

**VERY GOOD RESULTS IN OUR MOST IMPORTANT QUARTER**

- Q3 EBITDA USD 161.8 million, as compared to USD 155.6 million in the corresponding quarter last year
- 19% increase in passenger numbers on international flights and good passenger load factor
- Total income increased by 13%. At a fixed exchange rate the increase in revenue was 17%
- Profit after taxes USD 102.8 million over the quarter, as compared to USD 103.1 million in the preceding year
- Equity ratio 49% at the end of September

USD thousands	Q3 2016	Q3 2015	Change	% Change	9M 2016	9M 2015	Change	% Change
<b>Operating results</b>								
Total income	485.910	429.446	56.464	13%	1.029.102	909.733	119.369	13%
EBITDAR	170.355	164.672	5.683	3%	242.953	230.123	12.830	6%
EBITDA	161.750	155.620	6.130	4%	217.392	203.724	13.668	7%
EBIT	132.128	131.751	377	0%	142.804	140.972	1.832	1%
EBT	130.825	130.754	71	0%	142.305	140.373	1.932	1%
Profit for the period	102.765	103.143	-378	0%	111.938	110.956	982	1%
<b>Balance sheet</b>								
Total assets	-	-	-	-	1.184.019	1.015.460	168.559	17%
Total equity	-	-	-	-	582.885	471.634	111.251	24%
Interest bearing debt	-	-	-	-	60.373	76.208	-15.835	-21%
Cash and short term investment	-	-	-	-	194.570	285.025	-90.455	-32%
Net interest bearing debt	-	-	-	-	-134.197	-208.817	74.620	-36%
<b>Cash flow</b>								
Working capital from operations	161.169	157.406	3.763	2%	221.502	208.181	13.321	6%
Net cash to/from operating activities	-19.933	4.085	-24.018	-	248.495	208.496	39.999	19%
Net cash used in investing activities	-63.695	-60.265	-3.430	6%	-221.773	-132.435	-89.338	67%
Net cash used in financing activities	-2.289	-2.868	579	-20%	-34.084	-3.704	-30.380	-
Cash and cash equivalents end of period	191.397	256.553	-65.156	-25%	191.397	256.553	-65.156	-25%
<b>Key Ratios</b>								
Profit / Loss per share expressed in US Cent	2,07	2,07	0,00	0%	2,25	2,23	0,02	1%
Intrinsic value	-	-	-	-	14,37	11,62	2,75	24%
Equity ratio	-	-	-	-	49%	46%	3,0 ppt	7%
Current ratio	-	-	-	-	0,81	1,08	-0,27	-25%
CAPEX USD thousand	46.632	46.543	88	0%	203.675	109.616	94.058	86%
Transport revenue as % of total revenues	76,8%	77,5%	-0,7 ppt	-	74,0%	75,4%	-1,3 ppt	-2%
EBITDAR ratio	35,1%	38,3%	-3,3 ppt	-	23,6%	25,3%	-1,7 ppt	-7%
EBITDA ratio	33,3%	36,2%	-2,9 ppt	-	21,1%	22,4%	-1,3 ppt	-6%
<b>Share information ISK</b>								
Highest price in period	32,90	30,10	2,80	9%	38,90	30,10	8,80	29%
Lowest price in period	23,35	24,80	-1,45	-6%	23,35	20,95	2,40	11%
Price at period end	-	-	-	-	23,35	30,00	-6,65	-22%
Market Cap at period end (millions)	-	-	-	-	116.750	150.000	-33.250	-22%

Please note that figures from the profit and loss statement for 2016 and 2015 have been restated in accordance with note 3 in the Interim Financial Statement for January – September 2016.

