

FIRST QUARTER PERFORMANCE EXCEEDS MANAGEMENT EXPECTATIONS

- | First quarter loss totalled USD 13.2 million
- | Strong organic growth with total income 21% in excess of the first quarter of 2011
- | Increase in number of tourists to Iceland increased income from tourist-related services
- | Net cash from operations USD 86.1 million
- | Equity ratio was 31%

USD thousands	Q1 2012	Q1 2011	Change
Operating results			
Total income	157,698	130,645	27,053
EBITDAR	11,136	12,920	-1,784
EBITDA	-3,048	-1,615	-1,433
EBIT	-16,723	-11,705	-5,018
EBT	-16,627	-15,156	-1,471
Loss for the period	-13,189	-9,145	-4,044
Balance sheet			
Total assets	780,269	745,767	34,502
Total equity	241,338	223,956	17,382
Interest bearing debt	171,154	189,935	-18,781
Net interest bearing debt	25,588	42,325	-16,737
Cash flow			
Working capital from operations	2,457	-4,951	7,408
Net cash from operating activities	86,138	70,000	16,138
Net cash used in investing activities	-12,509	-52,529	40,020
Net cash used in / from financing activities	-25,714	9,078	-34,792
Cash and cash equivalents end of period	126,580	121,859	4,721
Key Ratios			
Loss per share USD	0.33	0.23	43%
Equity per share	5.95	5.49	8%
Equity ratio	31%	30%	0.9 ppt
Current ratio	0.81	1.00	-19%
Investment in operating assets	21,012	28,581	-26%
Investment in long-term cost	1,966	5,326	-63%
Transport revenue as % of total revenues	58%	54%	3.7 ppt
EBITDAR ratio	7.1%	9.9%	-2.8 ppt
EBITDA ratio	-1.9%	-1.2%	-0.7 ppt
Shareprice information ISK			
Highest price in period	6.10	4.70	30%
Lowest price in period	4.83	3.09	56%
Price at period end	6.10	4.54	34%
Market Cap at period end (millions)	30,500	22,700	34%

All comparison figures translated into USD at year-end 2011 exchange rate of ISK 122.6.

BJÖRGÓLFUR JÓHANSSON, PRESIDENT AND CEO

“The Company’s performance in the first quarter exceeded our expectations and the quarter was characterised by continued organic growth. The increase in income amounted to 21% between years, with passenger revenues up by 31%. The number of passengers increased both on international flights and on regional flights. The great increase in number of tourist travelling to Iceland had a positive impact on tourism services.

At the beginning of the year we issued an EBITDA forecast for 2012, where we projected EBITDA in the range of USD 90-98 million. Since then the trends in operating conditions have mostly been positive. Based on current assumptions, EBITDA for the year is now projected at USD 100-105 million.”

TRANSPORT FIGURES

- | **Passengers on international flights totalled 305 thousand, increasing by 18%**
- | **The 75.4% load factor on international flights in the first quarter was the highest first-quarter figure in the Company's history**
- | **A redelivery check of one cargo aircraft resulted in lower fleet utilisation and fewer sold block hours in leasing projects**

		Q1 2012	% chg. from Q1 2011
INTERNATIONAL FLIGHTS			
Number of passengers	Thousand	305.0	18%
Load Factor	%	75.4	4.3 ppt
Available Seat KM (ASK'000)	Thousand	1.098.7	11%
REGIONAL AND GREENLAND FLIGHTS			
Number of passengers	Thousand	80.5	5%
Load Factor	%	70.7	1.6 ppt
Available Seat KM (ASK'000)	Thousand	35.8	2%
CAPACITY			
Fleet Utilization	%	87.1	-8.0 ppt
Sold block hours	Hours	8.112	-5%
CARGO			
Available Tonne KM (ATK)	Thousand	36.596	10%
Freight Tonne KM (FTK)	Thousand	22.070	19%
HOTELS			
Available Hotel Room Nights	Nights	54.082	13%
Sold Hotel Room Nights	Nights	33.420	33%
Utilisation of Hotel Rooms	%	61.8	9.3 ppt

The capacity on international flights increased by 11% between years in the first quarter, while the number of passengers increased by 18% over the same period. The number of passengers increased in all of the Company’s markets, with the greatest increase in the tourist market to Iceland, at 31% between years. The 75.4% passenger load factor was the highest first-quarter figure in the Company’s history, representing an increase of 4.3 percentage points from the preceding year.

