



# ICELANDAIR GROUP

Q2 AND 1H RESULTS 2009

BJÖRGÓLFUR JÓHANSSON – PRESIDENT AND CEO OF ICELANDAIR GROUP

# Agenda

Today's presentation is hosted by Björgólfur Jóhannsson – President and CEO of Icelandair Group

1. Icelandair Group: Dynamic Companies
2. Q2 and 1H Results of Icelandair Group
3. 1H Results of Icelandair
4. Q&A With the Executive Management Team of Icelandair Group

# Icelandair Group At A Glance

§ Icelandair Group, listed on the NASDAQ OMX Iceland, is a holding company with 12 subsidiaries focused on the international airline and tourism sectors

§ The Group has two main business areas

§ **Scheduled Airline and Tourism** focuses on operation in Iceland, with the international airline Icelandair, Icelandair Ground Services (IGS) Icelandair Cargo, Iceland Travel, Air Iceland and Icelandair Hotels

§ **Capacity Solutions** offers broad worldwide aviation services with Loftleidir Icelandic, Travel Service, SmartLynx, Bluebird Cargo, and Icelease



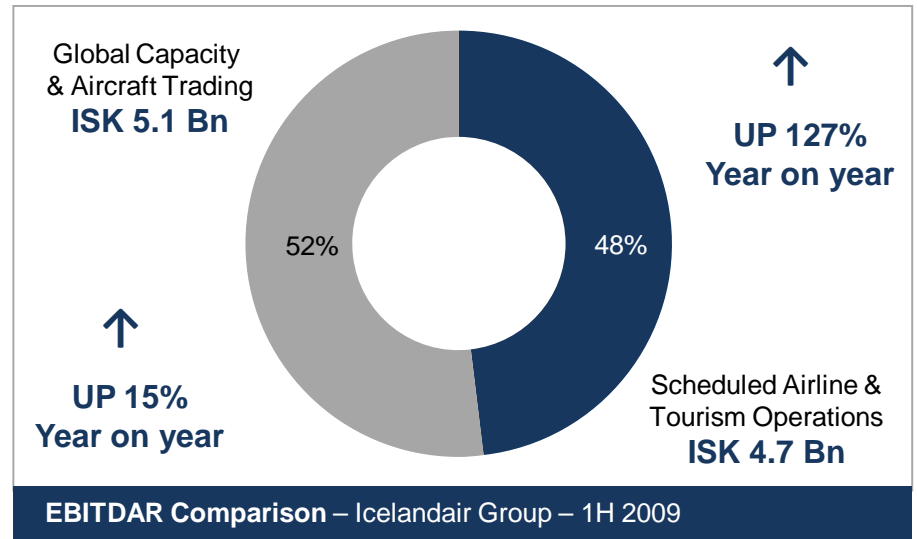
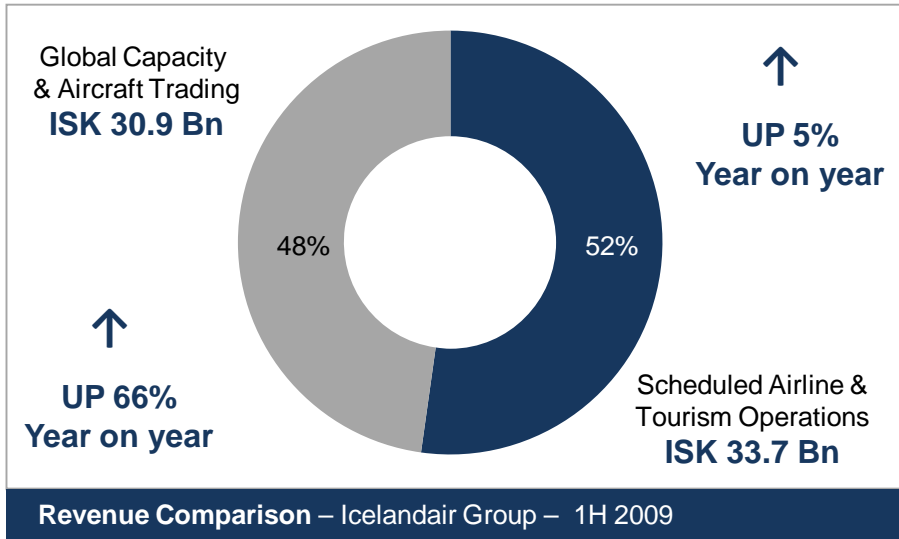
§ Icelandair Group owns and operates dynamic travel and transport companies delivering safe, reliable and convenient services

# Relative Comparison Of Segments in 1H 2009



§ Icelandair Group comprises two segments in which its operations are divided into

§ Each segment makes up approximately 50% of the annual revenue of the Group as is depicted below



# Scheduled Airline And Tourism Operations 1H

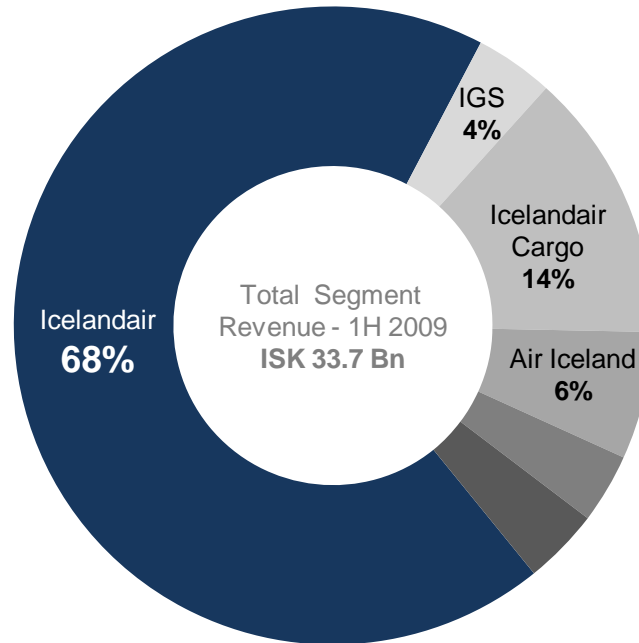
Scheduled Airline and Tourism is an Icelandair Group business area comprising the six companies listed below. These companies work closely together and have long historical ties through decades of operations in the Icelandic and international aviation and tourism business



**Icelandair** is the largest subsidiary within the Group, accounting for around 68% of its income within the segment of scheduled airline and tourism operations

In 1H 2009 Icelandair carried 540 thousand passengers on its scheduled flights between Iceland, Europe and North America to a total of 24 destinations.

