

## ROBUST THIRD QUARTER RESULTS, WITH USD 58 MILLION PROFIT

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- EBIT USD 92.7 million with 19% EBIT margin; improving by USD 84.5 million year-on-year
- Record passenger revenue USD 408.3 million
- Record load factor and high unit revenue
- Number of passengers 1.4 million; more than doubling from last year
- Unit revenues up by 38% year-on-year while unit cost excluding fuel decreased by 8%
- Strongest cash position ever at the end of Q3
- Well positioned to weather headwinds and seize opportunities in the coming months

## BOGI NILS BOGASON, PRESIDENT & CEO

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“Delivering such robust financial result driven by record revenues, clearly demonstrates the strength of our business model. By using the flexibility of our route network and operations, we were able to make the most of opportunities in all our markets in the quarter.

We reached 82% of 2019 capacity and more than doubled the number of passengers between years. It is great to see how fast our transatlantic market has recovered, accounting for 43% of the total number of passengers in the quarter. Continued improvement of revenue generation from our Saga Premium product positively impacted unit revenue. Furthermore, our cargo and leasing businesses continued to strongly complement our revenue generation.

Achieving these results against a backdrop of considerable challenges during the ramp-up phase has required a joint effort across the Company. Disruptions at airports and in supply chains impacted our operations as well as our customers' experience. I would like to thank our employees for the dedication and hard work over the past weeks and months, our customers for their trust and patience, and our tourism partners for their great cooperation in quickly ramping up tourism services in Iceland.

The booking status in the fourth quarter is strong although we are expecting some headwinds this winter. The operating environment will remain challenging, where we are seeing interest rates and various costs on the rise which will most likely impact demand. We, however, believe there will continue to be great opportunities for Iceland as an attractive destination and we have a strong foundation to build on. Our financial position is robust with strong liquidity and our extensive route network, as well as our flexibility allows us to move quickly and adjust our operations and services to the situation.”

## WEBCAST 21 OCTOBER 2022

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An investor presentation will be webcast in relation to the publication of the results at 8:30 GMT on Friday, 21 October 2022, 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 English.**

## KEY INDICATORS

		Q3 2022	Q3 2021	Change	9M 2022	9M 2021	Change
<b>Operating results and cash flow</b>							
Total income	USDk	486,727	257,524	229,203	974,337	392,376	581,961
of which transport revenue	USDk	451,724	208,514	243,210	874,998	302,021	572,977
Total operating expenses	USDk	394,007	249,347	144,660	938,749	492,640	446,109
EBIT	USDk	92,720	8,177	84,543	35,588	-100,264	135,852
EBT	USDk	73,809	21,261	52,548	13,446	-86,830	100,276
Net profit / loss	USDk	57,871	19,646	38,225	11,972	-65,391	77,363
Net cash from operating activities	USDk	-49,110	25,192	-74,302	156,485	44,924	111,561
CAPEX, gross	USDk	55,749	9,252	46,497	252,039	169,814	82,225
CAPEX, net	USDk	54,693	-4,366	59,059	141,015	-25,164	166,179
<b>Balance sheet<sup>1</sup></b>							
Total assets	USDk	-	-	-	1,434,733	1,171,559	263,174
Total equity	USDk	-	-	-	286,937	222,384	64,553
Financial liabilities <sup>3</sup>	USDk	-	-	-	612,053	495,922	116,131
Net financial liabilities	USDk	-	-	-	291,436	232,957	58,479
Total liquidity position	USDk	-	-	-	372,617	434,964	-62,347
<b>Key Ratios</b>							
EPS	US cent	0.12	0.07	0.05	0.04	0.22	-0.18
Equity ratio <sup>1</sup>	%	-	-	-	20.0%	19.0%	1.0 ppt
EBIT ratio	%	19.0%	3.2%	15.9 ppt	3.7%	-25.6%	29.2 ppt
RASK <sup>2</sup>	US cent	9.2	6.7	2.6	8.3	6.5	1.8
CASK <sup>2</sup>	US cent	7.4	6.6	0.8	8.2	9.5	-1.3
CASK less fuel <sup>2</sup>	US cent	4.7	5.1	-0.4	5.6	7.8	-2.3
<b>Traffic figures</b>							
Passenger flights	no.	5,228	3,193	64%	11,358	5,190	119%
Passengers total	no.	1,430,100	695,702	106%	2,841,899	916,818	210%
To Iceland	no.	590,319	364,115	62%	1,179,206	442,046	167%
From Iceland	no.	154,018	74,970	105%	401,265	107,051	275%
Via Iceland	no.	610,652	188,271	224%	1,062,259	205,618	417%
Within Iceland	no.	75,111	68,346	10%	199,169	162,103	23%
Passenger load factor	%	87.6%	68.2%	19.4 ppt	80.9%	62.6%	18.3 ppt
Available seat-kilometers (ASK)	mill	4,820	2,938	64%	10,127	3,852	163%
ASK as % of 2019 capacity	%	82.3%	50.2%	32.1 ppt	74.8%	28.4%	46.3 ppt
Revenue seat-kilometers (RPK)	mill	4,220	2,003	-	8,194	2,410	240%
On-Time-Performance	%	70.0%	86.1%	-16.1 ppt	71.8%	87.6%	-15.8 ppt
Freight ton kilometers (FTK)	k	29,661	35,087	-15%	98,842	102,940	-4%
Sold charter block hours	no.	4,027	3,427	18%	10,748	10,146	6%
Total CO2 emissions ton	no.	339,228	214,691	58%	728,262	317,371	129%
CO2 emissions per OTK	no.	0.73	0.92	-20%	0.77	0.98	-22%
<b>Employees</b>							
Average number of full-time employees	no.	3,457	2,535	36%	3,043	1,969	55%