Passengers on regional flights and flights to Greenland numbered over 80 thousand over the quarter, increasing by 5% from the same period of the preceding year. The load factor was 70.7%, up by 1.6 percentage points between years. Fleet utilisation amounted to 87.1% in charter projects and decreased by 8 percentage points. The reduced utilisation resulted from a redelivery check of one cargo aircraft. The number of sold block hours in charter flights over the period fell between years for

the same reason. The number of sold hotel room nights increased substantially in the first quarter, by 33%. The room utilisation also increased substantially and was 61.8%, as compared to 52.5% in the first quarter of last year.

FIRST QUARTER OPERATIONS

EBITDA was negative by USD 3.0 million, down by USD 1.4 million between years. The **EBITDA ratio** was -1.9% in the first quarter, as compared to -1.2% over the same period in 2011. The EBITDA exceeded the Company's expectations, with the increase largely explained by higher passenger revenue. EBIT was USD -16.7 million, as compared to USD -11.7 million at the same time last year. **Losses after taxes** amounted to USD 13.2 million, as compared to a loss of USD 9.1 million in the corresponding period of 2011. **EBITDAR** amounted to USD 11.1 million, as compared to USD 12.9 million in the first quarter of 2011. The **EBITDAR ratio** was 7.1%, as compared to 9.9% at the same time last year.

USD thousand	Q1 2012	Q1 2011	Change
EBITDAR	11,136	12,920	-1,784
EBITDA	-3,048	-1,615	-1,433
EBIT	-16,723	-11,705	-5,018
EBT	-16,627	-15,156	-1,471
Loss for the period	-13,189	-9,145	-4,044
EBITDAR ratio	7.1%	9.9%	-2.8 ppt
EBITDA ratio	-1.9%	-1.2%	-0.7 ppt

INCOME

- | **Total income was 21% in excess of the first quarter of 2011**
- | **Passenger revenues increased by 31% between years**
- | **The increase in the number of tourists to Iceland increased income from tourist-related services**

USD thousand	Q1 2012	Q1 2011	Change
Transport revenue	90,694	70,343	20,351
Aircraft and aircrew lease	30,411	31,876	-1,465
Other operating revenue	36,593	28,426	8,167
Total	157,698	130,645	27,053

Transport revenue increased by USD 20.4 million, or 29%; revenue from passenger transport increased by ISK 19.3 billion, or 31%. Passenger numbers increased significantly over the quarter, with the increase in international flights at 18% and in regional flights at 5%. **Charter revenue** fell by USD 1.5 million. In light of the reduced projects in charter cargo flights, one cargo aircraft was returned. The Company currently has two aircraft engaged in this work, but there are plans to cut these operations still further and reduce the number of aircraft to one later in the year. **Other operating revenue** increased by USD 8.2 million, as compared to the first quarter of 2011, or by 29%. The primary reason is the increase in revenue from sold tourism service between years. The number of tourists visiting Iceland at this time of year has grown substantially, with the first-quarter growth at 31%, as compared to the first quarter of last year.