## **BJÖRGÓLFUR JÓHANNSSON, PRESIDENT AND CEO**

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“The Company's performance in the third quarter, the most important quarter, was very good. EBITDA amounted to USD 162 million and profit after taxes was USD 103 million. Our business activities showed significant growth, and in all the Company transported just short of 1.5 million passengers on domestic and international flights, a single-quarter record. The great increase in the number of tourists visiting Iceland has resulted in a growing number of foreign travellers on domestic flights, and this trend is expected to continue. The room occupancy in the Company's hotels has never been better, and cargo operations are performing well.

These results have been achieved in challenging circumstances, and various external factors in our operating environment have not been advantageous. Average fares have been decreasing in our international flight operation in line with the trends seen by other air carriers. Nevertheless, our booking situation remains strong and consistent with our forecasts.

The Company will continue to grow. Our international flight schedule for 2017 is 14% larger than the current year's schedule and our anticipation is that we will transport 4.2 million passengers over the year. A new hotel will open in central Reykjavik next year, and a second hotel a year later. Two wide-body aircraft will be added to the fleet, and the continuing increase in the number of tourists to Iceland will create numerous opportunities for our tourist-related services. Rapid growth brings challenges, and the Company's staff has done an amazing job over this busy period. There are exciting times ahead for Icelandair Group and the Company's prospects are bright.”

## TRANSPORT FIGURES

- **Passengers on international flights 1,360 thousand, up by 19%**
- **85.5% passenger load factor on international flights**
- **Record occupancy of hotel rooms: 90.5%**

	Q3 2016	Q3 2015	Change
<b>INTERNATIONAL FLIGHTS</b>			
Number of passengers ('000)	1,360.1	1,142.7	19%
Load factor (%)	85.5	87.2	-1.8 ppt
Available seat kilometres (ASK'000,000)	4,900.1	3,958.8	24%
<b>DOMESTIC- AND GREENLAND FLIGHTS</b>			
Number of passengers ('000)	102.3	93.4	10%
Load factor (%)	72.1	77.8	-5.6 ppt
Available seat kilometres (ASK'000,000)	61.9	52.8	17%
<b>CHARTER</b>			
Fleet utilisation (%)	100.0	100.0	0.0 ppt
Sold Block Hours	6,315	6,379	-1%
<b>CARGO</b>			
Freight Tonne Kilometres (FTK'000)	26,579	24,866	7%
<b>HOTELS</b>			
Available Hotel Room Nights	113,439	103,918	9%
Sold Hotel Room Nights	102,624	91,676	12%
Occupancy of Hotel Rooms (%)	90.5	88.2	2.2 ppt

Capacity on international flights increased by 24% in the third quarter. The increase in capacity was 27% on routes to North America, and 20% on routes to Europe. Passengers on international flights were 1,360 thousand in the third quarter, up by 19% from the third quarter of last year. The largest proportional increase in passenger numbers was in the tourist market to Iceland, at 25%. The increase in the North Atlantic market, the Company's largest market, accounting for 56% of the total number of passengers, was 19%. The number of passengers in the home market from Iceland was down by 1% between years. The passenger load factor was 85.5%, as compared to 87.2% last year. This is the Company's second best third-quarter passenger load factor.

Passengers on domestic and Greenland routes were just over 102 thousand over the quarter, up by 10% from last year. Capacity was 17% above last year's third quarter. The passenger load factor over the quarter was 72.1%, as compared to 77.8% last year. Sold block hours on charter flights were down by 1% between years and fleet utilisation was 100% over the quarter. Transported cargo increased by 7% from the preceding year. The number of sold hotel nights increased by 12% between years, with occupancy at 90.5%, as compared to 88.2% over the same period last year.

## CURRENCY TRENDS AND IMPACT ON OPERATIONS

Icelandair Group's reporting currency is the USD, but since the Company operates and sells its services around the world the exchange rate trends of other currencies against the dollar affect the Company's results. The table below shows the division of revenues and expenses among currencies.

