

## **STRONG POSITION DESPITE UNPRECEDENTED CHALLENGES**

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- Operations in Q4 2020 heavily impacted by COVID-19 and related travel restrictions with capacity down by 95%
- Total revenue in Q4 2020 USD 60.2 million decreasing by 81% from last year
- Cargo revenue increased by 48% year-on-year in fourth quarter
- EBIT negative of USD 60.2 million in Q4 2020 compared to negative EBIT of USD 36.7 million in Q4 2019
- Icelandair's capacity down by 81% in 2020 compared to 2019 and the number of passengers down by 83%
- Net loss for the full year 2020 USD 376.2 million compared to a net loss of USD 57.8 million in 2019
- Equity USD 232.8 million at year-end and equity ratio down from 29% to 25% from year-end 2019, adjusted for temporary effects of warrants
- Total liquidity USD 331.4 million at year-end 2020, thereof cash and marketable securities USD 159.4 million
- Demand for Q1 2021 still weak due to the status of the pandemic in key markets
- Modest ramp-up assumed in Q2 2021
- Boeing 737 MAX recertified as safe to fly and will be reintroduced into the network in the spring

## **BOGI NILS BOGASON, PRESIDENT & CEO**

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"The results of the fourth quarter continued to be impacted by COVID-19 with minimum operations throughout the period. By focusing on maintaining the flexibility of our route network we were able to meet increased demand in December for travel to and from Iceland over the holiday period.

It is fair to say that 2020 was the most challenging year in aviation history, with the global pandemic causing almost a complete halt to air travel. We have taken our role as the lead Icelandic carrier seriously during this time and ensured to keep vital routes open to and from Iceland, both for passengers and cargo. During the year we took extensive measures to scale down our business and strengthened the long-term competitiveness of Icelandair Group by completing a financial restructuring which included a successful share offering. We were honoured by the strong participation in the offering, where we raised USD 167 million in new share capital. Around seven thousand new shareholders joined our strong and broad shareholder base, which now totals over 13 thousand shareholders.

During this time, we have focused on preserving the necessary infrastructure to be able to react quickly to changes in our markets. This proved successful during the summer when border restrictions were eased temporarily, and we were able to ramp up quickly to meet increased demand. Furthermore, we managed to create important value through our cargo and leasing operations by seizing various new opportunities during the year.

The responsibility towards our customers and employees was at the top of our agenda during 2020, securing health and safety across our operations and ensuring clear communication during fast-changing conditions. We have put all efforts in finding solutions for our customers and getting those that have needed to travel to their destinations. In addition, we completed the processing of the vast majority of refunds, travel credits and other changes to bookings during the year.

We are still facing considerable uncertainty as we continue to be dependent on the status of the pandemic, vaccine distribution and border closures in our markets for air travel to resume. However, we are optimistic that we will be able to start a modest ramp-up of our network in the second quarter of this year. It is great news that the 737 MAX has now been recertified as safe to fly, with a number of airlines already having taken them into operation. We plan to return the aircraft to service in the spring following extensive updates and pilot training where safety is our priority. The aircraft is both cost-effective and

more environmentally friendly, giving us additional operational flexibility during the ramp-up as well as supporting the future development of our route network.

I am confident that there will be plenty of opportunities for Iceland and thereby the Icelandair route network post COVID. Iceland will continue to be an attractive tourist destination and, due to changes in the competitive landscape, we also see additional opportunities for our transatlantic service, where we offer convenient connections between Europe and North America through Iceland.

I would like to use the opportunity and thank our outstanding team of employees for their dedication and resilience during this unprecedented year. I would also like to thank our customers and shareholders for their continued support. I believe that with a clear vision for the future, focus on the right priorities and a team effort, we will come out of this crisis stronger than before.”

