

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2012

USD

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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 2012 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". The condensed consolidated Interim financial statements are stated in thousands of USD.

The Company's functional currency in previous years has been ISK. The transition of the functional currency from ISK to USD was made as of 1 January 2012, because of changes in the focus of the Company's operations and primary economic environment in which it operates. Due to increased international operations the significance of the USD in the Group's operation has increased and is currently recognized as its functional currency. Comparative figures for the previous year have been translated to USD using the conversion rate at year-end 2011.

According to the consolidated interim statement of comprehensive income, loss for the period from 1 January to 31 March amounted to USD 13.2 million. Total comprehensive expense for the period was USD 15.8 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 241.3 million, including share capital in the amount of USD 40.6 million. Reference is made to the notes to the consolidated interim financial 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 2012 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 Group for the three month period ended 31 March 2012, its assets, liabilities and consolidated financial position as at 31 March 2012 and its consolidated cash flows for the period then ended.

Further, in our opinion the condensed 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 2012 and confirm them by means of their signatures.

Reykjavík, 4 May 2012

Board of Directors:

Sigurður Helgason, Chairman of the Board

Úlfar Steindórsson

Herdís Dröfn Fjeldsted

Katrín Olga Jóhannesdóttir

Ásthildur M. Otharsdóttir

Magnús Magnússon

CEO:

Björgólfur Jóhannsson

Consolidated Interim Statement of Comprehensive Income

for the period from 1 January to 31 March 2012

	Notes	2012 1.1.-31.3	2011 1.1.-31.3 Translated*
Operating income			
Transport revenue	7	90.694	70.343
Aircraft and aircrew lease		30.411	31.876
Other operating revenue	7	36.593	28.426
		157.698	130.645
Operating expenses			
Salaries and other personnel expenses	8	43.137	38.475
Aircraft fuel		38.067	28.581
Aircraft and aircrew lease		18.559	18.173
Aircraft handling, landing and communication		10.788	9.502
Aircraft maintenance expenses		12.157	12.113
Other operating expenses	8	38.038	25.416
		160.746	132.260
Operating loss before depreciation and amortisation (EBITDA)		(3.048)	(1.615)
Depreciation and amortisation		(13.675)	(10.090)
Operating loss before net finance cost (EBIT)		(16.723)	(11.705)
Finance income		3.403	799
Finance costs		(3.264)	(4.258)
Net finance income (costs)	9	139	(3.459)
Share of (loss) profit of associates, net of tax		(43)	8
Loss before tax		(16.627)	(15.156)
Tax income		3.438	6.011
Loss for the period		(13.189)	(9.145)
Other comprehensive expenses			
Foreign currency translation differences of foreign operations		(1.579)	(522)
Foreign currency translation differences reclassified to profit or loss		(1.417)	0
Net loss on hedge of net investment in foreign operation, net of tax		(65)	(228)
Effective portion of changes in fair value of cash flow hedge, net of tax		491	2.553
Other comprehensive (loss) profit for the period		(2.570)	1.803
Total comprehensive expenses for the period		(15.759)	(7.342)

*See note 3b.

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

Consolidated Interim Statement of Comprehensive Income for the period from 1 January to 31 March 2012, contd.:

	2012	2011
	1.1.-31.3	1.1.-31.3
	Translated*	
Loss attributable to:		
Owners of the Company	(13.166)	(9.112)
Non-controlling interest	(23)	(33)
Loss for the period	<u>(13.189)</u>	<u>(9.145)</u>
Total Comprehensive expense attributable to:		
Owners of the Company	(15.725)	(7.309)
Non-controlling interest	(34)	(33)
Total comprehensive expenses for the period	<u>(15.759)</u>	<u>(7.342)</u>
Loss per share:		
Basic loss per share (USD)	(0,33)	(0,23)
Diluted loss per share (USD)	(0,33)	(0,23)

*See note 3b.

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

Consolidated Interim Statement of Financial Position

as at 31 March 2012

	Notes	31.3.2012	31.12.2011 Translated*
Assets			
Operating assets		279.183	276.175
Intangible assets and goodwill		178.080	176.664
Investments in associates		1.349	1.411
Long-term cost		5.649	6.207
Long-term receivables and deposits		19.616	22.610
Non-current assets		483.877	483.067
Inventories		15.783	15.081
Trade and other receivables		130.966	118.417
Marketable securities		18.985	27.284
Cash and cash equivalents		126.580	79.405
Assets classified as held for sale	6	4.078	6.485
Current assets		296.392	246.672
Total assets		780.269	729.739
Equity			
Share capital		40.576	40.576
Share premium		154.705	154.705
Reserves		28.988	31.558
Retained earnings		16.866	36.309
Equity attributable to equity holders of the Company		241.135	263.148
Non-controlling interest		203	237
Total equity		241.338	263.385
Liabilities			
Loans and borrowings	11	140.819	163.124
Other payables		28.444	27.178
Deferred tax liabilities		4.618	6.289
Non-current liabilities		173.881	196.591
Loans and borrowings	11	30.334	33.744
Trade and other payables		145.100	135.000
Deferred income		189.616	101.019
Current liabilities		365.050	269.763
Total liabilities		538.931	466.354
Total equity and liabilities		780.269	729.739

*See note 3b.

