

FIRST QUARTER PERFORMANCE IN LINE WITH MANAGEMENT EXPECTATIONS

- | **Loss after taxes USD 26.7 million, as compared to USD 18.3 million in the first quarter of 2013**
- | **EBITDA negative by USD 13.3 million, as compared to USD 8.3 million in the preceding year**
- | **The cost of increased scope of business in the peak season, which accrues mostly in the first quarter, explains the reduced EBITDA between years**
- | **Total revenue increased by 11%**
- | **Equity ratio was 32% at the end of March**
- | **Net cash from operations was USD 121.4 million, as compared to USD 78.5 million in the preceding year**

USD thousand	Q1 2014	Q1 2013	Change	% Change	12M 2013
Operating results					
Total income	191,277	173,045	18,232	11%	1,022,957
EBITDAR	-3,137	4,122	-7,259	-176%	189,870
EBITDA	-13,304	-8,314	-4,990	-60%	143,710
EBIT	-30,600	-22,998	-7,602	-33%	73,011
EBT	-33,362	-22,923	-10,439	-46%	71,048
Profit / loss for the period	-26,721	-18,289	-8,432	-46%	56,418
Balance sheet					
Total assets	927,291	834,910	92,381	11%	832,875
Total equity	298,722	267,308	31,414	12%	346,082
Interest bearing debt	93,727	140,506	-46,779	-33%	122,017
Cash and marketable securities	259,754	165,224	94,530	57%	199,493
Net interest bearing debt	-166,027	-24,718	-141,309	572%	-77,476
Cash flow					
Working capital from / to operations	-12,549	-1,481	-11,068	747%	162,385
Net cash from operating activities	121,371	78,453	42,918	55%	230,874
Net cash used in investing activities	-33,946	-40,795	6,849	-17%	-113,223
Net cash used in financing activities	-29,138	-11,239	-17,899	159%	-45,232
Cash and cash equivalents end of period	250,213	143,958	106,255	74%	191,538
Key Ratios					
Profit / loss per share expressed in US Cent	-0.54	-0.37	-0.17	-46%	1.13
Intrinsic value	7.36	6.59	0.77	12%	8.53
Equity ratio	32%	32%	0.2 ppt	-	42%
Current ratio	0.81	0.76	0.05	7%	0.94
CAPEX USD thousand	30,938	43,102	-12,164	-28%	114,240
Transport revenue as % of total revenues	64%	64%	0.0 ppt	-	69%
EBITDAR ratio	-1.6%	2.4%	-4.0 ppt	-	18.6%
EBITDA ratio	-7.0%	-4.8%	-2.2 ppt	-	14.0%
Share information ISK					
Highest price in period	19.95	11.90	8.05	68%	18.20
Lowest price in period	17.25	8.22	9.03	110%	8.22
Price at period end	17.90	11.35	6.55	58%	18.20
Market Cap at period end (millions)	89,500	56,750	32,750	58%	91,000

BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO

"Our first quarter results were in line with management's expectations. The forecast for the year provided for a negative outcome in the quarter, below the level of the corresponding quarter of last year. Among the explanations for the result is that expenses arising out of the increased scope of our business in the peak period accrue largely in the first quarter. This includes advertising and marketing expenses, implementation of aircraft and the cost of bookings and agents' fees relating to the peak season. EBITDA was negative by USD 13.3 million, down by just short of USD 5.0 million from the first quarter of the preceding year.

Total income amounted to USD 191.3 million, increasing by 11% year on year. The increase in passenger revenues was most significant in the North Atlantic market, but the tourist market to Iceland also showed a considerable increase. The Company's charter and freight operations were successful, with profitability increasing between years. The operation of other subsidiaries of the Group also showed successful results in line with projections.

The prospects for Icelandair Group's operations in 2014 are favourable. Tourist arrivals in Iceland are expected to hit a record level this year, with positive consequences for the travel industry. However, the Company is facing some uncertainty, as the Icelandic Airline Pilots' Association has announced an indefinite overtime ban and strikes in May. Also, negotiations have not been completed with flight attendants and aircraft maintenance engineers. Icelandair Group's management hopes that agreements can be reached with these three groups of employees to prevent any disruption to the Company's business activity. The Company's earnings forecast remains unchanged, with EBITDA for 2014 projected in the range of USD 145-150 million."

