

GOOD THIRD QUARTER PERFORMANCE

- | Profit after taxes USD 85.8 million, as compared to USD 65.3 million in the preceding year
- | EBITDA at USD 123.9 million, as compared to USD 102.2 million in the preceding year
- | Total revenue increased by 13%
- | Equity ratio 46% at the end of September
- | Net cash provided by operating activities USD 5.8 million, as compared to USD 30.3 million in the preceding year

USD thousands	Q3 2014	Q3 2013	Chg.	% Chg.	9M 2014	9M 2013	Chg.	% Chg.
Operating results								
Total income	418,746	371,662	47,084	13%	907,816	810,307	97,509	12%
EBITDAR	134,541	114,316	20,225	18%	186,322	173,049	13,273	8%
EBITDA	123,883	102,243	21,640	21%	155,819	136,865	18,954	14%
EBIT	102,515	82,170	20,345	25%	97,765	83,941	13,824	16%
EBT	106,189	81,851	24,338	30%	97,603	82,233	15,370	19%
Profit for the period	85,801	65,325	20,476	31%	81,473	65,526	15,947	24%
Balance sheet								
Total assets	-	-	-	-	877,233	877,490	-257	0%
Total equity	-	-	-	-	403,607	352,226	51,381	15%
Interest bearing debt	-	-	-	-	55,469	128,462	-72,993	-57%
Cash and marketable securities	-	-	-	-	254,695	218,336	36,359	17%
Net interest bearing debt	-	-	-	-	-199,226	-89,874	-109,352	122%
Cash flow								
Working capital from operations	135,211	111,138	24,073	22%	172,932	157,811	15,121	10%
Net cash from operating activities	5,767	30,272	-24,505	-81%	210,763	215,161	-4,398	-2%
Net cash used in investing activities	-38,383	-24,288	-14,095	58%	-86,338	-80,560	-5,778	7%
Net cash used in financing activities	-3,622	-10,361	6,739	-65%	-85,676	-37,290	-48,386	130%
Cash and cash equivalents end of period	227,576	215,484	12,092	6%	227,576	215,484	12,092	6%
Key Ratios								
Earnings per share expressed in USD Cent	1.73	1.32	0.41	31%	1.64	1.32	0.32	24%
Intrinsic value	-	-	-	-	9.95	8.68	1.27	15%
Equity ratio	-	-	-	-	46%	40%	5.9 ppt	-
Current ratio	-	-	-	-	1.03	0.98	0.05	5%
CAPEX USD thousand	28,275	23,376	4,899	21%	69,876	93,707	-23,831	-25%
Transport revenue as % of total revenues	77%	71%	5.5 ppt	-	73%	69%	3.5 ppt	-
EBITDAR ratio	32.1%	30.8%	1.4 ppt	-	20.5%	21.4%	-0.8 ppt	-
EBITDA ratio	29.6%	27.5%	2.1 ppt	-	17.2%	16.9%	0.3 ppt	-
Share information ISK								
Highest price in period	18.85	15.30	3.55	23%	19.95	15.30	4.65	30%
Lowest price in period	16.85	13.00	3.85	30%	16.45	8.28	8.17	99%
Price at period end	-	-	-	-	17.35	15.20	2.15	14%
Market Cap at period end (millions)	-	-	-	-	86,750	76,000	10,750	14%

BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO

“The Company's international flight operations were successful in the third quarter and the results were good. Capacity in the Route Network was increased by 19% from the preceding year. The passenger load factor was 84.2%, up by 0.7 percentage points between years. Around 970 thousand passengers travelled with the Company over the quarter, a record high. The increased scope of the international flight operations, together with the significant increase in the number of tourists to Iceland, had a positive effect on other business activities of the Group.

The Company's third-quarter profit amounted to USD 85.8 million, up by USD 20.5 million from the preceding year. Financially, the Company is strong and well prepared to take on future challenges; an announcement has already been made of a projected 12% growth in international flight operations next year.

