

STRONG START OF THE YEAR OVERSHADOWED BY COVID-19

- Continued EBIT improvement year over year in January and February of USD 21.5 million
- The COVID-19 pandemic and multiple travel restrictions had a significant impact on revenue and earnings in March
- COVID-19-related one-off cost in the quarter amounted to USD 181.0 million
- EBIT negative by USD 208.5 million, down by USD 148.9 million
- Net loss of USD 240.2 million
- Equity amounted to USD 191.2 million at the end of the quarter. Equity ratio, excluding Icelandair Hotels, was 18%
- Total liquidity of USD 281.0 million at the end of March 2020
- Focus on measures in response to the COVID-19 pandemic to strengthen the Company's financial position and liquidity to ensure its long-term prospects and viability

BOGI NILS BOGASON, PRESIDENT & CEO

"The financial results of the first two months of the year were in line with expectations, improving significantly between years, where the focus on improving the profitability of our route network kept on materializing as in previous months. However, the results in March were significantly below expectations due to the impact of the COVID-19 pandemic on our operations from early March onwards. We are facing considerable uncertainty for the future and have had to take difficult but necessary measures to respond to the situation and prepare the Company for an extended period of limited operations. At the same time, we are focusing on strengthening the long-term competitiveness of the Company by financial restructuring and preparing for the issuance of new shares.

I am convinced that there will be ample opportunities for Iceland as a tourist destination and as a connecting hub between Europe and North America when these unprecedented circumstances have passed. By securing a competitive long-term capital structure of the Company and using the flexibility of the Icelandair route network that we have built up over the decades, we will be in a strong position to scale up quickly as soon as markets open again. Our efforts will be essential to drive the recovery of the Icelandic tourism industry and thereby the Icelandic economy."

KEY INDICATORS

		Q1 2020	Q1 2019	% Change
Operating results				
Total income	USDk	208,981	248,602	-16%
Total operating cost excl. Depreciation	USDk	257,585	270,384	-5%
EBIT	USDk	-208,476	-59,579	-
EBT	USDk	-264,357	-68,468	-
Net loss	USDk	-240,225	-55,113	-
Balance sheet and cash flow				
Total assets	USDk	1,392,190	1,882,255	-26%
Total equity	USDk	191,207	425,805	-55%
Interest-bearing debt	USDk	326,806	424,856	-23%
Net interest-bearing debt	USDk	108,267	123,022	-12%
Lease liabilities	USDk	278,827	379,272	-26%
Net interest-bearing debt incl. lease liab.	USDk	387,094	502,294	-23%
Net cash from operating activities	USDk	77,380	72,941	6%
CAPEX	USDk	27,979	181,578	-85%
Free cash flow	USDk	49,401	-108,637	-
Key Ratios				
EPS	US Cent	-4.26	-1.15	-
Equity ratio	%	14%	23%	-9.0 ppt
Equity ratio excl. Icelandair Hotels	%	18%	36%	-18.0 ppt
EBIT ratio	%	-99.8%	-24.0%	-75.8 ppt
Traffic figures**				
Passengers To Market	no.	300,819	311,246	-3%
Passengers From Market	no.	100,081	114,715	-13%
Passengers Via Market	no.	157,615	276,768	-43%
Passengers total	no.	558,515	702,729	-21%
Load Factor	%	71.4%	76.4%	-4.9 ppt
Available Seat Kilometers (ASK)	mill	2,295,775	2,887,798	-21%
On-Time Performance	%	81.0%	78.9%	2.1 ppt
Freight Tonne Kilometers (FTK)	k	30,082	32,344	-7%
Sold charter block hours	no.	7,058	7,478	-6%

* Icelandair - Route Network

** Icelandair, Icelandair Cargo, Loftleidir Icelandic

FIRST QUARTER OPERATIONS

The year 2020 started off well for Icelandair Group, with EBIT improving considerably in the first two months of the year. The improvement was USD 21.5 million for the first two months, EBIT was negative by USD 35.6 million compared to negative EBIT of USD 57.1 million in 2019. During this period, EBIT improved in all companies within the Group, apart from Icelandair Hotels, where it decreased slightly. Better performance by Icelandair, the Group's largest subsidiary, due to higher average fares and improved utilization of pilots and cabin crew, drove the EBIT improvement.