<sup>1</sup> Comparison figures for balance sheet are 31.12.2021; <sup>2</sup> RASK/CASK: Revenue and cost per ASK is Icelandair total including domestic operation from 16 March 2021; <sup>3</sup> Financial liabilities: interest bearing debt and net lease liabilities

## TRAFFIC DATA

- **Record Q3 load factor of 87.6%**
- **Number of passengers more than doubled**
- **Production 82% of 2019 levels**

The total capacity in the route network, measured in available seat kilometers, increased by 64% year-on-year and reached 82% of 2019 levels. The total number of passengers was 1.4 million, more than doubling compared to the same quarter last year. Passenger numbers grew in all markets, with the largest increase in the “via” market which is Icelandair’s largest market accounting for 43% of the total number of passengers.

Passenger mix '000	Q3 2022	Q322 mix	Q3 2021	Q321 mix	Chg. vs LY	% Chg.
To	590	41%	364	52%	226	62%
From	154	11%	75	11%	79	105%
Via	611	43%	188	27%	422	224%
Within	75	5%	68	10%	7	10%
<b>Total</b>	<b>1,430</b>	<b>100%</b>	<b>696</b>	<b>100%</b>	<b>734</b>	<b>106%</b>

The quarter saw a record load factor of nearly 88% which represents a year-on-year improvement of 19 percentage points. Load factor on Saga Premium, our business class cabin, continued to significantly improve compared to pre-Covid levels. Yields improved in all markets and in both cabins.

The on-time performance was 70%, negatively affected by staffing issues at major international airports this summer. This situation was unprecedented, especially in Europe and caused disruptions for airlines worldwide. Icelandair’s extensive flight schedule, with its high frequency of flights and diverse departure times within each day, enabled us to minimize the impact that these disruptions had on our passengers. The situation is expected to somewhat continue into autumn while new staff is being hired and trained but is not expected to have as much impact on Icelandair like in the summer.

Freight volume, measured in Freight Ton Kilometers (FTK), decreased by 15% year-on-year. Main reason is less fish export from Iceland and less transit freight. Sold block hours in the leasing operation increased year-on-year by 18%.

A larger proportion of the substantially more fuel efficient B737 MAX aircraft within the fleet, in addition to improved load factor, resulted in a 20% reduction of CO2 emissions per OTK compared to Q3 2021. The Company has set clear and ambitious goals of reducing its carbon emissions by 50% per OTK by 2030 and to achieve net zero emissions by 2050.

