Strong organic growth – 27% increase in the number of passengers on international flights

Second quarter performance, 2011

- Total turnover was ISK 25.0 billion, up by 14% from the corresponding quarter of last year.
- Taking account of companies that exited the Group at the turn of the year 2010, the increase in turnover corresponds to 21%.
- EBITDA was ISK 2.1 billion, remaining unchanged year on year. Equivalent operations yielded EBITDA of ISK 1.9 billion in 2010.
- The EBITDA ratio was 8.3%, as compared to 9.8% at the same time last year.
- Fuel prices on average were 47% above last year's price levels, resulting in an estimated cost increase of ISK 1.7 billion.
- Depreciation was ISK 1.5 billion.
- The EBITDAR ratio was 15.5%, as compared to 20.3% at the same time last year.
- Financial costs amounted to ISK 0.1 billion, as compared to ISK 1.1 billion in the preceding year.
- Profit after taxes was ISK 0.4 billion, as compared to a loss of ISK 0.2 billion at the same time last year.

Performance in the first 6 months of 2011

- Total turnover was ISK 41.5 billion, increasing by 8% year on year.
- Taking account of companies that exited the Group at the turn of the year 2010, the increase in turnover corresponds to 15%.
- EBITDA was ISK 1.9 billion and the EBITDA ratio was 4.6%, as compared to ISK 2.3 billion 6.1% respectively in the preceding year. Equivalent operations yielded EBITDA of ISK 1.8 billion in 2010.
- The EBITDAR ratio was 13.3%, as compared to 17.4% at the same time last year.
- Financial costs amounted to ISK 0.6 billion, as compared to ISK 1.8 billion at the same time last year.
- Net cash from operating activities amounted to ISK 13.8 billion, as compared to ISK 9.4 billion in the first six months of the preceding year.
- Cash and cash equivalents and marketable securities at 30 June amounted to ISK 18.4 billion, as compared to ISK 7.5 billion for the corresponding period of last year.
- Total assets amounted to ISK 94.6 billion at the end of the period and the equity ratio was 29.1%, as compared to 13.4% at the same time last year.

Highlights (mISK)	Q2 2011	Q2 2010	6M 2011	6M 2010
Operating Income	25,029	21,885	41,046	38,168
EBITDA	2,087	2,149	1,889	2,327
EBITDA ratio	8.3%	9.8%	4.6%	6.1%
EBIT	623	843	-812	-320
EBT	452	-207	-1,406	-2,043
Profit (loss) from continuing operations	409	-161	-712	-1,646
Profit (loss) for the period	409	-161	-712	-2,046
EBITDAR	3,888	4,450	5,472	6,629
EBITDAR ratio	15.5%	20.3%	13.3%	17.4%

Björgólfur Jóhannsson, CEO:

"The second quarter was characterised by strong organic growth, with capacity on international flights increasing by 25% between years. At the same time the number of passengers increased by 27%. Loftleidir saw a 28% increase in turnover and Air Iceland added more flights to Greenland, with the number of passengers increasing by 5% over the period. The Group also opened a new hotel in Akureyri.

High oil prices, volcanic eruption and union action were among the challenges faced by the Company. Costs and revenue losses related to the volcanic eruption that occurred during the quarter are estimated at ISK 300 million and revenues were similarly affected by the pilot overtime strike. Their actions came at the worst possible time as the training of new pilots had been delayed due to the eruption. Oil prices on average were 47% above last year's levels, resulting in a cost increase of ISK 1.7 billion. In view of this we are very pleased with the Company's performance and it is clear that underlying operations are sound.

The financial position of the Company is strong. The equity ratio is 29% and cash and cash equivalents and marketable securities stood at about ISK 18.4 billion at the end of June. The outlook in terms of bookings and project status over the coming months is strong and the EBITDA projection for the whole year remains unchanged at ISK 9.5 billion."

Highlights from operations in the second quarter of 2011

EBITDA was ISK 2.1 billion, remaining unchanged year on year. The EBITDA ratio was 8.3% in the second quarter, as compared to 9.8% over the same period last year. Equivalent operations yielded EBITDA of ISK 1.9 billion in 2010.

EBIT was ISK 0.6 billion, as compared to ISK 0.8 billion at the same time last year. Profit after taxes over the quarter amounted to ISK 0.4 billion, as compared to a loss of ISK 0.2 billion over the corresponding period of 2010.

