

IMPROVED RESULTS WITHOUT THE IMPACT OF MAX AIRCRAFT SUSPENSION

- Total revenue amounted to USD 402.8 million in the second quarter, up by 1% between years.
- EBIT was negative by USD 24.1 million, down by USD 4.3 million from the preceding year.
- EBIT was positive by USD 25.9 million without the estimated impact quantified to date of MAX aircraft suspension, up by USD 45.7 million from the preceding year.
- Icelandair transported 39% more passengers to Iceland in the second quarter compared to the same period in 2018.
- Equity ratio at the end of June was 25% compared to 28% at year-end 2018 based on the same accounting principles. Net of impact of IFRS 16 the equity ratio was 31%.
- Cash and cash equivalents amounted to USD 175.0 million at the end of the quarter.
- Day-to-day operations in the second quarter were marked by the suspension of the MAX aircraft, with the estimated negative impact quantified to date in the quarter at around USD 50 million.
- EBIT guidance for 2019, net of the MAX suspension, is positive of USD 50-70 million. Taking the estimated impact quantified to date of the MAX suspension into account, the EBIT guidance for the year is negative of USD 70-90 million.
- Share capital increase of 625.000.000 at nominal value took place in the second quarter in relation to the purchase of 11.5% of issued shares by PAR Capital Management for USD 47 million.

BOGI NILS BOGASON, PRESIDENT & CEO

“The MAX aircraft were intended to cover 27% of Icelandair’s passenger capacity in 2019. For this reason, the position in which the Company now finds itself as a result of the suspension of the MAX aircraft is without any precedent and has a significant impact on the operations and performance of the Company. In these circumstances, our key focus has been on minimising the impact of the suspension on the Company, our passengers and the Icelandic tourism industry by adding leased aircraft to our fleet during the summer. We have also placed emphasis on ensuring seating capacity to and from Iceland, with the result that the number of Icelandair’s passengers travelling to Iceland has increased by 39% in the second quarter compared to the same period last year. Despite these mitigating measures, which have prevented major cancellations of flights, the situation has caused considerable disruptions in our flight schedule and our operations. This has in turn impacted our passengers and presented us with complex challenges. Our employees have done an outstanding job under very difficult circumstances during the peak season, where they have joined forces to resolve matters for our passengers as successfully as possible.

The objective of the Company remains clear – to improve the profitability and operations of the Company. We have taken a number of measures over the recent months that are already beginning to return results. The Company’s performance, if the estimated impact quantified to date of suspension of the MAX aircraft is excluded, has improved between years, with EBIT positive by USD 25.9 million, up by USD 45.7 million from the preceding year.

Furthermore, an experienced international investor, PAR Capital Management, joined the Company’s shareholder base in April and, in addition, we signed an agreement on the sale of Icelandair Hotels and related real estate in July. Both of these developments will strengthen Icelandair’s position further and provides an important confirmation of the favourable outlook for the Company and future opportunities in Icelandic tourism.”

PRESENTATION MEETING AND WEBCAST 2 AUGUST 2019

An open presentation for shareholders and investors will be held on Friday 2 August 2019 at the Icelandair Hotel Reykjavik Natura. Bogi Nils Bogason, President & CEO of Icelandair Group, and Eva Sóley Guðbjörnsdóttir CFO will present the Company’s results and answer questions, together with

other senior management. The presentation will be held in Room 2 and starts at 08:30 am. Breakfast will be served from 08:00 am. The presentation material will be available after the meeting on the Icelandair Group website, www.icelandairgroup.is, and on the Nasdaq Iceland hf. news system.

The meeting can be followed in real time in **Icelandic** on the following website
<http://www.icelandairgroup.is/investors/reports-and-presentations/webcast-next/>

