

EVENTFUL MONTHS BEHIND US

- Total revenues USD 248.6 million, down by 7% between years
- EBITDA negative by USD 14.7 million, improving by 19% between years
- Excluding the impact of IFRS 16, EBITDA was negative by USD 29.3 million
- 13% increase in number of passengers to Iceland
- Equity ratio at end of March 23%, as compared to 32% at year-end 2018
- Excluding the impact of IFRS16, equity ratio was 28%
- Cash amounted to USD 289 million at end of March

BOGI NILS BOGASON, PRESIDENT & CEO

“The number of passengers to Iceland grew by 13%, passenger numbers on the home market from Iceland grew by 10% while passenger numbers between Europe and North America declined by 2%. Our operations in the first quarter proved challenging, as we had anticipated, and operating results were in line with expectations. Air fare development was negatively impacted by tough competition of air carriers that have been offering unsustainable air fares. At the same time, the downward pressure on transatlantic air fares continued. Implementation and training expenses relating to six new aircraft, which the Company had intended to take into use had a negative impact, and, in addition, the suspension of the B737 MAX aircraft resulted in a one-off expense.

Aviation is by nature a volatile industry and exposed to sudden changes in the market environment, changes in capital markets and unexpected events. Icelandair Group has therefore focused on ensuring financial stability at all times by maintaining a strong balance sheet. As a result of a strong financial position and the Company’s flexibility, Icelandair Group is well positioned to handle challenging circumstances, but also to seize opportunities that arise, for example as a result of changes in the competitive environment. The changes that occurred toward the end of the first quarter create opportunities for Icelandair Group for profitable organic growth. In the short term, the suspension of the B737 MAX aircraft will delay the positive impact of these changes.

The Company’s long-term prospects are favourable, and with a joint effort on the development and execution of a comprehensive strategy, the future of the Icelandic travel industry is bright. It is pleasant to have a seasoned international investor share our belief as demonstrated by PAR Capital Management’s acquisition of 11.5% share in the Company for USD 47 million, as announced last April. This investment will strengthen the Company further and reinforce its competitiveness for the future.”

PRESENTATION MEETING AND WEBCAST ON 6 MAY 2019

An open presentation for stakeholders will be held on Monday 6 May 2019 at the Icelandair Hotel Reykjavik Natura. Bogi Nils Bogason, President & CEO of Icelandair Group, and Eva Soley Guðbjörnsdóttir, 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/>

KEY INDICATORS

| | | Q1 2019 | Q1 2018 | % Change |
|---|---------|-----------|-----------|-------------|
| Operating results | | | | |
| Total income | USDk | 248,602 | 267,619 | -7% |
| Total operating cost excl. depreciation | USDk | 263,270 | 285,830 | -8% |
| EBITDAR | USDk | -14,668 | -6,300 | - |
| EBITDA | USDk | -14,668 | -18,211 | 19% |
| EBITDA excl. IFRS16 | USDk | -29,328 | -18,211 | -61% |
| EBIT | USDk | -59,579 | -46,213 | -29% |
| EBT | USDk | -68,468 | -43,539 | -57% |
| Net earnings | USDk | -55,113 | -34,528 | -60% |
| Balance sheet and cash flow | | | | |
| Total assets | USDk | 1,882,255 | 1,587,162 | 19% |
| Total equity | USDk | 425,805 | 554,861 | -23% |
| Interest bearing debt | USDk | 804,128 | 329,898 | - |
| Net interest bearing debt | USDk | 515,108 | 124,082 | - |
| Net cash from operating activities | USDk | 72,941 | 67,115 | 9% |
| CAPEX | USDk | 181,578 | 191,384 | -5% |
| Free cash flow | USDk | -108,637 | -124,269 | -13% |
| Key Ratios | | | | |
| EPS | US Cent | -1.15 | -0.72 | 60% |
| Equity ratio | % | 23% | 35% | - |
| Equity ratio excl. IFRS16 | % | 28% | 35% | - |
| EBITDAR ratio | % | -5.9% | -2.4% | - |
| EBIT ratio | % | -24.0% | -17.3% | - |
| Traffic figures** | | | | |
| Passengers To Market | no. | 311,246 | 274,489 | 13% |
| Passengers From Market | no. | 114,715 | 104,438 | 10% |
| Passengers Via Market | no. | 276,768 | 281,138 | -2% |
| Passengers total | no. | 702,729 | 660,065 | 6% |
| Load Factor | % | 76.4% | 76.5% | 0% |
| Available Seat Kilometers (ASK) | mill | 2,888 | 2,675 | 8% |
| On-Time-Performance | % | 78.9% | 64.5% | 22% |
| Freight Tonne Kilometers (FTK) | k | 32,344 | 30,381 | 6% |
| Sold charter block hours | no. | 7,478 | 8,658 | -14% |