EXPENSES

- | **Total expenses increased by USD 28.5 million**
- | **Cost increases largely a result of the increased capacity on international flights**
- | **All advertising, booking and introduction costs resulting from the increased peak-season capacity was expensed in the course of the quarter**

USD thousand	Q1 2012	Q1 2011	Change
Salaries and related expenses	43,137	38,475	4,662
Aircraft fuel	38,067	28,581	9,486
Aircraft and aircrew lease	18,559	18,173	386
Aircraft handling, landing and communication	10,788	9,502	1,286
Aircraft maintenance expenses	12,157	12,113	44
Other operating expenses	38,038	25,416	12,622
Total	160,746	132,260	28,486

Salaries and related expenses increased by USD 4.7 million, or 12%, in comparison with the first quarter of 2011. This is explained by the increased capacity, combined with the impact of contractual wage increases between years.

Fuel cost increased by USD 9.5 million, which represents an increase of 33% from the preceding year. The direct cost increase resulting from price hikes in the quarter was USD 5.3 million, while the increase in fuel cost resulting from production increases was USD 3.7 million.

Aircraft and aircrew lease increased in comparison with the first quarter of 2011, by 2%.

Aircraft handling, landing and communication expenses increased by USD 1.3 million between years, as a result of the increase in capacity and general price hikes. **Aircraft maintenance expenses** amounted to USD 12.2 billion, remaining more or less unchanged year-on-year. **Other operating expenses** amounted to USD 38.0 million, increasing by USD 12.6 million between years. Of this figure, USD 4.6 million resulted from allowances for bad debt. Other items that increased between years were tourism expenses owing to the increase in the number of tourists to Iceland, in addition to items relating to increased passenger revenues, such as booking fees, credit card expenses and commission expenses. All expenses accruing during the quarter and relating to the increased peak-season operations of the year, such as advertising, market initiatives, introduction of aircraft and booking, were expensed in the course of the quarter.

NET FINANCIAL INCOME

- | **Net financial expenses amounted to USD 0.1 million, down by USD 3.6 million**

USD thousand	Q1 2012	Q1 2011	Change
Interest income	687	799	-112
Interest expenses	-3,020	-3,532	512
Currency effect	2,472	-726	3,198
Net finance cost	139	-3,458	3,597

Financial expenses in the first quarter amounted to USD 3 million, down by USD 0.5 million between years. The currency effect over the quarter was positive in the amount of USD 2.5 million. Owing to the weight of the króna in the balance sheet, its weakening against the US dollar resulted in a currency gain during the quarter.

BALANCE SHEET

- | Total assets amounted to USD 780.3 million
- | The equity ratio was 31%

USD thousands	31.03. 2012	31.12. 2011	Change
Total assets	780,269	729,739	50,530
Equity ratio	31%	36%	-5.0 ppt
Interest bearing debt	171,153	196,868	-25,715
Net interest bearing debt	25,589	90,179	-64,590
Cash and marketable securities	145,565	106,688	38,877
Current ratio	0.81	0.91	-11%

Operating assets amounted to USD 483.9 million compared to USD 483.0 million from the beginning of the year. The Company's largest asset is its fleet of aircraft. At the end of the quarter the Company's fleet comprised a total of 37 aircraft, of which 22 were owned. The table below provides an overview of the Company's aircraft at the end of the first quarter.

Aircraft-type	Icelandair	Cargo	Loftleiðir	Air Iceland	Total fleet 31.03.12	Owned aircraft	Leased aircraft	Chg. from 31.12.11
B757 200	14	4	4		22	12	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 8-200				2	2	2	0	2
Dash 8-100					0	0	0	-1
A-320					1	1	0	0
Total	15	4	9	8	37	22	15	2

Equity amounted to a total of USD 241.3 million at the end of the first quarter, and the equity ratio was 31%, up from the end of the first quarter of 2011, when it amounted to 30%. Although dividend payments were made in April they are accounted for in Q1 as they were approved on the Annual General Meeting in March. At year-end 2011 the equity ratio was 36%.

Interest-bearing debt amounted to USD 171.2 million, as compared to USD 196.9 million at the beginning of the year. Repayment of long-term borrowings in the first quarter amounted to USD 25.7 million; of that figure repayment in the amount of USD 14.6 million were made on loans that were not yet due.