### **WEBCAST 9 FEBRUARY 2021**

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An investor presentation will be webcast in relation to the publication of the results at 8:30 a.m. on 9 February 2021, at <http://icelandairgroup.is>. Bogi Nils Bogason, President & CEO of Icelandair Group, and Eva Soley Gudbjornsdottir, Group CFO, will present the Company’s results and answer questions. The presentation and Q&A will take place in Icelandic. The presentation materials 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

		Q4 2020	Q4 2019 restated	Change	12M 2020	12M 2019 restated	Change
<b>Operating results</b>							
Total revenue	USDk	60,222	319,183	-258,961	433,591	1,504,495	-1,070,904
Total operating cost excl. depreciation	USDk	93,508	307,196	-213,688	520,085	1,366,519	-846,434
EBIT	USDk	-60,229	-36,682	-23,547	-362,995	-39,297	-323,698
EBT	USDk	-96,983	-40,095	-56,888	-437,834	-72,601	-365,233
Net loss	USDk	-83,281	-29,860	-53,421	-376,176	-57,779	-318,397
<b>Balance sheet and cash flow<sup>1</sup></b>							
Total assets	USDk	-	-	-	1,034,238	1,676,587	-642,349
Total equity	USDk	-	-	-	232,809	482,478	-249,669
Interest bearing debt	USDk	-	-	-	263,588	387,384	-123,796
Net interest-bearing debt	USDk	-	-	-	104,218	140,824	-36,606
Lease liabilities	USDk	-	-	-	133,894	289,995	-156,102
Net interest-bearing debt incl. lease liab.	USDk	-	-	-	238,112	430,819	-192,708
Net cash to/from operating activities	USDk	-78,485	27,044	-105,529	-193,219	119,878	-313,097
CAPEX	USDk	7,845	28,178	-20,333	49,160	269,274	-220,114
<b>Key Ratios</b>							
EPS	US Cent	-0.34	-0.75	0.41	-3.04	-1.06	-1.98
Equity ratio	%	-	-	-	23%	29%	-6.3 ppt
EBIT ratio	%	-100.0%	-11.5%	-88.5 ppt	-83.7%	-2.6%	-81.1 ppt
RASK <sup>2</sup>	US cent	9.7	7.1	2.6	7.5	6.5	1.0
CASK <sup>2</sup>	US cent	45.1	8.2	36.9	15.8	7.0	8.8
<b>Traffic figures<sup>3</sup></b>							
Passengers total	no.	28,919	869,836	-97%	762,905	4,407,905	-83%
Load Factor	%	36.9%	81.8%	-44.9 ppt	67.2%	82.0%	-14.8 ppt
Available Seat Kilometers (ASK)	mill	176,767	3,254,627	-95%	3,129,976	16,679,011	-81%
On-Time-Performance	%	74.0%	60.0%	14.0 ppt	85.0%	74.0%	11.0 ppt
Freight Tonne Kilometers (FTK)	k	31,502	33,500	-6%	114,956	132,989	-14%
Sold Charter Block Hours	no.	2,045	7,316	-72%	14,180	30,118	-53%

<sup>1</sup> Comparison figures for balance sheet are 31.12.2019 <sup>2</sup> RASK: Revenue per ASK Icelandair route network; CASK: Cost per ASK Icelandair route network <sup>3</sup> Icelandair, Icelandair Cargo, Loftleidir

## FOURTH QUARTER OPERATIONS

The operations of Icelandair Group remained heavily impacted by the COVID-19 pandemic in the fourth quarter. The resurgence of the virus and associated travel restrictions continued to delay air travel recovery. EBIT was negative of USD 60.2 million, decreasing by USD 23.5 million compared to Q4 2019. EBT was negative of USD 97.0 million and decreased by USD 56.9 million.

## SEGMENT OVERVIEW

USD thousand	Passenger and Cargo operation		Other Group entities		Total	
	Q420	Chg. Q419	Q420	Chg. Q419	Q420	Chg. Q419
Total revenue	54,244	-203,455	5,978	-55,506	60,222	-258,961
EBIT	-63,258	-71,935	3,028	48,387	-60,229	-23,549
EBT	-99,053	-115,353	2,069	58,464	-96,984	-56,890

### Passenger and cargo operations

The capacity of the international route network decreased by 95% year-on-year with a corresponding 97% drop in the number of passengers. The resurgence of the virus in key markets and subsequent travel restrictions resulted in continued minimum operations. Icelandair expanded its flight schedule in December to meet increased demand to and from Iceland for the holiday season. Icelandair carried 14 thousand passengers in December which equaled the total number of passengers carried in October and November combined. The number of passengers carried in Q4 2019 totaled 870 thousand.

