



# ICELANDAIR GROUP hf.

Presentation of Half Year Results and the Financial Restructuring of Icelandair Group hf.

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# AGENDA

- + Highlights
- + Q2 2010 Results and 6M 2010 Results
- + Financial Restructuring
- + Outlook and Q&A



# Strong Improvement in Operations

## + Revenue growth from last year

- + Revenue in Q2 increased by 12% as compared to the corresponding period last year.
- + Revenue in the first six months increased by 14% from last year.

## + EBITDA ratio increases significantly from last year

- + EBITDA ratio was 9.8% in Q2 but was 7.2% for the corresponding period last year.
- + EBITDA ratio for the first six months was 6.1% as compared to 4.4% in the first half of 2009.

## + Strong EBITDAR ratios maintained from last year

- + EBITDAR ratio was 20.3% in Q2 but was 20.1% in Q2 last year.
- + EBITDAR ratio for the first six months was 17.4% as compared to 17.2% in the first half of 2009.

## + Cash flow from operations improves from last year

- + Net cash flow from operating activities in the first half of 2010 increased by 87% as compared to last year.
- + Cash and cash equivalents at 30 June 2010 amounted to ISK 7.5 billion – up from ISK 6.2 billion last year, or 4.1 billion excluding Travel Service.

## + Load factor of Icelandair increased in the first six months to 72.9% as compared to 71.3% in the corresponding period last year.

## + The cargo business is profitable after years of negative results.

## + The Group has revised and increased its EBITDA forecast, and estimates the 2010 EBITDA will be ISK 8.5 billion, an increase of ISK 0.9 billion (12%) from the previous EBITDA forecast published in January 2010.



# Traffic Reports Show Increased Demand

- + Number of Icelandair passengers in the first six months is up by 10% as compared to last year
- + Capacity fleet utilization in the period is 90.6% and increases by 4.2% as compared to last year.

Icelandair	Jun 10	Jun 09		CHG (%)	Jan-Jun 10	Jan-Jun 09		CHG (%)
Number of Passengers (PAX) - in thousand.....	176.383	151.018	↑	17%	592.427	536.664	↑	10%
Load Factor (%).....	79,9%	76,8%	↑	3,1 ppt	72,9%	71,3%	↑	1,6 ppt
Available Seat Kilometers (ASK) - in thousand.....	615.509	519.028	↑	19%	2.184.080	1.934.416	↑	13%

Air Iceland	Jun 10	Jun 09		CHG (%)	Jan-Jun 10	Jan-Jun 09		CHG (%)
Number of Passengers (PAX) - in thousand.....	34.038	35.525	↓	-4%	157.404	176.211	↓	-11%
Load Factor (%).....	68,2%	69,0%	↓	-0,8 ppt	66,5%	68,1%	↓	-1,6 ppt
Available Seat Kilometers (ASK) - in thousand.....	17.414	17.564	↓	-1%	72.697	77.393	↓	-6%

Capacity	Jun 10	Jun 09		CHG (%)	Jan-Jun 10	Jan-Jun 09		CHG (%)
Fleet Utilization (%).....	96,0%	97,0%	↓	-1,0 ppt	90,6%	86,4%	↑	4,2 ppt
Sold Block Hours.....	5.941	4.929	↑	21%	27.668	22.162	↑	25%

Cargo Business	Jun 10	Jun 09		CHG (%)	Jan-Jun 10	Jan-Jun 09		CHG (%)
Available Tonne Kilometers (ATK) - in thousand.....	16.753	16.294	↑	3%	79.058	80.530	↓	-2%
Freight Tonne Kilometers (FTK) - in thousand.....	6.419	6.469	↓	-1%	40.898	44.918	↓	-9%

Tourism	Jun 10	Jun 09		CHG (%)	Jan-Jun 10	Jan-Jun 09		CHG (%)
Available Hotel Room Nights.....	27.573	28.003	↓	-2%	107.665	108.215	↓	-1%
Sold Hotel Room Nights.....	19.898	20.033	↓	-1%	66.914	64.429	↑	4%
Utilization of Hotel Rooms.....	72,2%	71,5%	↑	0,6 ppt	62,2%	59,5%	↑	2,6 ppt



