

# Icelandair Group | A Brief Introduction

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March 2017



## Today's agenda

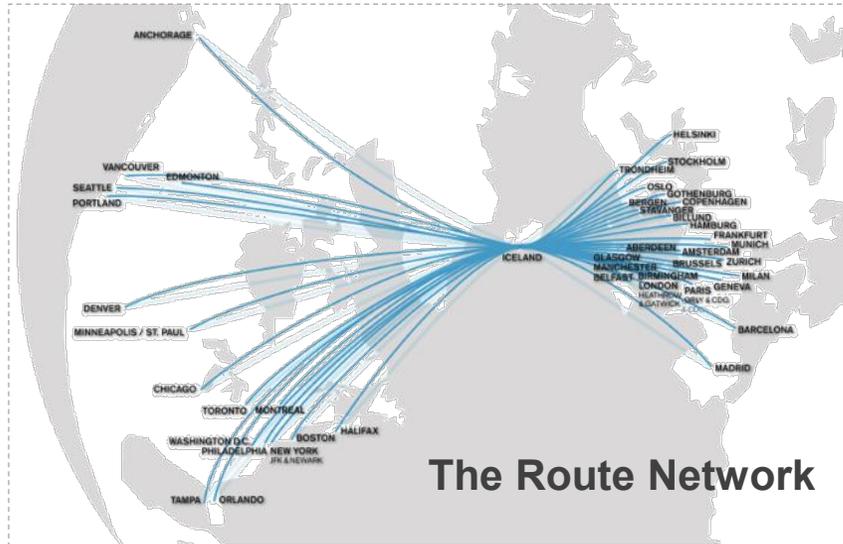
**A brief  
introduction  
to Icelandair  
Group**

**Our  
partnership  
with  
Reykjavik  
University**

**Q&A**

# Icelandair Group at glance

**9 subsidiaries**  
in the international airline  
and tourism sectors

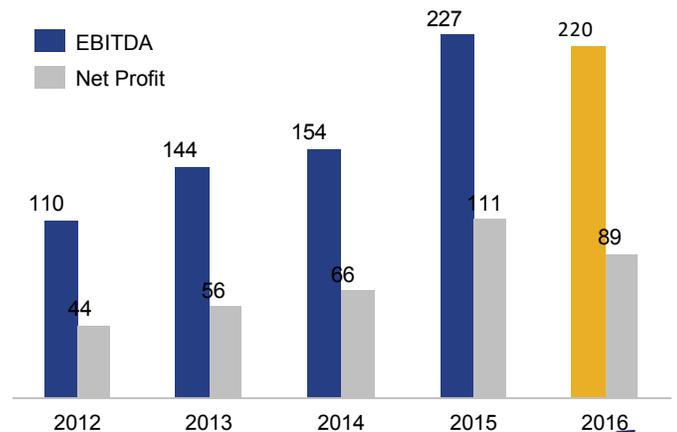


**4 million**  
passengers  
projected 2017



Our vision is to unlock Iceland's potential as a **year-round destination**, to strengthen Iceland's position as a **connecting hub** and to maintain our focus on **flexibility** and **experience**