The company operates a fleet of 11 Boeing 757 aircraft during the summer season for its scheduled operations



**IGS** specializes in handling, in-flight catering and cargo warehouse



**Icelandair Cargo** handles leasing in aircraft and buying capabilities from other sources



**Air Iceland** offers easy access to destinations around Iceland, Faroe Islands and Greenland



**Icelandair Hotels** is the largest and the leading hotel company in Iceland (3%)



**Iceland Travel** is the leading tour operator and travel agency in Iceland (2%).

# Global Capacity And Aircraft Trading 1H

Icelandair Group offers a variety of aviation related services through Capacity Solutions. This includes all types of leasing, ranging from VIP passenger charter flights to ACMI cargo operations and even dry lease and financing

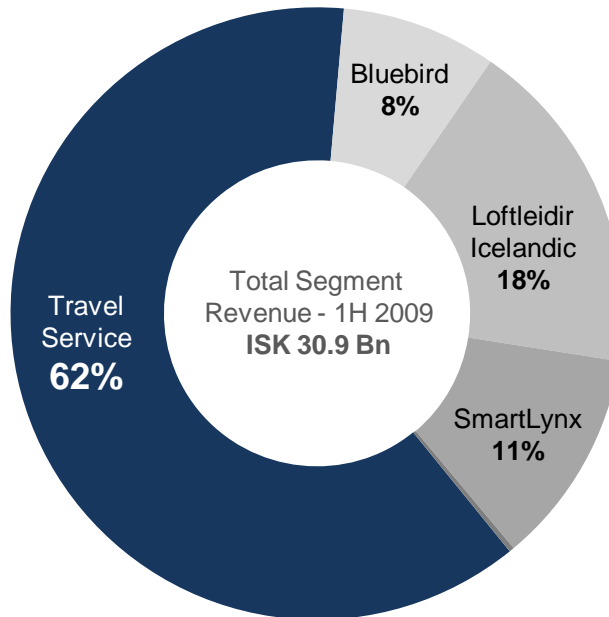
Capacity Solutions can offer its customers both cargo and passenger aircraft ranging from short range narrow-bodies to long range wide-bodies. The Capacity Solutions portfolio consists of a network of these individually managed small to medium sized aviation companies with a coordinated commercial strategy and financial control



**Travel Service** is the biggest Czech private air carrier and one of the fastest growing charter airline companies in Central Europe

Travel Service provides charter flights, scheduled low cost flights under the Smart Wings brand, ACMI leases and private flights

Travel Service flies to more than 250 airports worldwide throughout the year. The company has 600 employees and 16 Boeing 737-500/800 aircrafts in addition to two private jets



