

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**

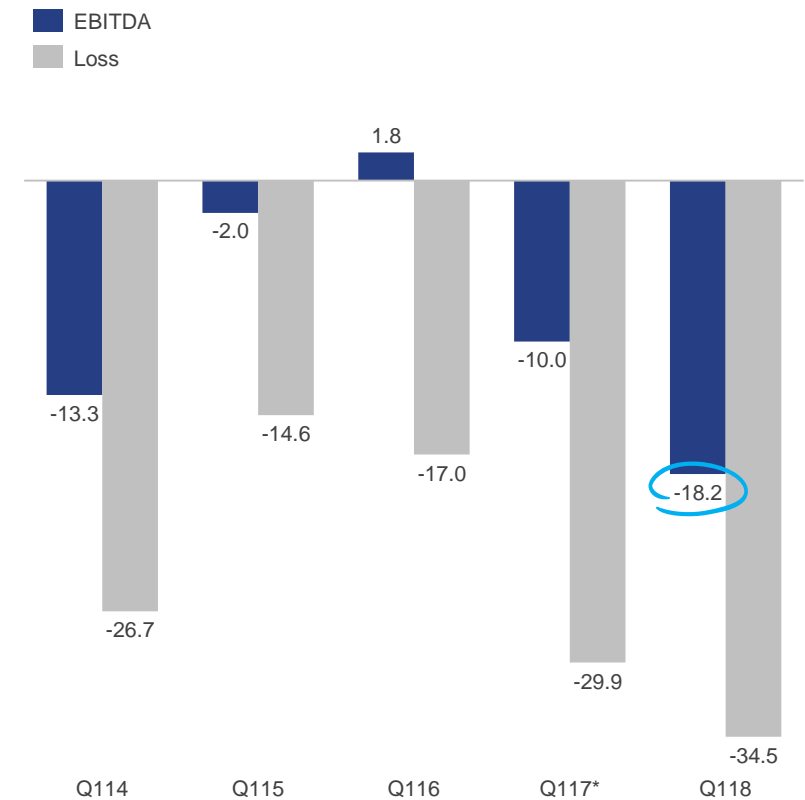
Financials
Bogi Nils Bogason, CFO



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

USD million	Q1 2018	Q1 2017	% Chg.
Operating Income	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%
Operating expenses	285,8	232,1	23%
EBITDA	-18,2	-10,0	-
EBIT	-46,2	-35,9	-
EBT	-43,5	-37,3	-
Loss for the period	-34,5	-29,9	-
EBITDA ratio	-6,8%	-4,5%	-2,3 ppt
EBITDAR	-6,3	-1,6	-
EBITDAR ratio	-2,4%	-0,7%	-1,6 ppt

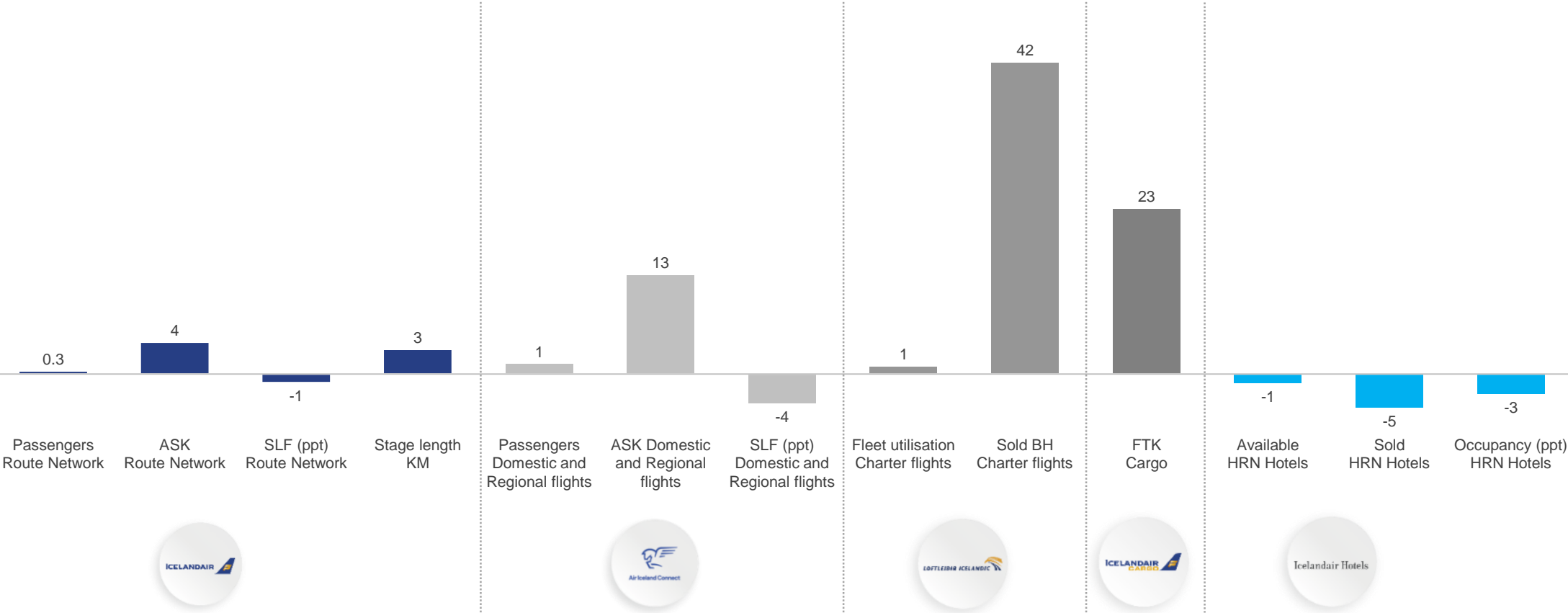
EBITDA and Loss | USD million



* Figures for Q1 2017 have been restated

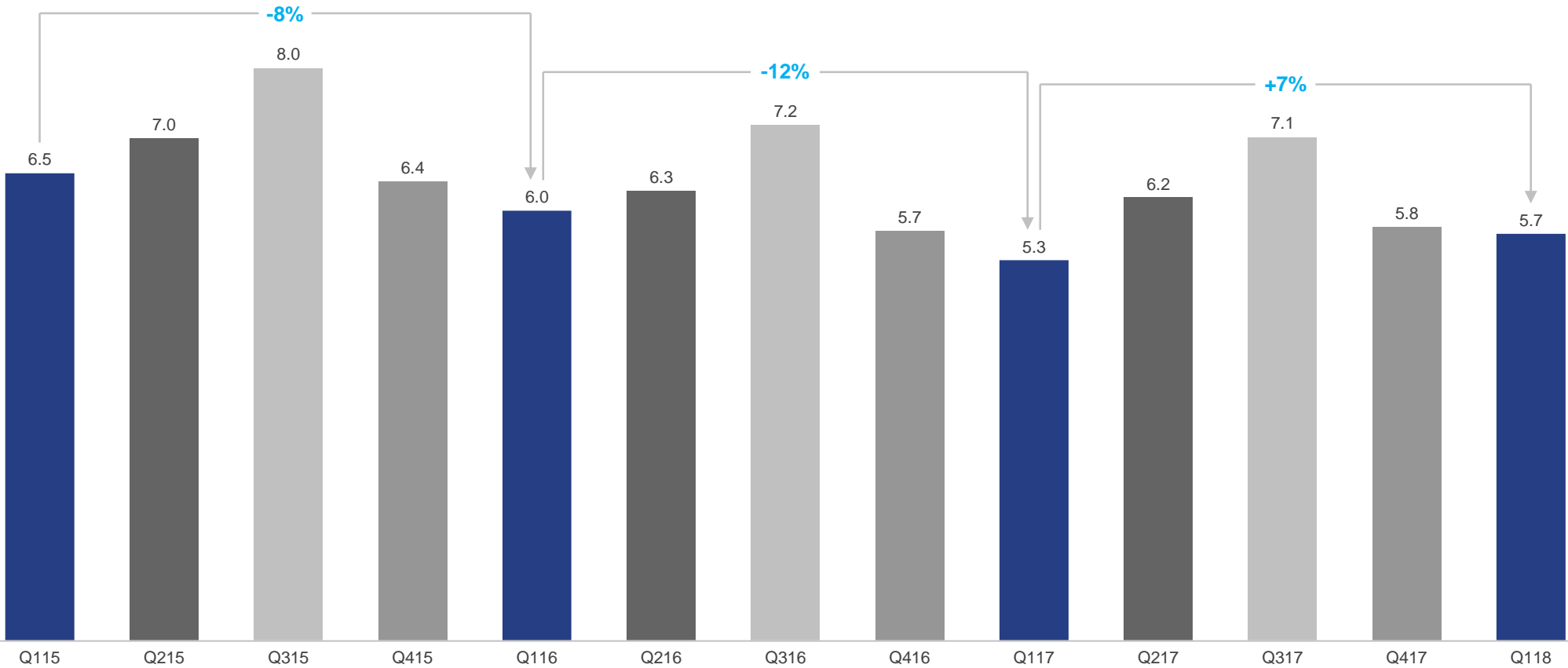
Strong growth in Charter and Cargo operations

