PASSENGER OPERATIONS SEVERELY IMPACTED BY COVID-19

- EBIT negative by USD 105.1 million in Q2 2020, down by USD 81.0 million
- Net loss of USD 90.8 million in Q2
- COVID-19-related one-off cost amounted to USD 43.8 million in Q2 and USD 224.8 million in the first 6 months of the year
- Equity amounted to USD 118.4 million at the end of June 2020. Equity ratio was 11%
- Cash and cash equivalent amounted to USD 153.6 million at the end of June 2020
- Icelandair's available seat kilometers (ASK) decreased by 97% between years and the number of passengers by 98%
- Cargo flight hours doubled from last year

BOGI NILS BOGASON, PRESIDENT & CEO

"The second quarter was severely impacted by the COVID-19 pandemic. We only operated three per cent of our planned passenger flight schedule but focused on keeping vital air routes open to Europe and North America. Revenue, which decreased by 85% between years, was driven by our cargo and aircraft leasing operations where our employees across the Group showed remarkable resourcefulness and flexibility to seize opportunities during this challenging time. In the second quarter, cargo flight hours doubled from last year.

We had to take difficult but necessary measures in the quarter to reduce cost and prevent cash outflow. This included significant reduction in our workforce and changes to our organisational structure. The work on the financial restructuring of the Company is progressing and we aim to have reached agreements with all our key stakeholders by the end of July, followed by a share offering in August.

All our efforts now are aimed at getting the Company through this period by using our flexibility to react quickly to changes in demand in the short term and at the same time strengthen the long-term competitiveness of the Company. I would like to thank our employees for their sheer commitment and resilience during this time and our customers for their patience and cooperation. It is crucial to have reached agreements with our cabin crew, pilot and aircraft maintenance unions and I am grateful for their important contribution in ensuring the future competitiveness of the Company. Going forward we see many opportunities for Icelandair Group's business model and with new long-term union agreements, I strongly believe that we'll be able to present an attractive investment opportunity for prospective investors in the coming weeks."

KEY INDICATORS

		Q2 2020	Q2 2019	Change	6M 2020	6M 2019	Change
Operating results							
Total income	USDk	60,807	402,767	-341,960	269,788	651,369	-381,581
Total operating cost excl. depreciation	USDk	98,331	382,630	-284,299	355,916	653,014	-297,098
EBIT	USDk	-105,072	-24,104	-80,968	-313,548	-83,683	-229,865
EBT	USDk	-91,867	-40,506	-51,361	-356,224	-108,974	-247,250
Net loss	USDk	-90,821	-34,267	-56,554	-331,046	-89,380	-241,666
Balance sheet and cash flow							
Total assets	USDk	-	-	-	1,090,737	1,716,992	-626,255
Total equity	USDk	-	-	-	118,397	430,863	-312,466
Interest-bearing debt	USDk	-	-	-	262,597	263,798	-1,201
Net interest-bearing debt	USDk	-	-	-	108,972	73,132	35,840
Lease liabilities	USDk	-	-	-	149,063	347,459	-198,396
Net interest-bearing debt incl. lease liab.	USDk	-	-	-	258,035	420,591	-162,556
Net cash to/from operating activities	USDk	-96,789	48,513	-145,302	-19,409	121,454	-140,863
CAPEX	USDk	12,429	36,855	-24,426	40,408	218,432	-178,024
Key Ratios							
EPS	US Cent	-1.70	-0.68	-1.02	-6.12	-1.77	-4.35
Equity ratio excl. Icelandair Hotels	%	-	-	-	11%	28%	-17.1 ppt
EBIT ratio	%	-172.8%	-6.0%	-166.8 ppt	-116.2%	-12.8%	-103.4 ppt
Traffic figures**							
Passengers total	no.	23,330	1,290,222	-1,266,892	581,845	1,992,951	-1,411,106
Load Factor	%	38.7%	85.0%	-0.5 ppt	69.6%	81.8%	-0.1 ppt
Available Seat Kilometers (ASK)	mill	137,175	4,730,222	-4,593,047	2,432,950	7,618,020	-5,185,070
On-Time Performance	%	74.0%	60.0%	0.1 ppt	82.0%	72.0%	0.1 ppt
Freight Tonne Kilometers (FTK)	k	27,013	34,702	-7,689	57,096	67,045	-9,950
Sold charter block hours	no.	3,470	7,446	-3,976	10,528	14,925	-4,397

