

**Icelandair Group**  
**Q1 2019 results**





## Highlights



**Q1 operating results in line with management expectations**



**Financial position remains strong**



**External factors affecting our operations  
WOW's bankruptcy and MAX suspension**

# Financials

# Pressure on airfares and higher cost in implementing and then suspending B737 MAX causing lower EBIT

USD million	Q1 2019	Q1 2018	% Chg.
Transport revenue	167	173	-3%
Aircraft and aircrew lease	25	33	-25%
Other operating revenue	56	61	-8%
<b>Operating Income</b>	<b>249</b>	<b>268</b>	<b>-7%</b>
Salaries and other personell expenses	110	113	-3%
Aviation expenses	91	101	-9%
Other operating expenses	62	72	-14%
<b>Operating expenses</b>	<b>263</b>	<b>286</b>	<b>-8%</b>
<b>EBITDA</b>	<b>-15</b>	<b>-18</b>	<b>19%</b>
<b>EBIT</b>	<b>-60</b>	<b>-46</b>	<b>-29%</b>
<b>EBT</b>	<b>-68</b>	<b>-44</b>	<b>-57%</b>
<b>Net earnings</b>	<b>-55</b>	<b>-35</b>	<b>-60%</b>
<b>EBITDAR</b>	<b>-14.7</b>	<b>-6.3</b>	<b>-</b>
<b>EBITDAR ratio</b>	<b>-5.9%</b>	<b>-2.4%</b>	<b>-3.5 ppt</b>
<b>EBIT ratio</b>	<b>-24.0%</b>	<b>-17.3%</b>	<b>-6.7 ppt</b>

## IFRS16 effect on the income statement

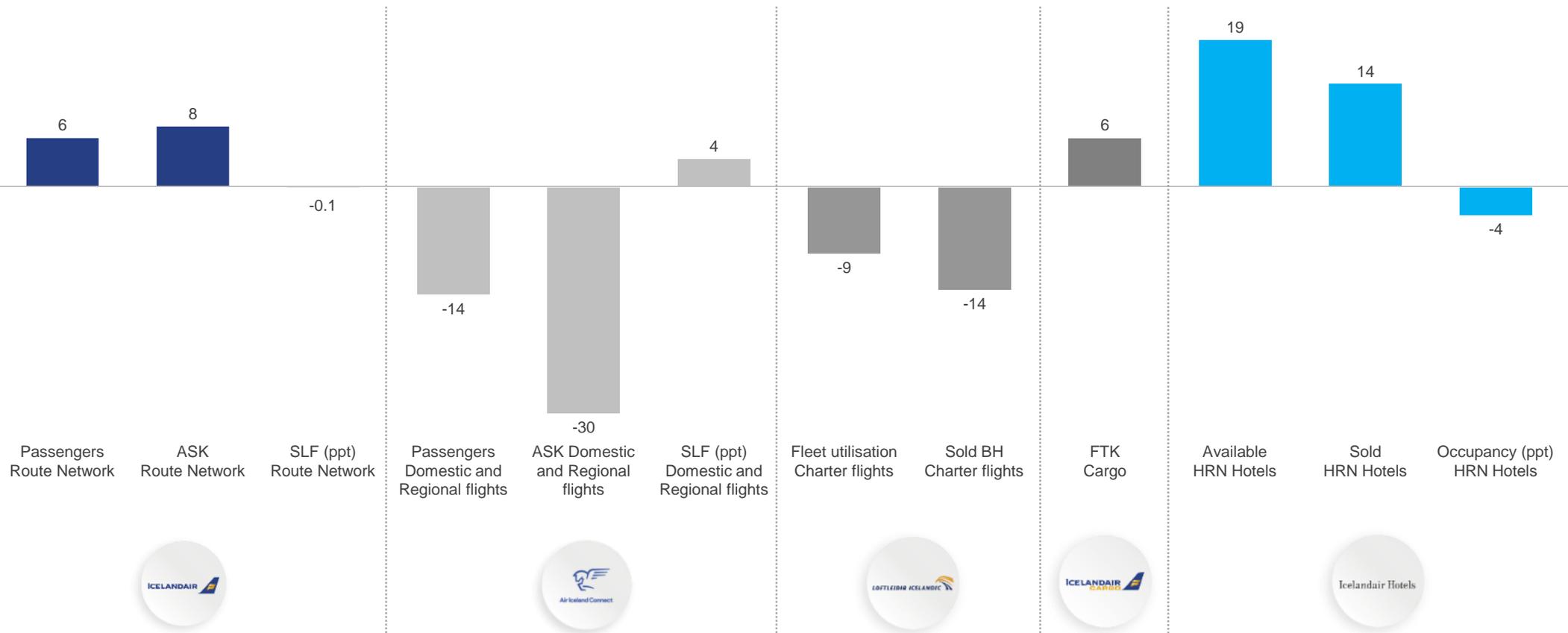
USD million



Operating income	-2.3
Operating expenses	-17.0
<b>EBITDA</b>	<b>14.7</b>
Depreciation	-13.7
<b>EBIT</b>	<b>0.9</b>
Net financial costs	-3.1
<b>EBT</b>	<b>-2.2</b>
Income tax	0.4
<b>Net earnings</b>	<b>-1.7</b>

