

PROFITABLE GROWTH IN 2017 IN A CHALLENGING ENVIRONMENT

- Year's EBITDA USD 170.2 million, as compared to USD 219.8 million in 2016
- Year's profit after taxes USD 37.7 million, as compared to USD 89.1 million in 2016
- EBITDA in Q4 negative by USD 16.9 million, down between years
- Total revenue increased by 14% over the 4th quarter
- Equity ratio 42% at year-end
- EBITDA guidance for 2018 USD 170-190 million

USD thousands	Q4 2017	Q4 2016	Chg.	% Chg.	12M 2017	12M 2016	Chg.	% Chg.
Operating results								
Total income	292,239	256,472	35,767	14%	1,419,528	1,285,574	133,954	10%
EBITDAR	-5,843	12,007	-17,850	-	207,914	254,960	-47,046	-18%
EBITDA	-16,888	2,453	-19,341	-	170,225	219,845	-49,620	-23%
EBIT	-46,291	-24,367	-21,924	-	49,794	118,437	-68,643	-58%
EBT	-48,128	-22,194	-25,934	-	48,791	120,111	-71,320	-59%
Profit/Loss for the period	-40,043	-22,870	-17,173	-	37,657	89,068	-51,411	-58%
Balance sheet								
Total assets	-	-	-	-	1,415,090	1,292,493	122,597	9%
Total equity	-	-	-	-	591,535	568,213	23,322	4%
Interest bearing debt	-	-	-	-	289,541	242,382	47,159	19%
Cash and short term investment	-	-	-	-	225,278	250,125	-24,847	-10%
Net interest bearing debt	-	-	-	-	64,263	-7,743	72,006	-
Cash flow								
Net cash to/from operating activities	9,054	-39,471	48,525	-	205,603	209,024	-3,421	-2%
Net cash used in investing activities	-48,186	-69,986	21,800	-31%	-228,419	-291,759	63,340	-22%
Net cash used in/from financing activities	-151	147,727	-147,878	-	14,554	113,643	-99,089	-
Cash and cash equivalents end of period	221,191	226,889	-5,698	-3%	221,191	226,889	-5,698	-3%
Key Ratios								
Profit per share expressed in US Cent	-0.82	-0.46	-0.36	78%	0.77	1.79	-1.02	-57%
Intrinsic value	-	-	-	-	14.95	13.99	0.96	7%
Equity ratio	-	-	-	-	42%	44%	-2.2 ppt	-5%
Current ratio	-	-	-	-	0.98	0.92	0.06	7%
CAPEX USD thousand	41,503	39,723	1,780	4%	166,131	243,397	-77,266	-32%
Transport revenue as % of total revenues	69.6%	72.4%	-2.8 ppt	-	72.8%	73.7%	-0.9 ppt	-1%
EBITDAR ratio	-2.0%	4.7%	-6.7 ppt	-	14.6%	19.8%	-5.2 ppt	-26%
EBITDA ratio	-5.8%	1.0%	-6.7 ppt	-	12.0%	17.1%	-5.1 ppt	-30%
Share information ISK								
Highest price in period	16.90	26.53	-9.63	-36%	23.53	38.90	-15.37	-40%
Lowest price in period	14.12	22.95	-8.83	-38%	13.13	22.95	-9.82	-43%
Price at period end	-	-	-	-	14.71	23.10	-8.39	-36%
Market Cap at period end (millions)	-	-	-	-	73,550	115,000	-41,450	-36%

BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO

“The year’s performance is in line with our last EBITDA guidance. The Company’s profitable growth continues, and our strong financial position and flexibility enable us to respond to new circumstances and seize new attractive and exciting market opportunities. The Company transported a record number of over four million passengers on international flights over the year.

At the end of this month we will take delivery of our first 737-MAX aircraft. The arrival of the aircraft represents a certain milestone as the start of the renewal of our fleet, a large and exciting undertaking. We have in recent months made some changes in our product offerings with new options for customers, such as Economy Light. Furthermore, flights have been introduced to seven new destinations. Innovations and adaptations of this kind reflect the Company’s flexibility and financial strength, enabling us to respond to the demands of a constantly changing market.

