

Icelandair Group
Presentation of Q2 2016 Results



Highlights

**Record results
in Q2 2016 with
EBITDA at
USD 52.4m**

**Equity ratio
at 39% and strong
cash flow from
operations**

**Outlook for the
year is good
despite negative
impact of external
factors on EBITDA
guidance**

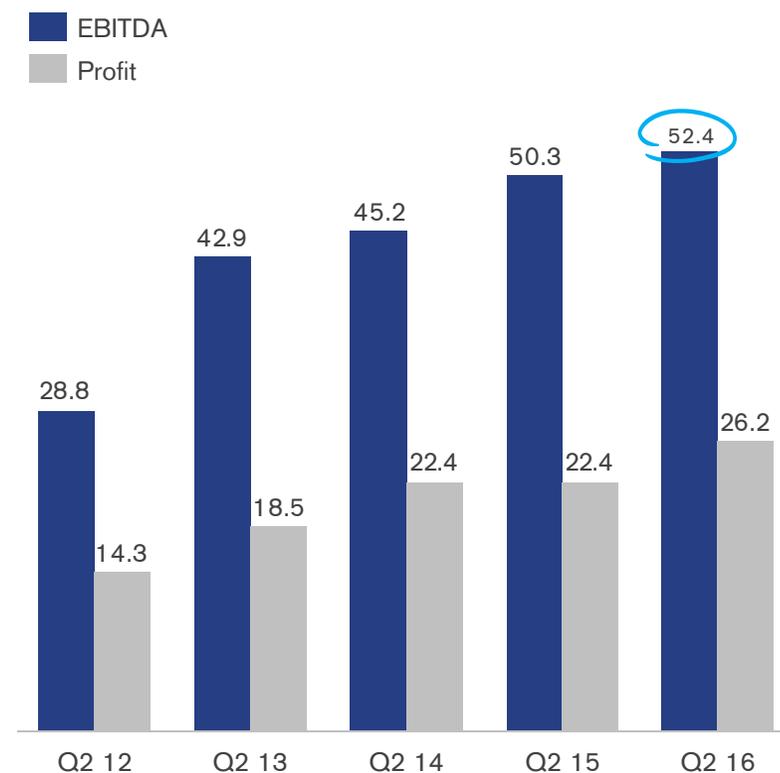
Financials
Bogi Nils Bogason, CFO



Record EBITDA of USD 52.4 million in Q2 2016

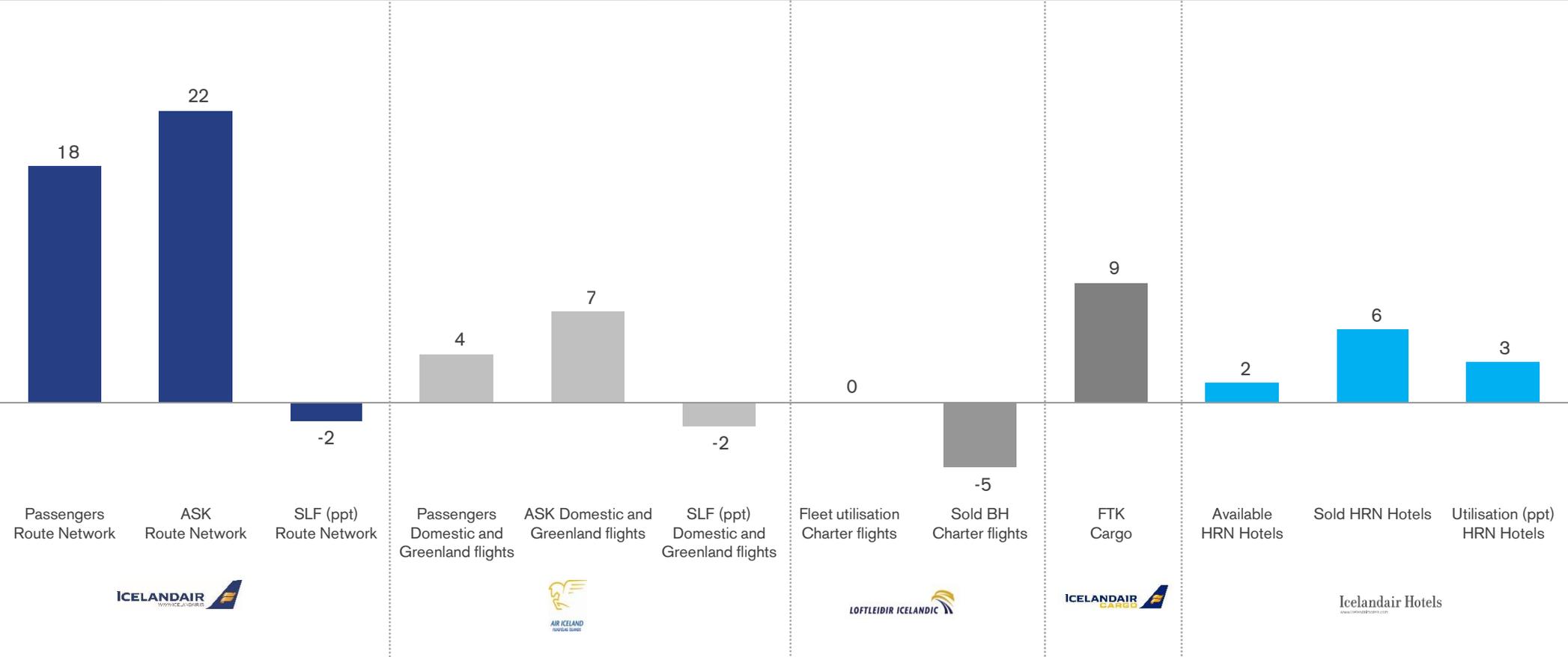
USD million	Q2 2016	Q2 2015	% Chg.
Operating Income	331.4	294.2	13%
Salaries and related expenses	92.0	71.4	29%
Aircraft fuel	61.1	67.1	-9%
Aircraft and aircrew lease	5.5	6.4	-13%
Aircraft handling, landing and communication	29.2	21.9	34%
Aircraft maintenance expenses	20.3	20.3	0%
Other expenses	70.9	57.0	24%
Operating expenses	279.0	243.9	14%
EBITDA	52.4	50.3	-
EBIT	29.2	28.4	-
EBT	32.8	27.9	-
Profit for the period	26.2	22.4	-
EBITDA ratio	15.8%	17.1%	-1.3 ppt
EBITDAR	61.0	59.1	-
EBITDAR ratio	18.4%	20.1%	-1.7 ppt