**EBITDA & Net Profit**  
USD million 2012-2016



**44** ✈️

**2,600**  
shareholders

**3,900**  
employees

**80**  
successful years in aviation



# A brief introduction to Icelandair Group

**1. Our Business Model**

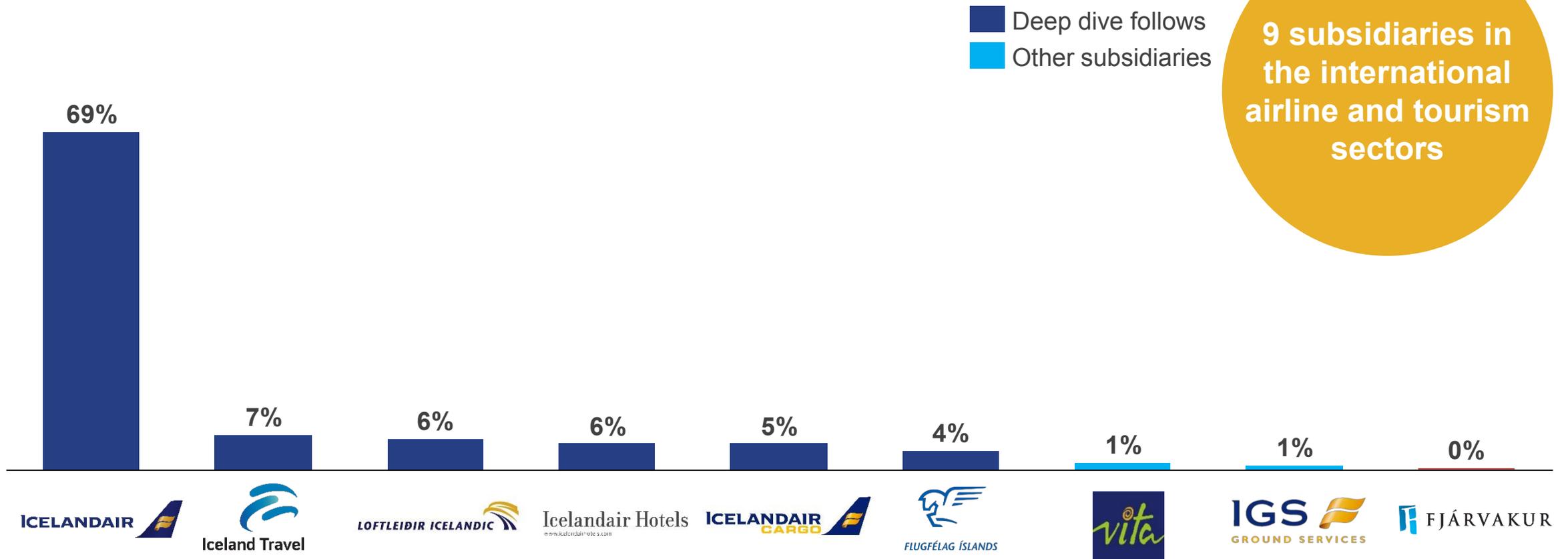
**2. A History of Profitable Organic Growth**