As a result of the third-quarter success we are now projecting our EBITDA for 2014 in the range of USD 150-155 million, up from the earnings estimate published earlier this year.”

THIRD QUARTER TRANSPORT FIGURES

- | Passengers on international flights approximately 970 thousand, up by 18% between years
- | Sold block hours in charter projects down by 28% between years
- | The number of sold nights in the Company's hotels increased by 5% between years

	Q3 2014	Q3 2013	Change
INTERNATIONAL FLIGHTS			
Number of passengers ('000)	969.2	821.4	18%
Load factor (%)	84.2	83.5	0.7 ppt
Available seat kilometres (ASK'000,000)	3,444.8	2,885.7	19%
REGIONAL- AND GREENLAND FLIGHTS			
Number of passengers ('000)	90.7	90.4	0%
Load factor (%)	73.6	73.0	0.6 ppt
Available seat kilometres (ASK'000,000)	54.0	53.9	0%
CHARTER FLIGHTS			
Fleet Utilization (%)	88.0	95.7	-7.7 ppt
Sold Block Hours	5,298	7,325	-28%
CARGO			
Available Tonne Kilometres (ATK'000)	68,092	62,055	10%
Freight Tonne Kilometres (FTK'000)	23,732	23,209	2%
HOTELS			
Available Hotel Room Nights	100,532	98,907	2%
Sold Hotel Room Nights	87,476	83,420	5%
Utilization of Hotel Rooms (%)	87.0	84.3	2.7 ppt

Capacity on international flights increased by 19% in the third quarter, and passenger numbers over the same period increased by 18%. Passenger numbers increased in all markets, with the largest increase in the North Atlantic market, at 25%. Passengers in the North Atlantic market accounted for a large majority, or 55.4% of total passengers in the third quarter. The passenger load factor was 84.2%, up from the corresponding period of last year by 0.7 percentage points.

The number of passengers on domestic flights and flights to Greenland was just short of 91 thousand over the quarter. The capacity was unchanged from the corresponding quarter of last year. The passenger load factor was 73.6%, up by 0.6 percentage points between years. The number of sold block hours on charter flights over the quarter decreased between years by 28%, and the fleet utilisation in chartering projects was 88%. The decrease in utilisation in comparison with last year resulted from aircraft maintenance checks. Volume of freight on scheduled flights increased by 2% from the preceding year. The number of sold hotel room nights increased by 5% in the third quarter. The utilisation of hotel rooms was 87.0%, as compared to 84.3% at the same time last year.

THIRD QUARTER OPERATIONS

USD thousand	Q3 2014	Q3 2013	Change	% Change
EBITDAR	134,541	114,316	20,225	18%
EBITDA	123,883	102,243	21,640	21%
EBIT	102,515	82,170	20,345	25%
EBT	106,189	81,851	24,338	30%
Profit for the period	85,801	65,325	20,476	31%
EBITDAR %	32.1%	30.8%	1.4 ppt	-
EBITDA %	29.6%	27.5%	2.1 ppt	-

Profit after taxes came to USD 85.8 million, as compared to a profit of USD 65.3 million in the corresponding quarter of last year. EBITDAR amounted to USD 134.5 million, as compared to USD 114.3 million in the third quarter of 2013. The EBITDAR ratio increased by 1.4 percentage points, up to 32.1%.

EBITDA was positive by USD 123.9 million, up by USD 21.6 million between years. The EBITDA ratio was 29.6% in the third quarter, as compared to 27.5% over the same period in 2013. The cost of maintenance and re-delivery checks of cargo aircraft, together with a reversal of earlier bad-debt provisions in the Company's accounts, had some impact on the results of the quarter. The EBITDA bridge below shows the main deviations between years.

