CHALLENGING CONDITIONS

- **Total revenue up by 9% between years, to USD 399.0 million compared to USD 367.3 million last year**
- **EBITDA USD 14.7 million, as compared to USD 40.6 million last year**
- **Decline in results between years due to downward pressure on air fares, poorer passenger load factor and one-off cost of disruptions in flight schedule**
- **Equity ratio 32% at the end of June**
- **Net interest-bearing debt USD 92.5 million**
- **Cash and short-term investments USD 250.8 million**
- **EBITDA guidance USD 120-140 million**

USD thousand	Q2 2018	Q2 2017	Change	% Change	6M 2018	6M 2017	Change	% Change
Operating results								
Total income	398,906	367,300	31,606	9%	666,525	589,375	77,150	13%
EBITDAR	28,278	48,504	-20,226	-	21,978	46,879	-24,901	-
EBITDA	14,693	40,575	-25,882	-	-3,518	30,598	-34,116	-
EBIT	-19,798	9,725	-29,523	-	-66,011	-26,139	-39,872	-
EBT	-31,480	11,745	-43,225	-	-75,019	-25,593	-49,426	-
Loss / Profit for the period	-25,728	9,910	-35,638	-	-60,256	-19,974	-40,282	-
Balance sheet								
Total assets	-	-	-	-	1,655,936	1,521,372	134,564	9%
Total equity	-	-	-	-	529,744	516,727	13,017	3%
Interest bearing debt	-	-	-	-	343,333	284,659	58,674	21%
Cash and short term investment	-	-	-	-	250,834	360,092	-109,258	-30%
Net interest bearing debt	-	-	-	-	92,499	-75,433	167,932	-
Cash flow								
Net cash from operating activities	60,062	90,801	-30,739	-34%	127,177	216,298	-89,121	-41%
Net cash used in investing activities	-60,861	-51,297	-9,564	19%	-190,020	-127,079	-62,941	50%
Net cash from/used in financing activities	52,412	-6,416	58,828		83,214	17,104	66,110	-
Cash and cash equivalents end of period	241,058	336,022	-94,964	-28%	241,058	336,022	-94,964	-28%
Key Ratios								
Loss / Profit per share expressed in US Cent	-0.53	0.20	-0.73	-	-1.25	-0.41	-0.84	-
Intrinsic value	-	-	-	-	13.56	13.07	0.49	4%
Equity ratio	-	-	-	-	32%	34%	-2.0 ppt	-6%
Current ratio	-	-	-	-	0.99	0.85	0.14	16%
CAPEX USD thousand	54,707	37,649	17,058	45%	246,090	84,928	161,162	-
Transport revenue as % of total revenues	72.0%	73.8%	-1.8 ppt	-	69%	71%	-2.5 ppt	-4%
EBITDAR ratio	7.1%	13.2%	-6.1 ppt	-	3.3%	8.0%	-4.7 ppt	-59%
EBITDA ratio	3.7%	11.0%	-7.4 ppt	-	-0.5%	5.2%	-5.7 ppt	-
Share information ISK								
Highest price in period	14.69	16.15	-1.46	-9%	16.55	23.53	-6.98	-30%
Lowest price in period	11.41	13.13	-1.72	-13%	11.41	13.13	-1.72	-13%
Price at period end	-	-	-	-	13.00	14.50	-1.50	-10%
Market Cap at period end (millions)	-	-	-	-	65,000	72,500	-7,500	-10%

BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO

“We have been working on extensive changes in Icelandair Group, which will result in a still stronger enterprise for the future. Everything has been under review, including the Company’s structure, strategy, route network, fleet composition, fare categories and sectors in which the Company intends to operate in the future. We have begun a process of divesting the Company of its hotel operations, a new connection bank in Iceland is under consideration alongside the current connection bank, and new Boeing MAX aircraft joined the fleet earlier this year. In addition, extensive changes have been made in the Company’s structure. The objective is to sharpen still further the focus in our sales and marketing, on the one hand, and services to customers on the other hand, thereby strengthening the Company.