* Icelandair - Route Network

** Icelandair, Icelandair Cargo, Loftleidir Icelandic

CHANGE IN FINANCIAL REPORTING STANDARDS

At the beginning of 2019 Icelandair Group adopted a new financial reporting standard, IFRS 16. Below is an overview of the impact of the standard on the Company's consolidated financial statement for the first quarter of 2019.

| USD thousands | Amounts without IFRS16 | Adjustment IFRS16 | As reported |
|---------------------------------|------------------------|-------------------|----------------|
| Profit/loss statement: | | | |
| Operating revenue | | | |
| Transport revenue | 167,473 | 0 | 167,473 |
| Aircraft and aircrew lease | 27,432 | -2,312 | 25,120 |
| Other operating revenue | 56,083 | -74 | 56,009 |
| Total operating income | 250,988 | -2,386 | 248,602 |
| Operating expenses | | | |
| Salaries and personell expenses | 110,216 | 0 | 110,216 |
| Aviation expenses | 103,826 | -12,545 | 91,281 |
| Other operating expenses | 66,274 | -4,501 | 61,773 |
| Total operating expenses | 280,316 | -17,046 | 263,270 |
| EBITDA | -29,328 | 14,660 | -14,668 |
| Depreciation | -31,198 | -13,713 | -44,911 |
| EBIT | -60,526 | 947 | -59,579 |
| Net finance costs | -6,184 | -3,110 | -9,294 |
| EBT | -66,305 | -2,163 | -68,468 |
| Income tax | 12,922 | 433 | 13,355 |
| Net earnings | -53,383 | -1,730 | -55,113 |

FIRST QUARTER OPERATIONS

The table below shows a comparison between revenue, EBITDAR and EBT between years. Since IFRS 16 impacts EBITDA, no comparison is shown between years.

| USD thousand | Passenger services | | Aviation services | | Tourism Services | | Total | |
|--------------|--------------------|-----------|-------------------|-----------|------------------|-----------|---------|-----------|
| | Q119 | Chg. Q118 | Q119 | Chg. Q118 | Q119 | Chg. Q118 | Q119 | Chg. Q118 |
| Total income | 169,027 | -3,227 | 52,860 | -7,004 | 26,715 | -8,786 | 248,602 | -19,017 |
| EBITDAR | -26,346 | -5,543 | 11,239 | -3,900 | 439 | 1,075 | -14,668 | -8,368 |
| EBT | -63,075 | -17,490 | 3,671 | -4,605 | -9,064 | -2,834 | -68,468 | -24,929 |

The financial performance of Passenger services was for the most part in line with projections. Passenger numbers increased in all markets except the North-Atlantic market, where numbers declined by 2%. Average air fares declined between years in all markets. The negative impact of the suspension of the B737 MAX aircraft has been estimated at USD 3 million over the quarter.

EBITDAR from Aviation services declined between years. The Company's cargo operations showed success; however, EBITDAR from charter operations declined as a result of a reduction in the number of assignments as compared to the corresponding quarter of last year, and also because maintenance checks took longer than anticipated. EBITDAR in Tourism services increased between years as a result of improved operating results in the Company's hotel operations.

