

SECOND QUARTER EARNINGS AMOUNTED TO USD 11 MILLION – EBITDA GUIDANCE INCREASED

- Total income up by 11% between years, to USD 368.9 million
- EBITDA USD 42.3 million, as compared to USD 53.9 million last year
- Passenger load factor on international routes favourable, at 83.6%, up by 2.4 percentage points between years
- 34% equity ratio at the end of June
- Cash and short-term investments USD 360.1 million, USD 75.4 million in excess of interest-bearing debt
- Changes in product offerings and implementation of streamlining measures on schedule
- EBITDA guidance for 2017 increased to USD 150-160 million

USD thousands	Q2 2017	Q2 2016	Change	% Chg	6M 2017	6M 2016	Change	% Chg
Operating results								
Total income	368,887	331,355	37,532	11%	591,259	543,192	48,067	9%
EBITDAR	50,187	62,438	-12,251	-	42,297	72,598	-30,301	-
EBITDA	42,257	53,889	-11,632	-	26,016	55,643	-29,627	-
EBIT	11,407	30,691	-19,284	-	-30,721	10,677	-41,398	-
EBT	13,427	32,764	-19,337	-	-30,175	11,480	-41,655	-
Profit /Loss for the period	11,256	26,169	-14,913	-	-23,639	9,173	-32,812	-
Balance sheet								
Total assets	-	-	-	-	1,521,372	1,217,275	303,647	25%
Total equity	-	-	-	-	516,727	470,558	46,169	10%
Interest bearing debt	-	-	-	-	284,659	61,481	223,178	-
Cash and short term investment	-	-	-	-	360,092	287,612	72,480	25%
Cash in excess of interest bearing debt	-	-	-	-	75,433	226,131	-150,698	-
Cash flow								
Working capital from operations	39,565	57,310	-17,745	-31%	24,010	60,333	-36,323	-60%
Net cash from operating activities	90,801	119,636	-28,835	-24%	216,298	268,428	-52,130	-19%
Net cash used in investing activities	-51,297	-58,277	6,980	-12%	-127,079	-158,078	30,999	-20%
Net cash used in/from financing activities	-6,416	-28,500	22,084	-77%	17,104	-31,795	48,899	-
Cash and cash equivalents end of period	336,022	274,416	61,606	22%	336,022	274,416	61,606	22%
Key Ratios								
P/L per share expressed in US Cent	0.23	0.52	-0.29	-56%	-0.48	0.18	-0.66	-
Intrinsic value	-	-	-	-	13.07	11.60	1.47	13%
Equity ratio	-	-	-	-	34%	39%	-5.0 ppt	-13%
Current ratio	-	-	-	-	0.85	0.72	0.13	18%
CAPEX USD thousand	37,649	100,325	-62,676	-62%	84,928	157,043	-72,115	-46%
Transport revenue as % of total revenues	74%	75%	-0.6 ppt	-	71%	72%	-0.3 ppt	0%
EBITDAR ratio	13.6%	18.8%	-5.2 ppt	-	7.2%	13.4%	-6.2 ppt	-46%
EBITDA ratio	11.5%	16.3%	-4.8 ppt	-	4.4%	10.2%	-5.8 ppt	-57%
Share information ISK								
Highest price in period	16.15	38.90	-22.75	-58%	23.53	38.90	-15.37	-40%
Lowest price in period	13.13	29.85	-16.72	-56%	13.13	29.85	-16.72	-56%
Price at period end	-	-	-	-	14.50	31.25	-16.75	-54%
Market Cap at period end (millions)	-	-	-	-	72,500	156,250	-83,750	-54%

BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO

“Second-quarter operations were favourable. The Company's growth continues, and for the first time we transported over one million passengers on international flights in the second quarter, an increase of 13% between years. It is a matter of great satisfaction that our passenger load factor is improving at the same time that our capacity has increased. The number of passengers on Air Iceland Connect grew somewhat between years, and the growth in the Company's chartering and cargo operation has been satisfactory. In the Company's hotels, the number of sold nights grew between years, but hotel room occupancy declined somewhat. We are updating our EBIDTA guidance for the year to USD 150-160 million. The main reason is a favourable currency trend since the last guidance was published.

