

## LABOUR DISPUTES HAD IMPACT ON SECOND QUARTER OPERATIONS

- | Profit after taxes USD 22.4 million, as compared to USD 18.5 million in the year before
- | EBITDA amounted to USD 45.2 million, as compared to USD 42.9 million in the preceding year
- | Total revenue increased by 12%
- | Negative impact of the labour disputes on second quarter results amounted to USD 3.5 million
- | Equity ratio 34% at the end of June
- | Net cash provided by operating activities USD 83.6 million, as compared to USD 106.4 million in the preceding year

USD thousand	Q2 2014	Q2 2013	Chg.	% Chg.	6M 2014	6M 2013	Chg.	% Chg.
<b>Operating results</b>								
Total income	297,793	265,600	32,193	12%	489,070	438,645	50,425	11%
EBITDAR	54,918	54,611	307	1%	51,781	58,733	-6,952	-12%
EBITDA	45,240	42,936	2,304	5%	31,936	34,622	-2,686	8%
EBIT	25,850	24,769	1,081	4%	-4,750	1,771	-6,521	-
EBT	24,776	23,305	1,471	6%	-8,586	382	-8,968	-
Profit / loss from continuing operations	19,800	18,490	1,310	7%	-6,921	201	-7,122	-
Profit / loss for the period	22,393	18,490	3,903	21%	-4,328	201	-4,529	-
<b>Balance sheet</b>								
Total assets	-	-	-	-	947,590	901,308	46,282	5%
Total equity	-	-	-	-	323,543	285,145	38,398	13%
Interest bearing debt	-	-	-	-	60,205	137,066	-76,861	-56%
Cash and marketable securities	-	-	-	-	283,287	222,088	61,199	28%
Net interest bearing debt	-	-	-	-	-223,082	-85,022	-138,060	162%
<b>Cash flow</b>								
Working capital from operations	50,270	48,154	2,116	4%	37,721	46,673	-8,952	-19%
Net cash from operating activities	83,625	106,436	-22,811	-21%	204,996	184,889	20,107	11%
Net cash used in investing activities	-14,009	-15,477	1,468	9%	-47,955	-56,272	8,317	15%
Net cash used in financing activities	-52,916	-15,690	-37,226	-	-82,054	-26,929	-55,125	-
Cash and cash equivalents end of period	266,993	219,343	47,650	22%	266,993	219,343	47,650	22%
<b>Key Ratios</b>								
Profit / loss per share expressed in US Cent	0.45	0.37	0.08	22%	-0.09	0.00	-0.09	-
Intrinsic value	-	-	-	-	7.97	7.03	0.94	-
Equity ratio	-	-	-	-	34.1%	31.6%	2.5 ppt	-
Current ratio	-	-	-	-	0.85	0.82	0.03	3%
CAPEX USD thousand	10,663	27,229	-16,566	-61%	41,601	70,331	-28,730	-41%
Transport revenue as % of total revenues	73.8%	70.8%	3.0 ppt	-	69.8%	68.0%	1.8 ppt	-
EBITDAR ratio	18.4%	20.6%	-2.1 ppt	-	10.6%	13.4%	-2.8 ppt	-
EBITDA ratio	15.2%	16.2%	-1.0 ppt	-	6.5%	7.9%	-1.4 ppt	-
<b>Share information ISK</b>								
Highest price in period	18.15	13.49	4.66	35%	19.95	13.49	6.46	48%
Lowest price in period	16.45	11.13	5.32	48%	16.45	8.22	8.23	100%
Price at period end	-	-	-	-	17.10	12.99	4.11	32%
Market Cap at period end (millions)	-	-	-	-	85,500	64,950	20,550	32%

## BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO

"Wage disputes had impact on our second quarter operations. As a result of the disputes 157 flights had to be cancelled and bookings had to be altered for over 22 thousand passengers. The resulting loss of revenue and direct cost to Icelandair Group amounted to USD 3.5 million. Icelandair Group's second-quarter profit amounted to USD 22.4 million, up by USD 3.9 million between years. Although results of the international route network operations fell short of expectations as a result of disputes, other business conducted by the Group was successful. A surge in the number of tourists arriving in Iceland returned good results for our companies in tourist related business. The performance of the Company's freight operations was good and showed an increase between years. In addition, the reversal of a provision made for bad debt in the Company's charter operations had a positive impact on financial results.

