IMPROVED PERFORMANCE IN Q4 2019

- Total revenue USD 319.2 million in Q4 2019, up by 7% compared to last year
- EBIT improved by USD 32.6 million from Q4 2018, amounting to USD -36.7 million
- Net loss in 2019 amounted to USD 57.8 million compared to net loss of USD 55.6 million in 2018
- Unprecedented impact of the MAX suspension primary reason for negative results
- 25% more passengers travelled to Iceland with Icelandair in 2019 compared to 2018
- Equity amounted to USD 482.5 million at the end of the year. Equity ratio was 29%, up from 28% at the beginning of the year based on the same accounting principles. Excluding the impact of IFRS 16, the equity ratio would be 36%
- Total liquidity USD 301.6 million at the end of 2019
- The estimated net negative effect quantified to date of the MAX suspension in 2019, is around USD 100 million at EBIT level
- Focus on profitability and MAX risk mitigation in 2020
- EBIT in 2020 estimated 3-5% of revenues

BOGI NILS BOGASON, PRESIDENT & CEO

"The results for the fourth quarter are in line with management's expectations and the Company's financial guidance. We improved our performance with the rationalisation of our route network, improved revenue management, better utilisation of crew and reduced disruption costs by improving on-time performance.

The year 2019 was challenging, as the suspension of the MAX aircraft had an unprecedented negative impact on Icelandair's operations, resulting in lost revenue, increased expenses and restricted utilisation of the Company's fleet and crew. However, with our focus on improving our operations during the year and increasing the profitability of our route network, considerable operational improvements were achieved in the Company's underlying business. In addition, the flexibility and strength of our route network was clearly demonstrated when we were successful in adapting quickly to changes in the market by realigning the network and increasing the number of passengers to Iceland by 25% in 2019, despite the MAX suspension. This allowed the Company to meet increased demand and ensure seat capacity to and from Iceland and thereby support the Icelandic tourist market.

We further strengthened the liquidity of the Company through successful refinancing. Additional equity was issued when a new shareholder, Par Capital, joined the shareholders' group, becoming the single largest shareholder of the Company.

I believe that with clear strategy, flexible route network, strong financial position and outstanding employees, we are well positioned to achieve our key goal of returning to profitability in 2020 and building a platform for sustainable, profitable growth for the future."

INVESTORS MEETING AND WEBCAST 7 FEBRUARY 2020

An open presentation for stakeholders will be held on Friday 7 February 2020 at the Icelandair Hotel Reykjavik Natura. Bogi Nils Bogason, President & CEO of Icelandair Group, and Eva Soley Gudbjornsdottir, 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

		Q4 2019	Q4 2018	Change	12M 2019	12M 2018	Change
Operating results							
Total revenue	USDk	319,183	298,800	20,383	1,504,495	1,510,518	-6,023
Total operating cost excl. depreciation	USDk	324,420	333,796	-9,376	1,366,519	1,434,039	-67,520
EBIT	USDk	-36,682	-69,252	32,570	-39,297	-56,968	17,671
EBT	USDk	-40,095	-69,724	29,629	-72,601	-67,810	-4,791
Net loss	USDk	-29,860	-57,343	27,483	-57,779	-55,570	-2,209
Balance sheet and cash flow*							
Total assets	USDk	-	-	-	1,676,587	1,464,122	212,465
Total equity	USDk	-	-	-	482,478	471,379	11,099
Interest bearing debt	USDk	-	-	-	387,384	451,445	-64,061
Net interest bearing debt	USDk	-	-	-	140,824	147,951	-7,127
Lease liabilities	USDk	-	-	-	308,007	0	308,007
Net interest bearing debt incl. lease liab.	USDk	-	-	-	448,831	147,951	300,880
Net cash from operating activities	USDk	27,044	-14,989	42,033	119,878	61,553	58,325
CAPEX	USDk	28,180	34,904	-6,724	269,274	271,251	-1,977
Free cash flow	USDk	-1,136	-49,893	48,757	-149,396	-209,698	60,302
Key Ratios							
EPS	US Cent	-1.60	-1.20	-0.40	-1.06	-1.16	0.10
Equity ratio	%	-	-	-	28.8%	32.2%	-3.4 ppt
Equity ratio excl. IFRS16	%	-	-	-	36.0%	32.2%	3.8 ppt
EBIT ratio	%	-11.5%	-23.2%	11.7 ppt	-2.6%	-3.8%	1.2 ppt
EBT ratio	%	-12.6%	-23.3%	10.8 ppt	-4.8%	-4.5%	-0.3 ppt
Traffic figures**							
Passengers to market	no.	374,875	326,864	15%	1,852,745	1,487,602	25%
Passengers from market	no.	164,533	148,795	11%	642,752	543,806	18%
Passengers via market	no.	330,428	420,622	-21%	1,912,408	2,110,083	-9%
Passengers Total	no.	869,836	896,281	-3%	4,407,905	4,141,491	6%
Load Factor	%	81.8%	80.2%	1.6 ppt	82.0%	81.0%	1.0 ppt
Available Seat Kilometers (ASK)	mill	3,254,627	3,573,930	-9%	16,679,011	16,239,693	3%
On-Time-Performance	%	81.7%	71.8%	9.9 ppt	74.0%	62.4%	12.1 ppt
Freight Tonne Kilometers (FTK)	k	33,500	33,312	1%	132,989	125,758	6%
Sold Charter Block Hours	no.	7,316	7,659	-4%	30,118	33,670	-11%
Hotel Occupancy	%	73.2%	76.3%	-3.0 ppt	79.9%	80.1%	-0.2 ppt

