

NET PROFIT IN Q3 2018 USD 62 MILLIONS

- Total income USD 545.2 million, up by 2% year on year
- EBITDA USD 115.0 million, as compared to USD 155.9 million last year
- Decline in performance a result of reduced passenger income and high jet fuel prices
- Equity ratio 36% at the end of September
- Net interest-bearing debt USD 222.2 million at the end of September
- Cash and short-term investments USD 184.0 million
- EBITDA guidance USD 80-90 million

| USD thousands | Q3 2018 | Q3 2017 | Change | % Change | 9M 2018 | 9M 2017 | Change | % Change |
|--|---------|---------|----------|-------------|-----------|-----------|----------|-------------|
| Operating results | | | | | | | | |
| Total income | 545,193 | 537,032 | 8,161 | 2% | 1,211,718 | 1,126,407 | 85,311 | 8% |
| EBITDAR | 129,065 | 166,267 | -37,202 | -22% | 151,043 | 213,146 | -62,103 | -29% |
| EBITDA | 114,993 | 155,904 | -40,911 | -26% | 111,475 | 186,502 | -75,027 | -40% |
| EBIT | 78,295 | 121,613 | -43,318 | -36% | 12,284 | 95,474 | -83,190 | -87% |
| EBT | 76,933 | 121,901 | -44,968 | -37% | 1,914 | 96,308 | -94,394 | -98% |
| Profit for the period | 62,029 | 97,185 | -35,156 | -36% | 1,773 | 77,211 | -75,438 | -98% |
| Balance sheet | | | | | | | | |
| Total assets | - | - | - | - | 1,598,402 | 1,445,042 | 153,360 | 11% |
| Total equity | - | - | - | - | 575,444 | 618,552 | -43,108 | -7% |
| Interest bearing debt | - | - | - | - | 406,239 | 283,961 | 122,278 | 43% |
| Cash and short term investment | - | - | - | - | 184,031 | 264,077 | -80,046 | -30% |
| Net interest bearing debt | - | - | - | - | 222,208 | 19,884 | 202,324 | - |
| Cash flow | | | | | | | | |
| Net cash to/from operating activities | -50,635 | -19,749 | -30,886 | 156% | 76,542 | 196,549 | -120,007 | -61% |
| Net cash used in investing activities | -76,540 | -53,154 | -23,386 | 44% | -266,560 | -180,233 | -86,327 | 48% |
| Net cash from/used in financing activities | 62,976 | -2,399 | 65,375 | - | 146,190 | 14,705 | 131,485 | - |
| Cash and cash equivalents end of period | 175,383 | 260,130 | -84,747 | -33% | 175,383 | 260,130 | -84,747 | -33% |
| Key Ratios | | | | | | | | |
| Loss / Profit per share expressed in US Cent | 1.29 | 2.00 | -0.71 | - | 0.04 | 1.59 | -1.55 | - |
| Intrinsic value | - | - | - | - | 14.73 | 15.65 | -0.92 | -6% |
| Equity ratio | - | - | - | - | 36% | 43% | -7.0 ppt | -16% |
| Current ratio | - | - | - | - | 1.02 | 0.99 | 0.03 | 3% |
| CAPEX USD thousand | 42,763 | 39,700 | 3,063 | 8% | 288,853 | 124,628 | 164,225 | 132% |
| Transport revenue as % of total revenues | 74.6% | 77.4% | -2.8 ppt | - | 72.2% | 73.6% | -1.4 ppt | - |
| EBITDAR ratio | 23.7% | 31.0% | -7.3 ppt | - | 12.5% | 18.9% | -6.5 ppt | - |
| EBITDA ratio | 21.1% | 29.0% | -7.9 ppt | - | 9.2% | 16.6% | -7.4 ppt | - |
| Share information ISK | | | | | | | | |
| Highest price in period | 12.94 | 16.55 | -3.61 | -22% | 16.55 | 23.53 | -6.98 | -30% |
| Lowest price in period | 6.78 | 13.80 | -7.02 | -51% | 6.78 | 13.13 | -6.35 | -48% |
| Price at period end | - | - | - | - | 6.84 | 14.75 | -7.91 | -54% |
| Market Cap at period end (millions) | - | - | - | - | 34,200 | 73,750 | -39,550 | -54% |

BOGI NILS BOGASON INTERIM PRESIDENT & CEO

“Our third-quarter results declined between years, but are in line with the EBITDA guidance published at the end of August. EBITDA amounted to a total of USD 115 million, USD 41 million short of the figure for the third quarter of 2017. Higher fuel prices, low average air fares and a less favourable passenger load factor are the principal reasons for the decline in performance.

