

4TH QUARTER PERFORMANCE MATCHES COMPANY'S EXPECTATIONS

- | Performance below 2010 levels due largely to high fuel prices
- | Fuel prices 28% higher than in Q4 2010
- | Profit in 2011 ISK 4.5 billion
- | Working capital from operations ISK 12.5 billion
- | Icelandair Group financial position strong
- | Equity ratio 36% and net interest-bearing debt ISK 11.1 billion
- | The Board of Directors proposes a dividend of ISK 0.8 billion to shareholders in 2012

ISK million	Q4 2011	Q4 2010	Chg. in %	12M 2011	12M 2010	Chg. in %
Operating results						
Total income	20,020	18,765	7%	96,934	88,015	10%
EBITDAR	1,699	2,991	-43%	17,751	21,254	-16%
EBITDA	-129	1,116	-112%	10,413	12,578	-17%
EBIT	-1,537	-971	58%	4,735	6,254	-24%
EBT continuing operations	-1,728	2,235	-177%	3,500	6,576	-47%
Profit / loss	-200	1,405	-114%	4,452	4,556	-2%
Balance sheet						
Total assets	89,466	84,239	6%	89,466	84,239	6%
Total equity	32,291	28,403	14%	32,291	28,403	14%
Interest bearing debt	24,136	24,604	-2%	24,136	24,604	-2%
Net interest bearing debt	11,056	11,610	-5%	11,056	11,610	-5%
Cash flow						
Working capital from operations	713	1,608	-56%	12,541	12,889	-3%
Net cash from operating activities	1,193	3,731	-68%	14,386	15,673	-8%
Net cash used in investing activities	-2,908	-2,749	6%	-13,017	-5,512	136%
Net cash used in / from financing activities	1,301	3,381	-62%	-3,384	-49	6806%
Cash and cash equivalents end of period	9,735	11,688	-17%	9,735	11,688	-17%
Key Ratios						
Earnings per share ISK	-0.04	0.28	-114%	0.89	3.07	-71%
Equity per share ISK	6.49	5.71	14%	6.49	5.71	14%
Equity ratio	0.36	0.34	2.2 ppt	36%	34%	2.2 ppt
Current ratio	0.91	1.11	-18%	0.9	1.1	-18%
Investment in operating assets	3,526	900	292%	11,577	2,228	420%
Investment in longterm cost	2,414	1,009	139%	3,749	2,787	35%
Transport revenue as % of total revenues	62%	58%	4.0 ppt	64%	61%	2.9 ppt
EBITDAR ratio	8%	16%	-7.5 ppt	18%	24%	-5.8 ppt
EBITDA ratio	-1%	6%	-6.6 ppt	11%	14%	-3.5 ppt

BJÖRGÓLFUR JÓHANSSON, PRESIDENT AND CEO

"Icelandair Group's EBITDA in the fourth quarter was negative by ISK 0.1 billion, as compared to a positive result of ISK 1.1 billion in the fourth quarter of 2010. High fuel prices led to significant increases in cost in the quarter, which accounts for the decline in performance between years. As regards the year as a whole we are quite satisfied with the result of ISK 4.5 billion in profit, particularly in the light of the negative impact of increased fuel prices, a volcanic eruption in Grímsvötn and work stoppages. The Group's financial position is strong, the equity ratio is 36% and cash and marketable securities amounted to ISK 13.1 billion at year-end. I would like to thank our experienced and determined staff for this success.

The year 2011 was characterised by significant organic growth. We anticipate still further expansion of our operations in 2012. Icelandair will have the most extensive flight schedule in its history in place in 2012, and bookings for the first months of the year are promising. Icelandair Hotels will open a new hotel by Reykjavik Harbour in the spring, and Air Iceland will continue to increase capacity on its flights to Greenland.

