CONTINUED OPERATIONAL IMPROVEMENTS – Q3 NET PROFIT USD 61 MILLION

- Operational improvements with EBIT amounting to USD 81.1 million in the quarter, up by USD 2.8 million despite the suspension of the MAX aircraft.
- Total revenue amounted to USD 533.9 million in the quarter, down by 2%.
- Flexibility of the route network resulted in 27% more passengers travelling to Iceland in the quarter.
- Equity ratio at the end of September was 30%, up from 28% at the beginning of the year based on the same accounting principles. Excluding the impact of IFRS 16, the equity ratio was 37%.
- Total liquidity amounted to USD 238.5 million at the end of the quarter.
- The second partial compensation agreement was made with Boeing today, in addition to the interim agreement already reached in the quarter.
- Q4 results expected to improve compared to last year.
- The estimated net EBIT impact for 2019 quantified to date of the MAX suspension is still significant. Discussions on further compensation for the financial loss are ongoing.
- EBIT guidance for 2019 has been narrowed to USD 35-45 million.

BOGI NILS BOGASON, PRESIDENT & CEO

“The third quarter results show improvements in the Company’s underlying operations despite the unprecedented impact of the suspension of the MAX aircraft, Icelandair’s key strength is the flexibility of the route network which has allowed us to optimise our flight schedule by shifting our focus towards more profitable routes and markets. We have emphasised the tourist market “to” Iceland to meet increased demand and transported 30% more passengers to Iceland during the high season year-on-year and this focus will continue into 2020.

We have managed to reduce the impact of the MAX suspension by implementing an extensive action plan to decrease costs and drive revenues. In addition to the optimisation of our route network, we have improved our revenue management and achieved better utilisation of employees. In the third quarter, we have also continued to make great progress in on-time performance which has significantly reduced disruption cost in the route network, despite the pressures on the network and our employees due to the MAX suspension. The prospects for the full year 2019 have improved. Our core operations are robust, equity position and liquidity are strong. We are therefore well equipped to achieve our goals of further strengthening our operations and improving the profitability of the Company going forward.”

INVESTOR MEETING AND WEBCAST 1 NOVEMBER 2019

An open presentation for stakeholders will be held on Friday 1 November 2019 at the Icelandair Hotel Reykjavik Natura. Bogi Nils Bogason, President & CEO of Icelandair Group, and Eva Sóley Guðbjörnsdóttir, CFO, will present the Company’s results and answer questions along with members of the senior management. The presentation will start at 08:30 a.m. GMT. The presentation will be available after the meeting on the Icelandair Group website, www.icelandairgroup.is.

The meeting will also be webcast live in Icelandic at:
http://www.icelandairgroup.is/investors/reports-and-presentations/webcast-next/

