

Icelandair Group

Presentation of Q4 and 12M 2016 Results



Highlights

2016 was the second best year in Icelandair Group history and we expect continued capacity growth in 2017

Challenging market developments will lead to lower profitability in 2017

Icelandair Group continues to have an ambitious agenda to improve profitability and has set a goal of a USD 30m improvement on an annual basis

We believe Icelandair Group has good future prospects based on a robust business model, enviable growth prospects and a clear roadmap

Financials

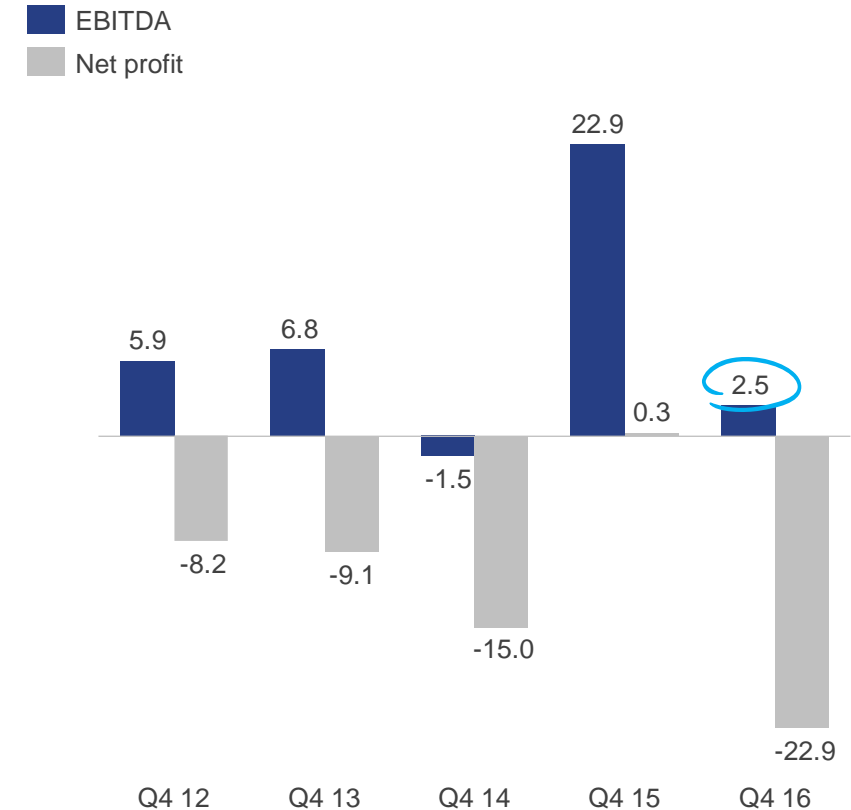
Bogi Nils Bogason
Icelandair Group CFO



Result in Q4 decreasing from last year due to lower yields and unfavourable ISK

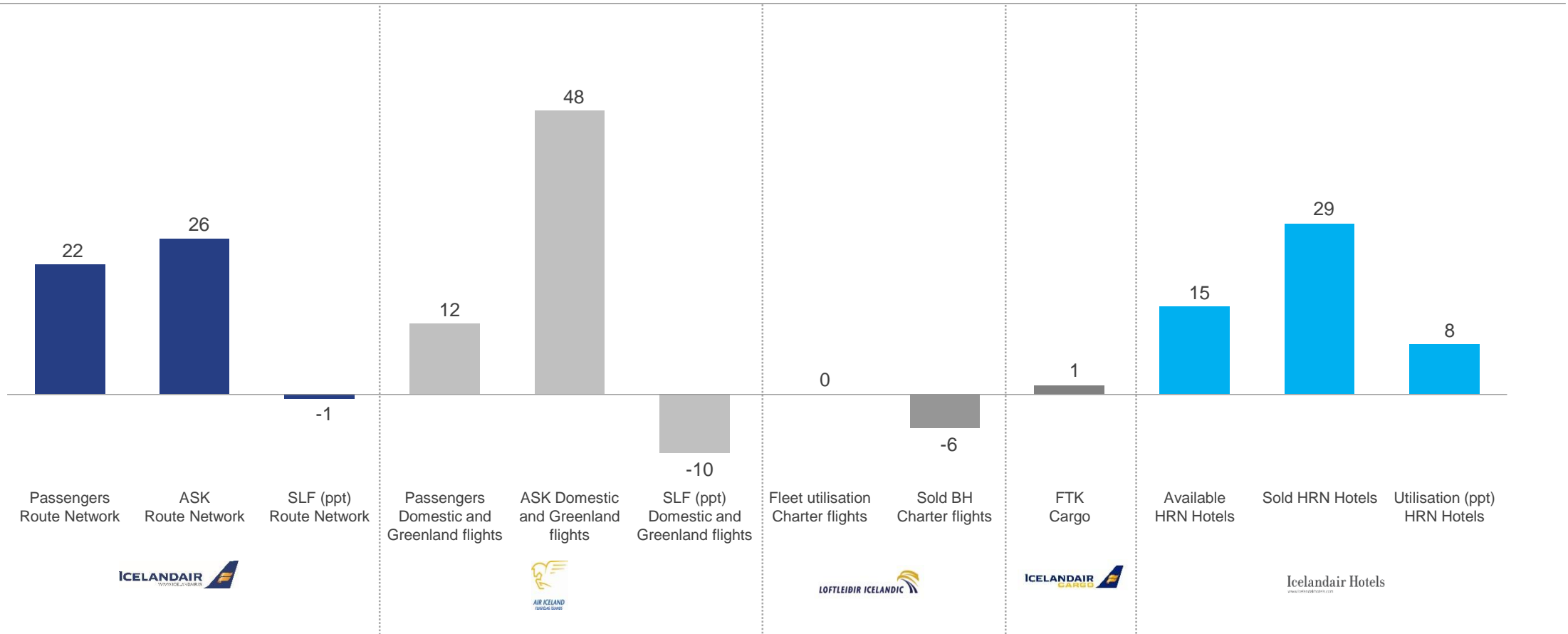
USD million	Q4 2016	Q4 2015	% Chg.
Operating Income	256.5	230.0	12%
Salaries and related expenses	98.2	76.4	29%
Aircraft fuel	45.2	39.7	14%
Aircraft lease	5.4	4.9	10%
Aircraft handling, landing and comm.	21.1	17.2	22%
Aircraft maintenance expenses	17.0	17.2	-2%
Other expenses	67.3	51.6	30%
Operating expenses	254.0	207.0	23%
EBITDA	2.5	22.9	-
EBIT	-24.4	1.9	-
EBT	-22.2	-0.2	-
Profit/Loss for the period	-22.9	0.3	-
EBITDA ratio	1.0%	10.0%	-9.0 ppt
EBITDAR	12.0	31.6	-
EBITDAR ratio	4.7%	13.7%	-9.1 ppt

EBITDA and loss | USD million

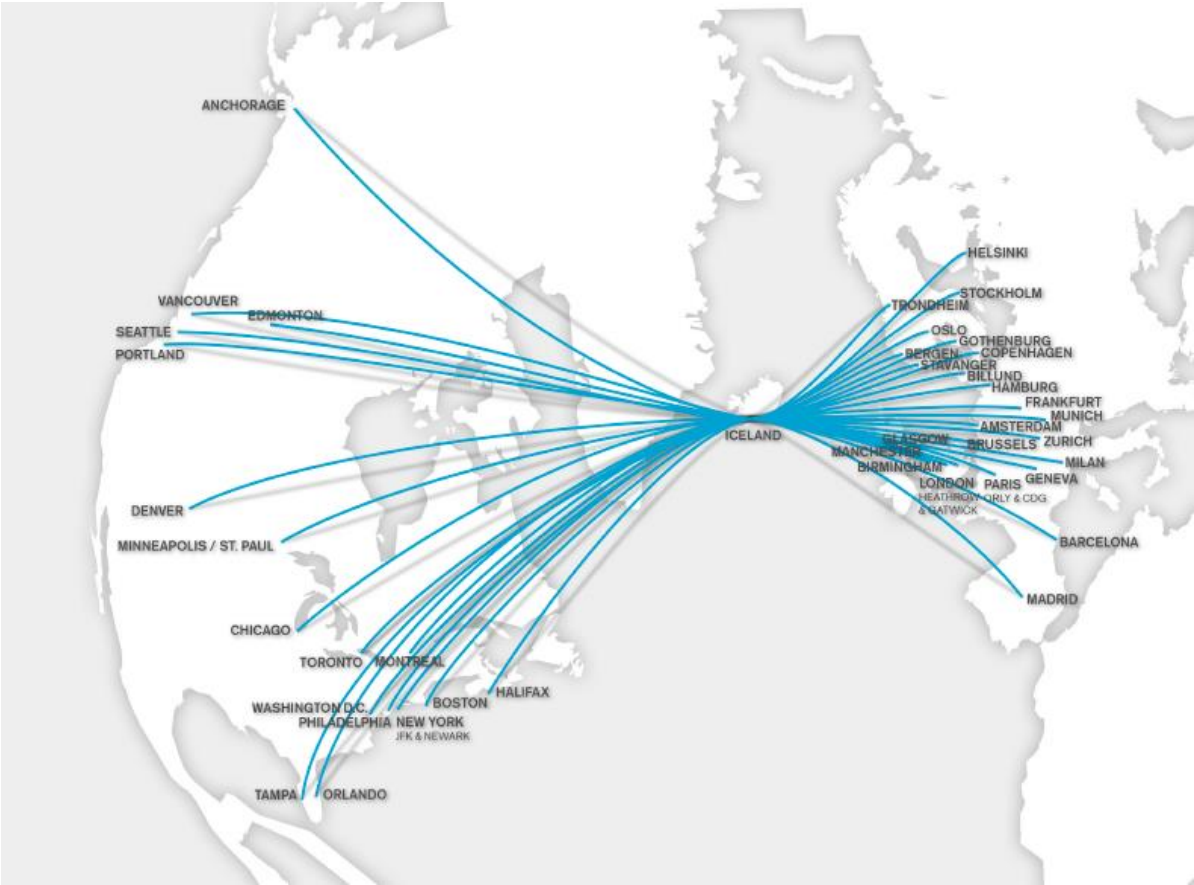


Capacity growth of 26% in the Route Network in Q4 and record utilisation of 76.2% in the Group's hotel operation

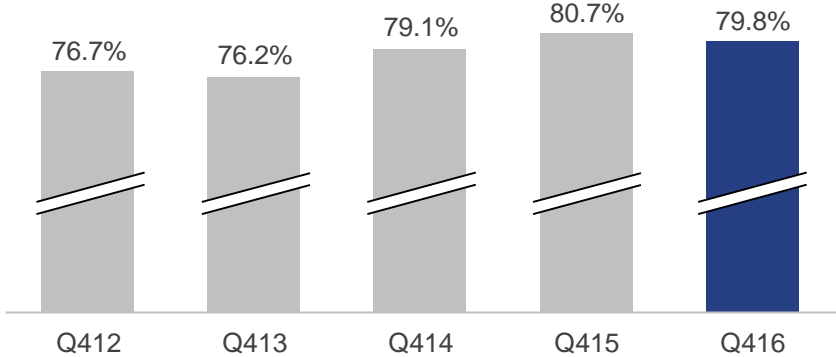
Year-on-year change in % | Q4 2016 vs Q4 2015



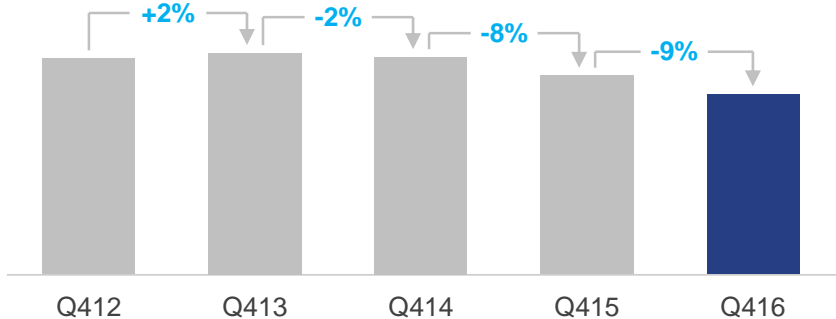
Good load factor in the Route Network in Q4 but yield continued to trend downwards



Load factor development in Q4 | 2012-2016



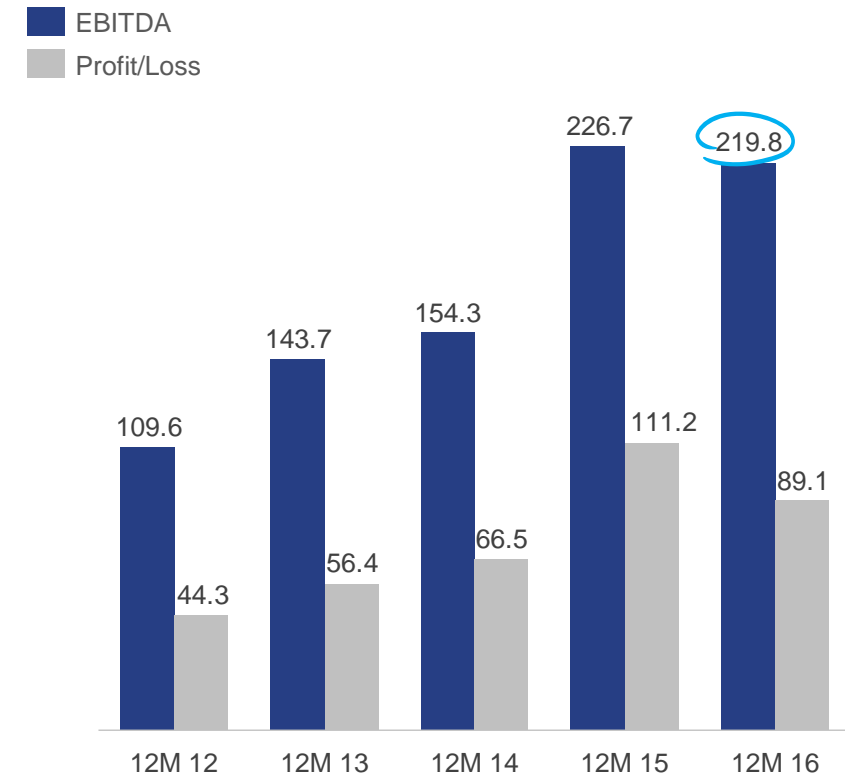
Yield development in Q4 | 2012-2016



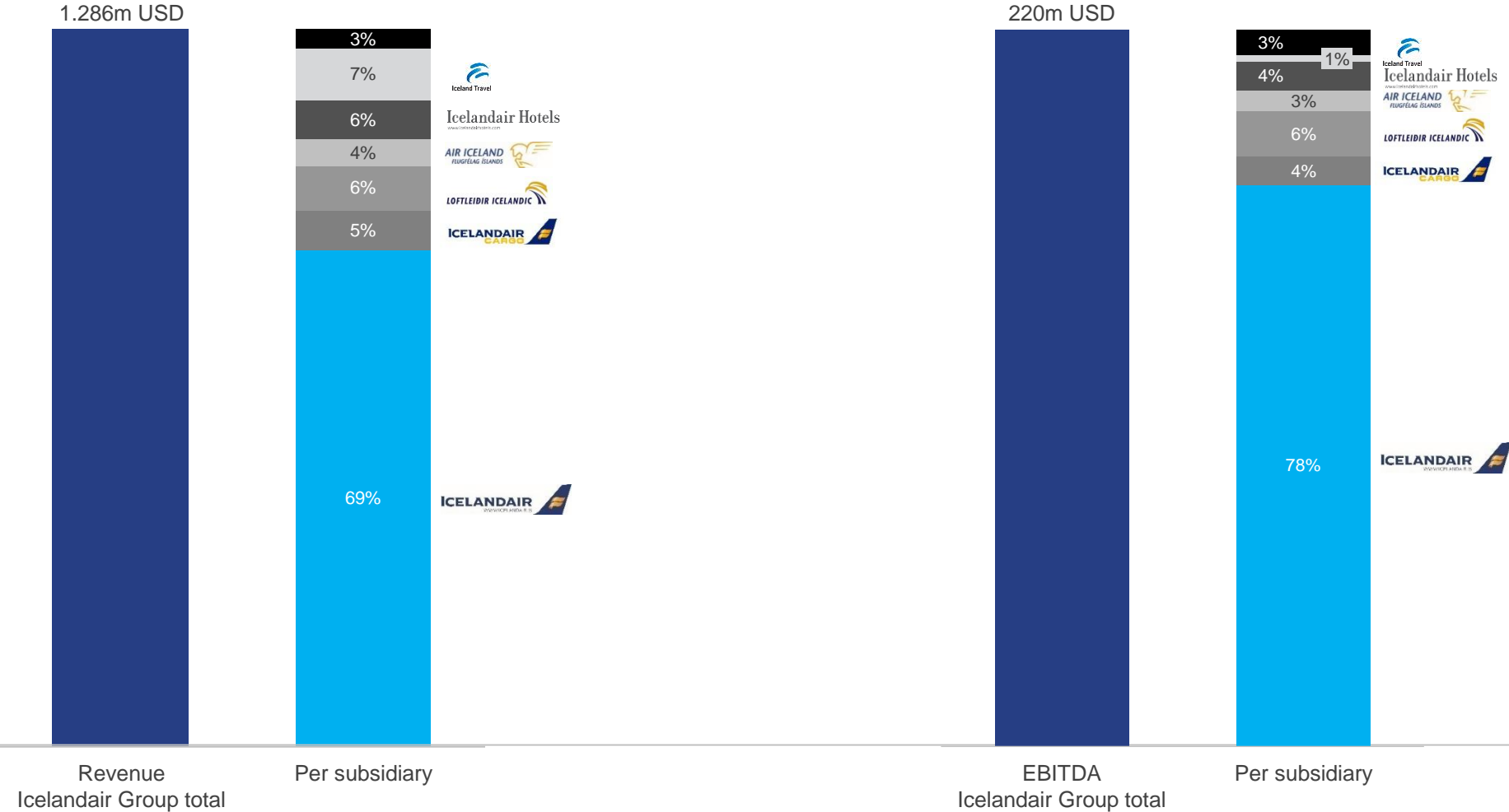
Net profit in 2016 is the second highest in Icelandair Group's history

