Icelandair Group hf.
Information Memorandum

August 18th, 2020

Disclaimer (1/2)

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RISK FACTORS

The uncertainties regarding future results, performance and achievements of the Company and the Group have increased significantly as a result of the C-19 pandemic and the implications thereof. Special notice is given to the risk factors relating to the Company and the Offering that are further discussed in the Prospectus and should be read thoroughly. It is highlighted that, should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results and future development of the Company and the Group may vary materially from those described in this Information Memorandum.

FORWARD LOOKING STATEMENTS

This Information Memorandum contains several forward-looking statements regarding the Company, the Group, the industry it operates in, and the global economy (these forward-looking statements can be identified by the use of forward-looking terminology, including the terms, the words „expects”, „plans“, „estimates“, “forecast”, and similar expressions, as they relate to the Company or the Group). There is no representation, warranty or other assurance that any of the projections or plans in this Information Memorandum will be realized. You should conduct your own investigation and analysis of the data described herein and consult with your own professional advisors for any such matter and advice. Any statements contained in this Information Memorandum that refer to estimated or anticipated future results or future activities are forward-looking statements which are subject to a number of risks and uncertainties that could cause actual results to differ materially from any anticipated development. As a result, you are cautioned not to place undue reliance on such forward-looking statements and plans, and they shall in no way be regarded as a promise of successful operation. The Company or the Advisors assume no obligation to update this Information Memorandum, including any forward-looking statements or to conform any forward-looking statements to actual results.

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This Information Memorandum shall be governed by and interpreted in accordance with Icelandic law. The courts of Iceland, with Reykjavík as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Information Memorandum.

Icelandair Group operates in the international aviation sector

83 years
in aviation

44
destinations

$ 1.4bn
total assets

74
flights per day

4.4m
passengers

524
connections

34%
equity ratio

~80
tons of cargo exported per day

4,000
FTEs

51
aircraft

66%
Market share TO/FROM Iceland

~40
tons of cargo imported per day

All figures are for 2019, Icelandair Hotels are excluded in all figures
See additional information on pages 87-90 in appendix
Icelandair Group references the holding company, the listed firm and the Company inclusive of all business units while Icelandair references the airline exclusive of other group business units

The upcoming share offering is a vital step in Icelandair's restructuring, securing liquidity and long term competitiveness

C-19 travel restrictions

Immediate operational actions ✓

Conservative ramp-up approach for 2020-2024[1] ✓

Collective bargaining agreements

Boeing agreement

Agreements with creditors and vendors[2]

Liquidity secured

Share offering[3]

ISK 20bn (USD ~150m)

Government backed credit line[4]

ISK ~16bn (USD 120m)

[1] In this presentation, Icelandair Group presents a scenario for how its ramp-up following C-19 could look like. This scenario is a conservative one and does not constitute a base case but rather a pessimistic scenario that is nonetheless with a significant likelihood and therefore, one that Icelandair Group must be able to withstand. Conservative ramp-up approach is hereafter referenced as conservative approach
[2] Conditioned on a successful share offering and Government backed credit line [3] See more detail on page 56 [4] Pending parliament approval; conditioned on a successful share offering

Executive summary

Proven and flexible business model	+ Historically, Icelandair's business model has resulted in **healthy profitability** + **The hub-and-spoke network** built upon Iceland's unique location is the key to Icelandair's business model + Icelandair holds **a strong position in the highly attractive Icelandic tourism market** + The transatlantic market post C-19 is expected to render **opportunities** for Icelandair's VIA product + Icelandair has over decades built **valuable strategic infrastructure** that supports its business model
Liquidity and long-term competitiveness secured	+ **Financial and operational restructuring in response to the C-19 shock** ensuring flexibility going forward + **Cash burn-rate has been minimized** to handle near-term uncertainty + Icelandair has a clear path to **stronger revenue generation going forward** + Restructuring and operational improvements will facilitate **unit cost reductions** + **New, long-term union contracts** will act to meaningfully increase competitiveness and flexibility + Uncertainty regarding fleet development reduced with an **agreement with Boeing on the B737MAX** + Financial restructuring secures **sufficient liquidity for Icelandair to rebound**
Appealing investment case	+ A proven business model, long-term competitiveness ensuring **profitability and growth opportunities** + Previous business **volume and healthy profitability conservatively not expected until 2024** + A successful share offering will strengthen the balance sheet and **secure a strong financial position** + **Investors have potential for attractive rates of return** by participating in the share offering

1. Proven and flexible business model
2. Liquidity and long-term competitiveness secured
3. Appealing investment case

Appendix

The hub-and-spoke network is the heart of Icelandair’s business model

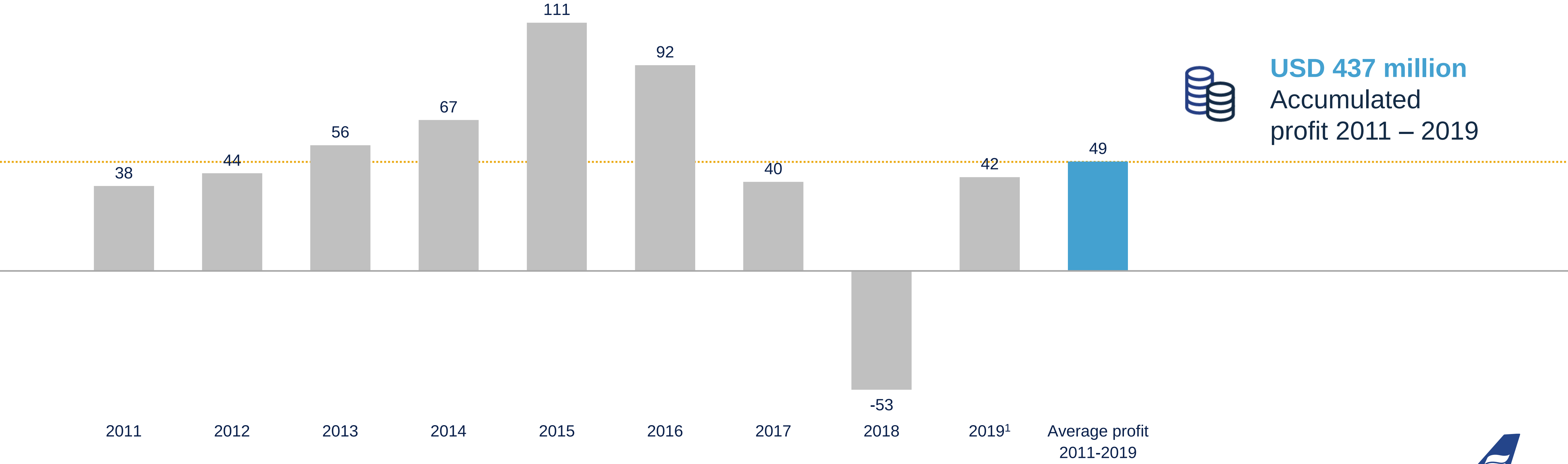
24- hour hub-and-spoke network servicing three markets: TO, FROM and VIA

Value-for-money carrier in between legacy and low-cost archetypes

Valuable strategic infrastructure supporting business model

Proven and profitable business model

Profit / loss
USD million



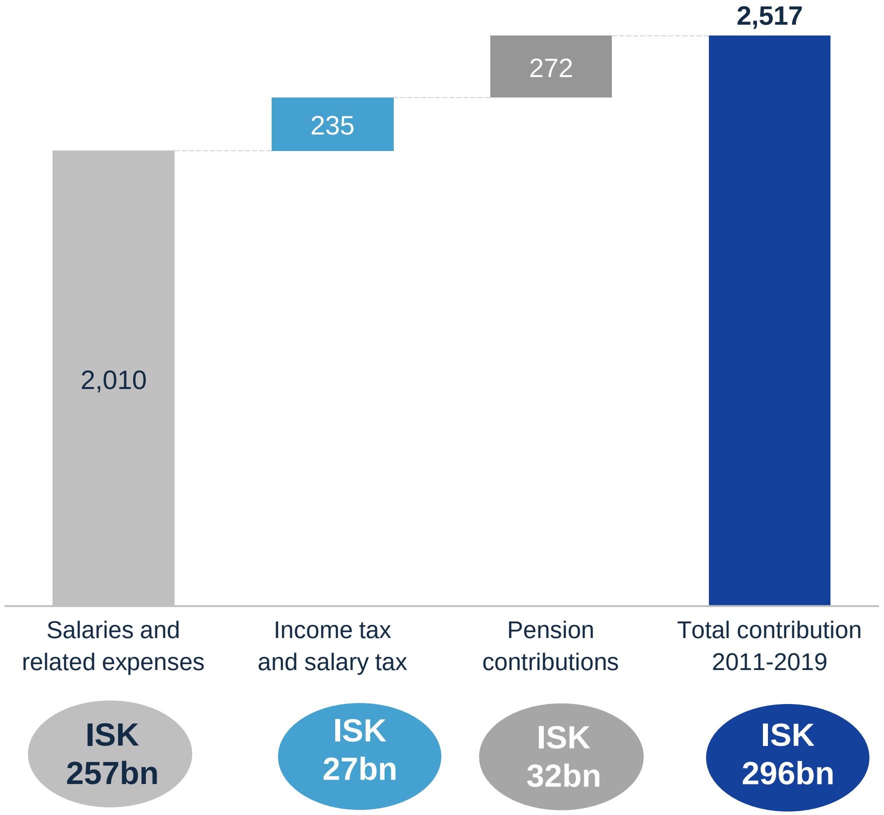
USD 437 million
Accumulated profit 2011 – 2019

Figures are excluding Icelandair Hotels
[1] Profit 2019 excludes the estimated net negative EBIT effect of the MAX suspension to date (USD 100 million)

Significant contribution to the Icelandic economy

Icelandair Group's direct contribution totalled ISK 296 billion, USD 2.5 billion, in 2011-2019

Direct contribution[1] 2011-2019
USD million



[1] Only counting direct contribution through salaries, taxes and pension contributions. Not counting contribution through jobs generated in other firms, export value generated by providing export opportunities (e.g., for fresh fish), societal value of transport links etc.

See further detail on pages 77-83 in appendix

Iceland’s unique geographical position is the key to Icelandair’s business model

This location allows Icelandair to serve three distinct markets

Enables the airline to draw from a **larger pool of potential passengers than point-to-point competitors** flying TO/FROM Iceland, and thus to fly more routes at a higher profitability

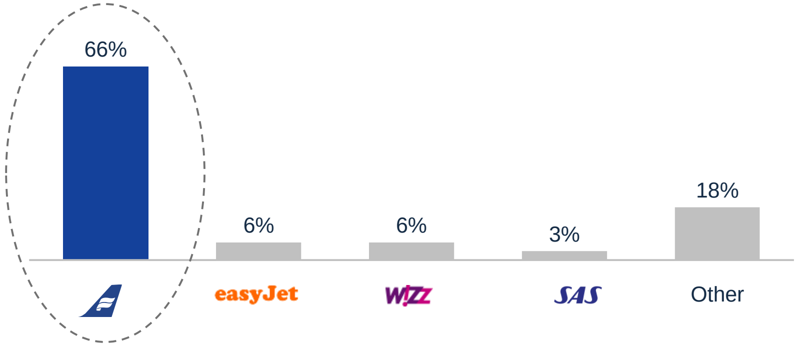
+ **TO Iceland:** Incoming tourists and business travelers
+ **VIA Iceland:** Passengers flying between Europe and North America
+ **FROM Iceland:** Icelanders traveling abroad

+ The route network is flexible, and **focus can be adjusted** depending on market conditions (see page 91 for detail)
+ The hub-and-spoke model allows for **exponential increase in connectivity** as additional destinations are added to the network
+ In the VIA-market, Icelandair offers **efficient travel times** and can use the same single-aisle aircraft on both legs for most city pairs whereas the competition often needs to use wide-body aircraft or two different single-aisle aircraft driving higher costs. Icelandair is therefore in a unique position to serve thinner transatlantic routes with the Stopover offering an additional unique value proposition
+ The continued introduction of next generation single-aisle aircraft (MAX and NEO) will **strengthen transatlantic hubs** by allowing them to add thinner spokes thus increasing connectivity (see page 92 for detail)

Strong position in the highly attractive Icelandic tourism market

TO/FROM Iceland

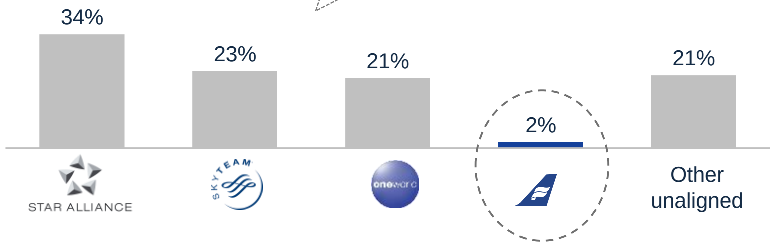
Market share by carrier[1]



VIA Iceland

Market share by alliance[1]

Alliances that align their networks and schedule continue to shape transatlantic market[1]



- Icelandair is in a **strong position in the highly attractive TO/FROM markets** which continue to grow with tourism arrivals to Iceland (see next page)
- Icelandair has by far the largest network operated out of KEF thus offering **maximum connectivity for passengers**
- By mixing TO/FROM and VIA passengers in the same aircraft, Icelandair can fly to **destinations that are not feasible for point-to-point competitors**
- Icelandair has **attractively-timed slots** at KEF airport
- Icelandair has the **strongest brand in the market** (see page 22)

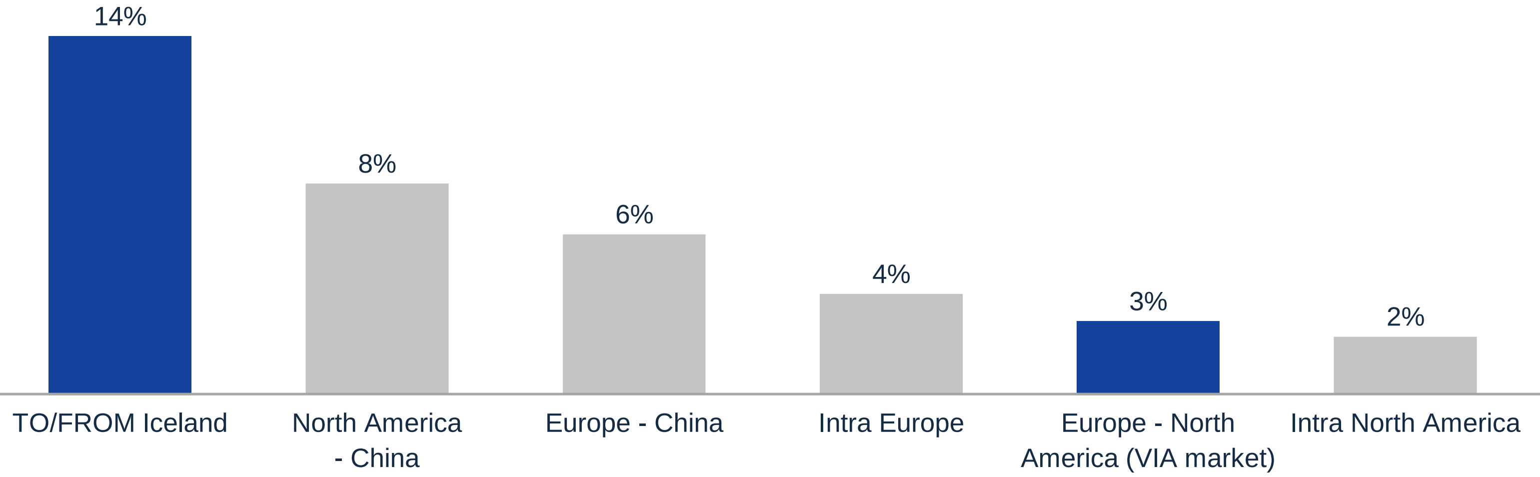
- Through the **unique geographical position of Iceland**, Icelandair is in a great position to connect Northern Europe and a large share of Western/Central Europe with North America
- On that basis, Icelandair can offer **efficient travel times for hundreds of city pairs on opposite sides of the Atlantic**
- As a result, Icelandair has managed to build up an enviable niche in the large transatlantic market where Icelandair is the **17th largest carrier** (see page 93)
- Icelandair has **a special value proposition** in the Stopover product whereby transatlantic travelers can opt to stop in Iceland for a few days

[1] See more detail on page 93. Source is SRS Analyser, the period chosen is the last 12 months before C-19, i.e., March 2019 to February 2020. Market share is calculated as share of total seats in market

Icelandair's key markets have shown rapid growth over the past 70 years

Cumulative annual growth rate of capacity[1] in selected markets

2008-2018/19[2]



Market capacity (RPKs)[1]	TO/FROM Iceland	North America - China	Europe - China	Intra Europe	Europe - North America (VIA market)	Intra North America
	20bn	141bn	154bn	983bn	579bn	1,229bn

From 1949 to 2019, the number of tourists coming to Iceland has grown by 9% per year

Given Icelandair's market mix in 2019 (57% of passengers in TO/FROM, 43% of passengers in VIA), the weighted 10-year growth rate of Icelandair's markets is 10%

[1] Market capacity here is measured in billions of Revenue Passenger Kilometers (RPKs)

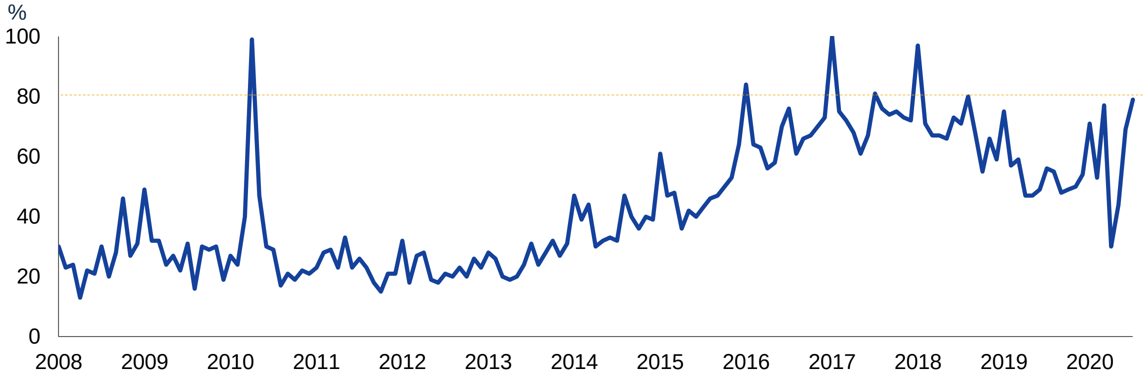
[2] Latest available data for all markets meaning 2018 for all markets except 2019 for TO/FROM Iceland. Source for all markets is Boeing Commercial Market Outlook 2019 except for TO/FROM market which is from the Cirium Database and Icelandair. The Cirium Database provides number of ASKs for each market which Icelandair has translated to RPKs by assuming that the market load factor is the same as Icelandair's. Number is therefore an estimate

Iceland will continue to be an exciting tourist destination

Iceland offers a unique experience for travelers

- Iceland is known for **unparalleled nature experiences**, drawing demand from both leisure and MICE[1] segments
- Iceland is a land of extreme geological contrasts with plenty of **attractions and exciting activities**
- A destination for generations to come; **for those who travel to experience something unique**
- In response to C-19, the Icelandic **government will invest ISK 1.5 billion to promote Iceland** as a travel destination
  - Focus on showing Iceland as a big, vast and untouched location with emphasis on wide-open spaces
- Recent market research[2] indicates that **Iceland is considered one of the top safe travel locations** in the world
- Additionally[3], **a significant share of travelers are likely to travel to Iceland within 2 years**
  - In the US, the share is 17%, in the UK, 14% and in Germany 12%
  - In total, 86% of respondents were excited about Iceland as a destination

Google Searches for “Travel to Iceland”



[1] Meetings, Incentives, Conferences and Events
[2] Market research conducted by Pollstat for Icelandair
[3] Market research conducted by MMR for Íslandsstofa in May 2020. Research polled adult public in USA, UK and Germany while filtering for those what have traveled in past 12 months and have medium to high income

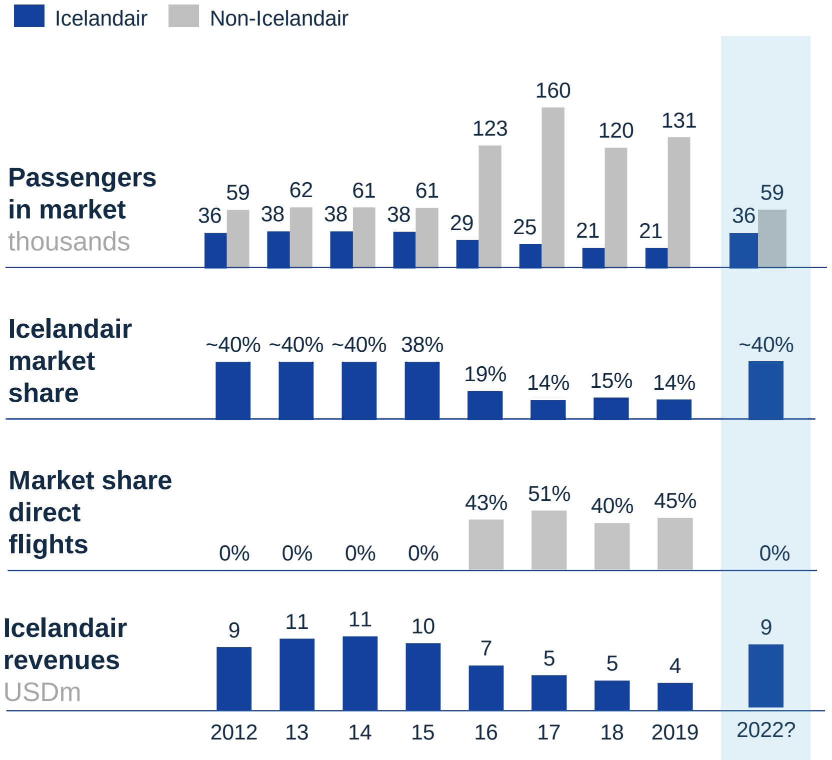
Market dynamics on the transatlantic post C-19 believed to render opportunities for Icelandair's VIA-product

Capacity has historically rationalized following demand shocks which presents opportunities for KEF hub

+ The C-19 crisis **will cause demand for transatlantic airline seats to fall considerably**
+ In the near term, travel restrictions and hesitation to travel during a pandemic will serve as a drag on demand. In the medium term, economic weakness following the pandemic will mean that **a full recovery will take several years**
+ As a result, **a significant number of marginal direct transatlantic routes will be discontinued** due to an abrupt decline in demand
+ **These market dynamics present an opportunity for Icelandair** as it offers a one-stop product through a hub in the transatlantic market and is thus less dependent on traffic flows between individual city pairs
+ In summary, the demand reduction following C-19 will **strengthen hubs** in competition with direct flights for many routes

Case study:

Traffic flows between Copenhagen and Boston[1], 2012-19



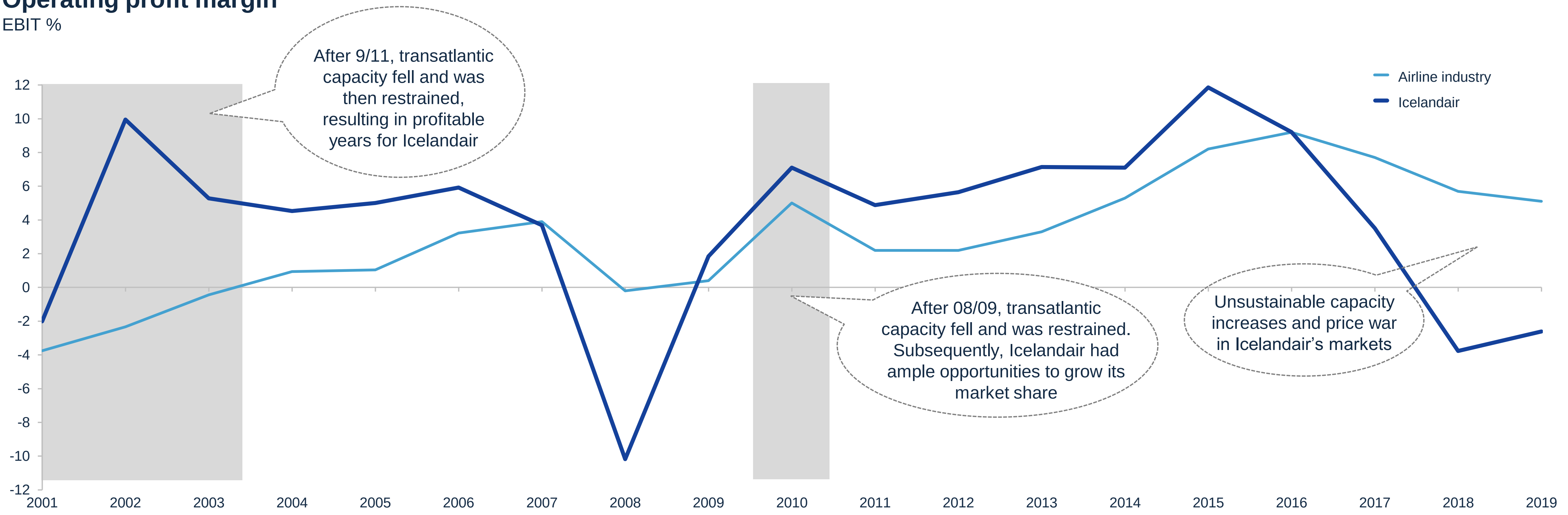
+ In 2016, traffic flows between CPH and BOS become large enough to support direct flights so SAS and Norwegian entered the market. As a result, Icelandair's **competitive position deteriorated** for that flow
+ Following C-19, this sort of **development will likely happen in reverse** for numerous routes meaning a stronger competitive position for Icelandair
+ As a result, Icelandair may in 2022 **find itself in a similar position as before 2016** for flows like CPH-BOS[2]

[1] Sources: SRS Analyser, DDS and Icelandair. Market share numbers for 2015-2019 are sourced from DDS which estimates market share based on public and privately provided airline data. Market share numbers for 2012-2014 are Icelandair's estimates based on publicly available data

[2] The extent and timing of the demand correction and recovery post C-19 is uncertain, as is which direct transatlantic flights will be discontinued. It may very well be that direct flights continue between CPH and BOS so this example should strictly be considered an illustrative example of developments expected for some traffic flows.