# Highlights

## + Icelandair expands its Route Network

- + Trondheim and Bergen added to the route network in summer of 2010
- + Plans to add Billund, Gothenburg and Hamburg to the route network in summer of 2011
- + Codeshare agreement signed with Alaskan Airline in July 2010
- + Flights added to New York, Boston and Paris in summer 2011
- + Icelandair will have the world's highest frequency of flights between the Nordic countries and New York after the addition of the new flights to its schedule.
- + Winter schedule 2010/2011 expanded by 14% - total of 200 new flights added to the schedule
- + 11 destinations in Europe and 4 in the US make up the winter route network 2010/2011

## + Icelandair Hotels

- + In June 2010 Icelandair Hotels renegotiated its lease terms with Reitir Real Estate company. The new contract was extended to the year 2025 and takes to 30,000 square meters.
- + Icelandair Hotels and Reitir will refurbish Hotel Loftleidir for approximately ISK 1 billion and the refurbishment is scheduled to be completed in 2011.

## + Loftleidir-Icelandic

- + Loftleidir recently added a new Boeing 767 to its fleet and has signed a six year lease contract with Air Niugini. Furthermore, two existing contracts with Air Niugini have been extended to November 2013 and September 2015.

## + Air Iceland flies to Greenland all year round

- + In July 2010 Air Iceland announced its plans to fly to Nuuk in Greenland all year round.



# Flexibility in Challenging Times

- + The Group and its staff proved the flexibility of the Company during the flight disruptions that occurred because of the volcanic cloud stemming from the eruption of Eyjafjallajökull.**
- + Icelandair moved its Hub from Keflavik to Glasgow overnight**
  - + The focus was on not closing down any operations and not to cancel flights
  - + Operations maintained all throughout the volcanic eruption
  - + Moving the Hub from Keflavik to Glasgow in six hours when Keflavik Airport closed
  - + 150 ground and cabin staff moved to Glasgow and Akureyri
  - + 10 days in 3 parts
  - + 20-36 flights a day with 4-6000 passengers
- + Information flows were one of the most important factors of the success**
  - + 128 announced schedule changes
  - + 240 updates posted on Icelandair's 19 websites
  - + Over 50 press releases
  - + 200% increase in phone calls
  - + Daily contact to the trade – key tour operators, travel agents
  - + 24/7 Facebook and Twitter watch
- + Twitter and Facebook actions created most of about 320.000 visits to a special information page that kept our customers well informed over the course of the disruptions.**





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# Overview of Q2 Results 2010

- + Icelandair Group is reporting a net loss of ISK 161 million in Q2 2010.
- + EBITDA increases by 53% as compared to Q2 2009 and EBITDA outperforms budget.

Group Revenue Q2 2010

**ISK 21.9 Bn**



- + Total revenue increased by 12% from Q2 2009.
- + Transport revenue increased by 14% and amounted to ISK 13.3 Bn.

Group EBITDA Q2 2010

**ISK 2.2 Bn (9.8%)**



- + Q2 EBITDA improved by 53% as compared to Q2 2009.
- + Q2 EBITDA outperforms budget

Group EBITDAR Q2 2010

**ISK 4.5 Bn (20.3%)**



- + Q2 EBITDAR was ISK 4.5 Bn and increased by 13% as compared to Q2 2009.