USD million	12M 2016	12M 2015	% Chg.
Operating Income	1,285.6	1,139.7	13%
Salaries and related expenses	354.3	278.0	27%
Aircraft fuel	213.4	223.8	-5%
Aircraft lease	20.7	22.9	-10%
Aircraft handling, landing and comm.	108.8	85.7	27%
Aircraft maintenance expenses	77.4	68.8	12%
Other expenses	291.2	233.8	25%
Operating expenses	1,065.7	913.0	17%
EBITDA	219.8	226.7	-
EBIT	118.4	142.8	-
EBT	120.1	140.2	-
Profit for the period	89.1	111.2	-
EBITDA ratio	17.1%	19.9%	-2.8 ppt
EBITDAR	0.0	0.0	-
EBITDAR ratio	0.0%	0.0%	0.0 ppt

EBITDA and Profit | USD million

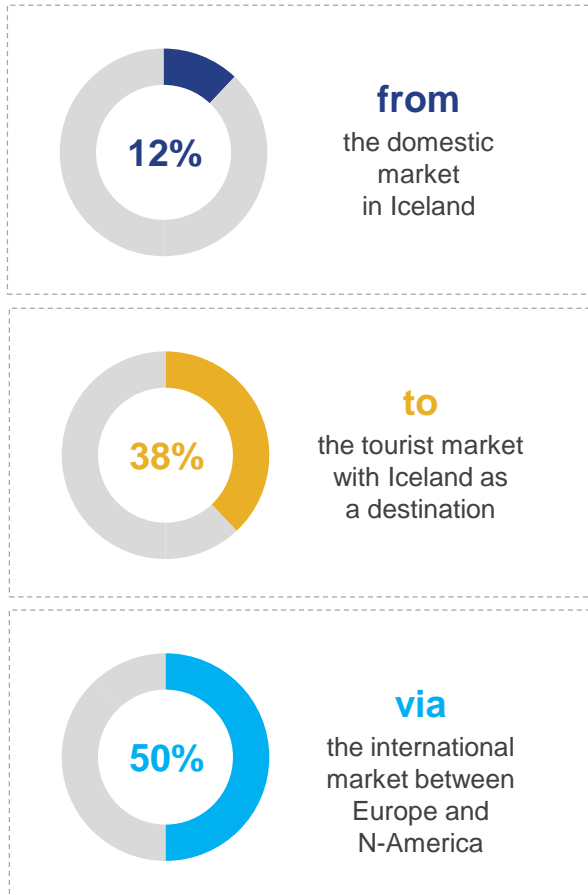


Icelandair is the largest contributor to Icelandair Group's EBITDA

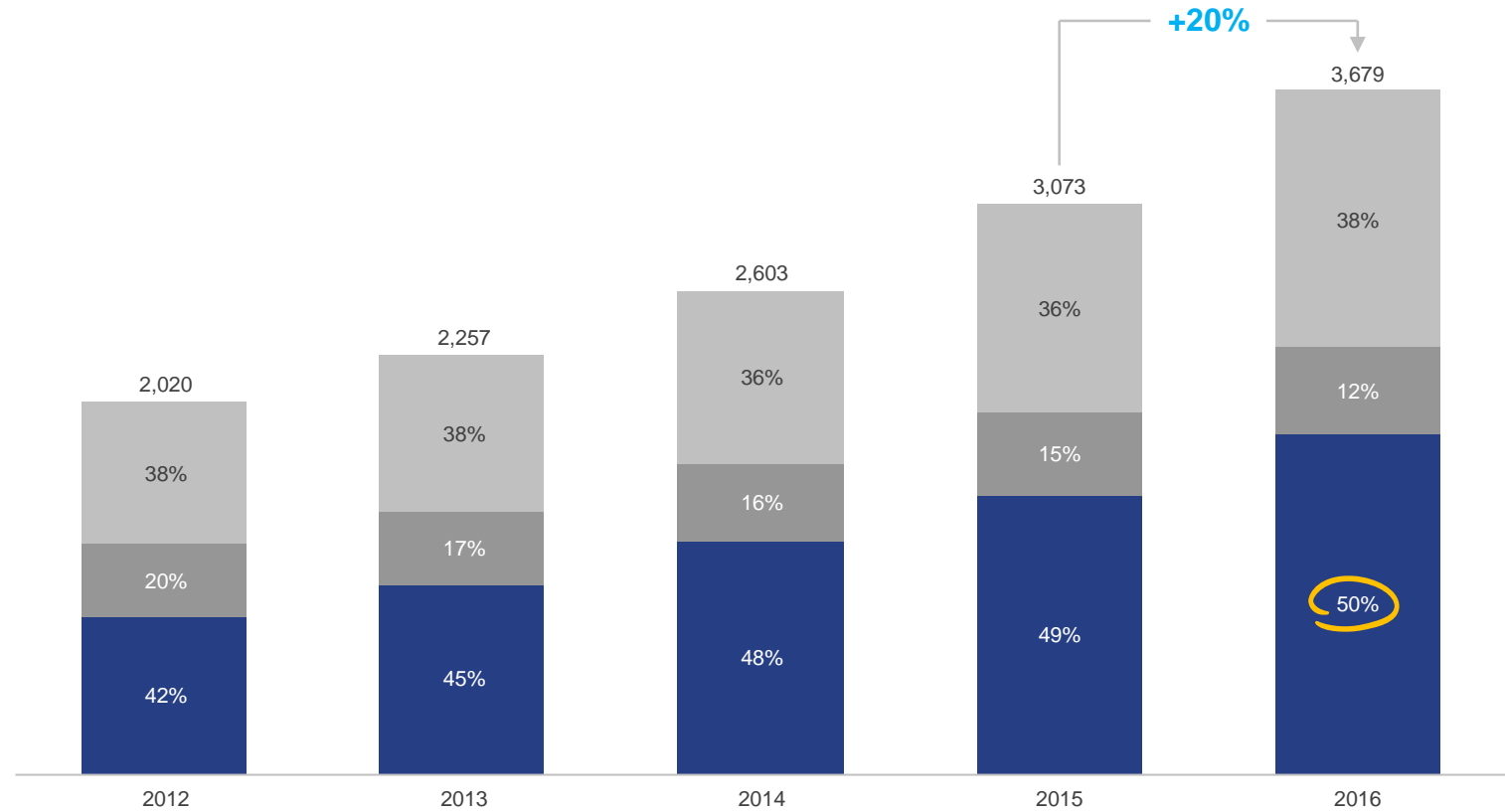


■ : Icelandair Shared Services, IGS, VITA

3.7 million passenger carried in the Route Network in 2016 – via market passengers half of all passengers for the first time

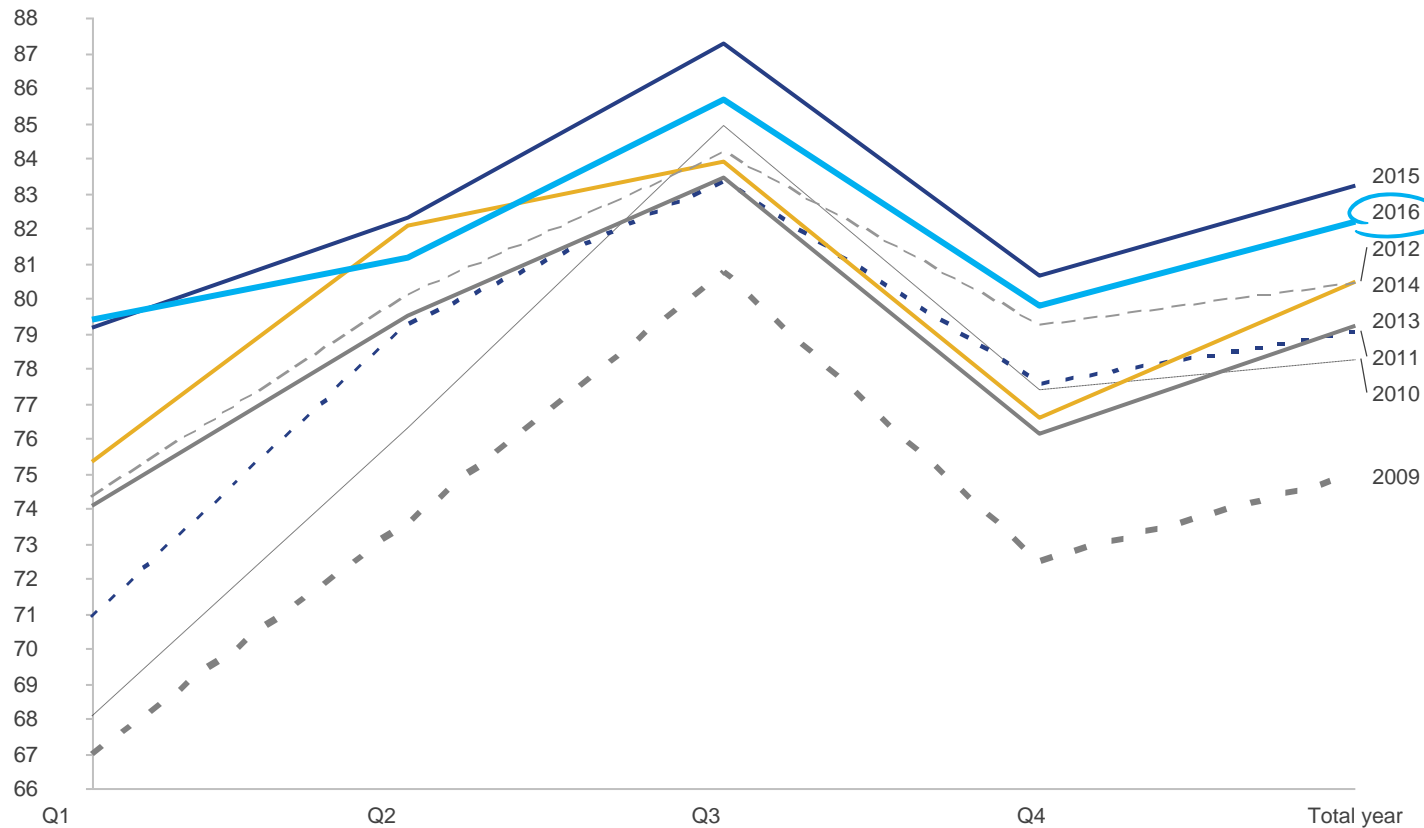


to
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 Absolute figures in thousands.

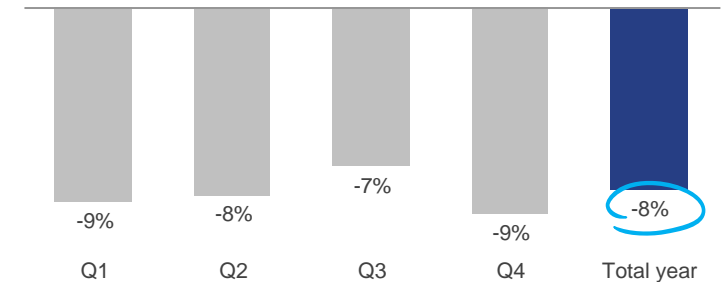


The load factor in the Route Network was historically high in 2016 but yields declined by 8% compared to 2015

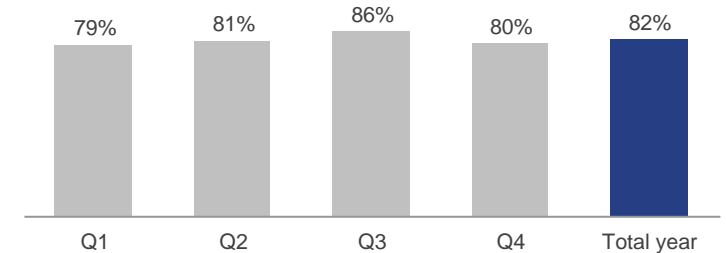
Load factor % per quarter | 2009-2016



Yield change per quarter | 2016 vs 2015



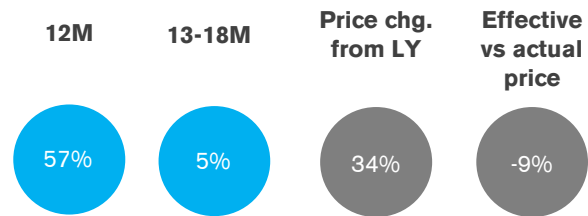
Load factor per quarter | 2016



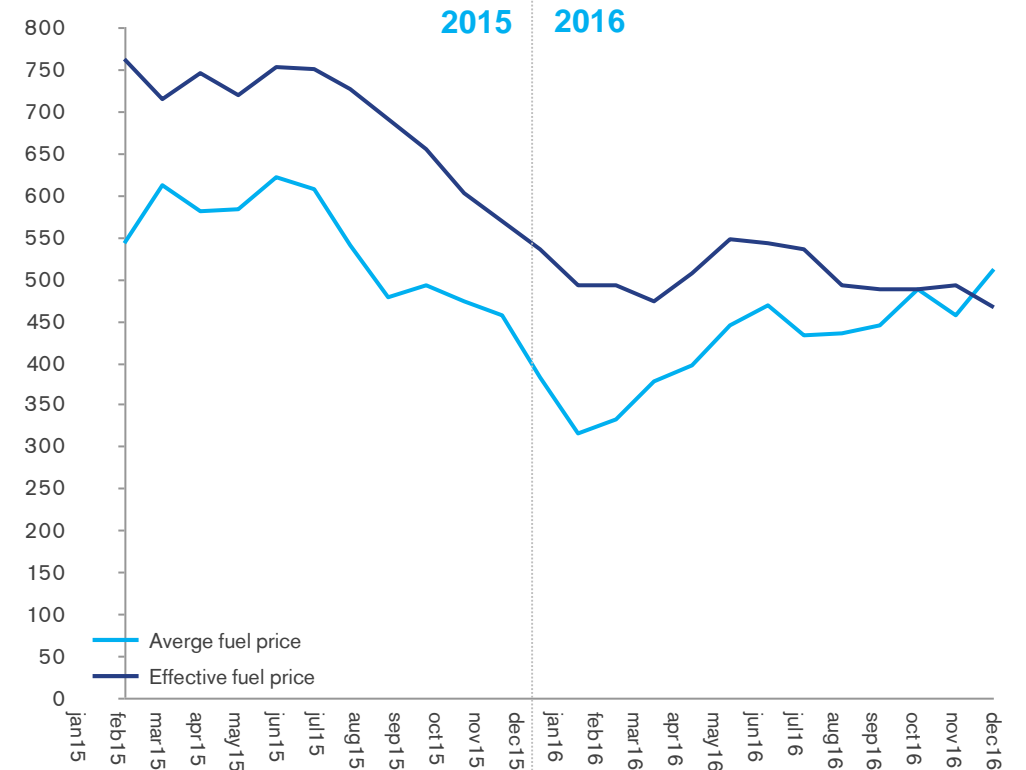
Effective fuel price* in 2016 was 501 USD/tonne and 27% below 2015 prices

Period	Estimated usage (tons)	Swap volume	% hedged	Av. swap price USD
Jan 17	22.873	12.450	54%	410
Feb 17	21.105	15.450	73%	457
Mar 17	25.322	15.550	61%	476
Apr 17	26.463	19.550	74%	489
May 17	35.143	24.550	70%	493
Jun 17	46.686	26.550	57%	484
Jul 17	49.229	26.750	54%	500
Aug 17	48.981	26.750	55%	497
Sep 17	42.853	23.550	55%	538
Oct 17	33.509	17.300	52%	508
Nov 17	25.462	10.300	40%	538
Dec 17	24.532	9.300	38%	552
12 months	402.158	228.050	57%	-

Period	Estimated usage (tons)	Swap volume	% hedged	Av. swap price USD
Jan 18	21.368	4.000	19%	565
Feb 18	19.568	0	0%	0
Mar 18	23.658	0	0%	0
Apr 18	24.835	2000	8%	578
May 18	33.841	3000	9%	578
Jun 18	45.332	0	0%	0
13-18 months	168.602	9.000	5%	-