The booking situation in July and August is good, and the measures taken in our operations are proceeding according to plan. Although these are certainly busy times in the Icelandic tourist industry, the strengthening of the Icelandic króna and significant cost increases have had the effect that the margin in the sector has fallen.

The Company enjoys a strong position and benefits from an outstanding staff, which is the basis for our success.”

TRANSPORT FIGURES

- **Passengers on international flights 1.1 million, up by 13%**
- **Passenger load factor on international flights 83.6%, up by 2.4 percentage points between years**
- **Hotel room occupancy down from last year**

	Q2 2017	Q2 2016	Change
INTERNATIONAL FLIGHTS			
Number of passengers ('000)	1,093.5	969.8	13%
Load factor (%)	83.6	81.1	2.4 ppt
Available seat kilometres (ASK'000,000)	4,086.9	3,671.3	11%
DOMESTIC- AND GREENLAND FLIGHTS			
Number of passengers ('000)	88.7	81.4	9%
Load factor (%)	66.2	67.2	-1.0 ppt
Available seat kilometres (ASK'000,000)	52.0	47.8	9%
CHARTER			
Fleet utilisation (%)	96.0	100.0	-4.0 ppt
Sold block hours	6,584	5,547	19%
CARGO			
Freight tonne kilometres (FTK'000)	29,298	26,558	10%
HOTELS			
Available hotel room nights	95,703	84,847	13%
Sold hotel room nights	73,764	67,994	8%
Hotel room occupancy (%)	77.1	80.1	-3.1 ppt

EXCHANGE RATE TRENDS

Icelandair Group's reporting currency is the USD. The USD weakened against the ISK in the second quarter of 2017, as compared to the second quarter of 2016, but strengthened against all the Company's other trading currencies. The ISK was 22% stronger against the USD, while the EUR is 19% weaker. Revenue in Q2 of 2017 was 11% above the corresponding quarter of 2016. Calculated at a fixed exchange rate, revenue grew by 13% between years.

Currency	Av. rate Q2 2017	Chg. from Q2 2016	Closing rate 30.06 2017	Chg. from 31.12 2016
ISK	0,010	18%	0,010	21%
EUR	1,099	-17%	1,141	-15%
GBP	1,278	-24%	1,299	-19%
CAD	0,744	-19%	0,769	-18%
DKK	0,148	-17%	0,153	-15%
NOK	0,117	-18%	0,119	-17%
SEK	0,113	-21%	0,118	-17%

SECOND-QUARTER OPERATIONS

USD thousand	Q2 2017	Q2 2016	Change	% Change
EBITDAR	50,187	62,438	-12,251	-20%
EBITDA	42,257	53,889	-11,632	-22%
EBIT	11,407	30,691	-19,284	-63%
EBT	13,427	32,764	-19,337	-59%
Profit for the period	11,256	26,169	-14,913	-57%
EBITDAR %	13.6%	18.8%	-5.2 ppt	-
EBITDA %	11.5%	16.3%	-4.8 ppt	-

The Company's operating results fell between years in the second quarter. EBITDA amounted to USD 42.3 million and the EBITDA ratio was 11.5%, down by 4.8 percentage points between years. The decline in results between years is mostly due to the reduction in average fares in the Company's flight operations and the adverse currency effect resulting from the strengthening of the ISK.

INCOME

- Total revenues up by 11% between years in the second quarter
- Passenger revenue up by 10% between years

USD thousand	Q2 2017	Q2 2016	Change	% Change	% of rev. '17
Transport revenue:	272,684	246,987	25,697	10%	74%
Passengers	257,026	234,347	22,679	10%	70%
Cargo and mail	15,658	12,640	3,018	24%	4%
Aircraft and aircrew lease	20,432	20,713	-281	-1%	6%
Other operating revenue	75,771	63,655	12,116	19%	21%
Total	368,887	331,355	37,532	11%	100%