Competition is fierce in all our markets. The booking status for the first half of the year in international transport is good, but there is considerable uncertainty regarding the second half of the year, especially with regard to average fare trends. The Company’s earnings guidance for 2018 reflects this uncertainty, with EBITDA projected at 170-190 million USD.

At the beginning of this year we announced a new structure for the Company. The change will bring about a clearer focus on our core business and at the same time streamline our processes with shorter lines of communications and improved operational efficiency. This will make us better positioned to take on a volatile business environment resulting from advancing globalisation and changes in technology. As usual, the Company’s talented staff has done an outstanding job and our customers have faith in us. We are grateful for their continuing trust.”

TRANSPORT FIGURES

- Record number of Icelandair passengers in 2017: 4.0 million, up by 10%
- Passengers on international flights in Q4 798.1 thousand, and passenger load factor 78.9%
- Room occupancy in the Company's hotels 81.2% in 2017

	Q4 2017	Q4 2016	Change	12M 2017	12M 2016	Change
INTERNATIONAL FLIGHTS						
Number of passengers ('000)	798.1	769.5	4%	4,045.5	3,674.4	10%
Load factor (%)	78.9	79.8	-0.8 ppt	82.5	82.2	0.4 ppt
Available seat kilometers (ASK'000,000)	3,137.8	2,952.7	6%	15,245.6	13,653.3	12%
DOMESTIC- AND GREENLAND FLIGHTS						
Number of passengers ('000)	80.4	72.5	11%	349.3	327.4	7%
Load factor (%)	60.3	63.7	-3.3 ppt	65.9	68.3	-2.5 ppt
Available seat kilometers (ASK'000,000)	49.1	40.8	20%	214.5	191.2	12%
CHARTER						
Fleet Utilisation (%)	100.0	100.0	0.0 ppt	98.1	88.9	9.2 ppt
Sold Block Hours	7,557	5,488	38%	27,460	23,523	17%
CARGO						
Freight Tonne Kilometers (FTK'000)	30,961	26,520	14%	117,311	105,925	11%
HOTELS						
Available Hotel Room Nights	82,463	82,493	0%	371,289	352,214	5%
Sold Hotel Room Nights	63,228	62,871	1%	301,302	287,160	5%
Occupancy of Hotel Rooms (%)	76.7	76.2	0.5 ppt	81.2	81.5	-0.4 ppt

The North Atlantic market was the Company's largest market, accounting for 52% of the total number of passengers in 2017. The growth in passenger numbers was also greatest in that market, at 15% between years.

Passenger mix in '000	Q4 2017	Q4 2016	% of total 2017	12M 2017	12M 2016	% of total 2017
To	285.9	285.2	36%	1,459.8	1,396.3	36%
From	131.1	122.8	16%	469.6	440.9	12%
Via	381.1	361.5	48%	2,116.0	1,837.2	52%
Total passengers	798.1	769.5	100%	4,045.5	3,674.4	100%

EXCHANGE RATE TRENDS

Icelandair Group's reporting currency is the USD. The USD was weaker against the Company's principal trading currencies in the fourth quarter of 2017, as compared to the fourth quarter of 2016.

Currency	Av. rate Q4. 2017	Chg. from Q4 2016	Closing rate 31.12 '17	Chg. from 31.12 '16
ISK	0.009	13%	0.010	9%
EUR	1.164	5%	1.200	14%
GBP	1.328	-2%	1.354	10%
CAD	0,796	5%	0,797	7%
DKK	0,157	5%	0,161	14%
SEK	0,121	3%	0,122	11%

FOURTH-QUARTER OPERATIONS

USD thousand	Q4 2017	Q4 2016	Change
EBITDAR	-5,843	12,007	-17,850
EBITDA	-16,888	2,453	-19,341
EBIT	-46,291	-24,367	-21,924
EBT	-48,128	-22,194	-25,934
Loss for the period	-40,043	-22,870	-17,173
EBITDAR %	-2.0%	4.7%	-6.7 ppt
EBITDA %	-5.8%	1.0%	-6.7 ppt

EBITDA was negative by USD 16.9 million in the fourth quarter, as compared to a positive result of USD 2.5 million over the corresponding quarter last year. The loss over the quarter amounted to USD 40.0 million, as compared to a loss of USD 22.9 last year. The principal reasons for the decline in results included higher fuel prices: USD 7.1 million, the cost of a strike of the Company's aircraft maintenance engineers in December: USD 4.0 million and restructuring expenses: USD 1.6 million.