# Passenger increase in the Route Network 6% and load factor at same level as last year

Q1 year-on-year change in %

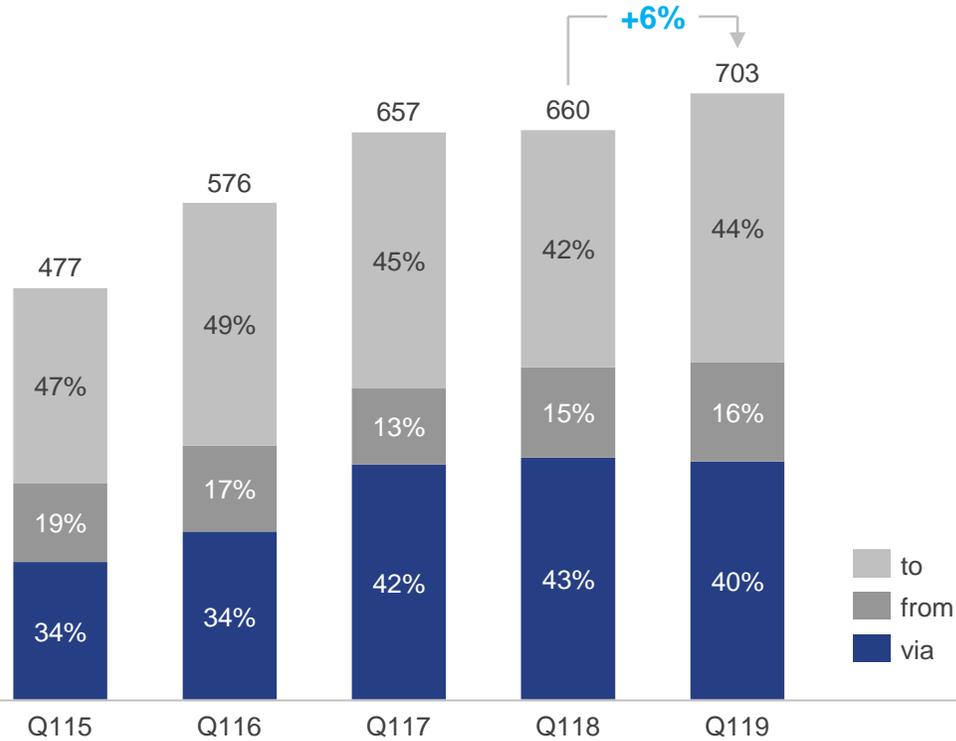


# The market to Iceland driving the 6% passenger increase from last year

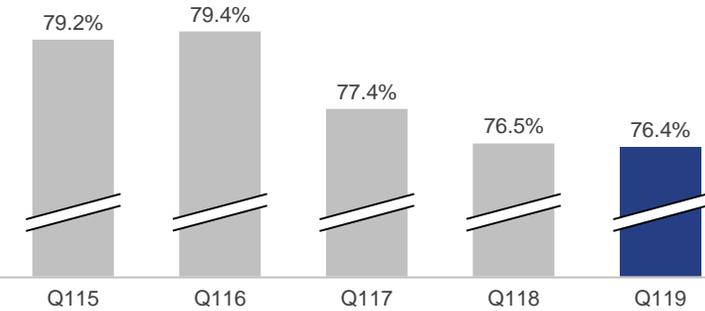


Passenger mix | Q115-Q119

Available seat km (ASK) in millions | Q115-Q119



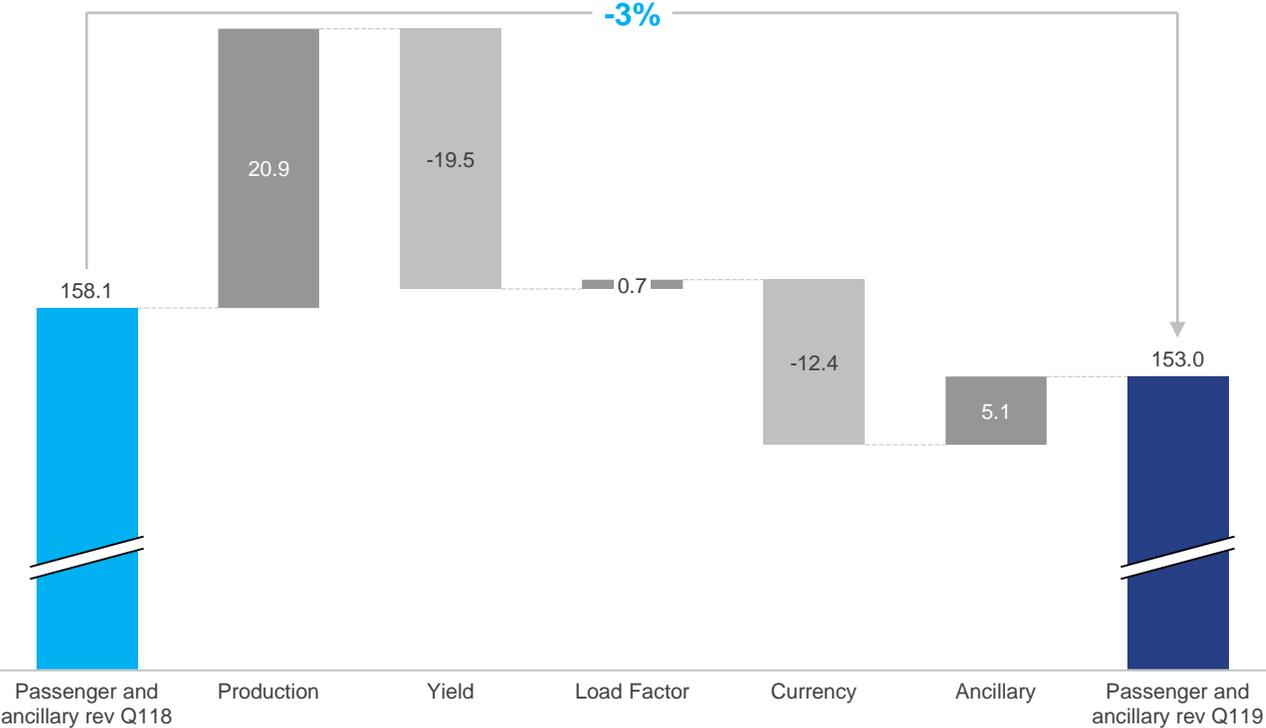
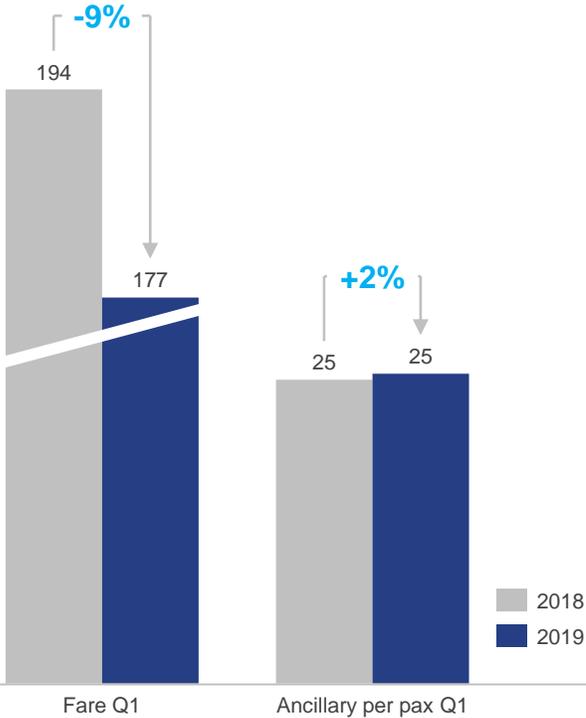
Load factor | Q115-Q119