Cash and marketable securities amounted to a total of USD 145.6 million at the end of the first quarter of 2012, as compared to USD 106.7 million at the beginning of the year. **Net interest-bearing debt** therefore amounted to USD 25.6 million at the end of the quarter, down by USD 64.6 million from the turn of the year.

USD thousands	31.03. 2012	31.12. 2011	Change
Non-current loans and borrowings	140,819	163,124	-22,305
Current loans and borrowings	30,334	33,744	-3,410
Marketable securities	-18,985	-27,284	8,299
Cash and cash equivalents	-126,580	-79,405	-47,175
Net interest bearing debt	25,588	90,179	-64,591

CASH FLOW

- | **Cash amounted to USD 126.6 million**
- | **Repayment of long-term borrowings amounted to USD 25.7 million**

USD thousand	Q1 2012	Q1 2011	Change
Working capital from / used in operations	2,457	-4,951	7,408
Net cash from operating activities	86,138	70,000	16,138
Net cash used in investing activities	-12,509	-52,529	40,020
Net cash used in financing activities	-25,714	9,078	-34,792
Increase in cash and cash equivalents	47,915	26,549	21,366
Cash and cash equivalents at 31 March	126,580	121,859	4,721

Net cash from operating activities in the first quarter amounted to USD 86.1 million, up by USD 16.1 million as compared to the first quarter of 2011. **Investments in operating assets** amounted to USD 21.0 million. Investments in one Boeing 757-200 aircraft and aircraft components amounted to USD 9.5 million, and in introduction cost for two Dash 8-200 aircraft totalled USD 2.5 million. Investments in engine hours amounted to USD 3.3 million over the period. **Investments in long-term expenses** amounted to USD 2.0 million, of which investments in leased engines amounted to USD 1.9 million. Repayment on long-term borrowings amounted to USD 25.7 over the quarter. Cash increased by USD 47.9 million over the quarter. The increase over the corresponding period last year amounted to USD 26.5 million.

OUTLOOK FOR ICELANDAIR GROUP HF.

- | **Continued organic growth**
- | **Updated assumptions indicate EBITDA in the range of USD 100-105 million in 2012**

The year got off to a good start, and the number of passengers increased significantly in the first three months. The seat load factor increased significantly, both on international flights and on regional flights. Icelandair Group will continue to focus on reducing the seasonal fluctuations in Icelandic tourist services with the aim of increasing still further the number of travellers outside the peak season.

In 2012, the 75th anniversary year of the Company, the most extensive flight schedule in its history will be in place. A new year-round destination, Denver, Colorado, will be added to the international route network, and at the same time the frequency of flights to various cities in the United States and Europe will increase. The number of destinations will be 31, and it is projected that the Company's passengers on international flights should number about 2 million over the year, which represents a 15% increase over 2011. The route network, which is based on three markets, the domestic market in Iceland, the tourist market to Iceland and the international market between Europe and North America, offers flexibility and opportunities to increase the seat capacity and number of passengers in excess of the average growth in this region of the world.

Our hotel operation is growing and Icelandair Group recently opened a new hotel, Icelandair Hotel Reykjavik Marina, with 108 rooms, and well situated by the harbour in downtown Reykjavik. Our regional flight operation which also operates flights to Greenland is improving its results and the capacity to Greenland will be increased during the year.

The position of the Company's fuel hedging at the end of March is illustrated in the table on the following page. The table shows that 32% of the projected use in April to December 2012 has been hedged through contracts. In addition to contractual hedging, the Company has defined the interaction

of EUR/USD and oil prices as an internal risk hedge. Thus, the Company assumes that the efficiency of natural fuel risk hedges will be 13% on the average in 2012.