Revenue	Q3 2016	Q3 2015	12M 2015	Expenses	Q3 2016	Q3 2015	12M 2015
USD	45%	43%	43%	USD	46%	55%	52%
ISK	15%	16%	23%	ISK	32%	24%	30%
EUR	24%	23%	17%	EUR	16%	16%	13%
GBP	5%	5%	6%	GBP	2%	2%	2%
CAD	5%	5%	4%	CAD	1%	1%	1%
Other*	6%	7%	7%	Other*	2%	2%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Other mainly Scandinavian currencies

The USD weakened against the ISK, but strengthened against most of the Company's other currencies in the third quarter of 2016, as compared to 2015. Thus, the ISK is now 11% stronger against the USD, while the EUR is 10% weaker. Revenues in the third quarter of 2016 were 13% above the corresponding quarter of last year, but the increase at a fixed exchange rate was approximately 17%.

Currency	Average rate Q3 2016	Chg. from Q3 2015	Closing rate 30.09 2016	Chg. from 30.09 2015
ISK	0.008	11%	0.009	12%
EUR	1.116	-10%	1.124	-10%
GBP	1.314	-24%	1.302	-23%
CAD	0.767	-10%	0.763	-9%
DKK	0.150	-9%	0.151	-10%
NOK	0.120	-11%	0.125	-5%
SEK	0.117	-10%	0.117	-13%

### THIRD QUARTER OPERATIONS

USD thousand	Q3 2016	Q3 2015	Change	% Change
EBITDAR	170.355	164.672	5.683	3%
EBITDA	161.750	155.620	6.130	4%
EBIT	132.128	131.751	377	0%
EBT	130.825	130.754	71	0%
Profit for the period	102.765	103.143	-378	0%
EBITDAR %	35,1%	38,3%	-3,3 ppt	-
EBITDA %	33,3%	36,2%	-2,9 ppt	-

Third-quarter results were very favourable. Capacity in international operations increased by just short of one fourth between years, and the number of passengers increased by 19%. The passenger load factor was good, but average fares were down between years in all markets, which is in line with the general trend among air carriers. Fuel prices dropped between years, and the reporting price of fuel, taking hedging into account, was 27% below the corresponding period of last year. Over 650 thousand tourists visited Iceland in the quarter, which corresponds to double the country's population and a 32% increase from the preceding year. Room occupancy in the Company's hotels was excellent, at 90.5%, and has never been higher in any quarter. Income from tourist-related services increased by 16% between years, and the 10% increase in passenger numbers on domestic and Greenland flights was largely driven by foreign tourists. Cargo operations showed success, with transported cargo up by 7%. Sold block hours on charter flights were similar between years.

EBITDA was USD 161.8 million in the third quarter, up by USD 6.1 million between years. The EBITDA ratio was 33.3% for the quarter, as compared to 36.2% over the corresponding quarter in 2015. The Company's reporting of its foreign exchange hedge contract outcomes in respect of operating items has

been changed. Previously, profit or loss resulting from settled foreign-exchange contracts was entered under financial items, but the results are now entered under the hedged items in the profit and loss statement. The results of foreign-exchange contracts relating to items other than operating items will continue to be entered under financial items. Figures for 2015 have been adjusted accordingly. The table below shows the impact of the changes by quarter, with EBITDA increased and financial items decreased.

USD thousand	2016	2015	Change
Q1	658	260	398
Q2	1,483	-153	1,636
<b>Q3</b>	<b>4,472</b>	<b>4,745</b>	<b>-273</b>
Q4		2,832	-2,832
<b>Total January - September</b>	<b>6,613</b>	<b>4,852</b>	<b>1,761</b>

## INCOME

- **Total income 13% in excess of the third quarter of 2015**
- **At a fixed exchange rate the increase in revenue was 17% between years**
- **Passenger revenue increased by 11% from last year**

USD thousand	Q3 2016	Q3 2015	Change	% Change	% of rev. '16
Transport revenue:	373,192	332,932	40,260	12%	77%
Passengers	358,593	321,845	36,748	11%	74%
Cargo and mail	14,599	11,087	3,512	32%	3%
Aircraft and aircrew lease	19,149	19,798	-649	-3%	4%
Other operating revenue	93,569	76,716	16,853	22%	19%
<b>Total</b>	<b>485,910</b>	<b>429,446</b>	<b>56,464</b>	<b>13%</b>	<b>100%</b>