Two new aircraft will be added to Icelandair's fleet in the first half of this year, which will entail some implementation cost. Also, fuel costs are higher than last year, and the exchange rate of the euro against the dollar is less favourable; we therefore anticipate that the performance in the first quarter of 2012 will be somewhat short of last year's. Based on the Company's budget for 2012 as a whole, we anticipate an EBITDA in the range of 11.0-12.0 billion an increase from 2011 when EBITDA was ISK 10.4 billion.

TRANSPORT FIGURES

- | The number of passengers in Q4 2011 exceeded Q4 2010 by 11%
- | The load factor was 77.9%, improving by 0.5 percentage points between years

		Q4 2011	% chg.	12M 2011	% chg.
ICELANDAIR					
Number of Passengers	Thousand	350.8	11%	1,744.1	18%
Load Factor	%	77.94	0.5 ppt	79.25	0.9 ppt
Available Seat KM (ASK)	Thousand	1,276,430	12%	6,169,070	18%
AIR ICELAND					
Number of Passengers	Thousand	81.2	-1%	353.1	3%
Load Factor	%	66.50	-1.7 ppt	69.32	1.1 ppt
Available Seat KM (ASK)	Thousand	38,757	4%	179,740	7%
CAPACITY					
Fleet Utilization	%	97.30	-1.3 ppt	93.50	-1.1 ppt
Sold Block Hours		7,920	-11%	34,524	0%
ICELANDAIR CARGO					
Available Tonne KM (ATK)	Thousand	39,029	12%	168,759	11%
Freight Tonne KM (FTK)	Thousand	21,868	17%	77,991	7%
ICELANDAIR HOTELS					
Available Hotel Room Nights		54,200	11%	253,052	7%
Sold Hotel Room Nights		29,476	18%	171,924	10%
Utilization of Hotel Rooms	%	54.38	3.5 ppt	67.94	1.9 ppt

Icelandair carried a total of 351 thousand passengers in the fourth quarter of 2011, which represents an increase of 11% from last year. Capacity was increased by 12% over the same period last year,

placing the load factor at 77.9%, or 0.5 percentage points above the 77.4% load factor in the closing quarter of last year. Passengers on Air Iceland flights were approximately 81 thousand, down by 1% between years. The number of sold charter hours fell by 11% between 2010 and 2011. Freight haulage on scheduled flights increased by 17%. Icelandair Hotels' room capacity totalled 54 thousand nights in the quarter, up by 11% between years. The occupancy rate was 54.4%.

OPERATING TRENDS IN Q4

EBITDA was ISK -0.1 billion, down by ISK 1.2 billion between years. **The EBITDA ratio** was negative, at -0.6% in the fourth quarter, as compared to 5.9% over the same period in 2010. **EBIT** was ISK -1.5 billion, as compared to ISK -1.0 billion at the same time last year. The Company's **loss after taxes** was ISK 0.2 billion, as compared to a profit of ISK 1.4 billion at the same time last year. **EBITDAR** amounted to ISK 1.7 billion, as compared to ISK 3.0 billion in the fourth quarter of 2010. The **EBITDAR ratio** was 8.5%, as compared to 15.9% at the same time last year.

In 2011 Icelandair Group sold its Latvian subsidiary SmartLynx. The sale is included in the annual accounts for 2011. The impact of the sale on Icelandair Group's bottom line is ISK 1.1 billion, of which 0.7 billion is due to income tax reductions and ISK 0.4 billion is due to profit from discontinued operations.