## INCOME AND EXPENSES

- **Strong revenue generation**
- **Record passenger revenue for single quarter**
- **Expenses significantly impacted by high cost of fuel**

### Income

The robust revenue generation during the third quarter was achieved through several factors. The strong travel demand for the peak third quarter was met with successful revenue management, effective

distribution channels and through valuable strategic partnerships with other airlines. A record load factor was reached, and yields were strong in all markets.

**Total income** amounted to USD 486.7 million up from USD 257.5 million in third quarter last year. **Transport revenue** was USD 451.7 million and more than doubled compared to Q3 last year on 64% more production. Thereof, **passenger revenue** amounted to a record USD 408.3 million. Compared to 2019 the increase in passenger revenue totals 8% on 18% less capacity. **Cargo revenue** amounted to USD 18.3 million down by 16% in line with less freight carried because of decreased demand related to the economic turmoil in Europe. **Revenue from aircraft and aircrew lease** amounted to USD 13.5 million increasing by 40% year-on-year on higher aircraft charter production. **Total other operating revenue** amounted to USD 21.5 million, decreasing by USD 17.9 million year-on-year. The main reason is lower revenue from tourism due to divestment of Iceland Travel in December last year.

### Expenses

Increased capacity along with 78% higher average world fuel price compared to the same period last year are the main drivers for higher expenses.

**Operating expenses** amounted to USD 360.3 million and increased by USD 143.2 million. **Salaries and salary-related** expenses amounted to USD 74.8 million compared to USD 60.4 million in Q3 last year. The average number of full-time employees was 3,457 and increased by 922 year-on-year. **Aviation expenses** amounted to USD 205.5 million, up by USD 115.4 million. Thereof **aircraft fuel** amounted to USD 136.7 million up from USD 50.1 million last year. The average world market price in Q3 was USD 1,114 per metric ton up by 78% year-on-year. Hedge levels in Q3 2022 were equal to 25% of the consumption at an average price of USD 945 per metric ton. A larger B737 MAX fleet positively contributed to fuel expenses. **Aircraft maintenance** totaled USD 26.7 million and increased by USD 14.5 million year-on-year. Main reasons are increased production and more expensed engine reserve cost as the leased aircraft fleet increases compared to last year. **Other operating expenses** amounted to USD 80.0 million, compared to USD 66.5 million in Q3 2021. **Tourism expenses** totaled USD 4.2 million, down by USD 13.7 million in line with lower revenue from tourism resulting from the divestment of Iceland Travel. **Customer services** amounted to USD 15.9 million, up by USD 10.4 million year-on-year. This cost was high due to unprecedented disruptions, especially at European airports, this summer. Icelandair's extensive flight schedule, with its high frequency of flights and diverse departure times within each day, enabled us to minimize the impact that these disruptions had on our passengers.

### Unit revenues and unit costs

**RASK** (revenue per available seat kilometer) in Q3 2022 was 9.2 US cent compared to 6.7 US cent in Q3 2021, an increase of 38%. **CASK** (cost per available seat kilometer) was 7.4 US cent compared to 6.6 US cent in Q3 2021 an increase of 12% driven by higher fuel price. **CASK less fuel** decreased year-on-year by 8% was USD 4.7 US cent compared to 5.1 US cent in Q3 last year.

## FINANCIAL POSITION

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- **Equity ratio 20%**
- **Total liquid funds USD 373 million**

### Balance sheet

**Total assets** amounted to USD 1,434.7 million at the end of Q3 2022, increasing from USD 1,171.6 million from the beginning of the year. Operating assets amounted to USD 465.3 million increasing by USD 74.0 million, due to the addition of two MAX aircraft and overhaul of own aircraft. Right-of-use of assets amounted to USD 329.3 million, increasing by USD 104.5 million due to lease agreements for

four new MAX aircraft and 767-300 freighter. **Equity** amounted to USD 286.9 million. Equity ratio at the end of the quarter was 20% increasing from 19% at the beginning of the year. **Financial liabilities** amounted to USD 612.1 million and up from the beginning of the year due to aircraft investments. **Net financial liabilities** amounted to USD 291.4 million and increased by USD 58.5 million compared to the beginning of the year.

