	90,8%	↑	0,9 ppt
Sold Block Hours	62.104	53.790	↑	15%

Cargo Business	Jan-Dec 10	Jan-Dec 09		CHG (%)
Available Tonne Kilometers (ATK) - in thousand	167.510	174.496	↓	-4%
Freight Tonne Kilometers (FTK) - in thousand	83.222	87.672	↓	-5%

Tourism	Jan-Dec 10	Jan-Dec 09		CHG (%)
Available Hotel Room Nights	237.018	238.252	↓	-1%
Sold Hotel Room Nights	156.569	161.053	↓	-3%
Utilization of Hotel Rooms	66,1%	67,6%	↓	-1,5 ppt

Highlights of operations by quarter

Financial Highlights mISK	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Transport revenue	10,863	21,065	13,314	8,702	9,869
Aircraft and aircrew lease	4,978	5,275	4,875	4,844	5,454
Other	2,924	4,742	3,696	2,737	2,873
Operating Income	**18,765**	**31,082**	**21,885**	**16,283**	**18,196**
Salaries and related expenses	5,342	5,232	5,337	4,503	4,894
Aircraft fuel	3,293	4,990	3,973	2,671	2,817
Aircraft and aircrew lease	2,496	3,429	3,091	2,850	3,706
Aircraft servicing, handling and navigation	1,105	2,215	1,649	1,134	1,236
Aircraft maintenance	1,324	1,751	1,836	1,564	2,100
Other	4,089	4,330	3,850	3,382	3,661
EBITDA	**1,116**	**9,135**	**2,149**	**178**	**-219**
EBIT	**-971**	**7,545**	**843**	**-1,163**	**-2,941**
Gain on disposals in relation to financial restructuring	4,245	0	0	0	0
EBT from continuing operations	**2,235**	**6,384**	**-207**	**-1,836**	**-5,834**
Profit / loss from continuing operations	**1,567**	**5,197**	**-161**	**-1,485**	**-5,127**
Profit /loss from discontinuing operations	-162	0	0	-400	-4,520
Profit / loss for the period	**1,405**	**5,197**	**-161**	**-1,885**	**-9,646**

Outlook for Icelandair Group

Icelandair Group management considers the prospects of the Company good. However, they do not anticipate that the results for 2011 will match those of 2010, with the estimated EBITDA for 2011 projected at ISK 9.5 billion. Rising fuel prices and a reduction in yields will impact the gross margin in 2011. Also, there are signs of greater competition in the market, with 13 companies having announced flights to Iceland in the summer of 2011. The anticipated rises in taxes and charges can have a severe negative impact on demand, and thereby the operations of the Group. The expiry of wage contracts with employees will also create uncertainty. The long-term prospects of the Group are favourable, our business model, with the route network as the cornerstone, has proven its worth, in our opinion, and following restructuring the Company's balance sheet is strong, and our liquidity position is good.

Financial restructuring

On 21 October 2010 Icelandair Group hf. announced that agreements had been executed relating to its financial restructuring. The restructuring takes place in three phases:

New Share Capital

New share capital in the amount of ISK 8 billion was injected into the Company. ISK 5.5 billion were paid in cash on November last year, and ISK 2.6 billion were paid in cash on 6 January 2011. The share price in the transaction was 2.5, which corresponds to just over 3.2 billion new shares in Icelandair Group hf.

Debts converted into equity

Icelandair Group's largest creditors converted debts in the amount of ISK 3.6 billion into shares based on a share price of ISK 5 per share, which corresponded to 720 million new shares.

Sale and transfer of assets

The Company's interest-bearing debts were reduced during the year by just over ISK 18.5 billion through the transfer and sale of certain assets which do not form a part of the Company's core business. The purchase agreements on the sale of assets contained normal provisos on the finalisation of formalities. Since 21 October, work has been in progress on finalising these formalities and this work has now been concluded. One of the issues was the consent of the creditors and shareholders of Travel Service and SmartLynx to a company owned by Glitnir and Íslandsbanki taking over shares from Icelandair Group. This consent was not obtained, and for this reason the ownership by Icelandair Group will continue. Icelandair's strategy regarding the sale of these assets has not changed, however, and the divestment procedure is therefore set to continue.

The original purchase agreement provided for a selling price of ISK 7.6 billion for these assets, and that pricing remained unchanged. However, Icelandair Group will pay ISK 0.5 billion to reacquire the Travel Service shares. Once Icelandair Group has sold these shares, the proceeds, up to ISK 0.5 billion, will accrue to the Company. The sales proceeds from ISK 0.5 billion to ISK 1.6billion will accrue to Glitnir and Íslandsbanki, while proceeds in excess of ISK 1.6 billion will accrue to Icelandair Group.

According to the original sale agreement, the selling price of SmartLynx was ISK 1, and it was also understood that all liabilities relating to aircraft lease obligations would remain with Icelandair Group. The fact that Icelandair Group continues its ownership of the company therefore has no financial impact.

The gains on the sale of the assets amount to ISK 4.2 billion, but taking taxes and translation difference into account, the impact on equity is positive by ISK 1.3 billion

The final documentation was concluded on 10 February 2011, and on that same date all provisos were lifted. Since the purchase agreements were executed in 2010, the trade is included in the preparation of the annual financial statement.

Audit

The consolidated accounts of Icelandair Group for 2010 were approved at a meeting of the Board of Directors on 14 February 2011. The annual accounts have been audited by the Company's auditors, KPMG Endurskodun hf.

Presentation meeting on Monday 14 February 2011

An open presentation for stakeholders will be held on Monday 14 February at the Hilton Hotel Reykjavik Nordica (Room H). Björgólfur Jóhannsson, Icelandair Group President and 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 2011

Publication of first quarter results	Week 18 - 2011
Publication of second quarter results	Week 32 - 2011
Publication of third quarter results	Week 44 - 2011
Publication of fourth quarter results	Week 06 - 2012

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