# Passenger revenues decreasing due to lower yields and negative currency effect

Passenger revenue per passenger | USD Q119 vs Q118

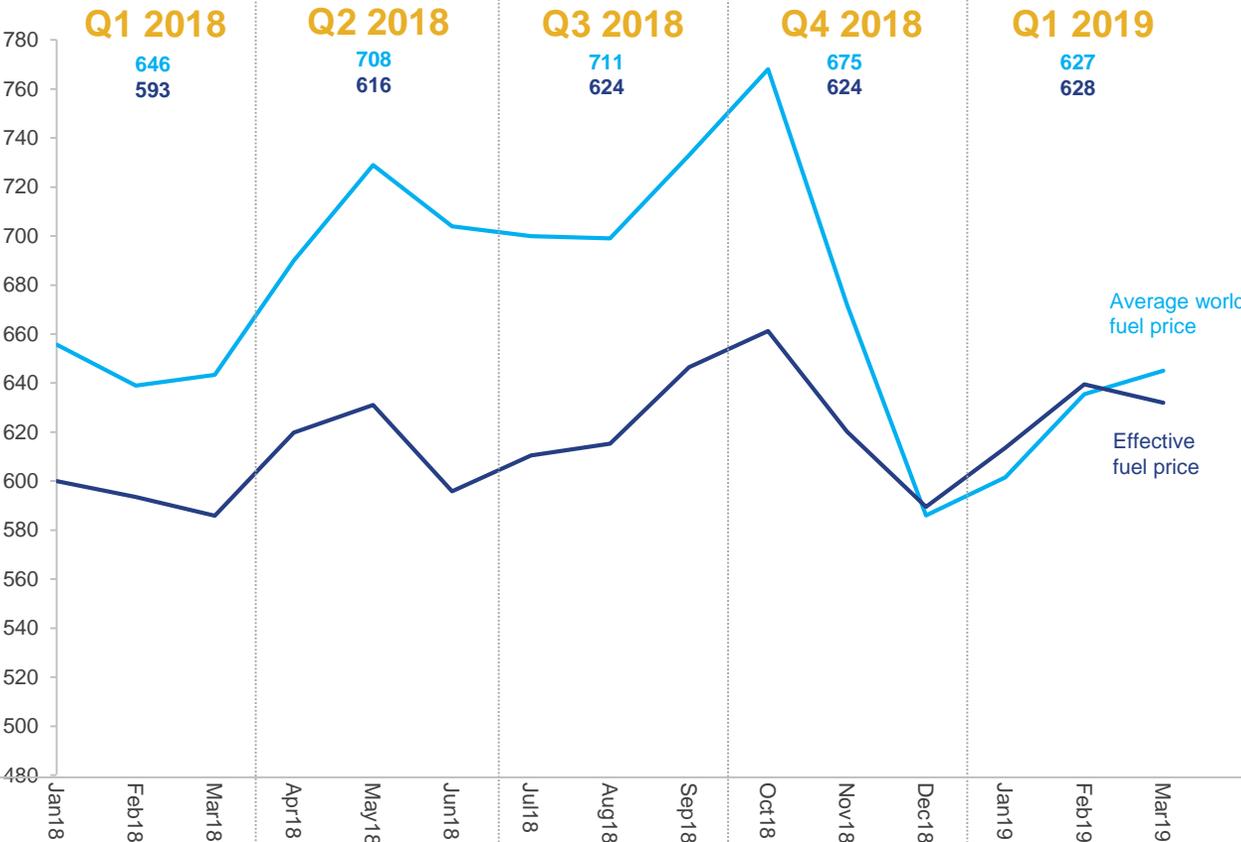
Main changes in passenger revenues | USD Q119 vs Q118



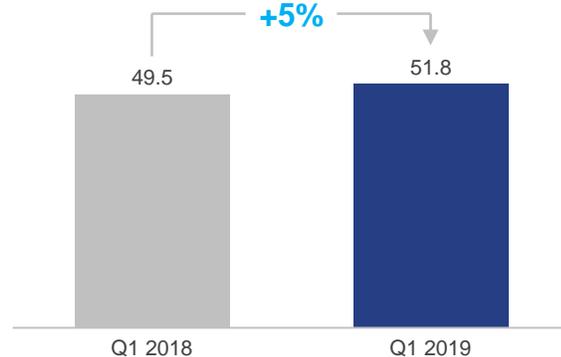
Fare = passenger revenues / passengers, Yield = passenger revenues/revenue passenger kilometres