The integration of Air Iceland Connect's operations with Icelandair continued in the fourth quarter. The capacity of the company decreased between years due to COVID-19 but less than the capacity of the Icelandair international route network. This is in line with the global airline market, where international traffic has overall been weaker than domestic traffic during the pandemic. The domestic and regional capacity was down 55% year-on-year with a 65% drop in passenger numbers.

The Company's cargo operation was much less affected by the situation than its passenger services. Due to decreased capacity in the Icelandair route network, most of the freight volume is now transported with cargo aircraft. As a result, the freight volume has decreased much less than the reduction of the route network, or by 6% in the fourth quarter, with cargo revenue increasing compared to Q4 2019.

### Other Group entities

Icelandair Group's inbound tour operator, Iceland Travel, and its outbound tour operator, VITA, faced almost a complete drop in demand in the fourth quarter. Revenues of Loftleidir Icelandic decreased by 80% year-on-year which is explained by dramatic decrease in its customers' operations.

## REVENUE AND EXPENSES

The results of this quarter were significantly affected by the negative impact of COVID-19 on the operations of Icelandair Group. All main deviations between years are directly related to the adverse effects of the pandemic.

### Revenue

**Total revenue** was down by 81% and amounted to USD 60.2 million, as compared to USD 319.2 million. **Transport revenue** amounted to USD 37.8 million, down by 85%. **Passenger revenue** amounted to USD 15.4 million and decreased by 93%. At the same time, the capacity decrease in the Icelandair route network was 95% and the number of passengers was down by 97%. **Cargo revenue** increased by 48% and amounted to USD 20.6 million. **Revenue from aircraft and aircrew lease** amounted to USD 6.7 million and decreased by 72%. **Other operating revenue** were USD 15.6 million, as compared to USD 50.3 million. The decrease in **sale in hotels and airports** is primarily due to the divestment of Icelandair Hotels. **Revenue from tourism** was down due to a drastic drop in demand as a result of COVID-19 and

related travel restrictions. **Other operating revenue** amounted to USD 10.9 million, thereof capital gain from sale of assets was USD 7.9 million.

USD thousand	Q4 2020	Q4 2019 restated	Change	% Change
<b>Transport revenue:</b>	<b>37,832</b>	<b>245,046</b>	<b>-207,214</b>	<b>-85%</b>
<i>Passengers</i>	15,377	211,262	-195,885	-93%
<i>Passenger ancillary revenue</i>	1,830	19,832	-18,002	-91%
<i>Cargo</i>	20,625	13,952	6,673	48%
<b>Aircraft and aircrew lease</b>	<b>6,747</b>	<b>23,866</b>	<b>-17,119</b>	<b>-72%</b>
<b>Other operating revenue:</b>	<b>15,643</b>	<b>50,271</b>	<b>-34,628</b>	<b>-69%</b>
<i>Sale in hotels and airports</i>	309	19,561	-19,252	-98%
<i>Revenue from tourism</i>	591	16,739	-16,148	-96%
<i>Aircraft and cargo handling services</i>	3,806	5,624	-1,818	-32%
<i>Other</i>	10,937	8,347	2,590	31%
<b>Total</b>	<b>60,222</b>	<b>319,183</b>	<b>-258,961</b>	<b>-81%</b>

## Expenses

Operating expenses excluding depreciation amounted to USD 93.5 million and decreased by 70%.

**Salaries and salary-related** expenses amounted to USD 46.1 million, down by 58%. The average number of full-time employees was 1,669 in Q4 2020 compared to 3,672. Both numbers are excluding Icelandair Hotels. **Aviation expenses** amounted to USD 26.3 million, down by USD 86.8 million. **Other operating expenses** amounted to USD 21.1 million, down by USD 62.9 million. A further breakdown of aviation cost and other cost is stated in the table below.