EBIT in the first quarter was negative by USD 208.5 million, decreasing by USD 148.9 million. EBT was negative by USD 264.4 million. The COVID-19 pandemic and the associated wide-ranging travel bans resulted in dramatic drop in demand, affecting the Group's operations and financial performance significantly in March. Total COVID-19-related one-off cost in the quarter amounted to USD 181.0 million; goodwill impairment of USD 116.2 million, negative development in the value of fuel hedges of

USD 51.0 million, expensed booking fees and commission expenses for flights scheduled in the coming months of USD 11.5 million and expensed redundancy cost due to lay-offs at the end of March of USD 2.3 million. The Company expensed USD 12.5 million in financing cost of pre-delivery payments (PDPs) in Q1 2020 which is accumulated financing cost of undelivered MAX aircraft which would under normal circumstances have been capitalized.

The table below illustrates the EBIT trend in the first quarter.

USD thousand	2020	2019	Change
EBIT Jan-Feb	-35,657	-57,196	21,539
EBIT Mar	-172,819	-2,383	-170,436
EBIT Q1	-208,476	-59,579	-148,897

SEGMENT OVERVIEW:

USD thousand	Icelandair		Other Group entities		Total	
	Q120	Chg. Q119	Q120	Chg. Q119	Q120	Chg. Q119
Total revenue	148,499	-29,835	60,482	-9,786	208,981	-39,621
EBIT	-162,198	-106,869	-46,278	-42,028	-208,476	-148,897
EBT	-214,879	-155,489	-49,478	-40,400	-264,357	-195,889

Icelandair

The key focus for the year 2020 was set on the profitability of Icelandair's route network and on mitigating the operational risk of a potential further suspension of the MAX aircraft. EBIT in the first two months of the year was in line with expectations, with considerable improvements between years on the revenue and the cost side, despite the operation being heavily hit with weather disruptions

Revenues in the first two months increased significantly in the market TO Iceland, but also in the home market FROM Iceland. Revenues from the market VIA Iceland decreased as a result of decrease in the number of passengers. This is in line with the Company's increased focus on the markets TO and FROM Iceland. Average fares increased in all markets between years.

USD thousand	Jan-Feb 2020	Jan-Feb 2019	Change
Share of passengers TO market	54%	44%	9.9 ppt
Share of passengers FROM market	18%	17%	1.2 ppt
Share of passengers VIA market	28%	39%	-11.0 ppt

The COVID-19 pandemic and multiple travel restrictions had a significant effect on demand and thereby on the Company's revenues in March, when capacity decreased by 44% between years and the number of passengers by 54%. A comparison for the full quarter is therefore not shown in the table above. Total revenue amounted to USD 148.5 million in the first quarter, down by 17%.

Icelandair Cargo performed well in the first two months, with EBIT improving between years, driven by a significant increase in exports.

Other Group entities

The first quarter results of other Group entities of Icelandair Group were severely hit by the COVID-19 pandemic and its consequences in March. In January and February, all entities improved their operations between years, except for Icelandair Hotels, where EBIT decreased slightly.

Air Iceland Connect achieved an operational turnaround in 2019 on the back of extensive streamlining and cost cutting initiatives. EBIT continued to improve between years in January and February despite adverse weather conditions, with a large number of flights being cancelled. As part of organizational changes, a decision was made at the end of March to integrate Air Iceland Connect into the operations of Icelandair. Loftleidir Icelandic's EBIT improved between years in January and February due to more leasing assignments.

The operations of Iceland Travel improved despite a challenging market environment. Operating revenues were up by 23% in January and February, and rationalization measures undertaken showed results. The operating environment of Icelandair Hotels continued to be difficult, with contractual wage increases in the labor market significantly increasing the Company's payroll costs. Room occupancy was 61.2%, as compared to 73.6% in Q1 2019.

REVENUE AND EXPENSES

Revenues

Total revenue amounted to USD 209.0 million in the first quarter, as compared to USD 248.6 million in Q1 2019. **Transport revenue** amounted to USD 144.0 million, down by 14%. Passenger revenues increased in the first two months of the year, but the COVID-19 pandemic and multiple travel restrictions had a significant impact on the Company's revenues in March, when Icelandair's capacity decreased by 44% and the number of passengers by 54%. Passenger revenues in the first quarter decreased by 14%. **Revenue from aircraft and aircrew lease** increased by 6%, driven by more leasing assignments. **Other operating revenue** was USD 38.3 million, as compared to USD 56.0 million in Q1 2019. The primary reason was the reduced capacity due to COVID-19.