Group Net Loss Q2 2010

**ISK 161 million**

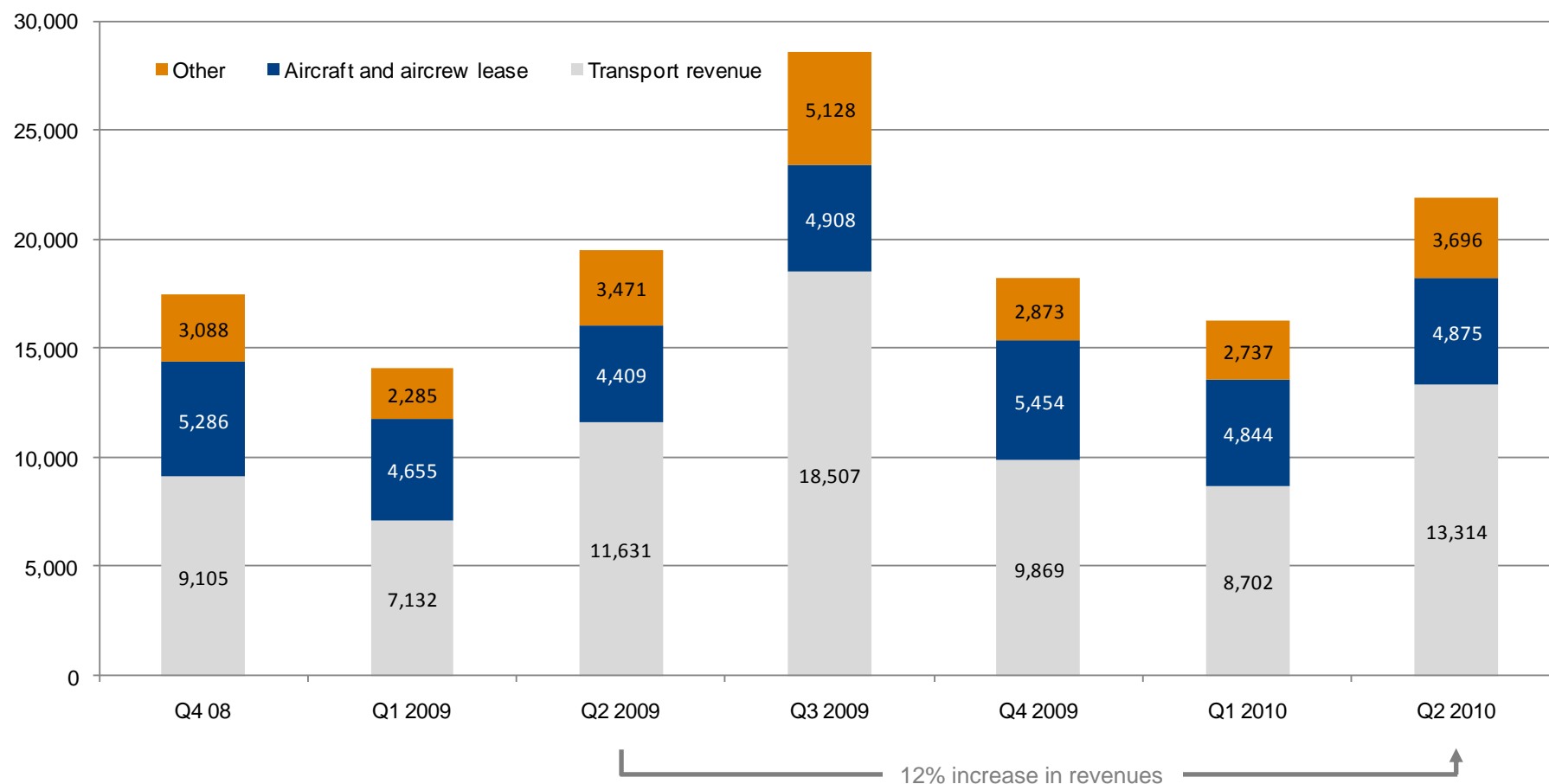


- + Net loss lowered from ISK 849 million in Q2 2009.



# Revenue Breakdown of Icelandair Group

+ Transport revenue increased by 14% and total revenue increased by 12% from Q2 2009