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

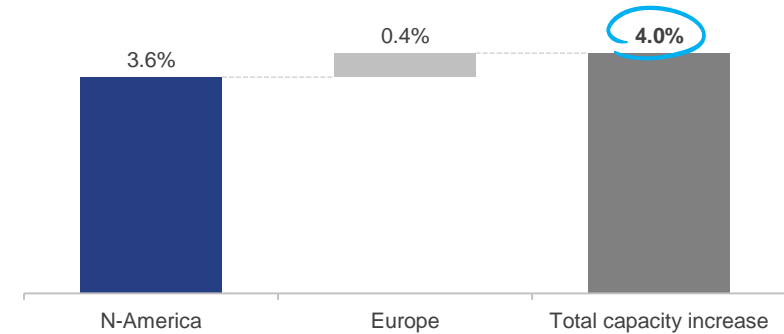
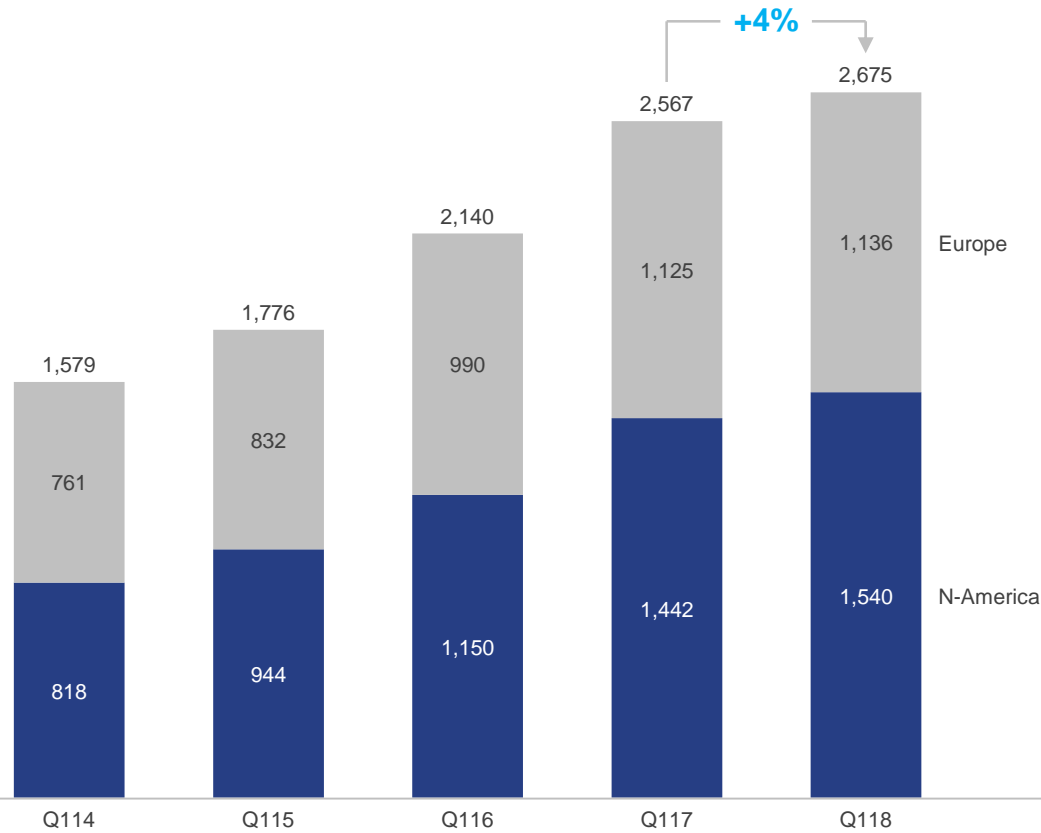


Capacity increase 4%, largely due to more flights to N-America

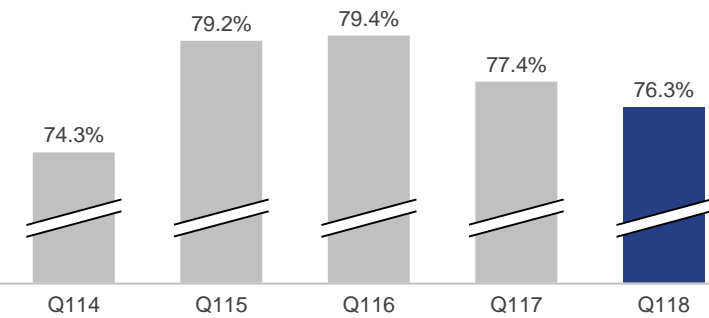


Available seat km (ASK) in millions | Q114-Q118

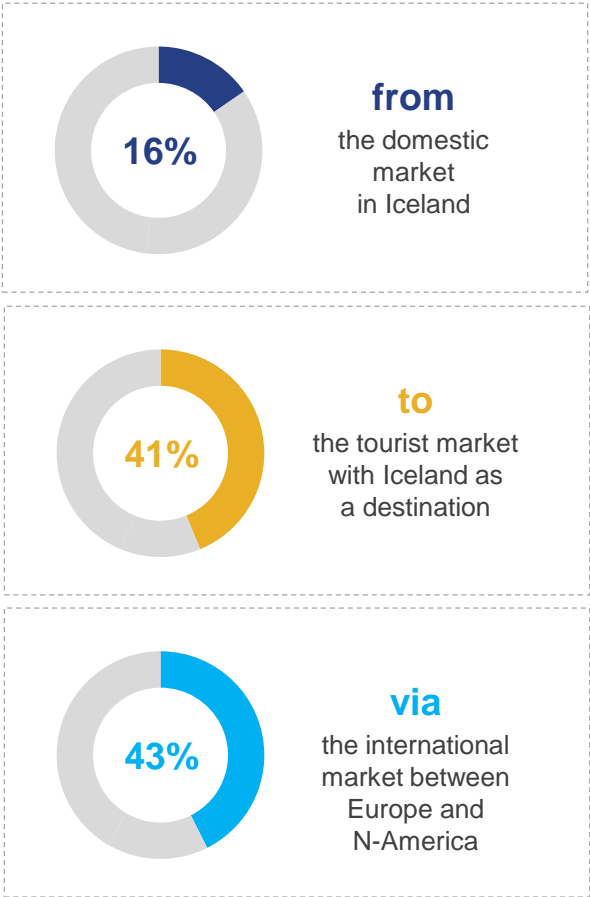
Breakdown of capacity increase | Q118 vs Q117