USD thousand	Q1 2020	Q1 2019	Change	% Change
Transport revenue:	144,006	167,473	-23,467	-14%
<i>Passengers</i>	116,532	135,442	-18,910	-14%
<i>Passenger ancillary revenues</i>	14,183	17,553	-3,370	-19%
<i>Cargo and mail</i>	13,291	14,478	-1,187	-8%
Aircraft and aircrew lease	26,695	25,120	1,575	6%
Other operating revenue:	38,280	56,009	-17,729	-32%
<i>Sale in airport and hotels</i>	12,176	18,609	-6,433	-35%
<i>Revenue from tourism</i>	14,931	17,153	-2,222	-13%
<i>Other</i>	11,173	20,247	-9,074	-45%
Total	208,981	248,602	-39,621	-16%

Expenses

Expenses fell by 5% between years. **Salaries and salary-related expenses** amounted to USD 80.5 million, down by 17%. The key drivers in lower salaries and salary related expenses are a decrease in full-time equivalent positions in the Company and a depreciation of the ISK. The number of full-time equivalent positions was down by 11% between years in the quarter. Expensed redundancy cost due to lay-offs at the end of March amounted to USD 2.3 million.

Aviation expenses amounted to USD 90.6 million, down by USD 7.8 million, mainly due to less production, with available seat kilometers down by 21%. Fuel expenses amounted to USD 51.6 million, down by 1%. The Company's price of fuel for the quarter, taking hedging into account, was on average USD 713/ton, as compared to USD 628/ton in Q1 2019. The number of used ton was down by 14%. Aircraft lease amounted to USD 0.4 million, down by USD 3.5 million. Aircraft handling, landing and

navigation expenses decreased in line with less production due to COVID-19. Maintenance expenses amounted to USD 17.9 million and remained at the same levels as in Q1 2019.

Other operating expenses amounted to USD 86.5 million, up by USD 11.4 million. All main cost items were lower than last year due to the reduced production resulting from COVID-19. Booking fees and commission expenses amounted to USD 20.6 million, as compared to USD 11.7 million in Q1 2019. Deferred booking fees and commission expenses for flights scheduled in the coming months, amounting to USD 11.5 million, were fully expensed in March as one off item related to COVID-19. The allowance for bad debt of USD 12.3 million is due to increased counterparty risk due to the COVID-19 pandemic.

USD thousand	Q1 2020	Q1 2019	Change	% Change
Salaries and salary related expenses	80,525	96,878	-16,353	-17%
Aviation expenses	90,581	98,395	-7,814	-8%
Aircraft fuel	51,557	51,838	-281	-1%
Aircraft lease	424	3,970	-3,546	-89%
Aircraft handling, landing and communication	20,737	24,739	-4,002	-16%
Aircraft maintenance expenses	17,863	17,848	15	0%
Other operating expenses	86,479	75,111	11,368	15%
Operating cost of real estate and fixtures	3,343	4,460	-1,117	-25%
Communication	6,665	7,191	-526	-7%
Advertising	4,398	7,084	-2,686	-38%
Booking fees and commission expenses	20,643	11,693	8,950	77%
Cost of goods sold	1,990	3,037	-1,047	-34%
Customer services	12,117	11,060	1,057	10%
Travel and other employee expenses	10,262	13,338	-3,076	-23%
Tourism expenses	5,948	8,768	-2,820	-32%
Allowance for bad debt	12,294	-45	12,339	-
Other operating expenses	8,819	8,525	294	3%
Total	257,585	270,384	11,368	-5%

FINANCIAL POSITION

Interest-bearing debt

Total interest-bearing debt amounted to USD 326.8 million, down by USD 98.1 million from the end of Q1 2019. Net interest-bearing debt, excluding lease liabilities, amounted to USD 108.3 million, and lease liabilities amounted to USD 278.8 million.

USD thousand	31.03.2020	31.03.2019	Change	31.12.2019
Loans and borrowings non-current	154,587	207,732	-53,145	241,328
Loans and borrowings current	110,202	183,293	-73,091	79,958
Loans and borrowings held for sale	62,017	33,831	28,186	66,098
Interest bearing debt	326,806	424,856	-98,050	387,384
Cash and cash equivalents	213,619	289,020	-75,401	235,073
Cash held for sale	4,920	12,814	-7,894	11,487
Net interest bearing debt	108,267	123,022	-14,755	140,824
Lease liabilities non-current	130,177	166,786	-36,609	135,473
Lease liabilities current	22,748	36,855	-14,107	22,980
Lease liabilities held for sale	125,902	175,631	-49,729	149,554
Lease liabilities	278,827	379,272	-100,445	308,007
Net interest bearing debt incl. liabilities	387,094	502,294	-10,289	448,831

Liquidity position

Cash and cash equivalents amounted to USD 213.6 million at the end of Q1 2020. In addition, cash and cash equivalents in the amount of USD 4.9 million are classified as assets held for sale. At the end of

March, the Company had USD 62.5 million in undrawn revolving facilities. The Company's total liquidity amounted therefore to USD 281.0 million at the end of the quarter.