KEY INDICATORS

		Q3 2019	Q3 2018	Change	9M 2019	9M 2018	Change
Operating results							
Total revenue	USDk	533,943	545,193	-11,250	1,185,312	1,211,718	-26,406
Total operating cost excl. depreciation	USDk	401,302	430,200	-28,898	1,042,099	1,100,243	-58,144
EBIT	USDk	81,067	78,295	2,772	-2,615	111,475	-114,090
EBT	USDk	76,467	76,933	-466	-32,506	1,914	-34,420
Net profit/loss	USDk	61,461	62,029	-568	-27,919	1,773	-29,692
Balance sheet and cash flow*							
Total assets	USDk	-	-	-	1,679,124	1,464,122	215,002
Total equity	USDk	-	-	-	500,869	471,379	29,490
Interest bearing debt	USDk	-	-	-	302,407	451,445	-149,038
Net interest bearing debt	USDk	-	-	-	123,910	147,951	-24,041
Lease liabilities	USDk	-	-	-	314,429	0	314,429
Net interest bearing debt incl. lease liab.	USDk	-	-	-	438,339	147,951	290,388
Net cash from operating activities	USDk	-28,620	-50,635	22,015	92,834	76,542	16,292
CAPEX	USDk	22,663	42,763	-20,100	241,094	288,853	-47,759
Free cash flow	USDk	-51,283	-93,398	42,115	-148,260	-212,311	64,051
Key Ratios							
EPS	US Cent	1.19	1.29	-0.10	-0.54	0.04	-0.58
Equity ratio	%	-	-	-	29.8%	32.2%	-2.4 ppt
Equity ratio excl. IFRS16	%	-	-	-	37.0%	32.2%	4.8 ppt
EBIT ratio	%	15.2%	14.4%	0.8 ppt	-0.2%	9.2%	-9.4 ppt
EBT ratio	%	14.3%	14.1%	0.2 ppt	-2.7%	0.2%	-2.9 ppt
Traffic figures**							
Passengers to market	no.	684,263	539,835	27%	1,477,870	1,160,738	27%
Passengers from market	no.	167,595	141,368	19%	478,219	395,011	21%
Passengers via market	no.	693,260	788,154	-12%	1,581,980	1,689,461	-6%
Passengers Total	no.	1,545,118	1,469,357	5%	3,538,069	3,245,210	9%
Load Factor	%	82.4%	84.2%	-1.8 ppt	82.0%	81.2%	0.8 ppt
Available Seat Kilometers (ASK)	mill	5,806,364	5,597,896	4%	13,424,384	12,665,763	6%
On-Time-Performance	%	73.7%	66.8%	6.9 ppt	60.0%	66.9%	-6.9 ppt
Freight Tonne Kilometers (FTK)	k	32,444	31,603	3%	99,489	92,446	8%
Sold Charter Block Hours	no.	7,877	8,327	-5%	22,802	26,012	-12%
Hotel Occupancy	%	91.6%	89.4%	2.3 ppt	82.0%	81.3%	0.7 ppt

* Comparision figures for balance sheet are 31.12 2018

** Icelandair, Icelandair Cargo, Loftleidir Icelandic, Icelandair Hotels

THIRD QUARTER OPERATIONS

The table below shows a comparison of revenue, EBIT and EBT between years.

	Passenger network		Aviation services		Tourism services		Total	
USD thousand	Q319	Chg. Q318	Q319	Chg. Q318	Q319	Chg. Q318	Q319	Chg. Q318
Total revenue	427,604	14,807	42,549	-3,598	63,790	-22,459	533,943	-11,250
EBIT	53,679	-4,598	12,416	7,158	14,972	212	81,067	2,772
EBT	48,923	-7,727	11,967	6,902	15,577	359	76,467	-466

Passenger network

The suspension of the MAX aircraft has significantly affected Icelandair Group's operations due to lost revenues and increased expenses, as discussed in detail in the Company's Q2 2019 report. In the third quarter, a partial compensation agreement was reached with Boeing in connection with the Company's loss resulting from the suspension. In the third quarter, this was recognised partially as increased passenger revenue and partially as decreased aircraft lease expenses in aviation expenses. Additional details on this agreement with Boeing are confidential. The Company is in ongoing discussions with Boeing regarding compensation for the financial loss resulting from the suspension.

Total revenue, including the partial compensation from Boeing, amounted to USD 533.9 million in the third quarter, down by 2%. The number of passengers totalled 1.5 million, up by 5%. The suspension of the MAX aircraft had significant impact on the Company's passenger mix and revenue composition. Flight cancellations resulted in an imbalance in the route network between Europe and North America and negatively affected revenue opportunities in the North Atlantic market "via" Iceland. Revenue from the "via" market fell as a result of the reduction in the number of passengers, but this was counterbalanced by the flexibility of the route network which enabled a significant growth in the number of passengers in the "to" market. Revenues in the domestic market "from" Iceland also increased. The breakdown below shows the shifts in the Company's passenger composition:

USD thousand	Q3 2019	Q3 2018	Change
Share of passengers to market	44.3%	36.7%	7.5 ppt
Share of passengers from market	10.8%	9.6%	1.2 ppt
Share of passengers via market	44.9%	53.6%	-8.8 ppt

Average fares at a fixed exchange rate increased in the domestic market "from" Iceland and the "via" market but decreased in the tourist market "to" Iceland. The above-mentioned imbalance in the route network and the strengthening of the USD against the Company's other primary revenue currencies negatively affected reported revenues.

