

Welcome to Icelandair Capital Markets Day 2023



Icelandair...

- 1 is operating the right business model to be successful as a hub carrier in Iceland
- 2 has strengthened its operations and increased commercial differentiation
- 3 has significant opportunities for growth
- 4 has delivered on the business plan presented in 2020
- 5 has the financial strength to fund future growth and face any potential short-term headwinds

Icelandair investment case



Leading carrier in Iceland
– our hub and home

Unique route network with great growth opportunities

Operational excellence and cost optimization

Strong **commercial infrastructure** and **diverse revenue streams**

Experienced team of employees through decades of operation

Guided by sustainability

Creating long term value

Capital Markets Day 2023 Speakers



**Bogi Nils
Bogason**
President & CEO



**Tómas
Ingason**
CCO



**Sylvía Kristín
Ólafsdóttir**
COO



**Ívar
Kristinsson**
CFO

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A strong balance sheet to seize opportunities and weather short-term headwinds is at the core of our financial strategy


Financial strength

 **Equity ratio 20-25%**

Operational profitability

 **>8% EBIT over the cycle**

Total liquidity

 **> 3M fixed operating costs**

Asset flexibility

 **Healthy balance of owned vs. leased aircraft**

Strong cash from operation, USD 275 million in the last 12 months and leverage is healthy

Financial strength
Equity ratio 21%

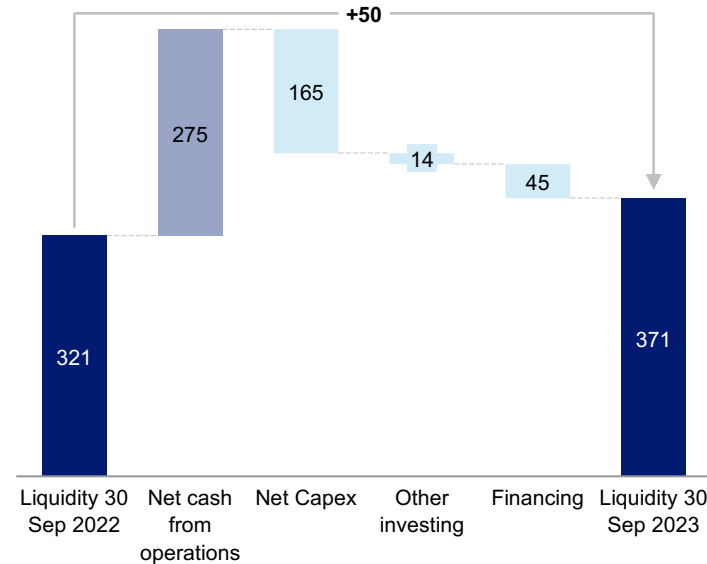
Total liquidity
USD 424 million

Leverage*
1.6

Asset flexibility
Owned aircraft ~ 50% of fleet

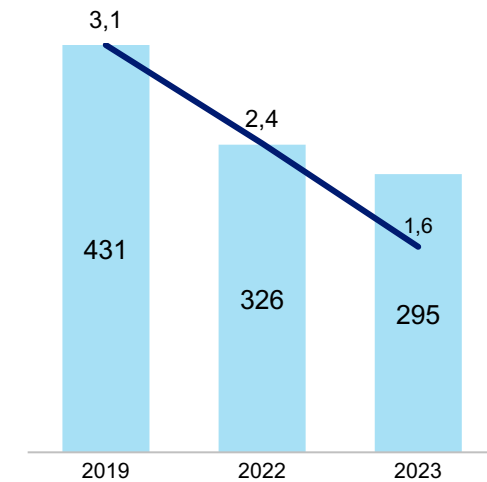
Unencumbered assets
>USD 200 million

Cash flow development LTM
USD million



Leverage

— Net financial liabilities to EBITDA
■ Net financial liabilities USD million



*Leverage: Net financial liabilities / LTM EBITDA

The future is just
around the corner



As of the third quarter of 2023, we had outpaced the level of growth assumed in the financial restructuring in 2020...

Capacity in the route network vs. IM

+9%

Total revenue vs. IM

+20%

...although some assumptions turned out differently and negatively impacted results...

Iceland wage growth 2020-'23

+2x

Fuel price in 2023 vs. IM

+75%

EBIT Cargo in Q3 2023

-USD 6.7m

...but the overall financial strength is well in line and in fact even better than we planned

Cash position vs. IM

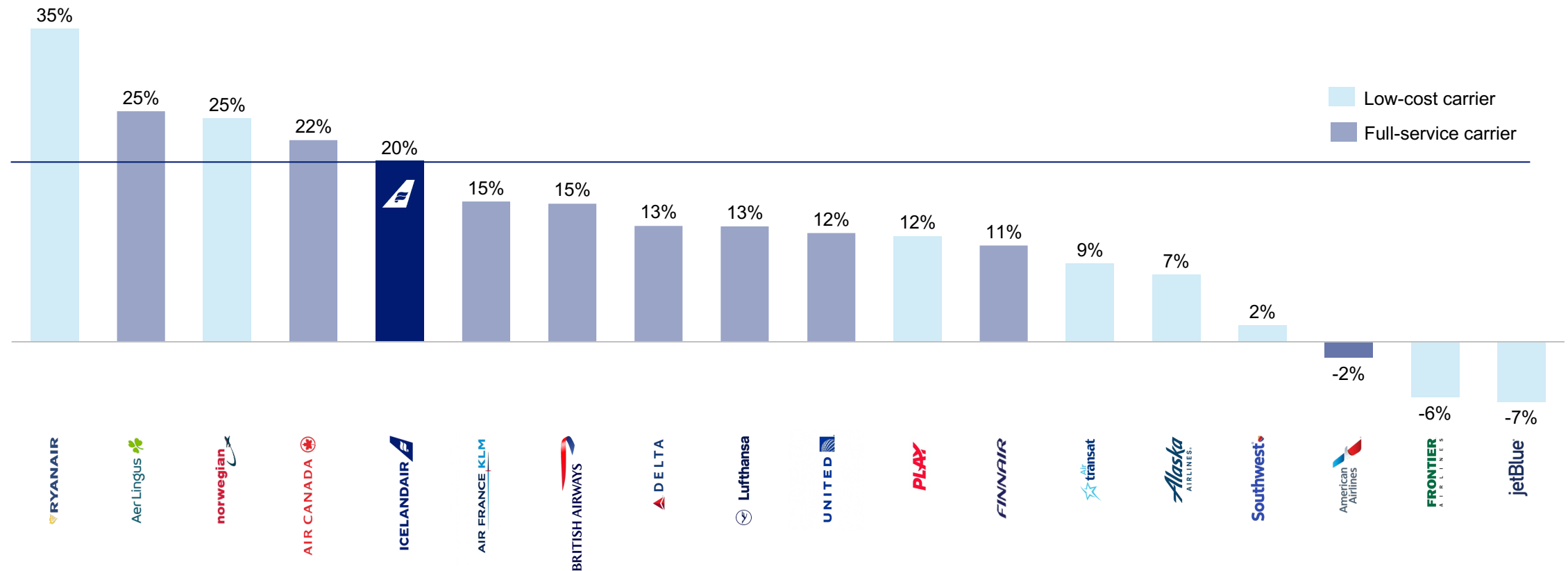
+27%

Total equity vs. IM

on par

We delivered good results in Q3 2023 and benchmarks with peers are favorable across the board