# Effective fuel price 6% higher than in Q1 2018

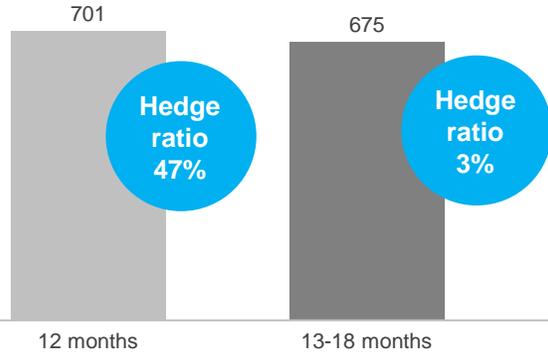
Average fuel price per tonne | Q118-Q119



Aircraft fuel in USD millions | Q118-Q119

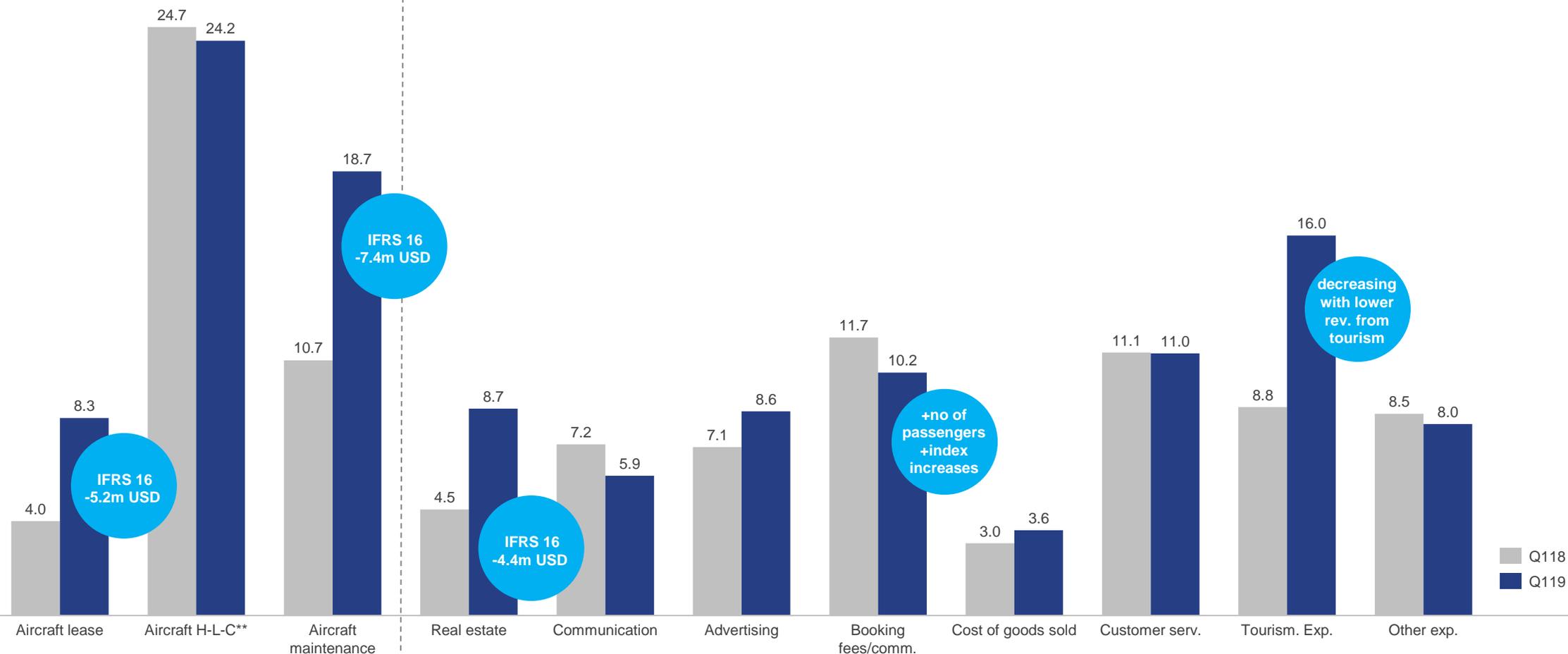


Weighted average hedge price | USD/tonne



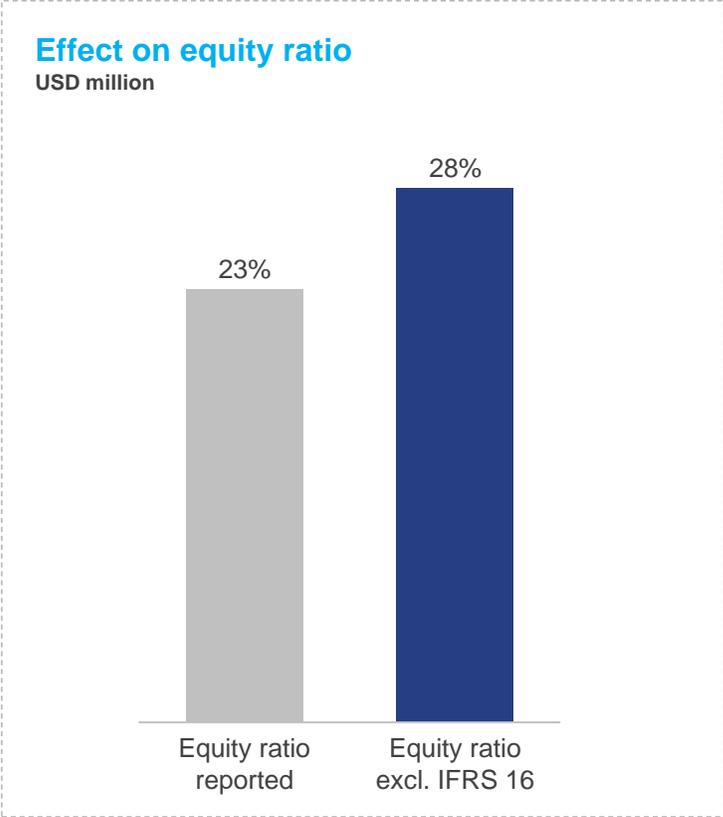