Load factor in Q1 | 2014-2018

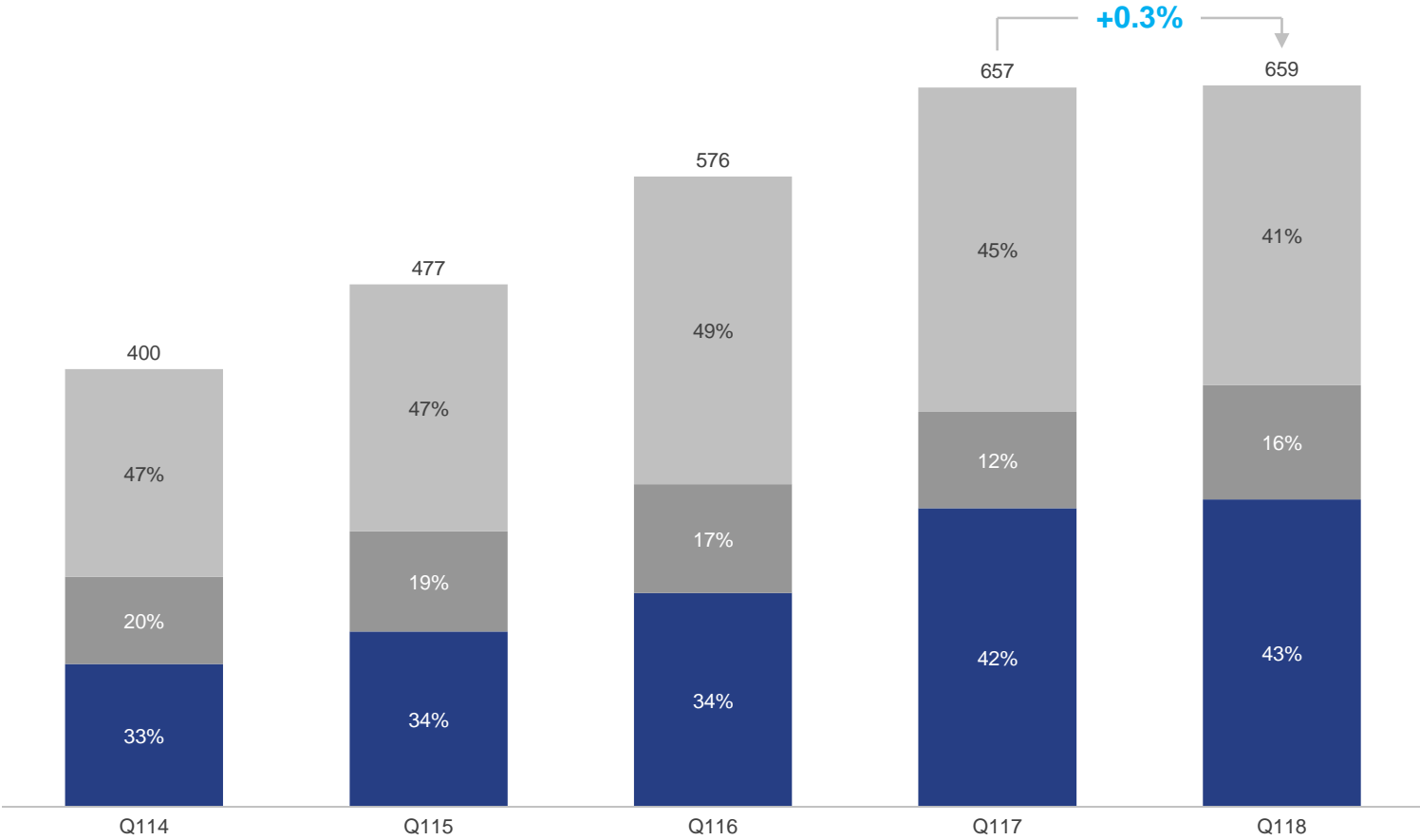


Modest growth in passengers numbers



to from via

Absolute figures in thousands.

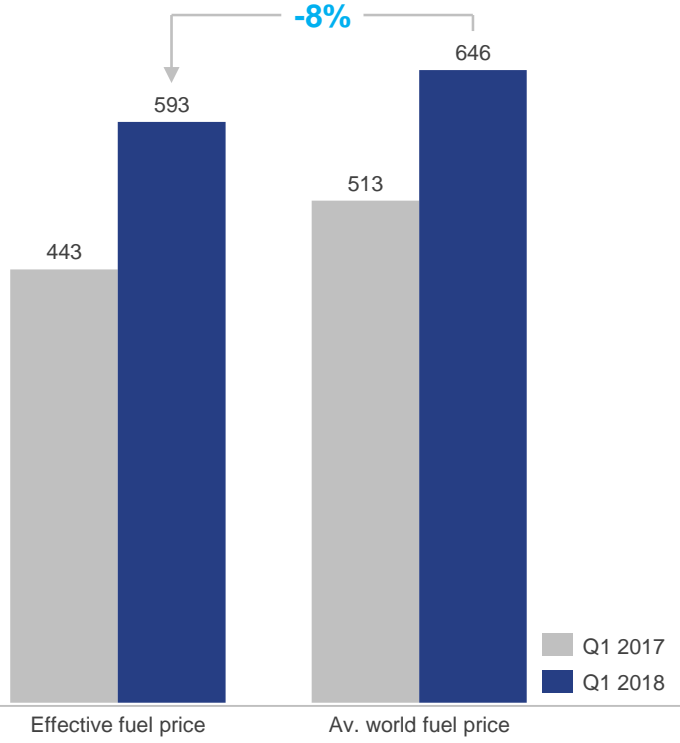
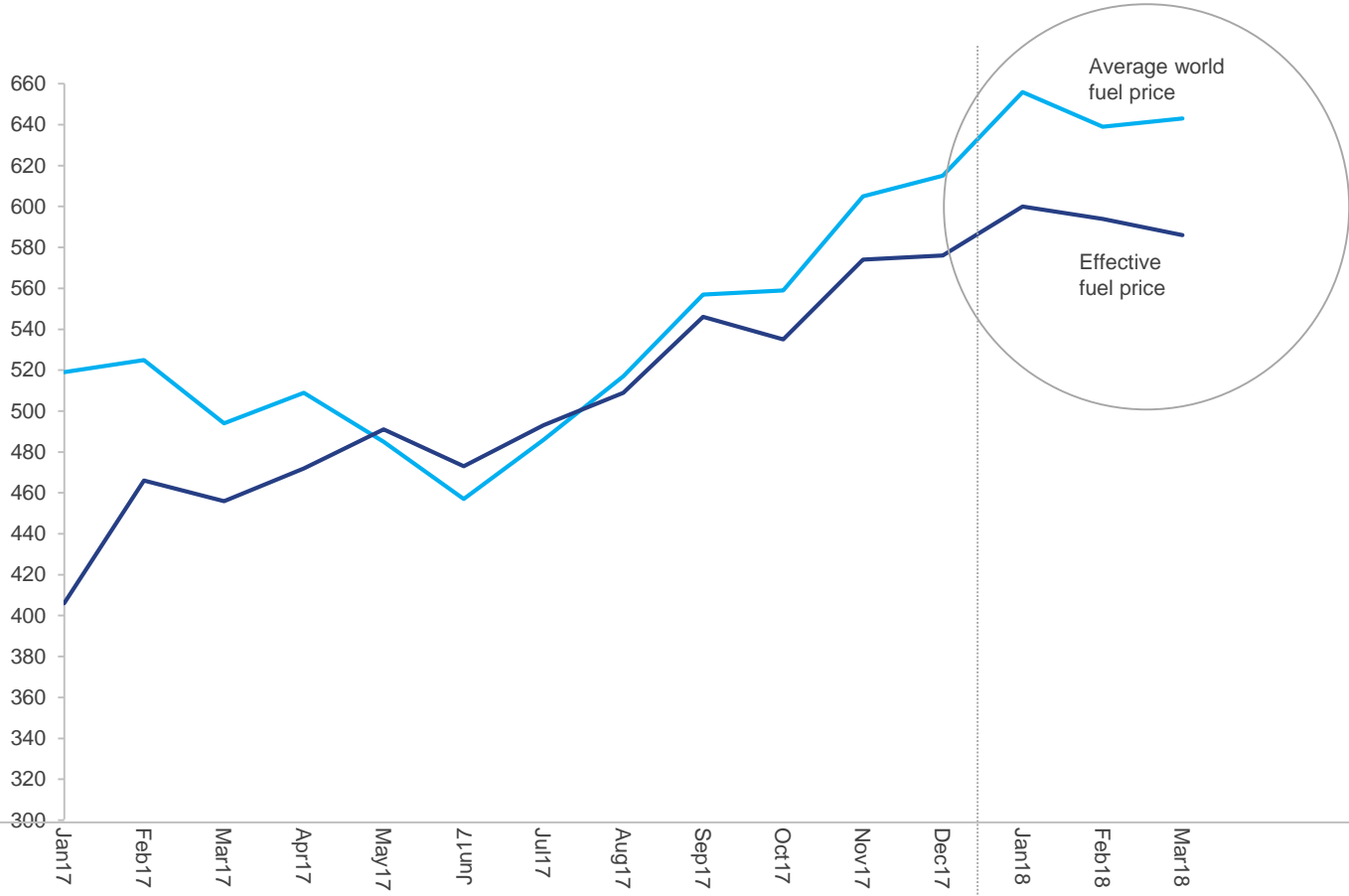


Half of the increase in salary expenses is due to unfavourable currency development



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
12 months	427,998	231,550	54%	560
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%	-
13-18 months	271,938	26,000	10%	611

