

STRONG RESULTS IN THIRD QUARTER 2012

- | **EBITDA 77.9 million USD, increasing by USD 7.4 million between years**
- | **Increase in income 8% from the corresponding quarter of last year**
- | **Equity ratio 39%**
- | **Net cash from operating activities USD 10.1 million, as compared to USD 5.3 million to operating activities in the preceding year**

USD thousands	Q3 2012	Q3 2011	Change	9M 2012	9M 2011	Chg. in %
Operating results						
Total income	317,351	292,560	8%	709,444	627,358	13%
EBITDAR	92,665	86,542	7%	146,692	131,175	12%
EBITDA	77,939	70,586	10%	103,709	85,987	21%
EBIT	61,147	57,788	6%	58,938	51,158	15%
EBT	64,757	54,116	20%	65,941	42,643	55%
Profit for the period	51,362	43,758	17%	52,492	37,945	38%
Balance sheet						
Total assets	-	-	-	794,683	745,351	7%
Total equity	-	-	-	306,368	271,427	13%
Interest bearing debt	-	-	-	158,126	159,201	-1%
Net interest bearing debt	-	-	-	-9,549	50,220	-
Cash flow						
Working capital from operations	89,771	76,229	18%	130,657	96,476	35%
Net cash from/to operating activities	10,106	-5,280	-	168,458	107,610	-
Net cash used in investing activities	-21,489	-16,909	27%	-50,824	-82,455	-38%
Net cash used in financing activities	-9,401	-19,315	-51%	-45,329	-38,214	19%
Cash and cash equivalents at the end of period	-	-	-	151,552	82,553	84%
Key Ratios						
Profit per share USD	1.26	1.07	18%	1.29	0.93	39%
Equity per share	-	-	-	7.55	6.69	13%
Equity ratio	-	-	-	39%	36%	2.1 ppt
Current ratio	-	-	-	1.00	1.00	0%
CAPEX USD thousand	22,939	16,142	42%	66,614	71,175	-6%
Transport revenue as % of total revenues	72%	70%	2.0 ppt	64%	60%	4.0 ppt
EBITDAR ratio	29.2%	29.6%	-0.4 ppt	20.7%	20.9%	-0.3 ppt
EBITDA ratio	24.6%	24.1%	0.4 ppt	14.6%	13.7%	0.9 ppt
Share information (ISK)						
Highest price in period	7.21	5.70	26%	7.21	5.70	26%
Lowest price in period	6.65	4.95	34%	4.83	3.09	56%
Price at period end	-	-	-	7.13	5.70	25%
Market Cap at period end (millions)	-	-	-	35,650	28,500	25%

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

BJÖRGÓLFUR JÓHANSSON, PRESIDENT AND CEO

“Profitable organic growth continued in the third quarter. The number of international passengers grew by 11% between years, and the passenger load factor was 84.0%, as compared to 83.3% over the corresponding period in 2011. The number of passengers flying between North America and Europe grew by 22%, increasing steadily over the past months. The number of passengers travelling to Iceland also grew significantly, with a resulting positive impact on domestic tourist service companies.

The Company’s performance over the quarter was good, with net profit of USD 51.4 million, up by USD 7.6 million over the corresponding period of last year. The performance of a number of airline companies in the world has been deteriorating as a result of the unstable economic conditions and persistently high fuel prices. It is therefore satisfying to observe the good results being achieved by Icelandair Group at the same time. The flexibility of our business model, our strong brands and our outstanding personnel has enabled us to tackle difficult external conditions and achieve satisfying results.

The third-quarter performance was in line with projections, and the forecast for the year remains unchanged, with EBITDA at USD 110-115 million.”

TRANSPORT FIGURES

- | **Passengers on international flights in the third quarter were 745 thousand, increasing in number by 11%**
- | **The load factor was 84.0%, up by 0.7 percentage points between years**

	Q3 2012	Change	9M 2012	Change
INTERNATIONAL FLIGHTS				
Number of passengers ('000)	744.8	11%	1,597.8	15%
Load factor (%)	84.0	0.7 ppt	81.7	2.1 ppt
Available Seat Kilometers (ASK'000.000)	2,562.2	13%	5,571.3	14%
REGIONAL- AND GREENLAND FLIGHTS				
Number of passengers ('000)	100.5	-4%	266.2	0%
Load factor (%)	68.9	-2.3 ppt	68.5	-0.8 ppt
Available Seat Kilometers (ASK'000.000)	62.7	4%	143.8	2%
CHARTER FLIGHTS				
Fleet Utilization (%)	95.8	8.5 ppt	92.3	0.0 ppt
Sold Block Hours	8,089	-9%	24,009	-10%
CARGO				
Available Tonne Kilometers (ATK'000)	54,958	3%	138,782	7%
Freight Tonne Kilometers (FTK'000)	21,005	8%	66,211	18%
HOTELS				
Available Hotel Room Nights	96,284	10%	226,154	14%
Sold Hotel Room Nights	82,359	13%	170,312	20%
Utilization of Hotel Rooms (%)	85.5	2.3 ppt	75.3	3.7 ppt

