

## CREDITOR INFO MAY 2018

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### **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/](http://www.icelandairgroup.is/investors/) where additional credit relevant information is available.

### **Q1 2018 results in line with projections**

Icelandair Group's results for the first quarter, were in line with expectations, revenue increased by 21% and loss increased between years as was foreseen. EBITDA was negative by USD 18.2 million and loss for the period amounted to USD 34.5 million.

Passengers on Icelandair flights were 659 thousand, up by 0.3% from previous year. The North Atlantic market (Via market) was Icelandair's largest market, accounting for 43% of passengers. Hotel room occupancy decreased between years by 2.7 ppt. to 77.4%. Sold block hours on charter flights increased by 42% between years.

### **Equity ratio 35%**

Total assets amounted to USD 1.6 billion and equity ratio was 35% at the end of the first quarter. Icelandair Group's balance sheet is strong, operating assets amounted to USD 775.0 million, increasing by USD 122.3 million from the beginning of the year. The Company's largest asset is its fleet of aircraft, which comprised 51 aircraft at the end of the quarter, of which 41 are owned by the company.

Equity amounted to USD 554.9 million at the end of the first quarter, with the equity ratio at 35%. Repurchases of own shares decreased equity by the amount of USD 7.5 million, together with a dividend payment approved at the Company's annual general meeting in March. The dividend amounted to 0.15 US cents per share, for a total of USD 7.3 million.

Interest-bearing debt amounted to USD 329.9 million at the end of the quarter, as compared to USD 289.5 million at the beginning of the year. Instalments of long-term liabilities amounted to USD 2.7 million in the first quarter. Cash and short term investment amounted to USD 205.8 million at the end of the quarter, as compared to USD 225.3 million at the beginning of the year. Interest-bearing debt in excess of cash and short term investments therefore amounted to USD 124.1 million at the end of the quarter.

### **Financing of new aircraft**

Three B737 MAX aircraft were delivered in the first quarter of 2018, the first of sixteen ordered by the Company from Boeing and scheduled for delivery over the next three years. Financing has been arranged for all the aircraft delivered to date. Two 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. The positive cash flow resulting from the JOLCO financing in the second quarter amounts to approx. USD 100 million. The financing terms are more favourable than anticipated at the time that the purchase was decided.

### **Cash flow and investments**

Net cash from operating activities in the first quarter of 2018 amounted to USD 67.1 million, down by USD 58.4 million from the first quarter of 2017.

Investments over the first quarter were significant, amounted to USD 191.4 million. Investments in operating assets amounted to a total of USD 189.5 million, for the most part constituting investments in three B737 MAX 8 aircraft, one B757-300 aircraft and one B757-200 aircraft. One of the B737 Max 8 aircraft was sold and leased back for a term of eight years. Investments in long-term cost and intangible assets amounted to a total of USD 1.9 million.

#### **Outlook for Icelandair Group hf.**

Competition is intense in all Icelandair's markets, and there is some uncertainty regarding the trend in average air fares, but there is an indication that they are rising. The world market price of fuel has increased significantly recently, and the average price at the end of April is 44% above the level of the corresponding period last year. Other expenses of airlines have also increased.

Icelandair has in recent months increased the range of its product offerings with a view to meeting different passenger needs. The changes in the structure of the air fares are based, among other things, on extensive digital development work carried out in recent months, which enables Icelandair to develop its product offerings in an efficient manner and to react quickly to changed market circumstances when needed.

The first B737 Max aircraft has been in operation since mid-April, and its operational efficiency has been in line with anticipations. Its fuel consumption is significantly lower than that of Icelandair's B757-200 aircraft, by about 28% per seat. The second and third aircraft are scheduled for introduction in the fleet in May. A total of 33 aircraft will be used to serve the Icelandair's passenger routes next summer: 26 B757 and 4 B767-300 aircraft, in addition to the new B737 MAX 8 aircraft.

Prospects for Loftleidir Icelandic's charter flight operations in 2018 are favourable. It is assumed that the company will have three more aircraft out on lease than in 2017 as a result of new long-term assignments. It is also expected that the operation of the Vita Travel Agency will be satisfactory over the year. Air Iceland Connect has six aircraft in operation in 2018. The company's operation is challenging, and efficiency measures have been taken to improve results.

Icelandair Group has decided to initiate a process to sell Icelandair Hotels, together with the properties pertaining to these operations. At the beginning of the year a new corporate structure was introduced, where the Company's operations were divided into two segments: International flight operations and Investments in aviation and tourism. The next step is now taken, with a decision to initiate a process designed to sell majority share in Icelandair Hotels. The objective with this change is to sharpen further the focus on our core business, which is international aviation.

The Company's EBITDA guidance for 2018 is USD 170-190 million.

**Financial Covenants March 31 2018**


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**Equity ratio:**

Equity	554.861
Total assets	1.587.162
Equity ratio	<b>35%</b>
Covenant, min	25%

**Cash level:**

Cash and short term investment TUSD	205.816
Cash and short term investment MUSD	<b>206</b>
Covenant, min MUSD	50

**Debt ratio:**

EBITDA (12 mth.)	161.842
Interest bearing debt	329.898
Debt ratio	<b>2,04</b>
Covenant, max	3,50

**Debt ratio II:**

EBITDAR (12 mth.)	203.090
Interest bearing debt and aircraft lease commitment	515.289
Debt ratio II	<b>2,54</b>
Covenant, max	4,00

**Unpledged fixed assets:**

Unpledged fixed assets book value	772.688
Remaining outstanding principal	213.660
Ratio	<b>362%</b>
Covenant, min	115%

**Interest coverage ratio:**

EBIT (12 mth.)	39.296
Net interest	12.525
Interest coverage ratio	<b>3,1</b>
Covenant, min	1,5

**KEY FIGURES Q1 2018**

USD thousands	Q1 2018	Q1 2017	YoY
<b>Operating results</b>			
Total income	267.619	222.075	21%
EBITDAR	-6.300	-1.625	-
EBITDA	-18.211	-9.977	-
EBIT	-46.213	-35.864	-
EBT	-43.539	-37.338	-
Profit/Loss for the period	-34.528	-29.884	-
<b>Balance sheet</b>			
Total assets	1.587.162	1.422.289	12%
Total equity	554.861	510.065	9%
Interest bearing debt	329.898	280.531	-
Cash and short term investment	205.816	322.850	-36%
Net interest bearing debt	124.082	-42.319	-
<b>Cash flow</b>			
Net cash from operating activities	67.115	125.497	-47%
Net cash used in investing activities	-129.159	-75.782	70%
Net cash used in/from financing activities	30.802	23.520	-
Cash and cash equivalents end of period	191.257	300.172	-36%
<b>Key ratios</b>			
Equity ratio	35%	36%	-1,0 ppt
Current ratio	0,81	0,89	-
CAPEX USD thousand	191.384	47.280	-
EBITDA ratio	-6,8%	-4,5%	-2,3 ppt
<b>Traffic figures</b>			
International Flights			
Load Factor	76,3%	77,4%	-1,1 ppt
ASK ('000.000)	2.675,6	2.566,6	4%
Regional and Greenland Flights			
Load Factor	60,0%	63,9%	-3,9 ppt
ASK ('000.000)	44,0	38,8	13%
Charter Flights			
Fleet Utilization	100,0%	99,0%	1,0 ppt
Sold Block Hours	8.658	6.078	42%
Cargo			
FTK('000)	30.537	24.927	23%
Hotels			
Sold Hotel Room Nights	61.720	64.657	-5%
Utilization of Hotel Rooms	77,4%	80,1%	-2,7 ppt