

## CREDITOR INFO OCTOBER 2016

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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.

### Very good performance in Q3

Icelandair Group's performance in the third quarter of 2016 was very good. EBITDA increased by 4% between years, was 161.75 million at the end of September. Total income increased by 13% from the same time last year and profit after taxes in Q3 was 102.8 million.

The Group's business activities showed significant growth in the quarter and to give an example, just short of 1.5 million passengers were transported on domestic and international flights, a single-quarter record. The number of tourists visiting Iceland is still growing and this trend is expected to continue. The room occupancy in the Company's hotels has never been better and cargo operations are performing well.

### Equity ratio 49%

Total assets amounted to USD 1,184.0 million and equity ratio was 49% at the end of the third quarter. Icelandair Group's balance sheet is strong, operating assets amounted to USD 545.2 million, increasing by USD 126.2 million from the beginning of the year. The Company's largest asset is its fleet of aircraft, which comprised 48 aircraft at the end of the third quarter, of which 40 are owned by the company.

Equity amounted to USD 582.9 million at the end of the quarter, 24% higher compared to the same period last year.

Interest-bearing debt amounted to USD 60.4 million at the end of September, as compared to USD 65.5 million at the beginning of the year. Payments on long-term debts amounted to USD 2.3 million in the third quarter. Cash and short term investment amounted to a total of USD 194.6 million at the end of the third 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 134.2 million at the end of third quarter.

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. The proceeds from the bond issue will be used to finance pre-delivery payments for new aircraft and for Icelandair Group general corporate purposes.

### Cash flow and investments

Net cash for use in operating activities in the third quarter amounted to USD 20.0 million as compared to net cash provided by operating activities in the amount of USD 4.1 million from the third quarter of 2015.

Investments over the third quarter amounted to USD 46.6 million, thereof investments in operating assets amounted to USD 45.5 million.

**Outlook for Icelandair Group hf.**

The external factors in the operating environment of air carriers have changed significantly in recent months. This has led to reduction in the average airfares and continued downward pressure on average prices is expected in the coming months. The booking situation in Icelandair Group's international flight operations for the fourth quarter of 2016 is however good.

The new international flight schedule for 2017 was announced recently, where seat kilometres offered will increase by an estimated 14% and the number of flights by 12%. The number of passengers in 2017 is projected at 4.2 million, up by 450 thousand from the current year. Flights will be offered to 44 destinations, thereof two new destinations, Philadelphia on U.S. east coast and Tampa on the west coast of Florida. 30 aircraft will be in use on passenger flights next summer, four 262-seat Boeing 767-300 wide-body aircraft and 26 Boeing 757 aircraft. This growth will contribute to the continued strengthening of the tourist industry in Iceland and thereby reinforce other operations of Icelandair Group.

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. There are prospects of added demand in both the export and import market next year.

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.

Prospects in the Company's domestic flight operations have brightened. 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. As of February 2017, Air Iceland will introduce direct domestic flights between Keflavik and Akureyri with connections to international flights to and from Keflavik. The flights will be offered year-round, which will strengthen tourist services in northern Iceland, in addition to the convenience of the service for the people of northern Iceland. This new development is in line with Icelandair Group's strategy of strengthening the infrastructure of the Icelandic tourist industry throughout the country.

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 number of tourists visiting Iceland has grown significantly in recent years and this trend is expected to continue. 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 EBITDA forecast in the amount of USD 210-220 million for the operating year of 2016 remains unchanged. It is expected that passenger revenue will reduce still further in the fourth quarter as a result of a greater decline in average fares than foreseen. The Icelandic króna has continued to strengthen, and updated assumptions now indicate that the exchange rate of the króna will be 6% stronger than in the last earnings estimate. This will have a negative impact on EBITDA, as about a third of the Company's expenses are in ISK.

**Financial Covenants September 30 2016**


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**Equity ratio:**

Equity	582.885
Total assets	1.184.019
Equity ratio	<b>49%</b>
Covenant, min	25%

**Cash level:**

Cash and short term investment TUSD	194.570
Cash and short term investment MUSD	<b>195</b>
Covenant, min MUSD	50
Finance charges falling due in next six months	20.1

**Debt ratio:**

EBITDA (12 mth.)	235.362
Interest bearing debt	60.373
Debt ratio	<b>0,26</b>
Covenant, max	3,50

**Debt ratio II:**

EBITDAR (12 mth.)	269.567
Interest bearing debt and aircraft lease commitment	118.282
Debt ratio II	<b>0,44</b>
Covenant, max	4,00

**Unpledged fixed assets:**

Unpledged fixed assets book value	531.839
Remaining outstanding principal	23.660
Ratio	<b>2248%</b>
Covenant, min	115%

**Interest coverage ratio:**

EBIT (12 mth.)	139.700
Net interest	1.511
Interest coverage ratio	<b>92,5</b>
Covenant, min	1,5

## KEY FIGURES Q3 2016

USD thousands	Q3 2016	Q3 2015	YoY	9M 2016	9M 2015	YoY
<b>Operating results</b>						
Total income	485.910	429.446	13%	1.029.102	909.733	13%
EBITDAR	170.355	164.672	3%	242.953	230.123	6%
EBITDA	161.750	155.620	4%	217.392	203.724	7%
EBIT	132.128	131.751	0%	142.804	140.972	1%
EBT	130.825	130.754	0%	142.305	140.373	1%
Profit for the period	102.765	103.143	0%	111.938	110.956	1%
<b>Balance sheet</b>						
Total assets	-	-	-	1.184.019	1.015.460	17%
Total equity	-	-	-	582.885	471.634	24%
Interest bearing debt	-	-	-	60.373	76.208	-21%
Cash and short term investment	-	-	-	194.570	285.025	-32%
Net interest bearing debt	-	-	-	-134.197	-208.817	-36%
<b>Cash flow</b>						
Working capital from operations	161.169	157.406	2%	221.502	208.181	6%
Net cash from operating activities	-19.933	4.085	-	248.495	208.496	19%
Net cash used in investing activities	-63.695	-60.265	6%	-221.773	-132.435	67%
Net cash used in financing activities	-2.289	-2.868	-20%	-34.084	-3.704	-
Cash and cash equivalents end of period	191.397	256.553	-25%	191.397	256.553	-25%
<b>Key ratios</b>						
Equity ratio	-	-	-	49%	46%	3,0 ppt
Current ratio	-	-	-	0,81	1,08	-25%
CAPEX USD thousand	46.631	46.543	0%	203.674	109.616	86%
EBITDA ratio	33,3%	36,2%	-2,9 ppt	21,1%	22,4%	-1,3 ppt
<b>Traffic figures</b>						
International Flights						
Load Factor	85,5%	87,2%	-1,8 ppt	82,7%	83,9%	-1,2 ppt
ASK ('000.000)	4.900	3.959	24%	10.723	8.744	23%
Regional and Greenland Flights						
Load Factor	72,1%	77,8%	-5,6 ppt	71,9%	74,6%	-2,7 ppt
ASK ('000.000)	62	53	17%	128	117	9%
Charter Flights						
Fleet Utilization	100,0%	100,0%	0,0 ppt	100,0%	100,0%	0,0 ppt
Sold Block Hours	6.315	6.379	-1%	18.035	17.435	3%
Cargo						
FTK('000)	26.579	24.866	7%	79.945	73.977	8%
Hotels						
Sold Hotel Room Nights	102.624	91.676	12%	224.289	206.038	9%
Utilization of Hotel Rooms	90,5%	88,2%	2,2 ppt	83,2%	81,1%	2,0 ppt