Icelandair's capacity on international flights was increased by 13% between years in the third quarter, while the number of passengers increased by 11% over the same period. The increase was greatest in the market between Europe and North America, or 22%. Passengers in this market accounted for approximately 50% of the total passengers transported by the Company in the quarter. The load factor was 84.0%, up by 0.7 percentage points from the preceding year.

Passengers on regional flights and Greenland flights numbered just over 100 thousand over the quarter, down by 4% from the corresponding quarter of last year. The load factor was 68.9%, down by 2.3 percentage points between years. Fleet utilisation in charter projects increased by 8.5 percentage points, amounting to 95.8%. The number of sold block hours on charter flights decreased by 9% between years, as the number of aircraft in the cargo fleet had been reduced by one from the corresponding quarter of last year. The number of sold hotel room nights increased by 13% in the third quarter. The utilisation of hotel rooms was 85.5%, up by 2.3 percentage points from the same quarter of last year.

THIRD QUARTER OPERATIONS

EBITDA was positive by USD 77.9 million in the third quarter, increasing by USD 7.4 million from the corresponding quarter of 2011. The **EBITDA ratio** rose to 24.6%, from 24.1% in the third quarter of 2011. **EBIT** was USD 61.1 million, as compared to USD 57.8 million at the same time last year. **Profit after taxes** amounted to USD 51.4 million, as compared to a profit of USD 43.8 million in the corresponding period of 2011.

USD thousand	Q3 2012	Q3 2011	Chg. %
EBITDAR	92,665	86,542	7%
EBITDA	77,939	70,586	10%
EBIT	61,147	57,788	6%
EBT	64,757	54,116	20%
Profit for the period	51,362	43,758	17%
EBITDAR %	29.2%	29.6%	-0.4 ppt
EBITDA %	24.6%	24.1%	0.4 ppt

INCOME

- | **Total income was 8% in excess of the third quarter of 2011**
- | **Passenger revenues increased by 12% between years**
- | **The rise in the number of tourists to Iceland increased income from tourist-related services**

USD thousand	Q3 2012	Q3 2011	Chg. %
Transport revenue	228,853	205,208	12%
Aircraft and aircrew lease	31,140	33,905	-8%
Other operating revenue	57,358	53,447	7%
Total	317,351	292,560	8%

Transport revenue increased by USD 23.6 million, or 12%. Passenger numbers increased significantly over the quarter, with the increase in international flights at 11%. **Charter revenue** fell by USD 2.8 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 3.9 million, or 7%, in comparison with the third quarter of 2011; of this figure, revenue from tourism increased by USD 2.3 million.

EXPENSES

- | Total expenses increased by USD 17.4 million
- | Cost increases largely a result of the increased capacity

USD thousand	Q3 2012	Q3 2011	Chg. %
Salaries and other personnel expenses	54,518	48,468	12%
Aircraft fuel	73,617	63,271	16%
Aircraft and aircrew lease	20,194	23,662	-15%
Aircraft handling, landing and communication	23,621	21,190	11%
Aircraft maintenance expenses	14,760	16,799	-12%
Other operating expenses	52,702	48,584	8%
Total	239,412	221,974	8%

Salaries, personnel expenses and related expenses increased by USD 6.1 million, or 12%, in comparison with the third quarter of 2011, largely owing to an increased capacity and the impact of contractual wage increases.

Fuel cost increased by USD 10.3 million, which represents an increase of 16% from the preceding year. The difference is explained largely by the increase in production between years. The world market price of fuel increased between years in the third quarter. The average price was USD 1.027/ton, as compared to USD 1.021/ton in the corresponding quarter of 2011.

Aircraft and aircrew lease decreased by USD 3.5 million in comparison with the third quarter of 2011, or by 15%. One of the reasons for the decrease is the purchase of two Boeing 757 200 at the end of 2011, which were previously held on long-term lease contracts, and in addition one cargo aircraft was returned in the first half of the year.