# Income Statement Q2 2010

## Financial Highlights of Q2 2010 and Q2 2009

	Q2 10	Q2 09	% Chg.
Transport revenue.....	13,314	11,631	14%
Aircraft and aircrew lease.....	4,875	4,409	11%
Other.....	3,696	3,471	6%
<b>Operating Income.....</b>	<b>21,885</b>	<b>19,511</b>	<b>12%</b>
Salaries and related expenses.....	5,337	4,758	12%
Aircraft fuel.....	3,973	3,568	11%
Aircraft and aircrew lease.....	3,091	2,971	4%
Aircraft servicing, handling and comm.....	1,648	1,585	4%
Aircraft maintenance.....	1,836	1,553	18%
Other.....	3,850	3,669	5%
<b>EBITDA.....</b>	<b>2,149</b>	<b>1,407</b>	<b>53%</b>
<b>EBITDA ratio.....</b>	<b>9.8%</b>	<b>7.2%</b>	
<b>EBIT.....</b>	<b>843</b>	<b>123</b>	<b>-</b>
<b>EBT from continuing operations.....</b>	<b>-207</b>	<b>-1,008</b>	<b>-</b>
<b>Net Loss from continuing operations.....</b>	<b>-161</b>	<b>-849</b>	<b>-</b>
<b>Loss from discontinuing operations.....</b>	<b>0</b>	<b>-491</b>	<b>-</b>
<b>Loss for the period.....</b>	<b>-161</b>	<b>-1,340</b>	<b>-</b>
<b>EBITDAR.....</b>	<b>4,450</b>	<b>3,928</b>	<b>13%</b>
<b>EBITDAR ratio.....</b>	<b>20.3%</b>	<b>20.1%</b>	



# Overview of 6M Results 2010

- + Icelandair Group is reporting a net loss of ISK 2.0 Bn in the first six months of 2010.
- + Significant turnaround from 6M 2009 when net loss amounted to ISK 5.0 Bn.
- + 6M EBITDA 2010 outperforms budget.

Group Revenue 6M 2010

**ISK 38.2 Bn**

- + Total revenue increased by 14% from 6M 2009.
- + Transport revenue increased by 17% and amounted to ISK 22 Bn.

Group EBITDA 6M 2010

**ISK 2.3 Bn (6.1%)**

- + 6M EBITDA improved by 59% as compared to 6M 2009.
- + 6M EBITDA outperforms budget

Group EBITDAR 6M 2010

**ISK 6.7 Bn (17.4%)**

- + 6M EBITDAR increased by ISK 850 million (15%) as compared to 6M 2009.

Group Net Loss 6M 2010

**ISK 2.0 Bn**

- + Net loss from continuing operations amounted to ISK 1.6 Bn.
- + Loss from discontinuing operations amounted to ISK 0.4 Bn



# Income Statement 6M 2010

## Financial Highlights of 6M 2010 and 6M 2009

	6M 10	6M 09	% Chg.
Transport revenue.....	22,016	18,763	17%
Aircraft and aircrew lease.....	9,719	9,064	7%
Other.....	6,433	5,756	12%
<b>Operating Income.....</b>	<b>38,168</b>	<b>33,583</b>	<b>14%</b>
Salaries and related expenses.....	9,841	8,994	9%
Aircraft fuel.....	6,644	5,549	20%
Aircraft and aircrew lease.....	5,941	5,649	5%
Aircraft servicing, handling and comm.....	2,783	2,545	9%
Aircraft maintenance.....	3,400	2,855	19%
Other.....	7,232	6,526	11%
<b>EBITDA.....</b>	<b>2,327</b>	<b>1,465</b>	<b>59%</b>
<b>EBITDA ratio.....</b>	<b>6.1%</b>	<b>4.4%</b>	
<b>EBIT.....</b>	<b>-320</b>	<b>-962</b>	<b>67%</b>
<b>EBT from continuing operations.....</b>	<b>-2,043</b>	<b>-2,630</b>	<b>22%</b>
<b>Net Loss from continuing operations.....</b>	<b>-1,646</b>	<b>-2,232</b>	<b>26%</b>
<b>Loss from discontinuing operations.....</b>	<b>-400</b>	<b>-2,747</b>	<b>-</b>
<b>Loss for the period.....</b>	<b>-2,046</b>	<b>-4,979</b>	<b>-</b>
<b>EBITDAR.....</b>	<b>6,629</b>	<b>5,779</b>	<b>15%</b>
<b>EBITDAR ratio.....</b>	<b>17.4%</b>	<b>17.2%</b>	