A number of measures have been taken to improve the Company’s competitiveness and counteract cost increases, in particular the costs resulting from higher fuel prices. In May 2019 flights will be introduced through a new connection bank in Iceland alongside the Route Network’s current connection bank with a view to creating new growth opportunities for the Company, improving services to passengers and increasing flexibility. The imbalance in the passenger capacity between North America and Europe has also been corrected in the flight schedule for next year, and the Company’s sales and marketing work has been reorganised. Our focus now is on strengthening the Company’s revenue control, with the implementation of a new revenue control system at an advanced stage. The priorities are increased automation, use of digital solutions and enhancement of ancillary revenue. Also, improved utilisation of staff and all operating factors will be key to the Company’s future operations.

Our task is clear: to improve Company’s year-round performance. There are numerous opportunities available, both on the revenue and expenditure side. We are confident that the measures that have already been taken and further measures ahead will return improved performance for Icelandair Group for the future.”

TRANSPORT FIGURES

- Icelandair passenger numbers just short of 1.5 million, down by 2% between years
- Passenger load factor on international flights 84.2%, down by 2.0 percentage points from Q3 2017
- Room occupancy in Company hotels on a par with last year's, at 88.6%

| | Q3 2018 | Q3 2017 | Change |
|--|---------|---------|----------|
| INTERNATIONAL FLIGHTS | | | |
| Number of passengers ('000) | 1,469.4 | 1,495.5 | -1.7% |
| Load factor (%) | 84.2 | 86.3 | -2.0 ppt |
| Available seat kilometres (ASK'000,000) | 5,597.9 | 5,453.9 | 3% |
| Revenue passenger kilometres (RPK'000,000) | 4,714.9 | 4,705.4 | 0% |
| Average stage length km | 3,262.0 | 3,101.0 | 5% |
| REGIONAL FLIGHTS | | | |
| Number of passengers ('000) | 93.1 | 109.3 | -15% |
| Load factor (%) | 71.3 | 70.9 | 0.4 ppt |
| Available seat kilometres (ASK'000,000) | 54.8 | 74.7 | -27% |
| Revenue passenger kilometres (RPK'000,000) | 39.0 | 52.9 | -26% |
| CHARTER | | | |
| Fleet Utilisation (%) | 90.9 | 100.0 | -9.1 ppt |
| Sold Block Hours | 8,327 | 7,240 | 15% |
| CARGO | | | |
| Freight Tonne Kilometres (FTK'000) | 31,603 | 32,085 | -2% |
| HOTELS | | | |
| Available Hotel Room Nights | 129,216 | 112,393 | 15% |
| Sold Hotel Room Nights | 114,445 | 99,653 | 15% |
| Utilisation of Hotel Rooms (%) | 88.6 | 88.7 | -0.1 ppt |

Available Seat Kilometres (ASK) increased by 3% between years in the third quarter. Average flight duration increased by 5% between years, as availability to North America increased by 11% while availability to Europe decreased by 9%. The North Atlantic market was the Company's largest market, accounting for 54% of the total number of passengers in the third quarter of 2018. The greatest proportional increase in passenger numbers was in the domestic market to Iceland, while the number of passengers in the North Atlantic market declined between years.

| Passenger mix '000 | Q3 2018 | Q3 2017 | Change | % of total '18 |
|------------------------------------|----------------|----------------|------------|----------------|
| To | 539.7 | 507.2 | 6% | 37% |
| From | 141.4 | 119.3 | 19% | 10% |
| Via | 788.2 | 869.0 | -9% | 54% |
| Total international flights | 1,469.4 | 1,495.5 | -2% | 100% |

EXCHANGE RATE TRENDS

Icelandair Group's reporting currency is the USD. Revenue in the third quarter of 2018 was 2% above the corresponding quarter of 2017. Calculated at a fixed exchange rate, revenue grew by 3% between years.