Under similar circumstances in the past, Icelandair enjoyed years of healthy profitability

Operating profit margin
EBIT %



Source: IATA

Icelandair Group has developed valuable strategic infrastructure that supports its business model

Our excellent people

Valuable ecosystem of businesses

Slots at strategic airports

Strong international brand

Effective distribution channels

Beneficial partnership

Flexible fleet

Knowledgeable, highly capable and loyal group of employees

Icelandair Group's employees are one of the Company's greatest strategic assets

Throughout the decades, Icelandair Group has fostered and developed a capable and knowledgeable group of employees that possess **valuable airline and aviation expertise**

+ Ability to quickly scale organization and implement changes
+ World class methods of managing, benchmarking and monitoring operational costs
+ Exemplary customer service that drives high customer satisfaction
+ Disciplined safety culture and quality management system
+ A global network of hundreds of suppliers and industry contacts

High level of employee loyalty and **resilience in times of crisis**

+ Innovative, can-do culture leading to continuous improvement and new revenue streams
+ Resilient operation, adaptable in times of uncertainty

Immediate adjustment to C-19

+ During travel ban, Icelandair operated a skeleton schedule. At the same time, **worldwide demand for cargo capacity spiked**
+ Six aircraft in Icelandair fleet were retrofitted as cargo aircraft and the Company **secured several contracts that served as important sources of revenue** for the Group

Relocating the hub to Glasgow

+ In 2010, airlines across Europe had to **ground their fleets following a volcanic eruption** in Eyjafjallajökull volcano
+ Icelandair was heavily affected due to its proximity to the initial eruption but responded by **moving its entire KEF hub to Glasgow** for 5 days and managed to keep 75-80% of its services running

Valuable ecosystem of subsidiaries supporting Icelandair's core business and profitability

Iceland's largest air freight operator. Focus is on utilizing belly space in Icelandair's passenger aircraft in addition to operating 2 freight aircraft

Icelandair Cargo has been a growing and sustainably profitable business unit and has exciting growth opportunities (see next page)

USD 43m
EBT (2015-2019 total)

A capacity solutions provider for international passenger airlines and tour operators

Focus on aircraft and maintenance (AM) projects which increase Icelandair's fleet and manpower utilization

Loftleiðir continues to reliably contribute to the Group's bottom line (see next page)

USD 62m
EBT (2015-2019 total)

Iceland Travel
Inbound tour operator offering a wide range of high-quality services for travelers

Vita
Outbound tour operator offering variety of leisure tours to Icelanders traveling abroad

USD 13m
EBT (2015-2019 total)

Offering easy access to a wide range of destinations in Iceland and the West Nordic countries

Air Iceland Connect achieved a successful turnaround of its business in 2019 resulting from extensive actions taken

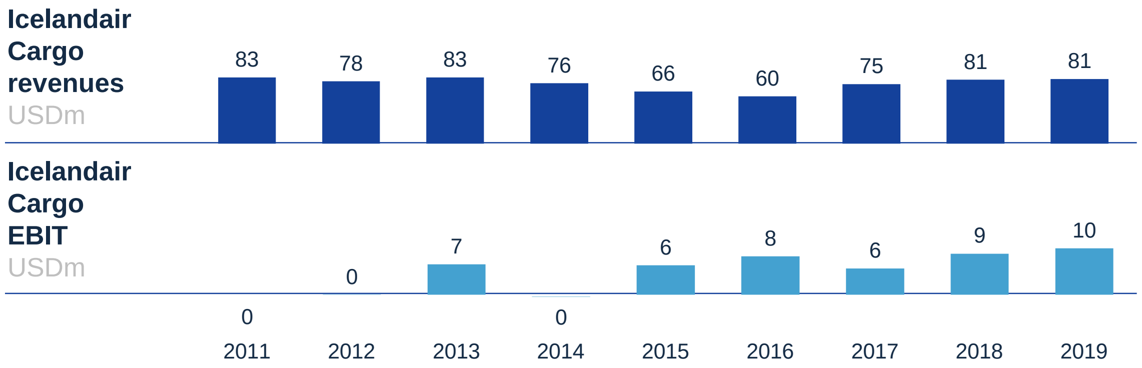
Future opportunities for Iceland to serve as a hub for Greenland[1]

USD -16m
EBT (2015-2019 total)

[1] See page 94

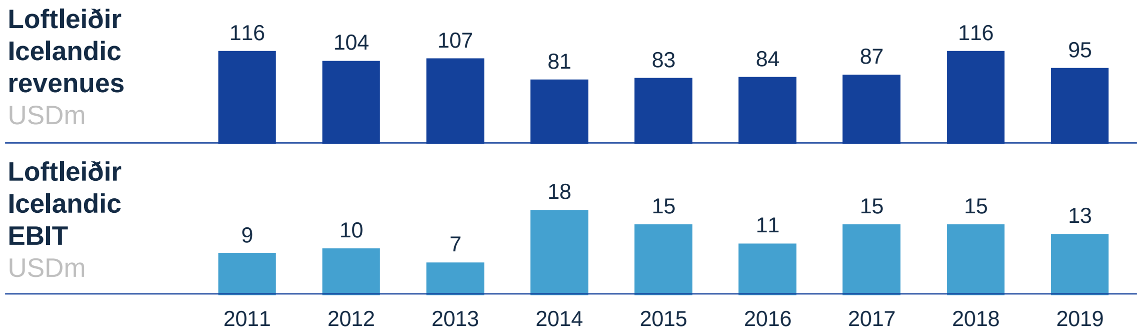
Icelandair Cargo and Loftleiðir Icelandic are successful business units that contribute significantly to Icelandair Group

Icelandair Cargo is a growing and profitable business unit with exciting growth opportunities



- Icelandair Cargo is **critical to imports and exports to/from Iceland**:
  - In 2019, the firm exported ~80 tons of cargo per day, including a lot of fresh marine products that generate outsized value for the fisheries industry
  - In 2019, the firm imported ~40 tons of cargo per day, including much of the fresh produce available to Icelandic consumers
- Share of freight moved using belly space in passenger aircraft risen from 16% to 65% in 10 years resulting in a **more efficient and environmentally friendly operation**
- In the coming years, Icelandair expects **continued growth in air freight volumes** through Iceland based on growth in marine exports and further development of the cargo hub in Iceland

Loftleiðir Icelandic continues to reliably contribute to Icelandair Group's bottom line



- Loftleiðir Icelandic has consistently demonstrated the **ability to discover and capitalize on profitable leasing opportunities** within the global aviation industry
- The firm has shown **remarkable resilience and consistency in profitability** and has cumulative EBIT of more than USD 180 million from founding in 2002 to 2019
- Loftleiðir has been industry **leading in the provision of Aircraft and Maintenance (AM) services** worldwide and has furthermore built up successful business segments focusing on VIP leasing projects as well as consultancy to emerging market airlines
- Loftleiðir **adds value to the corporate strategy** of Icelandair Group through its ability to facilitate sharing of activities and transfer of skills within the Group. Loftleiðir can also serve as a restructuring agent increasing agility and responsiveness

Icelandair holds valuable slots that are difficult to procure and instrumental for a hub business model

High value slots

JFK New York
LHR London Heathrow
LGW London Gatwick
AMS Amsterdam

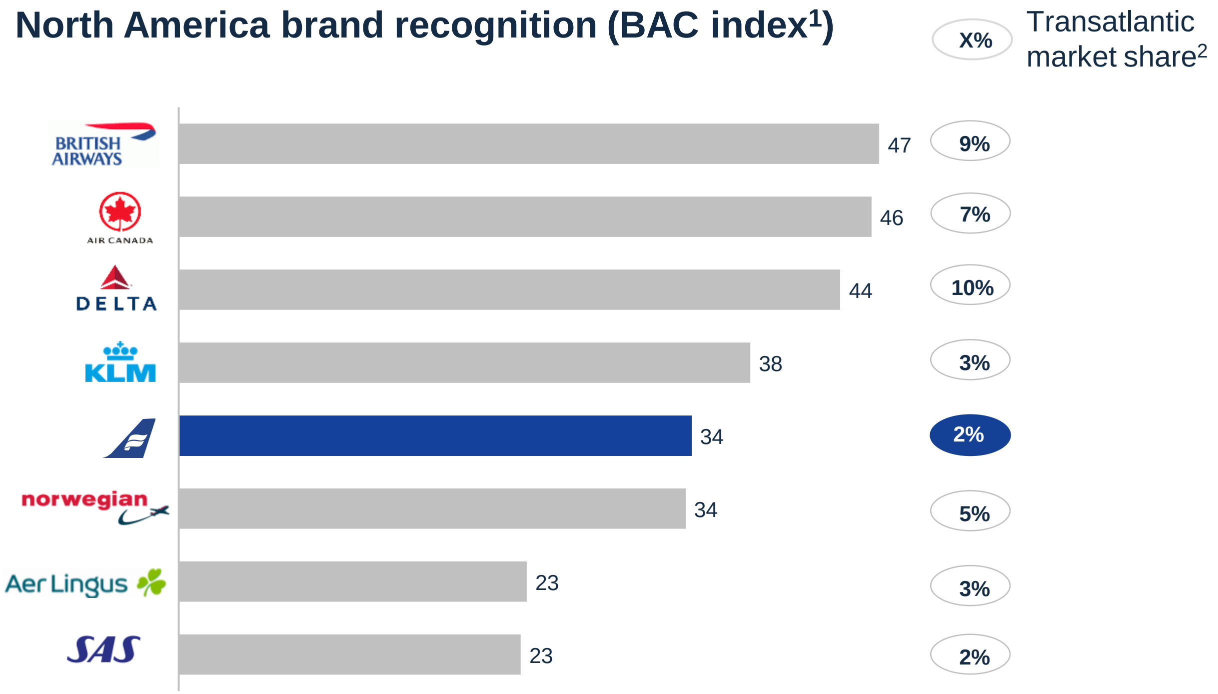
Medium value slots

YYR Toronto
ORD Chicago
BOS Boston
EWR Newark
BER Berlin
FRA Frankfurt
MUC Munich

Pax [XXm] references the number of passengers travelling through the airport annually

Icelandair is a strong international brand, recognized by customers for its value-for-money service

+ Icelandair has built **a strong, international brand** through its 83-year aviation history
+ Icelandair is **one of the most recognized Icelandic brands**, representing the airline's character, services and products
  + Icelandair tracks the strength of its brand monthly
  + The brand continues to be associated with Iceland, transatlantic travel, experience and value-for-money service
  + Strong brand recognition in North America according to the BAC-index



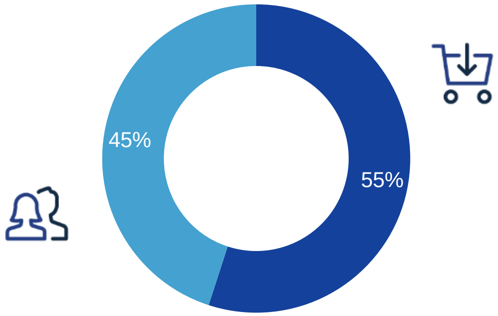
[1] February 2020; the index is a metric that measures the likelihood of customers choosing the respective airline on a scale of 0-100
[2] Share of seats in transatlantic market March 2019 to February 2020 (last 12 months before C-19). Source is SRS Analyser

Extensive and effective distribution channels that have been developed over a long time

- A **powerful website and booking engine** ensure that direct sales comprise about half of passenger volume
- Direct sales provide Icelandair with **access to higher paying tourist segments** while presenting lower customer acquisition cost than indirect sales through middlemen
- However, as a relatively small airline, Icelandair must also rely **on 3rd party sales to supplement its direct sales**
  - Icelandair has spent decades developing good relationships with 3rd party vendors
- Icelandair has the **reach of a much larger airline** having developed an effective infrastructure using 8 GDSs[1]
  - Enables distribution of products to hundreds of thousands of 3rd parties around the world and to metasearch engines

Revenue split by distribution channel

% of revenues 2019

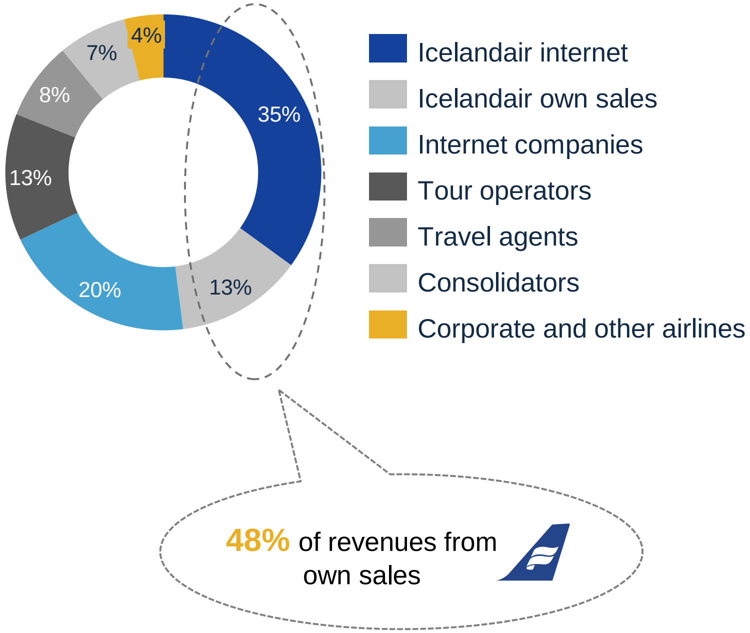


Offline
- Icelandair own sales
- Tour operators
- Travel agents
- Consolidators
- Corporate
- Other airlines

Online
- Icelandair internet
- Internet companies
- OTA[2]s: Expedia, Priceline, Etraveli etc.
- Metasearch engines: Google, Skyscanner, Dohop, etc.

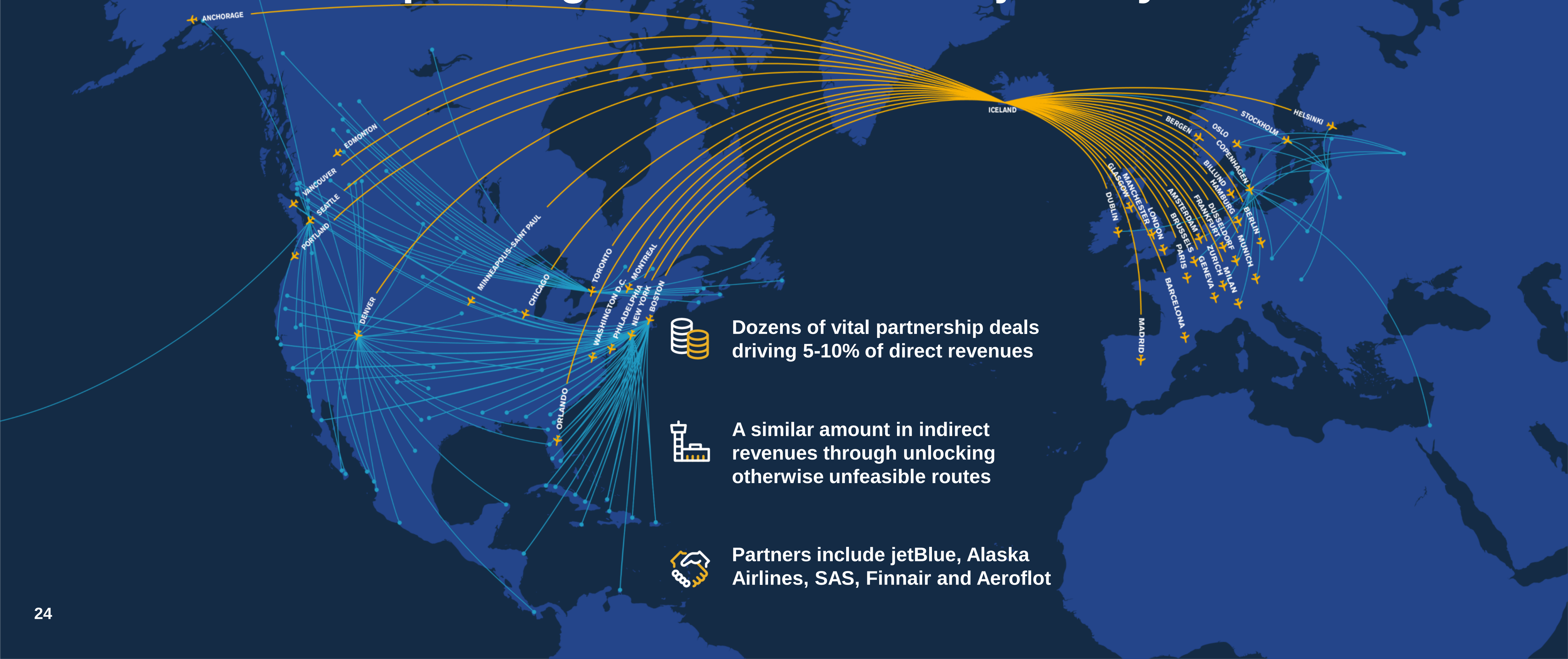
Revenue split by sales channel

% of revenues 2019



[1] Global Distribution System. These include Amadeus, Sabre and Travelport
[2] Online travel agents

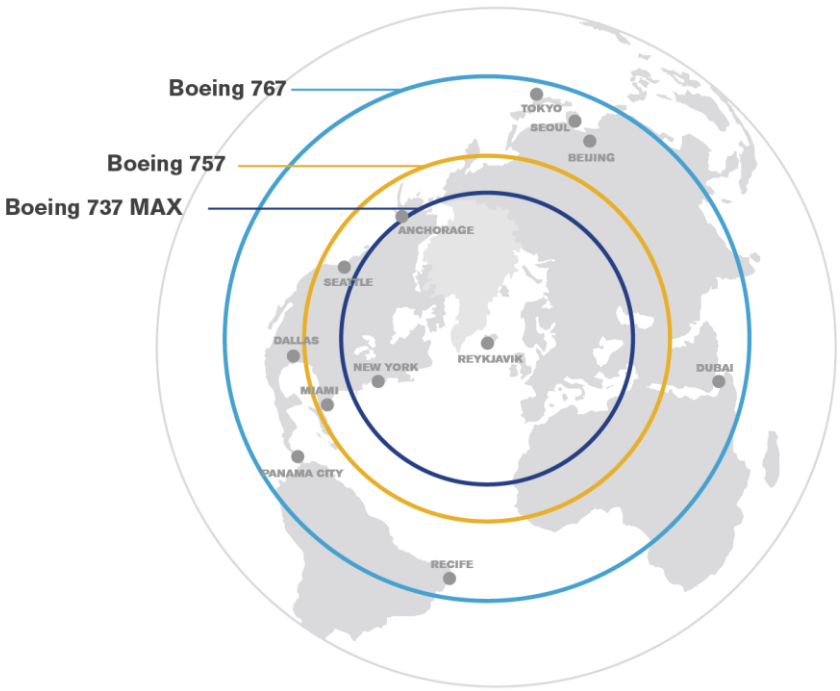
Valuable strategic partnership agreements with other airlines enable passengers to extend their journey



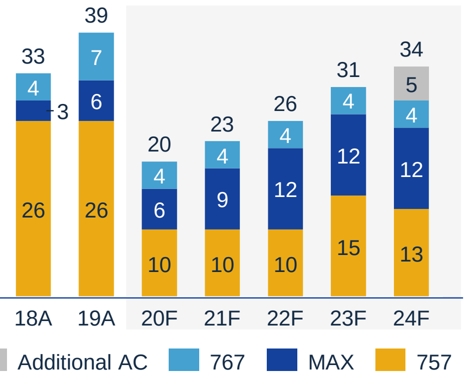
- Dozens of vital partnership deals driving 5-10% of direct revenues
- A similar amount in indirect revenues through unlocking otherwise unfeasible routes
- Partners include jetBlue, Alaska Airlines, SAS, Finnair and Aeroflot

Icelandair has a flexible fleet that marries commonality with varying sizes, capabilities and ownership costs

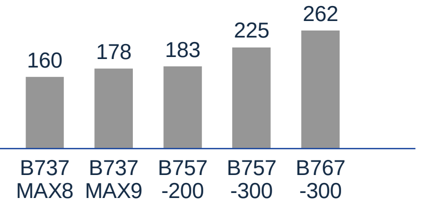
Mix of aircraft suitable for different missions within the network



Fleet plan 2020-2024[1]



Seat range in fleet



- The B737-MAX8 and MAX9 offer **lower operating costs** into Europe and North America
  - Perfect to open new markets as well as keeping costs low in core operations
  - The MAX aircraft can serve 85% of destinations and 90% of flights in Icelandair's 2020 flight schedule
- The B757s offer **long range and low ownership costs** making them ideal for US West Coast and Canada operations
  - Low ownership cost is beneficial during the low season and to maintain fleet size flexibility
- The B767s offer **high passenger load along with great cargo capacity** into high density markets in Europe and on the US East Coast
  - Crew commonality with B757s increases operational efficiency through e.g., more network flexibility, increased pilot utilization and lower training costs

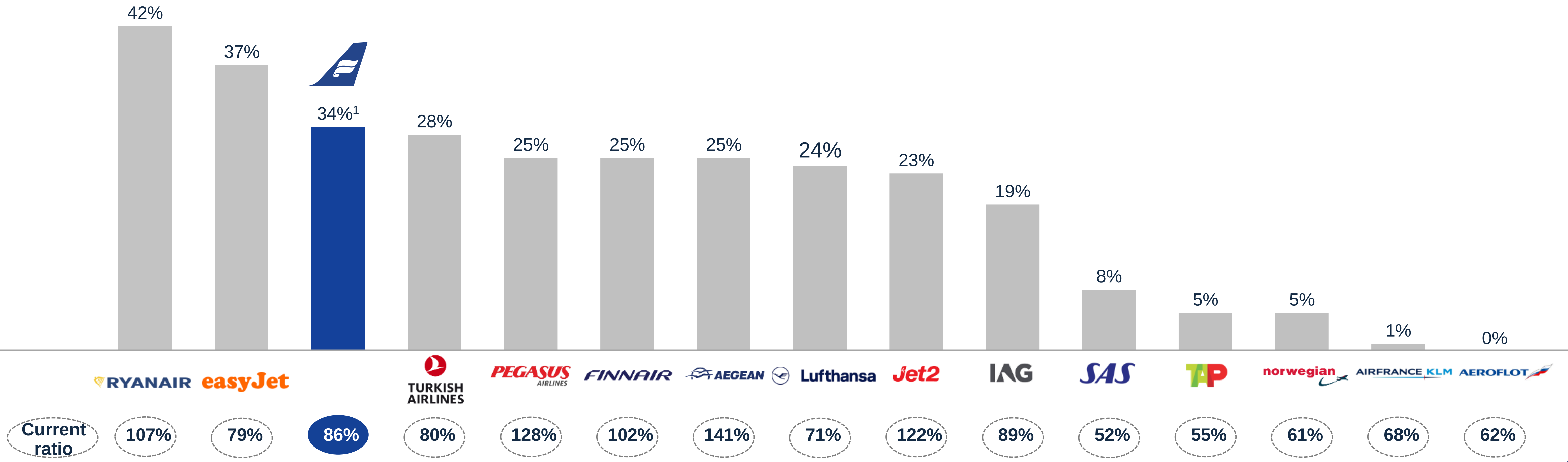
[1] Number of B757 net of aircraft in storage in 2020-2022
See page 95 for a full overview of Icelandair Group's fleet and page 96 for more detail on Icelandair's long-term fleet strategy

1. Proven and flexible business model
2. Liquidity and long-term competitiveness secured
3. Appealing investment case

Appendix

Icelandair Group’s financial position was strong before C-19

Equity ratio at year-end 2019



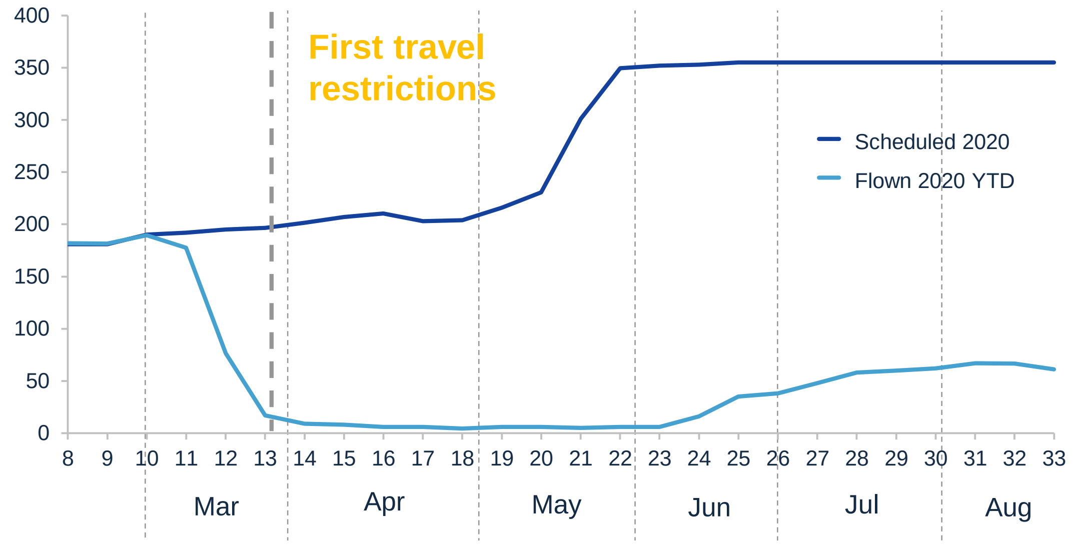
[1] Equity ratio excluding Icelandair Hotels

Sources: Annual reports and Cirium database

C-19 has caused an unprecedented shock to the global airline industry

- 2020 expected to be the **worst year for airlines in history** with net losses of USD 84 billion
  - Travel restrictions causing **55% drop in worldwide demand**
- The **impact on the global economy severe** with global GDP projected to contract by 5%
- **Globally, 32 million jobs** supported by aviation (including tourism) are at risk
- Airlines in all regions expected to record negative operating income in 2020 and **large-scale cash burn**
- Large airlines worldwide like Lufthansa, SAS, Ryanair and the major US carriers have either received or applied for **government support**

Icelandair flights per week 2020



Source: IATA

Actions taken to secure liquidity and competitiveness for the long term

- **Immediate operational actions**
- **Conservative ramp-up approach for 2020-2024**
- **Collective bargaining agreements**
- **Boeing agreement**
- **Agreements with creditors and vendors**
- **Government backed credit line**

Actions taken to minimize cash outflow while operations are stunted

Scale-down and cost reduction

+ Flights reduced to 3% of prior schedule before ramp-up
+ Excess aircraft put in long-term storage
+ Large-scale layoffs and majority of remaining employees in part-time positions before ramp-up
+ Government measures regarding salary cost and redundancies utilized

Renegotiations with key suppliers

+ Improved terms negotiated with key suppliers
+ Automation of processes resulting in high acceptance rate of travel credits
+ Salary related taxes and import duties postponed
+ Navigation fees and airport charges postponed or waived