EBITDA and Profit | USD million



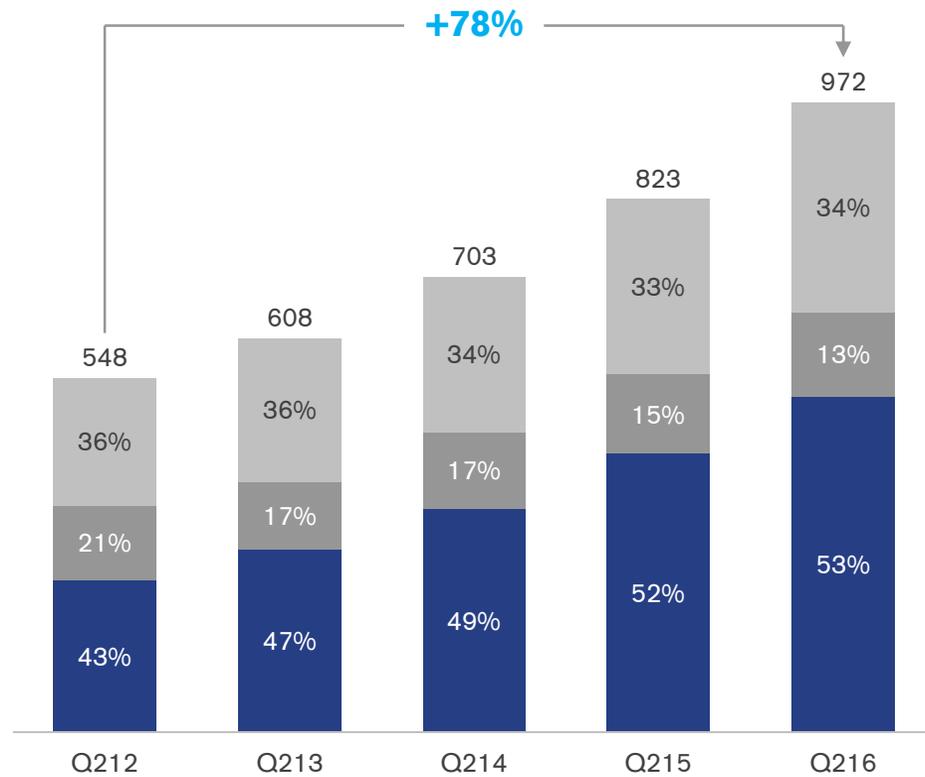
Overall growth in our businesses in Q2 2016

Year-on-year change in %

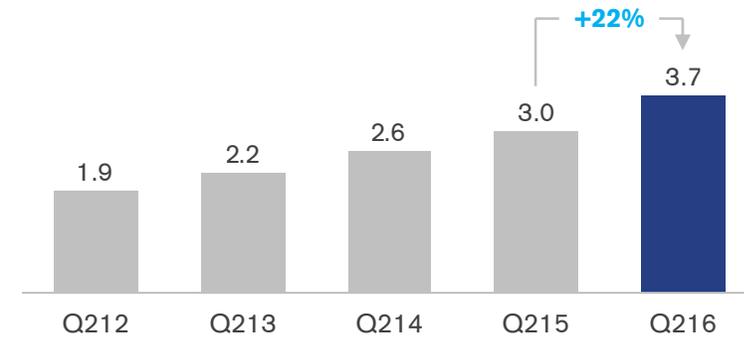


Total number of passengers in the Route Network 18% higher than in Q2 2015

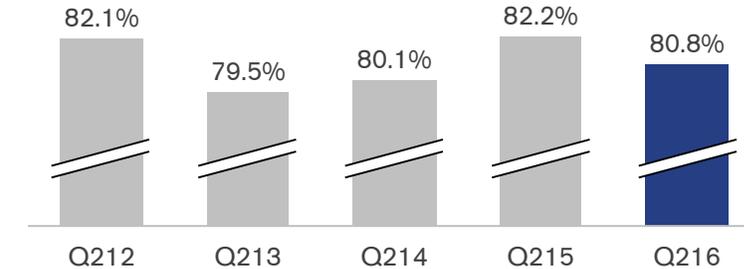
Passenger mix | number of passengers in thousands



