

**Icelandair Group**  
**Presentation of Q1 2018 Results**



# HIGHLIGHTS

**EBITDA in Q1  
USD -18.2 million**

**Results in line  
with projections**

**Operating  
income up  
by 21%**

**Results affected by  
higher salary cost, fuel  
and currency**

**Year  
of  
changes**

**EBITDA  
guidance  
for year remains  
USD 170-190  
million**

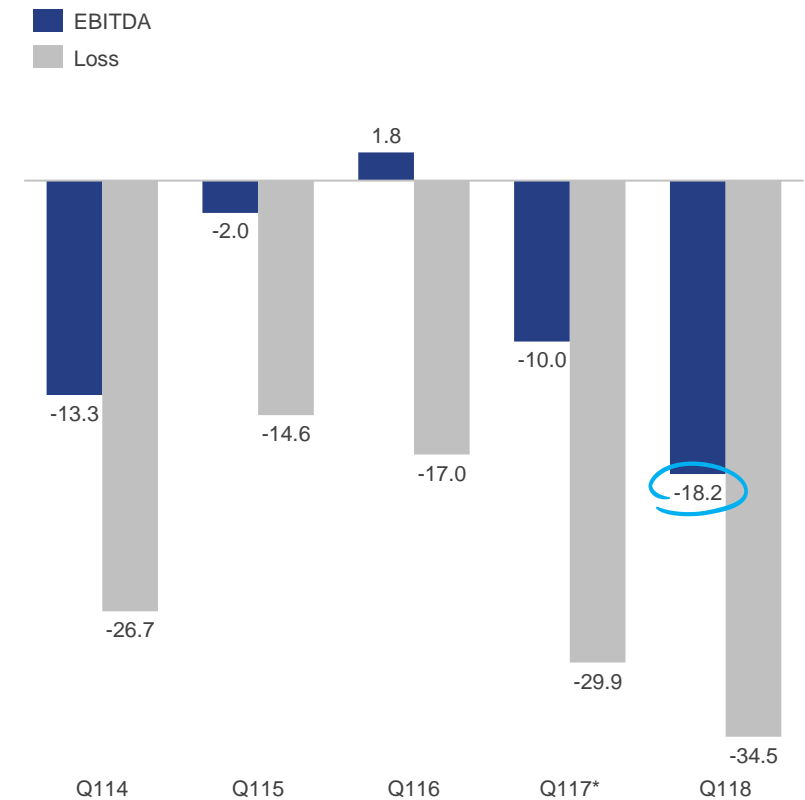
**Financials**  
**Bogi Nils Bogason, CFO**



# EBITDA negatively affected by increased salary expenses, unfavourable currency development and higher fuel price

USD million	Q1 2018	Q1 2017	% Chg.
<b>Operating Income</b>	267,6	222,1	21%
Salaries and related expenses	113,1	86,3	31%
Aircraft fuel	49,5	37,9	31%
Aircraft lease	8,3	5,6	49%
Aircraft handling, landing and comm.	24,2	20,3	19%
Aircraft maintenance expenses	18,7	17,8	5%
Other expenses	72,0	64,2	12%
<b>Operating expenses</b>	285,8	232,1	23%
<b>EBITDA</b>	-18,2	-10,0	-
<b>EBIT</b>	-46,2	-35,9	-
<b>EBT</b>	-43,5	-37,3	-
<b>Loss for the period</b>	-34,5	-29,9	-
<b>EBITDA ratio</b>	-6,8%	-4,5%	-2,3 ppt
<b>EBITDAR</b>	-6,3	-1,6	-
<b>EBITDAR ratio</b>	-2,4%	-0,7%	-1,6 ppt

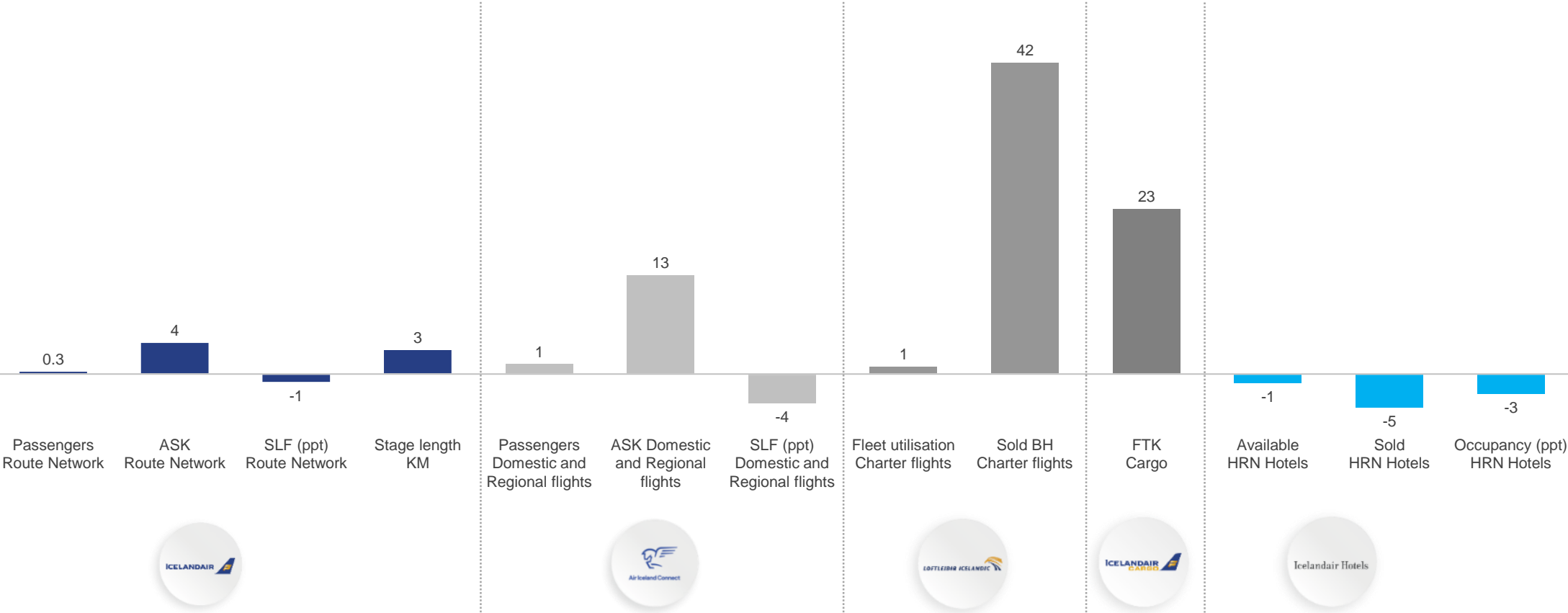
EBITDA and Loss | USD million



\* Figures for Q1 2017 have been restated

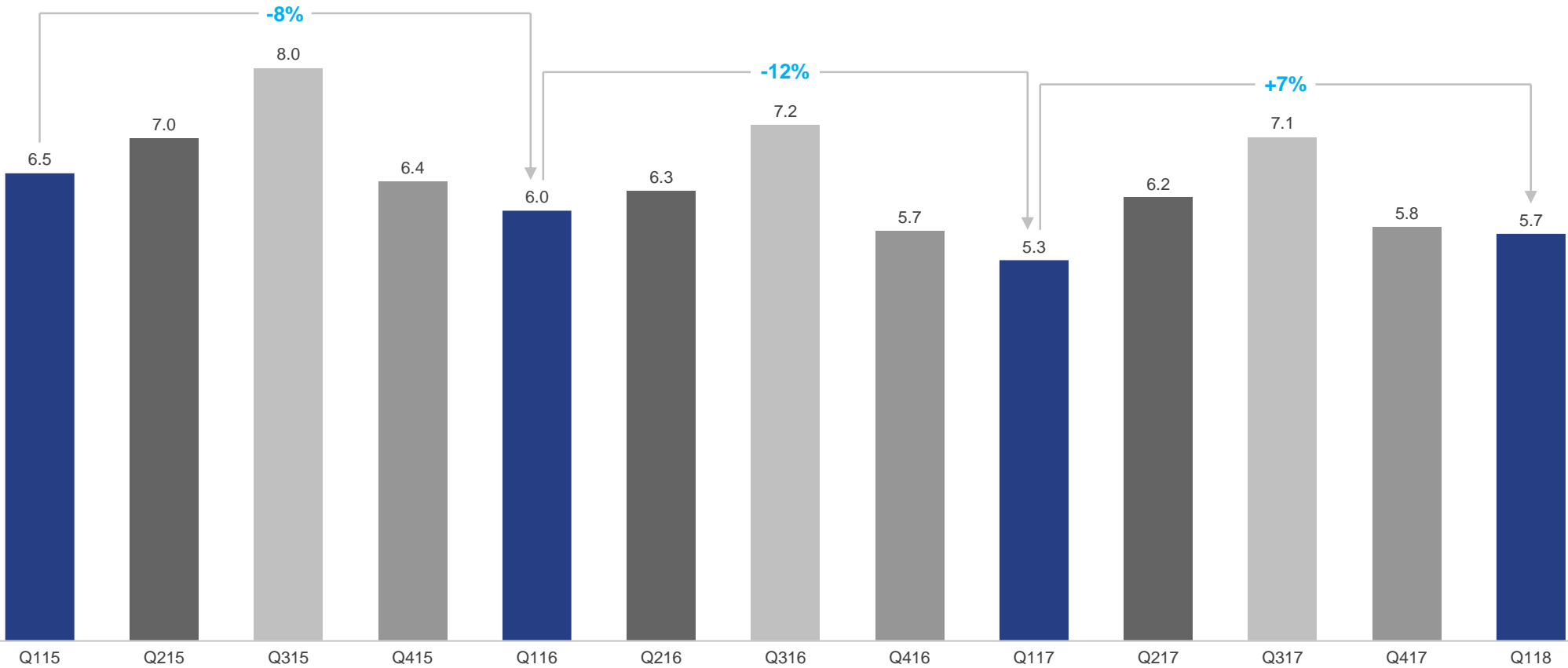
# Strong growth in Charter and Cargo operations

Q1 year-on-year change in %



ASK = Available Seat Kilometres, BH = Block Hours, HRN = Hotel Room Nights.