Asset sale and restructuring

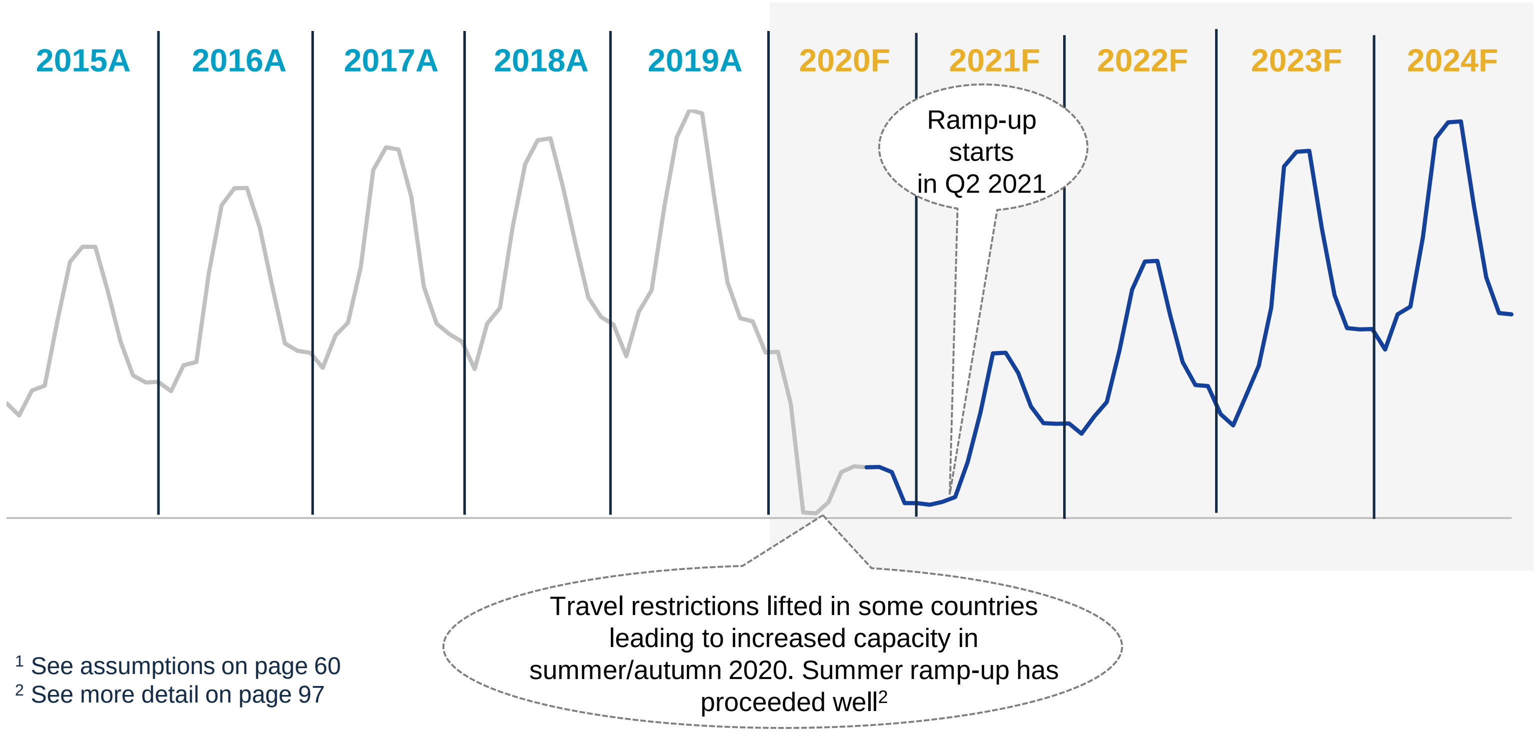
+ Completion of the sale of a 75% share of Icelandair Hotels
+ Air Iceland Connect integrated with Icelandair
+ Organizational structure simplified and number of management positions reduced

Increased revenue from cargo and leasing

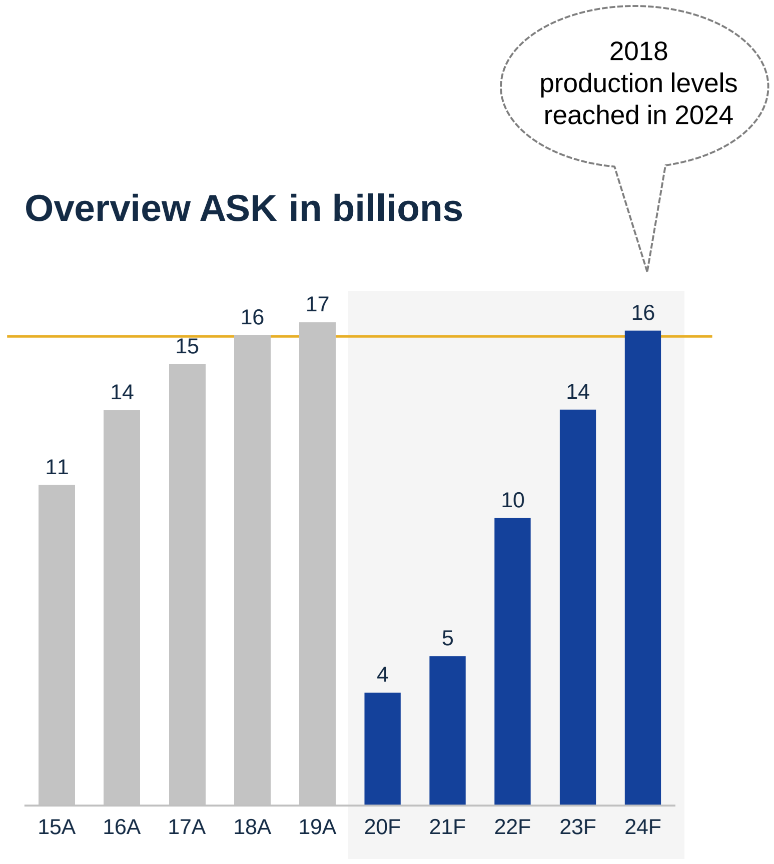
+ Resourcefulness and flexibility in the cooperation between Icelandair Cargo and Loftleiðir provided new important sources of revenue in Q2 2020
+ In response to a decrease in passenger flights, new cargo flights were launched to Boston and Europe
+ Agreements with China and Germany for transport of medical equipment
+ Passenger flight leasing projects, e.g., flights between Los Angeles and Armenia

Conservative ramp-up approach in place to navigate the years to come

Overview of production in Available Seat Kilometers (ASK) 2015-2024[1]



Overview ASK in billions

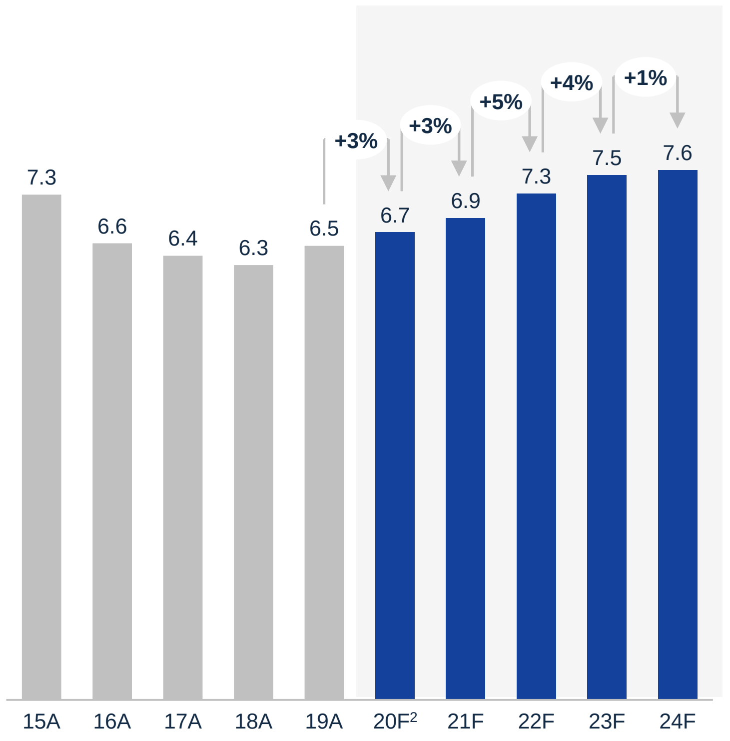


[1] See assumptions on page 60
[2] See more detail on page 97

Icelandair has several tools in hand to boost unit revenues in the future

RASK[1] development 2015-2024

US Cent



Strategic decisions determine overall RASK positioning

- **The major determinants of Icelandair's unit revenues are the size, shape and focus of the route network**, choice of aircraft types and product positioning (see detail in appendix, page 99)
- In addition, macro factors, most notably the **transatlantic capacity situation and fuel prices, result in unit revenues movements** based on competitive dynamics
- Keeping the large strategic decisions and macro factors fixed, **Icelandair's ability to affect unit revenues** is due to the following main factors:
  - Icelandair has a strong position in its core markets. The company will add capacity back into the core markets in a rational manner, making sure that supply meets demand at sustainable unit revenue levels
  - Managing the network efficiently through decisions on capacity, frequency, departure times, route-aircraft pairing, cancellations etc.
  - Optimizing passenger revenues through revenue management methods
  - Providing customers with value-adding ancillary products for sale. These include Icelandair service components (e.g., meals on board) but also 3rd party products (e.g., tours and accommodation at destination)
  - Stimulating demand through effective sales and marketing
  - Facilitating widespread and fruitful distribution of Icelandair's products
  - Developing Icelandair's cargo business and using the belly space in Icelandair's passenger aircraft to transport freight

[1] At nominal prices. RASK = Revenue per available seat kilometer (see page 98)
[2] Excluding effects of compensation from Boeing due to the grounding of the B737MAX

Icelandair is in a position to increase its RASK and the market environment is expected to provide a tailwind post C-19

Icelandair has the capability to drive stronger revenue generation going forward…

The company's **strong position in the KEF hub** can drive revenue premiums in the TO/FROM markets in the coming years:
+ Icelandair share of seats: 66%[1]
+ Attractively-timed slots
+ Maximum connectivity for passengers due to largest network
+ Strongest brand in the market

The weakest and **least profitable capacity will be removed** from the route network resulting in higher overall RASK. Moreover, as Icelandair continues to replace B757s with B737-MAX8 aircraft there will be a natural downgauging in the network which will stimulate RASK

Icelandair's **new union agreements facilitate business development** and open previously inaccessible network and charter opportunities

… Moreover, the Company expects the macro environment in the years following C-19 to be favorable

The C-19 crisis is of such magnitude that the exit of weaker airlines from the market is to be expected. Additionally, surviving airlines will retire older aircraft due to the time it will take for the market to fully recover. In other words, **C-19 will force a significant capacity rationalization**

Within 2 years, Icelandair's markets are believed to have reached a new equilibrium. **A period of capacity restraint and stable yields followed previous aviation crises and the same is to be expected now**. In such a scenario, Icelandair will have exciting network development opportunities

At the moment, the ISK is historically weak translating **to increased competitiveness versus non-Icelandic competitors** providing a tailwind

[1] Share of seats in market, last 12 months before C-19, i.e., March 2019 to February 2020. Source is SRS Analyser

Network planning will be adapted to market conditions with a focus on ensuring profitability at all times

Illustrative network development framework

Weak ISK labor cost competitive	**TO/FROM focused growth** • Grow network moderately • Focus on TO/FROM markets • Add TO/FROM destinations • Increase frequency to core TO/FROM destinations • Defend VIA position	**Virtuous growth cycle** • Grow network rapidly • Add destinations • Increase frequency to core destinations • Focus on VIA market • Build new point-to-point markets
Strong ISK labor cost disadvantage	**Defensive position** • Low to negative capacity growth • Cut unprofitable capacity • Focus on TO/FROM markets • Reduce emphasis on VIA market • Identify profitable niches	**VIA-focused growth** • Maintain network size • Show capacity restraint • Focus on most profitable parts of the TO, FROM and VIA markets to make up for high costs • Find profitable niches in VIA market
	Weak VIA market overcapacity and low yields	**Strong VIA market** capacity balance and high yields

Strong pipeline of initiatives in place to support revenue generation in the coming years

Product development to drive ancillary revenues

+ 3rd party ancillary products providing commission revenues
+ Chargeable seats
+ Pay for empty middle seat
+ Strong pipeline farther out

Revenue management investments

+ New dynamic pricing systems
+ Advanced O&D price optimization resulting in 2-4% increase in RASK
+ Closing gap to best-in-class revenue management

New partnerships on the horizon

+ Partnership with Air Baltic announced in July. Talks ongoing with carriers in Europe, N-America and China
+ Partnerships lead to wider distribution and new otherwise inaccessible revenues sources

Optimization of distribution channel mix

+ Ongoing efforts to optimize Icelandair's distribution channel mix, e.g., by limiting some capacity to own channels and other to 3rd party channels

Product and service adjusted

+ To ensure Icelandair's products and services are aligned with customer demand post C-19

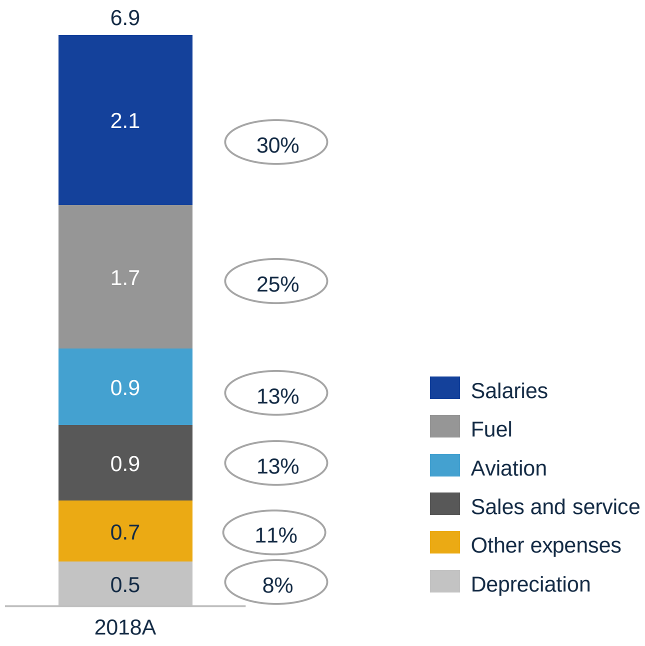
Opportunities in Cargo business

+ Continue increasing utilization of belly space in passenger aircraft
+ Growth in local salmon farming and marine industry in general driving exports
+ Further development of cargo hub in Iceland

Ability to affect cost structure varies across cost categories

Icelandair cost structure 2018

CASK in US Cent[1]



Ability to affect cost categories varies

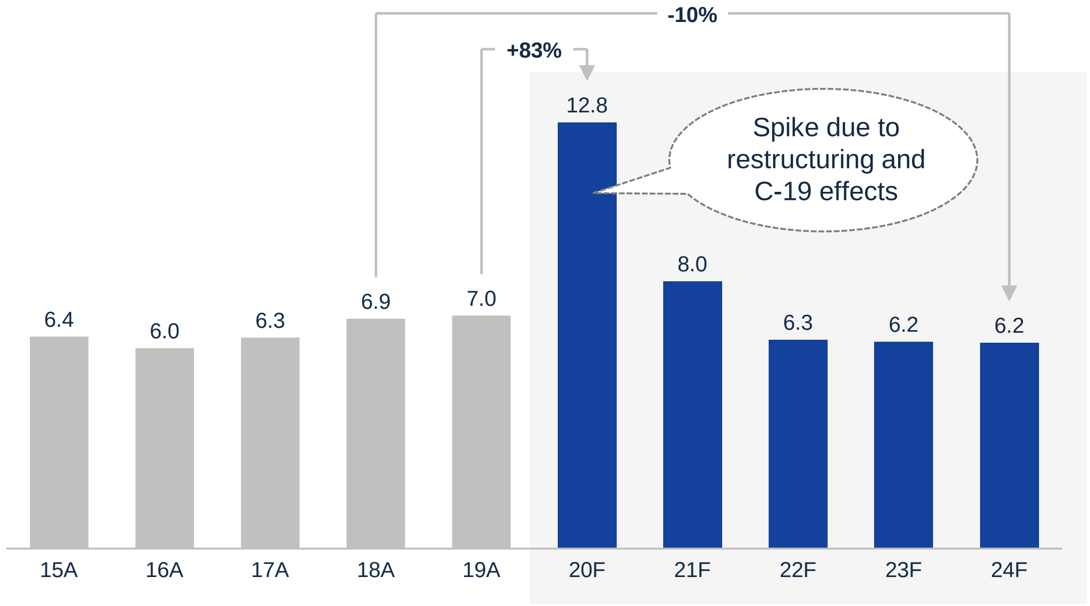
- **The major determinants of Icelandair's cost structure are the size, shape and focus of the route network**, choice of aircraft types and product positioning (see detail in appendix, page 99)
- **These strategic decisions have major effects** on fuel costs, aviation costs (including maintenance, ownership and handling costs in addition to landing and navigation fees), salaries due to crews and employees in ground operations, and passenger related costs
- Salary costs are a large cost category for all airlines but comparison between airlines is complicated due to different choices on outsourcing activities vs. keeping them in-house. **Icelandair outsources relatively few activities** and thus has a relatively large salary cost category
- Keeping those strategic decisions fixed, **Icelandair's ability to affect its cost structure is different depending on cost buckets**
  - **Most influence over:**
    Sales and service (sales, marketing and disruption costs), salaries (salary level) and overhead (part of other expenses)
  - **Moderate influence over:**
    Service costs and handling and maintenance costs (part of aviation and salaries costs categories)
  - **Little influence over:**
    Fuel costs, ownership costs (part of aviation cost category) as well as landing and navigation fees (part of aviation cost category)

[1] CASK = Cost per available seat kilometer (see page 98)

Restructuring and continuous improvement initiatives targeted to drive 10% CASK decrease

Cost per available seat kilometer[1]

US Cent



- The **year 2018 is used as the base** for comparison as 2019 was heavily affected by the grounding of the Boeing 737MAX and 2020 by the effects of C-19
- **2024 is the most useful year to compare against** 2018 as that is the year production is expected to reach pre C-19 levels
- More **efficient fleet, new flight planning system implementation, new salary agreements, cost control and favourable macro factors** to decrease CASK from 2018
- Analysis **assumes no significant external changes,** e.g., in regulatory environment, customer demands or other factors affecting all airlines

[1] At nominal prices. See assumptions on page 60

Estimated impact[1]	Percentage effect
High	>20%
Substantial	10-20%
Moderate	<10%

All levers pulled to lower CASK and ensure future competitiveness

New aircraft to lower fuel and maintenance cost

+ Fuel consumption of new aircraft up to 27% lower per seat than older aircraft
+ New aircraft require less maintenance
+ Estimated impact[1]: **Substantial**

New improved union agreements

+ Up to 25% efficiency improvement in new pilot agreement
+ Up to 20% efficiency improvement in new cabin crew agreement
+ Over 10% efficiency in new mechanic agreement
+ Estimated impact[1]: **High**

Process improvements to lower delay/rerouting costs

+ Recent changes to internal processes have already yielded significant reduction in delay and rerouting costs through improved punctuality and better planning
+ Estimated impact[1]: **High**

Organizational changes, outsourcing and automation

+ Simplification of organization and reduction in overhead
+ Continued outsourcing of expensive local activities
+ Continued process automation
+ Estimated impact[1]: **Substantial**

Process improvements lower crew, fuel and navigation costs

+ Investments in crew planning lowering crew costs by ~5%
+ Flight planning systems and processes lowering fuel and navigation costs by ~6%
+ Estimated impact[1]: **Moderate**

Lean process in maintenance and ground operations

+ Mature Lean Culture in maintenance facility
+ “Lean turnaround” at KEF airport
+ Better planning in Technical Operations
+ Estimated impact[1]: **Moderate**

Renegotiation with suppliers and strategic procurement

+ Systematic renegotiation with suppliers following C-19
+ Strategic procurement going forward
+ Estimated impact[1]: **Moderate**

Various other initiatives underway or on the horizon to lower Icelandair’s cost base

[1] On affected cost categories, change from 2018-2024

New union agreements increase efficiency and afford flexibility to develop route network

The new union agreements would have raised Icelandair's EBIT by USD 29 million in 2020 based on the company's budget assumptions. That is equivalent to a rise of 2pp in terms of EBIT%

Pilots

+ Increased pilot utilization due to relaxation of clauses related to duty times, rest and off days
+ Reduction in number of vacation days
+ Relaxation of clauses limiting feasibility of flights to Southern Europe, US West Coast and new markets
+ Contract valid until 30.9.2025

Cabin crew

+ Increased block hours from each crew member and more efficient rostering
+ More flexibility to develop the route network
+ Continued co-operation towards finding additional CASK improvements and simplifying the agreement
+ Contract valid until 30.9.2025

Flight Mechanics

+ Increased efficiency in line maintenance due to relaxed shift pattern restrictions
+ Increased flexibility to use maintenance assistants for non-specialized tasks in shops
+ More flexibility to use temporary labor in peak season of certain mechanic services
+ Contract valid until 31.12.2025

Landmark pilot agreement brings operational stability while supporting longer-term competitiveness

The agreement is expected to deliver targeted improvement levels

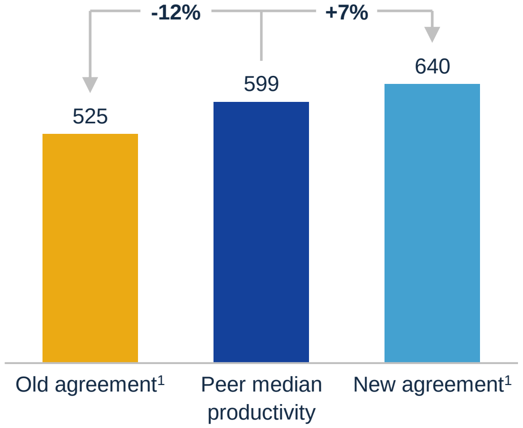
+ 22% improvement in pilot productivity
+ 25% pilot CASK reduction (at fixed price level) compared to earlier contract
+ More flexibility to develop and expand network
+ New contract increases competitiveness with regards to leasing and cargo projects which will unlock new revenues

Long-term stability, cost transparency and commercial flexibility

+ 5-year agreement
+ Increased Company discretion for commercial decisions
+ Simplified contract – outdated provisions eliminated

Productivity improvements expected to bring Icelandair in line with or ahead of peers

Annual block hours



Icelandair's response especially timely compared to response of other carriers

+ "While airlines worldwide are working to formulate their C-19 recovery responses and partly still focusing on implementing temporary measures, Icelandair has seized structural changes in a short timeframe," **Seabury**

SEABURY CONSULTING now part of accenture

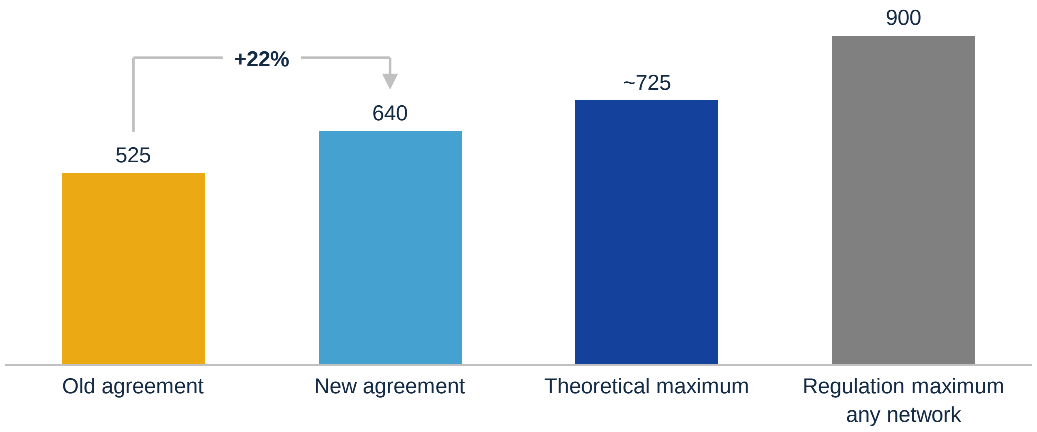
Seabury is a specialized aviation consultancy that assisted Icelandair during the union negotiations in the spring of 2020

[1] Based on Icelandair's 2020 budget assumptions

Icelandair's new pilot agreement will lead to significantly increased pilot utilization

Number of block hours per year

The number of block hours flown by each pilot **rises by 22% per year** with the new union agreement



- Due to international aviation regulations, the **number of annual block hours cannot exceed 900** at any airline
- With the structure of Icelandair's network and allowing for the effects of training and sick days in a typical year the theoretical **maximum number of block hours for Icelandair's pilots is ~725**
- The difference between Icelandair's estimated number of block hours with its new union agreement, and the realistic maximum, is mostly due **Icelandair continuing to adhere to Icelandic labour market conventions** (e.g., regarding sick leave and off days)
- The **new pilot agreement would have lowered Icelandair's costs by USD ~17 million in 2020** using the company's budget assumptions

Increased cabin crew productivity is in line with industry median and allows more efficient rostering

Improvement from older contract in terms of block hours guaranteed per month

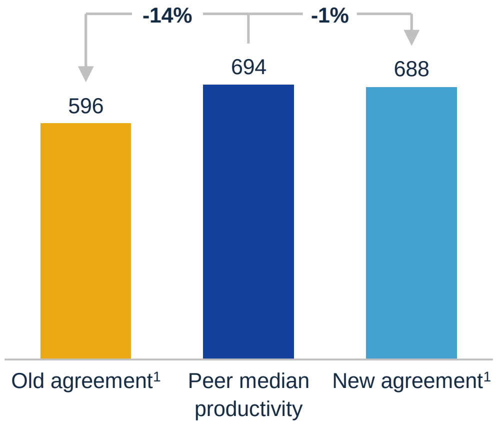
+ 70 guaranteed block hours for permanent full-time employees – up from 65 hours in older contract
+ 75 guaranteed block hours during first two years of employment
+ In line with industry practice

Simplified management structure and more efficient rostering

+ Agreement is more closely aligned with regulatory minimums, allowing for more efficient rostering
+ Increases network flexibility and development potential
+ Icelandair and the union will work together to achieve an additional 4% cost reduction
+ A total CASK reduction of 20% (at fixed price level) compared to earlier contract

Productivity per year comparable with main peers

Annual block hours



Long-term labor stability, cost transparency and commercial flexibility

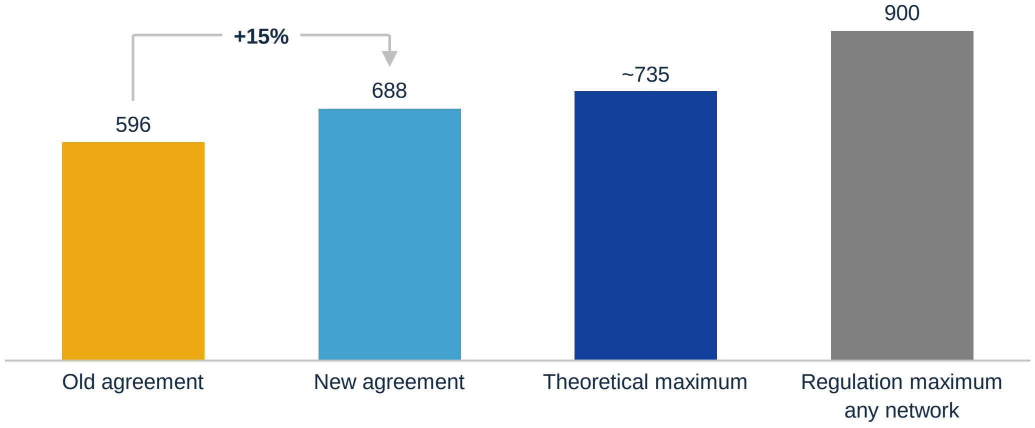
+ 5-year agreement
+ Increased Company discretion for commercial decisions
+ Simplified contract - outdated provisions eliminated

[1] Based on Icelandair's 2020 budget assumptions

Icelandair's new cabin crew agreement will lead to significantly increased cabin crew utilization

Number of block hours per year

The number of block hours flown by each pilot **rises by 15% per year** with the new union agreement



