

PROFITABLE ORGANIC GROWTH IN Q2 2012

- | EBITDA 28.8 million USD, increasing by USD 11.8 million between years
- | Increase in income 15% from the corresponding quarter of last year
- | Net cash from operations USD 72.2 million, as compared to USD 42.9 million in the preceding year
- | Equity ratio was 31%

USD thousand	Q2 2012	Q2 2011	Change	6M 2012	6M 2011	Chg. in %
Operating results						
Total income	234,395	204,153	30,242	392,093	334,798	57,295
EBITDAR	42,891	31,711	11,180	54,027	44,631	9,396
EBITDA	28,818	17,016	11,802	25,770	15,401	10,369
EBIT	14,514	5,075	9,439	-2,209	-6,630	4,421
EBT	17,811	3,683	14,128	1,184	-11,473	12,657
Profit / loss for the period	14,319	3,332	10,987	1,130	-5,813	6,943
Balance sheet						
Total assets	821,678	771,485	50,193	821,678	771,485	50,193
Total equity	253,692	224,633	29,059	253,692	224,633	29,059
Interest bearing debt	167,096	177,423	-10,327	167,096	177,423	-10,327
Net interest bearing debt	-21,994	27,504	-49,498	-21,994	27,504	-49,498
Cash flow						
Working capital from operations	38,429	25,198	13,231	40,886	20,247	20,639
Net cash from operating activities	72,214	42,890	29,324	158,352	112,890	45,462
Net cash used in investing activities	-16,826	-13,017	-3,809	-29,335	-65,546	36,211
Net cash used in / from financing activities	-10,214	-27,977	17,763	-35,928	-18,899	-17,029
Cash and cash equivalents end of period	172,135	123,812	48,323	172,135	123,812	48,323
Key Ratios						
Profit / loss per share USD Cent	0.36	0.09	300%	0.03	-0.14	121%
Equity per share	6.25	5.54	13%	6.25	5.54	13%
Equity ratio	31%	29%	2 ppt	31%	29%	2 ppt
Current ratio	0.84	0.91	-8%	0.84	0.91	-8%
CAPEX USD thousand	20,667	21,126	-429	43,675	55,032	-11,357
Transport revenue as % of total revenues	68%	64%	4.4 ppt	64%	60%	4.0 ppt
EBITDAR ratio	18.3%	15.5%	2.8 ppt	13.8%	13.3%	0.4 ppt
EBITDA ratio	12.3%	8.3%	4.0 ppt	6.6%	4.6%	2.0 ppt
Share information ISK						
Highest price in period	6.66	4.98	34%	6.66	4.98	34%
Lowest price in period	6.10	4.27	43%	4.83	3.09	56%
Price at period end	6.61	4.98	33%	6.61	4.98	33%
Market Cap at period end (millions)	33,050	24,900	33%	33,050	24,900	33%

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

BJÖRGÓLFUR JÓHANSSON, PRESIDENT AND CEO

“The results from the Company operations in the second quarter was good, and considerably better than in the same period of 2011. The quarter was characterised by profitable organic growth, particularly in the Company’s international flight operations. The number of passengers grew significantly, especially in the market between Europe and North America. There was also significant growth in the tourist market to Iceland, with a resulting positive impact on the Group’s operations and on the entire tourist industry in Iceland.

The Company’s operations have never before been as extensive, and a number of factors have to come together perfectly in order to achieve the results we are reaping now. There is good reason to thank our close-knit and dedicated staff for the success.

The results of operations in the first half of the year exceeded the Company’s projections, and the prospects for the second half of the year are positive. Based on current assumptions, we are projecting EBITDA for the year in the range of USD 110-115 million, which exceeds our previous forecasts.”

TRANSPORT FIGURES

- | **Passengers on international flights in the second quarter were 548 thousand, increasing in number by 18%**
- | **The load factor was 82.2%, the highest second-quarter load factor of any year**
- | **The number of sold block hours on charter flights was reduced between years following a reduction in the cargo fleet by one aircraft.**

	Q2 2012	Change	6M 2012	Change
INTERNATIONAL FLIGHTS				
Number of passengers ('000)	548.0	18%	852.9	18%
Load factor (%)	82.2	2.7 ppt	79.7	3.4 ppt
Available seat kilometers (ASK'000)	1,910	17%	3,009	14%
REGIONAL- AND GREENLAND FLIGHTS				
Number of passengers ('000)	91.9	3%	172.4	4%
Load factor (%)	70.0	1.9 ppt	70.3	1.8 ppt
Available seat kilometers (ASK'000)	45,079	-2%	80,895	0%
CHARTER FLIGHTS				
Fleet Utilization (%)	94.8	0.5 ppt	90.7	-4.0 ppt
Sold Block Hours	7,808	-15%	15,920	-10%
CARGO				
Available Tonne Kilometers (ATK'000)	47,169	10%	83,862	10%
Freight Tonne Kilometers (FTK'000)	23,115	28%	45,246	23%
HOTELS				
Available Hotel Room Nights	75,788	20%	129,870	17%
Sold Hotel Room Nights	54,533	23%	87,953	27%
Utilization of Hotel Rooms (%)	72.0	1.9 ppt	67.7	5.2 ppt

