

ICELANDAIR DELIVERS USD 4 MILLION PROFIT IN THE SECOND QUARTER OF 2022

- EBIT USD 1.2 million improving by USD 63.4 million year-on-year despite fuel price more than doubling
- Operating income USD 328.9 million up by USD 251.4 million
- Passenger revenue driving the increase in operating income
- Continued recovery in capacity; 76% of 2019 production levels vs 58% in Q1 2022
- Load factor significantly improving year-on-year; 78.5% vs 47.3%
- Almost one thousand employees recruited during the quarter
- Strong cashflow from operations (USD 121.7 million)
- Record liquid funds available at end of June USD 463 million
- Committed to taking delivery of six more efficient B737 MAX aircraft, supporting further growth and sustainability targets
- The second half of the year expected to be profitable with Q3 performance significantly stronger than last year

BOGI NILS BOGASON, PRESIDENT & CEO

“Turning a profit in the second quarter is a major milestone on our road to financial sustainability. Utilizing the flexibility of our network and robust infrastructure has allowed us to rapidly increase capacity in line with high demand, achieving improved load factor and higher yields, despite various external factors affecting our business, such as fuel price more than doubling between years. This kind of a turnaround does not happen by itself. It is the outcome of relentless effort by our people, whose teamwork and dedication has been remarkable during this challenging time. I would like to thank them for all their hard work.

Our ramp-up has continued into July with more destinations, frequent flights to our most popular destinations and diverse departure times throughout each day. Like the rest of the industry, we have been faced with various challenges, such as employee shortage at airport operators in Europe and North America that has caused flight disruptions, as well as supply chain issues that have delayed the return of aircraft out of maintenance. We are, however, in a good position to respond to such disruptions with our extensive flight schedule and frequency of flights that enables us to get our passengers quickly and efficiently to their destinations. In addition, our employees have also taken various innovative actions to minimize the impact on our customers.

The outlook for Q3 is good with strong bookings. We expect our flight schedule to reach around 83% of 2019 levels in Q3 and around 90% of 2019 in Q4 2022, despite the on-going geopolitical and economic uncertainty. It is good to see such strong demand to Iceland and the transatlantic market recovering well. The outlook is also good in our cargo and leasing businesses. As we have seen in the past and what the pandemic and the subsequent ramp-up phase have clearly demonstrated is that we have a robust business model and an excellent team of employees. We will continue to work hard on unleashing the opportunities we see for Icelandair going forward.”

WEBCAST 25 JULY 2022

An investor presentation will be webcast in relation to the publication of the results at 15:30 GMT on Monday, 25 July 2022, at <http://icelandairgroup.is>. Bogi Nils Bogason, President & CEO of Icelandair Group, and Ivar S. Kristinsson, CFO, will present the Company's results and answer questions. **The presentation and Q&A will take place in English.**

