

DIFFICULT OPERATING YEAR

- Total income USD 1,511 million, up by 7% year on year in 2018
- Year's EBITDA USD 76.5 million, as compared to USD 170.1 million in 2017
- Year's loss after taxes USD 55.6 million, as compared to profit USD 37.5 million in 2017
- EBITDA in fourth quarter negative by USD 35.0 million, down between years
- Low average air fares, increased oil prices and carbon emission allowances and poor results of the domestic operation explain reduced 4Q EBITDA between years
- Equity ratio 32% at year-end.
- Cash amounted to USD 299,5 million

USD thousands	Q4 2018	Q4 2017	Change	% Change	12M 2018	12M 2017	Change	% Change
Operating results								
Total income	298,800	291,580	7,220	2%	1,510,518	1,417,987	92,531	7%
EBITDAR	-24,150	-5,381	-18,769	-	126,893	207,765	-80,872	-
EBITDA	-34,996	-16,426	-18,570	-	76,479	170,076	-93,597	-55%
EBIT	-69,252	-45,829	-23,423	51%	-56,968	49,645	-106,613	-
EBT	-69,724	-47,666	-22,058	46%	-67,810	48,642	-116,452	-
Loss / Profit for the period	-57,343	-39,673	-17,670	45%	-55,570	37,538	-93,108	-
Balance sheet								
Total assets	-	-	-	-	1,460,228	1,423,842	36,386	3%
Total equity	-	-	-	-	467,485	596,545	-129,060	-22%
Interest bearing debt	-	-	-	-	415,801	289,541	126,260	44%
Cash and short term investment	-	-	-	-	299,460	225,278	74,182	33%
Net interest bearing debt	-	-	-	-	116,341	64,263	52,078	-
Cash flow								
Net cash to/from operating activities	-14,989	9,054	-24,043	-	61,553	205,603	-144,050	-70%
Net cash used in investing activities	136,627	-48,186	184,813	-	-129,933	-228,419	98,486	-43%
Net cash from/used in financing activities	3,146	-151	3,297	-	149,336	14,554	134,782	-
Cash and cash equivalents end of period	299,460	221,191	78,269	35%	299,460	221,191	78,269	35%
Key Ratios								
Loss / Profit per share expressed in US Cent	-	-	-	-	-1.16	0.75	-1.91	-
Intrinsic value	-	-	-	-	11.97	15.09	-3.12	-21%
Equity ratio	-	-	-	-	32%	42%	-9.88	-24%
Current ratio	-	-	-	-	0.71	0.99	-0.3 ppt	-28%
CAPEX USD thousand	42,576	41,503	1,073	3%	331,429	166,131	165,298	99%
Transport revenue as % of total revenues	73.3%	70.9%	2.4 ppt	-	72.4%	74.1%	-1.7 ppt	-
EBITDAR ratio	-8.1%	-1.8%	-6.2 ppt	-	8.4%	14.7%	-6.3 ppt	-
EBITDA ratio	-11.7%	-5.6%	-6.1 ppt	-	5.1%	12.0%	-6.9 ppt	-
Share information ISK								
Highest price in period	12.25	16.90	-4.65	-28%	16.55	23.53	-6.98	-30%
Lowest price in period	6.53	14.12	-7.59	-54%	6.53	13.13	-6.60	-50%
Price at period end	-	-	-	-	9.58	14.71	-5.13	-35%
Market Cap at period end (millions)	-	-	-	-	47,900	73,550	-25,650	-35%

BOGI NILS BOGASON, PRESIDENT & CEO

“2018 was a difficult business year. Results fell short of our projections at the beginning of the year, which was characterised by strong competition, low and frequently irrational fares and significant fuel price increases. At the same time, changes in our sales and marketing operations and Route Network had a negative impact on our performance.

