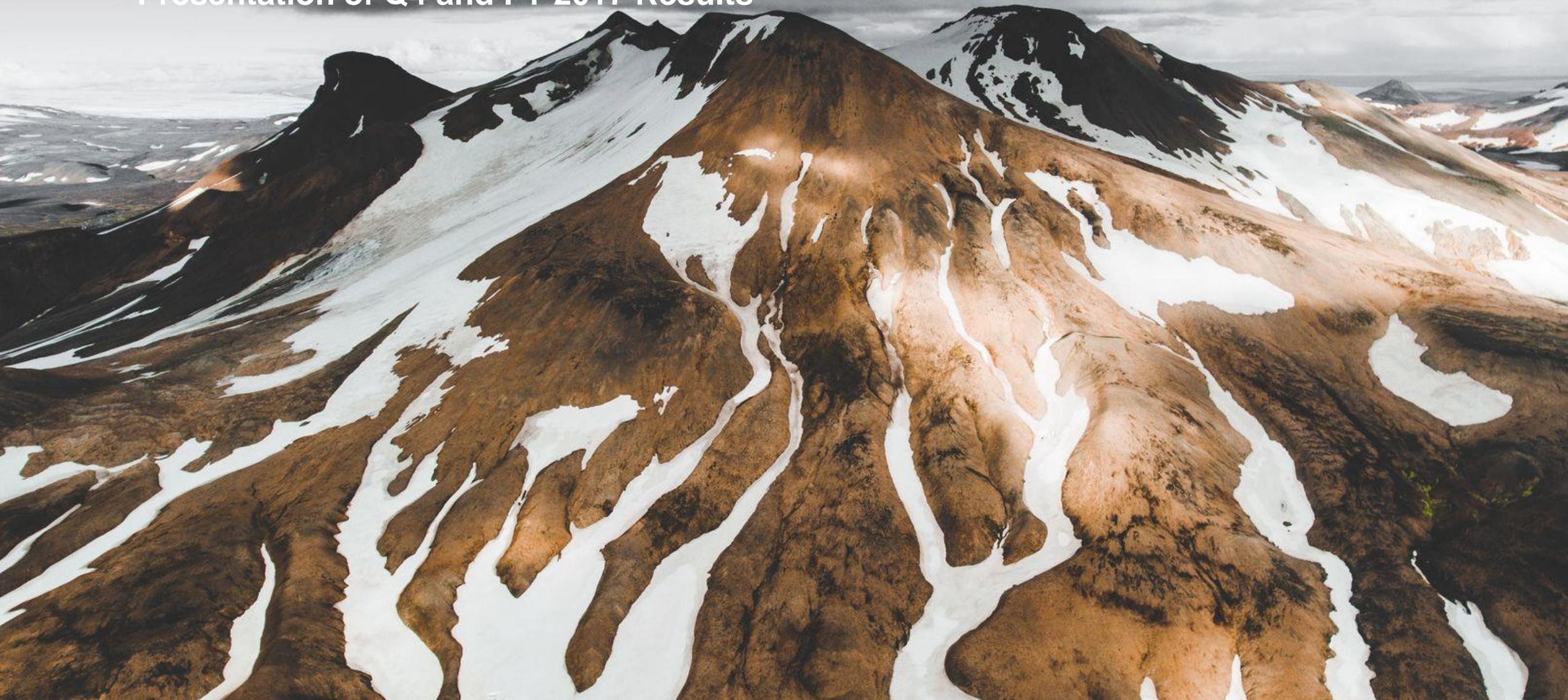


**Icelandair Group
Presentation of Q4 and FY 2017 Results**



Highlights

**Result in line
with last
EBITDA guidance:
USD 170.2 million**

**Continued
pressure on yield
Will yield development
follow higher fuel price
and other cost
increases?**

**EBITDA
guidance
2018
USD 170-190
million**



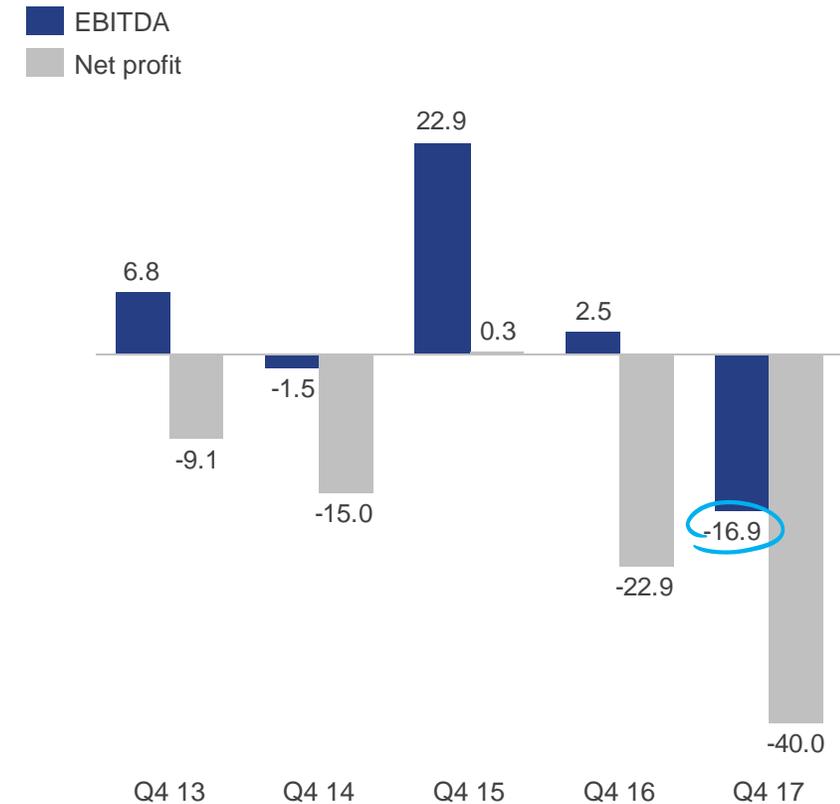
Financials

Bogi Nils Bogason, CFO

Higher fuel price, strike and restructuring cost main reason for lower Q4 results

