

NET PROFIT OF USD 20 MILLION IN Q3 2021

Summary

Icelandair Group generated USD 19.6 million in net profit in Q3 2021 despite the Delta variant negatively impacting September load factor and unit revenues. The Company further strengthened its liquidity, which amounted to USD 454.4 million at the end of the quarter. Net cash from operations amounted to USD 25.2 million compared to negative USD 88.3 million in Q3 2020.

Icelandair continued its network and operational ramp up during the quarter. The company served 34 international destinations, 11 in North America and 23 in Europe. The total number of passengers was around 700 thousand which is almost fourfold compared to last year. 52% of the passengers were tourists to Iceland. The load factor was 68.2% and on-time performance was 86%. Passengers in the domestic network were 67 thousand and reached pre-COVID levels.

Cargo operations continued to be strong with volumes and revenues exceeding pre-COVID levels. Transit freight increased considerably and was 10% of total transported freight, compared to 3% in 2020.

The company experienced a booking trend setback during August and September caused by the rise of the Delta variant. The situation has, however, recovered and bookings have been strong during the last few weeks. The opening of the US borders for European travelers is a crucial milestone for the company and following that all its markets will be open. In the fourth quarter, the company will grow its capacity from 50% of 2019 capacity levels in Q3 to up to 65% of 2019 levels in Q4, serving 11 destinations in North America and 15 in Europe. However, in addition to the continued impact of the pandemic and accompanying travel restrictions, high fuel prices will negatively affect operational results in the fourth quarter.

BOGI NILS BOGASON, PRESIDENT & CEO

"We are pleased to have turned a profit from regular operations in the quarter for the first time in two years, driven by our successful ramp up over the past months. Our capacity in the international passenger network increased sixfold compared to last year, reaching 50% of our 2019 levels which is a great result given the challenging circumstances. Load factor was strong in July and August and we transported more passengers in July alone than in the first six months of the year combined. The via market also improved significantly as soon as Europe opened for US travelers. In addition, we are proud to have reached 86% on-time performance despite complicated travel restrictions and a rapid ramp-up. This success can be attributed to our main strength, flexibility – both of our network and our people who I would like to thank for showing remarkable resilience in responding quickly to changes in our markets and spotting and pursuing all possible opportunities.

Despite our positive recovery path, the quarter was still impacted by the pandemic. We experienced a setback with the rise of the Delta variant, resulting in a slow-down in bookings towards the end of the quarter. Demand for cargo, however, remained strong. A key focus area in our cargo services is ensuring efficient transport of fresh Icelandic seafood and thus supporting important export revenue generation in Iceland. Utilizing our strong route network, we work closely with our partners to deliver fresh seafood products that have a low carbon footprint compared to other protein sources and can be ready on consumers' plates in diverse markets within 48 hours of being caught.

Going forward, we see strong booking trends. The opening of the US borders means that we can finally start harnessing the full potential of our route network for the first time since March 2020. Looking at the big picture, the recovery of Icelandic tourism is greatly dependent on the competitiveness of Iceland as a tourist destination. Therefore, it is important that Icelandic authorities review the current border restrictions and ensure they are simple, efficient and in line with those of the countries around us. As for Icelandair, we are well prepared for the months ahead – with our highly flexible operations, robust

infrastructure and a strong liquidity position, underpinned by great teams of experienced people across the business."

WEBCAST 21 OCTOBER 2021

An investor presentation will be webcast in relation to the publication of the results at 8:30 local time on Thursday, 21 October 2021, at <http://icelandairgroup.is>. Bogi Nils Bogason, President & CEO of Icelandair Group, and Ivar S. Kristinsson, CFO, will present the Company's results and answer questions. **The presentation and Q&A will take place in Icelandic.** The presentation will be available after the meeting on the Icelandair Group website: <http://icelandairgroup.is> and under Company News on: <http://www.nasdaqomxnordic.com/news/companynews>