# Balance Sheet 30 June 2010

Balance Sheet (mISK)	30.6.2010	31.12.2009	Diff.
Operating Assets.....	30,391	27,014	3,377
Intangible assets.....	23,781	23,598	183
Investment in associates.....	635	545	90
Aircraft purchase prepayments.....	1,179	1,134	45
Long-term receivables .....	3,365	3,449	-84
Long-term cost.....	1,318	1,347	-29
Assets held for sale.....	12,824	17,500	-4,676
Other assets.....	16,853	12,608	4,245
Cash and cash equivalents.....	7,471	1,909	5,562
<b>Total assets.....</b>	<b>97,817</b>	<b>89,104</b>	<b>8,713</b>
Stockholders equity.....	13,128	14,605	-1,477
Total non-current liabilities.....	18,976	19,618	-642
Liabilities held for sale.....	6,708	10,597	-3,889
Other liabilities.....	59,005	44,284	14,721
<b>Total equity and liabilities.....</b>	<b>97,817</b>	<b>89,104</b>	<b>8,713</b>
Equity ratio.....	13.4%	16.4%	
Current ratio.....	0.50	0.68	
Net interest bearing debt.....	34,109	41,227	



# Statement of Cash Flows Q2 2010

Statement of Cash Flow (mISK)		
	6M 2010	6M 2009
Working capital from (used in) operations.....	1,708	-749
Net cash from operating activities.....	9,386	5,010
Net cash used in investing activities.....	-2,304	-1,780
Net cash used in financing activities.....	-1,543	-1,397
<b>Increase (Decrease) in cash and cash equivalents.....</b>	<b>5,539</b>	<b>1,833</b>
Effect of exchange rate fluctuations on cash held.....	23	287
Cash and cash equivalents at 1 January.....	1,909	4,065
<b>Cash and cash equivalents at 30 June.....</b>	<b>7,471</b>	<b>6,185</b>

- + Acquisition of long-term cost relating to leased engines amounted to ISK 1.7 billion in the first six months of 2010.
- + Acquisition of operating assets amounted to ISK 793 million in the first six months of 2010.
- + Thereof, engine overhaul of own engines amounted to ISK 437 million.





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# Background of the Financial Restructuring

## The Balance Sheet a Challenge since 2006

- + However, the balance sheet of the Group was set in a period when the owners and the Board of Directors focused on acquisitions and expansion abroad.
- + The balance sheet was not self-sustainable and was a major challenge for the Group even before the financial collapse in Iceland.

## Challenging Market in 2008 and 2009

- + The collapse of the banking system in Iceland late in 2008 along with the worldwide recession has affected the Group's operational landscape, especially as domestic demand dropped significantly.
- + Cash bleed followed due to termination of the Group's banking services coupled with some outflows of cash to meet an ever-growing demand for cash collateral by international financial institutions to replace bank guarantees.
- + As a consequence, it has become more challenging for the Group to meet its refinancing needs since its liquidity largely dried up after the collapse of the Icelandic economy in 2008.

## Financial Restructuring in 2010

- + The Company is adapting to this new environment. A step in this process is the financial restructuring that has now been completed.
- + Debt was restructured through a mix of debt-to-equity conversions and extension of maturities. Furthermore, certain non-core assets were divested and the Icelandic banks acquire the assets by taking over debt from the Group.
- + The closed share offering was a requisite part to broaden the shareholder base of the Group. Key institutional investors were approached in the closed offering and the company raised ISK 5.5 billion in new equity and further ISK 3.6 billion in new equity through debt-to-equity conversions.

## Major Cost-Cutting Measures in 2008

- + The Group undertook major cost-cutting measures in the first half of 2008. Staff redundancies (more than 500 employees), mainly as a result of capacity cuts and renegotiation with suppliers. Furthermore, the top management of many subsidiaries has been changed over the course of the last two years.
- + The cost-cutting measures taken in 2008 are the reasons for the Group's ability to shoulder the downturn in 2008 and early 2009.



# New Equity has been Raised

- + **The financial restructuring of Icelandair Group hf. has been successfully completed.**
- + The financial restructuring entails to deleverage the Group and rationalize the business model.