KEY INDICATORS

		Q2 2019	Q2 2018	Change	6M 2019	6M 2018	Change
Operating results							
Total income	USDk	402,767	398,905	3,862	651,369	666,525	-15,156
Total operating cost excl. depreciation	USDk	377,527	384,213	-6,686	640,797	670,043	-29,246
EBIT	USDk	-24,103	-19,799	-4,304	-83,682	-66,011	-17,671
EBIT excl. est. to date MAX effect	USDk	25,897	-19,799	45,696	-29,682	-66,011	36,329
EBT	USDk	-40,505	-31,481	-9,024	-108,973	-75,019	-33,954
Net earnings	USDk	-34,266	-25,729	-8,537	-89,379	-60,256	-29,123
Net earnings excl. est. to date MAX effect	USDk	5,734	-25,729	31,463	-49,379	-60,256	10,877
Balance sheet and cash flow*							
Total assets	USDk	-	-	-	1,716,992	1,464,122	252,870
Total equity	USDk	-	-	-	430,863	471,379	-40,516
Interest bearing debt	USDk	-	-	-	263,798	451,445	-187,647
Net interest bearing debt	USDk	-	-	-	73,132	147,951	-74,819
Lease liabilities	USDk	-	-	-	347,459	0	347,459
Net interest bearing debt incl lease liab.	USDk	-	-	-	420,591	147,951	272,640
Net cash from operating activities	USDk	48,513	60,062	-11,549	121,454	127,177	-5,723
CAPEX	USDk	36,613	54,707	-18,094	216,122	246,090	-29,968
Free cash flow	USDk	11,900	5,355	6,545	-94,668	-118,913	24,245
Key Ratios							
EPS	US Cent	-0.68	-0.53	-0.15	-1.77	-1.25	-0.52
Equity ratio	%	-	-	-	25.1%	28.0%	-2.9 ppt
Equity ratio excl. IFRS16	%	-	-	-	30.7%	32.2%	-1.5 ppt
EBIT ratio	%	-6.0%	-5.0%	-1.0 ppt	-12.8%	-9.9%	-2.9 ppt
EBIT ratio excl. est. to date MAX effect	%	6.4%	-5.0%	11.4 ppt	-4.6%	-9.9%	5.3 ppt
EBT ratio	%	-10.1%	-7.9%	-2.2 ppt	-16.7%	-11.3%	-5.5 ppt
Traffic figures**							
Passengers To Market	no.	482,361	346,414	39%	793,607	620,903	28%
Passengers From Market	no.	195,909	149,205	31%	310,624	253,643	22%
Passengers Via Market	no.	611,952	620,169	-1%	888,720	901,307	-1%
Passengers Total	no.	1,290,222	1,115,788	16%	1,992,951	1,775,853	12%
Load Factor	%	85.0%	80.3%	4.7 ppt	81.8%	78.9%	2.9 ppt
Available Seat Kilometers (ASK)	mill	4,730,222	4,393,307	8%	7,618,020	7,067,867	8%
On-Time-Performance	%	67.7%	57.1%	10.6 ppt	72.0%	59.9%	12.1 ppt
Freight Tonne Kilometers (FTK)	k	34,702	30,462	14%	67,045	60,843	10%
Sold Charter Block Hours	no.	7,446	9,027	-18%	14,925	17,685	-16%
Hotel Occupancy	%	78.4%	75.3%	3.0 ppt	76.2%	76.2%	0.0 ppt

* Comparison figures for balance sheet are 31.12 2018

** Icelandair, Icelandair Cargo, Loftleidir Icelandic

SECOND QUARTER OPERATIONS

The table below shows a segmentation comparison between revenue, EBIT and EBT between years.

USD thousand	Passenger network		Aviation services		Tourism services		Total	
	Q219	Chg. Q218	Q219	Chg. Q218	Q219	Chg. Q218	Q219	Chg. Q218
Revenue	328,006	20,350	30,511	-6,762	44,250	-9,727	402,767	3,861
EBIT	-33,993	-9,986	7,596	3,391	2,294	2,290	-24,103	-4,305
EBT	-41,176	-6,503	98	-3,235	573	713	-40,505	-9,025

Revenue from passenger transport increased between years as a result of a significant increase in passenger numbers. The number of passengers increased by 16% in the quarter, which corresponds to 174 thousand passengers. The number of passengers in the tourist market to Iceland and in the domestic market from Iceland grew significantly, while the number of passengers in the N-Atlantic market declined between years. Air fares at a fixed exchange rate increased between years in the market to and from Iceland but decreased in the N-Atlantic market. Revenue from the passenger network segment increased by 7%. Cancellations of flights resulting from the suspension of the MAX aircraft had a negative impact on average air fares and revenue from passenger transport. Part of the reason is that passengers who had booked their flights well in advance had to be transferred to other flights, which in turn led to loss of revenue as the opportunity was lost of selling the last seats at higher prices as per the principles of revenue management. Also, flight cancellations restricted connection options for passengers and led to an imbalance in the Route Network between Europe and North America, thereby reducing opportunities for sales in the North Atlantic market.