KEY INDICATORS

		Q3 2021	Q3 2020	Change	9M 2021	9M 2020	Change
Operating results							
Total revenue	USDk	257,524	103,581	153,943	392,376	373,369	19,007
Total operating cost	USDk	249,347	100,115	149,232	492,640	676,135	-183,495
EBIT	USDk	8,177	3,466	4,711	-100,263	-302,766	202,503
EBT	USDk	21,261	15,373	5,888	-86,830	-340,851	254,021
Net profit/loss	USDk	19,646	38,151	-18,505	-65,390	-292,895	227,505
Balance sheet and cash flow¹							
Total assets	USDk	-	-	-	1,226,834	1,034,238	192,596
Total equity	USDk	-	-	-	259,791	232,809	26,982
Financial liabilities	USDk	-	-	-	512,411	397,482	114,929
Net financial liabilities	USDk	-	-	-	230,002	238,112	-8,110
Net cash from/to operating activities	USDk	25,192	-88,260	113,452	44,924	-114,734	159,658
CAPEX, gross	USDk	9,252	7,972	1,280	169,814	41,315	128,499
CAPEX, net	USDk	-4,366	7,972	-12,338	-25,164	41,307	-66,471
Key Ratios							
EPS	US cent	0.07	1.12	-1.05	-0.22	-5.00	4.78
Equity ratio	%	21%	26%	-4.7 ppt	21%	26%	-4.7 ppt
Equity ratio excluding warrants	%	22%	27%	-4.6 ppt	22%	27%	-4.6 ppt
EBIT ratio	%	3.2%	3.3%	-0.2 ppt	-25.6%	-81.1%	55.5 ppt
RASK ²	US cent	6.7	13.7	-7.0	6.5	7.3	-0.8
CASK ²	US cent	6.6	12.7	-6.1	9.5	14.0	-4.5
Traffic figures							
Passenger flights	no.	3,193	1,128	183%	5,190	4,169	24%
Passengers	no.	695,703	192,190	262%	916,817	839,062	9%
Passenger load factor	%	68.2%	66.5%	1.7 ppt	62.6%	69.0%	-6.4 ppt
Available seat-kilometers (ASK)	mill	2,938	538	446%	3,852	3,002	28%
ASK as % of 2019 capacity	%	50.2%	9.2%	41.0 ppt	28.5%	22.2%	6.3 ppt
Revenue seat-kilometers (RPK)	mill	2,003	358	459%	2,410	2,072	16%
On-Time-Performance	%	86.0%	95.0%	-9.0 ppt	87.0%	84.0%	3.0 ppt
Freight ton kilometers (FTK'000)	k	35,087	26,359	33%	102,940	83,455	23%
Sold charter block hours	no.	3,427	1,607	113%	10,146	12,136	-16%
Employees							
Average number of employees	no.	2,535	2,337	8%	1,969	2,749	-28%

¹ Comparison figures for balance sheet are 31.12.2020 ² RASK: Revenue and CASK: Cost per ASK is Icelandair total including domestic operation from 16 March 2021

Q3 2021 SEGMENT OVERVIEW

USD thousand	Icelandair			Other entities		Total	
	Q321	Q320	Chg. Q320	Q321	Chg. Q320	Q321	Chg. Q320
Total revenue	222,845	95,728	127,117	34,679	26,826	257,524	153,943
EBIT	6,263	17,912	-11,649	1,914	9,043	8,177	4,710
EBT	18,332	22,377	-4,045	2,929	9,932	21,261	5,887

Icelandair

Icelandair continued to ramp up its operations to meet increased demand in its markets during Q3 2021. Capacity in the third quarter was threefold that of the first six months of the year and 50% of the capacity produced in third quarter 2019. Icelandair carried close to 696 thousand passengers and the load factor reached 68.2%, up by 21 percentage points compared to second quarter. Load factor on international routes reached 70.4% and 71.8% in July and August respectively but due to increased uncertainty in relation to the spread of the Delta variant, the load factor was 62% in September. As in previous months, the load factor in the quarter was also somewhat negatively impacted by the use of larger aircraft on several routes to meet strong cargo demand.