In the beginning of the year, the Company had anticipated that the MAX aircraft would account for 25% of available seats in the third quarter. As a mitigating measure, due to the MAX suspension, five leased aircraft with crew were added to the fleet this summer. These aircraft are larger and not as cost-efficient as the MAX aircraft. Part of the compensation from Boeing was recognised as decreased aircraft lease expenses in aviation expenses. The compensation agreement has been incorporated into the third quarter results.

Cost due to disruptions in flight schedules amounted to around USD 45 million in 2018. The aim was to reduce this cost by at least 40% in 2019 by reinforcing infrastructure and changing work processes. Significant progress has been achieved in this regard over the year. On-time performance was 74% in the third quarter, as compared to 67% in the same period last year. This progress has been made despite the pressure on the route network and the employees resulting from the suspension of the MAX aircraft, while at the same time the utilisation of the fleet was at a maximum and reserve aircraft fewer than had been anticipated. It is estimated that improved on time performance reduced cost by about USD 7 million in the third quarter and USD 14 million in the first nine months of 2019, which is reflected in fuel efficiency, improved utilisation of crew, reduced compensation cost and other cost resulting from disruptions in the route network.

Aviation services

Revenue from leasing operations, Loftleidir Icelandic, decreased between years as a result of fewer aircraft in the fleet and due to changes resulting from the implementation of IFRS 16 in the beginning of

2019. However, the profitability of Loftleidir Icelandic improved between years. The Freight operations performed well in the quarter, with export increasing by 13% and import by 4%.

Tourism services

The operating environment of Icelandair Hotels is difficult as recent contractual salary increases in the labour market significantly increased the company's salary costs. However, Icelandair Hotels reached 91.6% occupancy, which is up by three percentage points compared to last year. Average daily rate declined by 1% between years, which is less than the average decline of local competitors measured (compset). Revenue from tourism decreased by USD 16.6 million as a result of reduced sales of package tours, which also reduced the respective expenses. Iceland Travel's contribution margin were however stronger, despite receivables being written down when a customer declared bankruptcy.

REVENUE, EXPENSES AND FINANCIAL ITEMS

USD thousand	Q3 2019	Q3 2018	Change	% Change
Transport revenue:	**422,640**	**406,491**	**16,149**	**4%**
Passengers	*377,005*	*363,123*	*13,882*	*4%*
Passenger ancilliary revenues	*31,116*	*29,076*	*2,040*	*7%*
Cargo and mail	*14,519*	*14,292*	*227*	*2%*
Aircraft and aircrew lease	**23,464**	**29,462**	**-5,998**	**-20%**
Other operating revenue:	**87,839**	**109,240**	**-21,401**	**-20%**
Sale in hotels and airports	*32,726*	*37,552*	*-4,826*	*-13%*
Revenue from tourism	*41,024*	*57,661*	*-16,637*	*-29%*
Other	*14,089*	*14,027*	*62*	*0%*
Total	**533,943**	**545,193**	**-11,250**	**-2%**

Total revenue decreased by 2% and increased by 2% at fixed exchange rate. ***Transport revenue*** amounted to USD 422.6 million, up by 4%. Passenger revenue increased by 4% from the same period last year. Revenue from the "via" market decreased considerably over the quarter as a result of the above-mentioned change in passenger mix but was offset by revenue from the "to" market, where passenger numbers increased significantly. Revenue from the "from" market also increased. In addition, a part of the compensation received from Boeing was recognised as passenger revenues.