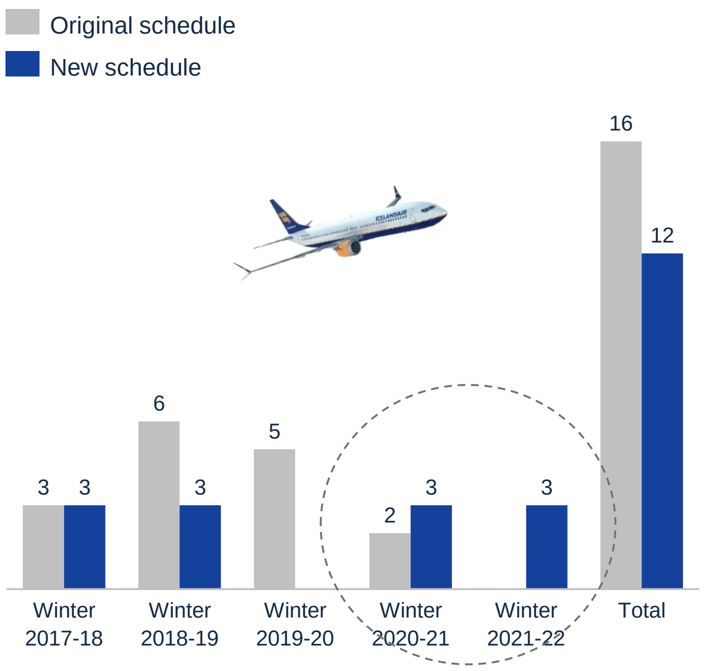
- Due to international aviation regulations, the **number of annual block hours cannot exceed 900** at any airline
- With the structure of Icelandair's network and allowing for the effects of training and sick days in a typical year the theoretical **maximum number of block hours for Icelandair's cabin crew is ~735**
- The difference between Icelandair's estimated number of block hours with its new union agreement, and the realistic maximum, is mostly due **Icelandair continuing to adhere to Icelandic labor market conventions** (e.g., regarding sick leave and off days)
- The **new cabin crew agreement would have lowered Icelandair's costs by USD ~9 million** in 2020 using the company's budget assumptions

Renegotiated terms with Boeing eliminate uncertainty regarding the B737 MAX orderbook and delivery timeline

B737 MAX order

- Icelandair ordered **16 B737 MAX aircraft** in 2013
  - 6 aircraft have been delivered; 3 in 2018 and 3 in Q1 2019
  - 10 aircraft are undelivered. These were planned for delivery in 2019-2021
- The new settlement decreases Icelandair’s future **purchase commitment from 10 aircraft to 6**
  - Financing of the pre-delivery payments for all 6 aircraft has been secured
- The MAX aircraft have been grounded since March 2019. Important milestones have been completed in recent weeks and **Icelandair now expects recertification in Q4 2020**

B737 MAX delivery schedule



Financial effects of the settlement

The combined cash improvement and reduced financial impact amounts to **USD ~260 million**

- Reduction in purchase commitment by 4 aircraft
- Cash compensation due to the MAX grounding
- A substantial portion of the compensation will have been realized by the second quarter of 2021
- Discounts towards remaining MAX aircraft purchase price

Agreements with creditors and vendors improve liquidity during minimal operations period and decrease financial liability

Creditors Number (#) Exposure at Q2 2020 end	**Liquidity improvement/ financial liability decrease** USDm[1]	**Results achieved**
Lenders (4) USD 266m	103 ✓	+ All **capital repayments postponed by up to 24 months**, amounting to USD 51 million + **Rolling credit facility lines secured** amounting to USD 52 million + **Financial covenants renegotiated** until Q1-Q3 2022
Acquirers (2) USD 170m[2]	31 ✓	+ **Payment terms** with largest acquirer (70% of volume) contracted **to remain unchanged during low production period with reasonable and modest adjustments to a new normal once ramp-up starts** + **New long-term agreement with improved payment terms** with the 2nd largest in final stages, expected to be signed before end of Q3 2020 + Key acquirers to **facilitate passenger refunds of up to USD 31 million**
Lessors (4) USD 116m	9 ✓	+ All lessors agreed to payment **deferrals by up to 12 months**; both flat deferrals and pay by the hour utilization deferrals
Hedging (5) USD 36m	7 ✓	+ **Hedging contract rolled forward over 24 months** with largest counterparty + **Hedging contracts closed with a discount** for 4 other counterparties
Total (15) USD 588m	150 ✓	+ **Seabury Securities, a specialized international aviation restructuring advisory, led the restructuring negotiations with creditors on behalf of Icelandair Group**
Vendors	~300 ✓	+ **Settlement agreement with Boeing** + **Substantial results achieved in negotiations with vendors** in relation to large expense categories (e.g., airline IT & distribution, jet fuel, maintenance, airports and materials) via renegotiated agreements, deferrals, discounts and reduction in purchase commitments
Total	**450**	

See additional detail on page 61

[1] Total participation in restructuring, including discounts, payment holidays and deferrals
[2] Value of paid but unused tickets
[3] Icelandair Group retains favorable terms receiving cash from new revenue shortly after selling tickets; a change in terms to when flight are flown could have resulted in a significant added liquidity need

Term sheet for a Government backed line of credit

Subject to parliamentary approval and successful share offering

- Total available credit of USD 120 million
- Nominal interest decided by Libor + margin, with a step up in margin as more of the line is drawn
- Provided in equal parts by Íslandsbanki and Landsbankinn
- 90% guarantee by the Icelandic Government
- 2-year drawdown period with final maturity after 5 years
- Can be terminated by the Company during the 2-year drawdown period
- Financial covenant of minimum 2% equity ratio

1. Proven and flexible business model
2. Liquidity and long-term competitiveness secured
3. **Appealing investment case**

Appendix

A proven business model, competitiveness and growth opportunities make Icelandair Group an appealing investment

Proven and flexible business model

Improved competitiveness to ensure profitability going forward

Strong position in highly attractive Icelandic tourism market

Opportunities to grow unique transatlantic hub

Investment can provide attractive return for investors

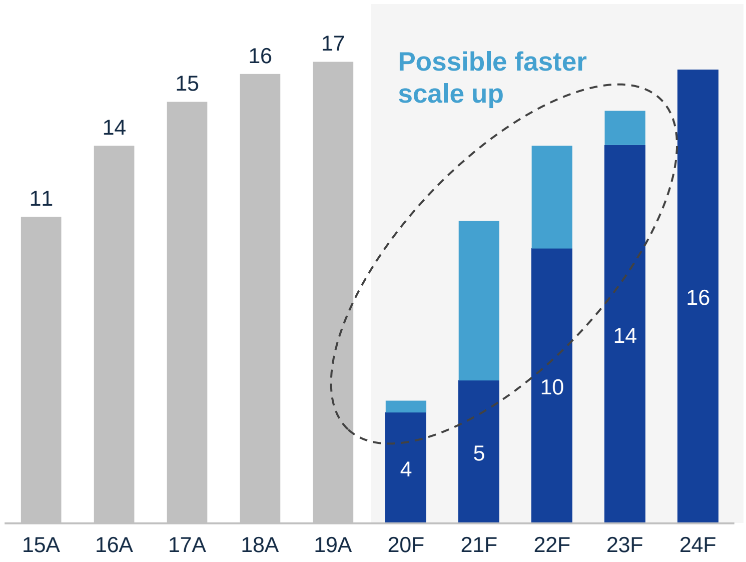
The operational forecast is based on a gradual ramp-up…

If markets show stronger demand Icelandair has the flexibility to respond quickly

+ Current **actions are focused on withstanding a potentially prolonged period of below normal demand**, while still maintaining the ability to easily ramp up supply as international travel picks up
+ This **gradual ramp-up is used as a basis for the investment case**, where operations are ongoing at a minimum level until May 2021 (dark blue columns)
+ Icelandair is **well positioned to respond quickly** to a potentially faster recovery in markets (light blue columns)

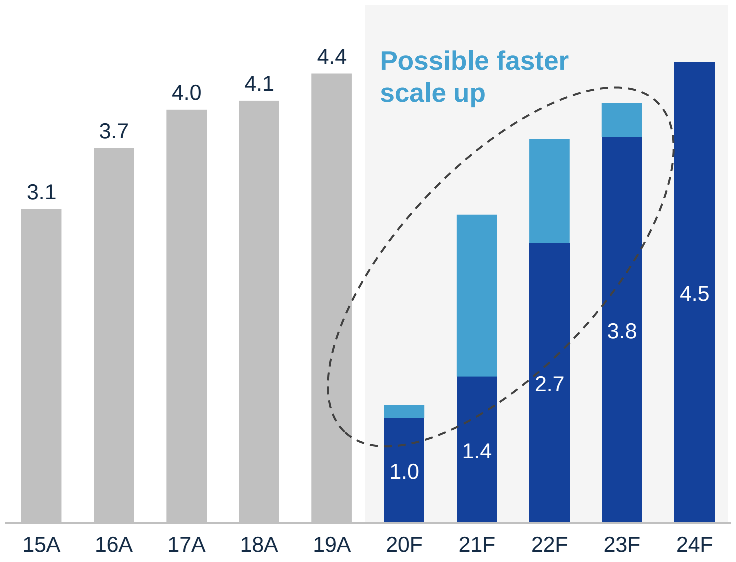
ASK 2015-2024

in billions



Passenger 2015-2024

in millions

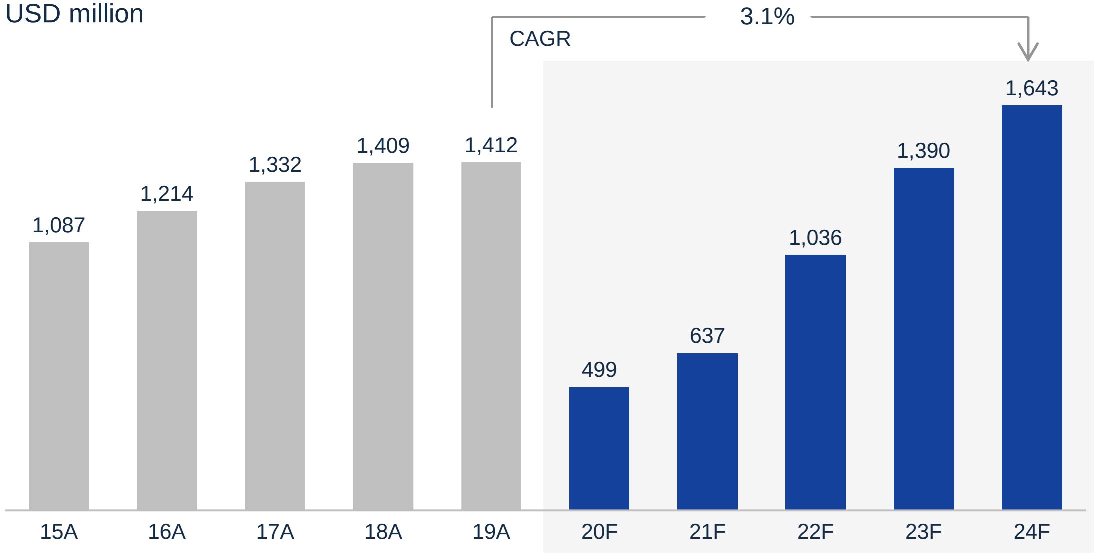


 See page 100 for additional information

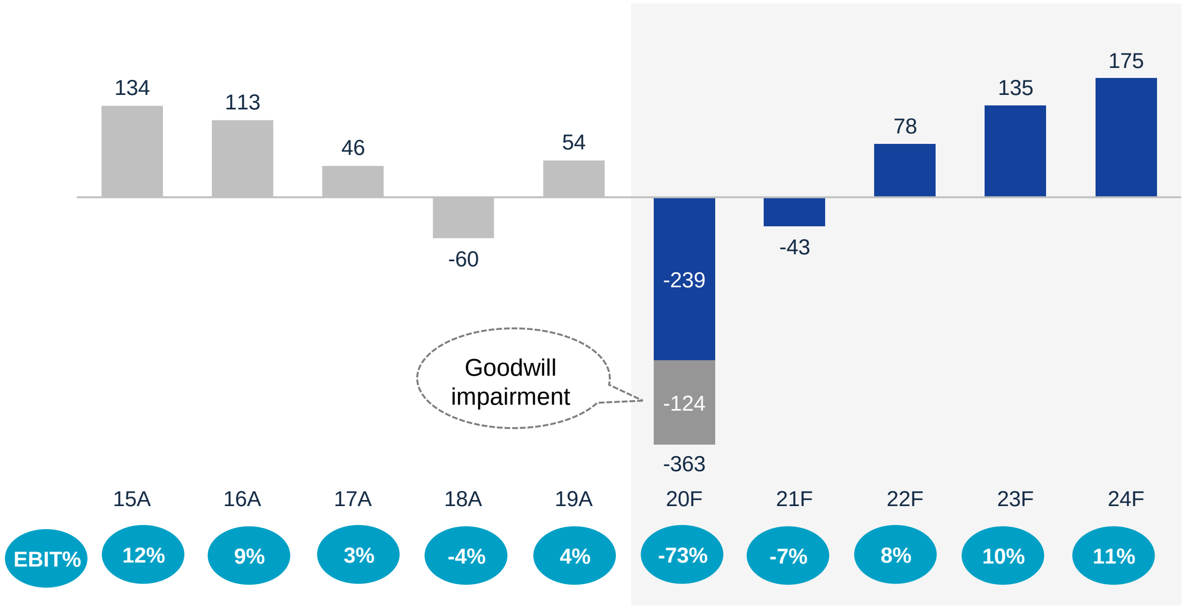
… seeing Icelandair Group regain previous profitability in 2024

Flexibility to react sooner if demand recovers faster

Revenues[1]
USD million



EBIT[1 and 2]
USD million

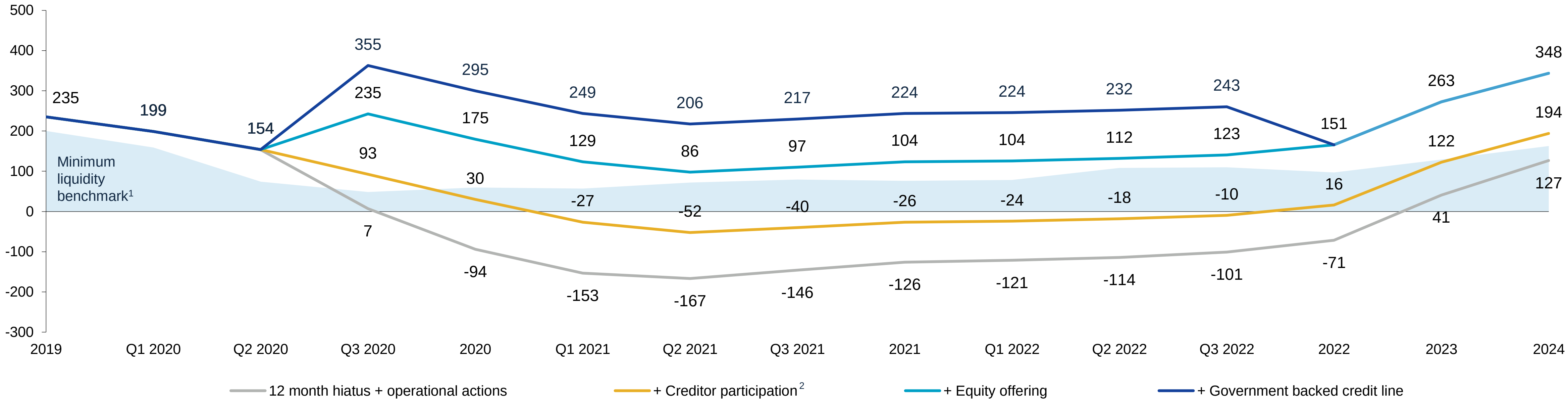


See page 60 for assumptions and pages 62-72 for additional information
[1] Revenue and EBIT figures excluding Icelandair Hotels.
[2] EBIT figures for 2019-2024 are according to IFRS16, but prior years are not adjusted for IFRS16. Therefore, 2019-2024 EBIT figures are not directly comparable to earlier years as they would have been lower by ~1% if they were not in accordance with IFRS16. EBIT in 2019 is adjusted for the estimated net negative effect of the MAX suspension in 2019 of USD 100 million

The share offering will secure a strong projected liquidity position…

Liquidity position

USD million

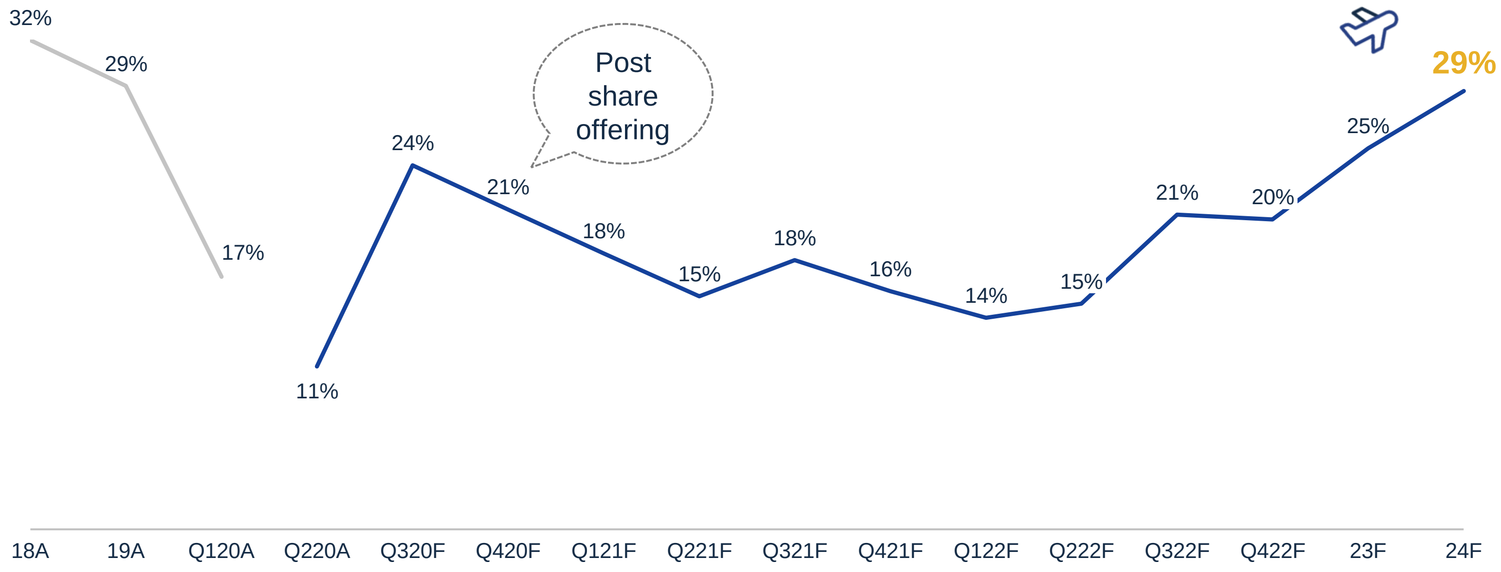


[1] 3 month fixed operational cost in line with the Company's liquidity management policy

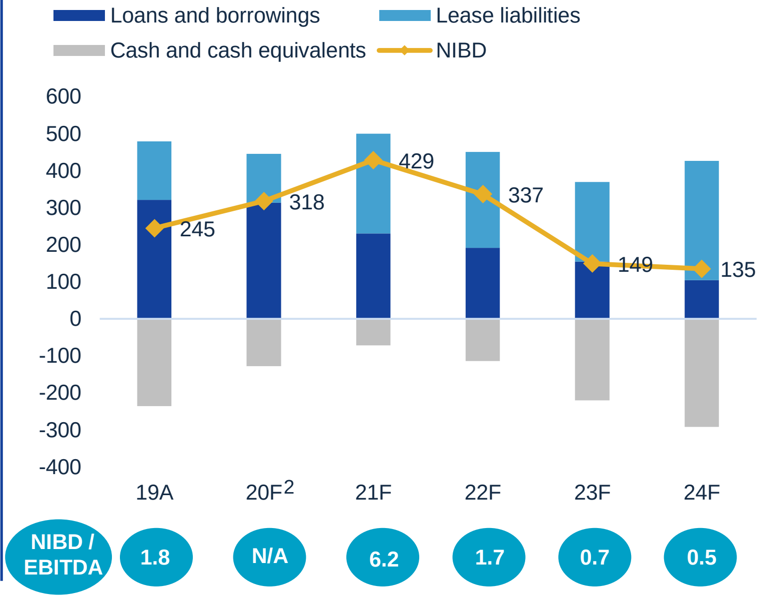
[2] Includes concessions from key creditors and the agreement with Boeing. See pages 44 and 45 for more information

…and a healthy balance sheet

Equity ratio
End of period



Net interest-bearing debt[1]
USD million



[1] Net interest-bearing debt is Loans and borrowings + Lease liabilities – Cash and cash equivalents
[2] NIBD in 2020 includes EUR 150 million from the proposed share offering

Long term targets aimed at profitability and resilience

Operational profitability

EBIT over 8%[1] through the cycle

Financial strength

Equity ratio between 20-25%

Liquidity buffer

3 months fixed operational cost with USD 60 million minimum

[1] See page 73 in appendix for further information

Long term targets aimed at profitability and resilience

Bridge to and from Iceland and between Europe and North America
Build on strong market position and infrastructure

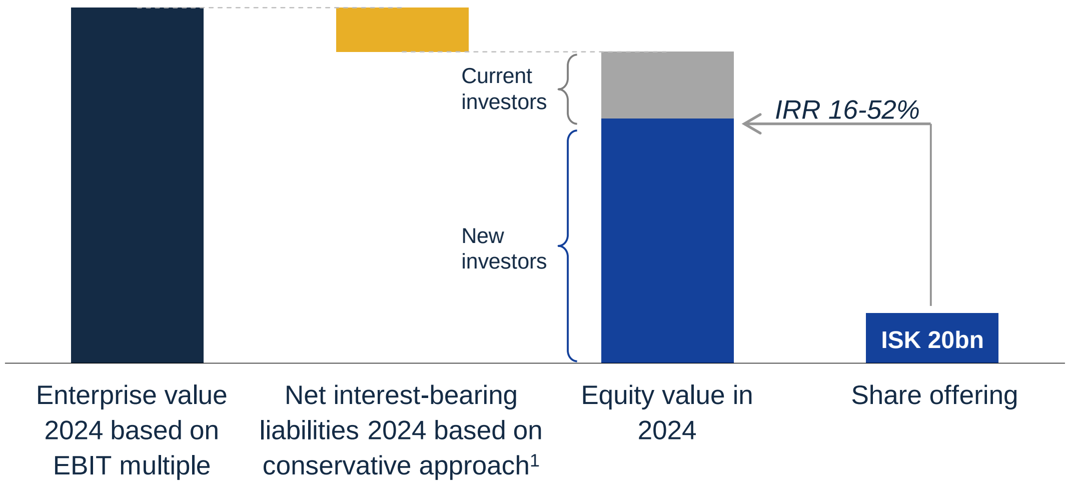
Sustainable network expansion
Adaptable network development focused on ensuring profitability at all times

The most customer-focused airline in our markets
Revenue premium driven by customer-centric products and service

Investment in Icelandair Group could deliver attractive returns for investors

Illustrative scenario

Derivation of the expected annual return from offering date to end of 2024



Internal rate of return sensitivity analysis[2]

Annual rate of return from share offering to end of conservative approach in 2024

Long-term EBIT goal (8.0%)

EV/EBIT multiple[3] \ EBIT% (long-term, after 2024)	5.0%	6.0%	7.0%	8.0%	9.0%
6.0x	16%	23%	29%	34%	38%
6.5x	19%	26%	32%	37%	41%
7.0x	22%	29%	35%	40%	44%
7.5x	25%	31%	37%	42%	47%
8.0x	27%	34%	40%	45%	49%
8.5x	29%	36%	42%	47%	52%

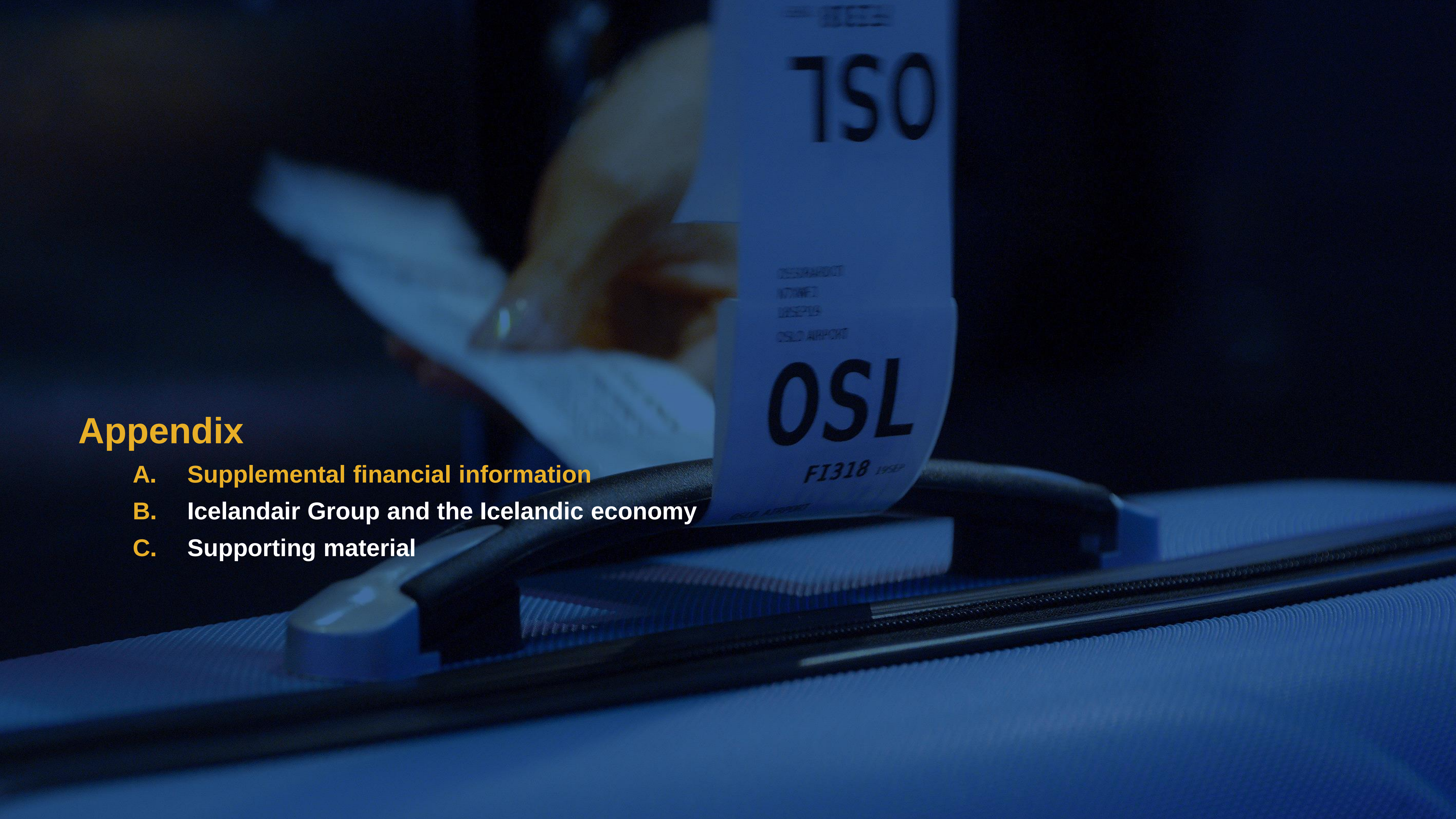
Return calculations are only for illustrative purposes
[1] Cash flow received according to conservative approach reflected in net interest-bearing liabilities
[2] Excluding warrants
[3] For data on historic EV/EBIT multiples of comparable companies see page 74 in appendix