TRANSPORT FIGURES

- | **Passengers on international flights were 397 thousand, increasing in number by 11%**
- | **The passenger load factor on international flights was 74.3%**
- | **Sold block hours in charter projects were down by 15% between years**

	Q1 2014	Q1 2013	Change
INTERNATIONAL FLIGHTS			
Number of passengers ('000)	397.3	358.1	11%
Load factor (%)	74.3	74.1	0.2 ppt
Available seat kilometers (ASK'000)	1,578.5	1,369.2	15%
REGIONAL- AND GREENLAND FLIGHTS			
Number of passengers ('000)	65.1	70.5	-8%
Load factor (%)	70.5	70.7	-0.2 ppt
Available seat kilometers (ASK'000)	29.5	31.5	-6%
CHARTER FLIGHTS			
Fleet Utilization (%)	100%	82%	18.0 ppt
Sold Block Hours	6,113	7,225	-15%
CARGO			
Available Tonne Kilometers (ATK'000)	42,828	40,100	7%
Freight Tonne Kilometers (FTK'000)	24,285	22,512	8%
HOTELS			
Available Hotel Room Nights	66,569	66,600	0%
Sold Hotel Room Nights	44,812	41,891	7%
Utilization of Hotel Rooms (%)	67.3	62.9	4.4 ppt

Capacity on international flights increased by 15% in the first three months of the year. Capacity increased by 22% on routes to North America and 5% on routes to Europe. Over half of the increase to North America was the result of the increased frequency of flights to current destinations, especially Toronto and Washington. The remainder was the result of flights to new destinations, Edmonton and New York (Newark).

Passengers on international flights were 397 thousand in the first quarter, up by 11% from the first quarter of last year. Passenger numbers increased in all markets, with the biggest increase in the North Atlantic market, at just over 19%. The increase in the tourist market to Iceland was 11%. The passenger load factor was 74.3%, as compared to 74.1% at the same time last year.

Passengers on regional flights and Greenland routes were just over 65 thousand over the period, down by 8% from last year. Capacity was 6% below last year's levels. The passenger load factor in the quarter was 70.5%, down by 0.2 percentage points between years. Sold block hours on charter flights were down by 15% between years. Freight increased by 8% from the preceding year. The number of sold hotel room nights increased by 7% in the first three months of the year. The utilisation of hotel rooms was 67.3%, as compared to 62.9% at the same time last year.

FIRST-QUARTER OPERATIONS

USD thousand	Q1 2014	Q1 2013	Change
EBITDAR	-3,137	4,122	-7,259
EBITDA	-13,304	-8,314	-4,990
EBIT	-30,600	-22,998	-7,602
EBT	-33,362	-22,923	-10,439
Loss for the period	-26,721	-18,289	-8,432
EBITDAR %	-1.6%	2.4%	-4.0 ppt
EBITDA %	-7.0%	-4.8%	-2.2 ppt

EBITDA was negative by USD 13.3 million, as compared to USD 5.0 million in the preceding year. The EBITDA ratio was -7.0% in the first quarter, as compared to -4.8% over the same period in 2013. When Icelandair Group published its earnings forecast for 2014 at the beginning of the year, the forecast projected a deterioration in results between years. The reason is that the cost of increased business activity over the peak season is largely expensed in the first half of the year; this includes marketing expenses, the implementation cost of new aircraft, booking and commission fees and credit card commissions. EBIT was USD -30.6 million, as compared to USD -23.0 million at the same time last year. Loss after taxes came to USD 26.7 million, as compared to a loss of USD 18.3 in the corresponding quarter of 2013. EBITDAR amounted to USD -3.1 million, as compared to USD 4.1 million in the first quarter of 2013.

