

CREDITOR INFO FEBRUARY 2018

Welcome to the Icelandair Group Creditor Info

The Icelandair Group Creditor Info provides information to support analysis of the Company's credit. For further information please visit the section Investors on our website www.icelandairgroup.is/investors/ where additional credit relevant information is available.

EBITDA USD 170.2 million in 2017

Icelandair Group's result in 2017 was good and profitable growth continued, notwithstanding fierce competition and a continued drop in average airfares. Operations EBITDA was USD 170.2 million and net profit amounted to USD 37.7 million. The company transported a record number of over 4 million passengers on international flights over the year.

The year's performance was in line with the Company's last EBITDA guidance and strong financial position and flexibility enables the Company to respond to new circumstances and seize new attractive and exciting market opportunities.

Equity ratio 42%

Total assets amounted to USD 1.4 billion at year-end. Operating assets amounted to USD 652.7 million, increasing by USD 50.1 million from the beginning of the year. The Company's largest asset is its fleet of aircraft, which comprised 46 aircraft at the end of the year, of which 37 are owned by the Company.

Equity amounted to USD 591.5 million at the end of the year, with the equity ratio at 42%.

Interest-bearing debt amounted to USD 289.5 million at the end of the year, as compared to USD 242.4 million at the beginning of the year. Payments on long-term debts amounted to USD 9.5 million in the fourth quarter. Cash and short term investment amounted to a total of USD 225.3 million at the end of the year, as compared to USD 250.1 million at the beginning of the year. Net interest bearing debt amounted to USD 64.3 million.

In October 2016, Icelandair Group issued an unsecured bond in the amount of USD 150 million. The bond was placed at a coupon of 3 month LIBOR + 3.5% with no LIBOR floor. In February, additional USD 40 million was issued with the same terms. The proceeds from the bond issue will be used to finance pre-delivery payments for new aircraft and for Icelandair Group general corporate purposes.

In May 2017, Icelandair, a subsidiary of Icelandair Group signed an agreement for sale and leaseback of four Boeing 737 Max aircraft, one to be delivered in 2018 and three in 2019. The Lessor is BOCOMM Leasing Aviation, a subsidiary of Bank of Communication in China. The lease period is eight years and eight months. The assumption is that the other two aircraft will be financed through JOLCO financing, with negotiations in their final stages. Financing terms are far more favourable than anticipated at the time that the purchase agreements were made. The financing of the aircraft will be 100% in all cases.

Cash flow and investments

Net cash provided by operating activities in the fourth quarter of 2017 amounted to USD 9.1 million, as compared to net cash for use in operating activities amounting to USD 39.5 million in the fourth quarter of 2016. Cash decreased by USD 39.3 million over the quarter.

Investments over the fourth quarter amounted to USD 41.5 million. Investments in operating assets amounted to 37.1 million of which the cost of engine overhauls for own aircraft amounted to USD 12.1 million. Investments in other operating assets amounted to USD 20.3 million and investments in aircraft and aircraft components, USD 4.7 million. Investments in long term cost and intangible assets amounted to USD 4.4 million.

Outlook for Icelandair Group hf.

The outlook for the Company's flight operations remains unchanged. Competition remains fierce in the North Atlantic and in the summer of 2018, 27 airlines will be flying to and from Iceland and the market share of low cost airlines flying across the North Atlantic have been increasing.

In 2018 it is estimated that airline expenses will continue to increase as a result of rising world market price of fuel and general cost increases. There is uncertainty regarding the average price trends in the second half of the year, because of the intense competition and as a result of the rising fuel prices it may be assumed that average air fares will trend upwards. Icelandair's booking situation for the first half of the year is favourable and in line with the increase in capacity between years. It is too early yet to make an assessment of the bookings for the second half of the year.

Icelandair's flight schedule in 2018, as measured in available seat kilometres, is set to expand by 10% over 2017 year's schedule. The number of passengers in 2018 is projected at 4.4 million, up by 350 thousand from the current year. Early next year, Icelandair will introduce three new 160-seat Boeing 737 MAX 8 aircraft, bringing the number of aircraft in use to 33 next summer, 26 of the type Boeing 757 and 4 of the type Boeing 767-300, in addition to the new 737s. Flights will be introduced to six new destinations: San Francisco, Kansas, Cleveland, Baltimore and Dallas in the United States and Dublin in Ireland. Flights to Birmingham in the United Kingdom will be discontinued. The number of flights to a number of current destinations in North America and Europe will be increased.

