



# ICELANDAIR GROUP

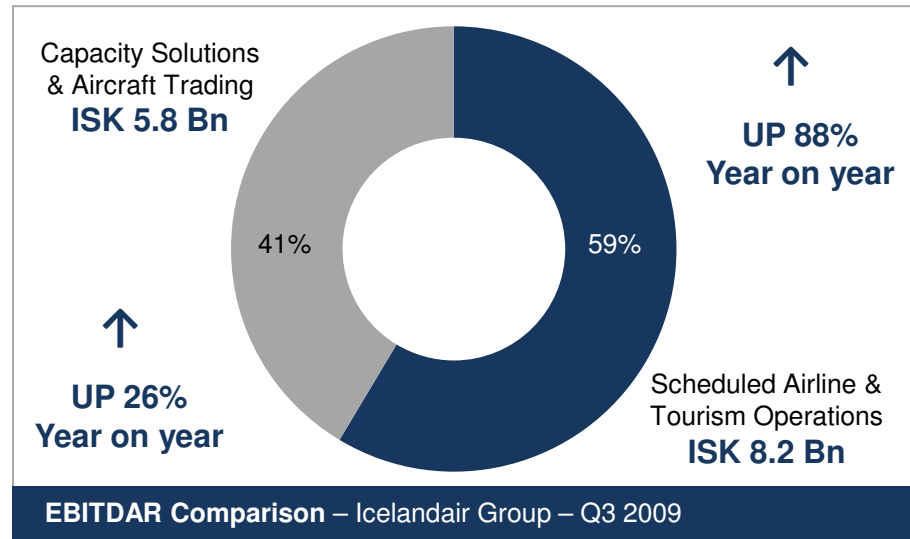
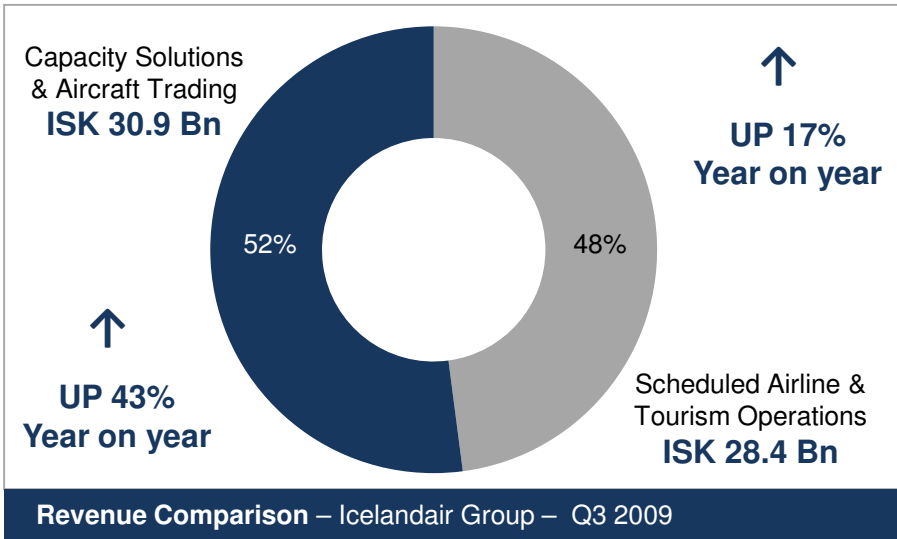
Q3 AND 9M RESULTS 2009

BJÖRGÓLFUR JÓHANSSON – PRESIDENT AND CEO OF ICELANDAIR GROUP

# Relative Comparison Of Segments in Q3



- Icelandair Group operations are divided into two segments
- Each segment makes up approximately 50% of the annual revenue of the Group as is depicted below



# Scheduled Airline And Tourism Operations Q3

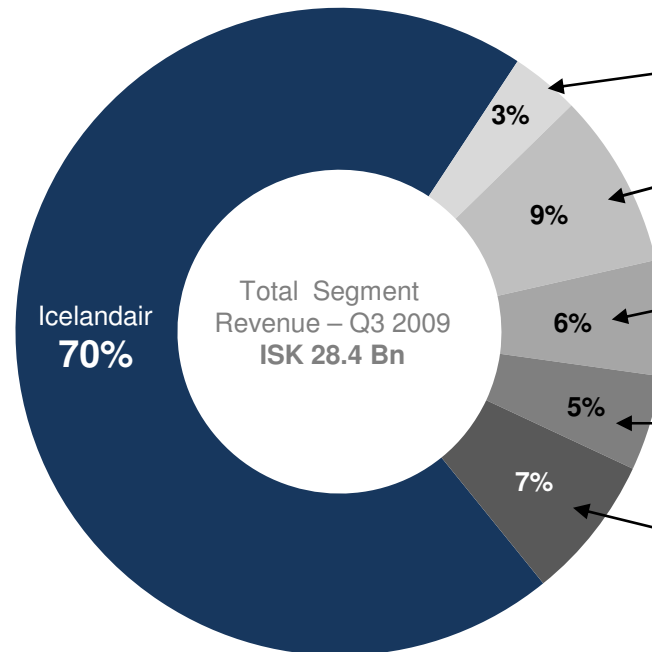
The Scheduled Airline and Tourism business segment comprises the six companies listed below. The segment is at the heart of the new strategy



