

**NET PROFIT USD 101 MILLION IN THIRD QUARTER**

- Total income in Q3 up by 10% between years, to USD 536.0 million
- Passenger revenue higher than expected
- EBITDA unchanged year on year, at USD 161.1 million
- Passenger load factor on international routes favourable, at 86.2%, up by 0.6 percentage points between years
- Equity ratio 43% at the end of September
- Cash and short-term investments USD 264.1 million and net interest-bearing debt USD 19.9 million
- EBITDA guidance raised to USD 165-175 million

USD thousands	Q3 2017	Q3 2016	Change	% Change	9M 2017	9M 2016	Change	% Change
<b>Operating results</b>								
Total income	536,030	485,910	50,120	10%	1,127,289	1,029,102	98,187	10%
EBITDAR	171,460	170,355	1,105	1%	213,757	242,953	-29,196	-12%
EBITDA	161,097	161,749	-652	0%	187,113	217,392	-30,279	-14%
EBIT	126,806	132,127	-5,321	-4%	96,085	142,804	-46,719	-33%
EBT	127,094	130,825	-3,731	-3%	96,919	142,305	-45,386	-32%
Profit for the period	101,339	102,765	-1,426	-1%	77,700	111,938	-34,238	-31%
<b>Balance sheet</b>								
Total assets	-	-	-	-	1,445,042	1,184,019	261,023	22%
Total equity	-	-	-	-	618,552	582,885	35,667	6%
Interest bearing debt	-	-	-	-	283,961	60,373	223,588	-
Cash and short term investment	-	-	-	-	264,077	194,570	69,507	36%
Net interest bearing debt	-	-	-	-	19,884	-134,197	154,081	-
<b>Cash flow</b>								
Working capital from operations	171,740	161,169	10,571	7%	195,750	221,502	-25,752	-12%
Net cash to/from operating activities	-19,749	-19,933	184	-1%	196,549	248,495	-51,946	-21%
Net cash used in investing activities	-53,154	-63,695	10,541	-17%	-180,233	-221,773	41,540	-19%
Net cash used in/from financing activities	-2,399	-2,289	-110	5%	14,705	-34,084	48,789	-
Cash and cash equivalents end of period	260,130	191,397	68,733	36%	260,130	191,397	68,733	36%
<b>Key Ratios</b>								
Profit per share expressed in US Cent	2.07	2.07	0.00	0%	1.59	2.25	-0.66	-
Intrinsic value	-	-	-	-	15.65	14.37	1.28	9%
Equity ratio	-	-	-	-	43%	49%	-6.2 ppt	-13%
Current ratio	-	-	-	-	0.99	0.81	0.18	22%
CAPEX USD thousand	39,700	46,632	-6,932	-15%	124,628	203,675	-79,047	-39%
Transport revenue as % of total revenues	76.1%	76.8%	-0.7 ppt	-	73.6%	74.0%	-0.4 ppt	-1%
EBITDAR ratio	32.0%	35.1%	-3.1 ppt	-	19.0%	23.6%	-4.6 ppt	-20%
EBITDA ratio	30.1%	33.3%	-3.2 ppt	-	16.6%	21.1%	-4.5 ppt	-21%
<b>Share information ISK</b>								
Highest price in period	16.55	32.90	-16.35	-50%	23.53	38.90	-15.37	-40%
Lowest price in period	13.80	23.35	-9.55	-41%	13.13	23.35	-10.22	-44%
Price at period end	-	-	-	-	14.75	23.35	-8.60	-37%
Market Cap at period end (millions)	-	-	-	-	73,750	116,750	-43,000	-37%

## BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO

The Company's third quarter operations were successful. Our performance was better than anticipated, largely as a result of higher passenger revenues and favourable currency trends, which outweighed the negative fuel price trend. In addition, streamlining measures are beginning to return the expected benefits. The performance of our charter operations and cargo operations also exceeded expectations. With the Company's passenger numbers on international flights just short of 1.5 million, we have never in our history flown more passengers in a single quarter. In light of the stronger third quarter performance and the fact that the outlook for the fourth quarter has also strengthened, we have raised our earnings guidance accordingly for the year, to USD 165-175 million.

The market has responded favourably to our new fare offering, Economy Light, which was introduced by Icelandair recently. We are anticipating continued growth next year in line with our strategy of organic growth, and Icelandair's flight schedule for 2018 will expand by 11%. The outlook for the Company's flight operations remains unchanged, but competition remains fierce in the North Atlantic, and continued pressure is anticipated on average air fares. Nevertheless, the Company has shown that with its flexibility and financial strength it is well positioned to weather fluctuations in its operating environment.