| Currency | Av. rates Q3'18 | Chg. from Q3 '17 | Closing rate 30.09 '18 | Chg. from 30.09 '17 |
|----------|--------------------|---------------------|---------------------------|------------------------|
| ISK | 0.009 | -2% | 0.009 | -4% |
| EUR | 1.163 | -1% | 1.163 | -2% |
| GBP | 1.303 | 0% | 1.305 | -3% |
| CAD | 0.765 | -4% | 0.774 | -3% |
| DKK | 0.156 | -1% | 0.156 | -2% |
| NOK | 0.121 | -3% | 0.123 | -2% |
| SEK | 0.112 | -9% | 0.113 | -8% |

THIRD QUARTER OPERATIONS

| USD thousand | Q3 2018 | Q3 2017 | Change | % Change |
|-----------------------|---------|---------|----------|----------|
| EBITDAR | 129,065 | 166,267 | -37,202 | -22% |
| EBITDA | 114,993 | 155,904 | -40,911 | -26% |
| EBIT | 78,295 | 121,613 | -43,318 | -36% |
| EBT | 76,933 | 121,901 | -44,968 | -37% |
| Profit for the period | 62,029 | 97,185 | -35,156 | -36% |
| EBITDAR % | 23.7% | 31.0% | -7.3 ppt | - |
| EBITDA % | 21.1% | 29.0% | -7.9 ppt | - |

| USD thousand | Intern. flight operatins | | Aviation investments | | Tourism investments | |
|--------------|--------------------------|---------|----------------------|---------|---------------------|---------|
| | Q3 2018 | Q3 2017 | Q3 2018 | Q3 2017 | Q3 2018 | Q3 2017 |
| Total income | 404,837 | 410,615 | 54,103 | 43,382 | 86,253 | 83,035 |
| EBITDAR | 89,123 | 132,353 | 18,913 | 15,530 | 21,029 | 18,384 |
| EBITDA | 85,962 | 129,869 | 12,496 | 12,115 | 16,535 | 13,920 |
| EBT | 52,744 | 101,135 | 8,971 | 7,332 | 15,218 | 13,434 |

International flight operations

EBITDA amounted to USD 86.0 million over the quarter, as compared to USD 129.9 million last year. The decline in EBITDA is primarily the result of lower passenger revenue than anticipated and higher fuel costs. There are several reasons why passenger revenue fell short of anticipations. Forecasts of rising average air fares in line with airlines' cost increases have not materialised. Structural adjustments made in the Company's sales and marketing work in early summer 2017 did not return the anticipated results. In addition, changes in the Company's Route Network at the beginning of the year resulted in an imbalance in the seating capacity offered in North America and Europe.

Investments in Aviation

Total revenue increased by 25% between years. Loftleidir Icelandic performed very well over the quarter, and the company had three more aircraft on assignments than over the same period last year. Air Iceland Connect operations are difficult, and results declined slightly between years.

Investments in Tourism

The increase in turnover was 4% and EBITDA grew to USD 16.5 million from USD 13.9 last year. The Company's hotel operation was successful, with EBITDA rising between years. The operation of Iceland Travel, however, was difficult due to challenging operating environment.

REVENUE

- **Total revenue up by 2% between years in Q3**
- **Passenger revenue down by 2% between years**

| USD thousand | Q3 2018 | Q3 2017 | Change | % Change | % of rev. '18 |
|----------------------------|----------------|----------------|--------------|-----------|---------------|
| Transport revenue: | 406,491 | 415,579 | -9,088 | -2% | 75% |
| Passengers | 392,199 | 400,235 | -8,036 | -2% | 72% |
| Cargo and mail | 14,292 | 15,344 | -1,052 | -7% | 3% |
| Aircraft and aircrew lease | 29,462 | 18,246 | 11,216 | 61% | 5% |
| Other operating revenue | 109,240 | 103,207 | 6,033 | 6% | 20% |
| Total | 545,193 | 537,032 | 8,161 | 2% | 100% |

