

FINANCIAL RESULTS CONTINUE TO BE AFFECTED BY COVID-19

- Total revenue USD 103.6 million decreasing by 81% from last year
- Cargo revenues increased by 16%
- Financial restructuring successfully completed with USD 166.9 million share offering in September
- Equity USD 293.1 million at Q3 2020 end and equity ratio 26%
- Total liquidity USD 399.1 million at Q3 2020 end, thereof cash and marketable securities USD 227.1 million
- EBIT USD 3.5 million in Q3 2020 compared to USD 81.1 million in Q3 2019
- Capitalized tax loss as deferred tax assets and reclassification of jet fuel hedges, which became effective post agreements with counterparties, positively affected net profit which amounted to USD 38.2 million
- The operations will continue at minimum levels in the coming weeks

BOGI NILS BOGASON, PRESIDENT & CEO

“Our operations continued to be negatively affected by the COVID-19 pandemic in the third quarter. Our efforts mitigated the impact during the summer where we were able to ramp up quickly when travel restrictions in some of our markets were eased temporarily. In addition, we continued to pursue opportunities within our cargo and leasing operations, increasing cargo revenue by 16%. Overall, however, we only operated nine per cent of our passenger flight schedule and the number of passengers decreased by 90% from the year before.

While we have used our flexibility to react quickly to changes in demand in the short term, we completed the financial restructuring of Icelandair Group in the quarter, strengthening the long-term competitiveness of the Company. The final step was a successful share offering in September where we raised USD 167 million in new share capital. We are thankful for the strong participation in the offering that demonstrated important support from our shareholders, new investors and the Icelandic public.

In the coming weeks, we are expecting our operations to continue to remain at minimum levels. We have minimized cash burn and strengthened the liquidity position to be able to weather the storm into 2022, if needed. However, we are focused on being well prepared to act as soon as the situation in the world improves and travel restriction in Iceland will be eased. With a broad investor base, strong balance sheet, flexible route network, robust infrastructure and great employees, we are in a good position to scale up quickly as soon as markets open again.”

WEBCAST 27 OCTOBER 2020

An investor presentation where Bogi Nils Bogason, President & CEO of Icelandair Group, and Eva Soley Gudbjornsdottir, CFO, will present the Company’s results and answer questions will be webcasted in Icelandic in relation to the disclosure of the results at 8:30 am on 27 October 2020 at: <http://icelandairgroup.is>. The presentation materials will be available after the meeting on the Icelandair Group website: <http://icelandairgroup.is> and under Company News on: <http://www.nasdaqomxnordic.com/news/companynews>

KEY INDICATORS

		Q3 2020	Q3 2019 restated	Change	9M 2020	9M 2019 restated	Change
Operating results							
Total revenue	USDk	103,581	533,943	-430,362	373,369	1,185,312	-811,943
Total operating cost excl. depreciation	USDk	70,661	406,309	-335,648	426,577	1,059,323	-632,746
EBIT	USDk	3,466	81,068	-77,602	-302,766	-2,615	-300,151
EBT	USDk	15,373	76,468	-61,095	-340,851	-32,506	-308,345
Net profit/loss	USDk	38,151	61,460	-23,309	-292,895	-27,919	-264,976
Balance sheet and cash flow¹							
Total assets	USDk	-	-	-	1,137,590	1,676,587	-538,997
Total equity	USDk	-	-	-	293,061	482,478	-189,417
Interest bearing debt	USDk	-	-	-	264,258	387,384	-123,126
Net interest bearing debt	USDk	-	-	-	37,202	140,824	-103,622
Lease liabilities	USDk	-	-	-	130,597	289,995	-159,398
Net interest bearing debt incl. lease liab.	USDk	-	-	-	167,799	430,819	-263,020
Net cash to/from operating activities	USDk	-88,260	-28,620	-59,640	-114,734	92,834	-207,568
CAPEX	USDk	-7,972	-22,664	14,692	41,315	241,096	-199,781
Key Ratios							
EPS	US Cent	1.12	1.19	-0.07	-5.00	-0.54	-4.46
Equity ratio	%	-	-	-	26.0%	28.8%	-2.8 ppt
EBIT ratio	%	3.3%	15.2%	-11.8 ppt	-81.1%	-0.2%	-80.9 ppt
RASK ²	US cent	13.7	6.9	6.8	7.3	6.4	0.9
CASK ²	US cent	12.7	6.0	6.7	14.0	6.7	7.3
Traffic figures³							
Passengers total	no.	152,141	1,545,118	-90%	733,986	3,538,069	-79%
Load Factor	%	66.4%	82.4%	-15.9 ppt	69.0%	82.0%	-13.0 ppt
Available Seat Kilometers (ASK)	mill	520,259	5,806,364	-91%	2,953,209	13,424,384	-78%
On-Time-Performance	%	74.0%	60.0%	14.0 ppt	84.0%	73.0%	11.0 ppt
Freight Tonne Kilometers (FTK)	k	26,359	32,444	-19%	83,455	99,489	-16%
Sold Charter Block Hours	no.	1,607	7,877	-80%	12,136	22,802	-47%