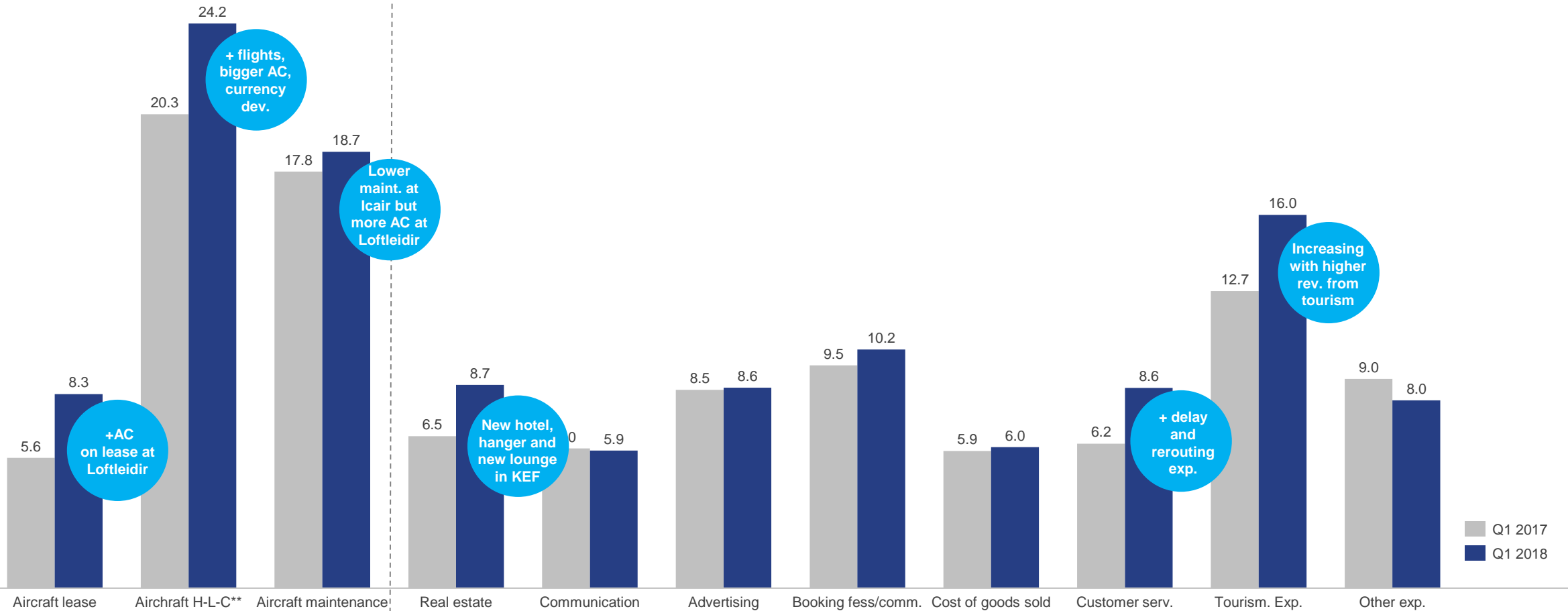
* weighted average price

12m
weighted
swap price
USD 560

13-18m
weighted
swap price
USD 611

Aviation less fuel
+17%

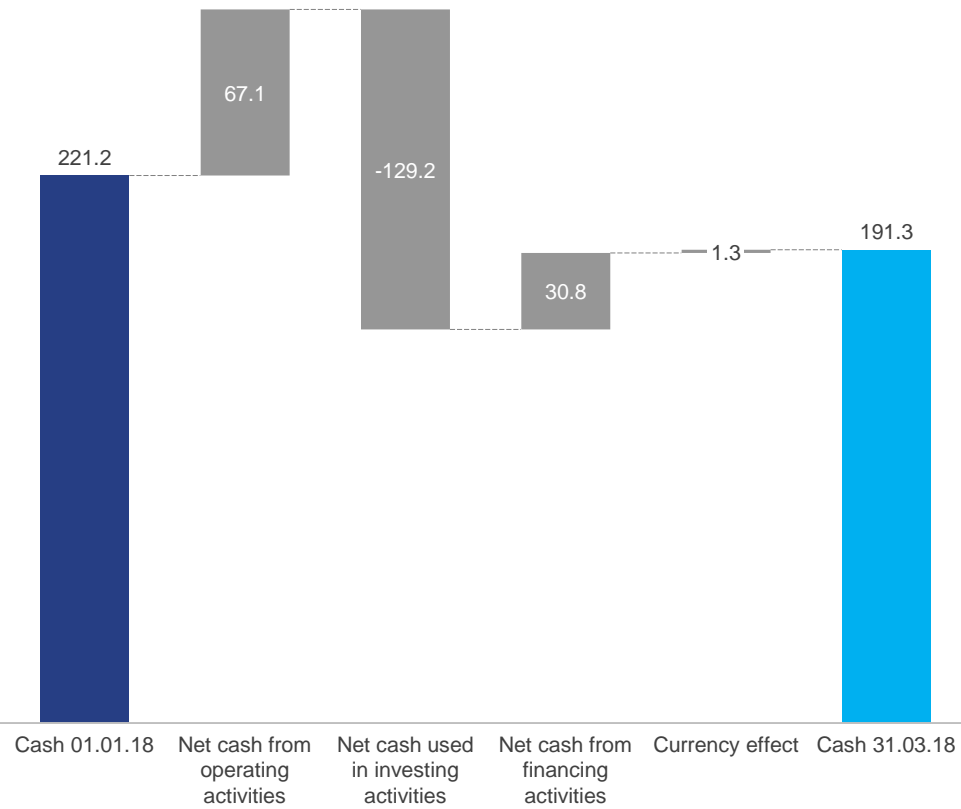
Other expenses
+12%



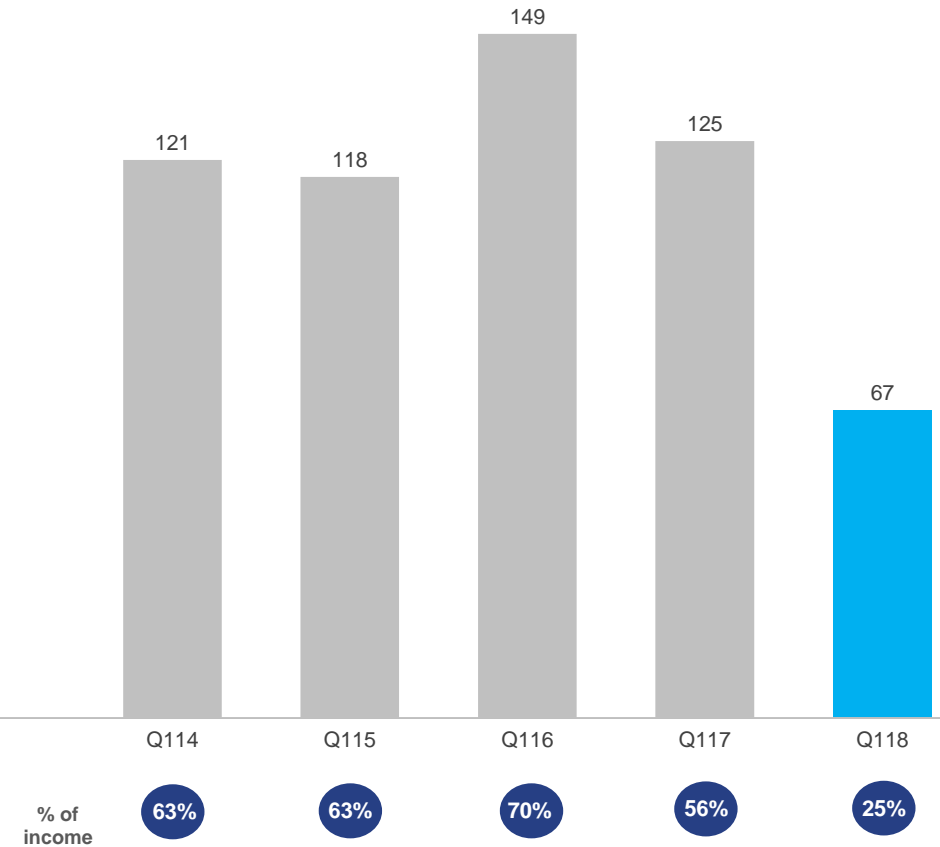
* All figures are in USD millions
** H-L-C = Handling, Landing, Communication