It had been assumed that the MAX aircraft would account for 21% of the Company's passenger seating capacity in April, 23% in May and 25% in June. As a mitigating measure, five leased aircraft with crew were added to the Company's fleet this summer. These aircraft are larger and not as cost efficient as the MAX aircraft. The impact to date is estimated to be at around USD 50 million in the quarter.

Revenue from aviation operations decreased between years as a result of a reduction in the number of charter assignments, aircraft maintenance and the impact of IFRS 16. The Company's freight operations have been growing, with exports up by 24% between years and imports up by 2%. The performance of Loftleidir Icelandic, net of the impact of the associated company, Cabo Verde Airlines, was on a par between years, but declined if the company is included. The investment is viewed as a long-term development project and the operating results are in line with the business plan.

Revenue from tourism operations decreased as a result of reduced sales of package tours by Iceland Travel, which also results in lower expenses. The operation of Icelandair Hotels was successful over the quarter, with hotel room occupancy 3% higher than in the same period last year despite an increase in capacity.

REVENUE, EXPENSES AND FINANCIALS

Revenue

USD thousand	Q2 2019	Q2 2018	Change	% Change
Transport revenue:	324,365	294,717	29,648	10%
<i>Passengers</i>	281,289	259,318	21,971	8%
<i>Passenger ancillary revenues</i>	27,589	21,127	6,462	31%
<i>Cargo and mail</i>	15,487	14,272	1,215	9%
Aircraft and aircrew lease	19,197	29,574	-10,377	-35%
Other operating revenue:	59,205	74,614	-15,409	-21%
<i>Sale in hotels and airports</i>	23,803	24,842	-1,039	-4%
<i>Revenue from tourism</i>	29,280	34,970	-5,690	-16%
<i>Other</i>	6,122	14,802	-8,680	-59%
Total	402,767	398,905	3,862	1%

Total revenue increased by 1% between years and by 6% at fixed exchange rate. **Transport revenue** amounted to USD 324.4 million, up by 10% between years. Passenger revenue increased by 8% as a result of a significant increase in passenger numbers in the tourist market to Iceland and in the domestic market from Iceland. **Passenger-related ancillary revenue** increased by 31% and amounted to USD 21 per passenger compared to USD 19 per passenger in the year before. The increase per passenger was 13%. **Revenue from aircraft and aircrew lease** declined by 35% from last year, largely as a result of a decline in the number of charter flight assignments and aircraft maintenance; however, USD 1.3 million resulted from the implementation of IFRS 16. **Other operating revenue** amounted to USD 59.2 million, down by USD 15.4 million between years. Revenue from tourism decreased by USD 5.7 million as a result of reduced sales of package tours by Iceland Travel.

Expenses

USD thousand	Q2 2019	Q2 2018	Change	% Change
Salaries and other personnel expenses	136,814	144,985	-8,171	-6%
Aviation expenses	160,016	142,475	17,541	12%
<i>Aircraft fuel</i>	91,849	77,340	14,509	19%
<i>Aircraft lease</i>	16,830	8,870	7,960	90%
<i>Aircraft handling, landing and communication</i>	39,305	36,626	2,679	7%
<i>Aircraft maintenance expenses</i>	12,032	19,639	-7,607	-39%
Other operating expenses	80,697	96,753	-16,056	-17%
<i>Operating cost of real estate and fixtures</i>	4,204	9,383	-5,179	-55%
<i>Communication</i>	6,672	6,357	315	5%
<i>Advertising</i>	5,219	7,500	-2,281	-30%
<i>Booking fees and commission expenses</i>	20,813	18,477	2,336	13%
<i>Cost of goods sold</i>	3,512	3,363	149	4%
<i>Customer services</i>	17,824	18,324	-500	-3%
<i>Tourism expenses</i>	13,548	22,216	-8,668	-39%
<i>Other operating expenses</i>	8,905	11,133	-2,228	-20%
Total	377,527	384,213	-16,056	-2%

Total expenses declined by 2% between years. **Salaries and other personnel expenses** amounted to USD 136.8 million, down by 6%, as compared to the second quarter of last year. The growth in the Company's operations increased wage costs, although the increase was offset by positive exchange rate trends. The Icelandic króna was on average approximately 19% weaker against the USD than in the second quarter of last year. The table below breaks down the key deviations between years:

Salaries and personnel expenses Q218	144,985
Contractual wage increase	1,621
Chg. in number of employees	11,568
Currency	-18,486
Other changes	-2,874
Salaries and personnel expenses Q219	136,814

Absolute figures in USD thousands

Aviation expenses amounted to a total of USD 160.0 million, up by USD 17.5 million from the preceding year. Fuel expenses amounted to USD 91.8 million, up by 19%, as compared to the second quarter of last year. The Company's reporting price of fuel for the quarter, taking hedging into account, was on average USD 647/ton, which corresponds to a 5% increase between years. Through investment in infrastructure and improved processes, the Company has managed to increase efficiency in fuel use over the year. In the second quarter the fuel use of Boeing 757 and 767 aircraft decreased by 2% between years; a similar trend occurred in the first quarter. Aircraft lease amounted to USD 16.8 million, a one-off expenditure resulting from the lease of aircraft and crew due to the MAX suspension. Aircraft servicing, handling and navigation expenses increased in line with the Company's increased scope of operation. In addition, the leased aircraft are less efficient as regards these items than the 737 MAX aircraft. Maintenance expenses declined between years, largely as a result of the implementation of IFRS 16, but also because of a renewal of contracts with suppliers and other improvements made relating to the maintenance of the Company's fleet.

Other operating expenses amounted to USD 80.7 million, down by USD 16.1 million between years. The largest deviations occurred in contracted services in tourism, which were reduced by USD 8.7 million as a result of declining sales of package tours by Iceland Travel. Also, the operating costs of real estate decreased by USD 5.2 million, mostly as a result of the implementation of IFRS 16 and currency effect.

The Company's estimated financial loss quantified to date as a result of the suspension of the MAX aircraft is at about USD 50 million in the quarter. The Company is already in discussions with Boeing regarding compensation for all the financial loss resulting from the suspension. Further discussion of the impact of the suspension is included in the section on "Icelandair's prospects" below.

Financial items

Financial expenses in the second quarter amounted to USD 9.0 million, down by USD 3.0 million, as compared to the second quarter of last year. Interest expenses increased as a result of increased leverage and the implementation of IFRS 16. The exchange rate difference in the second quarter was positive by USD 0.4 million, as compared to a negative difference of USD 7.8 million in the same quarter of 2018.

USD thousand	Q2 2019	Q2 2018	Change	% Change
Finance income	406	579	-173	-30%
Finance cost	-7,707	-4,730	-2,977	63%
IFRS16	-2,113	0	-2,113	-
Currency gain/loss	432	-7,824	8,256	-
Total	-8,982	-11,975	2,993	-25%

FINANCIAL POSITION

Balance sheet – Assets

Total assets amounted to USD 1.7 billion, up by USD 252.9 million from the end of 2018. With the implementation of IFRS 16, classification of assets increased by USD 303.7 million. Rights of use of

current assets amounted to USD 158,4 million, for the largest part relating to the right of use of aircraft, i.e. USD 147.2 million. Rights of use of assets held for sale amounted to USD 145,4 million. Further details of assets held for sale are set out in Note 6 to the interim statement.

USD thousands	30.06.2019	31.12.2018	Change
Total assets	1,716,991	1,464,122	252,869
Operating assets	653,460	673,420	-19,960
Right of use assets	158,389	0	158,389
Assets held for sale	288,334	125,169	163,165
Cash and cash equivalents	174,951	299,460	-124,509

At the end of the quarter, the Company's fleet comprised 51 aircraft. In addition, the Company had five aircraft on wet lease to mitigate the impact of the MAX suspension.

Type	Icelandair	Cargo	Loftleiðir	AIC*	Fleet 30.06.19	Fleet 31.12.18	Owned	Dry lease	Ch. as of 31.12.18	ACMI lease
B757-200	23	2	4		29	31	26	3	-2	1
B757-300	2				2	2	2			
B737 MAX 8	5				5	3	2	3	3	
B737 MAX 9	1				1	0		1		
A319					0	0				1
B767-300	4		2		6	6	5	1		3
B737-700			1		1	1		1		
B737-800			1		1	2		1	-1	
Bombardier Q200				3	3	3	3			
Bombardier Q400				3	3	3	3			
Total	35	2	8	6	51	51	41	10	0	5

* AIC = Air Iceland
Connect

Balance sheet – Liabilities

Total interest-bearing debt amounted to USD 263.8 million at the end of the second quarter and decreased by USD 187.6 million from the beginning of the year. Net interest-bearing debt amounted to USD 73.1, decreasing by USD 74.8 million from the beginning of the year. Lease liabilities amounted to USD 347.5 million.