The market “to” Iceland accounted for 52% of total passengers. The “via” market which was almost nonexistent last year accounted for 27% of total passengers. Historically, the “via” market has been Icelandair’s largest market but US restrictions on travel of visitors from Europe since March 2020 and similar restrictions imposed by Europe had a severe effect on this market. US border openings to vaccinated European travelers on the 8th of November has already positively impacted bookings in the months ahead.

Passenger mix %	Q3 21	Q3 20	Q3 19
To	52%	61%	42%
From	11%	17%	11%
Via	27%	2%	43%
Within	10%	21%	4%
Total	100%	100%	100%

To support customers in having a smooth travel experience and to navigate different travel restrictions in times of COVID, Icelandair has put strong emphasis on customer communication. In addition to pre-flight emails, extensive information is available on Icelandair’s website on what to expect before, during and after the flight, as well as information on the measures Icelandair has taken to ensure the health and safety of its passengers and employees. In the quarter, the company implemented a new tool on its website, Sherpa, that gives an overview of travel restrictions all around the world.

On-time-performance was strong in the quarter, 86%, despite the steep ramp-up and level of complexity due to travel restrictions at borders. Approximately one fourth of delays can be traced back to those complications.

Icelandair had nine Boeing 737 MAX aircraft in its fleet at the end of September and an additional three will be added in the coming months. The MAX aircraft has proved its worth with better technical reliability, fuel efficiency and payload-range than initially assumed, generating 36% less CO2 emissions than the Boeing 757, which supports the Company’s goals of reducing carbon emissions.

Icelandair Cargo returned good results in Q3 2021. Demand was strong, with Freight ton kilometers (FTK) increasing by 33% between years and 8% over FTK in Q3 2019. Both export and import were strong, and transit freight continued to increase significantly. The share of transit reached 10% of total freight in Q3 2021 compared to 3% in Q3 2020. A shift back to utilizing the cargo hold in the passenger aircraft started alongside the ramp-up of the passenger network.

Other entities

Loftleidir Icelandic returned positive results in Q3 2021. The number of sold block hours almost doubled between years although its customer operations continued to be significantly impacted by COVID. Production increased both in long-term projects as well as in ad-hoc flights during the quarter.

Revenues at VITA, Icelandair's outbound travel agency increased significantly between years although August was impacted by increased travel restrictions at the Icelandic border which led to fewer charter flights than planned.

Iceland Travel, Icelandair's inbound travel agency, returned positive results in the third quarter 2021, driven by increased demand. The completion of the sale of Iceland Travel is expected in the coming months upon fulfillment of all condition's precedent.

REVENUE AND EXPENSES

Revenue

Total revenue increased by 149% and amounted to USD 257.5 million, as compared to USD 103.6 million in Q3 2020. **Transport revenue** amounted to USD 206.8 million, increasing by USD 150.8 million between years. **Passenger revenue** amounted to USD 171.8 million compared to USD 36.0 million last year. Revenue increased in all markets as a result of increased capacity and improved load factor. The largest increase was in the tourist market to Iceland. The increase in the Trans-Atlantic market was also significant as this market was almost nonexistent last year. **Cargo revenue** increased by 20% compared to Q3 2020 and amounted to USD 20.1 million. Cargo volume increased by 33% between years, driven by more demand in all markets. **Revenue from aircraft and aircrew lease** amounted to USD 9.6 million compared to USD 4.4 million last year, due to more production in long-term and new ad-hoc charter projects. **Other operating revenue** was USD 41.1 million, as compared to USD 43.1 million. **Revenue from tourism** increased significantly between years and amounted to USD 25.1 million. Other revenue amounted to USD 9.6 million compared to USD 36.6 million last year. Included in other revenue last year is compensation from The Boeing Company due to loss incurred from the MAX suspension.

