

## CREDITOR INFO AUGUST 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.

### Q2 2018 results below anticipations

Icelandair Group's results for the second quarter fell short of anticipations and forecasts of rising average air fares in the second half of the year have not materialised. Total revenue increased by 9% between years and EBITDA was USD 14.7 million. Loss for the period amounted to USD 25.7 million.

Passengers on Icelandair flights were 1.1 million, up by 2.0% from previous year. The North Atlantic market (Via market) was Icelandair's largest market, accounting for 56% of passengers. Hotel room occupancy decreased between years by 2.1 ppt. to 75.0%. Sold block hours on charter flights increased by 37% between years.

### Equity ratio 32%

Total assets amounted to USD 1.7 billion and equity ratio was 32% at the end of the second quarter. Icelandair Group's balance sheet is strong, operating assets amounted to USD 672.9 million, increasing by USD 232.1 million from the beginning of the year. The Company's largest asset is its fleet of aircraft, which comprised 52 aircraft at the end of the quarter, of which 41 are owned by the company.

Equity amounted to USD 529.7 million at the end of June, with the equity ratio at 32%.

Interest-bearing debt amounted to USD 343.3 million at the end of the quarter, as compared to USD 289.5 million at the beginning of the year. Borrowing for the purchase of two 737 MAX is the main reason for the increase between years. Instalments of long-term debts amounted to USD 1.6 million in the second quarter. Cash and short term investment amounted to USD 250.8 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 92.5 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 second quarter of 2018 amounted to USD 60.1 million, down by USD 30.7 million from the second quarter of 2017.

Investments over the second quarter amounted to USD 54.7 million, of which USD 26.1 million involved aircraft and related equipment. The cost of engine overhauls for own aircraft amounted to a

total of USD 21.5 million and other investments in operating assets, mostly investments in hotel operations in Myvatn and a new flight simulator, amounted to USD 6.1 million. Investments in long term cost and intangible assets amounted to USD 1.0 million.

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

The current short-term outlook for Icelandair is less favourable than anticipated earlier. Competition is intense in all Icelandair's markets, and at the same time the cost of resources for flight operations has gone up. The world market price of fuel at the end of July was approximately 44% higher than at the same time last year. Seating capacity on flights across the North Atlantic increased significantly in a short period, particularly in the form of low-fare airline offerings, 27 airlines are flying to and from Iceland in 2018, which is a record high. Increases in air fares have therefore not sufficed to balance against cost increases to the extent anticipated by the company.

There is uncertainty regarding price trends in average air fares in the second half of the year and in addition bookings are falling short of the projected increase in capacity. On 8 July a notice was sent to the Stock Exchange revealing that the Company's projected income would need to be reduced to a considerable degree for the second half of the year and Icelandair Group's EBITDA guidance was reduced to USD 120-140 million. On 27 August Icelandair's Group EBITDA guidance were reduced further to USD 80-100 million.

The Company is going through a period of changes in structure, operations, fleet composition and Route Network, where a development of a new connection bank in Iceland alongside the current Route Network's connection bank for 2019 is under examination.

Prospects for Loftleidir Icelandic's charter flight operations for the second half of 2018 are favourable. Operation of the Vita travel agency has been positive and continued success is anticipated in the second half of the year. Air Iceland Connect operation is challenging. Flights between Keflavik and Akureyri were discontinued in May and the company no longer offers flights to Aberdeen and Belfast. Work is in progress on further integrating Air Iceland Connect with Icelandair.

Icelandair Group has decided to initiate a process to sell Icelandair Hotels, together with the properties pertaining to these operations. The divestment process will be designed to maximise the value of the assets, while at the same time preserving the interests of Icelandic tourism, the hotel employees and other stakeholders.

Iceland Travel's operating prospects have declined over the year following deteriorating tourist market conditions in Iceland. Iceland's competitiveness as a tourist destination has declined. Price sensitivity is more prevalent among visitors, who spend less than they did earlier and stay for a shorter time. To adapt to the changed composition of the tourists, Iceland Travel has launched new product offerings such as shorter trips.

## Financial Covenants June 30 2018

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### Equity ratio:

Equity	529.744
Total assets	1.655.936
Equity ratio	<b>32%</b>
Covenant, min	25%

### Cash level:

Cash and short term investment TUSD	250.834
Cash and short term investment MUSD	<b>251</b>
Covenant, min MUSD	50

### Debt ratio:

EBITDA (12 mth.)	135.960
Interest bearing debt	343.333
Debt ratio	<b>2,53</b>
Covenant, max	3,50

### Debt ratio II:

EBITDAR (12 mth.)	182.864
Interest bearing debt and aircraft lease commitment	546.184
Debt ratio II	<b>2,99</b>
Covenant, max	4,00

### Unpledged fixed assets:

Unpledged fixed assets book value	573.721
Remaining outstanding principal	213.660
Ratio	<b>269%</b>
Covenant, min	115%

**KEY FIGURES Q2 2018**

USD thousands	Q2 2018	Q2 2017	YoY	6M 2018	6M 2017	YoY
<b>Operating results</b>						
Total income	398.906	367.300	9%	666.525	589.375	13%
EBITDAR	28.278	48.504	-	21.978	46.879	-
EBITDA	14.693	40.575	-	-3.518	30.598	-
EBIT	-19.798	9.725	-	-66.011	-26.139	-
EBT	-31.480	11.745	-	-75.019	-25.593	-
Profit/Loss for the period	-25.728	9.910	-	-60.256	-19.974	-
<b>Balance sheet</b>						
Total assets	-	-	-	1.655.936	1.521.372	9%
Total equity	-	-	-	529.744	516.727	3%
Interest bearing debt	-	-	-	343.333	284.659	21%
Cash and short term investment	-	-	-	250.834	360.092	-30%
Net interest bearing debt	-	-	-	92.499	-75.433	-
<b>Cash flow</b>						
Net cash from operating activities	60.062	90.801	-34%	127.177	216.298	-41%
Net cash used in investing activities	-60.861	-51.297	19%	-190.020	-127.079	50%
Net cash used in/from financing activities	52.412	-6.416	-	83.214	17.104	-
Cash and cash equivalents end of period	241.058	336.022	-28%	241.058	336.022	-28%
<b>Key ratios</b>						
Equity ratio	-	-	-	32%	34%	-6%
Current ratio	-	-	-	0,99	0,85	16%
CAPEX USD thousand	54.707	37.649	45%	246.090	84.928	-
EBITDA ratio	3,7%	11,0%	-	-0,5%	5,2%	-
<b>Traffic figures</b>						
International Flights						
Load Factor	80,3%	83,5%	-3,2 ppt	78,9%	81,2%	-2,3 ppt
ASK ('000.000)	4.393,3	4.086,9	7%	7.067,9	6.653,5	6%
Regional and Greenland Flights						
Load Factor	63,9%	66,1%	-2,2 ppt	62,1%	65,3%	-3,2 ppt
ASK ('000.000)	44,0	38,8	13%	92,9	90,7	2%
Charter Flights						
Fleet Utilization	87,5%	96,0%	-8,5 ppt	93,8%	96,2%	-2,4 ppt
Sold Block Hours	9.027	6.584	37%	17.685	12.663	40%
Cargo						
FTK('000)	30.462	29.298	4%	60.843	54.226	12%
Hotels						
Sold Hotel Room Nights	74.819	73.764	1%	136.539	138.421	-1%
Utilization of Hotel Rooms	75,0%	77,1%	-2,1 ppt	76,1%	78,5%	-2,4 ppt