**3. A Strong Financial Position**

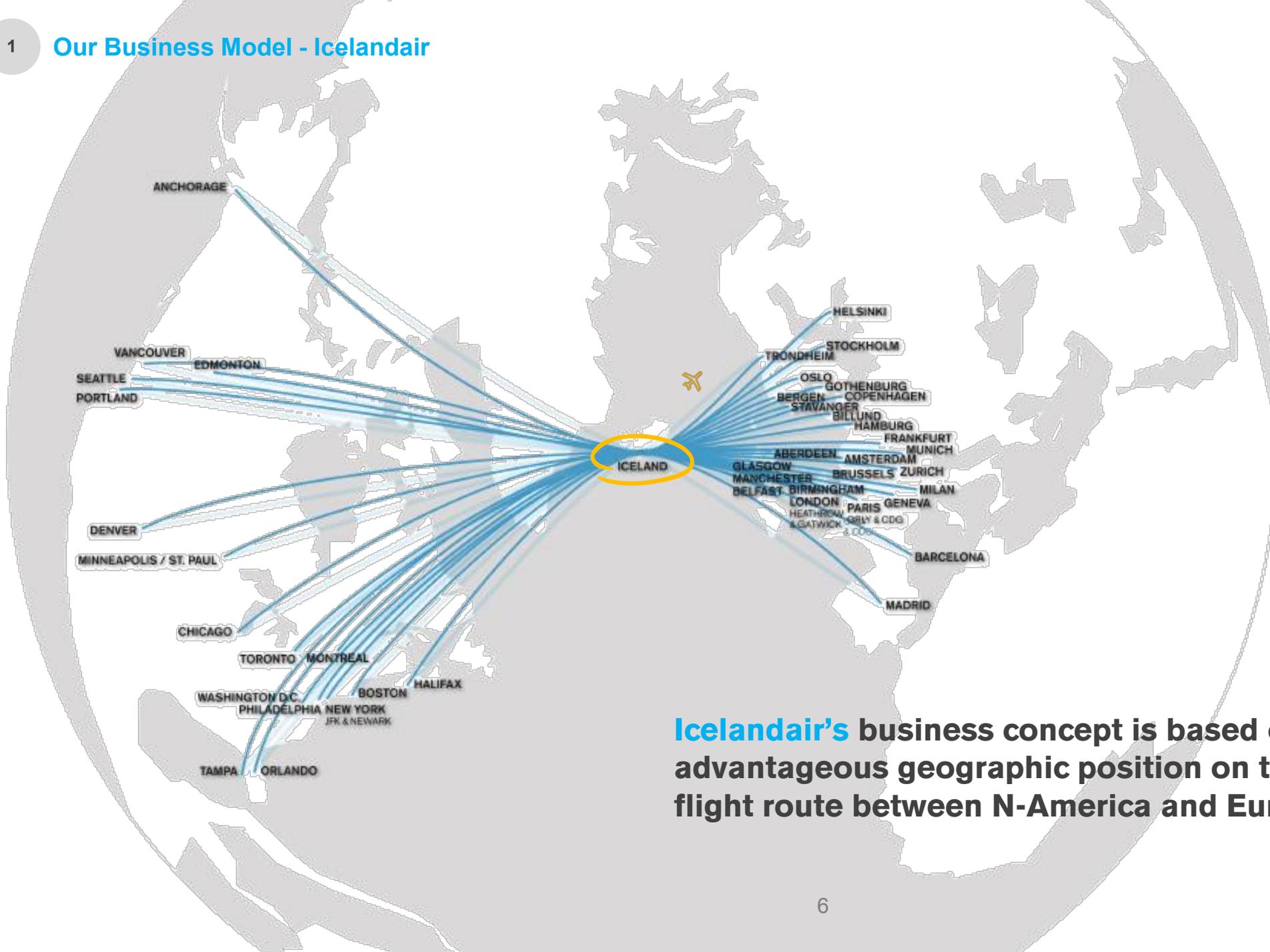
**4. Future prospects**

## Icelandair Group is composed of 9 subsidiaries in the international airline and tourism sectors – the airline Icelandair is responsible for 69% of revenues