## TRANSPORT FIGURES

- **Passengers on Icelandair flights 1.5 million, up by 10%**
- **Passenger load factor on international flights 86.2%, increasing between years**
- **Hotel room occupancy in the Company's hotels down from preceding year**

	Q3 2017	Q3 2016	Change
<b>INTERNATIONAL FLIGHTS</b>			
Number of passengers ('000)	1,495.5	1,360.1	10%
Load factor (%)	86.2	85.7	0.6 ppt
Available seat kilometers (ASK'000,000)	5,454.3	4,889.1	12%
<b>DOMESTIC- AND GREENLAND FLIGHTS</b>			
Number of passengers ('000)	109.3	106.6	3%
Load factor (%)	70.9	70.3	0.6 ppt
Available seat kilometers (ASK'000,000)	74.7	71.8	4%
<b>CHARTER</b>			
Fleet Utilisation (%)	100.0	100.0	0.0 ppt
Sold Block Hours	7,240	6,315	15%
<b>CARGO</b>			
Freight Tonne Kilometers (FTK'000)	32,085	25,760	25%
<b>HOTELS</b>			
Available Hotel Room Nights	112,393	113,439	-1%
Sold Hotel Room Nights	99,653	102,624	-3%
Occupancy of Hotel Rooms (%)	88.7	90.5	-1.8 ppt

The North Atlantic market was the Company's largest market, accounting for 58% of the total number of passengers. The growth in passenger numbers was also greatest in that market, at 15% between years.

Passenger mix in '000	Q3 2017	Q3 2016	% change	% of total '17
To	508.3	489.1	4%	34%
From	119.2	114.6	4%	8%
Via	868.1	756.3	15%	58%
<b>Total passengers international flights</b>	<b>1,495.5</b>	<b>1,360.1</b>	<b>10%</b>	<b>100%</b>

## EXCHANGE RATE TRENDS

Icelandair Group's reporting currency is the USD. The USD was weaker against the ISK in the third quarter of 2017, as compared to the third quarter of 2016, but stronger against all the Company's other trading currencies. The ISK was 12% stronger against the USD in the third quarter, while the EUR was 6% weaker.

Currency	Av. rate Q317	Chg. from Q316	Closing rate 30.09 '17	Chg. from 30.09 '16
ISK	0.009	12%	0.009	7%
EUR	1.175	-6%	1.181	-2%
GBP	1.309	-11%	1.340	-4%
CAD	0.798	-7%	0.799	-2%
DKK	0.158	-6%	0.159	-2%
NOK	0.126	-7%	0.125	-7%
SEK	0.123	-6%	0.123	-2%

## THIRD QUARTER OPERATIONS

USD thousand	Q3 2017	Q3 2016	Change	% Change
EBITDAR	171,460	170,355	1,105	1%
EBITDA	161,097	161,749	-652	0%
EBIT	126,806	132,127	-5,321	-4%
EBT	127,094	130,825	-3,731	-3%
Profit for the period	101,339	102,765	-1,426	-1%
EBITDAR %	32.0%	35.1%	-3.1 ppt	-
EBITDA %	30.1%	33.3%	-3.2 ppt	-

Performance in the third quarter exceeded management expectations. The primary reason was passenger revenue, which exceeded budget projections. The passenger load factor was favourable over the quarter, at 86.2% on international flights, and average fares did not decline to the extent anticipated. The currency trend also favoured the Company. In comparison with last year, the Company's profit declined slightly, amounting to USD 101.3 million, as compared to USD 102.8 million in the preceding year. EBITDA amounted to USD 161.1 million, remaining virtually unchanged year on year. The EBITDA ratio was 30.1%, down by 3.2 percentage points between years.

## INCOME

- **Total income up by 10% between years in the third quarter**
- **Passenger revenue up by 9% between years**

USD thousand	Q3 2017	Q3 2016	Change	% Change	% of rev. '17
Transport revenue:	408,066	373,192	34,874	9%	76%
Passengers	390,146	358,593	31,553	9%	73%
Cargo and mail	17,920	14,599	3,321	23%	3%
Aircraft and aircrew lease	18,246	19,149	-903	-5%	3%
Other operating revenue	109,718	93,569	16,149	17%	20%
<b>Total</b>	<b>536,030</b>	<b>485,910</b>	<b>50,120</b>	<b>10%</b>	<b>100%</b>