SECOND QUARTER OPERATIONS

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 heavily in the second quarter. The management of Icelandair Group responded quickly and took extensive measures to get the Company through an extended period of minimum operations. The flight schedule was scaled down to only 3% of the originally planned schedule, the number of employees was reduced considerably and changes were made to the organizational structure, including integration of Air Iceland Connect into the operations of Icelandair and reduction in the number of management positions. At the same time, the Group also acted swiftly and seized opportunities created by these unprecedented circumstances in the cargo and leasing operations. The goal of all these actions was to trim down operational expenses and minimize cash outflow but at the same time secure the continuity of necessary core operations and safeguard the flexibility needed for a quick scale-up when markets recover.

EBIT in the second quarter was negative by USD 105.1. million, decreasing by USD 81.0 million. EBT was negative by USD 91.9 million. Total COVID-19-related one-off cost in the quarter amounted to USD 43.8 million; expensed redundancy cost due to lay-offs of USD 19.7 million, precautionary reserve of engine life of B757 aircraft of USD 28.4 million and goodwill impairment of USD 7.3 million. Expensed one-off cost in the first quarter of the year were reversed; fair value of ineffective fuel hedges amounted to USD 3.6 million and bookings fees to USD 8.0 million.

SEGMENT OVERVIEW:

	Icelandair		Other Group entities		Total	
USD thousand	Q220	Chg. Q219	Q220	Chg. Q219	Q220	Chg. Q219
Total revenue	33,996	-299,155	26,812	-43,456	60,808	-342,611
EBIT	-69,237	-38,703	-35,833	-31,583	-105,070	-70,286
EBT	-78,739	-38,615	-13,126	-4,048	-91,865	-42,663

Icelandair

The COVID-19 pandemic and multiple travel restrictions had a significant effect on demand and the company's revenues in the second quarter. The capacity decreased by 97% between years and the number of passengers by 98%. The total number of passengers in the quarter was around 23 thousand compared to 1.3 million last year. The management of the Company responded quickly, the flight schedule was reduced to 3% of the prior schedule and 19 excess aircraft were put in long-term storage. A large number of employees were laid off and the remaining employees accepted part-time positions or 20-30% temporary salary cuts.

Air Iceland Connect was integrated into the operations of Icelandair at the beginning of April. The capacity of the company fell sharply due to COVID-19, but not as much as the capacity of the Icelandair route network. The available seat kilometers were 76% less than in the same quarter last year and the number of passengers decreased by 73%.

The freight services of Icelandair Cargo were also affected by the COVID-19 situation, but much less than the Icelandair route network. The largest part of the freight volume is transported in the belly space of the Icelandair passenger fleet, but the company also operates two cargo aircraft. As soon as the Icelandair route network was drastically reduced, flights with the cargo aircraft were increased. Ten flights per week were added to Boston and flights were also added to Europe. These mitigating actions prevented the freight services from experiencing further contraction in its operations. As a result, freight tonne kilometers in the second quarter decreased only by 22% between years at the same time as the flight schedule of Icelandair decreased by 97%. This demonstrates the flexibility of Icelandair Group's business model.

Other Group entities

The operating environment of Loftleidir Icelandic has changed significantly due to COVID-19 in recent weeks and the company is facing a large drop in income. Despite that, EBIT remained similar between years in the second quarter. At the end of April, Loftleidir Icelandic, Icelandair Cargo and DB Schenker signed an agreement on cargo flights between China and Germany, transporting medical equipment for health care providers across Europe. Additional flights from China to the USA through Iceland were also part of the agreement. Two other similar contracts were also made with new clients and four B767-300 aircraft and two B757-300 aircraft were retrofitted for these projects and 52 flights were flown to Iceland and Germany and 23 to N-America. These agreements provided new important sources of revenue for the Group during times of significant revenue loss due to the COVID-19 outbreak. This operation was a collective effort, pulling resources from different divisions of Icelandair, Icelandair Cargo and Loftleidir Icelandic, and was a testament to Icelandair Group's agility.