Available seat km (ASK) per quarter | billions



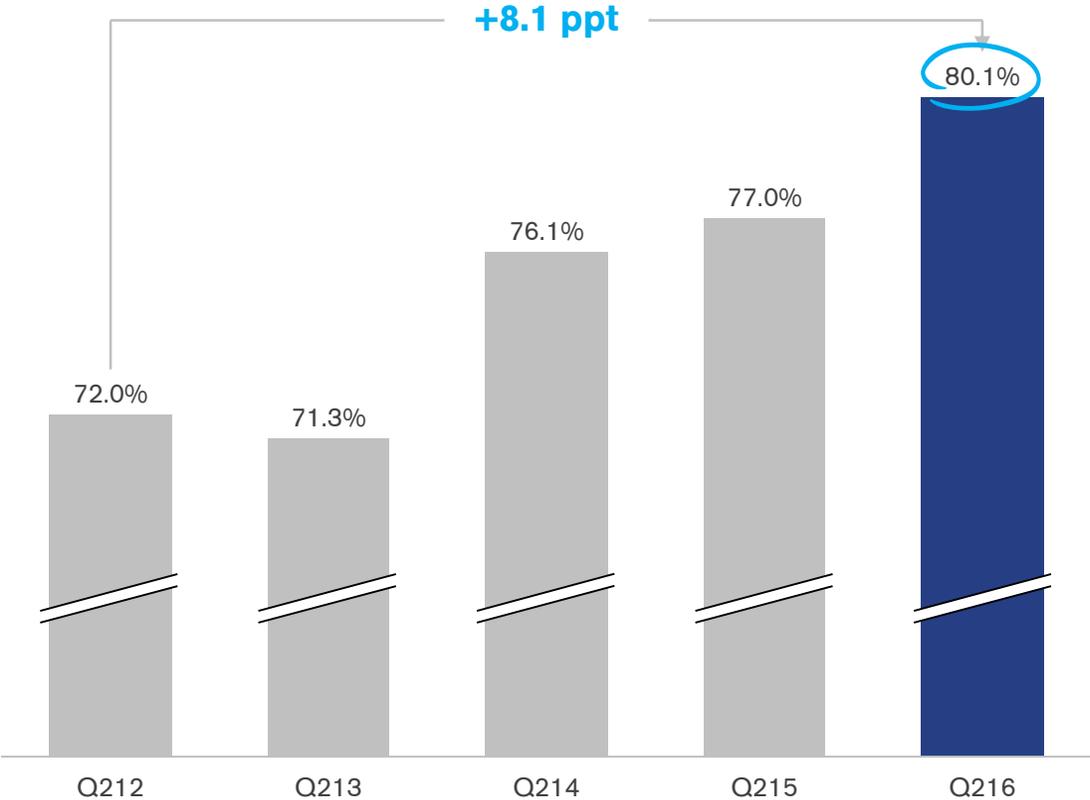
Load factor per quarter | 2012-2016



■ To ■ From ■ Via

Record utilisation at our hotels in Q2 2016

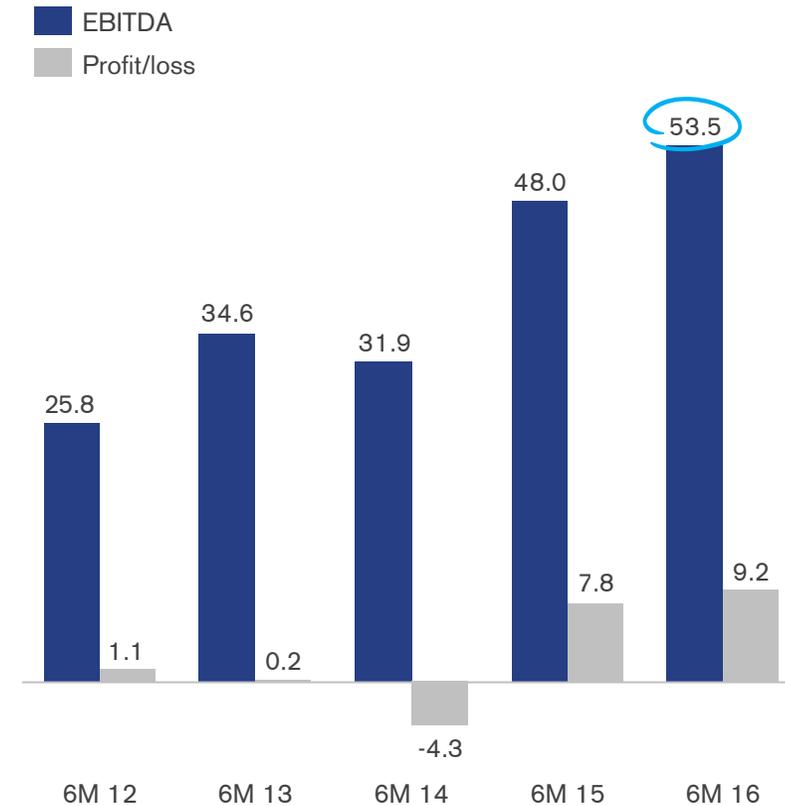
Occupancy in the hotel operation | Q2 2012-Q2 2016



Increase in EBITDA and profit between years

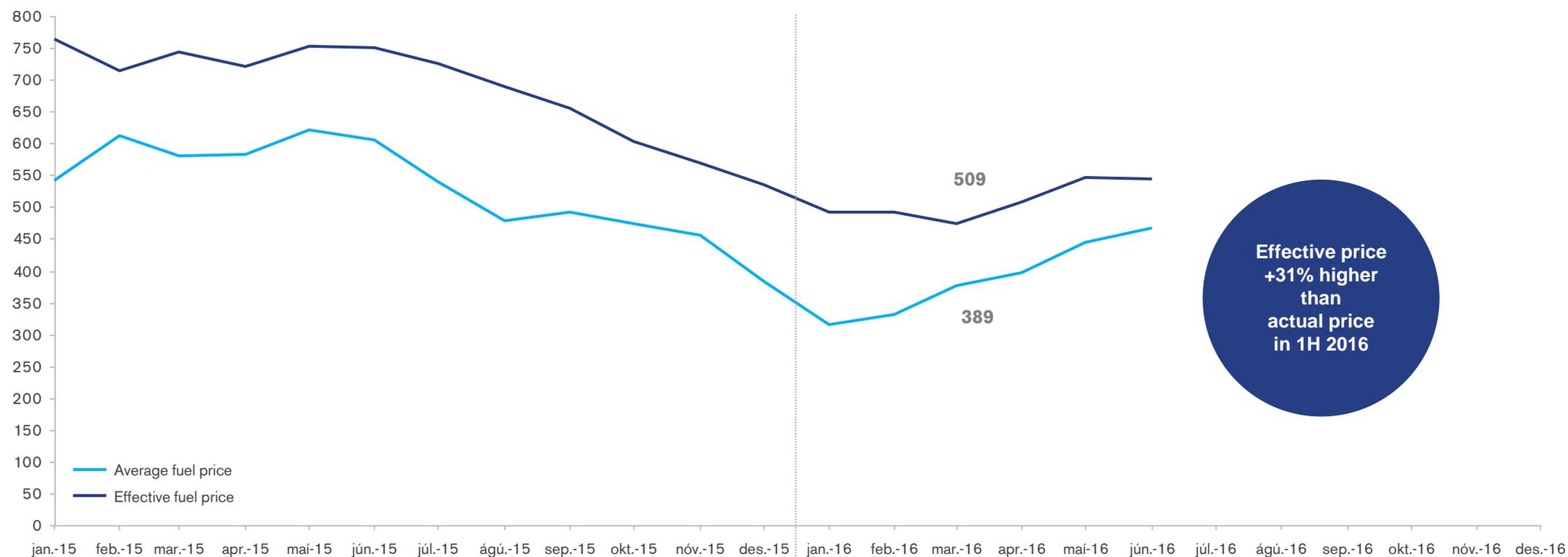
USD million	6M 2016	6M 2015	% Chg.
Operating Income	543.2	480.3	13%
Salaries and related expenses	163.4	128.4	27%
Aircraft fuel	95.2	110.7	-14%
Aircraft and aircrew lease	11.0	12.1	-9%
Aircraft handling, landing and communication	48.8	36.7	33%
Aircraft maintenance expenses	41.2	38.0	8%
Other expenses	130.0	106.3	22%
Operating expenses	489.7	432.3	13%
EBITDA	53.5	48.0	-
EBIT	8.5	9.1	-
EBT	11.5	9.6	-
Profit for the period	9.2	7.8	-
EBITDA ratio	9.8%	10.0%	-0.1 ppt
EBITDAR	70.5	65.3	-
EBITDAR ratio	13.0%	13.6%	-0.6 ppt

EBITDA and profit/loss | USD million



Average fuel price 389 USD/tonne in the first half of 2016

Average and effective fuel price per month | USD/tonne 2015-2016



Effective price
+31% higher
than
actual price
in 1H 2016

56% of estimated usage for the next 12 months has been hedged

Period	Estimated usage (tons)	Swap volume	% hedged	Av. Swap price USD
Jul 16	43,760	23,800	54%	592
Aug 16	44,106	24,700	56%	536
Sep 16	38,707	22,600	58%	521
Oct 16	31,192	18,500	59%	514
Nov 16	23,915	12,500	52%	499
Dec 16	23,354	13,500	58%	470
Jan 17	24,727	14,250	58%	423
Feb 17	21,251	10,250	48%	399
Mar 17	24,722	12,250	50%	444
Apr 17	27,174	15,250	56%	476
May 17	32,618	19,250	59%	489
Jun 17	43,192	24,000	56%	493
12 months	378,719	210,850	56%	499*
Jul 17	45,869	8,000	17%	458
Aug 17	45,927	8,000	17%	482
Sep 17	40,756	8,000	20%	489
Oct 17	32,984	4,000	12%	531
Nov 17	25,499	3,000	12%	512
Dec 17	24,871	3,000	12%	523
13-18 months	215,906	34,000	16%	490*