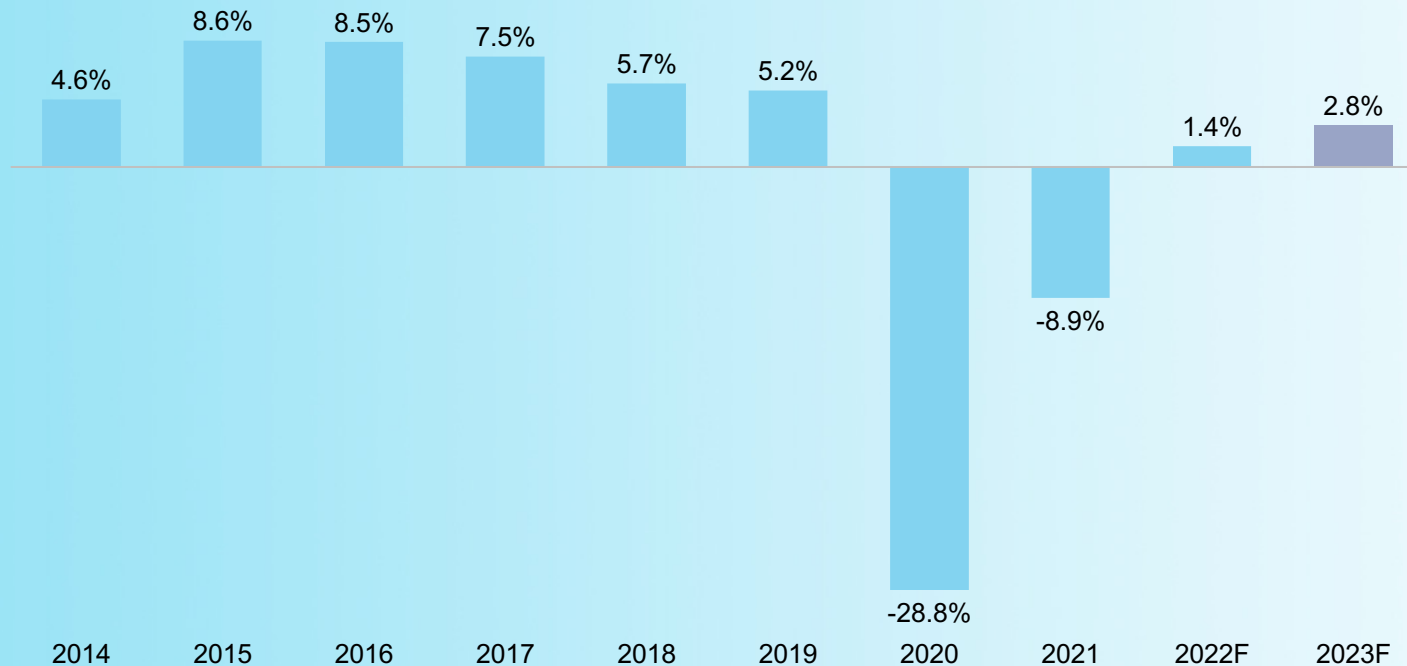
EBIT margin Q3 2023



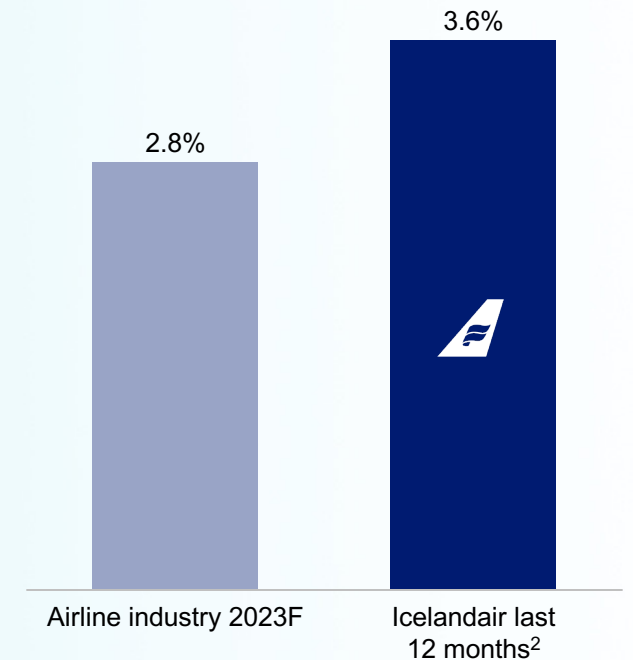
Source Q3 results per airline

Icelandair is currently returning a higher EBIT-margin than the overall industry

Airline industry: EBIT%¹



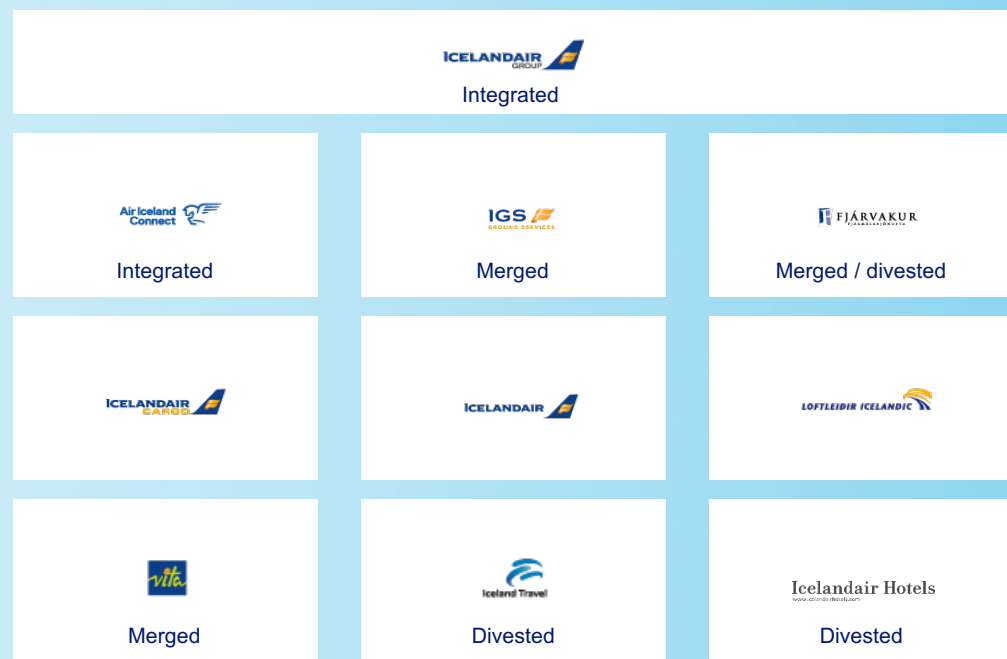
EBIT margin comparison



We have streamlined and simplified our business

Focus on being a small and dynamic airline in a highly competitive market

Icelandair 2018



Icelandair 2023



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Iceland is at the core of everything we do...

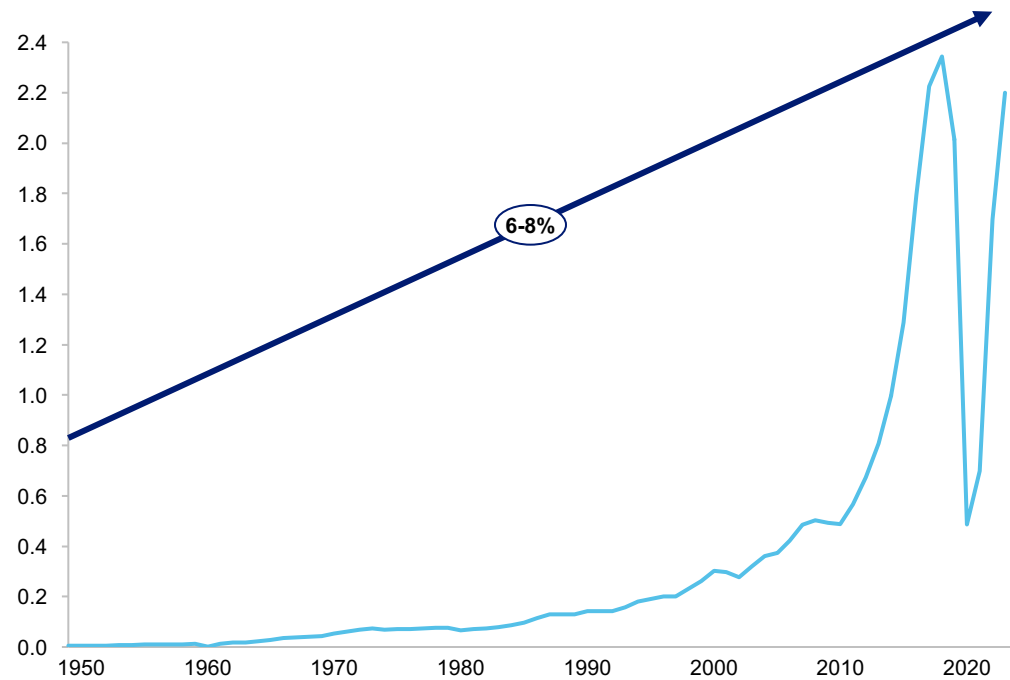
...and the unique destination will continue to grow in popularity with increased focus on nature, wilderness, wellness, and climate change trends



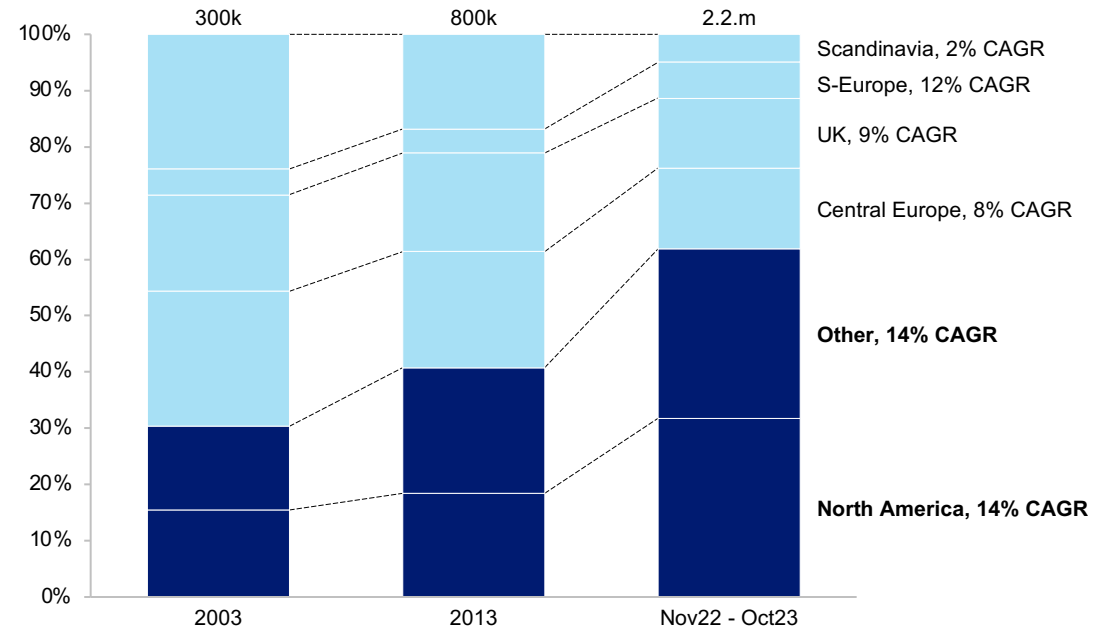
The tourism market to Iceland will continue to be a high-growth market

Increased direct flight connections stimulate market and North America and Asia markets are growing at a brisk pace