Cash from operating activities in the first six months of the year amounted to ISK 13.8 billion, as compared to ISK 9.4 billion last year.

EBITDAR amounted to ISK 3.9 billion, as compared to ISK 4.5 billion in the second quarter of 2010.

The **EBITDAR ratio** was 15.5% in the second quarter of 2011, as compared to 20.3% over the same period last year.

Income Statement (mISK)	Q2 2011	Q2 2010	% Chg.
Transport revenue	16,047	13,314	21%
Aircraft and aircrew lease	4,615	4,875	-5%
Other operating revenue	4,367	3,696	18%
Operating Income	**25,029**	**21,885**	**14%**
Salaries and related expenses	6,143	5,337	15%
Aircraft fuel	5,939	3,973	49%
Aircraft and aircrew lease	2,865	3,091	-7%
Aircraft handling, landing and navigation	1,949	1,649	18%
Aircraft maintenance expenses	1,848	1,836	1%
Other operating expenses	4,198	3,850	9%
EBITDA	**2,087**	**2,149**	**-**
EBITDA ratio	**8.3%**	**9.8%**	**-**
EBIT	**623**	**843**	**-**
EBT from continuing operations	**452**	**-207**	**-**
Profit (loss) from continuing operations	**409**	**-161**	**-**
Profit (loss) for the period	**409**	**-161**	**-**
EBITDAR	**3,888**	**4,450**	**-**
EBITDAR ratio	**15.5%**	**20.3%**	**-**

Total income amounted to ISK 25,0 billion, as compared to ISK 21.9 billion over the same period last year, representing a 14% year-on-year increase. Taking account of companies that exited the Group at the turn of the year 2010, turnover increased by 21% year on year.

Total expenses, net of depreciation, amounted to ISK 22.9 billion, as compared to ISK 19.7 billion in the second quarter of 2010.

Transport revenues increased by ISK 2.7 billion or by 21%.

Charter revenues decreased by ISK 0.3 billion. The turnover of Loftleidir increased by 28% during the quarter; the 2010 figures included the Bluebird turnover, whereas the 2011 figures do not.

Other income increased by ISK 0.7 billion, or 18% from the second quarter of 2010. This is due to an increase in revenues from the Flugleidir hotels and Iceland Travel, which last year suffered substantial revenue losses due to the Eyjafjallajökull eruption.

Salaries and personnel expenses increased by ISK 0.8 billion, or by 15%, in comparison with the second quarter of 2010, mostly owing to increased capacity on international flights. The Company resolved its labour disputes with pilots and aircraft maintenance engineers during the quarter; three-year contracts have now been concluded with all personnel except members of the Icelandic Cabin Crew Association.

Fuel costs rose by ISK 2.0 billion, representing a 49% year-on-year increase. The average world price of fuel in the second quarter of 2010 was USD 721 per ton, as compared to USD 1,057 per ton in the second quarter of 2011, corresponding to an increase of 47%. This resulted in a cost increase of ISK 1.7 billion during the quarter.

The table below shows the Company's fuel hedging position as at the end of June. The table shows that almost half of the projected third quarter usage has been hedged with options which put an upper limit on fuel costs.

2011	Estimated usage (tons)	Av. Hedge price USD	% hedged
July	21,900	977	47%
August	21,783	977	48%
September	16,642	977	44%
October	14,267	1,070	23%
November	11,221	1.032	2%
December	10,701	1.032	2%

Aircraft and aircrew lease decreased by ISK 0.2 billion between quarters, or 7%. The reduction is primarily explained by Bluebird, which was included in the 2010 figures.

Aircraft servicing, handling and navigation expenses increased by ISK 0.3 billion between years, or 18%, as prices have increased substantially from the preceding year.

Maintenance cost remained unchanged year on year, amounting to ISK 1.8 billion.

Financial items in the second quarter of 2011

Net finance cost amounted to ISK 0.1 billion in the second quarter of 2011, as compared to ISK 1.1 billion in the corresponding period last year.

Financial income amounted to ISK 0.3 billion, increasing by 0.3 billion year on year partly due to payment from Landsbanki in Luxembourg, the deposit had previously been written off.

Financial expenses decreased by ISK 0.5 billion year on year, down to ISK 0.5 billion.

