

Interim financial report for the first quarter of 2011

Improved results between years in spite of high fuel prices

- | Total turnover was ISK 16.0 billion, down by 2% between years
- | EBITDA was negative by ISK 0.2 billion, as compared to a positive result of ISK 0.2 billion in the preceding year
- | EBIT was negative by ISK 1.4 billion, as compared to a negative result of ISK 1.2 billion in the same period of last year Depreciation amounted to ISK 1.2 billion, down by ISK 0.1 billion from the preceding year
- | Financial cost amounted to ISK 0.4 billion, as compared to ISK 0.7 billion in the preceding year
- | Loss after taxes amounted to ISK 1.1 billion, as compared to an after-tax loss of ISK 1.9 billion at the same time in 2010
- | Cash and marketable securities at the end of the quarter amounted to ISK 18.1 billion, as compared to ISK 13.0 billion at year-end 2010
- | Total assets amounted to ISK 91.4 billion and the equity ratio was 30% at the end of the first quarter of 2011, as compared to ISK 84.2 billion and 34% respectively at year-end 2010

Highlights Q1 (mISK)	Q1 2011	Q1 2010
Operating Income	16.017	16.283
EBITDA	-198	178
EBITDA ratio	-1,2%	1,1%
EBIT	-1.435	-1.163
EBT	-1.858	-1.836
Loss from continuing operations	-1.121	-1.485
Loss for the period	-1.121	-1.885
EBITDAR	1.584	2.179
EBITDAR ratio	9,9%	13,4%

Björgólfur Jóhannsson, President and CEO:

“The Group’s results in the first quarter improved between years despite the huge increases in fuel prices. Losses amounted to ISK 1.1 billion, as compared to ISK 1.9 billion at the same time last year. EBITDA was negative by ISK 0.2 billion, as compared to a positive result of ISK 0.2 billion last year. Fuel prices on average were 42% above the prices in the first quarter of last year. The resulting increase in the Group’s cost is assessed at ISK 0.8 billion. In light of external conditions we are satisfied with the outcome of the quarter.”

The capacity in the Company’s international route network was increased by 12% between years, and the number of passengers increased by 13%. The number of passengers increased in all our markets, with largest increase, 20%, in the North Atlantic market. Icelandair’s load factor was the highest ever recorded for this quarter, at 71%. The booking position for the coming months is favourable and there are indications of a record number of tourists to Iceland. The exchange rate trends of the euro and dollar have been favourable to the Company, partly offsetting the increase in fuel prices. The Company’s EBITDA forecast for the year as a whole is therefore unchanged at ISK 9.5 billion.”

The Company is financially strong. Cash and marketable securities at the end of the quarter stood at approximately ISK 18 billion, up by over ISK 5.1 billion from the start of the year. Equity stands at ISK 29.4 billion and the equity ratio at 30%.

Highlights from operations in the first quarter of 2011

As shown in the table below, **EBITDA** was negative by ISK 0.2 billion, as compared to a positive outcome of ISK 0.2 billion over the same quarter last year. **EBIT** was negative by ISK 1.4 billion, as compared to a negative result of ISK 1.2 billion over the same period last year. **Losses after taxes** over the quarter amounted to ISK 1.1 billion, as compared to ISK 1.9 billion over the corresponding period in 2010. **EBITDAR** amounted to ISK 1.6 billion, as compared to ISK 2.2 billion in the first quarter of 2010.

The EBITDA margin from operations sold out of the Group in 2010 amounted to ISK 0.4 billion in the first three months the previous year. If this is taken into account, EBITDA remained virtually unchanged between years.

Air Iceland was compensated for the Dash 8 aircraft that crash-landed in Greenland last March. Insurance compensation of ISK 0.4 billion is included in the statement.