Our mission is clear: to improve the Company’s profitability and strengthen our operations for the future. Changes in the Company’s organisational structure have already been made to reflect our emphasis on our core operation, which is aviation. We are currently taking a number of measures, both on the revenue and expense side, which should result in improved operations in 2019. These measures include modifications in capacity to achieve a better balance in the Route Network between Europe and N-America, which will facilitate control and maximise revenue. We have also placed increased emphasis on ancillary revenue and on strengthening our sales and marketing activities, as well as an implementation of a new revenue control system is in its final stages. Furthermore, in the spring 2019, a new connection bank will be added alongside the current connection bank, which will improve resource utilisation as well as increase capacity and revenue. In addition, the Group’s domestic flight operations are currently under review.

It is clear that we are faced with uncertainty in our operating environment and our competitive environment is changing. However, our Company benefits from its strong foundations as well as our talented and capable people. The financial position of the Company is strong, and I am convinced that we are well positioned to take on the challenges and seize the opportunities that lie ahead.”

TRANSPORT FIGURES

- Record number of Icelandair passengers in 2018: 4.1 million, up by 2% from the preceding year
- Passenger load factor 81.0%, as compared to 82.7% in 2017
- Sold block hours up by 23% between years in air charter operations

	Q4 2018	Q4 2017	Change	12M 2018	12M 2017	Change
INTERNATIONAL FLIGHTS						
Number of passengers ('000)	896.3	805.1	11%	4,141.5	4,052.9	2%
Load factor (%)	80.2	79.7	0,5 ppt	81.0	82.7	-1.7 ppt
Available seat kilometres (ASK'000,000)	3,573.9	3,137.8	14%	16,239.7	15,245.2	7%
Revenue passenger kilometres (RPK'000,000)	2,862.4	2,497.0	15%	13,154.1	12,606.6	4%
Average stage length km	3,235.0	3,085.0	5%	3,208.0	3,073.0	
REGIONAL FLIGHTS						
Number of passengers ('000)	69.6	80.4	-13%	319.2	349.3	-9%
Load factor (%)	65.2	60.3	4.9 ppt	65.4	65.9	-0.4 ppt
Available seat kilometres (ASK'000,000)	33.1	49.2	-33%	180.8	214.6	-16%
Revenue passenger kilometres (RPK'000,000)	0.0	0.0	0%	0.0	0.0	
CHARTER						
Fleet Utilisation (%)	89.2	100.0	-10.8 ppt	91.9	98.1	-6.2 ppt
Sold Block Hours	7,659	7,557	1%	33,670	27,460	23%
CARGO						
Freight Tonne Kilometres (FTK'000)	33,312	30,897	8%	125,758	117,055	7%
HOTELS						
Available Hotel Room Nights	99,274	82,463	20%	407,994	371,289	10%
Sold Hotel Room Nights	75,702	63,228	20%	326,686	301,302	8%
Utilisation of Hotel Rooms (%)	76.3	76.7	-0.4 ppt	80.1	81.2	-1.1 ppt

The North Atlantic market was the Company's largest market, accounting for 51% of the total number of passengers in 2018. The greatest increase in passenger numbers was in the domestic market from Iceland.

Passenger mix '000	Q4 2018	Q4 2017	Change	12M 2018	12M 2017	% of total '18
To	321.9	288.3	36%	1,487.6	1,462.6	36%
From	117.7	132.3	13%	543.8	470.4	13%
Via	456.7	384.5	51%	2,110.1	2,119.8	51%
Total international flights	896.3	805.1	100%	4,141.5	4,052.9	100%

EXCHANGE RATE TRENDS

Icelandair Group's reporting currency is the USD. Revenue in the fourth quarter of 2018 was 2% above the corresponding quarter of 2017. Calculated at a fixed exchange rate, revenue grew by 6% between years.