INCOME

- | **Total revenue was 11% in excess of the first quarter of 2013**
- | **Passenger revenue increased by 10% between years**
- | **Other operating revenue increased by 38%.**

USD thousand	Q1 2014	Q1 2013	Change	% Change	% of rev. '14
Transport revenue:	121,580	110,067	11,513	10%	64%
Passengers	110,392	99,976	10,416	10%	58%
Cargo and mail	11,188	10,091	1,097	11%	6%
Aircraft and aircrew lease	21,961	28,352	-6,391	-23%	11%
Other operating revenue	47,736	34,626	13,110	38%	25%
Total	191,277	173,045	18,232	11%	100%

Transport revenue increased by USD 11.5 million, or 10%; of this figure, passenger revenue increased by USD 10.4 million. Income from aircraft and aircrew lease fell by USD 6.4 million, or 23%, as a result of the reduced number of charter projects. Other operating revenue amounted to USD 47.7, up by USD 13.1 million, or 38%, as compared to the first quarter of 2013. Income from sold maintenance services increased considerably as a result of sold consultancy services and the installation of a new entertainment system and seats in aircraft for customers. This was offset by increased expense, as noted in the explanation of the Company's aircraft maintenance expenses below.

USD thousand	Q1 2014	Q1 2013	Change	% Change
Sale at airports and hotels	9,225	7,827	1,398	18%
Revenue from tourism	13,303	11,727	1,576	13%
Aircraft and cargo handling services	8,132	7,413	719	10%
Maintenance revenue	9,141	1,289	7,852	609%
Gain on sale of operating assets	69	61	8	13%
Other operating revenue	7,866	6,309	1,557	25%
Total	47,736	34,626	13,110	38%

EXPENSES

- | **Total expenses increased by USD 23.2 million**
- | **Cost increases mostly a result of increased capacity on international flights**
- | **Implementation costs, booking fees and commission costs of the increased peak-season capacity are largely expensed in the first quarter**

USD thousand	Q1 2014	Q1 2013	Change	% Change	% of exp. '14
Salaries and other personnel expenses	60,889	52,530	8,359	16%	30%
Aircraft fuel	47,971	43,596	4,375	10%	23%
Aircraft and aircrew lease	6,007	9,388	-3,381	-36%	3%
Aircraft handling, landing and communication	14,372	12,676	1,696	13%	7%
Aircraft maintenance expenses	21,067	18,403	2,664	14%	10%
Other operating expenses	54,275	44,766	9,509	21%	27%
Total	204,581	181,359	23,222	13%	100%

Salaries and other personnel expenses increased by USD 8.4 million, or 16%, in comparison with the first quarter of 2013. The increase was a result of the expanded scope of the Company's business and the impact of contractual wage increases.

Fuel cost increased by USD 4.4 million, which represents an increase of 10% from the preceding year and reflects the increased business in the Route Network. The world market price of fuel was on average USD 977/ton in the first quarter of 2014, as compared to USD 1,038/ton over the same period in 2013.

Aircraft and aircrew lease decreased in comparison with the first quarter of 2013 by USD 3.4 million, or 36%. The reason is that fewer aircraft were on lease and leasing prices were lower.

Aircraft handling, landing and navigation expenses increased by USD 1.7 million between years, or 13%, as a result of increased capacity and general price increases. Maintenance expenses amounted to USD 21.1 million. Of this figure, expenses relating to maintenance in the service of customers amounted to USD 7.5 million, as noted in the explanation of increased revenue from maintenance services above. Other operating expenses amounted to USD 54.3 million, increasing by USD 9.5 million between years. The table below shows a breakdown of principal items and trends between years.