KEY INDICATORS

		Q2 2022	Q2 2021	Change	6M 2022	6M 2021	Change
Operating results and cash flow							
Total income	USDk	328,945	77,524	251,421	487,610	134,852	352,758
of which transport revenue	USDk	298,072	56,662	241,410	423,274	93,506	329,768
Total operating cost	USDk	327,739	139,756	187,983	544,742	243,293	301,449
EBIT	USDk	1,206	-62,232	63,438	-57,133	-108,442	51,309
EBT	USDk	2,133	-67,932	70,065	-60,365	-108,093	47,728
Net profit / loss	USDk	3,799	-54,939	58,738	-45,901	-85,038	39,137
Net cash from operating activities	USDk	121,713	65,025	56,688	205,593	19,731	185,862
CAPEX, gross	USDk	30,486	152,163	-121,677	196,290	160,562	35,728
CAPEX, net	USDk	22,700	-17,400	40,100	86,322	-20,798	107,120
Balance sheet¹							
Total assets	USDk	-	-	-	1,512,748	1,171,559	341,189
Total equity	USDk	-	-	-	203,533	222,384	-18,851
Financial liabilities ³	USDk	-	-	-	580,445	495,922	84,523
Net financial liabilities	USDk	-	-	-	169,425	232,957	-63,532
Total liquidity position	USDk	-	-	-	463,021	434,965	28,056
Key Ratios							
EPS	US cent	0.02	-0.19	0.21	-0.12	-0.29	0.17
Equity ratio ¹	%	-	-	-	13.5%	19.0%	-5.5 ppt
EBIT ratio	%	0.4%	-80.3%	80.6 ppt	-11.7%	-80.4%	68.7 ppt
RASK ²	US cent	8.0	5.6	2.4	7.5	5.9	1.6
CASK ²	US cent	8.2	15.2	-7.0	8.9	18.9	-9.9
CASK less fuel ²	US cent	5.5	13.1	-7.6	6.4	16.9	-10.5
Traffic figures							
Passenger flights	no.	4,002	1,240	223%	6,136	1,512	306%
Passengers total	no.	989,821	154,885	539%	1,411,799	221,116	538%
To Iceland	no.	385,836	65,008	-	588,887	77,931	-
From Iceland	no.	161,157	21,269	-	247,247	32,081	-
Via Iceland	no.	369,362	16,550	-	451,607	17,347	-
Within Iceland	no.	73,465	52,058	41%	124,058	93,757	32%
Passenger load factor	%	78.5%	47.3%	31.3 ppt	74.9%	44.6%	30.3 ppt
Available seat-kilometers (ASK)	mill	3,603	718	402%	5,307	914	481%
ASK as % of 2019 capacity	%	75.6%	15.1%	60.5 ppt	69.1%	11.9%	57.2 ppt
Revenue seat-kilometers (RPK)	mill	2,830	339	-	3,974	407	876%
On-Time-Performance	%	75.5%	92.0%	-16.5 ppt	74.3%	91.0%	-16.7 ppt
Freight ton kilometers (FTK)	k	35,442	34,158	4%	69,181	67,852	2%
Sold charter block hours	no.	3,288	3,495	-6%	6,721	6,719	0%
Total CO2 emissions ton	no.	255,726	66,653	284%	389,005	102,680	279%
CO2 emissions per OTK	no.	0.79	1.05	-24%	0.82	1.34	-39%
Employees							
Average number of full-time employees	no.	3,188	1,783	79%	2,837	1,648	72%

¹ Comparison figures for balance sheet are 31.12.2021; ² RASK/CASK: Revenue and cost per ASK is Icelandair total including domestic operation from 16 March 2021; ³ Financial liabilities: interest bearing debt and net lease liabilities

TRAFFIC DATA

- **Capacity increased fivefold compared to Q2 2021 and reached 76% of 2019 levels**
- **Load factor improved significantly between years and from previous quarter**

The capacity measured in available seat kilometers continued to recover in the second quarter. The size of the route network grew fivefold between years and production reached 76% of 2019. The total number of passengers was 990 thousand up from 154 thousand in 2021. The load factor was 78.5% and improved significantly from 47.3% in the same quarter last year. The improvement compared to the first quarter was 11 percentage points.

The market “to” Iceland was the largest market with 39% of total passengers. The “via” market, continued to recover and accounted for 37% of total passengers compared to only 11% of total passengers in Q2 2021. Passengers in the home market travelling “from” Iceland accounted for 16% of passengers and domestic passengers “within” Iceland accounted for 7%.

On-time performance was 76% and was negatively affected by disruptions in the route network, especially in the month of June. The disruptions are mainly a result of challenging conditions at international airports and delays of aircraft out of maintenance due to global supply chain challenges that impacted the availability of aircraft parts. Icelandair’s extensive flight schedule this summer, with high frequency of flights and diverse departure times within each day, has been a major factor in being able to minimize the impact these disruptions have on passengers.

The cargo business continued to positively contribute to the Company’s performance in Q2 2022. Freight volume, measured in Freight Ton Kilometers (FTK), increased by 4% year-on-year driven by increased imports to Iceland while exports declined somewhat. Cargo operations were strong during the quarter however profitability suffered compared to last year mainly due to the steep increase in fuel prices. The leasing operation was profitable in Q2 2022, despite sold block hours slightly decreasing year-on-year by 6%.

Icelandair reduced its CO2 emission by 24% per operational ton kilometer (OTK) in Q2 2022 compared to the same quarter last year. This was achieved through improved load factor and a larger proportion of B737 MAX aircraft within the fleet than in Q2 2021. The Company has set clear and ambitious goals of reducing its carbon emissions by 50% per OTK by 2030 and to achieve net zero emission by 2050.