The Company's financial position is strong. Total assets currently amount to USD 947.6 million, and the Company's equity ratio stood at 34% at the end of the quarter. Interest-bearing debt has been decreasing in recent years and currently stands at USD 60.2 million, while cash and marketable securities amount to USD 283.3 million. The booking situation in international flight operations for the coming months has improved following the end of the wage disputes, and the Group's general business prospects are favourable. Based on current assumptions the year's EBITDA is projected in the range of USD 145-150 million dollars, exceeding the figures announced in June. The improved collecting on claims in charter operations is a significant factor in the increase."

## SECOND QUARTER TRANSPORT FIGURES

- | **Passengers on international flights were 703 thousand, increasing in number between years by 15%**
- | **Sold block hours in charter projects were down by 34% between years**
- | **The number of sold nights in the Company's hotels increased by 8% between years**

	Q2 2014	Q2 2013	Change
<b>INTERNATIONAL FLIGHTS</b>			
Number of passengers ('000)	703.2	609.0	15%
Load factor (%)	80.0	79.5	0.5 ppt
Available seat kilometres (ASK'000)	2,625.7	2,245.1	17%
<b>REGIONAL- AND GREENLAND FLIGHTS</b>			
Number of passengers ('000)	73.5	78.8	-7%
Load factor (%)	69.6	70.2	-0.6 ppt
Available seat kilometres (ASK'000)	35.9	38.4	-7%
<b>CHARTER FLIGHTS</b>			
Fleet Utilization (%)	92.3	96.9	-4.6 ppt
Sold Block Hours	4,551	6,941	-34%
<b>CARGO</b>			
Available Tonne Kilometres (ATK'000)	58,368	52,335	12%
Freight Tonne Kilometres (FTK'000)	24,703	24,418	1%
<b>HOTELS</b>			
Available Hotel Room Nights	81,684	81,016	1%
Sold Hotel Room Nights	62,188	57,773	8%
Utilization of Hotel Rooms (%)	76.1	71.3	4.8 ppt

Capacity on international flights increased by 17% in the second quarter, and passenger numbers over the same period increased by 15% between years. Passenger numbers increased in all markets, with the largest increase in the North Atlantic market, at 21.1%. Passengers in the North Atlantic market accounted for 49% of total passengers in the second quarter. The passenger load factor was 80.0%, as compared to 79.5% at the same time last year.

Passengers on domestic flights and Greenland routes were just over 73 thousand over the period, down by 7% from last year. Capacity was 7% below last year's levels. The passenger load factor in the quarter was 69.6%, down by 0.6 percentage points between years. Sold block hours on charter flights are down between years. Freight with scheduled flights increased by 1% from the preceding year. The number of sold hotel room nights increased by 8% in the second quarter. The utilisation of hotel rooms was 76.1%, as compared to 71.3% at the same time last year.

## SECOND-QUARTER OPERATIONS

USD thousand	Q2 2014	Q2 2013	Change
EBITDAR	54,918	54,611	307
EBITDA	45,240	42,936	2,304
EBIT	25,850	24,769	1,081
EBT	24,776	23,305	1,471
Profit from continuing operations	19,800	18,490	1,310
Profit for the period	22,393	18,490	3,903
EBITDAR %	18.4%	20.6%	-2.1 ppt
EBITDA %	15.2%	16.2%	-1.0 ppt

Profit after taxes came to USD 22.4 million, as compared to a profit of USD 18.5 in the corresponding quarter of 2013. EBITDAR amounted to USD 54.9 million, as compared to USD 54.6 million in the second quarter of 2013. The EBITDAR ratio fell by 2.1 percentage points and stands at 18.4%.

EBITDA was positive by USD 45.2 million, up by USD 2.3 million between years. The EBITDA ratio was 15.2% in the second quarter, as compared to 16.2% over the same period in 2013. The reversal of a provision for bad debt, together with the impact of wage disputes, were significant factors in the results of the quarter. The EBITDA bridge below shows the main deviations between years itemised in terms of principal factors and segments.