Icelandair Group revenues split by subsidiary | 2016

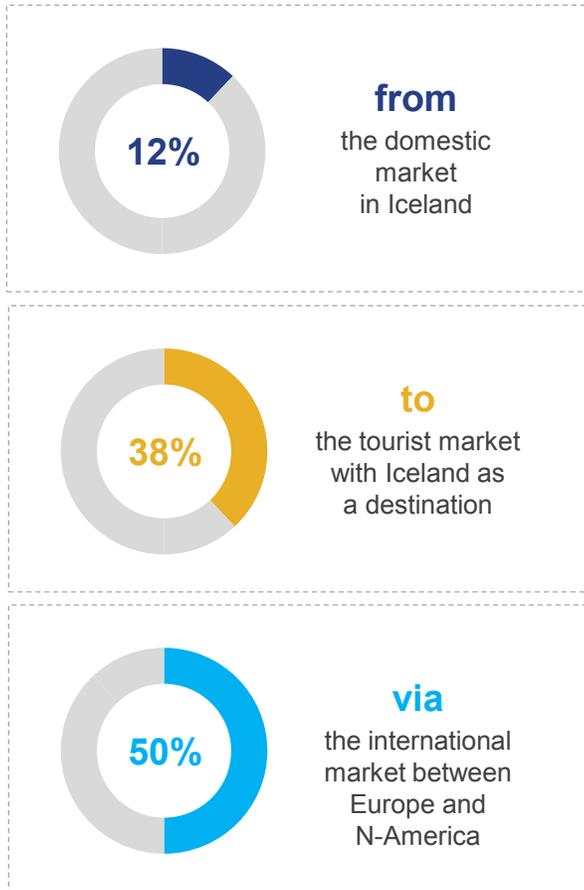


1 Our Business Model - Icelandair

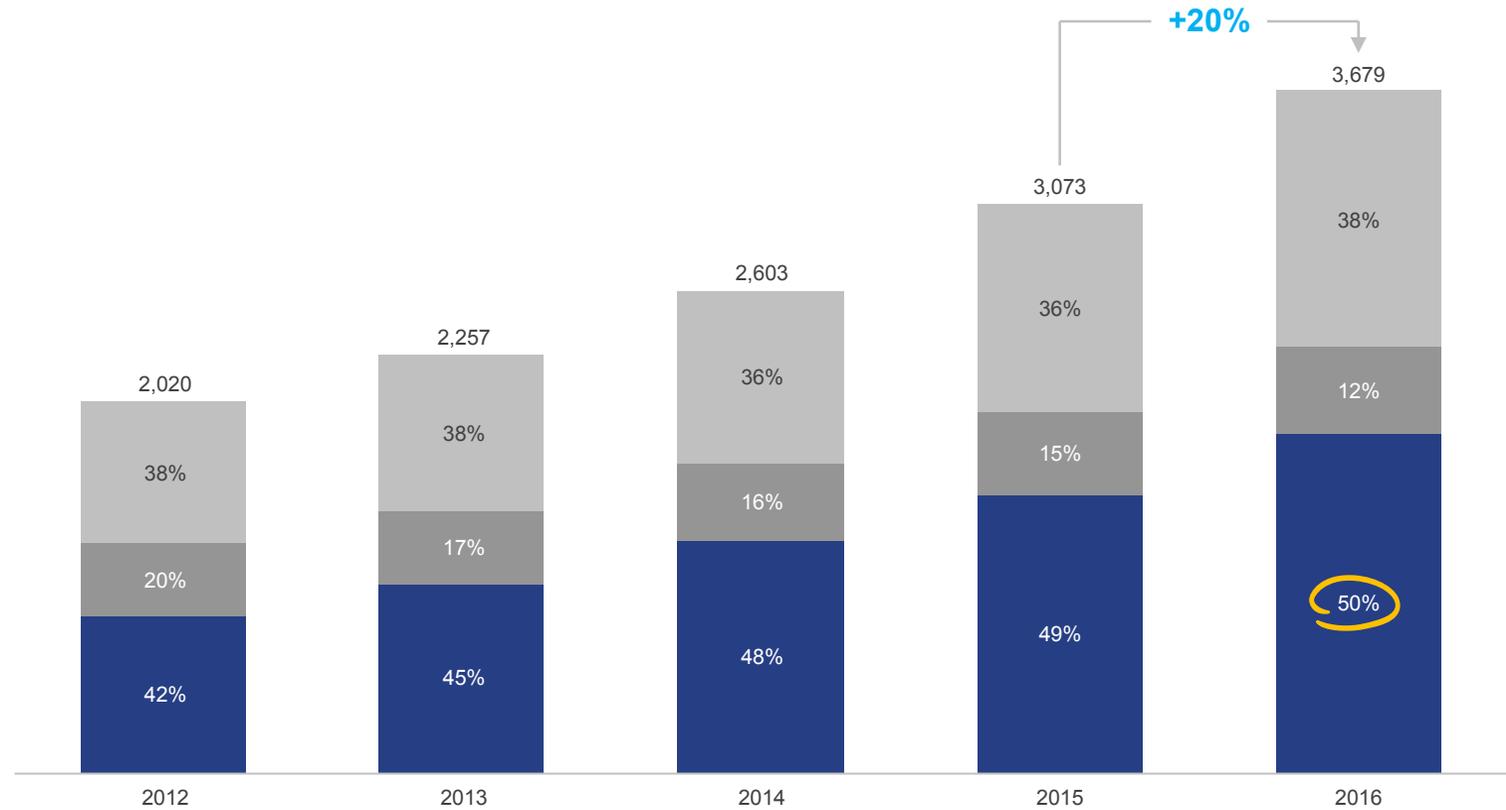


**Icelandair's** business concept is based on Iceland's advantageous geographic position on the shortest flight route between N-America and Europe

# The via market between Europe and North America is the largest market and has led the growth



to from via  
Absolute figures in thousands.