2012	Estimated usage (tons)	Hedge and option contracts	Av. hedge price USD	% hedged	Option contracts*	Price ceiling USD
April	12,611	6,250	1,027	50%	0	-
May	15,958	7,200	1,040	45%	0	-
June	22,093	9,300	1,007	42%	4,000	1,150
July	23,957	9,800	1,064	41%	4,500	1,150
August	24,243	9,800	1,084	40%	4,500	1,150
September	18,229	7,200	1,078	39%	3,000	1,150
October	15,963	2,000	1,098	13%	0	-
November	13,648	0	-	0%	0	-
December	12,906	0	-	0%	0	-
Total	159,608	51,550	1,053	32%	16,000	1,150

* Included in the column "Hedge and option contracts"

The IATA report published last April indicates that 2012 will be a challenging year for airline operations in the world in spite of increased optimism regarding demand. Reduced profitability is assumed in the sector owing to the continued high fuel prices and uncertainty regarding price development. The Board of Directors of Icelandair Group is of the opinion that the Company is well positioned to face these challenging external circumstances owing to the flexibility of the Group's operations, its strong balance sheet and continued organic growth.

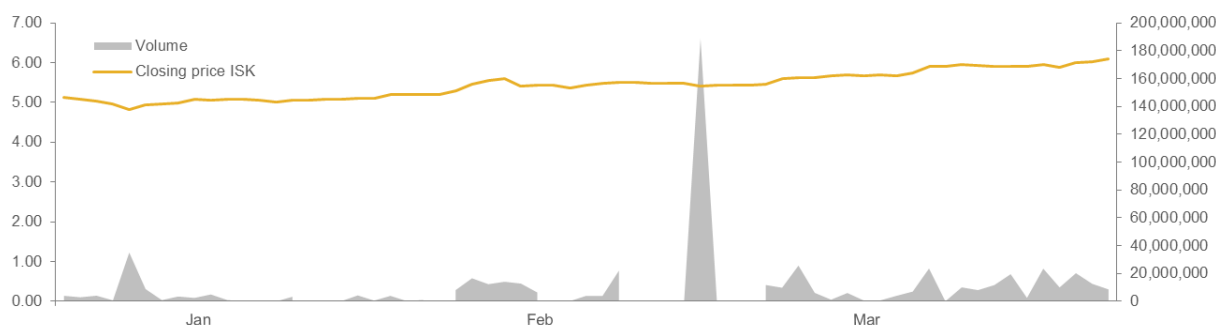
At the beginning of the year Icelandair Group issued an EBITDA forecast for 2012, which assumed an EBITDA of USD 90-98 million. Since then the trends in operating conditions have mostly been positive. Based on current assumptions, EBITDA for the year as a whole is now projected at USD 100-105 million. The assumptions for that forecast (for the period April – December) is a EUR/USD exchange rate of 1.30 and fuel prices of 1.080 (excluding hedging) per ton.

SHAREHOLDERS

- | **The price of Icelandair Group stock has increased by 21% since the turn of the year**
- | **Market value was at ISK 30.5 billion at the end of March 2012**

The market value of the Company was ISK 30.5 billion at the end of the first quarter of 2012. The closing price at the end of the quarter was ISK 6.10 per share. The highest closing price was ISK 6.10 per share, while the lowest was ISK 4.83 per share and the average closing price was ISK 5.43 per share. The number of issued shares on 31 March 2012 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 21% in the first quarter of 2012, and the number of shareholders at year-end was 1,354.

Share price and volume – trend in Q1 2012:



PRESENTATION MEETING ON 7 MAY 2012

An open presentation will be held on Monday 7 May 2012 at Icelandair Hotel Reykjavik Natura. Björgólfur Jóhannsson, President and CEO of Icelandair Group, 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.

APPROVAL OF THE QUARTERLY STATEMENT

The consolidated accounts of Icelandair Group for the first quarter report of 2012 were approved at a meeting of the Board of Directors on 4 May 2012.

FINANCIAL CALENDAR

- | 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 6, 2013

FOR FURTHER INFORMATION, PLEASE CONTACT:

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