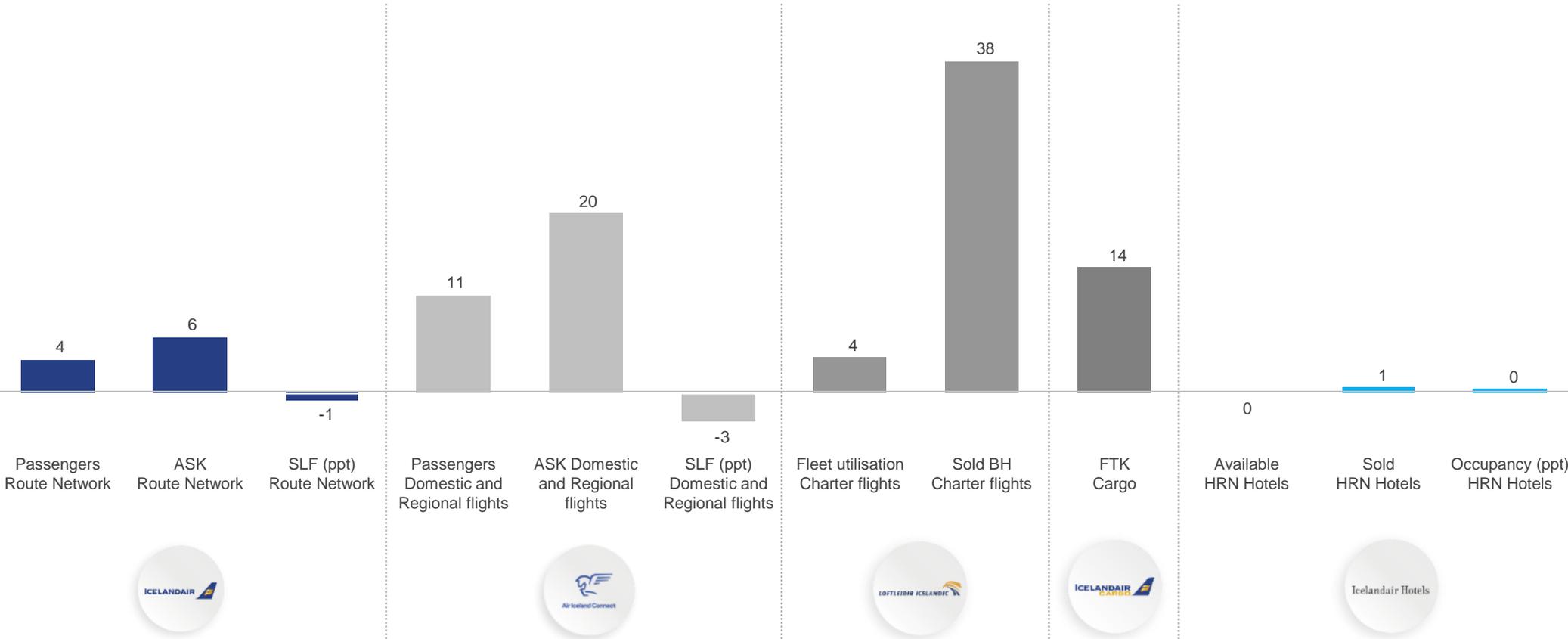
USD million	Q4 2017	Q4 2016	% Chg.
Operating Income	292.2	256.5	14%
Salaries and related expenses	115.0	98.2	17%
Aircraft fuel	54.7	45.2	21%
Aircraft lease	5.7	5.4	7%
Aircraft handling, landing and comm.	29.2	21.1	39%
Aircraft maintenance expenses	20.5	17.0	21%
Other expenses	84.1	67.3	25%
Operating expenses	309.1	254.0	22%
EBITDA	-16.9	2.5	-
EBIT	-46.3	-24.4	-
EBT	-48.1	-22.2	-
Loss for the period	-40.0	-22.9	-
EBITDA ratio	-5.8%	1.0%	-6.7 ppt
EBITDAR	-5.8	12.0	-
EBITDAR ratio	-2.0%	4.7%	-6.7 ppt

EBITDA and loss | USD million



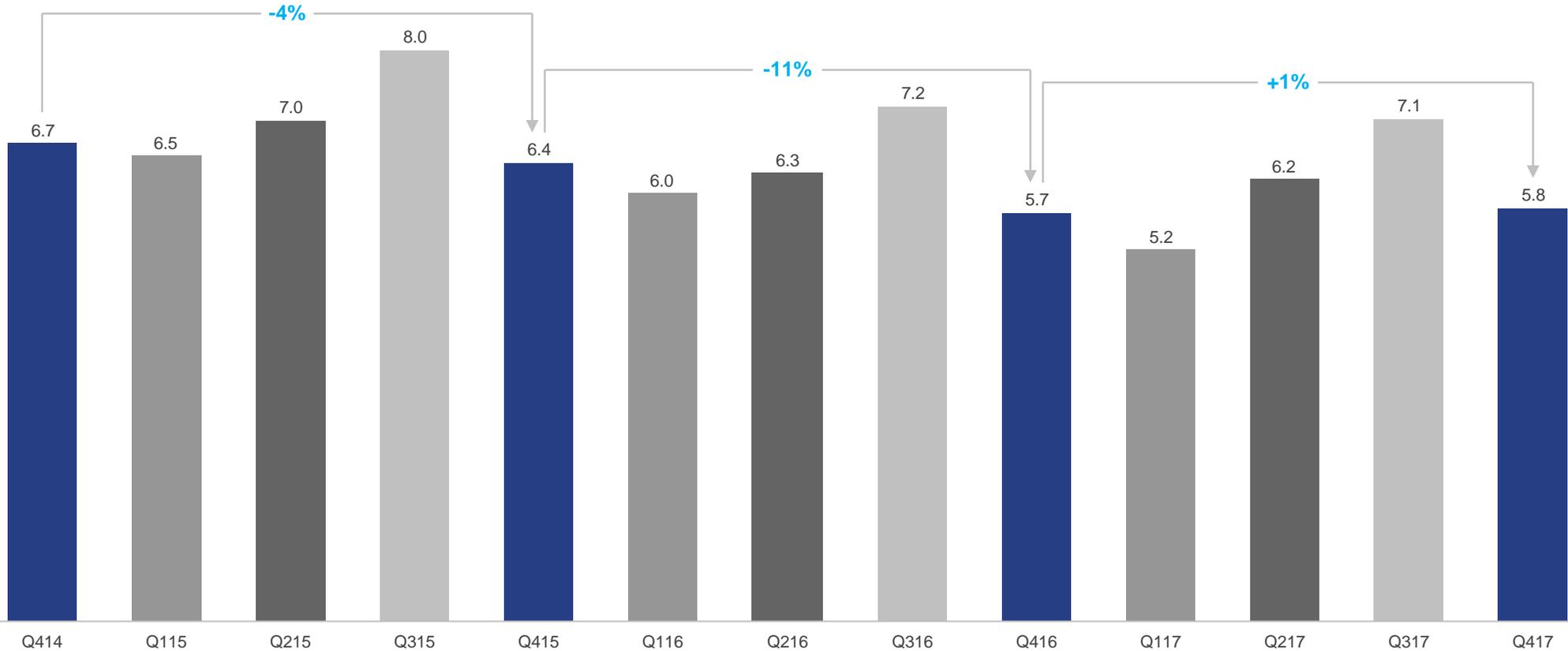
Modest growth in the Route Network but strong expansion in Charter and Cargo operations

Q4 year-on-year change in %



ASK = Available Seat Kilometres, BH = Block Hours, HRN = Hotel Room Nights.

