

OPERATIONAL RESULTS IN 2012 THE BEST EVER

- | Earnings before taxes USD 57.4 million, up by USD 28.9 million between years
- | Increase in income between years was 14%
- | Fourth quarter EBITDA at USD 5.9 million, up by USD 7.0 million between years
- | Equity ratio 39% at year-end 2012, up from 36% at year-end 2011
- | Net interest-bearing debts reduced by USK 72.1, million down to USD 18.1 million at year-end
- | The Board of Directors proposes a dividend of ISK 1.5 billion to shareholders in 2013

USD thousands	Q4 2012	Q4 2011	Change	12M 2012	12M 2011	Change
Operating results						
Total income	189,422	163,296	26,126	898,866	790,653	108,213
EBITDAR	19,080	13,613	5,467	165,772	144,788	20,984
EBITDA	5,937	-1,052	6,989	109,646	84,935	24,711
EBIT	-8,151	-12,536	4,385	50,787	38,622	12,165
EBT	-8,493	-14,098	5,605	57,448	28,545	28,903
Profit for the period	-8,217	-1,634	-6,583	44,275	36,310	7,965
Balance sheet						
Total assets	-	-	-	762,895	729,739	33,156
Total equity	-	-	-	295,932	263,385	32,547
Interest bearing debt	-	-	-	150,906	196,868	-45,962
Net interest bearing debt	-	-	-	18,112	90,179	-72,067
Cash flow						
Working capital from operations	10,833	5,816	5,017	141,490	102,292	39,198
Net cash from operating activities	-1,715	9,730	-11,445	166,743	117,341	49,402
Net cash used in investing activities	-25,652	-23,719	-1,933	-76,476	-106,175	29,699
Net cash used in / from financing activities	-6,124	10,612	-16,736	-51,453	-27,602	-23,851
Cash and cash equivalents end of period	-	-	-	117,060	79,405	37,655
Key Ratios						
Profit per share USD Cent	-0.17	-0.04	-0.13	0.89	0.73	0.16
Equity per share	-	-	-	7.29	6.49	0.80
Equity ratio	-	-	-	39%	36%	3 ppt
Current ratio	-	-	-	0.94	0.91	3%
CAPEX USD thousand	25,260	48,451	-48%	95,874	125,008	-23%
Transport revenue as % of total revenues	65%	62%	3 ppt	67%	64%	3 ppt
EBITDAR ratio	10%	8%	2 ppt	18%	18%	0 ppt
EBITDA ratio	3%	-1%	4 ppt	12%	11%	1 ppt
Share information ISK						
Highest price in period	8.24	5.84	41%	8.24	5.84	41%
Lowest price in period	7.00	4.81	46%	4.83	3.09	56%
Price at period end	-	-	-	8.22	5.03	63%
Market Cap at period end (millions)	-	-	-	41,100	25,150	63%

Comparative figures for the previous year have been translated into USD at the 2011 year-end exchange rate of ISK 122.6.

BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO

“Icelandair Group's operational performance in 2012 was the best in the Company's history. The year was characterised by profitable organic growth, and the operation of the Company's largest business units was successful. Earnings before taxes amounted to USD 57.4 million, as compared to USD 28.5 in the preceding year. It is apparent that the Company's clear strategy with focus on the core business and the dedication of our staff are the key to these excellent results.

Fourth quarter operations were good, with EBITDA at USD 5.9 million, increasing between years by USD 7.0 million. The capacity on international flights was increased by 26% from the fourth quarter of last year, and at the same time the number of passengers increased by 21%. The increase was greatest on North-Atlantic flights, as it has been over the course of the year. It was extremely satisfying to watch the number of our passengers grow by 24% in fourth quarter, as an increase of this magnitude is crucially important for Icelandic tourist industry in the wintertime. This trend is consistent with our strategy of reducing still further the seasonal fluctuations in Icelandic tourism and developing Iceland as a year-round destination.

At the end of 2012 the Company's balance sheet is strong and its liquidity position is good. Equity stands at USD 295.9 million and the equity ratio at 39%. Cash and marketable securities have increased by USD 26.1 million from the beginning of the year, and now amount to ISK 132.8 million. The Company is therefore in good shape for continued profitable organic growth.