Total income increased by 13%. Transport revenue increased by USD 40.3 million between years, or 12%. Passenger revenue increased by 11%, with the largest increase in the tourist market to Iceland and in the North Atlantic market. Passenger revenue in the domestic market from Iceland remained unchanged. Income from cargo and mail carriage increased by USD 3.5 million. As of 1 June a part of the revenue from aircraft and cargo handling services counts as cargo revenue, which largely accounts for the increase. This is set off by a reduction in aircraft and cargo handling services under other operating revenue, as shown in the table below. Income from aircraft and aircrew lease amounted to USD 19.1 million, down slightly, by USD 0.6 million. Other operating revenue amounted to USD 93.6, up by USD 16.9 million, or 22%, as compared to the third quarter of 2015.

USD thousand	Q3 2016	Q3 2015	Change	% Change
Sale at airports and hotels	32,655	22,095	10,560	48%
Revenue from tourism	47,149	40,677	6,472	16%
Aircraft and cargo handling services	4,882	7,570	-2,688	-36%
Maintenance revenue	946	1,684	-738	-44%
Gain on sale of operating assets	431	667	-236	-35%
Other operating revenue	7,506	4,023	3,483	87%
<b>Total</b>	<b>93,569</b>	<b>76,716</b>	<b>16,853</b>	<b>22%</b>

## EXPENSES

- **Total expenses amounted to USD 324.2 million**
- **Expenses increase as a result of expanded scope of business and general wage hikes**

USD thousand	Q3 2016	Q3 2015	Change	% Change	% of exp. '16
Salaries and other personnel expenses	94.736	73.250	21.486	29%	29%
Aviation expenses	135.465	124.644	10.821	9%	42%
Other operating expenses	93.959	75.932	18.027	24%	29%
<b>Total</b>	<b>324.160</b>	<b>273.826</b>	<b>50.334</b>	<b>18%</b>	<b>100%</b>

Salaries and other personnel expenses amounted to USD 94.7 million, as compared to USD 73.3 million in the third quarter of last year. The reasons for the increase are the expanded scope of business, contractual wage increases and the strengthening of the ISK against the USD over the comparison period, as most of the Company's wage costs are in ISK. The profit from currency hedging, which is balanced against wage costs in the third quarter of 2016, was USD 4.4 million; the corresponding figure for the third quarter of 2015 was approximately USD 1.4 million.

Aviation expenses amounted in total to USD 135.5 million over the quarter, up by 9%, or USD 10.8 million.

USD thousand	Q3 2016	Q3 2015	Change	% Change	% of exp. '16
Aircraft fuel	73.056	73.475	-419	-1%	54%
Aircraft lease	4.375	5.932	-1.557	-26%	3%
Aircraft handling, landing and communication	38.884	31.679	7.205	23%	29%
Aircraft maintenance expenses	19.150	13.558	5.592	41%	14%
<b>Total</b>	<b>135.465</b>	<b>124.644</b>	<b>10.821</b>	<b>9%</b>	<b>100%</b>

Fuel expenses amounted in total to USD 73.1 million, down by USD 0.4 million, or 1%, from the corresponding period of last year. The world market price of fuel was 13% lower in the third quarter of 2016, as compared to the corresponding quarter of 2015. The Company's reporting price in the quarter, taking hedging into account, was on average USD 503/ton, 27% lower than in the third quarter of 2015. The section on the Outlook for Icelandair Group hf. below provides an overview of the Company's fuel hedging position at the end of September. Aircraft lease amounted to USD 4.4 million over the quarter, down from the second quarter of 2015, as fewer aircraft were on lease. Aircraft handling, landing and communication expenses increased by USD 7.2 million between years, or 23%, as a result of a rise in servicing fees and expanded scope of business. Maintenance expenses amounted to USD 19.2 million, increasing by 41% year on year. The reason for the increase is that in the third quarter of 2015 two leased aircraft were returned to the lessor and the cost of re-delivery check was less than anticipated, resulting in a reversal of cost in the accounts. Other operating expenses amounted to USD 94.0 million, up by USD 18.0 million between years. The table below shows a breakdown of principal items and trends between years.