* Comparision figures for balance sheet are 31.12 2018

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

FOURTH QUARTER OPERATIONS

The table below shows overview of revenue, EBIT and EBT of operating segments.

	Icelandair		Other group entities		Total	
USD thousand	**Q419**	**Chg. Q418**	**Q419**	**Chg. Q418**	**Q419**	**Chg. Q418**
Total revenue	247,933	21,183	71,250	-801	319,183	20,382
EBIT	-35,111	27,803	-1,571	4,767	-36,682	32,570
EBT	-41,029	23,497	934	6,130	-40,095	29,626

Icelandair

EBIT improved by USD 27.8 million in the fourth quarter, with losses before taxes down by USD 23.5 million. The principal explanations for these results include the rationalisation of the route network, improved revenue management, leading to higher unit revenues, better utilisation of crews and reduced disruption cost as a result of improved on-time performance. A partial compensation was received from Boeing for losses caused by the suspension of the MAX aircraft; the compensation amount is accounted for in the passenger revenues.

Total revenue, including the partial compensation from Boeing, amounted to USD 247.9 million in the fourth quarter, up by 9%. Available seat kilometres decreased by 9% as part of the rationalisation of the route network. The number of passengers totalled 870 thousand, down by 3%. Average fares in fixed currency increased in all markets, with the same trend expected to continue into 2020.

Due to changes in the competitive environment, Icelandair shifted its focus in the route network and sales and marketing activities, which resulted in a changed composition of its passengers. Passenger numbers in the tourist market TO Iceland increased by 15% and accounted for 43% of the total number of passengers. The number of passengers in the domestic market FROM Iceland increased by 11% and amounted to 19% of total passenger numbers. The number of passengers in the VIA market decreased by 21% and accounted for 38% of total passenger numbers.

	Q4 2019	Q4 2018	Change
Share of passengers TO market	43.1%	36.5%	6.6 ppt
Share of passengers FROM market	18.9%	16.6%	2.3 ppt
Share of passengers VIA market	38.0%	46.9%	-8.9 ppt

On-time performance was 81.7% in the fourth quarter, as compared to 71.8% in the fourth quarter of 2018. The improvement is estimated to have reduced cost by approximately USD 3.0 million in the fourth quarter and USD 17.0 million for the full year of 2019, which is in line with the goal set at the beginning of the year.

The operations of Icelandair Cargo performed well in the quarter, with a significant increase in exports driving the growth.

Other group entities

Air Iceland Connect achieved an operational turnaround and significantly improved its performance in 2019 on the back of extensive streamlining and cost cutting initiatives. Revenue from leasing operations under the Loftleidir Icelandic brand decreased between years as a result of fewer aircraft in the fleet and changes resulting from the implementation of IFRS 16 at the start of 2019. The operating environment of Icelandair Hotels has been difficult, as recent contractual wage increases in the labor market significantly increased the company's payroll costs. The number of tourists to Iceland fell by 67 thousand, or 13%, in the fourth quarter, which negatively affected revenues. Room occupancy was 73.2%, as compared to 76.3% in the fourth quarter last year. The operations of Iceland Travel improved despite a challenging market environment.