Key terms of the share offering

	Book A	Book B
Base size ISK 20 billion[1]	ISK 17 billion purchase value	ISK 3 billion purchase value
Right to increase size up to ISK 23 billion	In case of oversubscription the Issuer has the right to increase the share offering by up to ISK 3 billion purchase value. If fully utilized, the share offering would thereby amount to ISK 23 billion[1]	
Offering Price	Fixed price of ISK 1.0 per share as determined by the Board of Directors	
Subscription amounts	Minimum of ISK 20 million (purchase value) Maximum equal to total share offering	Minimum of ISK 250 thousand (purchase value) Maximum of ISK 20 million (purchase value)
Share allotment rules	The Board of Directors has unilateral authority to determine share allotment in case of excess demand. In case of oversubscription, efforts will be made to provide full allotment to employees and shareholders. If possible, subscriptions less than ISK 1 million (purchase value) will receive full allotment	
Warrant	Purchase of each new share will include a 25% warrant which can be exercised in steps over a two-year period following the Offering The exercise price will be the Offering Price + 15% annual interest	
Offer period	From 9am on 14 September 2020 to 4pm on 15 September 2020	
Other	The share offering, and its terms are contingent upon approval of Icelandair Group's shareholder meeting Payments for subscriptions will be conditioned on parliamentary approval of the Government backed credit line	

[1] Based on final demand in the share offering, the Issuer has full right to amend, increase or decrease, the number of shares that are offered in Order Book A and Order Book B

The terms of the offering will be presented in detail in the Company's prospectus to be published in anticipation of the share offering. In case of any discrepancy between the Investor Memorandum and the prospectus, the terms presented in the prospectus shall be considered the correct applicable terms



Appendix

A. Supplemental financial information

B. Icelandair Group and the Icelandic economy

C. Supporting material

Guide to Appendix A (1/2): Supplemental financial information

Appendix slide number and title		Supplemental information to slide number and title	
60	Key assumptions fleet, load factor and macro factors	31	Conservative ramp-up approach in place to navigate the years to come
		37	Restructuring and continuous improvement initiatives targeted to drive 10% CASK decrease
		50	… seeing Icelandair Group regain previous profitability in 2024
61	Icelandair Group entered the pandemic with strong liquidity and low leverage, limiting maneuverability with creditors	45	Agreements with creditors and vendors improve liquidity during minimal operations period and decrease financial liability
62	Operational forecast and financial model are based on current plans and assumptions and are subject to various risk factors	50	… seeing Icelandair Group regain previous profitability in 2024
63	C-19 related one-off cost in 2020 estimated USD 210 million		
64	CASK in 2024 expected to decrease by 10% compared to 2018		
65	Favorable CASK comparison holding price and currency levels fixed		
66	Bounce-back from hiatus reflected in revenue growth and increased margins		
67	Icelandair has made conservative assumptions regarding salary increases in the coming years		
68	Strong balance sheet fundamentals to support operations going forward		
69	Fleet and production are the drivers of maintenance CapEx and new liabilities		
70	Working capital liabilities and cash will increase as production and sale of new tickets ramps up		
71	Response to C-19 disruption has resulted in a temporary deviation from fuel hedging policy		
72	Overview monthly operational cost cash outflow for the next 12 months		

Guide to Appendix A (2/2): Supplemental financial information

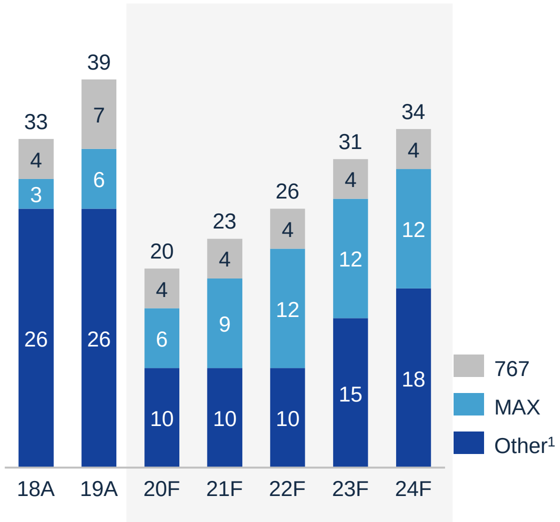
Appendix slide number and title		Supplemental information to slide number and title	
73	Target of 8% EBIT ratio over the cycle	53	Long term targets aimed at profitability and resilience
74	EV/EBIT of comparable companies is ~8.3x over the past decade	55	Investment in Icelandair Group could deliver attractive returns for investors

Key assumptions fleet, load factor and macro factors

2020-2024

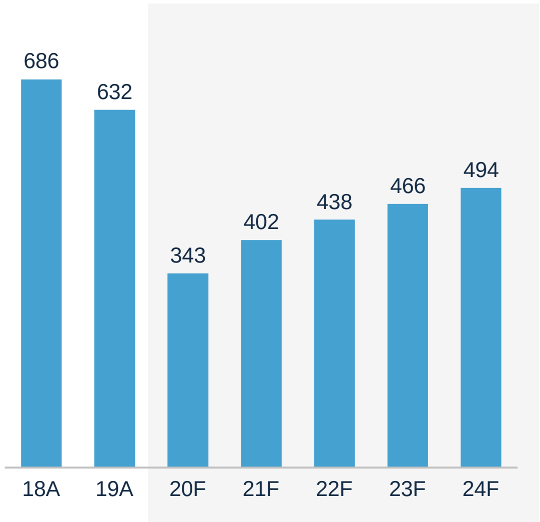
Fleet

Overview



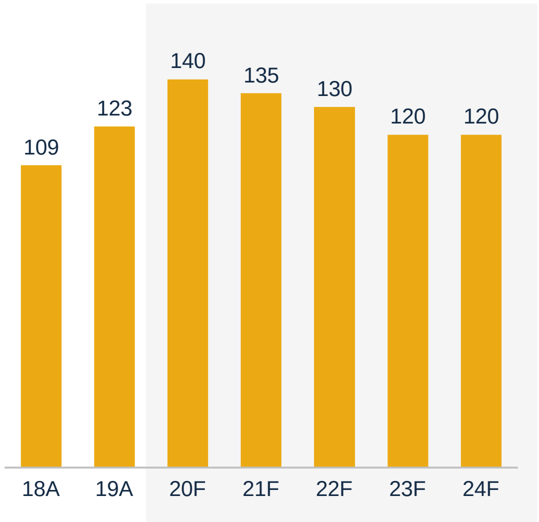
Fuel USD/Tonne[2]

Forward prices



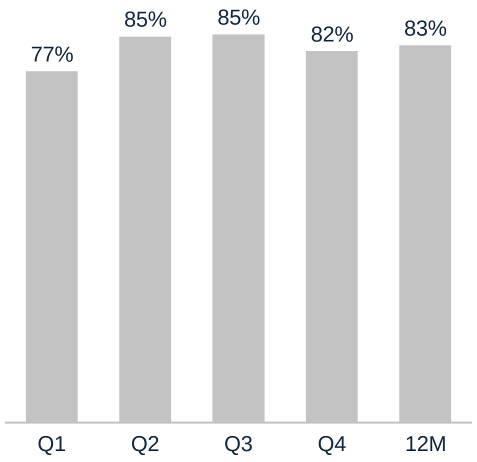
USD/ISK[2]

Forward prices



Load factor

Per quarter from 2021Q3



[1] Number of other are net of aircraft in storage in 2020-2022
[2] Price assumptions are based on Bloomberg indications. Projected fuel prices refer to the average JET CIF NWE swap prices pr. calendar year and the USDISK is based on the spot price as a representative for the first year and a presumed scenario of a ISK mean reversion to a longer term value.

Icelandair Group entered the pandemic with strong liquidity and low leverage, limiting maneuverability with creditors

Strong balance sheet

+ Icelandair Group entered the C-19 pandemic with a relatively strong balance sheet compared to other airlines
  + 34% equity ratio
  + Indebtedness of NIBD/EBITDA at around 1.8x
  + Liquidity of USD 235 million in cash and cash equivalents at year end 2019

Competitive terms

+ Based on low loan-to-value of debt, reputable operational history and long-standing relationships with lenders, the terms on Icelandair Group's financing are competitive
+ The low LTV of secured loans as the Company entered this turmoil has resulted in lenders still being in good collateral position, even as the market value of aircraft has deteriorated

No defaults

+ All contractual payments on loans and leases have been timely made to date
+ No covenants were in breach at year end 2019, prior to the pandemic, and the same is true following the conclusion of the financial restructuring

No unsecured bonds

+ Following the refinancing of two listed unsecured bond categories in 2019, there were no outstanding unsecured bonds at the beginning of the pandemic

Securing liquidity

+ The negotiations with creditors have focused on realigning cash outflow to match expected future cash inflow, and preserving liquidity
+ That entails postponing capital repayments fully or partly in the short to medium term, based on the relevant creditors' position and repayment profiles
+ Icelandair Group has retained its undrawn bank credit and has agreed to a Government backed line of credit pending parliamentary approval

Covenant adjustments

+ Financial covenants have been renegotiated until Q1-Q3 2022 when initial covenants start to apply again. The financial covenants that apply until Q1-Q3 2022 are equity covenants that have been adjusted in accordance with the restructuring plan and new equity issue, assuming a successful share offering

Operational forecast and financial model are based on current plans and assumptions and are subject to various risk factors

General macro-economic conditions

+ Prolonged effects of the C-19 pandemic can have significant impact on international travel
+ Operations are highly correlated to local as well as global economic conditions
+ Exposure to geopolitical tensions and sanctions which can impact demand for flights

Airline and tourism industry

+ Competition is fierce and can place downward pressure on yields
+ Industry is highly sensitive to jet fuel prices and availability
+ Vulnerability to disruptions and interruptions in flight schedules due to various reasons
+ Currency fluctuations can affect competitiveness

Core operations

+ Dependent on airport access and certain preferred time slots
+ High level of fixed costs making it vulnerable to fluctuations in passenger numbers and fare pricing
+ Exposure to currency, credit and liquidity risk

Legal, regulatory framework and taxes

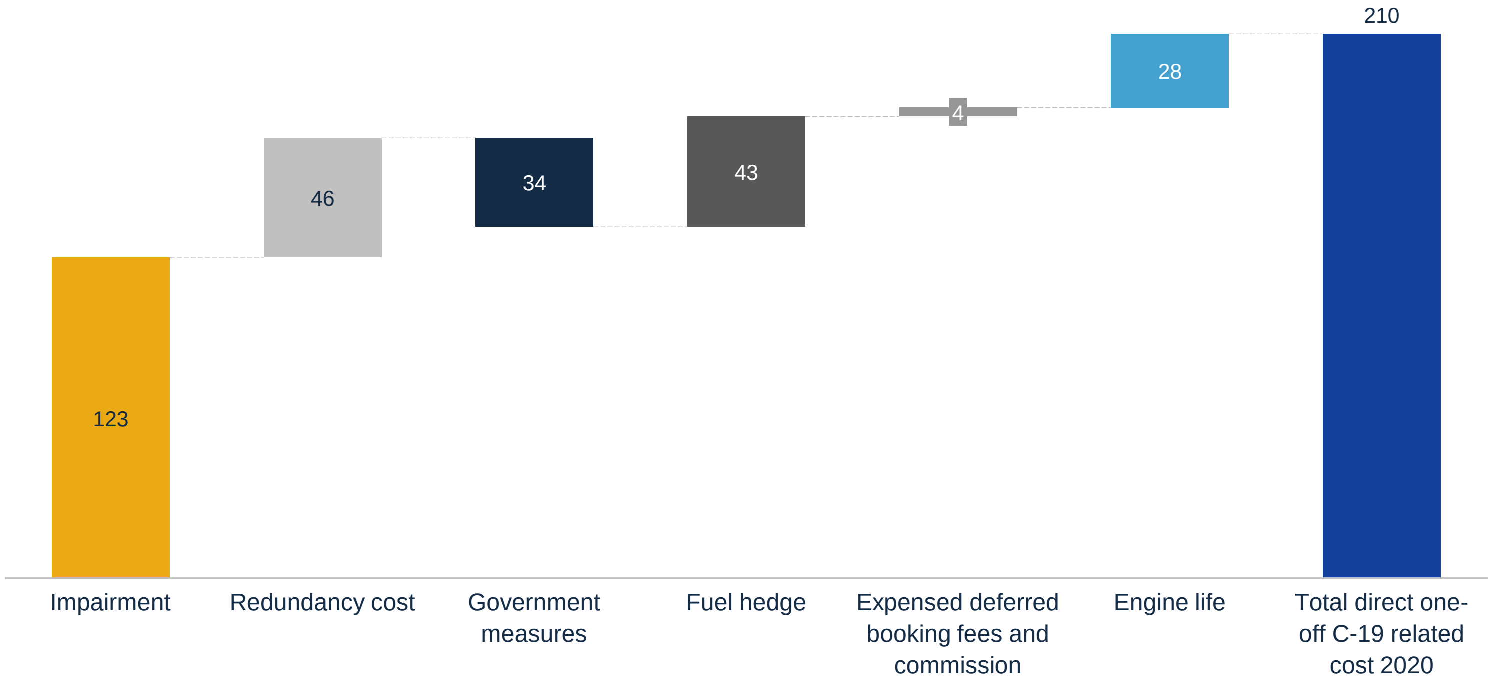
+ Icelandair Group is subject to wide-ranging taxes, charges, license and aviation fees which can have effect on ticket pricing and demand
+ Air transport is subject to intensive regulation

The above is not an exhaustive description of the risks that Icelandair Group believes are material to its operations and the industry in which it operates
Prospective investors in the forthcoming share offering are required to read the prospectus, to be prepared by the Company and approved by the Central Bank of Iceland Financial Supervisory Authority, which will contain further description of the risk factors facing the Company

C-19 related one-off cost in 2020 estimated USD 210 million

Total negative effect of C-19 on 2020 results much higher

Overview in USD million

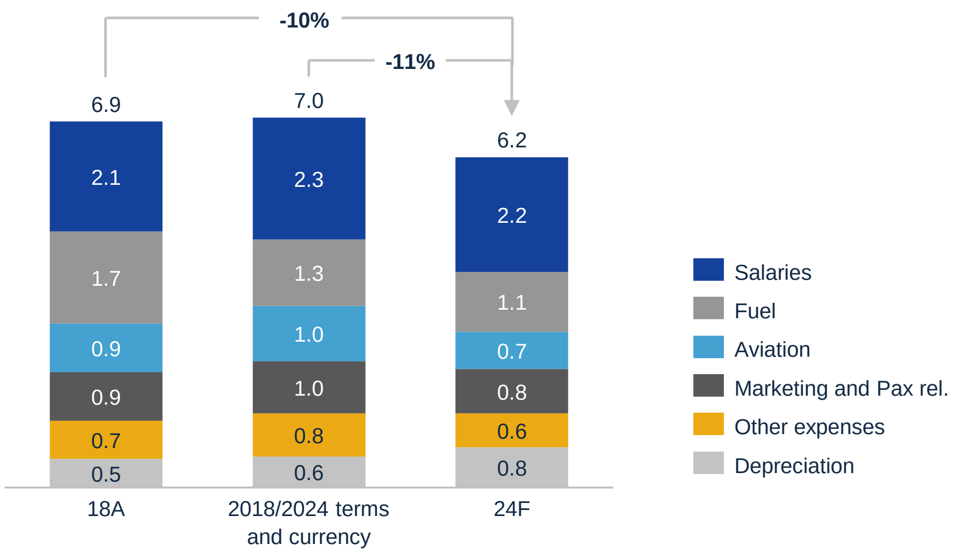


- Goodwill impairment of USD 123 million
- Net redundancy cost of USD 13 million adjusted for government participation
- Negative trend in the value of fuel hedges USD 43 million
  - Positive/negative trend in the value of fuel hedges unknown/uncertain and subject to change through the year
- Deferred booking fees for flights scheduled in the coming months of USD 4 million
- Precautionary reserve of engine life of B757 aircraft USD 28 million

CASK in 2024 expected to decrease by 10% compared to 2018

CASK development 2018-2024[1]

US Cent on 2024 price terms and fixed currency rates



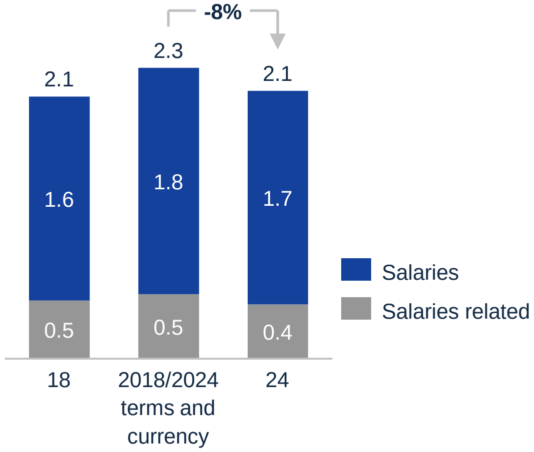
Difference between 2024 and 2018 on 2024 terms and currency

+ Salary cost decreases by 8% per ASK despite pay raise over the period due to **increased efficiency in the new union agreements** with pilots, cabin crew and flight mechanics
+ Fuel and aviation cost lower due to **newer and more efficient fleet and new flight planning system**
+ Marketing and passenger related cost lower due to **less disruption cost** and cost control
+ Other cost lower due to **increased cost control** and lower personnel cost which decreases in line with the new union agreements

[1] 2018 used for comparison as grounding of MAX has significant effect on 2019 figures. See page 60 for assumptions

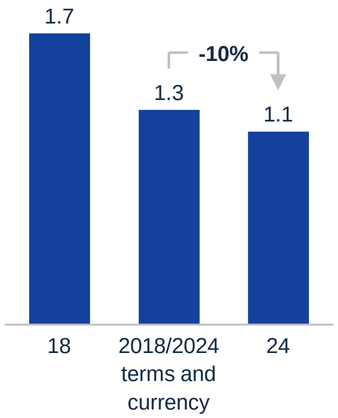
Favorable CASK comparison holding price and currency levels fixed

Salaries
US Cent



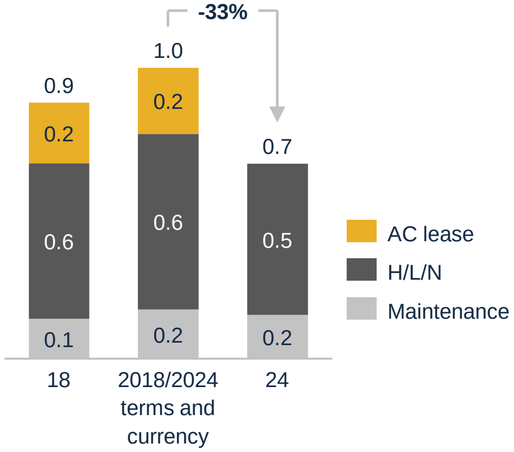
+ Increased efficiency in new union agreements

Fuel cost
US Cent



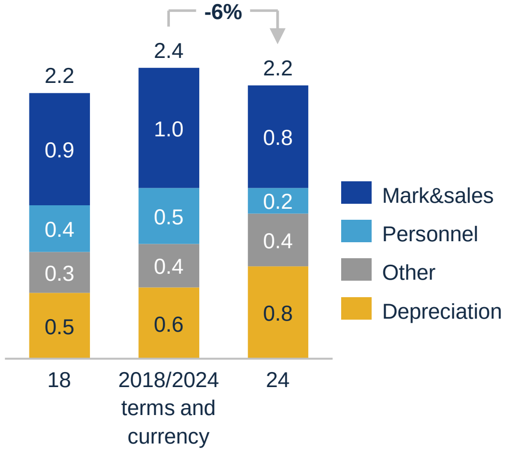
+ More fuel efficient fleet

Aviation cost
US Cent



+ Newer more efficient fleet

Other cost
US Cent



+ Marketing and sales and other: more cost control
+ Personnel: Lower travel cost in new union agreements + cost control

See page 60 for assumptions

Bounce-back from hiatus reflected in revenue growth and increased margins

USD millions	2018A	2019A[1]	2020F	2021F	2022F	2023F	2024F
Icelandair							
Operating income	**1,135**	**1,219**	**307**	**371**	**726**	**1,032**	**1,249**
Salaries (*deep dive next page*)	336	330	165	130	193	287	355
Aviation	531	558	137	129	241	343	408
Other expenses	283	261	92	85	140	193	233
Depreciation	87	145	227	102	110	115	124
Operating expenses	**1,237**	**1,294**	**622**	**446**	**684**	**938**	**1,120**
EBIT	**-102**	**-75**	**-315**	**-75**	**42**	**94**	**129**
Other subsidiaries							
Operating income	**274**	**193**	**192**	**266**	**310**	**358**	**394**
EBIT other	**42**	**29**	**-49**	**32**	**37**	**41**	**46**
Total Icelandair Group							
Operating income	**1,409**	**1,412**	499	637	1,036	1,390	1,643
EBIT	**-60**	**-46**	**-363**	**-43**	**78**	**135**	**175**
Total EBT	**-71**	**-79**	**-412**	**-61**	**61**	**120**	**160**
Income tax	12	15	82	12	-12	-24	-32
Net income	**-59**	**-64**	**-330**	**-49**	**49**	**96**	**128**

- Icelandair's **revenues to reach close to 2019 levels in 2024** with an annual growth rate of 0.5%
  - ASK to grow in line with IATA's travel forecast to 16 billion in 2024 compared to 17 billion in 2019
  - RASK to increase with operational improvements, optimization of network, less overall transatlantic capacity and improved revenue management
- **Salaries and related costs to decrease** from 30% of revenue in 2018 to 28% of revenue in 2024
  - New collective bargaining agreements to improve competitiveness
  - Icelandair Group is assumed to retain all flight related maintenance and handling services internally[2]
- **Aviation expenses to decrease** by 6% per year to 2024; from 46% of revenue to 33% of revenue
  - More fuel-efficient fleet, new flight planning system implemented[3] and favourable macro factors
- Icelandair's EBIT to reach USD 129 million in 2024 and Icelandair's Group **EBIT to reach USD 175 million in 2024**

[1] Not adjusted for negative effects of the Boeing 737MAX grounding

[2] To better compare operational ratios between airlines an adjustment of outsourced work and costs is needed; Icelandair currently maintains a high level of internal services which are often outsourced by other airlines

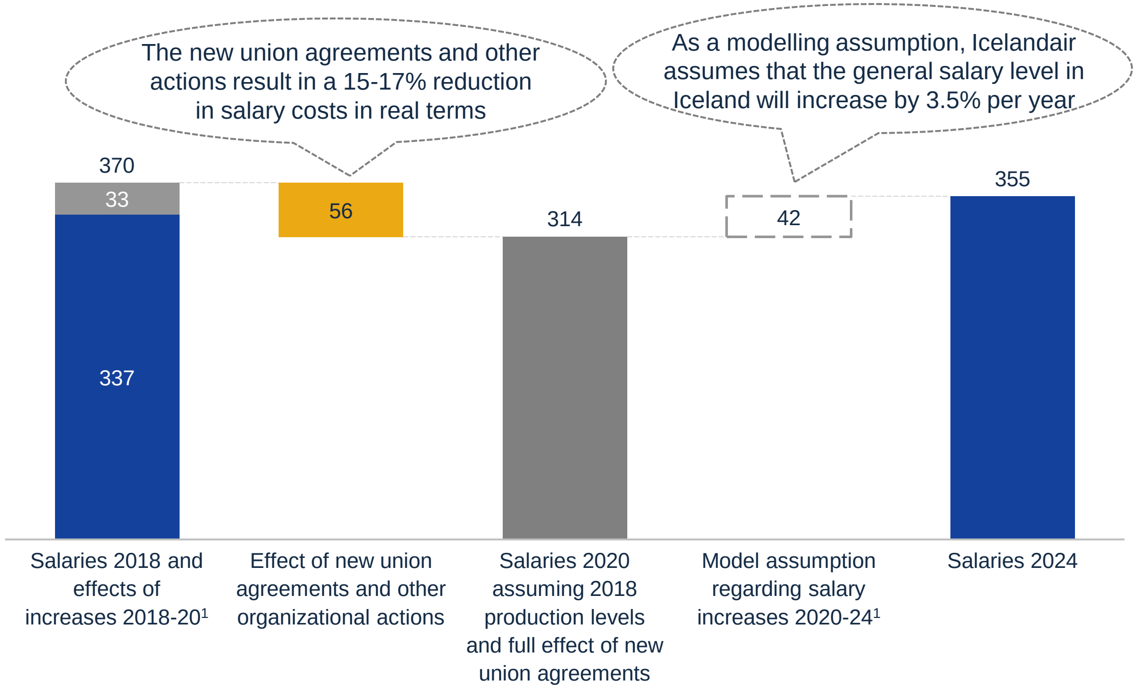
[3] Optimizes flights to the most cost-efficient path lowering fuel costs and navigation fees; system implemented in 2020

See page 60 for assumptions

Icelandair has made conservative assumptions regarding salary increases in the coming years

Development of Icelandair's salary costs 2018-24

USD million

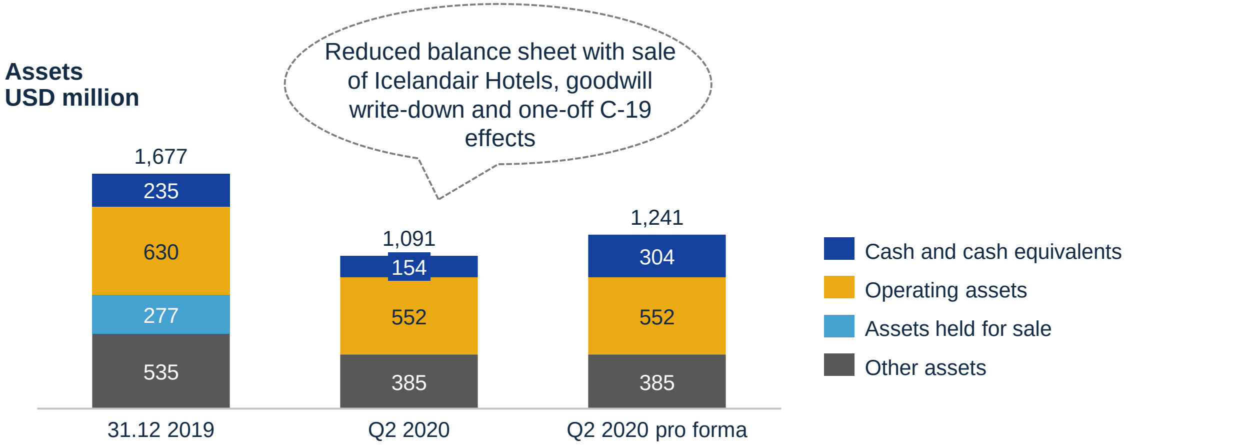


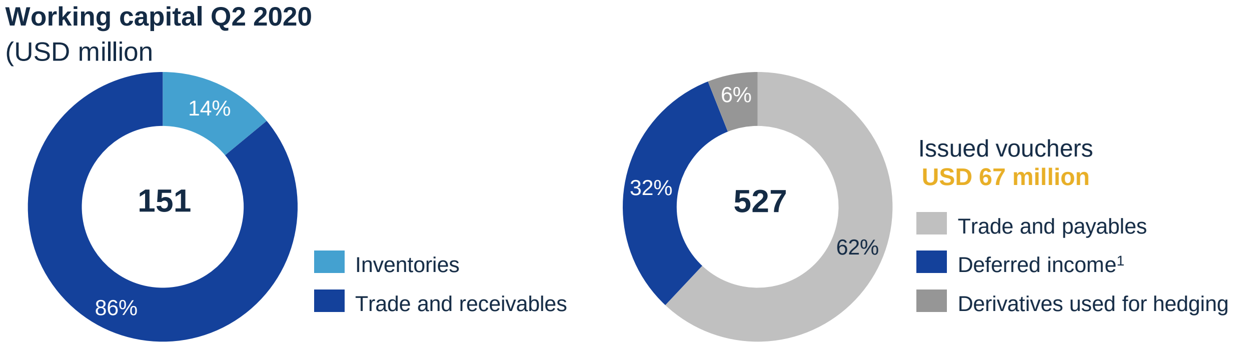
- In the conservative ramp-up scenario that Icelandair presents in this document, the **effects of the Company's new union agreements and other organizational actions have been modelled**
- As can be seen in the figure on the left, **these actions result in a 15-17% reduction in salary costs in real terms**
- In the financial model underpinning the scenario, the **conservative assumption is made that the general salary level in Iceland will rise by 3.5% per year between 2020 and 2024**. This salary increase is in line with the currently active collective bargaining agreement between the Confederation of Icelandic Enterprise (SA) and the Icelandic Confederation of Labour (ASÍ), the so-called "Lífskjarasamningur"
- The actual salary increases of Icelandair's employees between 2020 and 2024 will **depend on the result of future negotiations between SA and ASÍ** but may very well be end up lower due to the negative economic effects of C-19
- If general salary increases in the coming years end up higher than what Icelandic companies, including Icelandair, can handle, they are **likely to result in a depreciation of the ISK** which would boost Icelandair's salary cost competitiveness