USD thousands	30.06.2019	31.12.2018	Change
Loans and borrowings non-current	202,431	147,513	54,918
Loans and borrowings current	28,074	268,288	-240,214
Loans and borrowings held for sale	33,293	35,644	-2,351
Interest bearing debt	263,798	451,445	-187,647
Cash and cash equivalents	174,951	299,460	-124,509
Cash held for sale	15,715	4,034	11,681
Net interest bearing debt	73,132	147,951	-74,819
Lease liabilities non-current	161,633	-	161,633
Lease liabilities current	37,134	-	37,134
Lease liabilities held for sale	148,692	-	148,692
Lease liabilities	347,459	-	347,459
Net interest bearing debt incl. liabilities	420,591	147,951	460,287

Interest-bearing long-term debt increased by USD 54.9 million from the end of 2018. Interest-bearing short-term debts were reduced from the beginning of the year. The Company had two bond categories listed on the stock exchange at the beginning of the year. In the first quarter of 2019, USD 87.0 million of the bond categories were redeemed, and in the second quarter the bond categories were redeemed

in full amounting to USD 126.7 million. Icelandair Group had no outstanding bond categories at the end of the quarter.

Balance sheet – Equity

The Company's equity amounted to USD 430.9 million at the end of the second quarter. The equity ratio was 25% compared to 28% at year-end 2018, according to same accounting standards.

Cash Flow

Cash and cash equivalents at the end of the quarter amounted to USD 175.0 million. Included among assets held for sale is cash in the amount of USD 15.7 million. Net cash provided by operating activities amounted to USD 48.5 million. Gross Capex amounted in total to USD 36.6 million, as further detailed below. Free cash flow over the quarter amounted to USD 11.9 million, up by USD 6.5 million between years.

USD thousand	Q2 2019	Q2 2018	Change
Net cash from operating activities	48,513	60,062	-11,549
Cash and cash equivalents, end of period	174,951	241,058	-66,107
Free cash flow	11,900	5,355	6,545
Gross Capex	36,613	54,707	-18,094

Investments

Investments in aircraft and related equipment amounted to USD 7.4 million; of that figure, investments relating to the MAX aircraft amounted to USD 6.4 million. Other investments in operating assets, for the most part investments in the development of the ground handling facilities at Keflavik Airport, airport equipment and hotel operations, amounted to USD 8.7 million.

USD thousand	Q2 2019
Operating assets:	
Aircraft and aircraft components	7,363
Overhaul of own aircraft	14,222
Other	8,720
Total operating assets	30,305
Right of use of assets	5,873
Intangible assets	435
Total Capex	36,613

CHANGE IN FINANCIAL REPORTING STANDARDS

At the beginning of 2019 Icelandair Group adopted a new financial reporting standard, IFRS 16. Below is an overview of the impact of the standard on the Company's consolidated financial statement for the second quarter of 2019.

USD thousands	Amounts without IFRS16	Adjustment IFRS16	As reported
Profit/loss statement:			
Operating revenue			
Transport revenue	324,365	0	324,365
Aircraft and aircrew lease	20,518	-1,321	19,197
Other operating revenue	59,309	-104	59,205
Total operating income	404,192	-1,425	402,767
Operating expenses			
Salaries and personell expenses	136,814	0	136,814
Aviation expenses	170,408	-10,392	160,016
Other operating expenses	83,138	-2,441	80,697
Total operating expenses	390,360	-12,833	377,527
EBITDA	13,832	11,408	25,240
Depreciation	-37,618	-11,725	-49,343
EBIT	-23,786	-317	-24,103
Net finance costs	-6,866	-2,116	-8,982
Share of profit of associates, net of tax	-7,420	0	-7,420
EBT	-38,072	-2,433	-40,505
Income tax	5,753	486	6,239
Net earnings	-32,319	-1,947	-34,266

ICELANDAIR'S PROSPECTS

The Company has taken strategic steps to improve profitability over the last months and intends to continue on its course. The Company's performance has improved, without the impact of the MAX suspension.