**Icelandair** is the largest subsidiary within the segment, accounting for around 70% of the income

In Q3 2009 Icelandair carried 500 thousand passengers on its scheduled flights between Iceland, Europe and North America to a total of 24 destinations.

The company operated a fleet of 11 Boeing 757 aircraft during the summer season on it's scheduled network



**IGS** specializes in handling, in-flight catering and cargo warehouse (3%)



**Icelandair Cargo** handles leasing in aircraft and buying capabilities from other sources



**Air Iceland** offers easy access to destinations around Iceland, Faroe Islands and Greenland



**Icelandair Hotels** is the largest and the leading hotel company in Iceland



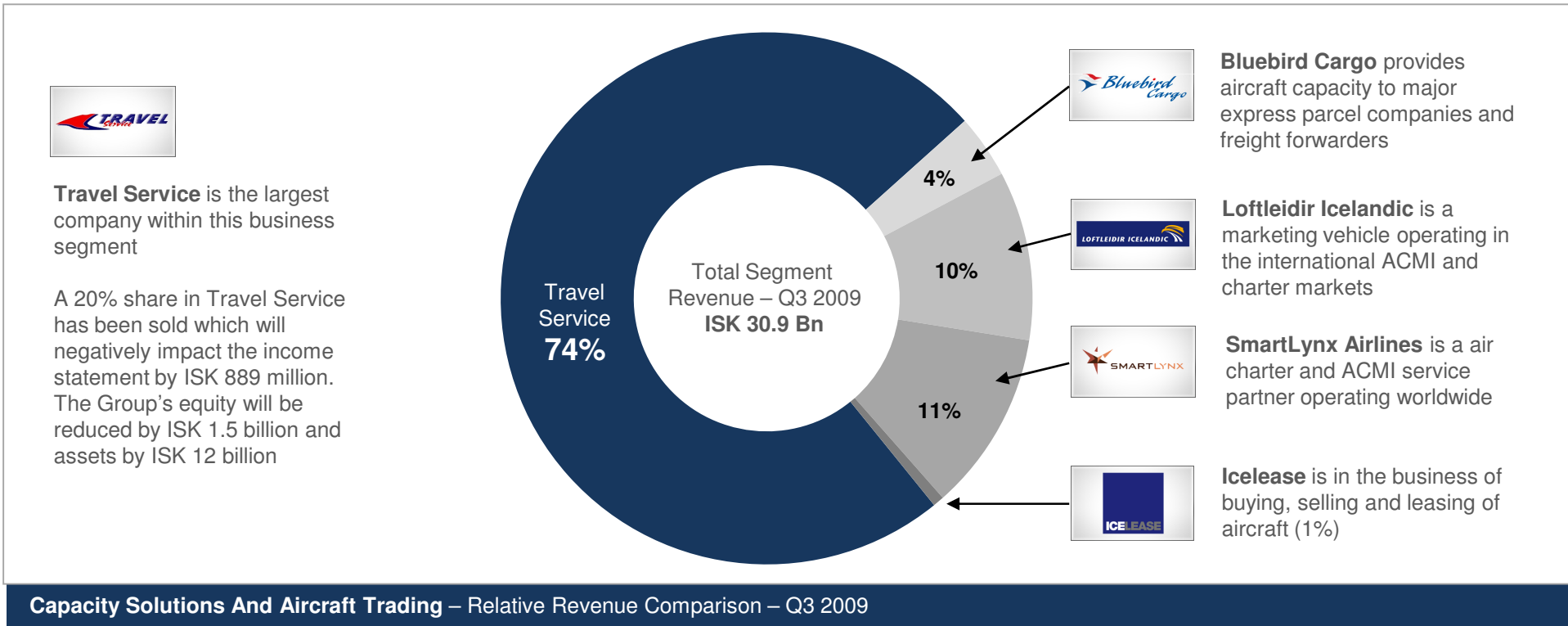
**Iceland Travel** is the leading tour operator and travel agency in Iceland

Scheduled Airline And Tourism Operations – Relative Revenue Comparison – Q3 2009

# Capacity Solutions And Aircraft Trading Q3

The new strategy foresees divestment of most of the companies within this segment – process started by sale of 20% in Travel Service in November

The growth in the segment was fuelled by access to credit markets. The development in the business environment is the driver behind the change in the business model. Loftleidir-Icelandic continues to form a part of the core business of the group.