INCOME AND EXPENSES

- **Passenger revenue increased almost ninefold**
- **Average fuel price more than doubled year-on-year**

Income

Increase in flight capacity to meet strong demand, together with significant impact of improvement in the passenger load factor and passenger yields through disciplined network planning and successful revenue management resulted in significantly higher revenue between years.

Total income amounted to USD 328.9 million in Q2 2022 up from USD 77.5 million in Q2 2021. **Transport revenue** amounted to USD 298.1 million, increasing by USD 241.4 million between years. **Passenger and passenger ancillary revenue** amounted to USD 276.1 million compared to USD 33.7 million last year. **Cargo revenue** decreased by 4% and amounted to USD 22.0 million. **Revenue from aircraft and aircrew lease** amounted to USD 13.8 million increasing by 77% year-on-year. **Total other**

operating revenue amounted to USD 17.1 million, as compared to USD 13.1 million last year. Thereof, **revenue from tourism** amounted to USD 7.4 million up from USD 3.3 million.

Expenses

Significant increase in capacity compared to the second quarter 2021 along with training and maintenance activities in preparation for the peak season impacted operating expenses in the second quarter of 2022. An 124% increase in average world fuel price year-on-year increased cost significantly.

Operating expenses excluding depreciation amounted to USD 301.3 million and increased by USD 186.9 million. **Salaries and salary-related** expenses amounted to USD 83.9 million compared to USD 52.5 million in Q2 last year. The average number of full-time employees was 3,188 in Q2 2022 and increased by 1,405 compared to Q2 last year. A total of 962 new employees were on-boarded in Q2, including pilots, cabin crew and ground handling staff who all underwent training during the quarter. **Aviation expenses** amounted to USD 156.9 million, up by USD 117.8 million. **Aircraft fuel** totaled USD 106.0 million compared to USD 19.5 million last year. The average world market price in the second quarter was USD 1,292 per metric ton, as compared to USD 576 per metric ton in the second quarter of 2021, corresponding to an increase of 124%. The hedge levels in Q2 2022 equaled 25% of the consumption at an average price of USD 664 per metric ton. A larger B737 MAX fleet had positive effect on fuel expenses and saved USD 21 million in fuel cost compared to the B757's that it has replaced. **Other operating expenses** amounted to USD 60.6 million, up by USD 37.7 million. **Tourism expenses** were up by USD 2.1 million in line with higher revenue from tourism. Other cost increased in line with increased scope of business.

RASK (revenue per available seat kilometer) in Q2 2022 was 8.0 US cent compared to 5.6 US cent in Q2 2021. Main reasons for higher RASK are both improved load factor and yields. Development in Saga Premium was positive, both in terms of number of passengers, and total revenue. **CASK** (cost per available seat kilometer) was 8.2 US cent compared to 15.2 US cent in Q2 2021. **CASK less fuel** was USD 5.6 US cent compared to 13.1 US cent last year.

FINANCIAL POSITION

- **Equity ratio 13.5%**
- **Total liquid funds USD 463 million**

Balance sheet

Total assets amounted to USD 1,512.7 million at the end of Q2 2022, increasing from USD 1,171.6 million at year-end 2021. Operating assets amounted to USD 441.8 million increasing by USD 50.5 million, due to addition of one MAX aircraft and overhaul of own aircraft. Right-of-use of assets amounted to USD 282.0 million, increasing by USD 57.2 million due to lease agreements for three new MAX aircraft. **Equity** amounted to USD 203.5 million. Equity ratio at the end of the quarter was 13.5% compared to 19% at the beginning of the year. **Financial liabilities** amounted to USD 580.4 million and increased during the quarter due to aircraft investments. **Net financial liabilities** amounted to USD 169.4 million and decreased by USD 63.5 million compared to the beginning of the year.

Liquidity

Cash and marketable securities amounted to USD 411.0 million compared to USD 263.0 million at the beginning of year. **Net cash from operations** was strong and amounted to USD 121.7 million during the quarter. **Cash used in investing activities** totaled USD 7.2 million. Net CAPEX was USD 22.7 million included overhaul of own engines and sale proceeds of one B767 aircraft which was sold and leased back in the quarter. **Net cash used in financing activities** was USD 15.0 million. The Company

had available undrawn committed credit lines in the amount of USD 52.0 million at the end of the quarter bringing the **total liquid funds** to USD 463.0 million.