REVENUE, EXPENSES AND FINANCIAL ITEMS

Revenues

USD thousand	Q4 2019	Q4 2018	Change	% Change
Transport revenue:	**245,046**	**218,971**	**26,075**	**12%**
Passengers	*211,262*	*183,081*	*28,181*	*15%*
Passenger ancillary revenues	*19,832*	*21,081*	*-1,249*	*-6%*
Cargo and mail	*13,953*	*14,809*	*-856*	*-6%*
Aircraft and aircrew lease	**23,866**	**27,683**	**-3,817**	**-14%**
Other operating revenue:	**50,271**	**52,146**	**-1,875**	**-4%**
Sale in hotels and airports	*19,561*	*22,355*	*-2,794*	*-13%*
Revenue from tourism	*16,739*	*16,177*	*562*	*3%*
Other	*13,971*	*13,614*	*357*	*3%*
Total	**319,183**	**298,800**	**20,383**	**7%**

Total revenue increased by 7%, or 8% at a fixed exchange rate. ***Transport revenue*** amounted to USD 245.0 million, up by 12%. Passenger revenue increased by 15%. Revenue from the VIA market decreased considerably over the quarter as a result of a change in the passenger mix, but was offset by revenue growth from the TO market, where passenger numbers increased significantly. Revenue from the FROM market also increased. In addition, the second interim compensation received from Boeing was recognised fully in the Company's accounts as passenger revenues.

Passenger-related ancillary revenue decreased by 6% and amounted to USD 22.8 per passenger. The decrease per passenger was 3%. Ancillary revenue is lower because the proportion of sold Economy Light fares (fare not including baggage allowance) is lower than last year. ***Revenue from aircraft and aircrew lease*** decreased by 14%, primarily as a result of a decline in the number of agreements on leasing assignments, but also because the implementation of IFRS 16 negatively affected this revenue category by USD 1.8 million. ***Other operating revenue*** was USD 50.3 million, as compared to USD 52.1 million in the fourth quarter of 2018.

Expenses

USD thousand	Q4 2019	Q4 2018	Change	% Change
Salaries and other personnel expenses	**122,980**	**126,945**	**-3,965**	**-3%**
Aviation expenses	**130,333**	**133,231**	**-2,898**	**-2%**
Aircraft fuel	*66,425*	*74,144*	*-7,719*	*-10%*
Aircraft lease	*1,771*	*9,179*	*-7,408*	*-81%*
Aircraft handling, landing and communication	*21,617*	*29,260*	*-7,643*	*-26%*
Aircraft maintenance expenses	*40,520*	*20,648*	*19,872*	*96%*
Other operating expenses	**71,107**	**73,620**	**-2,513**	**-3%**
Operating cost of real estate and fixtures	*4,456*	*8,724*	*-4,268*	*-49%*
Communication	*5,748*	*4,958*	*790*	*16%*
Advertising	*7,454*	*6,158*	*1,296*	*21%*
Booking fees and commission expenses	*15,041*	*15,127*	*-86*	*-1%*
Cost of goods sold	*3,671*	*5,211*	*-1,540*	*-30%*
Customer services	*13,440*	*15,542*	*-2,102*	*-14%*
Tourism expenses	*7,146*	*7,120*	*26*	*0%*
Other operating expenses	*14,150*	*10,780*	*3,370*	*31%*
Total	**324,420**	**333,796**	**-9,376**	**-3%**

Total expenses fell by 3% between years. ***Salaries and other personnel expenses*** amounted to USD 123.0 million, down by 3%. The reasons for the reduction in payroll costs include a favourable foreign exchange effect and a reduction in the number of full-time equivalent positions in the Company. The table below illustrates the key deviations between years:

Salaries and personnel expenses Q418	**126,945**
Contractual wage increase	4,033
Chg. in number of employees	-4,934
Currency	-5,396
Other changes	2,332
Salaries and personnell expenses Q419	**122,980**

Figures in USD thousands

Aviation expenses amounted to USD 130.3 million, down by USD 2.9 million. Part of the reduction was due to less production, with available seat kilometres down by 9%. Fuel expenses amounted to USD 66.4 million, down by 10%. The Company's price of fuel for the quarter, taking hedging into account, was on average USD 673/ton, which corresponds to an 8% increase. Aircraft lease amounted to USD 1.8 million, down by USD 7.4 million, mainly because of the implementation of IFRS 16. Aircraft handling, landing and navigation expenses decreased in line with the Company's decreased scope of operation. Maintenance expenses increased by USD 19.9 million. This increase was due to a reclassification of expenses relating to leased engines that were included under depreciation in the first three quarters of the year but are now placed under maintenance expenses. Information on restated figures for the first three quarters is included in appendix 3 in the annual financial statements.