[1] The grey term includes effects due to exchange rates and hedges; salary increases from 2018 to 2020 and other minor effects

Strong balance sheet fundamentals to support operations going forward

USD millions	Dec 2019	Q2 2020 Before share capital increase	Q2 2020 Pro forma for capital increase
Operating assets	630	552	552
Right-of-use assets	134	127	127
Intangible assets and goodwill	175	61	61
Assets held for sale	277	0	0
Other assets	225	197	197
Cash and cash equivalents	235	154	304
Total assets	**1,677**	**1,091**	**1,241**
Equity	**482**	**118**	**268**
Equity ratio	*29%*	*11%*	*22%*
Loans and borrowings	321	263	263
Lease liabilities	158	149	149
Liabilities held for sale	239	-	-
Other liabilities	476	561	561
Total liabilities	**1,194**	**972**	**972**
Total equity and liabilities	**1,677**	**1,091**	**1,241**





[1] Deferred income consists of unused tickets and vouchers (84%), frequent flyer points (11%) and other prepayments (5%)

Fleet and production are the drivers of maintenance CapEx and new liabilities

Maintenance CapEx moves with production

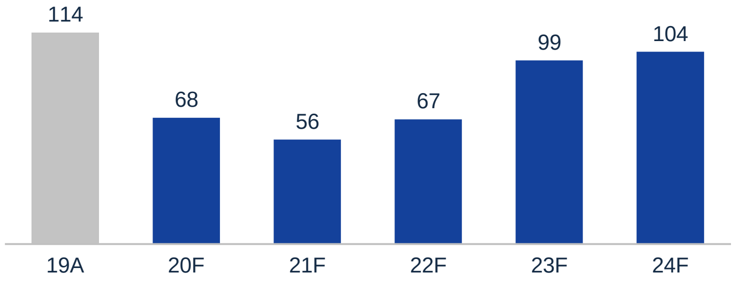
- The presented Capital Expenditures (CapEx) **reflect the conservative ramp-up approach**, they assume a prolonged period of limited and low production levels
- The expected CapEx includes **required maintenance** while aircraft are in storage with a gradual increase in maintenance as production increases
- Production **plan and fleet mix drive maintenance requirements**

New leasing liabilities as additional aircraft capacity is added

- Aircraft **renewal going forward is assumed to be through new leases** in scenario presented. Therefore, the aircraft are not accounted for in CapEx
- The conservative ramp-up approach **accounts for expected cash outflow due to existing and new leases** over the forecast period
- **Financing of additional aircraft will depend on market conditions** at any given time and may differ from these assumptions
- The Company's **long-term target is to debt finance about 75% of its fleet** against 25% in equity

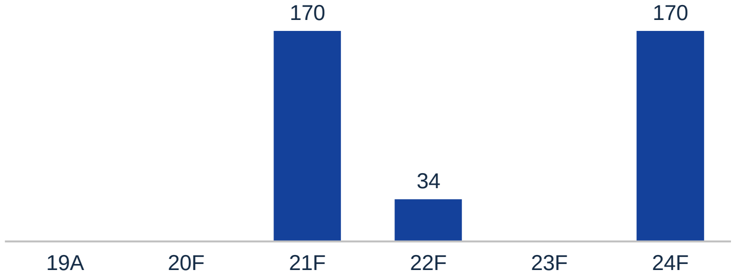
Capital expenditures

USD millions



Debt financing of additional aircraft capacity

USD millions

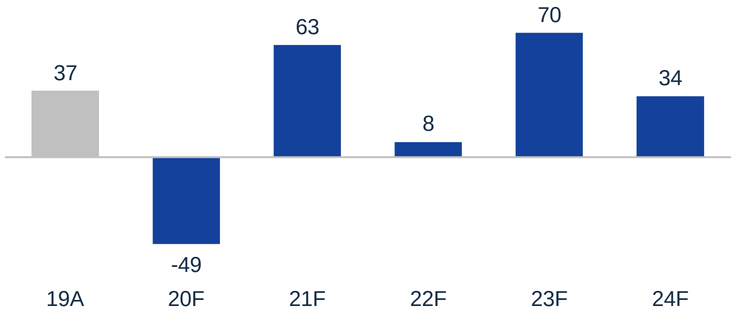


Working capital liabilities and cash will increase as production and sale of new tickets ramps up

- Cash outflow in 2020 due to **changes in Net Working Capital[1] is expected to be USD -49 million**. The amount represents the change from the beginning to the end of the year
- As production and sale of new tickets ramps up, growing working capital liabilities, **cash is expected to build up accordingly**
- Payment terms with largest acquirer (70% of volume) are contracted to **remain unchanged during the low production period** with reasonable and modest adjustments to a new normal once ramp-up starts
- A new, more favorable long-term agreement is being negotiated with the 2nd largest acquirer bringing **substantially improved payment terms**
  - Additionally, payment plans have been set up whereby key acquirers will facilitate passenger refunds of up to USD 31 million
- Sold **unused tickets and vouchers** (part of deferred income[2]) **amounted to USD 143 million** at the end of Q2 2020, compared to USD 154 million at year-end 2019.
  - Around 40% of customers, whose flights were cancelled due to the pandemic, have accepted vouchers for future flights in lieu of cash refunds
  - At the end of Q2 2020 vouchers in the amount of USD 62 million had been issued in relation to such cancellations
  - At the end of Q2 2020 the value of unprocessed refund requests amounted to USD ~40 million

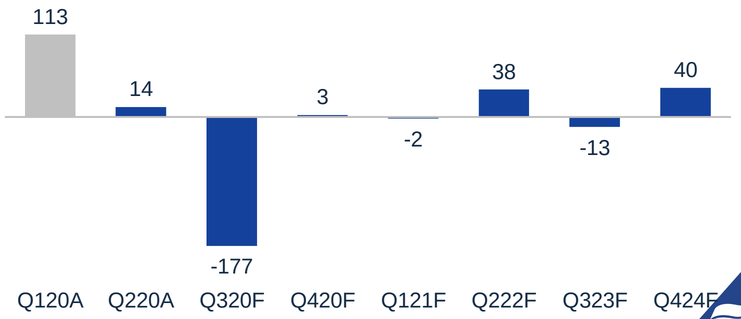
Cash effect due to net working capital changes

USD millions



Quarterly changes 2020-2021

USD millions



[1] Net Working Capital is Trade and other receivables + Inventories + Receivables and deposits + Deferred cost - Deferred income - Trade and other payables – Payables
[2] Deferred income (sold unused tickets) is the book value of fares and fuel surcharges that the Group has collected and is liable for to passengers.

Response to C-19 disruption has resulted in a temporary deviation from fuel hedging policy

Half of all open hedge positions closed in response to an unprecedented situation and extreme price fluctuations

+ The Company's **risk policy requires a hedging ratio of between 40% and 60%** of estimated fuel usage 12 months forward and up to 20% of estimated usage 13-18 months forward
+ In **response to a drastically smaller flight schedule** and fuel usage, half of open fuel hedges in July 2020 (measured at mark-to-market) were closed out and the remainder was rolled forward over the next 24 months
+ The new positions were aligned with the then expected production and fuel usage levels, which have since been iterated and taken down, resulting in **a relatively high hedging ratio 7-12 months forward**
+ The restructured hedges represent a **deviation from the approved hedging policy** in terms of both tenor and ratio
+ Icelandair Group has **not entered any new hedge contracts since early March 2020** except to roll forward previous contracts
+ The **hedging policy will be reviewed in due course**, when the current extreme uncertainty subsides

Hedging ratios and open positions

	Hedging ratio pre-C-19	Hedging ratio as of August 2020
12 months forward	42%	41%
13-24 months forward	14%[1]	25%

Open position swap price

663.5 USD/tonne

Open hedge positions

Period	Volume (tonnes)	Estimated Consumption	Hedge Ratio[2]
1-6 months forward	7,406	31,200	23.7%
7-12 months forward	26,300	50,718	51.9%
13-18 months forward	26,686	94,439	28.3%
19-24 months forward	28,391	129,191	22.0%

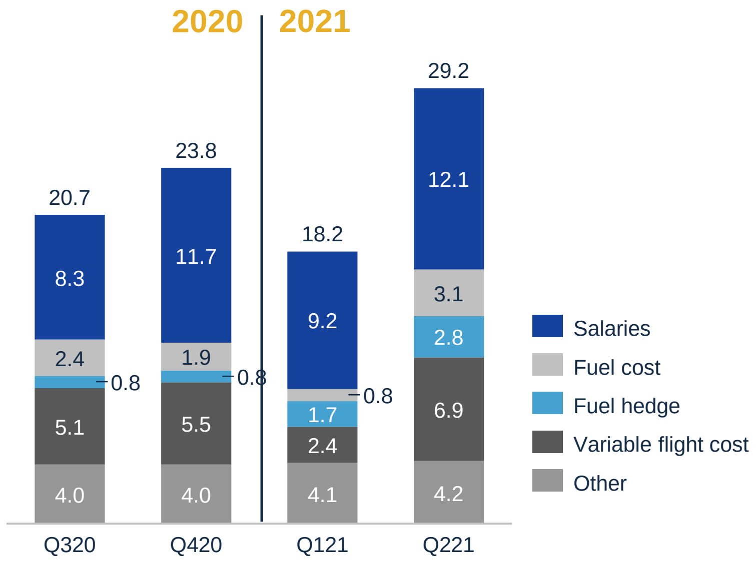
1 Denotes the hedging ratio of a period 13-18 months forward from March 2020
2 Ratios are subject to high level of uncertainty and directly linked to the Company's eventual production level

Overview monthly operational cost cash outflow for the next 12 months

July 2020 – July 2021 Icelandair

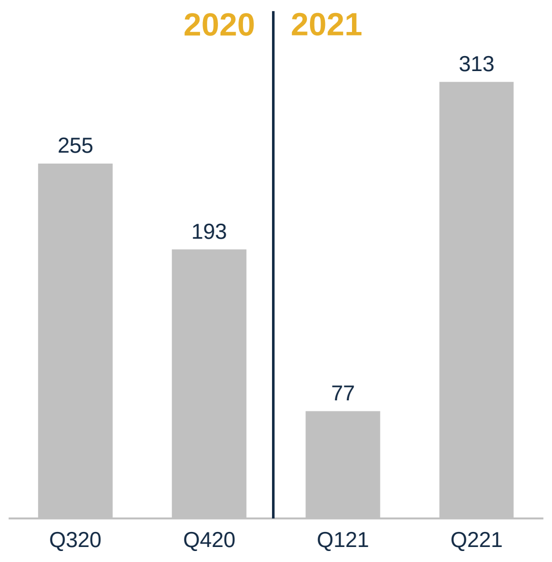
Av. monthly operational cost per quarter

USD million



Average monthly ASK per quarter

Millions



Q3 2020

+ Salary cost includes government participation in redundancy cost
+ Production built on actual flights in July and August and similar production for September

Q4 2020

+ Similar production as in September and October and November, but production decreased in December – hiatus resumes

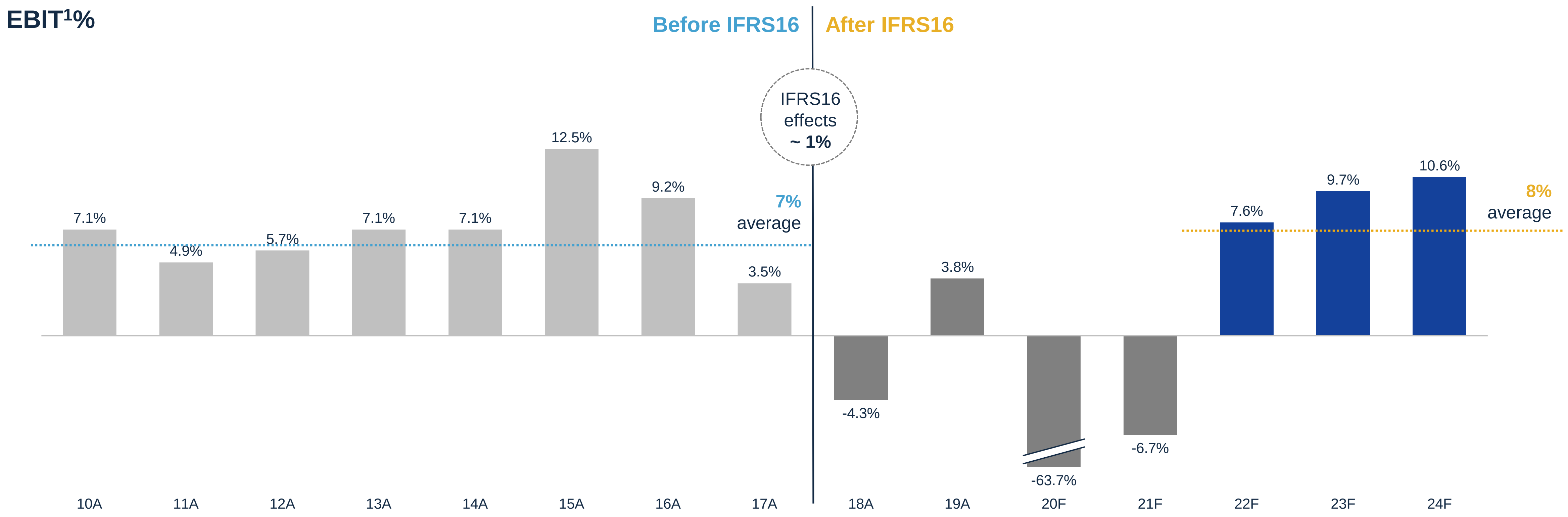
Q1 2021

+ Production in hiatus

Q2 2021

+ Ramp-up resumes

Target of 8% EBIT ratio over the cycle

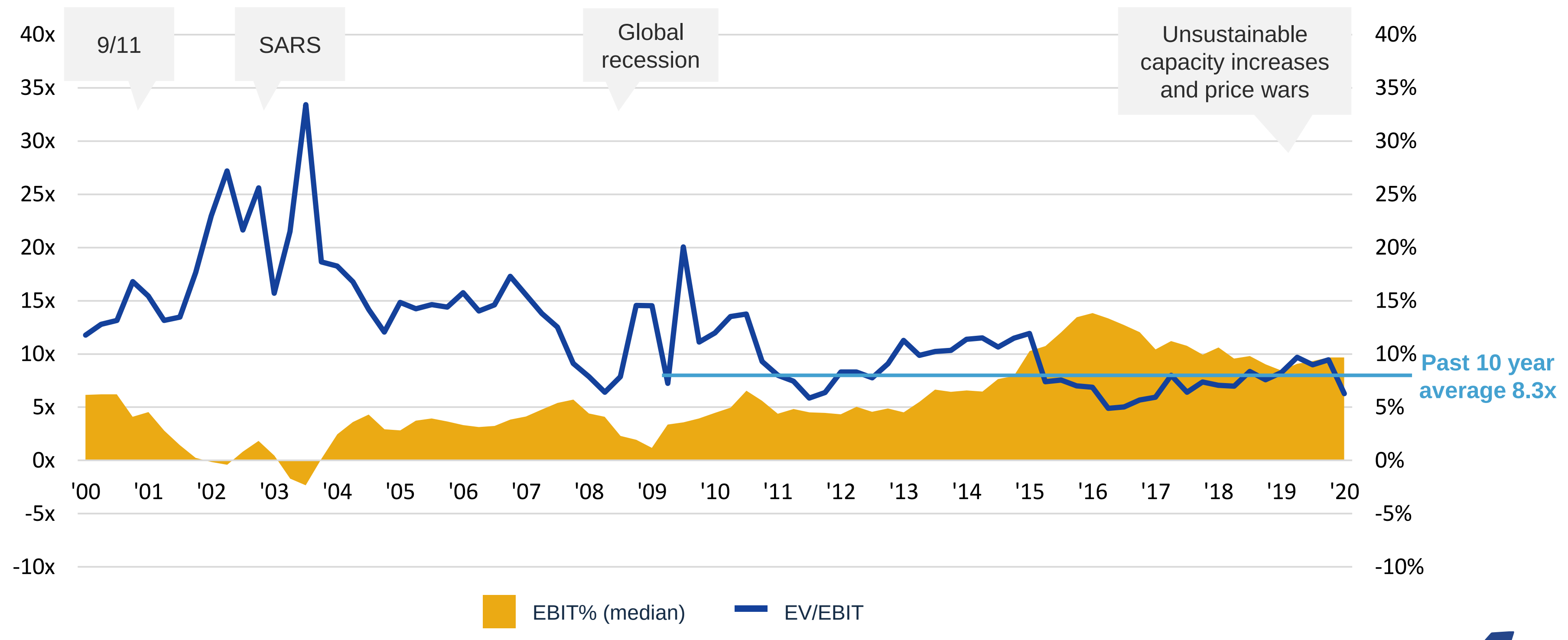


1 Excluding Icelandair Hotels

EV/EBIT of comparable companies is ~8.3x over the past decade

- EV/EBIT ratios for comparable companies[1] have been trending along **a median value of 8.3x over the past 10 years**
- During this period, **airlines have shown healthy EBIT margins**, peaking at around 14% and hovering around 10% in recent years, as unsustainable capacity increases and price wars have pressured margins
- Despite external shocks, **air travel has remained resilient** and demonstrated continued growth in global passenger numbers

EV/EBIT multiple (TTM[2] quarterly averages) **and EBIT %** (TTM[2] % of revenue)



[1] Peers in Europe and North-America, a total of 25 airlines
[2] Trailing twelve months
Source: Capital IQ

Appendix

A. Supplemental financial information

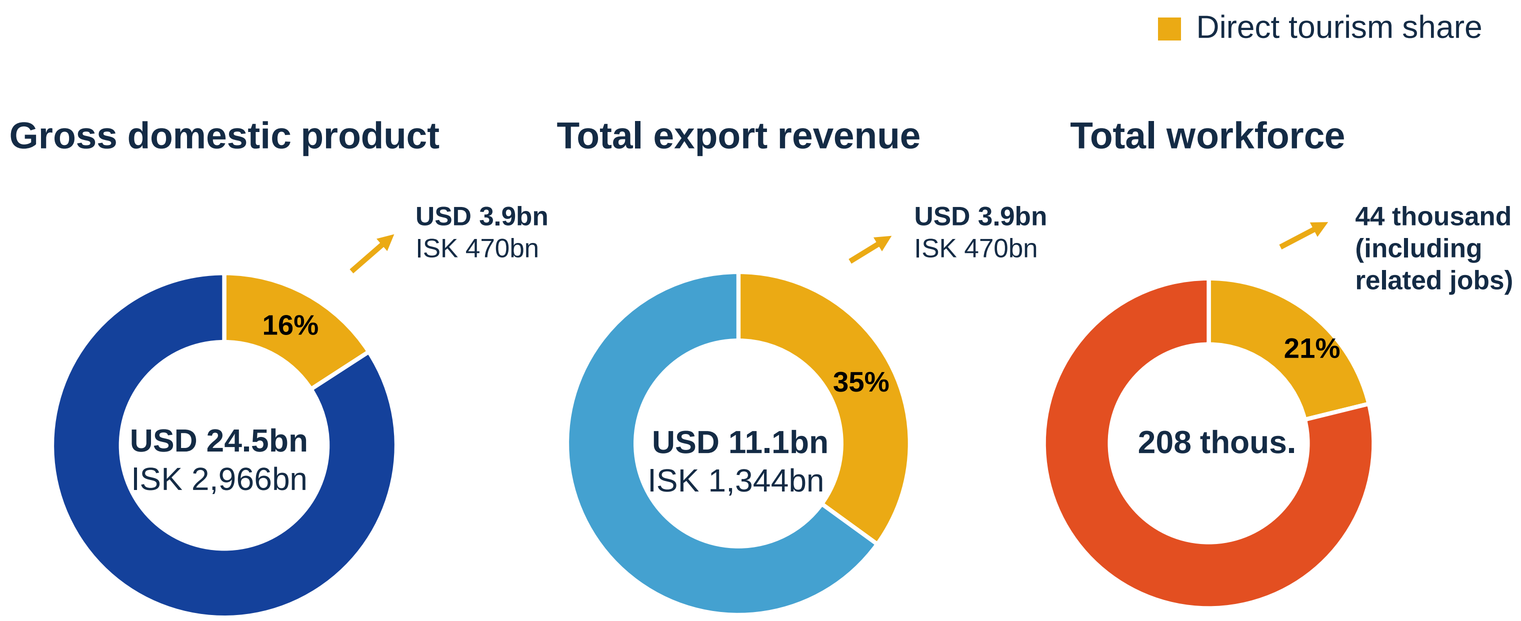
B. Icelandair Group and the Icelandic economy

C. Supporting material

Guide to Appendix B: Icelandair Group and the Icelandic economy

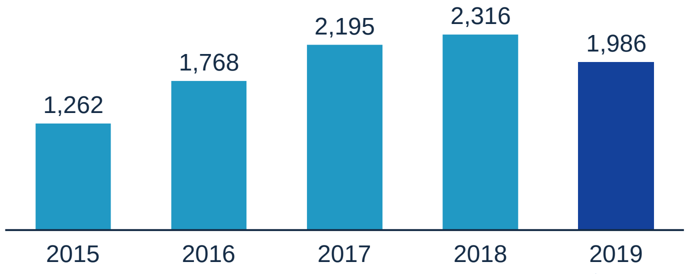
Tourism is Iceland’s largest export industry

Tourism accounted for 16% of GDP, 35% of export revenue and 13% of the total workforce in 2019

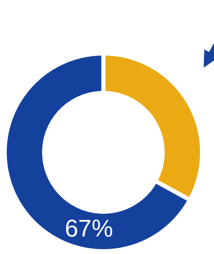


Icelandair is the bridge to and from Iceland

Tourists to Iceland (thousands)



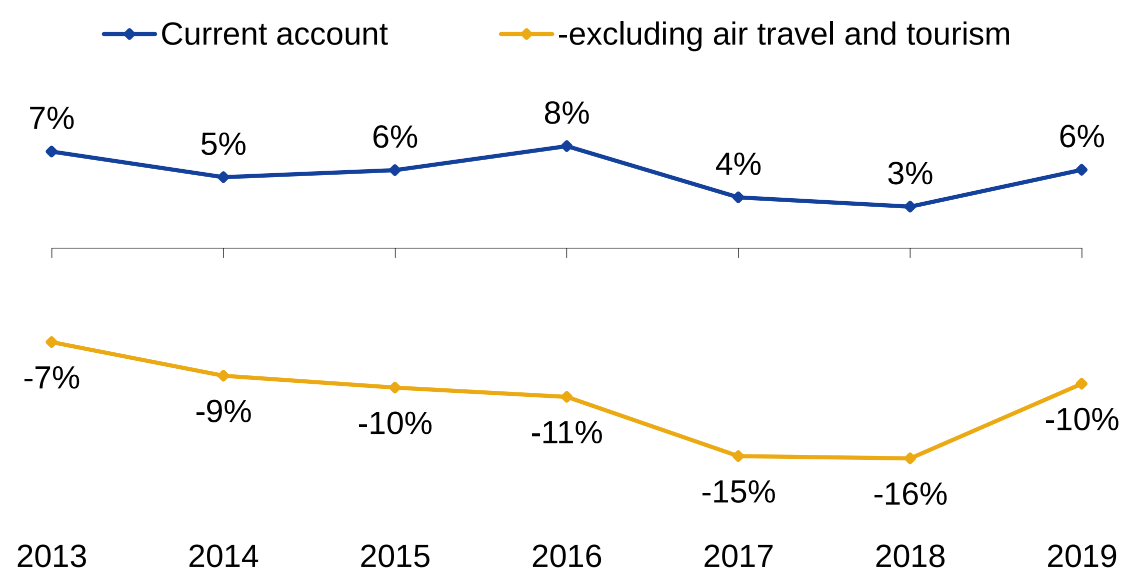
Icelandair had 67% of capacity to and from Iceland in 2019



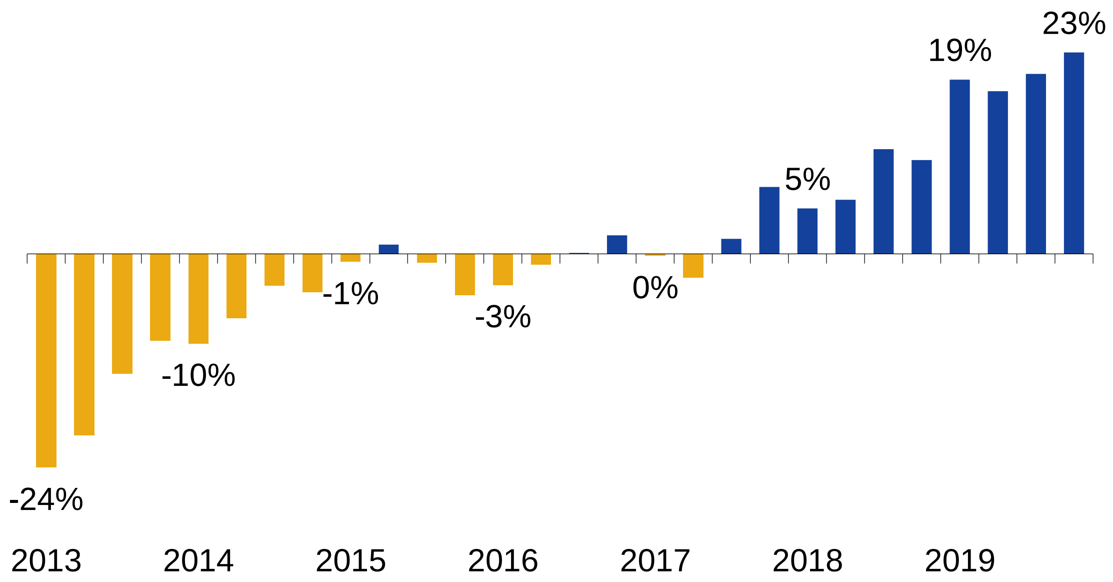
Sources: Statistics Iceland; Central Bank of Iceland
USD/ISK = 121 - Central Bank of Iceland foreign exchange reference rates: 31.12.2019, mid-rate