Prospects in the Company's operations are favourable, and our estimates project EBITDA in the range of USD 115-120 million in 2013.”

TRANSPORT FIGURES

- | **Passengers on international flights in the fourth quarter were 423 thousand, increasing in number by 21%.**
- | **The passenger load factor was 76.7%, down by 1.2 percentage points between years.**

	Q4 2012	Change	2012	Change
INTERNATIONAL FLIGHTS				
Number of passengers ('000)	422.5	21%	2,020.4	16%
Load factor (%)	76.7	-1.2 ppt	80.6	1.4 ppt
Available seat kilometers (ASK'000)	1,603.9	26%	7,175.8	16%
REGIONAL- AND GREENLAND FLIGHTS				
Number of passengers ('000)	76.7	-4%	342.8	-1%
Load factor (%)	72.1	6.4 ppt	69.2	0.7 ppt
Available seat kilometers (ASK'000)	34.0	-12%	177.8	-1%
CHARTER FLIGHTS				
Fleet Utilization (%)	88.2	-9.1 ppt	91.3	-2.2 ppt
Sold Block Hours	7,095	-10%	31,104	-10%
CARGO				
Available tonne kilometers (ATK'000)	43,111	10%	181,902	8%
Freight tonne kilometers (FTK'000)	23,170	6%	89,381	15%
HOTELS				
Available hotel room nights	68,086	26%	294,240	16%
Sold hotel room nights	39,800	35%	210,114	22%
Utilization of hotel rooms (%)	58.5	4.1 ppt	71.4	3.5 ppt

Capacity on international flights increased by 26% between years in the fourth quarter, and number of passengers increased by 21% over the same period. The increase in passenger numbers was greatest in the market between Europe and North America, at 40%. The N-Atlantic market is the Company's largest market, with N-Atlantic routes accounting for 38% of the total passenger number. The passenger load factor was 76.7%, down by 1.2 percentage points from the preceding year.

Passengers on regional flights and Greenland flights numbered approximately 77 thousand over the quarter, down by 4% from the corresponding quarter of last year. Capacity was reduced by 12%, and the passenger load factor was 72.1%, up by 6.4 percentage points between years. Fleet utilisation in charter projects was down by 9.1 percentage points, amounting to 88.2%. The number of sold block hours on charter flights over the quarter decreased by 10% between years. The number of aircraft in the cargo fleet was reduced by one from the preceding year, and the utilisation of leased aircraft was also reduced for reasons of maintenance. The number of sold hotel room nights increased by 35% in the fourth quarter. The utilisation of hotel rooms was 58.5%, up by 4.1 percentage points from the corresponding quarter of last year.

FOURTH-QUARTER OPERATIONS

EBITDA was positive by USD 5.9 million in the fourth quarter, increasing by USD 7.0 million from the corresponding quarter of 2011. The **EBITDA ratio** rose to 3.1%, as compared to a negative result of 0.6% in the fourth quarter of 2011. **EBIT** was negative by USD 8.2 million, as compared to a negative result of USD 12.5 million over the same period last year. **Loss after taxes** amounted to USD 8.2 million, as compared to a loss of USD 1.6 million in the corresponding period of 2011.

USD thousand	Q4 2012	Q4 2011	Change
EBITDAR	19,080	13,613	5,467
EBITDA	5,937	-1,052	6,989
EBIT	-8,151	-12,536	4,385
EBT	-8,493	-14,098	5,605
Profit / loss for the period	-8,217	-1,634	-6,583
EBITDAR %	10%	8%	2 ppt
EBITDA %	3%	-1%	4 ppt

INCOME

- | **Total income was 16% in excess of 2011**
- | **Passenger revenues increased by 22% between years**

USD thousand	Q4 2012	Q4 2011	Change	Ch. in %
Transport revenue	123,657	101,027	22,630	22%
Aircraft and aircrew lease	30,158	33,189	-3,031	-9%
Other operating revenue	35,607	29,080	6,527	22%
Total	189,422	163,296	26,126	16%

Transport revenue increased by USD 22.6 million, or 22% between years. **Charter revenue** fell by USD 3.0 million, or 9%. The reason is the decrease in charter projects between years in the fourth quarter. **Other operating revenue** increased by USD 6.5 million, or 22%, in comparison with the fourth quarter of 2011; mostly as a result of increased revenue from tourist-related services.