The results for the second quarter fell short of anticipations. Our forecasts of rising average air fares in the second half of the year have not materialised. This is in spite of the significant rise in fuel prices. Part of the reason is the competition in our markets, which has rarely been as fierce as it is now. We continue to anticipate that the rising prices of resources will in due course result in higher average air fares.

The current conditions in air carrier operations are indeed challenging. Nevertheless, Icelandair Group is well positioned to overcome these challenges and take advantage of any opportunities that these conditions may bring. “

TRANSPORT FIGURES

- **Passenger numbers on Icelandair flights 1.1 million, up by 2%**
- **Load factor on Icelandair flights 80.3%, down by 3.2 percentage points between years**
- **Hotel room occupancy down from last year**

	Q2 2018	Q2 2017	Change
INTERNATIONAL FLIGHTS			
Number of passengers (´000)	1,115.8	1,095.2	2.0%
Load factor (%)	80.3	83.5	-3.2 ppt
Available seat kilometres (ASK´000,000)	4,393.3	4,086.9	7%
Revenue passenger kilometres (RPK'000,000)	3,529.4	3,414.0	3%
Average stage length km	3,260.0	3,086.0	6%
REGIONAL FLIGHTS			
Number of passengers (´000)	84.0	88.7	-5%
Load factor (%)	63.9	66.1	-2.2 ppt
Available seat kilometres (ASK´000,000)	48.9	52.0	-6%
Revenue passenger kilometres (RPK'000,000)	31.3	34.4	-9%
CHARTER			
Fleet Utilisation (%)	87.5	96.0	-8.5 ppt
Sold Block Hours	9,027	6,584	37%
CARGO			
Freight Tonne Kilometres (FTK´000)	30,462	29,298	4%
HOTELS			
Available Hotel Room Nights	99,739	95,703	4%
Sold Hotel Room Nights	74,819	73,764	1%
Utilisation of Hotel Rooms (%)	75.0	77.1	-2.1 ppt

Available Seat Kilometres (ASK) increased by 7% between years in the second quarter. Average stage length increased by 6% between years, as ASK to North America increased by 8% while ASK to Europe decreased by 1%. The North Atlantic market was the Company's largest market, accounting for 56% of the total number of passengers in the second quarter of 2018. The greatest proportional increase in passenger numbers was in the domestic market from Iceland, while the number of passengers travelling to Iceland declined between years.

Passenger mix ´000	**Q2 2018**	**Q2 2017**	**Change**	**% of total ´18**
To	346.0	371.0	-7%	31%
From	149.3	130.9	14%	13%
Via	620.6	593.2	5%	56%
Total international flights	**1,115.8**	**1,095.2**	**2%**	**100%**

EXCHANGE RATE TRENDS

Icelandair Group's reporting currency is the USD. Revenue in the second quarter of 2018 was 9% above the corresponding quarter of 2017. Calculated at a fixed exchange rate, revenue grew by 6% between years.

Currency	Av. rate Q218	Chg. from Q217	Closing rate 30.06 ´18	Chg. from frá 30.06 ´17
ISK	0.010	1%	0.009	-3%
EUR	1.191	8%	1.167	2%
GBP	1.360	6%	1.320	2%
CAD	0.774	4%	0.761	-1%
DKK	0.160	8%	0.157	2%
NOK	0.125	6%	0.123	3%
SEK	0.115	2%	0.112	-6%

SECOND-QUARTER OPERATIONS

USD thousand	Q2 2018	Q2 2017	Change	% Change
EBITDAR	28,278	48,504	-20,226	-42%
EBITDA	14,693	40,575	-25,882	-64%
EBIT	-19,798	9,725	-29,523	-
EBT	-31,480	11,745	-43,225	-
Loss / Profit for the period	-25,728	9,910	-35,638	-
EBITDAR %	7.1%	13.2%	-6.1 ppt	-
EBITDA %	3.7%	11.0%	-7.4 ppt	-