REVENUE

- **Total revenue amounted to USD 292 million, 14% above the level of the fourth quarter of 2016**

USD thousand	Q4 2017	Q4 2016	Change	% Change	% of rev.
Transport revenue:	203,462	185,786	17,676	10%	70%
Passengers	186,326	171,845	14,481	8%	64%
Cargo and mail	17,136	13,941	3,195	23%	6%
Aircraft and aircrew lease	28,396	18,375	10,021	55%	10%
Other operating revenue	60,381	52,311	8,070	15%	21%
Total	292,239	256,472	35,767	14%	100%

Total revenue increased by 14%. Transport revenue increased by USD 17.7 million between years, or 10%. Passenger revenue increased by 8%, with the largest increase in the North Atlantic market. Revenue from cargo and mail carriage increased by USD 3.2 million, largely as a result of increased goods transport to Iceland. Income from aircraft and aircrew lease amounted to USD 28.4 million, up by USD 10.0 million. The increase is a result of new charter projects, e.g. in the Cape Verde Islands and Samoa. Other operating revenue amounted to USD 60.4 million, up by USD 8.1 million, or 15%, as compared to the fourth quarter of 2016.

USD thousand	Q4 2017	Q4 2016	Change	% Change
Sale at airports and hotels	25,274	24,721	553	2%
Revenue from tourism	22,383	17,860	4,523	25%
Aircraft and cargo handling services	5,892	4,377	1,515	35%
Maintenance revenue	1,026	729	297	41%
Gain on sale of operating assets	0	46	-46	-100%
Other operating revenue	5,806	4,578	1,228	27%
Total	60,381	52,311	8,070	15%

EXPENSES

- **Total expenses USD 309.1 million**
- **Expenses increased as a result of expanded scope of business, the strengthening of the ISK and general wage hikes**

USD thousand	Q4 2017	Q4 2016	Change	% Change	% of exp.
Salaries and other personnel expenses	114,998	98,175	16,823	17%	37%
Aviation expenses	110,036	88,592	21,444	24%	36%
Other operating expenses	84,093	67,252	16,841	25%	27%
Total	309,127	254,019	55,108	22%	100%

Salaries and other personnel expenses amounted to USD 115.0 million, as compared to USD 98.2 million in the fourth quarter of last year. The reasons for the increase are the expanded scope of business, contractual wage increases and the strengthening of the ISK against the USD over the comparison period, as the Company's wage costs are virtually entirely in ISK. Proceeds from currency hedging balanced against wage costs in the fourth quarter of 2017 by USD 3.0 million; the corresponding figure for the fourth quarter of 2016 was approximately USD 3.3 million.

Aviation expenses amounted in total to USD 110.0 million over the quarter, up 24%, by USD 21.4 million.

USD thousand	Q4 2017	Q4 2016	Change	% Change	% of exp.
Aircraft fuel	54,653	45,203	9,450	21%	50%
Aircraft lease	5,718	5,351	367	7%	5%
Aircraft handling, landing and communication	29,184	21,052	8,132	39%	27%
Aircraft maintenance expenses	20,481	16,986	3,495	21%	19%
Total	110,036	88,592	21,444	24%	100%

Fuel expenses amounted in total to USD 54.7 million, up by USD 9.5 million, or 21%, from the corresponding time of last year. The Company's reporting price for the quarter, taking hedging into account, was on average USD 562/ton, which corresponds to a 17% increase between years. The section headed "Outlook and EBITDA guidance for 2018" below provides an overview of the Company's fuel hedging position at the end of December. Aircraft lease amounted to USD 5.7 million, up from the fourth quarter of 2016. The reason is the B767-300 aircraft that was added to Icelandair's fleet. Aircraft servicing, handling and navigation expenses increased by USD 8.1 million between years, or 39%, partly as a result of price hikes and increased scope of business, but also as a result of expenses carried over between quarters. Maintenance expenses amounted to USD 20.5 billion, increasing by 21% year-on-year.