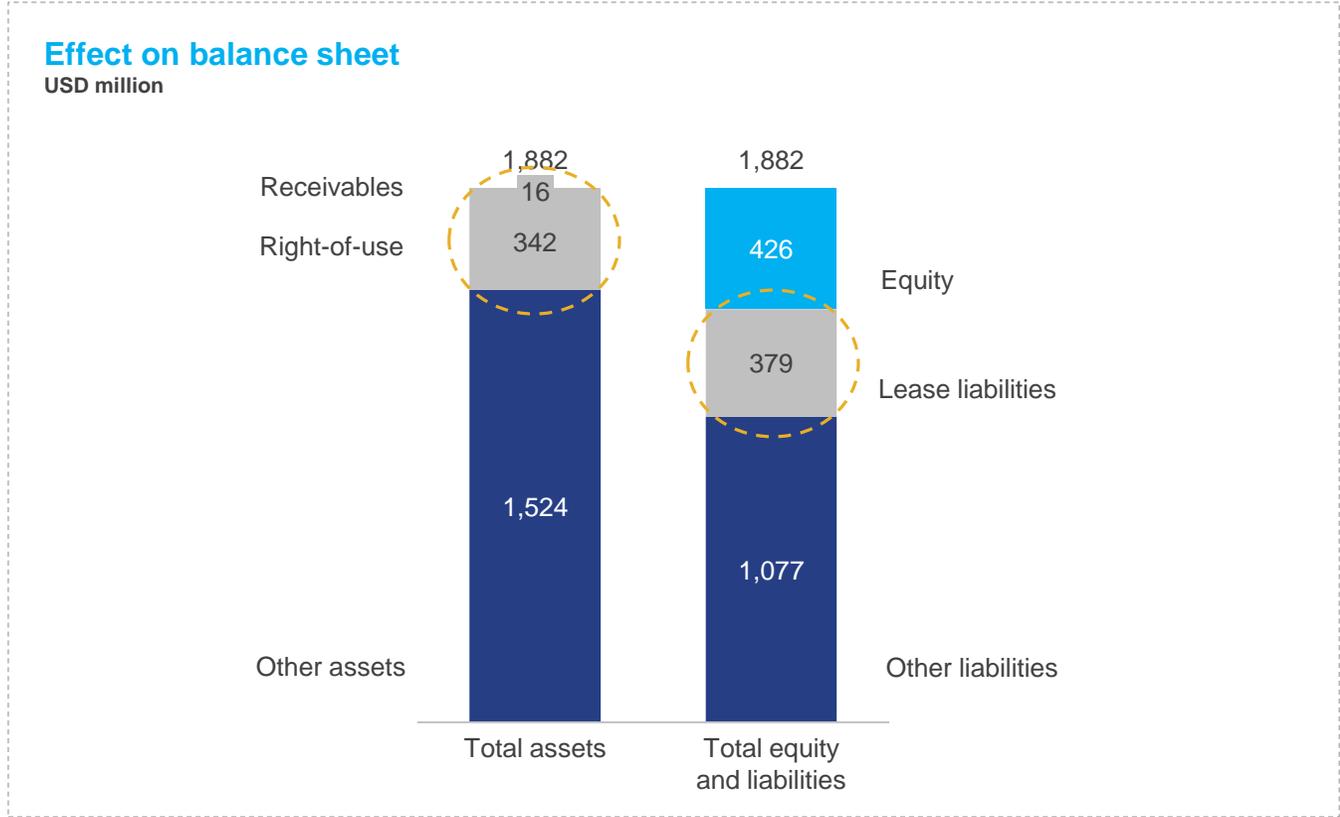
## Aviation less fuel -9%

## Other expenses -14%



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

# New accounting standard IFRS 16 is applicable from 2019 onwards



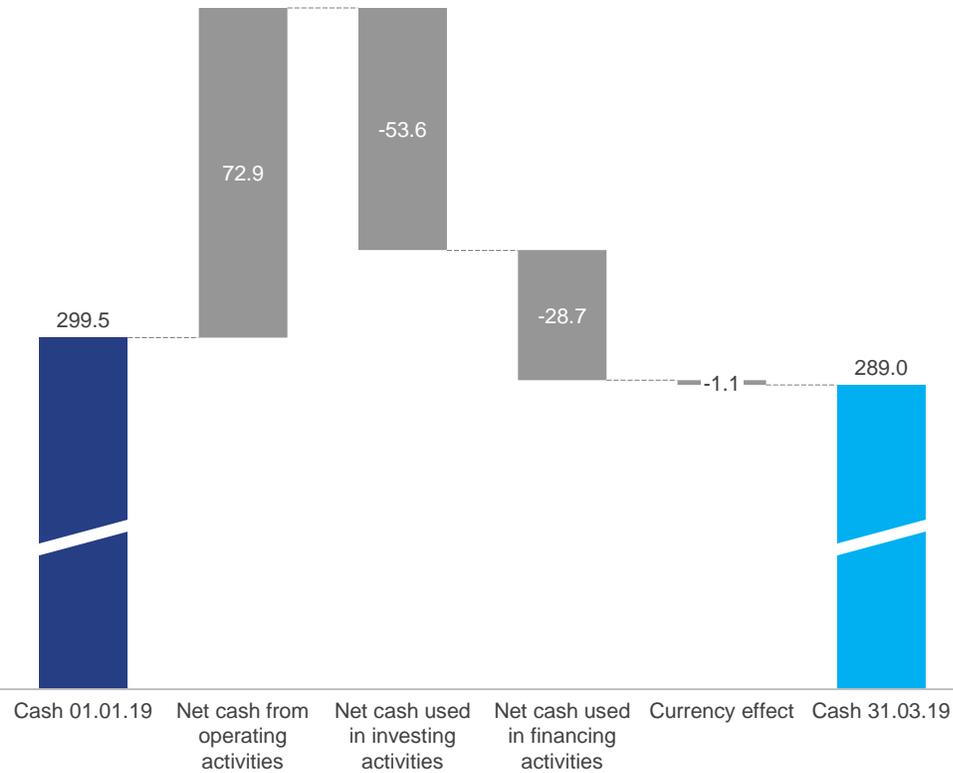
## Equity ratio 23% and decreasing due to IFRS16