Passenger-related ancillary revenue increased by 7% and amounted to USD 20.1 per passenger. The increase per passenger was 2%. ***Revenue from aircraft and aircrew lease*** declined by 20%, primarily as a result of a decline in the number of leasing agreements assignments but also as the IFRS16 implementation negatively affected this revenue category by USD 1.8 million. ***Other operating revenue*** amounted to USD 87.8 million, down by USD 21.4 million. The primary reason is less revenue from tourism, which decreased by USD 16.6 million as a result of reduced sales of package tours by Iceland Travel.

Expenses

USD thousand	Q3 2019	Q3 2018	Change	% Change
Salaries and other personnel expenses	**119,818**	**130,813**	**-10,995**	**-8%**
Aviation expenses	**186,825**	**176,271**	**10,554**	**6%**
Aircraft fuel	*113,406*	*97,740*	*15,666*	*16%*
Aircraft lease	*9,603*	*10,179*	*-576*	*-6%*
Aircraft handling, landing and communication	*47,924*	*46,388*	*1,536*	*3%*
Aircraft maintenance expenses	*15,892*	*21,964*	*-6,072*	*-28%*
Other operating expenses	**94,658**	**123,116**	**-28,458**	**-23%**
Operating cost of real estate and fixtures	*4,406*	*10,827*	*-6,421*	*-59%*
Communication	*5,593*	*8,789*	*-3,196*	*-36%*
Advertising	*4,368*	*7,112*	*-2,744*	*-39%*
Booking fees and commission expenses	*25,692*	*22,320*	*3,372*	*15%*
Cost of goods sold	*4,178*	*4,856*	*-678*	*-14%*
Customer services	*18,702*	*20,878*	*-2,176*	*-10%*
Tourism expenses	*21,265*	*38,711*	*-17,446*	*-45%*
Other operating expenses	*10,454*	*9,623*	*831*	*9%*
Total	**401,301**	**430,200**	**-28,458**	**-7%**

Total expenses fell by 7% between years. ***Salaries and other personnel expenses*** amounted to USD 119.8 million, down by 8%. The primary driver of lower salary cost were positive foreign exchange effects. The Icelandic króna was on average 15% weaker against the USD than in the third quarter of last year. This resulted in a reduction in salary costs, as almost all the Company's salary costs are in ISK. The table below illustrates the key deviations between years:

Salaries and personnel expenses Q318	**130,813**
Contractual salary increase	1,330
Increased number of FTEs	3,051
Foreign exchange effects	-13,013
Other changes	-2,364
Salaries and personnel expenses Q319	**119,817**

Figures in USD thousands

Aviation expenses amounted to USD 186.8 million, up by USD 10.6 million. Fuel expenses amounted to USD 113.4 million, up by 16%. The Company's reporting price of fuel for the quarter, taking hedging into account, was on average USD 683/ton, which corresponds to a 9% increase. Aircraft lease amounted to USD 9.6 million where a part of the compensation received from Boeing is recognised as decreased aircraft lease expenses. Aircraft handling, landing and navigation expenses increased in line with the Company's increased scope of operation. In addition, the leased aircraft are less efficient as regards these items than the MAX aircraft. Maintenance expenses decrease, largely because of the implementation of IFRS 16, but also because of a renewal of contracts with suppliers and other improvements made relating to the maintenance of the Company's fleet.

Other operating expenses amounted to USD 94.7 million, down by USD 28.5 million. The largest deviations were in contracted tourism services, which were reduced by USD 17.4 million as a result of declining sales of package tours by Iceland Travel. The running costs of real estate decreased by USD 6.4 million, primarily as a result of the implementation of IFRS 16.

The estimated impact suffered by the company to date as a result of the suspension of the MAX aircraft and discussions with Boeing have been incorporated into the results for the third quarter and the first nine months of 2019.