High CAPEX in Q1 2018

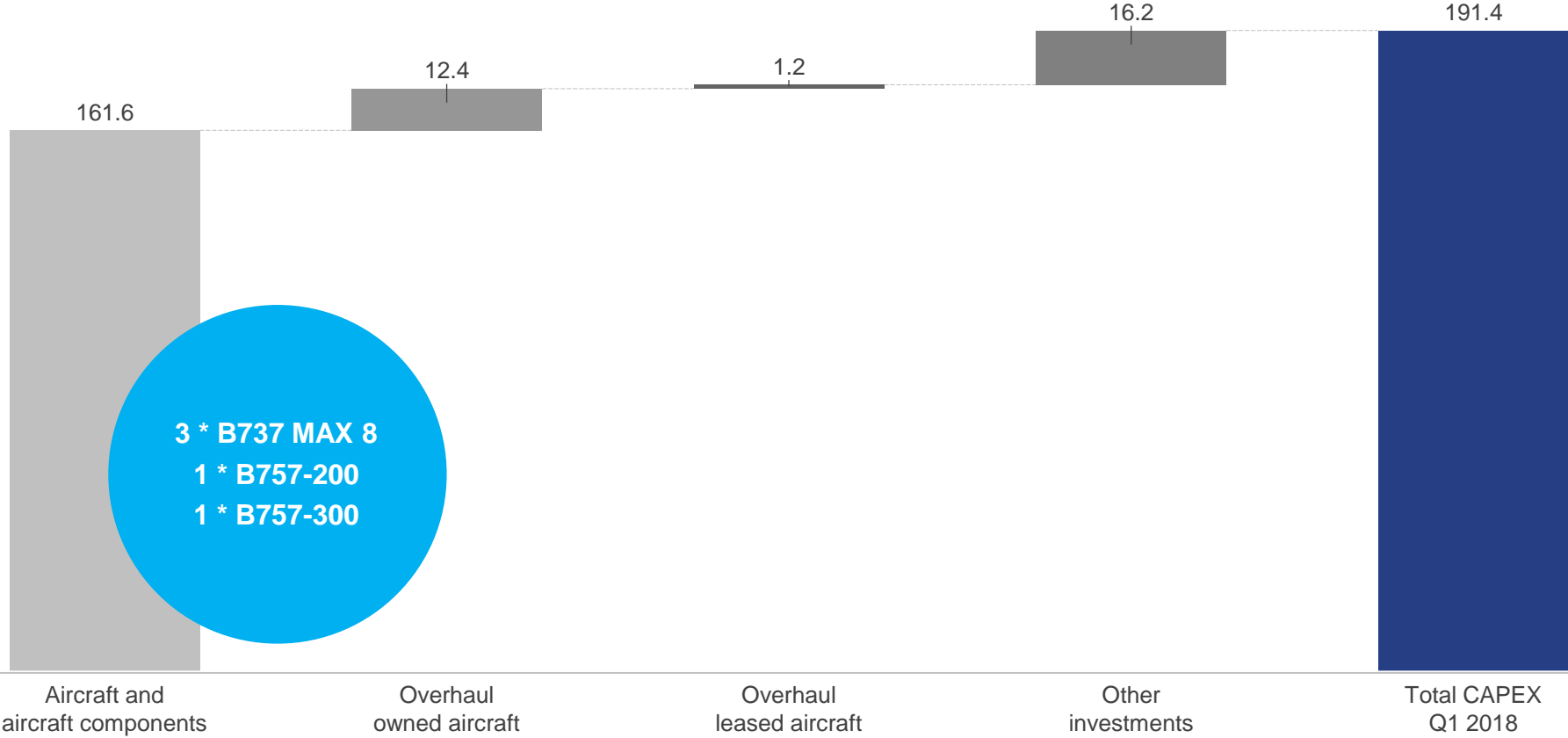
Changes in cash Q1 2018 | USD million



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.
Assets			
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
Total non-current assets	1.035,8	959,8	76,0
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
Total current assets	551,4	464,1	87,3
Total assets	1.587,2	1.423,8	163,3

Interest bearing debt
USD 329.5m

Debt in excess of cash USD
124.1m

USD million	31.03.2018	31.12.2017	Diff.
Equity and liabilities			
Stockholders equity	554,9	596,5	-41,7
Loans and borrowings non-current	281,2	280,3	1,0
Other non-current liabilities	69,2	78,1	-8,9
Total non-current liabilities	350,4	358,4	-8,0
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
Total current liabilities	681,9	468,9	213,0
Total equity and liabilities	1.587,2	1.423,8	163,3
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

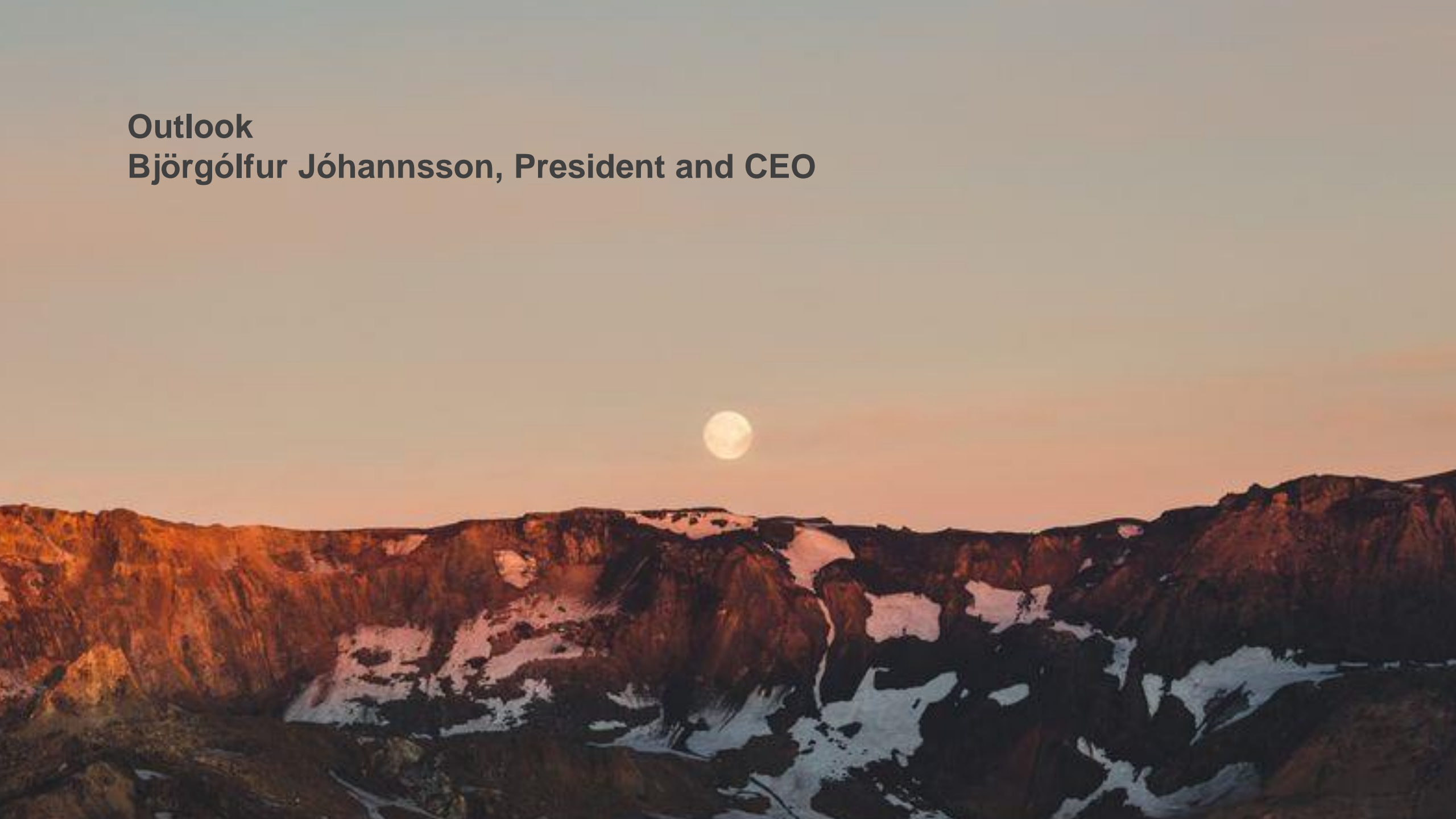
Financing has been arranged for all three 737 MAX 8 aircraft