## **The Group has Already Raised ISK 5.5 Billion in New Equity Creditors have converted debt amounting to ISK 3.6 billion into equity**

- + Icelandair Group announced on 14 and 15 of June that the Enterprise Investment Fund and the Pension Fund of Commerce had invested in the Company for ISK 4 billion.
- + The Enterprise Investment Fund will subscribe to ISK 1.2 billion in new shares at the price of 2.5, for a total of ISK 3 billion.
- + Likewise, the Pension Fund of Commerce will subscribe to ISK 0.4 billion in new shares at the price of 2.5, for a total of ISK 1 billion.
- + Other institutional investors subscribed for ISK 0.6 billion in new shares at the price of 2.5, for a total of 1.5 billion.
- + The remainder of the new equity comes in the form of debt-to-equity conversion leading to the issue of ISK 0.72 million new shares at the conversion price of 5.0, for a total of 3.6 billion.
- + Furthermore, ISK 2.5 billion in new equity at the same price will be raised from current shareholders and employees in Q3.

## **The Restructured Icelandair Group**

- + The future focus of the restructured Group will be on the operations of Icelandair, Icelandic Tourism and the Hub and Spoke concept that has been a pivotal part of Icelandair's business model for two decades.



## **Businesses Divested**

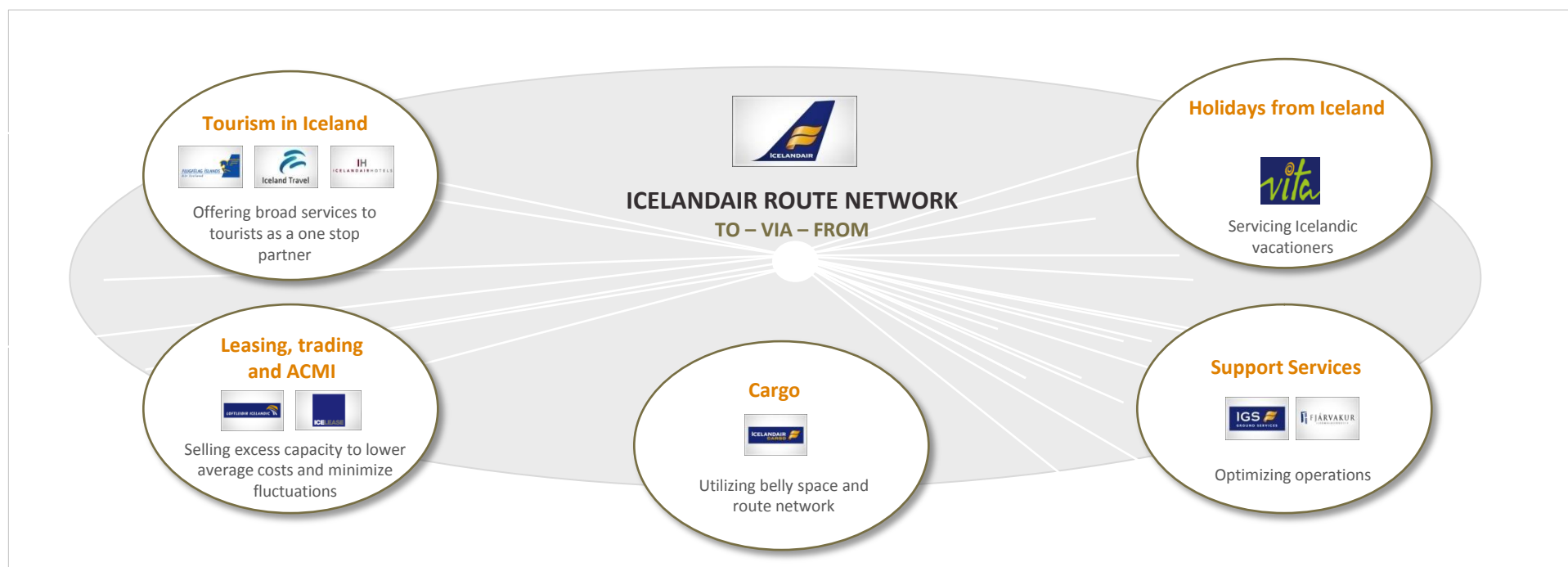
- + Travel Service, Bluebird and SmartLynx are divested to Islandsbanki hf. and Glitnir Bank hf. as a part of the financial restructuring of the Group.