Other operating expenses amounted to USD 84.1 million, up by USD 16.8 million between years. The table below shows a breakdown of principal items and trends between years.

USD thousand	Q4 2017	Q4 2016	Change	% Change
Operating cost of real estate and fixtures	8,031	6,823	1,208	18%
Communication	6,310	6,456	-146	-2%
Advertising	9,355	7,837	1,518	19%
Booking fees and commission expenses	14,915	12,359	2,556	21%
Cost of goods sold	8,094	8,173	-79	-1%
Customer services	12,292	7,381	4,911	67%
Tourism expenses	14,317	10,784	3,533	33%
Other operating expenses	10,779	7,439	3,340	45%
Total	84,093	67,252	16,841	25%

FINANCIALS

▪ Net financial items negative over the quarter

USD thousand	Q4 2017	Q4 2016	Change	% Change
Interest income	588	1,194	-606	-51%
Interest expenses	-3,835	-2,384	-1,451	61%
Currency effect	1,240	2,766	-1,526	-55%
Total	-2,007	1,576	-3,583	-

Financial expenses in the fourth quarter amounted to USD 3.8 million, as compared to USD 2.4 million in the corresponding quarter of last year. Exchange rate gains amounted to USD 1.2 million, as compared to USD 2.8 million at the same time in 2016.

BUSINESS SEGMENTS

In late 2017 the decision was made to make changes in the organisational structure of Icelandair Group. The changes will bring about a reduction in management layers, resulting in shorter lines of communication and a clearer focus than before on flight operations as the Company's core operation. The executive boards of Icelandair Group and Icelandair have been combined, and the Company is now under the management of a single chief executive officer and chief financial officer instead of two separate management teams. In all, the number of senior executives within the Company has been cut by five since the start of 2017.

Significant streamlining will be achieved with the integration of IGS and Icelandair Cargo with Icelandair, which is currently in progress, through structural simplification and a reduction in middle management. The changes will be fully implemented in the second quarter of 2018.

In connection with the structural changes the business segment overview has been modified accordingly. The business segment overview is now divided into three sections: International Flight Operations, equity investments in Flight Operations and equity investments in Tourist Services. The International Flight Operations includes Icelandair and Icelandair Cargo, which will now become an Icelandair subsidiary, IGS, which will be merged with Icelandair, and the shared services enterprise Fjárvakur. Equity investments in Flight Operations include the companies Loftleidir Icelandic, Air Iceland Connect and the Vita travel agency. Equity investments in Tourist Services includes Icelandair Hotels and Iceland Travel.

	Intern. flight operatins		Aviation investments		Tourism investments	
USD thousand	Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016
Total income	257,927	235,695	45,484	35,769	39,345	35,602
EBITDAR	-15,233	477	8,970	8,550	420	2,980
EBITDA	-17,884	-1,659	3,508	3,926	-2,512	186
EBIT	-43,168	-25,726	865	-3,743	-3,988	5,102
EBT	-42,680	-25,969	-650	4,662	-4,798	-887

USD thousand	2017	2016	2017	2016	2017	2016
Total income	1,242,285	1,141,044	170,762	155,583	218,685	175,341
EBITDAR	147,047	196,048	39,018	36,030	21,849	22,882
EBITDA	137,633	187,446	22,987	21,571	9,605	10,828
EBIT	33,548	98,568	12,387	6,955	3,859	12,915
EBT	40,094	102,502	5,401	13,195	3,296	4,414

International Flight Operations

Revenue grew by approximately 9%; however, the gross margin declined as a result of cost increases which were not reflected in price increases owing to the downward pressure on average prices in the company's markets.

Equity investments in Flight Operations

Turnover increased by 10% between years. The operation of Loftleidir Icelandic was extremely successful over the year, with a marked improvement in the company's performance from 2016. At year-end the company had 10 aircraft in operation, as compared to 8 aircraft at the beginning of the year. Vita's operations were also successful in 2017, with revenue increasing by approximately 11% and profit just short of doubling. On the other hand, the operation of Air Iceland Connect was extremely difficult in 2017. The company's turnover remained more or less the same, while results declined significantly.