Total income increased by 11% between years; calculated at a fixed exchange rate the increase in income was 13%. Passenger revenue increased by USD 22.7 million between years, or 10%. Icelandair's passenger revenue increased in all markets, but the greatest increases were in the North Atlantic market and the tourist market to Iceland. Revenue from aircraft and aircrew lease was similar

between years, at USD 20.4 million. Other operating revenue amounted to USD 75.8 million, up by USD 12.1 million, or 19%, as compared to the second quarter of 2016. The principal reason was the increased income from tourist services and hotel operations. Revenue from aircraft and cargo handling services declined between years by USD 1.8 million, or 26%. As of 1 June 2016, a part of the revenue from aircraft and cargo handling services was defined as cargo revenue, which accounts for the decline.

USD thousand	Q2 2017	Q2 2016	Change	% Change
Sale at airports and hotels	25,522	20,999	4,523	22%
Revenue from tourism	36,522	28,668	7,854	27%
Aircraft and cargo handling services	5,246	7,058	-1,812	-26%
Maintenance revenue	1,097	751	346	46%
(Loss) gain on sale of operating assets	-70	305	-375	-123%
Other operating revenue	7,454	5,874	1,580	27%
Total	75,771	63,655	12,116	19%

EXPENSES

- **Total expenses amounted to USD 326.6 million**
- **Expanded scope of business and strengthening of the ISK primary reasons for increased expenses**

USD thousand	Q2 2017	Q2 2016	Change	% Change	% of exp. '17
Salaries and other personnel expenses	125,787	90,509	35,278	39%	39%
Aviation expenses	115,838	116,057	-219	0%	35%
Other operating expenses	85,005	70,900	14,105	20%	26%
Total	326,630	277,466	49,164	18%	100%

Salaries and other personnel expenses amounted to USD 125.8 million, as compared to USD 90.5 million in the second quarter of last year. The reasons for the increase include the Company's expanded scope of business and the strengthening of the ISK against the USD over the comparison period, as most of the Company's wage costs are in ISK.

USD thousand	Q2 2017	Q2 2016	Change	% Change	% of exp. '17
Aircraft fuel	60,484	61,035	-551	-1%	52%
Aircraft lease	5,238	5,543	-305	-6%	5%
Aircraft handling, landing and communication	31,863	29,205	2,658	9%	28%
Aircraft maintenance expenses	18,253	20,274	-2,021	-10%	16%
Total	115,838	116,057	-219	0%	100%

Fuel expenses amounted in total to USD 60.5 million, down by 1%, from the corresponding time of last year. The Company's reporting price in the quarter, taking hedging into account, was on average USD 479/ton, which corresponds to a 10% reduction between years. The section headed Outlook and EBITDA guidance for 2017 below provides an overview of the Company's fuel hedging position at the end of June. Aircraft lease amounted to USD 5.2 million over the quarter, down slightly in comparison with the second quarter of 2016. Aircraft handling, landing and navigation expenses amounted to USD 31.9 million, up by 9% between years. Maintenance expenses amounted to USD 18.3 million, down by 10% between years.

Other operating expenses amounted to USD 85.0 million, up by USD 14.1 million between years. The table below shows a breakdown of principal items and trends between years.

USD thousand	Q2 2017	Q2 2016	Change	% Change
Operating cost of real estate and fixtures	7,342	6,313	1,029	16%
Communication	6,721	5,807	914	16%
Advertising	6,730	6,415	315	5%
Booking fees and commission expenses	16,209	13,364	2,845	21%
Cost of goods sold	7,361	6,764	597	9%
Customer services	8,831	6,590	2,241	34%
Tourism expenses	22,731	18,233	4,498	25%
Allowance for bad debt	360	224	136	61%
Other operating expenses	8,720	7,190	1,530	21%
Total	85,005	70,900	14,105	20%

FINANCIALS

- **Currency effect positive by USD 4.7 million over the quarter**

USD thousand	Q2 2017	Q2 2016	Change	% Change
Interest income	1,587	906	681	75%
Interest expenses	-4,343	-1,092	-3,251	298%
Currency effect	4,715	2,317	2,398	103%
Total	1,959	2,131	-172	-8%