EXPENSES

- | **Total expenses increased by USD 19.1 million**
- | **Cost increases mostly a result of increased capacity on international flights**

USD thousand	Q4 2012	Q4 2011	Change	Ch. in %
Salaries and other personnel expenses	53,400	48,989	4,411	9%
Aircraft fuel	49,500	39,266	10,234	26%
Aircraft and aircrew lease	17,304	18,727	-1,423	-8%
Aircraft handling, landing and communication	13,754	11,492	2,262	20%
Aircraft maintenance expenses	13,535	14,526	-991	-7%
Other operating expenses	35,992	31,348	4,644	15%
Total	183,485	164,348	19,137	12%

Salaries and other personnel expenses increased by USD 4.4 million, or 9%, in comparison with the fourth quarter of 2011. The differences are largely explained by increased capacity on international flights and the impact of contractual wage increases.

Fuel cost increased by USD 10.2 million, which represents an increase of 26% from the corresponding period of last year. The difference is explained by the increase in production between

years. The world market price of fuel increased slightly between years. The average price in the fourth quarter of 2011 was USD 1,011/ton, as compared to USD 1,025/ton at the corresponding time last year.

Aircraft and aircrew lease decreased by USD 1.4 million, as compared to the fourth quarter of 2011, or 8%. The Company bought two Boeing 757-200 aircraft at the end of 2011, and one Boeing 757-200 at the close of the first quarter of 2012, which were all previously held on long-term lease contracts. One Boeing 757-200 cargo aircraft was returned in the first half of the year.

Aircraft handling, landing and communication expenses amounted to USD 13.8 million, increasing by USD 2.3 million between years, or 20%, as a result of the increase in capacity and general price hikes.

Maintenance expenses amounted to USD 13.5 million, down by USD 1.0 million between years.

Other operating expenses amounted to USD 36.0 million, increasing by USD 4.6 million between years. The increase is mostly a result of contracted services required by the Company because of the increase in the number of tourists to Iceland and items relating to increased sales, such as booking fees, credit card fees and agents' costs.

FINANCIALS

| **Net finance cost amounted to USD 0.2 million**

| **The currency effect was positive by USD 1.7 million**

USD thousand	Q4 2012	Q4 2011	Change
Interest income	978	2,079	-1,101
Interest expenses	-2,843	-2,188	-655
Currency effect	1,669	-1,249	2,918
Net finance cost	-196	-1,358	1,162

Financial income amounted to USD 1.0 million, USD 1.1 million below the level of the fourth quarter of 2011. **Financial expenses** in the fourth quarter amounted to USD 2.8 million, up by USD 0.6 million between years. The **currency effect** for the quarter was positive, amounting to USD 1.7 million, a result of the fluctuations of the Company's principal business currencies against the USD.

BALANCE SHEET AND FINANCIAL POSITION

| **Total assets amounted to USD 762.9 million at the end of 2012**

| **Equity ratio was 39%**

USD thousand	31.12.2012	31.12. 2011	Change
Total assets	762,895	729,739	33,156
Total equity	295,932	263,385	32,547
Interest bearing debt	150,906	196,868	-45,962
Net interest bearing debt	18,112	90,179	-72,067
Cash and marketable securities	132,794	106,689	26,105
Equity ratio	39%	36%	3 ppt
Current ratio	0.94	0.91	3%

Operating assets amounted to USD 283.0 million, increasing by USD 6.8 million from the beginning of the year. The Company's largest asset is its fleet of aircraft, which is discussed further under the heading "Fleet of aircraft".

Equity amounted to USD 295.9 million at the end of 2012, and the equity ratio was 39%, up from the end of 2011, when it stood at 36%.