Icelandair Group implemented IFRS 15 in its accounting as of 1 January 2018 and has applied the standard retroactively in its accounts. As a general principle, IFRS 15 provides for the maintenance of consistency between the period in which revenue is recognised and the time at which the service is provided. This results in a delay in the recognition of certain revenues as compared to the earlier method, such as booking and rebooking charges, which were recognised earlier at the time that the booking or rebooking occurred, but is now recognised concurrently with the occurrence of the flight that was booked or rebooked. The standard also applies to accounting procedures regarding the expense incurred in the generation of revenue. The standard permits a delay in recording an expense to make it concurrent with, and proportional to, the service being provided. This applies, for instance, to expenses such as booking fees and credit card and sales commissions. Comparison figures of the year 2017 have been adjusted as if the Company had implemented the standard on 1 January 2017. The adjustments are explained in greater detail in the interim financial statement.

	Intern. flight operations		Aviation investments		Tourism investments	
USD thousand	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017
Total income	297,214	277,573	47,718	38,783	53,974	50,944
EBITDAR	11,739	36,760	10,659	7,657	5,880	4,087
EBITDA	8,429	34,734	4,561	4,016	1,703	1,825
EBT	-34,573	13,273	3,233	-1,116	-140	-412

International flight operations

EBITDA amounted to USD 8.4 million over the quarter, as compared to USD 34.7 million last year. Reduced passenger revenue resulting from the downward pressure on average fares and a lower passenger load factor, and one-off expenditure, combined with a series of disruptions in Icelandair's flight schedule, account for the decline in performance between years. A changed approach in revenue control designed to increase revenue by securing the availability of seats for certain target groups who book higher-priced fares at shorter notice did not return the anticipated results. Flights were introduced to six new destinations in the United States. Bookings to these destinations have fallen short of expectations, which partly explains the decline in the load factor between years. On the other hand, the Company's load factor on flights to Europe was very good and in excess of projections.

Investments in Aviation

Total revenue increased by 23% between years. Loftleidir performed very well over the quarter, and the company had three more aircraft in assignments than over the same period last year. Air Iceland Connect operations improved between years as a result of actions taken earlier this year. Flights between Keflavik and Akureyri and flights to Belfast and Aberdeen were discontinued in May.

Investments in Tourism

The increase in turnover was 6%, but EBITDA declined slightly between years in the wake of deteriorating tourist market conditions in Iceland.

REVENUE

- **Total revenue up by 9% between years in the second quarter**
- **Passenger revenue up by 6% between years**

USD thousand	Q2 2018	Q2 2017	Change	% Change	% of rev. ´17
Transport revenue:	287,200	271,097	16,103	6%	72%
Passengers	272,928	256,960	15,968	6%	68%
Cargo and mail	14,272	14,137	135	1%	4%
Aircraft and aircrew lease	29,574	20,432	9,142	45%	7%
Other operating revenue	82,132	75,771	6,361	8%	21%
Total	**398,906**	**367,300**	**31,606**	**9%**	**100%**

Total revenue increased by 9% between years; calculated at a fixed exchange rate the increase was 6%. Transport revenue increased by USD 16.1 million between years, or 6%. In the International Route Network, the largest increase in revenue was in the North Atlantic market, but the domestic market from Iceland also saw an increase. Revenue from the tourist market to Iceland declined. Income from aircraft and aircrew lease increased by USD 9.1 million, or 45%. The reason was the increased scope of business in charter flight operations. Other operating revenue amounted to USD 82.1, up by USD 6.4 million, or 8%, as compared to the second quarter of 2017. Revenue from tourism declined by USD 1.6 million between years. Other operating revenues are itemised in the table below:

USD thousand	Q2 2018	Q2 2017	Change	% Change
Sale at airports and hotels	32,360	25,522	6,838	27%
Revenue from tourism	34,970	36,522	-1,552	-4%
Aircraft and cargo handling services	6,940	5,246	1,694	32%
Maintenance revenue	811	1,097	-286	-26%
(Loss) gain on sale of operating assets	116	-70	186	-266%
Other operating revenue	6,935	7,454	-519	-7%
Total	**82,132**	**75,771**	**6,361**	**8%**