USD million	31/03/2019	31/12/2018	Diff.
<b>Assets</b>			
Operating assets	666.0	673.4	-7.4
Right-of-use assets	168.2	0.0	168.2
Intangible assets and goodwill	176.2	177.6	-1.4
Other non-current assets	58.3	43.6	14.8
<b>Total non-current assets</b>	<b>1,068.7</b>	<b>894.6</b>	<b>174.2</b>
Other current-assets	218.3	144.9	73.4
Assets classified as held for sale	306.2	125.2	181.0
Short term investments	0.0	0.0	0.0
Cash and cash equivalents	289.0	299.5	-10.4
<b>Total current assets</b>	<b>813.5</b>	<b>569.5</b>	<b>244.0</b>
<b>Total assets</b>	<b>1,882.3</b>	<b>1,464.1</b>	<b>418.1</b>

USD million	31/03/2019	31/12/2018	Diff.
<b>Equity and liabilities</b>			
<b>Stockholders equity</b>	<b>425.8</b>	<b>471.4</b>	<b>-45.6</b>
Loans and borrowings non-current	207.7	147.5	60.2
Lease liabilities	166.8	0.0	166.8
Other non-current liabilities	27.9	47.4	-19.5
<b>Total non-current liabilities</b>	<b>402.5</b>	<b>194.9</b>	<b>207.5</b>
Loans and borrowings current	183.3	268.3	-85.0
Lease liabilities	36.9	0.0	36.9
Derivatives used for hedging	14.5	39.7	-25.1
Trade and other payables	225.8	222.8	3.1
Liabilities classified as held for sale	238.1	52.2	185.9
Deferred income	355.4	214.9	140.5
<b>Total current liabilities</b>	<b>1,054.0</b>	<b>797.8</b>	<b>256.2</b>
<b>Total equity and liabilities</b>	<b>1,882.3</b>	<b>1,464.1</b>	<b>418.1</b>
Equity ratio	23%	32%	-10%
Net interest bearing debt	515.1	168.6	346.5
Interest bearing debt	804.1	468.0	336.1

# Strong liquidity position with cash at USD 289 million end of Q1 2019

Changes in cash Q1 2019 | USD million



## Investing activities

- | Gross Capex USD 181.6 million
- | Investments in aircraft and components USD 147.7 million
- | Overhaul engines USD 26.6 million
- | Sale of assets USD 150.9 million (B737 MAX sale-lease-back)

## Financing activities

- | + USD 80m: New long term loan
- | - USD 23.6m: Redemption of ICEAIR 15
- | - USD 63.2m: Redemption of 33% of bond class ISIN N000107769982

# Outlook

# MAX suspension



## 737 MAX suspended

- | B737 MAX aircraft suspended since 12 March 2019
- | Six have been delivered, three yet to be delivered – timing uncertain

## Three additional aircraft leased

- | Two B767 with 262 seats and one B757 with 182 seats
- | Larger aircraft mitigating seat capacity effects

## Updated flight schedule

- | Flight schedule has been updated until 15 July
- | 1% decrease in seat capacity from 1 April
- | Considerable changes in flight schedule

## Financial impact uncertain

- | Compensation from the aircraft manufacturer is unknown
- | Discussions with Boeing have been initiated

# Because of uncertainty in relation to B737 MAX suspension a guidance for the year is not issued at this stage

## International flight operations

- | Improvements in profitability expected in 2019 due to a number of strategic and operational actions.
- | Recent changes in the competitive landscape expected to have a positive effect. The TO and FROM markets strong but VIA market challenging.
- | The suspension of B737 MAX negatively affecting the operations.