BALANCE SHEET AND FINANCIAL POSITION

- **Equity ratio 34%**
- **Cash in excess of interest bearing debt USD 75.4 million**

USD thousands	30.06.2017	31.12.2016	Change
Total assets	1,521,372	1,292,493	228,879
Operating assets	642,836	602,615	40,221
Cash and short term investment	360,092	250,125	109,967
Total equity	516,727	568,213	-51,486
Interest bearing debt	284,659	242,382	42,277
Cash in excess of interest bearing debt	75,433	7,743	67,690
Equity ratio	34%	44%	-10 ppt
Current ratio	0.85	0.92	-8%

Operating assets amounted to USD 642.8 million, up by USD 40.2 million from the beginning of the year. Investments in operating assets are discussed in further detail in the section below on investments. At the end of the quarter the fleet comprised 45 aircraft, of which 37 were owned by the Company. The table below shows an overview of the Company's fleet at the end of the second quarter.

Type	Icelandair	Cargo	Loftleiðir	Air		Fleet	Fleet	Of which	Of which	Ch. as of
				Iceland	Connect					
Boeing 757 200	25	2	2			29	29	26	3	0
Boeing 757 300	1					1	1	1		0
Boeing 767 300	4		2			6	6	4	2	0
Boeing 737 700			1			1	1		1	0
Boeing 737 800			2			2	2		2	0
Bombardier Q200				3		3	2	3		1
Bombardier Q400				3		3	3	3		0
Fokker F-50							4			-4
Total	30	2	7	6		45	48	37	8	-3

Equity amounted to USD 516.7 million at the end of June, and the equity ratio was 34%. The table below shows the principal changes in equity from the turn of the year.

USD thousands	
Balance at 1.1. 2017	568,213
Purchase of treasury shares	-15,230
Total comprehensive loss	-31,212
Dividend (0.10 US cent per share)	-5,044
Balance at 30.06. 2017	516,727

Interest-bearing debt amounted to USD 284.7 million, as compared to USD 242.4 million at the beginning of the year. The increase results from a subsequent bond issue in the amount of USD 40.0 million in February. Payments on long-term debts in the second quarter amounted to USD 2.3 million. Cash and short term investments in excess of interest-bearing debt amounted to USD 75.4 million at the end of the quarter.

USD thousands	30.06.2017	31.12.2016	Change
Loans and borrowings non-current	233,836	196,722	37,114
Loans and borrowings current	50,823	45,660	5,163
Short term investment	24,070	23,236	834
Cash and cash equivalents	336,022	226,889	109,133
Cash in excess of interest bearing debt	75,433	7,743	67,690

CASH FLOW AND INVESTMENTS

- **Net cash provided by operating activities was USD 90.8 million**
- **Cash and cash equivalents at the end of June amounted to USD 336.0 million**
- **Investments amounted to USD 37.6 million**

USD thousand	Q2 2017	Q2 2017	Change
Working capital from operations	39,565	57,310	-17,745
Net cash from operating activities	90,801	119,636	-28,835
Net cash used in investing activities	-51,297	-58,277	6,980
Net cash used in financing activities	-6,416	-28,500	22,084
Cash and cash equivalents change	33,088	32,859	229
Cash and cash equivalents, end of period	336,022	274,416	61,606

Net cash provided by operating activities in the second quarter amounted to USD 90.8 million, down by USD 28.8 million from the second quarter of 2016. Investments over the quarter amounted to a total of USD 37.6 million, of which USD 7.1 million concerned aircraft and related equipment. The cost of engine overhauls for own aircraft amounted to a total of USD 16.0 million, and other investments in operating assets amounted to USD 12.5 million. These included investments in enlarging the Company's hangar and the flight kitchen at Keflavik Airport, in addition to renewals of airport equipment.