EXPENSES

- **Total expenses USD 384.2 million**
- **Principal reasons for increased expense were higher fuel prices, increased scope of business and one-off cost resulting from flight schedule disruptions**

Salaries and other personnel expenses amounted to USD 145.0 million, as compared to USD 125.8 million in the second quarter of last year. The increase resulted mostly from the increased scope of the Company's business and contractual wage increases. The table below shows the principal reasons for the increased wage costs between years:

Salaries and personnel expenses Q217	**125,787**
Contractual wage increase	7,516
Chg. n number of employees	9,946
Currency	-0,721
Other changes	1,586
Salaries and personnel expenses Q218	**144,985**

Absolute figures in USD thousand

Aviation expenses amounted to a total of USD 142.5 million, up by USD 26.6 million, to the largest extent because of higher fuel costs.

USD thousand	**Q2 2018**	**Q2 2017**	**Change**	**% Change**	**% of total exp. ´18**
Aircraft fuel	77,340	60,484	16,856	28%	20%
Aircraft lease	8,870	5,238	3,632	69%	2%
Aircraft handling, landing and communication	36,626	31,863	4,763	15%	10%
Aircraft maintenance expenses	19,639	18,253	1,386	8%	5%
Total	**142,475**	**115,838**	**26,637**	**23%**	**37%**

Fuel expenses amounted in total to USD 77.3 million, up by 28% from the corresponding time of last year. The Company's reporting fuel price for the quarter, taking hedging into account, was on average USD 616/ton, which corresponds to a 29% 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 June. Aircraft leasing cost amounted to USD 8.9 million, up by USD 3.6 as compared to the second quarter of 2017, as the Company had more aircraft on lease than last year. Aircraft handling, landing and communication expenses amounted to USD 36.6 million, up by 15% between years. Maintenance expenses amounted to USD 19.6 million, up by 8% between years.

Other operating expenses amounted to USD 96.8 million, up by USD 11.7 million between years. The largest share of the increase was due to increased cost of services to passengers resulting from a series of disruptions in the Company's flight schedule in the quarter; the reasons for the disruptions include delays in commissioning aircraft, weather conditions etc. The table below shows a breakdown of principal items and trends between years.

USD thousand	Q2 2018	Q2 2017	Change	% Change
Operating cost of real estate and fixtures	9,383	7,342	2,041	28%
Communication	8,128	6,721	1,407	21%
Advertising	7,500	6,730	770	11%
Booking fees and commission expenses	16,575	16,304	271	2%
Cost of goods sold	8,366	7,361	1,005	14%
Customer services	13,862	8,831	5,031	57%
Tourism expenses	22,216	22,731	-515	-2%
Allowance for bad debt	899	360	539	150%
Other operating expenses	9,824	8,720	1,104	13%
Total	**96,753**	**85,100**	**11,653**	**14%**

FINANCIALS

- **Currency effect negative by USD 7.8 million in the second quarter**
- **Currency effect in the first six months of the year negative by USD 3.0 million**

USD thousand	Q2 2018	Q2 2017	Change	% Change
Interest income	579	1,587	-1,008	-64%
Interest expenses	-4,730	-4,343	-387	9%
Currency effect	-7,824	4,715	-12,539	-
Total	**-11,975**	**1,959**	**-13,934**	**-**

BALANCE SHEET AND FINANCIAL POSITION

- **Total assets USD 1.7 billion at the end of the second quarter**
- **Equity ratio 32%**
- **Cash and short-term investments USD 250.8 million**

USD thousands	30.06.2018	31.12.2017	Change
Total assets	1,655,936	1,423,842	232,094
Operating assets	672,853	652,705	20,148
Cash and short term investment	250,834	225,278	25,556
Total equity	529,744	596,545	-66,801
Interest bearing debt	343,333	289,541	53,792
Net interest bearing debt	92,499	64,263	28,236
Equity ratio	32%	42%	-10 ppt
Current ratio	0.99	0.99	0%

Operating assets amounted to USD 672.9 million, increasing by USD 232.1 from the beginning of the year. Management has committed to a plan to divest itself of its hotel segment by the end of 2018, following a strategic decision to place greater emphasis on the Group's key competency – i.e. the airline industry. In the Consolidated Statement of Financial Position, the assets and liabilities pertaining to this segment are shown as assets held for sale. The effect of the change can be examined in further detail in Note 6 in the interim financial statement.

