

**Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2011**

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 31 March 2011 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. (the "Company") and its subsidiaries together referred to as the "Group". At period end the subsidiaries numbered ten which is a reduction of three from the same period in the previous year. The Group operates in the airline and tourism sectors.

According to the consolidated statement of comprehensive income, loss for the period from 1 January to 31 March amounted to ISK 1,121 million. Total comprehensive loss for the period was ISK 900 million. According to the consolidated statement of financial position, equity at the end of the period amounted to ISK 27,457 million, including share capital in the amount of ISK 4,975 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2011 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 three-month period ended 31 March 2011, its assets, liabilities and consolidated financial position as at 31 March 2011 and its consolidated cash flows for the period then ended.

Further, in our opinion the consolidated interim 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 31 March 2011 and confirm them by means of their signatures.

Reykjavík, 6 May 2011.

Board of Directors:

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

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income

for the period from 1 January to 31 March 2011

	Notes	2011 1.1.-31.3.	2010 1.1.-31.3.
Continuing operations			
Operating income			
Transport revenue		8.624	8.702
Aircraft and aircrew lease		3.908	4.844
Other operating revenue		3.485	2.737
		16.017	16.283
Operating expenses			
Salaries and other personnel expenses		4.717	4.504
Aircraft fuel		3.504	2.671
Aircraft and aircrew lease		2.228	2.850
Aircraft handling, landing and navigation		1.165	1.134
Aircraft maintenance expenses		1.485	1.564
Other operating expenses		3.116	3.382
		16.215	16.105
Operating (loss) profit before depreciation and amortisation (EBITDA) .....	(	198)	178
Depreciation and amortisation .....	(	1.237)	(1.341)
Operating loss before net finance expense (EBIT) .....	(	1.435)	(1.163)
Finance income		98	182
Finance expense .....	(	522)	(918)
Net finance costs	8	(424)	(736)
Share of profit of associates, net of income tax		1	63
Loss before income tax .....	(	1.858)	(1.836)
Income tax		737	351
Loss from continuing operations .....	(	1.121)	(1.485)
Discontinuing operations			
Loss from discontinued operation, net of income tax	6	0	(400)
Loss for the period		(1.121)	(1.885)
Other comprehensive income			
Foreign currency translation differences for foreign operations .....	(	64)	227
Net (loss) profit on hedge of net investment in foreign operation .....	(	28)	26
Effective portion of changes in fair value of cash flow hedge		313	84
Other comprehensive income for the period		221	337
Total comprehensive loss for the period .....	(	900)	(1.548)

The notes on pages 9 to 14 are an integral part of these interim consolidated financial statements

Consolidated Statement of Comprehensive Income

for the period from 1 January to 31 March 2011, contd.:

	Notes	2011 1.1.-31.3.	2010 1.1.-31.3.	
Loss attributable to:				
Owners of the Company .....	(	1.117)	(	1.882)
Non-controlling interest .....	(	4)	(	3)
Loss for the period .....	(	1.121)	(	1.885)
Total Comprehensive loss attributable to:				
Owners of the Company .....	(	896)	(	1.545)
Non-controlling interest .....	(	4)	(	3)
Total comprehensive loss for the period .....	(	900)	(	1.548)
Loss per share:				
Basic loss per share (ISK) .....	(	0,23)	(	1,93)
Diluted loss per share (ISK) .....	(	0,23)	(	1,93)
Loss per share from continuing operations				
Basic loss per share (ISK) .....	(	0,23)	(	1,52)
Diluted loss per share (ISK) .....	(	0,23)	(	1,52)

The notes on pages 9 to 14 are an integral part of these interim consolidated financial statements

Consolidated Statement of Financial Position

as at 31 March 2011

	Notes	31.3.2011	31.12.2010
Assets			
Operating assets		29.381	27.594
Intangible assets		21.144	21.212
Investments in associates		178	178
Long-term cost		733	918
Long-term receivables and deposits		2.024	1.424
Total non-current assets		<u>53.460</u>	<u>51.326</u>
Inventories		1.632	1.580
Trade and other receivables		14.110	14.574
Prepayments		1.050	950
Assets classified as held for sale	7	3.082	2.815
Marketable securities		3.157	1.306
Cash and cash equivalents		14.940	11.688
Total current assets		<u>37.971</u>	<u>32.913</u>
Total assets		<u><u>91.431</u></u>	<u><u>84.239</u></u>
Equity			
Share capital		4.975	4.975
Share premium		18.967	19.013
Reserves		4.608	4.387
Accumulated deficit		(1.117)	0
Total equity attributable to equity holders of the Company		<u>27.433</u>	<u>28.375</u>
Non-controlling interest		24	28
Total equity		<u>27.457</u>	<u>28.403</u>
Liabilities			
Loans and borrowings	10	20.395	21.356
Long-term payables		4.910	4.745
Deferred income tax liability		597	1.267
Total non-current liabilities		<u>25.902</u>	<u>27.368</u>
Loans and borrowings	11	2.891	3.248
Trade and other payables		14.651	14.048
Deferred income		17.644	8.807
Liabilities classified as held for sale	7	2.886	2.365
Total current liabilities		<u>38.072</u>	<u>28.468</u>
Total liabilities		<u>63.974</u>	<u>55.836</u>
Total equity and liabilities		<u><u>91.431</u></u>	<u><u>84.239</u></u>