Interest-bearing debt amounted to USD 150.9 million, as compared to USD 196.9 million at year-end 2011. Payments on long-term debts in the fourth quarter amounted to USD 6.1 million. Payments on long-term debts in all of 2012 amounted to a total of USD 45.1 million.

Cash and marketable securities amounted to a total of USD 132.8 million at year-end 2012, as compared to USD 106.7 million at year-end 2011. Net interest-bearing debt stood at USD 18.1 million at year-end 2012, down by USD 72.1 million from year-end 2011.

USD thousand	31.12.2012	31.12. 2011	Change
Loans and borrowings non-current	119,358	163,124	-43,766
Loans and borrowings current	31,548	33,744	-2,196
Marketable securities	15,734	27,284	-11,550
Cash and cash equivalents	117,060	79,405	37,655
Net interest bearing debt	18,112	90,179	-72,067

CASH FLOW AND INVESTMENTS

- | **Net cash from operations in 2012 USD was 166.7 million**
- | **Strong cash position**
- | **Cash and cash equivalents at year-end 2012 USD was 117.1 million**

USD thousand	Q4 2012	Change	12M 2012	Change
Working capital from operations	10,833	5,017	141,490	39,198
Net cash from/used in operating activities	-1,715	-11,446	166,743	49,402
Net cash used in investing activities	-25,652	-1,933	-76,476	29,699
Net cash used in financing activities	-6,124	-16,736	-51,453	-23,851
Cash and cash equivalents, change	-33,491	-30,114	38,814	55,250
Cash and cash equivalents, 31.12.2012	-	-	117,060	37,655

Net cash used in operating activities in the fourth quarter amounted to USD 1.7 million. **Net cash from operating activities** in 2012 amounted to USD 166.7 million, up by USD 49.4 million as compared to 2011. The cash position of the year improved by USD 37.6 million, and net cash at year-end stood at USD 117.1 million.

Investments in the fourth quarter of 2012 amounted to USD 25.3 million, and investments over the year amounted to USD 95.9 million. Thereof amounted investments excluding changes in cash to USD 4.0 million. The table below provides an overview of the Company's principal investments.

USD thousand	Q4 2012	12M 2012
Operating assets		
Aircraft and aircraft components	12,857	44,667
Overhaul own aircraft	3,368	12,292
Other	2,046	9,570
Long term cost		
Overhaul leased aircraft	5,589	26,848
Intangible assets	1,400	2,497
Total Capex	25,260	95,874

FLEET

- | **Fleet of 39 aircraft at year-end 2012**
- | **Letter of intent signed on purchase of twelve 737 MAX8 AND MAX9 aircraft and option on twelve additional aircraft**
- | **Continued use of Boeing 757-200 aircraft on international flights with new fleet**

At year-end 2012, Icelandair Group's fleet comprised 39 aircraft. Of these aircraft 24 were owned by the Company and 15 were leased. The table below provides an overview of the Company's fleet of aircraft:

Type	Icelandair	Cargo	Loftleidir	Air Iceland	Group fleet 31.12.12	Group fleet 31.12.11	Of which own	Of which leased	Ch. As of 31.12.11
B757 200	16	4	3		23	21	14	9	4
B757 300	1				1	1	1	0	0
B767 300			5		5	5	0	5	-1
B737 800			1		1		0	1	1
Fokker F-50				6	6	6	6	0	0
Dash 8-200				2	2	0	2	0	2
Dash 8-100					0	1	0	0	-1
A-320					1	1	1	0	0
Total	17	4	9	8	39	35	24	15	5

In December 2012 the Company signed a letter of intent on the order of twelve 737 MAX8 and 737 MAX9 aircraft, with an option to buy an additional twelve aircraft. These are new types of aircraft, with the first of them expected to become operational in 2017. Icelandair Group will take delivery of the first aircraft early 2018, in just over five years' time. The order was for eight 737 MAX8 aircraft, with a seating capacity of 153 passengers, and four 737 MAX9 aircraft, with a seating capacity of 172 passengers. For comparison, Icelandair's Boeing 757-200 aircraft will seat 183 passengers.