USD thousand	Q1 2014	Q1 2013	Change	% Change
Operating cost of real estate and fixtures	5,569	4,700	869	18%
Communication	4,422	3,504	918	26%
Advertising	5,812	5,267	545	10%
Booking fees and commission expenses	12,256	9,387	2,869	31%
Cost of goods sold	4,427	3,921	506	13%
Customer services	3,574	2,230	1,344	60%
Tourism expenses	7,151	6,136	1,015	17%
Allowance for bad debt	3,834	2,115	1,719	81%
Other operating expenses	7,230	7,506	-276	-4%
Total other operating expenses	54,275	44,766	9,509	21%

FINANCIALS

Negative currency effect over the period

USD thousand	Q1 2014	Q1 2013	Change	% Change
Interest income	460	698	-238	-34%
Interest expenses	-1,898	-2,521	623	-25%
Currency effect	-1,249	1,852	-3,101	-167%
Net finance income	-2,687	29	-2,716	-

Financial expenses in the first quarter amounted to USD 1.9 million, down by USD 0.6 million between years. The currency effect in the quarter was negative by USD 1.2 million, as compared to a positive effect of USD 1.9 million in the corresponding quarter of 2013. Owing to liabilities in excess of assets in Icelandic krónur in the balance sheet, the strengthening of the Icelandic króna against the dollar resulted in an exchange rate loss over the quarter.

BALANCE SHEET AND FINANCIAL POSITION

Total assets amounted to USD 927.3 million at the end of the first quarter

The equity ratio was 32%

Interest-bearing debt amounted to USD 93.7 million, down from the level of the beginning of the year

USD thousand	31.03.2014	31.12.2013	Change	31.03.2013
Total assets	927,291	832,875	94,416	834,910
Total equity	298,722	346,082	-47,360	267,308
Interest bearing debt	93,727	122,017	-28,290	140,506
Net interest bearing debt	-166,027	-77,476	-88,551	-24,718
Cash and marketable securities	259,754	199,493	60,261	165,224
Equity ratio	32%	42%	-9 ppt	32%
Current ratio	0.81	0.94	-14%	0.76

Operating assets amounted to USD 310.9 million, increasing by USD 11.8 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. At the end of the quarter, the fleet comprised 37 aircraft, of which 27 are owned by the Company. The table below shows an overview of the Company's fleet at the end of the first quarter.

Type	Icelandair	Cargo	Loftleiðir	Air Iceland	Group fleet 31.03.14	Group fleet 31.12.13	Of which own	Of which leased	Ch. as of 31.12.13
B757 200	19	3	2		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
Total	20	3	7	7	37	37	27	10	0

Equity amounted to USD 298.7 million at the end of the first quarter, and the equity ratio was 32%. A dividend approved at the annual general meeting was entered under liabilities as a reduction in equity. The dividend was paid out in April and amounted to US Cent 0.38 per share, for a total of USD 19.1 million. The equity ratio at the end of 2013 was 42%.

Interest-bearing liabilities amounted to USD 93.7 million, as compared to USD 122.0 million at the beginning of the year. Payments on long-term liabilities in the first quarter amounted to USD 29.1 million. Cash and marketable securities amounted to a total of USD 259.8 million at the end of the first quarter of 2014, as compared to USD 199.5 million at the beginning of the year. Net interest-bearing debt was therefore negative in the amount of USD 166.0 million at the end of the quarter, down by USD 88.6 million from the turn of the year.

USD thousand	31.03.2014	31.12.2013	Change	31.03.2014
Loans and borrowings non-current	74,600	78,489	-3,889	91,088
Loans and borrowings current	19,127	43,528	-24,401	49,418
Marketable securities	9,541	7,955	1,586	21,266
Cash and cash equivalents	250,213	191,538	58,675	143,958
Net interest bearing debt	-166,027	-77,476	-88,551	-24,718

CASH FLOW AND INVESTMENTS

- | **Cash and cash equivalents at the end of March amounted to USD 250.2 million**
- | **Investments amounted to a total of USD 30.9 million**
- | **Payments on long-term liabilities amounted to USD 29.1 million**

USD thousand	Q1 2014	Q1 2013	Change
Working capital used in operations	-12,549	-1,481	-11,068
Net cash from operating activities	121,371	78,453	42,918
Net cash used in investing activities	-33,946	-40,795	6,849
Net cash used in financing activities	-29,138	-11,239	-17,899
Increase in cash and cash equivalents	58,287	26,419	31,868
Cash and cash equivalents, end of period	250,213	143,958	106,255

Net cash provided by operating activities in the first quarter amounted to USD 121.4 million, up by USD 42.9 million from the first quarter of 2013. Investments in operating assets amounted to USD 27.4 million. Investments in long-term cost and intangible assets amounted to USD 3.5 million.