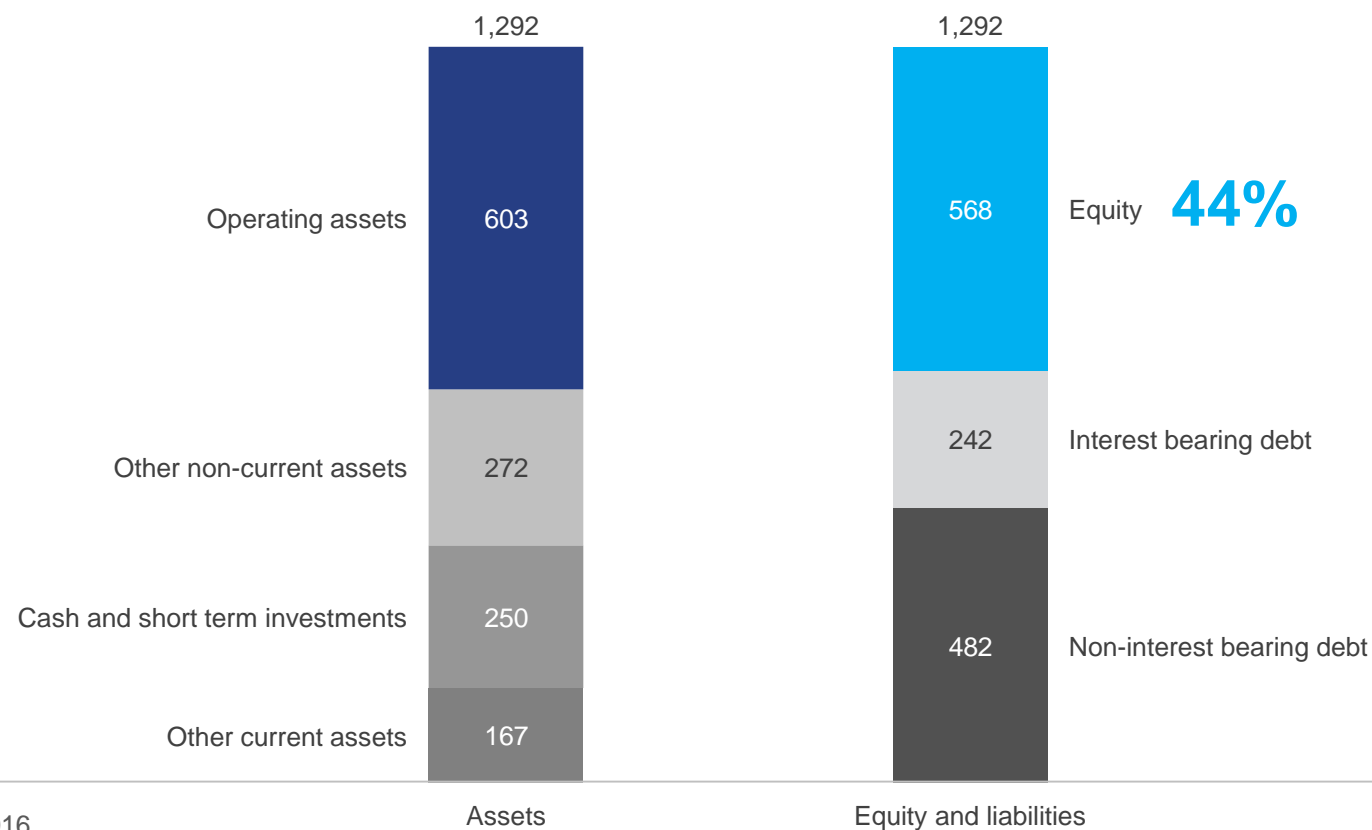


Average and effective fuel price
Per month | USD/tonne



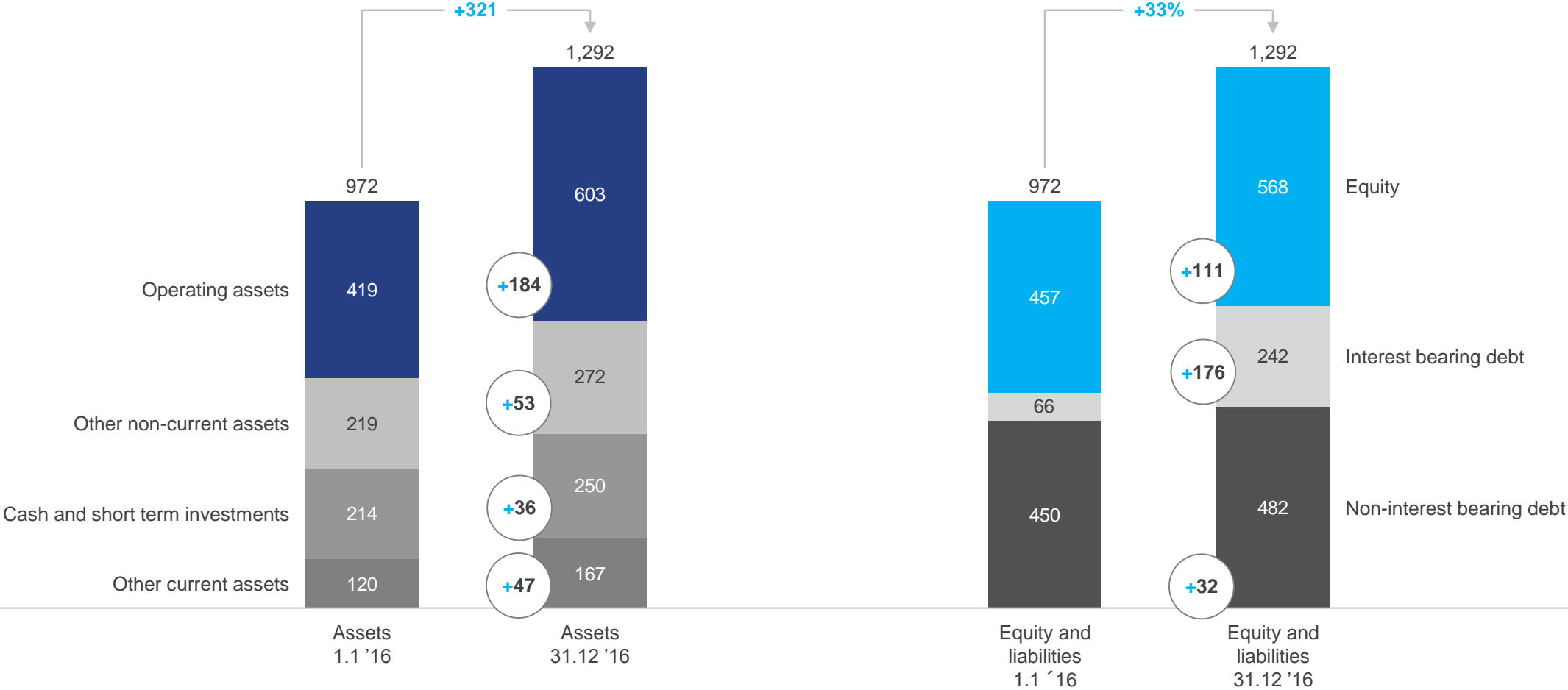
* Effective fuel price = average fuel price +/- hedging results

Strong financial position at year-end 2016 with 44% equity ratio



All figures in USD million at 31 December 2016.

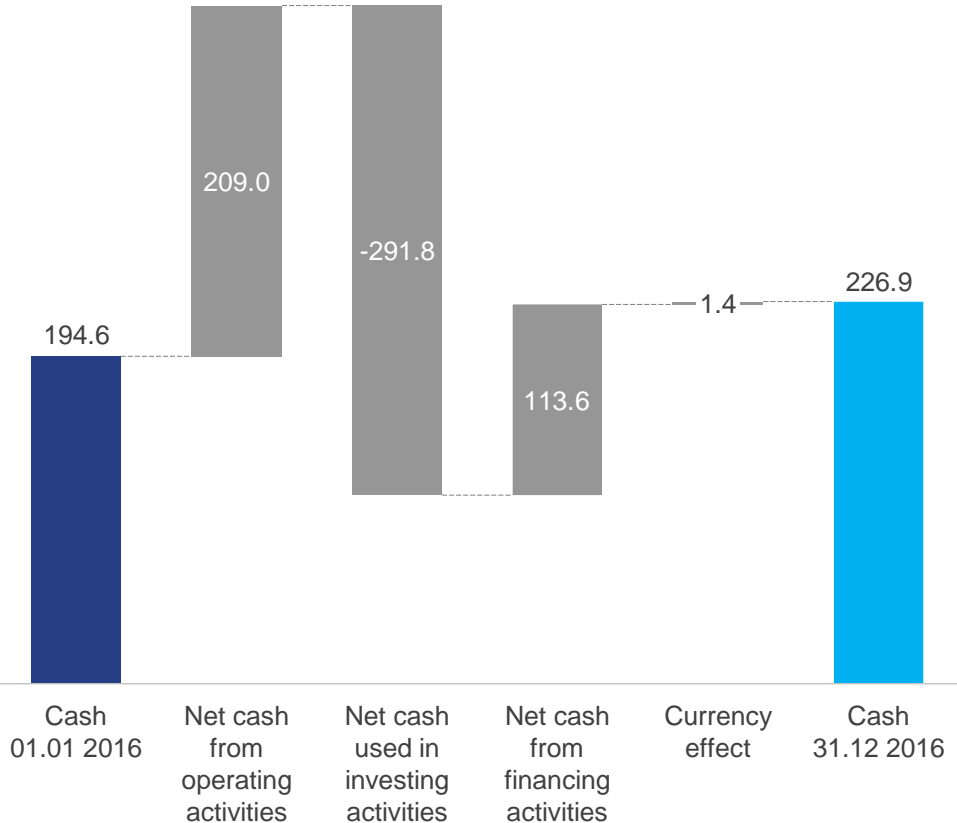
Five aircraft added to the balance sheet in 2016 and an unsecured bond of USD 150 million issued



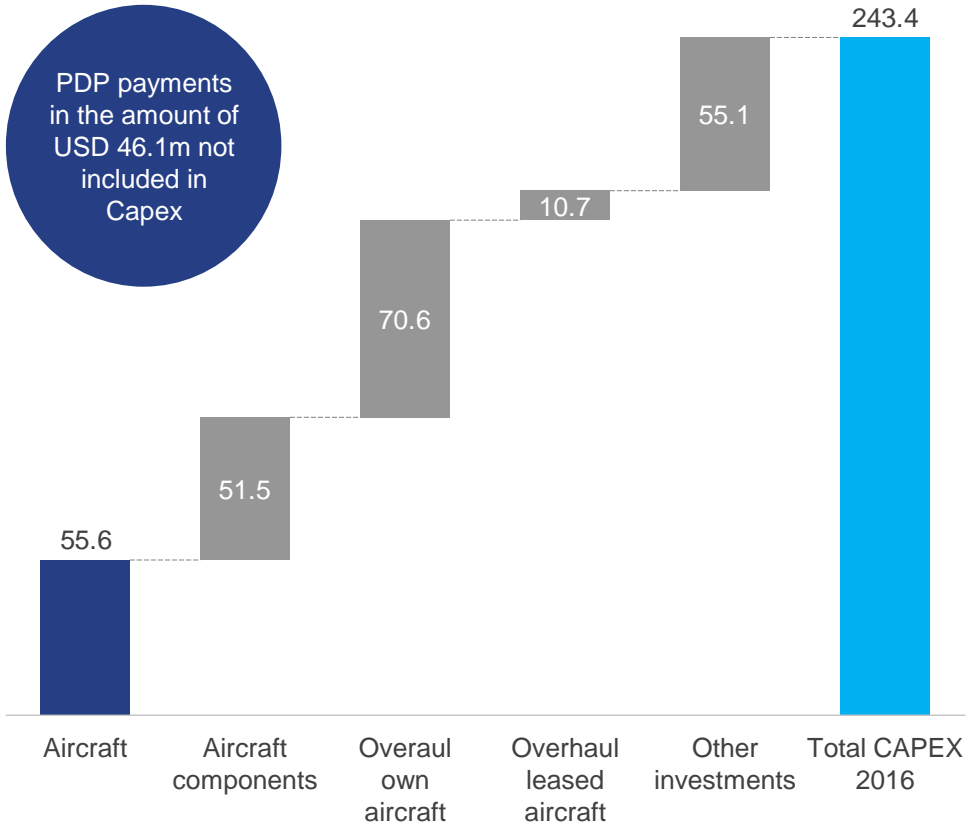
All figures in USD million at 31 December 2016.

Cash from operations covered largest part of CAPEX in 2016

Changes in cash in 2016 | USD million



Overview main capital expenditure in 2016 | USD million



The total fleet of Icelandair Group comprises 48 aircraft thereof 35 are unsecured on the balance sheet

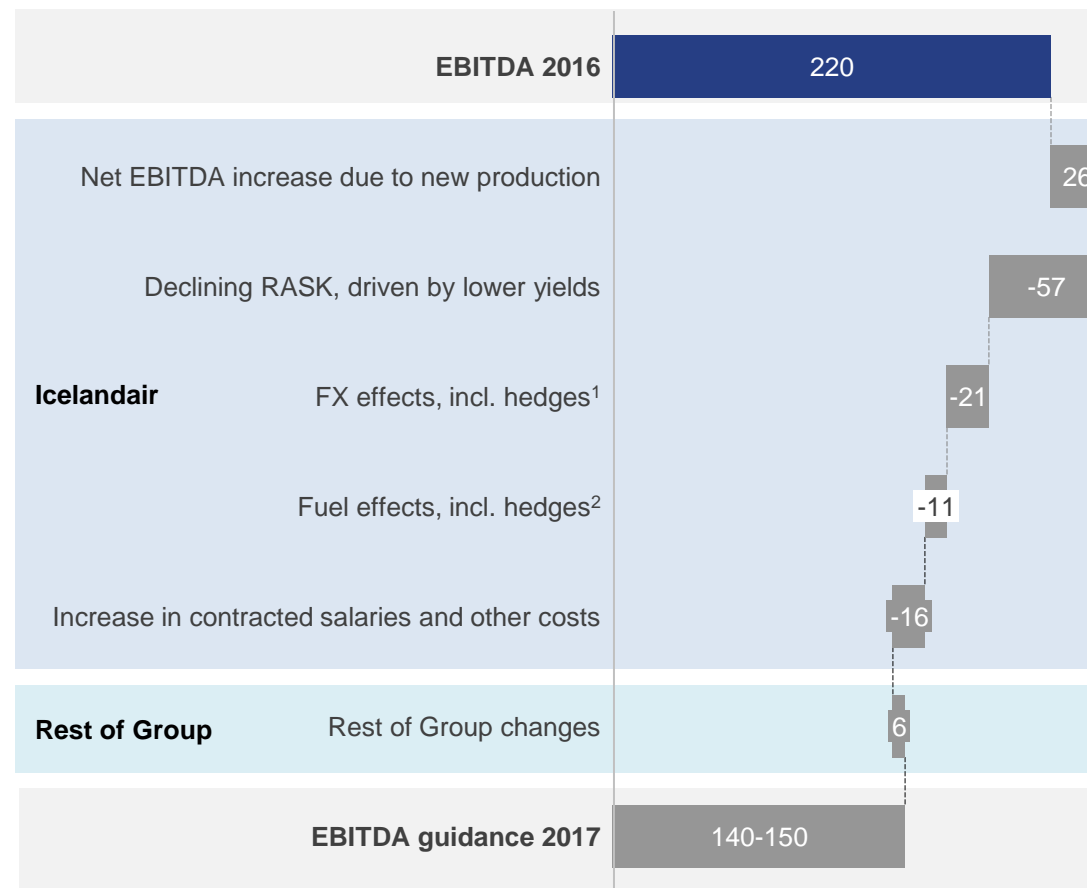
	<p>25 757 200</p>	<p>1 757 300</p>	<p>4 767 300</p>	<p>48 total aircraft</p> <p>40 owned</p> <p>35 unsecured</p> <p>8 leased</p> <p>4 F-50 in sale process</p>
	<p>2 757 200</p>			
	<p>2 757 200</p>	<p>2 767 300</p>	<p>3 737 700 & 800</p>	
	<p>3 Bombardier Q400</p>	<p>2 Bombardier Q200</p>	<p>4 Fokker 50</p>	

EBITDA guidance for 2017 is now USD 140-150 million

Expected change in key Icelandair Group metrics from 2016 to 2017 | Percentage

Metric	Exp. change 2017 from 2016	Comments
Capacity growth (ASK)	12%	Key driver is a 15% increase in ASK on the North-American market
Load factor	-1%	Key driver is increasing competition on transatlantic routes
CASK – excluding fuel	3%	Key drivers are the appreciation of the ISK and rising labour costs in Iceland
CASK – including fuel	2%	See above
RASK	-6%	Key driver is lower yields on transatlantic routes
EBITDA	-32 to 36%	