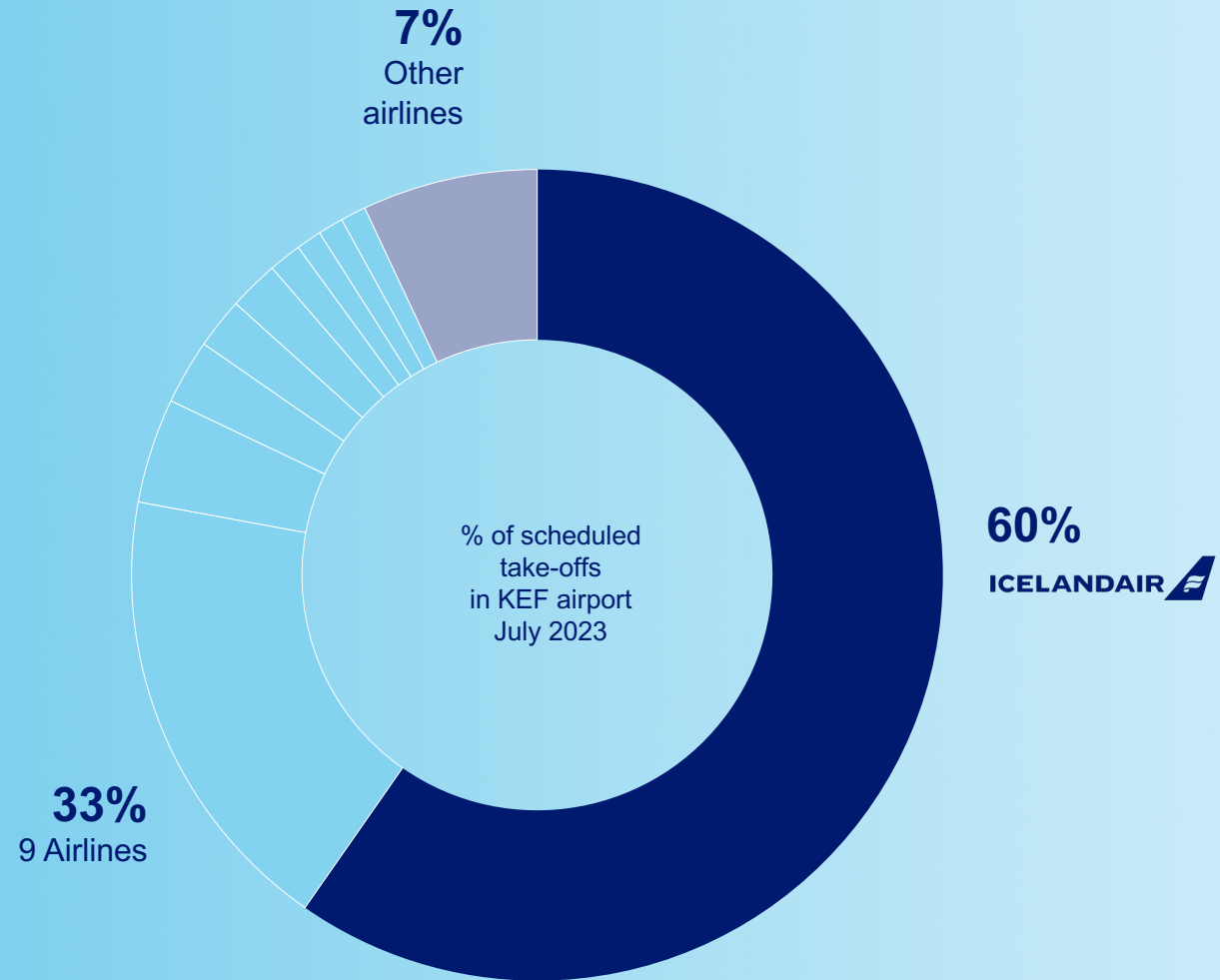
Tourists to Iceland
1950-2023



Tourists to Iceland
Main markets



Icelandair has a **very strong market position in this high-growth market** and is at the forefront of developing Iceland as a tourist destination



Icelandair has spent the last eight decades marketing Iceland to the rest of the world!

20-25% of Icelandair's transatlantic passengers take advantage of the opportunity to **stopover in Iceland** on their way across the Atlantic





Tourism growth opportunities in Greenland, the Faroes, and in the Icelandic countryside, for all of whom KEF is the natural connecting hub

Icelandair is using its extensive sales and marketing setup to bring these markets to the world

There is a lot of underlying demand for these markets, but they will need to be built gradually in line with their infrastructure and general appetite for increased tourism



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Iceland's uniquely central location on the shortest flight route between Europe and N-America is the key to our hub-and-spoke network



Network effects make it increasingly easier to add more spokes

In the past 12 months we have transported passengers from Raleigh-Durham to ~40 destinations across our network

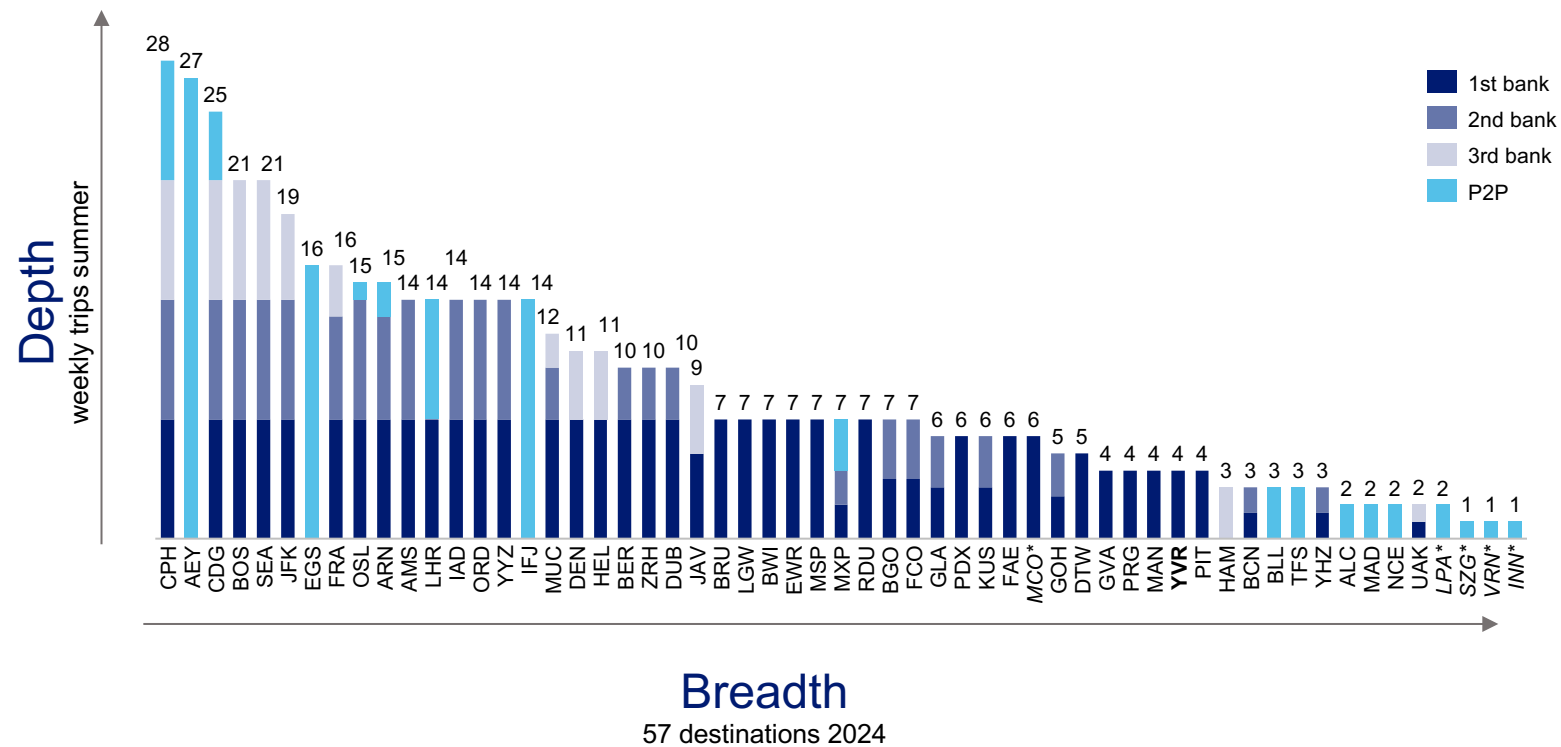
Icelandair is less reliant on a few competitive markets leading to overall higher yields



We continue to develop our connecting hub in KEF airport by increasing the depth and breadth of the route network

High frequency and diverse departure times

3 connecting banks provide schedule diversity and better resource utilization



More than 10% increase
in production

3x daily
to 5 destinations

2x daily
to 11 destinations

New destinations with daily flights
Rome, Raleigh, Milan, and Bergen

Increased morning flights to the US
5x to JFK, 4x to Denver, and daily to Boston and Seattle