USD thousand	Q2 2017
Operating assets:	
Aircraft and aircraft components	7,067
Overhaul own aircraft	16,059
Other	12,522
Total operating assets	35,648
Long term cost	
Overhaul leased aircraft	101
Intangible assets	1,900
Total Capex	37,649

OUTLOOK AND EBITDA GUIDANCE FOR 2017

- **Prospects for air transport services unchanged**
- **Strengthening of the ISK reduces margin in domestic tourist services**
- **EBITDA forecast for 2017 increased to USD 150-160 million**

Measures launched at the beginning of the year and designed to improve efficiency and increase revenue in the Group's operations are proceeding according to plan. The Company's target is for these measures on the revenue and expenditure side to improve performance by USD 30 million per year when they are in full effect at the start of 2018.

The outlook for the Company's international flight operations remains unchanged. Competition remains fierce in the North Atlantic, and average air fares are expected to remain low. Bookings in the Company's in July and August are favourable and in line with the increase in capacity between years. Sales and marketing activities are focused on the last four months of the year.

We are currently at the height of the Icelandic tourist season, with heavy traffic at Keflavik International Airport. At peak hours, delays have occurred in services, with resulting inconvenience and expense. This ongoing situation has had an impact on Icelandair's operations, and it may be expected to continue. The company regards it as a matter of great urgency to take measures at Keflavik Airport to facilitate services in the current circumstances and to take firm decisions at the earliest possible time regarding ways to support further growth in the future.

Despite the disruptive impact of the seamen's strike at the start of the year, the prospects for the Company's cargo operations in 2017 are favourable. Demand for imports has increased sharply and is expected to remain strong. The Company's charter operations continue successful, with 8-9 aircraft engaged in long-term assignments, depending on season.

The ISK has strengthened substantially against the Company's principal business currencies. The effect of the strengthening is that the contribution margin from the Company's tourist-related services is declining, notwithstanding the surge in the number of tourists visiting Iceland. Cancellations of the Company's hotel rooms are more frequent than at the same time last year, and in addition the demand for reservations at short notice has fallen. Sales in restaurant services have also fallen, and the same applies to the demand for tourist-related services.

The price of jet fuel (excluding hedging) is estimated at USD 500/ton on average over the second half of 2017, the same as in the last EBITDA guidance. Taking hedging into account, a 10% increase in fuel prices may be expected to have a USD 4.6 million adverse impact on EBITDA. The Company's fuel hedging position at the end of June is highlighted in the table below.

Period	Estimated usage (tons)	Swap volume	% hedged	Av. Swap price USD
Jul 17	49,333	29,750	60%	497
Aug 17	49,189	26,750	54%	502
Sep 17	42,810	23,550	55%	538
Oct 17	31,418	17,550	56%	516
Nov 17	26,497	14,550	55%	547
Dec 17	25,246	15,550	62%	552
Jan 18	24,869	14,250	57%	558
Feb 18	22,557	12,250	54%	556
Mar 18	27,201	15,250	56%	544
Apr 18	28,909	14,000	48%	543
May 18	35,076	18,000	51%	528
Jun 18	46,527	25,000	54%	514
12 months	409,632	226,450	55%	528
Jul 18	49,531	4,000	8%	551
Aug 18	49,154	4,000	8%	565
Sep 18	43,037	4,000	9%	534
Oct 18	33,039	3,000	9%	519
Nov 18	26,929	4,000	15%	515
Dec 18	25,638	0	0%	-
13-18 months	227,328	19,000	8%	538

* weighted average price

Based on revised assumptions, the average exchange rate index is projected at 160 for the remainder of the year, as compared to 156 in the last forecast, and the average exchange rate of the EUR against the USD is projected at 1.16 in the period of July to December, as compared to 1.08 in the April forecast.

The updated EBIDTA guidance for 2017 is USD 150-160 million.

PRESENTATION MEETING 28 JULY 2017

Icelandair Group will publish its financial statement for the second quarter of 2017 on 27 July 2017. An open presentation for stakeholders will be held on Friday 28 July 2017 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 be held in Rooms 4-5, starting at 08:30. 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 second quarter report of 2017 were approved at a meeting of the Board of Directors on 27 July 2017.

FINANCIAL CALENDAR

- **Financial statement for the third quarter – 26 October 2017**
- **Financial statement for the fourth quarter – Week 06, 2018**
- **Annual General Meeting – Week 11, 2018**

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