Expected change in Icelandair Group EBITDA from 2016 to 2017 | USD millions

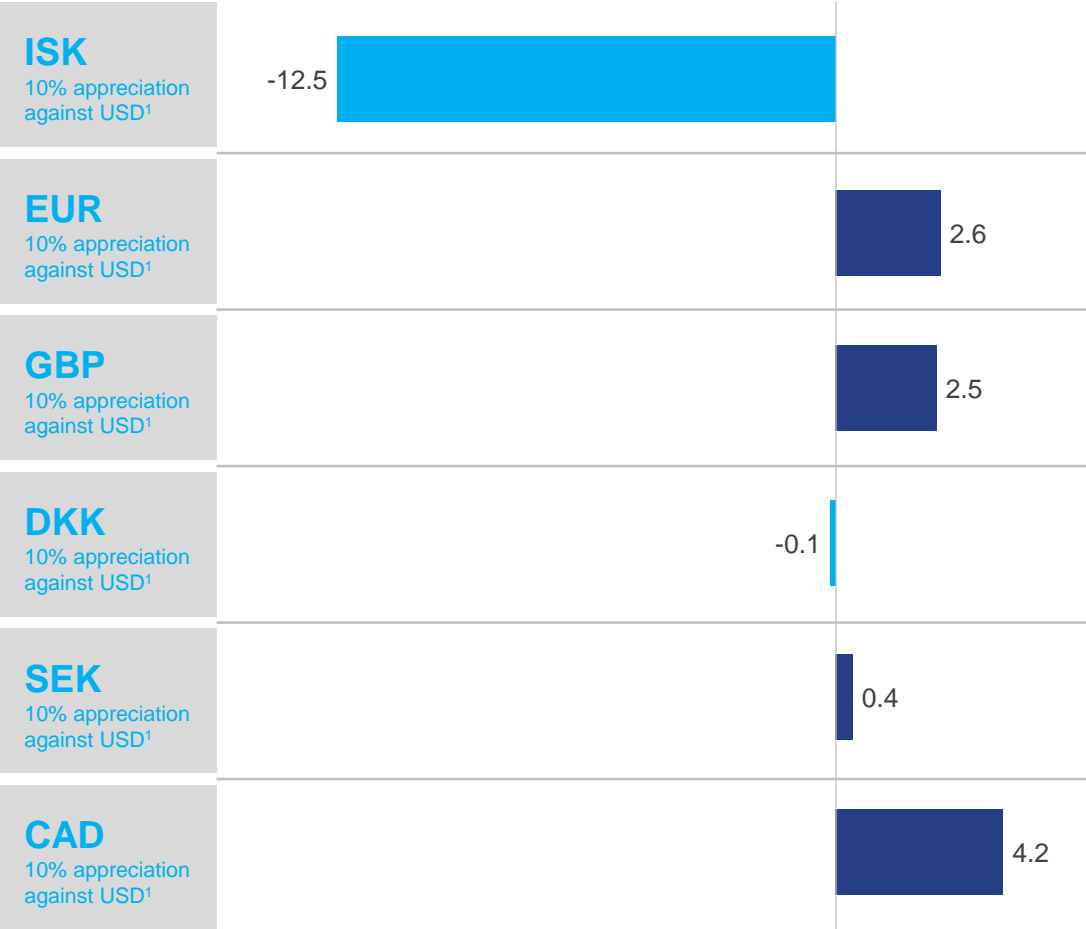


1 Excluding effects on new revenues and costs due to production added in 2017

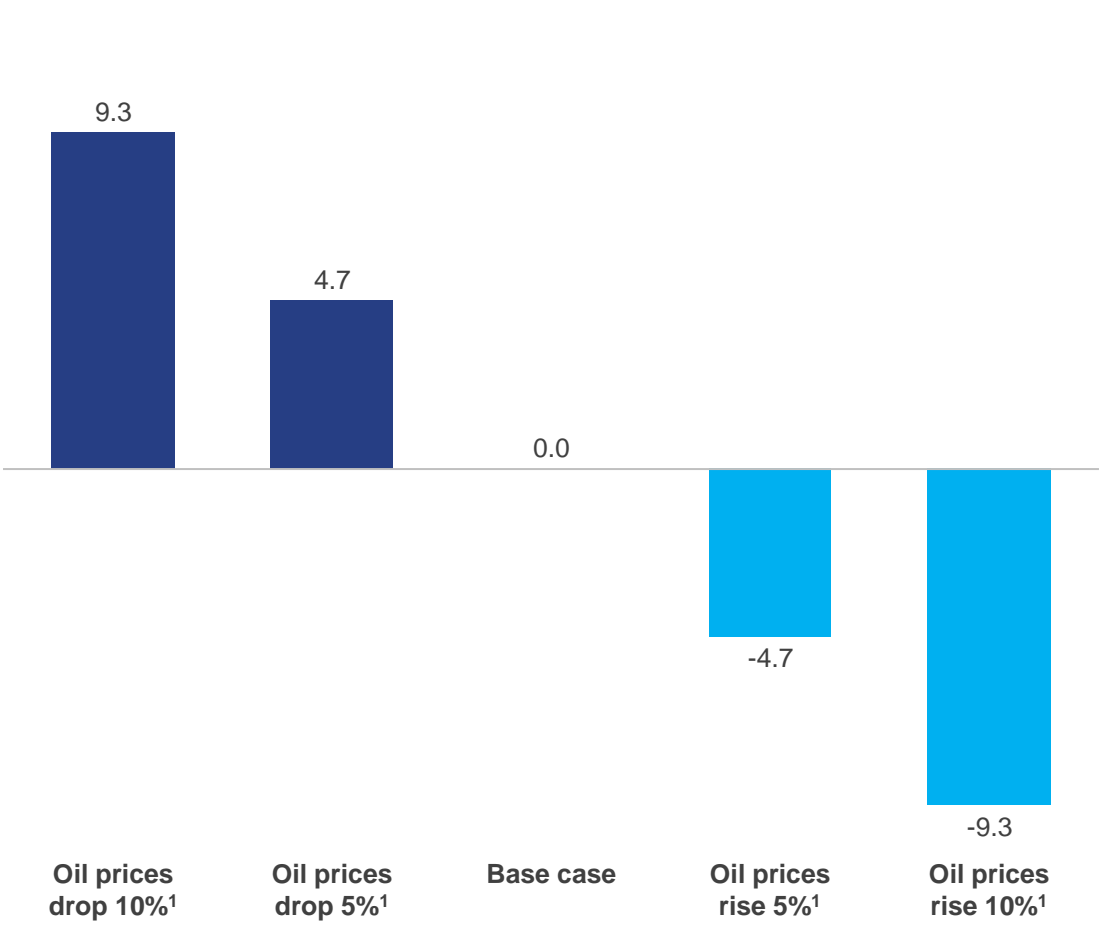
2 Excluding fuel use increase due to production added in 2017 which is part of „Net EBITDA increase due to new production“

Unexpected changes in oil prices and or exchange rates may move the guidance

Sensitivity of Icelandair Group EBITDA to FX changes in 2017 | USD million

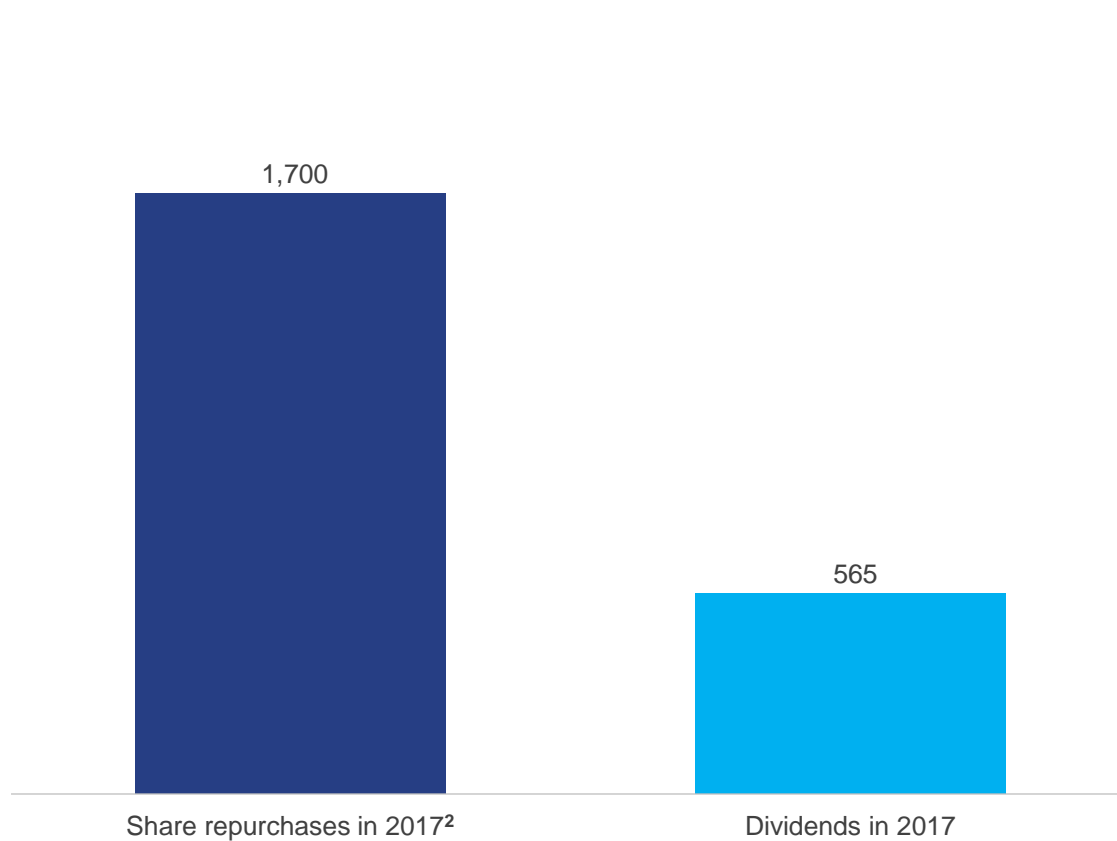


Sensitivity of Icelandair Group EBITDA to fuel costs in 2017² | USD millions



1 Year average, compared to Icelandair Group base case
 2 Including effect of hedges

The Icelandair Group Board of Directors has decided to invest up to ISK 1,700m in share repurchases and proposes to pay out dividends of ISK 565m in 2017



The Icelandair Group Board of Directors has decided to repurchase the Company's own shares up to the amount ISK 1,700 million in accordance with a resolution that was approved at the annual general meeting in 2016

The share repurchase plan starts in February

The Board of Directors proposes a payment of ISK 565 million in dividends to shareholders in 2017 – this corresponds to ISK 0.11 per share

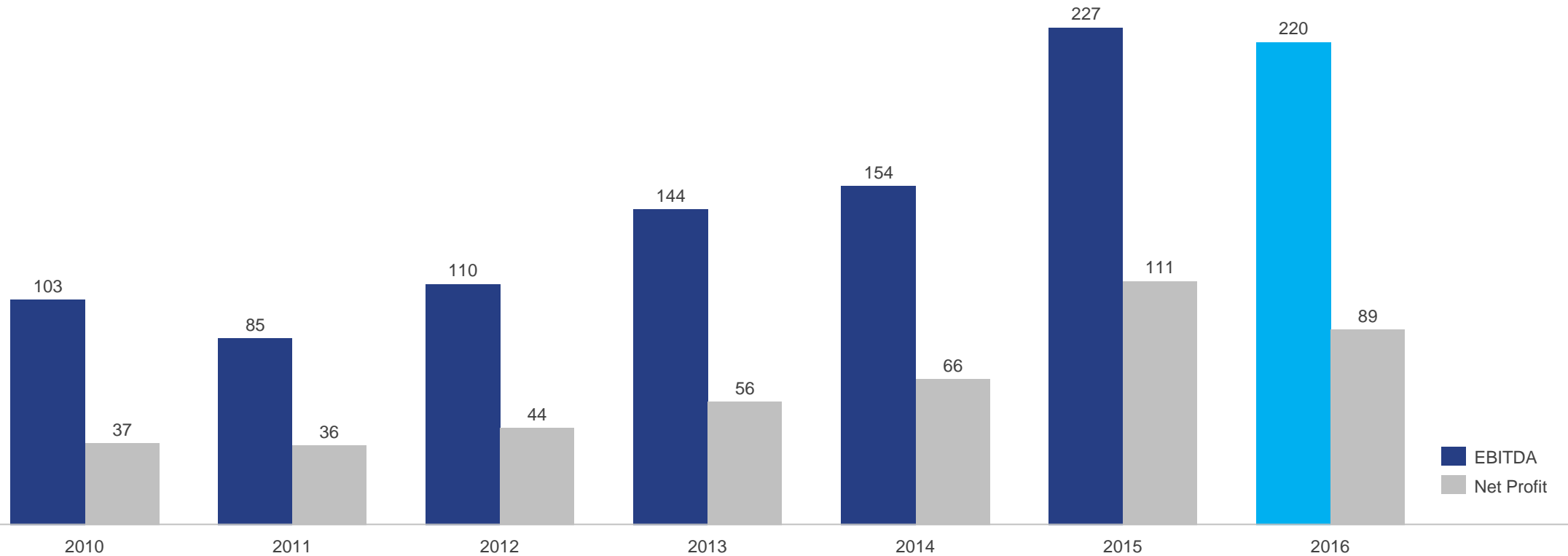
All figures in ISK million.
1 Board of Directors
2 Maximum potential amount

Outlook

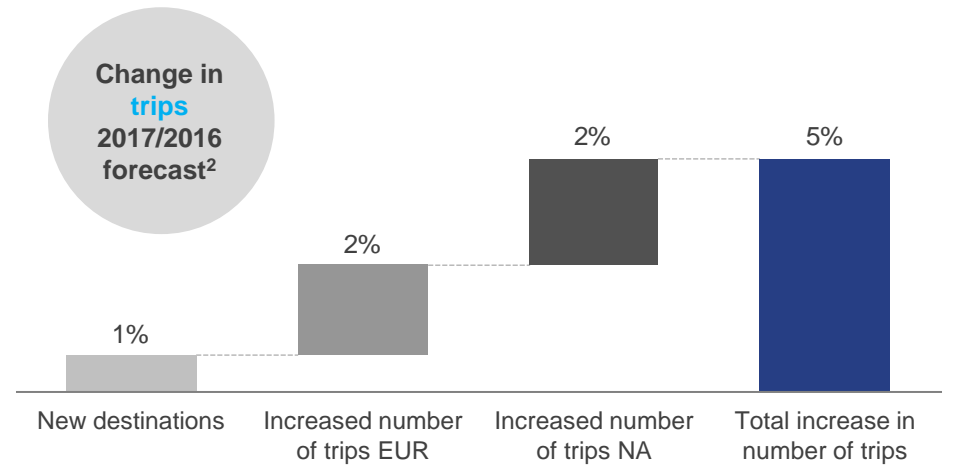
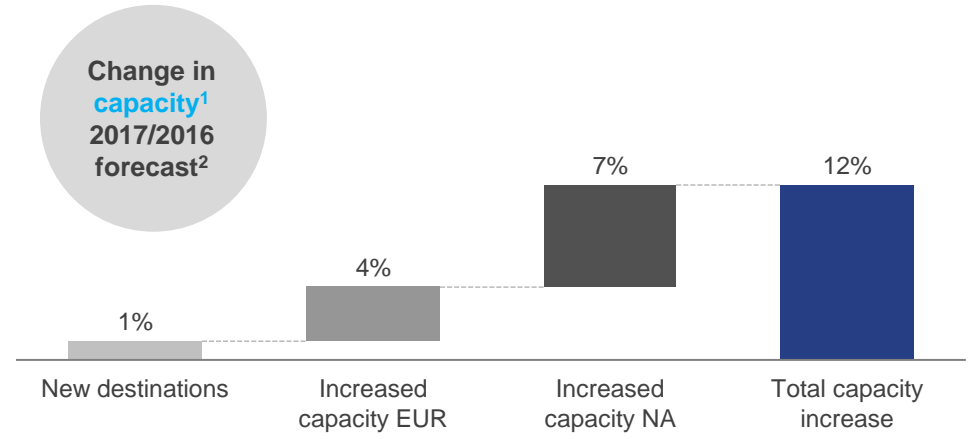
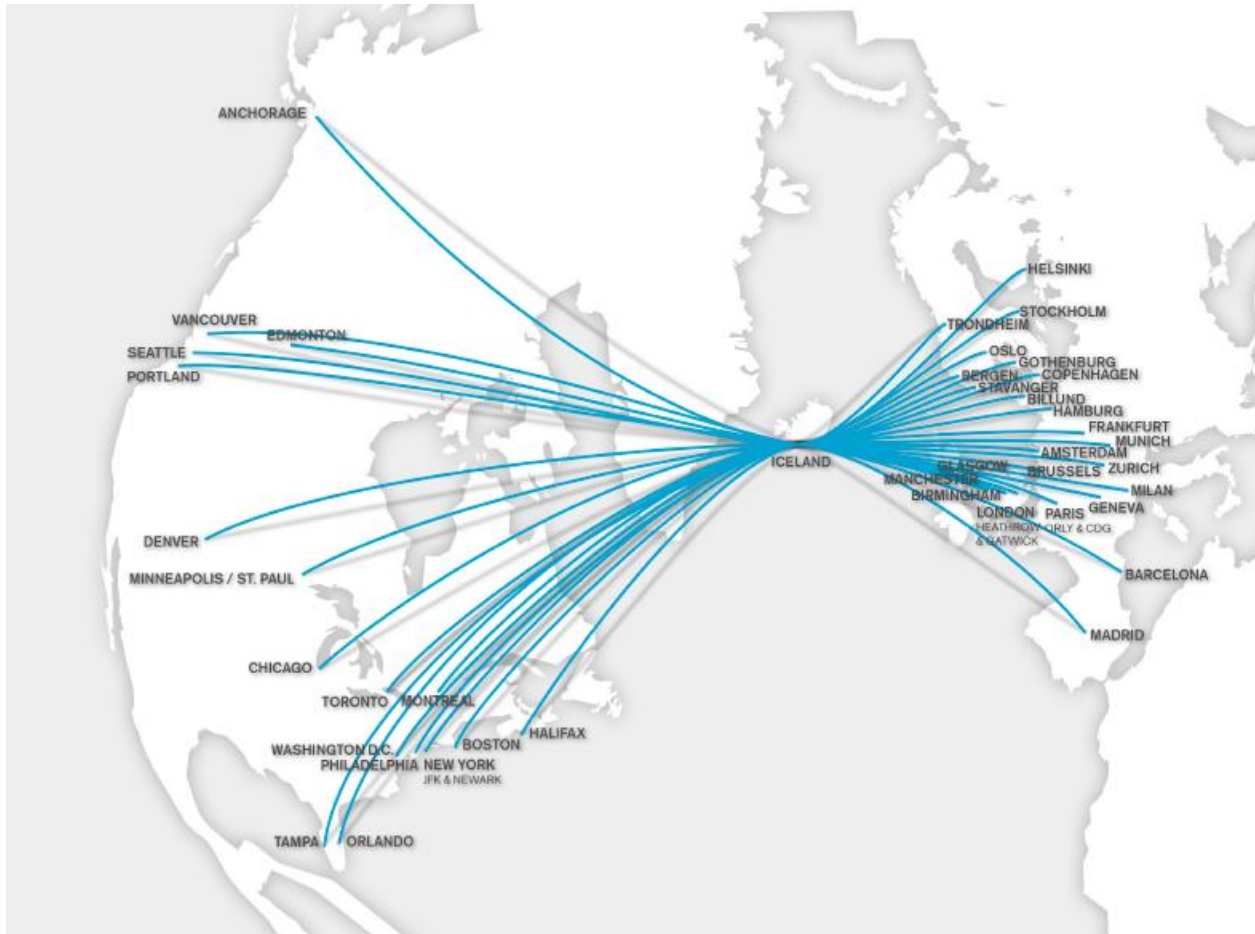
Björgólfur Jóhannsson
President and CEO