# Overview of Q3 Results

The Group is reporting a significant growth in EBITDA and EBITDAR but the net income is ISK 424 million worse than last year

Group Revenue

**ISK 53.6 billion**



- Revenue increase of ISK 12.2 billion quarter-on-quarter
- Weakening of ISK has had a substantial effect

Group EBITDA

**ISK 8.4 billion**



- Group EBITDA is ISK 2.3 billion higher than Q3 2008
- EBITDA margin is 15.7% compared to 14.9% in Q3 2008

Group EBITDAR

**ISK 14.2 billion**



- EBITDAR is ISK 5.4 billion higher than in Q3 2008
- The Group reports EBITDAR growth of 60.9% quarter-on-quarter
- EBITDAR margin is 26.4% compared to 21.2% in Q3 2008

Group Net Profit

**ISK 4 billion**



- Net profit is ISK 4 billion which is ISK 424 million worse than previous year
- Financial cost ISK 2 billion higher than in previous year

# 9M Results

The result is good on the operational level, but mounting financial cost burdens the net income

Group Revenue

**ISK 108.1 billion**



- Group revenue grows by ISK 23.7 billion as compared to 9M 2008
- Revenue has increased by 22% on a pro forma basis compared to 1H 2008

Group EBITDA

**ISK 7.5 billion**



- EBITDA of Icelandair Group is ISK 7.5 billion but was ISK 7.2 billion in 9M 2008

Group EBITDAR

**ISK 23.6 billion**



- EBITDAR increases by ISK 8.8 billion as compared to 9M 2008 representing an annual growth of 59%
- EBITDAR margin is 44% compared to 35.7% in 9M 2008

Group Loss

**ISK 1 billion**



- Group loss amounts to ISK 1 billion as compared to ISK 3.1 billion profit in 9M 2008
- Finance cost ISK 4.2 billion as compared to ISK 789 million in 9M 2008
- Loss at SmartLynx and fuel hedges significantly effects the result

# Q3 2009: Income Statement

ISK '000.000	Q3 09	Q3 08	Diff %
Transport revenue.....	21.595	17.409	24%
Aircraft and aircrew lease.....	25.809	19.441	33%
Other.....	6.234	4.615	35%
<b>Operating Income.....</b>	<b>53.638</b>	<b>41.465</b>	29%
Salaries and related expenses.....	6.572	6.455	2%
Aircraft fuel.....	11.464	9.977	15%
Aircraft and aircrew lease.....	6.743	3.788	78%
Aircraft servicing, handling and communication.....	10.588	6.405	65%
Aircraft maintenance.....	4.091	3.528	16%
Other.....	5.733	5.129	12%
<b>Operating Expenses.....</b>	<b>45.191</b>	<b>35.282</b>	28%
<b>EBITDA.....</b>	<b>8.447</b>	<b>6.183</b>	37%
Depreciation.....	-1.572	-1.075	46%
<b>EBIT.....</b>	<b>6.875</b>	<b>5.108</b>	35%
Net finance cost.....	-2.109	-49	-
Share of profit of associates.....	33	45	-27%
<b>EBT.....</b>	<b>4.799</b>	<b>5.104</b>	-6%
<b>Net Profit.....</b>	<b>3.961</b>	<b>4.385</b>	-10%
<b>EBITDAR.....</b>	<b>14.171</b>	<b>8.805</b>	61%