Financials

Financial expenses amounted to USD 4.2 million, up by USD 2.6 million. Interest expenses increased as a result of the implementation of IFRS 16, but the increase is partially offset by lower finance costs due to lower leverage. The foreign exchange rate gain amounted to USD 2.2 million, down by USD 1.6 million.

USD thousand	Q3 2019	Q3 2018	Change	% Change
Finance income	1,062	229	833	-
Finance costs	-2,878	-5,610	2,732	-49%
IFRS16	-4,583	0	-4,583	-
Foreign exchange gain	2,249	3,806	-1,557	-
Total	**-4,150**	**-1,575**	**-2,575**	**-**

FINANCIAL POSITION

Balance sheet – Assets

Total assets amounted to USD 1.7 billion, up by USD 215 million from the turn of the year. With the implementation of IFRS 16, assets increased by USD 290.0 million. Rights of use of non-current assets amounted to USD 145.5 million, for the largest part relating to the right of use of aircraft, i.e. USD 134.9 million. Rights of use of assets held for sale amounted to USD 144.4 million. Further details of assets held for sale are set out in note 6 to the interim statement.

USD thousands	30.09.2019	31.12.2018	Change
Total assets	1,679.124	1,464,122	215.002
Operating assets	645.312	673,420	-28.108
Right of use assets	145,486	0	145,486
Assets held for sale	279,311	125,169	154,142
Cash and cash equivalents	171,243	299,460	-128,217

At the end of the quarter, the Company's fleet comprised 51 aircraft. In addition, the Company had five aircraft on lease in July and August and four in September with crews in order to mitigate the impact of the MAX suspension.

Balance sheet – Liabilities

Total interest-bearing debt amounted to USD 302.4 million, decreasing by USD 149.0 million from the beginning of the year. Net interest-bearing debt, excluding lease liabilities resulting from the IFRS16 implementation, amounted to USD 123.9 million, decreasing by USD 24.0 million. Lease liabilities amounted to USD 314.4 million.

USD thousands	30.09.2019	31.12.2018	Change
Loans and borrowings non-current	*193,727*	*147,513*	*46,214*
Loans and borrowings current	*75,171*	*268,288*	*-193,117*
Loans and borrowings held for sale	*33,509*	*35,644*	*-2,135*
Interest bearing debt	**302,407**	**451,445**	**-149,038**
Cash and cash equivalents	*171,243*	*299,460*	*-128,217*
Cash held for sale	*7,254*	*4,034*	*3,220*
Net interest bearing debt	**123,910**	**147,951**	**-24,041**
Lease liabilities non-current	*143,164*	*0*	*143,164*
Lease liabilities current	*23,985*	*0*	*23,985*
Lease liabilities held for sale	*147,280*	*0*	*147,280*
Lease liabilities	**314,429**	**0**	**314,429**
Net interest bearing debt incl. liabilities	**438,339**	**147,951**	**439,395**

Interest-bearing long-term debt increased by USD 46.2 million from the turn of the year. Interest-bearing short-term debt decreased by USD 193.1 million. The Company had two listed bond classes in the market at the start of the year. In the first quarter of 2019, USD 87.0 million was paid on the bond classes, and in the second quarter the bond classes were paid up in full, with payments amounting to USD 126.7 million. Icelandair Group had no outstanding bond classes at the end of the third quarter.

Balance sheet – Equity

The Company's equity amounted to USD 500.9 million at 30 September. The equity ratio was 30%, as compared to 28% at year-end 2018, according to same accounting standards. Excluding the impact of IFRS 16, the equity ratio would have been 37%. Excluding Icelandair Hotels, the equity ratio would be 35%. The sale of a 75% equity share in Icelandair Hotels is expected to be completed by year-end.

Cash Flow

Cash and cash equivalents amounted to USD 171.2 million at the end of third quarter. In addition, cash and cash equivalent in the amount of USD 7.3 million is classified in assets held for sale. At the end of the quarter, the Company had USD 60.0 million in undrawn revolving facilities. Therefore, the Company’s total liquidity amounted to USD 238.5 million.