Recap: With an EBITDA of USD 220m and a net profit of USD 89m, 2016 was the second best year in Icelandair Group's 80 year history



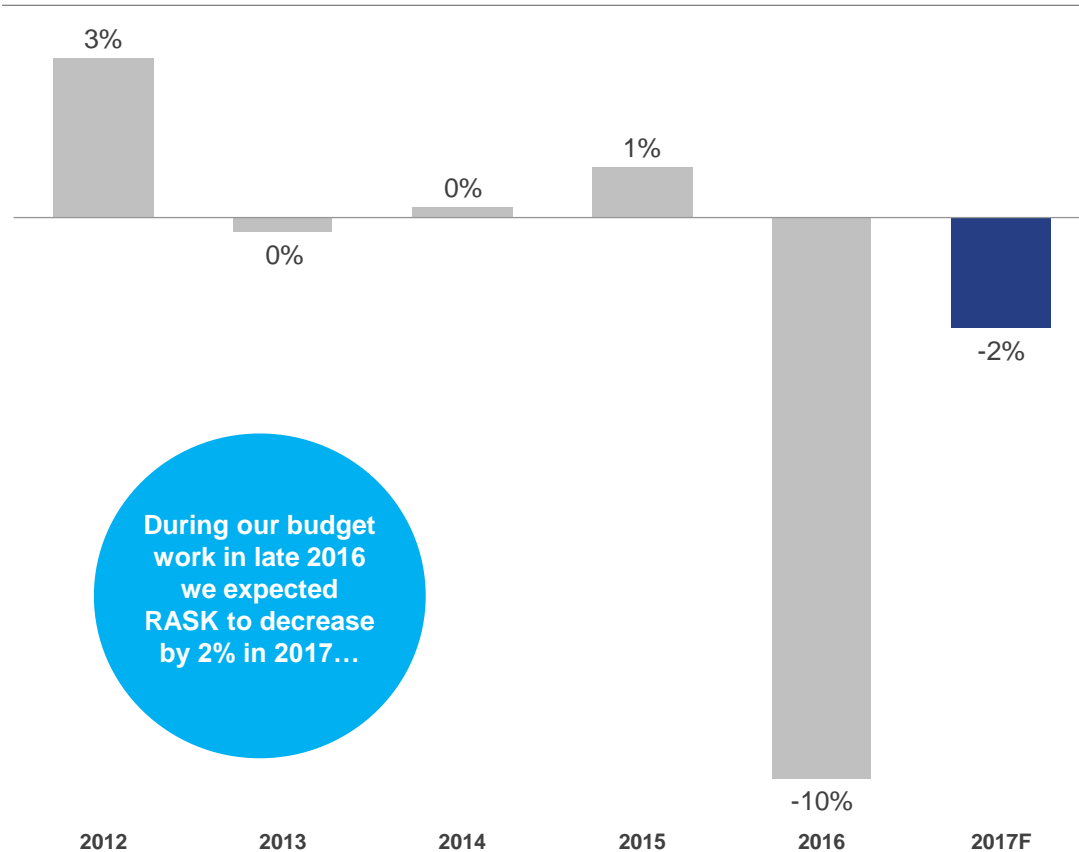
Due to continued growth in capacity, 2017 will see the biggest Icelandair schedule ever – although growth will be a bit slower than previously planned



1 Capacity = Available Seat Kilometres (ASK) in Icelandair flights
 2 Plans for the year may change as year develops

Last year we expressed concern about pressure on yields in our markets...

Year-on-year change in RASK, 2012-2016 actual, 2017 forecast | Percentage



Our message in 2016:

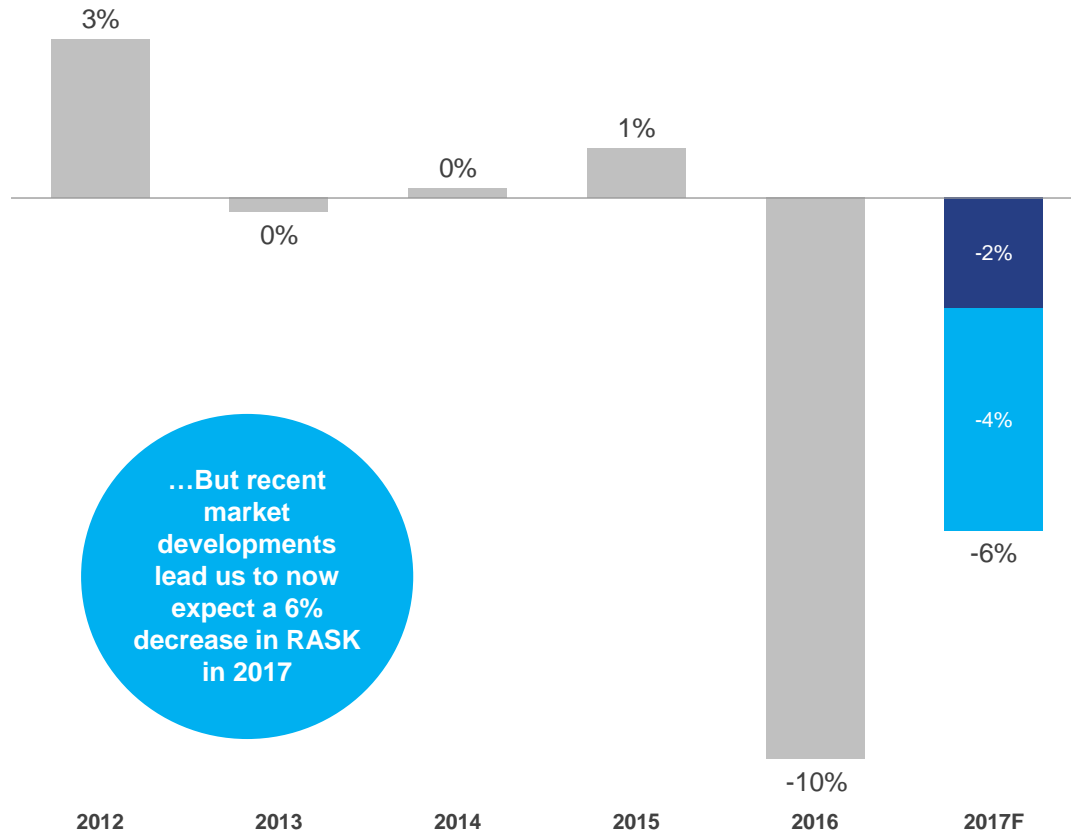
- **Q2 July 27th:** “Turbulence in the market” and “Airfares have been trending downwards and further decrease is expected in the coming months.”
- **Q3 October 23rd:** “Average fares have been decreasing in our international flight operation in line with the trends seen by other air carriers. Nevertheless, our booking situation remains strong and consistent with our forecasts.”

Description of underlying situation

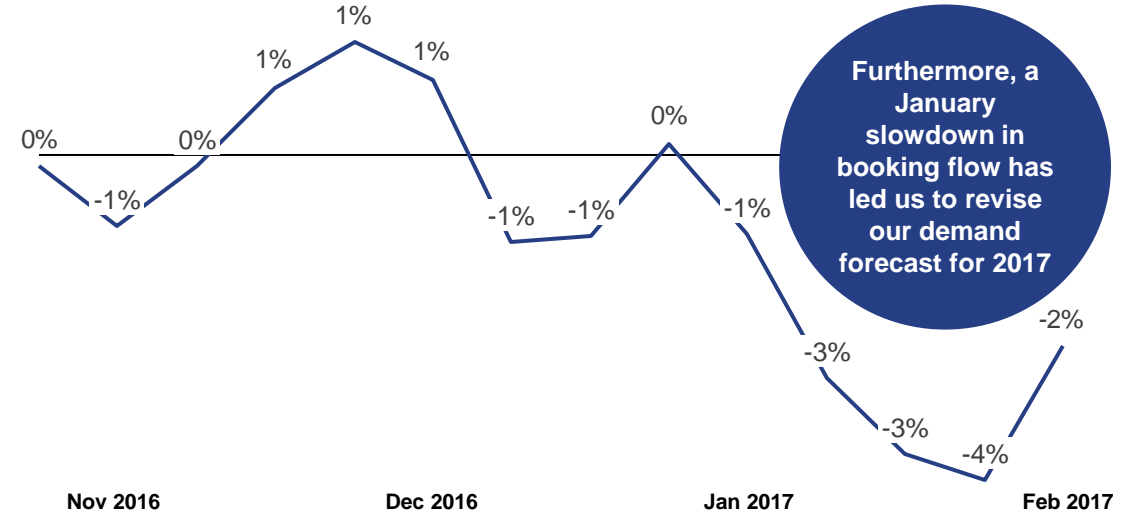
- Icelandair’s key market is the market for transatlantic flights
- Recently, transatlantic routes have seen steady capacity growth and in 2017 we expect the number of transatlantic flights to grow by 5-6% with low cost carriers (~11% market share) responsible for ~50% of the growth
- This has put increasing pressure on yields and the situation has been exacerbated by subdued demand due to weak currencies in Europe (EUR and GBP) and uncertainty in international politics
- Therefore, the market environment has been becoming less favourable

...This year, short-term prospects have taken a turn for the worse resulting in a situation where market conditions will clearly lead to lower profitability in 2017

Year-on-year change in RASK, 2012-2016 actual, 2017 forecast | Percentage



Increase in bookings net of capacity increase, change 2017 against 2016 | Percentage



Developments of last few weeks

- In recent weeks, low cost carriers have lowered the price floor of fares for spring and summer flights on transatlantic routes considerably and full service carriers have responded by lowering their prices even more. These price drops have exceeded Icelandair's expectations
- Since late January, Icelandair has seen a slow down of the airline's flow of bookings. This development has primarily been caused by the increased competition in the market but uncertainty in international politics may also be a contributing factor depressing demand
- In the last few days, Icelandair has lowered fares to boost the airline's competitiveness in its markets, primarily the VIA-market and the booking flow has improved but at lower yields

Other airlines are experiencing the same yield pressure as can be clearly seen from news stories from the last few days



January traffic figures summed up: Revenues came in well below expectations due to the 5pp decline in yield compared to our expectations. [...], **the yield pressure is severe**. The main factors are increased long haul capacity, adverse currency developments and expansion in low-yield markets combined with an underlying price pressure.

Swedbank Equity Research, February 6th 2017



Lufthansa Group is taking a cautious approach to transatlantic growth this year, as capacity continues to exceed demand in the market. [...] **“There is pressure on the yield,”** [Heike Birkenbach, senior vice-president of hub airline sales] says on the transatlantic.

FlightGlobal, February 6th 2017



Budget airline Wizz Air [...] lowered its full year underlying net profit guidance to between EUR 225m-235m from a previous range of EUR 245m-255m, having already chopped UK growth forecasts in the aftermath of the Brexit vote in June. **“The current environment of very low fares and increasing fuel prices [...].”**

Financial Times, February 1st 2017



Budget carrier Ryanair is expecting a sharp decline in fourth-quarter yields, [...] Ryanair adds that it **expects pricing will “continue to be challenging” over 2017-18.**

Company announcement, February 6th 2017

Icelandair Group continues to have an ambitious agenda to improve profitability going forward

1

Icelandair will continue to adapt in an agile way to changes in the market and continually optimize future capacity based on market developments



Icelandair Group remains committed to strict cost control

2

3

Icelandair Group is constantly looking for opportunities to ensure profitable growth

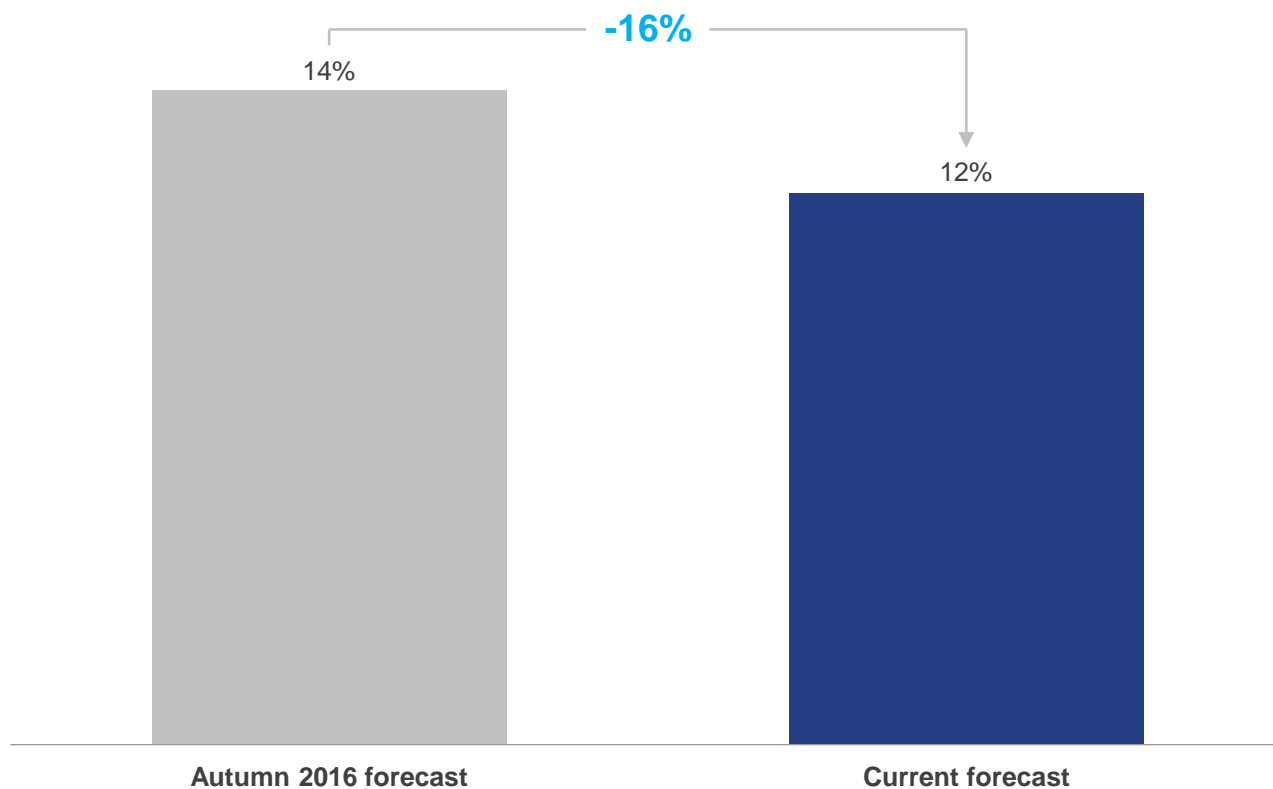


We have set a goal of improving Icelandair Group's profitability by USD 30m on an annual basis when our agenda is fully implemented in 2018