Investments in operating assets are discussed in the section below on investments. At the end of the quarter the Group's fleet comprised 52 aircraft, 41 of which were owned by the Company.

Aircraft type	Icelandair	Cargo	Loftleiðir	Air Iceland Connect	Fleet 30.06.18	Fleet 31.12.17	Of which own	Of which leased	Chg. from 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	4	2	0
B737-700			1		1	1		1	0
B737-800			3		3	3		3	0
Bombardier Q200				3	3	3	3		0
Bombardier Q400				3	3	3	3		0
Total	**33**	**2**	**11**	**6**	**52**	**46**	**41**	**11**	**6**

Equity amounted to USD 529.7 million at the end of June, and the equity ratio was 32%. The table below shows the principal changes in equity from the turn of the year.

USD thousands	30.06.2018
Balance at 1.1. 2018	591,535
Impact of IFRS 15 correction	5,010
Purchase of own shares	-7,485
Total comprehensive loss	-52,062
Dividend (0.15 US cent per share)	-7,254
Balance at 30.06.2018	**529,744**

Interest-bearing debt amounted to USD 343.3 million, as compared to USD 289.5 million at the beginning of the year. The increase is explained largely by borrowings for the purchase of two 737 MAX aircraft. Payments on long-term debts in the second quarter amounted to USD 1.6 million. Cash and short-term investments amounted to USD 250.8 million at the end of the quarter.

USD thousand	30.06.2017	31.12.2017	Change
Loans and borrowings non-current	328,641	280,254	48,387
Loans and borrowings current	14,692	9,287	5,405
Short term investment	13,662	4,087	9,575
Cash and cash equivalents	237,172	221,191	15,981
Net interest bearing debt	**92,499**	**64,263**	**28,236**

CASH FLOW AND INVESTMENTS

- **Net cash provided by operating activities USD 60.1 million**
- **Cash and cash equivalents at the end of June USD 241.1 million**
- **Investments amounted to USD 54.7 million**

USD thousand	Q2 2018	Q2 2017	Change
Net cash from operating activities	60,062	90,801	-30,739
Net cash used in investing activities	-60,861	-51,297	-9,564
Net cash used in financing activities	52,412	-6,416	58,828
Cash and cash equivalents change	51,613	33,088	18,525
Cash and cash equivalents, end of period	**241,058**	**336,022**	**-94,964**

Net cash provided by operating activities in the second quarter amounted to USD 60.1 million, down by USD 30.7 million from the second quarter of 2017. Investments over the quarter amounted to a total of USD 54.7 million, of which USD 26.1 million involved aircraft and related equipment. The cost of engine overhauls for own aircraft amounted to a total of USD 21.5 million, and other investments in operating assets, mostly investments in hotel operations in Myvatn and a new flight simulator, amounted to USD 6.1 million.

USD thousand	Q2 2018
Operating assets:	
Aircraft and aircraft components	26,115
Overhaul own aircraft	21,500
Other	6,072
Total operating assets	53,687
Long term cost	
Overhaul leased aircraft	166
Intangible assets	854
Total Capex	**54,707**

OUTLOOK AND EBITDA GUIDANCE FOR 2018

- **Icelandair's EBITDA guidance for second half of year decreased**
- **Icelandair undergoing profound changes**
- **Decline in Iceland's competitive position as a tourist destination**

International flight operations

The current short-term outlook for Icelandair is less favourable than anticipated earlier. Competition is severe in all the Company's markets, and at the same time the cost of resources for flight operations has gone up. The world market price of fuel at the end of July is approximately 44% higher than at the same time last year. Seating capacity on flights across the North Atlantic increased significantly in a short period, particularly in the form of low-fare airline offerings. Their market share is up from 0.5% in 2012 to over 9% in 2017. In addition, 27 airlines are flying to and from Iceland in 2018, which is a record high. Increases in air fares have therefore not sufficed to balance against cost increases to the extent anticipated by the company.