# PRASK increased by 7%



Absolute figures show yield as passenger revenues (PR) / total available seat kilometres (ASK) per US Cent = PRASK

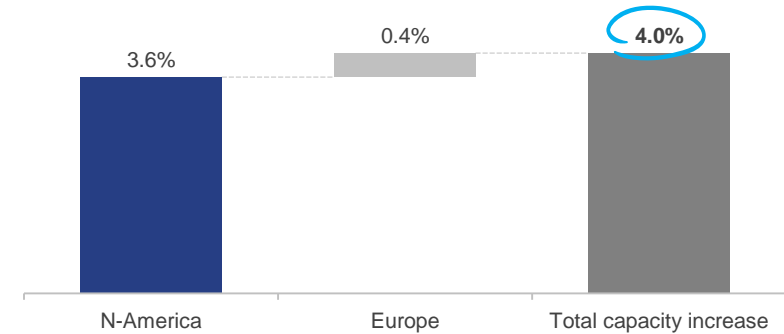
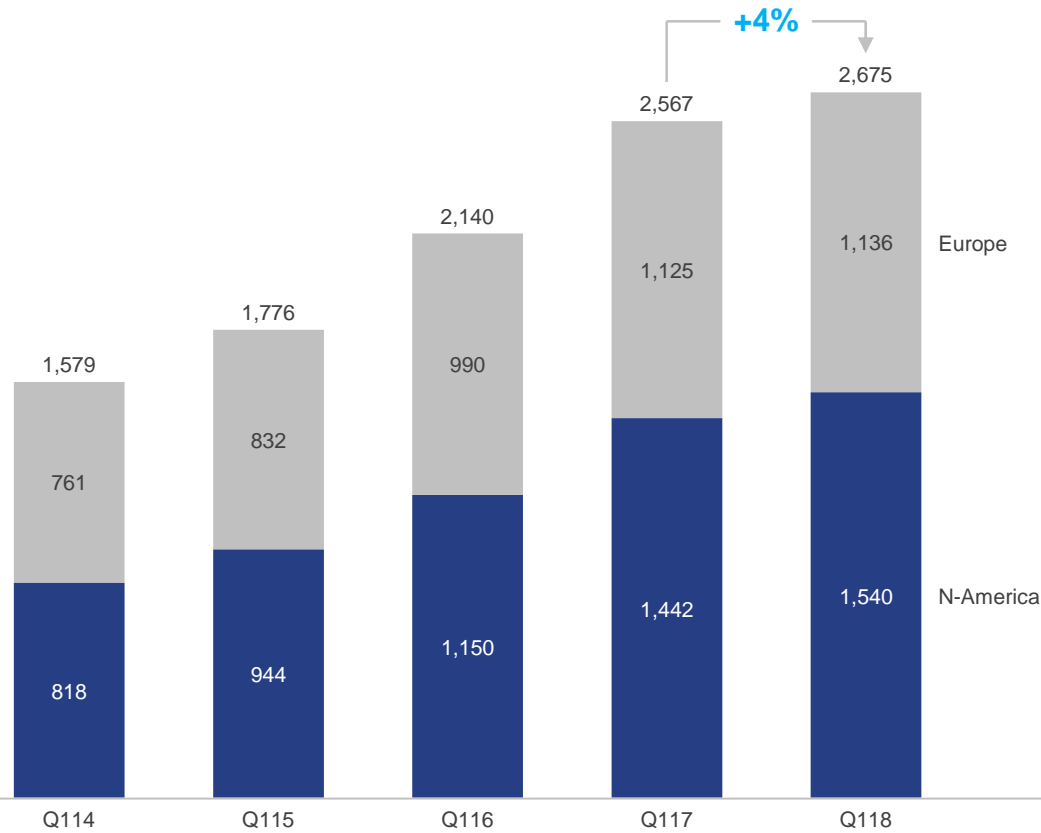


# Capacity increase 4%, largely due to more flights to N-America

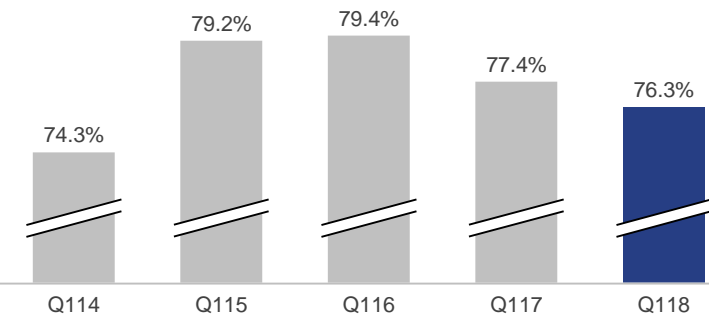


Available seat km (ASK) in millions | Q114-Q118

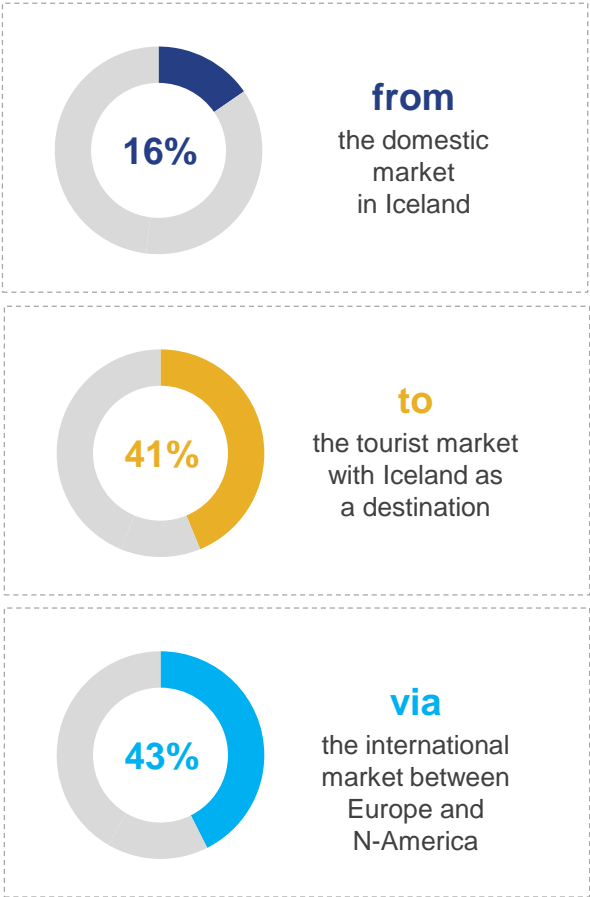
Breakdown of capacity increase | Q118 vs Q117