## Other core operations

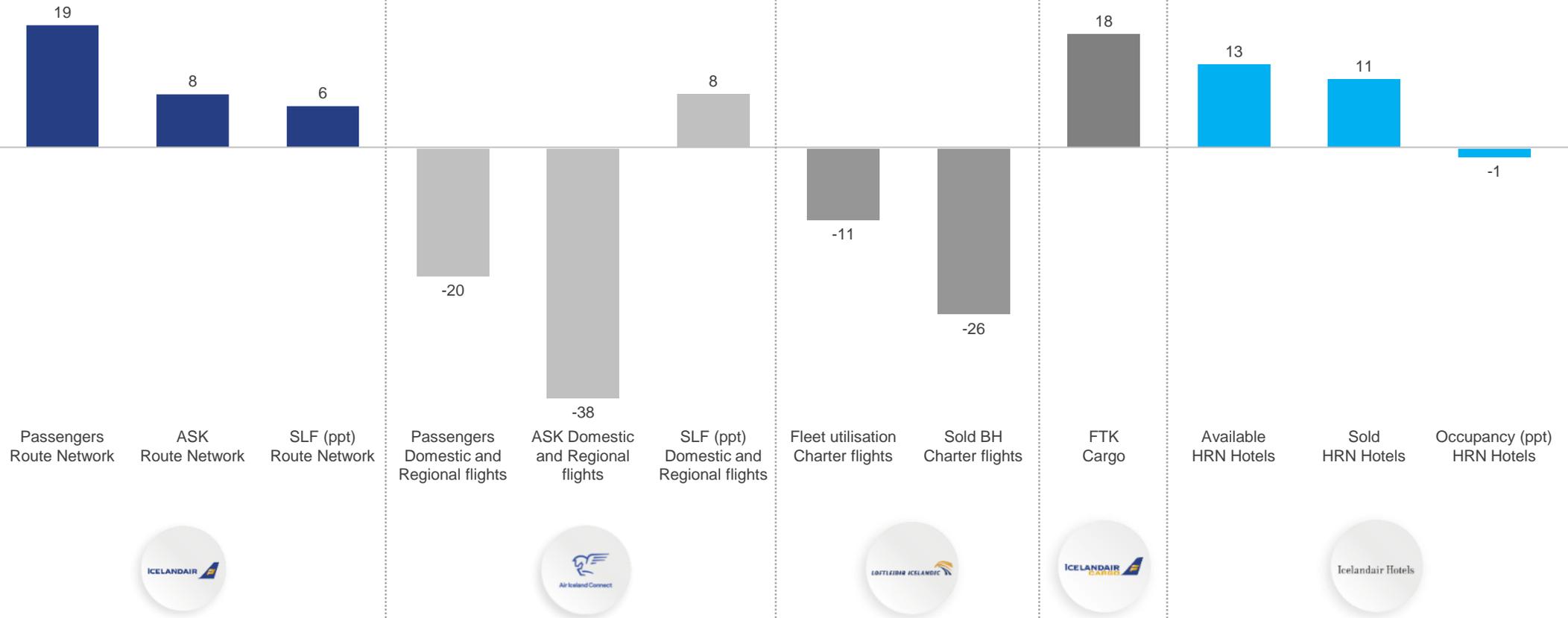
- | Positive outlook for VITA, Cargo and the Leasing operations.
- | The operations of Air Iceland Connect remain challenging.

## Companies held for sale

- | Further slowdown at Iceland Travel.
- | Icelandair Hotels are on track for a strong operational year in a challenging environment.

# April traffic numbers - Passenger number up by 19% and load factor 6 percentage points higher

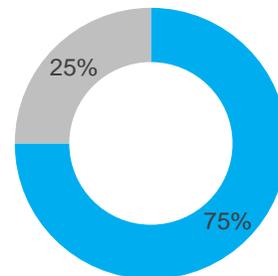
April year-on-year change in %



# Changes in the competitive environment

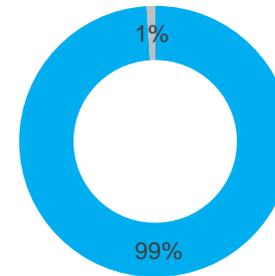
Consolidation of airlines is further ahead in the US than in Europe