An announcement issued by the Company following the presentation of accounts for the first quarter noted great uncertainty in the EBITDA guidance for the year. The Company's management assumed that average air fares would rise gradually over the course of the year to counter rising costs. The focus in revenue control was altered, e.g. by ensuring availability of seats for certain target groups who book more expensive fares at shorter notice. In early July it became clear that this scenario would not materialise. There is still some uncertainty regarding price trends in the Company's principal markets in the second half of the year, and, in addition, bookings are falling short of the projected increase in capacity. A notice was sent to the Stock Exchange on 8 July revealing that the Company's projected income would need to be reduced to a considerable degree for the second half of the year and Icelandair Group's EBITDA guidance was reduced to USD 120-140 million.

The Company is going through a period of profound changes in structure, operations, fleet composition and Route Network. Following a detailed analysis in the spring of the business operations, strategy and future points of emphasis in the Company, conducted in collaboration with some 600 employees, a new organisation chart was introduced in mid-July designed to sharpen the Company's focus in sales and marketing, on the one hand, and services to customers, on the other hand. The first three B737 MAX aircraft of the sixteen acquired by the Company are now operational and their cost-effectiveness is in line with anticipations. The development of a new connection bank in Iceland alongside the current Route Network's connection bank for 2019 is now under examination and the findings will be presented in the coming weeks.

Investments in aviation

Prospects for Loftleidir Icelandic's charter flight operations for the second half of 2018 are favourable. Operation of the Vita travel agency has been positive, and continued success is anticipated in the second half of the year. Air Iceland Connect has six aircraft in operation in 2018. The company's operation is challenging, and efficiency measures have been taken to improve performance. As of mid-May, flights between Keflavik and Akureyri on Bombardier Q400 aircraft were discontinued, and the company no longer offers flights to the company's two destinations in the United Kingdom, Aberdeen and Belfast. The company now concentrates its efforts on domestic flights and regional flights between Iceland and Greenland. Work is also in progress on further integrating Air Iceland Connect with Icelandair.

Investments in Tourism

In recent months Iceland's competitiveness as a tourist destination has declined. Price sensitivity is more prevalent among visitors, who spend less than they did earlier. Nevertheless, the outlook for Icelandair Hotels' operations are favourable for 2018, and on the whole performance is expected to improve between years with continued cost containment and emphasis on automation and streamlining of workflows. A notice to the Stock Exchange last 18 May revealed that Icelandair Group has started a divestment process of its hotel operations and related assets. The divestment process will be designed to maximise the value of the assets, while at the same time preserving the interests of Icelandic tourism, the hotel employees and other stakeholders. Iceland Travel's operating prospects have declined over the year following deteriorating tourist market conditions in Iceland. Tourist stays in Iceland have become shorter and the composition of the tourist group has changed with the increased share of low-fare airlines flying to Iceland, in addition to the huge increase in the number of apartments available for rent such as through Airbnb. Iceland Travel has already taken steps to adapt to this trend. The company has launched new product offerings for the changed composition of the tourists, such as shorter trips, and in addition the staff has been downsized and a new organisation chart introduced which is designed to improve flexibility. Also, the focus has been sharpened on the use of digital solution where the company has invested extensively in recent years to improve productivity.

EBITDA guidance

The price of jet fuel (net of hedging) is projected at USD 715/ton on average over the second half of 2018, as compared to the estimate of USD 670/ton at the end of April. Taking hedging into account, a 10% increase in fuel prices may be expected to have a USD 8.6 million adverse impact on EBITDA. The Company's fuel hedging situation at the end of June is highlighted in the table below.