The notes on pages 9 to 14 are an integral part of these interim consolidated financial statements

Consolidated Statement of Changes in Equity for the period from 1 January to 31 March 2011

Attributable to equity holders of the Company

1 January to 31 March 2010	Share capital	Share premium	Other reserves	Accumu- lated deficit	Total	Non-con- trolling interest	Total equity
Equity 1.1.2010	975	25.450	6.899	(18.755)	14.569	36	14.605
Total comprehensive loss			337	(1.882)	(1.545)	(3)	(1.548)
Share based payments reversed ...			(100)	100	0		0
Balance at 31 March 2010	<u>975</u>	<u>25.450</u>	<u>7.136</u>	<u>(20.537)</u>	<u>13.024</u>	<u>33</u>	<u>13.057</u>
1 January to 31 March 2011	Share capital	Share premium	Other reserves	Accumu- lated deficit	Total	Non-con- trolling interest	Total equity
Equity 1.1.2011	4.975	19.013	4.387	0	28.375	28	28.403
Total comprehensive loss			221	(1.117)	(896)	(4)	(900)
Cost of share capital increase		(46)			(46)		(46)
Balance at 31 March 2011	<u>4.975</u>	<u>18.967</u>	<u>4.608</u>	<u>(1.117)</u>	<u>27.433</u>	<u>24</u>	<u>27.457</u>

Information on changes in other reserves are provided in note 9.

The notes on pages 9 to 14 are an integral part of these interim consolidated financial statements

Consolidated Statement of Cash Flows for the Three Months ended 31 March 2011

	Notes	2011 1.1.-31.3.	2010 1.1.-31.3.	
Cash flows from operating activities				
Loss for the period .....	(	1.121 )	(	1.885)
Adjustments for:				
Depreciation and amortisation		1.237		1.341
Depreciation and amortisation of discontinued operations		13		43
Other operating items	15	(736)		581
Working capital (used in) from operations		(607)		80
Net change in operating assets and liabilities	16	9.189		3.887
Net cash from operating activities		8.582		3.967
Cash flows from investing activities:				
Acquisition of operating assets .....	(	3.504 )	(	260)
Proceeds from the sale of operating assets		35		28
Acquisition of intangible assets .....	(	32 )	(	45)
Prepaid aircraft acquisition, increase		0	(	10)
Cash of subsidiaries held for sale, change		13		72
Capitalization of long-term cost .....	(	621 )	(	961)
Long-term receivables, change .....	(	512)		486
Marketable securities, change .....	(	1.819)		0
Net cash used in investing activities		(6.440 )	(	690)
Cash flows from financing activities:				
Proceeds from shares issued and sold in prior year		2.601		0
Repayment of long term borrowings .....	(	1.488 )	(	1.110)
Proceeds from long term payables		0		93
Proceeds from short term borrowings		0	(	144)
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
Investment and financing without cash flow effect:				
Sale of operating assets		688		0
Other receivables .....	(	688)		0

Interests paid and received are provided in note 17.

The notes on pages 9 to 14 are an integral part of these interim consolidated financial statements

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group's primary is involved in the airline transportation and tourism industry (see note 5).

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 are available upon request from the Company's registered office at Reykjavíkurlugvöllur in Reykjavík, Iceland or at website address, 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 2010.

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 6 May 2011.

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 2010.

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 values.

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

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 Group's restructuring plan, the Board of Directors redefined the business model, 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. The subsidiaries Bluebird Cargo ehf., IG Invest ehf. and 67% share in Icelase ehf. were divested at year end 2010 and are therefore only included in the segment reporting for 2010. Smartlynx Latvia and the 30% share in Travel Service are defined as non-core, leading to reclassification on these companies as discontinued and held for sale.

