

Icelandair Group
Presentation of Q4 and FY 2018 Results
Bogi Nils Bogason | President and CEO



Highlights

**EBITDA in Q4 2018
-35 USD million
compared to
-16 USD million LY**

**Low airfares, high fuel
prices, low utilisation of
pilots and operational
challenges at Air Iceland
Connect causing lower
EBITDA**

**Number of measures
taken to improve
profitability**

**Significant operational
improvements
expected in 2019**

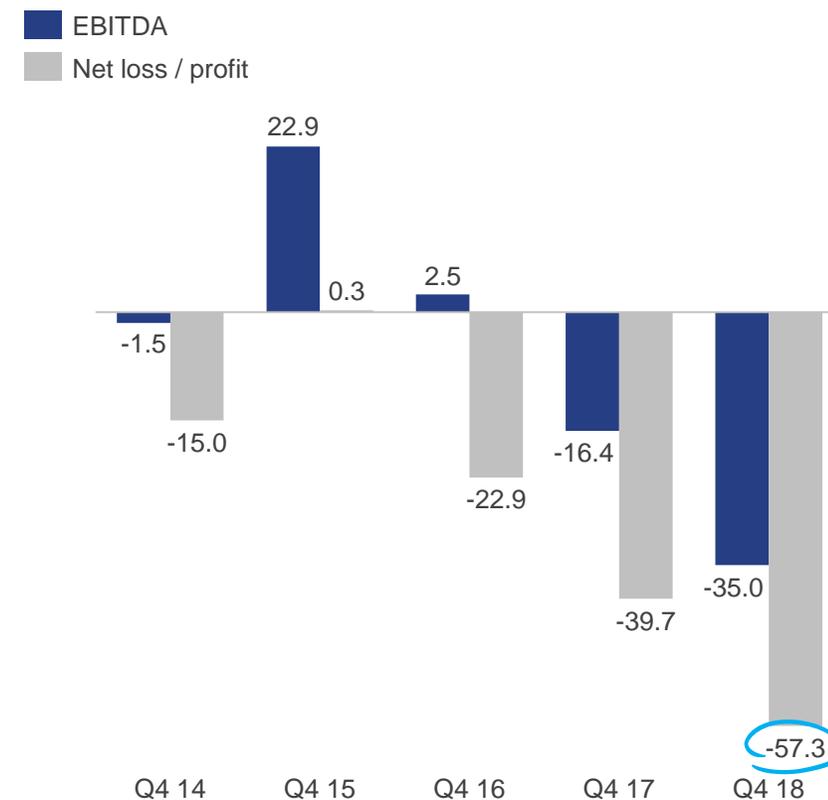
Financials



Pressure on airfares, higher fuel costs, low utilisation of pilots and poor results of domestic operations causing lower EBITDA

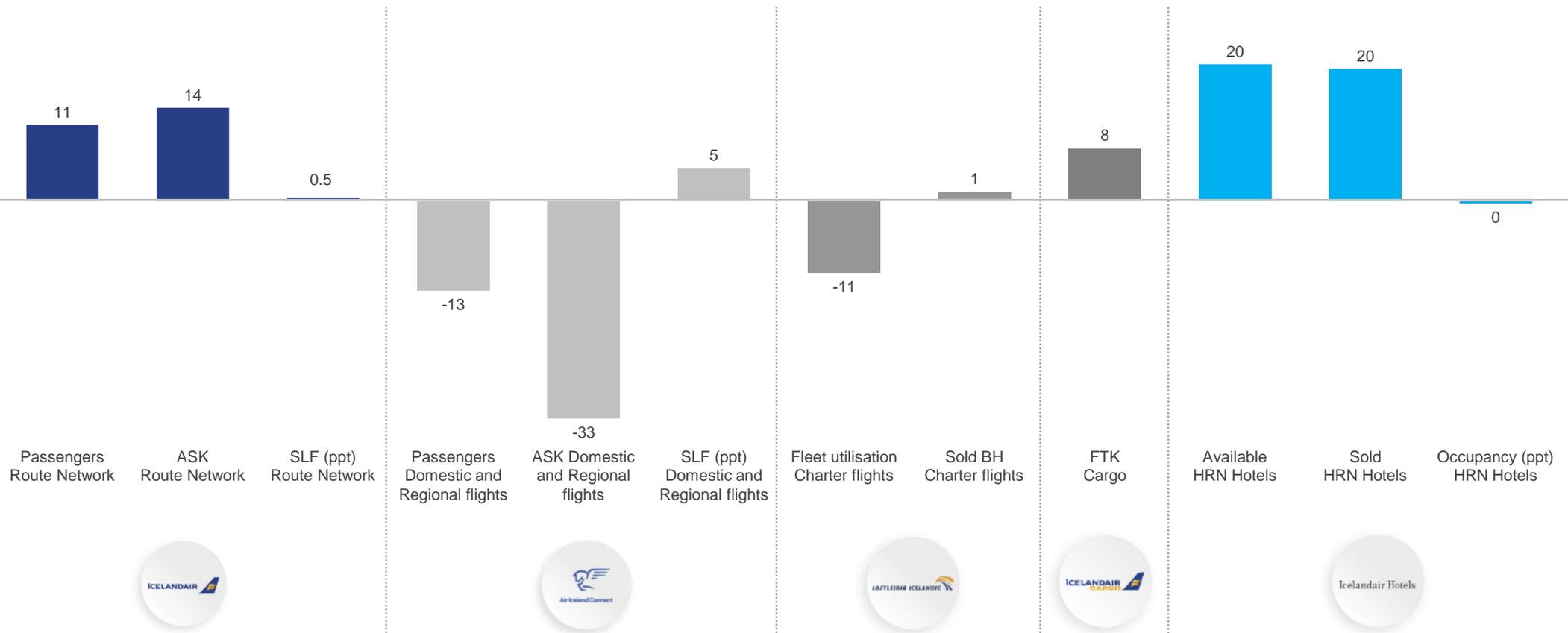
USD million	Q4 2018	Q4 2017	% Chg.
Operating Income	298.8	291.6	2%
Salaries and related expenses	126.9	115.0	10%
Aircraft fuel	74.1	54.7	36%
Aircraft lease	9.2	5.7	61%
Aircraft handling, landing and comm.	29.3	29.2	0%
Aircraft maintenance expenses	20.6	20.5	1%
Other expenses	73.6	83.0	-11%
Operating expenses	333.8	308.0	8%
EBITDA	-35.0	-16.4	113%
EBIT	-69.3	-45.8	51%
EBT	-69.7	-47.7	46%
Loss for the period	-57.3	-39.7	45%
EBITDA ratio	-11.7%	-5.6%	-6.1 ppt
EBITDAR	-24.2	-5.4	-
EBITDAR ratio	-8.1%	-1.8%	-6.2 ppt