**Icelandair Group
continues to have an
ambitious agenda to
improve profitability**

**We have set a goal of
improving profitability by
USD 30m on an annual
basis when our agenda
is fully implemented in
2018**

Icelandair continually optimizes future capacity based on market developments



Icelandair's supply of flights is continuously reviewed based on booking status and trends in the market

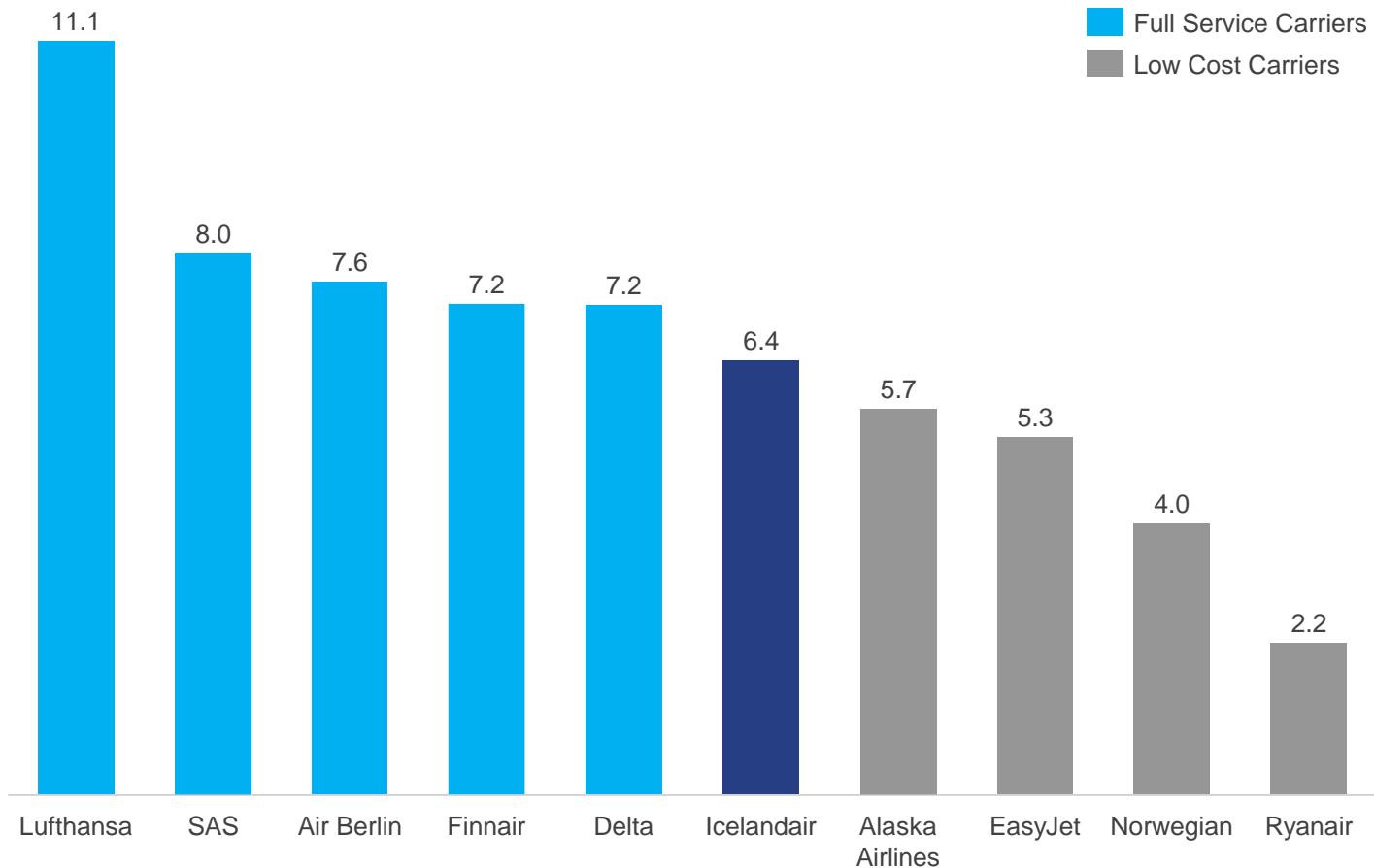
Moreover, if we see opportunities for cost savings or revenue uplift we may change the type of aircraft used for specific trips

With Icelandair transitioning towards a mixed fleet strategy, right sizing opportunities have increased for flights both in the short and long-term

As an example we have recently delayed the start of our second bank of flights in 2017 by two weeks

Icelandair has a lean cost structure that compares favourably to peers...

Stage length adjusted CASK of Icelandair and comparison airlines, 2016 | USD cents



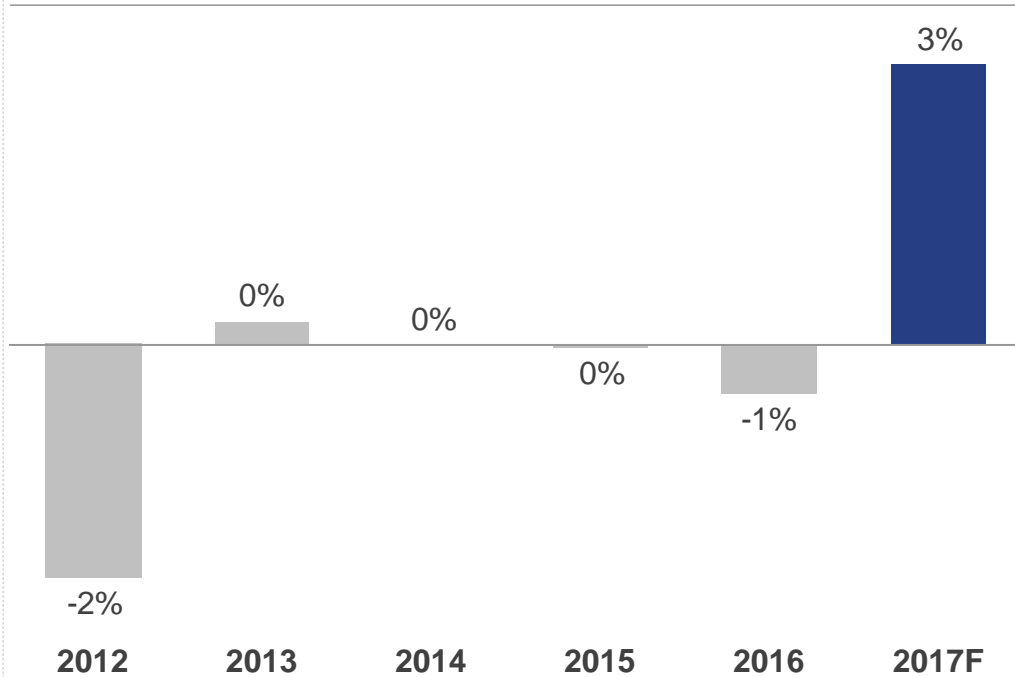
Icelandair's cost structure compares favourably to other airlines, adjusted for stage length

The comparison demonstrates Icelandair's competitive cost position in between full service carriers and low cost carriers (LCCs)

When comparing Icelandair with LCCs it is important to note that a large part of the LCC cost advantage can be explained by 10-15% fewer seats on board Icelandair aircraft for added passenger comfort

...And Icelandair Group's pipeline of cost savings initiatives is strong

Year-on-year change in CASK¹, 2012-2017F | Percentage



Icelandair has managed impressive performance on costs in recent years – however the appreciation of the ISK and rising wages in Iceland drive a 3% higher CASK in 2017

We remain committed to strict cost control and have ongoing a cost adjustment project the target of which is to improve profitability in a meaningful way in 2017. We will keep investors updated about our progress...

All handling processes in KEF are currently under review with assistance from international consultants from IATA. Our aim is to ensure that operational and cost efficiency in KEF are world class



New hangar in KEF and insourcing of maintenance driving noticeable savings



Limited number of FTEs added despite 12% ASK growth in 2017



Strong LEAN culture in all departments delivering sustainable savings



Icelandair Group is constantly looking for opportunities to ensure profitable growth

Icelandair regularly launches new products aimed at responding to changes in the market and improving our service to customers

Points and cash

Passengers can now **book flights and pay with a mix of money and Saga points**:

- | All Icelandair flights
- | Taxes and fuel included
- | No black out dates
- | Members earn points



Harmonized baggage policy on Economy class

| In January 2017, Icelandair harmonized its baggage policy when the Company announced that **going forward all Economy class passengers will have one checked bag included** with the ticket in addition to one personal carry-on bag

| The **same policy** is now **in place** for all Economy class passengers **irrespective of route** which will increase ancillary revenues



Class up – auctions for upgrades

- | Economy class **passengers** on all routes **can now bid for upgrades** to Economy Comfort and Saga Class
- | Auction **winners get all the benefits** of Economy Comfort and Saga Class type fares



In 2017, Icelandair will introduce a new class structure that is aligned to trends in the market and will enable the airline to reach new customer segments

New fare class structure to be introduced in 2017

Icelandair will introduce **changes to the structure of its fares and product offering in 2017.**

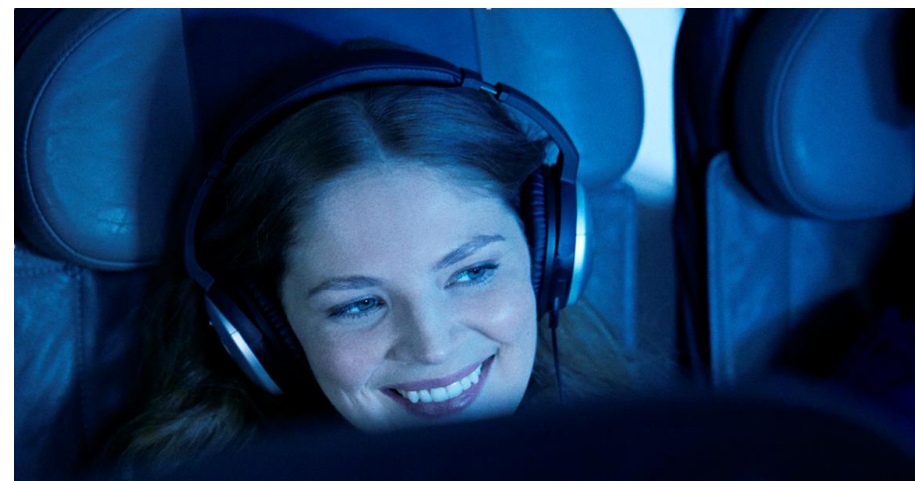
This adaptation, which has been under preparation since last fall, is **intended to meet increased competition**, changed circumstances in the Company's markets and changes in consumer behaviour

The changes **will enable the Company to reach out to new customers**, increase the Company's visibility in search engines to certain target groups and **broaden the Company's revenue base**

Among other changes, **new air fares will be introduced**, where a customer can elect to forgo certain services which are presently included and pay for certain other services of choice such as baggage allowances

At the same time, **new value-added services will be introduced** in the Economy class and more favourable fares in business class for leisure travellers

Implementation will begin in Q2



Investments in Icelandair Hotels' hotel portfolio will drive revenue growth and increasing utilisation of hotel rooms in the next few years

Investments in Icelandair Hotel's hotel portfolio will drive revenue growth in the coming years

I In recent years, Icelandair Group has **invested in building up the portfolio of Icelandair Hotels** and further investments are planned for the next two years

I In 2016, **Icelandair Hotels opened the world's first Canopy hotel** in co-operation with the international hotel chain Hilton

I Canopy by Hilton Reykjavík is **a luxury lifestyle hotel which has been very well received** as demonstrated by the significant rise in room utilization delivered by Icelandair Hotels in Q4 of 2016 (76.2% vs. 67.9%)

I **Total utilization of Icelandair Hotels' hotel rooms was 81.5%** in 2016 which was a marked increase from 2015 when the utilization was 78.2%

I In 2017 and 2018, **Icelandair Hotels will open two further luxury lifestyle hotels in central Reykjavík** branded as Curio by Hilton which we expect will drive further revenue growth and better utilization

I Overall, **the prospects of Icelandair Hotels are positive**

Canopy by Hilton

Reykjavík



Reykjavík Consulate Hotel

Curio

A collection by Hilton



Reykjavík Parliament Hotel

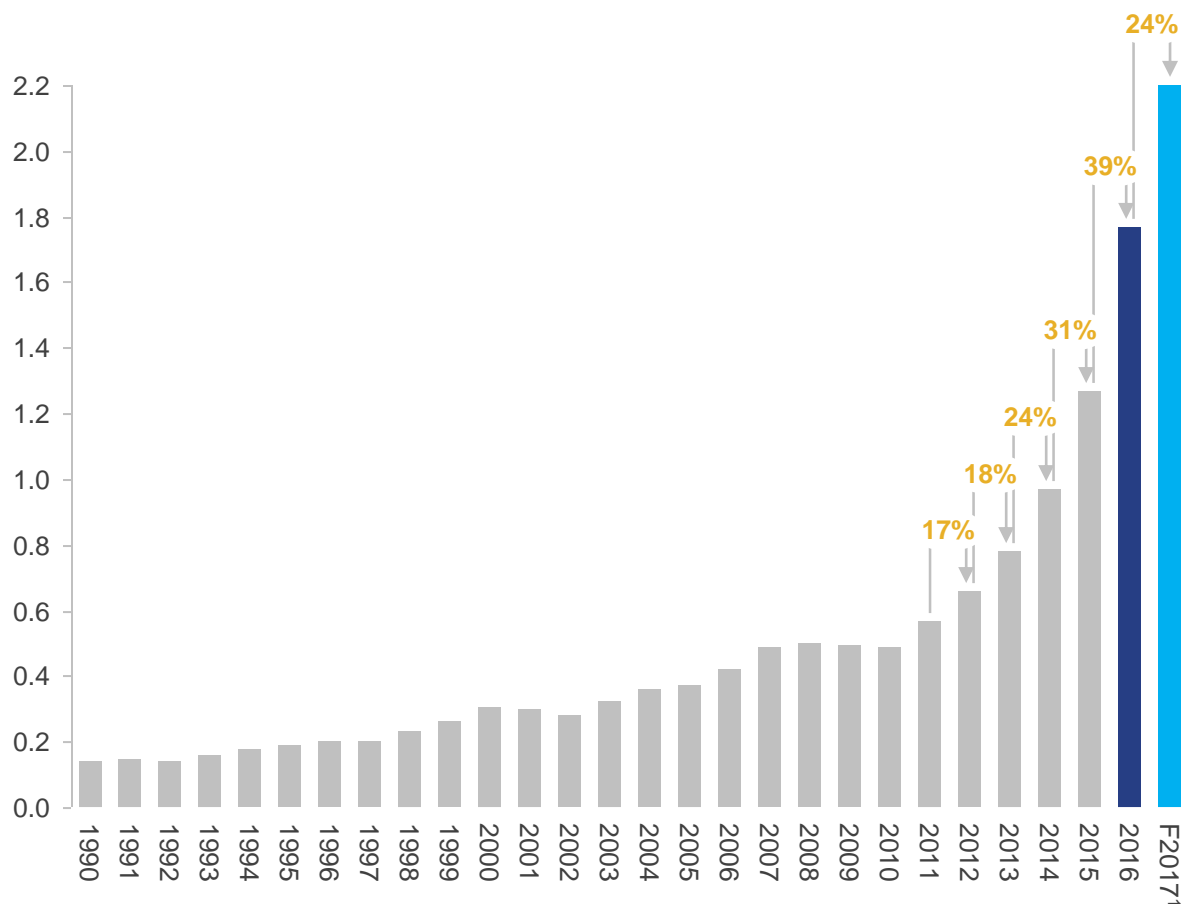
Curio

A collection by Hilton



Iceland's tourism industry is still growing rapidly – Icelandair Group is Iceland's leading tourism firm so the tourism boom will continue to drive revenue growth

Number of tourists visiting Iceland 1990-2017F¹ | millions



Icelandair Group companies with direct exposure to Icelandic tourism industry



A key focus area of Icelandair Group are digital solutions to drive revenues, improve operational efficiency and facilitate a better customer experience

Digital business vision

| A key focus area of Icelandair Group going forward is **digital solutions** to drive revenues, improve operational efficiency and facilitate a better customer experience

| This focus prompted Icelandair Group to launch **Icelandair Digital Labs** in 2016

| The division fully committed to realizing the goal of Icelandair Group being **a leader in airline and tourism digital experience**

| We **expect to see rising returns on our investments** in 2017 reflected in revenue uplift and cost savings