PRASK increased between years in Q4 2017 by 1%

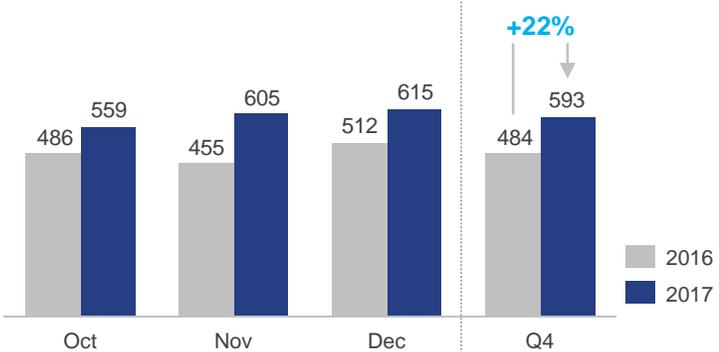
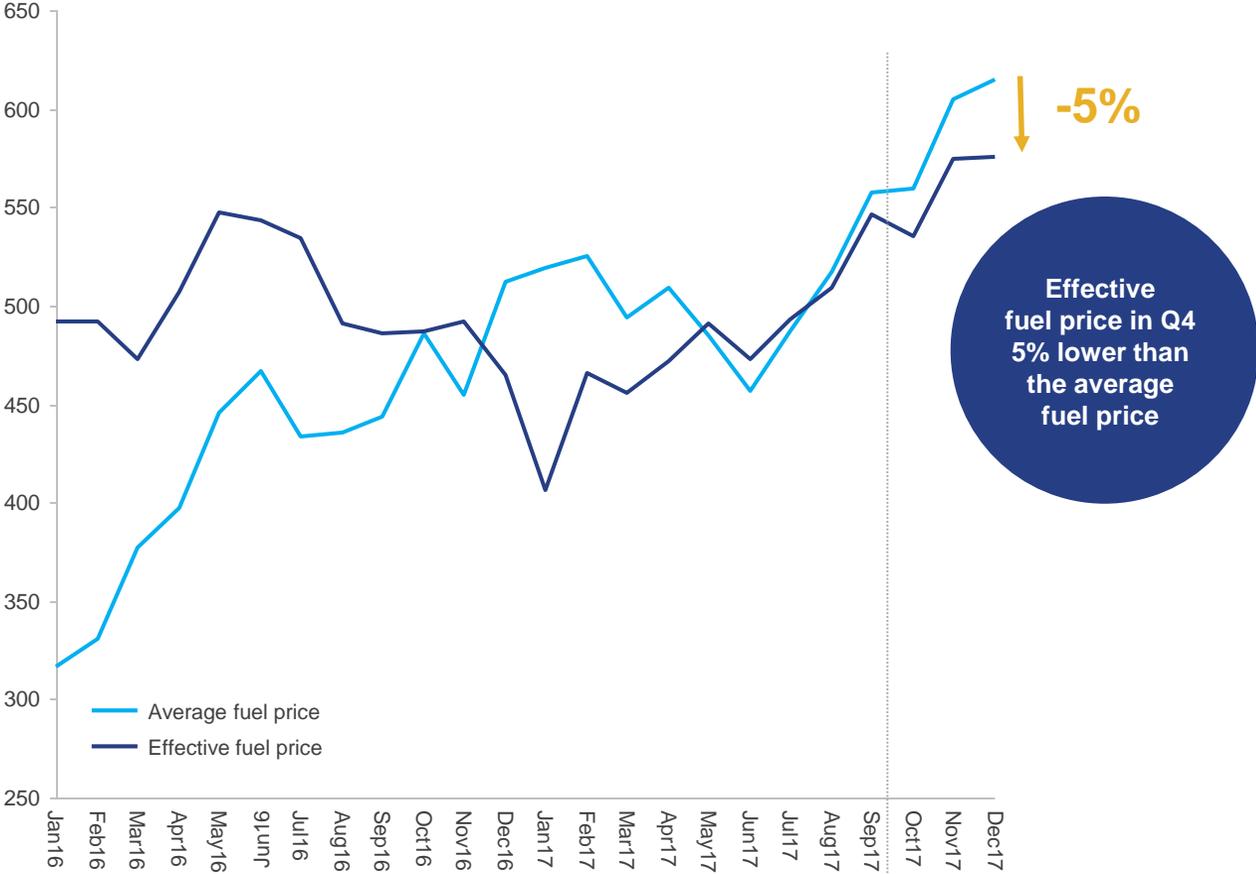


Absolute figures show yield as passenger revenues (PR) / total available seat kilometres (ASK) per US Cent = PRASK

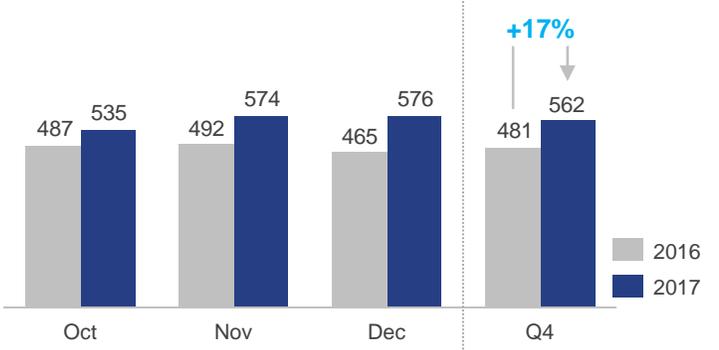
Fuel price 35% higher at year-end than at it lowest point in June

Average and effective fuel price per month | USD/ton 2016-2017

Average world fuel price | Q417 vs Q416



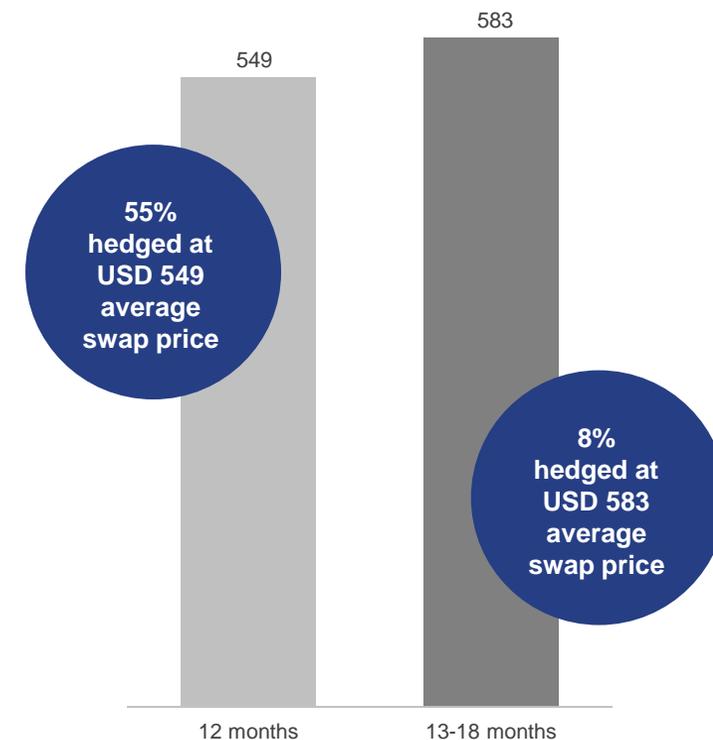
Effective fuel price paid by Icelandair Group | Q417 vs Q416



55% of estimated usage for the next 12 months has been hedged at weighted average swap price of 549 USD/tonne

Period	Estimated usage (tons)	Swap volume	% hedged	Av. swap price USD
Jan 18	24,305	14,250	59%	558
Feb 18	21,412	12,250	57%	556
Mar 18	27,183	15,250	56%	544
Apr 18	29,040	14,500	50%	544
May 18	40,540	20,500	51%	539
Jun 18	48,615	27,550	57%	523
Jul 18	50,655	26,650	53%	522
Aug 18	50,271	27,650	55%	543
Sep 18	45,817	24,550	54%	574
Oct 18	34,679	18,500	53%	559
Nov 18	28,230	15,450	55%	573
Dec 18	27,123	16,450	61%	586
12 months	427,870	233,550	55%	549
Jan 19	25,445	4,000	16%	548
Feb 19	22,406	4,000	18%	598
Mar 19	28,459	4,000	14%	595
Apr 19	30,411	4,000	13%	590
May 19	42,502	0	0%	0
Jun 19	50,978	0	0%	0
13-18 months	200,200	16,000	8%	583