USD thousand	
EBITDA Q213	42,936
Allowance for bad debt – change	2,185
Labour dispute – effect	-3,500
EBITDA change - Tourism Services	829
EBITDA change - Route Network, excl. Icelandair	3,369
EBITDA change - Icelandair excl. labour dispute effect	852
Other	-1,431
<b>EBITDA Q214</b>	<b>45,240</b>

On December 30<sup>th</sup> 2011 Smartlynx, previously classified as discontinued operations, was sold. Pursuant to the sale Icelandair Group guaranteed aircraft leases on behalf of Smartlynx and had loans to the Company. Since the sale Icelandair Group has made provisions for potential losses due to the guarantees and the loans. At June 30<sup>th</sup> 2014 all loans were paid and all lease guarantees had expired and the provision was reversed resulting in a net income of USD 2.6 million.

## INCOME

- | **Total income was 12% in excess of the second quarter of 2013**
- | **Passenger revenue increased by 17% between years**
- | **Income from aircraft lease down by 44% from last year**

USD thousand	Q2 2014	Q2 2013	Change	% Change	% of rev. '14
Transport revenue:	219,918	188,170	31,748	17%	74%
Passengers	208,614	177,277	31,337	18%	70%
Cargo and mail	11,304	10,893	411	4%	4%
Aircraft and aircrew lease	16,539	29,563	-13,024	-44%	6%
Other operating revenue	61,336	47,867	13,469	28%	21%
<b>Total</b>	<b>297,793</b>	<b>265,600</b>	<b>32,193</b>	<b>12%</b>	<b>100%</b>

Transport revenue increased by USD 31.7 million; of this figure, passenger revenue increased by USD 31.3 million. Income from aircraft lease fell by USD 13.0 million and amounted to USD 16.5 million. Other operating revenues amounted to USD 61.3, up by USD 13.5 million, or 28%, as compared to the second quarter of 2013. The increase is explained by the expanded scope of the Group's operations, with income from sales at airports and hotels increasing by USD 4.1 million from the corresponding period last year, and income from tourist services increasing by USD 6.7 million. The table below shows an itemisation of other revenue.

USD thousand	Q2 2014	Q2 2013	Change	% Change
Sale at airports and hotels	20,901	16,837	4,064	24%
Revenue from tourism	24,322	17,598	6,724	38%
Aircraft and cargo handling services	8,767	8,271	496	6%
Maintenance revenue	3,420	1,327	2,093	158%
Gain/loss on sale of operating assets	70	-61	131	-215%
Other operating revenue	3,856	3,895	-39	-1%
<b>Total</b>	<b>61,336</b>	<b>47,867</b>	<b>13,469</b>	<b>28%</b>

## EXPENSES

- | **Total expenses amounted to USD 252.6 million**
- | **Cost increases mostly a result of increased capacity on international flights and increased tourist-related services in Iceland**
- | **Income from aircraft and aircrew lease fell as a result of the reduced number of aircraft on lease, in addition to reduced lease prices**

USD thousand	Q2 2014	Q2 2013	Change	% Change	% of exp. '14
Salaries and other personnel expenses	77,405	63,500	13,905	22%	30.6%
Aircraft fuel	74,631	64,434	10,197	16%	29.6%
Aircraft lease	7,032	8,505	-1,473	-17%	2.8%
Aircraft handling, landing and communication	22,231	19,517	2,714	14%	8.8%
Aircraft maintenance expenses	16,742	19,273	-2,531	-13%	6.6%
Other operating expenses	54,512	47,435	7,077	15%	21.6%
<b>Total</b>	<b>252,553</b>	<b>222,664</b>	<b>29,889</b>	<b>13%</b>	<b>100%</b>

Salaries and other personnel expenses increased by USD 14.6 million, or 23%, in comparison with the second quarter of 2013. The increase was a result of the expanded scope of the Company's business in addition to the impact of contractual wage increases.

Fuel costs amounted to USD 74.6 million, up by USD 10.2 million, which represents an increase of 16% from the preceding year and reflects the increased business in international transport combined with higher fuel prices. The world market price of oil was on average USD 971/ton in the second quarter of 2014, as compared to USD 931/ton over the same period in 2013.

Aircraft lease decreased in comparison with the second quarter of 2013 by USD 2.1 million, or 25%. The reason is that fewer aircraft were on lease and lease prices were lower.