Net cash used in operating activities amounted to USD 28.6 million, down by USD 22.0 million. Free cash flow over the quarter was negative in the amount of USD 51.5 million, up by USD 41.9 million between years.

USD thousand	**Q3 2019**	**Q3 2018**	**Change**
Cash and cash equivalent	171.243	175.383	-4.140
Cash and cash equivalent in assets held for sale	7.254	5.280	1.974
Undrawn revolving facilities	60.000	13.510	46.490
Total liquidity position	**238.497**	**194.173**	**44.324**
Net cash used in operating activities	-28.620	-50.635	22.015
Free cash flow	-51.283	-93.398	42.115

Investments (CAPEX)

Investments, measured as gross capital expenditures, amounted to USD 22.7 million in the quarter, as further detailed below. Investments in aircraft and aircraft components amounted to USD 5.9 million; of that figure, investments related to the MAX aircraft amounted to USD 2.6 million. Investments in overhaul of own engines amounted to USD 7.8 million. Other investments in operating assets include investments in hotel operation and flight kitchen. Investments in intangible assets include investment in the new revenue management system. Investments in the first nine months of the year amounted to USD 241.1 million.

USD thousand	**Q3 2019**	**Q3 2018**	**Change**
Operating assets:			
Aircraft and aircraft components	5.896	2.073	3.823
Overhaul own aircraft	7.765	21.046	-13.281
Other	2.965	19.084	-16.119
Total operating assets	16.626	42.203	-25.577
Right of use of assets	2.939	0	2.939
Intangible assets	3.098	560	2.538
Total Capex	**22.663**	**42.763**	**-20.100**

CHANGE IN FINANCIAL REPORTING STANDARDS

At the beginning of 2019, Icelandair Group adopted a new financial reporting standard, IFRS 16. Below is an overview of the impact of the standard on the Company's consolidated financial statement for the third quarter of 2019.

USD thousands	Amounts without IFRS16	Adjustment IFRS16	As reported
Profit/loss statement:			
Operating revenue			
Transport revenue	422,640	0	422,640
Aircraft and aircrew lease	25,236	-1,772	23,464
Other operating revenue	92,085	-4,246	87,839
Total operating income	**539,961**	**-6,018**	**533,943**
Operating expenses			
Salaries and personell expenses	119,818	0	119,818
Aviation expenses	183,611	3,214	186,825
Other operating expenses	101,098	-6,439	94,659
Total operating expenses	**404,527**	**-3,225**	**401,302**
EBITDA	**135,434**	**-2,793**	**132,641**
Depreciation	-55,372	3,798	-51,574
EBIT	**80,062**	**1,005**	**81,067**
Net finance costs	431	-4,581	-4,150
Share of profit of associates, net of tax	-450	0	-450
EBT	**80,043**	**-3,576**	**76,467**
Income tax	-15,722	715	-15,007
Net earnings	**64,321**	**-2,861**	**61,460**

ICELANDAIR'S PROSPECTS

The suspension of the MAX aircraft has resulted in unprecedented impact on the operations of Icelandair as discussed in detail in the Company's Q2 2019 report. There is still uncertainty around when the suspension will be lifted. In the third quarter, a partial compensation agreement was reached with Boeing in connection with the Company's loss due to the suspension. Today another agreement was made on second partial compensation. Details on these agreements with Boeing are confidential. The Company is in ongoing discussions with Boeing regarding further compensation for the financial loss resulting from the suspension. The current flight schedule does not assume operation of the MAX aircraft until beginning of March 2020.