REVENUE, EXPENSES AND FINANCIALS

Revenue

| USD thousand | Q1 2019 | Q1 2018 | Change | % Change |
|-------------------------------------|----------------|----------------|----------------|-------------|
| Transport revenue: | 167,473 | 173,134 | -5,661 | -3% |
| <i>Passengers</i> | 135,442 | 141,971 | -6,529 | -5% |
| <i>Passenger ancillary revenues</i> | 17,553 | 16,178 | 1,375 | 8% |
| <i>Cargo and mail</i> | 14,478 | 14,985 | -507 | -3% |
| Aircraft and aircrew lease | 25,120 | 33,394 | -8,274 | -25% |
| Other operating revenue: | 56,009 | 61,091 | -5,082 | -8% |
| <i>Sale in airport and hotels</i> | 18,609 | 19,841 | -1,232 | -6% |
| <i>Revenue from tourism</i> | 17,153 | 24,735 | -7,582 | -31% |
| <i>Other</i> | 20,247 | 16,515 | 3,732 | 23% |
| Total | 248,602 | 267,619 | -19,017 | -7% |

Total revenue declined by 7%. Transport revenue amounted to USD 167.5 million, down by 3% between years. Passenger revenue declined by 5% as a result of the reduction in average air fares in all markets. The decline in income was greatest in the North-Atlantic market, with passenger numbers also down between years. Revenue in the home market from Iceland declined slightly, but increased in the tourist market to Iceland. Passenger-related ancillary revenue increased by 8%. Income from aircraft and aircrew lease declined by a quarter from last year, largely as a result of a reduction in the number of charter flight assignments and aircraft maintenance, although the implementation of IFRS 16 accounts for about USD 2.3 million of the decline. Other operating revenue amounted to USD 56.0 million, down by USD 5.1 million between years. The decline is for the most part the result of reduced income from tourist services due to changes in demand.

Expenses

| USD thousand | Q1 2019 | Q1 2018 | Change | % Change |
|---|----------------|----------------|----------------|-------------|
| Salaries and other personnel expenses | 110,216 | 113,129 | -2,913 | -3% |
| Aviation expenses | 91,281 | 100,692 | -9,411 | -9% |
| <i>Aircraft fuel</i> | 51,838 | 49,547 | 2,291 | 5% |
| <i>Aircraft lease</i> | 3,970 | 8,304 | -4,334 | -52% |
| <i>Aircraft handling, landing and communication</i> | 24,739 | 24,169 | 570 | 2% |
| <i>Aircraft maintenance expenses</i> | 10,734 | 18,672 | -7,938 | -43% |
| Other operating expenses | 61,773 | 72,009 | -10,236 | -14% |
| <i>Operating cost of real estate and fixtures</i> | 4,460 | 8,697 | -4,237 | -49% |
| <i>Communication</i> | 7,191 | 5,883 | 1,308 | 22% |
| <i>Advertising</i> | 7,084 | 8,583 | -1,499 | -17% |
| <i>Booking fees and commission expenses</i> | 11,693 | 10,212 | 1,481 | 15% |
| <i>Cost of goods sold</i> | 3,037 | 3,581 | -544 | -15% |
| <i>Customer services</i> | 11,060 | 11,026 | 34 | 0% |
| <i>Tourism expenses</i> | 8,768 | 15,978 | -7,210 | -45% |
| <i>Other operating expenses</i> | 8,480 | 8,049 | 431 | 5% |
| Total | 263,270 | 285,830 | -10,236 | -8% |

Salaries and other personnel expenses amounted to USD 110.2 million, down by 3%, as compared to the first quarter of last year. The expansion in the Company's scope of operation increased wage costs, but the increase was offset by positive exchange rate trends. The Icelandic króna was on average 16% weaker against the USD than in the first quarter of last year. This resulted in a reduction in wage costs, as almost all the Company's wage costs are in ISK. The table below illustrates the principal deviations between years:

| | |
|---|----------------|
| Salaries and personell expenses Q118 | 113,129 |
| Contractual wage increase | 153 |
| Chg. in number of employees | 12,672 |
| Currency | -15,094 |
| Other changes | -644 |
| Salaries and personell expenses Q119 | 110,216 |

Absolute figures in USD thousands

Aviation expenses amounted to a total of USD 91.3 million, down by USD 9.4 million from the preceding year. Aircraft lease and maintenance expenses fell between years as a result of the implementation of IFRS 16. Fuel expenses amounted to USD 51.8 million, up by 5% as compared to the first quarter of last year. The Company's reporting price of fuel for the quarter, taking hedging into account, was on average USD 628/ton, which corresponds to a 6% increase between years.