ISK million	Q4 2011	Q4 2010	Change
EBITDAR	1,699	2,991	-1,292
EBITDA	-129	1,116	-1,245
EBIT	-1,537	-971	-566
EBT continuing operations	-1,728	2,235	-3,963
Profit / loss	-200	1,405	-1,605
EBITDAR %	8.5%	15.9%	-7.5 ppt
EBITDA %	-0.6%	5.9%	-6.6 ppt

INCOME

- | Total revenue in Q4 ISK 20 billion
- | Increase in turnover 7% between years

ISK million	Q4 2011	Q4 2010	% Chg.
Transport revenue	12,386	10,863	14%
Aircraft and aircrew lease	4,069	4,978	-18%
Other operating revenue	3,565	2,924	22%
Total	20,020	18,765	7%

Transport revenue increased by ISK 1.5 billion, or 14%; revenues from passenger transport increased by ISK 1.6 billion, or 17%. **Charter revenues** decreased by ISK 0.9 billion. The figures for 2010 include Bluebird, but those figures are not included for 2011. **Other revenue** increased by ISK 0.6 billion from the fourth quarter of 2010, or by 22%. Income from travel services sold increased between years; this income fell last year as a result of the volcanic eruption in Eyjafjallajökull.

EXPENSES

- | Total expenses in Q4 ISK 20.1 billion
- | Increase in fuel cost 46% between years

ISK million	Q4 2011	Q4 2010	% Chg.
Salaries and related expenses	6,006	5,342	12%
Aircraft fuel	4,814	3,293	46%
Aircraft and aircrew lease	2,296	2,496	-8%
Aircraft handling, landing and communication	1,409	1,105	28%
Aircraft maintenance expenses	1,781	1,324	35%
Other operating expenses	3,843	4,089	-6%
Total	20,149	17,649	14%

Salaries and personnel expenses increased by ISK 0.7 billion, or 12%, in comparison with the fourth quarter of 2010. The reason is primarily the increased capacity on the Company's international flights and contractual salary increases between years.

Fuel costs rose by ISK 1.5 billion, representing a 46% year-on-year increase. The direct increase in expenses resulting from the price hikes over the quarter was ISK 1.1 billion. The increase in fuel costs resulting from increased capacity was ISK 0.6 billion.

Aircraft and aircrew lease decreased by ISK 0.2 billion between quarters, or approximately 8% owing to the purchase of one Boeing 757-200, which the Company previously had on lease. Aircraft lease also decreased as Bluebird no longer forms a part of the Group. **Aircraft servicing, handling and navigation expenses** increased by ISK 0.3 million between years, or 28%, as a result of the increase in capacity and considerable price hikes. **Maintenance expenses** amounted to a total of ISK 1.8 billion, increasing by ISK 0.5 billion, or 35%. **Other expenses** amounted to ISK 3.8 billion, down by ISK 0.2 billion between years.

FINANCIALS

- | Net financial expenses ISK 0.2 billion, down by ISK 0.4 billion from 2010

ISK million	Q4 2011	Q4 2010	% Chg.
Interest income	255	90	183%
Interest expenses	-268	-718	-63%
Currency effect	-153	54	-382%
Net finance cost	-166	-574	-71%

BALANCE SHEET AND FINANCIAL POSITION

- | Total assets ISK 89.5 billion
- | Equity ratio 36%
- | Interest-bearing debt ISK 24.1 billion

ISK million	31.12.11	31.12.10	% Chg.
Total assets	89,466	84,239	6%
Equity ratio	36%	34%	2.2 ppt
Interest bearing debt	24,136	24,604	-2%
Net interest bearing debt	11,056	11,610	-5%
Cash and marketable securities	13,080	12,994	1%
Current ratio	0.91	1.11	-18%

Operating assets amounted to ISK 33.9 billion, as compared to ISK 27.6 billion at the beginning of the year. The increase is largely a result of the acquisition of four Boeing 757 200 aircraft in the course of the year. Three of the aircraft were previously under long-term lease. The acquisitions will have positive effect on profit and cash flow going forward. At the end of 2011 the Company's fleet comprised a total of 35 aircraft, of which 20 were owned and 15 leased. The table below shows the Company's fleet at year-end and changes over the year.