USD thousand	Q4 2020	Q4 2019 restated	Change	% Change
<b>Salaries and salary related expenses</b>	<b>46,089</b>	<b>110,086</b>	<b>-63,997</b>	<b>-58%</b>
<b>Aviation expenses</b>	<b>26,322</b>	<b>113,110</b>	<b>-86,788</b>	<b>-77%</b>
<i>Aircraft fuel</i>	6,677	66,425	-59,748	-90%
<i>Aircraft lease</i>	3,486	1,771	1,715	97%
<i>Aircraft handling, landing and communication</i>	4,856	21,617	-16,761	-78%
<i>Aircraft maintenance expenses</i>	11,303	23,297	-11,994	-51%
<b>Other operating expenses</b>	<b>21,097</b>	<b>84,000</b>	<b>-62,903</b>	<b>-75%</b>
<i>Operating cost of real estate and fixtures</i>	1,136	4,456	-3,320	-75%
<i>Communication</i>	3,514	5,749	-2,235	-39%
<i>Advertising</i>	2,220	7,454	-5,234	-70%
<i>Booking fees and commission expenses</i>	934	15,041	-14,107	-94%
<i>Cost of goods sold</i>	355	3,671	-3,316	-90%
<i>Customer services</i>	1,508	13,440	-11,932	-89%
<i>Travel and other employee expenses</i>	3,506	12,894	-9,388	-73%
<i>Tourism expenses</i>	362	7,146	-6,784	-95%
<i>Other operating expenses</i>	7,562	14,149	-6,587	-47%
<b>Total</b>	<b>93,508</b>	<b>307,196</b>	<b>-62,903</b>	<b>-70%</b>

**RASK** (revenue per available seat kilometer) in the Icelandair route network in the fourth quarter 2020 was 9.7 US cent compared to 7.1 US cent in the fourth quarter 2019. **CASK** (cost per available seat kilometer) was 45.1 US cent in the fourth quarter 2020 compared to 8.2 US cent in the fourth quarter 2019. It should be noted that the year-on-year comparison of RASK and CASK figures is difficult due to the significant COVID-19 related drop in capacity.

## FINANCIAL POSITION

**Total assets** amounted to USD 1,034.2 million, decreasing from USD 1,676.6 million. The decrease is driven by the divestment of Icelandair Hotels, which lowered assets by USD 271.4 million and COVID-19 related impairments of USD 136.1 million. Thereof, impairments related to goodwill of USD 116.2 million and impairments of investments in associates of USD 19.9 million.

**Total equity** amounted to USD 232.8 million at year-end 2020. New shares in the amount of ISK 23 billion (USD 166.9 million equivalent) were issued following a share offering in September. In association with the offering, the Company issued warrants in the amount of ISK 5.75 billion (USD 16.2 million equivalent), which is equal to 25% of the nominal amount of the new shares. The fair value of the warrants at issue date, amounting to USD 16.2 million was recognized through retained earnings and as a liability. In 2020, the Company recognized loss on changes in fair value of its warrant liability in the amount of USD 10.5 million as a rise in the Company's share price translates to an increase in the warrant liability. At year-end 2020, the warrant liability thus amounted to USD 27.8 million. When the warrants are exercised, or expire, the warrant liability will be reversed through retained earnings neutralizing their effects on that item.

Equity ratio at year-end was 23%. When taking into consideration the temporary balance sheet effects of the warrants, the equity ratio was 25%.

### Overview share capital ISK

Share capital 1 January 2020	5,437,660,653
Increase of share capital	23,000,000,000
<b>Share capital 31 December 2020</b>	<b>28,437,660,653</b>

### Overview equity USD thousands

Equity 1 January 2020	482,478
Total comprehensive loss	-408,814
Shares issued	166,873
Warrants issued	-16,197
Divestment of non-controlling interest	8,469
<b>Equity 31 December 2020</b>	<b>232,809</b>

**Interest-bearing debt** amounted to USD 263.6 million, down by USD 123.8 million compared to 31 December 2019. Excluding assets held for sale at the same time last year, interest-bearing debt decreased by USD 57.7 million. Net interest-bearing debt, excluding net lease liabilities, amounted to USD 104.2 million, and net lease liabilities amounted to USD 133.9 million.