### Liquidity

**Cash and marketable securities** amounted to USD 320.6 million up by 57.7 million from the beginning of year. **Net cash from operations** was negative and amounted to USD 49.1 million in the quarter compared to positive amount of USD 25.2 million last year mainly due to seasonal change in deferred income. **Cash used in investing activities** totaled USD 39.2 million. Net CAPEX was USD 54.7 million and included the acquisition of one B737 MAX aircraft in addition to overhaul of own engines and sale proceeds of one B767-300 aircraft which was sold and leased back in the quarter. **Net cash from financing activities** was USD 12.6 million. Proceeds from share issuance from two exercised warrant classes during the quarter amounted USD 34.4 million. The Company had available undrawn committed credit lines in the amount of USD 52.0 million at the end of the quarter bringing the **total liquid funds** to USD 372.6 million.

## PROSPECTS

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### Resilient booking flow

Icelandair will continue to re-build capacity in the fourth quarter of 2022 and expects to reach around 98% of 2019 levels. Looking into early 2023 it is likely that Icelandair's capacity will be further below 2019 levels given the current global economic uncertainty. Booking flow continues to be resilient despite significant economic turmoil. The impact of USD strengthening against the EUR is starting to show in demand with stronger bookings out of North America. Unit revenue improvements compared to 2019 are expected to continue into Q4, but at relatively lower levels as demand in Q3 was exceptionally strong and Q4 market capacity compared to 2019 is significantly higher in all markets than during Q3. Icelandair will continue to utilize the advantages of its flexible network and to align operations to demand fluctuations in its markets by shifting focus between them as appropriate.

### Wide body aircraft added to the cargo operation

The outlook for the cargo operation is good although short-term demand has somewhat decreased due to economic uncertainties in Europe. Icelandair Cargo is building new operations for airfreight by adding wide-body aircraft to its fleet. The new B767-300 fleet, which has a longer range and can carry more freight, will be operating to Liege in Belgium and then to Los Angeles, New York and Chicago. Concurrently, the warehouse in Keflavik is being extended to accommodate more freight. The aim is to develop Keflavik as a cargo hub similar to the passenger operation, with the aim of increasing the share of transit freight as well as opening up new markets for exporters and importers such as the US West Coast.

### Icelandair B737 MAX fleet will grow to twenty by year end 2023

Icelandair has signed a Purchase Agreement for four used Boeing 737 MAX8 aircraft, all of which were built in 2018. One was delivered to Icelandair in September 2022 and will enter operation by the end of the year, but the remaining three are scheduled to be delivered in Q4 2022 and Q1 2023. The aircraft will be partly financed with cash on hand supplemented by up to 80% debt financing. Financing is in process and is set to be concluded before the end of the year. Icelandair has furthermore signed agreements regarding long-term operating leases of two additional new 737 MAX8 aircraft, scheduled to be delivered from Boeing in Q4 of 2023. These transactions will bring the total number of 737 MAX in the Icelandair fleet up to 20 aircraft by year end 2023.

### **Current fuel hedging position**

Icelandair is as of middle of October hedged for approx. 36% of total estimated fuel consumption in Q4 where the average price of the swaps is USD 1,043 m/t using a mix of swaps and options. The ratio is 29% of total estimated fuel consumption in Q1 2023 at USD 1,035 m/t. No hedges are currently in place for the period from April 2023 and onwards. The Company accepts a cap to protection against upward price movements in order to optimize the benefits of a fall in prices using spread options.

### **Guidance for full year 2022**

The Company expects EBIT margin for the full year 2022 to be in the range of 1-3%, assuming current market conditions. The guidance assumes an average exchange rate of the EUR against the USD of 1.00, the ISK against the USD of 141 and the price of jet fuel at USD 1.050 over Q4 – 2022. The guidance is subject to change in case of unforeseen economic development.

## **INFORMATION**

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**Investors:** Íris Hulda Þórisdóttir, Director of Investor Relations. E-mail: [iris@icelandair.is](mailto:iris@icelandair.is)

**Media:** Ásdís Pétursdóttir, Director of Communications. E-mail: [asdis@icelandair.is](mailto:asdis@icelandair.is)

## **FINANCIAL CALENDAR**

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- **Q4 2022 – week 5 2023**
- **AGM 9 March 2023**