The MAX aircraft suspension impacts Icelandair's operations and performance

In 2019, Icelandair had planned to use nine MAX aircraft in its Route Network. Of those nine aircraft, the Company has taken delivery of six but has not yet taken delivery of the three remaining aircraft, as was planned in the first half of 2019. These nine aircraft together correspond to 25% of the Company's fleet and 27% of its estimated passenger capacity of the year 2019. In order to minimize the impact on the Company and prevent a large-scale disruption in the Route Network with accompanying inconvenience for passengers, mitigating measures have been taken by leasing a total of five aircraft over the busiest months of the year.

Despite these mitigating measures, the Company's operations have been disrupted as a result of the suspension of the MAX aircraft, and this will continue to have a negative impact on the Company's performance and cash flow. There is still uncertainty regarding the time when the suspension will be lifted, and it has not been established what the compensation will amount to from the manufacturer of the aircraft for cost and lost revenue. Icelandair is currently having discussions with Boeing on full compensation for all financial losses. The Company is closely monitoring developments and continues to work with Boeing and aviation authorities in Iceland, Europe and the United States regarding the next steps. The current flight schedule is based on the assumption that the aircraft will not be in service throughout October.

Emphasis on solutions for passengers but negative impact on revenue in the passenger network

Cancellations of flights due to the suspension have had the effect that it has not been possible to maximise the Company's revenues, and average air fares have been lower than anticipated. The Company's focus has been on finding solutions for passengers who have been affected by the suspension. Because of the cancellations, passengers have had to be transferred to other flights, which

has resulted in a decline in revenue. As an example, passengers who had booked flights with the Company well in advance at low fares were transferred to other more heavily booked flights, on which the Company would otherwise have been able to sell seats closer to departure times at higher prices. Icelandair's business model is based on the connection bank in Iceland and the connectivity of the Route Network. The flight cancellations have therefore also curtailed passengers' connection options, thereby causing loss of revenue. The Company's plans assumed that the MAX aircraft would be used more extensively on European routes than on North American routes, and therefore their suspension has led to an imbalance in the Route Network and reduced potential sales in the North Atlantic market. Flight cancellations have also negatively impacted the Company's ancillary revenues, and in addition it has not been possible to achieve the focus on sales and maximising revenue that had been planned, as the Company's employees have concentrated on services to passengers and resolutions regarding re-bookings and changes during these challenging circumstances.

The suspension increases expenses and restricts the utilisation of the fleet and crew

As noted earlier, Icelandair has leased five aircraft with crew in order to mitigate the impact of the MAX suspension on passengers. Four of these aircraft are larger and less efficient than the MAX aircraft, and their operation therefore entails increased aviation expenses. For instance, aircraft servicing, handling and navigation expenses are higher for each flight, as is the case for fuel consumption. The Company carries the cost of crew that were scheduled to fly the suspended aircraft, and in addition, those crew members will need additional training when the suspension is lifted. As a mitigating measure, the training of 21 pilots for the MAX aircraft was suspended and 24 pilots were laid off in May. Cancelled flights have also caused increased passenger-related expenses when passengers have had to be transferred to flights with other airlines. In addition, the leased aircraft are not set up in the same way as other aircraft in the Company's fleet, e.g. as regards entertainment system, leg room and other matters, which in some instances has caused passenger dissatisfaction and reductions in ancillary revenue. Also, there is less flexibility within the fleet to respond to failures and incidents that arise.

A flexible route network is the Company's strength

In 2012 Icelandair Group set the strategy of transforming Iceland into a year-round destination and strengthening Iceland as a flight connection centre between North America and Europe. Since this strategy was decided, the growth in international operations has been driven by the increase in the number of transit passengers across the North Atlantic. For instance, the proportion of these passengers went from 41% in 2012 to 51% in 2018 of total passenger numbers. Changes have now occurred in the competitive environment in the North Atlantic market. Supply has now outpaced demand, which has resulted in significant pricing competition. At the same time, the passenger capacity to and from Iceland has declined. Icelandair has therefore adjusted its focus in its sales and marketing activities with increased emphasis on the market to and from Iceland. It is therefore projected that the proportion of transit passengers will decline to 44% in 2019. This shows the flexibility of the Route Network, which enables the Company to respond swiftly to changed circumstances in the market at any time.