Currency	Av. rate Q4 '18	Chg. from Q4 '17	Closing rate 31.12 '18	Chg. from 31.12 '17
ISK	0.008	-13%	0.009	-11%
EUR	1.141	-3%	1.145	-5%
GBP	1.286	-3%	1.275	-6%
CAD	0.757	-4%	0.734	-8%
DKK	0.153	-3%	0.153	-5%
NOK	0.118	-3%	0.115	-6%
SEK	0.111	-8%	0.112	-8%

FOURTH QUARTER OPERATIONS

USD thousand	Q4 2018	Q4 2017	Change	% Change
EBITDAR	-24,150	-5,381	-18,769	-
EBITDA	-34,996	-16,426	-18,570	-
EBIT	-69,252	-45,829	-23,423	51%
EBT	-69,724	-47,666	-22,058	46%
Loss for the period	-57,343	-39,673	-17,670	45%
EBITDAR %	-8.1%	-1.8%	-6.2 ppt	-
EBITDA %	-11.7%	-5.6%	-6.1 ppt	-

USD thousand	Intern. flight operations		Aviation investments		Tourism investments	
	Q4 2018	Q4 2017	Q4 2018	Q4 2017	Q4 2018	Q4 2017
Total income	250,183	257,268	44,046	45,484	30,776	39,345
EBITDAR	-29,920	-14,771	7,180	8,970	-1,410	420
EBITDA	-33,401	-17,422	1,918	3,508	-3,513	-2,512
EBT	-64,527	-42,218	-1,343	-650	-3,854	-4,798

International flight operations

EBITDA was negative by USD 33.4 million over the quarter, as compared to USD 17.4 million last year. Low average air fares, high fuel prices, increases in the market price of carbon emission allowances and poorer utilisation of pilots largely account for the decline in EBITDA between years

Investments in Aviation

Loftleidir's Icelandic operations were very successful in the fourth quarter and in 2018 as a whole. Air Iceland Connect's operations, on the other hand, were very difficult in 2018, with performance declining between years. The company's performance in the fourth quarter was unacceptable and much poorer in fact than anticipated.

Investments in Tourism

Revenue declined by 21.8% and EBITDA fell by USD 1.0 million, ending as negative by USD 3.5 million.

REVENUE

- **Total revenue up by 2% between years in Q4**
- **Other passenger-related income up by 63%, as compared to last year**

USD thousand	Q4 2018	Q4 2017	Change	% Change	% of rev. '18
Transport revenue:	218,971	206,599	12,372	6%	73%
Passengers	183,081	178,778	4,303	2%	61%
Passenger ancillary revenues	21,081	12,918	8,163	63%	7%
Cargo and mail	14,809	14,903	-94	-1%	5%
Aircraft and aircrew lease	27,683	28,396	-713	-3%	9%
Other operating revenue	52,146	56,585	-4,439	-8%	17%
Total	298,800	291,580	7,220	2%	100%

Total revenue increased by 2% between years; calculated at a fixed exchange rate the increase was 6%. Transport revenue increased by USD 12.4 million between years, or 6%. Revenue in Icelandair's Route Network increased in all markets, with the greatest increase in the tourist market to Iceland. Passenger-related ancillary revenue increased significantly over the quarter as the Company focused on increasing this revenue. This revenue came to USD 21.1 million, as compared to USD 12.9 million last year. Revenue from aircraft and aircrew leasing fell slightly, amounting to USD 27.7 million, as compared to USD 28.4 million last year. Other operating revenue amounted to USD 52.1 million, down by USD 4.4 million between years. The decline is the result of reduced income from tourist services due to changes in demand. Other operating revenues are itemised in the table below:

USD thousand	Q4 2018	Q4 2017	Change	% Change
Sale at airports and hotels	22,355	21,478	877	4%
Revenue from tourism	16,177	22,383	-6,206	-28%
Aircraft and cargo handling services	5,579	5,892	-313	-5%
Maintenance revenue	1,119	1,026	93	9%
Gain on sale of operating assets	1,532	0	1,532	-
Other operating revenue	5,384	5,806	-422	-7%
Total	52,146	56,585	-4,439	-8%