USD thousand	
EBITDA Q3 2013	102,243
Allowance for bad debt - change	2,903
Maintenance and redelivery cost - Cargo aircraft	-5,707
EBITDA change - Tourism Services	1,273
EBITDA change - Route Network excl. Icelandair	4,487
EBITDA change - Icelandair	18,582
Other	102
EBITDA Q3 2014	123,883

INCOME

- | **Total income 13% in excess of the third quarter of 2013**
- | **Passenger revenue increased by 22% between years**
- | **Income from aircraft lease down by 41% from last year**

USD thousand	Q3 2014	Q3 2013	Change	% Change	% of rev. '14
Transport revenue:	320,775	264,430	56,345	21%	77%
Passengers	309,758	254,085	55,673	22%	74%
Cargo and mail	11,017	10,345	672	6%	3%
Aircraft lease	17,060	28,829	-11,769	-41%	4%
Other operating revenue	80,911	78,403	2,508	3%	19%
Total	418,746	371,662	47,084	13%	100%

Transport revenue increased by USD 56.3 million; of this figure, passenger revenue increased by USD 55.7 million. Income from aircraft lease fell by USD 11.8 million and amounted to USD 17.1 million. Other operating revenues amounted to USD 80.9, up by USD 2.5 million, or 3%, as compared to the third quarter of 2013. Income from sales at hotels and airports and on board aircraft increased by USD 3.0 million from the corresponding period last year, and income from tourist services increased by USD 6.8 million. Income from sold maintenance services fell by USD 7.8 million. The third quarter of last year showed considerable income from sold consultancy and work on the installation of a new

entertainment system and seats for customers' aircraft, whereas no such project was undertaken this year. The table below shows a breakdown of other revenue.

USD thousand	Q3 2014	Q3 2013	Change	% Change
Sale at airports, hotels and aircraft	26,899	23,893	3,006	13%
Revenue from tourism	39,326	32,559	6,767	21%
Aircraft and cargo handling services	8,757	8,246	511	6%
Maintenance revenue	1,892	9,729	-7,837	-81%
Gain on sale of operating assets	75	307	-232	-76%
Other operating revenue	3,962	3,669	293	8%
Total	80,911	78,403	2,508	3%

EXPENSES

- | **Total expenses amounted to USD 294.9 million**
- | **Cost increases mostly a result of increased capacity on international flights and increased tourist-related services in Iceland**
- | **Income from aircraft lease fell as a result of the reduced number of aircraft on lease in addition to a fall in lease prices**

USD thousand	Q3 2014	Q3 2013	Change	% Change	% of exp. '14
Salaries and other personnel expenses	69,753	61,519	8,234	13%	24%
Aircraft fuel	95,783	80,605	15,178	19%	32%
Aircraft lease	5,732	8,927	-3,195	-36%	2%
Aircraft handling, landing and communication	29,357	25,532	3,825	15%	10%
Aircraft maintenance expenses	21,647	26,744	-5,097	-19%	7%
Other operating expenses	72,591	66,092	6,499	10%	25%
Total	294,863	269,419	25,444	9%	100%

Salaries and other personnel expenses increased by USD 8.2 million, or 13%, in comparison with the third quarter of 2013. The increase was a result of the expanded scope of the Company's business, in addition to the impact of contractual wage increases.

Fuel costs amounted to USD 95.8 million, up by USD 15.2 million, which represents an increase of 19% from the preceding year and reflects the increased capacity on international flights. The world market price of fuel has been falling in 2014; The price was on average USD 938/ton in the third quarter of 2014, as compared to USD 995/ton over the same period in 2013.

Aircraft lease decreased in comparison with the third quarter of 2013 by USD 3.2 million, or 36%, The reason is that fewer aircraft were on lease and lease prices were lower.

Aircraft handling, landing and navigation expenses increased by USD 3.8 million between years, or 15%, as a result of increased capacity and general price increases. Maintenance expenses amounted to USD 21.6 million, USD 5.1 million lower than last year. Notwithstanding the high maintenance expense of cargo aircraft this year the cost fell between years. The explanation is mainly the lower cost resulting from maintenance work for customers, as revealed in the explanation of reduced income from maintenance services above. Other operating expenses amounted to USD 72.6 million, increasing by USD 6.5 million between years. Reassessment of bad debts reduced expenses by the amount of USD 3.4 million over the quarter. The table below shows a breakdown of principal items and trends between years.