Punctuality in international aviation has improved notably between years

The cost to the Company of disruptions in flight schedules amounted to approximately USD 45 million in 2018. The aim of the Company was to reduce this cost by at least 40% in 2019 by reinforcing infrastructure and changing work processes. Great progress has been achieved in this regard over the year. Arrival on-time performance were 72% in the first half of the year, as compared to 60% in 2018. This progress has been made despite the pressure on the route network and the Company's staff resulting from the suspension of the MAX aircraft, at the same time that the utilisation of the fleet was at a maximum and reserve aircraft fewer than anticipated. It is estimated that improved punctuality has reduced cost by about USD 7 million, which is reflected in fuel use economy, improved utilisation of crew and reduced cost resulting from disruptions in the route network.

Streamlining has led to operational improvement

At the beginning of the year, changes were made in the organisational structure of the Company to reflect the emphasis on its core business: international aviation. Management of the fleet and Route Network has been reorganised and strengthened, and the same applies to revenue management. At the same time, work is in progress on simplifying the Company's organisation still further through integration of subsidiaries and a reduction in the number of operational units to the extent possible. Flights through a new connection bank were launched in mid-May with the objective to improve the utilisation of the fleet and enabling the Company to continue its growth at Keflavik Airport. The Company's new strategy, which is currently in the process of implementation and which was presented at the Company's Annual General Meeting last spring, emphasises effectiveness and operational efficiency. Procurement processes have been harmonised, and the Company has already reviewed its contracts with suppliers on more cost-effective terms.

The Company is also examining options for further outsourcing of tasks with the objective of streamlining processes and reducing operating cost. In the course of the changes made in the Company's organisation last February, digital development was given greater weight than before, and projects in that area are now a part of the priorities of the Executive Committee with the objective of increasing revenue, improving customer experience and reducing cost through automation. If the estimated impact quantified to date of the MAX suspension is excluded, better results are anticipated from the Company's international flight operations.

PROSPECTS IN OTHER OPERATIONS

The operations of Air Iceland Connect have improved in the first six months of 2019 compared to the same period last year. The work to improve its operations further is ongoing according to an action plan that has been put in place. Seat capacity has been reduced and one Bombardier Q400 aircraft has been put up for sale. At the same time, the decision has been made to discontinue flights between Keflavik and Akureyri in northern Iceland, which will reduce the fleet by one Bombardier Q200 aircraft.

Operations of the Vita Travel Agency have been successful, and the prospects for the remainder of the year are favourable. Prospects in the Company's freight operations are favourable, and exports have been growing this year. Imports are on a par between years but are expected to increase in the second half of the year. The Company's charter operations through Loftleidir Icelandic got off to a slower start than expected in the first half of the year, but the outlook is favourable for the second half of the year. The hotel operations have been successful so far this year despite a challenging operating environment. Hotel room occupancy is unchanged between years in the first six months of the year despite a 12% increase in the number of available rooms. Around mid-July a share purchase agreement was signed with Berjaya Property Ireland Limited whereby Berjaya acquires a majority share in Icelandair Hotels and related real estate. The sale is discussed in further detail in the Report under the heading "Events subsequent to the financial accounting date". The divestment process of Iceland Travel has been put on hold until the fall.

EBIT GUIDANCE

EBIT guidance USD 50 – 70 million, net of estimated impact of the MAX suspension to date

On 3 May, a decision was made and reported to the market that the MAX aircraft was not expected to be in operation until 15 July. On 23 May, it was decided to prolong this date to 15 September. The MAX situation has caused changes to the flight schedule shortly before time of travel, which has had considerable impact on passenger numbers and load factor in July, the largest travel month of the year.

Making such extensive changes with such short notice has limited the Company's opportunities of maximizing revenue and sales close to departure. Also, losing the MAX aircraft from the route network has caused imbalance in the route network as the MAX aircraft were planned to mostly cover European rather than North American routes. This imbalance has caused difficulties in sales in July, especially from North America. These above-mentioned factors have a considerable impact on revenue generation and load factor in July.

The Company's performance, if the estimated impact of the suspension of the MAX aircraft quantified to date is excluded, has improved considerably between years. The EBIT guidance for Icelandair Group in 2019, net of the estimated impact quantified to date, is positive of USD 50-70 million. The estimated impact of the MAX suspension quantified to date is around USD 140 million. Including the estimated MAX impact quantified to date, the EBIT guidance is negative of USD 70-90 million. The Company's capital expenditures plan assumes investments over the year in the range of USD 270-280 million, excluding the three MAX aircraft that were intended to be taken into use in the second quarter of 2019, which did not happen. As discussed earlier, investments in the first half of the year have amounted to USD 218 million.