The Boeing 737 MAX aircraft are a new and improved version of the current Boeing 737 aircraft. They will be fitted with new and more economical engines, which will reduce fuel consumption by 20% per seat in comparison with the Boeing 757-200 aircraft currently used on the Company's international routes.

Boeing 757 aircraft will continue to be used on international routes together with the new aircraft, as they have proven extremely well suited for the route network extending to Europe and North America. The new aircraft will enlarge the fleet and improve both flexibility and the potential for further growth. Their range will permit them to fly to destinations in both North America and Europe, opening new possibilities for increased flight frequency and an increased number of destinations, particularly in the wintertime, which will reduce the seasonal fluctuations in the Company's operations.

OUTLOOK FOR ICELANDAIR GROUP HF.

- | **EBITDA forecast for 2013 in the range of USD 115-120 million**
- | **Continued organic growth**

The prospects for Icelandair Group's operations are good. Continued organic growth is projected in 2013, with a 15% larger international flight schedule than in 2012. The growth is projected to be proportionally greater over the winter months than in the summer, which is in line with the Company's strategy of levelling seasonal fluctuations and developing Iceland as a year-round destination.

The number of passengers on international flights in 2013 is projected at 2.3 million in 2013, as compared to just over 2 million in 2012. The booking status for the coming months is in line with the growth plan. It is projected that the greatest increase in the number of passengers flying with the Company will be on the route across the North Atlantic, but the number of passengers to Iceland is expected to grow as well.

The principal driving force in Icelandair Group's operations is its international route network. An increase in capacity and in the number of passengers in the route network impact's the Company's other business activities, whether hotel operations, services to tourists in Iceland, ground handling services or international freight carriage, so the Company is anticipating growth in all of these companies.

The Company's regional flight operations are enduring a challenging operating environment owing to the steep rises in public levies in Iceland in recent years. The increases have been onerous and resulted in reduced demand. The reduction in demand has been met by a reduction in capacity. For these reasons the Company has decided to reduce its flight schedule by 4% from 2012.

The table below outlines the Company's fuel hedging position at the end of December. The table shows that 18% of the projected fuel consumption in 2013 has been hedged through contracts. In addition to contractual hedging, the Company has defined the interaction of EUR/USD and fuel prices as an internal hedge.

2013	Estimated usage (tons)	Hedge and option contracts	Av. Hedge price USD	% hedged
January	11,904	5,200	1,022	44%
February	10,536	5,200	1,028	49%
March	13,681	5,250	1,001	38%
April	14,457	5,250	1,000	36%
May	18,023	4,250	1,010	24%
June	23,785	4,300	1,012	18%
July	25,531	2,400	1,019	9%
August	25,450	2,400	1,007	9%
September	20,509	2,250	994	11%
October	17,271	2,000	995	12%
November	14,970	0	-	0%
December	12,163	0	-	0%
Total	208,281	38,500	1,010	18%

Forecasted EBITDA for 2013 is in the range of 115 - 120 million USD. The projection assumes an average price of 1.30 for the EUR against the USD. Fuel cost estimates are based on a price of USD 1,050/ton. Unit cost in the international route network, less fuel cost, is projected to decrease by 1.4% from 2012, and unit revenues are projected to increase by 1.1%. EBITDA is projected as negative in the first quarter, and considerably below the level of the first quarter of last year. The reason is that cost relating to increased scope of operation in high season is largely incurred in this period. The introduction cost of two aircraft that will be added to the fleet next summer will be charged to the accounts in the first months of the year. Cost relating to ticket sales is charged at the time that the sale takes place, but the income is not recognised until the ticket is used. The period from May to September is Icelandair Group's peak season, and expenses relating to advance sales for the season, such as booking fees, credit card fees and commission fees have a large impact in the quarter, together with advertising and marketing costs. Improved results are anticipated in other quarters of the year, and particularly in the third quarter.