Aircraft landing, handling and navigation expenses increased by USD 2.7 million between years, or 14%, as a result of increased capacity and general price increases. Maintenance expenses amounted to USD 16.7 million, USD 2.5 million below last year. Other operating expenses amounted to USD 54.5 million, increasing by USD 7.1 million between years. Adjustments of bad debt provisions reduced expenses by USD 3.1 over the quarter. The table below shows a breakdown of principal items and trends between years.

USD thousand	Q2 2014	Q2 2013	Change	% Change
Operating cost of real estate and fixtures	5,286	5,525	-239	-4%
Communication	4,252	3,542	710	20%
Advertising	4,059	3,976	83	2%
Booking fees and commission expenses	10,986	8,864	2,122	24%
Cost of goods sold	6,283	5,267	1,016	19%
Customer services	5,774	3,625	2,149	59%
Tourism expenses	14,633	9,924	4,709	47%
Allowance for bad debt	-3,064	-879	-2,185	249%
Other operating expenses	6,303	7,591	-1,288	-17%
<b>Total other operating expenses</b>	<b>54,512</b>	<b>47,435</b>	<b>7,077</b>	<b>15%</b>

## FINANCIALS

### Financial items were negative over the quarter

USD thousand	Q2 2014	Q2 2013	Change	% Change
Interest income	741	524	217	41%
Interest expenses	-2,031	-1,891	-140	7%
Currency effect	214	-42	256	-
<b>Net finance income</b>	<b>-1,076</b>	<b>-1,409</b>	<b>333</b>	<b>24%</b>

Finance income amounted to USD 0.7 million in the second quarter, as compared to USD 0.5 million over the same period last year. Finance expenses amounted to USD 2.0 million over the quarter, increasing by 7% year on year. The impact of exchange rate fluctuations was negligible over the quarter.

## BALANCE SHEET AND FINANCIAL POSITION

- | Total assets amounted to USD 947.6 million at the end of the second quarter
- | The equity ratio was 34%
- | Interest-bearing debt amounted to USD 60.2 million, down from the level of the beginning of the year

USD thousand	30.06.2014	31.12.2013	Change	30.06.2013
Total assets	947,590	832,875	114,715	901,308
Total equity	323,543	346,082	-22,539	285,145
Interest bearing debt	60,205	122,017	-61,812	137,066
Net interest bearing debt	-223,082	-77,476	-145,606	-85,022
Cash and marketable securities	283,287	199,493	83,794	222,088
Equity ratio	34%	42%	-7 ppt	32%
Current ratio	0.85	0.94	-10%	0.82

Operating assets amounted to USD 303.7 million, up by USD 4.5 million from the beginning of the year. For a further discussion of investments in operating assets, see the section on cash flow and investments. The Company's largest asset is its fleet of aircraft. The table below shows an overview of the Company's fleet at the end of June. The fleet comprised a total of 37 aircraft, of which 27 are owned by the Company.

Type	Icelandair	Cargo	Loftleiðir	Air Iceland	Group fleet 30.06.14	Group fleet 31.12.13	Of which own	Of which leased	Ch. as of 31.12.13
B757 200	20	3	1		24	23	19	5	1
B757 300	1				1	1	1		0
B767 300			2		2	3		2	-1
B737 700			1		1	1		1	0
B737 800			2		2	2		2	0
Fokker F-50				5	5	5	5		0
Dash 8-200				2	2	2	2		0
<b>Total</b>	<b>21</b>	<b>3</b>	<b>6</b>	<b>7</b>	<b>37</b>	<b>37</b>	<b>27</b>	<b>10</b>	<b>0</b>

Equity amounted to USD 323.5 at the end of the second quarter and the equity ratio was 34%, up from the end of the second quarter of 2013, when the ratio was 32%. A dividend approved at the annual general meeting in March was entered in the accounts as a reduction in equity. The dividend was paid out in April. The dividend amounted to 0.38 US cents per share, for a total of USD 19.0 million. The equity ratio at the end of 2013 was 42%.