Goal: Icelandair Group leading in airline and tourism digital experience

Building blocks

Customer self service

Understand unique segments needs

Utilize cross selling options within Icelandair Group

Provide easy purchasing

Know our customers

Support multi-channel distribution

Foundation

Digital business leadership

Innovative people and culture

Digital infrastructure supporting fast innovation

Data supported decision making

Icelandair Group is constantly looking for opportunities to ensure profitable growth

In 2017, Icelandair will launch a completely redesigned website which will radically improve the customer journey through our most important sales channel

New website launched in 2017

I In 2017, Icelandair will launch **a completely redesigned website** that will be easy to use on any platform and allow a personalized user experience

I Our new website will be simpler, more future-proof, and facilitate **a vastly improved customer journey through our most important sales channel**

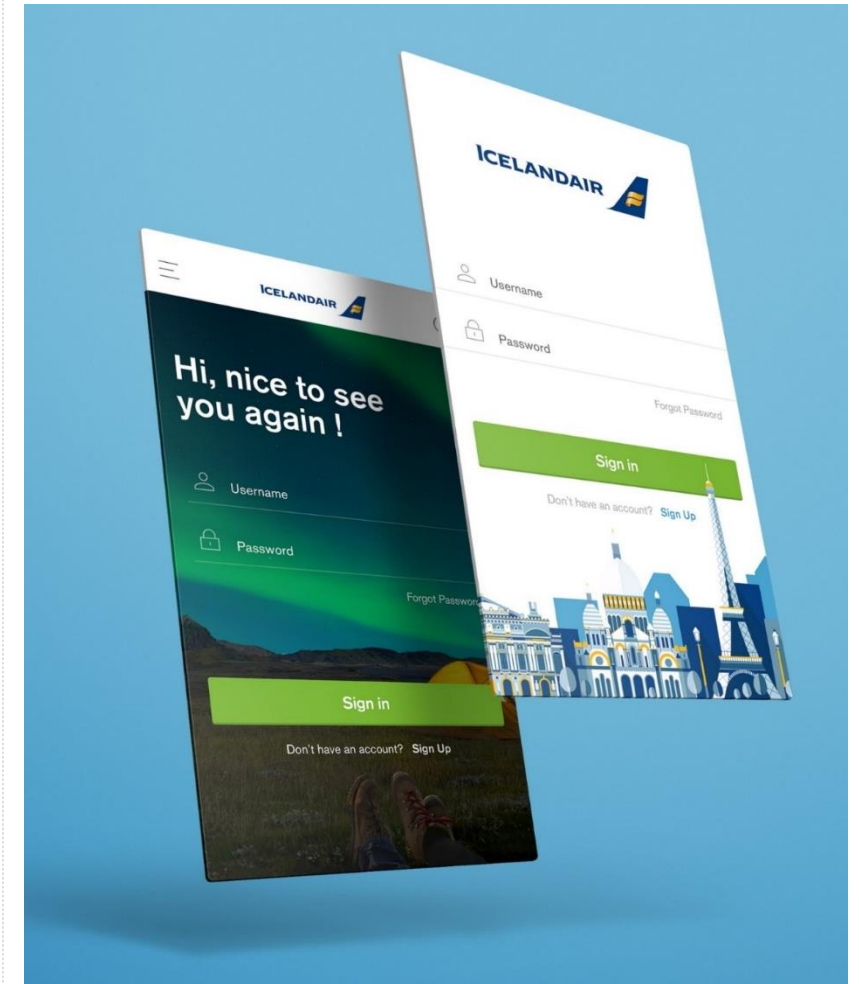
I The new website **will facilitate increased revenues** by improving the customer journey, increasing loyalty and improved search engine ranking

I Moreover, the website **will facilitate cost savings** as it will reduce the load on our call center and sales offices and is based on a more cost-effective hosting strategy

New CRM platform established in 2017

I Icelandair Group has started implementing the Salesforce CRM platform as a new central database for all customer data **directly linked to the new website**

I The platform provides Icelandair Group with a 360 degree view of the customer allowing us to provide **better and more personalized service** and thus create more valuable relationships



We believe Icelandair Group has good future prospects in the medium to long-term despite a challenging market environment in the short-term

1

Our business model is robust and has consistently delivered above industry growth and margins



3

We have a clear roadmap for seizing our opportunities

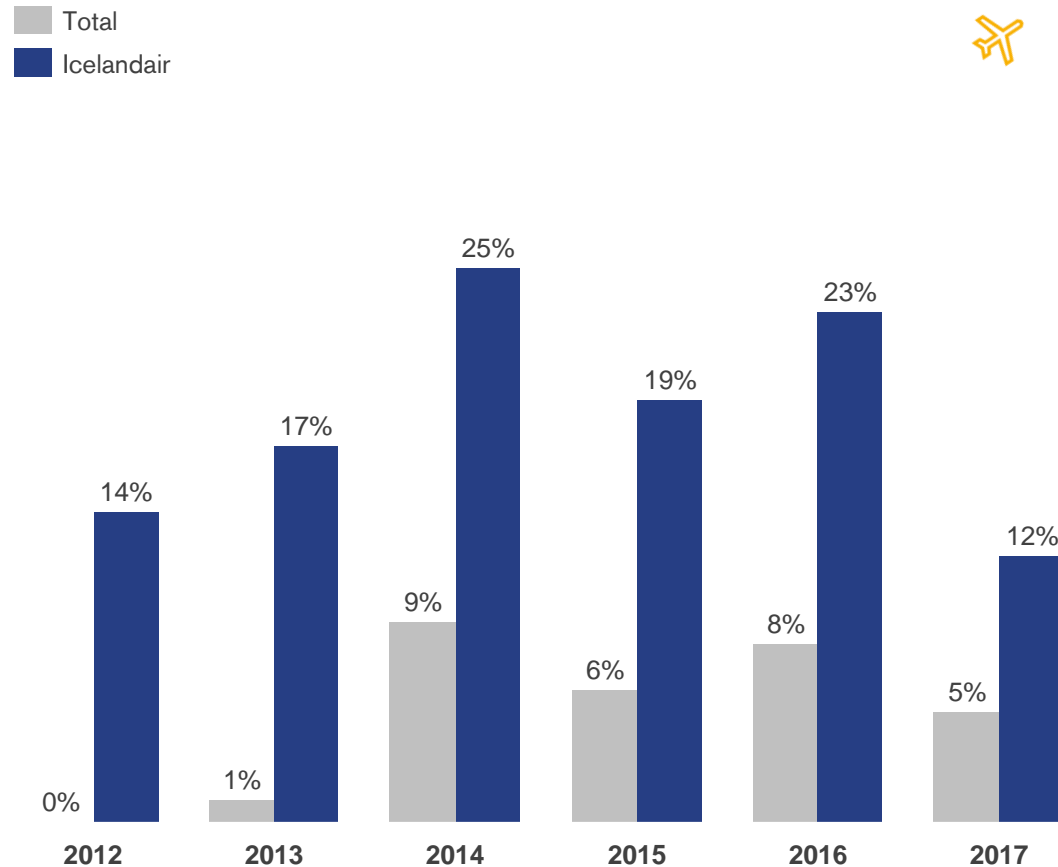


We have enviable growth prospects in the medium and long-term

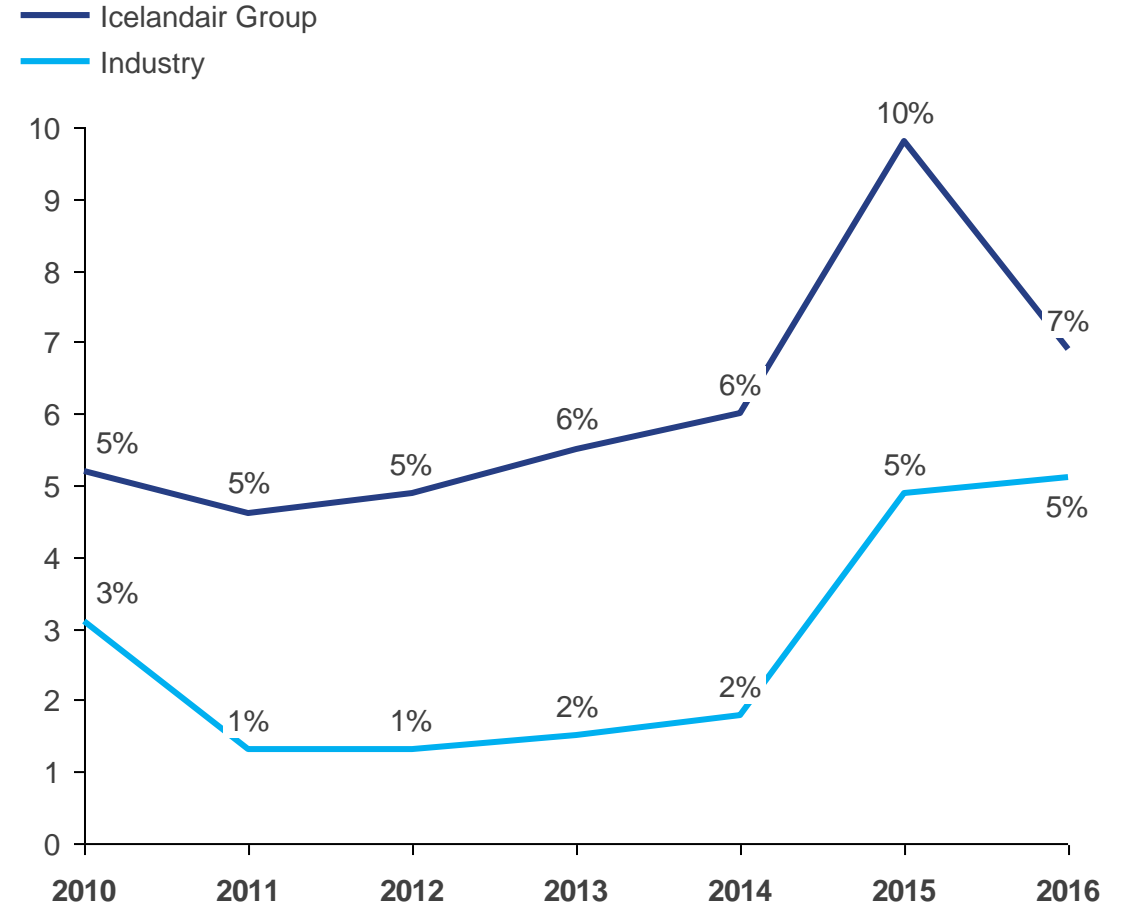
2

Our business model is robust and has delivered above industry growth and margins

Icelandair growth in Available Seat Kilometers (ASK) vs. industry average, 2012-16

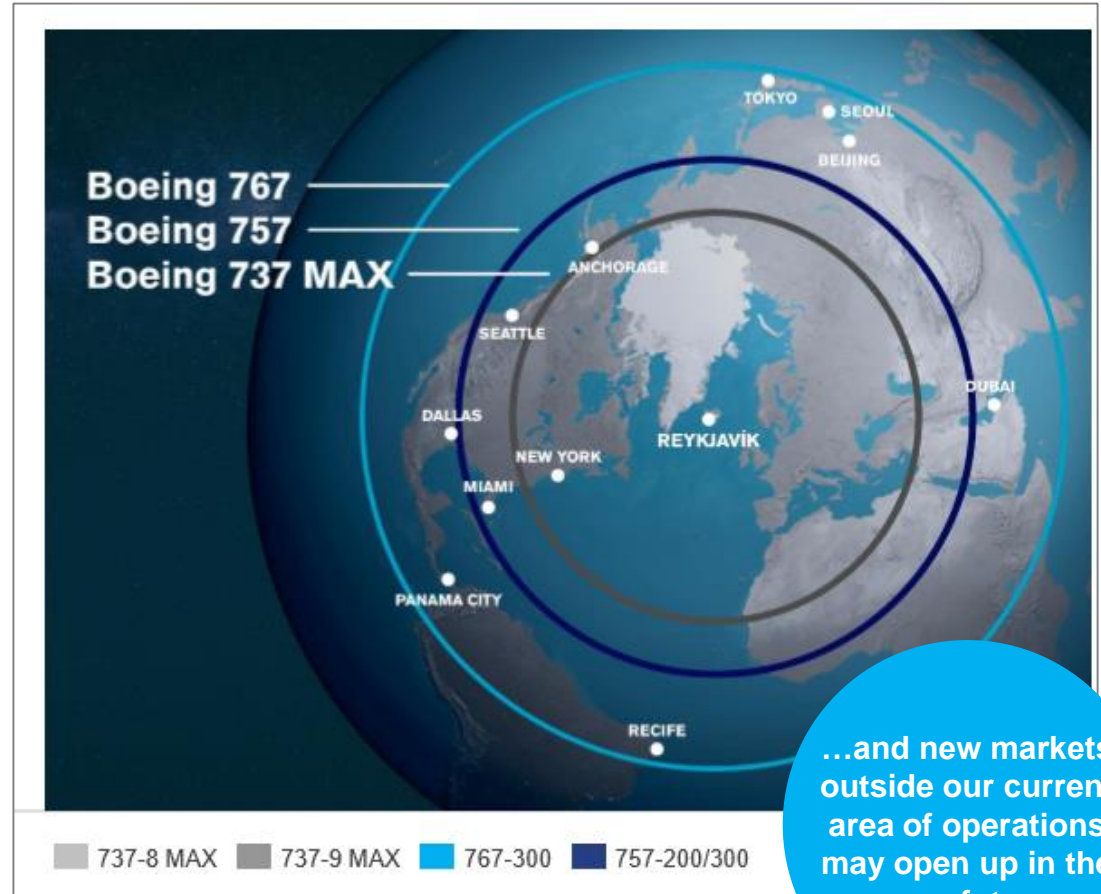
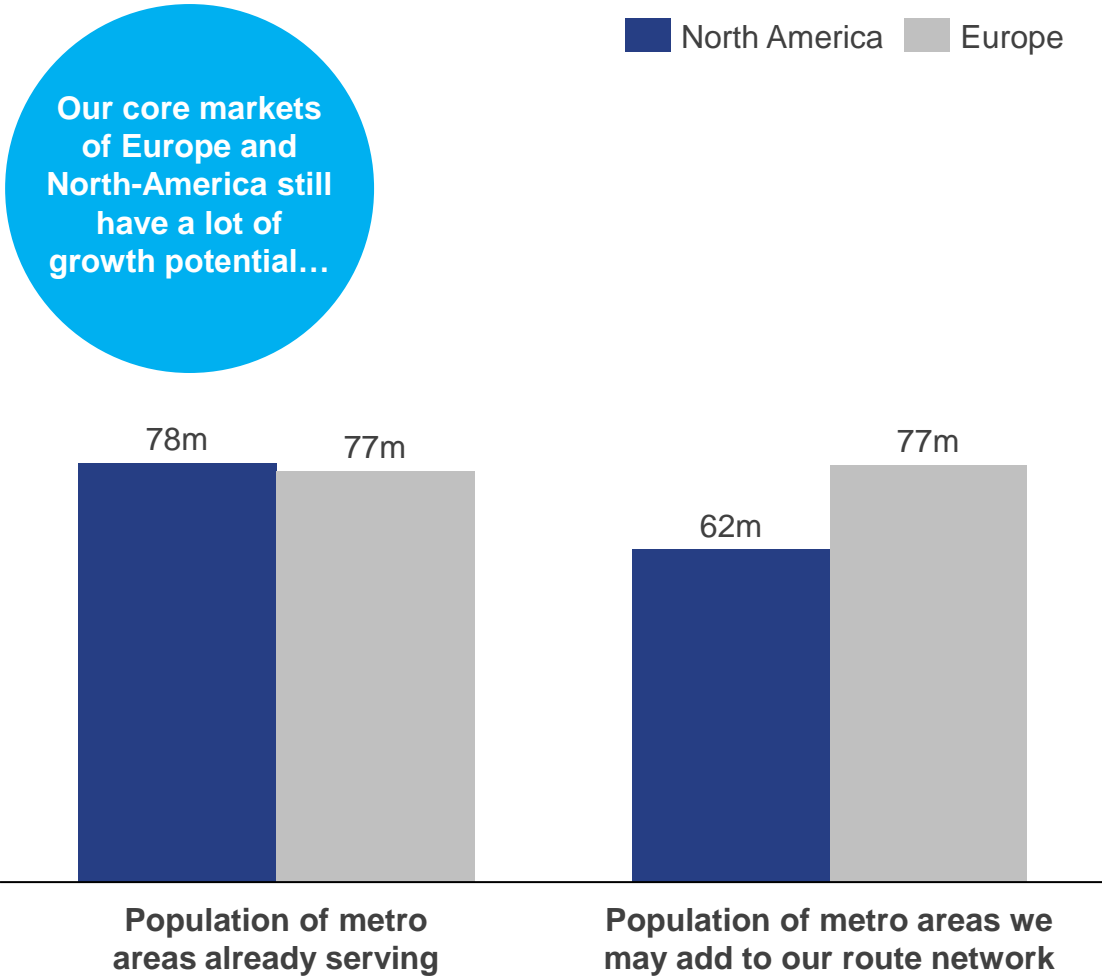