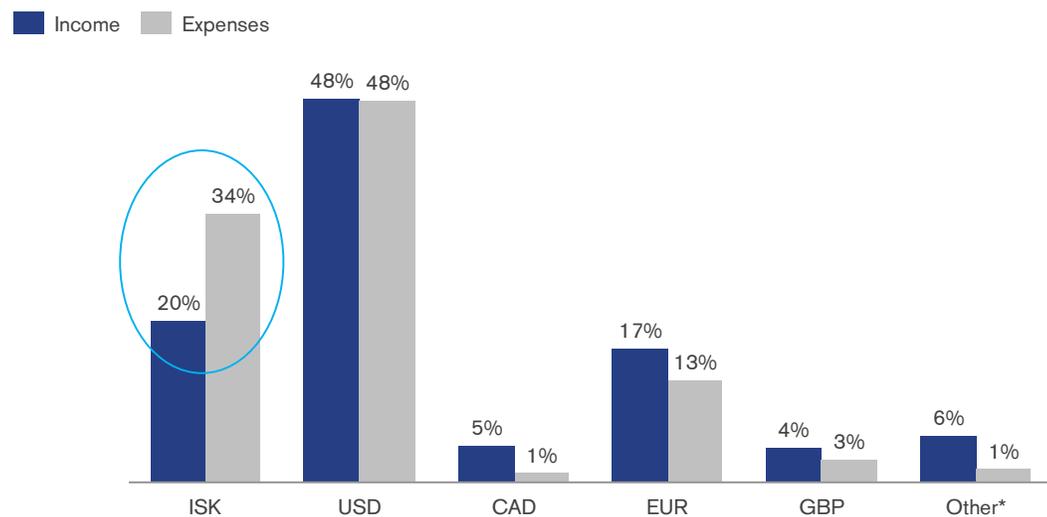
* weighted average price

12m
weighted
swap price
USD 499

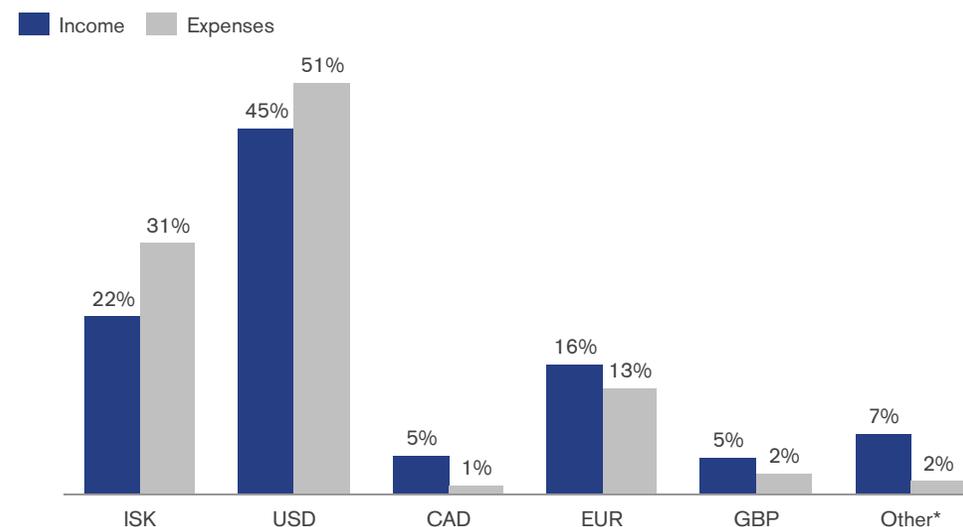
13-18m
weighted
swap price
USD 490

ISK deficit increases between years

Operating income and expenses by currency | Q2 2016



Operating income and expenses by currency | Q2 2015

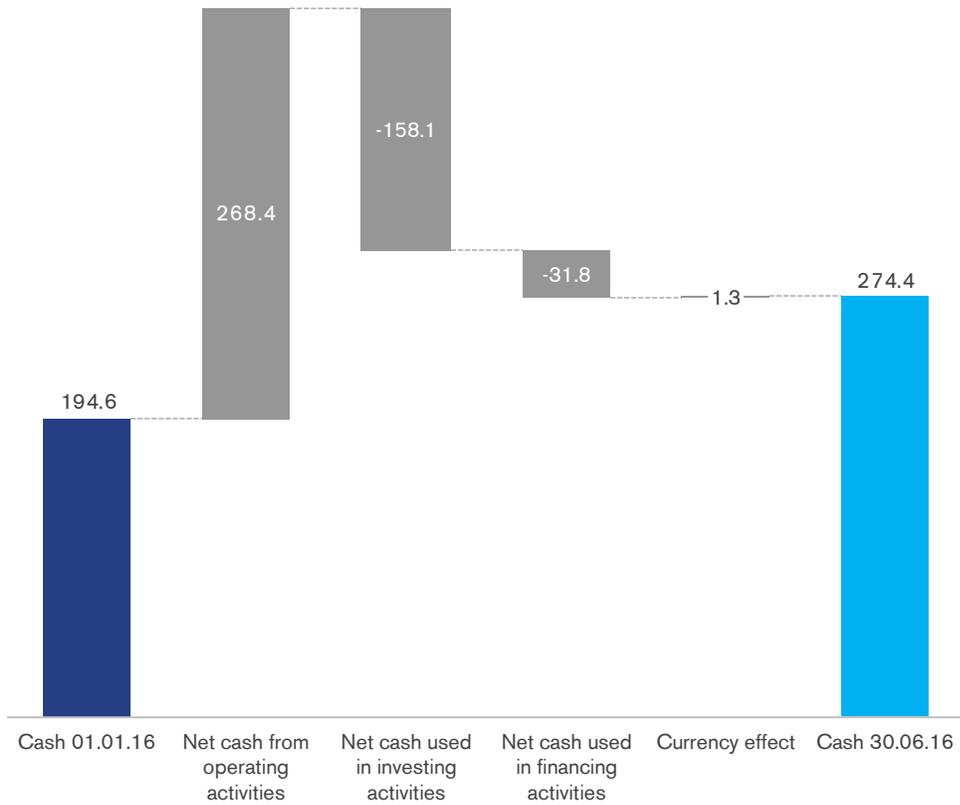


- | The policy is to hedge up to 80% of the currency exposure 12 months ahead
- | Profit or loss of realized contracts posted through Net Finance Income, not EBITDA
- | Net realized gain in Q2 was 1.6 million USD and 2.4 million USD for January – June
- | Unrealized gain at the end of June of contracts that will be realized in 2016 amounts to 4.2 million USD

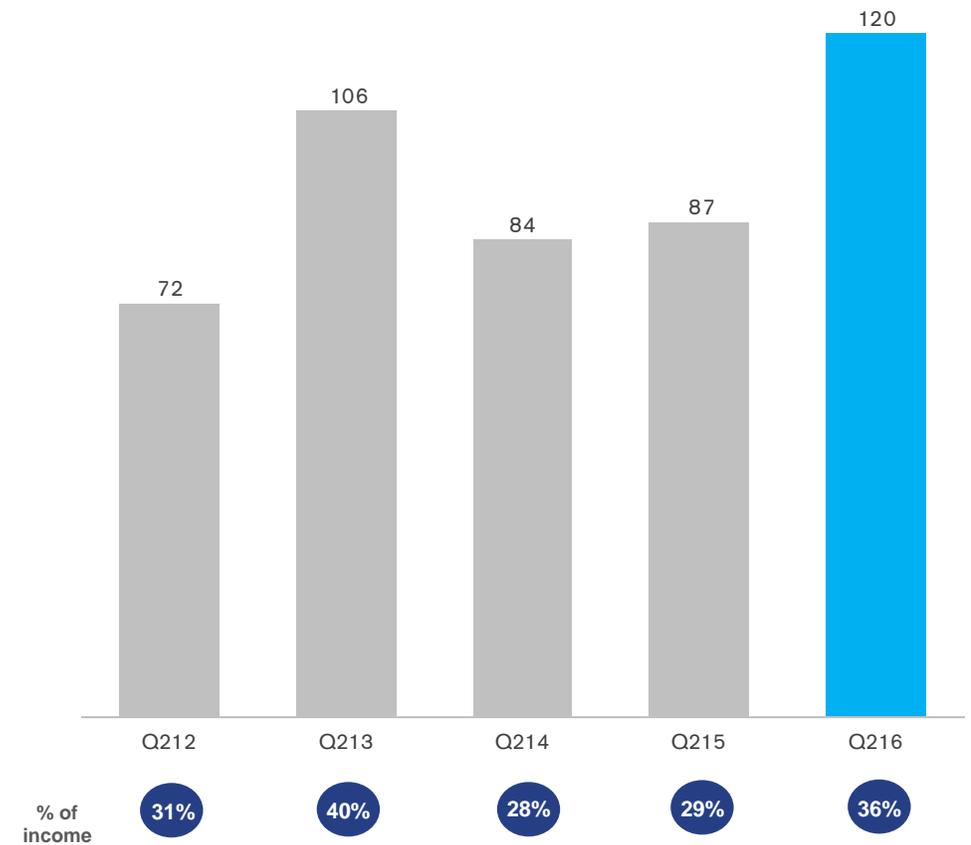
Other* mainly the Scandinavian currencies