EXPENSES

- **Total expenses USD 333.8 million**

USD thousand	Q4 2018	Q4 2017	Change	% Change	% of exp. '18
Salaries and other personnel expenses	126,945	114,998	11,947	10%	38%
Aviation expenses	133,231	110,036	23,195	21%	40%
Other operating expenses	73,620	82,972	-9,352	-11%	22%
Total	333,796	308,006	25,790	8%	100%

Salaries and other personnel expenses amounted to USD 126.9 million, as compared to USD 115.0 million in the fourth quarter of last year. For reasons of market conditions the Company's capacity was cut by 11% in the quarter from previous projections. The Company therefore had a greater number of pilots on its payroll than needed, which reduced their utilisation. The resulting excess cost amounted to USD 2.5 million over the quarter.

Aviation expenses amounted to a total of USD 133.2 million, up by USD 23.2 million, of which USD 19.5 million resulted from higher fuel costs.

USD thousand	Q4 2018	Q4 2017	Change	% Change	% of total exp. '18
Aircraft fuel	74,144	54,653	19,491	36%	22%
Aircraft lease	9,179	5,718	3,461	61%	3%
Aircraft handling, landing and communication	29,260	29,184	76	0%	9%
Aircraft maintenance expenses	20,648	20,481	167	1%	6%
Total	133,231	110,036	23,195	21%	40%

Fuel expenses amounted in total to USD 74.1 million, up by 36% from the corresponding time of last year. The market price of carbon emission allowances increased substantially in the course of the year, from 8.3 to 24.6 EUR per carbon ton. The resulting cost in the fourth quarter increased by USD 2 million between years. In addition, USD 5 million were expensed in the quarter for reasons of this item, which in reality should have accrued in previous quarters. The Company's reporting price of fuel for the quarter, taking hedging into account, was on average USD 624/ton, which corresponds to an 11% increase between years. The section headed Outlook and EBITDA Guidance below provides an overview of the Company's fuel hedging position at the end of September.

Aircraft leasing cost amounted to USD 9.2 million, up by USD 3.5 million as compared to the fourth quarter of 2017, as the Company had more aircraft and newer aircraft on lease than last year. Aircraft handling, landing and communication expenses amounted to USD 29.3 million, remaining unchanged between years. Maintenance expenses amounted to USD 20.6 million, up by 1% between years.

Other operating expenses amounted to USD 73.6 million, down by USD 9.4 million between years. The main deviations are the result of reduced purchased services in tourism owing to changes in demand. This is reflected in the reduced income from tourism. The table below shows a breakdown of principal items and trends between years.

USD thousand	Q4 2018	Q4 2017	Change	% Change
Operating cost of real estate and fixtures	8,724	8,031	693	9%
Communication	4,958	6,310	-1,352	-21%
Advertising	6,158	9,355	-3,197	-34%
Booking fees and commission expenses	15,127	13,794	1,333	10%
Cost of goods sold	5,211	3,882	1,329	34%
Customer services	15,542	16,504	-962	-6%
Tourism expenses	7,120	14,317	-7,197	-50%
Other operating expenses	10,780	10,779	1	0%
Total	73,620	82,972	-9,352	-11%

FINANCIALS

▪ Currency effect positive by USD 4.9 million in Q4 2018

USD thousand	Q4 2018	Q4 2017	Change	% Change
Interest income	1,298	588	710	121%
Interest expenses	-6,639	-3,835	-2,804	73%
Currency effect	4,889	1,240	3,649	-
Total	-452	-2,007	1,555	-

BALANCE SHEET AND FINANCIAL POSITION

- **Total assets USD 1.5 billion at year-end 2018**
- **Equity ratio 32%**
- **Cash and market securities USD 299.5 million**

USD thousands	31.12.2018	31.12.2017	Change
Total assets	1,460,228	1,423,842	36,386
Operating assets	673,420	652,705	20,715
Cash and short term investment	299,460	225,278	74,182
Total equity	467,485	596,545	-129,060
Interest bearing debt	415,801	289,541	126,260
Net interest bearing debt	116,341	64,263	52,078
Equity ratio	32%	42%	-10 ppt
Current ratio	0.71	0.99	-28%

Operating assets amounted to USD 673.4 million, up by USD 20.7 million from the beginning of the year. Assets relating to hotel operations are currently in a divestment process, and therefore listed as assets for sale in the balance sheet. Further information on the impact of the change is set out in Note 7 to the interim statement.