- | 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

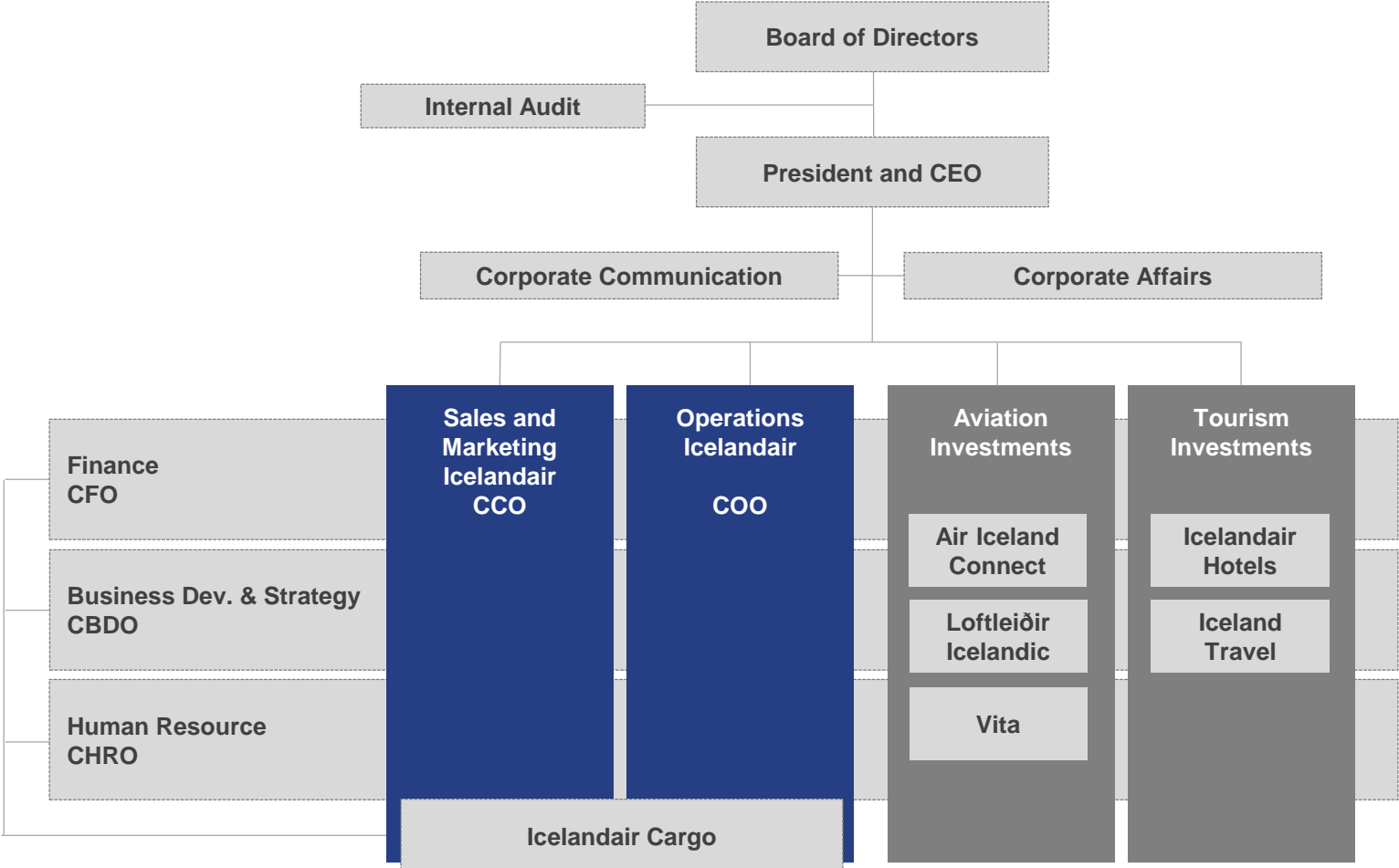
Björgólfur Jóhannsson, President and CEO