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

THIRD QUARTER OPERATIONS

All operations of Icelandair Group continued to be heavily impacted by the COVID-19 pandemic in the third quarter. EBIT amounted to USD 3.5 million, decreasing by USD 77.6 million compared to Q3 2019. In the Information Memorandum dated 10 September 2020 (the "IM"), the settlement reached with The Boeing Company in August, for compensation for the loss incurred from the suspension of the MAX aircraft in 2019, was expected to be fully recognized as revenues in Q3 2020. However, the Company has now decided to re-classify part of the compensation and recognize it as reduced Capex of the three MAX aircraft that the Company is expected to take delivery of in the first half of 2021. It will therefore be realized in the income statement at a later stage. As a result, the EBIT figure is lower than shown in the IM instead of being higher with the EBIT figure. In case of a prolonged suspension of the MAX aircraft, the said amount will be fully recognized as revenues in the first half of 2021. EBT amounted to USD 15.4 million and decreased by USD 61.1 million.

SEGMENT OVERVIEW

USD thousand	Icelandair		Other Group entities		Total	
	Q320	Chg. Q319	Q320	Chg. Q319	Q320	Chg. Q319
Total revenue	95,728	-342,659	7,853	-87,703	103,581	-430,362
EBIT	17,912	-43,202	-14,445	-34,399	3,466	-77,602
EBT	22,377	-34,663	-7,003	-26,431	15,373	-61,095

Icelandair

The capacity of the international route network decreased by 91% and the number of passengers dropped by 90% between years. Icelandair was able to expand its flight schedule to meet demand for travel to and from Iceland for a period of two months (from 15 June until 19 August) when some travel restrictions were eased temporarily. In that period, Icelandair flew up to 67 flights per week as compared to 10 flights per week when the Icelandic authorities tightened restrictions in late August resulting in considerable drop in demand to and from Iceland. Icelandair flew on average 388 flights per week in Q3 2019.

The integration of Air Iceland Connect's operations into Icelandair continued in the third quarter. The capacity of the company continued to fall between years because of COVID-19 but not as much as the capacity of the Icelandair international route network. This is in line with the global airline market, where international traffic is overall weaker than domestic traffic. The capacity was down by 63% between years and passenger numbers dropped by 53%.

The Company's freight services were much less affected by the situation than the passenger services. Due to decreased capacity in the Icelandair route network, most of the freight volume is now transported with cargo aircraft. As a result, the freight volume has decreased much less than the reduction of the Icelandair international route network, or by 19% and cargo revenues increased between years.

Other Group entities

Icelandair Group's inbound tour operator, Iceland Travel, and its outbound tour operator, VITA, faced almost a complete drop in demand in the third quarter. Revenues of Loftleidir Icelandic decreased by 80% between years.