Share of capacity



4 airlines US  
23 airlines Europe

Share of capacity



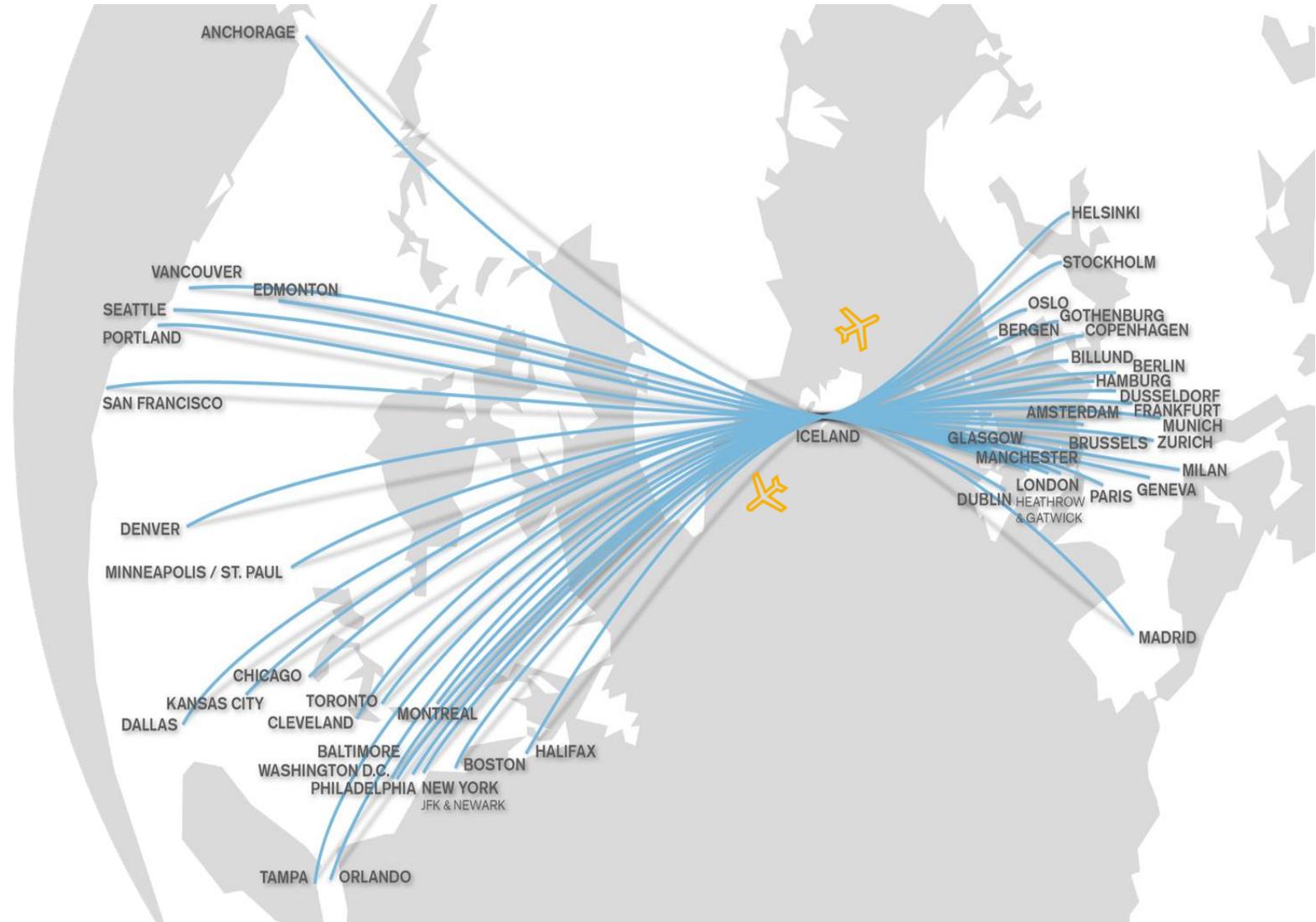
10 airlines US  
81 airlines Europe

Number of airlines going out of business

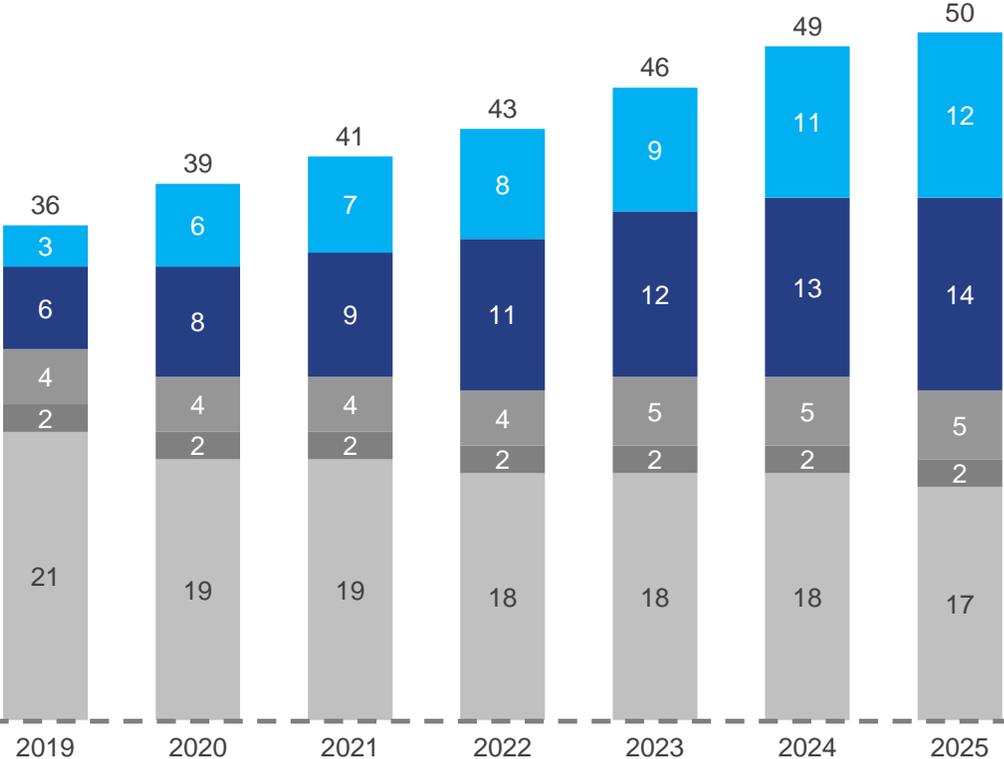


Our network gives us flexibility to shift focus between TO-FROM-VIA to adapt to changes in the competitive landscape

Opportunities for profitable growth



# Long term fleet strategy under review



- Maintain unchanged fleet strategy**
  - | Phase out of B757
  - | 737 MAX replacement for the B757
- Faster renewal of the fleet**
  - | Airbus A321NEO introduced alongside B737
  - | Faster discontinuation of B757 200
- All Airbus fleet**
  - | All Boeing aircraft taken out of operation
  - | Fleet composed entirely of Airbus aircraft



## New core investor with 11.5% share

### Investment USD 47 million

- | New shares in the nominal value 625,000,000 ISK shares issued
- | Share price ISK 9.03

### The Investor: Par Capital Management

- | International investment fund focusing on long-term investments
- | Main investments in travel services and airlines

### Share increase

- | The share increase will strengthen Icelandair Group's financial standing further
- | The Company better placed to seize opportunities in the market

## Investments in Tourism Services in the process of being divested

### Icelandair Hotels

[www.icelandairhotels.com](http://www.icelandairhotels.com)

- | Agreement signed to enter into final negotiations on the sale
- | Icelandair Group will hold a 20% share in the sold assets
- | The plan is for the transaction to take place before the end of Q2 2019



- | In Q1 2019, Icelandair Group mandated Islandsbanki as an advisor in the sales process of Iceland Travel
- | The sales process is currently being prepared and the goal is to complete the sale in 2019



# Sharper focus on core operations: Aviation

## **New Team**

Significant changes made in Icelandair Group organization in earlier this year  
Emphasis on digital development, development of fleet and route network, as well on cargo and charter operations

## **New Strategy**

Outcome based on input from 600 employees in 25 strategic workshops  
Action plan based on the new strategy to be introduced late summer

## **New KPI's**

Increased level of reporting to the market planned from late summer  
More KPI's  
Quarterly update on progress of actions relating to improved results

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