EBITDA and loss | USD million



Passenger increase in the Route Network 11% and load factor up by 0.5 percentage points

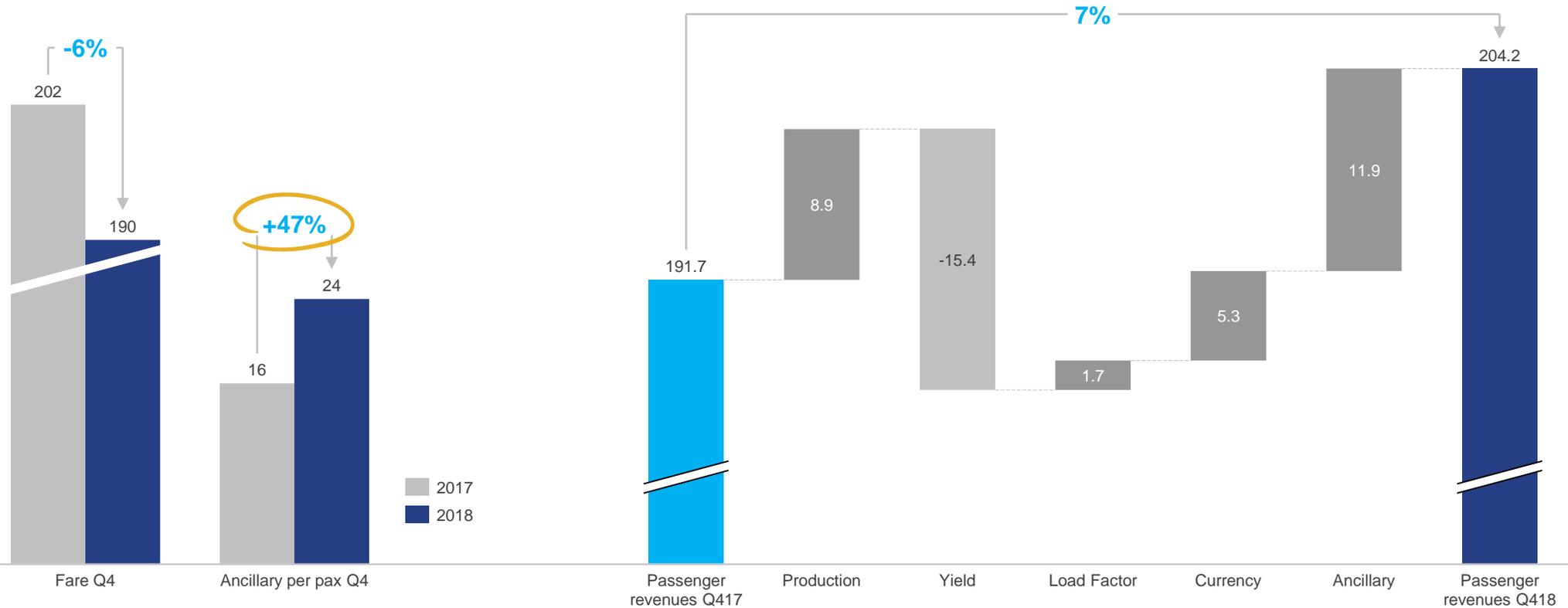
Q4 year-on-year change in %



Ancillary revenues per passenger increased significantly between years

Passenger revenue per passenger | USD Q418 vs Q417

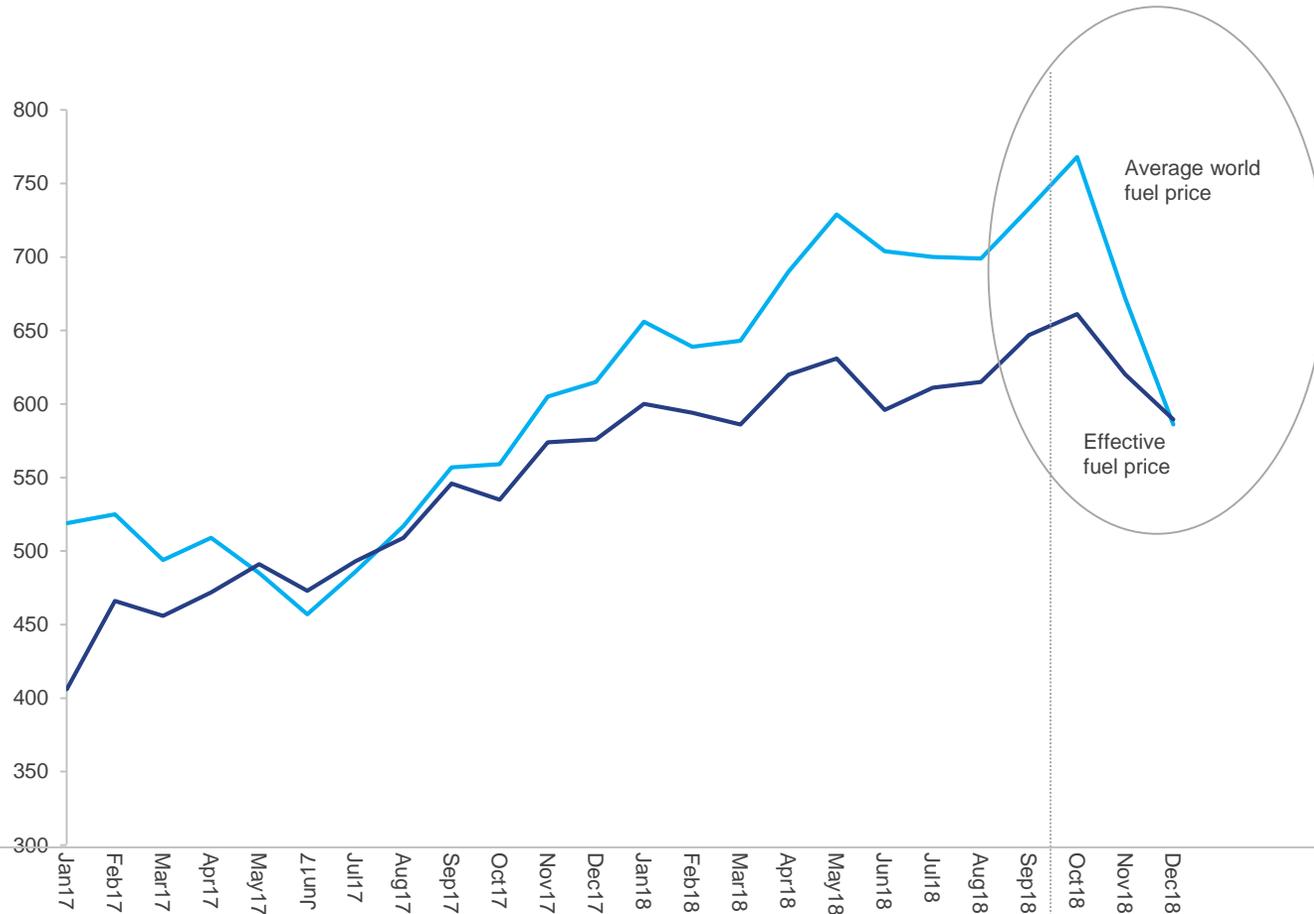
Main changes in passenger revenues | USD Q418 vs Q417