Iceland Travel experienced almost a complete drop in revenue in the second quarter with 99% decrease between years. The management of the company responded by laying off 82 full time employees, which represented 68% of its total employees. Measures from the Icelandic Government were utilized for the remaining employees, of which the majority were moved to part-time jobs. The company renegotiated with its suppliers and operational costs were reduced to the extent possible. This did however not prevent EBIT from being negative in the second quarter and decreasing significantly between years.

On 3 April, Icelandair Group finalized the sale of a 75% equity share in Icelandair Hotels to Berjaya Property Ireland Limited. The 25% share in the hotel company was, in the second quarter, accounted for in “share of loss of associates, net of tax” in the income statement and coverage of the operations will be discontinued. The total sales price for the 75% equity stake was USD 45.3 million. The profit from the sale amounted to USD 15.4 million after USD 7.3 million impairment of goodwill and was recognized in the quarter.

REVENUE AND EXPENSES

The results of this quarter are 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 amounted to USD 60.8 million in the second quarter, as compared to USD 402.8 million in Q2 2019. ***Transport revenue*** amounted to USD 27.6 million, down by 91%. Passenger revenue amounted to USD 9.4 million and decreased by 97%. Icelandair’s capacity decreased by 97% over the quarter and the number of passengers by 98%. ***Revenue from aircraft and aircrew lease*** amounted to USD 26.9 million and increased by 40% between years. Full charter flights with medical equipment for health care providers in Europe and USA from China compensated for the loss of contracted revenues from leased aircraft and maintenance services (AM). ***Other operating revenue*** was USD 6.3 million, as compared to USD 59.2 million in the same quarter last year. Revenue decrease due to the divestment of Icelandair Hotels amounted to USD 23.1 million. Other revenue streams are lower due to the negative effects of COVID-19 on demand.

USD thousand	Q2 2020	Q2 2019	Change	% Change
Transport revenue:	**27,612**	**324,365**	**-296,753**	**-91%**
Passengers	*9,407*	*281,289*	*-271,882*	*-97%*
Passenger ancilliary revenues	*2,436*	*27,589*	*-25,153*	*-91%*
Cargo and mail	*15,770*	*15,487*	*283*	*2%*
Aircraft and aircrew lease	**26,893**	**19,197**	**7,696**	**40%**
Other operating revenue:	**6,302**	**59,205**	**-52,903**	**-89%**
Sale in airport and hotels	*164*	*23,804*	*-23,640*	*-99%*
Revenue from tourism	*26*	*29,280*	*-29,254*	*-100%*
Other	*6,112*	*6,121*	*-9*	*0%*
Total	**60,807**	**402,767**	**-341,960**	**-85%**

Expenses

Operating expenses amounted to 98.3 million and fell by 74% between years. ***Salaries and salary-related expenses*** amounted to USD 52.2 million, down by 57%. Expensed term of notice amounted to USD 44.0 million. Repayment of notice period payments, in accordance with Icelandic act no. 50/2020, due to those actions amounted to USD 24.3 million. Net cost due to term of notice was therefore USD 19.7 million in the quarter. The number of full time employees, excluding lay-offs and FTE’s of Icelandair hotels in 2019, were 1,151 in June compared to 4,440 in June last year.

Aviation expenses amounted to USD 31.6 million, down by USD 133.5 million year-on-year, due to less production. Fuel expenses amounted to USD 8.8 million, down by 90%. The Company's price of fuel for the quarter, taking hedging into account, was on average USD 1,159/ton, as compared to USD 647/ton in the same quarter last year. Aircraft lease of USD 3.7 million is due to a settlement for returned service of three aircraft leased at the beginning of the year due to the MAX suspension. Aircraft handling, landing and navigation expenses decreased in line with less production due to COVID-19. Maintenance expenses amounted to USD 10.9 million and reduced by 36%, due to less production.

Other operating expenses amounted to USD 14.5 million, down by USD 82.8 million. All main cost items were lower than last year due to the reduced production resulting from COVID-19. Booking fees and commission expenses were negative of USD 1.3 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 accepted travel vouchers as compensation instead of claiming cash refunds.