FUEL HEDGING STATUS AT THE END OF Q2 2019

The position of fuel hedging at the end of June 2019 is as follows:

Period	Estimated usage (tons)**	Swap volume	% hedged	Av. swap price USD
Jul 19	53,259	26,600	52%	692
Aug 19	53,192	28,600	55%	721
Sep 19	44,741	27,550	50%	750
Oct 19	30,247	16,490	52%	751
Nov 19	27,013	15,482	56%	703
Dec 19	25,505	15,436	62%	683
Jan 20	23,672	12,250	50%	697
Feb 20	21,914	12,250	53%	734
Mar 20	24,586	12,250	55%	759
Apr 20	27,144	12,250	16%	674
May 20	41,954	20,250	17%	635
Jun 20	51,166	8,250	16%	683
12 months	424,393	207,658	49%	708 *
Jul 20	54,294	4,000	14%	675
Aug 20	54,226	4,000	10%	672
Sep 20	45,609	4,000	10%	618
Oct 20	30,826	0	-	-
Nov 20	27,529	0	-	-
Dec 20	25,992	0	-	-
13-18 months	238,476	12,000	5%	655 *

* weighted average price

**Estimated usage based on MAX being back end of October

EVENTS SUBSEQUENT TO THE FINANCIAL ACCOUNTING DATE

A USD 136 million contract signed on the sale of a majority share in Icelandair Hotels

On 13 July, the Company signed a share purchase agreement with Berjaya Property Ireland Limited whereby Berjaya acquires a majority share in Icelandair Hotels and related real estate. Following the transaction, Icelandair Group will hold a 25% equity stake for a minimum of three years. Alongside the signing of the share purchase agreement, the Company and Berjaya, have entered into a put and call option agreement regarding the remaining 25% equity share which can be exercised after three years, once each year for a period of three years. The total value of Icelandair Hotels and its related properties in the transaction is USD 136 million but the final purchase price of Berjaya's 75% share will be determined by the amount of net working capital and net interest-bearing debt at the date of completion of the transaction which is set for year-end 2019. The Agreement is subject to various conditions by both parties. The sale of the hotel operations is significant in Icelandair's history and is a major milestone in the Company's stated strategy of concentrating on its core business, international aviation. The acquisition by Berjaya of Icelandair Hotels, and the extensive interest shown in the company by foreign and domestic investors alike in the course of the divestment process, is at the same time a confirmation of the quality and value of the company and the bright future prospects of Icelandic tourism.

STRATEGIC FACTORS

New vision and the implementation of a new strategy

The implementation of a new strategy has begun in the Company, and significant changes have been made in the organisation of Icelandair Group which are intended to reflect the clearer focus on the Company's core business of international aviation. The Company is currently working on an action plan based on the new strategy, which will be presented to shareholders and other investors before the end of the year upon further clarification of the MAX grounding situation.

Company's fleet strategy under review

Icelandair's current fleet strategy assumes continued use of the company's B757-200 aircraft alongside the company's B767-300 and MAX aircraft through 2025. The MAX aircraft are intended to support the growth of the fleet, balancing against the reduction in the number of B757-200 aircraft over the period.

The Company's current long-term fleet strategy is now under review, with the following three scenarios under consideration. The review will be concluded in Q3 2019.

- Maintain unchanged fleet strategy
- Faster renewal of the fleet
 - Airbus A321NEO introduced in the fleet alongside the MAX aircraft.
 - Faster discontinuation of B757-200 aircraft with additions of Airbus and MAX aircraft in the fleet.
- Faster renewal of the fleet with Airbus aircraft
 - All Boeing aircraft taken out of operation in the coming years with the fleet composed entirely of Airbus aircraft

INFORMATION

Investors: Íris Hulda Þórisdóttir, Head of Icelandair Group Investor Relations, E-mail: iris@icelandairgroup.is

Media: Ásdís Pétursdóttir, Corporate Communications Officer. E-mail: asdis@icelandair.is

FINANCIAL CALENDAR

- **Financial statement for the third quarter – week 44, 2019**
- **Financial statement for the fourth quarter – week 06, 2020**