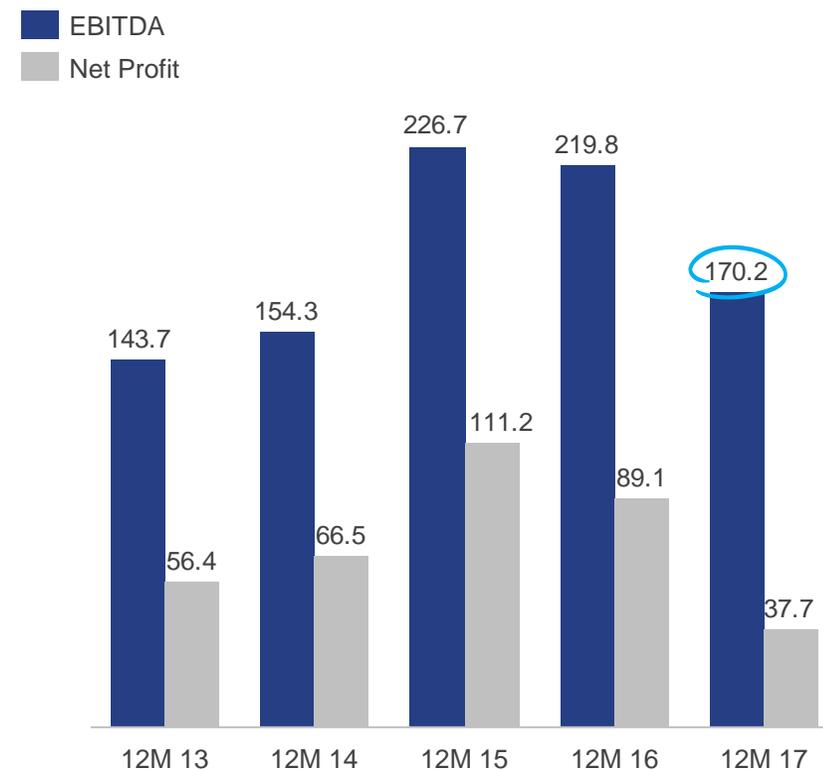
* weighted average price



Net profit USD 37.7 million in 2017

USD million	12M 2017	12M 2016	% Chg.
Operating Income	1,419.5	1,285.6	10%
Salaries and related expenses	445.2	354.3	26%
Aircraft fuel	235.4	213.4	10%
Aircraft lease	21.8	20.7	5%
Aircraft handling, landing and comm.	122.8	108.8	13%
Aircraft maintenance expenses	76.1	77.4	-2%
Other expenses	348.1	291.2	20%
Operating expenses	1,249.3	1,065.7	17%
EBITDA	170.2	219.8	-
EBIT	49.8	118.4	-
EBT	48.8	120.1	-
Profit for the period	37.7	89.1	-
EBITDA ratio	12.0%	17.1%	-4.9 ppt
EBITDAR	207.9	255.0	-
EBITDAR ratio	14.6%	19.8%	-5.2 ppt