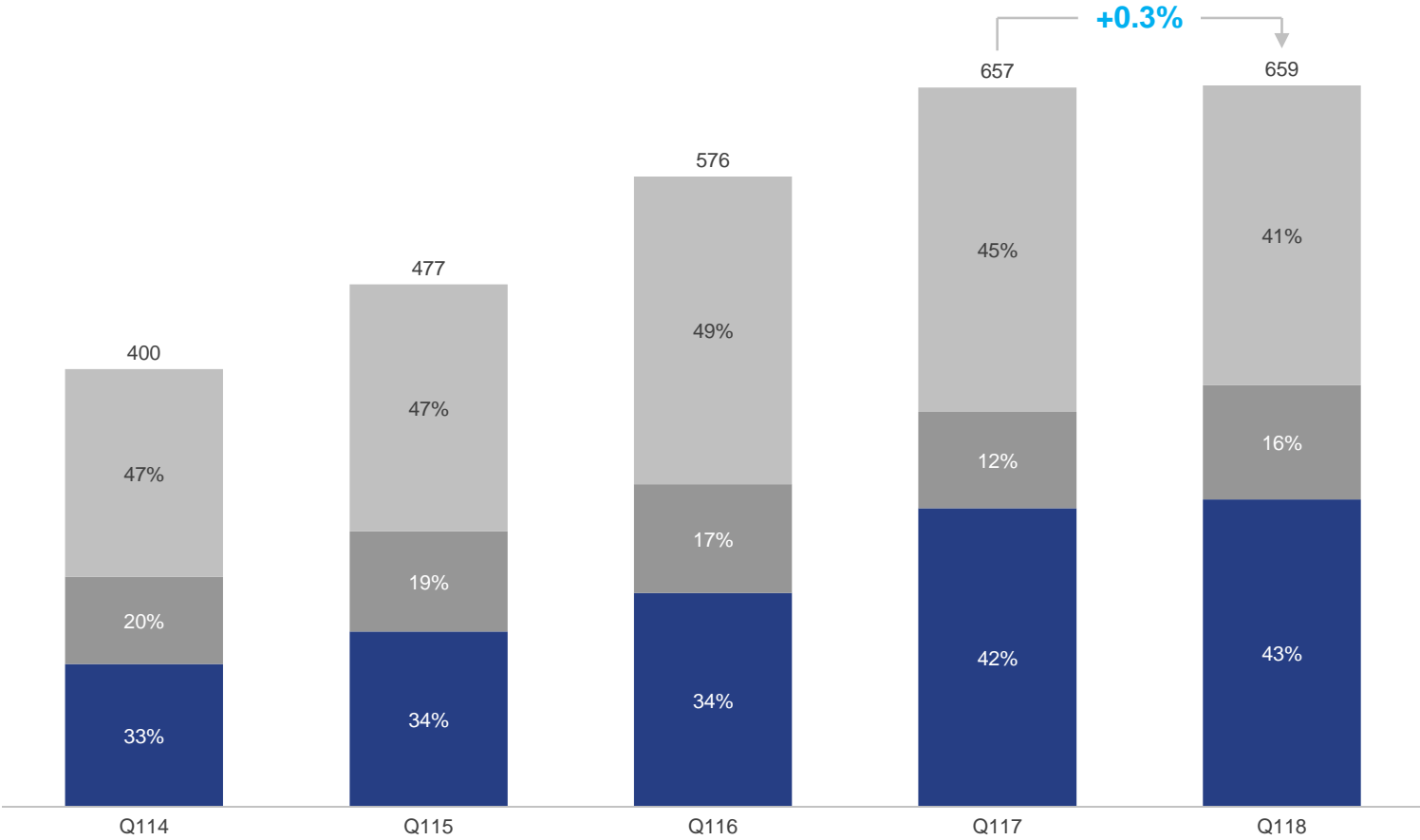
Load factor in Q1 | 2014-2018



# Modest growth in passengers numbers



to from via  
Absolute figures in thousands.



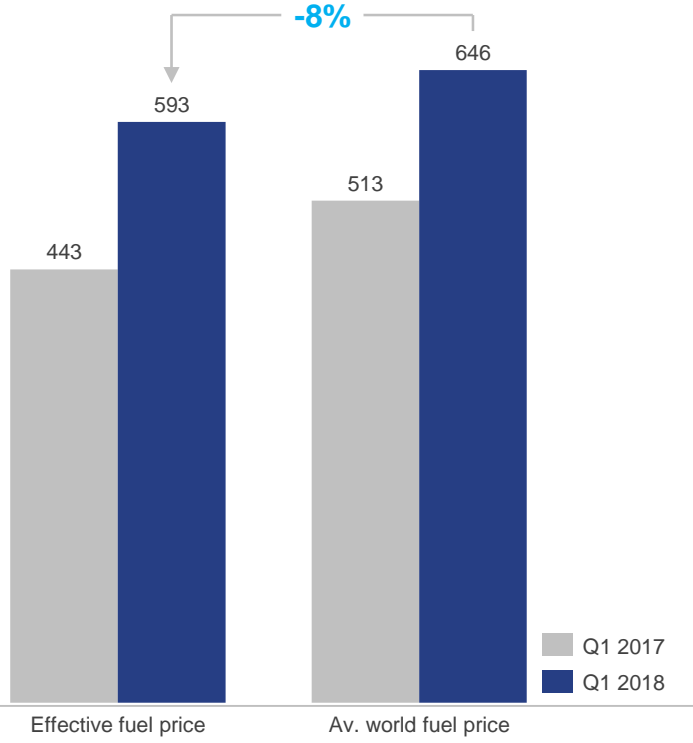
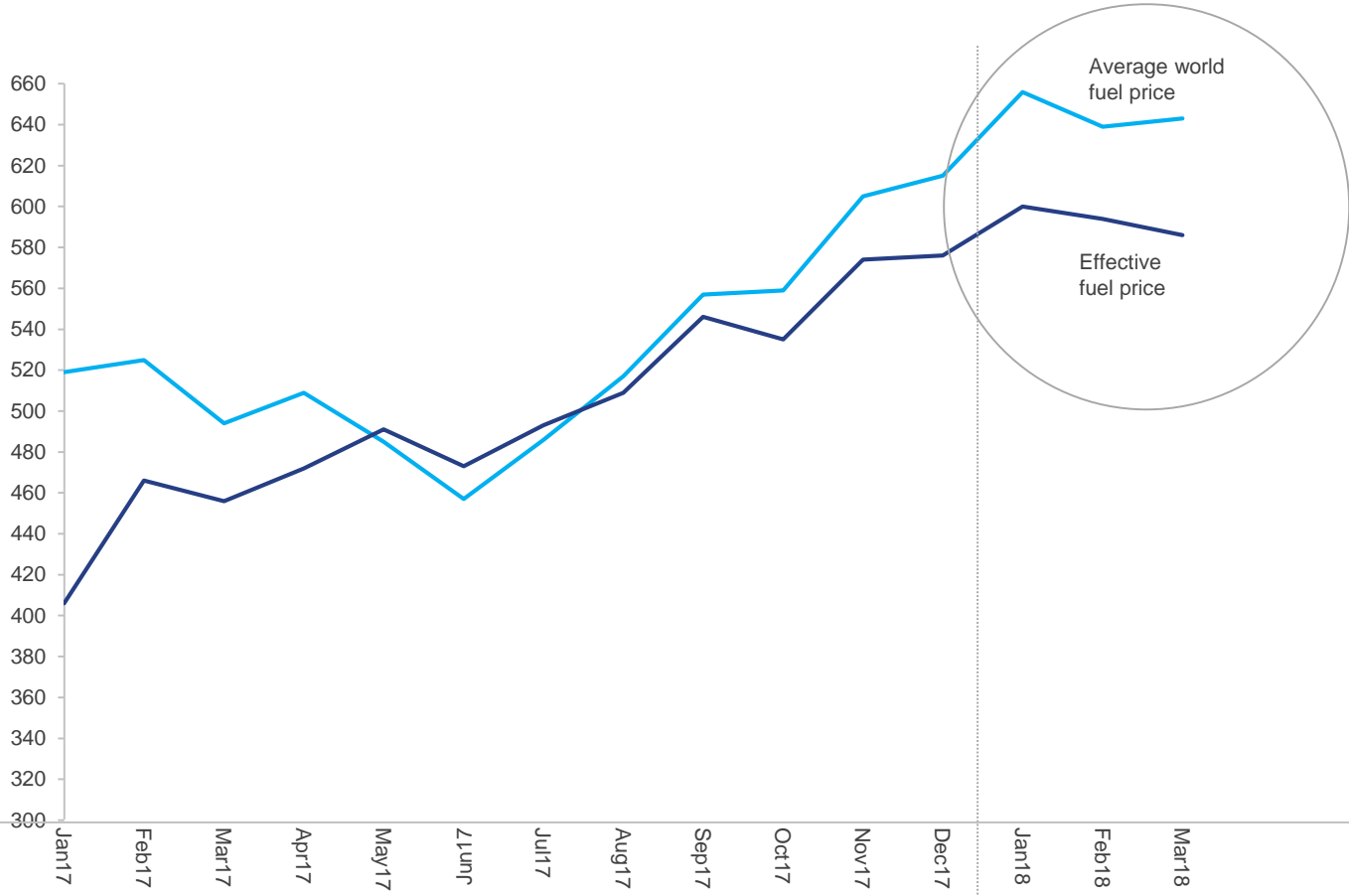


# Half of the increase in salary expenses is due to unfavourable currency development



# Significant increase in fuel price between years: Effective fuel price up by 34%

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



# 54% of estimated usage for the next 12 months has been hedged at weighted average swap price of 560 USD/tonne

Period	Estimated usage (tons)	Swap volume	% hedged	Av. Swap price USD
Apr 18	28,482	14,500	51%	544
May 18	38,756	20,500	53%	539
Jun 18	47,652	27,550	58%	523
Jul 18	50,686	26,650	53%	522
Aug 18	50,037	27,650	55%	543
Sep 18	43,794	24,550	56%	574
Oct 18	35,309	18,500	52%	559
Nov 18	29,020	15,450	53%	573
Dec 18	27,952	16,450	59%	586
Jan 19	25,445	15,250	60%	621
Feb 19	22,406	12,250	55%	624
Mar 19	28,459	12,250	43%	609
<b>12 months</b>	<b>427,998</b>	<b>231,550</b>	<b>54%</b>	<b>560</b>
Apr 19	29,825	7,000	23%	619
May 19	40,629	15,000	37%	608
Jun 19	49,967	4,000	8%	606
Jul 19	53,141	0	0%	-
Aug 19	52,459	0	0%	-
Sep 19	45,918	0	0%	-
<b>13-18 months</b>	<b>271,938</b>	<b>26,000</b>	<b>10%</b>	<b>611</b>