Prospects in Loftleidir Icelandic's charter flight operations in 2018 are favourable. On the whole, it is assumed that the company will have two more aircraft on lease than in 2017 as a result of new long-term assignments. The operation of the Vita travel agency, which specialises in holiday trips for Icelanders abroad, was extremely successful in 2017, and it is assumed that the operations will also show good profit this year. Air Iceland has six aircraft in operation in 2018. The operation of the company was very challenging in 2017, however conditions are anticipated to improve in 2018.

The number of tourists visiting Iceland is expected to grow by about 10% in 2018. The prospects for Icelandair Hotels in 2018 are quite good. The booking prospects are good, and in general the hotels are better booked than at the same time last year. The operating prospects of Iceland Travel in 2018 is similar to 2017 and the principal emphasis has now been placed on the increased efficiency and competitiveness of the company.

The EBITDA guidance for 2018 is USD 170-190 million. It is important to bear in mind that external factors, such as fluctuations in fuel prices and the currency markets, together with average air fare trends, will significantly impact the Group's performance. The same can be said of the results of wage bargaining in the labour market, with pilots' contracts now open for renegotiation and negotiations in progress since last fall.

Financial Covenants December 31st 2017

Equity ratio:

Equity	591.535
Total assets	1.415.090
Equity ratio	42%
Covenant, min	25%

Cash level:

Cash and short term investment TUSD	225.278
Cash and short term investment MUSD	225
Covenant, min MUSD	50

Debt ratio:

EBITDA (12 mth.)	170.225
Interest bearing debt	289.541
Debt ratio	1,70
Covenant, max	3,50

Debt ratio II:

EBITDAR (12 mth.)	207.914
Interest bearing debt and aircraft lease commitment	479.884
Debt ratio II	2,31
Covenant, max	4,00

Unpledged fixed assets:

Unpledged fixed assets book value	649.395
Remaining outstanding principal	213.660
Ratio	304%
Covenant, min	115%

Interest coverage ratio:

EBIT (12 mth.)	49.794
Net interest	11.915
Interest coverage ratio	4,2
Covenant, min	1,5

KEY FIGURES

USD thousands	Q4 2017	Q4 2016	YoY	12M 2017	12M 2016	YoY
Operating results						
Total income	292.239	256.472	14%	1.419.528	1.285.574	10%
EBITDAR	-5.843	12.007	-	207.914	254.960	-18%
EBITDA	-16.888	2.453	-	170.225	219.845	-23%
EBIT	-46.291	-24.367	-	49.794	118.437	-58%
EBT	-48.128	-22.194	-	48.791	120.111	-59%
Profit/Loss for the period	-40.043	-22.870	-	37.657	89.068	-58%
Balance sheet						
Total assets	-	-	-	1.415.090	1.292.493	9%
Total equity	-	-	-	591.535	568.213	4%
Interest bearing debt	-	-	-	289.541	242.382	19%
Cash and short term investment	-	-	-	225.278	250.125	-10%
Net interest bearing debt	-	-	-	64.263	-7.743	-
Cash flow						
Net cash to/from operating activities	9.054	-39.471	-	205.603	209.024	-2%
Net cash used in investing activities	-48.186	-69.986	-31%	-228.419	-291.759	-22%
Net cash used in/from financing activities	-151	147.727	-	14.554	113.643	-
Cash and cash equivalents end of period	221.191	226.889	-3%	221.191	226.889	-3%
Key ratios						
Equity ratio	-	-	-	42%	44%	-2,2 ppt
Current ratio	-	-	-	0,98	0,92	7%
CAPEX USD thousand	41.503	39.723	4%	166.131	243.397	-32%
EBITDA ratio	-5,8%	1,0%	-6,7 ppt	12,0%	17,1%	-5,1 ppt
Traffic figures						
International Flights						
Load Factor	78,9%	79,8%	-0,9 ppt	82,5%	82,2%	0,3 ppt
ASK ('000.000)	3.137,8	2.952,7	6%	15.245,6	13.653,3	12%
Regional and Greenland Flights						
Load Factor	60,3%	63,7%	-3,4 ppt	65,9%	68,3%	-2,4 ppt
ASK ('000.000)	49,1	40,8	20%	214,5	191,2	12%
Charter Flights						
Fleet Utilization	100,0%	100,0%	0,0 ppt	98,1%	88,9%	9,2 ppt
Sold Block Hours	7.557	5.488	38%	27.460	23.523	17%
Cargo						
FTK('000)	30.961	26.520	17%	117.311	105.925	11%
Hotels						
Sold Hotel Room Nights	63.228	62.871	1%	301.302	287.160	5%
Utilization of Hotel Rooms	76,7%	76,2%	0,5 ppt	81,2%	81,5%	-0,3 ppt