Aircraft type	Icelandair	Icelandair Cargo	Loft-leidir	Air Iceland	Total fleet 31.12.11	Owned aircraft	Leased aircraft	Ch. from 31.12.10
B757 200	12	5	4		21	11	10	1
B757 300	1				1	1	0	0
B767 300			5		5	0	5	0
Fokker F-50				6	6	6	0	0
Dash 8-100				1	1	1	0	-1
A-320					1	1	0	1
Samtals	13	5	9	7	35	20	15	1

Interest-bearing debt amounted to ISK 24.1 billion, as compared to ISK 24.6 billion at the beginning of the year. Payments on long-term liabilities amounted to ISK 8.1 billion; of that figure ISK 4.1 billion had not reached maturity. In October the Company finalised a borrowing from Deutsche Bank in the amount of USD 18 million for a term of 7 years. In December the Company took a loan of just over USD 24 million for a term of 6 years from Lloyds Bank in connection with the purchase of two Boeing 757-200 aircraft, which the Company previously had on a long-term lease.

Cash and marketable securities amounted to a total of ISK 13.1 billion at year-end 2011, as compared to ISK 13.0 billion at the beginning of the year. Net interest-bearing debt amounted to ISK 11.1 billion at year-end.

CASH FLOW AND INVESTMENTS

┆ **Cash and cash equivalents ISK 9.7 billion**

┆ **Total investments over the year amounted to ISK 15.3 billion**

ISK million	12M 2011	12M 2010	Change
Working capital from operations	12,541	12,889	-348
Net cash from operating activities	14,386	15,673	-1,287
Net cash used in investing activities	-13,017	-5,512	-7,505
Net cash used in financing activities	-3,384	-49	-3,335
Increase / decrease in cash and cash equivalents	-2,015	10,112	-12,127
Cash and cash equivalents at 31 December	9,735	11,688	-1,953

Net cash from operating activities in 2011 amounted to ISK 14.4 billion. **Investments in operating assets** amounted to ISK 11.6 billion. Icelandair invested in four B757-200 aircraft for ISK 5.5 billion, Air Iceland invested in two Dash 8-200 aircraft and spare parts for ISK 1.0 billion, and Icelandair Group invested in one Airbus 320 aircraft for ISK 0.8 billion. Investments in engine overhauls amounted to ISK 2.0 billion over the period. **Investments in long-term expenses** amounted to ISK 3.7 billion, of which investments in overhauls of leased engines amounted to ISK 3.6 billion.

OUTLOOK FOR ICELANDAIR GROUP HF.

- | **Continued organic growth**
- | **Current assumptions indicate an EBITDA in the range of ISK 11.0-12.0 billion in 2012**

Continued organic growth is anticipated in 2012, the year of the Company's 75th anniversary. Icelandair, the Group's largest subsidiary, will operate the most extensive flight schedule in its history. Bookings for the first months of the year have been strong and are off to a promising start. A new year-round destination, Denver, Colorado, will now be added, and at the same time the frequency of flights to various cities in the United States and Europe will increase. Icelandair will have 31 destinations, and is expected to transport about 2 million passengers over the year which represents a 15% increase over 2011. The unique TO-FROM-VIA business model based on the geographical location of Iceland offers a flexible route network and opportunities to increase the seat capacity. Two new aircrafts will therefore be added during H1 2012 and contribute in growing Icelandair's number of passengers above average market growth going forward.

Further, Icelandair Hotels will open a new hotel with 111 rooms in the harbour of central Reykjavík; Air Iceland will increase its capacity to Greenland, where the company currently offers five destinations, of which three are year-round destinations; and VITA intends to increase its market share in the charter market from Iceland by the establishment of the Internet site Ferd.is, which will specialise in economy vacation flights and leisure tours.

In February 2012 the Board of Directors of Icelandair Group announced its decision to explore the opportunity of a secondary listing of the Company on the Oslo Stock Exchange in addition to Nasdaq OMX in Iceland. Furthermore the Company announced to report its accounts from Q1 2012 in US dollars.