Period	Estimated usage (tons)	Swap volume	% hedged	Av. swap price USD
Jul18	50,686	26,650	53%	524
Aug 18	50,868	27,650	54%	544
Sep 18	44,856	24,550	55%	574
Oct 18	37,594	18,500	49%	560
Nov 18	33,685	15,450	46%	574
Dec 18	31,878	16,450	52%	587
Jan 19	30,606	15,250	50%	621
Feb 19	27,313	12,250	45%	625
Mar 19	31,358	15,250	49%	622
Apr 19	31,857	15,000	47%	630
May 19	42,547	19,000	45%	621
Jun 19	49,967	24,000	48%	683
12 months	**463,215**	**230,000**	**50%**	**592***
Jul 19	53,141	8,000	15%	676
Aug 19	53,331	4,000	8%	679
Sep 19	45,727	4,000	9%	735
Oct 19	38,320	4,000	10%	713
Nov 19	34,335	4,000	12%	699
Dec 19	32,494	0	0%	0
13-18 months	**257,349**	**24,000**	**9%**	**697***

* weighted average price

Based on revised assumptions, the average ISK exchange rate index is projected at 164 for the remainder of the year, as compared to 158 in the last forecast, and the average exchange rate of the EUR against the USD is projected at 1.18 in the period of July to December, as compared to 1.23 in the April forecast. The EBITDA forecast for the year is USD 120-140 million.

Long-term prospects

The air transport industry is by its nature volatile, and a number of external factors can affect performance in the sector, such as exchange rate trends and fuel price trends. Changes in the competitive environment can also have a significant impact. In the opinion of management, 2018 is a somewhat anomalous year and the Company is anticipating significantly better results in the long term. Reasons include the following:

- Recent changes in emphasis in the Company's organisation should ensure improved efficiency in sales and services to customers.
- The Company is now in the process of commissioning a new and more efficient aircraft type. The new aircraft is far more economic in operation than older aircraft in the Company's fleet, both as regards fuel consumption and maintenance. Based on current jet fuel prices, the Company's performance will become stronger with the introduction of the new aircraft.
- Over the past two years, the price of jet fuel has increased by over 60%. At the same time, air fares have been falling in many markets. The Company's management believes that the current conditions cannot remain unchanged and that greater discipline will be established with respect to airline product offerings in the near future and that air fares will rise to some extent in line with cost increases. Recent profit warnings from air carriers on both sides of the Atlantic support this scenario.
- In a historical context the real exchange rate of the ISK is currently strong, and this is beginning to have an adverse impact on the competitiveness of Iceland's export sectors. It is the assessment of the Company's management that the króna will weaken somewhat over the longer term, which will

have a positive impact on the Company's performance, as its expenses in ISK far exceed income in that currency.

The Company has set itself the target of returning an average EBIT ratio of 7% per year for the long-term as of 2019. According to the Company's long-term projections the above factors will have an impact on average performance (EBIT %) in the coming years as shown in the following table:

Internal Factors	**Impact on EBIT**
Increased untit revenue form more efficient sales activities and revenue control	2.0-2.5%
Reduced expenses, e.g. resulting from new aircraft type	2.5-3.0%
Total	**4.5-5.5%**
External Factors	
Increased unit revenue from higher air fares in markets	1.5-2.0%
Improved performance resulting from weakening of the ISK	2.0-2.5%
Total	**3.5-4.5%**
Internal and external Factors	**8.0-10.0%**

In addition to all of the above, the Company is working on a number of other elements with a view to improving efficiency in operations and increasing revenue. These elements include automation, integration, outsourcing and developing of the Route Network to improve the efficiency of the human resources, fleet and other operating assets.

PRESENTATION MEETING 1 AUGUST 2018

An open presentation for stakeholders will be held on Wednesday 1 August 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 QUARTERLY STATEMENT

The consolidated accounts of Icelandair Group for the second quarter report of 2018 were approved at a meeting of the Board of Directors on 31 July 2018.

FINANCIAL CALENDAR

- **Financial statement for the third quarter – 30 October 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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