Tourism has led Iceland's strong current account surplus and created the country's first net positive foreign asset position

Current account (% of GDP)



Net foreign asset position (% of GDP)



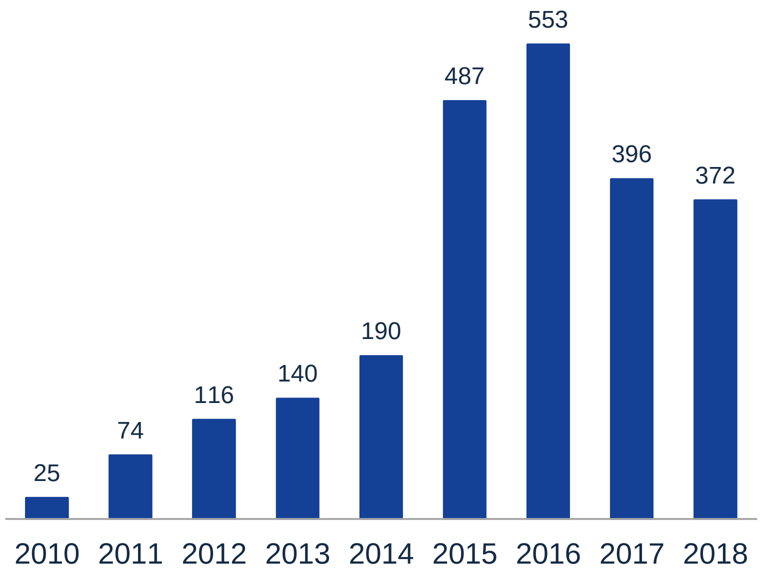
Source: Central Bank of Iceland

Significant industry investments followed the tourism growth

Tourism has become a cornerstone of the Icelandic economy

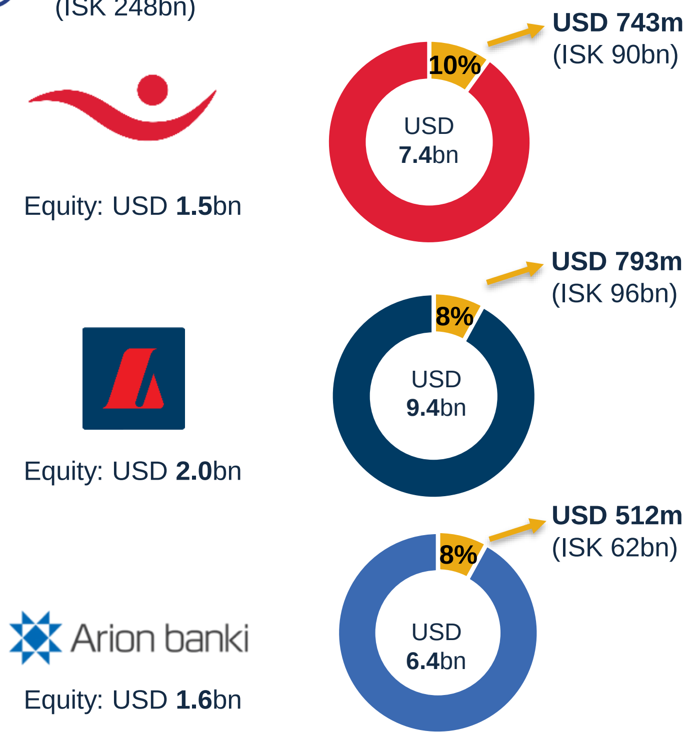
+ Investments in the tourism industry totalled **USD 2.35 billion** from 2010-2018
+ **Substantial investments** made by pension funds and retail investors in tourism companies such as hotels, transport, leisure and real estate
+ **Large scale infrastructure investments** made and planned by ISAVIA at Keflavik Airport, amounting to USD 58 million

Direct investment in the tourism industry (USDm)



Direct tourism loans total USD 2 bn[1]

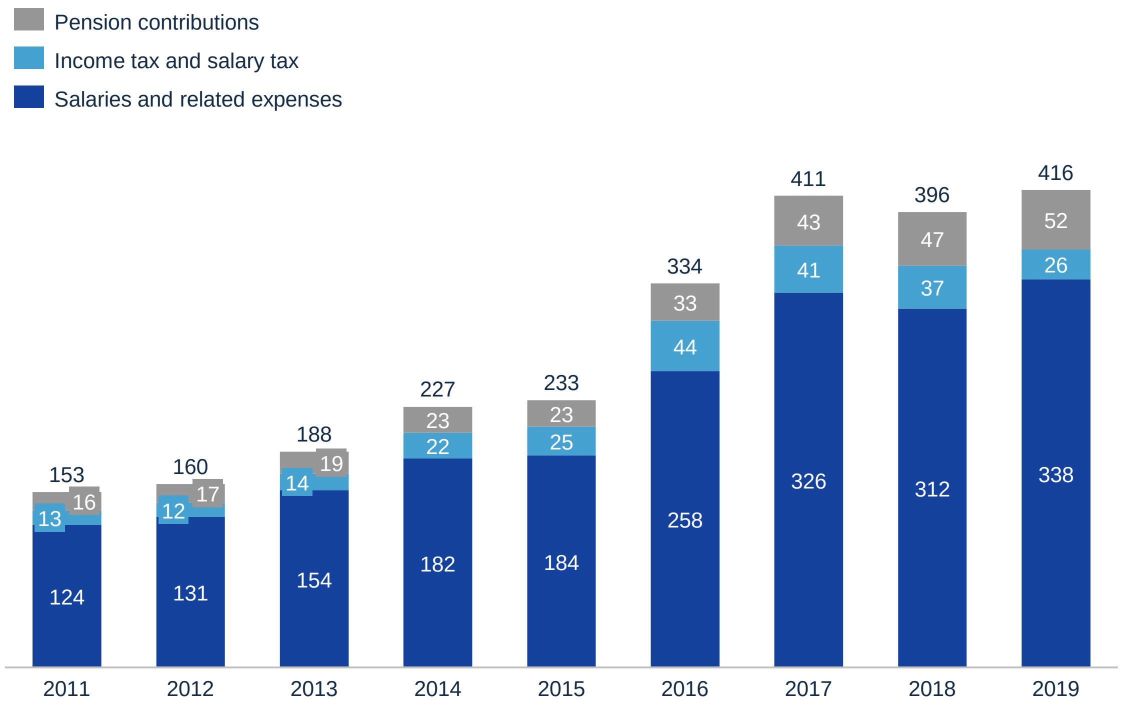
(ISK 248bn)



[1]As of 31 December 2019
Sources: ISAVIA website; Morgunblaðið; Bank annual reports 2019
USD/ISK = 121.1 - Central Bank of Iceland foreign exchange reference rates: 31.12.2019, mid-rate

A national hub airline brings significant economic benefits

Icelandair Group contribution to the Icelandic economy (USDm)



Icelandair Group is one of the largest private employers in Iceland

- **Direct economic benefits** from salaries and distributed earnings has been USD 2.6 billion (ISK 315 billion) since Icelandair Group's restructuring in 2010/11
  - Salaries and related costs amount to USD 2,524 million and distributed earnings to owners and repurchases amount to USD 117 million
  - USD 70 million was invested in the Company as part of the restructuring
- Icelandair Group had a monthly average of **~4,000 FTEs in 2019**, excluding Icelandair Hotels
- The Company is **vital to cargo transport to and from Iceland**, providing a direct route for fresh seafood and other domestic products to key international markets
- Icelandair Group's large-scale international operations create **significant indirect benefits** for many Icelandic suppliers and service companies
- **If Icelandair would cease operations, supply of seats to Iceland would shrink** causing damage to the largest export industry of the country

USD/ISK = 119 - Central Bank of Iceland foreign exchange reference rates: average 2011-2019, mid-rate

Scenario assuming Icelandair goes into receivership paints a bleak picture for the Icelandic economy

Fall of Icelandair would set aviation and tourism back by years and significantly slow the post C-19 economic recovery

Fragmented group of international airlines adds capacity based on the needs of their TO Iceland market

- Foreign **airlines would move aggressively to dominate market TO/FROM Iceland**
  - SAS, Norwegian and Finnair would cover the Nordics
  - Air France and KLM would cover Amsterdam and Paris
  - Lufthansa would cover Germany
  - British Airways, Easyjet and Wizzair would cover the UK
  - North American carriers would cover routes from their hubs

Significant capacity drop in KEF as the VIA market will not be served through KEF by foreign airlines

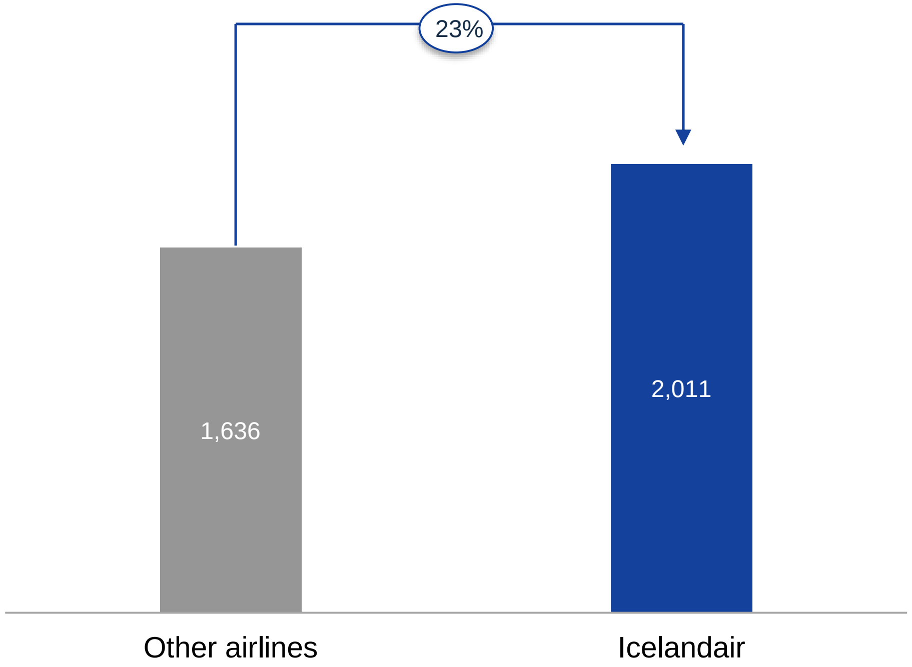
- KEF airport would **lose out on destinations, connecting traffic and flight volumes**
- Iceland's reach and **visibility as a tourist destination diminishes**
- **Many routes TO/FROM Iceland are not sustainable** without the VIA-traffic
  - North American airlines would mostly operate out of their hubs resulting in ~2-6 North American destinations compared to 17 destinations in 2019
  - Significantly reduced market reach for fresh fish out of Iceland as a result

A new KEF hub airline might emerge, but it would take years for it to reach Icelandair's current strong position

- A new operator wanting to start a hub in KEF needs **3-6 months operational experience** before its first flight to North America
- Following launch of hub, the operator would **grow slowly** due to added complexity from operating a hub compared to point-to-point operation
- Procuring optimally timed slots in highly congested key airports for hub operations **might take 5-10 years** and be expensive
- Building the system infrastructure, distribution channels and reach necessary **to successfully operate hub business model will also take years**

Icelandair passengers are more valuable for Icelandic tourism

~ Average expenditure per person, 2018 in USD



Average expenditure of international tourists traveling with Icelandair is significantly higher compared to those traveling with other airlines

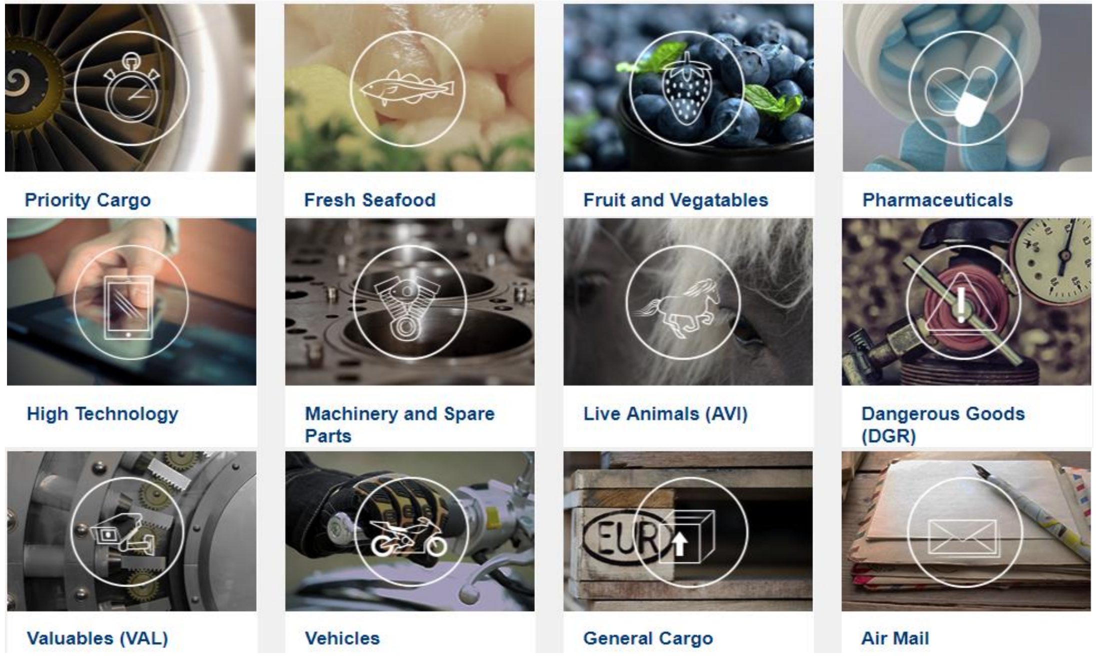
Sources: Icelandic Tourist Board and Statistics Iceland survey at Keflavik Airport
USD/ISK = 116.33 - Central Bank of Iceland foreign exchange reference rates: 31.12.2018, mid-rate

Icelandair has over decades built up a world class cargo business

Efficient cargo transport network is vital for both imports and exports in Iceland

- Icelandair Group operates a **world class cargo business** unit with strong relationships with exporters, importers and global integrators
- Cargo **supports the scheduled passenger operations** by using empty belly space in the passenger aircraft
- Icelandair Group provides **a direct route for fresh seafood and other key products** to 58 destinations in Europe and North America
  - By selling the catch fresh – as opposed to frozen – Icelandic fish exporters are tapping into more demand and selling products at higher prices
  - The cargo network has enabled multiple importers to bring fresh quality food products for the Icelandic consumer
- In 2019, **revenues amounted to USD 81 million** and EBIT amounted to USD 10 million

Selected products that rely on Icelandair Cargo logistic capabilities and network



Appendix

A. Supplemental financial information

B. Icelandair Group and the Icelandic economy

C. Supporting material

Guide to Appendix C (1/2): Supporting material

Appendix slide number	Appendix slide title	Supplemental information to slide number	Supplemental information to slide title
87	83 years of investments in aviation and tourism infrastructure	4	Icelandair Group operates in the international aviation sector
88	Icelandair Group's organizational structure is based on its focus on the core business of aviation		
89	Icelandair Group's executive committee members have on average 12-year work experience within the Company		
90	Icelandair Group's Board of Directors is composed of accomplished executives with significant industry knowledge		
91	The route network is flexible, and focus can be adjusted depending on market conditions	11	Iceland's unique geographical position is the key to Icelandair's business model
92	The continued introduction of next generation MAX and NEO aircraft will present opportunities to strengthen KEF hub		
93	Alliances continue to hold around 80% share of transatlantic market – Icelandair among leading unaligned carriers	12	Strong position in the highly attractive Icelandic tourism market
94	Air Iceland Connect merger with Icelandair will put the Company in a stronger position to serve the exciting Greenland market	19	Valuable ecosystem of subsidiaries supporting Icelandair's core business and profitability
95	Icelandair Group's fleet comprises 51 aircraft	25	Icelandair has a flexible fleet that marries commonality with varying sizes, capabilities and ownership costs
96	Icelandair will be ready to capitalize on opportunities in aircraft markets in the coming years		
97	After the release of strict travel restrictions, Icelandair's successful summer ramp-up has demonstrated the company's agility	31	Conservative ramp-up approach in place to navigate the years to come
98	Icelandair uses industry-standard definitions for RASK and CASK to measure network unit revenues and costs	32	Icelandair has several tools in hand to boost unit revenues in the future
		36	Ability to affect cost structure varies across cost categories

Guide to Appendix C (2/2): Supporting material

Appendix slide number and title		Supplemental information to slide number and title	
99	Network size, scope and focus, product positioning and aircraft choice are the main determinants of RASK and CASK	32	Icelandair has several tools in hand to boost unit revenues in the future
		36	Ability to affect cost structure varies across cost categories
100	Global demand for airline seats is expected to regain 2019 levels in 2024	50	The operational forecast is based on a gradual ramp-up…

83 years of investments in aviation and tourism infrastructure

1937

Icelandair Group traces its roots back to when Flugfélag Akureyrar was established

1940

Firm moved to Reykjavík and name changed to Flugfélag Íslands

1944

Loftleiðir established

1973

Merger of Flugfélag Íslands and Loftleiðir under the name Flugleiðir

1987

On the 50th anniversary of the firm an agreement was signed with Boeing to renew the fleet

The network based on a 24-hour rotation, with morning and afternoon connections in Iceland established

2005

The name Flugleiðir changed to FL Group

FL Group was a holding company with emphasis on investments

Investments divided into groups with Icelandair Group being one of them

2006

Icelandair Group listed on NASDAQ OMX Iceland

2009

New strategy with focus on the core business: aviation and tourism services

2010

Eyjafjallajökull erupts

Focus on Iceland, winter-tourism and expanding the high season into the shoulder season

Number of destinations in the route network 27

2010/11

Successful financial restructuring and share offering put Icelandair Group in a great position for growth during the 2010s

2018

Largest flight plan in history of the Company with over 50 destinations in the route network

First Boeing MAX aircraft introduced to the fleet

2019

Boeing MAX aircraft grounded with large effect on the Company's operations and results

2020

C-19 and associated travel bans resulted in dramatic global drop in travel demand

Financial restructuring of the Company with focus on improving liquidity and securing the competitiveness of the Company in the future

Icelandair Group's organizational structure is based on its focus on the core business of aviation

Board of Directors

Úlfar Steindórsson (Chairman)
Svafa Grönfeldt (Vice Chairman)
Guðmundur Hafsteinsson
John F. Thomas
Nina Jonsson

President and CEO
Bogi Nils Bogason

CEO Office

Finance
Eva Sóley Guðbjörnsdóttir

People & Culture
Elísabet Helgadóttir

Operations
Jens Þórðarson

Business Development & Digital
Tómas Ingason

Sales & Customer Experience
Birna Ósk Einarsdóttir

Cargo & Logistics
Gunnar Már Sigurfinnsson
Icelandair Cargo

Aircraft Leasing & Consulting
Árni Hermannsson
Loftleiðir Icelandic

Tour Operations
VITA
Iceland Travel

Icelandair Group's executive committee members have on average 12-year work experience within the Company

Bogi Nils Bogason
President & CEO - 12 years

Selected positions
+ CFO Icelandair Group
+ CFO Askar Capital
+ CFO Icelandic Group
+ Auditor and partner KPMG Iceland

Eva Sóley Guðbjörnsdóttir
Chief Financial Officer - 2 years

Selected positions
+ CFO & COO Advania
+ VP Finance Össur
+ CFO Kaupthing Bank

Birna Ósk Einarsdottir
Chief Commercial Officer – 3 years

Selected positions
+ Executive VP Landsvirkjun
+ Chief Commercial Officer Síminn

Jens Þórðarson
Chief Operating Officer - 14 years

Selected positions
+ VP Icelandair Technical Operations (ITS)
+ Director Finance and Resources ITS

Elísabet Helgadóttir
Chief Human Resources Officer - 3 years

Selected positions
+ Director HR Íslandsbanki
+ Research and Consultancy Capacent

Tómas Ingason
Chief Information & Bus. Dev. Officer - 10 years

Selected positions
+ COO WOW air
+ Director Rapid Digitization Arion Bank
+ Director RevMgmt & Pricing Icelandair

Gunnar Már Sigurfinnsson
MD Cargo and Logistics – 34 years

Selected positions
+ CCO Icelandair
+ SVP Sales and Marketing Icelandair

Árni Hermannsson
MD Aircraft Leasing and Consulting - 18 years

Selected positions
+ MD Loftleidir Icelandic
+ CFO Loftleidir Icelandic
+ CFO ANZA and Álits

Icelandair Group's Board of Directors is composed of accomplished executives with significant industry knowledge

Úlfar Steindórsson
Chairman, BoD since 2010

Selected positions:
- CEO Toyota in Iceland 2005-
- CEO Primex ehf 2002-04
- CEO New Business Ventures Fund 1999-02

Svafa Grönfeldt
Vice chairman, BoD since 2019

Selected positions:
- Senior Advisor to the Dean MIT 2016-
- Chief Organizational Development Officer at Alvogen 2010-18

Guðmundur Hafsteinsson
BoD since 2018

Selected positions:
- Head of Product Google Assistant at Google 2014-19
- CEO and founder EMU messenger 2012-14

John F. Thomas
BoD since 2020

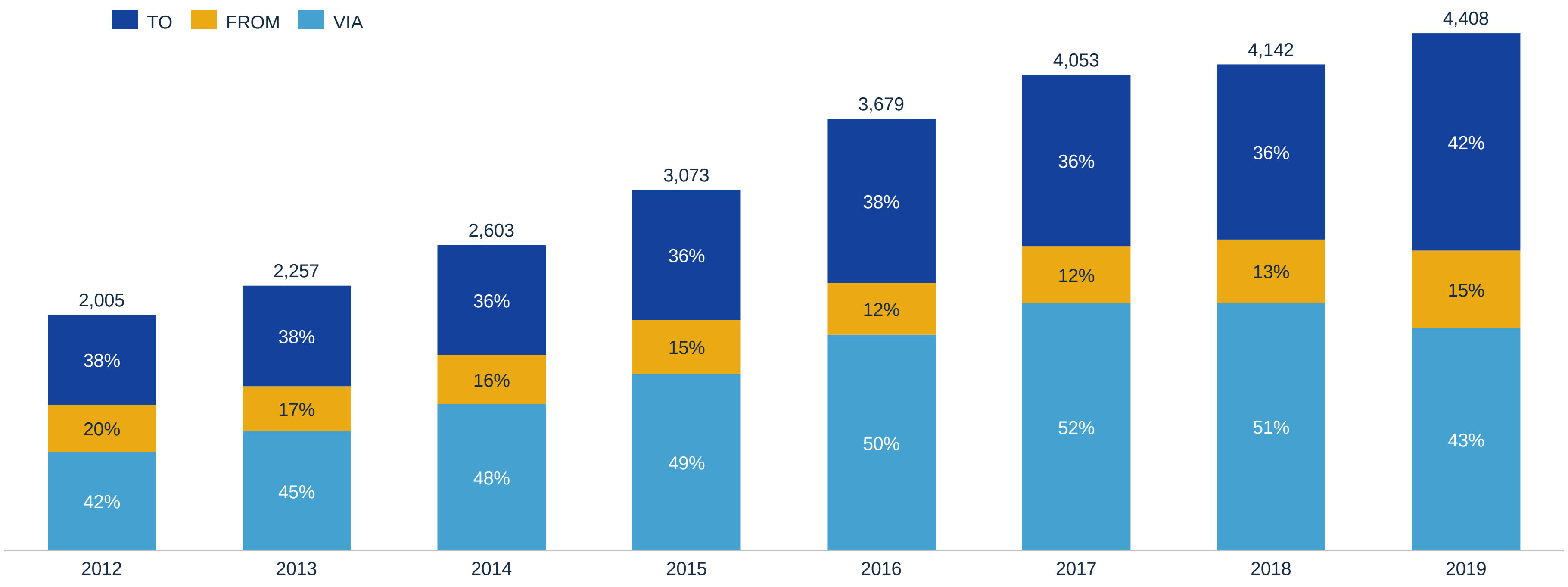
Selected positions:
- Group Executive at Virgin Australia Airlines 2016-17
- Senior Partner/Head of Global Airline Practice L.E.K. Consulting 1990-2016

Nina Jonsson
BoD since 2020

Selected positions:
- SVP Group Fleet at Air France-KLM Group 2015-17
- Director Fleet Planning at United Airlines 2006-11

The route network is flexible, and focus can be adjusted depending on market conditions

Icelandair passengers 2012 to 2019 by market, passengers in thousands



TO

The tourist market with Iceland as a destination

FROM

The domestic market in Iceland

VIA

The international market between Europe and North America

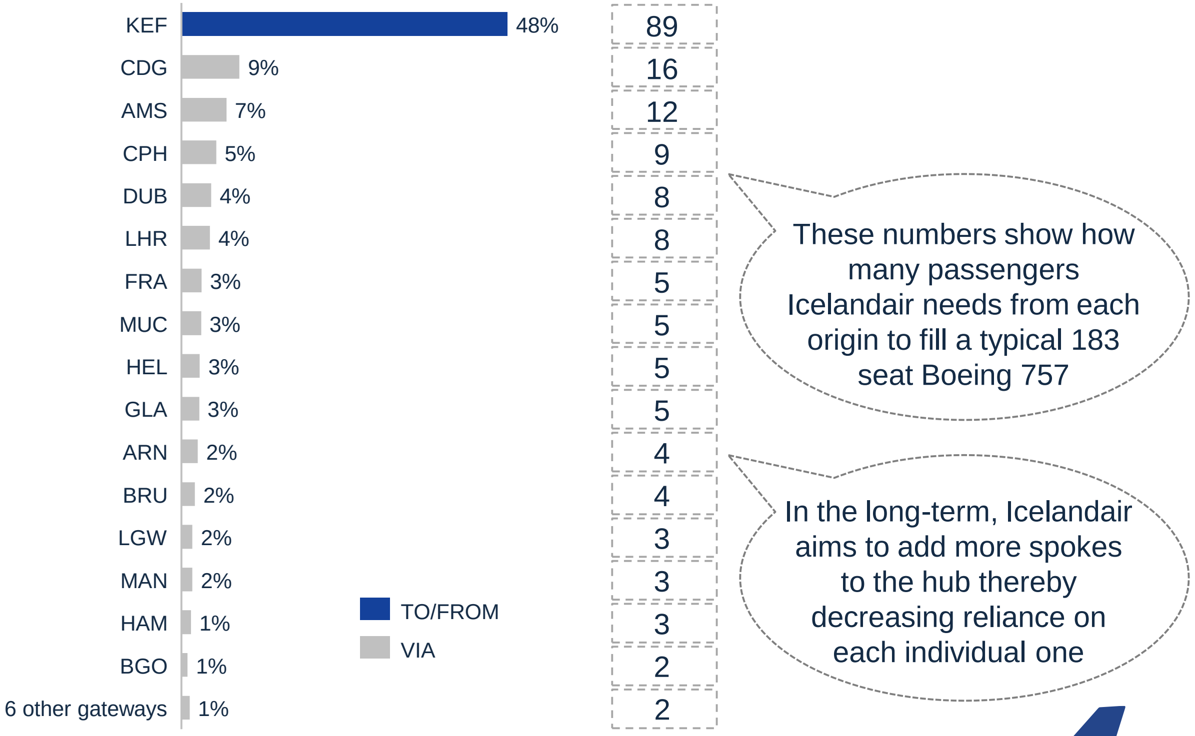
The continued introduction of next generation MAX and NEO aircraft will present opportunities to strengthen KEF hub