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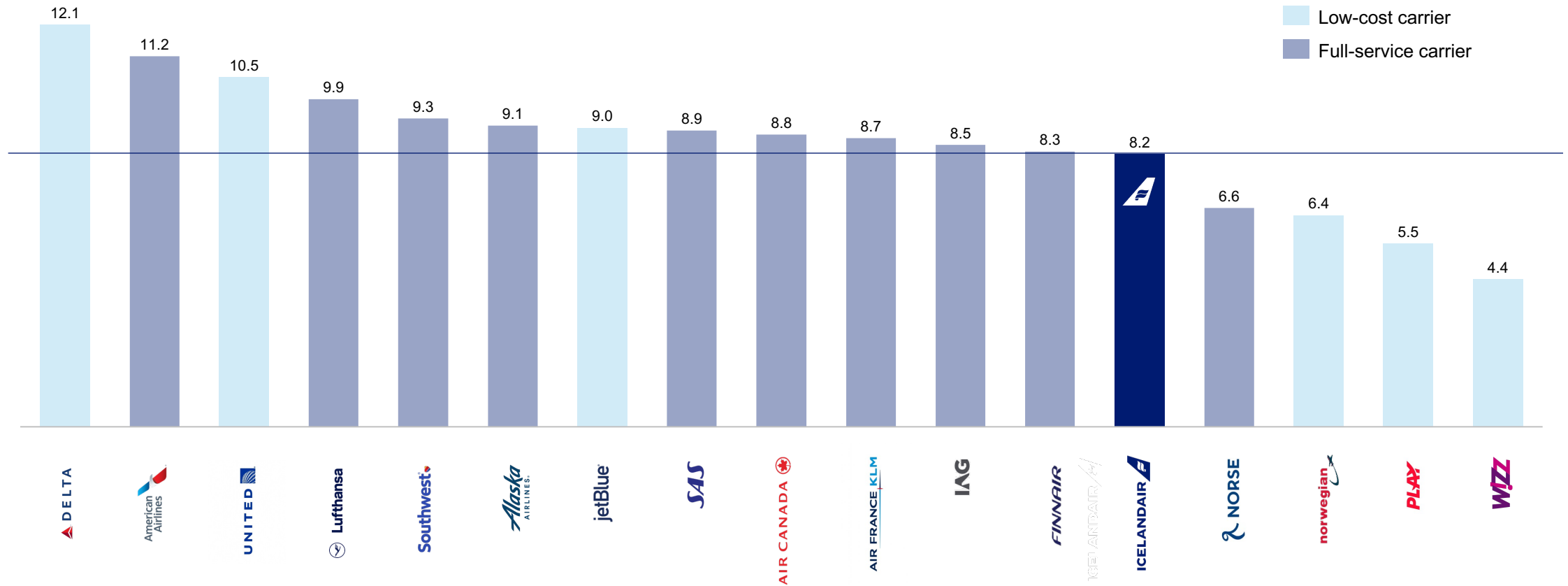
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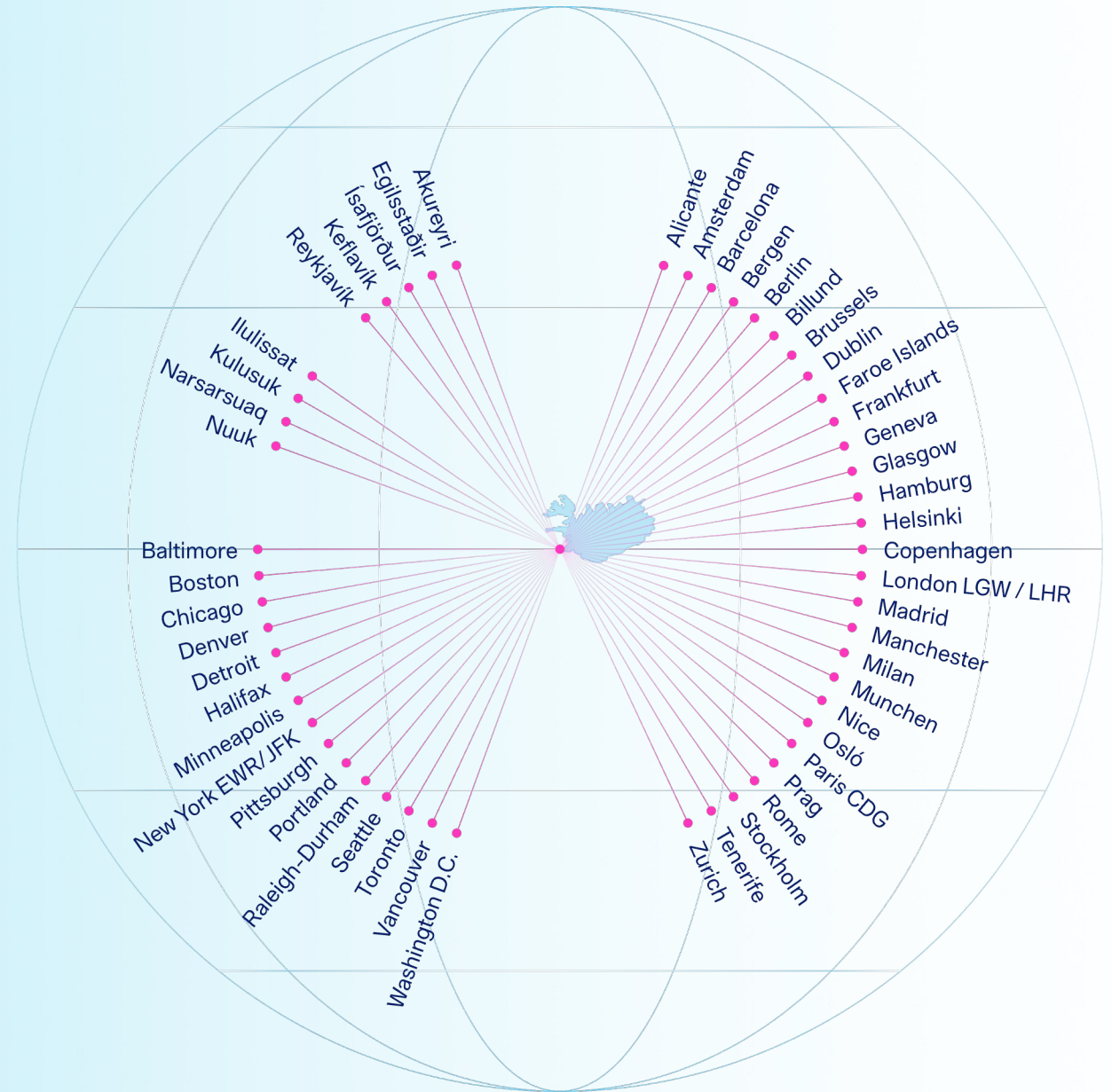
Creating long term value

At current CASK-levels, Icelandair has a competitive cost position compared to peer airlines

CASK 9M 2023
US cent

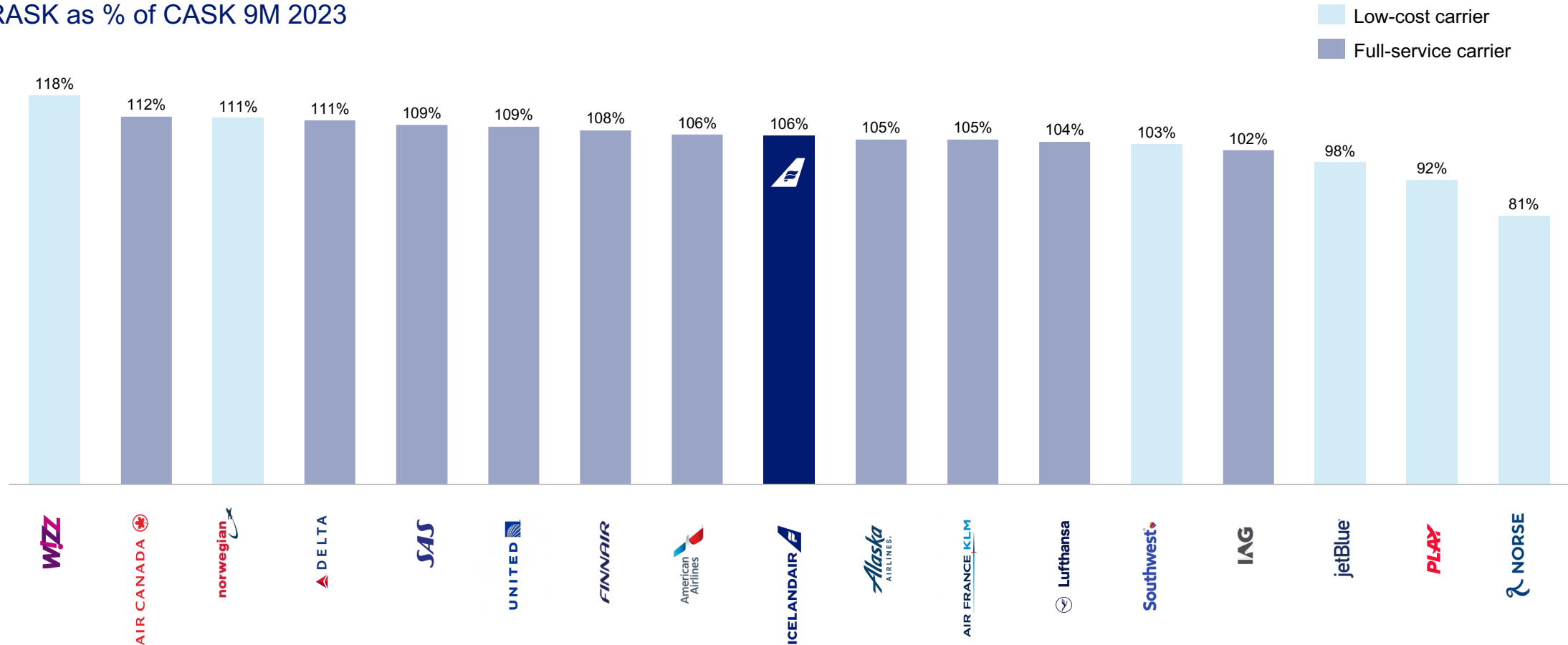


The major determinants of Icelandair's cost structure are the size, shape, and focus of the route network, choice of aircraft types, and product positioning