REVENUES AND EXPENSES

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

Revenues

Total revenue was down by 81% and amounted to USD 103.6 million, as compared to USD 533.9 million in Q3 2019. **Transport revenue** amounted to USD 56.1 million, down by 87%. **Passenger revenue** amounted to USD 36.0 million and decreased by 90%. At the same time, the capacity decrease in the Icelandair route network was 91% and the number of passengers was down by 90%. **Cargo revenues** increased by 16% and amounted to USD 16.8 million. **Revenue from aircraft and aircrew lease** amounted to USD 4.4 million and decreased by 81%. **Other operating revenue** was USD 43.1 million, as compared to USD 87.8 million in Q3 2019. The decrease in **sale in hotels and airports** is primarily due to the divestment of Icelandair Hotels. **Revenue from tourism** was down due to a drastic

drop in demand because of COVID-19 and related travel restrictions. **Other operating revenue** amounted to USD 36.4 million compared to USD 6.8 million in Q3 2019. The main reason for higher other operating revenue is the settlement with The Boeing Company regarding compensation for the loss incurred from the MAX suspension.

USD thousand	Q3 2020	Q3 2019 restated	Change	% Change
Transport revenue:	56,073	422,640	-366,567	-87%
<i>Passengers</i>	<i>36,005</i>	<i>377,005</i>	<i>-341,000</i>	<i>-90%</i>
<i>Passenger ancillary revenues</i>	<i>3,271</i>	<i>31,116</i>	<i>-27,845</i>	<i>-89%</i>
<i>Cargo</i>	<i>16,797</i>	<i>14,519</i>	<i>2,278</i>	<i>16%</i>
Aircraft and aircrew lease	4,404	23,464	-19,060	-81%
Other operating revenue:	43,104	87,839	-44,735	-51%
<i>Sale in hotels and airports</i>	<i>215</i>	<i>32,726</i>	<i>-32,511</i>	<i>-99%</i>
<i>Revenue from tourism</i>	<i>2,521</i>	<i>41,024</i>	<i>-38,503</i>	<i>-94%</i>
<i>Aircraft and cargo handling services</i>	<i>3,964</i>	<i>7,249</i>	<i>-3,285</i>	<i>-45%</i>
<i>Other</i>	<i>36,404</i>	<i>6,840</i>	<i>29,564</i>	<i>432%</i>
Total	103,581	533,943	-430,362	-81%

Expenses

Operating expenses excluding depreciation amounted to USD 70.7 million and decreased by 83%. All main deviations in expenses between years are directly related to the adverse effects of COVID-19.

Salaries and salary-related expenses amounted to USD 29.0 million, down by 72%. Expensed term of notice amounted to USD 22.0 million. Repayments of notice period payments from the Icelandic Government, in accordance with Icelandic act no. 50/2020, due to those actions amounted to USD 3.5 million. Therefore, net expenses due to term of notice were USD 18.5 million in the quarter. The number of full-time employees, excluding lay-offs and FTE's of Icelandair hotels in 2019, was on average 1,345 in Q3 2020 compared to 3,876 in Q3 2019.

Aviation expenses amounted to USD 23.0 million, down by USD 168.9 million. **Fuel expenses** amounted to USD 9.4 million, down by 92%. Whilst lease expenses are recognized as depreciation and financial expenses according to IFRS16, short term discounts on lease agreements are recognized as revenues, which explains why **aircraft lease** is negative of USD 0.1 million.

Other operating expenses amounted to USD 18.7 million, down by USD 93.7 million. **Booking fees and commission expenses** were negative by USD 0.4 million. A part of deferred booking fees and commission expenses that were expensed in the first quarter for the upcoming months as one-off item related to COVID-19, were reversed since more passengers of cancelled flights chose travel vouchers instead of claiming cash refunds.

USD thousand	Q3 2020	Q3 2019	Change	% Change
Salaries and salary related expenses	29,045	102,111	-73,066	-72%
Aviation expenses	22,964	191,831	-168,867	-88%
<i>Aircraft fuel</i>	9,394	113,406	-104,012	-92%
<i>Aircraft lease</i>	-146	9,603	-9,749	-102%
<i>Aircraft handling, landing and communication</i>	6,600	47,924	-41,324	-86%
<i>Aircraft maintenance expenses</i>	7,116	20,898	-13,782	-66%
Other operating expenses	18,652	112,367	-93,715	-83%
<i>Operating cost of real estate and fixtures</i>	783	4,406	-3,623	-82%
<i>Communication</i>	3,908	5,593	-1,685	-30%
<i>Advertising</i>	1,918	4,368	-2,450	-56%
<i>Booking fees and commission expenses</i>	-365	25,692	-26,057	-101%
<i>Cost of goods sold</i>	192	4,178	-3,986	-95%
<i>Customer services</i>	2,065	18,702	-16,637	-89%
<i>Travel and other employee expenses</i>	3,614	17,707	-14,093	-80%
<i>Tourism expenses</i>	1,747	21,265	-19,518	-92%
<i>Other operating expenses</i>	4,790	10,456	-5,666	-54%
Total	70,661	406,309	-93,715	-83%