Total income increased by 10% between years. Passenger revenue increased by USD 31.6 million, or 9%. The decline in average air fares over the quarter was not as steep as the Company had anticipated. Passenger revenue increased in the North Atlantic market, remained unchanged in the tourist market to Iceland and declined slightly in the market from Iceland. Revenue from aircraft and aircrew lease declined by 5% between years and amounted to USD 18.2 million. Other operating revenue amounted to USD 109.7, up by USD 16.1 million, or 17%, as compared to the third quarter of 2016. The principal reason was the increased income from tourist services, as the table shows:

USD thousand	Q3 2017	Q3 2016	Change	% Change
Sale at airports and hotels	33,397	32,655	742	2%
Revenue from tourism	61,485	47,149	14,336	30%
Aircraft and cargo handling services	5,936	4,882	1,054	22%
Maintenance revenue	1,210	946	264	28%
Gain on sale of operating assets	0	431	-431	-100%
Other operating revenue	7,690	7,506	184	2%
<b>Total</b>	<b>109,718</b>	<b>93,569</b>	<b>16,149</b>	<b>17%</b>

## EXPENSES

- **Total expenses amounted to USD 374.9 million**
- **Expanded scope of business and strengthening of the ISK primary reasons for increased expenses**

USD thousand	Q3 2017	Q3 2016	Change	% Change	% of exp. '17
Salaries and other personnel expenses	118,116	94,737	23,379	25%	32%
Aviation expenses	148,592	135,465	13,127	10%	40%
Other operating expenses	108,225	93,959	14,266	15%	29%
<b>Total</b>	<b>374,933</b>	<b>324,161</b>	<b>50,772</b>	<b>16%</b>	<b>100%</b>

Salaries and other personnel expenses amounted to USD 118.1 million, as compared to USD 94.7 million in the third quarter of last year. The reasons for the increase include the Company's expanded scope of business and the strengthening of the ISK against the USD over the comparison period, as most of the Company's wage costs are in ISK. Profit from foreign exchange hedging, in the amount of USD 1.9 million, balanced against the wage costs over the quarter.

USD thousand	Q3 2017	Q3 2016	Change	% Change	% of exp. '17
Aircraft fuel	82,364	73,056	9,308	13%	55%
Aircraft lease	5,226	4,375	851	19%	4%
Aircraft handling, landing and communication	41,424	38,884	2,540	7%	28%
Aircraft maintenance expenses	19,578	19,150	428	2%	13%
<b>Total</b>	<b>148,592</b>	<b>135,465</b>	<b>13,127</b>	<b>10%</b>	<b>100%</b>

Fuel expenses amounted in total to USD 82.4 million, up by 13%, from the corresponding time of last year. The Company's reporting price for the quarter, taking hedging into account, was on average USD 516/ton, which corresponds to a 2% increase between years. The section headed Outlook and EBITDA guidance for 2017 below provides an overview of the Company's fuel hedging position at the end of September. Aircraft lease amounted to USD 5.2 million over the quarter, up by USD 0.9 million in comparison with the third quarter of 2016. Aircraft handling, landing and communication expenses amounted to USD 41.4 million, up by 7% between years. Maintenance expenses amounted to USD 19.6 million, up by 2% between years.

Other operating expenses amounted to USD 108.2 million, up by USD 14.3 million between years. Contracted services in tourism increased by a quarter between years and amounted to USD 41.4 million. Proceeds from foreign exchange hedging offset that item by USD 0.8 million. The table on next page shows a breakdown of principal items and trends between years.

USD thousand	Q3 2017	Q3 2016	Change	% Change
Operating cost of real estate and fixtures	8,333	7,477	856	11%
Communication	6,851	5,983	868	15%
Advertising	5,458	6,837	-1,379	-20%
Booking fees and commission expenses	15,359	13,640	1,719	13%
Cost of goods sold	8,660	8,103	557	7%
Customer services	13,068	10,175	2,893	28%
Tourism expenses	41,438	33,121	8,317	25%
Allowance for bad debt	490	523	-33	-6%
Other operating expenses	8,568	8,100	468	6%
<b>Total</b>	<b>108,225</b>	<b>93,959</b>	<b>14,266</b>	<b>15%</b>

## FINANCIALS

- **Currency effect positive by USD 3.5 million over the quarter**

USD thousand	Q3 2017	Q3 2016	Change	% Change
Interest income	976	510	466	91%
Interest expenses	-4,090	-1,093	5,183	-
Currency effect	3,511	-1,082	4,593	-
<b>Total</b>	<b>397</b>	<b>-1,665</b>	<b>2,062</b>	<b>-</b>

## BALANCE SHEET AND FINANCIAL POSITION

- **Total assets amounted to USD 1.4 billion at the end of the third quarter**
- **Equity ratio 43%**
- **Net interest-bearing debt USD 19.9 million**