Strong underlying cash flow in Q2 2016

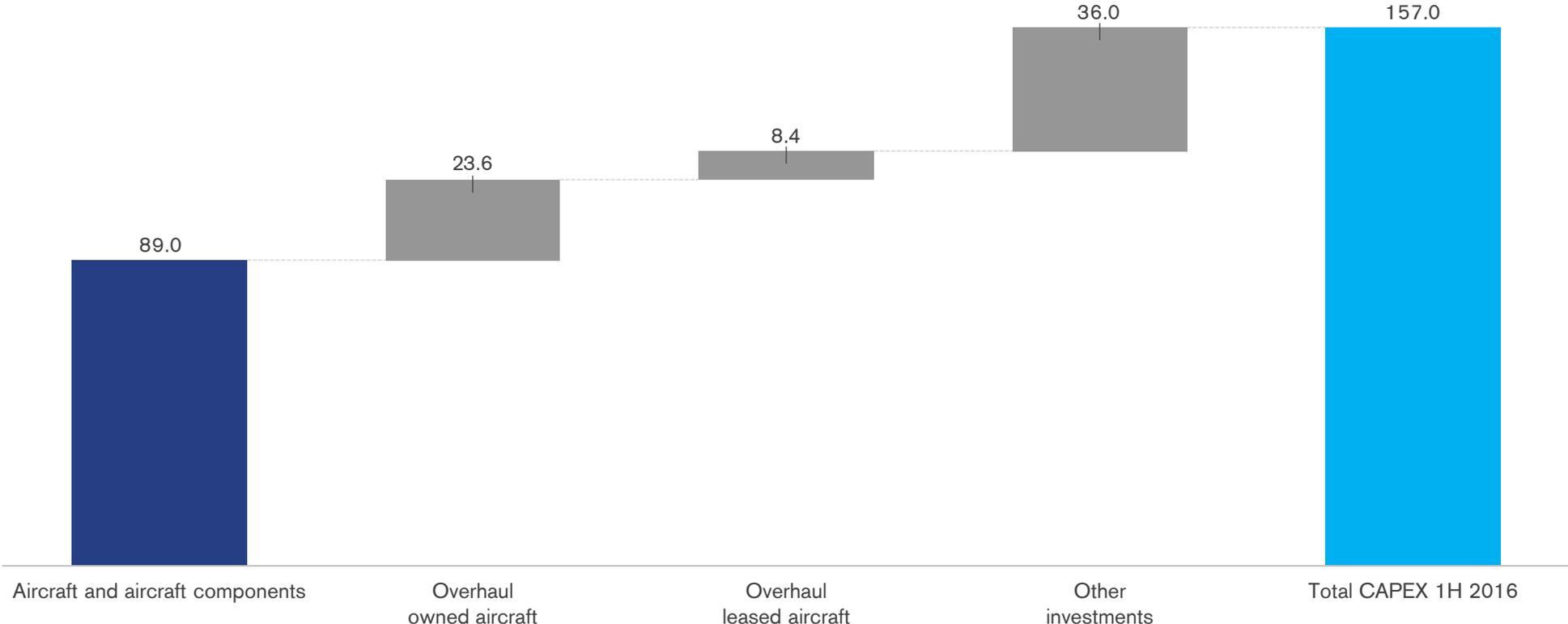
Changes in cash 1H 2016 | USD million



Net cash from operations and as % of income | USD million



Investments in aircraft and aircraft components in 1H 2016 totalling USD 89 million



Equity ratio 39% and increases compared to the same period last year

USD million	30.06 16	31.12 15	30.06 15
Assets			
Operating Assets	521.5	419.1	336.8
Intangible assets	173.4	172.7	174.0
Other non-current assets	60.6	45.8	22.9
Total non-current assets	755.4	637.6	533.8
Other current-assets	174.7	120.3	153.4
Short term investments	13.2	19.5	36.3
Cash and cash equivalents	274.4	194.6	314.9
Total current assets	462.3	334.4	504.6
Total assets	1,217.7	972.0	1,038.4

Interest
bearing debt
USD 61.5m

Net cash
USD
226.1m

USD million	30.06 16	31.12 15	30.06 15
Equity and liabilities			
Stockholders equity	470.6	456.5	373.2
Loans and borrowings non-current	51.0	55.4	66.1
Other non-current liabilities	54.5	44.1	38.2
Total non-current liabilities	105.5	99.5	104.3
Loans and borrowings current	10.5	10.1	12.4
Trade and other payables	280.8	219.7	237.2
Deferred income	350.4	186.1	311.3
Total current liabilities	641.7	415.9	560.9
Total equity and liabilities	1,217.7	972.0	1,038.4
Equity ratio	39%	47%	36%
Current ratio	0.72	0.80	0.90
Net cash*	226.1	148.6	272.7
Interest bearing debt	61.5	65.5	78.5

* Net cash = cash and cash equivalents + short term investments – interest bearing debt