USD thousands	31.12.2020	31.12.2019	Change
<i>Loans and borrowings non-current</i>	239,575	241,328	-1,753
<i>Loans and borrowings current</i>	24,013	79,958	-55,945
<i>Loans and borrowings held for sale</i>	0	66,098	-66,098
<b>Interest-bearing debt</b>	<b>263,588</b>	<b>387,384</b>	<b>-123,796</b>
<i>Cash and marketable securities</i>	159,370	235,073	-75,703
<i>Cash held for sale</i>	0	11,487	-11,487
<b>Net interest-bearing debt</b>	<b>104,218</b>	<b>140,824</b>	<b>-36,606</b>
<i>Lease liabilities non-current</i>	119,707	135,473	-15,766
<i>Lease liabilities current</i>	26,890	22,980	3,910
<i>Lease receivables non-current</i>	7,303	11,414	-4,111
<i>Lease receivables current</i>	5,401	6,598	-1,197
<i>Lease liabilities held for sale</i>	0	149,554	-149,554
<b>Net lease liabilities</b>	<b>133,894</b>	<b>289,995</b>	<b>-161,410</b>
<b>Net interest-bearing debt incl. liabilities</b>	<b>238,112</b>	<b>430,819</b>	<b>-74,220</b>

## Liquidity position

Cash and marketable securities amounted to USD 159.4 million at year-end and decreased by USD 67.7 million in the quarter. Cash burn in daily operations, USD 37.4 million, has been minimized to the extent possible during the period of minimal production, taking into consideration the Company's objective of safeguarding its ability to ramp-up quickly once markets show signs of recovery.

Maintaining a strong liquidity position is a vital component in an effective ramp-up process. To that effect the Company took meaningful actions to streamline its longer-term cost base and operations in the quarter. Early in the fourth quarter, the Company had entered into an agreement to sell three of its Boeing 757-200 aircraft, one of which was delivered against payment in December with the two remaining aircraft to be delivered in Q1 2021. The sale is in line with the long-term fleet strategy of gradually phasing out the Group's 757s. In addition, a sale leaseback agreement regarding the sale of Nautholsvegur 50, Icelandair Group's office building in Reykjavik, was announced at the end of the year. The sale boosts liquidity while at the same time laying the groundwork for increased operational efficiency and unlocking future cost savings for Icelandair Group. The Company intends to use the three-year leasing period to design and expand its current facilities at Flugvelliir in Hafnarfjörður. The project lets the Company tailor the addition to its operational needs, allowing for and supporting the flexible working arrangements anticipated in a post-COVID world. Combining the operations in Hafnarfjörður and Reykjavik in one location will provide various benefits, improve efficiency, and boost employee collaboration. The net proceeds from the part of these sales that was finalized in 2020 amounted to USD 19.3 million. However, the Company rendered a mandatory prepayment of USD 7.0 million on a long-term loan, for which the Nautholsvegur building was pledged, in the first week of January.

Liquidity was heavily influenced by the large volumes of COVID-related refund requests processed in the quarter, bringing with them a net cash outflow of approx. USD 30 million. Overall refund volumes are in line with the Company's expectations. The majority of requests for changes and refunds of pre-COVID bookings had been processed and paid by year-end 2020.

At the end of the quarter, the Group had undrawn credit lines in the amount of USD 52.0 million. In addition, the Group has access to a USD 120 million back-stop credit facility from two domestic banks which is 90% guaranteed by the Icelandic Government. Net cash to operations amounted to USD 78.5 million in the quarter, as compared to USD 27.0 million from operations in fourth quarter 2019.

USD thousand	Q4 2020	Q4 2019	Change
Cash and cash equivalents	117,657	235,073	-117,416
Cash and cash equivalents in assets held for sale	0	11,487	-11,487
Marketable securities	41,713	0	41,713
Undrawn revolving facilities	52,000	55,000	-3,000
Government guaranteed credit facility	120,000	0	120,000
<b>Total liquidity position</b>	<b>331,370</b>	<b>301,560</b>	<b>29,810</b>
Net cash to operating activities	-78,485	27,044	-105,529
Capex	7,845	28,178	-20,333

## PROSPECTS

The near-term outlook for the operations of Icelandair Group remains challenging. The Group's current focus is to preserve cash but at the same time taking actions to remain prepared for efficient ramp-up as soon as markets recover. Icelandair bookings indicate that demand in the first quarter is still very limited due to the state of the pandemic and ongoing travel restrictions. Icelandair's international passenger network will continue to be operated at a minimum level in the coming weeks with the focus

being to serve core destinations in Europe and North America. The current assumption is that a modest ramp-up will begin in Q2 2021.