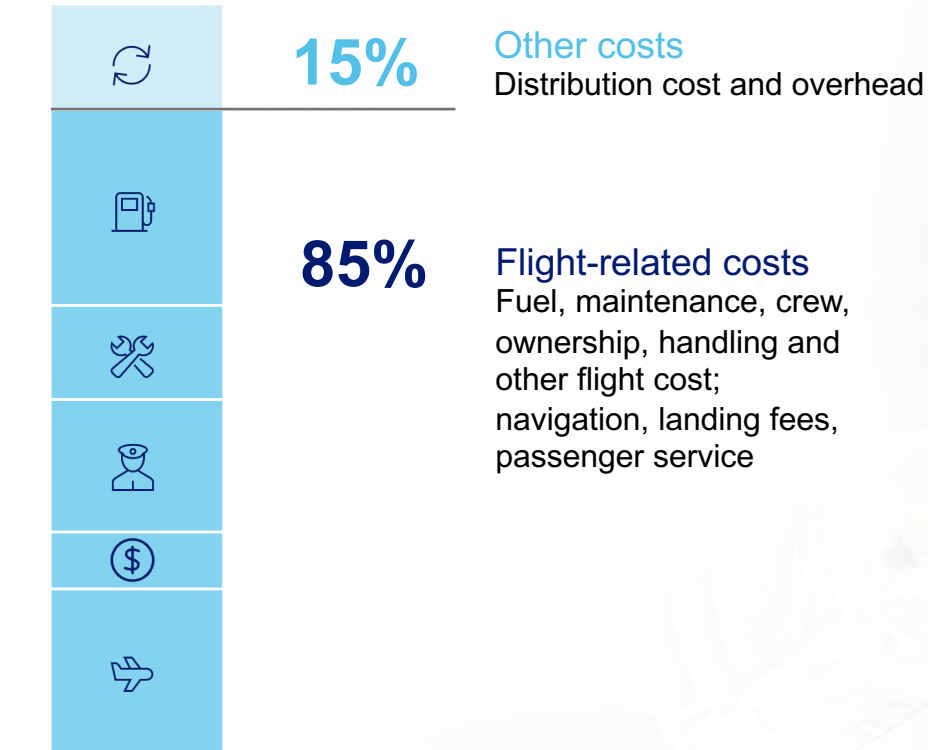
Strong cost management is important for all airlines – however the objective is not to minimize cost but to tune the model so **RASK exceeds CASK** the most

RASK as % of CASK 9M 2023



Source: Q3 results per airline; CASK and RASK are industry standards for measuring airline unit cost and unit revenue; Icelandair CASK is the total cost of Icelandair route network divided by available seats multiplied by kilometers flown; Icelandair RASK is the total revenue of Icelandair route network divided by available seats multiplied by kilometers flown




Around 85% of our cost base is flight-related, so, we better manage it smartly



CASK forecast 2023



We optimize our cost base by finding the strategic levers of what is in our control, and focusing on making the right decisions

	 Fuel	 Crew	 Maintenance
External factors	<ul style="list-style-type: none"> ▪ Global oil prices ▪ Geopolitical events ▪ Environmental regulations 	<ul style="list-style-type: none"> ▪ Labor market ▪ Training and certification requirements 	<ul style="list-style-type: none"> ▪ Technological advancements ▪ Safety regulations ▪ Material pricing
Controllable actions	<ul style="list-style-type: none"> ▪ Fleet renewal with more fuel-efficient aircraft ▪ Long-term fuel hedging ▪ Operational efficiencies like optimizing flight routing and aircraft speed 	<ul style="list-style-type: none"> ▪ Long-term workforce planning ▪ Union labor collaboration ▪ Manage seasonality ▪ Route network 	<ul style="list-style-type: none"> ▪ Fleet modernization and younger fleet ▪ Increased aircraft utilization ▪ Planning, reliability and insource/outsource strategy





Fleet renewal and operational efficiencies have driven fuel consumption down by 22%* since 2018

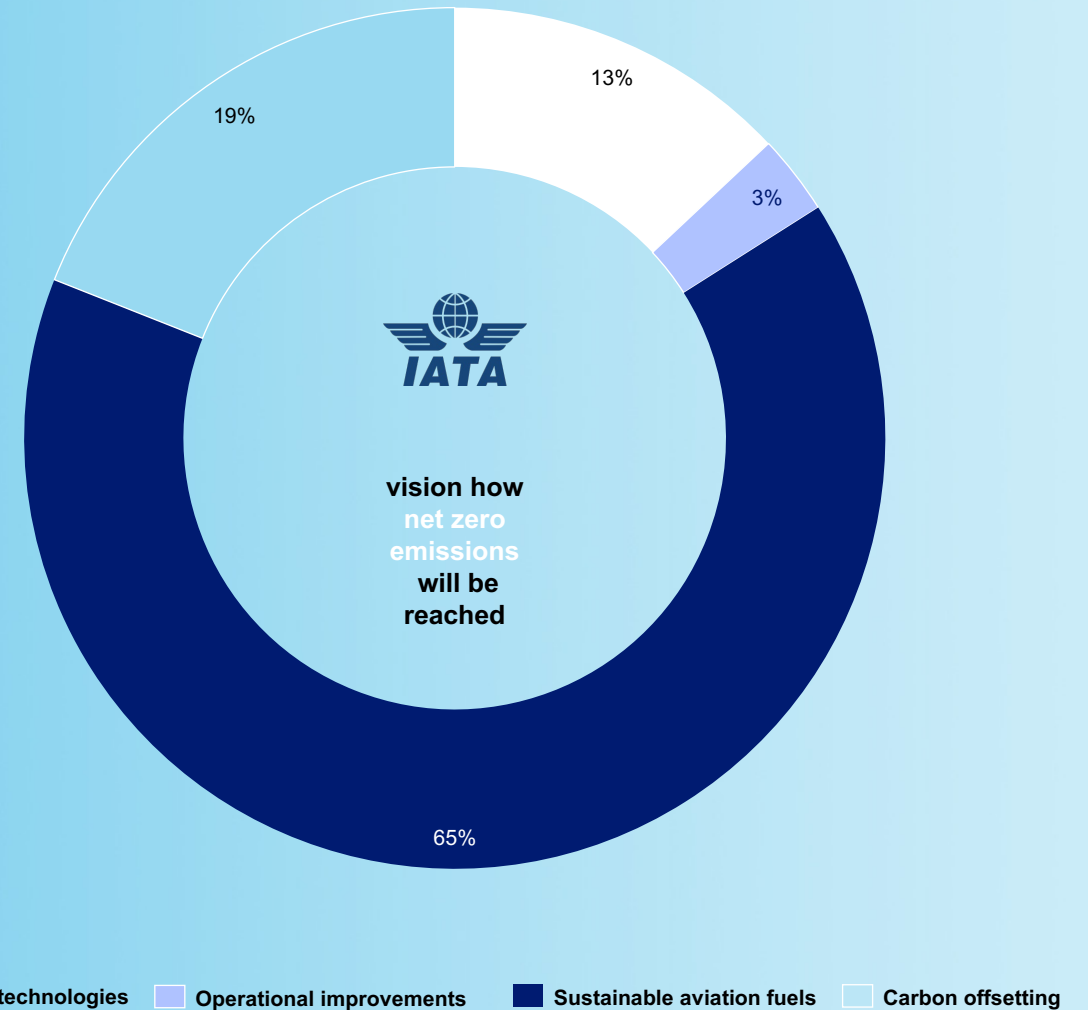


*Average fuel burn per flight hour

Target to reduce emissions by 50% per OTK by 2030* and reach net zero by 2050

Combination of measures required

-  Fleet renewal / new technologies
-  Operational improvements
-  Sustainable aviation fuels
-  Carbon offsetting / capture



Collaboration with unions has led to operations that are more efficient and adaptable

Landmark crew agreements from 2020 have facilitated crew cost competitiveness by allowing 9-19% higher productivity

At the same time, Icelandair continues to be an attractive workplace with highly sought after open pilot and cabin positions

While many carriers are having to curtail growth plans due to pilot shortages, Icelandair does not expect to face such issues for the foreseeable future



Simulators for pilot training are in high demand in our markets and is a great **strategic asset** that enabled us to ramp up after covid...

...it is a key enabler for growth and will play an important role in transition to Airbus in coming years



Combination of fleet modernization and more robust maintenance outsourcing strategy has kept our unit cost at pre-covid levels



MAX delivering consistent lower maintenance cost at pre-covid levels

Despite inflation and increased external impacts on cost



We are scaling up more efficiently

Delivering more maintenance and technical work on 15% fewer full-time employees per cycle



More efficiency expected in 2024

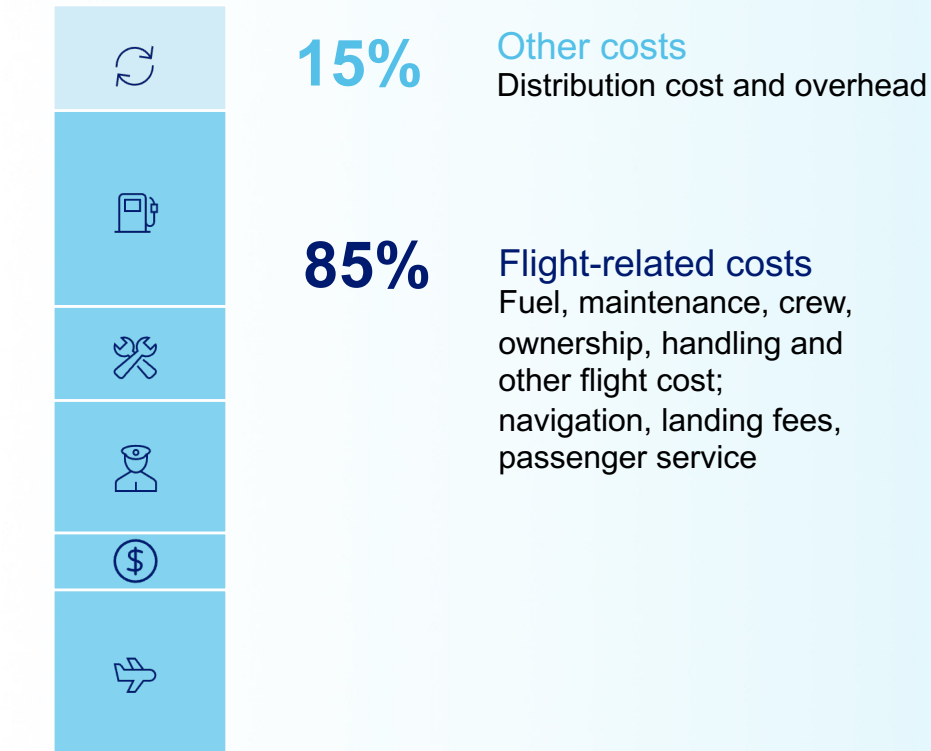
Covid aftermaths are impacting engine costs this year