# Focus on the Hub and Spoke Concept

- + Each business segment comprises companies well positioned to benefit and contribute to the support of the Hub and Spoke concept that lies at the heart of the Group's operations.
- + The Hub and Spoke is instrumental in creating flow to and from Iceland





# Financial Restructuring Completed

+ The balance sheet effects of the financial restructuring is depicted below.

+ The highlights table shows rounded numbers for simplification.

Balance Sheet Pre Restructuring	Debt-to-Equity Conversions	Asset Divestment	Pro Forma Balance Sheet Before Equity Offering	New Equity: Closed Offering	Pro Forma Balance Sheet After Financial Restructuring
Interest-Bearing Liabilities*			Interest-Bearing Liabilities*		Interest-Bearing Liabilities*
<b>42</b>	<b>(4)</b>	<b>(11)</b>	<b>27</b>		<b>27</b>
Equity	<b>4</b>		Equity	<b>6</b>	Equity
<b>13</b>			<b>17</b>		<b>23</b>
Assets		<b>(16)</b>	Assets	<b>6</b>	Assets
<b>98</b>			<b>82</b>		<b>88</b>
Equity Ratio			Equity Ratio		Equity Ratio
<b>13%</b>			<b>18%</b>		<b>27%</b>



# The Restructured Balance Sheet

+ The following shows a comparison of the actual consolidated half-year 2010 balance sheet of the Group before and after the financial restructuring.

- + Sale of Icelandair Group non-core assets amounts to ISK 7.6 billion
- + New share capital of ISK 5.5 billion at the price of 2.5 per share
- + New share capital from debt-to-equity conversion of ISK 3.6 billion at the price of 5.0 per share
- + All short term debt restructured

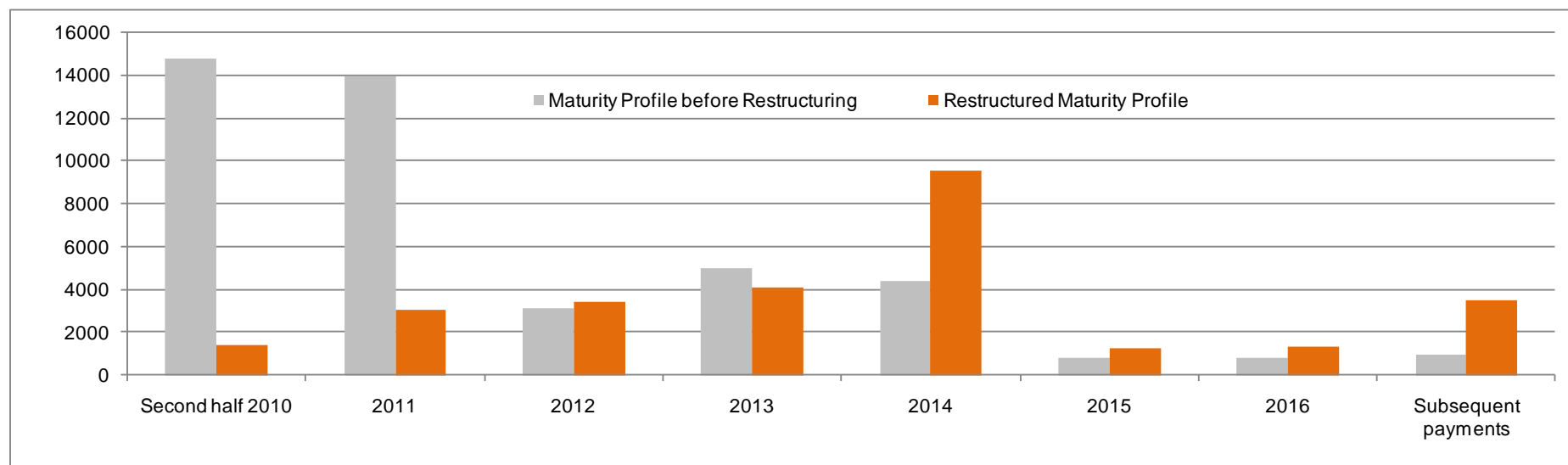
Balance sheet (mISK)	30.6.2010	After restructuring	Difference
Operating assets.....	30,391	30,444	53
Intangible assets.....	23,781	23,176	( 605 )
Long-term receivables.....	3,365	1,576	( 1,789 )
Long-term cost.....	1,318	1,318	0
Assets held for sale.....	12,824	0	( 12,824 )
Other assets.....	18,667	17,950	( 717 )
Cash and cash equivalents.....	7,471	13,175	5,704
<b>Total assets.....</b>	<b>97,817</b>	<b>87,639</b>	<b>( 10,178 )</b>
Stockholders equity.....	13,128	23,464	10,336
Total non-current liabilities.....	18,976	28,573	9,597
Liabilities held for sale.....	6,708	0	( 6,708 )
Other liabilities.....	59,005	35,602	( 23,403 )
<b>Total equity and liabilities.....</b>	<b>97,817</b>	<b>87,639</b>	<b>( 10,178 )</b>
Equity ratio.....	13.4%	26.8%	
Net interest bearing debt.....	34,237	14,418	( 19,819 )