USD thousand	Q3 2021	Q3 2020	Change	% Change
Transport revenue:	206,829	56,073	150,756	269%
<i>Passengers</i>	171,775	36,005	135,770	377%
<i>Passenger ancillary revenue</i>	14,960	3,271	11,689	357%
<i>Cargo</i>	20,094	16,797	3,297	20%
Aircraft and aircrew lease	9,601	4,404	5,197	118%
Other operating revenue:	41,094	43,104	-2,010	-5%
<i>Revenue from tourism</i>	25,148	2,521	22,627	-
<i>Aircraft and cargo handling services</i>	6,350	3,964	2,386	60%
<i>Other</i>	9,596	36,619	-27,023	-74%
Total	257,524	103,581	153,943	149%

Expenses

Operating expenses excluding depreciation amounted to USD 217.1 million and increased by USD 146.4 million compared to Q3 2020. Main driver of higher cost is the increased scope of business. **Salaries and salary-related** expenses amounted to USD 60.4 million compared to USD 29.0 million last year. **Aviation expenses** amounted to USD 90.2 million, up by USD 67.2 million. **Fuel cost** amounted to USD 50.1 million compared to USD 9.4 million in Q3 last year. The increase is due to more capacity and 60% higher average world fuel price than in Q3 last year. **Other operating expenses** amounted to USD 66.5 million, up by USD 47.9 million. Tourism expenses were up by USD 16.2 million in relation to more revenues from tourism. Other cost increased in line with increased scope of business.

USD thousand	Q3 2021	Q3 2020	Change	% Change
Salaries and salary related expenses	60,395	29,045	31,350	108%
Aviation expenses	90,173	22,964	67,209	293%
<i>Aircraft fuel</i>	<i>50,069</i>	<i>9,394</i>	<i>40,675</i>	<i>433%</i>
<i>Aircraft lease</i>	<i>69</i>	<i>-146</i>	<i>215</i>	<i>-147%</i>
<i>Aircraft handling, landing and communication</i>	<i>27,811</i>	<i>6,600</i>	<i>21,211</i>	<i>321%</i>
<i>Aircraft maintenance expenses</i>	<i>12,224</i>	<i>7,116</i>	<i>5,108</i>	<i>72%</i>
Other operating expenses	66,531	18,652	47,879	257%
<i>Operating cost of real estate and fixtures</i>	<i>1,664</i>	<i>783</i>	<i>881</i>	<i>113%</i>
<i>Communication</i>	<i>6,818</i>	<i>3,908</i>	<i>2,910</i>	<i>74%</i>
<i>Advertising</i>	<i>2,795</i>	<i>1,918</i>	<i>877</i>	<i>46%</i>
<i>Booking fees and commission expenses</i>	<i>10,936</i>	<i>-365</i>	<i>11,301</i>	<i>-3096%</i>
<i>Cost of goods sold</i>	<i>1,318</i>	<i>192</i>	<i>1,126</i>	<i>586%</i>
<i>Customer services</i>	<i>5,497</i>	<i>2,065</i>	<i>3,432</i>	<i>166%</i>
<i>Travel and other employee expenses</i>	<i>11,624</i>	<i>3,614</i>	<i>8,010</i>	<i>222%</i>
<i>Tourism expenses</i>	<i>17,915</i>	<i>1,747</i>	<i>16,168</i>	<i>925%</i>
<i>Other operating expenses</i>	<i>7,964</i>	<i>4,790</i>	<i>3,174</i>	<i>66%</i>
Total	217,099	70,661	146,438	207%

Total RASK (revenue per available seat kilometer) in Q3 2021 was 6.7 US cent compared to 13.7 US cent in Q3 2020. **Total CASK** (cost per available seat kilometer) was 6.6 US cent in Q3 2021 compared to 12.8 US cent in Q3 2020. It should be noted that the year-on-year comparison of RASK and CASK figures is skewed due to the COVID impact. The figures for the domestic and Greenland operation previously flown by Air Iceland Connect are included in the RASK and CASK figures from 16 March 2021.

Net finance income

Net finance income amounted to USD 14.2 million in Q3 2021 compared to USD 12.5 million in Q3 2020. Change in the fair value of outstanding warrants amounted to USD 11.1 million and positively impacted finance income during the quarter. A further breakdown of net finance income is stated in the table below.

