

CREDITOR INFO AUGUST 2016

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 in Q2 improves between years

Icelandair Group's performance in the second quarter of 2016 was good. EBITDA increased by 4% between years, 52.4 million at the end of June. Profit after taxes in Q2 was 26.2 million, up by 17% compared to the same period in 2015.

The scope of the Company's operations has been greatly expanded. To give an example, almost 150 thousand more passengers were transported on international flights during the second quarter, than the year before. The number of tourists visiting Iceland is still growing and tourism is becoming an increasingly important factor of the Icelandic economy.

Equity ratio 39%

Icelandair Group's balance sheet is strong, total assets amounted to USD 1,217.7 million and equity ratio was 39% at the end of the second quarter. Operating assets amounted to USD 521.5 million, increasing by USD 102.4 million from the beginning of the year. The Company's largest asset is its fleet of aircraft, which comprised 47 aircraft at the end of the second quarter, of which 40 are owned by the company.

Equity amounted to USD 470.6 million at the end of the second quarter, 26% higher compared to the same period last year.

Interest-bearing debt amounted to USD 61.5 million at the end of June, as compared to USD 65.5 million at the beginning of the year. Payments on long-term debts amounted to USD 2.2 million in the second quarter. Cash and short term investment amounted to a total of USD 287.6 million at the end of the second quarter of 2016, as compared to USD 214.1 million at the beginning of the year. Cash and short term investments in excess of interest-bearing debt therefore amounted to USD 226.1 million at the end of the second quarter.

Cash flow and investments

The Company's financial position is strong and the Company remains flexible despite its rapid growth in recent years. Cash and cash equivalents at the end of June amounted to 274.4 million. Net cash from operating activities in the second quarter amounted to USD 119.6 million up by USD 32.9 million from the second quarter of 2015.

Investments over the second quarter amounted to USD 100.3 million, thereof investments in operating assets amounted to USD 92.1 million. Two Boeing 767 aircraft were purchased in the course of the quarter for use in the Company's Route Network in 2017. Other investments relate mostly to the Company's hotel operations. Investments in long-term expenses and intangible assets amounted to a total of USD 8.2 million.

Outlook for Icelandair Group hf.

Market prospects for international air carriers have deteriorated somewhat in recent weeks, following repeated terrorist attacks in Europe, the outcome of the Brexit referendum and general market uncertainty. Average air fares have fallen and more difficult operating conditions are anticipated in the coming months than airlines have experienced for a long time.

The booking situation in Icelandair Group's international operations for the second half of the year is favourable and in line with anticipations but in light of the market trend of air fares a reduction is foreseeable in passenger revenues. The Company's international flight schedule in 2016 is expected to be 24% larger than the 2015 schedule. The number of passengers is projected at 3.7 million, as compared to 3.1 million in 2015. Flights will be offered to 43 destinations, four more than last year.

The Company's cargo operations are showing good results. The principal emphasis is on transport in the holds of passenger aircraft. The introduction of two Boeing 767-300 aircraft in the Company's fleet has increased the available hold space and opened new opportunities.

Icelandair Group's hotel operations have expanded greatly in recent years and further large hotel projects are in progress. In early July Canopy Reykjavik, a hotel of 112 rooms, was opened in Central Reykjavik in co-operation with the Hilton Hotel chain to excellent customer reception. An agreement has also been reached with the Hilton Hotel chain on the operation of two high-quality hotels in the heart of Reykjavik under the Curio-collection brand, a chain of unique high-quality hotels in the world. The first will have 50 rooms and is scheduled to open in 2017. The second will have 160 rooms and is expected to open in 2018.

A milestone was passed in the history of Air Iceland when the first Bombardier Q-400 arrived in Iceland in early March, all three Bombardier Q-400 aircraft are now in operation. Since March, flights have been offered to Aberdeen in Scotland in partnership with Icelandair, and a new destination in Greenland, Kangerlussuaq, has been added as the Company's fifth destination in that country. The great increase in the number of tourists visiting Iceland has resulted in a growing number of foreign travellers on domestic flights, and this trend is expected to continue.

The Group's business operations in tourism-related services are showing success and growing as the number of passengers to Iceland increases and the Route Network grows. The figures on the growth in the number of tourists to Iceland reflect this trend, with the growth between years at 35%. The opportunities for the Company's expansion in tourism-related services therefore remain extensive, and work will continue on increasing the proportion of tourists outside the peak season and strengthening the tourist infrastructure throughout the country.