Other operating expenses amounted to USD 61.8 million, down by USD 10.2 million between years. The largest deviations occurred in contracted services in tourism, which were reduced by USD 7.2 million as a result of changes in demand. This is reflected in the corresponding reduced income from tourism. Also, the operating cost of real estate was reduced by USD 4.2 million as a result of the implementation of IFRS 16.

The estimated financial loss suffered by the Company as a result of the suspension of the B737 MAX aircraft is estimated at about USD 3 million, and the Company has initiated discussions with Boeing regarding compensation for all the financial loss resulting from the suspension.

Financials

Financial expenses in the first quarter amounted to USD 9.3 million, up by USD 10.7 million, as compared to the first quarter of last year. Interest income decreased as a result of the appropriate accounting treatment of sale and leaseback agreement of three B737 MAX aircraft, where the present value of security deposits of USD 3 million is deducted from interest income in the quarter and is to be recognised as revenue over the lease period. The increase in interest expenses is the result of a combination of increased leverage and the implementation of IFRS 16. Also, the positive translation difference was insignificant this year, as compared to a difference of USD 4.8 million for the corresponding quarter of 2018.

| USD thousand | Q1 2019 | Q1 2018 | Change | % Change |
|---------------------------------|--------------|---------------|---------------|----------|
| Finance income | 248 | 785 | -537 | -68% |
| Finance cost | 6,384 | 4,193 | 2,191 | 52% |
| IFRS16 | 3,342 | 0 | 3,342 | - |
| Currency gain | 184 | 4,816 | -4,632 | -96% |
| Total financial expenses | 9,294 | -1,408 | 10,702 | - |

FINANCIAL POSITION

Financial standing – Assets

Total assets amounted to USD 1.9 billion, up by USD 418.1 million from the turn of the year. USD 338.2 million of the increase resulted from the implementation of IFRS 16. Rights of use of current assets amounted to USD 168.2 million, for the largest part relating to the right of use of aircraft, i.e. USD 156.1 million. Rights of use of assets held for sale amounted to USD 173.6 million. Further details of assets held for sale are set out in Note 6 to the interim financial statements.

| USD thousands | 31.03.2019 | 31.12.2018 | Change |
|---------------------------|------------|------------|---------|
| Total assets | 1,882,255 | 1,464,122 | 418,133 |
| Operating assets | 666,019 | 673,420 | -7,401 |
| Right of use assets | 168,203 | 0 | 168,203 |
| Assets held for sale | 306,185 | 125,169 | 181,016 |
| Cash and cash equivalents | 289,020 | 299,460 | -10,440 |

At the end of the quarter, the Company's fleet comprised 52 aircraft. Of these 52 aircraft, 41 were owned by the Company, of which 24 were unencumbered.

| Type | Icelandair | Cargo | Loftleiðir | AIC* | Fleet 31.03.19 | Fleet 31.12.18 | Of which own | Of which leased | Ch. as of 31.12.18 |
|-----------------|------------|----------|------------|----------|-------------------|-------------------|--------------------|-----------------------|-----------------------|
| B757-200 | 21 | 2 | 6 | | 29 | 31 | 26 | 3 | -2 |
| B757-300 | 2 | | | | 2 | 2 | 2 | | 0 |
| B737 MAX 8 | 5 | | | | 5 | 3 | 2 | 3 | 3 |
| B737 MAX 9 | 1 | | | | 1 | 1 | | 1 | 0 |
| B767-300 | 4 | | 2 | | 6 | 6 | 5 | 1 | 0 |
| B737-700 | | | 1 | | 1 | 1 | | 1 | 0 |
| B737-800 | | | 2 | | 2 | 2 | | 2 | 0 |
| Bombardier Q200 | | | | 3 | 3 | 3 | 3 | | 0 |
| Bombardier Q400 | | | | 3 | 3 | 3 | 3 | | 0 |
| Total | 33 | 2 | 11 | 6 | 52 | 51 | 41 | 11 | 1 |