Investments in operating assets are discussed in the section below on Cash Flow and Investments. At the end of the year the Group's fleet comprised 51 aircraft, 42 of which were owned by the Company. Two of Icelandair's B757-200 aircraft are on lease to Loftleidir at year-end.

Type	Icelandair	Cargo	Loftleidir	Air Iceland	Fleet 31.12.18	Fleet 31.12.17	Of which own	Of which leased	Ch. as of 31.12.17
B757-200	24	2	5		31	29	27	4	2
B757-300	2				2	1	2		1
B737 MAX 8	3				3	0	2	1	3
B767-300	4		2		6	6	5	1	0
B737-700			1		1	1		1	0
B737-800			2		2	3		2	-1
Bombardier Q200				3	3	3	3		0
Bombardier Q400				3	3	3	3		0
Total	33	2	10	6	51	46	42	9	5

Equity amounted to USD 467.5 million at the end of 2018, and the equity ratio was 32%. The table below shows the principal changes in equity from the beginning of the year:

USD thousand	31.12.2018
Balance at 1.1. 2018	591,535
Impact of IFRS 15 correction	5,010
Purchase of own shares	-7,485
Total comprehensive loss	-114,321
Dividend (0.15 US cent per share)	-7,254
Balance at 31.12.2018	467,485

The Board of Directors of Icelandair Group proposes that no dividend will be paid in 2019.

Interest-bearing liabilities amounted to USD 415.8 million, as compared to USD 289.5 million at the beginning of the year. Payments on long-term debts in the fourth quarter amounted to USD 18.8 million. Cash and marketable securities amounted to USD 299.5 million at the end of the year. Icelandair's net interest-bearing debt amounted to 116.3 million USD at the end of 2018:

USD thousands	31.12.2018	31.12.2017	Change
Loans and borrowings non-current	147,513	280,254	-132,741
Loans and borrowings current	268,288	9,287	259,001
Short term investment	0	4,087	-4,087
Cash and cash equivalents	299,460	221,191	78,269
Net interest bearing debt	116,341	64,263	52,078

The Company has issued two listed bond categories: ISIN N000107769982, amounting to USD 190 million and ISIN IS0000025427 amounting to USD 23.6 million. In late December the bondholders voted in favor of certain amendments to the terms and conditions of the bonds which were identical for both bond categories. The amendments included that the company would redeem one third (1/3) of the bonds, which was done on January 15th 2019 and amounted to USD 73 million including accrued interests. The Company may redeem all or only some of the outstanding on or before June 30th and each bondholder has the right to request that all, or only some, of the bonds shall be repurchased between 30 June 2019 to (and including) 15 July 2019. Due to this situation, the bonds are categorized as short-term financing in the company's balance sheet. The Company's cash and cash equivalents amounted to USD 300 million in year-end 2018 and all of the Company's Q400, Boeing 757 and 767 aircraft were unencumbered at year-end. Thus, the Company can refinance the bond categories which is currently under review.

Just before the turn of the year, the Company concluded an agreement with BOC Aviation on the financing of pre-delivery payments on 11 Boeing MAX aircraft which are scheduled for delivery to the Company in 2019 (6 aircraft) and 2020 (5 aircraft). In all, the financing amounts to USD 200 million over the period, and the Company's cash position increased by USD 160 million at the end of 2018 as a result of the agreement, as Icelandair Group had already made an advance payments out of its own funds.