USD thousand	Q1 2014
Operating assets:	
Aircraft and aircraft components	19,958
Overhaul own aircraft	4,978
Other	2,477
Total operating assets	27,413
Long term cost	
Overhaul leased aircraft	2,995
Intangible assets	530
Total Capex	30,938

Payments on long-term liabilities amounted to USD 29.1 million over the quarter. Cash increased by 58.3 million over the quarter. The increase over the same period last year was USD 26.4 million.

OUTLOOK FOR ICELANDAIR GROUP HF.

- | Profitable organic growth projected in 2014
- | Uncertainty due to announced pilot strike

Icelandair Group's prospects for the year are generally favourable. Continued profitable organic growth is planned, and the Company's flight schedule is projected at 18% in excess of the 2013 schedule. Tourist arrivals in Iceland are expected to set a new record, with positive consequences for the travel industry. The main uncertainty faced by the Company is the threat posed by open contracts with three groups of employees within the group: pilots, flight attendants and maintenance engineers. These employees have been offered contracts which are comparable to those negotiated in the general labour market, and which a half of Icelandair Group's employees approved in early 2014. However, the Icelandic Airline Pilots' Association (FIA) has not been willing to negotiate with the Company on those terms and has announced an indefinite ban on pilot overtime as of 6:00 a.m. on 9 May 2014. FIA has also announced strikes on five dates in May, which will be in effect for 12-96 hours each time. Icelandair Group's management hopes that agreements can be reached with these three groups to prevent any disruption to the Company's business.

The Company is facing an increased competition in its international passenger flight operation, particularly in the market between Scandinavia and North America and the UK market. As a result, it appears that passenger revenue in the second quarter will fall short of the management projections. However, the booking situation for the second half of the year is looking good, and the assumption is that the projected passenger revenue in that period will be achieved or exceeded.

The Company's cargo operations are showing good results. The Company plans to withdraw entirely from charter operations with freight and will return in early July an aircraft currently used in charter operations. Following the return, two cargo aircraft will carry freight on scheduled routes, while the holds of passenger aircraft on international routes will continue to be used for cargo. Operations of other subsidiaries of the Group are also showing success, and the current assumption is that their operations in 2014 will be in line with the budget.

The Company's fuel hedging position is highlighted in the table below. In addition to contractual hedges, the Company defines the interaction of the USD/EUR and fuel prices as an internal hedge.

2014	Estimated usage (tons)	Option volume	Swap volume	Total swap and option contracts	% hedged	Av. Hedge price USD	Bought call strike	Sold put strike
April	15,716	0	9,200	9,200	59%	992		
May	22,106	0	11,200	11,200	51%	969		
June	27,838	0	14,300	14,300	51%	984		
July	29,707	4,000	11,400	15,400	52%	977	1,000	924
August	29,686	9,000	6,400	15,400	52%	970	1,000	928
September	24,486	8,000	5,200	13,200	54%	998	1,000	932
October	19,177	6,000	4,200	10,200	53%	990	1,000	937
November	16,141	0	3,200	3,200	20%	963		
December	15,031	0	3,200	3,200	21%	964		
Total	199,888	27,000	68,300	95,300	48%			

EBITDA FORECAST FOR 2014

At the start of the year Icelandair Group issued an EBITDA forecast for 2014 in the range of USD 145-150 million. Management is not expecting any deviation from this forecast. The forecast assumes an

average exchange rate of the EUR vs. the US Dollar of 1.35 in April through December and an estimated fuel price of USD 1,000/ton.

As reported early in the year, Icelandair Group's international passenger flight operations are facing increased competition, especially in the market between Scandinavia and North America and in the UK market. This is taken into account in the earnings forecast, and the current projection is that passenger revenue will be lower in the second quarter than forecast at the start of the year. The booking situation for the second half of the year is strong and indicates that the projected revenues will be achieved or exceeded. In the preparation of the earnings forecast account was not taken of the potential impact of the prospective pilots' overtime ban or strike, as there is uncertainty both as regards whether the actions will take place and what their impact could be on Icelandair Group's performance over the year.