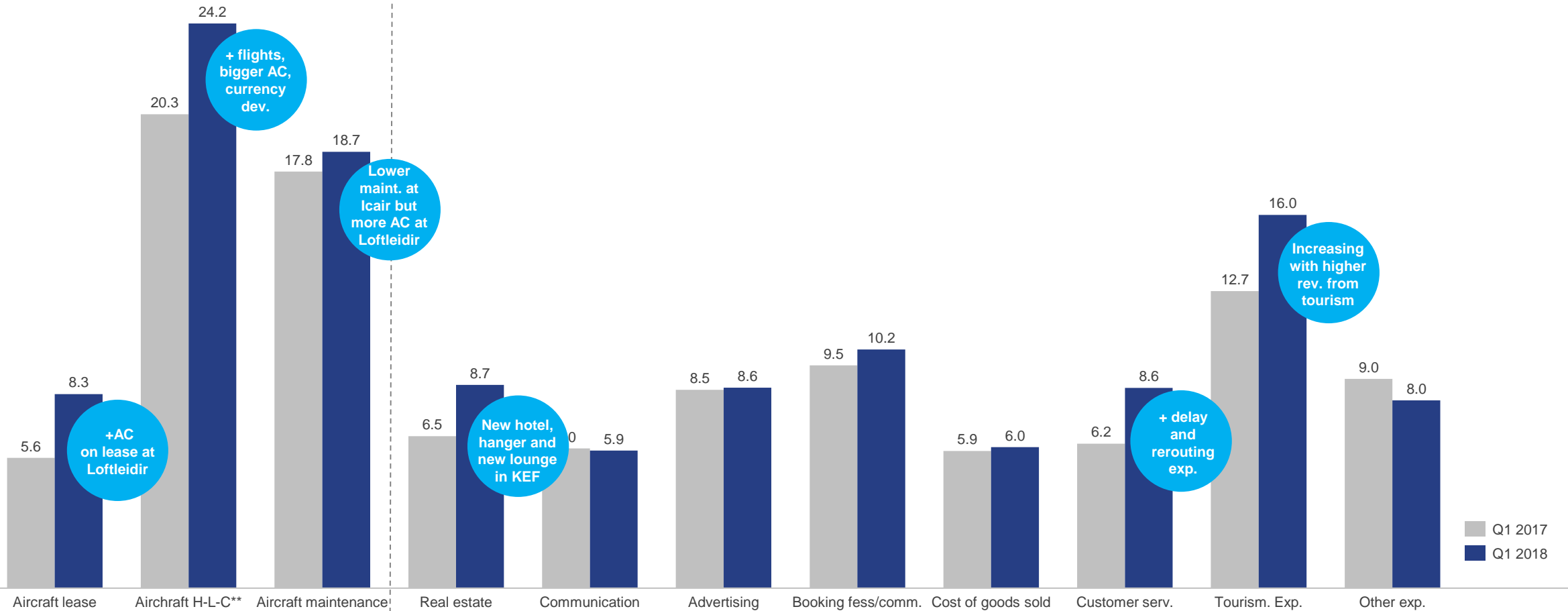
\* weighted average price

12m  
weighted  
swap price  
USD 560

13-18m  
weighted  
swap price  
USD 611

**Aviation less fuel**  
**+17%**

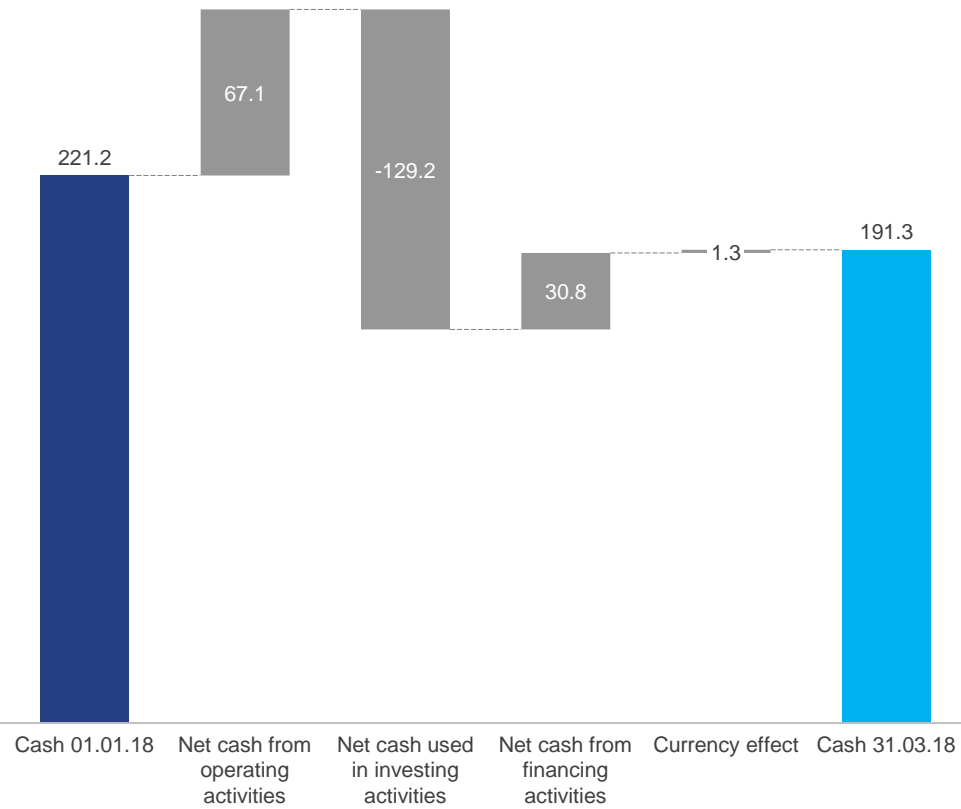
**Other expenses**  
**+12%**



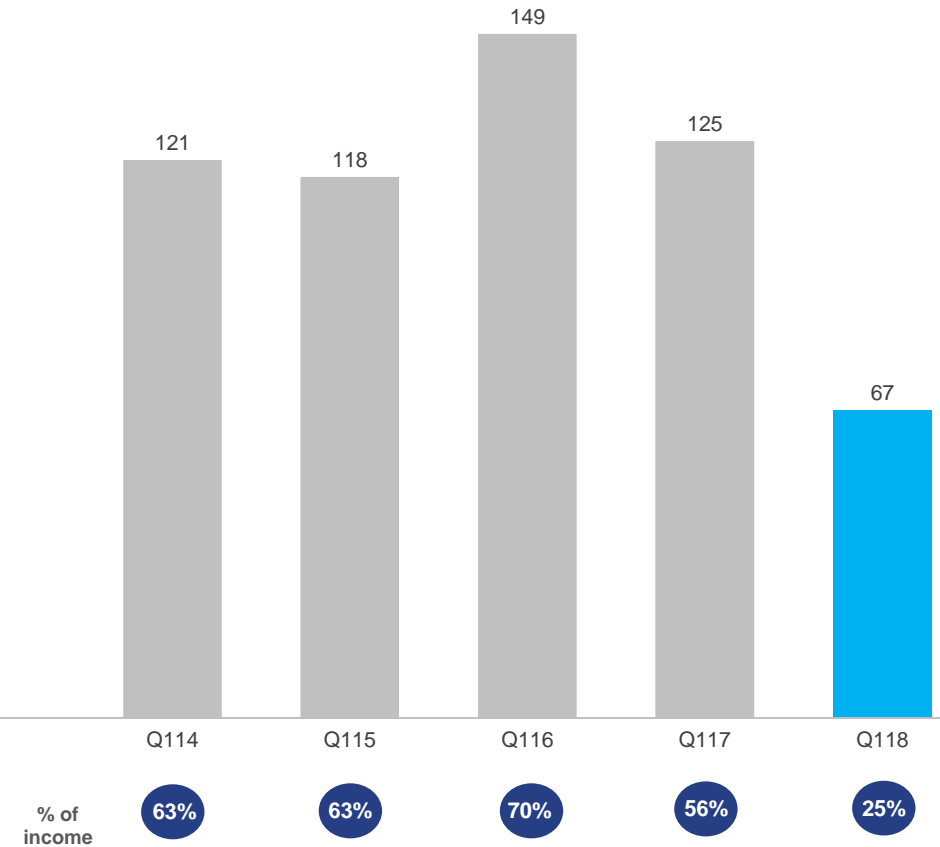
\* All figures are in USD millions  
\*\* H-L-C = Handling, Landing, Communication