Net Finance Cost mISK	Q2 2011	Q2 2010	Chg.
Interest income	349	83	266
Interest expenses	-479	-971	492
Currency effect	-50	-163	113
Net finance cost	**-180**	**-1,051**	**871**

First six months of 2011

The following are the highlights of Icelandair Group's performance in the first six months of 2011:

EBITDA was ISK 1.9 billion, as compared to ISK 2.3 billion at the same time last year. The EBITDA ratio was 4.6%, as compared to 6.1% at the same time last year. Equivalent operations yielded EBITDA of ISK 1.8 billion in 2010.

EBIT was negative by ISK 0.8 billion, as compared to a negative result of ISK 0.3 billion over the same period last year. Losses after taxes over the period amounted to ISK 0.7 billion, as compared to ISK 1.6 billion over the corresponding period in 2010.

EBITDAR amounted to ISK 5.5 billion, as compared to ISK 6.6 billion in the first six months of 2010.

The **EBITDAR ratio** was 13.3%, down from 17.4% in 2010.

On average, **fuel prices** in the first six months of the year were 44% above the prices in the same period last year. The resulting cost increase is assessed at ISK 2.5 billion.

Income Statement (mISK)	6M 2011	6M 2010	% Chg.
Transport revenue	24,671	22,016	12%
Aircraft and aircrew lease	8,523	9,719	-12%
Other	7,852	6,433	22%
Operating Income	**41,046**	**38,168**	**8%**
Salaries and related expenses	10,860	9,841	10%
Aircraft fuel	9,443	6,644	42%
Aircraft and aircrew lease	5,093	5,941	-14%
Aircraft servicing, handling and communication	3,114	2,783	12%
Aircraft maintenance	3,333	3,400	-2%
Other	7,314	7,232	1%
EBITDA	**1,889**	**2,327**	**-**
EBITDA ratio	**4.6%**	**6.1%**	**-**
EBIT	**-812**	**-320**	**-**
EBT from continuing operations	**-1,406**	**-2,043**	**-**
Loss from continuing operations	**-712**	**-1,646**	**-**
Loss from discontinuing operations	**0**	**-400**	**-**
Loss for the period	**-712**	**-2,046**	**-**
EBITDAR	**5,472**	**6,629**	**-**
EBITDAR ratio	**13.3%**	**17.4%**	**-**

Balance sheet

Balance sheet (mISK)	30.06.2011	31.12.2010	Chg.
Assets:			
Operating Assets	31,351	27,594	3,757
Intangible assets	21,128	21,212	-84
Long-term cost	655	918	-263
Long-term receivables and deposits	1,826	1,424	402
Other non-current assets	176	178	-2
Total non-current assets	**55,136**	**51,326**	**3,810**
Assets classified as held for sale	2,858	2,815	43
Other current-assets	18,210	17,104	1,106
Marketable securities	3,200	1,306	1,894
Cash and cash equivalents	15,180	11,688	3,492
Total current assets	**39,448**	**32,913**	**6,535**
Total assets	**94,584**	**84,239**	**10,345**
Equity and liabilities:			
Stockholders equity	**27,540**	**28,403**	**-863**
Loans and borrowings non-current	18,096	21,356	-3,260
Other non-current liabilities	5,475	6,012	-537
Total non-current liabilites	**23,571**	**27,368**	**-3,797**
Loans and borrowings current	3,208	3,248	-40
Trade and other payables	18,502	14,048	4,454
Deferred income	19,273	8,807	10,466
Liabilities classified as held for sale	2,490	2,365	125
Total current liabilites	**43,473**	**28,468**	**15,005**
Total equity and liabilities	**94,584**	**84,239**	**10,345**
Equity ratio	**29.1%**	**33.7%**	**-4.6 ppt**
Current ratio	**0.91**	**1.16**	**-0.25**
Net interest bearing debt	**3,372**	**12,129**	-8,757
Interest bearing debt	**21,752**	**24,604**	-2,852

Assets amounted to ISK 94.6 billion at the end of the second 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 29.1% at the end of the period.

Investments in operating assets over the period amounted to ISK 6.7 billion. Icelandair invested in two B757-200 aircraft for ISK 3.0 billion, Air Iceland invested in two Dash 8-200 aircraft for ISK 0.6 billion and Icelandair Group invested in one Airbus 320 aircraft for ISK 0.2 billion. Investments in engine hours amounted to ISK 0.9 billion for the period.