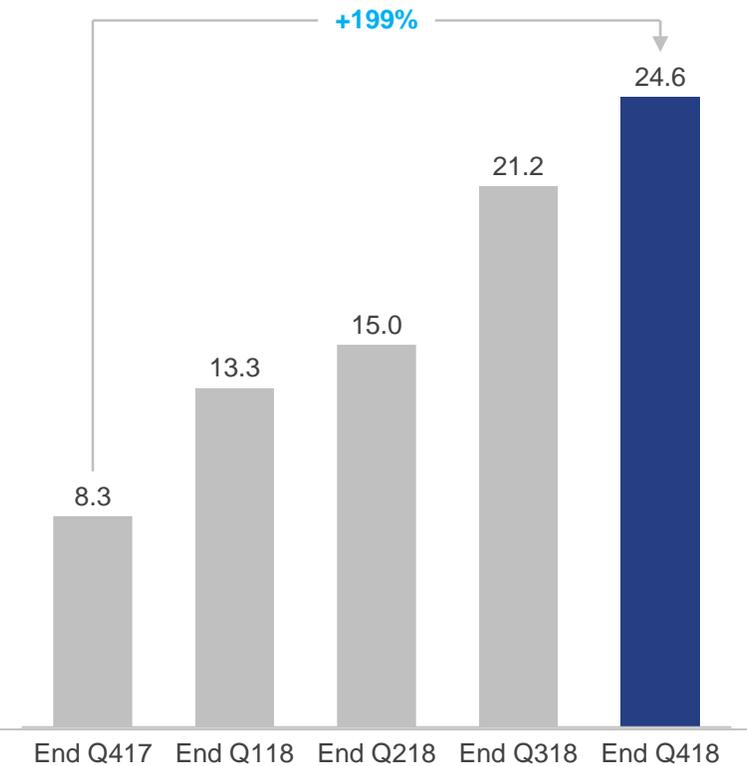
Fare = passenger revenues / passengers, Yield = passenger revenues/revenue passenger kilometres

Average fuel price trended downwards in Q4 2018 and market price of carbon emission allowances tripled in 2018

Average and effective fuel price | USD/tonne 2017-2018



Carbon Emissions Allowances | Q417-Q418 in EUR



50% of estimated usage in 2019 has been hedged at weighted average swap price of 685 USD/tonne

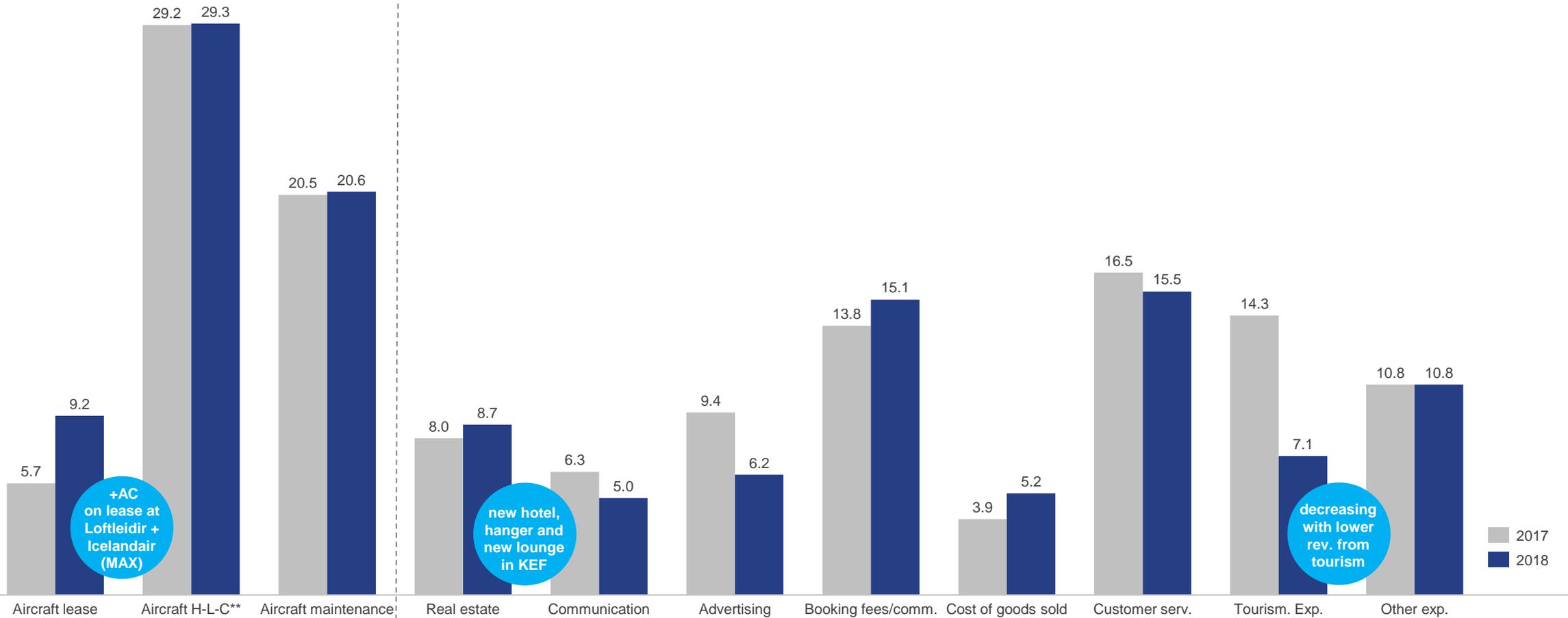
Period	Estimated usage (tons)	Swap volume	% hedged	Av. swap price USD
Jan 19	25.277	15.450	61%	621
Feb 19	21.102	14.450	68%	644
Mar 19	26.666	15.500	58%	622
Apr 19	29.750	15.450	52%	631
May 19	40.885	21.500	53%	635
Jun 19	49.696	24.500	49%	683
Jul 19	52.286	26.250	50%	692
Aug 19	52.505	28.250	54%	722
Sep 19	45.855	27.250	59%	752
Oct 19	33.902	16.000	12%	753
Nov 19	30.530	11.000	13%	710
Dec 19	29.028	4.000	14%	722
12 months	437.482	219.600	50%	685
Jan 20	25.759	4.000	16%	713
Feb 20	21.502	4.000	19%	789
Mar 20	27.171	4.000	15%	764
Apr 20	30.321		0%	0
May 20	41.677		0%	0
Jun 20	50.663		0%	0
13-18 months	197.094	12.000	6%	755