Aircraft servicing, landing and communication expenses increased by USD 2.4 million between years, or 11%, as a result of the increase in capacity and general price hikes. **Maintenance expenses** amounted to USD 14.8 million, down by USD 2.0 million between years. **Other operating expenses** amounted to USD 52.7 million, increasing by USD 4.1 million between years. This resulted from an increase in tourism expenses required by the growth in the number of tourists visiting Iceland, combined with items relating to increased production.

NET FINANCE INCOME

- | Financial items were positive by USD 3.8 million
- | The currency effect was positive by USD 5.0 million

USD thousand	Q3 2012	Q3 2011	Change
Interest income	867	1,474	-41%
Interest expenses	-2,158	-2,023	7%
Currency effect	5,058	-3,156	-
Net finance income / cost	3,767	-3,705	-

Financial income amounted to USD 0.9 million, USD 0.6 million below the level of the third quarter of 2011. Financial expenses in the third quarter amounted to USD 2.2 million, up by USD 0.1 million between years. The currency effect for the quarter was positive, amounting to USD 5.0 million, a result of the significant fluctuations of the Company's principal business currencies against the USD.

BALANCE SHEET AND FINANCIAL POSITION

- | Total assets amounted to USD 794.7 million at the end of the third quarter
- | Equity ratio was 39%

USD thousands	30.09. 2012	30.09. 2011	Chg. (%)	31.12. 2011
Total assets	794,683	745,351	7%	729,739
Equity ratio	39%	36%	2.1 ppt	36%
Interest bearing debt	158,126	159,201	-1%	196,868
Net interest bearing debt	-9,549	50,220	-	90,179
Cash and marketable securities	167,675	108,980	54%	106,689
Current ratio	1.00	1.00	0%	0.91

Operating assets amounted to USD 280.9 million, increasing by USD 4.7 million from the beginning of the year. The Company's largest asset is its fleet of aircraft. At the end of the quarter, the fleet comprised 37 aircraft. The table below provides an overview of the company's aircraft at the end of the third quarter.

Type	Icelandair	Cargo	Loftleiðir	Air Iceland	Group fleet 30.09.12	Of which own	Of which leased	Ch. As of 31.12.11
B757 200	14	4	4		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	15	4	9	8	37	23	14	2

As announced earlier the Company is working on a long-term fleet strategy. A decision on the Company's future fleet will be made in the near future, with the following options under consideration:

- | Use Boeing 757 exclusively until 2022
- | Use Boeing 757 aircraft in addition to smaller aircraft

Equity amounted to USD 306.4 million at the end of the third quarter, and the equity ratio was 39%, increasing from the end of the third quarter of 2011, when it stood at 36%. At year-end 2011 the equity ratio was 36%.

Interest-bearing debt amounted to USD 158.1 million, as compared to USD 159.2 million at the beginning of the year. Payments on long-term debts in the third quarter amounted to USD 9.4 million.

Cash and marketable securities amounted to a total of USD 167.7 million at the end of the third quarter of 2012, as compared to USD 109.0 million at the end of September 2011.

CASH FLOW AND INVESTMENTS

- | **Net cash from operations USD 10.1 million**
- | **Payments on long-term loans amounted to USD 9.4 million**

USD thousand	Q3 2012	Q3 2011	Chg. (%)
Working capital from operations	89,771	76,229	18%
Net cash from/used in operating activities	10,106	-5,280	-
Net cash used in investing activities	-21,489	-16,909	27%
Net cash used in financing activities	-9,401	-19,315	-51%
Cash and cash equivalents, change	-20,784	-41,504	-50%

Net cash from operating activities in the third quarter amounted to USD 10.1 million, up by USD 15.4 million as compared to the third quarter of 2011. **Investments in operating assets** amounted to USD 5.8 million; of that figure, investments in aircraft and aircraft components amounted to USD 0.3 million, and investment in engine hours amounted to USD 1.7 million. **Investments in long-term expenses** amounted to USD 15.7 million, all overhaul of leased engines. **Investments in intangible assets** amounted to USD 0.7 million. **Payments on long-term loans** amounted to USD 9.4 over the quarter. **Cash and cash equivalents** reduced by USD 20.8 million over the quarter. The reduction over the corresponding period last year was USD 41.5 million.

OUTLOOK FOR ICELANDAIR GROUP HF.