RASK (revenue per available seat kilometer) in Q3 2020 in the Icelandair route network was 13.7 US cent compared to 6.9 US cent in Q3 2019. **CASK** (cost per available seat kilometer) in Q3 2020 was 12.7 US cent compared to 6.0 US cent in Q3 2019. It should be noted that the comparison between years for RASK and CASK figures is difficult when the drop in capacity is as significant as proves to be the case due to COVID-19.

FINANCIAL POSITION

Assets, equity and interest-bearing debt

Total assets amounted to USD 1,137.6 million, decreasing from USD 1,676.6 million from the beginning of the year. The decrease of the asset base is driven by COVID-19 related goodwill impairment of USD 116.2 million and the divestment of Icelandair Hotels, which decreased assets by USD 272.0 million.

Total equity amounted to USD 293.1 million at 30 September 2020. New shares were issued following a share offering in September in the amount of ISK 23 billion (USD 166.9 million equivalent). In association with the offering, the Company issued warrants, equaling 25% of the nominal amount of new shares, ISK 5.75 billion (USD 16.2 million equivalent).

Overview share capital ISK

Share capital 1 January 2020	5,437,660,653
Increase of share capital	23,000,000,000
Share capital 30 September 2020	28,437,660,653

Overview equity USD thousands

Equity 1 January 2020	482,478
Total comprehensive loss	-340,093
Share issued	166,871
Warrants issued	-16,197
Equity 30 September 2020	293,061

Interest-bearing debt amounted to USD 264.3 million, down by USD 38.1 million compared to 30 September 2019. Excluding assets held for sale at the same time last year, interest bearing debt

decreased by USD 4.6 million. Net interest-bearing debt, excluding net lease liabilities, amounted to USD 37.2 million, and net lease liabilities amounted to USD 130.6 million.

USD thousands	30.09.2020	30.09.2019	Change	31.12.2019
<i>Loans and borrowings non-current</i>	253,211	193,727	59,484	241,328
<i>Loans and borrowings current</i>	11,047	75,171	-64,124	79,958
<i>Loans and borrowings held for sale</i>	0	33,509	-33,509	66,098
Interest bearing debt	264,258	302,407	-38,149	387,384
<i>Cash and short term investments</i>	227,056	171,243	55,813	235,073
<i>Cash held for sale</i>	0	7,254	-7,254	11,487
Net interest bearing debt	37,202	123,910	-86,708	140,824
<i>Lease liabilities non-current</i>	121,455	143,164	-21,709	135,473
<i>Lease liabilities current</i>	23,323	23,985	-662	22,980
<i>Lease receivables non-current</i>	8,180	9,584	-1,404	11,414
<i>Lease receivables current</i>	6,000	6,368	-368	6,598
<i>Lease liabilities held for sale</i>	0	147,280	-147,280	149,554
Net lease liabilities	130,597	298,477	-169,651	289,995
Net interest bearing debt incl. liabilities	167,799	422,387	-218,210	430,819

Liquidity position

Cash and marketable securities amounted to USD 227.1 million. At the end of the quarter, the Group had undrawn credit lines in the amount of USD 52.0 million. In addition, the Group had access to a USD 120 million back stop credit facility from two domestic banks which is 90% guaranteed by the Icelandic Government. Net cash to operations amounted to USD 88.3 million in the quarter, as compared to USD 28.6 million.

