

## CREDITOR INFO FEBRUARY 2017

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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.

### **Good results in 2016**

Icelandair Group's results in 2016 were good, the second best in the Company's 80-year history. EBITDA amounted to USD 219.8 million, compared to USD 226.7 million in 2015. Net profit in 2016 amounted to USD 89.1 million as compared to USD 111.2 million in 2015. The main cause of the deterioration in results was the reduction in average air fares, combined with the currency trend.

Just short of 3.7 million passengers were transported on international flights, an increase of 20% from previous year, a record number. The room occupancy in the Company's hotels has never been better, 81.5% in 2016 a record-high. The number of tourists visiting Iceland is still growing and this trend is expected to continue.

### **Equity ratio 44%**

Total assets amounted to USD 1.3 billion and equity ratio was 44% at the end of the year. Icelandair Group's balance sheet is strong, operating assets amounted to USD 602.6 million, increasing by USD 183.5 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 year, of which 40 are owned by the company.

Equity amounted to USD 568.2 million at the end of the year, 24% higher compared to the same period last year.

Interest-bearing debt amounted to USD 242.4 million at the end of the year, as compared to USD 65.5 million at the beginning of the year. Payments on long-term debts amounted to USD 10.1 million in 2016. Cash and short term investment amounted to a total of USD 250.1 million at the end 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 7.7 million at the end of the year.

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. In February, additional USD 40 million was issued with the same terms. 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 from operating activities in 2016 amounted to USD 248.5 million as compared to net cash provided by operating activities in the amount of USD 208.5 million in 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 airlines have changed in recent months, which has led to reduction in the average airfares. There are prospects of continued downward pressure on air fares, which can principally be traced to increased competition. It can also be argued that uncertainty resulting from changes in international politics has affected demand. Currency trends have also been unfavourable compared to last year and fuel prices have increased.

Prospects in other Icelandair Group operations are good. Hotel operations are showing success and the outlook for room occupancy is good, resulting from a growing number of tourists visiting Iceland. The seamen's strike in Iceland had a negative impact on the performance of the Group's cargo operation and the strong króna is affecting the performance of the domestic tourist services provided by Iceland Travel, where bookings remain strong.

To meet increased competition, changed circumstances in the Company's markets and changed pattern in consumer behaviour, Icelandair will make adjustments in its fare structure and increase the diversity of its product offerings. The purpose of the changes is to enable the Company to reach out to new customers, enhance the Company's visibility to certain target groups in Internet search engines and broaden the Company's revenue base.

Cost containment measures have been significantly reinforced in the Company since last fall. All processes relating to aircraft and passenger handling at Keflavik airport, are under review and IATA consultants have been hired to assist in the work with the goal of achieving optimum results. The Company has been investing in digital solutions, which will be a point of focus in 2017. The Company projects that this will increase ancillary revenue and increase automation and reinforce processes, thereby reducing cost.

The Company's EBITDA guidance for 2017 projects a decrease in EBITDA between years in the range of USD 140-150 million. The guidance for the year assumes that the average exchange rate of the EUR against the USD will be 1,07 on average, and the exchange rate index of the ISK will be 164 on average in 2017.

**Financial Covenants December 31 2016**


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**Equity ratio:**

Equity	568.213
Total assets	1.292.493
Equity ratio	<b>44%</b>
Covenant, min	25%

**Cash level:**

Cash and short term investment TUSD	250.125
Cash and short term investment MUSD	<b>250</b>
Covenant, min MUSD	50
Finance charges falling due in next six months	4.334

**Debt ratio:**

EBITDA (12 mth.)	219.845
Interest bearing debt	242.382
Debt ratio	<b>1,10</b>
Covenant, max	3,50

**Debt ratio II:**

EBITDAR (12 mth.)	254.960
Interest bearing debt and aircraft lease commitment	295.840
Debt ratio II	<b>1,16</b>
Covenant, max	4,00

**Unpledged fixed assets:**

Unpledged fixed assets book value	591.273
Remaining outstanding principal	23.660
Ratio	<b>2499%</b>
Covenant, min	115%

**Interest coverage ratio:**

EBIT (12 mth.)	118.437
Net interest	2.713
Interest coverage ratio	<b>43,7</b>
Covenant, min	1,5

**KEY FIGURES Q4 2016**

USD thousands	Q4 2016	Q4 2015	YoY	12M 2016	12M 2015	YoY
<b>Operating results</b>						
Total income	256.472	229.966	12%	1.285.574	1.139.699	13%
EBITDAR	12.007	31.587	-62%	254.960	261.710	-3%
EBITDA	2.453	22.942	-89%	219.845	226.666	-3%
EBIT	-24.367	1.868	-	118.437	142.840	-17%
EBT	-22.194	-150	-	120.111	140.223	-14%
Loss/Profit for the period	-22.870	267	-	89.068	111.223	-20%
<b>Balance sheet</b>						
Total assets	-	-	-	1.292.493	971.979	33%
Total equity	-	-	-	568.213	456.531	24%
Interest bearing debt	-	-	-	242.382	65.530	270%
Cash and short term investment	-	-	-	250.125	214.119	17%
Net interest bearing debt	-	-	-	-7.743	-148.589	-95%
<b>Cash flow</b>						
Working capital from operations	-10.701	3.079	-	210.801	211.260	0%
Net cash from operating activities	-39.471	36.640	-	209.024	245.136	-15%
Net cash used in investing activities	-69.986	-87.507	-20%	-291.759	-219.942	33%
Net cash used in financing activities	147.727	-10.616	-	113.643	-14.320	-
Cash and cash equivalents end of period	226.889	194.586	17%	226.889	194.586	17%
<b>Key ratios</b>						
Equity ratio	-	-	-	44%	47%	-3,0 ppt
Current ratio	-	-	-	0,92	0,80	15%
CAPEX USD thousand	39.723	100.784	-61%	243.397	210.400	16%
EBITDA ratio	1,0%	10,0%	-9,0 ppt	17,1%	19,9%	-2,8 ppt
<b>Traffic figures</b>						
International Flights						
Load Factor	79,8%	80,7%	-0,9 ppt	82,2%	83,2%	-1,0 ppt
ASK ('000.000)	2.953	2.340	26%	13.653	11.083	23%
Regional and Greenland Flights						
Load Factor	63,7%	73,7%	-10,0 ppt	69,3%	74,4%	-5,1 ppt
ASK ('000.000)	41	28	48%	180	145	24%
Charter Flights						
Fleet Utilization	100,0%	100,0%	0,0 ppt	100,0%	100,0%	0,0 ppt
Sold Block Hours	5.488	5.829	-6%	23.523	23.263	1%
Cargo						
FTK('000)	26.907	26.520	1%	105.379	100.497	5%
Hotels						
Sold Hotel Room Nights	62.871	48.804	29%	287.160	254.842	13%
Utilization of Hotel Rooms	76,2%	67,9%	8,4 ppt	81,5%	78,2%	3,3 ppt