The Company's EBIDTA guidance for 2016 was updated at the end of June and is in the range of USD 210-220 million, down from the forecast of USD 235-245 which was issued in April. Terrorist attacks in Europe and the outcome of the Brexit referendum have created a situation of uncertainty in the markets, rendering air carriers' operating conditions more difficult. The U.K. market is important over the winter period, and the weakening of the GBP will have a negative impact on the Company's performance in the second half of the year. Icelandair Group's passenger revenues are expected to fall as a result.

Financial Covenants June 30 2016

Equity ratio:

Equity	470.558
Total assets	1.217.725
Equity ratio	39%
Covenant, min	25%

Cash level:

Cash and short term investment TUSD	287.612
Cash and short term investment MUSD	288
Covenant, min MUSD	50

Debt ratio:

EBITDA (12 mth.)	224.487
Interest bearing debt	61.481
Debt ratio	0,27
Covenant, max	3,50

Debt ratio II:

EBITDAR (12 mth.)	226.218
Interest bearing debt and aircraft lease commitment	114.810
Debt ratio II	0,51
Covenant, max	4,00

Unpledged fixed assets:

Unpledged fixed assets book value	506.087
Remaining outstanding principal	23.660
Ratio	2139%
Covenant, min	115%

Interest coverage ratio:

EBIT (12 mth.)	257.325
Net interest	1.000
Interest coverage ratio	257,3
Covenant, min	1,5

KEY FIGURES Q2 2016

USD thousands	Q2 2016	Q2 2015	YoY	6M 2016	6M 2015	YoY
Operating results						
Total income	331.355	294.212	13%	543.192	480.287	13%
EBITDAR	60.954	59.140	3%	70.457	65.344	8%
EBITDA	52.405	50.265	4%	53.502	47.997	11%
EBIT	29.207	28.393	3%	8.536	9.114	-6%
EBT	32.764	27.923	17%	11.480	9.619	19%
Profit for the period	26.169	22.365	17%	9.173	7.813	17%
Balance sheet						
Total assets	-	-	-	1.217.725	1.038.402	17%
Total equity	-	-	-	470.558	373.186	26%
Interest bearing debt	-	-	-	61.481	78.499	-22%
Cash and short term investment	-	-	-	287.612	351.208	-18%
Net interest bearing debt	-	-	-	-226.131	-272.709	-17%
Cash flow						
Working capital from operations	57.310	49.611	16%	60.333	50.775	19%
Net cash from operating activities	119.636	86.724	38%	268.428	204.411	31%
Net cash used in investing activities	-58.277	-34.559	69%	-158.078	-72.170	119%
Net cash used in financing activities	-28.500	-20.716	38%	-31.795	-836	-
Cash and cash equivalents end of period	274.416	314.903	-13%	274.416	314.903	-13%
Key ratios						
Equity ratio	-	-	-	39%	36%	3,0 ppt
Current ratio	-	-	-	0,72	0,90	-20%
CAPEX USD thousand	100.325	36.726	173%	157.043	63.073	149%
EBITDA ratio	15,8%	17,1%	-1,3 ppt	9,8%	10,0%	-0,1 ppt
Traffic figures						
International Flights						
Load Factor	80,8%	82,3%	-1,5 ppt	80,3%	81,1%	-0,8 ppt
ASK ('000.000)	3.679	3.009	22%	5.821	4.785	22%
Regional and Greenland Flights						
Load Factor	70,3%	72,1%	-1,8 ppt	71,7%	72,0%	-0,3 ppt
ASK ('000.000)	39	36	7%	68	65	5%
Charter Flights						
Fleet Utilization	100,0%	100,0%	0,0 ppt	100,0%	100,0%	0,0 ppt
Sold Block Hours	5.547	5.838	-5%	11.720	11.055	6%
Cargo						
FTK('000)	26.856	24.618	9%	53.366	49.111	9%
Hotels						
Sold Hotel Room Nights	67.994	64.373	6%	254.842	239.522	6%
Utilization of Hotel Rooms	80,1%	77,0%	3,1 ppt	77,8%	76,2%	1,7 ppt