**Bluebird Cargo** provides aircraft capacity to major express parcel companies and freight forwarders



**Icelease** is in the business of buying, selling and leasing of aircraft

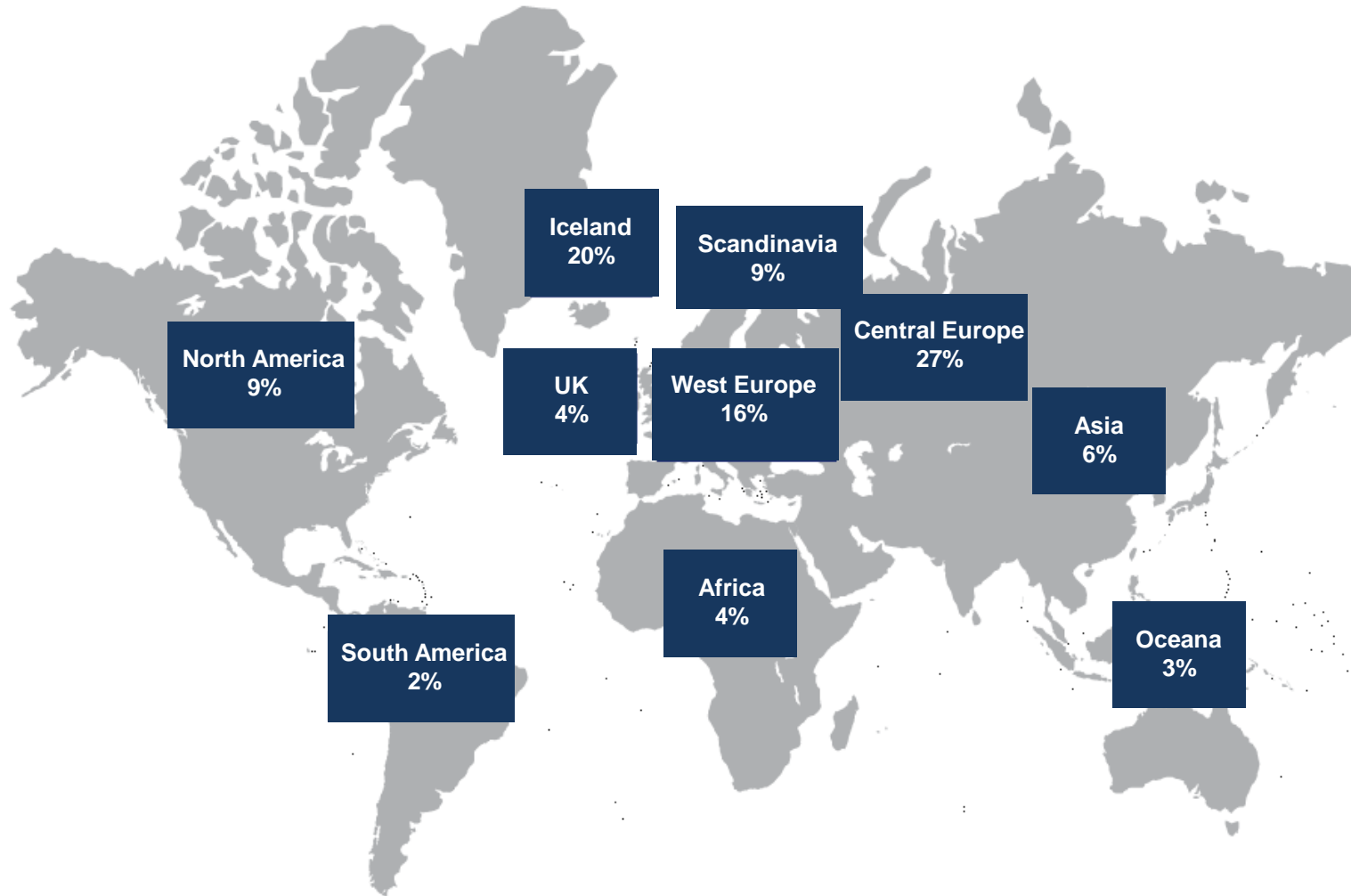


**Loftleidir Icelandic** is a marketing vehicle operating in the international ACMI and charter markets

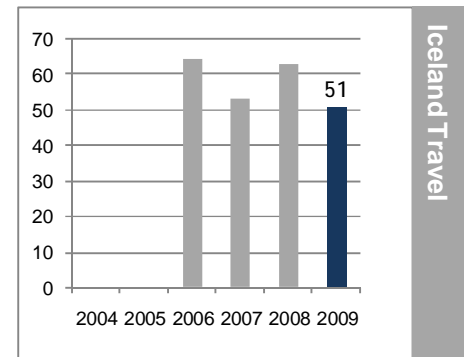
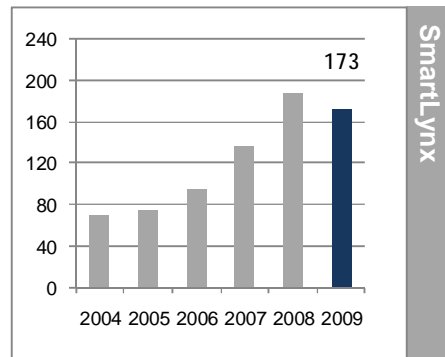
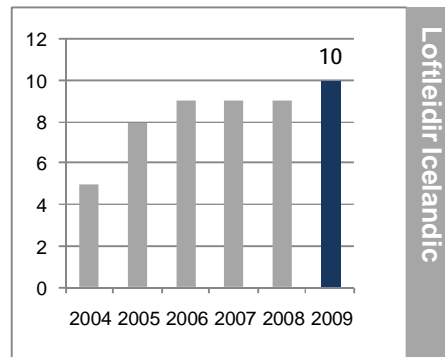
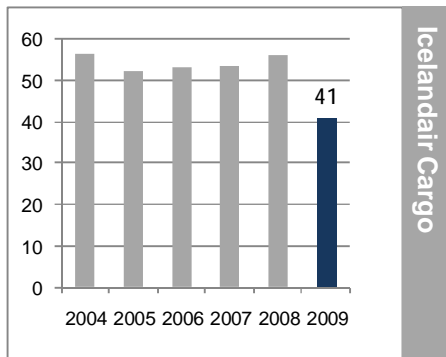
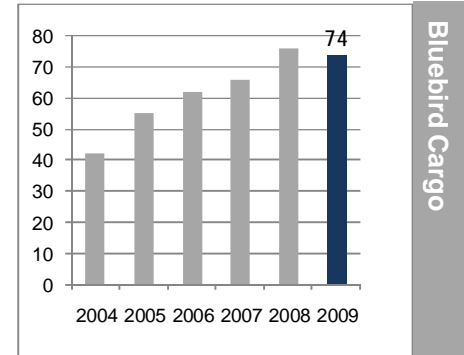
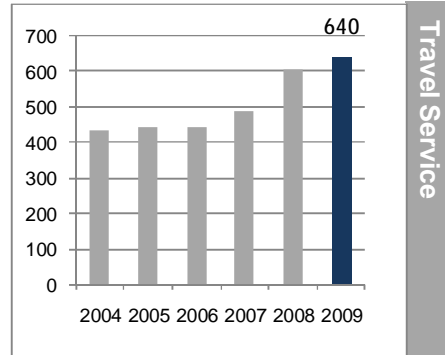
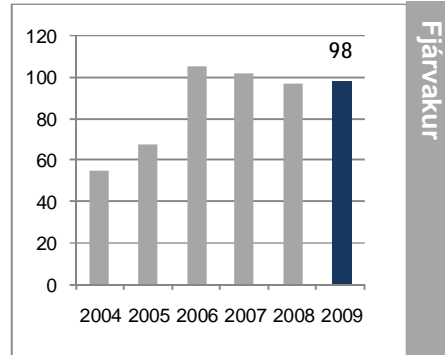
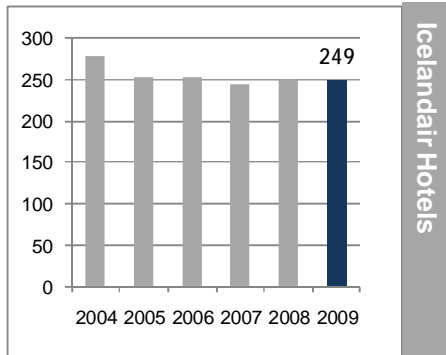
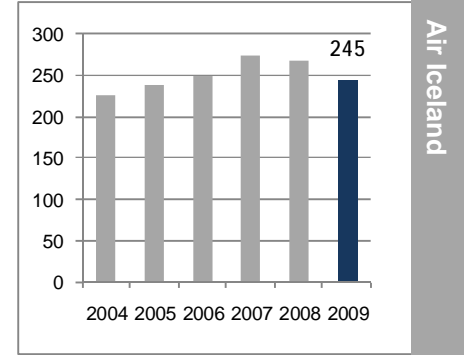
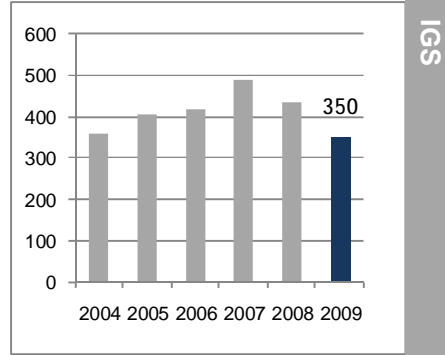
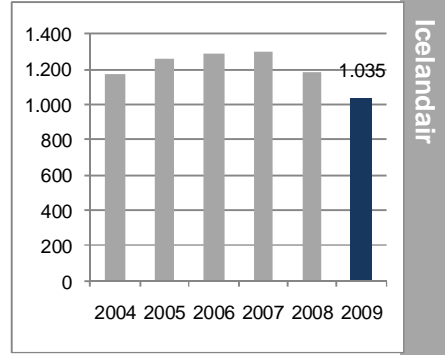
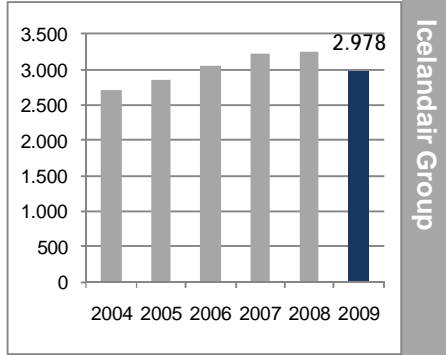


**SmartLynx Airlines** is a air charter and ACMI service partner operating worldwide

# Revenue Distribution in 1H by World Regions



# Average manpower positions per year



2009 estimates



# Agenda



1. Icelandair Group: Dynamic Companies
2. Q2 and 1H Results of Icelandair Group
3. 1H Results of Icelandair
4. Q&A With the Executive Management Team of Icelandair Group

# Overview of Q2 Results

The net result of Icelandair Group in Q2 is ISK 1.7 billion worse than last year but the Group is reporting a significant growth in its EBITDAR margin

Group Revenue Q2 2009

**ISK 33.7 Bn**



- § Organic growth at Travel Service
- § Revenue increase of ISK 4.8 Bn quarter-on-quarter
- § Weakening of ISK has had a substantial effect