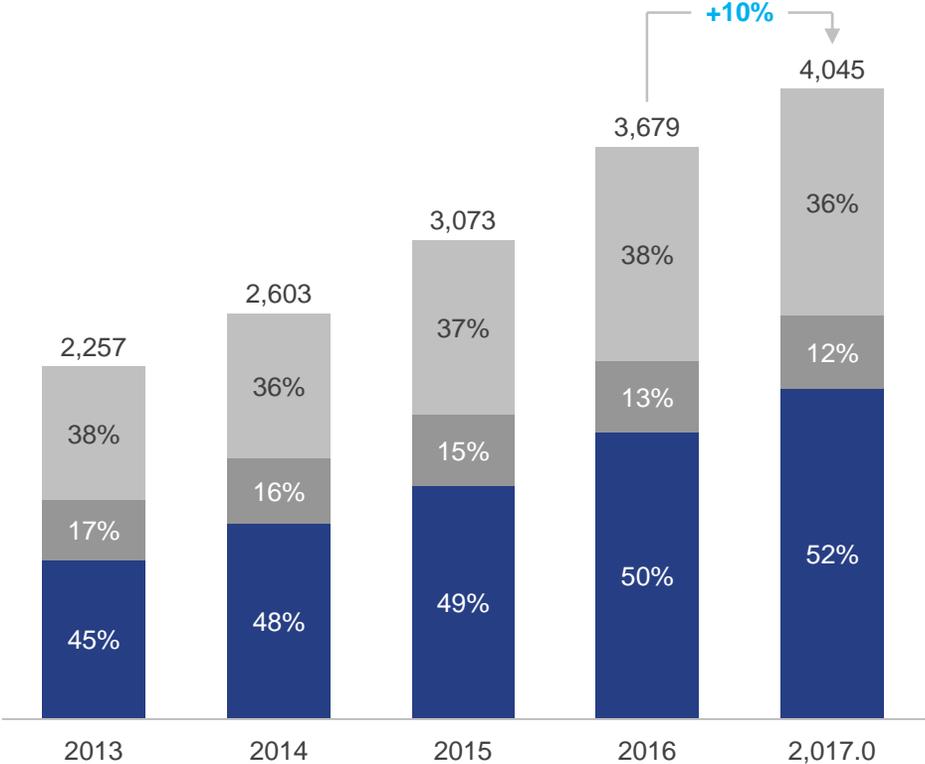
EBITDA and Net Profit | USD million



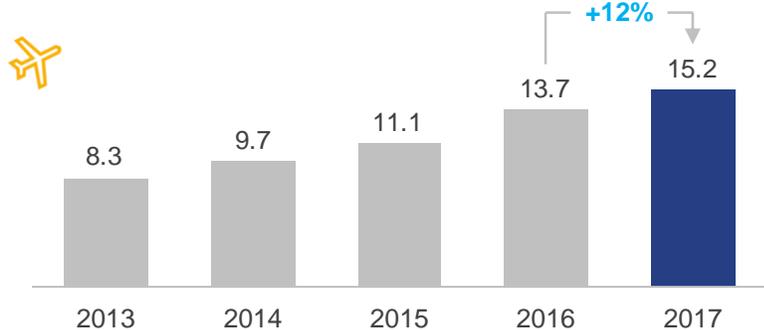
Passengers up by 10% in 2017

Passenger mix | number of passengers in thousands

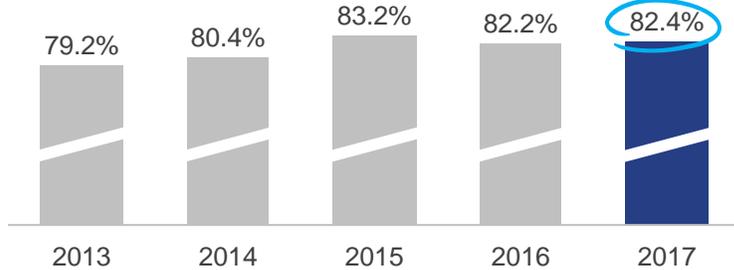
■ To ■ From ■ Via



Available seat km (ASK) | 2013-2017 in billions



Load factor | 2013-2017



Segment overview

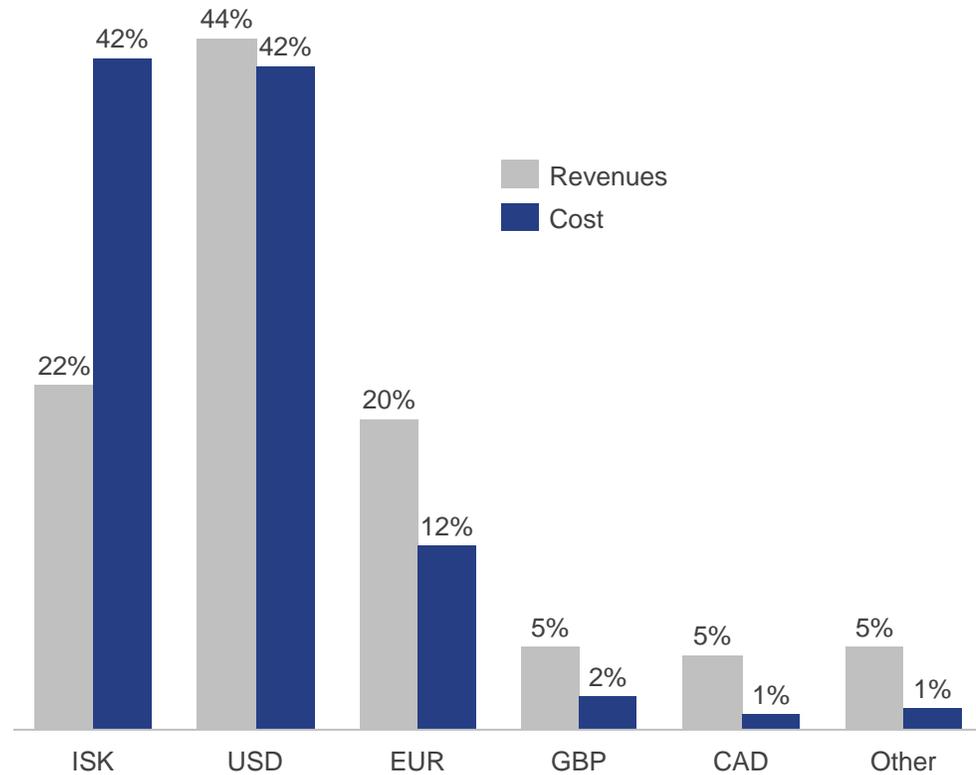
International flight operation	2017	2016	Diff.
Total income	1,242	1,141	101
EBITDAR	147	196	-49
EBITDA	138	187	-50
EBIT	34	99	-65
EBT	40	103	-62
Aviation investments	2017	2016	Diff.
Total income	171	156	15
EBITDAR	39	36	3
EBITDA	23	22	1
EBIT	12	7	5
EBT	5	13	-8
Tourism Investments	2017	2016	Diff.
Total income	219	175	43
EBITDAR	22	23	-1
EBITDA	10	11	-1
EBIT	4	13	-9
EBT	3	4	-1