USD thousand	Q3 2016	Q3 2015	Change	% Change
Operating cost of real estate and fixtures	7,477	6,063	1,414	23%
Communication	5,983	4,323	1,660	38%
Advertising	6,837	5,913	924	16%
Booking fees and commission expenses	13,640	14,234	-594	-4%
Cost of goods sold	8,103	6,642	1,461	22%
Customer services	10,175	6,723	3,452	51%
Tourism expenses	33,121	24,782	8,339	34%
Allowance for bad debt	523	713	-190	-27%
Other operating expenses	8,100	6,539	1,561	24%
<b>Total</b>	<b>93,959</b>	<b>75,932</b>	<b>18,027</b>	<b>24%</b>

## FINANCIALS

### ▪ Negative currency effect over the period

USD thousand	Q3 2016	Q3 2015	Change	% Change
Interest income	510	597	-87	-15%
Interest expenses	-1.093	-1.672	579	-35%
Currency effect	-1.083	-303	-780	257%
<b>Total</b>	<b>-1.666</b>	<b>-1.378</b>	<b>-288</b>	<b>21%</b>

Financial expenses in the third quarter amounted to USD 1.1 million, as compared to USD 1.7 million in the third quarter of last year. The currency effect relating to the position of financial assets and liabilities at the end of the quarter was negative of USD 1.1 million, as compared to USD -0.3 million in the corresponding quarter of 2015.

The Company hedges cash flow risk resulting from currency mismatches up to twelve months in advance. The mismatch is for the most part a result of income and expenses. In the third quarter profit resulting from settled contracts amounted to USD 4.5 million, leading to an increase in EBITDA, as compared to USD 4.7 million in the preceding year.

## BALANCE SHEET AND FINANCIAL POSITION

- **Total assets amounted to USD 1.2 billion at the end of the third quarter of 2016**
- **Equity ratio was 49%**
- **Interest-bearing liabilities amounted to USD 60.4 million**

USD thousand	30.09.2016	31.12.2015	Change
Total assets	1,184,019	971,979	212,040
Operating assets	545,227	419,071	126,156
Cash and short-term investment	194,570	214,119	-19,549
Total equity	582,885	456,531	126,354
Interest bearing debt	60,373	65,530	-5,157
Net interest-bearing debt	-134,197	-148,589	14,392
Equity ratio	49%	47%	2 ppt
Current ratio	0.81	0.80	1%

Operating assets amounted to USD 545.2 million, up by USD 126.2 million from the beginning of the year. Investments in operating assets are further discussed in the section on cash flow and investments. At the end of the quarter the fleet comprised 48 aircraft, of which 40 were owned by the Company. The Company's F-50 aircraft are in the process of being sold. The table below shows an overview of the Company's fleet at the end of the third quarter.

Aircraft type	Icelandair	Cargo	Loftleiðir	Air Iceland	Fleet 30.09.16	Fleet 31.12.15	Owned aircraft	Leased aircraft	Chg. from 31.12.15
Boeing 757 200	24	2	3		29	26	26	3	3
Boeing 757 300	1				1	1	1		0
Boeing 767 300	4		2		6	4	4	2	2
Boeing 737 700			1		1	1		1	0
Boeing 737 800			2		2	2		2	0
Bombardier Q200				2	2	2	2		0
Bombardier Q400				3	3	3	3		0
Fokker F-50				4	4	4	4		0
<b>Total</b>	<b>29</b>	<b>2</b>	<b>8</b>	<b>9</b>	<b>48</b>	<b>43</b>	<b>40</b>	<b>8</b>	<b>5</b>



Equity amounted to USD 582.9 million at the end of the third quarter, and the equity ratio was 49%. The equity ratio at the end of 2015 was 47%.