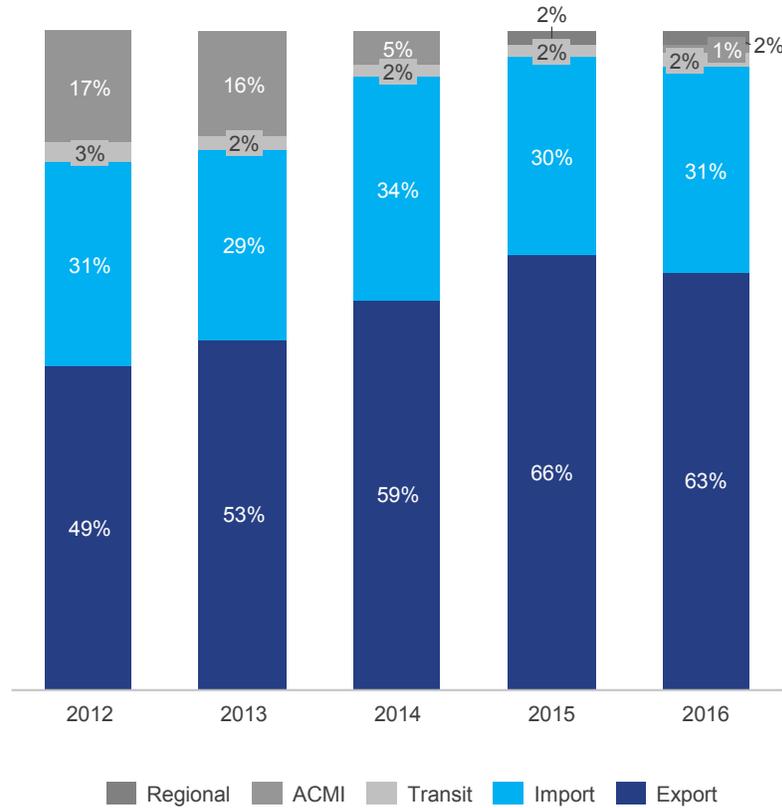


# Cargo operations focus on air-freight services in the holds of Icelandair's passenger aircraft combined with scheduled air cargo flights

The vision of the Group's cargo operations is to be the **leading freight carrier servicing Iceland** and develop new opportunities by leveraging the **logistic expertise to grow in a profitable way**

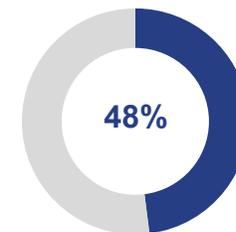
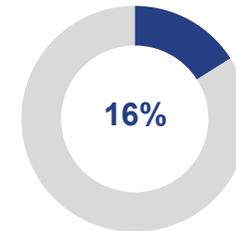


Revenue split in %  
2011-2015



Holds of passenger AC  


2 freighter AC  

## Icelandair Group offers **capacity solutions to international passenger airlines and tour operators** under the Loftleidir Icelandic brand

Loftleidir - Icelandic has developed from being a marketing vehicle operating in the international **ACMI** (Aircraft Crew Maintenance and Insurance) and charter markets, to become a capacity solution provider focusing mainly on **AM** (Aircraft and Maintenance) projects and consulting service.