USD thousands	30.09.2017	31.12.2016	Change
Total assets	1,445,042	1,292,493	152,549
Operating assets	642,845	602,615	40,230
Cash and short term investment	264,077	250,125	13,952
Total equity	618,552	568,213	50,339
Interest bearing debt	283,961	242,382	41,579
Net interest bearing debt	19,884	-7,743	27,627
Equity ratio	43%	44%	-1 ppt
Current ratio	0.99	0.92	8%

Operating assets amounted to USD 642.8 million, up by USD 40.2 million from the beginning of the year. Investments in operating assets are discussed in further detail in the section below on investments. At the end of the quarter the Group's fleet comprised 45 aircraft, of which 37 were owned by the Company. The table below shows an overview of the Company's fleet at the end of the third quarter.

Aircraft type	Icelandair	Cargo	Loftleidir	Air Iceland	Fleet 30.09.17	Fleet 31.12.16	Own aircraft	Charter aircraft	Chg. from 31.12.16
Boeing 757 200	25	2	2		29	29	26	3	0
Boeing 757 300	1				1	1	1		0
Boeing 767 300	4		2		6	6	4	2	0
Boeing 737 700			1		1	1		1	0
Boeing 737 800			2		2	2		2	0
Bombardier Q200				3	3	2	3		1
Bombardier Q400				3	3	3	3		0
Fokker F-50						4			-4
<b>Total</b>	<b>30</b>	<b>2</b>	<b>7</b>	<b>6</b>	<b>45</b>	<b>48</b>	<b>37</b>	<b>8</b>	<b>-3</b>

Equity amounted to USD 618.6 million at the end of September, and the equity ratio was 43%. The table below shows the principal changes in equity from the turn of the year.

USD thousands	30.09.2017
Balance at 1.1. 2017	568,213
Purchase of treasury shares	-15,230
Total comprehensive profit	70,613
Dividend (0.10 US cent per share)	-5,044
<b>Balance at 30.09. 2017</b>	<b>618,552</b>

Interest-bearing debt amounted to USD 284.0 million, as compared to USD 242.4 million at the beginning of the year. The increase results from a subsequent bond issue in the amount of USD 40.0 million in February. Net interest-bearing debt amounted to USD 19.9 million at the end of the quarter.

USD thousands	30.09.2017	31.12.2016	Change
Loans and borrowings non-current	235,836	196,722	39,114
Loans and borrowings current	48,125	45,660	2,465
Short term investment	3,947	23,236	-19,289
Cash and cash equivalents	260,130	226,889	33,241
<b>Net interest bearing debt</b>	<b>19,884</b>	<b>-7,743</b>	<b>27,627</b>

## CASH FLOW AND INVESTMENTS

- **Net cash for use in operating activities was USD 19.7 million**
- **Cash and cash equivalents at the end of September amounted to USD 260.1 million**
- **Investments amounted to USD 39.7 million**

USD thousand	Q3 2017	Q3 2016	Change
Working capital from operations	171,740	161,169	10,571
Net cash to operating activities	-19,749	-19,933	184
Net cash used in investing activities	-53,154	-63,695	10,541
Net cash used in financing activities	-2,399	-2,289	-110
Cash and cash equivalents change	-75,302	-85,917	10,615
Cash and cash equivalents, end of period	260,130	191,397	68,733

Investments over the quarter amounted to a total of USD 39.7 million, of which USD 8.8 million concerned aircraft and aircraft component and USD 16.0 million related to own aircraft engine overhauls. Other investments in operating assets amounted to USD 14.0 million. These included investments in enlarging the Company's hangar at Keflavik Airport, new flight simulator, in addition to a renovation of the Company's Saga Lounge at Keflavik International Airport.

USD thousand	Q3 2017
Operating assets:	
Aircraft and aircraft components	8,816
Overhaul own aircraft	15,906
Other	14,032
Total operating assets	38,754
Long term cost	
Overhaul leased aircraft	1
Intangible assets	945
<b>Total Capex</b>	<b>39,700</b>

## OUTLOOK AND EBITDA GUIDANCE FOR 2017

- **11% increase in Icelandair flights in 2018**
- **Short-term prospects have improved and EBITDA guidance raised to USD 165-175 million**
- **Continued pressure on average air fares**
- **Contract negotiations ongoing with pilots and aircraft maintenance engineers**

Measures launched at the beginning of the year and designed to improve efficiency and increase revenue in the Group's operations are proceeding according to plan. The Company's target is for these measures on the revenue and expenditure side to improve performance by USD 30 million per year when they are in full effect at the start of 2018.