Total revenue increased by 2% between years; calculated at a fixed exchange rate the increase was 3%. Transport revenue declined by USD 9.1 million between years, or 2%. In the international Route Network revenue increased in the tourist market to Iceland and the domestic market from Iceland. However, revenue in the North Atlantic market declined. Income from aircraft and aircrew lease increased by USD 11.2 million, or 61%. Other operating revenue amounted to USD 109.2, up by USD 6.0 million, or 6%, as compared to the third quarter of 2017. Revenue from tourism declined by USD 3.8 million between years as a result of deteriorating conditions in the Icelandic tourist market. Other operating revenues are itemised in the table below:

| USD thousand | Q3 2018 | Q3 2017 | Change | % Change |
|--------------------------------------|----------------|----------------|--------------|-----------|
| Sale at airports and hotels | 37,552 | 26,886 | 10,666 | 40% |
| Revenue from tourism | 57,661 | 61,485 | -3,824 | -6% |
| Aircraft and cargo handling services | 5,742 | 5,936 | -194 | -3% |
| Maintenance revenue | 11 | 1,210 | -1,199 | -99% |
| Gain on sale of operating assets | 25 | 0 | 25 | - |
| Other operating revenue | 8,249 | 7,690 | 559 | 7% |
| Total | 109,240 | 103,207 | 6,033 | 6% |

EXPENSES

- **Total expenses USD 430.2 million**
- **Fuel costs up by USD 15.3 million between years**

| USD thousand | Q3 2018 | Q3 2017 | Change | % Change | % of exp. '18 |
|---------------------------------------|----------------|----------------|---------------|------------|---------------|
| Salaries and other personnel expenses | 130,813 | 118,116 | 12,697 | 11% | 30% |
| Aviation expenses | 176,271 | 148,592 | 27,679 | 19% | 41% |
| Other operating expenses | 123,116 | 114,420 | 8,696 | 8% | 29% |
| Total | 430,200 | 381,128 | 49,072 | 13% | 100% |

Salaries and other personnel expenses amounted to USD 130.8 million, as compared to USD 118.1 million in the third quarter of last year. The increase is for the most part explained by the Company's increased scope of business and the impact of contractual wage increases. The table below illustrates the increase in wage costs between years.

| | |
|--|----------------|
| Salaries and other personnel expenses Q3'17 | 118,116 |
| Contractual wage increases | 4,197 |
| Change in full-time position equivalents | 12,397 |
| Currency effect | -1,824 |
| Other | -2,073 |
| Salaries and other personnel expenses Q3'18 | 130,813 |

Figures in USD thousand

Aviation expenses amounted to a total of USD 176.3 million, up by USD 27.7 million, of which USD 15.4 related to higher fuel costs.

| USD thousand | Q3 2018 | Q3 2017 | Change | % Change | % of total exp. '18 |
|--|----------------|----------------|---------------|------------|---------------------|
| Aircraft fuel | 97,740 | 82,364 | 15,376 | 19% | 23% |
| Aircraft lease | 10,179 | 5,226 | 4,953 | 95% | 2% |
| Aircraft handling, landing and communication | 46,388 | 41,424 | 4,964 | 12% | 11% |
| Aircraft maintenance expenses | 21,964 | 19,578 | 2,386 | 12% | 5% |
| Total | 176,271 | 148,592 | 27,679 | 19% | 41% |

Fuel expenses amounted in total to USD 97.7 million, up by 19% from the corresponding time of last year. The Company's reporting price for the quarter, taking hedging into account, was on average USD 624/ton, which corresponds to a 21% increase between years. The section headed Outlook and EBITDA Guidance for 2018 below provides an overview of the Company's fuel hedging position. Aircraft leasing cost amounted to USD 10.2 million, up by USD 5.0 million as compared to the third quarter of 2017, as the Company had more aircraft on lease than last year. Aircraft servicing, handling and navigation expenses amounted to USD 46.4 million, up by 12% between years. Maintenance expenses amounted to USD 22.0 million, up by 12% between years.

Other operating expenses amounted to USD 123.1 million, up by USD 8.7 million between years. The administration cost of real estates increased because of the increased number of properties in operation, including two hotels on lease in excess of the hotels on lease in the third quarter of 2017. Communication and advertising costs increased mainly due to of carryover between quarters. The table below shows a breakdown of principal items and trends between years.

| USD thousand | Q3 2018 | Q3 2017 | Change | % Change |
|--|----------------|----------------|--------------|-----------|
| Operating cost of real estate and fixtures | 10,827 | 8,333 | 2,494 | 30% |
| Communication | 8,789 | 6,851 | 1,938 | 28% |
| Advertising | 7,112 | 5,458 | 1,654 | 30% |
| Booking fees and commission expenses | 22,451 | 21,554 | 897 | 4% |
| Cost of goods sold | 4,903 | 3,544 | 1,359 | 38% |
| Customer services | 20,290 | 18,184 | 2,106 | 12% |
| Tourism expenses | 38,711 | 41,438 | -2,727 | -7% |
| Allowance for bad debt | 457 | 490 | -33 | -7% |
| Other operating expenses | 9,576 | 8,568 | 1,008 | 12% |
| Total | 123,116 | 114,420 | 8,696 | 8% |