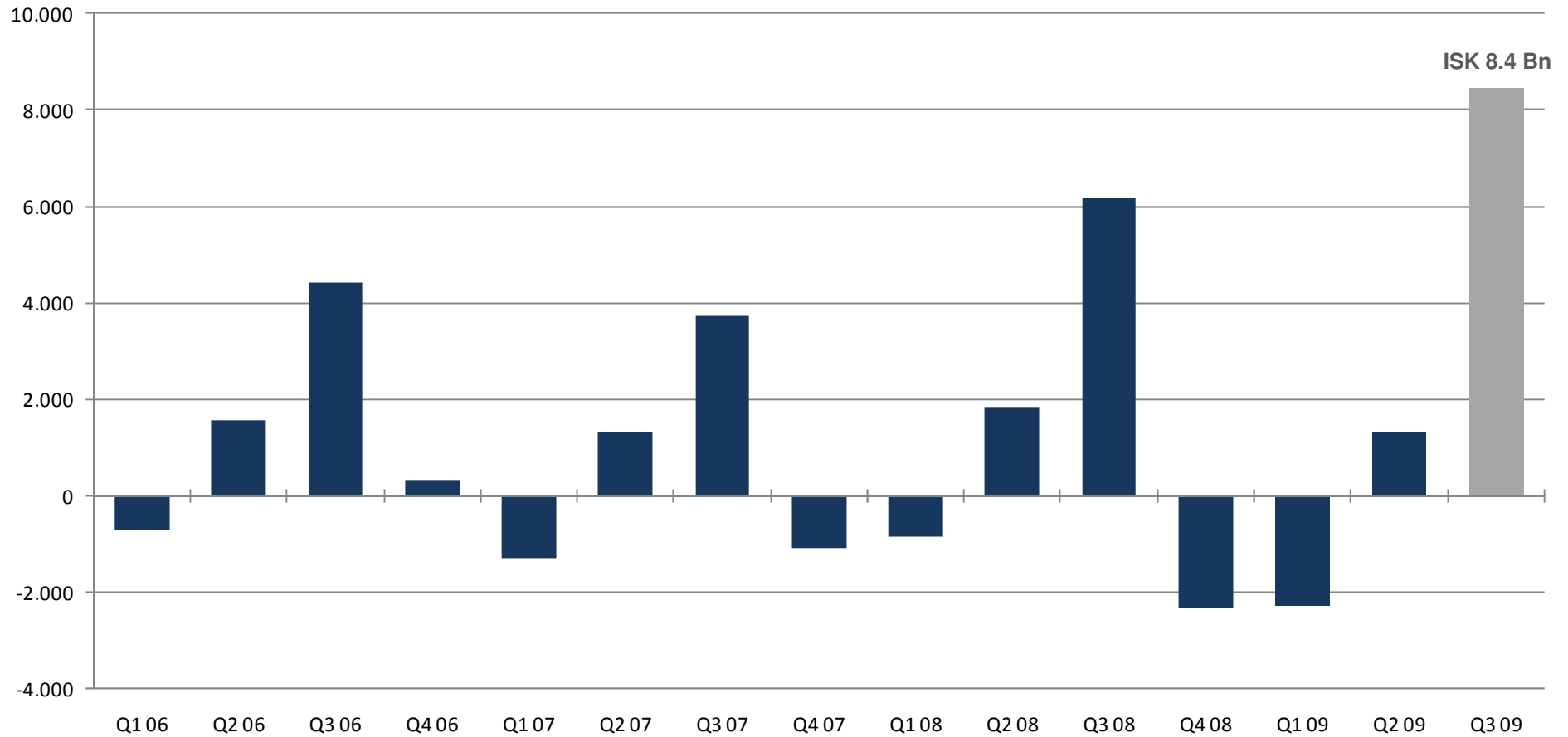
# 9M 2009: Income Statement

ISK '000.000	Actual 9M 09	Actual 9M 08	Proforma 9M 08	Actual Diff %	Proforma Diff %
Transport revenue.....	42.353	36.390	36.813	16%	15%
Aircraft and aircrew lease.....	53.401	37.526	41.392	42%	29%
Other.....	12.344	10.513	10.649	17%	16%
<b>Operating Income.....</b>	<b>108.098</b>	<b>84.429</b>	<b>88.855</b>	28%	22%
Salaries and related expenses.....	18.229	17.689	18.437	3%	-1%
Aircraft fuel.....	22.160	19.137	20.403	16%	9%
Aircraft and aircrew lease.....	17.636	10.023	10.776	76%	64%
Aircraft servicing, handling and communication.....	18.869	11.153	12.078	69%	56%
Aircraft maintenance.....	10.155	7.347	8.102	38%	25%
Other.....	13.593	11.899	12.325	14%	10%
<b>Operating Expenses.....</b>	<b>100.642</b>	<b>77.248</b>	<b>82.121</b>	30%	23%
<b>EBITDA.....</b>	<b>7.456</b>	<b>7.181</b>	<b>6.733</b>	4%	11%
Depreciation.....	-4.121	-2.835	-2.852	45%	44%
<b>EBIT.....</b>	<b>3.335</b>	<b>4.346</b>	<b>3.881</b>	-23%	-14%
Net finance cost.....	-4.201	-789	-701	-	-
Share of profit of associates.....	80	121	122	-	-
<b>EBT.....</b>	<b>-786</b>	<b>3.678</b>	<b>3.302</b>	-	-
<b>Net Loss / Profit.....</b>	<b>-1.018</b>	<b>3.102</b>	<b>2.801</b>	-	-
<b>EBITDAR.....</b>	<b>23.581</b>	<b>14.789</b>	<b>15.280</b>	59%	54%