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

Consolidated Interim Statement of Changes in Equity for the period from 1 January to 31 March 2012

Attributable to equity holders of the Company

Translated* 1 January to 31 March 2011	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-con- trolling interest	Total equity
Equity 1.1.2011	40.576	155.085	35.783		231.444	228	231.672
Total comprehensive expense .			1.803	(9.112)	(7.309)	(33)	(7.342)
Cost of share capital increase ...		(380)			(380)		(380)
Equity 31.3.2011	<u>40.576</u>	<u>154.705</u>	<u>37.586</u>	<u>(9.112)</u>	<u>223.755</u>	<u>195</u>	<u>223.950</u>
1 January to 31 March 2012							
Equity 1.1.2012	40.576	154.705	31.558	36.309	263.148	237	263.385
Total comprehensive expense .			(2.570)	(13.166)	(15.736)	(34)	(15.770)
Dividend paid				(6.277)	(6.277)		(6.277)
Equity 31.3.2012	<u>40.576</u>	<u>154.705</u>	<u>28.988</u>	<u>16.866</u>	<u>241.135</u>	<u>203</u>	<u>241.338</u>

*See note 3b.

Information on changes in other reserves are provided in note 10.

Consolidated Interim Statement of Cash Flows for the three months ended 31 March 2012

	Notes	2012 1.1.-31.3	2011 1.1.-31.3 Translated*
Cash flows from operating activities			
Loss for the period		(13.189)	(9.145)
Adjustments for:			
Depreciation and amortisation		13.675	10.090
Other operating items	16	1.971	(5.896)
Working capital from operations		2.457	(4.951)
Net change in operating assets and liabilities	17	83.681	74.951
Net cash from operating activities		<u>86.138</u>	<u>70.000</u>
Cash flows used in investing activities:			
Acquisition of operating assets		(21.012)	(28.581)
Proceeds from the sale of operating assets		113	285
Acquisition of intangible assets		(98)	(261)
Cash of subsidiaries held for sale, change		0	106
Acquisition of long-term cost		(1.868)	(5.065)
Long-term receivables		2.704	(4.176)
Marketable securities		7.652	(14.837)
Net cash used in investing activities		<u>(12.509)</u>	<u>(52.529)</u>
Cash flows (used in) from financing activities:			
Proceeds from shares issued in prior year		0	21.215
Repayment of long term borrowings		(25.714)	(12.137)
Net cash (used in) from financing activities		<u>(25.714)</u>	<u>9.078</u>
Increase in cash and cash equivalents		47.915	26.549
Effect of exchange rate fluctuations on cash held		(740)	(24)
Cash and cash equivalents at beginning of the year		<u>79.405</u>	<u>95.334</u>
Cash and cash equivalents at 31 March		<u><u>126.580</u></u>	<u><u>121.859</u></u>
Investment and financing without cash flow effect:			
Sale of operating assets		4.950	5.612
Trade and other receivables		(4.950)	(5.612)
Dividend issued		(6.277)	0
Trade and other payables		6.277	0

Information on interest paid and received are provided in note 18.

The notes on pages 9 to 14 are an integral part of these interim consolidation 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 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group is primarily involved in the airline transportation and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

The Group's consolidated financial statements as at and for the year ended 31 December 2011 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 2011.

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 4 May 2012.

3. Basis of preparation and significant accounting policies

a. Statement of compliance

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 2011.

b. Functional and presentation currency

These condensed Consolidated Interim Financial Statements are presented in USD, which is the Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand.

The Company's functional currency in previous years has been ISK. The transition of the functional currency from ISK to USD was made as of 1 January 2012, because of changes in the focus of the Company's operations and primary economic environment in which it operates. Due to increased international operations the significance of the USD in the Group's operation has increased and is currently recognized as its functional currency. Comparative figures for the previous year have been translated to USD using the conversion rate at year-end 2011.

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 2011.

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.

A 30% share in Travel Service is defined as non-core operation and classified as held for sale.