The outlook for the Company's flight operations remains unchanged. Competition remains fierce in the North Atlantic, and continued pressure is anticipated on average air fares. Negotiations have been in progress with pilots since 1 October 2017 and aircraft maintenance engineers since 1 September 2017.

Icelandair's flight schedule in 2018, as measured in available seat kilometres, is set to expand by 11% over this year's schedule. The number of passengers in 2018 is projected at 4.5 million, up by four hundred thousand from the current year. Flights will be introduced to three new destinations, Cleveland and Dallas in the United States and Dublin, Ireland, in addition to Berlin, which will be added to the Route Network this coming November. The number of flights to current destinations in North America and Europe will also be increased. Early next year, Icelandair will introduce three new 160-seat Boeing 737 MAX 8 aircraft, bringing the number of aircraft in use to 33 next summer, 26 of the type Boeing 757 and 4 of the type Boeing 767-300, in addition to the new 737s.

The outlook for the Company's cargo operations in the remaining months of the year is favourable. Demand for imports to Iceland has increased and is expected to remain strong. At the same time, freight operations across the North Atlantic between North America and Europe have increased. The Company's charter operations continue successful, with 8-9 aircraft engaged in a range of assignments, depending on season.

The strengthening of the Icelandic króna in 2017 against the Company's principal trading currencies between years has resulted in declining margins from the Company's tourist-related services in Iceland

despite the sharp increase in the number of tourists visiting Iceland. The demand for tourist related services and hotel accommodation has declined over the year. Hotel room occupancy, for example, was 82.4% in the first nine months of the year, as compared to 83.2% over the corresponding period last year. Hotel room occupancy increased in Reykjavik between years, but declined in rural areas. As a result of the strong Icelandic króna, tourists are now spending less time in Iceland than before and are more reluctant to travel around the country. This trend has had a negative impact on the Company's catering operations.

The updated EBITDA guidance for the year is now 165-175 million, which represents an increase of USD 15 million from the projection that was announced on 27 July 2017, concurrently with the interim report for the second quarter. The increase is a result of the favourable performance in the third quarter, in addition to the improved performance prospects for the fourth quarter.

The price of jet fuel (net of hedging) is projected at USD 550/ton on average in the fourth quarter of 2017, up from the last forecast of USD 500/ton. Taking hedging into account, a 10% increase in fuel prices may be expected to have a USD 2.0 million adverse impact on EBITDA. The Company's fuel hedging position at the end of September is highlighted in the table below.

Period	Estimated usage (tons)	Swap volume	% hedged	Av. swap price USD
Oct 17	31,418	17,550	56%	516
Nov 17	26,707	14,550	54%	547
Dec 17	25,498	15,550	61%	552
Jan 18	24,969	14,250	57%	558
Feb 18	22,456	12,250	55%	556
Mar 18	27,644	15,250	55%	544
Apr 18	29,268	14,250	49%	542
May 18	36,427	18,250	50%	527
Jun 18	49,579	25,250	51%	513
Jul 18	52,163	26,250	50%	507
Aug 18	51,607	23,250	45%	532
Sep 18	46,011	8,250	18%	534
<b>12 months</b>	<b>423,747</b>	<b>204,900</b>	<b>48%</b>	<b>532</b>
Oct 18	34,102	7,000	21%	519
Nov 18	27,960	4,000	14%	515
Dec 18	26,620	4,000	15%	559
Jan 19	26,168	0	0%	0
Feb 19	23,725	0	0%	0
Mar 19	23,852	0	0%	0
<b>13-18 months</b>	<b>162,427</b>	<b>15,000</b>	<b>9%</b>	<b>528</b>

\* weighted average price

Based on revised assumptions, the average exchange rate index is projected at 165 for the remainder of the year, as compared to 160 in the last forecast, and the average exchange rate of the EUR against the USD is projected at 1.18 in the fourth quarter, as compared to 1.16 in the July forecast.

## PRESENTATION MEETING 27 OCTOBER 2017

A presentation for stakeholders will be held on Friday 27 October 2017 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 Rooms 4-5, starting at 08:30. The presentation material will be available after the meeting on the Icelandair Group website, [www.icelandairgroup.is](http://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**

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The consolidated accounts of Icelandair Group for the third quarter report of 2017 were approved at a meeting of the Board of Directors on 26 October 2017.

## **FINANCIAL CALENDAR**

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- **Financial statement for the fourth quarter – week 06, 2018**
- **Annual General Meeting – Week 11, 2018**

## **FOR FURTHER INFORMATION PLEASE CONTACT:**

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