Interest-bearing debt amounted to USD 60.2 million, as compared to USD 122.0 million at the beginning of the year. Payments on long-term debts in the second quarter amounted to USD 33.9 million. Cash and marketable securities amounted to a total of USD 283.3 million at the end of the second quarter of 2014, as compared to USD 199.5 million at the beginning of the year. Net interest-bearing debt therefore amounted to USD -223.1 million at the end of the quarter, down by USD 145.6 million from the turn of the year.

USD thousand	30.06.2014	31.12.2013	Change	30.06.2013
Loans and borrowings non-current	46,553	78,489	-31,936	87,433
Loans and borrowings current	13,652	43,528	-29,876	49,633
Marketable securities	16,294	7,955	8,339	2,745
Cash and cash equivalents	266,993	191,538	75,455	219,343
<b>Net interest bearing debt</b>	<b>-223,082</b>	<b>-77,476</b>	<b>-145,606</b>	<b>-85,022</b>

## CASH FLOW AND INVESTMENTS

- | **Cash and cash equivalents at the end of the second quarter amounted to USD 267.0 million**
- | **Investments amounted to USD 10.7 million**
- | **Paid dividends amounted to USD 19.0 million**
- | **Payments on long-term liabilities amounted to USD 33.9 million**

USD thousand	Q2 2014	Q2 2013	Change
Working capital from operations	50,270	48,154	2,116
Net cash from operating activities	83,625	106,436	-22,811
Net cash used in investing activities	-14,009	-15,477	1,468
Net cash used in financing activities	-52,916	-15,690	-37,226
Increase in cash and cash equivalents	16,700	75,269	-58,569
<b>Cash and cash equivalents, end of period</b>	<b>266,993</b>	<b>219,343</b>	<b>47,650</b>

Net cash provided by operating activities in the second quarter amounted to USD 83.6 million, down by USD 22.8 million in comparison with the second quarter of 2013. Investments in operating assets amounted to USD 10.7 million. A lease contract for one freight aircraft was extended, and as a result the leasing company was reimbursed by the lessor for engine overhauls, with the result that engine overhauls are negative by USD 1.2 million. The table below shows an itemisation of the Group's principal investments.

USD thousand	Q2 2014
Operating assets:	
Aircraft and aircraft components	3,834
Overhaul own aircraft	3,370
Other	4,024
Total operating assets	11,228
Long term cost	
Overhaul leased aircraft	-1,150
Intangible assets	585
<b>Total Capex</b>	<b>10,663</b>

Paid-out dividends amounted to USD 19.0 million, and payments on long-term debts amounted to USD 33.9 over the quarter. Cash increased by USD 16.7 million over the quarter, as compared to an increase of USD 75.3 last year.

## OUTLOOK FOR ICELANDAIR GROUP HF.

- | **Improved booking situation on international flights**
- | **Favourable prospects in tourist-related services**
- | **Favourable prospects in cargo and charter flights**

The outlook in the Company's international passenger flight operation has improved from the prospects at the time of the labour disputes in May and June. The booking situation in international transport is favourable for the second half of the year and in line with increased capacity. At the time that the labour disputes were at their peak bookings slowed down, but the situation has now largely recovered.

The Company's operations in tourist-related services are showing good results. The Company's cargo operations are also successful. In early July a cargo aircraft in charter operations was returned to its owner. The Company will now focus exclusively on scheduled freight services. The Company's domestic airline operations are still facing a challenging operating environment, and demand from



Icelandic passengers has not yet recovered; however, efforts are being made to increase the share of foreign tourists on the Company's domestic flights.

The Company's fuel hedging situation at the end of June is highlighted in the table below. The table shows that 49% of the projected use over the period from July to December 2014 has been hedged through contracts. In addition to contractual hedges, the Company defines the interaction of the USD/EUR and fuel prices as an internal hedge.