* AIC = Air Iceland
Connect

Financial standing – Liabilities

Total interest-bearing debt amounted to USD 832.8 million at the end of the first quarter, up by USD 364.7 million. The increase resulting from the impact of IFRS 16 amounted to a total of USD 356.1 million, of which 175.6 million related to assets held for sale. Net interest-bearing debt amounted to USD 543.8 million, as itemised below:

| USD thousands | 31.03.2019 | 31.12.2018 | Change |
|----------------------------------|----------------|----------------|----------------|
| Loans and borrowings non-current | 207,732 | 147,513 | 60,219 |
| Lease liabilities non-current | 166,786 | 0 | 166,786 |
| Loans and borrowings current | 183,293 | 268,288 | -84,995 |
| Lease liabilities current | 36,855 | 0 | 36,855 |
| Total liabilities held for sale | 209,462 | 52,244 | 157,218 |
| Interest bearing debt | 804,128 | 468,045 | 336,083 |
| Cash and cash equivalents | 289,020 | 299,460 | -10,440 |
| Net interest bearing debt | 515,108 | 168,585 | 346,523 |

Interest-bearing long-term liabilities increased as a result of a long-term loan agreement entered into in the quarter. The loan is in the amount of USD 80 million, with a maturity of five years. Short-term debts were reduced from the turn of the year. The Company had two listed bond classes in the market at the start of the year. Bond class ISIN IS0000025427, in the amount of USD 23.6 million, was paid up in full in the quarter. One third of bond class ISIN N000107769982 was paid up in mid-January. There are plans to pay the outstanding amount of USD 125.6 million before the end of the second quarter.

Financial position – Equity

The Company's equity stood at USD 425.8 million at the end of the first quarter. The equity ratio was 23%, as compared to 32% at year-end 2018. The increase in assets and liabilities resulting from the right of use relating to operating leases had a significant impact on the ratio, and on comparisons between years. The equity ratio excluding the IFRS 16 effects is 28%.

Cash Flow

Cash and cash equivalents at the end of the quarter amounted to USD 289.0 million. Net cash provided by operating activities amounted to USD 72.9 million. Gross Capex amounted in total to USD 181.6 million, as further itemised below.

| USD thousand | Q1 2019 | Q1 2018 | Change |
|--|----------|----------|--------|
| Net cash from operating activities | 72,941 | 67,115 | 5,826 |
| Cash and cash equivalents, end of period | 289,020 | 191,257 | 97,763 |
| Free cash flow | -108,637 | -124,269 | 15,632 |
| Gross Capex | 181,578 | 191,384 | -9,806 |

Investments

Investments over the period amounted to a total of USD 181.6 million. Investments in aircraft and accessories in the amount of USD 147.7 million include investments in two B737 MAX8 and one B737 MAX9 aircraft. Other investments in operating assets, for the most part investments in the enlargement of the flight kitchen at Keflavik Airport and hotel operations, amounted to USD 6.2 million.

| USD thousand | Q1 2019 |
|----------------------------------|----------------|
| Operating assets: | |
| Aircraft and aircraft components | 147,674 |
| Overhaul own aircraft | 18,168 |
| Other | 6,235 |
| Total operating assets | 172,077 |
| Long term cost | |
| Overhaul leased aircraft | 8,468 |
| Intangible assets | 1,033 |
| Total Capex | 181,578 |

OUTLOOK FOR 2019

2019 characterised by uncertainty

Icelandair's booking status for the second quarter is favourable, and the impact of the suspension of the B737 MAX aircraft on seat capacity will also be insignificant in the quarter. Even though the Company has been forced to cancel 7% of its flights in the period 1 April – 15 June, this corresponds to only a 1% reduction in seat capacity, as the place of the MAX aircraft is filled by larger aircraft. The trend for passengers to book their flights closer to departure times than before has the result that the uncertainty in our income projection is greater than before. Air fares remain under considerable pressure as a result of the fierce competition in the North Atlantic market. The Company has responded by increasing capacity to and from Iceland and reducing in turn the transatlantic capacity.

The end of the first quarter saw considerable changes in the Company's competitive environment in Iceland. In the opinion of the Company, these changes will create opportunities for profitable growth for the Company; however, the uncertainty surrounding the B737 MAX aircraft restricts the ability to take advantage of these opportunities in the short term. Ancillary revenue continues to grow in excess of passenger numbers, and the Company has set itself the objective to do even better in that area. A new revenue control system was launched at the end of March with good success. The Company's target is to increase revenue by 2-4%, assuming unchanged circumstance, as experience of the system grows, at the latest in early 2020.