USD thousand	Q3 2014	Q3 2013	Change	% Change
Operating cost of real estate and fixtures	6,212	6,098	114	2%
Communication	4,166	3,257	909	28%
Advertising	5,991	5,291	700	13%
Booking fees and commission expenses	12,485	11,210	1,275	11%
Cost of goods sold	7,560	6,290	1,270	20%
Customer services	7,270	5,790	1,480	26%
Tourism expenses	25,492	21,415	4,077	19%
Allowance for bad debt	-3,367	-464	-2,903	-
Other operating expenses	6,782	7,205	-423	-6%
Total other operating expenses	72,591	66,092	6,499	10%

FINANCIALS

Financial items were positive over the quarter

USD thousand	Q3 2014	Q3 2013	Change	% Change
Interest income	295	313	-18	-6%
Interest expenses	-1,109	-2,038	929	-46%
Currency effect	4,460	1,419	3,041	-
Net finance income	3,646	-306	3,952	-

Financial income amounted to USD 0.3 million in the third quarter. Financial expenses amounted to USD 1.1 million over the quarter, down by 46% year on year. The currency effect was positive by USD 4.5 million over the quarter. The principal reason was the strengthening of the USD against the ISK.

BALANCE SHEET AND FINANCIAL POSITION

Total assets amounted to USD 877.2 million at the end of the third quarter

The equity ratio was 46%

Interest-bearing debt amounted to USD 55.5 million, down from the level of the beginning of the year

USD thousands	30.09.2014	31.12.2013	Change	30.09.2013
Total assets	877,233	832,875	44,358	877,490
Total equity	403,607	346,082	57,525	352,226
Interest bearing debt	55,469	122,017	-66,548	128,462
Net interest bearing debt	-199,226	-77,476	-121,750	-89,874
Cash and marketable securities	254,695	199,493	55,202	218,336
Equity ratio	46%	42%	4 ppt	40%
Current ratio	1.03	0.94	10%	0.98

Operating assets amounted to USD 297.6 million, down by USD 1.6 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. The table below shows an overview of the Company's fleet at the end of September. The fleet comprised a total of 36 aircraft, of which 27 are owned by the Company.

Type	Icelandair	Cargo	Loftleiðir	Air Iceland	Group fleet 30.09.14	Group fleet 31.12.13	Of which own	Of which leased	Ch. as of 31.12.13
B757 200	20	2	1		23	23	19	4	0
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	21	2	6	7	36	37	27	10	-1

Equity amounted to USD 403.6 million at the end of the third quarter and the equity ratio was 46%, increasing in comparison with the end of the third quarter of 2013, when the ratio was 40%. The equity ratio at the end of 2013 was 42%.

Interest-bearing liabilities amounted to USD 55.5 million, as compared to USD 122.0 million at the beginning of the year. Payments on long-term debts in the third quarter amounted to USD 3.6 million. Cash and marketable securities amounted to a total of USD 254.7 million at the end of the third quarter of 2014, as compared to USD 199.5 million at the beginning of the year. Net interest-bearing debt therefore amounted to USD -199.2 million at the end of the quarter, down by USD 121.8 million from the turn of the year.

USD thousands	30.09.2014	31.12.2013	Change	30.09.2013
Loans and borrowings non-current	42,957	78,489	-35,532	83,553
Loans and borrowings current	12,512	43,528	-31,016	44,909
Marketable securities	27,119	7,955	19,164	2,852
Cash and cash equivalents	227,576	191,538	36,038	215,484
Net interest bearing debt	-199,226	-77,476	-121,750	-89,874

CASH FLOW AND INVESTMENTS

- | **Cash and cash equivalents at the end of the third quarter amounted to USD 227.6 million**
- | **Investments amounted to USD 28.3 million**
- | **Payments on long-term liabilities amounted to USD 3.6 million**