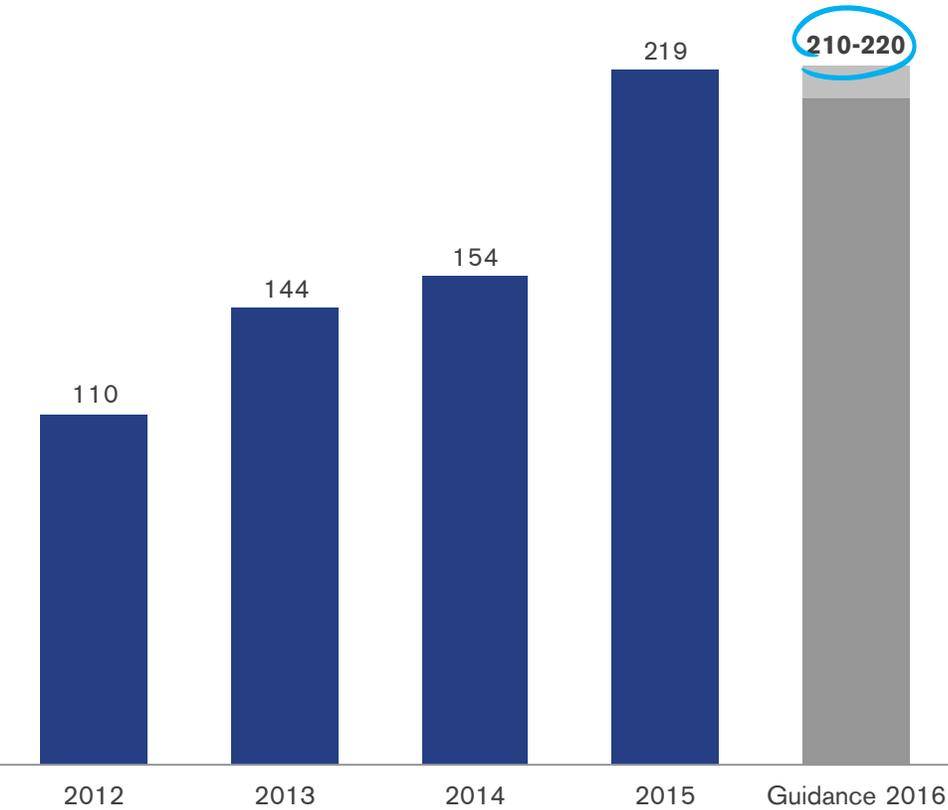
Outlook

Björgólfur Jóhannsson, President and CEO



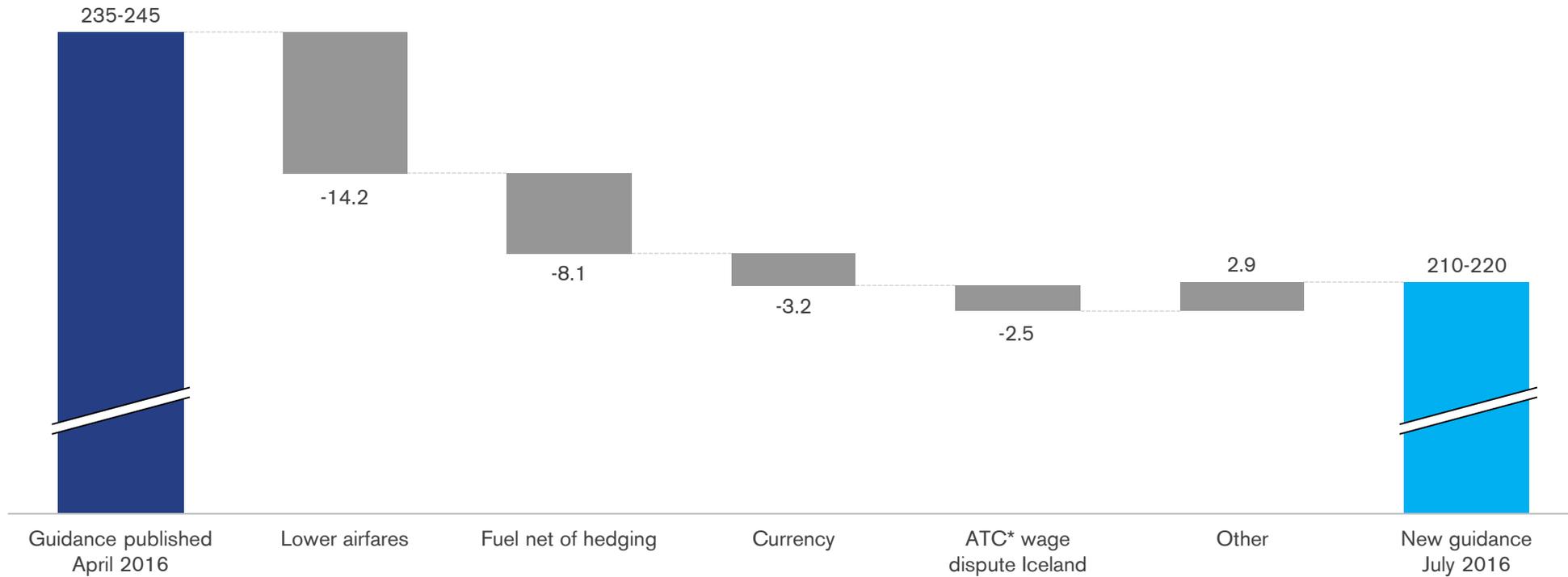
External factors leading to lowering of EBITDA guidance for 2016 from USD 235-245 million to USD 210-220 million

EBITDA development 2012-2016 | USD millions



- Repeated terrorist attacks in Europe
- Brexit and devaluation of the GBP
- Decline in air fares
- Higher fuel prices for the latter half of the year
- ISK strengthening against USD

Yield pressure and higher fuel prices have leading effects on the lowering of the EBITDA guidance



All figures in USD million.
* ATC = Air Traffic Control personnel

Turbulence in the market

Bloomberg

European airlines are warning that more turbulence is ahead for their bottom lines as terror attacks sap demand for short- and long-haul travel during the crucial summer travel season, with the effects magnified by aggressive expansion to take advantage of low fuel prices.

BLOOMBERG - Jul 21, 2016

Lufthansa, EasyJet Warn of Terror Threat to Airline Profit

Wednesday. The German carrier issued the profit warning because it no longer sees a quick rebound. **EasyJet** Plc has offered summer fare promotions for the first time ever amid the worst market in 10 years...

Lufthansa

Deutsche Lufthansa AG reversed course on its 2016 forecast, calling for a decline instead of a gain in operating profit, as overseas travelers balk at traveling to Europe following a spate of deadly terrorism attacks, Lufthansa said late Wednesday. The German carrier issued the profit warning because it no longer sees a quick rebound.

easyJet

Commenting; Carolyn McCall, easyJet Chief Executive said:

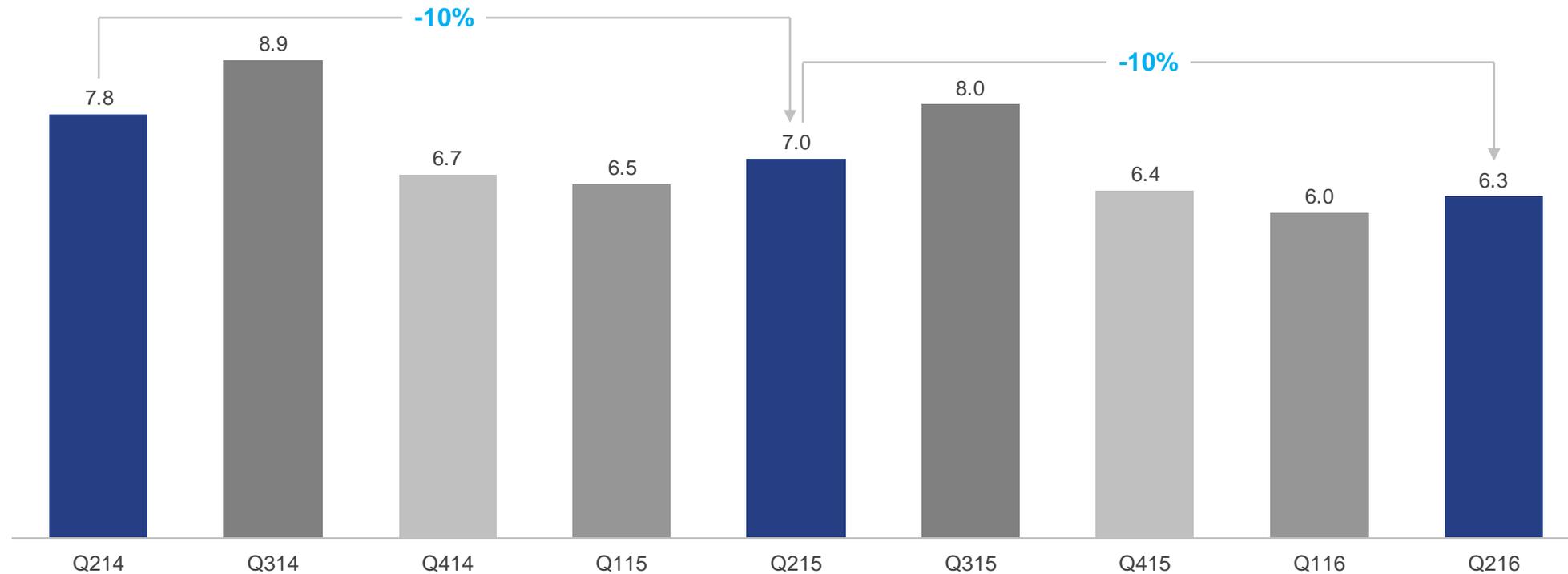
"The economic and operating environment has been difficult in the third quarter due to a number of factors including air traffic control strikes and other industrial action, runway closures at London Gatwick and severe weather. These factors combined with industry capacity growth in short haul continue to have an impact on industry yields at a peak time of year. More recently currency volatility as a result of the UK's referendum decision to leave the EU as well as the recent events in Turkey and Nice continue to impact consumer confidence.