Icelandair’s seating capacity on international flights increased by 17% between years in the second quarter, while the number of passengers increased by 18% over the same period. The increase in passenger numbers was felt in all markets, but the greatest increase was in the market between Europe and North America, at 28% between years. Passengers in this market accounted for 43% of

the Company's total passengers transported in the quarter. The Company's 82.2% passenger load factor was the highest second-quarter figure in the Company's history, representing an increase of 2.7 percentage points from the preceding year.

Passengers on domestic flights and Greenland flights numbered just short of 92 thousand over the quarter, increasing by 3% from the corresponding period of the preceding year. The load factor was 70.0%, up by 1.9 percentage points between years. Fleet utilisation in charter projects increased by 0.5 percentage points, amounting to 94.8%. The number of sold block hours on charter flights decreased by 15% between years, as the number of aircraft in the cargo fleet was reduced by one from the corresponding quarter of last year. The number of sold hotel room nights increased by 23% in the second quarter. The utilisation of hotel rooms was 72.0%, up by 1.9 percentage points from the same quarter of last year.

SECOND QUARTER OPERATIONS

EBITDA was positive by USD 28.8 million in the second quarter, increasing by USD 11.8 million from the corresponding quarter of 2011. The **EBITDA ratio** rose to 12.3%, from 8.3% in the second quarter of 2011. The improvement is mainly a result of profitable organic growth, especially in international flight operations. **EBIT** was USD 14.5 million, as compared to USD 5.1 million at the same time last year. **Profit after taxes** amounted to USD 14.3 million, as compared to a profit of USD 3.3 million in the corresponding period of 2011.

USD thousand	Q2 2012	Q2 2011	Change
EBITDAR	42,891	31,711	11,180
EBITDA	28,818	17,016	11,802
EBIT	14,514	5,075	9,439
EBT	17,811	3,683	14,128
Profit for the period	14,319	3,332	10,987
EBITDAR %	18.3%	15.5%	2.8 ppt
EBITDA %	12.3%	8.3%	4.0 ppt

INCOME

- | **Total income was 15% in excess of the second quarter of 2011**
- | **Passenger revenues increased by 24% between years**
- | **The rise in the number of tourists to Iceland increased income from tourist-related services**

USD thousand	Q2 2012	Q2 2011	Change
Transport revenue	161,295	130,885	30,410
Aircraft and aircrew lease	29,106	37,645	-8,539
Other operating revenue	43,994	35,623	8,371
Total	234,395	204,153	30,242

Transport revenue increased by USD 30.4 million, or 23%; passenger revenue increased by ISK 29.5 billion, or 24%. Passenger numbers increased significantly over the quarter, with the increase in Icelandair's international flights at 18% and in domestic flights at 3%. **Charter revenue** fell by USD 8.5 million. The number of cargo aircraft in the fleet was reduced by one this year, as compared to last year, which accounts to a large extent for the reduction. **Other operating revenue** increased by USD 8.4 million, or 27%, in comparison with the second quarter of 2011; of this figure, tourist income increased by USD 3.6 million.

EXPENSES

- | Total expenses increased by USD 18.4 million
- | Cost increases largely a result of the increased capacity

USD thousand	Q2 2012	Q2 2011	Change
Salaries and other personnel expenses	52,760	50,112	2,648
Aircraft fuel	58,693	48,442	10,251
Aircraft and aircrew lease	19,738	23,369	-3,631
Aircraft handling, landing and navigation	17,488	15,898	1,590
Aircraft maintenance expenses	12,541	15,077	-2,536
Other operating expenses	44,357	34,238	10,119
Total	205,577	187,137	18,440

Salaries and other personnel expenses increased by ISK 2.6 billion, or 5%, in comparison with the second quarter of 2011, mostly owing to an increase in the scope of operations and the impact of contractual wage increases.

Fuel cost increased by USD 10.3 million, which represents an increase of 21% from the preceding year. The greatest proportion of the deviation resulted from larger flight schedule, or USD 8.8 million. The world market price of fuel decreased between years in the second quarter. The average price was USD 995/ton in the second quarter of this year, as compared to USD 1.059/ton in the second quarter of 2011.