An updated outsourcing / insourcing strategy is being implemented and our planning processes are being optimized

To maximize performance in maintenance

Cost opportunity through efficiency in the coming years

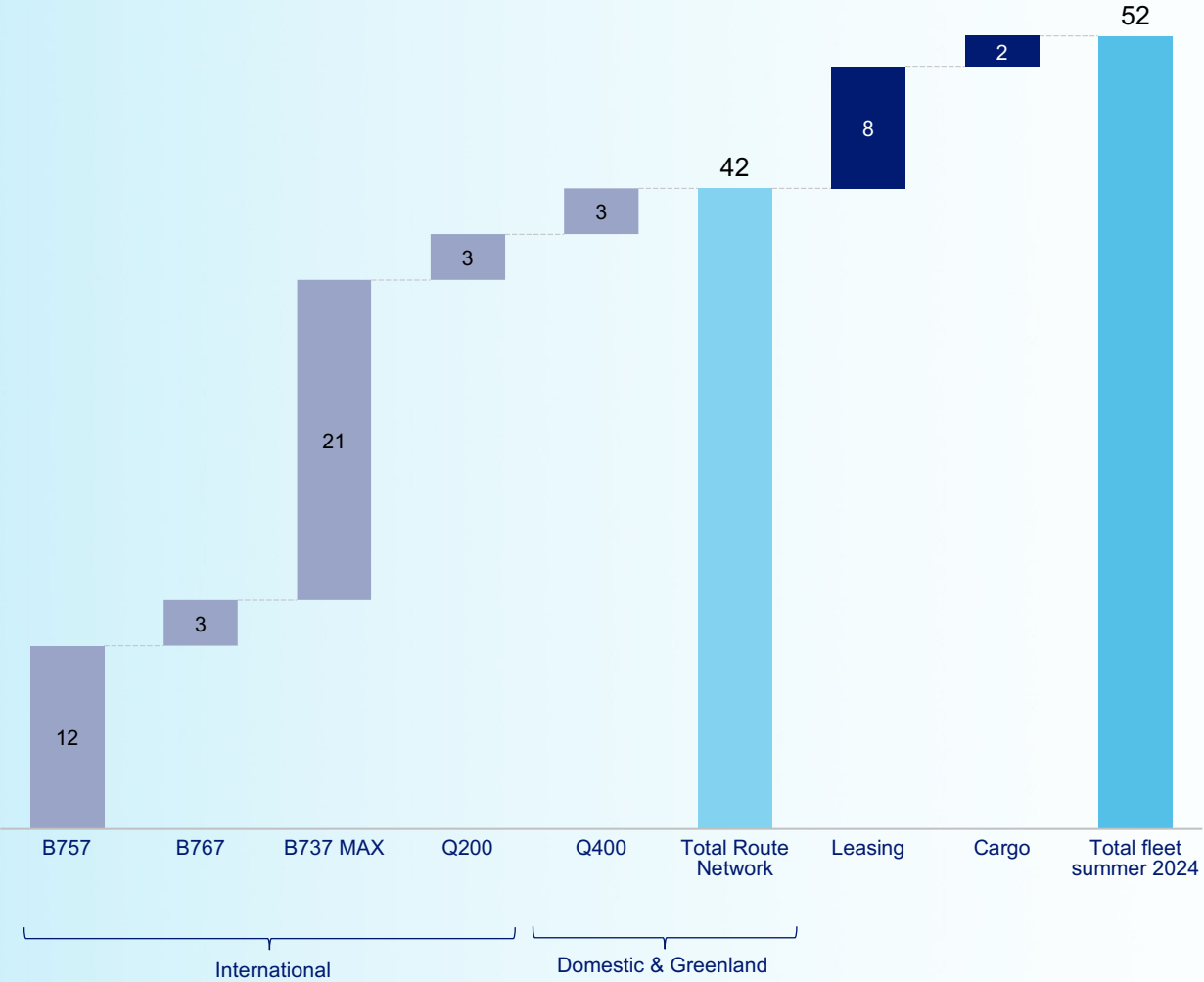


CASK forecast 2023

- Continued investment in **fleet renewal** with three B737-MAX 8 aircraft added in 2024
- **Further simplification** of the business, including through outsourcing opportunities
- **Customer self-service tools and automation:** this year we reduced calls to the call center by 35% with increased digitalization, efficient procedures, and proactive communication
- Opportunities in **distribution cost** optimization
- Focus on improvements in **operational planning** resulting in increased punctuality and better asset utilization which will positively impact unit cost

Overall fleet comprising of 52 aircraft in summer 2024; thereof 42 aircraft servicing the route network

Total fleet summer 2024



A major milestone in our fleet strategy achieved earlier this year with a firm commitment for A321 LR / XLR aircraft

- In total, commitments for 17 aircraft have been made
- Four A321LR aircraft on long-term lease will be delivered before summer 2025
- Firm order with Airbus for 13 A321XLRs from 2029 in addition to 12 options
- Negotiations for additional A321LR aircraft for delivery in 2026 well underway
- The A321 aircraft enables the retirement of the B757 aircraft from the network fleet by 2027



The A321LR
decision supports
the commercial
strategy with lower
unit cost and
high passenger
convenience

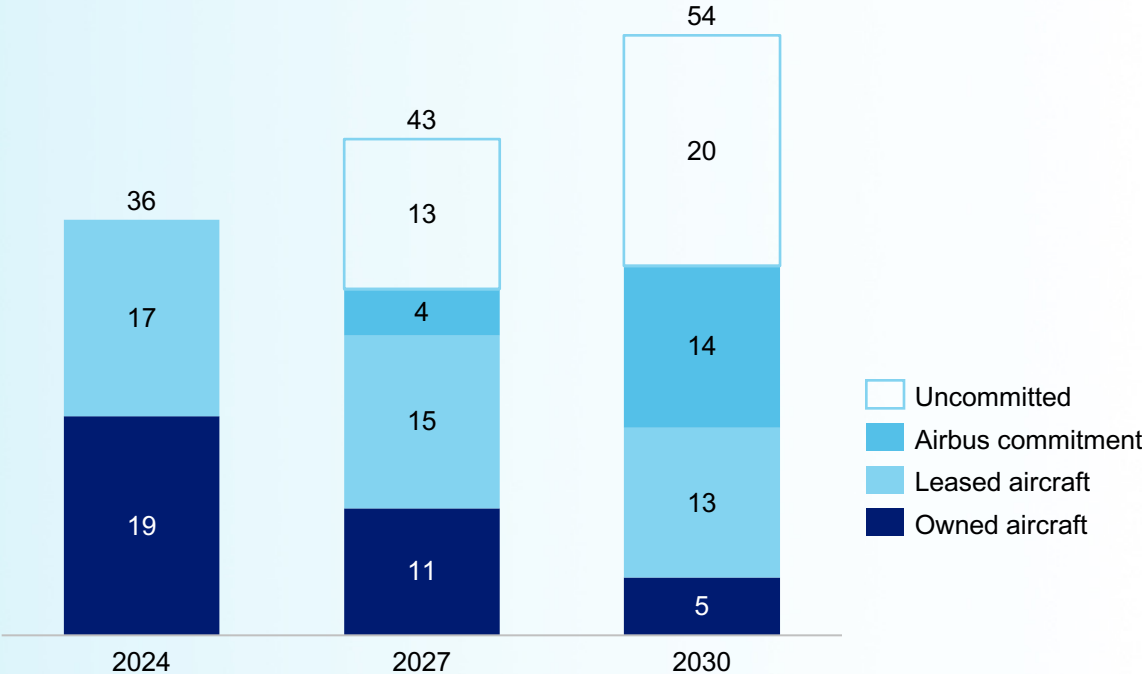


	B757-200		A321LR
Number of seats	183	→	187
Fuel efficiency		→	+25%
Seat cost		→	-10%
Range		→	Similar

Strong foundation with current fleet and firm commitments

We have significant flexibility to scale the operation to desired levels

Fleet plan development 2024-2030*



*Assuming 6-8% annual growth

Our **fleet strategy** in the coming years will be all about securing the right mix of aircraft for the commercial needs, as well as maintaining flexibility

In addition to current fleet commitments, we will be opportunistic in the coming years in sourcing aircraft, both new and used, based on our needs

Single fleet operation is a realistic target for 2030

However, a mixed NEO/MAX is also a long-term option



Icelandair Cargo has historically contributed significant value and the goal for 2024 is to return the cargo operation to positive EBIT

2023 – challenging year

Markets took a turn for the worse while Icelandair was investing in extra capacity