USD thousand	Q3 2021	Q3 2020	Change	% Change
Finance income	337	483	-146	-30%
Finance costs	-6,474	-3,908	-2,566	66%
Interest on Pre-Delivery Payments	0	-392	392	-100%
Changes in fair value of warrants	11,103	4,986	6,117	123%
Changes in fair value of derivatives	0	14,874	-14,874	-100%
Foreign exchange gain/loss	4,609	-3,498	8,107	-232%
Gain in sale of subsidiary	4,653	0	4,653	-
Total	14,228	12,545	-2,970	13%

FINANCIAL POSITION

Total assets amounted to USD 1,226.8 million, increasing from USD 1,034.2 million at year-end 2020. Operating assets amounted to USD 407.2 million decreasing by USD 91.2 million due to depreciation and sale of assets. Right-of-use of assets amounted USD 232.0 million, increasing by USD 112.9 million due sale-leaseback of three new MAX aircraft, a spare engine and one B767 aircraft. Cash and marketable securities including assets held for sale totaled USD 282.4 million, increasing by USD 123.0 million from the beginning of the year. Proceeds from the issuance of new shares totaled USD 80.2 million.

Total equity amounted to USD 259.8 million at the end of Q3 2021. Issuance of new share capital increased equity by USD 80.2 million, with a sale of new equity to Bain Capital and the exercise of warrants by existing shareholders. New warrants were issued to Bain Capital worth USD 3.3 million and fair value impact of warrants exercised by current shareholders resulted in a USD 4.1 million positive impact on equity.

The table below shows the principal changes in equity from the turn of the year.

USD thousands	
Equity 1 January 2021	232,809
Total comprehensive loss	-54,017
New Capital	80,206
Warrants issued	-3,300
Warrants exercised	4,095
Equity 30 Sep 2021	259,791

Equity ratio at the end of September was 21% compared to 23% at the beginning of the year. When excluding the temporary balance sheet effects of warrants, the equity ratio was 22% at the end of the quarter.

Net financial liabilities amounted to USD 230.0 million and decreased compared to beginning of the year. **Total financial liabilities** amounted to USD 512.4 million and increased during the year due to sale and leaseback of three MAX aircraft and one spare engine.

USD thousands	30.09.2021	31.12.2020	Change
<i>Loans and borrowings</i>	263,864	263,588	276
<i>Lease liabilities</i>	248,547	133,894	114,653
Financial liabilities	512,411	397,482	114,929
<i>Cash and marketable securities</i>	282,409	159,370	123,039
Net financial liabilities	230,002	238,112	-8,110

Financing of three Boeing 737 MAX for delivery in Q4 2021 and Q1 2022 secured

Icelandair has entered into favorable agreements regarding the financing of three B737 MAX aircraft. These are sale and leaseback of two B737 MAX8 aircraft and an asset-backed loan agreement for one B737 MAX9 aircraft. As previously announced, Icelandair had backstop financing in place for these three aircraft which will not be exercised. The aircraft are scheduled for delivery in December 2021 and January 2022. Following this transaction, Icelandair has completed financing of all the twelve B737 MAX aircraft that were originally ordered from Boeing in 2013.

Liquidity position

Total cash and marketable securities, including assets held for sale, amounted to USD 282.4 million on 30 September 2021. Net cash from operations amounted to USD 25.2 million in the quarter. Net working capital was negative of USD 14.1 million due to reduction of deferred income.

Cash used in investing activities totaled USD 26.7 million. Gross CAPEX amounted to USD 9.3 million. Total cash from financing activities in Q3 2021 amounted to USD 64.3 million. Issuance of shares totaled USD 80.2 million. Repayment of borrowings and lease liabilities amounted to USD 15.9 million

At the end of the quarter, the Company had undrawn committed credit lines in the amount of USD 52.0 million. Total liquidity excluding government guaranteed credit facility amounted to USD 334.4 million on 30 September 2021. In addition, the Company has access to a USD 120 million back-stop credit facility from two domestic banks which is 90% guaranteed by the Icelandic Government, bringing total liquidity up to USD 454.4 million.