The Company has negotiated sale and leaseback arrangements for seven Boeing 737 MAX aircraft that will be delivered in 2019-2020. This includes the six aircraft scheduled for delivery in 2019, and one of the aircraft scheduled for delivery in 2020. The table below shows the position of the financing of the 13 aircraft that the Company has on order:

Delivery	Financing	Type of financing	Lessor	No. of aircraft
2019	Completed	Sale and leaseback	BOC Aviation	1
2019	Completed	Sale and leaseback	SMBC Aviation Capital	2
2019	Completed	Sale and leaseback	BOCCOM Leasing Aviation	3
2020	Completed	Sale and leaseback	BOC Aviation	1
2020	Uncompleted	-	-	4
2021	Uncompleted	-	-	2

Icelandair Group is planning an equity issuance of up to ISK 625 million in nominal value in the first half of 2019, as announced to the Stock Exchange last 30 November and 19 December.

Icelandair's net interest-bearing debt amounted to 116.3 million USD at the end of 2018:

USD thousand	31.12.2018	31.12.2017	Change
Loans and borrowings non-current	273,778	280,254	-6,476
Loans and borrowings current	142,023	9,287	132,736
Short-term investment	0	4,087	-4,087
Cash and cash equivalents	299,460	221,191	78,269
Net interest bearing debt	116,341	64,263	52,078

CASH FLOW AND INVESTMENTS

- **Net cash for use in operating activities USD 15.0 million**
- **Cash and cash equivalents at the end of December USD 299.5 million**
- **Investments amounted to USD 35.4 million in Q4 2018**

USD thousand	Q4 2018	Q4 2017	Change
Net cash to operating activities	-14,989	9,054	-24,043
Net cash used in investing activities	136,627	-48,186	184,813
Net cash used in financing activities	3,146	-151	3,297
Cash and cash equivalents change	124,784	-39,283	164,067
Cash and cash equivalents, end of period	299,460	221,191	78,269

Net cash for use in operating activities in the third quarter amounted to USD -15.0 million, down by USD 24.0 million from the fourth quarter of 2018. Investments over the quarter amounted to a total of USD 42.6 million, of which USD 27.3 million were investments in engine overhauls. Other investments in operating assets, for the most part investments in hotel operations at Mývatn and facilities in Keflavik, amounted to USD 11.2 million.

USD thousand	Q4 2018	12M 2018
Operating assets:		
Aircraft and aircraft components	242	190.030
Overhaul own aircraft	27.276	82.189
Other	11.182	51.859
Total operating assets	38.700	324.078
Long term cost		
Overhaul leased aircraft	3.205	4.602
Intangible assets	671	2.749
Total Capex	42.576	331.429

OUTLOOK AND KEY PERFORMANCE INDICATOR TRENDS IN 2019

- **Improved profitability the principal task of the year**
- **Numerous measures taken to improve the Company's competitiveness**
- **Icelandair's flight schedule 10% larger than in 2018**

2018 was a difficult operating year, and the Company is anticipating significantly better results in the long term. All cost items are under review by the Company, and a number of streamlining projects are under way, which should return improved results in 2019 and for the future. These elements include automation, integration, outsourcing, and developing our Route Network to improve the efficiency of our human resources, fleet and other operating assets. Numerous changes in focus have been made in the Company's organisation designed to simplify and streamline our operations. Control of information technology and digitalisation have been merged in a single division. The organisation of our finance division will also be simplified. The change entails a reduction in management numbers in the Company's core operation, with the number of executives down by four from the third quarter of 2018.