KEY FIGURES BY QUARTER

USD thousand	Q1	Q2	Q3	Q4
Operating Results				
Total income	157,698	234,395	317,351	189,422
EBITDAR	11,136	42,891	92,665	19,080
EBITDA	-3,048	28,818	77,939	5,937
EBIT	-16,723	14,514	61,147	-8,151
EBT	-16,627	17,811	64,757	-8,493
Profit / loss for the period	-13,189	14,319	51,362	-8,217
EBITDAR %	7%	18%	29%	10%
EBITDA %	-2%	12%	25%	3%
Balance Sheet				
Total assets	780,269	821,678	794,683	762,895
Total equity	241,338	253,692	306,368	295,932
Interest bearing debt	171,154	167,096	158,126	150,906
Net interest bearing debt	25,588	-21,994	-9,549	18,112
Cash and marketable securities end of period	145,566	189,090	167,675	132,794
Cash flow				
Working capital used in /from operating activities	2,457	38,429	89,771	10,833
Net cash from operating activities	86,138	72,214	10,106	-1,715
Net cash used in investing activities	-12,509	-16,826	-21,489	-25,652
Net cash used in / from financing activities	-25,714	-10,214	-9,401	-6,124

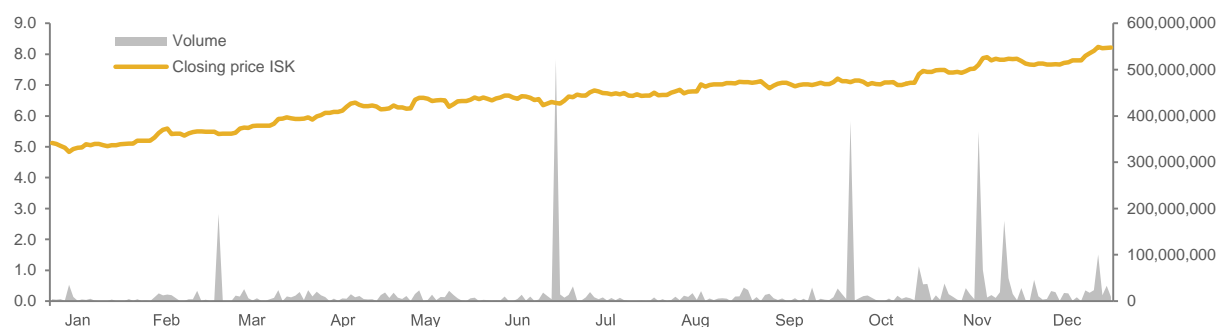
SHAREHOLDERS

- | **The market value of the Company at the end of December 2012 was ISK 41.1 billion**
- | **The increase in share price in the fourth quarter was 15.3%**
- | **The increase in share price over the year was 63.4%**

The Company's market value amounted to ISK 41.1 billion at the end of the fourth quarter of 2012. The price at the close of the quarter was ISK 8.22 per share. The highest close-of-day price over the quarter was ISK 8.24, the lowest price was ISK 7.00 and the average price was ISK 7.55 per share. The number of issued shares on 31 December 2012 was ISK 5,000,000,000, and the number or outstanding shares at the same time was ISK 4,974,540,000. The Company's share price increased by 63% in 2012, and the number of shareholders was 1,458 at the end of December.

The Board of Directors of Icelandair Group proposes a dividend of ISK 1.5 billion to shareholders in 2012.

Share price and volume - trend in 2012



PRESENTATION MEETING ON 8 FEBRUARY 2013

An open presentation for stakeholders will be held on Friday 8 February 2013 at the 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 other senior management. The presentation will begin at 16:30 in Room 5. 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 QUARTERLY STATEMENT

The consolidated accounts of Icelandair Group for the fourth quarter and the year 2012 were approved at a meeting of the Board of Directors on 7 February 2013. The annual account was audited by KPMG Endurskodun hf.

FINANCIAL CALENDAR

- | Annual General Meeting, 13 March 2013
- | Financial statement for the first quarter – week 18, 2013
- | Financial statement for the second quarter – week 31, 2013
- | Financial statement for the third quarter – week 44, 2013
- | Financial statement for the fourth quarter – week 06, 2014

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