Aircraft and aircrew lease decreased by USD 3.6 million in comparison with the second quarter of 2011, or by 17%. One of the reasons for the decrease is the purchase by the Company of two Boeing 757 200 at the end of 2011, which were previously held on long-term lease contracts and one cargo aircraft redelivered in the first quarter of the year.

Aircraft handling, landing and communication expenses increased by USD 1.6 million between years, or 10%, as a result of the increase in capacity and general price hikes. Maintenance expense amounted to USD 12.5 million, down by USD 2.5 million between years. **Other operating expense** amounted to USD 44.4 million, increasing by USD 10.1 million between years. Of this figure, USD 5.6 million are a result of the purchase of various tourist services required by the increase in the number of tourists in Iceland, together with items relating to increased passenger revenues, such as booking fees, credit card fees and agents' fees.

FINANCIALS

- | Financial items were positive by USD 3.3 million
- | The currency effect was positive by USD 5.0 million

USD thousand	Q2 2012	Q2 2011	Change
Interest income	639	2,849	-2,210
Interest expenses	-2,286	-3,908	1,622
Currency effect	4,964	-407	5,371
Net finance cost	3,317	-1,466	4,783

Financial income amounted to USD 0.6 million, USD 2.2 million below the level of the second quarter of 2011. The difference is a result of a one-off income item in the amount of USD 2.1 million. Financial expenses in the second quarter amounted to USD 2.3 million, down by USD 1.6 million between years. The currency effect for the quarter was positive, amounting to just short of USD 5.0 million, mostly as a result of the weakening of the EUR against the USD.

BALANCE SHEET AND FINANCIAL POSITION

- | Total assets amounted to USD 821.7 million at the end of the second quarter
- | Equity ratio was 31%

USD thousand	30.06. 2012	30.06. 2011	Change	31.12. 2011
Total assets	821,678	771,485	50,193	729,739
Equity ratio	31%	29%	1.9 ppt	36%
Interest bearing debt	167,096	177,423	-10,327	196,868
Net interest bearing debt	-21,994	27,504	-49,498	90,179
Cash, cash equivalents and marketable securities	189,090	149,918	39,172	106,689
Current ratio	0.84	0.91	-8%	0.91

Operating assets amounted to USD 287.7 million, increasing by USD 11.6 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. The table below provides an overview of the Company's aircraft at the end of the second quarter.

Aircraft type	Icelandair	Icelandair Cargo	Loftleidir	Air Iceland	Total fleet 30.06.12	Owned aircraft	Leased aircraft	Ch. from 31.12.11
B757 200	15	4	3		22	13	9	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	16	4	8	8	37	23	14	2

As the overview shows, Icelandair and Icelandair Cargo exclusively use Boeing 757 aircraft, which have served the Group extremely well, as if they had been tailored to the Company's business model. Work has been in progress recently on a long-term strategy for the Company's fleet. The work has been done in close co-operation with the manufactures Airbus and Boeing in analysing the options available. The development by other aircraft manufactures is also being monitored. A decision on the Company's future fleet is scheduled in near future, with the following options currently under consideration:

- | Single fleet of Boeing 757 until 2022
- | Mixed fleet of Boeing 757 aircraft and smaller aircraft

Equity amounted to USD 253.7 million at the end of the second quarter, and the equity ratio was 31%, increasing from the end of the second quarter of 2011, when it stood at 29%. At year-end 2011 the equity ratio was 36%. Dividends paid in the quarter amounted to USD 6.3 million, or USD 0.16 per share.

Interest-bearing debt amounted to USD 167.1 million, as compared to USD 196.9 million at the beginning of the year. Payments on long-term debts in the second quarter amounted to USD 3.9 million.

Cash and marketable securities amounted to a total of USD 189.1 million at the end of the second quarter of 2012, as compared to USD 106.7 million at the beginning of the year.

CASH FLOW AND INVESTMENTS

- | **Net cash from operations USD 72.2 million**
- | **Payments on long-term loans amounted to USD 3.9 million**

USD thousand	Q2 12	Q2 11	Change
Working capital from operations	38,429	25,198	13,231
Net cash from operating activities	72,214	42,890	29,324
Net cash used in investing activities	-16,826	-13,017	-3,809
Net cash used in financing activities	-10,214	-27,977	17,763
Cash and cash equivalents, change	45,555	1,953	43,602

Net cash from operating activities in the second quarter amounted to USD 72.2 million, up by USD 29.3 million as compared to the second quarter of 2011. **Investments in operating assets** amounted to USD 16.7 million; of that figure, investments in aircraft and aircraft components amounted to USD 10.0 million, and investment in engine hours amounted to USD 4.0 million. **Investments in long-term expenses** amounted to USD 3.7 million, all in leased engines. **Investments in intangible assets** amounted to USD 0.3 million. **Payments on long-term loans** amounted to USD 3.9 over the quarter. **Cash** increased by USD 45.6 million over the quarter. The increase over the corresponding period last year was USD 2.0 million.