RYANAIR

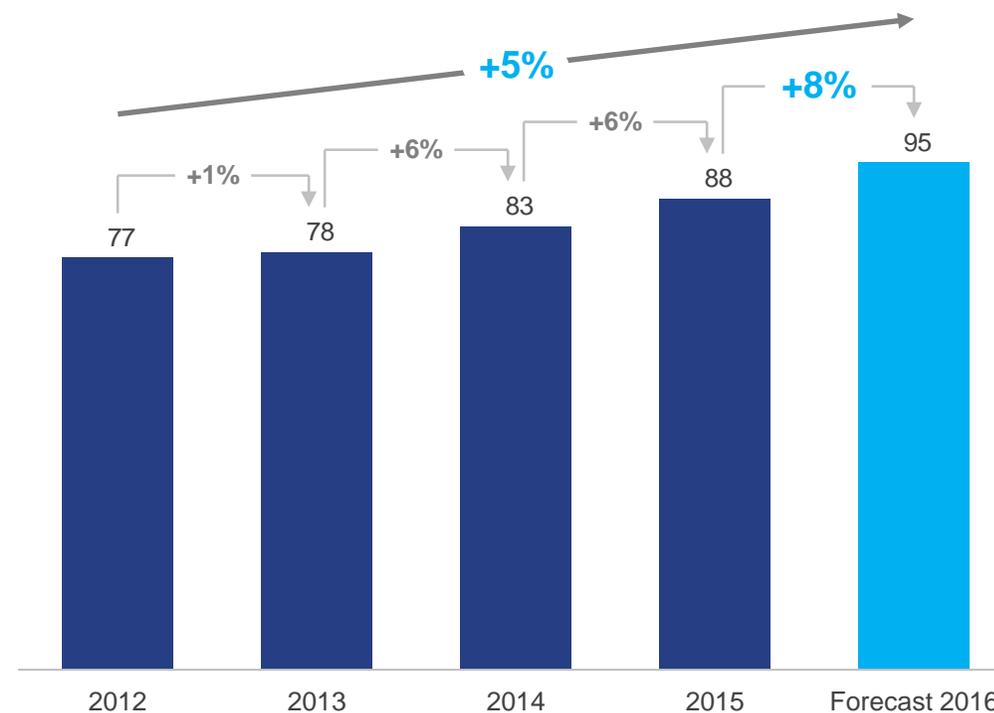
Average fares on close-in bookings have been adversely impacted by ATC strikes, terrorist events and weaker sterling post Brexit. As a result, we expect Q2 fares to fall by at least 6% (H1: -8%). This outcome remains heavily dependent on close-in bookings for August and September. We have little visibility over W16 fares but see no reason-yet-to alter our guidance of -10% to -12% in H2. If there is any movement in these numbers it is more likely to be towards the downside.

Airfares have been trending downwards and further decrease is expected in the coming months

Passenger revenues / total available seat kilometres (ASK) per US Cent

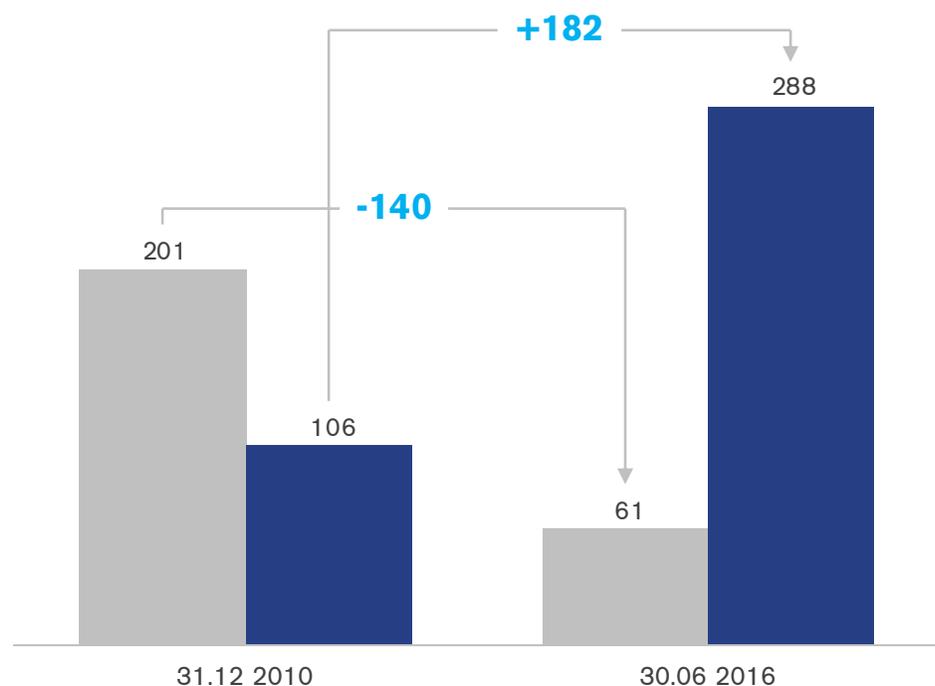


Strong capacity growth on the Transatlantic in 2016. Will that continue?