Interest-bearing debt amounted to ISK 21.8 billion, as compared to ISK 24.6 billion at the beginning of the year. The Company made loan prepayments of USD 20 million during the period.

Cash flow

Statement of Cash Flow (mISK)	6M 2011	6M 2010
Working capital from operations	2,483	1,708
Net cash from operating activities	13,841	9,386
Net cash used in investing activities	-8,036	-2,304
Net cash used in financing activities	-2,317	-1,543
Increase in cash and cash equivalents	**3,488**	**5,539**
Effect of exchange rate fluctuations on cash held	4	23
Cash and cash equivalents at 1 January	11,688	1,909
Cash and cash equivalents at 30 June	**15,180**	**7,471**

Working capital from operations amounted to ISK 2.5 billion in the first six months of 2011, as compared to ISK 1.7 billion in the corresponding period of the preceding year.

Net cash from operating activities in the first six months of the year was ISK 13.8 billion, as compared to ISK 9.4 billion in the corresponding period of 2010.

Cash and cash equivalents and marketable securities at the end of the period amounted to ISK 18.4 billion, as compared to ISK 7.5 billion at the corresponding time last year.

Highlights of operations by quarter

Income Statement (mISK)	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Transport revenue	16,047	8,624	10,863	21,065	13,314	8,702
Aircraft and aircrew lease	4,615	3,908	4,978	5,275	4,875	4,844
Other	4,367	3,485	2,924	4,742	3,696	2,737
Operating Income	**25,029**	**16,017**	**18,765**	**31,082**	**21,885**	**16,283**
Salaries and related expenses	6,143	4,717	5,342	5,232	5,337	4,503
Aircraft fuel	5,939	3,504	3,293	4,990	3,973	2,671
Aircraft and aircrew lease	2,865	2,228	2,496	3,429	3,091	2,850
Aircraft servicing, handling and navigation	1,949	1,165	1,105	2,215	1,649	1,134
Aircraft maintenance	1,848	1,485	1,324	1,751	1,836	1,564
Other	4,198	3,116	4,089	4,330	3,850	3,382
EBITDA	**2,087**	**-198**	**1,116**	**9,135**	**2,149**	**178**
EBIT	**623**	**-1,435**	**-971**	**7,545**	**843**	**-1,163**
Gain on disposals in relation to financial restructuring	0	0	4,245	0	0	0
EBT from continuing operations	**452**	**-1,858**	**2,235**	**6,384**	**-207**	**-1,836**
Profit (loss) from continuing operations	**409**	**-1,121**	**1,567**	**5,197**	**-161**	**-1,485**
Loss from discontinuing operations	0	0	-162	0	0	-400
Profit (loss) for the period	**409**	**-1,121**	**1,405**	**5,197**	**-161**	**-1,885**

Traffic figures

ICELANDAIR	Q2 11	Q2 10		CHG (%)	JAN-JUN 11	JAN-JUN 10		CHG (%)
Number of Passengers (PAX)	463,861	365,835	↑	27%	721,785	593,430	↑	22%
Load Factor (%)	79.3%	76.4%	↑	3.0 ppt	76.2%	73.1%	↑	3.1 ppt
Available Seat Kilometers (ASK´000)	1,636,456	1,311,644	↑	25%	2,627,093	2,199,723	↑	19%
AIR ICELAND	**Q2 11**	**Q2 10**		**CHG (%)**	**JAN-JUN 11**	**JAN-JUN 10**		**CHG (%)**
Number of Passengers (PAX)	88,909	77,661	↑	14%	165,887	157,489	↑	5%
Load Factor (%)	67.7%	66.0%	↑	1.6 ppt	68.1%	67.6%	↑	0.6 ppt
Available Seat Kilometers (ASK´000)	46,231	38,677	↑	20%	81,478	71,626	↑	14%
CAPACITY	**Q2 11**	**Q2 10**		**CHG (%)**	**JAN-JUN 11**	**JAN-JUN 10**		**CHG (%)**
Fleet Utilization (%)	94.3%	97.1%	↓	-2.8 ppt	94.7%	92.6%	↑	2.1 ppt
Sold Block Hours	9,165	8,088	↑	13%	17,722	16,062	↑	10%
ICELANDAIR CARGO	**Q2 11**	**Q2 10**		**CHG (%)**	**JAN-JUN 11**	**JAN-JUN 10**		**CHG (%)**
Available Tonne Kilometers (ATK´000)	43,004	36,318	↑	18%	76,348	70,611	↑	8%
Freight Tonne Kilometers (FTK´000)	18,110	16,157	↑	12%	36,664	36,232	↑	1%
ICELANDAIR HOTELS	**Q2 11**	**Q2 10**		**CHG (%)**	**JAN-JUN 11**	**JAN-JUN 10**		**CHG (%)**
Available Hotel Room Nights	63,265	60,025	↑	5%	111,145	107,665	↑	3%
Sold Hotel Room Nights	44,320	39,428	↑	12%	69,444	66,914	↑	4%
Utilization of Hotel Rooms	70.1%	65.7%	↑	4.4 ppt	62.5%	62.2%	↑	0.3 ppt