* weighted average price



Aviation less fuel +7%

Other expenses -11%

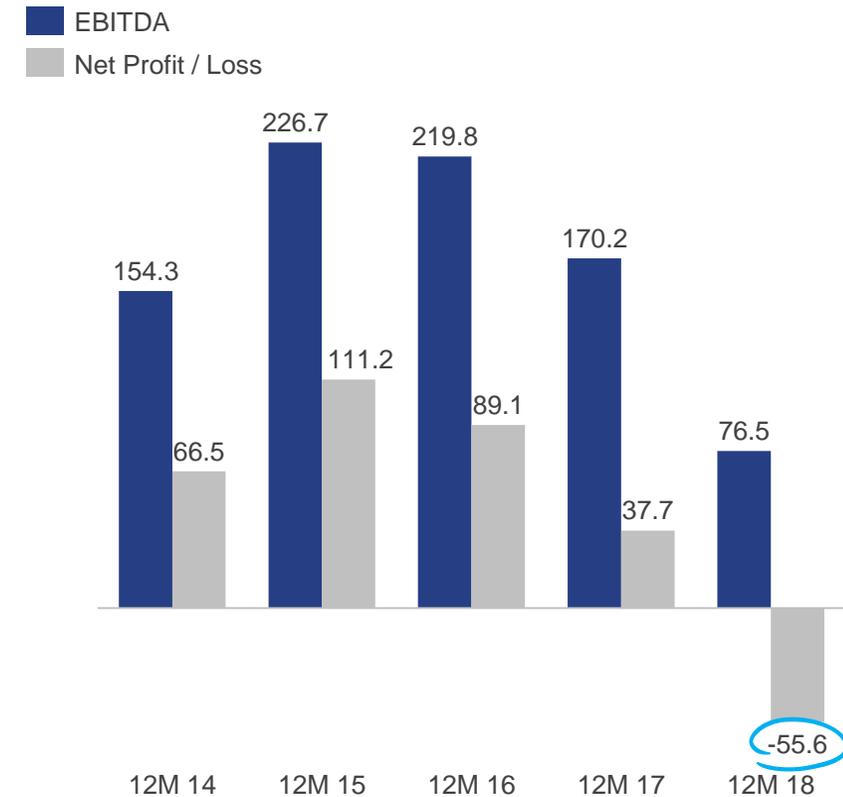


* All figures are in USD millions
 ** H-L-C = Handling, Landing, Communication

Challenging year behind us

USD million	12M 2018	12M 2017	% Chg.
Operating Income	1,510.5	1,418.0	7%
Salaries and related expenses	515.9	445.2	16%
Aircraft fuel	298.8	235.4	27%
Aircraft lease	36.5	21.8	68%
Aircraft handling, landing and comm.	136.4	122.8	11%
Aircraft maintenance expenses	80.9	76.1	6%
Other expenses	365.5	346.7	5%
Operating expenses	1,434.0	1,247.9	15%
EBITDA	76.5	170.1	-
EBIT	-57.0	49.6	-
EBT	-67.8	48.6	-
Loss / profit for the period	-55.6	37.5	-
EBITDA ratio	5.1%	12.0%	-6.9 ppt
EBITDAR	126.9	207.8	-
EBITDAR ratio	8.4%	14.7%	-6.3 ppt