Icelandair's performance is expected to improve in the fourth quarter of 2019. The number of available seats has been reduced as a result of the MAX suspension and efforts to optimise the route network, with the capacity offered in the quarter being 11% lower compared to the same quarter last year. Unprofitable destinations have been discontinued, and the focus for this winter will be in the tourist market "to" Iceland. The booking status for the quarter is strong and the company's forecast assumes a rise in fares between years. The estimate is based partly on the premise that the impact of the implementation of the new revenue management system is beginning to be realised.

The financial budget for the year 2020 is currently being prepared. The financial budget will be based on and fully connected to the Company's new vision and strategy which is currently being introduced within the Company. In 2020, the Company will be looking into optimising its route network and revenue management, both to improve profitability and to mitigate the impact of the uncertainty related to the MAX suspension. The Company will continue to build up the new connection bank which was introduced during the high season this year with the objective to improve the utilisation of the fleet and enabling the Company to continue its growth at Keflavik Airport.

Next year, the Company will also continue to focus on further streamlining its operations in line with the focus on its core business, international aviation. The Company's new strategy emphasises operational efficiency. There are several important contributors to this goal that Icelandair has been successful in improving this year that will continue or be fully realised next year. Several steps have been taken to improve fuel efficiency and further opportunities in that area will be realised in 2020, most importantly through implementation of a new flight planning system. The optimisation of crew requirements was impossible to achieve in the second and third quarter due to the MAX suspension. However, significant work has been done to improve utilisation in the fourth quarter this year and even more improvement will follow throughout 2020.

Icelandair expects to continue its improvement in on-time performance next year, locking in gains made this year as well as introducing further improvement measures. This contributes to improved customer satisfaction and reduces disruption cost further. In addition, there are several improvement initiatives in other areas, such as maintenance and ground handling with re-negotiations with suppliers and continuous improvements projects.

Various other initiatives have been undertaken to further explore and implement streamlining of processes, such as potential outsourcing opportunities, review of procurement practices, automation opportunities and simplified organisational structures. This work will continue throughout 2020 and beyond with the objective to continuously improve customer service and ensure the Company's future competitiveness.

PROSPECTS IN OTHER OPERATIONS

The operations of Air Iceland Connect have been under thorough review and the cost-cutting measures taken over the year have returned positive results. In the first nine months of the year EBIT has increased by USD 5 million. However, further operational improvements are needed to ensure satisfactory financial results. Operations of the Vita Travel Agency are returning success, competition in the winter months has increased but the prospects for the remainder of the year are favourable. Prospects in the Company's freight operations continue to be good. Export continues to growth considerably whilst import trends slightly upwards in revenue. The outlook for the Company's leasing operations through Loftleidir Icelandic is favourable and the assignment position is good. The operating environment of Icelandair Hotels remains difficult as recent contractual salary increases in the labor market significantly increased the company's salary costs. Nevertheless, the company's hotel room occupancy continues to excel, and has increased between years despite a 6% increase in supply of new hotel rooms. The average daily rate has been maintained better than that of competitors, despite difficult conditions in Icelandic tourist services. The declining number of flights to Iceland is having negative impact on winter bookings, while the number of allocated rooms for high season 2020 is similar to same time last year. In July 2019, a share purchase agreement was signed with Berjaya Property, whereby Berjaya will acquire a majority share in Icelandair Hotels and related real estate. Following the transaction, Icelandair Group will hold a 25% equity stake for a minimum of three years. The completion of the transaction is set for year-end 2019. The divestment process of Iceland Travel has been put on hold.

EBIT GUIDANCE

The estimated net EBIT impact of the MAX suspension quantified to date is significant 2019
The Company's plans assumed the use of nine MAX aircraft in Icelandair's route network in 2019. To soften the impact of the suspension, mitigating measures were taken by leasing five aircraft for use over the busiest months of the year. In total, 9% of the flights scheduled in the year were cancelled, but the number of seats available for sale declined by a smaller proportion, or about 6%. The direct resulting loss at the EBIT level, inclusive of compensation from Boeing, and the indirect loss, which is difficult to estimate, will be significant.