Route network

Three companies are categorised as being part of the Route Network focus of the Group: Icelandair, Icelandair Cargo and Icelandair Ground Services. Bluebird Cargo is also included in 2010 amounts.

Tourism services

Five companies are categorized as being part of the Tourism Services focus of the Group: Iceland Travel, Icelandair Hotels, Air Iceland, Loftleidir-Icelandic and Icelandair Shared Services. Icelase and IG Invest are also included in 2010 amounts.

Information about reportable segments for the three months ended 31 March

	Route network		Tourism services		Total	
	2011	2010	2011	2010	2011	2010
External revenue	10.524	11.133	5.472	4.932	15.996	16.065
Inter-segment revenue	4.434	4.309	449	386	4.883	4.695
Segment revenue	<u>14.958</u>	<u>15.442</u>	<u>5.921</u>	<u>5.318</u>	<u>20.879</u>	<u>20.760</u>
Segment EBITDAR	(30)	841	1.689	1.481	1.659	2.322
Segment EBITDA	<u>(821)</u>	<u>25</u>	<u>698</u>	<u>294</u>	<u>(123)</u>	<u>319</u>
Reportable segment loss (profit) before income tax	<u>(1.939)</u>	<u>(1.283)</u>	<u>444</u>	<u>(76)</u>	<u>(1.495)</u>	<u>(1.359)</u>
Segment assets	<u>54.658</u>	<u>60.831</u>	<u>12.188</u>	<u>23.276</u>	<u>66.846</u>	<u>84.107</u>

Reconciliation of reportable segment loss

	2011	2010
Total loss for reportable segments	(1.495)	(1.359)
Elimination of discontinued operations	0	(400)
Unallocated amounts:		
Other corporate expenses	(364)	(540)
Share of profit of equity accounted investees	1	63
Consolidated loss before income tax	<u>(1.858)</u>	<u>(2.236)</u>

Other material items 31 March 2011

	Reportable segment totals	Adjustments	Consolidated totals
Segment EBITDAR	1.659	(75)	1.584
Segment EBITDA	<u>(123)</u>	<u>(75)</u>	<u>(198)</u>

Notes, contd.:

6. Discontinued operation

SmartLynx is classified as discontinued and is therefore not part of the continuing operations. SmartLynx's off balance sheet obligations were ISK 2,0 billion at the end of March 2011, payable in 2011, 2012 and 2013. The results of the discontinued operation are specified as follows:

	2011	2010
	1.1.-31.3.	1.1.-31.3.
Results of discontinued operation		
Revenue	1.170	1.555
Expenses	(1.809)	(2.287)
Results from operating activities	(639)	(732)
Financial expenses	48	(102)
Results from operating activities, net of income tax	(591)	(834)
Reversal of provision	591	434
Loss for the period	0	(400)
Basic loss per share	0,00	(0,41)
Diluted loss per share	0,00	(0,41)
Cash flows used in discontinued operation		
Net cash used in operating activities	(233)	(855)
Net cash used in investing activities	(46)	51
Net cash from financing activities	279	804
Net cash used in discontinued operation	0	0

7. Assets and liabilities classified as held for sale

Assets and liabilities classified as held for sale consist of the assets and liabilities of SmartLynx (classified as discontinued operation, see note 6), and the remaining 30% share in Travel Service.

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

	31.3.2011	31.12.2010
Assets classified as held for sale		
Operating assets	1.056	1.012
Intangible assets	20	20
Other non-current assets	730	682
Investments in other companies	500	500
Inventories	74	71
Trade and other receivables	616	436
Cash and cash equivalents	86	94
	3.082	2.815
Liabilities classified as held for sale		
Non-current loans and borrowings	1	1
Current loans and borrowings	510	517
Trade and other payables	2.160	1.700
Deferred income	215	147
	2.886	2.365

Notes, contd.:

8. Finance income and finance expense

Finance income and finance expense are specified as follows:

	2011 1.1.-31.3	2010 1.1.-31.3
Interest income on bank deposits	22	8
Other interest income	76	34
Gain from sale of derivatives	0	0
Net foreign exchange gain	0	140
Finance income total	<u>98</u>	<u>182</u>
Interest expense on loans and borrowings	379	867
Other interest expenses	54	51
Loss from sale of derivatives	0	0
Net foreign exchange loss	89	0
Finance costs total	<u>522</u>	<u>918</u>
Net finance costs	<u>(424)</u>	<u>(736)</u>

9. Equity

Other reserves are specified as follows:

	Share option reserve	Hedging reserve	Translation reserve	Total reserves
Balance 1 January 2010	100	(302)	7.101	6.899
Changes during the period	(100)	84	253	237
Balance at 31 March 2010	<u>0</u>	<u>(218)</u>	<u>7.354</u>	<u>7.136</u>
Balance at 1 January 2011	0	(28)	4.415	4.387
Changes during the period	0	313	(92)	221
Balance at 31 March 2011	<u>0</u>	<u>285</u>	<u>4.323</u>	<u>4.608</u>

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.