International flight operations

Icelandair's competitive environment will continue to be challenging. In the summer of 2019 it is estimated that 28 airlines will fly to and from Iceland to over 90 destinations in Europe and North America. The competition will also remain great on the N-Atlantic. Icelandair's flight schedule in 2019, as measured in available seat kilometres, is set to expand by 10% over last year's schedule. However, the total number of available seats will grow by 13% over the year, with the difference explained by the fact that available seats to and from Europe will be increased more than on routes to and from North

America in order to correct the imbalance in availability that occurred in the summer of 2018. The increase in availability of seats to Europe will be 18%, but 3% to North America. Flights to Dallas and Baltimore will be discontinued. The total number of passengers is projected at 4.7 million, up by 0.6 million between years. As of May-September, flights will be available in a new connection bank alongside the Route Network's current connection bank. Flights will set off to Europe at around 11:00 a.m. and to North America at around 8:00 p.m. The new arrangement will result in an improved spread of arrivals and departures at Keflavik Airport, which will relieve pressure and improve the utilisation of the facilities that the Company has developed at the Airport. The arrangement will also enable the Company to grow in a sustainable manner in the coming years at Keflavik Airport. In addition to the increase in frequency of flights to key destinations, Düsseldorf in Germany will be added as a new destination.

In 2019 Icelandair will have 36 aircraft in operation, three more than last year. Six new Boeing 737 MAX aircraft will be added to the fleet in the course of the year, while the number of B757-200 aircraft will be reduced by three. The new connection bank will contribute to improved utilisation of the Company's fleet, as the aircraft flying to the west coast of the United States will return some 18-20 hours earlier than before. This will enable the Company to increase its passenger capacity by more than the capacity added through the increase in aircraft numbers. In addition, the change will enable the Company to carry out a greater number of maintenance projects in Keflavik and improve the utilisation of the local staff. In addition, the Company will have improved scope to respond to flight delays and improve punctuality.

In 2019 the number of Boeing 737 MAX aircraft in the Company's fleet will be nine, which will have a positive impact on fuel costs, as the fuel consumption of these aircraft is 27% lower than that of the Boeing 757 aircraft and their carbon footprint is smaller.

The Company is anticipating difficult first quarter operations and somewhat worse financial results than in the first quarter of 2018. Average air fares have not increased between years, and the timing of Easter will have an impact on demand; in addition, training and other costs of introducing new aircraft will have a negative impact. Because of the changes in capacity, the utilisation of the Company's pilots will continue to be poor in the quarter. The company will act to improve the utilisation in the winter of 2019-2020.

As regards high season in the third quarter, the trend is for passengers to book their flights closer to departure times than before, with the result that the uncertainty in our income projection is greater than before. The aim of the Company is to improve performance significantly, and to this end a number of actions have been taken to achieve our objective on both the income and expense side. A new revenue control system will be launched in the end of March. The system is much more advanced than the Company's current system and it will increase the possibility of maximizing revenues by taking into account the relevant assumptions at each time. The Company has also set itself the objective of substantially increasing its ancillary revenue to continue the fourth-quarter trend in 2018 between years into 2019. Investments have been made in training and staff increases to follow up on this trend. The cost to the Company of unpunctuality and disruptions in flight schedules amounted to approximately USD 45 million in 2018. The aim of the Company is to reduce this cost at least by about 40% in 2019 through improved punctuality, changes in the Route Network and infrastructure reinforcements. The current trend in on time performance indicate that the Company is on a correct course toward its objective.

Investments in aviation

Loftleidir Icelandic's operations are showing success. An agreement has been reached on extending the charter of two aircraft that were scheduled for return in 2018, and the prospects for new assignments are favourable. Continued success is foreseen for the Company's VITA travel agency. The results of Air

Iceland Connect were unacceptable in 2018, however, and the company's operations are now undergoing a thorough review.

Investments in Tourism

In line with its sharper focus on aviation, the Company has decided to divest itself of its investments in tourism. The Icelandair Hotels divestment process that was begun in November 2018 is still ongoing. About a dozen offers were received by the first deadline for offers, which was shortly before Christmas. Work is now continuing on the proposed divestment, and a decision on the matter is anticipated toward the close of the first quarter. The board of directors has also decided to embark on a divestment process of Iceland Travel and thereby concentrate on aviation and related activities.