2

B 737-800

1

B 737-700

2

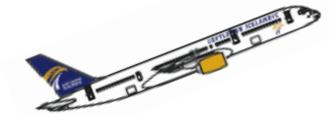
B 767-300

2

B 757-200

+

Leasing of excess  
capacity in the  
Route Network  
in off-season



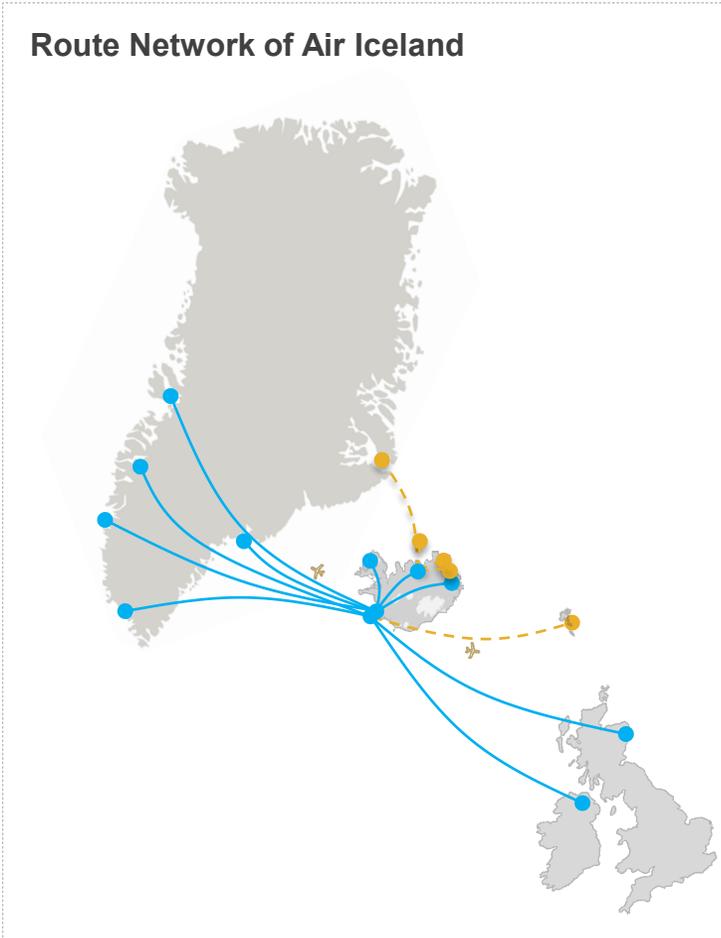
# Air Iceland operates extensive and flexible flight schedule in Iceland, the West Nordic countries, Scotland and Ireland