	31.3.2011	31.12.2010
Non-current loans and borrowings are specified as follows:		
Secured bank loans	21.602	22.834
Unsecured bonds	1.684	1.770
	<u>23.286</u>	<u>24.604</u>
Current maturities	(2.891)	(3.248)
Total non-current loans and borrowings	<u>20.395</u>	<u>21.356</u>
Current loans and borrowings are specified as follows:		
Current maturities of non-current liabilities	2.891	3.248
Total current loans and borrowings	<u>2.891</u>	<u>3.248</u>
Total loans and borrowings	<u>23.286</u>	<u>24.604</u>

Notes, contd.:

11. Secured bank loans are specified as follows:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance 31.3.2011	Total remaining balance 31.12.2010
Secured bank loan	USD	4,6%	2013-2018	14.550	15.638
Secured bank loan	EUR	5,3%	2013-2017	3.790	3.699
Secured bank loan	ISK	6,9%	2013-2017	2.992	3.227
Secured bank loan, indexed	ISK	7,1%	2012-2028	270	270
Unsecured bond issue, indexed	ISK	5,7%	2012-2023	1.684	1.770
Total interest-bearing liabilities				<u>23.286</u>	<u>24.604</u>

12. Contractual repayments of loans and borrowings

Contractual repayments of loans and borrowings are specified as follows:

	2011 1.1.-31.12	2010 1.1.-31.12
Repayments in 2011 (9 months)	1.828	3.248
Repayments in 2012	3.107	3.099
Repayments in 2013	7.854	7.820
Repayments in 2014	4.233	4.242
Repayments in 2015	1.044	1.033
Repayments in 2016	1.071	1.083
Subsequent repayments	4.149	4.079
Total loans and borrowings	<u>23.286</u>	<u>24.604</u>

13. Off-balance sheet items

As a lessee the Group has in place operating leases for 19 aircraft at the end of March 2011. The leases are for fourteen Boeing 757 aircraft and five Boeing 767 aircraft. The Group also has in place operating leases for storage facilities, accommodations, equipment and fixtures for its operations, the longest until the year 2032. At the end of March 2011 the leases are payable as follows:

	Real estate	Aircraft	Other	Total 31.3.2011
In Q2 - Q4 2011	838	4.697	178	5.713
In the year 2012	1.080	5.306	69	6.455
In the year 2013	1.072	3.146	13	4.231
In the year 2014	1.068	1.761		2.829
In the year 2015	1.017	1.527		2.544
Subsequent	11.252	638		11.890
Total	<u>16.327</u>	<u>17.075</u>	<u>260</u>	<u>33.662</u>

Notes, contd.:

14. Group entities

The Company holds ten subsidiaries at the end of March 2011, which are all included in the consolidated interim financial statements. They are:

	Share
Route network:	
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%
Loftleiðir - Icelandic ehf.	100%
Other operation:	
IceCap Ltd., Guernsey	100%
Discontinued operation:	
SmartLynx, Latvia	100%

The subsidiaries further own 25 subsidiaries that are all included in the consolidated interim financial statements.

15. Statement of cash flows

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

	2011 1.1.-31.3	2010 1.1.-31.3
Expensed long term cost	762	1.109
Exchange rate difference and indexation of liabilities and assets	123	324
Gain on sale of assets	(292)	(4)
Reversal of provision on assets held for sale	(591)	(434)
Share in profit of associates	(1)	(63)
Income tax	(737)	(351)
Total other operating items in the statement of cash flows	<u>(736)</u>	<u>581</u>

16. Net change in operating assets and liabilities in the statement of cash flows is specified as follows:

Inventories, increase	(52)	(127)
Trade and other receivables, increase	(433)	(2.149)
Trade and other payables, increase (decrease)	837	(475)
Deferred income, increase	8.837	6.718
Net change in operating assets and liabilities in statement of cash flows	<u>9.189</u>	<u>3.967</u>

17. Additional cash flow information:

Interests paid	607	1.133
Interests received	97	69

18. Ratios

The Group's primary ratios are specified as follows:

	31.3.2011	31.12.2010
Working capital ratio	1,00	1,16
Equity ratio	0,30	0,34
Intrinsic value of share capital	5,52	5,71