# EBITDA Comparison by Quarters

- Adjusted for gain on sale of fixed assets depicts the seasonal fluctuations



# Balance Sheet at 30 September 2009

ISK'000.000

	30.9.2009	31.12.2008	30.9.2008
Operating Assets.....	35.177	36.798	34.341
Intangible assets.....	29.590	29.306	34.472
Investment in associates.....	594	1.008	828
Prepaid aircraft acquisitions.....	4.486	4.226	2.857
Long-term receivables and deposits.....	7.135	6.054	4.781
Assets held for sale.....	4.505	0	0
Other current assets.....	17.999	17.373	16.796
Cash and cash equivalents.....	6.122	4.065	7.417
<b>Total assets.....</b>	<b>105.608</b>	<b>98.830</b>	<b>101.492</b>
Stockholders equity.....	24.816	20.080	33.578
Total non-current liabilities.....	17.462	25.112	23.685
Liabilities held for sale.....	3.883	0	0
Other current liabilities.....	59.447	53.638	44.229
<b>Total equity and liabilities.....</b>	<b>105.608</b>	<b>98.830</b>	<b>101.492</b>
Equity ratio.....	23,5%	20,3%	33,1%
Current ratio.....	0,41	0,40	0,55
Net interest bearing debt.....	33.873	39.570	27.801

# 9M 2009: Cash Flow Statement

ISK million	9M 2009	9M 2008
Working capital from operations.....	5.308	8.131
Net cash from operating activities.....	7.217	9.318
Net cash used in investing activities.....	-1.365	-3.245
Net cash used in financing activities.....	-4.315	-2.106
<b>Increase in cash and cash equivalents.....</b>	<b>1.537</b>	<b>3.967</b>
Effect of exchange rate fluctuations on cash held.....	520	1.444
Cash and cash equivalents at 1 January.....	4.065	2.006
<b>Cash and cash equivalents at 30 September.....</b>	<b>6.122</b>	<b>7.417</b>

# 9M 2009: Group Finance Cost

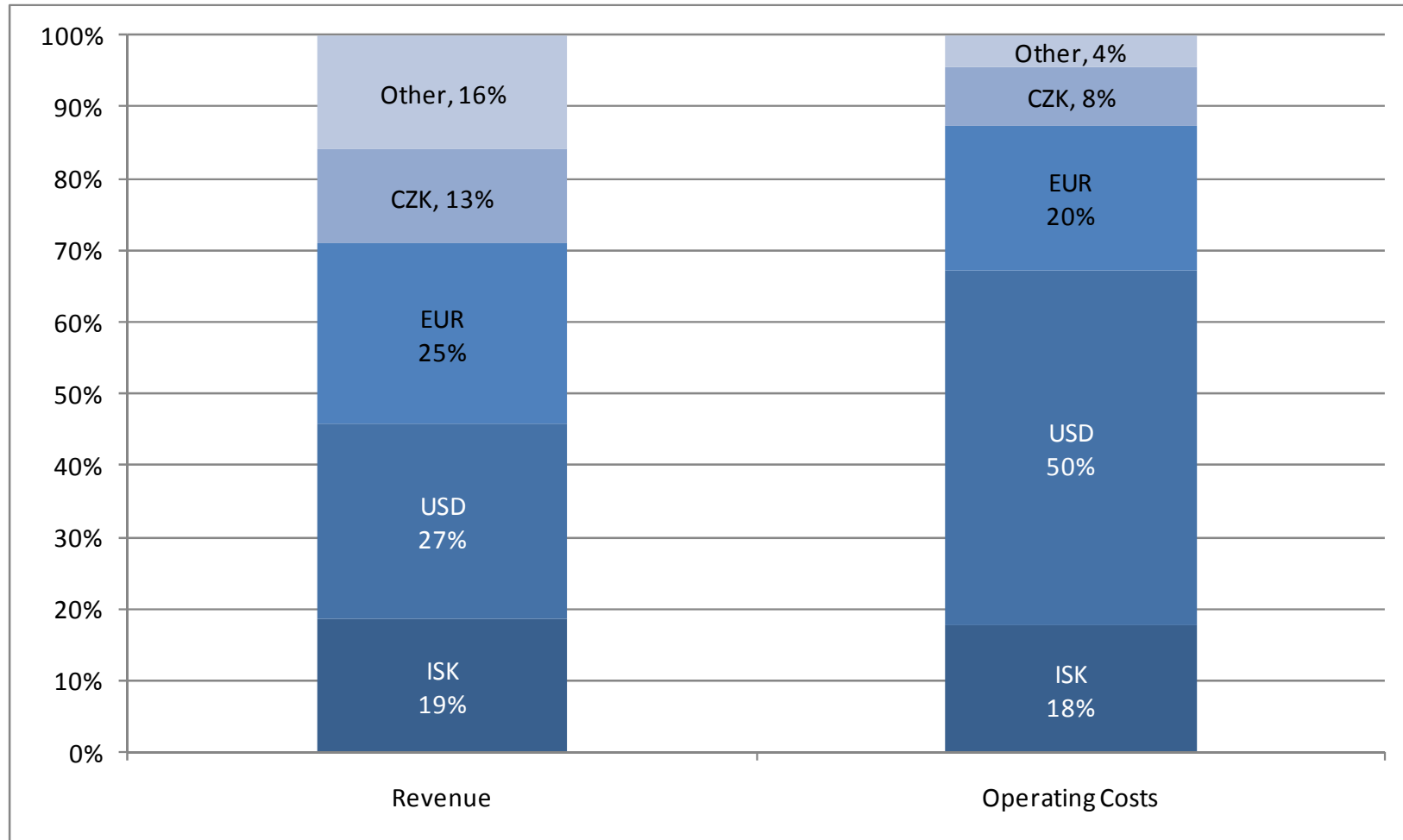
The finance cost of the Group has risen significantly, mainly due to depreciation of ISK