USD thousand	Q3 2020	Q3 2019	Change
Cash and cash equivalent	191,026	235,073	-44,047
Cash and cash equivalent in assets held for sale	0	7,254	-7,254
Marketable securities	36,030	0	36,030
Undrawn revolving facilities	52,000	60,000	-8,000
Government guaranteed credit facility	120,000	0	120,000
Total liquidity position	399,056	302,327	96,729
Net cash to operating activities	-88,260	-28,620	-59,640
Capex	-7,972	-22,664	14,692

SUCCESSFUL FINANCIAL RESTRUCTURING COMPLETED

Icelandair Group has successfully completed comprehensive financial restructuring to strengthen the long-term competitiveness of the Company. The overarching principle of the restructuring process was to align operating costs and payment schedules with the Company's anticipated cash generation for up to the next 24 months. The new capital structure is a result of wide-ranging participation by key stakeholders as well as the Icelandic government.

The final step in the restructuring was a successful share offering that ended 17 September 2020. In the offering ISK 20 billion new shares were offered for sale. The offering was oversubscribed by 85% with strong demand from both institutional and retail investors. The offering price was fixed at ISK 1.0 per share in both order books. Subscriptions totaled over nine thousand and amounted to ISK 37.3 billion. The Board of Directors increased the offering size to a total of ISK 23 billion shares as per the authorization from the Company's shareholders' meeting. Following the offering, the total number of outstanding shares in Icelandair Group is ISK 28.4 billion. In association with the offering the Company issued warrants, equaling 25% of the nominal amount of new shares, ISK 5.75 billion in total. The

warrants were delivered to all investors that got allotted new shares in the offering free of charge. The warrants grant their holders a right, without obligation, to acquire additional shares in the Company at specific intervals over the next two years. The warrants are freestanding and separate financial instruments and can be traded independent of the shares until their respective exercise periods. The warrants were listed on the Nasdaq Iceland main market on 13 October 2020.

PROSPECTS

The impact of COVID-19 on the airline industry in 2020 is severe and how long lasting the effects will be remains to be seen. According to IATA, the Q2 2020 net post-tax loss surpassed the annual industry-wide loss in the 2008 financial crisis. Losses are widespread over regions despite cost cutting measures and focus on cargo business as an additional source of revenue. The pace of air travel recovery slowed in mid-August and September due to the third wave of the pandemic. International traffic continues to be weaker than domestic traffic. One of the main challenges facing airlines going forward will be to control their cash burn in order to survive until air demand recovers. Dozens of COVID-19 vaccines are in development across the world and hopes are high that one of them will be brought to market in record time to ease the global crisis. Other measures to improve demand such as rapid testing and international co-ordination on prevention and testing might provide a reprieve if a vaccine is delayed.

The operations of Icelandair Group in 2020 have been and will continue to be characterized by exceptional uncertainty in the near future and preserving cash will be the main focus in the coming months. While significant travel restrictions at the Icelandic borders and ongoing spread of COVID-19 have such a severe negative impact on demand, Icelandair's international passenger network will be operated at a minimum level. Costs associated with the successful ramp up in the summer, when travel restrictions at the Icelandic borders were eased will negatively impact Q4 results, as during the current fast-changing market conditions, cannot be managed completely in line with the revenue development.

Despite the difficult conditions, it is important to look to the future and be well prepared to act as soon as the situation in the world improves. The Company has already published Icelandair's summer schedule for 2021. The schedule will include 32 cities with Tenerife as a new addition to the Icelandair route network. The total seat capacity is estimated around 25-30% less than in the same period in 2019. Icelandair will continue to focus on its key markets to and from Iceland as well as providing convenient connections between Europe and North America. The route network will be simplified, further strengthening Icelandair's flexibility to respond quickly to the fast-changing market conditions and adapt capacity to demand at any given time.

The proposed flight schedule is subject to the situation regarding COVID-19 having improved in the Company's markets, both in Europe and North America, and that the current travel restrictions at the Icelandic borders will be eased.

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

The freight operation of Icelandair has been less affected than its passenger services and the outlook for the coming months continues to be good. The company will continue to focus on freight transport in cargo aircraft, until the capacity in the route network has somewhat recovered. Subsequently, the focus will shift again to transport within the passenger aircraft holds as that has proven more efficient. Other Group's businesses are expected to operate at minimum levels in the coming weeks.

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

- **Financial statement Q4 2020 – week 06, 2021**
- **Annual General Meeting – 12 March, 2021**