The table below shows the position of the Company's fuel hedging end of January. The table shows that 21% of the projected use in 2012 has been hedged using swap agreements. In addition to contractual hedging, the Company has defined the interaction of EUR/USD and fuel price as an internal hedge. The Company therefore assesses its natural risk hedging at average 13% in 2012.

2012	Estimated usage (tons)	Hedge and option contracts	Av. Hedge price USD	% hedged	Option contracts*	Price ceiling USD
January	10,627	4,150	1,027	39%	0	-
February	9,594	4,150	1,012	43%	0	-
March	11,294	4,200	1,010	37%	0	-
April	12,611	3,250	994	26%	0	-
May	15,958	3,200	980	20%	0	-
June	22,093	7,300	980	33%	4,000	1,150
July	23,957	5,800	1,008	24%	4,500	1,150
August	24,243	4,800	988	20%	4,500	1,150
September	18,229	3,200	988	18%	3,000	1,150
October	15,963	0	-	0%	0	-
November	13,648	0	-	0%	0	-
December	12,906	0	-	0%	0	-
Total	191,123	40,050	1,002	21%	16,000	1,150

*included in "Hedge and option contracts"

Given the addition of new aircrafts, high fuel prices and a less favourable EUR/USD exchange rate we assume weaker profit for Q1 2012 than Q1 2011. However with the assumption of a EUR/USD exchange rate of 1.25 and fuel prices of 1.050 USD per ton (excluding hedging), the Company is

expecting a full year 2012 EBITDA in the range of ISK 11.0-12.0 billion, an increase from 2011 when EBITDA was ISK 10.4 billion.

According to the latest IATA report from January 2012, the year ahead for the global aviation industry could be challenging given higher fuel cost, downward pressure on average fares and a flat passenger market. The Board of Directors is however confident that the Company is well positioned to face these challenges given its unique business model, strong balance sheet and ongoing growth initiatives.

SHARE PRICE

- | **Icelandair Group's share price rose by 60% in 2011**
- | **The market value at year-end 2011 was ISK 25.2 billion**

Icelandair Group's market value in the Nasdaq OMX Stock Exchange in Iceland was ISK 25.2 billion at year-end 2011. The closing price at the end of the year was ISK 5.03 per share. In 2011, the highest close-of-trading price was ISK 5.84 per share, while the lowest was ISK 3.09 per share and the average closing price was ISK 4.85 per share. The number of issued shares on 31 December 2011 was 5,000,000,000 and the number of outstanding shares at the same time was 4,974,540,000. The price of the Company's shares went up by 60% in 2011, and the number of shareholders at year-end was 1,269.

The Board of Directors of Icelandair Group proposes to pay a dividend of ISK 0.8 billion to shareholders in 2012.

Share price and volume – trend in 2011:



PRESENTATION MEETING ON 10 FEBRUARY 2012

An open presentation for shareholders and other stakeholders will be held on Friday 10 February 2012 at the Icelandair Hotel Reykjavik Natura. Björgólfur Jóhannsson, Icelandair Group CEO, and Bogi Nils Bogason, CFO, will present the Company's results and respond to questions, together with the senior management. The presentation will begin at 08:30 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.

AUDIT

The consolidated accounts of Icelandair Group for the fourth quarter and the entire year of 2011 were approved at a meeting of the Board of Directors on 9 February 2012. The annual accounts were audited by KPMG Auditors hf.

FINANCIAL CALENDAR

- | Annual General Meeting 23 March 2012
- | Financial statement for the first quarter – week 18, 2012
- | Financial statement for the second quarter – week 32, 2012
- | Financial statement for the third quarter – week 44, 2012
- | Financial statement for the fourth quarter – week 06, 2012

FOR FURTHER INFORMATION, PLEASE CONTACT:

- | Björgólfur Jóhannsson, CEO of Icelandair Group, tel: +354 896-1455
- | Bogi Nils Bogason, Chief Financial Officer of Icelandair Group, tel: +354 665-8801