ISK million	9M 2009	9M 2008
Interest income.....	137	311
Interest expenses.....	-3.405	-2.515
Currency effect.....	-511	1.109
Loss / Gain from sale of derivatives.....	-26	306
Loss from assets held for sale.....	-396	0
<b>Net finance cost.....</b>	<b>-4.201</b>	<b>-789</b>

ISK million	Q3 2009	Q3 2008
Interest income.....	52	119
Interest expenses.....	-1.092	-844
Currency effect.....	-671	673
Loss / Gain from sale of derivatives.....	-2	3
Loss from assets held for sale.....	-396	0
<b>Net finance cost.....</b>	<b>-2.109</b>	<b>-49</b>

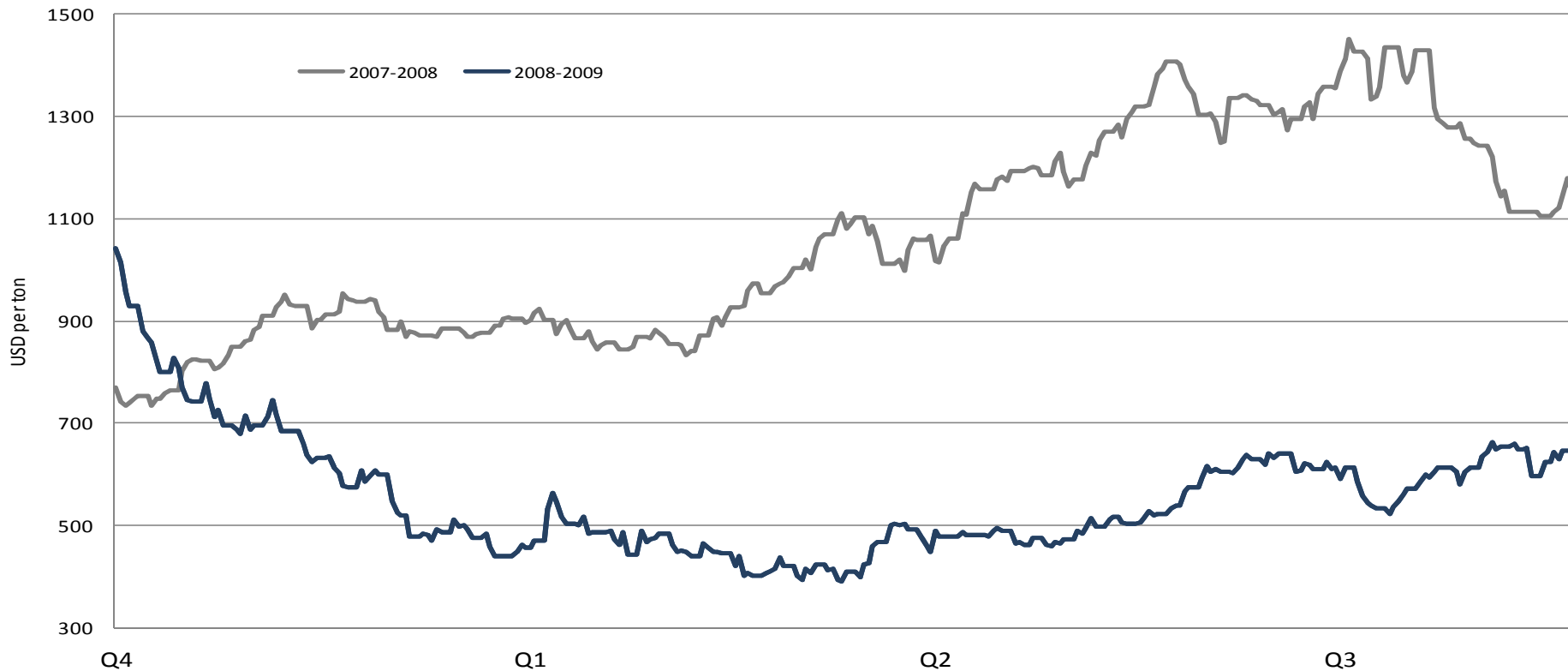
# 9M Currency Breakdown Of Income And Costs