Group EBITDA Q2 2009

**ISK 1.3 Bn**



- § Group EBITDA is ISK 0.5 Bn lower than Q2 2008
- § EBITDA margin in Q2 2009 is 3.9% compared to 6.4% in Q2 2008

Group EBITDAR Q2 2009

**ISK 7.0 Bn**



- § EBITDAR is ISK 1.3 Bn higher than in Q2 2008
- § The Group reports EBITDAR growth of 23% quarter-on-quarter
- § EBITDAR margin in Q2 2009 is 20.8% compared to 18.2% in Q2 2008

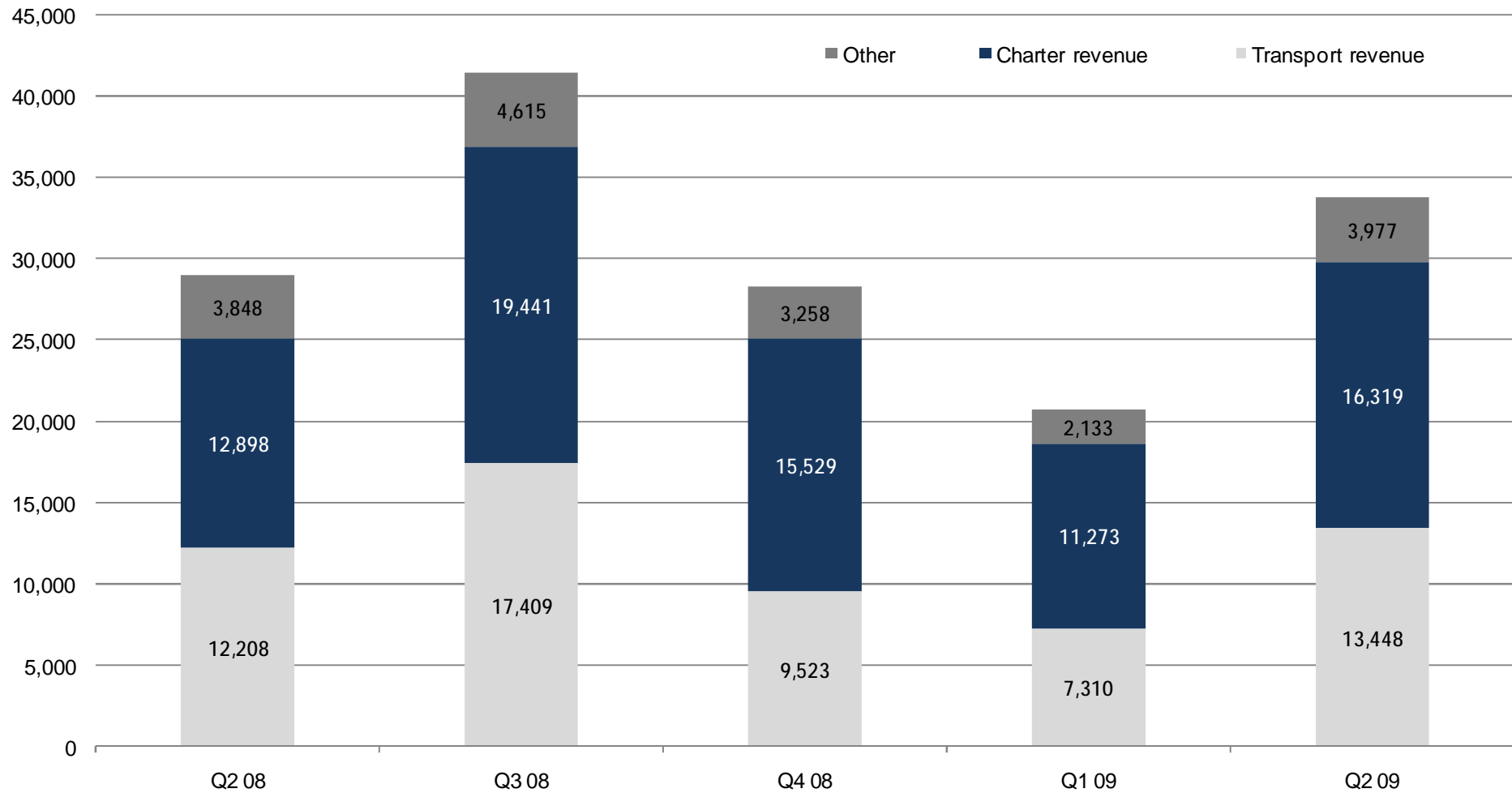
Group Net Loss Q2 2009

**ISK 1.3 Bn**



- § Net loss is ISK 1.3 billion which is ISK 1.7 Bn worse than previous year
- § Loss at SmartLynx and fuel hedges at Travel Service had a great effect on the result

# Q2 Revenue Breakdown of Icelandair Group



↑ 17% Growth in Q2 2009 compared to Q2 2008 ↑

# 1H Results

The 1H 2009 result is above management budget.

Group Revenue H1 2009

**ISK 54.5 Bn**



- § Group revenue grows by ISK 11.5 Bn as compared to 1H 2008
- § Revenue has increased by 15% on a pro forma basis compared to 1H 2008

Group EBITDA H1 2009

**ISK -1.0 Bn**



- § EBITDA of Icelandair Group is negative by ISK 1.0 Bn in 1H 2009 but was positive by ISK 1.0 Bn in 1H 2008

Group EBITDAR H1 2009

**ISK 9.5 Bn**



- § EBITDAR in 1H 2009 increases by ISK 3.4 Bn as compared to 1H 2008 representing an annual growth of 57%
- § EBITDAR margin in 1H 2009 is 17.3% compared to 13.9% in 1H 2008

Group Loss H1 2009

**ISK 5.0 Bn**



- § Group loss amounts to ISK 5.0 Bn as compared to ISK 1.3 Bn loss in 1H 2008
- § Loss at SmartLynx and fuel hedges at Travel Service had a great effect on the result

# Performance in 1H of Selected Subsidiaries

	<p>ü Above expectations</p>	<ul style="list-style-type: none"> <li>§ Dynamic capacity and revenue management had a positive effect on results</li> <li>§ Lower fuel prices than last year and favorable trend of USD against Euro had positive impact</li> <li>§ Substantial year on year increase in passengers to Iceland for the first 6 months of the year</li> </ul>
	<p>ü Above expectations</p>	<ul style="list-style-type: none"> <li>§ Streamlining measures and revenue management had the result that performance exceeded budget</li> <li>§ Higher than expected CZK/USD rate has a substantial positive effect on the results</li> </ul>
	<p>ü Above expectations</p>	<ul style="list-style-type: none"> <li>§ Despite a drop in domestic demand the results are good</li> <li>§ Active capacity management has been successful</li> <li>§ Greenland routes are performing well</li> </ul>
	<p>û Below expectations</p>	<ul style="list-style-type: none"> <li>§ Overall revenues for Icelandair Cargo are below budget</li> <li>§ Large reduction in imports but exports are strong</li> <li>§ Cost higher than expected</li> </ul>
	<p>û Below expectations</p>	<ul style="list-style-type: none"> <li>§ Lower revenue due to late delivery of aircraft to a customer</li> <li>§ Higher than expected operating cost as an additional aircraft had to be leased in to cover the late delivery of a new aircraft</li> </ul>
	<p>û Below expectations</p>	<ul style="list-style-type: none"> <li>§ Utilization of the fleet was very low for the first months of the year</li> <li>§ Currently all aircraft are generating revenues</li> </ul>