All amounts in USD million

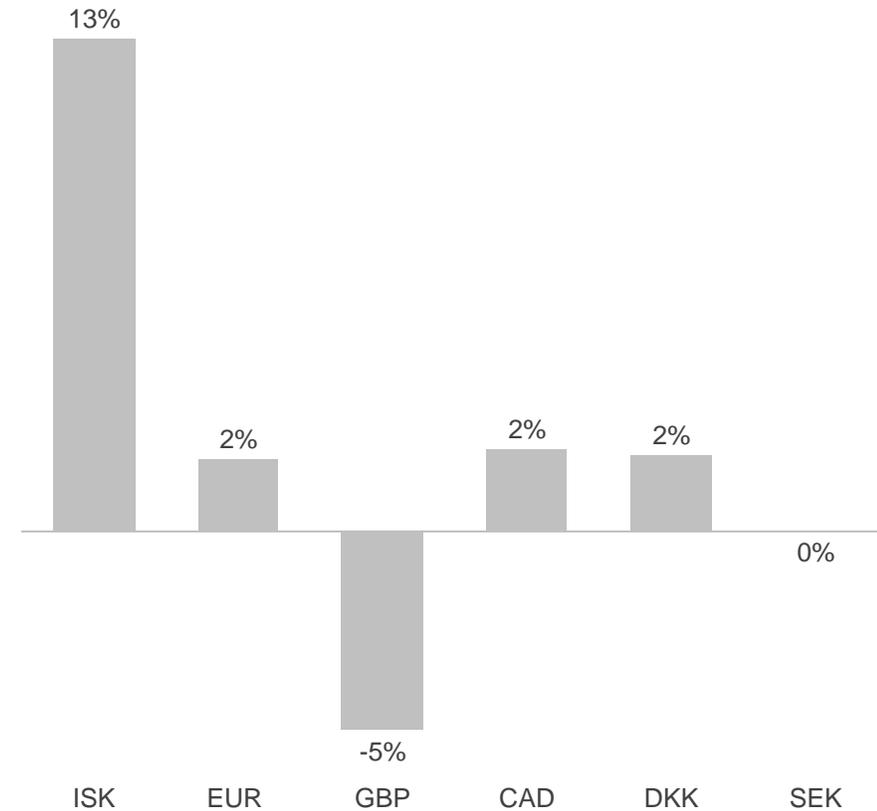


Currency split in cost and revenues 2017

Currency split in revenues and cost in 2017

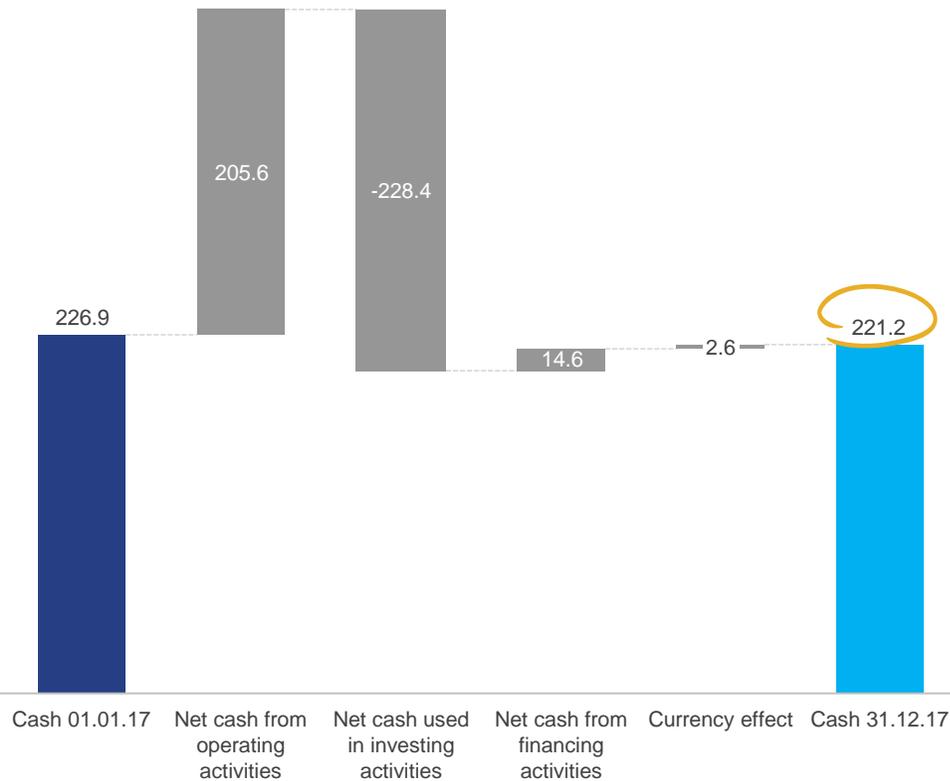


Changes in main currencies against USD between 2017 and 2016

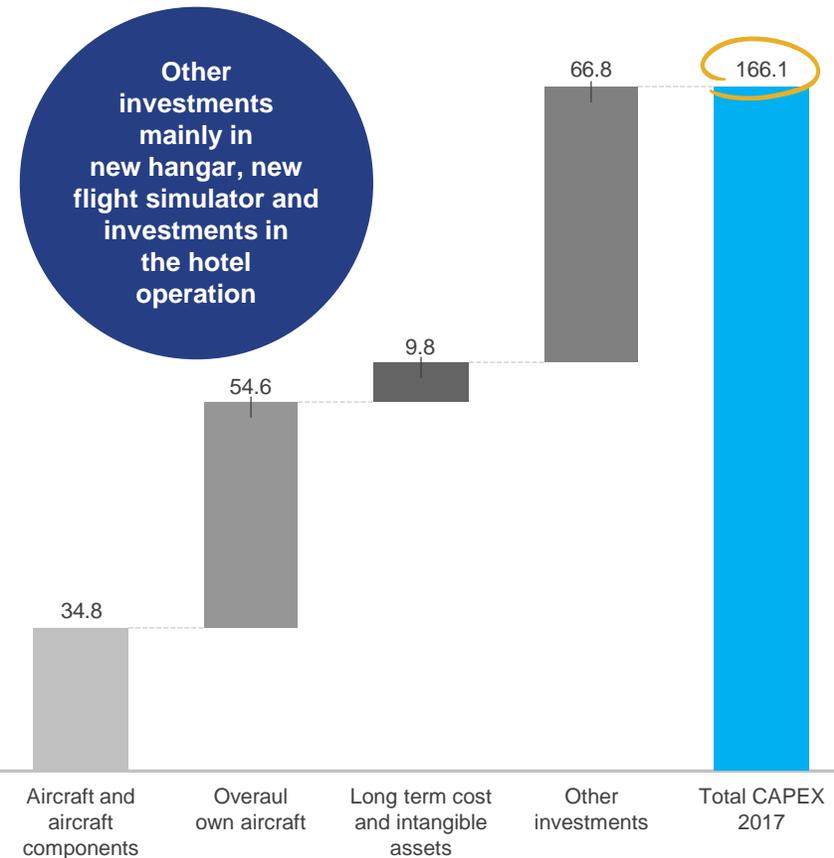


Cash and short term investments at year-end USD 221.2 million

Changes in cash 2017 | USD million



Capex in 2017 | USD million



Strong financial position at year-end 2017 with 42% equity ratio

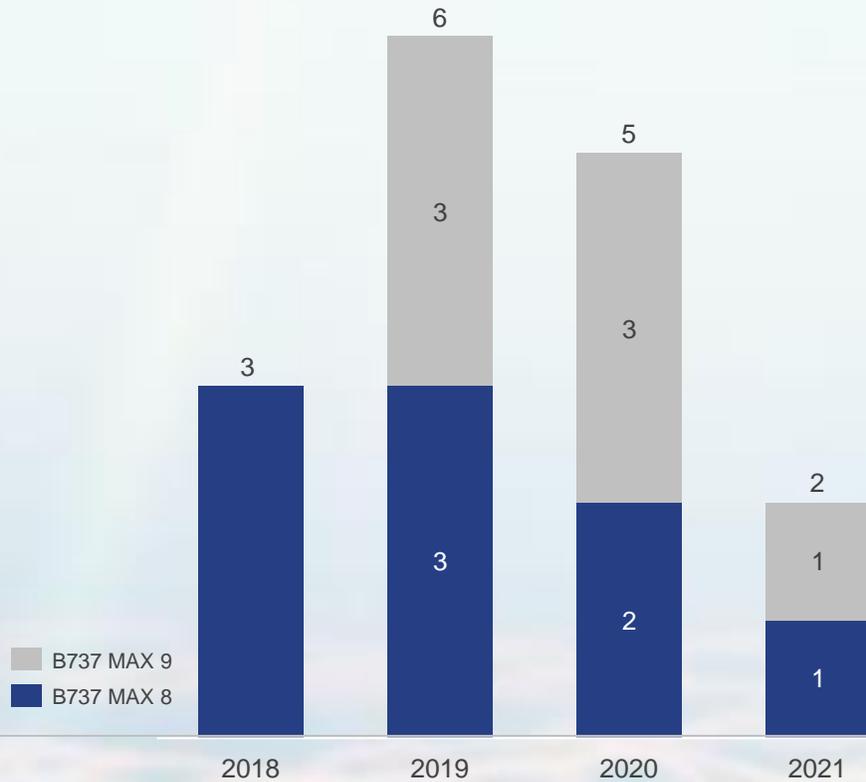
USD million	31.12 2017	31.12 2016	Diff.
Assets			
Operating Assets	652.7	602.6	50.1
Intangible assets and goodwill	180.4	174.7	5.7
Other non-current assets	126.7	97.7	29.0
Total non-current assets	959.8	875.0	84.8
Other current-assets	230.0	167.4	62.6
Short term investments	4.1	23.2	-19.1
Cash and cash equivalents	221.2	226.9	-5.7
Total current assets	455.3	417.5	37.8
Total assets	1,415.1	1,292.5	122.6

Interest
bearing debt
USD 289.5m

Net debt
USD
64.3m

USD million	31.12 2017	31.12 2016	Diff.
Equity and liabilities			
Stockholders equity	591.5	568.2	23.3
Loans and borrowings non-current	280.3	196.7	83.5
Other non-current liabilities	76.9	71.5	5.4
Total non-current liabilities	357.1	268.2	88.9
Loans and borrowings current	9.3	45.7	-36.4
Derivatives used for hedging	1.4	0.4	0.9
Trade and other payables	232.2	210.1	22.1
Deferred income	223.6	199.9	23.7
Total current liabilities	466.4	456.1	10.3
Total equity and liabilities	1,415.1	1,292.5	122.6
Equity ratio	42%	44%	-2%
Current ratio	0.98	0.92	0.06
Net interest bearing debt	64.3	-7.7	72.0
Interest bearing debt	289.5	242.4	47.2

Icelandair will take delivery of 3 B737 MAX 8 in the coming weeks



Sale leaseback
for 1 aircraft

Jolco financing for
2 aircraft
in final



IFRS 9 and 15 are to be implemented in 2018 with limited effect on Icelandair Group



IFRS 9 Financial Instruments Impact from: 1 January 2018

- | Immaterial change on doubtful debt provision
- | Immaterial impact due to new classification requirements
- | No effect on opening retained earnings in equity

IFRS 15 Revenue recognition Impact from: 1 January 2017

- | Slight delay in revenue and incremental cost recognition
- | Revenues from change and service fees will be recognized on the date of travel instead of payment
- | Later recognition of incremental cost incurred in fulfilling a contract with a customer (e.g. commission & credit card fees)
- | USD 5.1m increase in opening retained earnings in equity
- | P&L impact in 2018 estimated to be immaterial
- | Changes will lower the seasonal fluctuations between quarters

IFRS 16 Leases Impact from: 1 January 2019

- | Icelandair is assessing the impact of the adoption of IFRS 16 on its consolidated financial statement and does expect it to have substantial effect on the Group's balance sheet at 1 January 2019
- | Balance sheet will grow, gearing ratios will increase and capital ratios will decrease
- | A higher EBITDA. EBIT(A) will also increase, however less substantial, as the majority of the former rental expenses will be reflected in depreciation
- | Impact on P&L will be higher at start of the lease term gradually decreasing over the lifetime of the lease



Outlook

Björgólfur Jóhannsson, President and CEO

New organisational structure of Icelandair Group will...

... divide the business activities into two segments: International Flight operation and Equity Investments

... reduce management layers resulting in shorter lines of communication

... bring clearer focus than before on International Flight Operations as the Company's core operation

... combine the executive boards of Icelandair Group and Icelandair with single chief executive officer and chief financial officer instead of two separate management teams