FINANCIALS

- **Currency effect positive by USD 3.8 million in Q3**

| USD thousand | Q3 2018 | Q3 2017 | Change | % Change |
|-------------------|---------------|------------|---------------|----------|
| Interest income | 229 | 976 | -747 | -77% |
| Interest expenses | -5,610 | -4,090 | -1,520 | 37% |
| Currency effect | 3,806 | 3,511 | 295 | 8% |
| Total | -1,575 | 397 | -1,972 | - |

BALANCE SHEET AND FINANCIAL POSITION

- **Total assets amounted to USD 1.6 billion at the end of the third quarter**
- **Equity ratio 36%**
- **Cash and market securities USD 184.0 million**

| USD thousands | 30.09.2018 | 31.12.2017 | Change |
|--------------------------------|------------|------------|---------|
| Total assets | 1,598,402 | 1,423,842 | 174,560 |
| Operating assets | 673,686 | 652,705 | 20,981 |
| Cash and short term investment | 184,031 | 225,278 | -41,247 |
| Total equity | 575,444 | 596,545 | -21,101 |
| Interest bearing debt | 406,239 | 289,541 | 116,698 |
| Net interest bearing debt | 222,208 | 64,263 | 157,945 |
| Equity ratio | 36% | 42% | -6 ppt |
| Current ratio | 1.02 | 0.99 | 3% |

Operating assets amounted to USD 673.7 million, up by USD 21.0 million from the beginning of the year. Assets relating to hotel operations are currently in a divestment process, and therefore listed as assets for sale in the balance sheet. Further information on the impact of the change is set out in Note 6 in the interim statement.

Investments in operating assets are discussed in the section below on Cash Flow and Investments. At the end of the quarter the Group's fleet comprised 52 aircraft, 42 of which were owned by the Company.

| Type | Icelandair | Cargo | Loftleidi | Air Iceland | Fleet 30.09.18 | Fleet 31.12.17 | Of which own | Of which leased | Ch. as of 31.12.17 |
|-----------------|------------|----------|-----------|-------------|----------------|----------------|--------------|-----------------|--------------------|
| B757-200 | 24 | 2 | 5 | | 31 | 29 | 27 | 4 | 2 |
| B757-300 | 2 | | | | 2 | 1 | 2 | | 1 |
| B737 MAX 8 | 3 | | | | 3 | 0 | 2 | 1 | 3 |
| B767-300 | 4 | | 2 | | 6 | 6 | 5 | 1 | 0 |
| B737-700 | | | 1 | | 1 | 1 | | 1 | 0 |
| B737-800 | | | 3 | | 3 | 3 | | 3 | 0 |
| Bombardier Q200 | | | | 3 | 3 | 3 | 3 | | 0 |
| Bombardier Q400 | | | | 3 | 3 | 3 | 3 | | 0 |
| Total | 33 | 2 | 11 | 6 | 52 | 46 | 42 | 10 | 6 |

Equity amounted to USD 575.4 million at the end of September, and the equity ratio was 36%. The table below shows the principal changes in equity from the turn of the year.

| USD thousands | |
|-----------------------------------|----------------|
| Balance at 1.1. 2018 | 591,535 |
| Impact of IFRS 15 correction | 5,010 |
| Purchase of own shares | -7,485 |
| Total comprehensive loss | -6,362 |
| Dividend (0.15 US cent per share) | -7,254 |
| Balance at 30.09.2018 | 575,444 |

Interest-bearing liabilities amounted to USD 406.2 million, as compared to USD 289.5 million at the beginning of the year. The increase is explained largely by borrowings for the acquisition of two 737 MAX aircraft. Payments on long-term debts in the third quarter amounted to USD 12.4 million. Cash and marketable securities amounted to USD 184.0 million at the end of the quarter. Included under claims are USD 176.3 million constituting advance payments on new aircraft to be delivered in the coming years. Of these claims USD 108.5 million are included under short-term assets.