USD thousand	Q3 2014	Q3 2013	Change
Working capital from operations	135,211	111,138	24,073
Net cash from operating activities	5,767	30,272	-24,505
Net cash used in investing activities	-38,383	-24,288	-14,095
Net cash used in financing activities	-3,622	-10,361	6,739
Decrease in cash and cash equivalents	-36,238	-4,377	-31,861
Cash and cash equivalents, end of period	227,576	215,484	12,092

Net cash provided by operating activities in the third quarter amounted to USD 5.8 million, down by USD 24.5 million in comparison with the third quarter of 2013. Investments in operating assets amounted to USD 17.6 million. The table on the next page shows a breakdown of the Group's principal investments.

USD thousand	Q3 2014
Operating assets:	
Aircraft and aircraft components	6.108
Overhaul own aircraft	6.352
Other	5.129
Total operating assets	17.589
Long term cost	
Overhaul leased aircraft	10.313
Intangible assets	373
Total Capex	28.275

Payments on long-term liabilities amounted to USD 3.6 million in the quarter. Cash decreased by USD 36.2 million, as compared to a decrease of USD 4.4 million over the same period last year.

OUTLOOK FOR ICELANDAIR GROUP HF.

- | **Continued organic growth**
- | **New hotel to open at the start of 2016**
- | **Wage negotiations with the Icelandic Airline Pilots Association (FIA) are in progress**

The outlook for the Company's international flight operations is favourable. In early September the Company announced its flight schedule for 2015, which will be the largest in the Company's history and about 12% larger than the 2014 schedule. Flights will be introduced to two new destinations, and the frequency of flights to various cities in North America and Europe will be increased. The new destinations will be Portland, Oregon, on the American west coast, and Birmingham in the United Kingdom. Flights to St. Petersburg will be discontinued. The number of passengers in 2015 is projected at 2.9 million, as compared to 2.6 million in the current year. A total of 23 Boeing 757 aircraft will be used to serve the Company's passenger routes next summer, two more than in the current year.

The Company's Route Network has been based primarily on the connecting hub at Keflavik Airport, with morning flights to European cities and afternoon flights to North America. In recent years the Company has created a secondary bank with departures to North America shortly before noon. In 2014 there are two daily departures in this bank to North America and four departures to Europe in the evening. The flight schedule for 2015 includes a third daily departure to North America and a fifth departure to Europe. The enlargement of this bank will provide an opportunity for two different departure times within the same day, which will ease the congestion at Keflavik Airport and provide support for the Company's principal bank.

In late September further plans were announced for growth in the Company's hotel operations. A new hotel is scheduled for opening in Reykjavik City Centre in spring 2016 in a property that will be rebuilt from the ground up. The hotel will offer a total of 70 rooms. This addition, together with Icelandair Hotel Reykjavik Kultura on Hverfisgata near the City Centre and the enlargement of Icelandair Hotel Reykjavik Marina on Reykjavik Harbour, is in line with the Company's strategy of focusing its marketing efforts on more affluent passengers and thereby improving the profitability of the Company and of Icelandic tourist services in general.

The Group's operations in tourism-related services is showing success and growing in scope as the number of tourists to Iceland increases and the Route Network grows. The outlook in the cargo and charter operations are also good for next year.

The agreement with the Icelandic Airline Pilots' Association expired at the end of September and negotiations on a new agreement have begun.

The Company's fuel hedging situation at the end of September is highlighted in the table below. The table shows that 40% of the projected use over the next twelve months (October 2014 – October 2015) has been hedged through contracts.