USD thousand	30.09.2016
Balance at 1.1. 2016	456,531
Total comprehensive income	153,322
Dividend (0.54 US cent per share)	-26,968
<b>Balance at 30.09. 2016</b>	<b>582,885</b>

Interest-bearing liabilities amounted to USD 60.4 million, as compared to USD 65.5 million at the beginning of the year. Payments on long-term debts in the third quarter amounted to USD 2.3 million. Cash and marketable securities amounted to a total of USD 194.6 million at the end of the third quarter of 2016, as compared to USD 214.1 million at the beginning of the year. Cash and marketable securities in excess of interest-bearing debt therefore amounted to USD 134.2 million at the end of the quarter.

USD thousands	30.09.2016	31.12.2015	Change
Loans and borrowings non-current	49,571	55,387	-5,816
Loans and borrowings current	10,802	10,143	659
Short-term investment	3,173	19,533	-16,360
Cash and cash equivalents	191,397	194,586	-3,189
<b>Net cash</b>	<b>-134,197</b>	<b>-148,589</b>	<b>14,392</b>

In October 2016 Icelandair Group issued an unsecured bond in the amount of USD 150 million. The bond was placed at a coupon of 3 month LIBOR + 3.50% with no LIBOR floor. The proceeds from the bond issue will be used to finance pre-delivery payments for new aircraft and for Icelandair Group general corporate purposes.

## CASH FLOW

- **Net cash for use in operating activities was USD 20.0 million**
- **Cash and cash equivalents at the end of September amounted to USD 191.4 million**

USD thousand	Q3 2016	Q3 2015	Change
Working capital from operations	161,169	157,406	3,763
Net cash to/from operating activities	-19,933	4,085	-24,018
Net cash used in investing activities	-63,695	-60,265	-3,430
Net cash used in financing activities	-2,289	-2,868	579
Cash and cash equivalents change	-85,917	-59,048	-26,869
<b>Cash and cash equivalents, end of period</b>	<b>191,397</b>	<b>256,553</b>	<b>-65,156</b>

Net cash for use in operating activities in the third quarter amounted to USD 20.0 million, as compared to net cash provided by operating activities in the amount of USD 4.1 million in the third quarter of 2015. Cash decreased by USD 86.0 million over the quarter, mostly as a result of investment activities.

## INVESTMENTS

Investments in operating assets amounted to USD 45.5 million, most of them relating to engine overhauls. Investments in long-term expenses and intangible assets amounted to a total of USD 1.2 million.



USD thousand	Q3 2016
Operating assets:	
Aircraft and aircraft components	10,853
Overhaul own aircraft	24,391
Other	10,209
Total operating assets	45,453
Long-term cost	
Overhaul leased aircraft	819
Intangible assets	359
<b>Total Capex</b>	<b>46,631</b>

## OUTLOOK FOR ICELANDAIR GROUP HF.

- **External factors in the operating environment of air carriers exert pressure on results in the sector**
- **Two Boeing 767 wide-body aircraft to be added to fleet in 2017**
- **Further increases anticipated in the number of tourists to Iceland**

Significant changes have occurred in recent months in external factors in the operating environment of air carriers. This has led to a reduction in the average airfares, and continued downward pressure on average prices is anticipated in the coming months. The booking situation in Icelandair Group's international flight operations for the fourth quarter of the year is however good.