5 

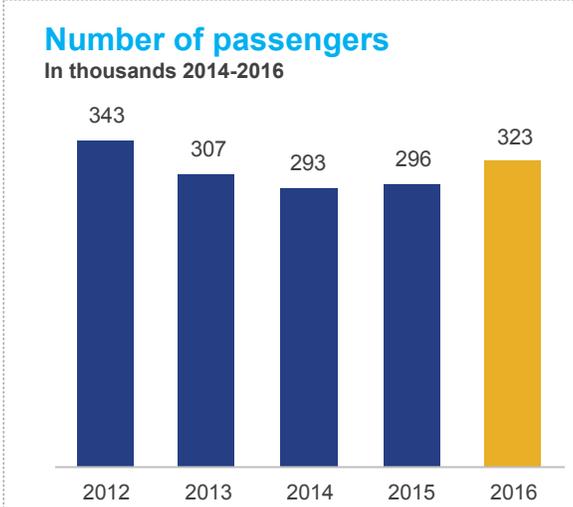
220 employees

69.3% load factor 2016

8.473 flights annually

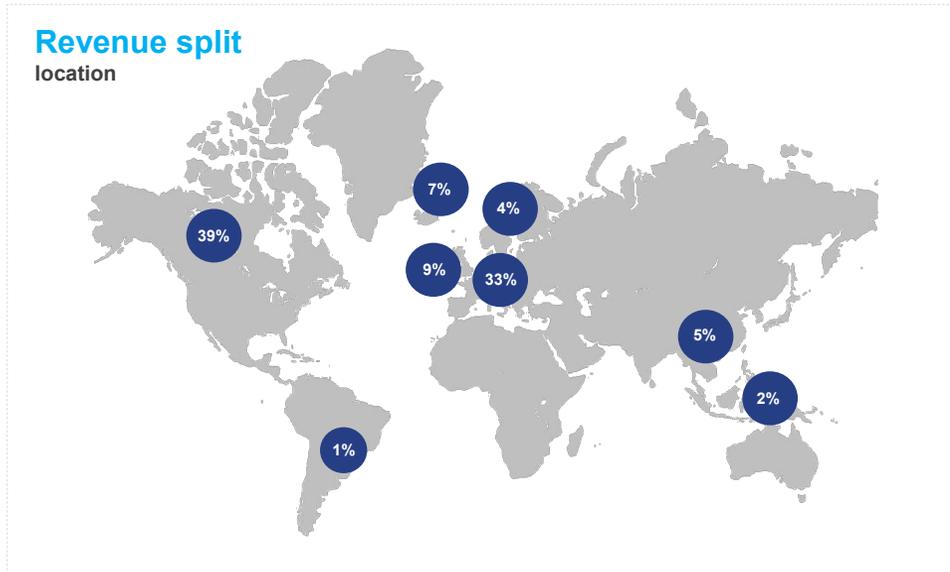


Air Iceland is a regional carrier operating scheduled services to domestic destinations across Iceland and to Greenland, Faroe Islands, Scotland\* and Ireland\*

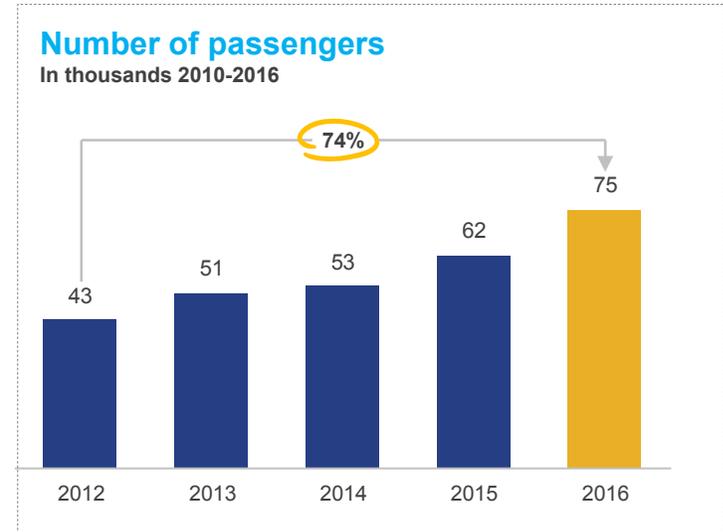
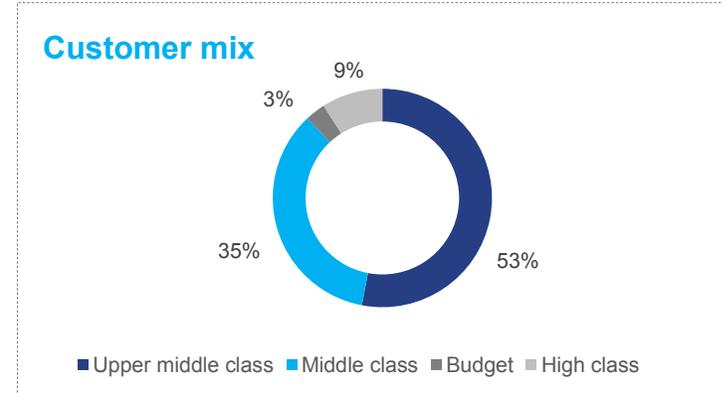


\* Flights to Scotland and Ireland are in cooperation with Icelandair.

# Icelandair Group operates **Iceland largest travel agency: Iceland Travel**, which offers a wide range of high-quality services for travellers visiting Iceland



The vision of Iceland Travel is to be the **leading tourism service provider in Iceland**, offering a multi channel sales approach with focus on enhancing the development and marketing of Iceland as a destination