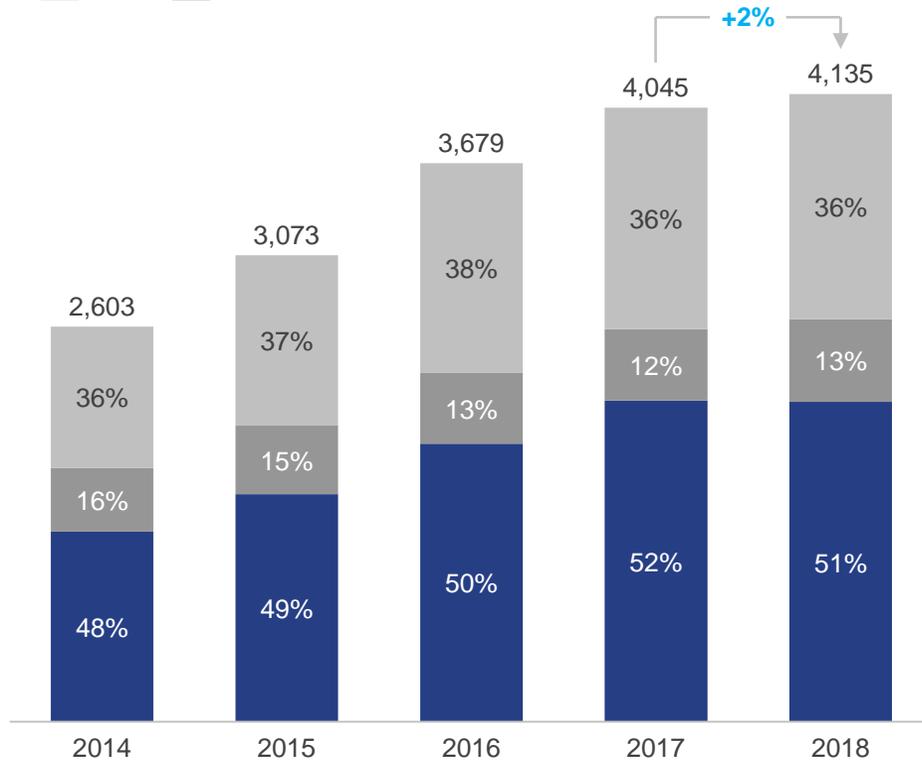
EBITDA and Net Profit | USD million



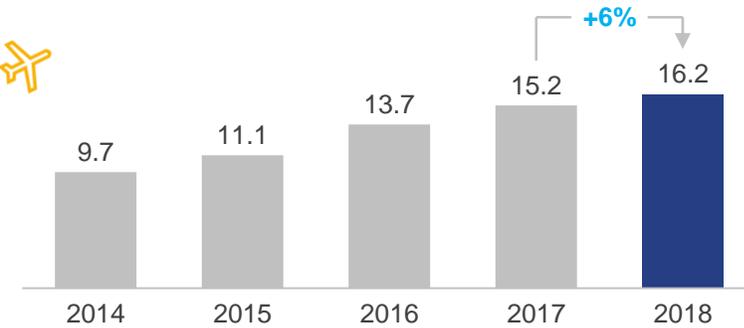
Modest growth in passengers in 2018

Passenger mix | number of passengers in thousands

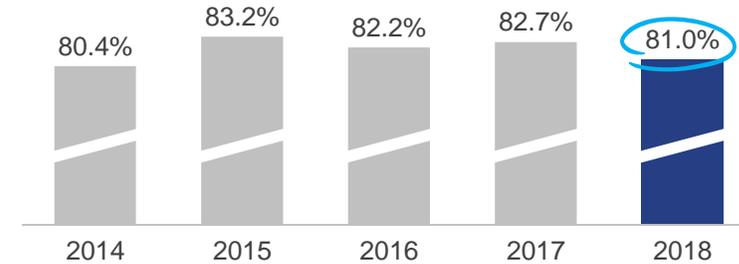
■ To ■ From ■ Via



Available seat km (ASK) | 2014-2018 in billions



Load factor | 2014-2018



Strong financial position at year-end 2018 with USD 300 million in Cash and Cash Equivalents

USD million	31.12.2018	31.12.2017	Diff.
Assets			
Operating Assets	673.4	652.7	20.7
Intangible assets and goodwill	177.6	180.4	-2.9
Other non-current assets	43.6	126.7	-83.1
Total non-current assets	894.6	959.8	-65.2
Other current-assets	144.9	231.3	-86.4
Assets classified as held for sale	125.2	7.5	117.7
Short term investments	0.0	4.1	-4.1
Cash and cash equivalents	299.5	221.2	78.3
Total current assets	569.5	464.1	105.5
Total assets	1,464.1	1,423.8	40.3

Interest bearing debt
USD 415.9m

Net debt
USD
116.3m

USD million	31.12.2018	31.12.2017	Diff.
Equity and liabilities			
Stockholders equity	471.4	596.5	-125.2
Loans and borrowings non-current	147.5	280.3	-132.7
Other non-current liabilities	47.4	78.1	-30.7
Total non-current liabilities	194.9	358.4	-163.4
Loans and borrowings current	268.3	9.3	259.0
Derivatives used for hedging	39.7	1.4	38.3
Trade and other payables	222.8	232.2	-179.9
Liabilities classified as held for sale	52.2	0.0	222.8
Deferred income	214.9	226.1	-11.2
Total current liabilities	797.8	468.9	328.9
Total equity and liabilities	1,464.1	1,423.8	40.3
Equity ratio	32%	42%	-10%
Current ratio	0.71	0.99	-0.28
Net interest bearing debt	116.3	64.3	52.1
Interest bearing debt	415.8	289.5	126.3

The Way Ahead



Icelandair Group will implement a new financial reporting standard IFRS 16 at the start of 2019

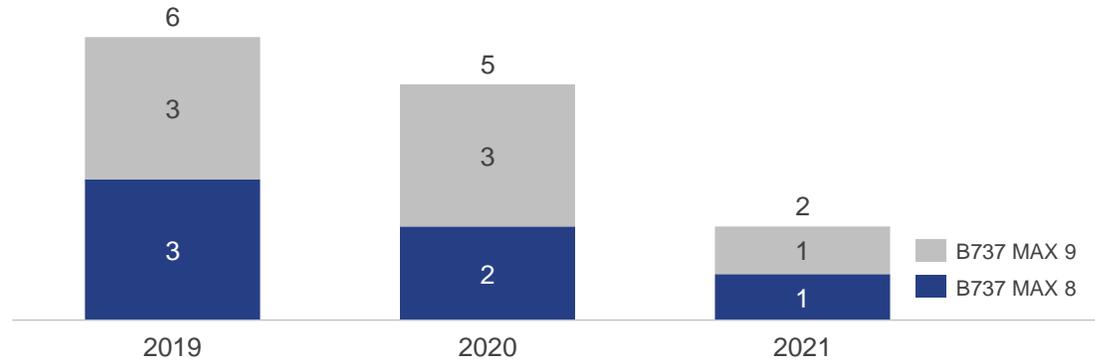


Comments	Financial metrics USD'000	IFRS 16 impact excl. Hotels	IFRS 16 impact incl. Hotels
<p>Overview of the estimated impact of the IFRS 16 standard on Icelandair Group's consolidated financial statements in 2019, in the absence of any other changes, and on the Balance Sheet as of 1 January 2019.</p> <p>The impact is shown both excluding and including Icelandair Hotels, which are being divested.</p>	EBITDA	+66,723	+81,427
	Depreciation	-61,720	-72,303
	Net finance cost	-10,679	-18,014
	Net Profit	-5,676	-8,890
	Total assets	1,432,863	1,745,786
	Equity ratio	33%	27%

Icelandair will take delivery of six B737 MAX in the coming weeks

- | An agreement concluded on the financing of pre-delivery payments on 11 Boeing MAX aircraft.
- | Six aircraft scheduled for delivery in 2019 and five aircraft in 2020.
- | In all, the financing amounts to USD 200 million over the period.
- | The Company's cash position increased by USD 160 million at the end of 2018 as a result of the agreement, as Icelandair Group had already made pre-delivery-payments out of its own funds.
- | Sale and leaseback arrangements have been concluded for seven Boeing 737 MAX aircraft. Six aircraft scheduled for delivery in 2019, one aircraft scheduled for delivery in 2020.