HIGHLIGHTS FROM THE INCOME STATEMENT FOR 2013 BY QUARTER

The presentation of individual items in the statement of earnings for 2014 now differs from the presentation in 2013. The current presentation gives a more precise picture of operations. Below is a restated interim report from 2013.

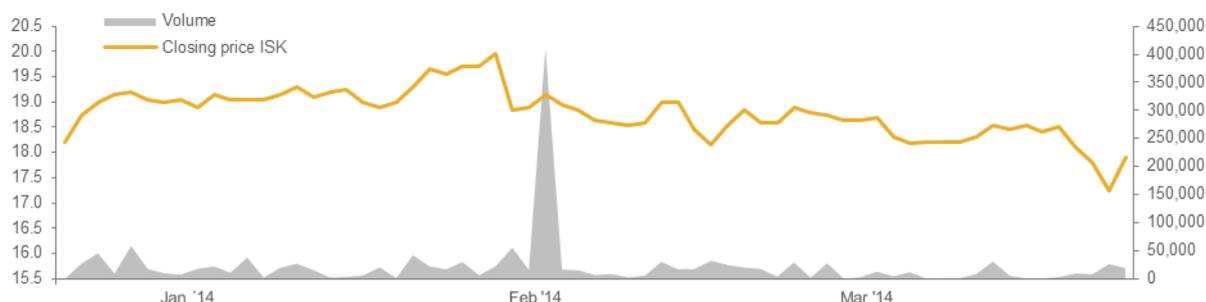
USD thousand	Q1 2013	Q2 2013	Q3 2014	Q4 2013	2013
Transport revenue	110,067	188,170	264,430	140,215	702,882
Aircraft and aircrew lease	28,352	29,563	28,829	31,225	117,969
Other operating revenue	34,626	47,867	78,403	41,209	202,105
Total Revenue	173,045	265,600	371,662	212,650	1,022,957
Salaries and other personnel expenses	52,280	63,501	61,518	62,133	239,432
Aircraft fuel	43,596	64,434	80,605	53,995	242,630
Aircraft lease	9,638	8,504	8,927	7,501	34,570
Aircraft handling, landing and communication	12,676	19,516	25,533	16,590	74,316
Aircraft maintenance expenses	18,403	19,273	26,744	17,056	81,475
Other operating expenses	44,766	47,435	66,094	48,529	206,824
EBITDA	-8,314	42,936	102,241	6,847	143,710
EBIT	-22,998	24,769	82,168	-10,928	73,011
EBT	-22,923	23,305	81,851	-11,185	71,048
Profit / loss	-18,289	18,490	65,325	-9,108	56,418

SHAREHOLDERS

- | The price of Icelandair Group stock fell by 1.6% from the turn of the year
- | The market value at the end of March was ISK 89.5 million

The Company's market value was ISK 89.5 million at the end of the first quarter of 2014. The closing price at the end of the quarter was ISK 17.90 per share. The highest close-of-day price per share of the quarter was ISK 19.95, the lowest price was ISK 17.25 per share, and the average price over the period was ISK 18.78 per share. The number of issued shares on 31 March 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 1.6% in the first quarter of 2014 and the number of shareholders was 1,993, increasing by 160 from the beginning of the year.

Share prices and volume – trend in the first quarter of 2014:



PRESENTATION MEETING 2 MAY 2014

An open presentation for stakeholders will be held on Friday 2 May 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, together with other senior management. The presentation will begin at 8:30 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.

APPROVAL OF QUARTERLY STATEMENT

The consolidated accounts of Icelandair Group for the first quarter report of 2014 were approved at a meeting of the Board of Directors on 30 April 2014.

FINANCIAL CALENDAR

- | **Financial statement for the second quarter – 31 July 2014**
- | **Financial statement for the third quarter – 30 October 2014**
- | **Financial statement for the fourth quarter – 5 February 2015**

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