# High CAPEX in Q1 2018

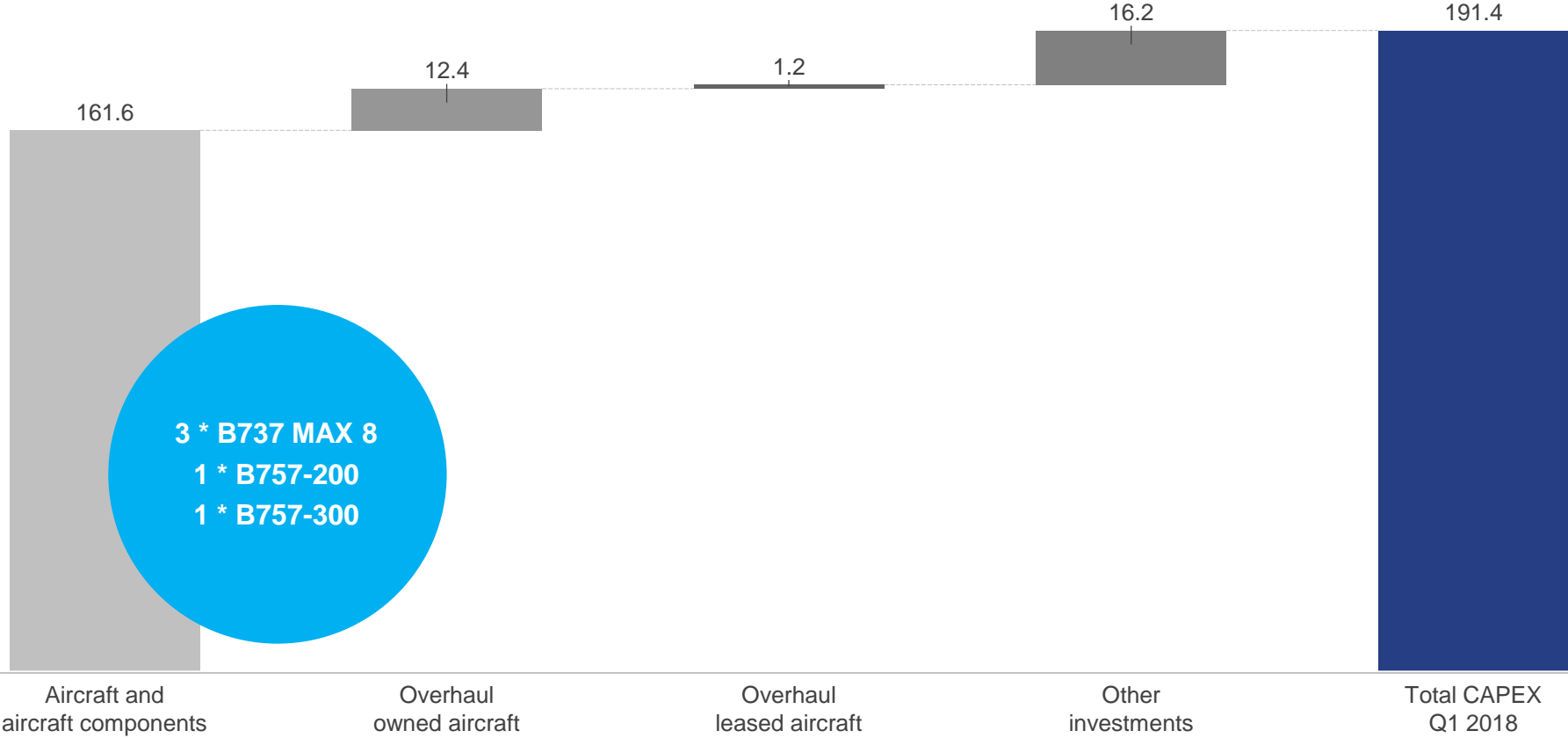
Changes in cash Q1 2018 | USD million



Net cash from operations and as % of income | USD million



# Investments in aircraft and aircraft components USD 161.1 million in Q1 2018



# Equity ratio at 35%

USD million	31.03.2018	31.12.2017	Diff.
<b>Assets</b>			
Operating Assets	775,0	652,7	122,3
Intangible assets and goodwill	178,4	180,4	-2,0
Other non-current assets	82,4	126,7	-44,3
<b>Total non-current assets</b>	<b>1.035,8</b>	<b>959,8</b>	<b>76,0</b>
Other current-assets	345,5	238,8	106,8
Short term investments	14,6	4,1	10,5
Cash and cash equivalents	191,3	221,2	-29,9
<b>Total current assets</b>	<b>551,4</b>	<b>464,1</b>	<b>87,3</b>
<b>Total assets</b>	<b>1.587,2</b>	<b>1.423,8</b>	<b>163,3</b>

Interest bearing debt  
USD 329.5m

Debt in excess of cash USD  
124.1m

USD million	31.03.2018	31.12.2017	Diff.
<b>Equity and liabilities</b>			
<b>Stockholders equity</b>	<b>554,9</b>	<b>596,5</b>	<b>-41,7</b>
Loans and borrowings non-current	281,2	280,3	1,0
Other non-current liabilities	69,2	78,1	-8,9
<b>Total non-current liabilities</b>	<b>350,4</b>	<b>358,4</b>	<b>-8,0</b>
Loans and borrowings current	48,7	9,3	39,4
Derivatives used for hedging	0,6	1,4	-0,7
Trade and other payables	256,1	232,2	23,9
Deferred income	376,5	226,1	150,5
<b>Total current liabilities</b>	<b>681,9</b>	<b>468,9</b>	<b>213,0</b>
<b>Total equity and liabilities</b>	<b>1.587,2</b>	<b>1.423,8</b>	<b>163,3</b>
Equity ratio	35%	42%	-7%
Current ratio	0,81	0,99	-0,18
Interest bearing debt in excess of cash*	124,1	64,3	59,8
Interest bearing debt	329,9	289,5	40,4

\* Interest bearing debt in excess of cash = interest bearing debt + cash and cash equivalents + short term investments

## Financing has been arranged for all three 737 MAX 8 aircraft

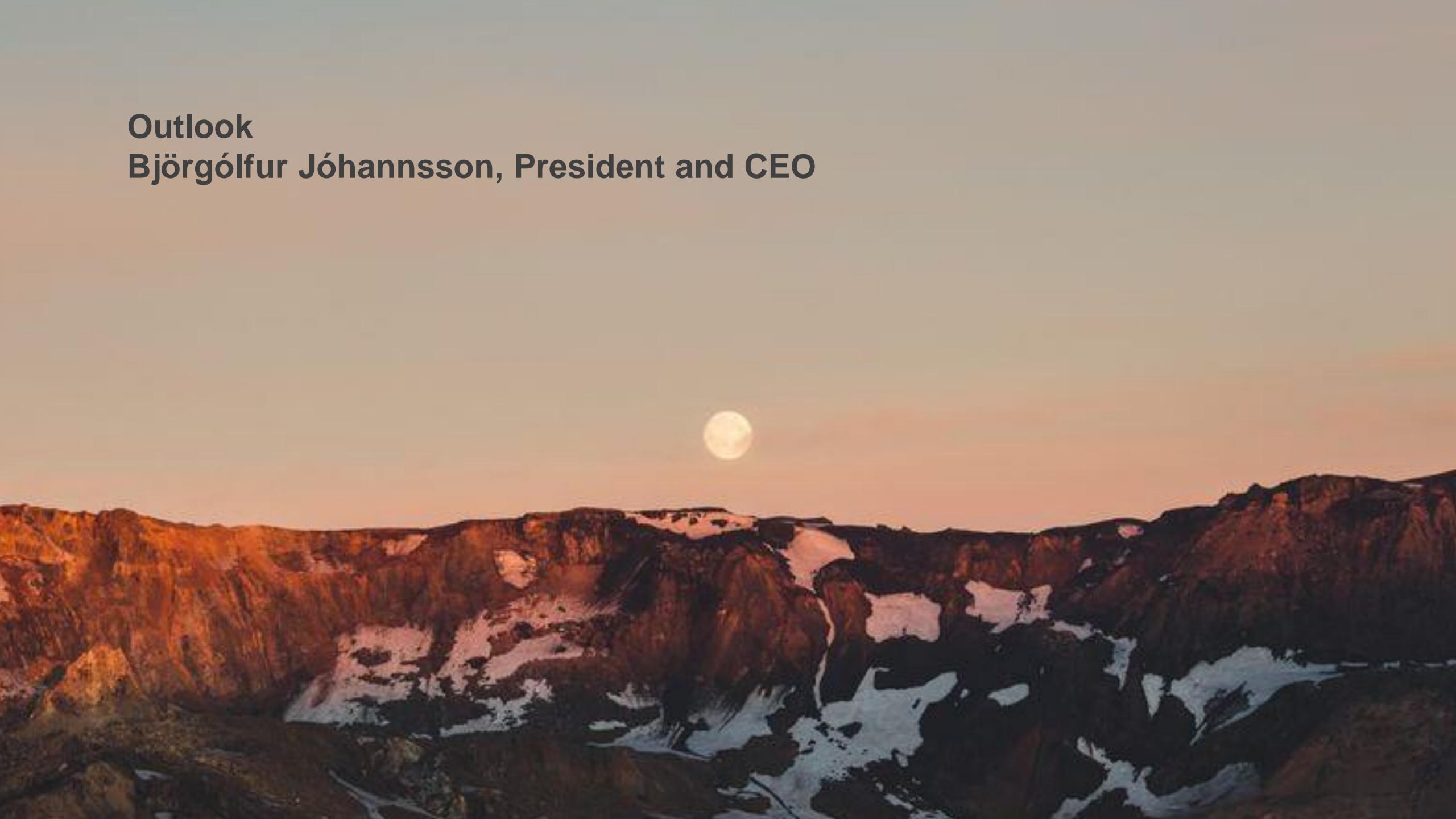
- | Two aircraft are financed through JOLCO (Japanese Operating Lease with Call Option), with Sumitomo Mitsui Banking Corporation Europe Limited (SMBCE) acting as financier
- | One of the aircraft was financed by sale and leaseback
- | Positive cash flow, resulting from the JOLCO financing, in the Q2 2018 amounts to approx. 100 USD million
- | Financing terms are attractive