Aircraft deliveries 2019-2021



11
aircraft

PDP
finance
completed

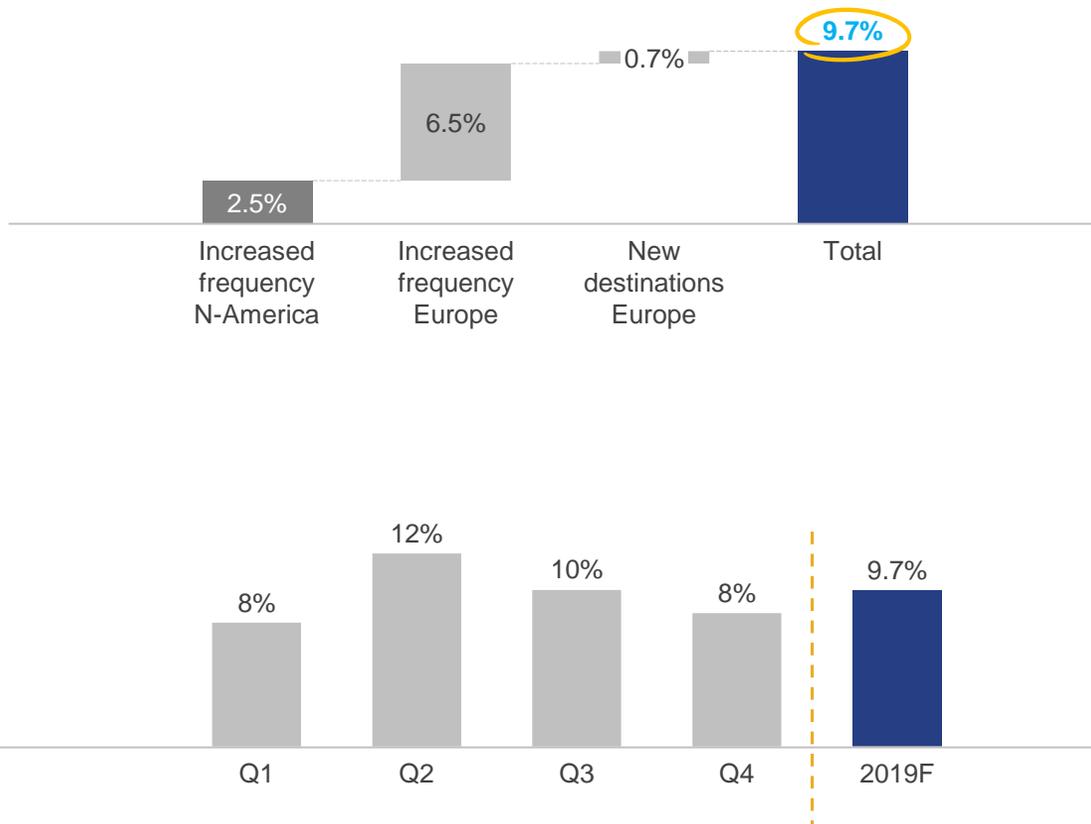
7
aircraft

Sale
leaseback
completed

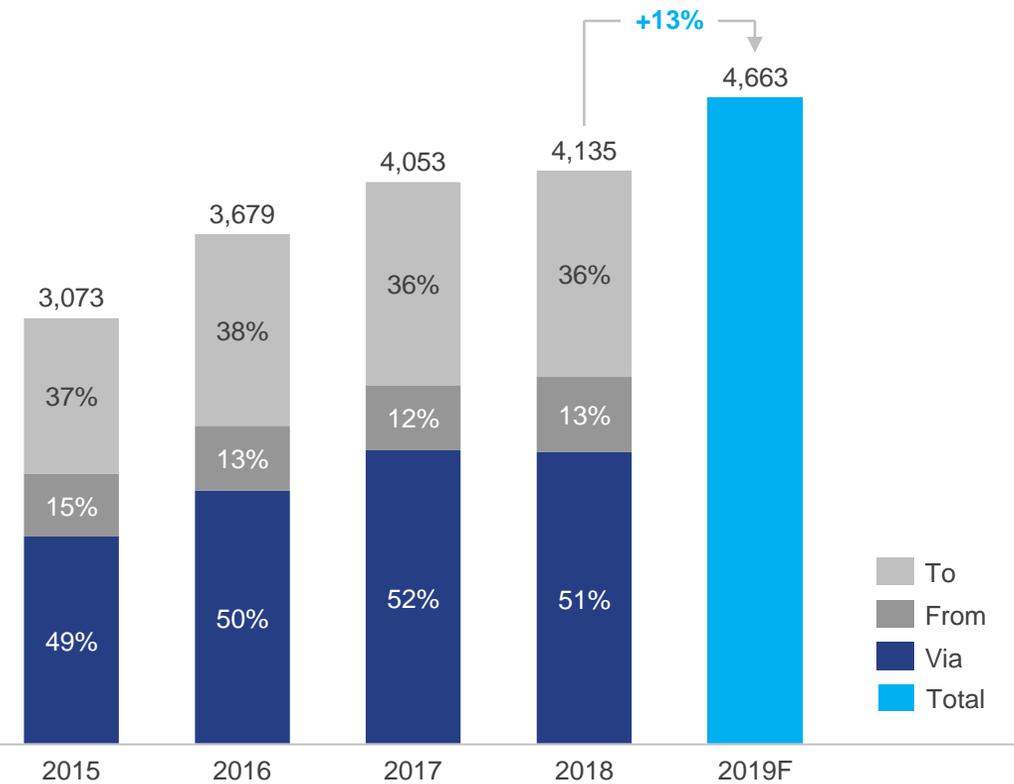
Capacity increasing by 10% in 2019 – available seats in Europe growing more than in N-America to correct imbalance from LY