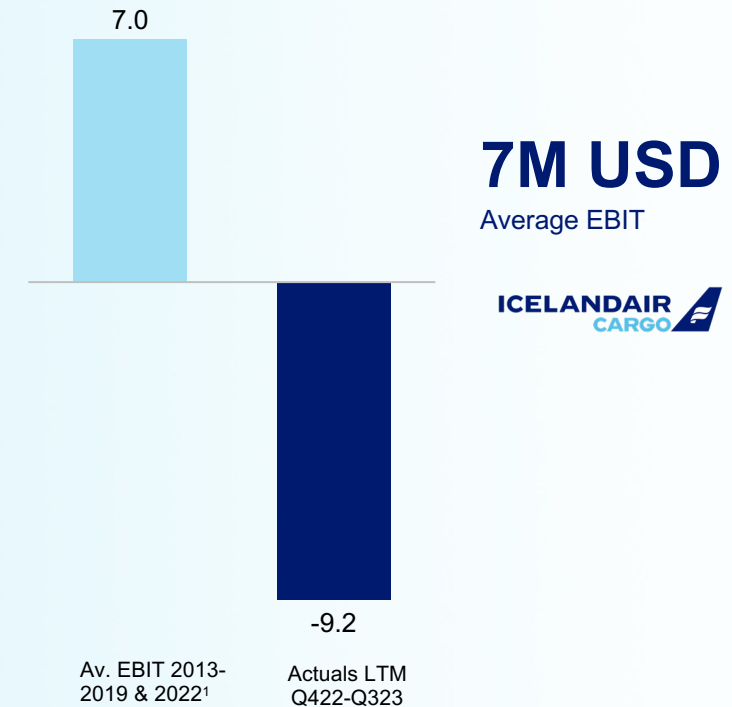
Positive EBIT goal for 2024

Clear objective for the cargo operation to deliver a positive EBIT result for the year

Capacity adjustment in place

Through capacity and footprint rightsizing, including returning one B757 freighter to lessor and AM / ACMI lease of one B767 freighter

EBIT overview 2013-2023
USD million



¹ This represents an average for the period 2013 to 2022, but excluding the years 2020 and 2021 as they were extraordinarily good years in the cargo business as belly space capacity plummeted during the COVID-19 pandemic

Loftleiðir supports the overall revenue generation and is a consistently profitable business unit that facilitates increased utilization of Icelandair's resources while increasing flexibility in the business

Strong results expected in 2023

Icelandair leasing operation has performed well during the year

Contracts extended with the largest AM¹ customer

Contracts recently extended for three aircraft, with two more being added to the fleet before end of Q1 2024

2023 is a record year for the VIP business

The third aircraft will be added to that part of the business next year

EBIT overview 2013-2023
USD million



13M USD
Average EBIT



¹ AM stands for Aircraft and Maintenance, while ACMI stands for Aircraft, Crew, Maintenance and Insurance. These are different types of aircraft leasing arrangements.

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Since 2012 we've invested USD 221 million in marketing and our brand






Icelandair

Marketing assets

- Newsletter base
- Loyalty base
- SEO for more organic revenue
- Social media channels

BAC index

Copenhagen

	54.0
	37.4
	38.9
	36.8
	18.2






BAC index

Toronto

	64.0
	54.0
	39.2
	37.9
	32.3

BAC index

Seattle

	60.3
	44.8
	31.5
	30.5
	21.8

Strengthening the Icelandair brand in relations with the

Spirit of Iceland

- Branded events in London and Boston
- Icelandair Stopover campaign
- Participation in Taste of Iceland in North America and Germany

US market

Strong brand contributing to better result



Q1 2022 → Q3 2023

Brand attractiveness improvements

Europe	↑ 13.9%
North America	↑ 21.8%
Global	↑ 17.2%

Difficult-to-replicate
sales infrastructure
investments
are paying off in
differentiated revenue
streams

Traditional trade partners

~20%

of passenger revenue

Traditional trade partners such as agents and tour operators (excluding OTAs) require high service level and distribution capabilities

General sales agents

6%

of passenger revenue

Sales network in distant markets.
Several agents have spent over 20 years
selling Iceland and Icelandair

Partnerships

~10%

of passenger revenue



Alaska

jetBlue

airBaltic

FINNAIR

SAS

Partnerships include JetBlue, Alaska Airlines, Finnair, SAS, Turkish Airlines, Air Baltic, and numerous SPA and interline agreements with other airlines

Broad product portfolio essential to operate a successful hub carrier in Iceland

Saga Premium

~19%

of passenger revenue through 7% of passengers

Saga unit revenues **up by 65% from 2019** driven by improved steering, new pricing practices and **strong premium leisure demand** in our main markets

Loyalty Program

~20%

of trips from Iceland paid partially with Points

42% of Icelandic payment cards are Icelandair cobranded and carry **50% of payment turnover**. Average point payment proportion of a trip ~30%

Domestic network

3-4%

of passenger revenue

The domestic network is performing very favorably after the integration of AIC **carrying 6-7% of our total network passengers**

Icelandair packages

~3%

of round trips driven by package sale

Packages are **significantly margin accretive** with growth potential. Some routes highly dependent upon this revenue and we have **invested** in creating the **growth platform** for packages

Cargo revenue

~3%

of revenue in the route network

Cargo revenues in our passenger network represent **~3% of total revenues**, a few routes highly dependent upon this revenue

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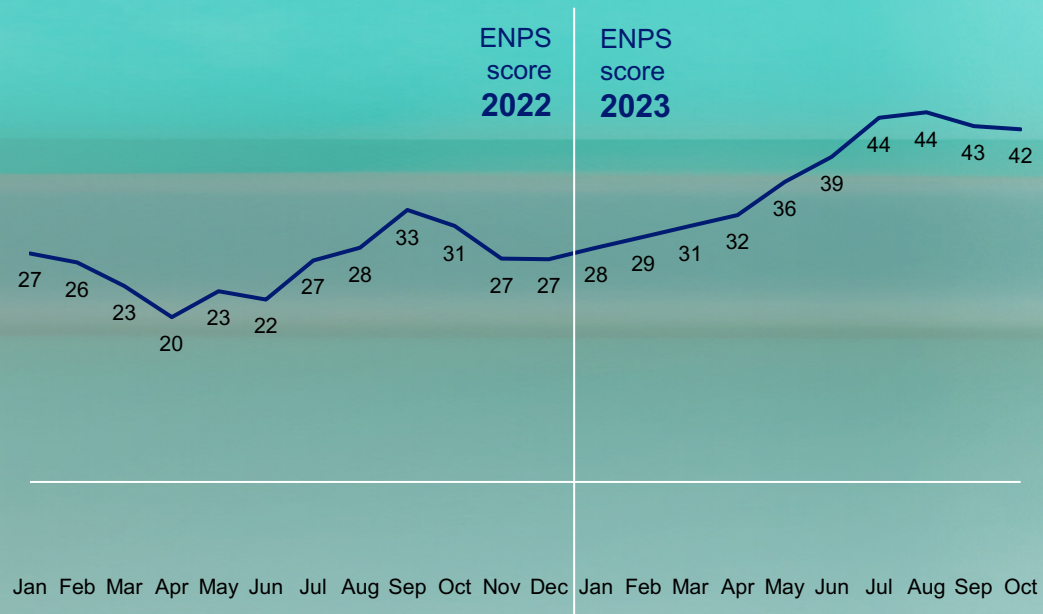
Our people are the foundation for our success

Decades of experience and high level of engagement, loyalty, and resilience



A workplace with focus on performance and wellbeing

Motivated team and increased employee satisfaction by ~56% YoY



Icelandair is a popular workplace

Pilot shortage not foreseen

Strong demand for pilot positions at Icelandair

Cadet program for pilots in place

Icelandair initiated a cadet program to facilitate education and training for young pilots to secure the future development of our workforce

Strengthening education in aircraft maintenance

Cooperation with the Technical College of Reykjavik to attract young people to the education and careers as aircraft maintenance technicians with focus on diversity



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Aviation is a cornerstone of modern society and ensures connectivity...



Connects people, cultures, and businesses across every continent



Generates economic growth, facilitates international trade, and promotes tourism



Underpins peace and prosperity in the world

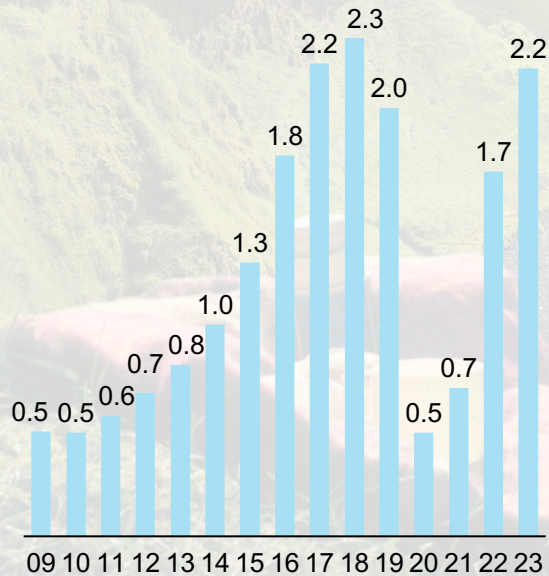


Fundamental for remote societies like Iceland

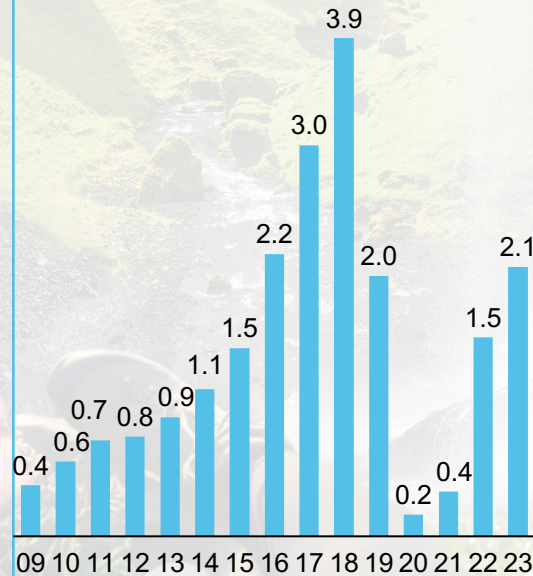


...and that is especially true for a remote, sparsely populated island with a large tourism industry