The performance of Air Iceland Connect has been unacceptable, and the company's operations are now undergoing a thorough review. An action plan has been put in place to prevent further operating losses.

The operation of the Vita Travel Agency is showing success, and a 40% increase in seat capacity projected in the company's charter operations this year. Capacity to Tenerife and Alicante, two popular destinations for Icelandic tourists, will be doubled over the summer. The booking situation has surpassed expectations and the overall prospects of the company are favourable. The outlook for the Company's cargo operations is favourable, and strong exports and imports are projected in the coming months. Icelandair Group's charter operations are also showing success, although the aviation market is effected by the uncertainty surrounding the future of the B737 MAX aircraft.

As a result of the uncertainty regarding the suspension of the B737 MAX aircraft, the Company is unable to issue an EBITDA guidance at this time.

FUEL HEDGING STATUS AT THE END OF Q1

The position of fuel hedging at the end of March 2019 was as follows:

| Period | Estimated usage (tons)** | Swap volume | % hedged | Av. swap price USD |
|---------------------|--------------------------|----------------|------------|--------------------|
| Apr 19 | 29,750 | 15,450 | 52% | 631 |
| May 19 | 41,157 | 21,500 | 55% | 635 |
| Jun 19 | 50,824 | 24,500 | 50% | 683 |
| Jul 19 | 51,916 | 26,600 | 52% | 692 |
| Aug 19 | 52,033 | 28,600 | 56% | 721 |
| Sep 19 | 45,085 | 27,550 | 62% | 750 |
| Oct 19 | 32,755 | 16,370 | 50% | 751 |
| Nov 19 | 29,170 | 15,366 | 53% | 703 |
| Dec 19 | 27,774 | 15,343 | 55% | 683 |
| Jan 20 | 25,113 | 4,000 | 16% | 713 |
| Feb 20 | 23,476 | 4,000 | 17% | 789 |
| Mar 20 | 25,374 | 4,000 | 16% | 764 |
| 12 months | 434,427 | 203,279 | 47% | 701 * |
| Apr 20 | 27,891 | 4,000 | 14% | 674 |
| May 20 | 41,954 | 4,000 | 10% | 677 |
| Jun 20 | 51,814 | 0 | - | - |
| Jul 20 | 52,924 | 0 | - | - |
| Aug 20 | 53,044 | 0 | - | - |
| Sep 20 | 45,960 | 0 | - | - |
| 13-18 months | 273,587 | 8,000 | 3% | 675 * |

* weighted average price
**Estimated usage based on B737MAX being back on 15. June

EVENTS SUBSEQUENT TO THE FINANCIAL ACCOUNTING DATE

Continued grounding of B737 MAX aircraft

On 10 April, Icelandair announced changes to its flight schedule until mid June 2019 due to the suspension of the Boeing 737 MAX aircraft. It is now expected that the suspension will last longer and Icelandair has therefore updated its flight schedule until 15 July. To minimize the impact on its passengers, the Company entered into leasing agreements in April regarding three additional aircraft that will be in operation until the end of September. These are two 262-seat Boeing 767 and one 184-seat Boeing 757-200. In comparison, the Boeing 737 MAX have 160-178 seats. With these changes, the total seating capacity during the period will decrease by less than 2%. The emphasis will be on minimizing the impact on the to and from markets.

The financial impact of the suspension of the Boeing 737 MAX aircraft is uncertain as the amount of compensation from the aircraft producer is still under review. The Company has initiated discussions with Boeing regarding compensation for all the financial loss resulting from the grounding. Also, the Company has requested postponement of the deliveries of three B737 MAX aircraft that were scheduled for this spring, as it is clear that the aircraft will not be of use in the Company's summer operations. The Company is closely monitoring developments and continues to work with Boeing and aviation authorities in Iceland, Europe and the United States regarding the next steps.

New core investor with 11.5% share in Icelandair Group

At a shareholders' meeting held last 24 April a proposal was approved authorising the Board of Directors to increase Company's share capital in the nominal value of ISK 625,000,000 with the sale of shares to PAR Capital Management Inc. and related companies. The buying price was ISK 9.03, corresponding to 11.5% of the total shares in Icelandair Group. The shares are scheduled for issue on 8 May 2019. PAR Capital is an international investment fund focusing on long-term investments, mostly in travel services and airlines. The increase in share capital will strengthen the Company's financial standing still further and enable it to develop its fleet of aircraft and thereby support profitable long-term growth of its route network. In addition, the Company will be better placed to seize any opportunities that may arise in the current operating environment.