# Q2 2009: Income Statement

ISK million			
	Q2 09	Q2 08	Diff %
Transport revenue.....	13.448	12.208	10%
Aircraft and aircrew lease.....	16.319	12.898	27%
Other.....	3.977	3.848	3%
<b>Operating Income.....</b>	<b>33.744</b>	<b>28.954</b>	17%
Salaries and related expenses.....	6.265	6.229	1%
Aircraft fuel.....	6.849	6.538	5%
Aircraft and aircrew lease.....	6.001	3.684	63%
Aircraft servicing, handling and communication.....	5.713	3.752	52%
Aircraft maintenance.....	3.287	2.707	21%
Other.....	4.314	4.189	3%
<b>Operating Expenses.....</b>	<b>32.429</b>	<b>27.099</b>	20%
<b>EBITDA.....</b>	<b>1.315</b>	<b>1.855</b>	-29%
<b>EBIT.....</b>	<b>-36</b>	<b>901</b>	-104%
<b>EBT.....</b>	<b>-1.530</b>	<b>655</b>	-334%
<b>Net Profit/Loss.....</b>	<b>-1.340</b>	<b>395</b>	-439%
<b>EBITDAR.....</b>	<b>7.022</b>	<b>5.279</b>	33%

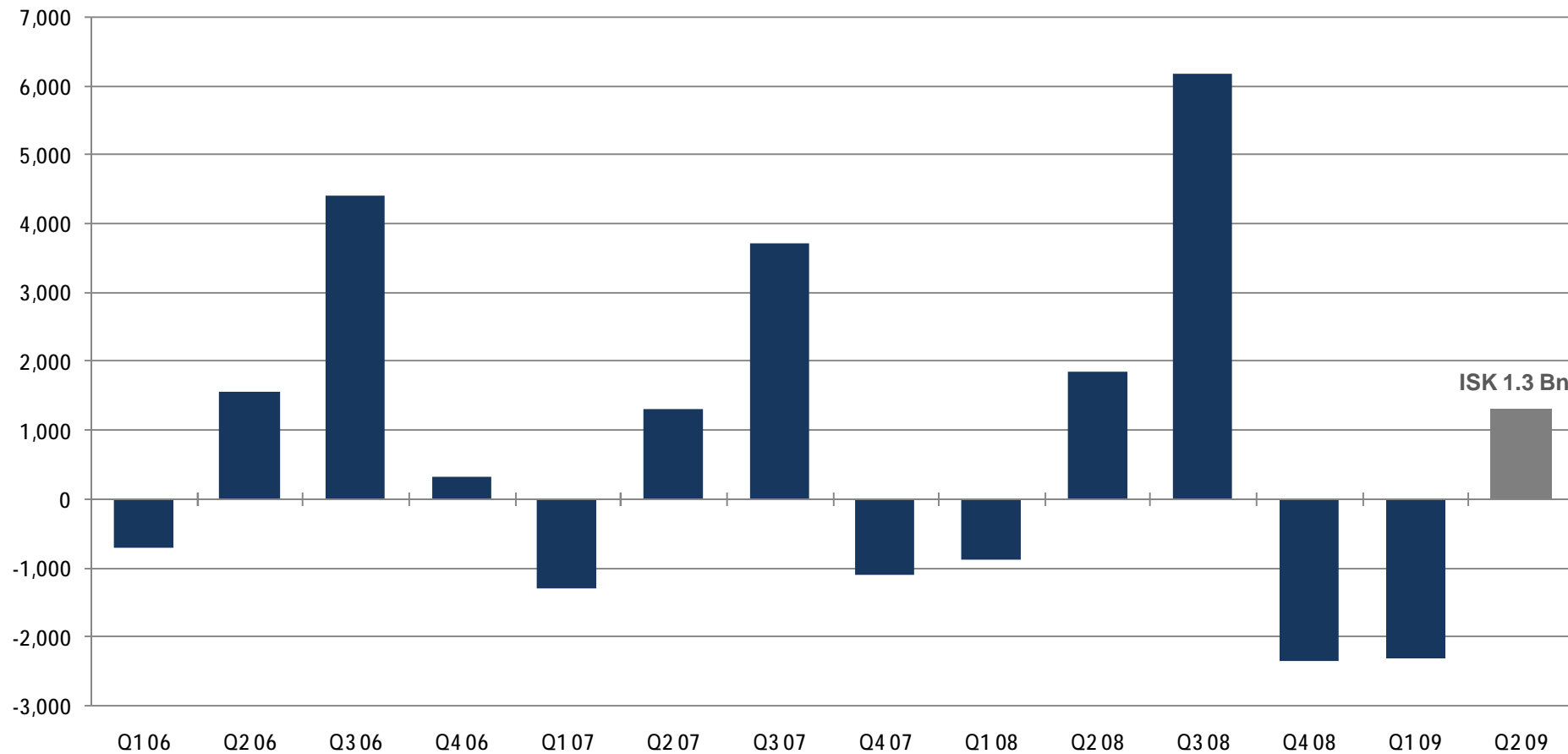
# 1H 2009: Income Statement

ISK million	Actual	Actual	Proforma	Actual	Proforma
	1H 2009	1H 2008	1H 2008	Diff %	Diff %
Transport revenue.....	20.758	18.981	19.387	9%	7%
Aircraft and aircrew lease.....	27.592	18.085	21.789	53%	27%
Other.....	6.110	5.898	6.028	4%	1%
<b>Operating Income.....</b>	<b>54.460</b>	<b>42.964</b>	<b>47.204</b>	27%	15%
Salaries and related expenses.....	11.657	11.234	11.951	4%	-2%
Aircraft fuel.....	10.696	9.160	10.374	17%	3%
Aircraft and aircrew lease.....	10.893	6.235	6.957	75%	57%
Aircraft servicing, handling and communication.....	8.281	4.748	5.634	74%	47%
Aircraft maintenance.....	6.064	3.819	4.543	59%	33%
Other.....	7.860	6.770	7.176	16%	10%
<b>Operating Expenses.....</b>	<b>55.451</b>	<b>41.966</b>	<b>46.634</b>	32%	19%
<b>EBITDA.....</b>	<b>-991</b>	<b>998</b>	<b>570</b>	-199%	-274%
<b>EBIT.....</b>	<b>-3.540</b>	<b>-762</b>	<b>-1.207</b>	365%	193%
<b>EBT.....</b>	<b>-5.585</b>	<b>-1.426</b>	<b>-1.672</b>	292%	234%
<b>Net Profit/Loss.....</b>	<b>-4.979</b>	<b>-1.283</b>	<b>-1.457</b>	288%	242%
<b>EBITDAR.....</b>	<b>9.410</b>	<b>5.984</b>	<b>6.495</b>	57%	45%