PROSPECTS

Booking outlook for Q3 2022 strong

Bookings for the third quarter are strong; driven by pent-up travel demand for the destination Iceland and a healthy transatlantic market. Last minute capacity reductions of major European airlines, caused by operating challenges and industrial actions, have consolidated strong demand for less capacity. RASK in the third quarter is expected to improve compared to the second quarter. Q4 2022 is also showing signs of strength giving rise to cautious optimism despite the on-going geopolitical and economic uncertainty. Icelandair's flight schedule is expected to reach around 83% of 2019 levels in Q3 2022 and around 90% of 2019 levels in Q4 2022.

Flexibility and extensive flight schedule key to respond to disruptions

Challenging conditions at international airports due to staff shortage have been causing considerable disruptions within the aviation industry. These disruptions are expected to continue, especially for the remainder of the summer season. On-time performance is expected to continue to be somewhat negatively affected by these issues. Supply chain issues following the pandemic are also expected to continue to affect various areas of flight operations, such as maintenance and procurement. Icelandair's flexible route network and extensive flight schedule this summer, with high frequency of flights and diverse departure times within each day, will continue to be the key to minimizing the impact these disruptions have on passengers as Icelandair's priority continues to be to get passengers to their destinations as soon as possible, preferably within the same day.

Good outlook in the cargo and leasing operations

The cargo business is expected to positively contribute to the Company's performance in 2022 although high fuel prices will have negative effect on the profitability in the short term. Two B767 freighters will enter the operation in Q4 2022 with the aim to increase capacity and strengthen Iceland as a hub for cargo between Europe and North America. The near-term outlook for the leasing business is good, especially regarding VIP charter projects. The leasing operation is expected to turn profit in 2022.

Hedging position at the end of Q2 2022

Icelandair started to rebuild its fuel hedging position in Q1 2022 after having suspended its oil hedging activities during the Covid-19 pandemic. Current hedge levels equal 25% of the estimated consumption in Q3 2022 and 25% of the estimated consumption in Q4 2022. The majority of the Q3 hedges or 20.2% are at an average price of USD 935. The remaining 4.8% in Q3 and the whole 25% position in Q4 is hedged through a 4-way option collar. The 4-way structure provides upside protection from USD 1,300 and poses downside risk from USD 1,077 per hedged ton.

Six additional Boeing 737 MAX aircraft to enter the fleet before end of 2023

Icelandair has recently signed a Letter of Intent for the purchase of four Boeing 737 MAX aircraft. A sale and purchase agreement is currently in the progress of being finalized. The aircraft were built in 2018 and are scheduled to be delivered in the fall of 2022. The purchase will be partly financed with cash on hand supplemented by up to 80% debt financing. Icelandair has also signed agreements with BOC Aviation (BOCA), regarding long-term operating leases of two additional new Boeing 737 MAX8 aircraft. The aircraft are scheduled to be delivered from Boeing in the fall of 2023. These transactions will bring the total number of 737 MAX in the Icelandair fleet up to 20 aircraft.

Two warrant classes exercisable in July and August 2022

As part of the share offering completed in September 2020 the Company issued warrants to investors that purchased shares. The warrants will become exercisable in August 2022. In June 2021 the Company entered Bain Capital a binding commitment to purchase new shares in the Company and received warrant for subscription rights amounting to 25% of the new shares. The warrants will become exercisable in July 2022. If warrant holders in both classes exercise their warrants in full a total of 3,331,440,284 new shares in the Company will be issued and the proceeds totals approximately USD 36.2 million.

Guidance for 2022

Despite a positive booking trends, the industry is still facing headwinds in terms of fuel price volatility, operating challenges, and mixed economic outlook in main markets due to the on-going geopolitical tensions. Even though a full year guidance will not be provided, the Company now expects, based on current assumptions, to be profitable for the second half of the year, driven by the third quarter performance being significantly stronger than last year.

INFORMATION

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FINANCIAL CALENDAR

- Q3 2022 – week 42 2022
- Q4 2022 – week 5 2023