USD thousand	Q3 2021	Q3 2020	Change
Cash and cash equivalents	216,978	191,026	25,952
Cash and cash equivalents in assets held for sale	5,532	0	5,532
Marketable securities	59,899	36,030	23,869
Total cash and marketable securities	282,409	227,056	55,353
Undrawn revolving facilities	52,000	52,000	0
Liquidity less government facility	334,409	279,056	55,353
Government guaranteed credit facility	120,000	120,000	0
Total liquidity position	454,409	399,056	110,706
Net cash to/from operating activities	25,192	-88,260	113,452
Gross CAPEX	9,252	7,972	1,280
Net CAPEX	-4,366	7,972	-12,338

PROSPECTS

International demand expected to strengthen in Q4 2021

In the fourth quarter 2021, Icelandair will serve 11 destinations in North America and 15 in Europe and its capacity on international routes will be around 65% of the company's 2019 levels, growing from 50% of 2019 levels in the third quarter. Following the opening of the US borders to vaccinated European travelers on 8 November, all of the company's markets will be accessible again. This announcement has already positively impacted bookings. The development of the pandemic and travel restrictions changes are however expected to continue to impact the operations as they have in the past 19 months.

Icelandair will focus on maximizing the fuel efficiency of the B737 MAX aircraft as high fuel price continue to negatively affect results. This focus is in line with Icelandair's aim of reducing carbon emissions. Crew cost will be impacted by MAX training during the fourth quarter as the company prepares for introduction of additional MAX aircraft into the fleet in the coming months.

The Icelandic domestic market has rebounded strongly in September after a slow-down in August due to the Delta variant. Demand in September reached 94% of pre-COVID levels and the future outlook is positive.

Positive outlook for 2022

Icelandair's planned flight schedule for 2022 is around 80% of the 2019 capacity and the company has the flexibility to increase its capacity further as demand increases. The 2022 schedule is robust, exhibiting both the breadth of the network with 14 North American, 24 European, three domestic and four Greenland destinations as well as its depth with 390 weekly departures during a peak summer week. This schedule is, however, dependent on the developments of the pandemic, demand and other external factors.

Strong outlook for Icelandair Cargo

The outlook for Icelandair Cargo remains strong and carried freight has exceeded pre-COVID levels. Demand continues to be robust for export and the growth in import is strong. The transit market has been the fastest growing market this year and the forward outlook is very positive. A key focus area of Icelandair Cargo is the export of fresh Icelandic seafood products that are delivered efficiently in a short time to diverse markets. A competitive advantage of these products is their low carbon footprint compared to other protein sources. Icelandair Cargo maximizes the use of the belly space in Icelandair's passenger aircraft which results in 70% less CO2 emissions of the transport per ton than by its current cargo fleet. The outlook in the global market for ad-hoc and long-term charters has improved. **Loftleidir**

Icelandic has secured new short-term projects in Q4 2021, including flights to the South Pole and VIP flights are expected to resume at the end of Q1 2022. The development in the coming months is however dependent on the development of COVID and related travel restrictions in Loftleidir Icelandic's diverse markets.

Outlook for **VITA**, Icelandair Group's outbound tour operator is good for the coming months, especially from September and onwards for city breaks, holidays in the sun and special tours.

Icelandair looking into further additions of Boeing MAX aircraft to its fleet for the summer 2022

Icelandair is in the process of renewing its passenger fleet with the implementation of the B737 MAX aircraft and the gradual retirement of the B757 aircraft. In January 2022 the company will have 12 MAX aircraft in its fleet. Icelandair is looking into adding further up to three MAX 8 aircraft to its fleet before summer 2022. Discussions with aircraft lessors are progressing well and expected to be concluded before the end of the year. A strategic initiative to review Icelandair Group's long-term fleet strategy is in progress after being put on hold during the COVID period. The aim is that this work will be completed before the end of year.

INFORMATION

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FINANCIAL CALENDAR

- **Q4 2021 results – 3 February 2022**
- **AGM – 10 March 2022**