Change in financial reporting standards

Icelandair Group will implement a new financial reporting standard, IFRS 16, at the start of 2019. Further details are set out in Note 44 in the Annual Financial Report. Below is an overview of the estimated impact of the standard on the Company's consolidated financial statement in 2019, in the absence of any other changes, and on the Balance Sheet as at 1 January 2019. The impact is shown both excluding and including Icelandair Hotels, which are being divested.

USD thousands	IFRS 16 excl. Hotels	IFRS 16 incl. Hotels
EBITDA	66,723	81,427
Depreciation	-61,720	-72,303
Net finance cost	-10,679	-18,014
Net profit	-5,676	-8,890
Total assets	1,432,863	1,746,786
Equity ratio	33%	27%

2019 GUIDANCE

The performance of Icelandair in 2018 was in no way acceptable. A number of varied actions have been taken to improve its operation in 2019:

- Modifications in capacity to achieve a better balance in the Route Network between Europe and N-America, which will facilitate control and maximise revenue;
- Implementation of a new revenue control system;
- Reinforcement of sales and marketing work;
- Increased emphasis on ancillary revenue;
- New connection bank, which will improve resource utilisation;
- Strengthening of processes to reduce operating disruptions in the Route Network;
- Streamlined management structure;
- Improved utilisation of human resources;
- Outsourcing of tasks;

These and other factors will all result in improved operations in 2019, and, accordingly, improved results are anticipated from the Route Network and thereby Icelandair's business operation between years.

A slight performance improvement is anticipated from other core operations in 2019, which returned USD 37 million in EBITDA in 2018. Furthermore, the Company expects the sales process of Icelandair Hotels to be finalized in 2019 and it has been announced that the sales process of Iceland Travel is currently being prepared. The EBITDA of these assets, currently held for sale, was USD 16 million in 2018.

Because of the greater uncertainty in revenue forecasts than before, and because of the uncertainty in the labour market in Iceland, the Company will not be issuing an EBITDA guidance for the year at the present stage. Icelandair Group's long-term business objective remains unchanged, with an average 7% EBIT ratio. Results will continue to fluctuate between years, some of which will be higher and others lower. In 2019, the EBIT ratio is expected to be somewhat lower than 7%.

The criteria used assume an average exchange rate index of 166 for the ISK and the exchange rate of the EUR against the USD is projected at an average of 1.14. The price of jet fuel (net of hedging) is estimated at USD 615/ton on average in 2019. Fuel hedging position at the start of 2019:

Period	Projected use (tons)	Swap contracts	Ratio hedged	Average price of swaps USD
Jan 19	25,277	15,450	61%	621
Feb 19	21,102	14,450	68%	644
Mar 19	26,666	15,500	58%	622
Apr 20	29,750	15,450	52%	631
May 19	40,885	21,500	53%	635
Jun 19	49,696	24,500	49%	683
Jul 19	52,286	26,250	50%	692
Aug 19	52,505	28,250	54%	722
Sep 19	45,855	27,250	59%	752
Oct 19.	33,902	16,000	12%	753
Nov19	30,530	11,000	13%	699
Dec 19	29,028	4,000	14%	722
12 months	437,482	219,600	50%	685 *
Jan 20	25,759	4,000	16%	713
Feb 20	21,502	4,000	19%	789
Mar 20	27,171	4,000	15%	764
Apr 20	30,321	0	0%	0
May 20	41,677	0	0%	0
Jun 20	50,663	0	0%	0
13-18 months	197,094	12,000	6%	755 *

* Weighted average

PRESENTATION MEETING 8 FEBRUARY 2019

An open presentation for stakeholders will be held on Friday 8 February 2019 at the Icelandair Hotel Reykjavik Natura. Bogi Nils Bogason, Icelandair Group President & CEO, 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 a.m. Breakfast will be served 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 Icelandic 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 2018 were approved at a meeting of the Board of Directors on 7 February 2019.

FINANCIAL CALENDAR

- **Financial statement for the first quarter – week 18, 2019**
- **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**

FOR FURTHER INFORMATION PLEASE CONTACT:

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