Income Statement (mISK)	Q1 2011	Q1 2010	% Chg.
Transport revenue	8.624	8.702	-1%
Aircraft and aircrew lease	3.908	4.844	-19%
Other operating revenue	3.485	2.737	27%
Operating Income	16.017	16.283	-2%
Salaries and related expenses	4.717	4.504	5%
Aircraft fuel	3.504	2.671	31%
Aircraft and aircrew lease	2.228	2.850	-22%
Aircraft handling, landing and navigation	1.165	1.134	3%
Aircraft maintenance expenses	1.485	1.564	-5%
Other operating expenses	3.116	3.382	-8%
EBITDA	-198	178	-
EBITDA ratio	-1,2%	1,1%	-
EBIT	-1.435	-1.163	-
EBT from continuing operations	-1.858	-1.836	-
Loss from continuing operations	-1.121	-1.485	-
Loss from discontinuing operations	0	-400	-
Loss for the period	-1.121	-1.885	-
EBITDAR	1.584	2.179	-
EBITDAR ratio	9,9%	13,4%	-

Operating income amounted to ISK 16.0 billion, as compared to ISK 16.3 billion in the corresponding quarter of last year, representing a decrease of 2% between years. Income from the companies sold in the 2010, i.e. Bluebird and Icellease, amounted of ISK 1.2 billion the first quarter of 2010. Adjusted for this transaction the increase in income between years amounts to 6%.

Operating expenses, net of depreciation, amounted to ISK 16.2 billion, as compared to ISK 16.1 billion in the second quarter of 2010.

Transport revenues decreased by ISK 0.1 billion between the first quarters of 2010 and 2011, or 1%.

Charter revenues increased by ISK 0.9 billion, or 19%, as compared to the first quarter of 2010. This can be explained by Bluebird which was included in the 2010 figures.

Other income increased by ISK 0.8 billion from the first quarter of 2010, or by 27%. This is due to insurance compensation exceeding book value of the Air Iceland Dash 8, aircraft.

Salaries and other personnel expenses increased by ISK 0.2 billion, or 5%, in comparison with the first quarter of 2010.

Fuel costs increased by ISK 0.8 billion, which represents an increase of 31% from the preceding year. The average world price of fuel in the first quarter of 2010 was USD 687 per ton, as compared to USD 972 per ton in the first quarter of 2011, which corresponds to an increase of 42%.

The table shows the fuel hedge status at the end of March 2010, and reflects that approximately half of the estimated fuel consumption over the summer season is hedged with call options.

2011	Estimated usage (tons)	Av. hedge price USD	% hedged
April	9,796	992	51%
May	12,399	1,034	65%
June	18,576	985	54%
July	20,223	975	49%
August	20,120	975	50%
September	14,462	975	48%
October	11,757	1,069	9%
November	10,014	-	0%
December	9,616	-	0%

Aircraft and aircrew lease decreased by ISK 0.6 billion between quarters, or 22%. The reduction is primarily explained by Bluebird, which was included in the 2010 figures.

Aircraft servicing, handling and navigation expenses increased by ISK 31 million between years, or 2.7%.

Maintenance costs decreased by ISK 79 million between years, or 5%.

Financial items in the first quarter of 2011

Net finance cost amounted to ISK 0.4 billion in the first quarter of 2011, as compared to ISK 0.7 billion in the corresponding period last year. The primary reason is the reduction of net interest bearing debt liabilities following the financial restructuring of the Company.

Currency losses in the first quarter of 2011 amounted to ISK 0.1 billion, as compared to a gain of ISK 0.1 million in the corresponding quarter of last year.

Net Finance Cost mISK	Q1 2011	Q1 2010	Chg.
Interest income	98	42	56
Interest expenses	-433	-918	485
Currency effect	-89	140	-229
Net finance cost	-424	-736	312