Change in ASK | 2018 vs 2019 forecast



Passenger mix | number of passengers in thousands



Actions taken to improve profitability in 2019

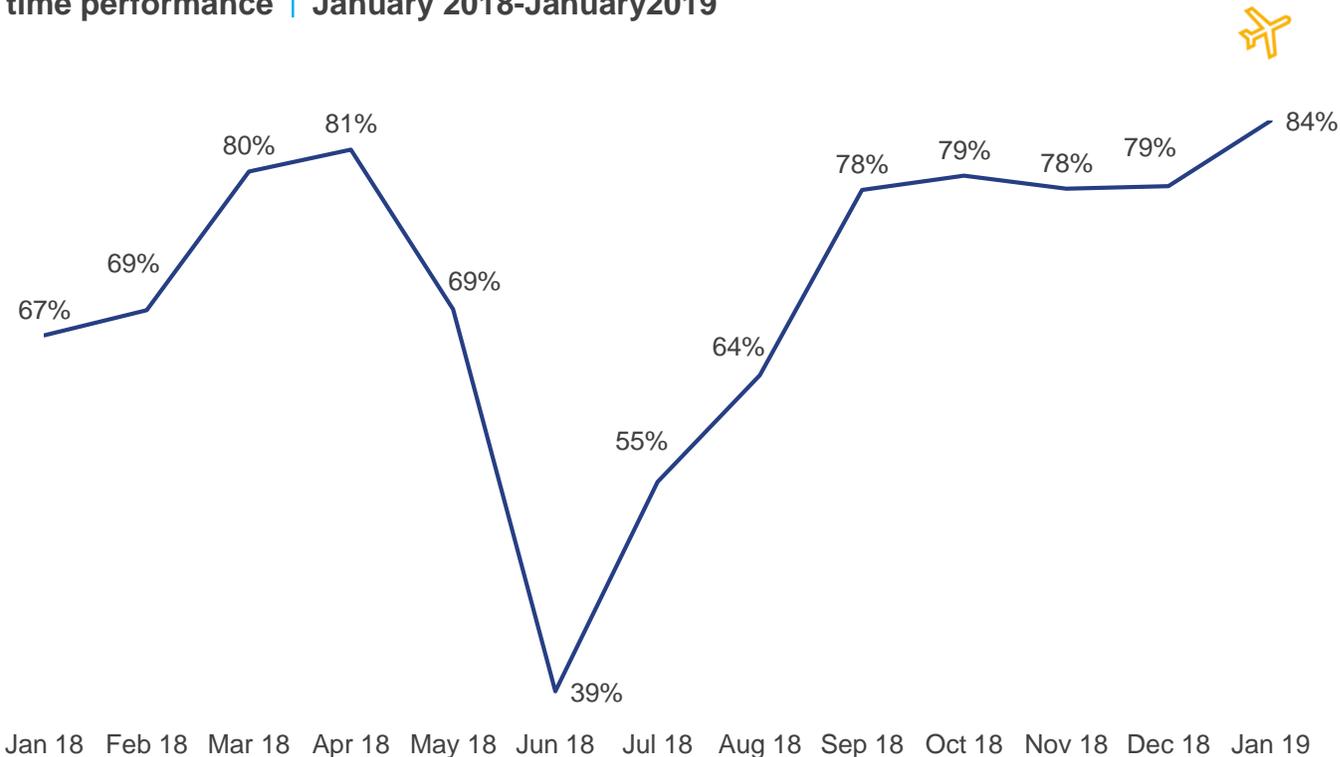
The performance of Icelandair in 2018 was unacceptable.

A number of actions have been taken to improve operations in 2019

Imbalance in the Route Network corrected	Implementation of a new revenue management system	Focus on strengthening sales and marketing activities
Increased emphasis on ancillary revenue	New connection bank, which will improve resource utilisation	Strengthening of processes to reduce disruptions in the Route Network
Improved utilisation of manpower	Outsourcing	Domestic flight operation under review

Aim to reduce IRROPS cost by 40% in 2019

On time performance | January 2018-January 2019



The cost of unpunctuality and disruptions in flight schedules amounted to approximately **USD 45 million** in 2018.

The aim of the Company is to reduce this cost **at least by about 40%** in 2019 through:

- improved punctuality
- changes in the Route Network
- infrastructure reinforcements

2019 Guidance

International flight operations

Significant improvements in profitability expected in 2019 because of a number of strategic and operational actions. However because of the greater uncertainty in revenue forecasts than before and uncertainty in the labour market in Iceland, an EBITDA guidance for the year is not issued at this stage.

Other core operations

A slight performance improvement is anticipated from other core operations in 2019, which returned USD 37 million in EBITDA in 2018.