Month	Year	Estimated usage (tons)	Option volume	Swap volume	Total swap and option contracts	% hedged	Av. Hedge price USD	Bought call strike	Sold put strike
Oct	2014	20,839	6,000	4,200	10,200	49%	990	1,000	937
Nov	2014	17,639	3,000	5,200	8,200	46%	972	990	908
Dec	2014	16,393	3,000	5,200	8,200	50%	964	1,000	932
Jan	2015	13,958	3,000	3,000	6,000	43%	947	1,000	929
Feb	2015	12,029	4,000	2,000	6,000	50%	960	1,000	936
Mar	2015	16,147	3,000	5,000	8,000	50%	981	990	933
Apr	2015	17,204	3,000	5,000	8,000	47%	967	1,000	892
May	2015	23,730	4,000	7,000	11,000	46%	936	1,000	932
Jun	2015	32,016	6,000	7,000	13,000	41%	934	987	883
Jul	2015	34,304	6,000	5,000	11,000	32%	915	987	871
Aug	2015	34,281	6,000	3,000	9,000	26%	919	987	871
Sep	2015	26,087	4,000	2,000	6,000	23%	919	990	886
Total		264,627	51,000	53,600	104,600	40%	-	-	-

*Prices are in USD

EBITDA FORECAST FOR 2014

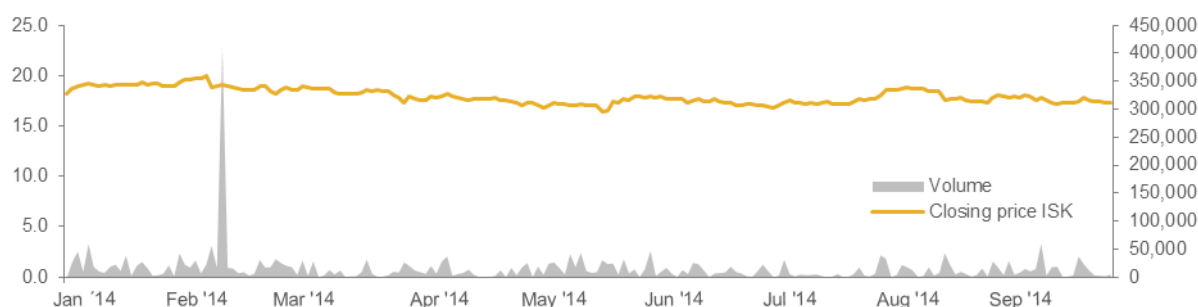
Based on current assumptions EBITDA for the year is projected in the range of USD 150-155 million. The Company's earnings estimate assumes an average exchange rate of the EUR against the USD of 1.25 in the fourth quarter and a fuel price of USD 903/ton in October and USD 900/ton in November and December. The Company therefore assumes that results in the fourth quarter will fall short of last year's results and anticipates EBITDA in negative figures, as compared to the positive result of USD 6.8 million in 2013. The discrepancy between years is explained by considerable competition, rising costs and investments in increased capacity. In addition the results in our charter- and freight operations are not expected as good as last year.

SHAREHOLDERS

- | **The price of Icelandair Group stock is down by 4.7% since the turn of the year**
- | **The price of Icelandair Group stock rose by 1.5% in the third quarter**
- | **Market value at the end of September was ISK 86,750 million**

Icelandair Group's market value was just short of ISK 86.8 billion at the end of the third quarter of 2014. The closing price at the end of the quarter was ISK 17.35 per share. The highest close-of-day price per share of the quarter was ISK 18.85, the lowest price was ISK 16.85 per share, and the average close of trading price over the period was ISK 17.66 per share. The number of issued shares on 30 September 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 4.7% in the first nine months of 2014 and the number of shareholders was 2,142 at the end of September, up by 309 from the beginning of the year.

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



PRESENTATION MEETING 31 OCTOBER 2014

An open presentation for stakeholders will be held on Friday 31 October 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. The presentation will begin at 8:30 a.m. in Víkingasalur 4+5. Breakfast will be available from 08:00 a.m. The presentation will be held in Icelandic and 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. Please note that the meeting will also be broadcasted online in Icelandic on our website:

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

APPROVAL OF QUARTERLY STATEMENT

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

FINANCIAL CALENDAR

| **Financial statement for the fourth quarter of 2014 – 05.02.2015**

FOR FURTHER INFORMATION PLEASE CONTACT:

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