▪ Pre currency hedge Icelandair Group in 9M 2009



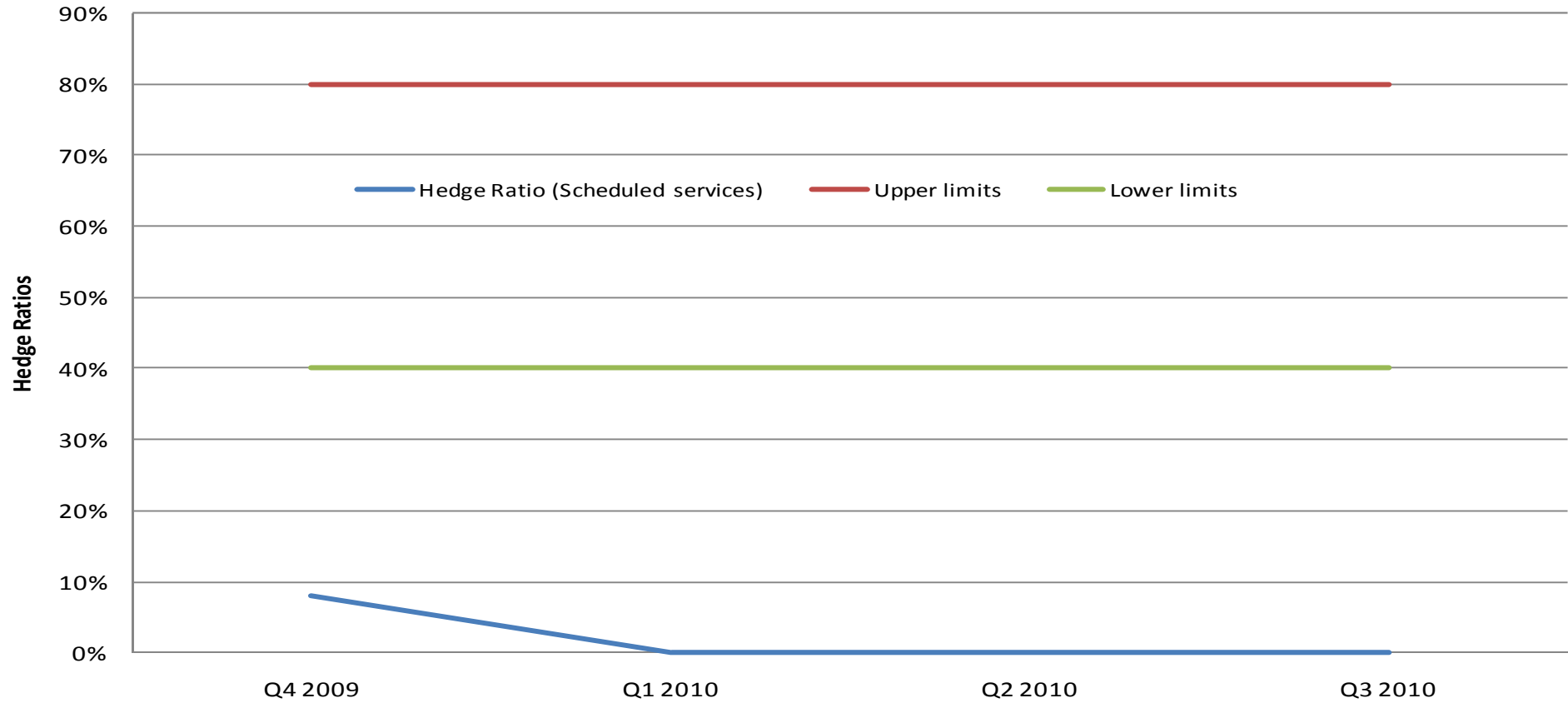
# Positive Developments In Fuel Prices

- Fuel price development has been positive in 2009 as compared to 2007 and 2008



- Average market price for the first nine months of 2009 was USD 534 per ton as compared to USD 1,131 per ton for the first nine months of 2008 – equating a price decrease of 53% between 9M 2009 and 9M 2008

# Jet Fuel Hedging



**In tons**

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Total Volume	Total MTM In m. USD
Hedge (Scheduled services)	2.000	0	0	0	2.000	-2
Hedge ratio	8%	0%	0%	0%	2%	
Hedge (Charter services)	2.000	0	0	0	2.000	-5