**Outlook**

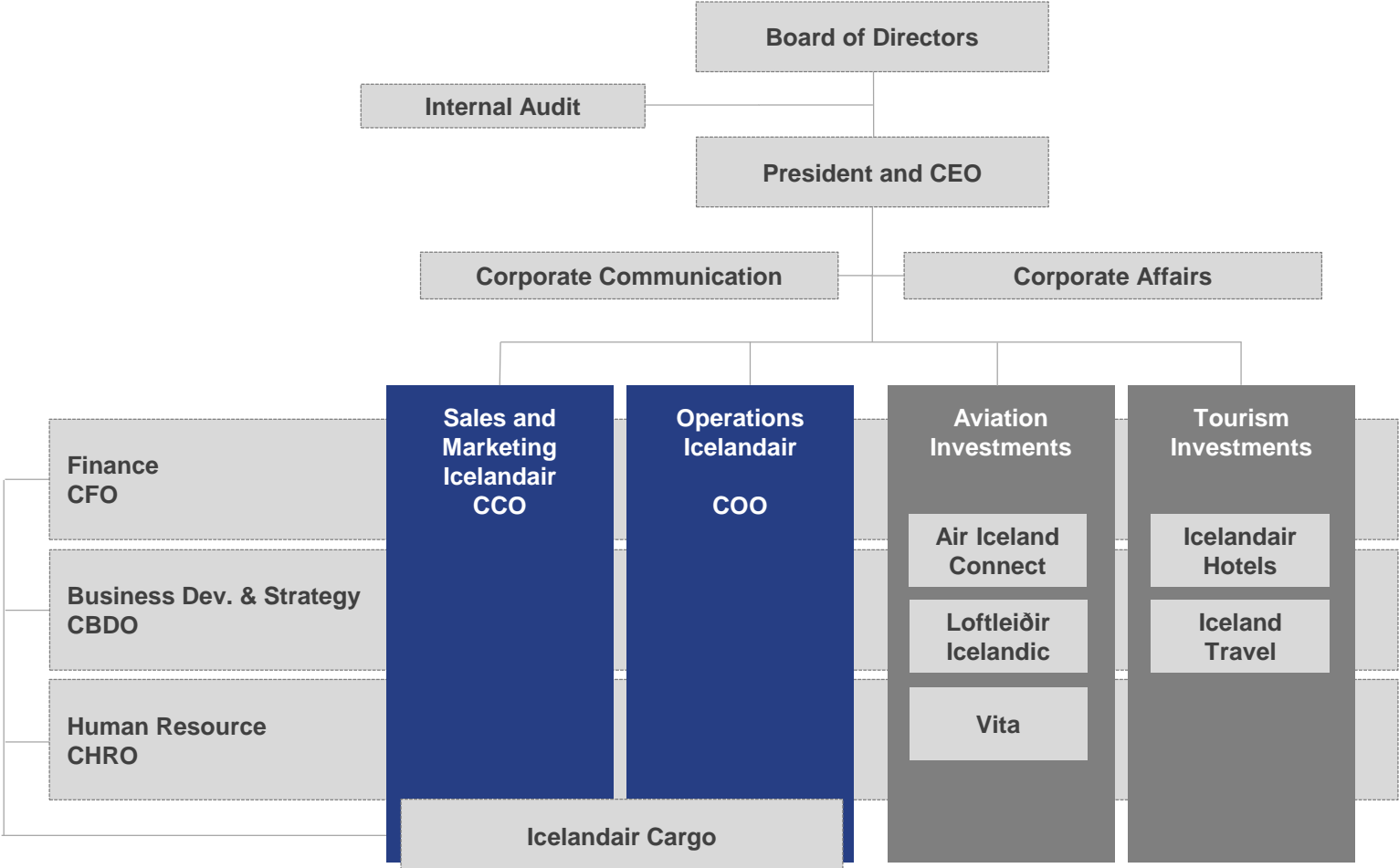
**Björgólfur Jóhannsson, President and CEO**



# Year of Changes

# Implementation of the new organisational structure going well

New structure will bring about a clearer focus on the core business and at the same time streamline the processes with shorter lines of communications and improved operational efficiency