# Maturity Profile and Debt Restructuring

+ After the financial restructuring the maturity profile of the Group is self-sustainable.

(mISK)	Maturity Profile before Restructuring	Restructured Maturity Profile
Second half 2010.....	15,501	1,407
2011.....	15,847	3,061
2012.....	2,321	3,448
2013.....	4,212	4,088
2014.....	3,612	9,579
2015.....	15	1,260
2016.....	16	1,346
Subsequent payments.....	183	3,456
<b>Total.....</b>	<b>41,708</b>	<b>27,644</b>





# Largest Shareholders

+ The following table depicts the largest shareholders of Icelandair Group hf. after the financial restructuring.

Shareholders after financial restructuring	Nominal Value	Holding (%)
The Enterprise Investment Fund slhf.....	1,200,000,000	30.4%
Íslandsbanki hf.....	1,028,492,387	26.1%
The Pension Fund of Commerce.....	400,000,000	10.1%
Landsbanki Íslands hf.....	238,348,350	6.0%
Lífeyrissjóðir Bankastræti 7.....	200,000,000	5.1%
Glitnir Banki hf.....	182,205,000	4.6%
Virðing hf.....	137,000,000	3.5%
Sparisjóðabanki Íslands hf.....	93,572,562	2.4%
Stefnir ÍS-15.....	85,000,000	2.2%
Íslensk Verðbréf hf.....	54,000,000	1.4%
Stefnir ÍS-5.....	45,000,000	1.1%
Other shareholders.....	277,381,701	7.0%
<b>Total.....</b>	<b>3,941,000,000</b>	<b>100%</b>





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# Outlook

## The Group Increases its EBITDA Forecast for 2010

- + The Group has estimated that direct cost stemming from flight disruptions due to the volcanic activity amounted to ISK 1,5 Bn.
- + Despite cost relating to the flight disruptions, EBITDA ratio for the first six months was 6.1% as compared to 4.4% in the first half of 2009.
- + Furthermore, 6M EBITDA outperforms budget.
- + **The Group has revised and increased its EBITDA forecast, and estimates the 2010 EBITDA will be ISK 8.5 billion. That is an increase of ISK 0.9 billion (12%) from the previous EBITDA forecast published in January 2010.**

## General Outlook

- + As before, the company benefits from a weak Krona.
- + Demand is increasing as compared to last year.
- + The Group anticipates that the world-wide marketing effort of Iceland will result in growing demand going forward

## Long Term Outlook

- + The Company is optimistic for the success of the “Inspired by Iceland” campaign launched by Icelandair and other travel service companies in partnership with the Icelandic government early this summer.
- + The campaign will be a powerful tool in the Company’s endeavor to increase the flow of tourists to Iceland in the spring and autumn months.
- + On the whole, management is optimistic as regards the Company’s future prospects and for the Icelandic tourist industry as a whole.
- + The best months of the year in airline operations and tourist services lie ahead, and the Company expects that this will be reflected in the report for the third quarter.
- + An agreement has been reached with the Company’s main creditors and investors, lowering significantly the debt and debt burden of the Company. In addition, new equity will be received, both as cash and with the conversion of debt into equity. The Company has a healthy and strong Balance Sheet and management believes that the future prospects of the Company are sound.





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