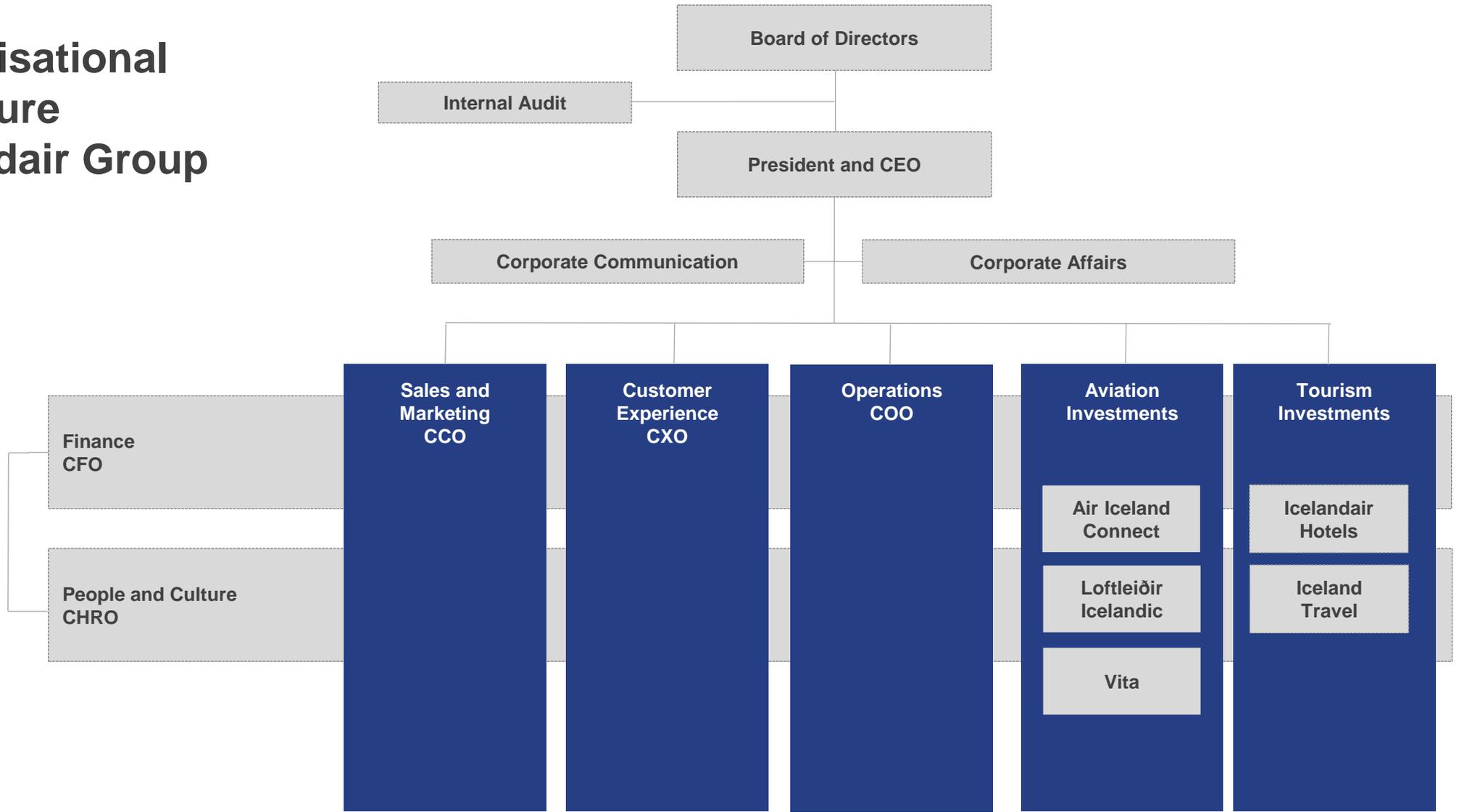
Companies in sales process

The sales process of Icelandair Hotels is expected to be finalized in 2019 and it has been announced that the sales process of Iceland Travel is currently being prepared. The EBITDA of these assets was USD 16 million in 2018.

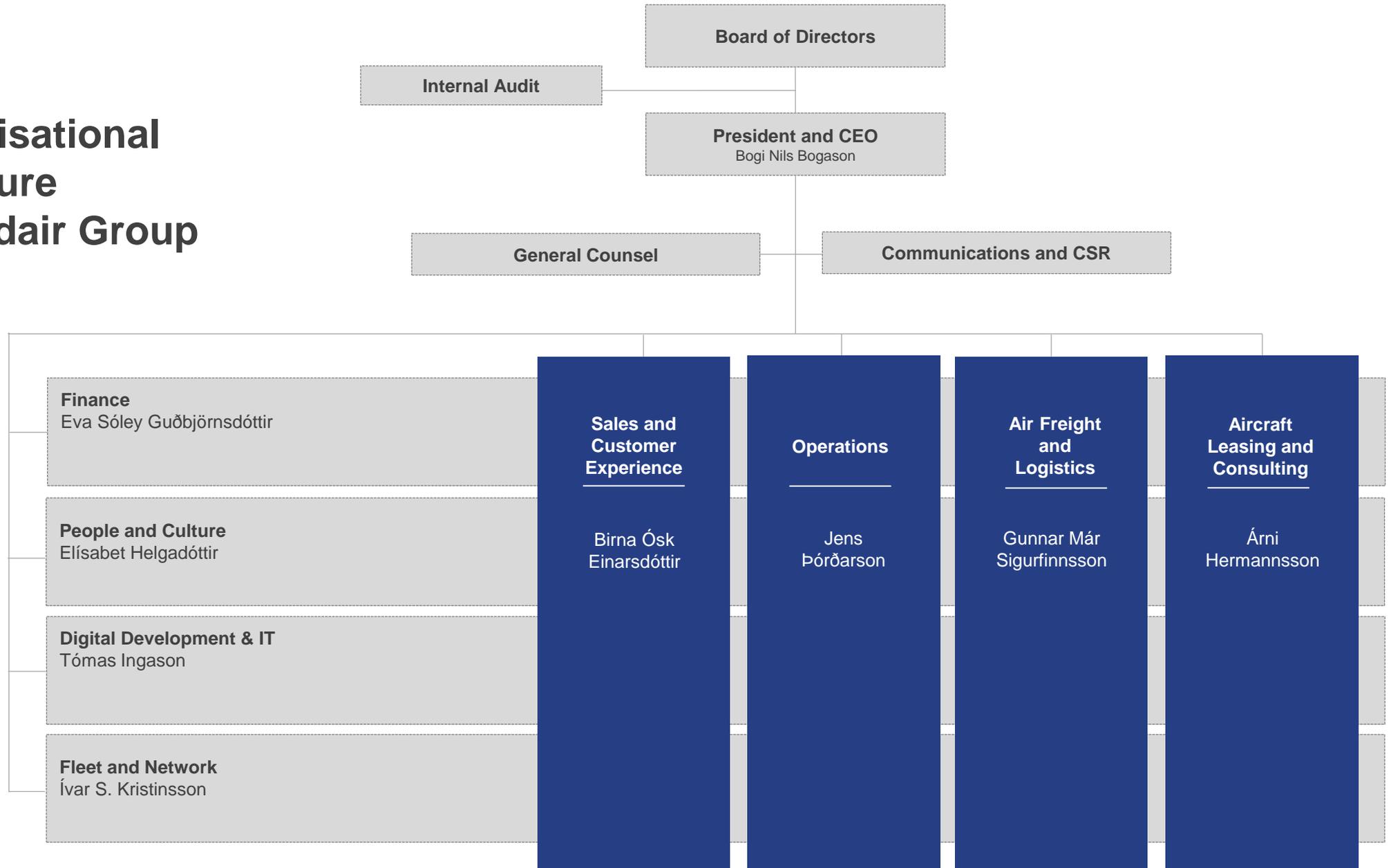
Worse financial performance expected in Q1 2019 than in Q1 2018. Average air fares have not increased between years, and the timing of Easter will have an impact on demand.

Icelandair Group's long-term business objective remains unchanged, with an average 7% EBIT ratio.

Old Organisational Structure Icelandair Group



New Organisational Structure Icelandair Group



**Our mission is clear:
To improve the Company's profitability
and strengthen the operations for the future**

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