OUTLOOK FOR ICELANDAIR GROUP HF.

- | **Continued organic growth in the second half of the year**
- | **Updated assumptions indicate EBITDA in the range of USD 110-115 million in 2012**

Generally reduced profitability is anticipated in airline operations as a result of negative global economic prospects and persisting high fuel prices. Icelandair Group's largest market areas are Europe and North America. The economic situation in the Euro Area is unstable, and there is uncertainty regarding trends in demand and the resulting impact on average air fares. The outlook in North America is more positive and profitability is not expected to be as affected. Icelandair Group is well positioned to face these challenging external circumstances, thanks to its market position, the flexibility of the Group's operations, its strong balance sheet and continued organic growth.

The booking status for international flights is strong for the second half of the year and in line with our plans for continued growth. Owing to the great demand, the Company's flight schedule has been considerably enlarged in the fourth quarter from the original plans at the beginning of the year. The outlook in freight carriage has been improving. Our plans also assume a strong tourist market to Iceland in the second half of the year, with positive implications on the tourist industry.

The position of the Company's fuel hedging at the end of June is illustrated in the table below. The table shows that 39% of the projected use in July to December 2012 has been hedged through contracts. In addition to contractual hedging, the Company has defined the interaction of EUR/USD 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*
July	23,953	11,800	1,066	49%	4,500	1,150
August	23,928	11,800	1,068	49%	4,500	1,150
September	18,790	9,200	1,015	49%	3,000	1,150
October	16,749	5,000	1,050	30%	0	-
November	13,648	3,000	1,013	22%	0	-
December	12,909	2,000	1,006	15%	0	-
Total	109,977	42,800	1,053	39%	12,000	-

* included in „Hedge and option contracts“

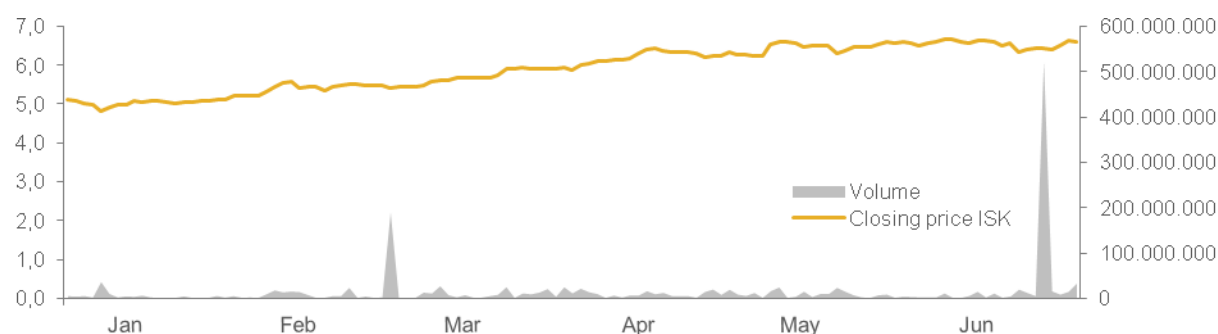
The Board of Directors of Icelandair Group is currently working on the assumption that operations will continue successful for the remainder of the year and that EBITDA for the year as a whole will be in the range of USD 110-115 million. This projection assumes an average exchange rate between the EUR and USD of 1.25 in July – December. The assessment of fuel cost is based on the actual price of jet fuel in July, an average price (without account of hedges) of USD 950/ton in August and USD 1000/ton in September – December.

SHAREHOLDERS

- | **The market value of the Company at the end of June was ISK 33.0 billion**
- | **The Company's share price in the second quarter rose by 8%**

The market value of the Company was ISK 33.0 billion at the end of the second quarter of 2012. The closing price at the end of the quarter was ISK 6.61 per share. The highest closing price was ISK 6.66 per share, while the lowest was ISK 6.10 per share and the average closing price over the period was ISK 6.43 per share. The number of issued shares on 30 June 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 29% in the first six months of 2012, and the number of shareholders at the end of June was 1,420.

Share price and volume – trend in the first six months of 2012:



PRESENTATION MEETING ON 10 AUGUST 2012

An open presentation for shareholders and other stakeholders will be held on Friday 10 August 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 other senior management. The presentation will begin at 17:00 p.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 second quarter of 2012 were approved at a meeting of the Board of Directors on 10 August 2012. The interim financial statement was reviewed by KPMG hf.

FINANCIAL CALENDAR

- | 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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