Equity investments in Tourist Services

The operation of Icelandair Hotels' accommodation business showed very good success over the year in metropolitan Reykjavik, but countryside hotels suffered, with declining occupancy and fewer group reservations. Late bookings were also short of the figures seen in recent years. Rising costs and less spending by foreign visitors had the effect that gross margin figures fell short of the Company's targets. Iceland Travel's operations showed growth over the year, but the gross margin declined.

BALANCE SHEET AND FINANCIAL POSITION

- **Total assets USD 1.4 billion at year-end 2017**
- **Equity ratio 42%**
- **Interest-bearing liabilities USD 289.5 million**

USD thousands	31.12.2017	31.12.2016	Change
Total assets	1,415,090	1,292,493	122,597
Operating assets	652,705	602,615	50,090
Cash and short term investment	225,278	250,125	-24,847
Total equity	591,535	568,213	23,322
Interest bearing debt	289,541	242,382	47,159
Net interest bearing debt	64,263	-7,743	72,006
Equity ratio	42%	44%	-2 ppt
Current ratio	0.98	0.92	7%

Operating assets amounted to USD 652.7 million, up by USD 50.1 million from the beginning of the year. Investments in operating assets are further discussed in the section on cash flow and investments. At the end of the quarter the Group's fleet comprised 46 aircraft, 37 of which were owned by the Company. The table below shows an overview of the Company's fleet at the end of the year.

Type	Icelandair	Cargo	Loftleiðir	Air Iceland Connect	Fleet 31.12.17	Fleet 31.12.16	Of which own	Of which leased	Ch. as of 31.12.16
Boeing 757 200	23	2	4		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			3		3	2		3	1
Bombardier Q200				3	3	2	3		1
Bombardier Q400				3	3	3	3		0
Fokker F-50					0	4			-4
Total	28	2	10	6	46	48	37	9	-2

Equity amounted to USD 591.5 million at year-end, and the equity ratio was 42%. The equity ratio at the end of 2016 was 44%.

USD thousands	31.12.2017
Balance at 1.1. 2017	568,213
Purchase of treasury shares	-15,230
Total comprehensive profit	43,596
Dividend (0.10 US cent per share)	-5,044
Balance at 31.12. 2017	591,535

Interest-bearing debt amounted to USD 289.5 million, as compared to USD 242.4 million at the beginning of the year. The increase is mainly the result of a subsequent bond issue in the amount of USD 40.0 million in February. Net interest-bearing debt amounted to USD 64.3 million at the end of the quarter.

USD thousands	31.12.2017	31.12.2016	Change
Loans and borrowings non-current	280,254	196,722	83,532
Loans and borrowings current	9,287	45,660	-36,373
Short term investment	4,087	23,236	-19,149
Cash and cash equivalents	221,191	226,889	-5,698
Net interest bearing debt	64,263	-7,743	72,006

CASH FLOW

- **Net cash provided by operating activities USD 9.1 million**
- **Cash and cash equivalents at year-end 2017 amounted to USD 221.2 million**

USD thousand	Q4 2017	Q4 2016	Change
Net cash to/from operating activities	9,054	-39,471	48,525
Net cash used in investing activities	-48,186	-69,986	21,800
Net cash from/used financing activities	-151	147,727	-147,878
Cash and cash equivalents change	-39,283	38,270	-77,553
Cash and cash equivalents, end of period	221,191	226,889	-5,698

Net cash provided by operating activities in the fourth quarter amounted to USD 9.1 million, as compared to net cash for use in operating activities amounting to USD 39.5 million in the fourth quarter of 2016. Cash decreased by USD 39.3 million over the quarter.