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

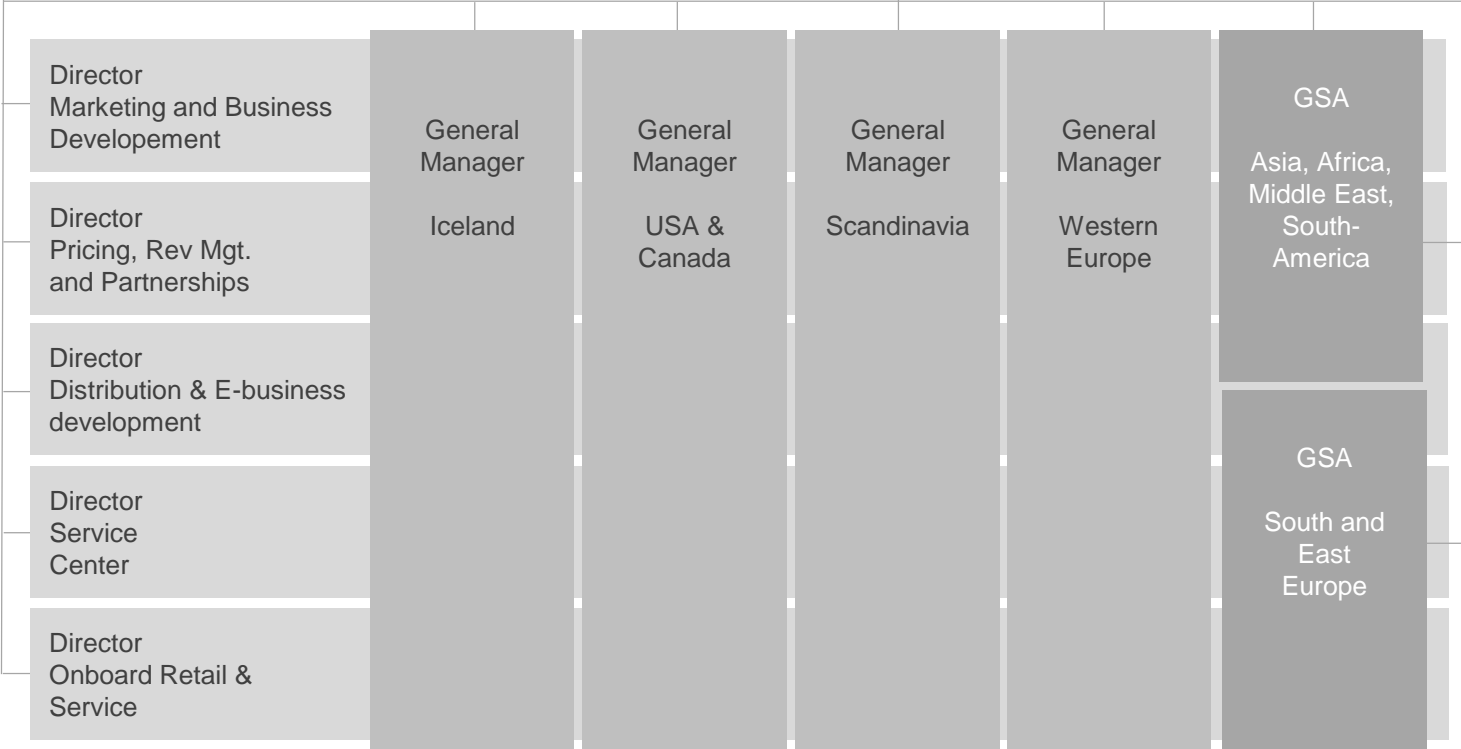


Old Structure

New Structure



SVP



CCO

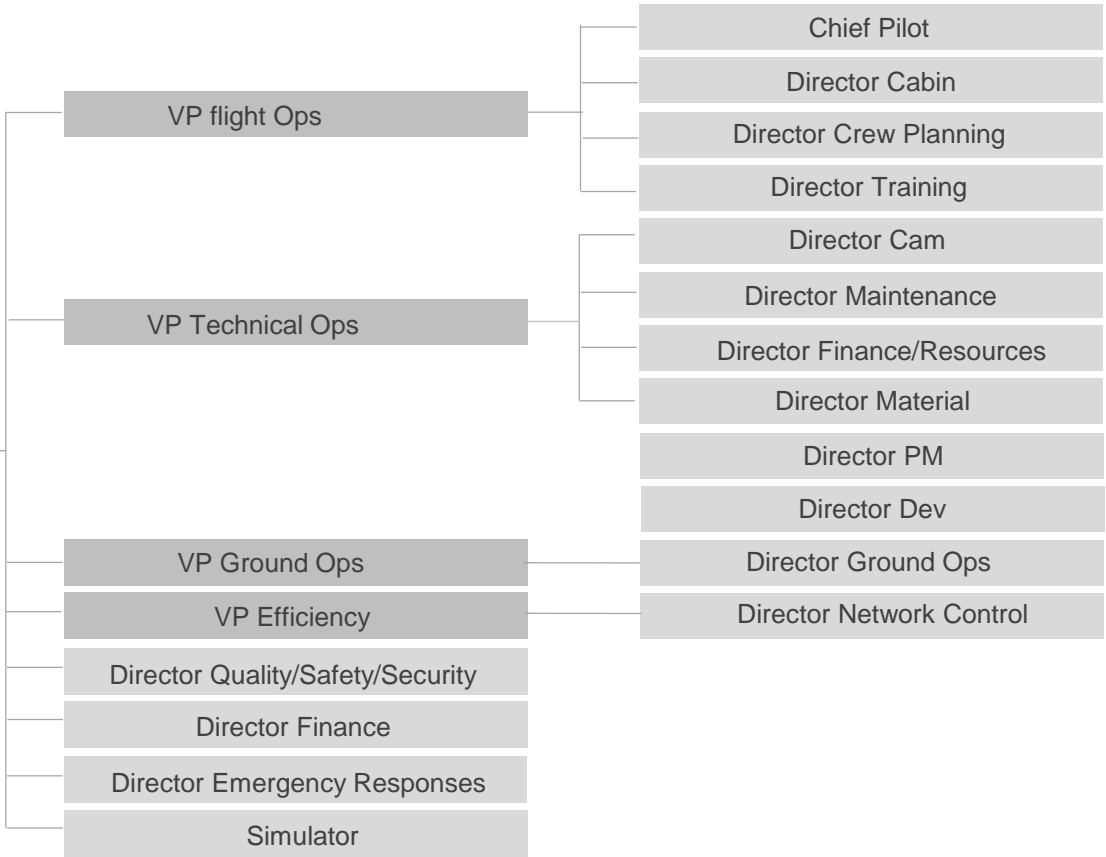


Old Structure



New Structure

SVP Flight Ops Icelandair



SVP IGS



COO Icelandair





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

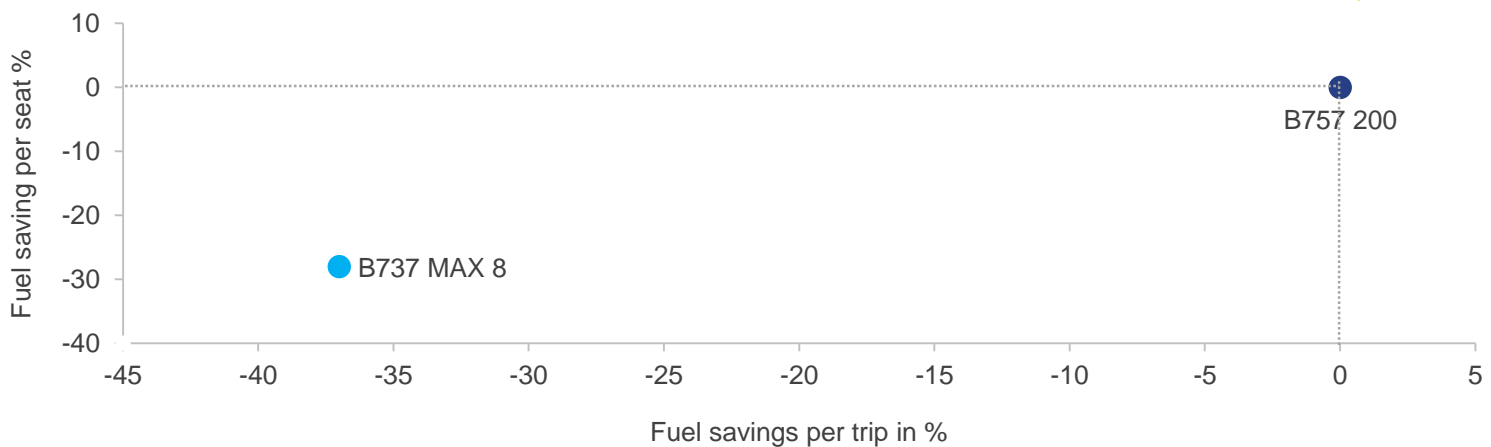
New aircraft type improves fuel efficiency

- | 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

3



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

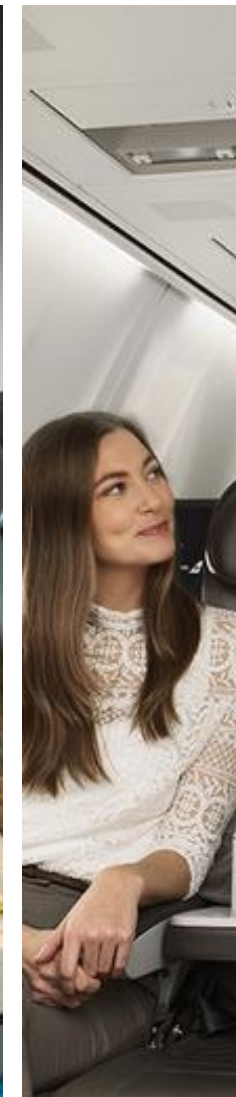
ICELANDAIR

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



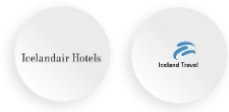
Equity investments outlook:

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

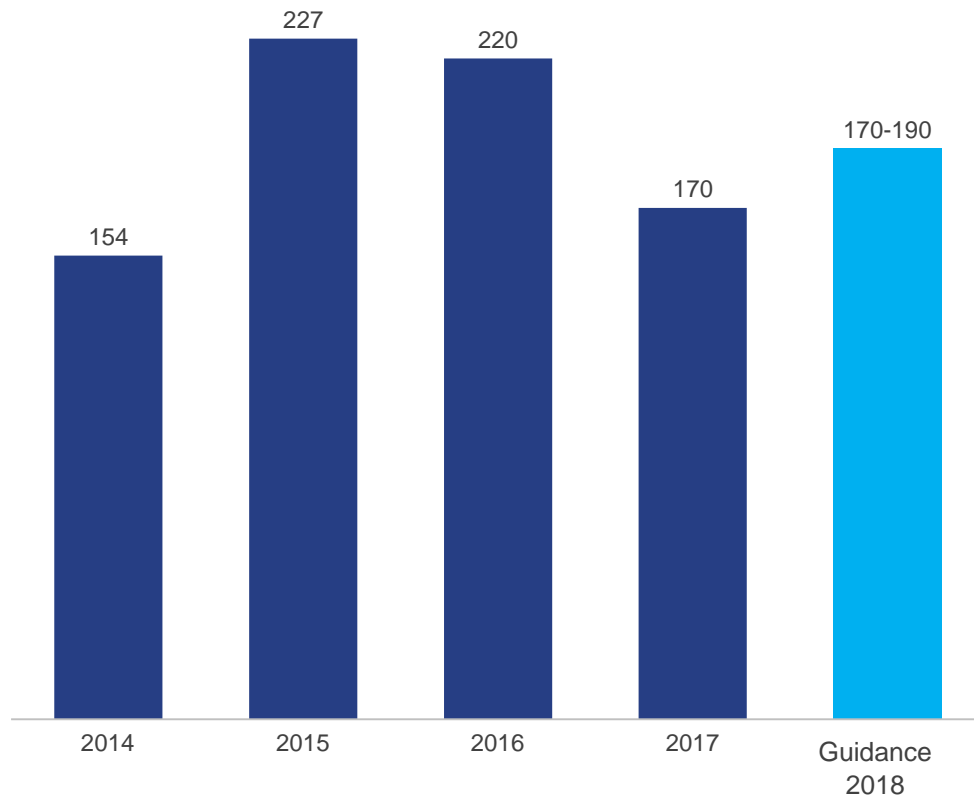
Tourism Investments



- | 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

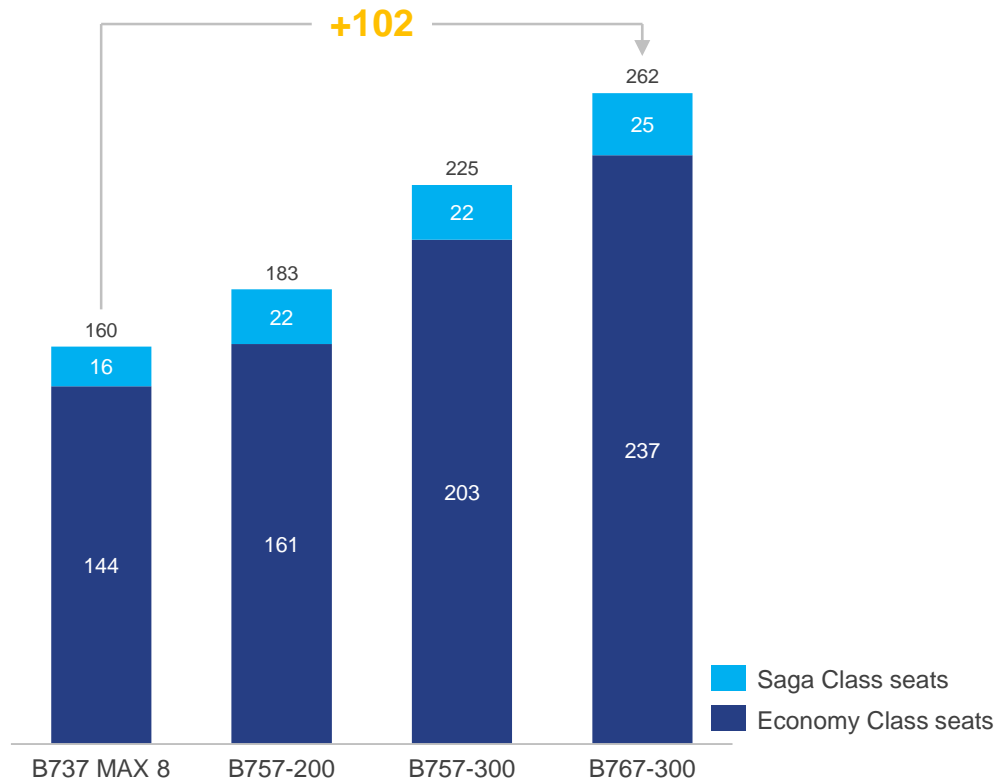
75%

Of via city pairs with no non-stop competition

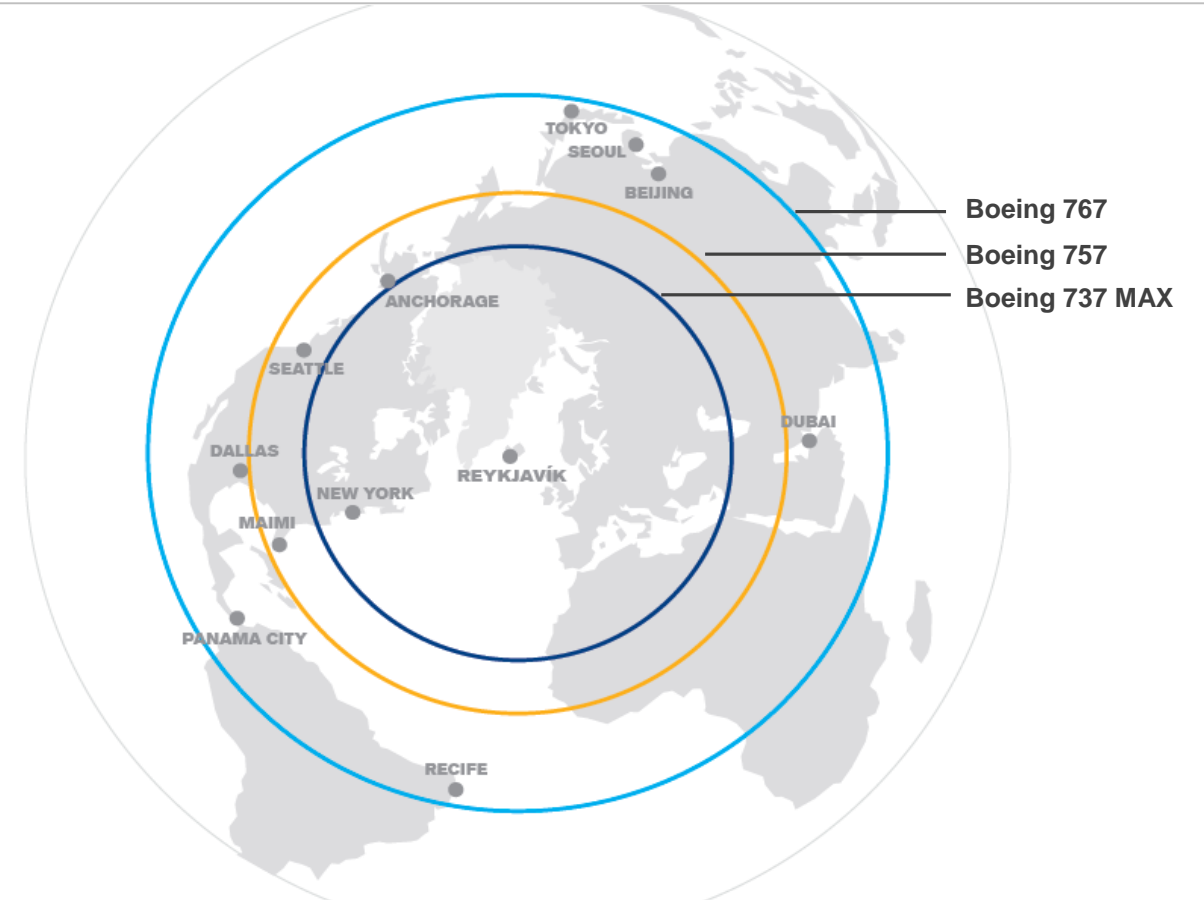


Flexible fleet at Icelandair a base for sustainable growth

Overview seat count per aircraft type



Overview flight range per aircraft type

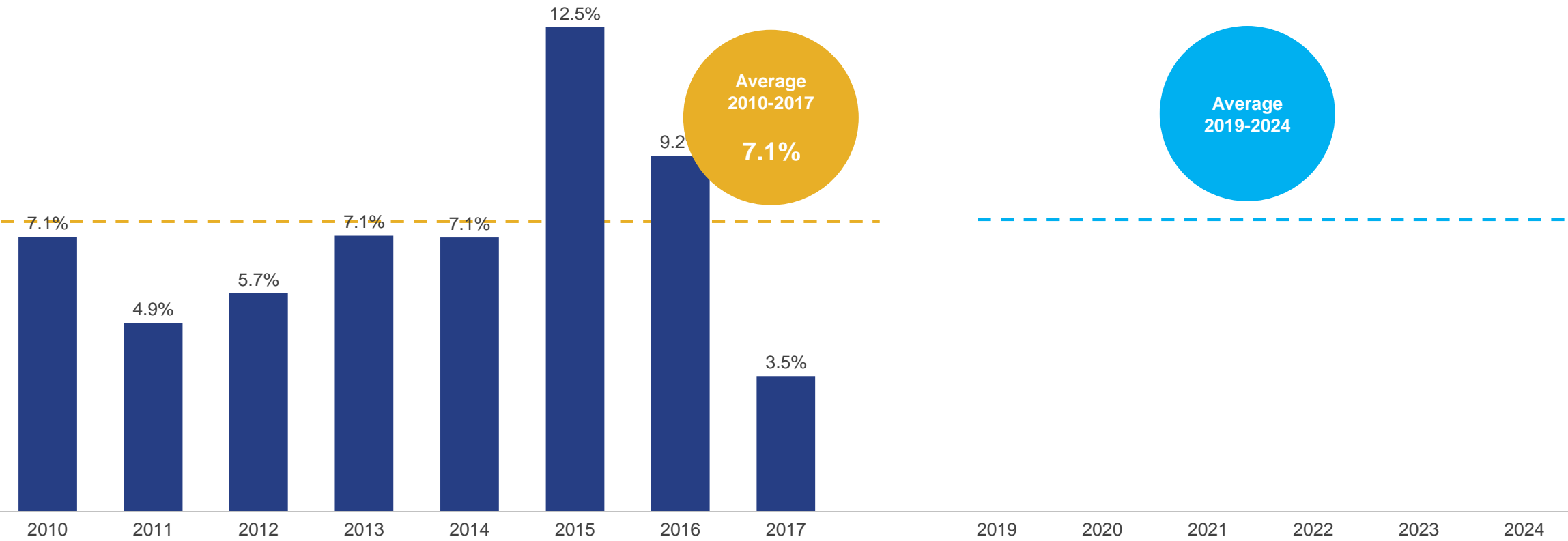


Icelandair is working on network changes for 2019 and onwards

- 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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