In accordance with authorisation approved at the Company's Annual General Meeting held on 8 March 2019, the Company's share capital was reduced, with effect from 1 April, with the reduction corresponding to all the Company's shares in itself. The Company's issued share capital will therefore be 5,437,660,653 shares.

| | |
|--|----------------------|
| Share capital in ISK 31 March 2019 | 5,000,000,000 |
| Reduction of share capital 1 April 2019 | 187,339,347 |
| Planned increase of share capital 8 May 2019 | 625,000,000 |
| Share capital in ISK 8 May 2019 | 5,437,660,653 |

STRATEGIC DEVELOPMENTS

New strategy for Icelandair Group to be presented in the second quarter of 2019

A revision of the Company's strategy was begun in the spring of 2018. The work resulted in a new future vision, mission, points of focus and values. In early February 2019, significant changes were made in Icelandair Group's organisation, designed to sharpen the Company's focus on its core business: aviation. An increased emphasis will be placed on digital development, the development of the fleet and route network, as well as cargo and charter operations, in order to strengthen the Company's competitiveness for the future. An action plan based on the new strategy and operating targets is in preparation and scheduled for presentation to shareholders and market participants before the end of the second quarter.

Investments in Tourism services in the process of divestment

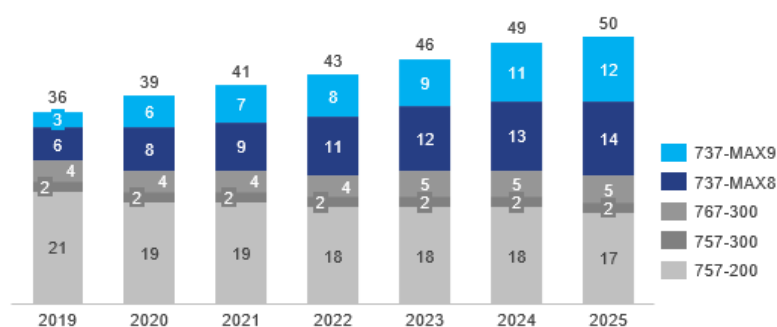
In line with its sharpened focus on aviation, the decision has been made to divest the Company of its investments in tourism. The decision involves two companies: Icelandair Hotels and Iceland Travel. A decision has already been made to enter into final contract negotiations on the sale of Icelandair Hotels and related properties. The parties' negotiations are based on a signed memorandum of understanding on the principal terms of the transaction. The understanding is that Icelandair Group will hold a 20% share in the sold assets. Further details will be provided of the prospective buyer and transaction if the parties reach an agreement on the purchase. The plan is for the transaction to take place before the

end of the second quarter of 2019. The divestment process of Iceland Travel is in its early stages, with Íslandsbanki appointed as manager of the sale.

Company's long-term fleet strategy under review

Icelandair's current fleet strategy assumes continued use of the company's B757-200 aircraft alongside the company's B767-300 and B737 MAX aircraft through 2025. The B737 MAX aircraft are intended to support the growth of the fleet, balancing against the reduction in the number of B757-200 aircraft over the period.

Number of projected aircraft by type 2019-2025:



The Company's current long-term fleet strategy is now under review, with the following three scenarios under consideration. The conclusions of the review should be available before the fall of 2019:

- Maintain unchanged fleet strategy
- Faster renewal of the fleet
Airbus A321NEO introduced in the fleet alongside the B737 MAX aircraft.
Faster discontinuation of B757-200 aircraft with additions of Airbus and B737 MAX aircraft in the fleet.
- Faster renewal of the fleet with Airbus aircraft
All Boeing aircraft taken out of operation in the coming years with the fleet composed entirely of Airbus aircraft

CONTACT INFORMATION

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FINANCIAL CALENDAR

- Financial statement for the second quarter – week 31, 2019
- Financial statement for the third quarter – week 44, 2019
- Financial statement for the fourth quarter – week 06, 2020