- | **Assumptions indicate EBITDA in the range of USD 110-115 million in 2012**
- | **Continued organic growth projected next year**

The prospects for Icelandair Group's operations are favourable. Continued organic growth is projected next year, with the international flight schedule 15% larger than the current schedule. The increased capacity will increase the number of tourists visiting Iceland, with positive consequences for domestic tourist companies. The growth is projected to be greater over the winter months than in the summer months, which is in line with the Company's strategy of levelling the seasonal fluctuations in its operations and developing Iceland as a year-round destination.

Three new international destinations will be served: St. Petersburg in Russia, Zurich in Switzerland and Anchorage in Alaska. In addition, there will be a greater frequency of flights to various cities in the United States and Europe. The number of the Company's international passengers in 2013 is projected to be over 2.3 million in 2013, as compared to an estimation of over 2 million this year. Two new Boeing 757 aircraft will be added to the fleet, bringing the total number of Boeing 757 aircraft on scheduled flights next summer to 18.

The booking status for the coming months is strong and in line with the growth plan. The number of passengers flying with the Company between North America and Europe has been growing steadily in recent years; it is assumed that this trend will continue. As before, however, the main focus will be on strengthening the tourist market to Iceland.

The position of the Company's fuel hedging at the end of September is illustrated in the table below. The table shows that 28% of the projected use in October 2012 to March 2013 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.

	Estimated usage (tons)	Hedge and option contracts	Av. hedge price USD	% hedged
October 2012	16,749	8,250	1,035	49%
November 2012	13,648	6,250	1,046	46%
December 2012	12,909	3,250	1,030	25%
January 2013	10,627	1,000	984	9%
February 2013	9,594	1,000	1,059	10%
March 2013	11,294	1,000	1,023	9%
Total	74,821	20,750	1,036	28%

In general, the profitability of airline operations has been curtailed by the unstable economic conditions in the world and persistently high fuel prices. The operation of Icelandair Group has been successful in recent years and prospects are positive. The flexibility of the Company's business model, combined with its financial strength, has enabled it to cope with challenging external conditions.

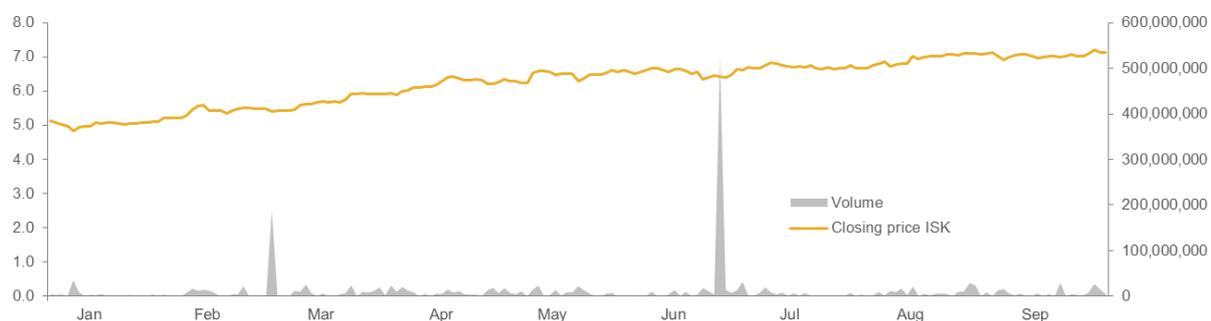
The forecast assumes EBITDA for 2012 in the range of USD 110-115 million. The forecast assumes an average exchange rate between the EUR and USD of 1.25 in the fourth quarter. The assessment of fuel cost is based on the actual price of jet fuel in October, an average price (without account of hedges) of USD 1,050/ton in November and USD 1,000/ton in December.

SHAREHOLDERS

- | **The market value of the Company at the end of September was ISK 35.6 billion**
- | **The rise in share price in the third quarter was 8%**

The market value of the Company was ISK 35.6 billion at the end of the third quarter of 2012. The closing price at the end of the quarter was ISK 7.13 per share. The highest closing price was ISK 7.21 per share, while the lowest was ISK 6.65 per share and the average closing price over the quarter was ISK 6.90 per share. The number of issued shares on 30 September 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 42% in the first nine months of 2012, and the number of shareholders at the end of September was 1,403.

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



PRESENTATION MEETING ON 1 NOVEMBER 2012

An open presentation for shareholders and other stakeholders will be held on Thursday 1 November 2012 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 conference Room 3. 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 third quarter report of 2012 were approved at a meeting of the Board of Directors on 31 October 2012.

FINANCIAL CALENDAR

- | Financial statement for the fourth quarter – week 6, 2013

FOR FURTHER INFORMATION, PLEASE CONTACT:

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