USD thousand	Q2 2020	Q2 2019	Change	% Change
Salaries and salary related expenses	**52,233**	**120,233**	**-68,000**	**-57%**
Aviation expenses	**31,584**	**165,119**	**-133,535**	**-81%**
Aircraft fuel	*8,822*	*91,849*	*-83,026*	*-90%*
Aircraft lease	*3,659*	*16,830*	*-13,171*	*-78%*
Aircraft handling, landing and communication	*8,206*	*39,305*	*-31,099*	*-79%*
Aircraft maintenance expenses	*10,897*	*17,135*	*-6,238*	*-36%*
Other operating expenses	**14,514**	**97,278**	**-82,764**	**-85%**
Operating cost of real estate and fixtures	*1,386*	*4,204*	*-2,818*	*-67%*
Communication	*3,800*	*6,672*	*-2,872*	*-43%*
Advertising	*907*	*5,219*	*-4,312*	*-83%*
Booking fees and commission expenses	*-1,327*	*20,813*	*-22,140*	*-106%*
Cost of goods sold	*134*	*3,512*	*-3,378*	*-96%*
Customer services	*1,840*	*17,824*	*-15,984*	*-90%*
Travel and other employee expenses	*3,282*	*16,581*	*-13,299*	*-80%*
Tourism expenses	*568*	*13,548*	*-12,980*	*-96%*
Other operating expenses	*3,924*	*8,905*	*-4,981*	*-56%*
Total	**98,331**	**382,630**	**-82,764**	**-74%**

Depreciation and amortization amounted to USD 60.2 million in the second quarter, increasing from USD 44.2 million in the same quarter last year. The increase between years is driven by a precautionary reserve of engine life of B757 aircraft. After the completion of the sale of Icelandair Hotels in the quarter, an ***impairment*** of USD 7.3 million was recognized. The total goodwill of Icelandair Hotels has now been impaired.

FINANCIAL POSITION

Assets and interest-bearing debt

Total assets amounted to USD 1,090.7 million, decreasing from USD 1,717.0 million at 30 June 2019. The decrease of the asset base is driven by COVID-19 related goodwill impairment of USD 123.5 million and the divestment of Icelandair Hotels, which decreased assets by USD 272.0 million.

Total interest-bearing debt amounted to USD 262.6 million, down by USD 1.2 million compared to 30 June 2019. Excluding assets held for sale at the same time last year, interest bearing debt increased by USD 32.1 million. Net interest-bearing debt, excluding lease liabilities, amounted to USD 109.0 million, and lease liabilities amounted to USD 149.1 million.

USD thousand	30.06.2020	30.06.2019	Change	31.12.2019
Loans and borrowings non-current	*100,358*	*202,431*	*-102,073*	*241,328*
Loans and borrowings current	*162,239*	*28,074*	*134,165*	*79,958*
Loans and borrowings held for sale	*0*	*33,293*	*-33,293*	*66,098*
Interest bearing debt	**262,597**	**263,798**	**-1,201**	**387,384**
Cash and cash equivalents	*153,625*	*174,951*	*-21,326*	*235,073*
Cash held for sale	*0*	*15,715*	*-15,715*	*11,487*
Net interest bearing debt	**108,972**	**73,132**	**35,840**	**140,824**
Lease liabilities non-current	*125,390*	*161,633*	*-36,243*	*135,473*
Lease liabilities current	*23,673*	*37,134*	*-13,461*	*22,980*
Lease liabilities held for sale	*0*	*148,692*	*-148,692*	*149,554*
Lease liabilities	**149,063**	**347,459**	**-198,396**	**308,007**
Net interest bearing debt incl. liabilities	**258,035**	**420,591**	**-212,910**	**448,831**

Liquidity position

Cash and cash equivalents amounted to USD 153.6 million at the end of the quarter. At the end of the quarter, the Group had undrawn credit lines in the amount of USD 62.7 million. While these have not contractually expired, they are currently unavailable to the Group due to financial covenant breaches. Net cash to operations amounted to USD 96.8 million in the quarter, as compared to net cash from operating activities of USD 48.5 million in the same quarter last year.

USD thousand	Q2 2020	Q2 2019	Change
Cash and cash equivalent	153,625	174,951	-21,326
Cash and cash equivalent in assets held for sale	0	15,715	-15,715
Undrawn revolving facilities	0	12,000	-12,000
Total liquidity position	**153,625**	**202,666**	**-49,041**
Net cash to/from operating activities	-96,789	48,513	-145,302
Free cash flow	-109,218	17,772	-126,990
Capex	12,429	36,855	-24,426

PROSPECTS

According to IATA, the post-COVID-19 recovery in the air transport industry has three critical elements; the containment of the health crisis, the loosening of travel restrictions and border closures and critically the restoration of passenger confidence to resume flying. Each of these factors will impact both the timing and the speed of the industry recovery.