Other operating expenses amounted to USD 71.1 million, down by USD 2.5 million. Customer service cost decreased by USD 2.1 million, primarily due to improvements in on-time performance, which improved by 9.9 ppt in the quarter, to 81.7%. Operating expenses of real estate decreased by USD 4.3 million, primarily as a result of the implementation of IFRS 16.

Financials

Financial expenses totalled USD 3.5 million, up by USD 3.1 million. The main reason for the higher financial expenses was a foreign exchange rate profit of USD 1.1 million, as compared to a profit of USD 4.9 million in Q4 2018.

USD thousand	Q4 2019	Q4 2018	Change	% Change
Finance income	748	1,298	-550	-42%
Finance costs	-3,555	-6,639	3,084	-46%
IFRS16	-1,788	0	-1,788	-
Foreign exchange profit	1,071	4,889	-3,818	-
Total	**-3,524**	**-452**	**-3,072**	**-**

MAX SUSPENSION – FINANCIAL EFFECTS 2019

The suspension of the MAX aircraft had an unprecedented impact on Icelandair's operations in 2019. The aircraft were intended to cover 27% of Icelandair's passenger capacity in 2019. The key management focus has been on minimising the impact of the suspension on the company, the company's passengers and the Icelandic tourism industry in general by adding leased aircraft to the fleet during the summer and by focusing on ensuring seating capacity to and from Iceland, with the result that the number of Icelandair's passengers travelling to Iceland increased by 25% from 2018. Despite these mitigating measures the situation has had a negative impact on revenue in the route network, increased expenses and restricted efficient utilisation of the fleet and crew. Two partial compensation agreements have been reached with Boeing in connection with the company's losses resulting from the suspension. The details of these agreements are confidential. The company is in ongoing discussions with Boeing regarding further compensation for the financial loss. The estimated effect quantified to date of the suspension on Icelandair Group's results, net of the partial compensations, is around USD 100 million in 2019 at EBIT level.

FINANCIAL POSITION

Balance sheet – Assets

Total assets amounted to USD 1.7 billion, up by USD 212.5 million from the turn of the year. With the implementation of IFRS 16, assets increased by USD 280.0 million. Right of use of non-current assets amounted to USD 134.0 million, for the largest part relating to the right of use of aircraft, i.e. USD 124.0 million. Right of use of assets held for sale amounted to USD 145.9 million. Further details of assets held for sale are set out in note 7 to the annual financial statement.

USD thousands	31.12.2019	31.12.2018	Change
Total assets	1,676,587	1,464,122	212,465
Operating assets	630,400	673,420	-43,020
Right of use assets	134,035	0	134,035
Assets held for sale	276,907	125,169	151,738
Cash and cash equivalents	235,073	299,460	-64,387

At the end of the year, the Company's fleet comprised 51 aircraft. Ten aircraft are leased and 41 are owned. In addition, the Company had three aircraft on lease in May, five aircraft in June-August and four in September with crews to mitigate the impact of the MAX suspension.

Balance sheet

Total interest-bearing debt amounted to USD 387.4 million, down by USD 64.1 million from the beginning of the year. Net interest-bearing debt, excluding lease liabilities resulting from the IFRS 16 implementation, amounted to USD 140.8 million, down by USD 7.1 million. Lease liabilities amounted to USD 308.0 million.