Route network

Seven companies are categorised as being part of the Route Network: Icelandair, Icelandair Cargo, Loftleidir, Air Iceland, Icelandair Ground Services, Feria ehf. and Fjárvakur - Icelandair Shared Services.

Tourism services

Two companies are categorized as being part of the Tourism Services: Iceland Travel and Icelandair Hotels.

Information on reportable segments for the three months ended 31 March

	Route network		Tourism services		Total	
	2012	2011	2012	2011	2012	2011
External revenue	147.664	120.297	8.937	10.176	156.601	130.473
Inter-segment revenue	39.697	38.688	349	204	40.046	38.892
Segment revenue	<u>187.361</u>	<u>158.985</u>	<u>9.286</u>	<u>10.380</u>	<u>196.647</u>	<u>169.365</u>
Segment EBITDAR*	11.383	14.142	(371)	(602)	11.012	13.540
Segment EBITDA	<u>(1.272)</u>	<u>889</u>	<u>(1.900)</u>	<u>(1.891)</u>	<u>(3.172)</u>	<u>(1.002)</u>
Reportable segment (loss) profit before income tax	<u>(12.165)</u>	<u>(9.892)</u>	<u>(2.543)</u>	<u>(2.315)</u>	<u>(14.708)</u>	<u>(12.207)</u>
Segment assets	<u>653.793</u>	<u>525.248</u>	<u>20.958</u>	<u>19.984</u>	<u>674.751</u>	<u>545.232</u>

Reconciliation of reportable segment income

	2012	2011
Total loss for reportable segments	(14.708)	(12.207)
Unallocated amounts:		
Other corporate expenses	(1.876)	(2.957)
Share of (loss) profit of equity accounted investees	(43)	8
Consolidated loss before income tax	<u>(16.627)</u>	<u>(15.156)</u>

Other material items 31 March 2012

	Reportable segment totals	Adjust- ments	Consolid- ated totals
Segment EBITDAR*	11.012	124	11.136
Segment EBITDA	(3.172)	124	(3.048)

* EBITDAR means EBITDA before operating lease expences.

Notes, contd.:

6. Assets and liabilities classified as held for sale

At end of March 2012 assets held for sale consist of 30% share in Travel Service.

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

	31.3.2012	31.12.2011
Assets classified as held for sale		
Operating assets	0	2.407
Investments in other companies	4.078	4.078
	<u>4.078</u>	<u>6.485</u>

7. Operating income

Transport revenue is specified as follows:

	2012	2011
	1.1.-31.3	1.1.-31.3
Passengers	80.705	61.450
Cargo and mail	9.989	8.893
Total transport revenue	<u>90.694</u>	<u>70.343</u>

Other operating revenue is specified as follows:

Sale at airports and hotels	6.661	5.355
Revenue from tourism	11.367	6.616
Aircraft and cargo handling services	6.458	5.477
Maintenance and aircraft handling	3.628	3.231
Gain on sale of operating assets	2.550	2.384
Other operating revenue	5.929	5.363
Total other operating revenue	<u>36.593</u>	<u>28.426</u>

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	26.867	23.263
Salary-related expenses	8.716	7.757
Other personnel expenses	7.554	7.455
Total salaries and other personnel expenses	<u>43.137</u>	<u>38.475</u>

Other operating expenses are specified as follows:

Operating cost of real estates and fixtures	4.027	3.245
Communication	3.070	2.762
Advertising	5.575	4.637
Booking fee and commission expenses	7.566	6.148
Cost of goods sold	3.310	2.639
Customer services	2.016	1.910
Tourism expenses	5.129	2.389
Allowance for bad debt	1.442	(3.109)
Other operating expenses	5.903	4.795
Total other operating expenses	<u>38.038</u>	<u>25.416</u>

Notes, contd.:

9. Finance income and finance expense

Finance income and finance costs are specified as follows:

	2012	2011
	1.1.-31.3	1.1.-31.3
Interest income on bank deposits	203	179
Other interest income	728	620
Net foreign exchange gain	2.472	0
Finance income total	<u>3.403</u>	<u>799</u>
Interest expenses on loans and borrowings	3.104	3.091
Other interest expenses	160	440
Net foreign exchange loss	0	727
Finance costs total	<u>3.264</u>	<u>4.258</u>
Net finance income (costs)	<u>139</u>	<u>(3.459)</u>

10. Equity

Other reserves are specified as follows:

	Hedging	Translation	Total
	reserve	reserve	reserves
Equity 1.1.2011	(232)	36.015	35.783
Changes during the period	2.554	(751)	1.803
Equity 31.3.2011	<u>2.322</u>	<u>35.264</u>	<u>37.586</u>
Equity 1.1.2012	329	31.229	31.558
Changes during the period	492	(3.062)	(2.570)
Equity 31.3.2012	<u>821</u>	<u>28.167</u>	<u>28.988</u>

11. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	31.3.2012	31.12.2011
Non-current loans and borrowings are specified as follows:		
Secured bank loans	157.987	182.594
Unsecured bonds	13.166	14.274
	<u>171.153</u>	<u>196.868</u>
Current maturities	(30.334)	(33.744)
Total non-current loans and borrowings	<u>140.819</u>	<u>163.124</u>
Current loans and borrowings are specified as follows:		
Current maturities of non-current liabilities	30.334	33.744
Total current loans and borrowings	<u>30.334</u>	<u>33.744</u>
Total loans and borrowings	<u>171.153</u>	<u>196.868</u>

Notes, contd.:

12. Non-current loans and borrowings

Non-current loans and borrowings are specified as follows between currencies and indexation:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance 31.3.2012	Total remaining balance 31.12.2011
Secured bank loan	USD	4,1%	2013-2018	119.719	138.597
Secured bank loan	EUR	5,0%	2017	18.903	18.703
Secured bank loan	ISK	6,3%	2013-2017	18.403	24.299
Secured bank loan, indexed	ISK	6,3%	2012-2028	962	995
Unsecured bond issue, indexed	ISK	5,7%	2012-2023	13.166	14.274
Total interest-bearing liabilities				<u>171.153</u>	<u>196.868</u>

13. Contractual repayments of loans and borrowings

Contractual repayments of loans and borrowings are specified as follows:

	2012	2011
Repayments in 2012 (9 months)(2011: 12 months)	19.154	33.744
Repayments in 2013	31.586	42.210
Repayments in 2014	45.217	45.245
Repayments in 2015	15.793	15.816
Repayments in 2016	15.889	15.897
Subsequent repayments	43.514	43.956
Total loans and borrowings	<u>171.153</u>	<u>196.868</u>

14. Off-balance sheet items

As a lessee the Group has in place operating leases for 16 aircraft at the end of March 2012. The leases are for eleven 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 2012 the leases are payable as follows:

	Real estate	Aircraft	Other	Total 31.3.2012
In Q2-Q4 2012	8.680	32.977	2.162	43.819
In the year 2013	9.822	26.137	1.054	37.013
In the year 2014	9.676	11.462	682	21.820
In the year 2015	9.317	9.395	559	19.271
In the year 2016	8.963	1.890	529	11.382
Subsequent	86.868	0	529	87.397
Total	<u>133.326</u>	<u>81.861</u>	<u>5.515</u>	<u>220.702</u>

Notes, contd.:

15. Group entities

The Company holds eleven subsidiaries at the end of March 2012. Addition from last year is FERIA ehf., a company in Route network segment. The company started operation in January 2012. The subsidiaries included in the consolidated interim financial statements are specified as follows:

	Share
Route network:	
Air Iceland ehf.	100%
Fjárvakur - Icelandair Shared Services ehf.	100%
Feria ehf.	100%
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
IGS ehf.	100%
Loftleiðir - Icelandic ehf.	100%
Tourism services:	
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%
Other operation:	
A320 ehf.	100%
IceCap Ltd., Guernsey	100%

The subsidiaries further own 16 subsidiaries that are all included in the consolidated interim financial statements.

16. Statement of cash flows

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

	2012	2011
	1.1.-31.3	1.1.-31.3
Expensed long term cost	6.301	6.315
Exchange rate difference and indexation of liabilities and assets	1.615	1.011
Gain on sale of operating assets	(2.550)	(2.382)
Reversal of provision on assets held for sale	0	(4.821)
Share in profit of associates	43	(8)
Income tax	(3.438)	(6.011)
Total other operating items in the statement of cash flows	<u>1.971</u>	<u>(5.896)</u>

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

Inventories, increase	(702)	(424)
Trade and other receivables, increase	(8.223)	(3.532)
Trade and other payables, increase	4.009	6.827
Deferred income, increase	88.597	72.080
Net change in operating assets and liabilities in statement of cash flows	<u>83.681</u>	<u>74.951</u>

18. Additional cash flow information:

Interest paid	4.272	4.951
Interest received	1.284	791

19. Ratios

The Group's primary ratios are specified as follows:

	31.3.2012	31.12.2011
Current ratio	0,81	0,91
Equity ratio	0,31	0,36
Intrinsic value of share capital	5,95	6,49