As travel demand recovers, cash flow pressure is expected to ease. Vouchers offered to passengers when airlines grounded their fleet globally helped airlines to limit their cash outflow at that time. However, with the restart of the industry, passengers will start to use these vouchers for their travel and airlines are therefore expected to continue negative cash flow at least until the end of this year. In the case of a cancellation of a flight, customers have three options – to change their flight, accept a voucher or request a refund. The amount of issued vouchers by Icelandair at the end of the quarter amounted to USD 67.2 million. These vouchers are generally valid for three years.

Following the lifting of travel restrictions to Iceland and the implementation of screening procedures in Keflavík from 15 June, demand has started to gradually build again. Icelandair has met that demand in a dynamic fashion, ramping up to 4.2% of the prior year's capacity in June and 11.3% in July. The focus has been on operating core European routes and keeping the export connections to the U.S. open. The complex process of restarting the airline has gone well and passengers are generally satisfied by the simplified product currently being offered. Market conditions are still fragile and heavily impacted by the status of the pandemic in each market. The agility of the Company will allow it to ramp-up quickly as viable.

The goal of all actions taken by the management of Icelandair Group throughout this period has been to trim down operational expenses and minimize cash outflow but at the same time secure the continuity of necessary core operations and safeguard the flexibility needed for a quick scale-up when markets recover. Flexibility and swift reactions will be the absolute key to success in the restart when demand starts to increase again as the Company showed by adding cargo flights and convert passenger aircraft to cargo aircraft.

FINANCIAL RESTRUCTURING UPDATE – UNION NEGOTIATIONS COMPLETED

Icelandair Group is progressing in completing a voluntary financial restructuring of the Company. Following a successful completion of the restructuring, with participation from all stakeholders, an offering of new shares in the Company is expected to follow. These stakeholders include unions, lenders, lessors, credit card acquirers, fuel hedging counterparties and The Boeing Company. The Icelandic Government has expressed willingness to provide a guarantee for a credit line conditioned upon the completion of the financial restructuring and share offering.

New union agreements to secure long-term competitiveness
New long-term collective bargaining agreements have been entered into with the aircraft mechanics, pilots and cabin crew unions, which will strengthen the Company’s competitiveness and flexibility going forward while protecting good employee compensations.

Negotiations with lenders, lessors and other vendors
The Company has in recent weeks been in discussions with 15 creditors regarding concessions and payment deferrals. These include lenders, lessors, credit card acquirers and fuel hedging counterparties. The restructuring objective has been to strengthen the Company’s liquidity position by adjusting the cash flow and repayment profiles to minimal operations.

Negotiations with The Boeing Company
In 2013, The Boeing Company and Icelandair Group signed an agreement for the sales and purchase of sixteen Boeing 737 MAX8 and MAX9 aircraft with an option to purchase additional eight aircraft. Icelandair has already taken delivery of six aircraft which have been grounded since March 2019. Additional three aircraft were scheduled to be delivered in the first half of 2019, five aircraft in 2020 and two in 2021. None of these remaining ten aircraft have been delivered to date. The grounding of the MAX aircraft is an ongoing challenge for the Company as it currently has six MAX aircraft on the ground and it remains uncertain when they will return to service. Icelandair is in negotiations with Boeing regarding further compensation for the financial loss resulting from the suspension and status of future deliveries

Raise of new capital through share offering
The Company shareholders’ meeting on 22 May 2020 agreed on a proposal from the Board of Directors to increase the share capital by up to 30,000 million new shares. The Company is preparing the share offering in cooperation with its advisors. The offering is to take place following successful completion of the ongoing restructuring.

Government guaranteed credit line
The Company has been in discussion with the Icelandic Government on terms for a guaranteed credit facility which would be available as a last resort if the Company’s operations were to remain at a

minimum level for an extended period. The credit facility is to be conditioned upon sufficient concessions from stakeholders and a successful completion of the share offering.

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 share offering, no investor presentation will be held in relation to the disclosure of the Q2 report**
- **Financial statement Q3 2020 – week 44, 2020**
- **Financial statement Q4 2020 – week 06, 2021**