INVESTMENTS

Investments in operating assets amounted to USD 37.1 million in the fourth quarter. The principal factors were engine overhauls, together with investments in a flight simulator, an aircraft hangar at Keflavik Airport and the Company's hotel business. Investments in long-term cost and intangible assets amounted to a total of USD 4.4 million. Investments over the year as a whole amounted to a total of USD 166.1 million

USD thousand	Q4 2017	12M 2017
Operating assets:		
Aircraft and aircraft components	4,694	34,848
Overhaul own aircraft	12,138	54,597
Other	20,301	66,849
Total operating assets	37,133	156,294
Long term cost		
Overhaul leased aircraft	3,234	4,176
Intangible assets	1,136	5,661
Total Capex	41,503	166,131

OUTLOOK AND EBITDA GUIDANCE FOR 2018

- **Icelandair's flight schedule projected to grow by 10% in 2018**
- **Fierce competition continues on Icelandair's principal markets**

International Flight Operations

The International Flight Operations has three distinct markets: the tourist market to Iceland, the domestic market from Iceland, and the international market between Europe and North America. Competition in all these markets has been increasing in recent months and years, and in the summer of 2018, 27 airlines will be flying to and from Iceland. Low-cost airlines have been gaining a foothold in flights across the North Atlantic and their share in seating capacity in 2017 is estimated at 9.5%, as compared to 0.5% in 2013. The result is that average fares have been falling over the past two years and the profitability of air carriers in these markets has declined. In 2018 it is estimated that airline expenses will continue to increase as a result of the rising world market price of fuel and general cost increases. Because of the intense competition there is uncertainty regarding the average price trends in the second half of the year, and as a result of the rising fuel prices it may be assumed that average air fares will trend upwards. Icelandair's booking situation for the first half of the year is favourable and in line with the increase in capacity between years. It is too early yet to make an assessment of the bookings for the second half of the year.

Icelandair's flight schedule in 2018, as measured in available seat kilometres, is set to expand by 10% over 2017 year's schedule. The number of passengers in 2018 is projected at 4.4 million, up by 350 thousand from previous year. Flights will be introduced to six new destinations: San Francisco, Kansas, Cleveland, Baltimore and Dallas in the United States and Dublin in Ireland. Flights to Birmingham in the

United Kingdom will be discontinued. The number of flights to a number of current destinations in North America and Europe will be increased. Icelandair will introduce three new 160-seat Boeing 737 MAX 8 aircraft during the year, bringing the number of aircraft in use to 33 next summer, 26 of the type Boeing 757 and four of the type Boeing 767-300, in addition to the new 737s.

The Company's Route Network has been based on two connection banks in Iceland. The main bank features departures from Keflavik International Airport to Europe in the morning and to North America in the afternoon. In recent years the Company has been developing a second connection bank with departures to the United States just before noon and at midnight to Europe. However, this connection bank has proven less profitable than the main connection bank, as average fares and the passenger load factor on nocturnal flights are lower and aircrew expenses are higher. Also, it is not possible to gain access to airports in London and Amsterdam because of their opening hours, which has limited the potential for expanding the bank. The decision was made in early 2018 to discontinue the second bank entirely and transfer the capacity to the more efficient and more profitable main bank. This will be done by increasing flight frequency outside the busiest time in the main connection banks, both before and after, with a view to maintaining an unchanged load in the middle of the bank. The flights that were shifted are in most cases one of two flights to the same destination, and flights will therefore continue to that destination at the peak hours. This change will set the foundation for the Company's future plans, but in the present year it will increase the connection options in the Route Network and simplify the Company's product offerings.

Equity investments in Flight Operations

Prospects in Loftleidir Icelandic's charter flight operations in 2018 are favourable. On the whole, it is assumed that the company will have two more aircraft on lease than in 2017 as a result of new long-term assignments. The operation of the Vita travel agency, which specialises in holiday trips for Icelanders abroad, was extremely successful in 2017, and it is assumed that the operations will also show good profit this year. Air Iceland has six aircraft in operation in 2018. The operation of the company was very challenging in 2017, however conditions are anticipated to improve in 2018.

Equity investments in Tourist Services

The number of tourists visiting Iceland is expected to grow by about 10% in 2018. The prospects for Icelandair Hotels in 2018 are quite good. The booking prospects are good, and in general the hotels are better booked than at the same time last year. The same can be said of the operating prospects of Iceland Travel. Demand is similar to the demand in 2017, and the principal emphasis has now been placed on the increased efficiency and competitiveness of the company. Nevertheless, it must be borne in mind that rising costs in Iceland have had the effect that the gross margin on tourist-related services has been declining, notwithstanding the huge increase in the number of tourists visiting Iceland. In addition, foreign visitors have been opting for shorter stays in Iceland than before.