Icelandair carried 27% more passengers on international flights in the second quarter than in the second quarter of last year. At 79.3%, the load factor has never been higher, rising by 3 percentage points year on year. The number of passengers that flew with Air Iceland increased by 14%, owing to the successful addition of more flights to Greenland. Sold block hours decreased by 2.8 percentage points year on year. Sold block hours increased at Loftleidir but decreased at Iceland Cargo due to maintenance work. Freight tonne kilometers increased by 12%. Utilization of hotel rooms was 70.1%, improving considerably year on year.

Capacity on international flights rose by 19% in the first six months of the year, with the number of passengers increasing by 22% over the same period. The load factor was 76.2%, the highest ever for the period. The number of passengers increased in all markets, with the largest increase, 29%, seen in the North Atlantic market. There was also a considerable increase in flights out of Iceland, or 26%, and a somewhat smaller increase in flights to Iceland, or about 13%. The bookings situation over the next few months suggests that the latter market will be strong in the third quarter.

Outlook for Icelandair Group hf.

The outlook for the Company's operations is generally good. Third quarter bookings at Icelandair have been strong. Bookings of flights to Iceland have been particularly strong and the number of tourists visiting Iceland over the year is expected to reach record levels. Loftleidir has performed well and the company's project status is good. The successful opening of Icelandair Hotel Akureyri and renovating of Icelandair Hotel Reykjavík Natura should help to support winter sales. Air Iceland has added a substantial number of flights to Greenland which have proved successful. The company invested in two Dash 8-200 aircraft for the Greenland route, which will replace the company's older Dash aircraft.

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 proceeding as planned and conclusions should be available later this year.

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

General market outlook

There is uncertainty regarding global economic conditions. The debt problems in Europe are worrisome and could hamper economic recovery across the continent. Concerns that the United States will go into recession have also increased in recent weeks, particularly in the wake of Standard & Poor's downgrade of U.S. Treasury bonds. Nevertheless, the outlook in the aviation industry is generally good, with growth expected to continue in 2012 at a rate of about 4% on a global basis. While it is difficult to predict the movement of fuel prices, it is reasonable to assume that they will remain high over the next 12 months, thereby putting pressure on profits across the industry. Yields are expected to remain the same or rise as airlines try to reduce the adverse effects of higher oil prices by raising the oil surcharge. Furthermore, airline mergers in Europe will likely continue in response to declining profits.

Presentation meeting on Friday 12 August 2011

An open presentation will be held Friday 12 August at Reykjavik Natura. The presentation will start at 16:00. Björgólfur Jóhannsson president and CEO of Icelandair Group and Bogi Nils Bogason CFO of Icelandair Group, will present the Company´s results and answer questions along with the senior management.

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.

Audit

The consolidated accounts of Icelandair Group for the second quarter and first six months of 2011 were approved at a meeting of the Board of Directors on 11 August 2011. The accounts have been reviewed by the Company's auditors, KPMG Endurskodun hf.

The largest shareholders in Icelandair Group hf. on 10 August 2011

Shareholder	Stake %
Framtakssjóður Íslands	29.0%
Íslandsbanki hf	20.6%
Lífeyrissjóður verslunarmanna	12.1%
Lífeyrissjóðir Bankastræti 7	6.0%
Glitnir banki hf	3.6%
Stefnir - ÍS 15	2.9%
Úrvalsbréf Landsbankans	2.3%
Stefnir - ÍS 5	2.1%
SPB hf	1.9%
Stafir lífeyrissjóður	1.8%

Financial calendar 2011

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

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