USD thousand	31.12.2019	31.12.2018	Change
Loans and borrowings non-current	*241,328*	*147,513*	*93,815*
Loans and borrowings current	*79,958*	*268,288*	*-188,330*
Loans and borrowings held for sale	*66,098*	*35,644*	*30,454*
Interest bearing debt	**387,384**	**451,445**	**-64,061**
Cash and cash equivalents	*235,073*	*299,460*	*-64,387*
Cash held for sale	*11,487*	*4,034*	*7,453*
Net interest bearing debt	**140,824**	**147,951**	**-7,127**
Lease liabilities non-current	135,473	*0*	*135,473*
Lease liabilities current	*22,980*	*0*	*22,980*
Lease liabilities held for sale	*149,554*	*0*	*149,554*
Lease liabilities	**308,007**	**0**	**308,007**
Net interest bearing debt incl. liabilities	**448,831**	**147,951**	**379,522**

Interest-bearing non-current debt increased by USD 93.8 million as a result of refinancing of unsecured bond classes. In the first quarter, the Company entered into a USD 80.0 million loan agreement with an Icelandic financial institution. In the fourth quarter, the Company entered into a USD 65.2 million loan agreement with CIT Bank, which was paid out in two tranches in December.

Interest-bearing current debt decreased by USD 188.3 million. The Company had two unsecured bond classes at the start of the year, which were classified as short-term. In the first half of 2019, the unsecured bond classes were paid up in full in the amount of USD 213.7 million.

Interest-bearing debt of assets held for sale increased by USD 30.5 million following a refinancing of Icelandair Hotels, which was completed in December and resulted in a USD 28 million cash inflow to Icelandair Group.

Balance sheet – Equity

The Company's equity amounted to USD 482.5 million on 31 December 2019. The equity ratio was 29%, 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 36% and excluding Icelandair Hotels, the equity ratio would have been 43%. The sale of a 75% equity share in Icelandair Hotels is expected to be completed by 28 February 2020.

Cash flow

Cash and cash equivalents amounted to USD 235.1 million at the end of 2019. In addition, cash and cash equivalents in the amount of USD 11.5 million are classified as assets held for sale. At the end of the year, the Company had USD 55.0 million in undrawn revolving facilities. The Company’s total liquidity therefore amounted to USD 301.6 million.

Net cash from operating activities amounted to USD 27.0 million in Q4 2019 as compared to net cash to operating activities of 15.0 million in Q4 last year. Free cash flow over the quarter was negative by USD 1.1 million, up by USD 48.8 million between years.

USD thousand	Q4 2019	Q4 2018	Change
Cash and cash equivalent	235,073	299,460	-64,387
Cash and cash equivalent in assets held for sale	11,487	4,034	7,453
Undrawn revolving facilities	55,000	0	55,000
Total liquidity position	**301,560**	**303,494**	**-1,934**
Net cash from operating activities	27,044	-14,989	42,033
Free cash flow	-1,136	-49,893	48,757

Investments (CAPEX)

Investments, measured as gross capital expenditures, amounted to USD 28.2 million over the quarter, as further detailed below. Investments in aircraft and aircraft components amounted to USD 4.6 million, mainly investments relating to the MAX aircraft. Investments in overhauls of own engines amounted to USD 25.6 million. Other investments in operating assets include investments in hotel operations and buildings at Keflavik Airport. Investments in intangible assets include investment in the new revenue management system. Total investments in 2019 amounted to USD 269.3 million.

USD thousand	Q4 2019	Q4 2018	Change
Operating assets:			
Aircraft and aircraft components	4,564	242	4,322
Overhaul own aircraft	25,599	27,276	-1,677
Other	4,089	11,182	-7,093
Total operating assets	34,252	38,700	-4,448
Deferred cost	-7,107	3,205	-10,312
Intangible assets	1,035	671	364
Total Capex	**28,180**	**42,576**	**-14,396**

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 fourth quarter of 2019.

USD thousands	Amounts without IFRS16	Adjustment IFRS16	As reported
Profit/loss statement:			
Operating revenue			
Transport revenue	245,046	0	245,046
Aircraft and aircrew lease	25,661	-1,795	23,866
Other operating revenue	50,359	-88	50,271
Total operating income	**321,066**	**-1,883**	**319,183**
Operating expenses			
Salaries and personell expenses	122,980	0	122,980
Aviation expenses	137,262	-6,929	130,333
Other operating expenses	74,254	-3,147	71,107
Total operating expenses	**334,496**	**-10,076**	**324,420**
EBITDA	**-13,430**	**8,193**	**-5,237**
Depreciation	-24,153	-7,292	-31,445
EBIT	**-37,583**	**901**	**-36,682**
Net finance costs	-3,916	392	-3,524
Share of profit of associates, net of tax	111	0	111
EBT	**-41,388**	**1,293**	**-40,095**
Income tax	10,493	-258	10,235
Net earnings	**-30,895**	**1,035**	**-29,860**