EBIT forecast for 2019 negative of USD 35-45 million
The performance of the Company, if the impact of the suspension of the MAX aircraft is excluded, has improved between years. Since the last guidance was issued the third quarter operations improved, prospects for the fourth quarter improved as well and a considerable improvement between years is expected in that quarter. Additionally, because the suspension of the MAX aircraft has been extended until March the cost related to the reintroduction of the aircraft into the network will move from Q4 2019 to Q1 2020.

Taking into account the net estimated impact quantified to date due to the MAX suspension, the EBIT forecast for Icelandair Group in 2019, is negative by USD 35-45 million. The Company's investment plan assumes investments over the year in the range of USD 270-280 million, excluding the three MAX aircraft that were intended to be taken into use in the second quarter of 2019, which fell through.

EVENTS SUBSEQUENT TO THE FINANCIAL ACCOUNTING DATE

Icelandair does not anticipate operation of the MAX aircraft until March 2020
On 24 October 2019, Icelandair updated its flight schedule for January and February of next year, as the Company does not anticipate the re-introduction of the MAX aircraft until March 2020. This decision will not have a large impact on the Company's winter flight schedule which has already been presented. As discussed earlier, using the flexibility of the network, Icelandair will continue to focus more on the tourist market "to" Iceland than "via" passengers this winter. The Company has already adapted its flight schedule to these points of focus by shifting flight frequency between destinations and utilising its fleet on routes that meet strong demand for flights to Iceland. With these shifts in focus, the Company anticipates an increase in the number of Icelandair passengers to Iceland in January and February, as compared to the same period of last year.

An agreement made with Boeing regarding second partial compensation
Today, on 31 October 2019, another agreement was made with Boeing regarding the second partial compensation due to the MAX suspension. Details on this agreement with Boeing are confidential. The estimated net EBIT impact of the MAX suspension is still significant. The Company is in ongoing discussions with Boeing regarding compensation for the financial loss resulting from the suspension.

STRATEGIC FACTORS

Company's long-term fleet strategy under review
As stated by the Company earlier this year, Icelandair's current fleet strategy is under review. The uncertainty regarding the MAX suspension has delayed this work and conclusions of the review are not expected until matters relating to the suspension of the MAX aircraft have become clearer.

FUEL HEDGING POSITION AT THE END OF Q3 2019

The position of fuel hedging at the end of September 2019 is as follows:

Period	Estimated usage (tons)**	Swap volume	% hedged	Av. swap price USD	
Oct 19	31,916	16,490	52%	750	
Nov 19	27,181	15,482	57%	702	
Dec 19	26,383	15,436	59%	682	
Jan 20	23,858	12,431	52%	696	
Feb 20	21,556	12,423	58%	717	
Mar 20	24,184	12,471	52%	709	
Apr 20	26,172	12,455	48%	649	
May 20	39,257	20,250	52%	648	
Jun 20	47,935	20,250	42%	635	
Jul 20	49,267	24,250	49%	618	
Aug 20	49,077	20,250	41%	622	
Sep 20	40,980	12,250	30%	620	
12 months	**407,766**	**194,438**	**48%**	**666**	*
Jul 20	25,029	4,000	16%	633	
Aug 20	24,932	4,000	16%	627	
Sep 20	24,195	4,000	17%	619	
Oct 20	21,893	0	-	-	
Nov 20	19,783	0	-	-	
Dec 20	22,207	0	-	-	
13-18 months	**138,040**	**12,000**	**9%**	**626**	*

* weighted average price
**Estimated usage based on MAX being back end of Feb 2020

INFORMATION

Investors: Íris Hulda Þórisdóttir, Head of Investor Relations, E-mail: iris@icelandairgroup.is
Media: Ásdís Pétursdóttir, Director of Corporate Communications. E-mail: asdis@icelandair.is

FINANCIAL CALENDAR

- **Financial statement for the fourth quarter – week 06, 2020**