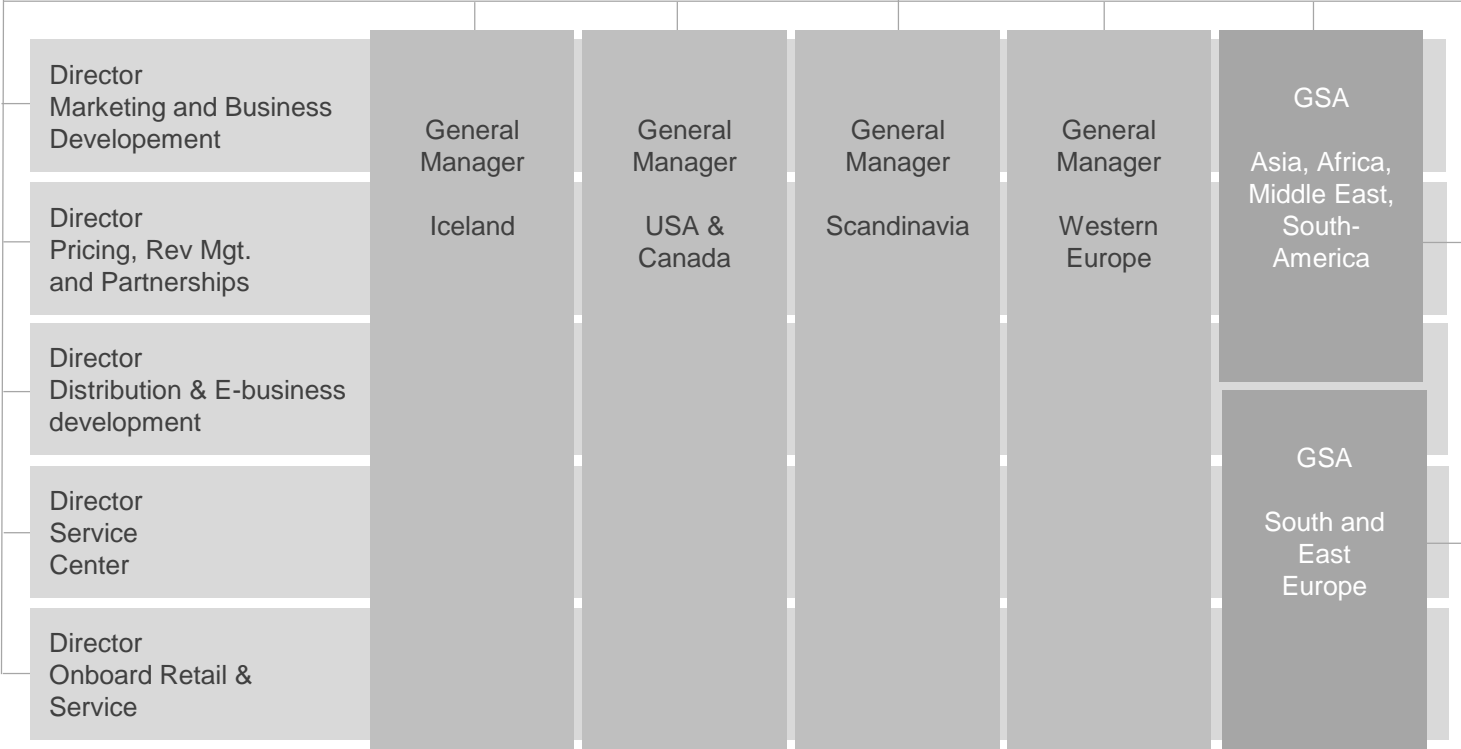


# Old Structure

# New Structure



SVP



CCO

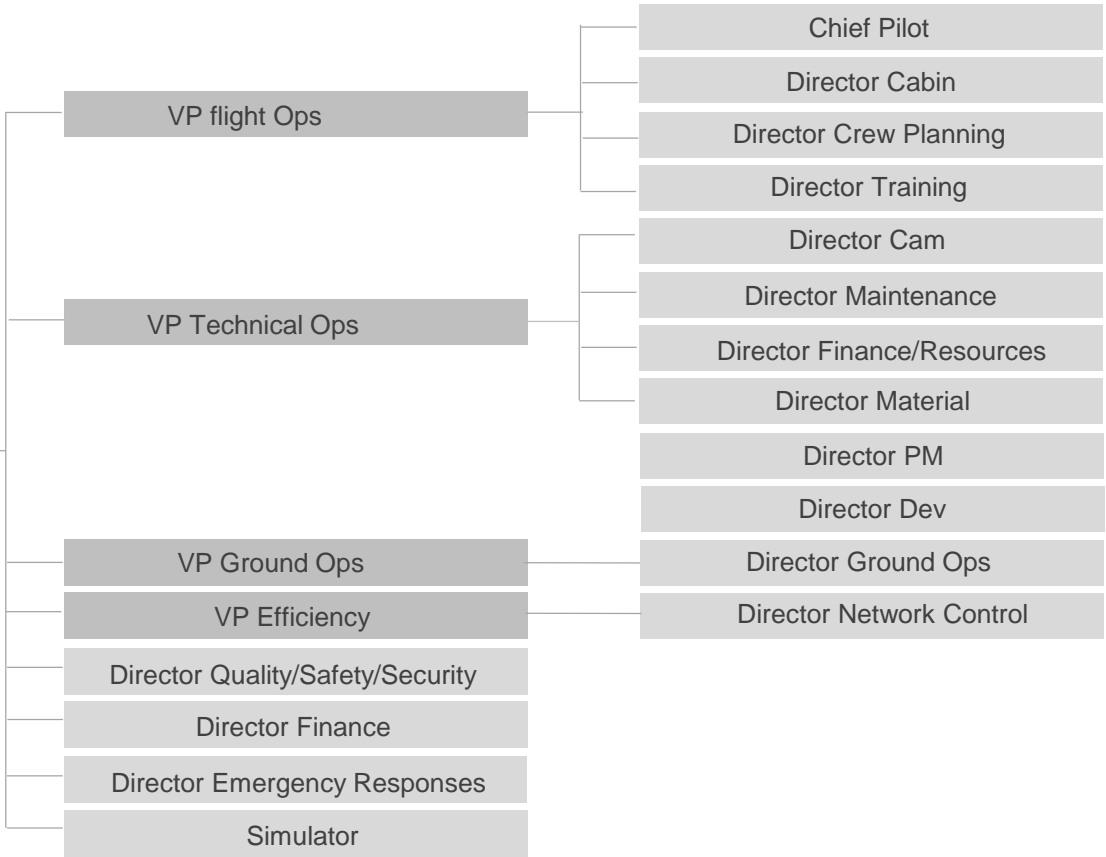


# Old Structure



# New Structure

SVP Flight Ops Icelandair



SVP IGS



COO Icelandair



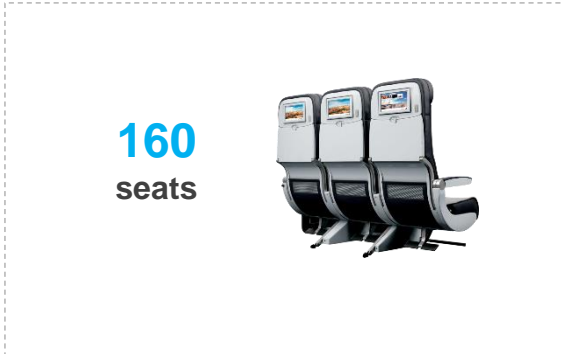




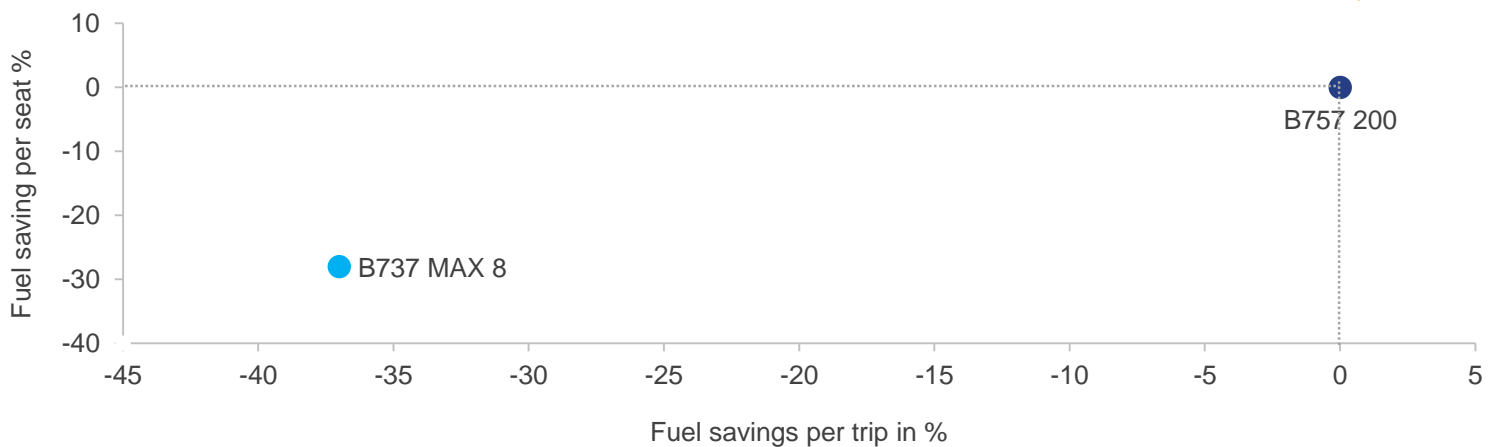
**More cooperative  
spirit with pilots  
brings opportunity for  
more efficiency and  
further growth**

# New aircraft type improves fuel efficiency

- | Three B737 MAX 8 received in March and April
- | Few weeks of preparation in hangar in KEF post delivery before entering into revenue service
- | First aircraft in operation since April 13th
- | Operational performance well in line with expectations
- | Positive customer reception
- | 2nd and 3rd aircraft scheduled into revenue service in May



**Fuel savings per seat and per trip**  
B737 MAX 8 in comparison to B757-200 in %



## New fare structure to meet the needs of Icelandair's **various** customer segments

**SAGA**  
PREMIUM | PREMIUM FLEX

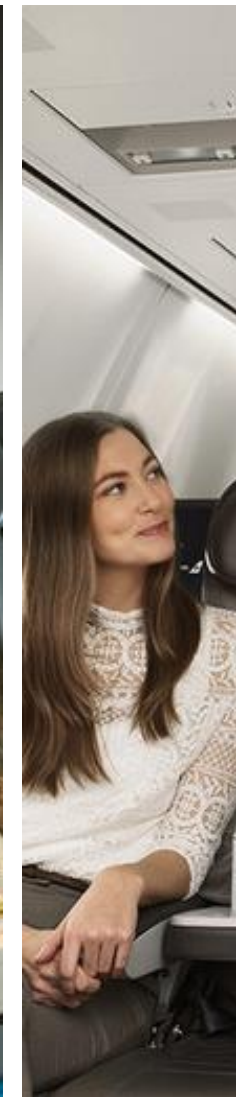
ICELANDAIR

**ECONOMY**  
LIGHT | STANDARD | FLEX

ICELANDAIR

### Why are we making the changes?

- | The new air fares reflect better the services enjoyed by customers, from Economy Light to Saga Premium Flex.
- | Enables revenue maximum with value based pricing
- | More configuration consistency across the fleet
- | More flexibility to react to market conditions





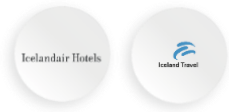
# Equity investments outlook:

## Aviation Investments



- | Growth and good outlook at Loftleidir Icelandic
- | Good year expected for Vita
- | Operation of Air Iceland Connect challenging, work in progress on further integration with Icelandair

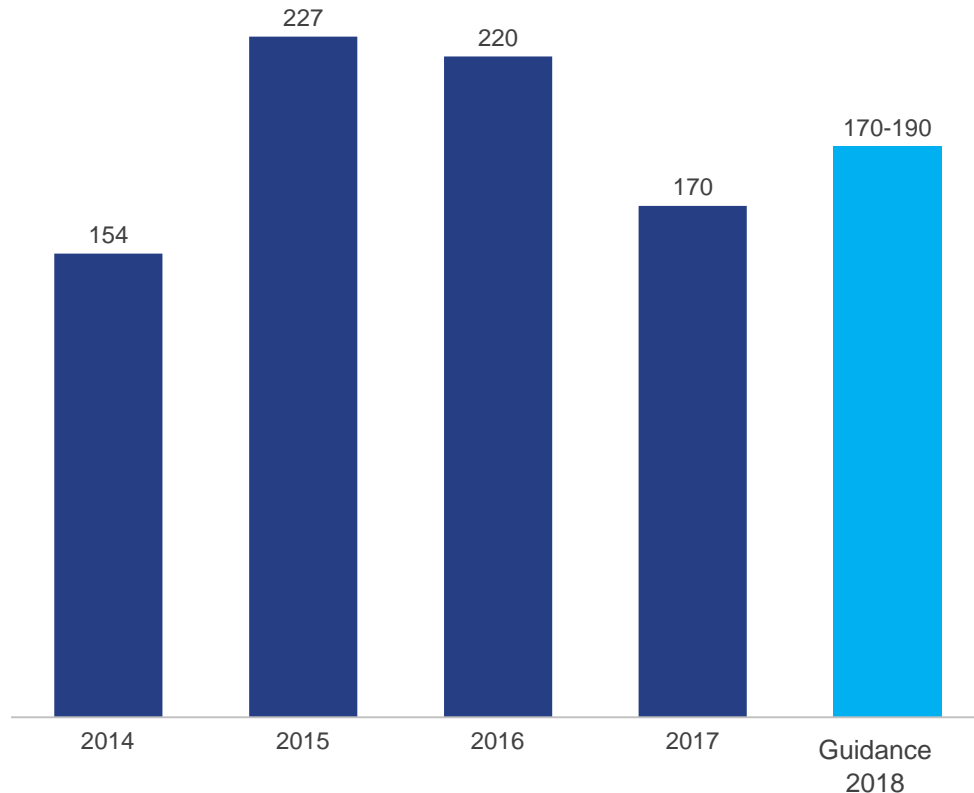
## Tourism Investments



- | Overall booking prospects good for Icelandair Hotels in 2018
- | 2 new hotels in 2018 Reykjavik Konsulat and Hotel Alda
- | Prospects good for Iceland Travel – but margins have decreased
- | Customers of Iceland Travel and Icelandair Hotels more price sensitive

# EBITDA guidance remains USD 170-190 million in 2018

## EBITDA development 2014-2018 in USD million



All figures in USD million.