| USD thousands | 30.09.2018 | 31.12.2017 | Change |
|----------------------------------|-------------------|-------------------|----------------|
| Loans and borrowings non-current | 321,464 | 280,254 | 41,210 |
| Loans and borrowings current | 84,775 | 9,287 | 75,488 |
| Short term investment | 8,648 | 4,087 | 4,561 |
| Cash and cash equivalents | 175,383 | 221,191 | -45,808 |
| Net interest bearing debt | 222,208 | 64,263 | 157,945 |

CASH FLOW AND INVESTMENTS

- **Net cash for use in operating activities USD 50.6 million**
- **Cash and cash equivalents at the end of September USD 175.4 million**
- **Total investments USD 42.8 million**

| USD thousand | Q3 2018 | Q3 2017 | Change |
|---|----------------|----------------|----------------|
| Net cash to operating activities | -50,635 | -19,749 | -30,886 |
| Net cash used in investing activities | -76,540 | -53,154 | -23,386 |
| Net cash used in financing activities | 62,976 | -2,399 | 65,375 |
| Cash and cash equivalents change | -64,199 | -75,302 | 11,103 |
| Cash and cash equivalents, end of period | 175,383 | 260,130 | -84,747 |

Net cash for use in operating activities in the third quarter amounted to USD 50.6 million, up by USD 30.9 million from the third quarter of 2017. Investments over the quarter amounted to a total of USD 42.8 million, of which USD 21.0 million were investments in engine overhauls. Other investments in operating assets, for the most parts investments in hotel operations at Mývatn, a new flight simulator and premises in Keflavik, amounted to USD 19.1 million.

| USD thousand | Q3 2018 |
|----------------------------------|----------------|
| Operating assets: | |
| Aircraft and aircraft components | 2,073 |
| Overhaul own aircraft | 21,046 |
| Other | 19,084 |
| Total operating assets | 42,203 |
| Long term cost | |
| Overhaul leased aircraft | 0 |
| Intangible assets | 560 |
| Total Capex | 42,763 |

OUTLOOK AND EBITDA GUIDANCE FOR 2018

- **A number of measures have been taken to improve the Company's competitiveness**
- **Flights to be introduced through a new connection bank alongside the current Route Network connection bank in May next year**
- **Company's hotel operations in divestment process**

International flight operations

In recent weeks a number of measures have been taken to improve the Company's competitiveness. A new organisation chart was presented in mid-July, which is designed to sharpen the Company's focus on sales and marketing, on the one hand, and services to customers, on the other hand. The decision has been made to introduce flights in a new connection bank alongside the Route Network's current connection bank. As of May 2019, flights to Europe will be offered at 11:00 a.m., and to cities in North America at 20:00 p.m. The objective of the new connection bank is to create new opportunities for growth, improve passenger service and increase flexibility. There is no scope available for adding flights or increasing passenger numbers at Keflavik Airport at peak hours in the morning and afternoon, but the new departures are scheduled at times when there is ample space at departure gates and ramps. In addition, new connections will be available to passengers crossing the Atlantic between these two connection banks. The imbalance in the passenger capacity between North America and Europe has been corrected in the flight schedule for 2019. Our focus now is on strengthening the Company's revenue control, with the implementation of a new revenue control system at an advanced stage. The priorities are increased automation and use of digital solutions and enhancement of ancillary revenue. Also, work is in progress on improving the utilisation of staff and all the Company's operating factors. In 2019, six B737MAX aircraft will be added to the three that were introduced this year, which will have a positive impact on the Company's fuel cost. The Company's experience this year shows that the fuel consumption of the new aircraft is 27% lower per seat than that of the Boeing 757 aircraft. In addition, maintenance expenses will be reduced.

Investments in aviation

Loftleidir Icelandic's charter operations are showing success, and the results for 2018 are expected to be on a par with last year's. The operation of Air Iceland Connect is challenging, although the performance is far better than last year, with streamlining measures taken last year now showing results. Work remains in progress on further integrating Air Iceland Connect with Icelandair. Operation of the Vita travel agency has been positive.

Investments in Tourism

A formal sale process of Icelandair Group's hotel operations and related assets starts this week. Extensive interest has been expressed by both Icelandic and foreign investors. The process is scheduled for completion in the first quarter of 2019. Iceland Travel's operation has been challenging in 2018. Steps have been taken to improve the results with increased automation and sharpened focus on the use of digital solutions, where the company has invested extensively to improve productivity. Offers have been introduced of new services to adapt to a changed composition of tourists, such as shorter trips, to increase revenue.