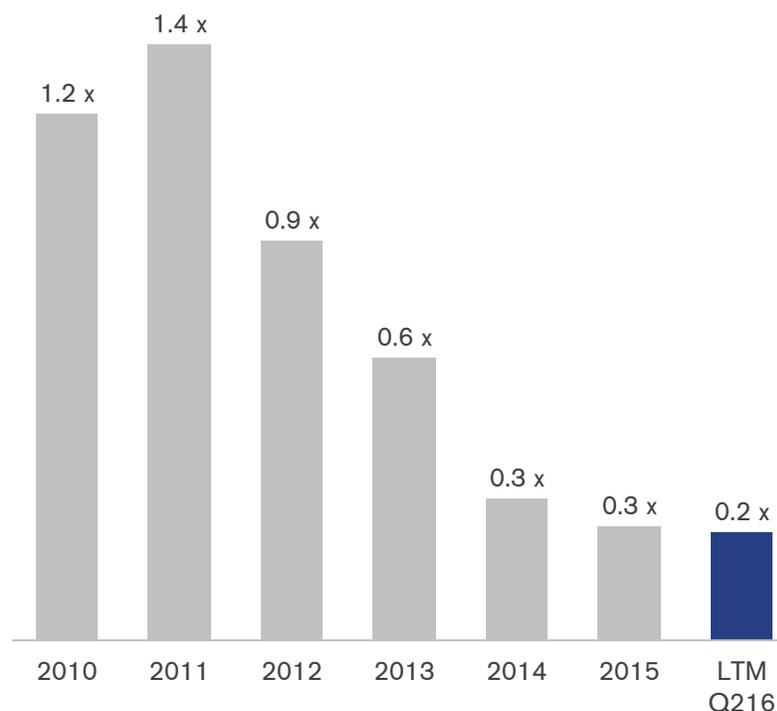
Icelandair Group has systematically strengthened its financial position

Interest bearing debt and cash and short term investment

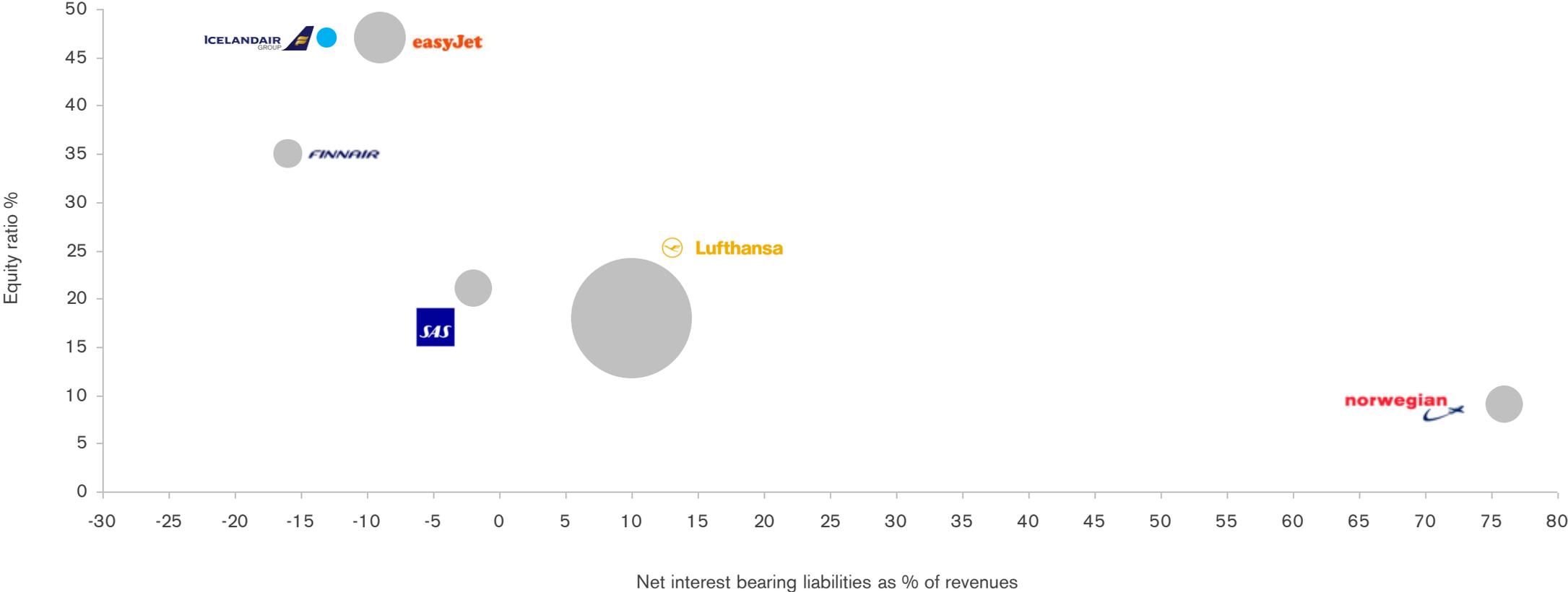


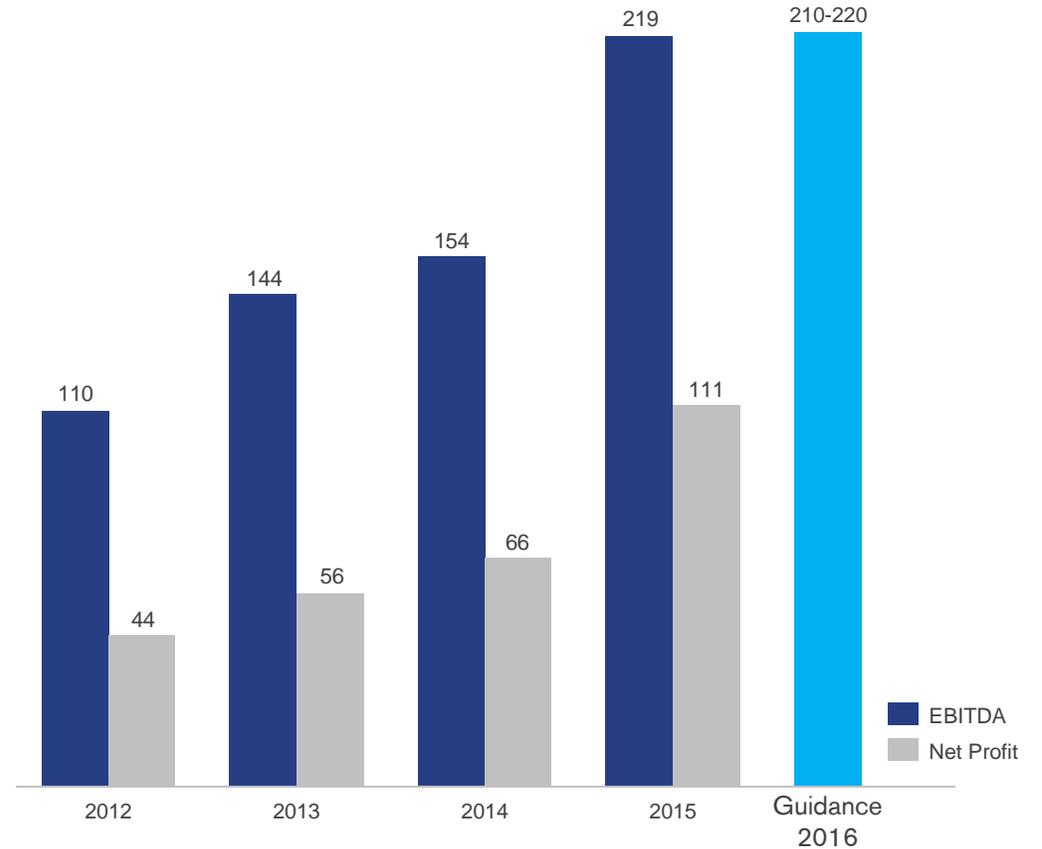
Interest bearing debt Cash and short term investments

Interest bearing debt/EBITDAR



Favourable comparison with European peers





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Icelandair Group

Reykjavik Airport
101 Reykjavik Iceland
Tel: +354 50 50 300
info@icelandairgroup.is
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