Icelandair Group profit margin¹ vs. industry average, 2010-16



¹ Profit margin = Net profit / Total income – Source: IATA Economics December 2016

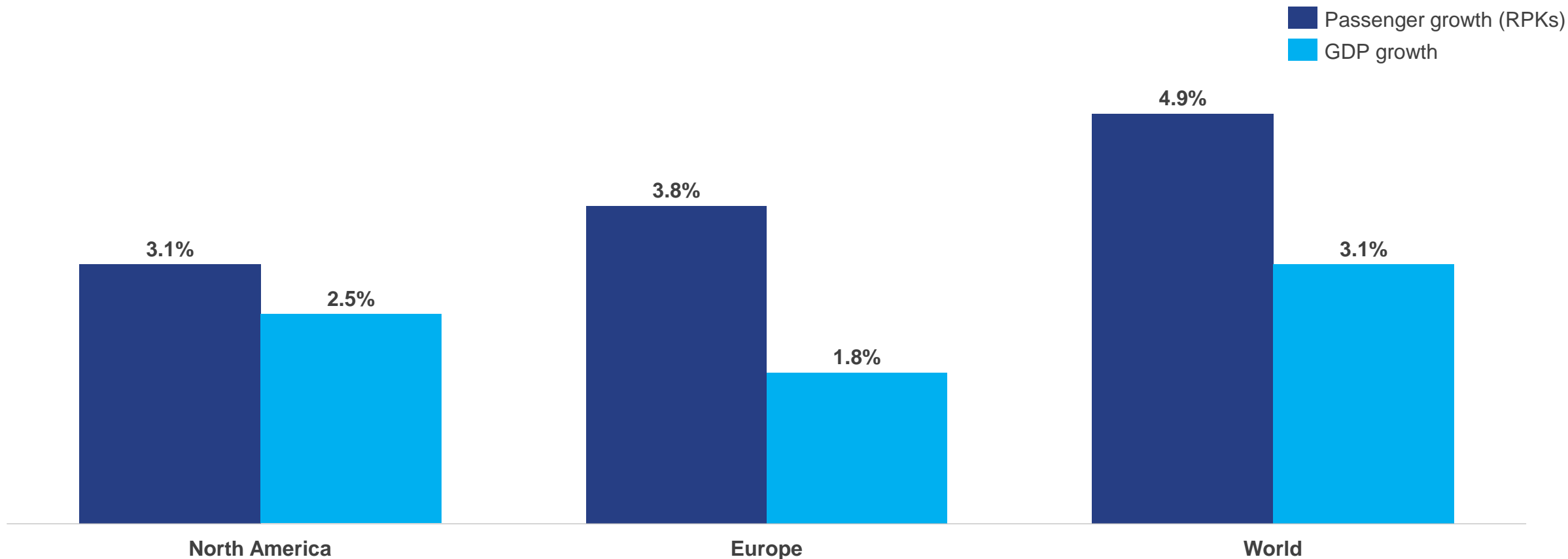
Icelandair still has a lot of room to grow in its core markets and new markets may open up in the near future



...and new markets outside our current area of operations may open up in the near future

We expect considerable growth in passenger numbers on our key routes in the coming years and decades

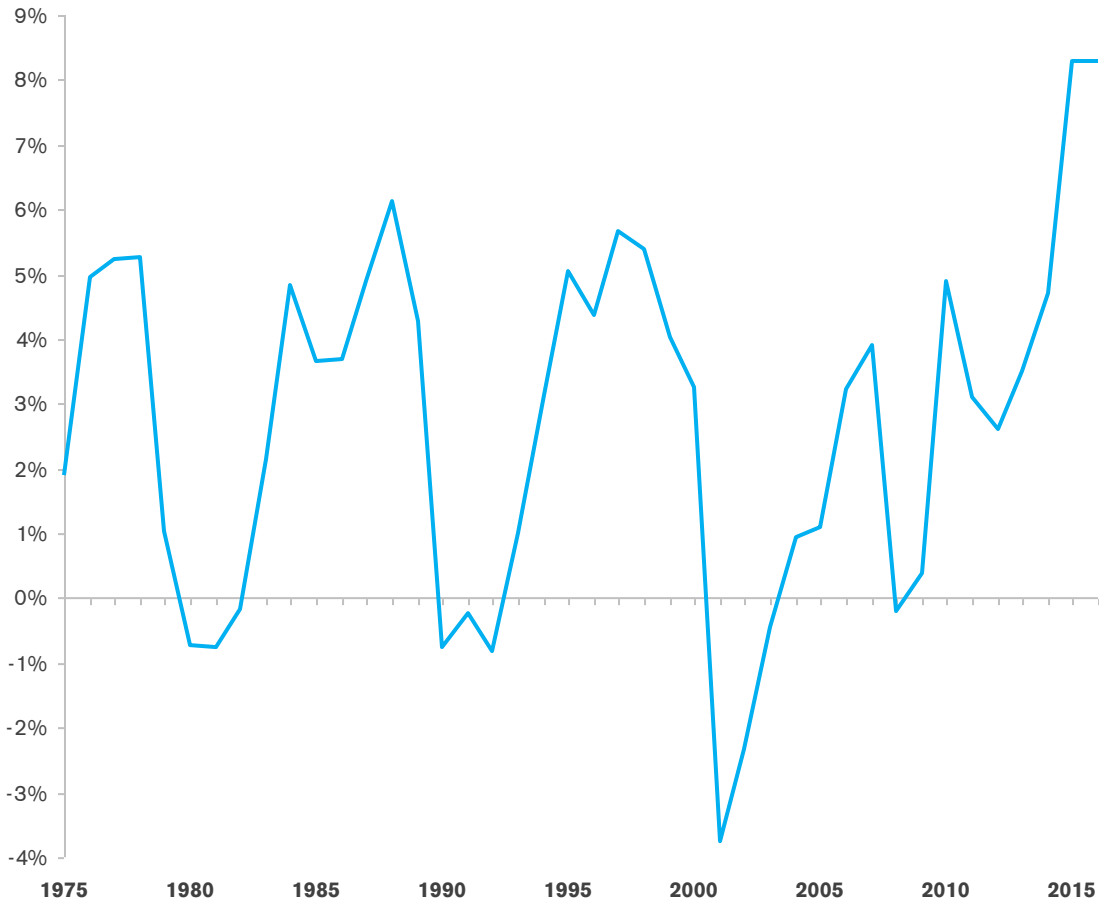
GDP and air travel forecast¹ | 2015-2034, %



¹ Source: Boeing

Aviation is a cyclical industry, therefore, we continually strive to have Icelandair Group in a position to withstand fluctuations and be operationally flexible

Operating profit margin in worldwide airline industry (1975 to 2016)¹ | % of turnover



Icelandair Group and peer equity ratios and net interest bearing liabilities ratios²



Equity ratio no less than **35%**



The goal is to pay **20-40% of annual net profit** to shareholders



On average to have **3 months cost as liquidity** 30% can be in the form of unused credit lines



Flexibility around operational assets



¹ Source: IATA; McKinsey & Co

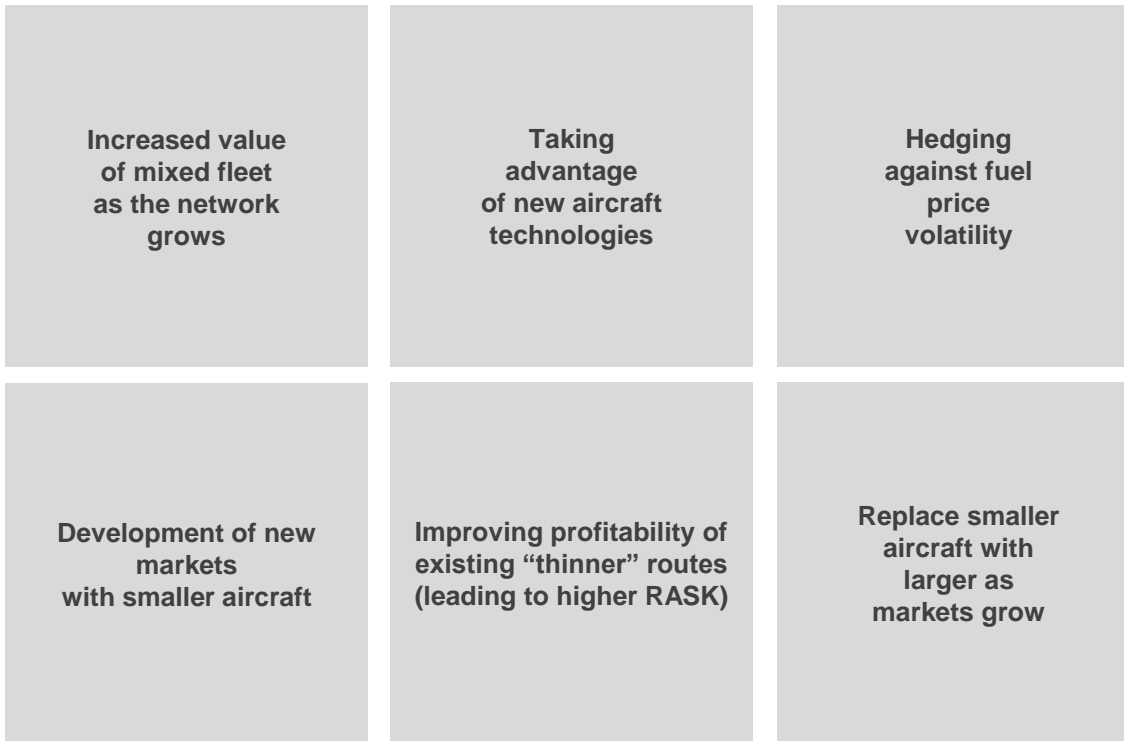
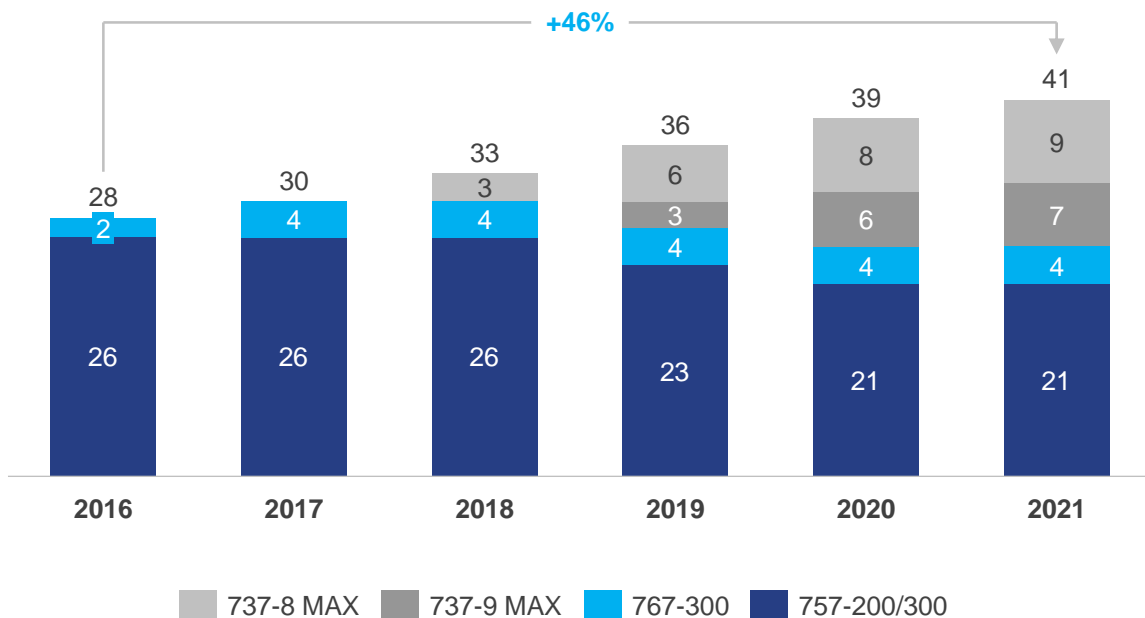
² Icelandair Group numbers are for end of year 2016 while numbers from other airlines are the latest publicly available numbers – in most cases end of year 2015

Our current fleet plan assumes continued growth – it will also contribute to lower costs going forward, and is flexible

We will add three 737-8 MAX aircraft in 2018 with the first commercial flights scheduled for Q2 2018

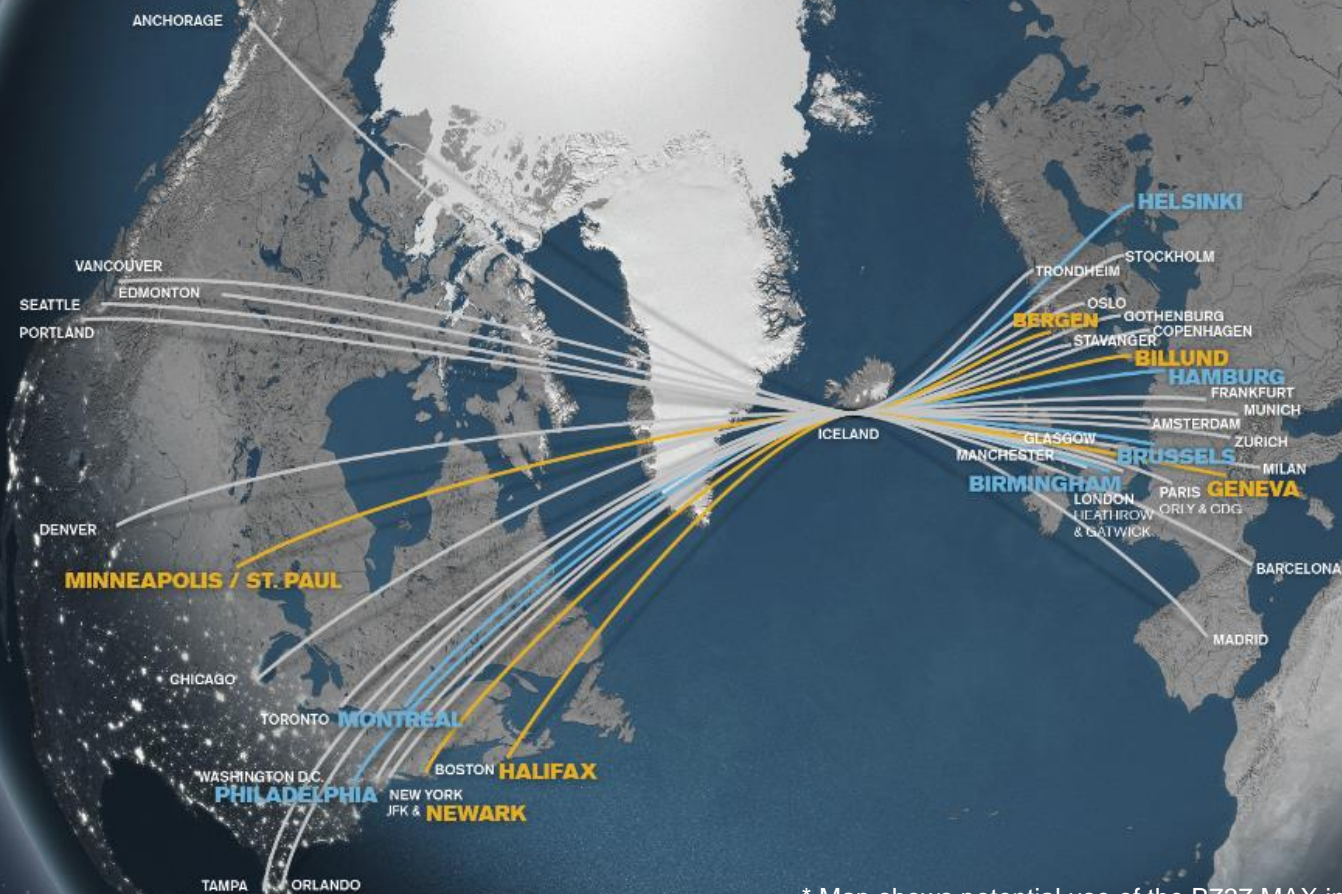
The MAX8 has lower trip costs than the 757 so our mixed fleet strategy will contribute to lower costs

A mixed fleet moreover gives Icelandair more flexibility in adjusting to market developments



We have a clear roadmap for seizing our opportunities

In 2018 we will introduce the B737 MAX and start to leverage its potential



All year

Enables aircraft "right sizing", potential for 2nd daily frequency on existing routes as well as introduction of new routes

Winter

Lower trip cost of the B737 MAX will enable year-round service on some routes and greater frequency on others

* Map shows potential use of the B737 MAX in 2018 within the current Route Network and is subject to change.

Summary

2016 was the second best year in Icelandair Group history and we expect continued capacity growth in 2017

Challenging market developments will lead to lower profitability in 2017

Icelandair Group continues to have an ambitious agenda to improve profitability and has set a goal of a USD 30m improvement on an annual basis

We believe Icelandair Group has good future prospects based on a robust business model, enviable growth prospects and a clear roadmap

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