ICELANDAIR'S PROSPECTS

The key focus in 2020 will be on the profitability of Icelandair's route network and on mitigating the operating risk of a potential further suspension of the MAX aircraft. The emphasis will be on increasing unit revenues and improving performance. The current assumption is that the number of flights will be reduced by about 3% and available seat kilometres by 8%. Flights will be offered to 40 destinations in 2020, 14 in North America and 26 in Europe. Barcelona in Spain will be a new destination in the summer of 2020. The estimation is that 4.2 million passengers will be transported, using 31 aircraft in the route network. Icelandair does not expect the MAX aircraft to be operated in the company's route network during the peak season next summer. The company has already entered into leasing agreements regarding three Boeing 737-800 aircraft, and a decision has been made to keep more Boeing 757 aircraft in operation in 2020 than originally planned. The composition of Icelandair's fleet in peak season will be as follows:

Type	Number
B757-200	22
B757-300	2
B767-300	4
B737-800	3
Total	**31**

Revenue generation has improved following the completion of the implementation of a new revenue management system that was finalised during the year 2019 and is intended to return 2-4% higher unit revenues than the earlier system. Unprofitable capacity has been reduced, particularly on the longer North American routes, and the balance in the passenger capacity between Europe and North America has been improved with the aim of increasing unit revenues. The sales and marketing activities in North America have also been reorganised and strengthened. The company will continue to build up the new connection bank that was introduced during the high season in 2019 with the objective of improving the utilisation of the fleet and enabling the company to continue its growth at Keflavik Airport.

In addition, there have been significant changes in Icelandair Group's competitive environment. Airlines that used to focus primarily on growth and market share have either disappeared from the market or significantly changed their focus to an emphasis on profitability rather than growth. In 2020, Icelandair's emphasis will continue to be on the tourism market to Iceland, and the Company expects to transport at least as many passengers to Iceland this year as in 2019.

The suspension of the MAX aircraft had an unprecedented impact on the operations of Icelandair in 2019. There is still uncertainty regarding when the suspension will be lifted. However, the financial impact will be considerably less this year than in 2019, as Icelandair has been able to organise its operations in 2020 with this potential scenario in mind. Icelandair Group has reached two interim agreements with Boeing regarding compensation for Icelandair's financial loss resulting from the MAX suspension, and continued discussions with Boeing regarding further compensation are ongoing, both regarding the 2019 and 2020 negative impact on the company's operations.

Icelandair will continue to focus on further streamlining its operations in 2020 in line with the Company's new strategy, which emphasises operational efficiency. Various steps have been taken to improve fuel efficiency and reduce operational cost in 2020, most importantly through the implementation of a new flight planning system. The optimisation of crew requirements was impossible to achieve in the second and third quarters of 2019 due to the MAX suspension. However, improvements in crew utilisation were achieved in the fourth quarter of 2019, and further improvements are expected throughout 2020.

Icelandair expects on-time performance to continue to improve in 2020, locking in the significant gains made in 2019 and at the same time introducing further improvement measures. Success in this area contributes to improved customer satisfaction and reduces disruption costs. In addition, there are several improvement initiatives in other areas, such as maintenance and ground handling through re-negotiations with suppliers and continual improvement projects.

Prospects in the company's freight operations continue to be good. Export is expected to continue to grow. Some uncertainty remains regarding import, and a slight decline is expected between years.

Various other initiatives have been undertaken to further explore and implement streamlining measures, such as potential outsourcing opportunities, a review of procurement practices, automation opportunities and simplified organisational structures. This work will continue throughout 2020 and beyond with the objective of continually improving customer service and ensuring Icelandair's future competitiveness.