The Company recently announced its new international flight schedule for 2017. Seat kilometres offered will increase by an estimated 14% and the number of flights by 12%. The difference is explained on the one hand by the increased weight of longer routes to North America and on the other hand by the increase in the number of larger aircraft. The number of passengers in 2017 is projected at 4.2 million, up by 450 thousand from the current year. Flights will be offered to 44 destinations, 18 in North America and 26 in Europe. Flights will be introduced to two new destinations, and the frequency of flights to a number of cities in North America and Europe will be increased. The new destinations will be Philadelphia on the U.S. east coast and Tampa on the west coast of Florida. A total of 30 aircraft will be in use on passenger flights next summer, four 262-seat Boeing 767-300 wide-body aircraft and 26 Boeing 757 aircraft. This growth will contribute to the continued strengthening of the tourist industry in Iceland and thereby reinforce other operations of Icelandair Group.

The Company's cargo operations are showing good results. The principal emphasis is on transport in the cargo holds of passenger aircraft. The introduction of two Boeing 767-300 aircraft in the Company's fleet in the course of the year has increased the available hold space and opened new opportunities. Two additional cargo aircraft are used on scheduled freight services. Next year, two Boeing 767-300 wide-body aircraft will be added to the fleet to increase capacity still further. There are prospects of added demand in both the export and import market next year.

The Company's charter operations are also performing well. Eight aircraft were out on lease at the end of the third quarter. The Company undertook flights for a new customer in Russia at the end of September.

Prospects in the Company's domestic flight operations have brightened. The great increase in the number of tourists visiting Iceland has resulted in a growing number of foreign travellers on domestic flights and this trend is expected to continue. As of February 2017 Air Iceland will introduce direct domestic flights between Keflavik and Akureyri with connections to international flights to and from Keflavik. The flights will be offered year-round, which will strengthen tourist services in northern Iceland, in addition to the convenience of the service for the people of northern Iceland. This new development

is in line with Icelandair Group's strategy of strengthening the infrastructure of the Icelandic tourist industry throughout the country.

Icelandair Group's hotel operations have seen extensive development in recent years. In early July Canopy Reykjavik, a hotel of 112 rooms, was opened in Central Reykjavik in co-operation with the Hilton Hotel chain to extremely favourable customer reception. In addition, an agreement has been reached with the Hilton Hotel chain on the operation of two high-quality hotels in the heart of Reykjavik under the brand Curio Collection. The first will have 50 rooms and is scheduled to open in 2017. The second will have 160 rooms and is expected to open in 2018.

The number of tourists visiting Iceland has grown significantly in recent years, and this trend is expected to continue. The opportunities for the Company's expansion in tourism-related services therefore remain extensive, and work will continue on increasing the proportion of tourists outside the peak season and strengthening the tourist infrastructure throughout the country.

The Company's fuel hedging situation at the end of September is highlighted in the table below.

Period	Estimated use (tons)	Swaps	Hedging ratio	Average price USD
Oct 16	31,192	18,500	59%	514
Nov 16	24,833	12,500	50%	499
Dec 16	23,632	13,500	57%	470
Jan 17	24,062	14,250	59%	423
Feb 17	22,312	12,250	55%	409
Mar 17	26,631	12,250	46%	444
Apr 17	27,927	15,250	55%	476
May 17	37,173	19,250	52%	489
Jun 17	45,828	24,250	53%	493
Jul 17	48,124	26,250	55%	483
Aug 17	47,962	26,000	54%	500
Sep 17	42,028	20,000	48%	490
<b>12 months</b>	<b>401,703</b>	<b>214,250</b>	<b>53%</b>	<b>479*</b>
Oct 17	32,600	4,000	12%	531
Nov 17	24,111	3,000	12%	512
Dec 17	23,343	3,000	13%	523
Jan 18	23,944	0	0%	0
Feb 18	21,677	0	0%	0
Mar 18	24,211	0	0%	0
<b>13-18 months</b>	<b>149,886</b>	<b>10,000</b>	<b>7%</b>	<b>523*</b>

\* Weighted average price

## EBITDA FORECAST FOR 2016

The Company's EBITDA forecast in the amount of USD 210-220 million for the operating year of 2016 remains unchanged. It is expected that passenger revenue will reduce still further in the fourth quarter as a result of a greater decline in average fares than foreseen. The Icelandic króna has continued to strengthen, and updated assumptions now indicate that the exchange rate of the króna will be 6% stronger than in the last earnings estimate. This will have a negative impact on EBITDA, as about a third of the Company's expenses are in ISK.