PRESENTATION OF Q2 AND 1H RESULTS 2009 | ICELANDAIR GROUP

# EBITDA Comparison by Quarters

§ Adjusted for gain on sale of fixed assets depicts the seasonal fluctuations





# 1H 2009: Balance Sheet

ISK million	30.6.2009	31.12.2008	30.6.2008
Operating Assets.....	37.024	36.798	27.762
Intangible assets.....	29.935	29.306	31.351
Investment in associates.....	1.073	1.008	938
Aircraft purchase prepayments.....	4.504	4.226	2.188
Long-term receivables .....	6.712	6.054	3.909
Cash and cash equivalents.....	6.184	4.065	6.299
Other assets.....	20.481	17.373	17.377
<b>Total assets.....</b>	<b>105.913</b>	<b>98.830</b>	<b>89.824</b>
Stockholders equity.....	18.806	20.080	27.271
Total non-current liabilities.....	23.758	25.112	18.850
Total current liabilities.....	63.349	53.638	43.703
<b>Total equity and liabilities.....</b>	<b>105.913</b>	<b>98.830</b>	<b>89.824</b>
Equity ratio	17,8%	20,3%	30,4%
Current ratio	0,42	0,40	0,54
Net interest bearing loans	37.123	39.570	23.087

# 1H 2009: Cash Flow Statement

ISK million	1H 2009	1H 2008
Working capital (to) from operations.....	-2.557	1.365
Net cash from operating activities.....	3.809	7.619
Net cash used in investing activities.....	-580	-2.354
Net cash used in financing activities.....	-1.397	-1.485
<b>Increase in cash and cash equivalents.....</b>	<b>1.832</b>	<b>3.780</b>
Effect of exchange rate fluctuations on cash held.....	287	513
Cash and cash equivalents at 1 January.....	4.065	2.006
<b>Cash and cash equivalents at 30 June.....</b>	<b>6.184</b>	<b>6.299</b>

# 1H 2009: Group Finance Cost

The finance cost of the Group has risen significantly since 1H 2008 due to the depreciation of the ISK and higher interest rates

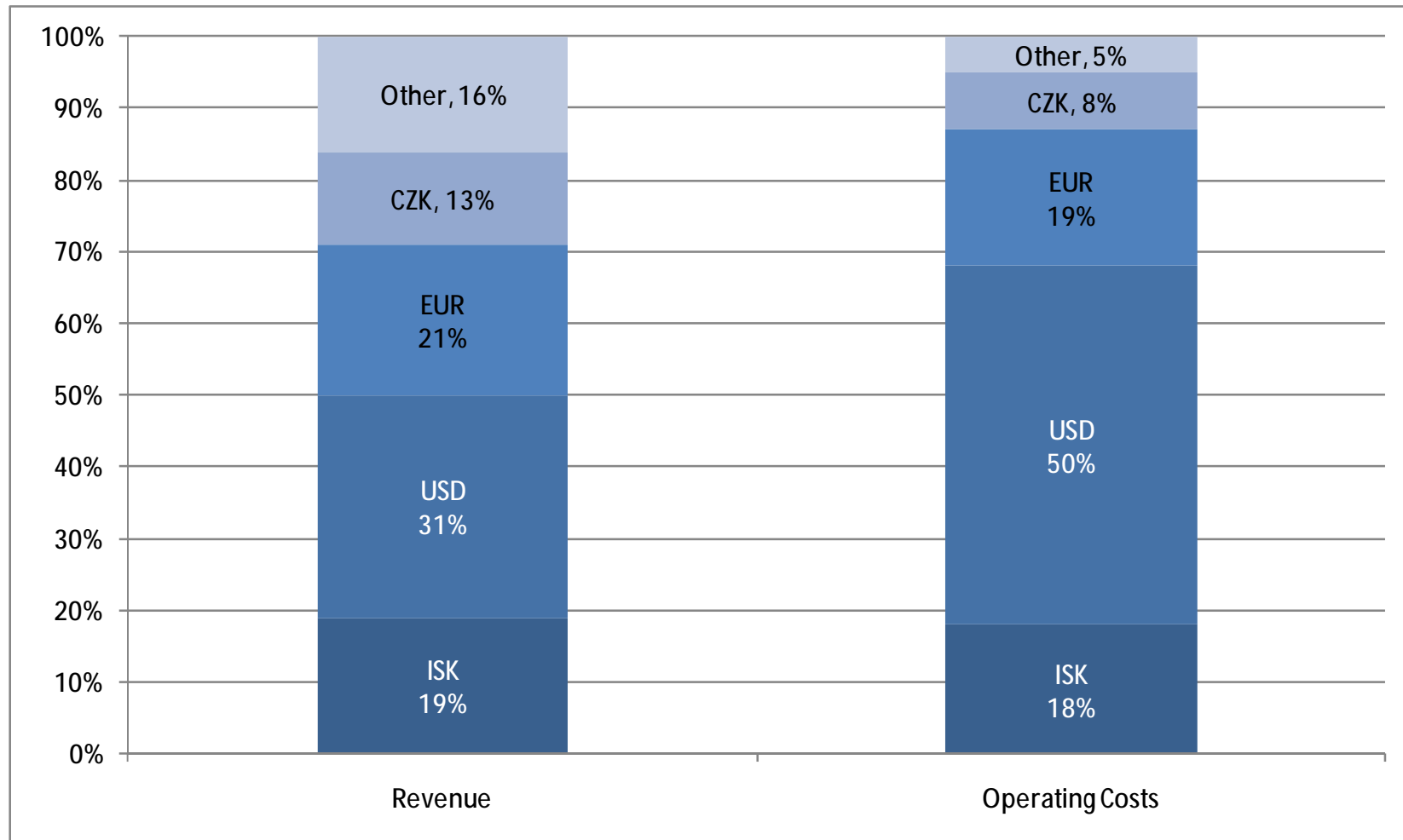
ISK million	1H 2009	1H 2008
Interest income.....	85	192
Interest expenses.....	-2,313	-1,671
Currency effect.....	160	436
(Loss) Gain from sale of derivatives.....	-24	303
<b>Net finance cost.....</b>	<b>-2,092</b>	<b>-740</b>