Net cash from operating activities amounted to USD 77.4 million in Q1 2020, as compared to net cash from operating activities of USD 72.9 million in Q1 2019. Free cash flow over the quarter was USD 49.4 million and gross CAPEX totaled USD 28.0 million.

USD thousand	Q1 2020	Q1 2019	Change
Cash and cash equivalent	213,619	289,020	-75,401
Cash and cash equivalent in assets held for sale	4,920	12,814	-7,894
Undrawn revolving facilities	62,500	12,000	50,500
Total liquidity position	281,039	313,834	-32,795
Net cash from operating activities	77,380	72,941	4,439
Free cash flow	49,401	-108,637	158,038
Capex	27,979	181,578	-153,598

PROSPECTS

The COVID-19 pandemic and multiple travel restrictions have caused an extreme drop in demand and uncertainty for the global travel and airline industries. Currently, Icelandair is operating less than 5% of its originally planned flight schedule and is preparing for an extended period where operations are expected to remain at a minimum level. The effect of the COVID-19 pandemic also has a significant impact on the operations of other companies within Icelandair Group.

To respond to the situation, Icelandair Group has taken extensive measures to get the Company through an extended period of minimum operations, including a considerable reduction in the number of employees and changes to its organizational structure. At the same time, the Group has acted swiftly and seized opportunities that the current situation has created, such as in the cargo and leasing operations. The Group's overall strategy aims at securing the continuity of necessary core operations and safeguard the flexibility needed for a quick scale-up when markets recover.

As previously announced, the Company has been focusing on improving its liquidity and equity position as well as securing its long-term profitability, working with a team of local and international advisors in good cooperation with the Icelandic Government. To achieve this, the Company is preparing to issue and sell new shares. The prerequisite for the share offering is to ensure the Company's long-term competitiveness. As a part of that, successful negotiations with relevant unions are essential as well as the approval of a shareholders' meeting. Discussions are also ongoing with other key stakeholders, such as lenders, lessors and suppliers to strengthen the long-term competitiveness of the Company even further.

A shareholders' meeting will be held on 22 May 2020, where the Board of Directors of Icelandair Group will submit a proposal to increase the share capital by up to 30,000 million new shares. The Board further proposes that current shareholders waive their pre-emptive rights to the new shares. The public, along with other investors, will thereby be given the opportunity to subscribe to new shares. The objective of the share offering is to raise up to USD 200 million in equity. Additionally, the possibility of converting liabilities into equity is being explored. On 30 April 2020, it was announced that the Icelandic Government is willing to consider granting the Company a credit line, or providing a guarantee for such a credit line, conditioned upon the completion of the share offering. The Company anticipates further conditions from the Government regarding the credit line.

The grounding of the MAX aircraft is an ongoing issue as the Company has six MAX aircraft on the ground and no exact date has been issued as to when their suspension will be lifted. Icelandair remains in discussions with Boeing regarding further compensation for the financial loss resulting from the suspension and status of the future deliveries. Currently it is uncertain when the MAX aircraft will return to service and when deliveries of the remaining ten aircraft will take place.

On 3 April 2020, the Company finalized the sale of a 75% equity share in Icelandair Hotels to Berjaya Property Ireland Limited. Icelandair Group will retain its 25% share in the hotel company for a period of three years. The total cash consideration for the equity was USD 45.3 million and has been paid to the Company in full against delivery of the shares.

At the end of April, Icelandair Group and DB Schenker signed an agreement regarding 45 cargo flights between China and Germany, transporting medical equipment for health care providers across Europe. Additional flights from China to the USA, through Iceland, are also part of the agreement. Three Boeing 767 aircraft have been retrofitted for this project. The partnership provides for a minimum of 45 flights, but the parties have already agreed to continue with additional flights to China for as long as needed. This agreement is important for Icelandair Group during times of significant loss of revenue following the COVID-19 outbreak and shows the flexibility that enables the Company to respond quickly to opportunities and challenges that arise.

INFORMATION

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

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

FINANCIAL CALENDAR

- **Due to the upcoming shareholder meeting and share issuance no investor presentation will be held in relation to the disclosure of the Q1 report**
- **Financial statement Q2 2020 – week 31, 2020**
- **Financial statement Q3 2020 – week 44, 2020**
- **Financial statement Q4 2020 – week 06, 2021**