2014	Estimated use (tons)	Option volume	Swap volume	Total swap and option contracts	%hedged	Av. Hedge price USD	Bought call strike	Sold put strike
July	31,333	4,000	11,400	15,400	49%	977	1,000	924
August	31,312	9,000	6,400	15,400	49%	970	1,000	928
September	26,087	8,000	5,200	13,200	51%	997	1,000	932
October	20,839	6,000	4,200	10,200	49%	990	1,000	937
November	17,639	3,000	5,200	8,200	46%	972	990	908
December	16,393	3,000	5,200	8,200	50%	964	1,000	932
<b>Total</b>	<b>143,603</b>	<b>33,000</b>	<b>37,600</b>	<b>70,600</b>	<b>49%</b>	-	-	-

\*Prices are in USD

## EBITDA FORECAST FOR 2014

The outlook for Icelandair Group's operations in the second half of the year is positive and the situation is better than it looked at the peak of the labour disputes in spring and early summer. The Company's operations in tourist-related services are showing good results. The prospects for freight and charter operations are also quite favourable for the second half of the year. Based on current assumptions EBITDA for the year is projected in the range of USD 145-150 million, exceeding the figures announced in the Company's profit warning last June. Improved collecting on claims in charter operations is a significant factor in the increased earnings estimate. The earnings estimate assumes an average exchange rate of the EUR vs. the USD of 1.35 in July through December and an estimated fuel price of USD 978/ton in July and 1,000/ton for the period August through December.

## CONTRACTS WITH AIRLINE UNIONS

A short-term contract has been agreed with the Icelandic Airline Pilots' Association, which will remain in effect until next 30 September. The Company's contract with the Icelandic Flight Attendants' Association is effective until 31 August 2015. A contract was negotiated with the Union of Icelandic Aircraft Maintenance Engineers with effect until 31 August 2017.

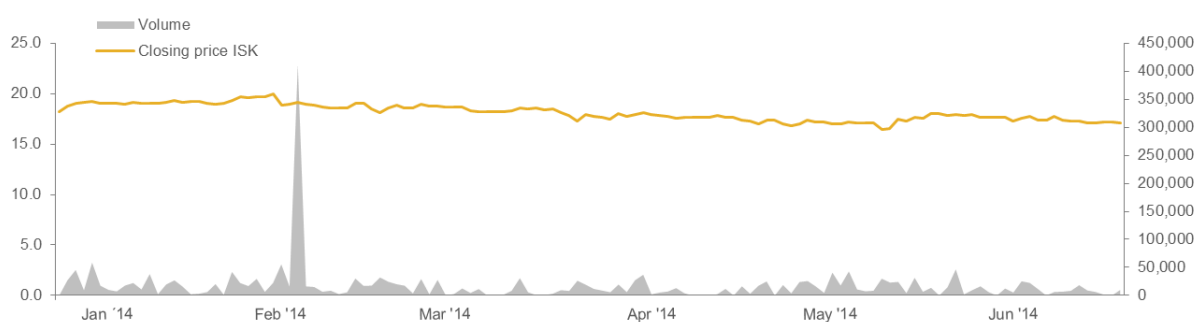


## SHAREHOLDERS

- | **The price of Icelandic Group stock is down by 6.0% since the turn of the year**
- | **The price of Icelandair Group stock fell by 4.5% in the second quarter**
- | **Market value at the end of June was ISK 85.5 billion**

Icelandair Group's market value was ISK 85.5 billion at the end of the second quarter of 2014. The closing price at the end of the quarter was ISK 17.10 per share. The highest closing price per share of the quarter was ISK 18.15, the lowest price was ISK 16.45 per share, and the average closing price over the period was ISK 17.45 per share. The number of issued shares on 30 June 2014 was 5,000,000,000, and the number of outstanding shares at the same time was 4,974,540,000. The price of shares in the Company fell by 6% in the first six months of 2014 and the number of shareholders was 1,965 at the end of June, up by 132 from the beginning of the year.

### Share prices and volume – trend in the first six months of 2014:



## PRESENTATION MEETING 31 JULY 2014

An open presentation for stakeholders will be held on Thursday 31 July 2014 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. The presentation will begin at 8:30 a.m. and will be held in Meeting Room 3. The presentation material will be available after the meeting on the Icelandair Group website, [www.icelandairgroup.is](http://www.icelandairgroup.is), and on the Nasdaq OMX Iceland hf news system.

## APPROVAL OF QUARTERLY STATEMENT

The consolidated interim financial statements of Icelandair Group for the second quarter report of 2014 were approved at a meeting of the Board of Directors on 30 July 2014.

## FINANCIAL CALENDAR

- | **Financial statement for the third quarter – 30.10.2014**
- | **Financial statement for the fourth quarter – 05.02.2015**

**FOR FURTHER INFORMATION PLEASE CONTACT:**

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