# Icelandair Group – Traffic Data

<b>Scheduled Airlines</b>	<b>Q3 09</b>	<b>Q3 08</b>		<b>CHG (%)</b>	<b>Jan-Sep 09</b>	<b>Jan-Sep 08</b>		<b>CHG (%)</b>
Number of Passangers (PAX) - in thousand.....	805	772	↑	4%	1.603	1.719	↓	-7%
Load Factor (%).....	81,7%	81,3%	↑	0,4 ppt	76,6%	76,3%	↑	0,3 ppt
Available Seat Kilometers (ASK) - in thousand.....	2.117.085	2.061.260	↑	3%	4.316.442	4.737.819	↓	-9%
Revenue Passanger Kilometers (RPK) - in thousand.....	1.730.182	1.675.198	↑	3%	3.304.416	3.616.731	↓	-9%
Revenue Per Available Seat Kilometre (RASK) - in ISK.....	9,43	7,72	↑	22%	8,58	6,89	↑	24%
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<b>Capacity</b>	<b>Q3 09</b>	<b>Q3 08</b>		<b>CHG (%)</b>	<b>Jan-Sep 09</b>	<b>Jan-Sep 08</b>		<b>CHG (%)</b>
Fleet Utilization (%).....	93,4%	97,5%	↓	-4,0 ppt	90,1%	95,0%	↓	-4,8 ppt
Sold Block Hours.....	34.617	30.867	↑	12%	77.467	79.319	↓	-2%
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<b>Cargo Business</b>	<b>Q3 09</b>	<b>Q3 08</b>		<b>CHG (%)</b>	<b>Jan-Sep 09</b>	<b>Jan-Sep 08</b>		<b>CHG (%)</b>
Available Tonne Kilometers (ATK) - in thousand.....	52.453	64.301	↓	-18%	132.982	189.547	↓	-30%
Freight Tonne Kilometers (FTK) - in thousand.....	20.042	31.197	↓	-36%	64.961	107.987	↓	-40%
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<b>Tourism</b>	<b>Q3 09</b>	<b>Q3 08</b>		<b>CHG (%)</b>	<b>Jan-Sep 09</b>	<b>Jan-Sep 08</b>		<b>CHG (%)</b>
Available Hotel Room Nights.....	81.633	82.274	↓	-1%	189.848	191.764	↓	-1%
Sold Hotel Room Nights.....	69.645	66.978	↑	4%	134.074	132.278	↑	1%
Utilization of Hotel Rooms.....	85%	81%	↑	4%	71%	69%	↑	2%



# Simplified Business Model

The Board of Icelandair Group has decided to simplify the business model in order to reflect a change in the business environment

- The change marks the end of a period in Icelandair Group's history where the focus was on acquired growth, mostly outside of Iceland
- The future focus of Icelandair Group will be on the operations of Icelandair, Icelandic Tourism and the Hub and Spoke concept that has been a pivotal part of Icelandair's business model for decades, as well as related services
- Under the new plan, non-core operations will be divested when market conditions become favorable

## The Core Of Icelandair Group Going Forward



## Business Units to be Divested



# Key Points and Outlook

## Financials

- Our target for the year as a whole, ISK 6.5 billion in EBITDA, remains unchanged
- Projected full year EBITDA of SmartLynx is negative by ISK 2 billion, and negative oil hedges amount to ISK 5 billion
- Sale of 20% share in Travel Service impacts P&L negatively by ISK 0.9 billion
- The restructuring of the Balance Sheet might impact classification and assessment of assets
- As of Q1 2010 the Group not hedged against jet fuel prices

## Restructuring

- Simplified business model
- Restructuring of Balance Sheet, with the aim to decrease leverage and strengthening equity ratio
- Divestment of non-core subsidiaries

## Industry Environment – IATA update

- The industry is dealing with aircraft capacity overhang
- Demand grows again, international RPK's are up in September
- Signs of stronger capital markets, airlines raising cash
- Load factors for both passengers and freight back to pre-recession levels – fares and yields stabilizing
- Financial performance of airlines is improving in Q3, but USD 11 billion loss still being forecasted for the industry for 2009

## Other Issues

- Proposed new taxes and fees will affect bottom line dramatically next year
  - Effect on revenue generation
  - Growth opportunities will be less feasible

# Q & A

**BJÖRGÓLFUR JÓHANSSON**

PRESIDENT & CEO

**BOGI NILS BOGASON**

CFO

**SIGÞÓR EINARSSON**

DEPUTY CEO

**BIRKIR HÓLM GUÐNASON**

CEO ICELANDAIR





## Icelandair Group

Reykjavík Airport

101 Reykjavík Iceland

Tel: +354 50 50 300

Fax: +354 50 50 389

[info@icelandairgroup.is](mailto:info@icelandairgroup.is)

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