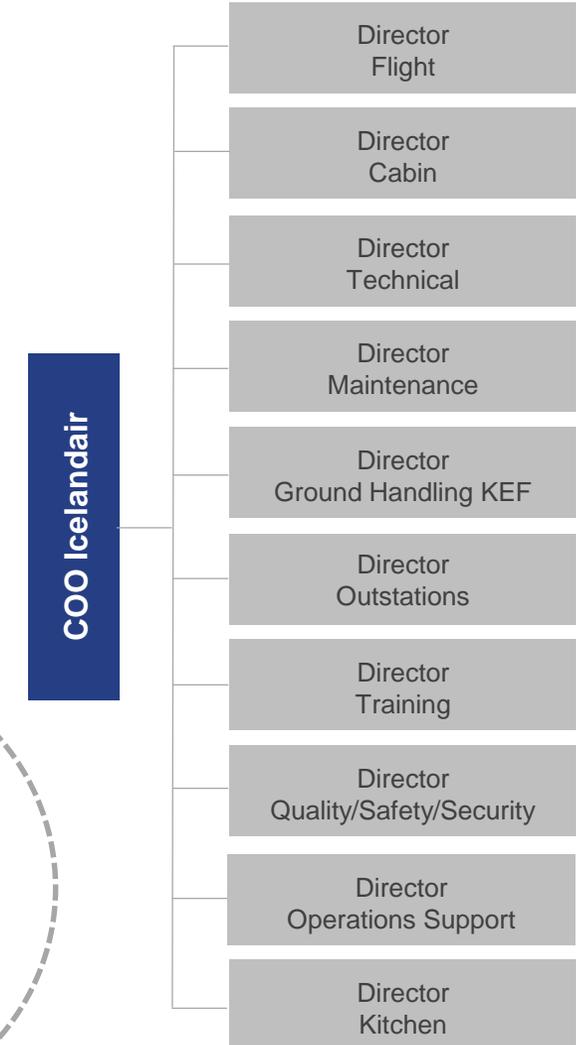
... bring a significant streamlining with the integration of IGS and Icelandair Cargo with Icelandair

... be fully implemented in the second quarter of 2018

Flight Operation Old structure:

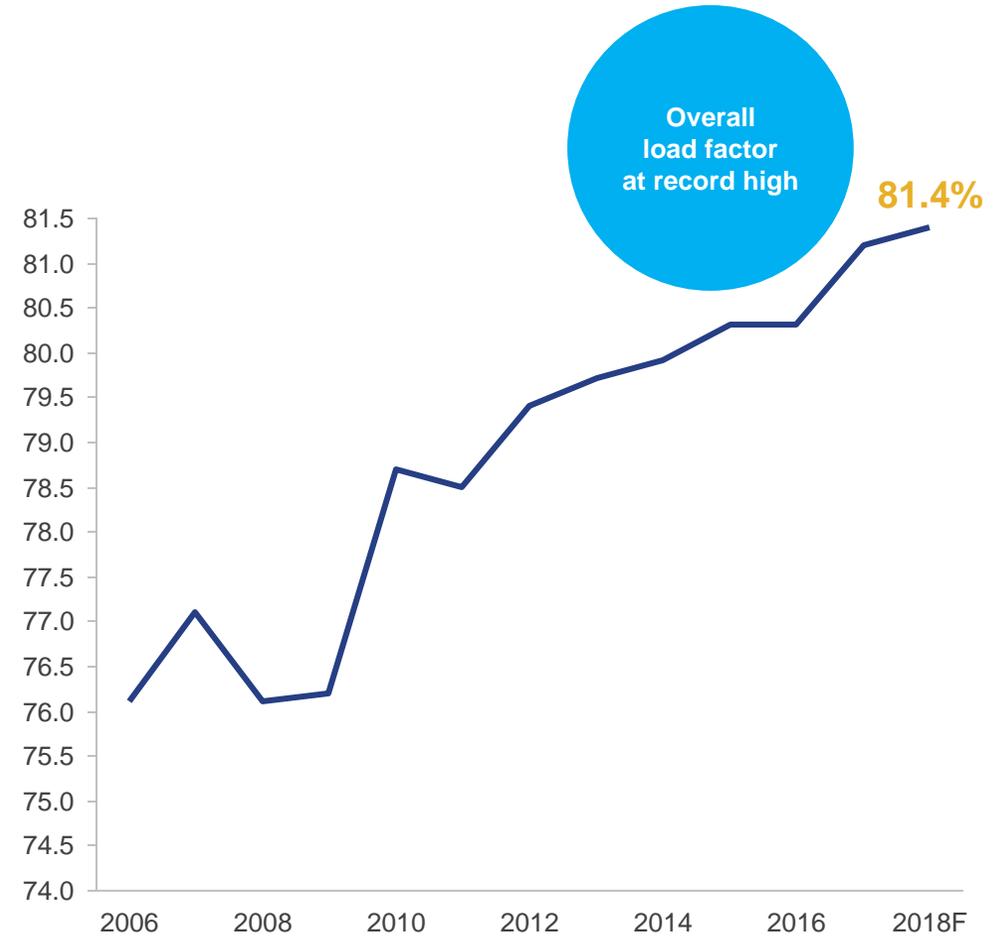
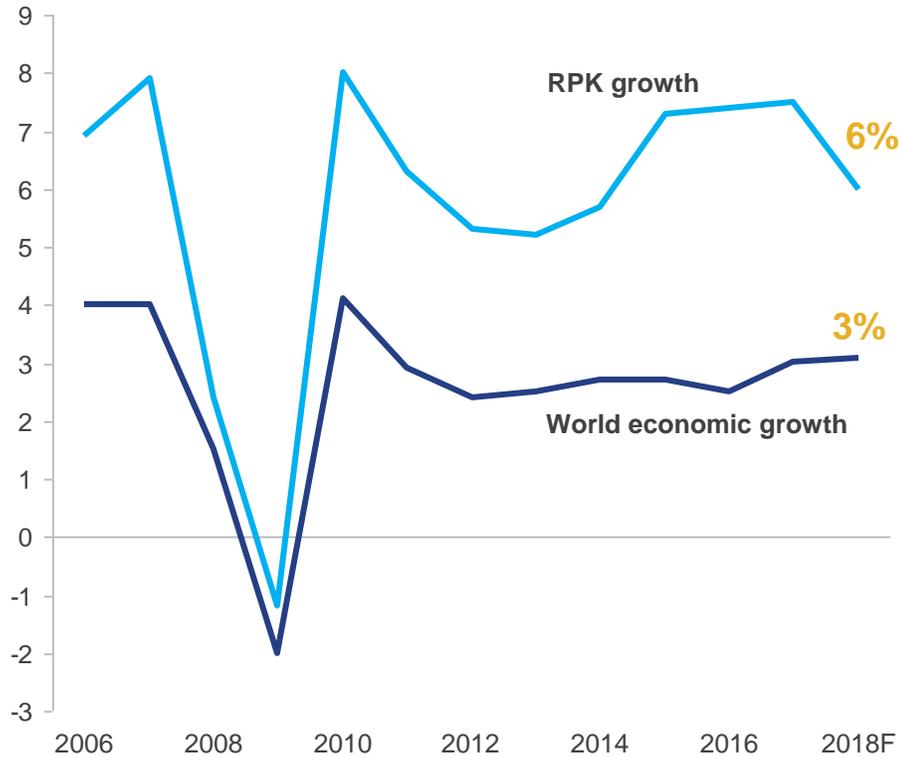


Flight Operation New Structure:



Significant streamlining with the integration of IGS and Icelandair Cargo with Icelandair

Air travel is expected to continue growing and load-factors are historically high

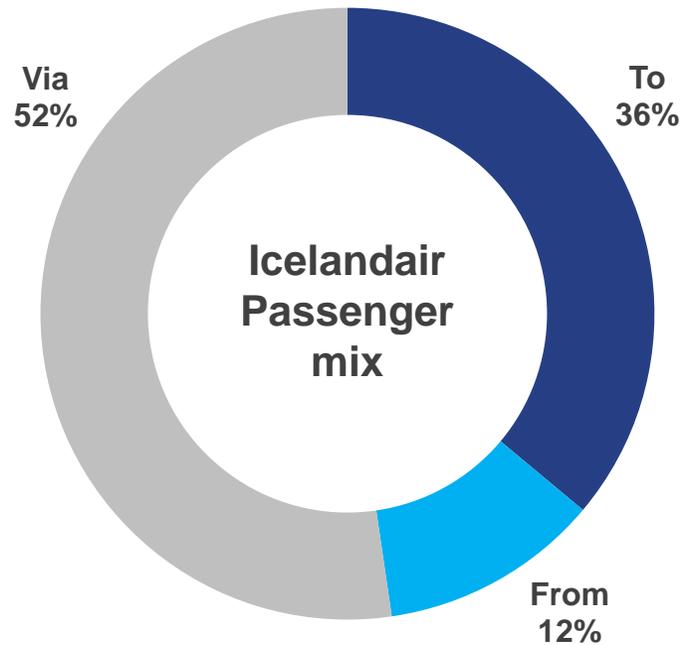


RPK = Revenue Passenger Kilometers
Source: IATA Economic performance of the airline industry (Jan 2018)

Rising fuel price – will it push yields upwards in the second half of the year?