The continued introduction of next generation aircraft (MAX and NEO) will change network dynamics in the transatlantic market. Past experience shows clearly that **lower trip costs extend hub-and-spoke networks** and allow hubs to add thinner spokes thus increasing their connectivity and value to travelers

As an example, when Airbus A320 and Boeing 737 NGs were new there were a lot of **unfounded forecasts of "hub-busting"** but in the end hubs thrived while point-to-point operations remained relatively limited. Other examples include the CRJ 50-seat regional jet, the Boeing 787 Dreamliner and the Airbus A220

The important advantage hubs have over point-to-point flights is that **point-to-point flights need much larger traffic flows to fill aircraft**. To take an example from Icelandair's network: Icelandair flies to Chicago and in 2019 those flights were filled with passengers originating in 22 different gateways (see chart on the right). Most of these gateways have way too little traffic flows to Chicago to support a direct flight but Icelandair can easily serve them through the hub

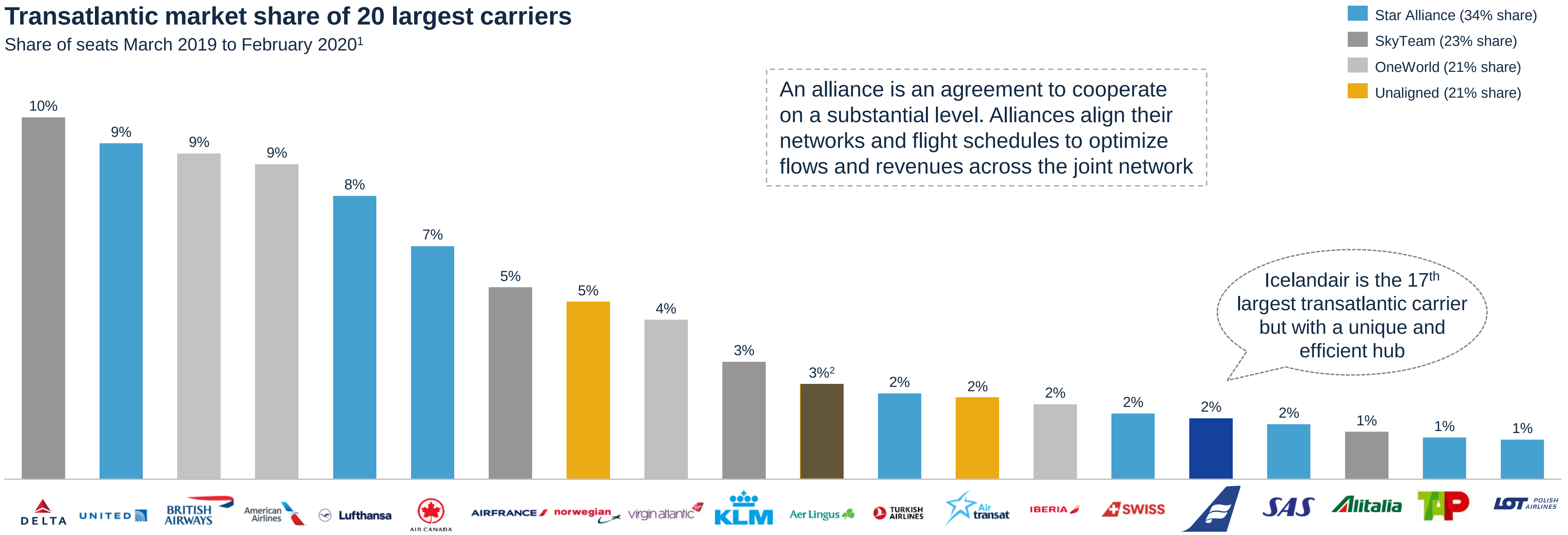
Case study:
Origin of passengers flying KEF-ORD in 2019, share of total



Alliances continue to hold around 80% share of transatlantic market – Icelandair among leading unaligned carriers

Transatlantic market share of 20 largest carriers

Share of seats March 2019 to February 2020[1]



[1] Last 12 months before C-19 [2] Although Aer Lingus is formally an unaligned carrier (and part of the 21% unaligned share), it has strong ties to OneWorld as part of IAG (holding company owning OneWorld carriers British Airways and Iberia among others)

Source: SRS Analyser

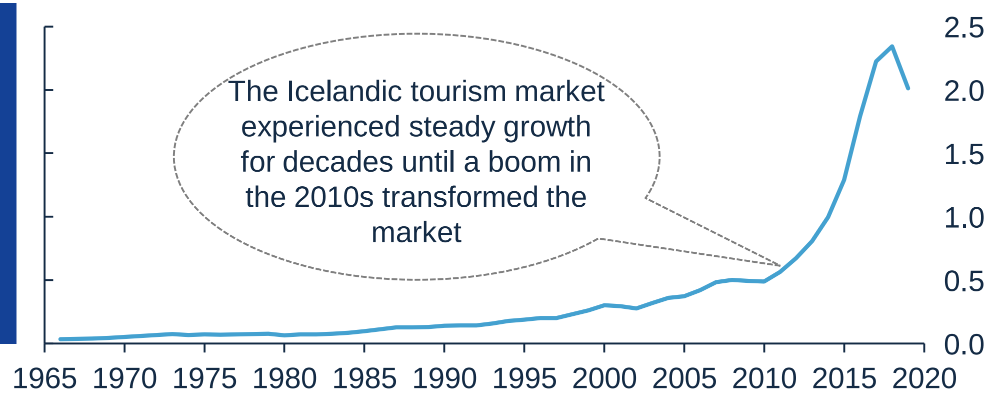
Air Iceland Connect merger with Icelandair will put the Company in a stronger position to serve the exciting Greenland market

The regional operation of Icelandair will soon face a major change in the important market of Greenland

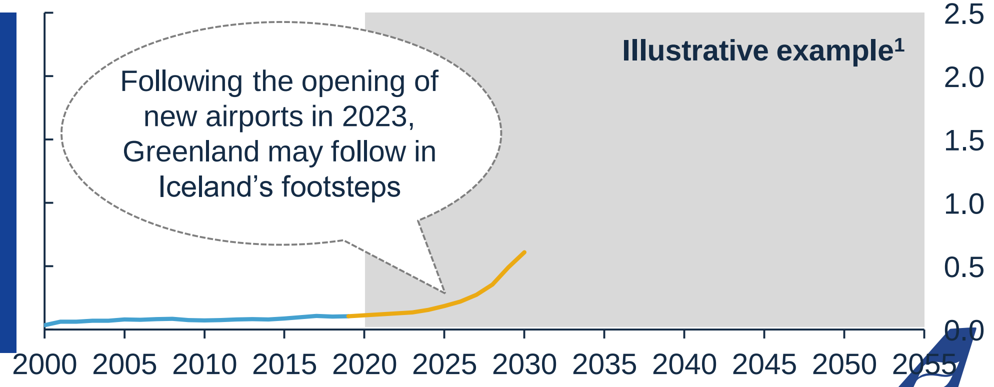
+ **Icelandair and Air Iceland Connect (AIC) are in the process of merging their operations**. One step is harmonizing the firms' distribution systems which will ensure wider distribution of AIC's seats to and from Greenland
+ The **Greenland market is an exciting growth opportunity** for Icelandair as the hub in KEF is well placed to serve as a hub for tourism to Greenland
+ The growth of the Greenland market has to date been hampered by lack of airport infrastructure. However, considerable infrastructure investments are taking place in Greenland and **from 2023, the country's ability to welcome tourists will be greatly enhanced**
+ Greenland has many of the same strengths as a tourist destination as Iceland and many believe **the country can engineer a tourism boom like the one Iceland experienced** in the 2010s
+ If that happens, Icelandair will be in good position to **participate in developing this exciting market**

Iceland's experience suggests that Greenland can enjoy a tourism boom once the right infrastructure is in place

Number of tourists visiting Iceland by year, millions



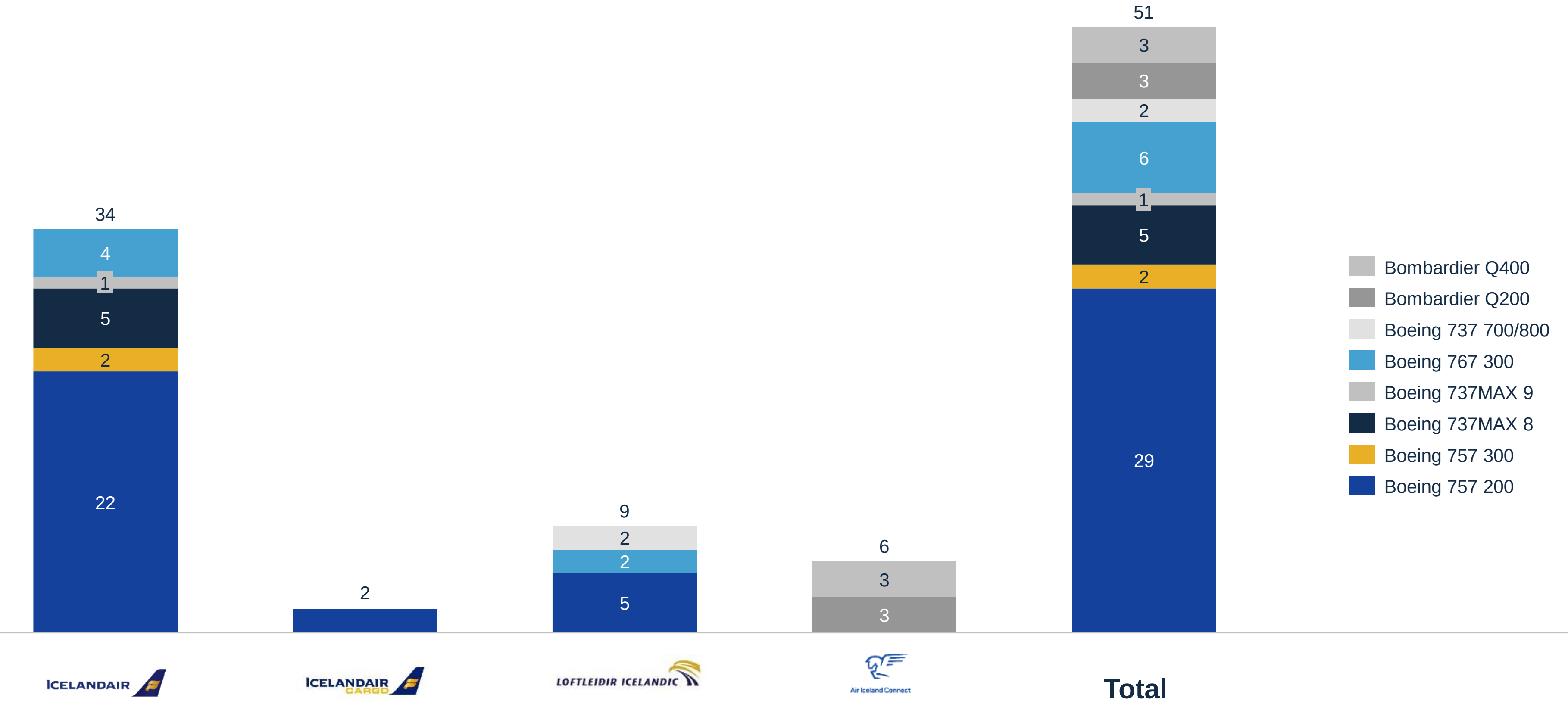
Number of tourists visiting Greenland by year, millions



Sources: Ferðamálastofa and http://www.tourismstat.gl/

1 Illustrative example based on Iceland's experience, i.e., the same growth rates that the Icelandic tourism industry enjoyed from 2011 to 2017 have been applied to Greenland following the opening of new airports in 2023. The example should not be taken literally, it is purely illustrative of the potential of Greenland as a tourist destination

Icelandair Group's fleet comprises 51 aircraft



Icelandair will be ready to capitalize on opportunities in aircraft markets in the coming years

Long term fleet plan under review

- Before C-19, Icelandair was in the process of re-evaluating its future fleet strategy. The **long-term fleet plan of the Company will remain under review** and the Company is well positioned to take advantage of opportunities in aircraft markets as the industry reorganizes
- The Company's **fleet plan does not require additional aircraft commitments until 2024**
- **The B757 phase out continues** and will be managed in line with aircraft capacity requirement and as new aircraft are added to the fleet
- **Aircraft that leave the fleet may be sold, converted to freighters or put in other value adding programs** such as part outs or recycling
- Icelandair has been **exploring several options regarding the long-term replacement of the B757**. Those options include additions of B737 and A320 family aircraft

Overview fleet 2020-2025

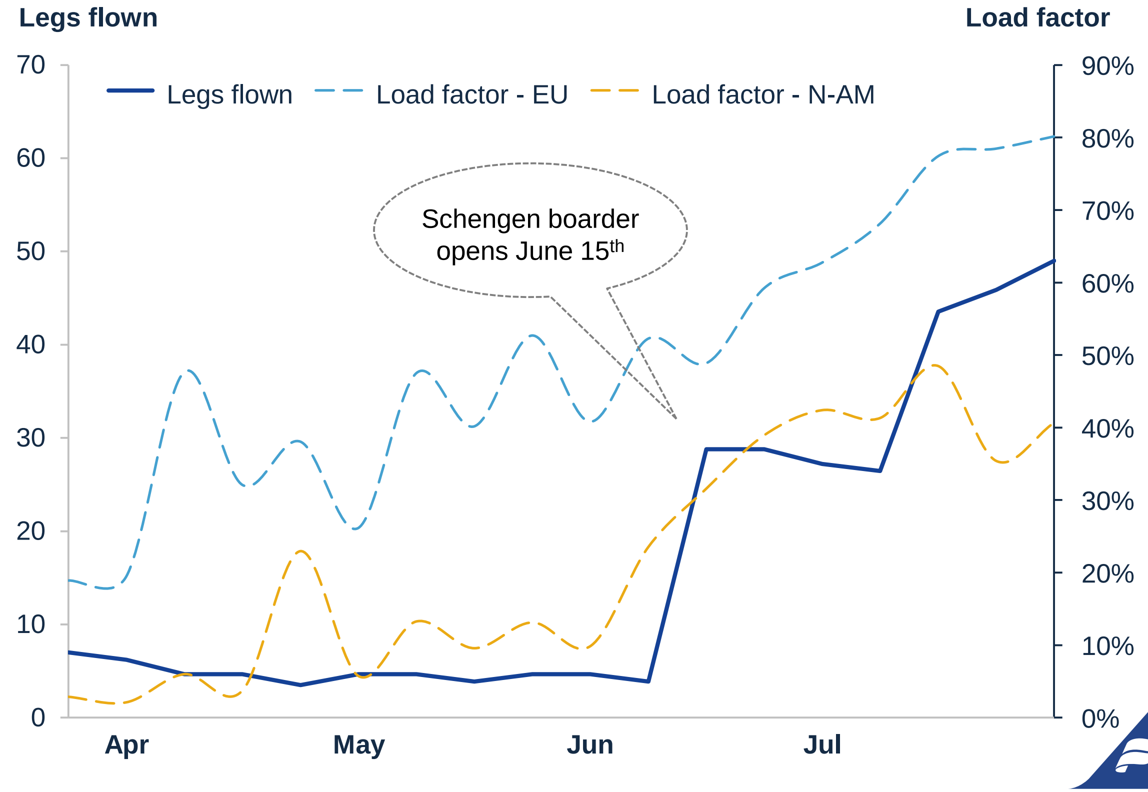
	2020	2021	2022	2023	2024	2025
B757	22	19	17	15	13	9
B767	4	4	4	4	4	4
MAX	6	9	12	12	12	12
Additional aircraft					5	11
Aircraft in storage	-12	-9	-7			
Total	20	23	26	31	34	36

After the release of strict travel restrictions, Icelandair's successful summer ramp-up has demonstrated the Company's agility

Since mid-June, Icelandair has been slowly ramping up its production – the process has run very smoothly

- Because of travel restrictions imposed due to C-19, Icelandair quickly ramped down to a **skeleton schedule in March and April 2020**
- Since June, travel restrictions have slowly lifted and as a result, **Icelandair started ramping up its production again in mid June**
- In the interim, **Icelandair put itself in a position for a quick ramp up**:
  - **Contact retained with all important distributers** and sellers of tour packages, so they were ready to push flights to Iceland as soon as restrictions were lifted. For example, a successful marketing campaign was live in Denmark 2 hours after it was announced that Danes could travel to Iceland again
  - The **flight schedule was managed strategically** so that flights with strong bookings stayed in schedule throughout down period
  - **Bookings were protected** through the issuance of travel credits
- The **results from those actions were very positive**; Icelandair has managed to maintain higher load factors than peers. In July, Icelandair's load factor was 70% compared to 51% at SAS and 41% at Finnair
- Operationally, the **ramp-up has proceeded smoothly**

Number of Icelandair flights and load factor per week, April to July 2020



Icelandair uses industry-standard definitions for RASK and CASK to measure network unit revenues and costs

RASK, measured in US Cent
Revenues per available seat kilometer

+ The industry standard for measuring airlines' unit revenue
+ RASK is the sum of passenger revenue, ancillary revenue, revenue from cargo in belly space, and other network revenue, divided by the number of seat kilometers flown
+ **In other words, RASK measures the total network revenues of Icelandair per available seat kilometer flown:**

CASK, measured in US Cent
Cost per available seat kilometer

+ The industry standard for measuring airlines' unit cost
+ CASK is the sum of costs due to fuel, crew, maintenance, handling, landing fees, navigation fees, aircraft ownership costs, advertising and distribution, service cost and overhead
+ **In other words, CASK measures the total network costs of Icelandair per available seat kilometer flown:**

Network size, scope and focus, product positioning and aircraft choice are the main determinants of RASK and CASK

Strategic decisions are the main determinants of RASK and CASK

+ The **size, shape and focus of Icelandair's route network** are the most important factors affecting its RASK and CASK. The network determines most operating costs and the firm's revenue pool
+ Icelandair's **product positioning is another important driver**. An LCC product drives low costs but also weaker revenues, whereas a premium product is more expensive to provide but allows higher fares
+ **Choice of aircraft types** is also important. Larger aircraft drive lower unit costs but are harder to fill. Fleet age is then a driver of CASK based on a trade-off between ownership costs and, fuel and maintenance costs

Operational excellence and macro factors are additional drivers affecting RASK and CASK

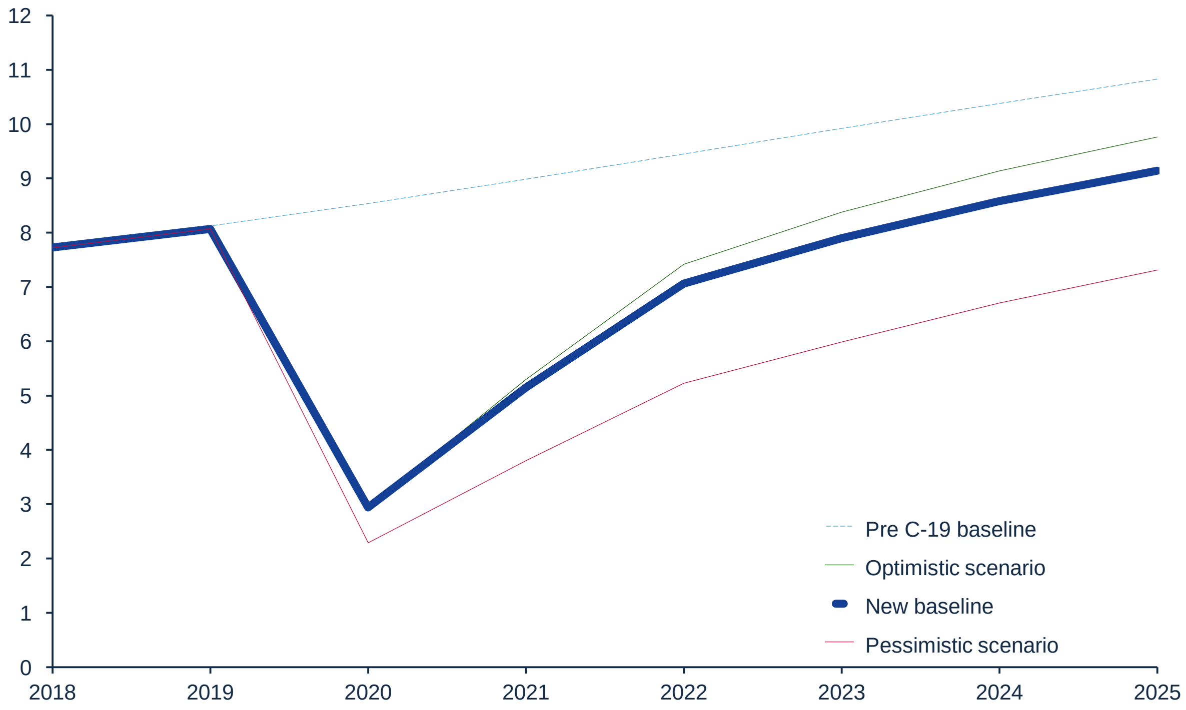
+ Airlines can improve their RASK and lower their CASK through **operational excellence**
+ **Important operational factors** affecting RASK and CASK include union agreements, staffing model, procurement, distribution model, revenue management maturity, and efficacy and cost related to maintenance stations and handling
+ **Icelandair's macro environment also affects RASK and CASK**, most notably through the capacity situation in its markets, fuel prices and exchange rates

RASK and CASK often move in sync – the lower the unit costs, the lower the unit revenues

+ **RASK and CASK often move together** as higher costs can drive higher revenues
+ The most obvious example is that **by providing a costly, premium product, an airline can generate higher unit revenues**
+ Another would be that **boosting advertising and marketing costs can raise unit revenues**
+ **The goal of any airline is to find the sweet spot** where the difference between RASK and CASK is the greatest
+ That is done by **offering the appropriate product at the lowest possible cost**

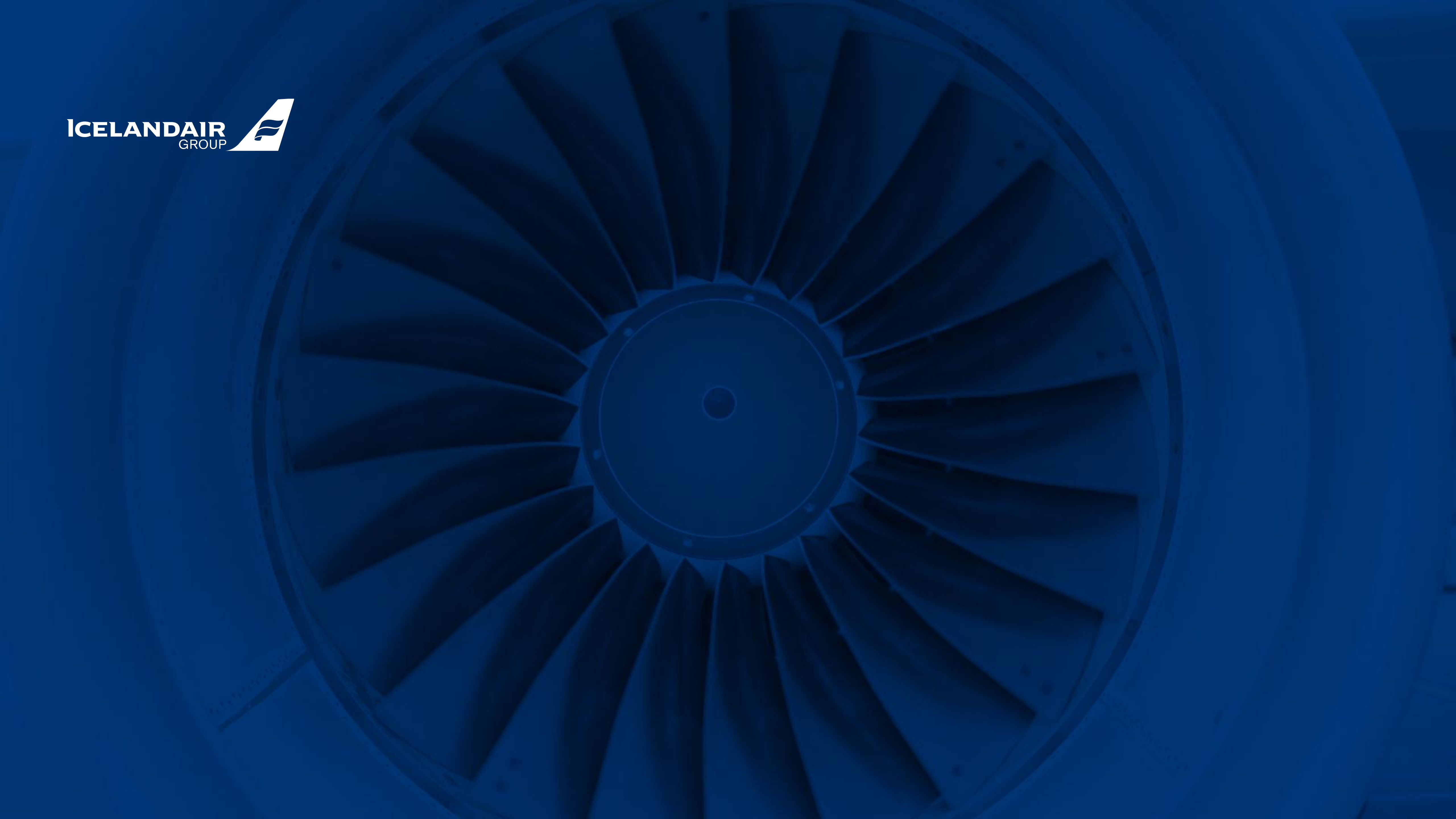
Global demand for airline seats is expected to regain 2019 levels in 2024

Global demand forecast (RPK, trillion per year)[1]



- The C-19 crisis will have significant effect on demand as global RPK in 2020 is **estimated to decrease by 64%** from 2019 levels
- RPK is **estimated to increase by 75%** in 2021 which is still 36% below 2019 levels
- RPK in 2025 is **estimated to be 9.1 trillion** which is 13% above 2019 levels
- According to market research[2] conducted in May 2020, **a significant share of travelers in key markets are likely to travel to Iceland within 2 years**
  - 86% of respondents were excited about Iceland as a destination
- Iceland is likely to achieve **RPK growth above the global average** due to the strength of the Icelandic tourism market
- As a result, Icelandair **is well positioned to ramp up supply** if markets recover faster then expected

RPK = Revenue passenger kilometres, metric that measures demand for airline seats
[1] IATA/Tourism Economics ‘Air Passenger Forecasts’ July 2020
[2] Market research conducted by MMR for Íslandsstofa in May 2020. Research polled adult public in USA, UK and Germany while filtering for those what have traveled in past 12 months and have medium to high income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