ISK million	Q1 2009	Q1 2008
Interest income.....	35	88
Interest expenses.....	-1,058	-861
Currency effect.....	376	406
Gain from sale of derivatives.....	78	0
<b>Net finance cost.....</b>	<b>-569</b>	<b>-367</b>

ISK million	Q2 2009	Q2 2008
Interest income.....	50	104
Interest expenses.....	-1,255	-810
Currency effect.....	-216	30
Gain from sale of derivatives.....	-102	303
<b>Net finance cost.....</b>	<b>-1,523</b>	<b>-373</b>

# Q2 Currency Breakdown Of Income And Costs

§ Pre currency hedge Icelandair Group in Q2 2009



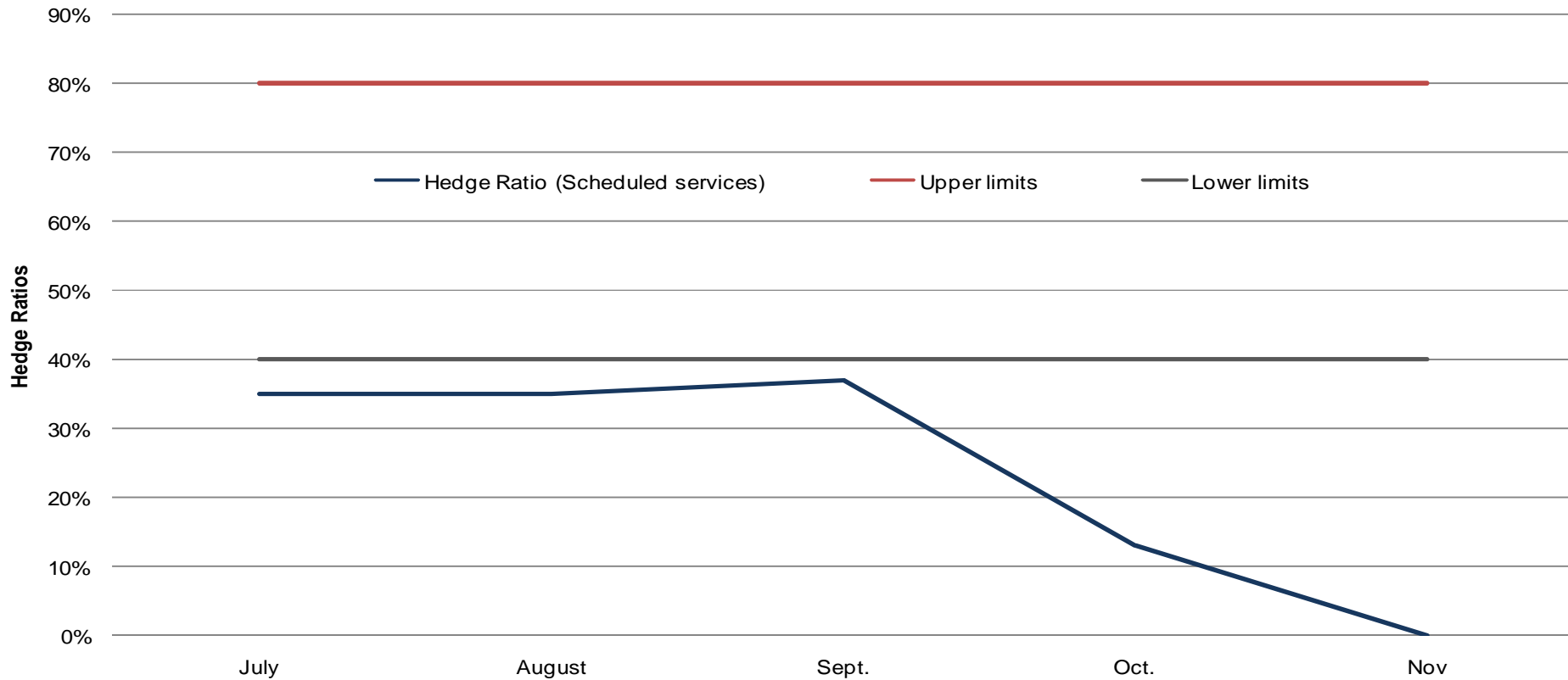
# Positive Developments In Fuel Costs

§ Fuel cost development has been positive in 2009 as compared to 2007 and 2008



§ Average fuel price for the first six months of 2009 was USD 497 per ton as compared to USD 1,096 per ton in 1H 2008 – equating a price decrease of 55% between 1H 2009 and 1H 2008

# Jet Fuel Hedging – Scheduled Services



In tonns	July	August	Sept.	Oct.	Nov	Total Volume	Total MTM In m. USD
Hedge (Scheduled services)	5.200	5.200	4.200	1.000	0	15.600	-6,4
Hedge ratio	35%	35%	37%	13%	0%		
Effective fwd. Jet USD/t	742	768	764	684	653		
Hedge (Charter services)	6.132	6.091	5.897	2.267	0	20.387	-11,4

# Icelandair Group Outlook

## Financials

- § Active capacity management and cost control on Group level are returning improved results
- § The Group's forecast assumes an improvement in EBITDA between the years 2008 and 2009, projecting an EBITDA of approximately ISK 6.5 billion as compared to the projected ISK 6.0 billion at the time of publication of our report for the first quarter
- § Projected full year EBITDA of SmartLynx is negative by ISK 1.9 billion, and negative oil hedges at Travel Service amount to ISK 2.9 billion

## Funding and Shareholders

- § The shareholder structure of the Group has changed significantly after the turmoil in the Icelandic economy
- § Íslandsbanki has become the largest shareholder of the Group, 47% and Landsbanki holds 24% of the shares
- § On a shareholders meeting held 6 August it was decided to grant the Board authorization to increase the share capital of the Group by up to ISK 4 billion
- § The financial restructuring of Icelandair Group is underway and is expected to be concluded before onset of winter

## Operational Environment

- § It is clear that the operating environment in the coming months will be challenging, but the operations in July and short term prospects give some cause for moderate optimism
- § The Group's capacity utilization in charter flights for the remainder of the year is good
- § The booking status in scheduled flights for the next few months is good, but there is some uncertainty regarding demand in the winter

## Other Issues

- § New Board of Directors was elected on a shareholder's meeting held 6 August 2009
- § Mr. Sigurdur Helgason, former CEO of Flugleidir, was unanimously elected Chairman of the Board of Directors.
- § Mr. Finnur Reyur Stefánsson was unanimously elected Vice Chairman of the Board of Directors
- § Other Directors are Mr. Jón Ármann Guðjónsson, Mr. Pétur J. Eiríksson and Mrs. Katrín Olga Jóhannesdóttir

PRESENTATION OF Q2 AND 1H RESULTS 2009 | ICELANDAIR GROUP

# Agenda

1. Icelandair Group: Dynamic Companies
2. Q2 and 1H Results of Icelandair Group
- 3. Q2 Results of Icelandair**
4. Q&A With the Executive Management Team of Icelandair Group



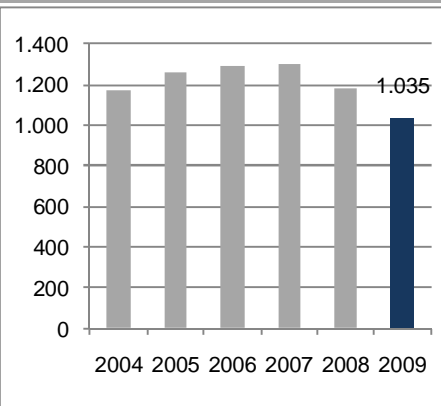
# Icelandair at a Glance

With its large network Icelandair offered Icelandic customers direct scheduled flights to 24 destinations in Europe and North America.