Balance Sheet

Balance sheet (mISK)	31.03.2011	31.12.2010	Chg.
Assets:			
Operating Assets	29.381	27.594	1.787
Intangible assets	21.144	21.212	-68
Long-term cost	733	918	-185
Long-term receivables and deposits	2.024	1.424	600
Other non-current assets	178	178	0
Total non-current assets	53.460	51.326	2.134
Assets classified as held for sale	3.082	2.815	267
Other current-assets	16.792	17.104	-312
Marketable securities	3.157	1.306	1.851
Cash and cash equivalents	14.940	11.688	3.252
Total current assets	37.971	32.913	5.058
Total assets	91.431	84.239	7.192
Equity and liabilities:			
Stockholders equity	27.457	28.403	-946
Loans and borrowings non-current	20.395	21.356	-961
Other non-current liabilities	5.507	6.012	-505
Total non-current liabilities	25.902	27.368	-1.466
Loans and borrowings current	2.891	3.248	-357
Trade and other payables	14.651	14.048	603
Deferred income	17.644	8.807	8.837
Liabilities classified as held for sale	2.886	2.365	521
Total current liabilities	38.072	28.468	9.604
Total equity and liabilities	91.431	84.239	7.192
Equity ratio	30,0%	33,7%	-3,7 ppt
Current ratio	1,00	1,16	-0,16
Net interest bearing debt	5.700	12.129	-6.429
Interest bearing debt	23.797	24.604	-807

Assets amounted to ISK 91.4 billion at the end of the first quarter of 2011, as compared to ISK 84.2 billion at year-end 2010.

Equity amounted to ISK 27.5 billion, and the equity ratio was 30% at the end of the period.

Investments in operating assets over the quarter amounted to ISK 3.5 billion, with investments in one Boeing 757 200 aircraft accounting for ISK 2 billion.

Net interest-bearing liabilities amounted to ISK 5.7 billion, as compared to ISK 12.1 billion at year-end 2010.

Cash Flow

Statement of Cash Flow (mISK)	Q1 2011	Q1 2010
Working capital (used in) from operations	-607	80
Net cash from operating activities	8.582	3.967
Net cash used in investing activities	-6.440	-690
Net cash from (used in) financing activities	1.113	-1.161
Increase in cash and cash equivalents	3.255	2.116
Effect of exchange rate fluctuations on cash held	-3	29
Cash and cash equivalents at 1 January	11.688	1.909
Cash and cash equivalents at 31 March	14.940	4.054

Working capital used in operations amounted to ISK 607 million in the first quarter of 2011, as compared to ISK 80 billion in **working capital provided by operations** in the corresponding period of last year. **Net cash provided by operating activities** over the quarter was ISK 8.6 billion, as compared to ISK 4.0 billion in the corresponding quarter of 2010.

Cash and cash equivalents at the end of the quarter amounted to ISK 14.9 billion, as compared to ISK 4.1 billion for the corresponding period of last year.

Traffic data for the first quarter of 2011

ICELANDAIR	Q1 11	Q1 10		CHG (%)
Number of Passengers (PAX)	257,814	227,691	↑	13%
Load Factor (%)	71.1%	68.1%	↑	2.9 ppt
Available Seat Km (ASK '000)	990,918	888,079	↑	12%

AIR ICELAND	Q1 11	Q1 10		CHG (%)
Number of Passengers (PAX)	76,978	79,828	↓	-4%
Load Factor (%)	68.6%	69.3%	↓	-0.8 ppt
Available Seat Km (ASK '000)	35,353	32,949	↑	7%

CAPACITY	Q1 11	Q1 10		CHG (%)
Fleet Utilization (%)	95.1%	88.3%	↑	6.7 ppt
Sold Block Hours	8,557	7,975	↑	7%

ICELANDAIR CARGO	Q1 11	Q1 10		CHG (%)
Available Tonne Km (ATK '000)	36,445	34,293	↑	6%
Freight Tonne Km (FTK '000)	18,554	20,075	↓	-8%

ICELANDAIR HOTELS	Q1 11	Q1 10		CHG (%)
Available Hotel Room Nights	47,880	47,640	↑	1%
Sold Hotel Room Nights	25,124	27,486	↓	-9%
Utilization of Hotel Rooms	52.5%	57.7%	↓	-5.2 ppt

Icelandair carried 13% more passengers on international flights in the first quarter than last year. At 71%, the load factor has never been higher. The fleet utilization on charter flights also improved considerably between years. The number of Air Iceland passengers fell, however, mostly as a result of significantly more difficult weather conditions in 2011 than in 2010, and in addition flights to the Vestmanna Islands were discontinued in 2010. Cargo transport was down by 8% between years. The reason is that one aircraft was inoperational for three weeks as a result of an accident. Also, the

utilization of hotel rooms decreased considerably between years, both because of renovation work on Hotel Loftleidir, which should be completed in June, and the competition in Reykjavik, which is severe.