### Main assumptions

#### International Flight Operations:

- | EUR/USD rate assumed 1.23, ISK rate assumed 158, average fuel price (excluding hedging) 670 USD/ton
- | Q2 2018 will be weaker than last year
- | Different emphasis in revenue management
- | Indication of higher yields
- | New and more flexible fare structure and product offering
- | Actions regarding integration, streamlining and other measures to improve efficiency will positively affect the operations in the coming months

Going forward

# Connectivity

reflects the strength of the route network

49

Destinations

598

Connections

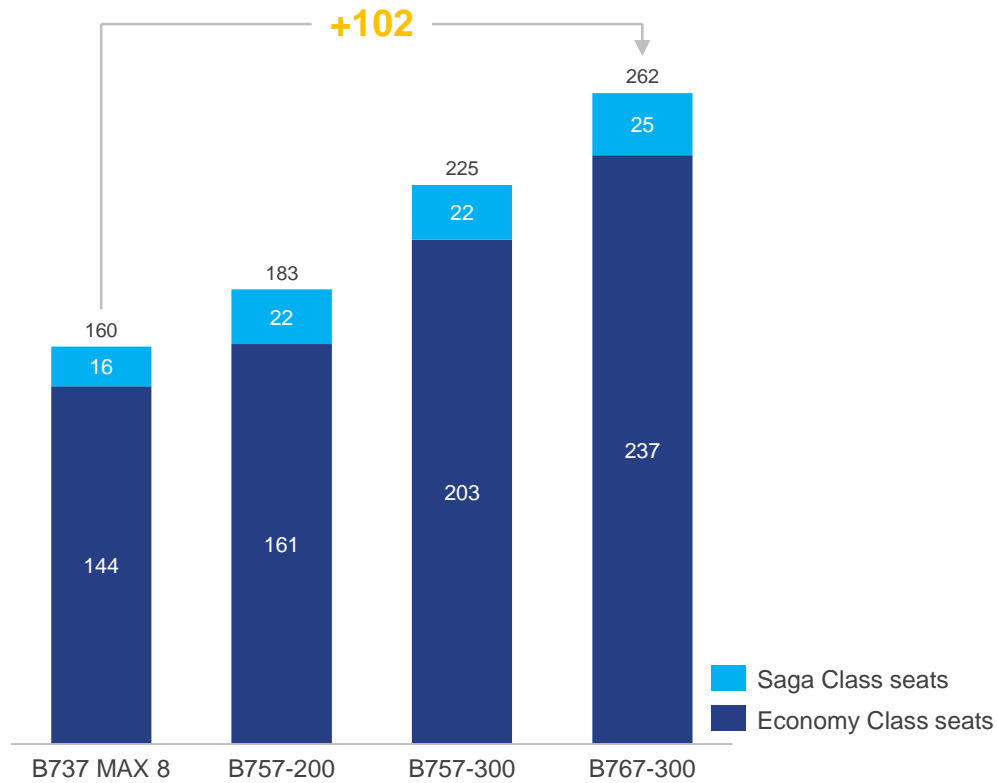
75%

Of via city pairs with no non-stop competition

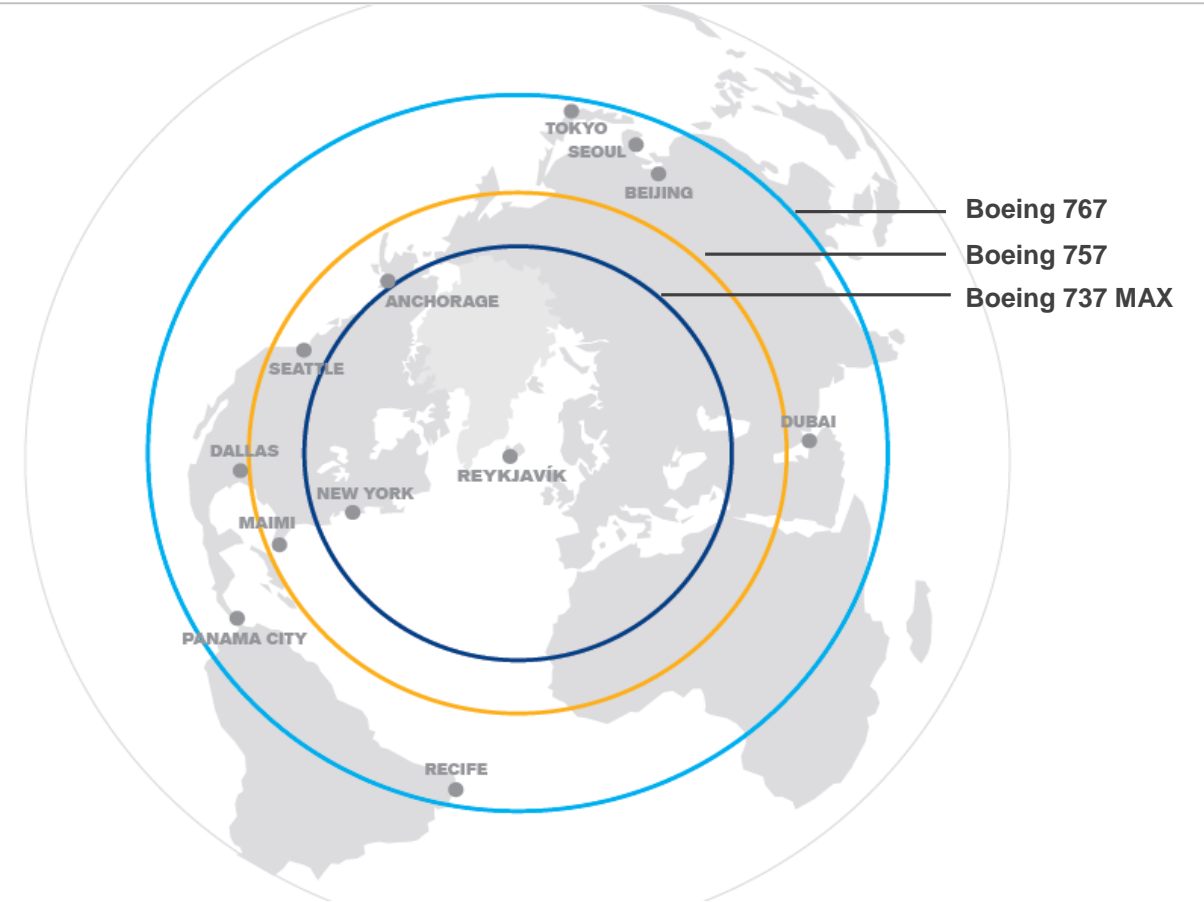


# Flexible fleet at Icelandair a base for sustainable growth

Overview seat count per aircraft type



Overview flight range per aircraft type

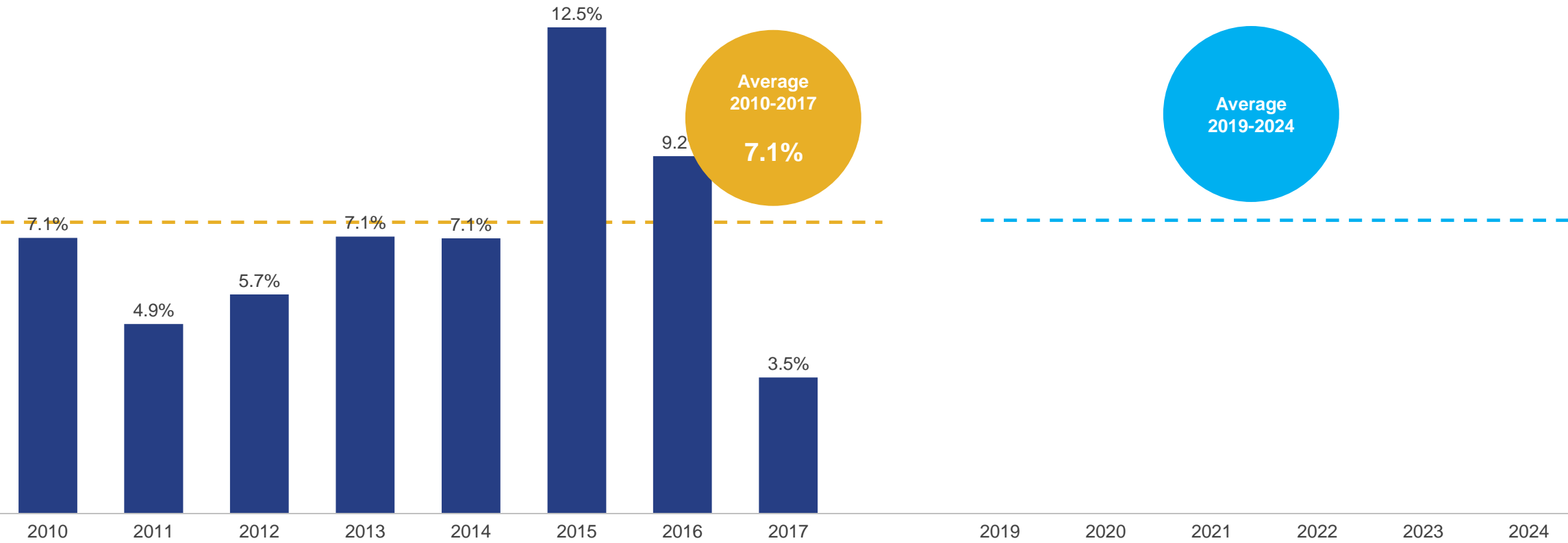


## Icelandair is working on network changes for 2019 and onwards

- Establishing a platform for further growth - growth in the current bank is limited beyond 2018
- Better utilization of resources, mainly infrastructure at Keflavik Airport, fleet and manpower
- Increased profitability



# The goal is to bring average EBIT ratio back to previous levels



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