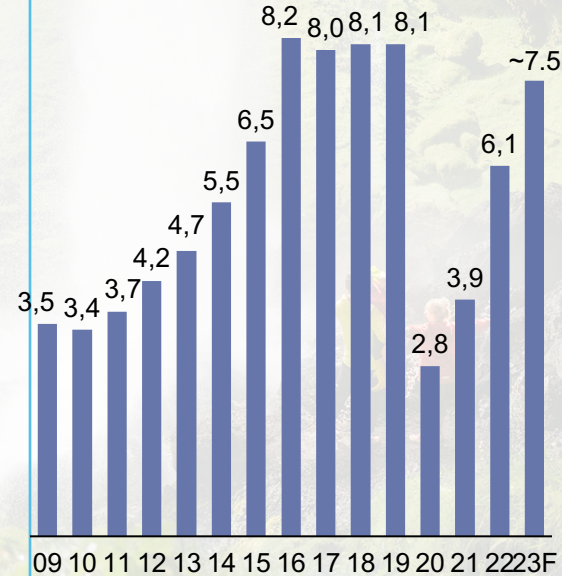
Number of tourists to Iceland
Millions per year 2009-2023F



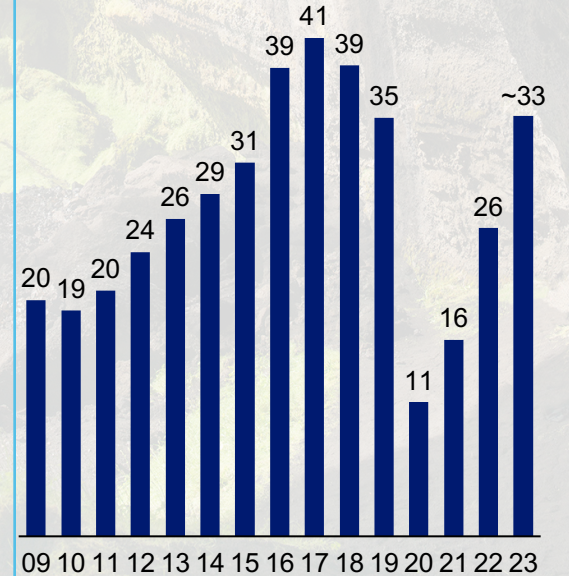
Number of transit passengers
Millions per year 2009-2023F



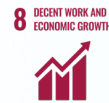
Aviation and tourism, % of GDP
Per year 2009-2022



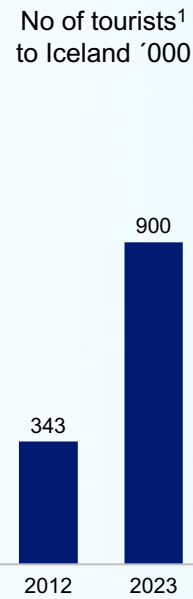
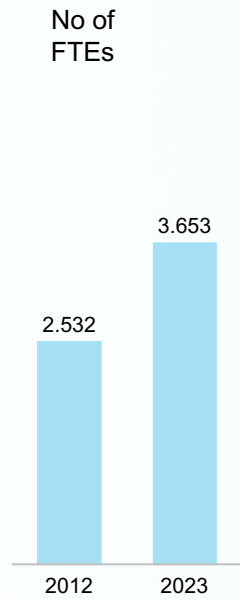
Aviation and tourism, % of exports
Per year 2009-2022



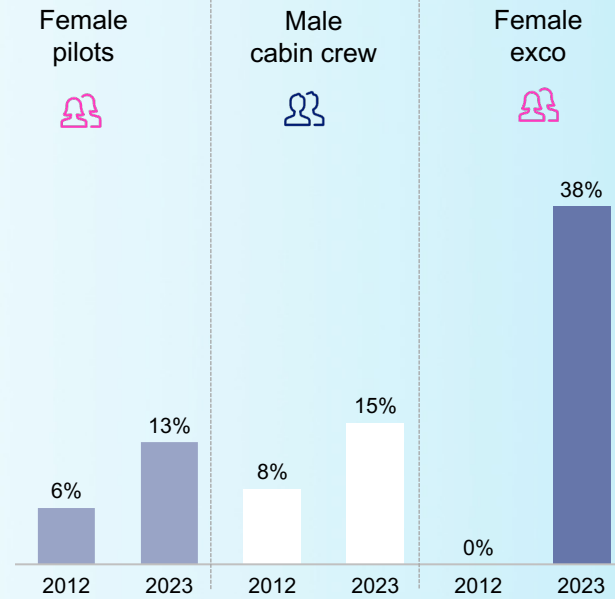
Focus on economic, social, and environmental impact



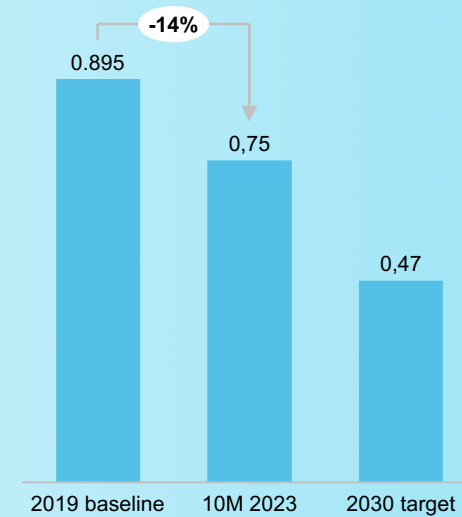
Positively contributing to work and economic growth



Gender equality improvement pilots, cabin crew, management



Icelandair on track towards 2030 target of CO₂/OTK²



¹ No of tourists: The no. of tourist to Iceland transported by Icelandair, ² OTK: Operational Ton Kilometre

Carbon free domestic flights



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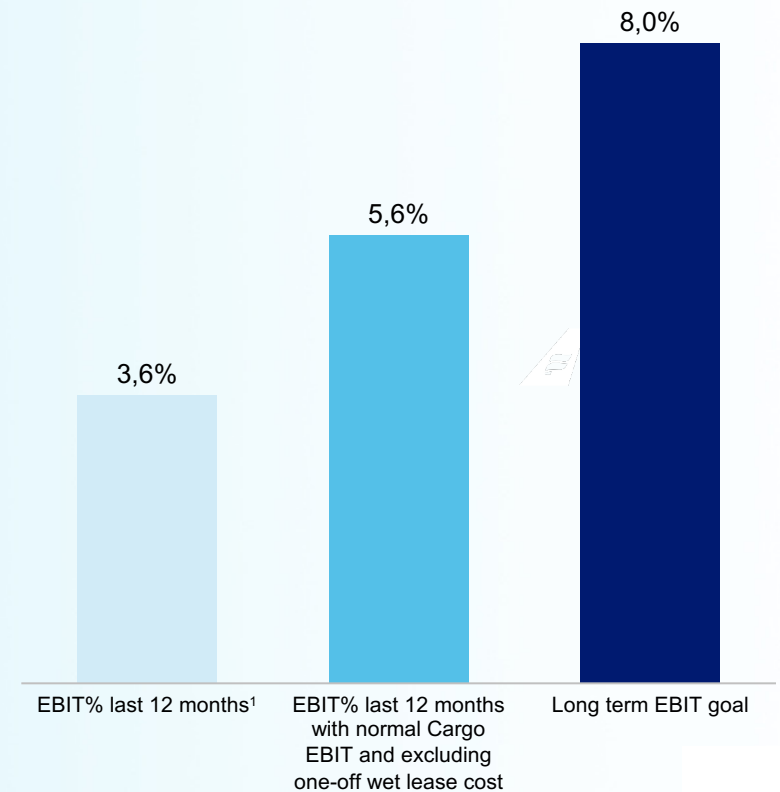
Guided by sustainability

Creating long term value

Icelandair's EBIT-margin over last 12 months is 3.6%, however the potential was higher

- Over the past 12 months, Icelandair's route network has performed well with record revenue generation
- However, Icelandair's profitability was negatively impacted by the cost of wet-leasing short-term capacity and weak cargo operations
- In just over two years the company grew from being in hiatus into its largest flight schedule ever. Rapid growth is costly and takes focus. With moderate growth, the focus will be put on optimizing the operations
- Economies of scale will materialize, e.g., more production on the same overhead
- Investment in more efficient aircraft which will be better utilized in conjunction with continued development of the network and connecting bank structure

LTM EBIT% compared to objective



What will Icelandair
look like on its 100th
anniversary?





- MAX
- A321LR
- A321XLR

We will have completed a fleet transition and will be utilizing the capabilities of the A321XLR to open new markets that we have not been able to serve on a narrow-body before

Our terminal in Keflavík will have caught up with the growth and will serve our passengers better than today



Departure Gates			
You are situated in the Departure Lounge - Gate 23			
16:01	BR445	Chicago	Gate 23
16:15	WAZ10	Washington	Gate 23
16:25	AJ506	Amsterdam	Gate 23
17:40	AJ505	New York	Gate 23
18:15	CA201	San Francisco	Gate 23
18:45	AJ504	Houston	Gate 23
19:05	BR222	Dallas	Gate 23

2010

10

Aircraft

28

destinations
and ~200 O&D's

2

connection banks
in KEF

1.46

million boarded
passengers

2023

39

Aircraft

52

destinations
and ~740 O&D's

3

connection banks
in KEF

4.14

million boarded
passengers

2037

70-100

Aircraft

75-90

destinations
and ~1500-2000 O&D's

5

connection banks
in KEF

~8.5

million boarded
passengers

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We bring the
spirit of Iceland
to the world





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