Highlights of operations by quarter

Income Statement mISK	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Transport revenue	8.624	10.863	21.065	13.314	8.702
Aircraft and aircrew lease	3.908	4.978	5.275	4.875	4.844
Other	3.485	2.924	4.742	3.696	2.737
Operating Income	16.017	18.765	31.082	21.885	16.283
Salaries and related expenses	4.717	5.342	5.232	5.337	4.503
Aircraft fuel	3.504	3.293	4.990	3.973	2.671
Aircraft and aircrew lease	2.228	2.496	3.429	3.091	2.850
Aircraft servicing, handling and navigation	1.165	1.105	2.215	1.649	1.134
Aircraft maintenance	1.485	1.324	1.751	1.836	1.564
Other	3.116	4.089	4.330	3.850	3.382
EBITDA	-198	1.116	9.135	2.149	178
EBIT	-1.435	-971	7.545	843	-1.163
Gain on disposals in relation to financial restructuring	0	4.245	0	0	0
EBT from continuing operations	-1.858	2.235	6.384	-207	-1.836
Profit / loss from continuing operations	-1.121	1.567	5.197	-161	-1.485
Loss from discontinuing operations	0	-162	0	0	-400
Profit / loss for the period	-1.121	1.405	5.197	-161	-1.885

Outlook for Icelandair Group

Notwithstanding the high fuel prices, prospects in the Company's operation are favourable. The euro has gained in strength against the dollar, which to some extent will counteract the rising fuel cost. Icelandair's booking position for the summer months is favourable and trends indicate a record number of tourists to Iceland this year. It may be assumed that 75-100 thousand more tourists will visit Iceland than last year. These results can among other things be attributed to the increased seating capacity and Icelandair's strong marketing efforts last winter, in addition to the positive impact of the "Inspired by Iceland" campaign, which is still being felt. Cargo transport is picking up, and imports are expected to increase. In February the Company announced a resolution approved by the Board of Directors to explore the possibility of listing the Company in another stock exchange in Scandinavia. This work is now in progress and conclusions should be available this year.

The Company's competitive position is strong, its balance sheet is sound and the liquidity position is good. The Company is therefore well positioned to address the challenging tasks ahead.

Presentation meeting on Monday 9 May 2011

An open presentation for stakeholders will be held on 9 May 2011 at the Hilton Hotel Reykjavik Nordica (Room H). 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 8:30 a.m.

The presentation material will be available after the meeting on the Icelandair Group website, www.icelandairgroup.is, and on the Nasdaq OMX Iceland hf news system.

Approval of accounts

The consolidated accounts of Icelandair Group for the first quarter report of 2011 were approved at a meeting of the Board of Directors on 6 May 2011.

Largest shareholders in Icelandair Group

Enterprise Investment Fund	29,01 %
Íslandsbanki hf	20,76 %
The Pension Fund of Commerce	12,07 %
Pensin Funds Bankastræti 7	5,96 %
Glitnir banki hf	3,64 %
Stefnir - ÍS 15	2,89 %
Landsbanki Icelandic Sel.Equities Fund	1,94 %
SPB hf	1,87 %
Stafir Pension Fund	1,83 %
Stefnir - ÍS 5	1,75 %

Financial Calendar 2011

Financial statement for the second quarter	week 32, 2011
Financial statement for the third quarter	week 44, 2011
Financial statement for the fourth quarter	week 6, 2012

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