PROSPECTS OF OTHER GROUP ENTITIES

Air Iceland Connect achieved a successful turnaround of its business resulting from extensive actions taken within its operations. Evaluation of further integration of the company with Icelandair is ongoing with the aim of ensuring acceptable operational performance for the future. One Bombardier Q-400 aircraft has been dry-leased for the next five years, and work is in progress on reducing the fleet by one

Bombardier Q-200. Vita Travel Agency is profitable and the prospects for 2020 are favourable. The outlook for the Company's leasing operations through Loftleidir Icelandic is favourable and the assignment position is good. Loftleidir Icelandic holds a 36% share in Cabo Verde Airlines. Work on long-term financing of the company is currently in progress, but if this work proves unsuccessful, it could impact the continued operations of Cabo Verde Airlines and therefore negatively impact Loftleidir Icelandic's performance in the year. The prospects of Iceland Travel are favourable, although poorer results are expected in 2020 than in 2019. The main reason is favourable currency trends in 2019 that are unlikely to continue into 2020.

In July 2019 a share purchase agreement was signed with Berjaya Property on Berjaya's acquisition of 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 scheduled by 28 February 2020.

GUIDANCE 2020

The focus for 2020 is to return to profitability and build a sustainable platform for profitable growth. The Company continues to operate in an uncertain environment. Measures have been taken to mitigate operational risk arising from potential continued delays of the MAX aircraft, including the leasing of extra aircraft. Icelandair is in discussions with Boeing on compensation for the financial losses regarding 2019 and 2020. It is unclear what the effect of the Corona Virus will be on demand for flights and tourist services in the near future. In addition, passenger bookings of international flights are shifting nearer departure times, which makes forecasting revenue more challenging. Furthermore, Loftleidir Icelandic results can be negatively impacted by the company's 36% shareholding in Cabo Verde Airlines.

Icelandair Group's capital expenditures plan involving investments over the year assumes delivery of the three MAX aircraft that were scheduled for delivery in 2019.

Guidance for 2020 for the following key financial parameters:

Icelandair Group	
Revenues 2019 (net Icelandair Hotels)	USD 1,412m
Revenue change	-3 - 0%
EBIT %	3 - 5%
Gross capex (including 3 MAX aircraft)	USD 260m-280m
Financial assumptions	
Fuel price USD/tonne	570
EUR/USD	1.11
ISK index	182

STRATEGIC FACTORS

Company's long-term fleet strategy under review

As stated by the Company last year, Icelandair's current fleet strategy is under review. The uncertainty regarding the MAX suspension has delayed this work. The review is still ongoing and conclusions are expected in the next few months.

The Company is still anticipating the delivery of 10 MAX aircraft. According to the initial delivery schedule, three of the aircraft were to be delivered in 2019, five in 2020 and two in 2021. The Company expects the three MAX aircraft that were scheduled for delivery in 2019 to be delivered before the end of 2020. However, the Company realizes that the risk of further delays is increasing. The suspension has already had significant adverse effects on the Company's operations and profitability and will continue to do so while the suspension remains in place. The Company continues to monitor the development of the situation closely and maintains rolling 12-18 month contingency plans to ensure that all possible mitigating actions are taken during this time period.

FUEL HEDGING POSITION AT THE BEGINNING OF 2020

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

Period	Estimated usage (tons)**	Swap volume	% hedged	Av. swap price USD	
Jan 20	23.713	12.431	52%	696	
Feb 20	21.836	12.423	57%	717	
Mar 20	26.370	12.471	59%	709	
Apr 20	27.101	12.455	52%	649	
May 20	35.340	20.443	58%	648	
Jun 20	43.710	20.500	52%	634	
Jul 20	45.224	24.546	48%	618	
Aug 20	45.194	20.250	52%	622	
Sep 20	36.103	16.250	42%	616	
Oct 20	27.235	12.000	49%	609	
Nov 20	22.421	8.000	41%	611	
Dec 20	22.564	4.000	30%	619	
12 months	**376.810**	**175.769**	**47%**	**644**	*
Jan 21	23.713	4.000	16%	598	
Feb 21	21.836	4.000	49%	604	
Mar 21	26.370	0	-	-	
Oct 21	27.101	0	-	-	
Nov 21	35.340	0	-	-	
Dec 21	43.710	0	-	-	
13-18 months	**178.069**	**8.000**	**4%**	**601**	*

* weighted average price
**Estimated usage based on MAX not fliying in summer schedule 2020

INFORMATION

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FINANCIAL CALENDAR

- **Annual General Meeting – 6 March 2020**
- **Financial statement Q1 2020 – week 18, 2020**
- **Financial statement Q2 2020 – week 31, 2020**
- **Financial statement Q3 2020 – week 44, 2020**
- **Financial statement Q4 2020 – week 06, 2021**