As revealed earlier, the Company hedges its cash flow risk resulting from currency mismatches up to 12 months forward. Until now, profit or loss resulting from redeemed foreign-exchange contracts have been entered among financial items, whether the contracts relate to operating items or other items. In order to give a fairer view of the Company's results before financial items, such contracts will from now

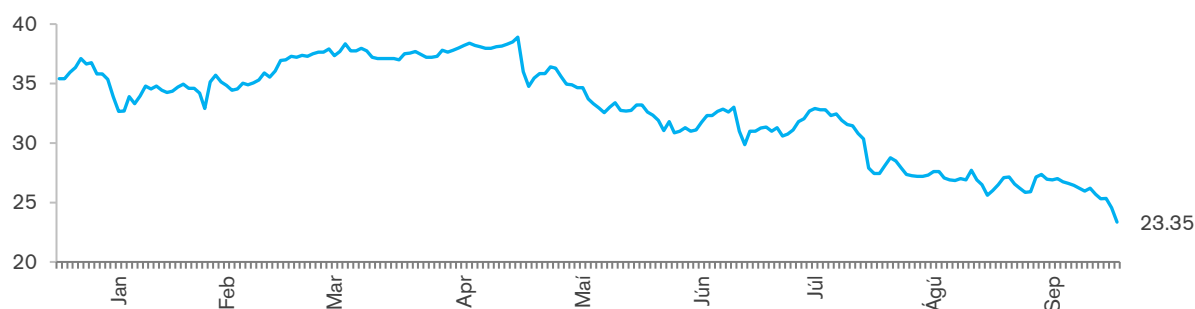
on be entered under the items being hedged. Profit from settled contracts in the first nine months of the year amounted to USD 6.6 million, and is forecasted USD 3.0 million in the last quarter.

The guidance assumes a fuel price (net of hedging) of USD 443 USD/ton in October and 490 USD/ton in November – December, as compared to 460 USD/ton in the July forecast. Updated assumptions predict an unchanged exchange rate of the EUR against the USD, averaging at 1.12 from October to December, and an average exchange rate index for the ISK of 172 over the same period, as compared to 182 in the last forecast.

## SHAREHOLDERS

- Icelandair Group's share price was ISK 23.35 at the end of the third quarter
- The market value at the end of September was ISK 116.8 billion

The highest close-of-day price per share in the third quarter was ISK 32.90, the lowest price was ISK 23.35 per share, and the average closing price over the period was ISK 28.19 per share. Trades in Icelandair Group shares were 1,553 over the quarter, and the total volume of trading was ISK 31.2 billion. The average size of individual trades was ISK 20.1 million. The number of shareholders was 2,657 at the end of the quarter, up by 270 from the beginning of the year. The number of issued shares on 30 September 2016 was 5,000,000,000, and the number of outstanding shares at the same time was 4,974,540,000. The chart below shows the share-price trend in 2016 in ISK:



## PRESENTATION MEETING 28 OCTOBER 2016

An open presentation for stakeholders will be held on Friday 28 October 2016 at the **Hilton Reykjavik Nordica**. **Please note the presentation meeting is not at its usual location at the Icelandair Hotel 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 begin at 8:30 a.m. at the VOX Club. 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 in Icelandic 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 2016 were approved at a meeting of the Board of Directors on 27 October 2016.

## **FINANCIAL CALENDAR**

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- **Financial statement for the fourth quarter – week 06, 2017**
- **Annual General Meeting – Week 11, 2017**

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

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- **Bogi Nils Bogason, Chief Financial Officer of Icelandair Group, tel: +354 665-8801.**