10 Boeing 757-200



1.035 Average manpower positions



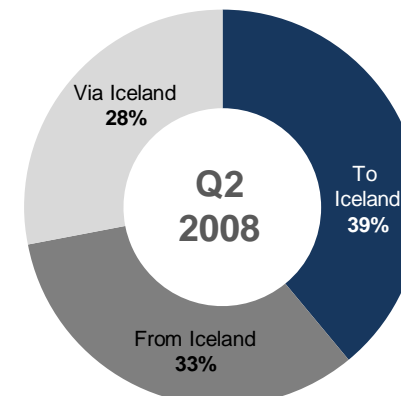
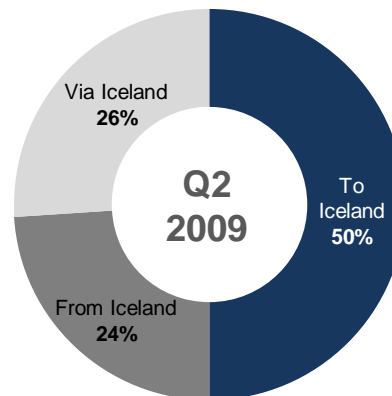
- § Even though its market share on the North Atlantic market is less than 1%, it is a key factor in Icelandair's operation. Due to the immense size of this market and the nominal market share held by Icelandair, it serves in effect as a gigantic reservoir of passengers
- § The pricing policy of Icelandair and its schedule is built up to meet different needs of customers flying to, from and via Iceland
- § Sales through more than 12,000 travel agents, tour operators and airlines all over the world through various contracts and agreements

## Where Do The Passengers Come From?

**From Iceland:** The largest routes in the Network are to London and Copenhagen

**To Iceland:** Strong marketing efforts in Europe and North America paying off

**Transatlantic:** The transatlantic route serves as a gigantic reservoir of passengers

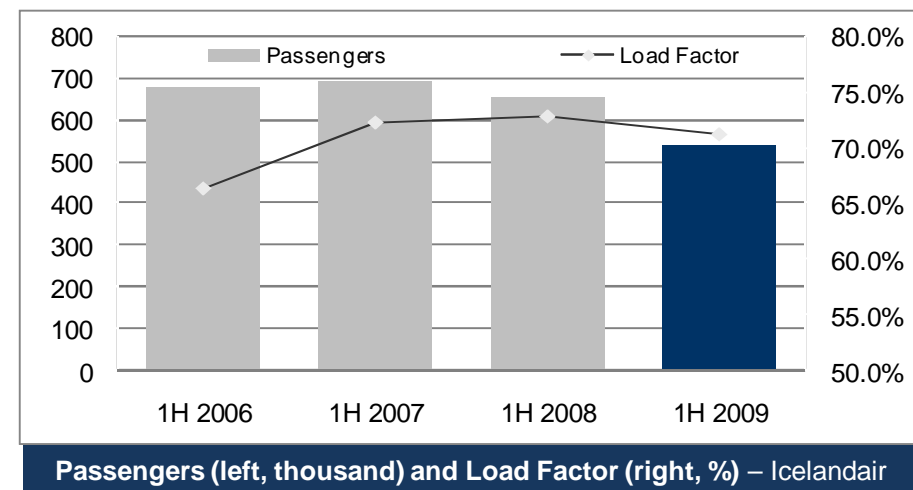
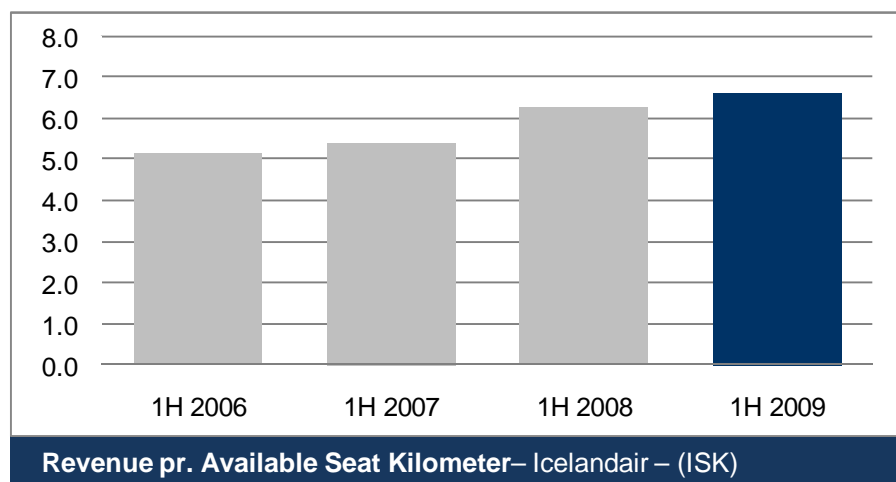


1 Boeing 757-300



# 1H Results of Icelandair Above Expectations

- § Load factor in 1H 2009 was 71,3% which was 1,7 ppt. lower than in 1H 2008
- § Capacity of the fleet was cut by 17% from 1H 2008 to 1H 2009 to meet lower demand
- § Increased focus on sales on the TO market resulted in increased passenger sales by 11% year-on-year
- § TO market accounts for 50% of sales in 1H 2009 – the highest level ever recorded by Icelandair
- § Competitors on the market TO and FROM Iceland significantly reduced their capacity and as a result Icelandair has increased its market share on the TO market significantly
- § VIA market decreases in-line with capacity changes
- § FROM Iceland market decreases by a third - mainly due to the adverse economic environment in Iceland



# Agenda

1. Icelandair Group: Dynamic Companies
2. Q2 and 1H Results of Icelandair Group
3. 1H Icelandair
- 4. Q&A With the Executive Management Team of Icelandair Group**



## **Icelandair Group**

Reykjavík Airport

101 Reykjavík Iceland

Tel: +354 50 50 300

Fax: +354 50 50 389

[info@icelandairgroup.is](mailto:info@icelandairgroup.is)

Copyright © Icelandair Group.

All rights reserved.