Investments in operating assets

In 2018 the Company will take delivery of three new Boeing 737 MAX 8 aircraft. One of the aircraft will be sold to a leasing company and taken on lease for just short of 9 years. The assumption is that the other two aircraft will be financed through JOLCO financing, with negotiations in their final stages. Financing terms are far more favourable than anticipated at the time that the purchase agreements were made. In all cases the financing of the aircraft will be 100%. Other investments planned over the year include aircraft-related operating assets, two flight simulators and interior fittings for hotel projects.

EBITDA guidance

The price of jet fuel (net of hedging) is estimated at USD 625/ton on average in 2018. Taking hedging into account, a 10% increase in fuel prices may be expected to have a USD 12.1 million adverse impact on EBITDA. The fuel hedging position at the beginning of 2018 is highlighted in the table below.

Period	Estimated usage (tons)	Swap volume	% hedged	Av. swap price USD
Jan 18	24,305	14,250	59%	558
Feb 18	21,412	12,250	57%	556
Mar 18	27,183	15,250	56%	544
Apr 18	29,040	14,500	50%	544
May 18	40,540	20,500	51%	539
Jun 18	48,615	27,550	57%	523
Jul 18	50,655	26,650	53%	522
Aug 18	50,271	27,650	55%	543
Sep 18	45,817	24,550	54%	574
Oct 18	34,679	18,500	53%	559
Nov 18	28,230	15,450	55%	573
Dec 18	27,123	16,450	61%	586
12 months	427,870	233,550	55%	549
Jan 19	25,445	4,000	16%	548
Feb 19	22,406	4,000	18%	598
Mar 19	28,459	4,000	14%	595
Apr 19	30,411	4,000	13%	590
May 19	42,502	-	-	-
Jun 19	50,978	-	-	-
13-18 months	200,200	16,000	8%	583

* weighted average price

The criteria used in the Company's earnings estimate assume an average exchange rate index of 162 for the ISK and the exchange rate of the EUR against the USD is projected at an average of 1.20 over the year. In early 2017 the Company presented its target regarding measures on the revenue and expenditure side to improve performance by USD 30 million per year when in full effect at the start of 2018. It is safe to assume that two thirds of that amount have already been felt in the Company's operations in 2017, and that in 2018 the target will have been achieved and surpassed.

This is offset by the fact that the increase in available capacity in the Company's markets has been significant, which has resulted in continued downward pressure on average fares. An example is the increase in capacity on the UK market, which historically has been very important for Icelandair's performance. In 2018, nearly 90 flights will be available between Iceland and the United Kingdom in a typical July week. It is therefore clear that the Company's environment has changed radically, and the response has been to grow into new markets, modify product offerings and focus on unit costs.

Taking all of the above factors into account, the Company's earnings estimate projects EBITDA for 2018 at 170-190 million USD. It is important to bear in mind that external factors, such as fluctuations in fuel prices and the currency markets, together with average air fare trends, will significantly impact the Group's performance. The same can be said of the results of wage bargaining in the labour market, with pilots' contracts now open for renegotiation and negotiations in progress since last fall.

DIVIDENDS PAYMENTS AND REPURCHASE OF OWN SHARES

The Board of Directors of Icelandair Group has decided to repurchase the Company's own shares up to the amount of ISK 750 million. The Board of Directors proposes a payment of 750 million ISK (USD 7.2 million) in dividends to shareholders in 2018. This corresponds to ISK 0.15 per share.

PRESENTATION MEETING 12 FEBRUARY 2018

An open presentation for stakeholders will be held on Monday 12 February 2018 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 Room 2, 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 ANNUAL FINANCIAL STATEMENT

The consolidated accounts of Icelandair Group for the fourth quarter and the annual statement for 2017 were approved at a meeting of the Board of Directors on 9 February 2018.

FINANCIAL CALENDAR

- **Annual General Meeting – 08.03.2018**
- **Financial statement for the first quarter – 30.04.2018**
- **Financial statement for the second quarter – 31.07.2018**
- **Financial statement for the third quarter – 30.10.2018**
- **Financial statement for the fourth quarter – week 06, 2019**
- **Annual General Meeting – Week 10, 2019**

FOR FURTHER INFORMATION PLEASE CONTACT:

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