Icelandair's flight schedule for 2021 is subject to the situation regarding COVID-19 having improved in the Company's markets, and current travel restrictions being eased. The route network has been simplified to strengthen Icelandair's flexibility to respond quickly to the fast-changing market conditions and align capacity to demand at any given time. The focus is on Icelandair's key markets to and from Iceland as well as providing convenient connections between Europe and North America. The freight operation of Icelandair Group has been less affected than its passenger services and the outlook for the coming months is good. The company will continue to focus on freight transport in cargo aircraft, until the capacity in the route network has somewhat recovered. Other Group businesses are expected to continue to operate at minimum levels in the coming weeks.

Icelandair has introduced new flexible booking policies that allow customers to book a flight with confidence in these uncertain times. The aim is to meet customers' needs during the current conditions in the world, providing flexible service and travel experience.

### **The return to service of the Boeing 737 MAX**

After completing the most thorough global inspection process in aviation history, major aviation authorities around the world have recertified the Boeing 737 MAX as safe to fly, after almost two years on the ground. These include the Federal Aviation Administration (FAA) in the US, the European Union Aviation Safety Agency (EASA) and Transport Canada (TC). Specific steps will be taken before returning the aircraft to passenger service in line with authorities' requirements. These include software updates and various other maintenance tasks, extensive pilot training and test flights. Icelandair has taken delivery of six MAX aircraft, three in 2018 and three in 2019 and will take delivery of a further three aircraft in 2021 and three in 2022. Icelandair is planning to reintroduce the first MAX aircraft to the route network in the coming months following all necessary updates and training where safety is a priority. The aircraft is both cost-effective and more environmentally friendly, giving the Company additional operational flexibility during the ramp-up, as well as supporting the future development of its route network.

### **Divestments and liquidity developments**

Icelandair Group's guiding principle since the onset of the pandemic has been to preserve its strong liquidity position with the aim of enabling the Company to withstand a prolonged period of minimum operations. As discussed above, meaningful steps to bolster liquidity have been taken in the fourth quarter through a sale of three Boeing 757-200 along with the sale and leaseback of the Company's headquarters. These sales also enhance the Company's longer-term cost base and operations through decreased operational cost.

The Board of Icelandair Group has resolved to initiate a process to sell Iceland Travel, a subsidiary of the Group. The decision is in line with the Group's strategy to focus on its core business, aviation and related services. The objective of the sales process is to maximize the value of the company, while guarding the interests of the Icelandic tourism sector, the company's employees and other stakeholders.

As a result of the dramatic reduction of the flight schedule, requests for changes and refunds of bookings multiplied. At year-end, the major part of requests concerning pre-COVID bookings had been processed and paid, which is somewhat earlier than anticipated.

### **Post-COVID outlook**

Current market research across Icelandair's key markets indicates that Iceland will continue to be an attractive tourist destination post-COVID. The country's small population, spaciousness and untouched



nature are seen as positive attributes in wake of the pandemic. In addition, changes in the global competitive landscape are likely to rationalize capacity across the North Atlantic, creating opportunities for Icelandair's business model, both to and from Iceland and by connecting Europe and North America. Furthermore, the industry is seeing considerable opportunities for cargo transport post-COVID. Icelandair Group intends to place further focus on its cargo operations going forward to seize possible opportunities and further develop Iceland as an important hub for cargo transport between Europe and North America.

## INFORMATION

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## FINANCIAL CALENDAR

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- **Annual General Meeting – 12 March, 2021**
- **Q1 2021 results – 29 April, 2021**
- **Q2 2021 results – 22 July, 2021**
- **Q3 2021 results – 21 October, 2021**
- **Q4 2021 results – 3 February, 2022**