Competition for Icelandair has intensified in every market



To/From - More carriers and major supply increase

- | Number of airlines flying to Iceland has increased, both in the summer and year-round
- | A total of 27 airlines will fly to/from Iceland in summer 2018

Via - Low Cost Long Haul growth

- | Rapid growth of Low Cost Long Haul carriers
- | Share in seating capacity 9.5% in 2017 vs. 0.5% in 2013

Icelandair will operate one connection bank in 2018 - capacity moved from the 2nd bank to the 1st bank

Yield & Load Factor	2 nd bank had lower yield and a lower load factor 
Cost	2 nd bank had higher operational and handling costs 
Connectivity	2 nd bank had considerably lower connectivity, with 30 O&D pairs vs. 678 in main bank 
Limited Scope & Future Growth	Couldn't serve AMS or LON due to curfew - growth potential was limited 

Further growth in the Route Network is planned in 2018 with **6.2%** increase in number of trips, and **9.7%** increase in ASK



6

new destinations



SAN FRANCISCO

4 FLIGHTS PER WEEK



KANSAS CITY

3 FLIGHTS PER WEEK



BALTIMORE

4 FLIGHTS PER WEEK



CLEVELAND

4 FLIGHTS PER WEEK



DALLAS

4 FLIGHTS PER WEEK





Dublin

0%

DUBLIN
6 FLIGHTS PER WEEK

In 2017, we set of goal of improving the Group's underlying profitability by USD 30 million on an annual basis in 2018

This time last year:

We have set a goal of improving Icelandair Group's profitability by USD 30m on an annual basis when our agenda is fully implemented in 2018



26



Over 150 initiatives commenced Group wide

...we can say that two thirds of the USD 30m can be seen in the Group's 2017 financial results and in 2018, we expect to surpass the USD 30m¹

Examples of key initiatives:

Icelandair introduced a new fare structure (incl. new Economy Light option)

Icelandair and Icelandair Cargo schedule adjustments (incl. shorter 2nd bank in 2017 and less use of freighters)

New Icelandair products (incl. Class Up, privileged seat locations, and travel insurance)

Collection of cost initiatives in Icelandair's maintenance department (e.g. lean projects and manpower planning)

Fuel saving initiatives within all aviation business units

Group wide implementation of new procurement software and processes to lower costs

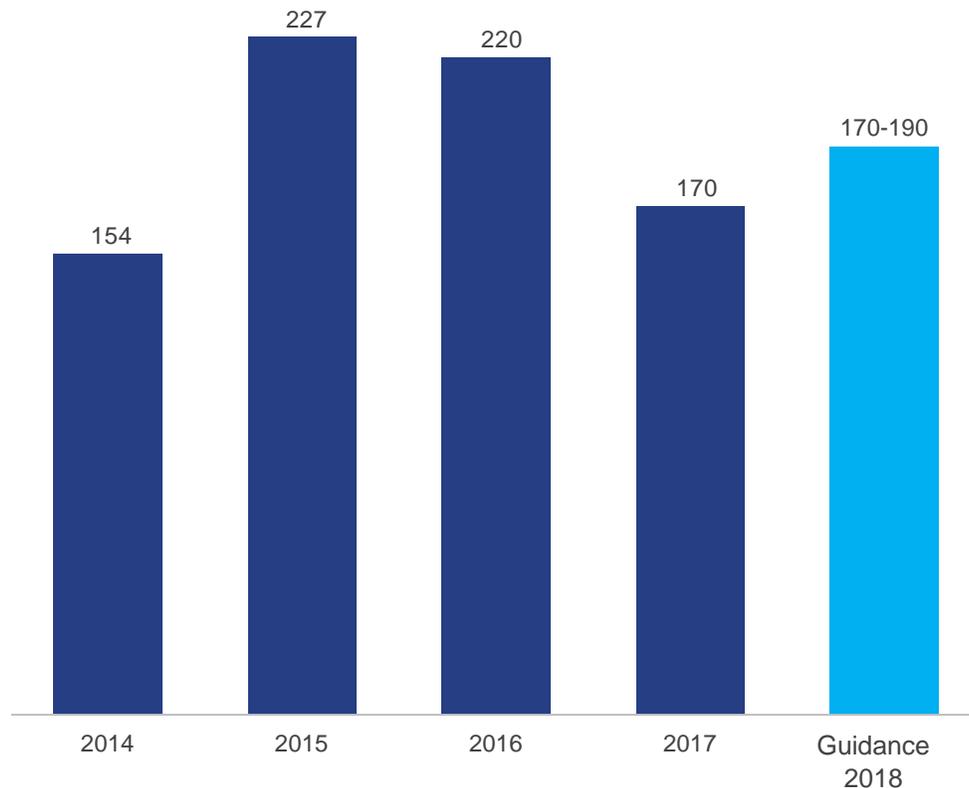
Implementation of labour saving software and processes within Iceland Travel

General cost control (e.g., reduction in travel, freight and training costs)

¹ Pinpointing the exact impact of Icelandair Group's profitability improvement program is a bit tricky due to measures on the revenue side. In some cases it may be hard to tell whether higher revenues are due to specific measures implemented by Icelandair Group or whether other factors were more important. We use conservative estimates when assessing the revenue impact

EBITDA guidance USD 170-190 million in 2018

EBITDA development 2014-2018 in USD million



All figures in USD million.

Main assumptions:

- | EUR/USD rate assumed 1.20, ISK rate assumed 162, average fuel price (excluding hedging) 625 USD/ton
- | Icelandair's booking status for the first half of the year favourable and in line with capacity increase. Too early yet to make an assessment of the bookings for the second half of the year
- | Fierce competition in all of Icelandair's markets – uncertainty regarding yield development in the latter half of the year
- | A challenge to recover higher fuel cost and other cost inflation with higher yields.
- | New structure for the Company will bring about a clearer focus on the core business and at the same time streamline the processes with shorter lines of communications and improved operational efficiency
- | Icelandair Group financial position remains strong and the Company is well prepared to seize opportunities

Equity investments: Overall outlook good for 2018

Flight operations



- | Loftleidir Icelandic coming from a very good year. Good outlook for 2018, bigger fleet but margins will be lower
- | Vita is expecting another good year
- | Operation of Air Iceland Connect very challenging in 2017 – actions taken to improve operations. Better results expected in 2018

Tourist Services



- | Overall booking prospects good for Icelandair Hotels in 2018
- | New hotel will open downtown Reykjavik in Q1 2018
- | Prospects good for Iceland Travel – similar demand as in 2017

Dividend proposal and repurchase of own shares

The Board of Directors proposes to pay as a dividend in 2018: ✈️

750
ISK
million

7.4
USD
million

20%
of net
profit

0.15
ISK
per share

The Board of Directors has decided to repurchase
Company's own shares up to the amount of **ISK 750 million** ✈️

**Strong
financial
position...**

**Leaner and simplified
organisational
structure...**

**More
certainty regarding
unions...**

**Growth opportunities
within and beyond
current network...**

**...enables Icelandair Group to generate
long term profitable growth**

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