EBITDA guidance

The price of jet fuel (net of hedging) is projected at USD 760/ton on average over the final quarter of 2018, as compared to the estimate of USD 715/ton in the EBITDA guidance published at the end of June. Taking hedging into account, a 10% increase in fuel prices may be expected to have a USD 3.3 million adverse impact on EBITDA. The Company's fuel hedging situation at the end of September is highlighted in the table below.

| Period | Estimated usage (tons) | Swap volume | % hedged | Av. Swap price USD |
|---------------------|------------------------|----------------|------------|--------------------|
| Oct 18 | 37,594 | 18,500 | 49% | 560 |
| Nov 18 | 29,491 | 15,450 | 52% | 574 |
| Dec 18 | 27,077 | 16,450 | 61% | 587 |
| Jan 19 | 29,438 | 15,250 | 52% | 621 |
| Feb 19 | 25,943 | 14,250 | 55% | 644 |
| Mar 19 | 29,792 | 15,250 | 51% | 622 |
| Apr 19 | 32,607 | 15,250 | 47% | 631 |
| May 19 | 46,321 | 21,250 | 46% | 635 |
| Jun 19 | 53,303 | 24,250 | 45% | 683 |
| Jul 19 | 55,837 | 26,250 | 47% | 692 |
| Aug 19 | 55,652 | 28,250 | 51% | 614 |
| Sep 19 | 55,230 | 27,250 | 49% | 752 |
| 12 months | 478,285 | 237,650 | 50% | 643 * |
| Oct 19 | 36,956 | 16,000 | 12% | 753 |
| Nov 19 | 33,177 | 4,000 | 13% | 699 |
| Dec 19 | 31,749 | 4,000 | 14% | 722 |
| Jan 20 | 30,002 | 4,000 | 14% | 713 |
| Feb 20 | 26,439 | 4,000 | 1% | 789 |
| Mar 20 | 30,358 | 4,000 | 1% | 764 |
| 13-18 months | 188,681 | 36,000 | 19% | 744 * |

* weighted average price

Based on revised assumptions, the average exchange rate index is projected at 180 for the remainder of the year, as compared to 164 in the last forecast, and the average exchange rate of the EUR against the USD is projected at 1.16 in the fourth quarter, as compared to 1.18 in the July forecast. The EBITDA forecast for the year is USD 80-90 million. Negative one-time-event impact on revenues is estimated USD 50-80 million.

Long-term prospects

The air transport industry is by its nature volatile, and a number of external factors can affect performance in the sector, such as exchange rate trends and fuel price trends. Changes in the competitive environment also have a significant impact. In the opinion of management, 2018 is a somewhat anomalous year and the Company is anticipating significantly better results in the long term. The Company is working on a number of elements with a view to improving efficiency in operations and increasing revenue. These elements include automation, integration, outsourcing and developing our Route Network to improve the efficiency of our human resources, fleet and other operating assets.

Recent changes in emphasis in the Company's organisation should ensure improved efficiency in sales and services to customers. The Company is now in the process of commissioning a new and more efficient aircraft type. The new aircraft are far more economic in operation than older aircraft in the Company's fleet, both as regards fuel consumption and maintenance. Based on current jet fuel prices, the Company's performance will be strengthened by the introduction of the new aircraft.

The Company has set itself the target of returning an average EBIT ratio of 7% per year as of 2019 for the long term.

PRESENTATION MEETING 31 OCTOBER 2018

An open presentation for stakeholders will be held on Wednesday 31 October 2018 at the Icelandair Hotel Reykjavik Natura. Bogi Nils Bogason, acting Icelandair Group CEO, will present the Company's results and respond to questions, together with other senior management. The presentation will be held in Rooms 4-5, starting at 08:30. Breakfast will be offered from 08:00 a.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.

The meeting can be followed in real time on the website

<http://www.icelandairgroup.is/investors/reports-and-presentations/webcast-next/>

APPROVAL OF QUARTERLY STATEMENT

The consolidated accounts of Icelandair Group for the third quarter report of 2018 were approved at a meeting of the Board of Directors on 30 October 2018.

FINANCIAL CALENDAR

- **Financial statement for the fourth quarter – week 06, 2019**
- **Annual General Meeting – Week 10, 2019**

FOR FURTHER INFORMATION PLEASE CONTACT:

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