# There are **22 hotels** within Icelandair Group and several hotel projects underway

Cohesive mix of international and local brands

Icelandair Hotels

canopy  
REYKJAVIK CITY CENTRE

Reykjavik Marina Residence

ICELAND PARLIAMENT HOTEL

hotel edda  
Old School Hospitality  
SINCE 1941

Hilton  
REYKJAVIK NORDICA

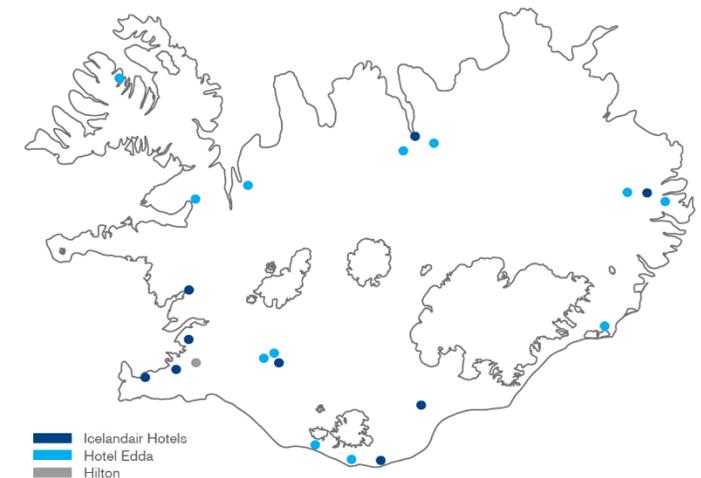
REYKJAVIK CONSULATE HOTEL

**640**  
employees

**81.5%**  
occupancy  
2016



Available hotel room nights  
In thousands 2010-2017 forecast



The vision of the Group's hotel operations is to create an **authentic Icelandic experience** for visiting tourist

# A brief introduction to Icelandair Group

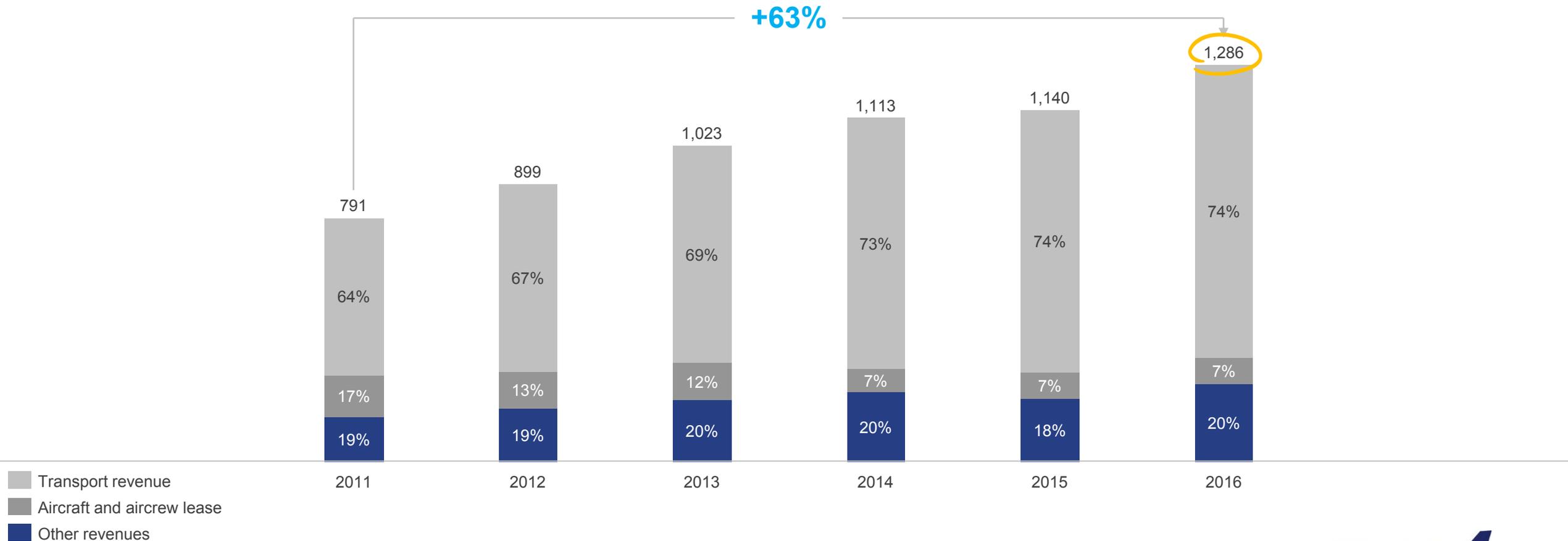
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**2. A History of Profitable Organic Growth**

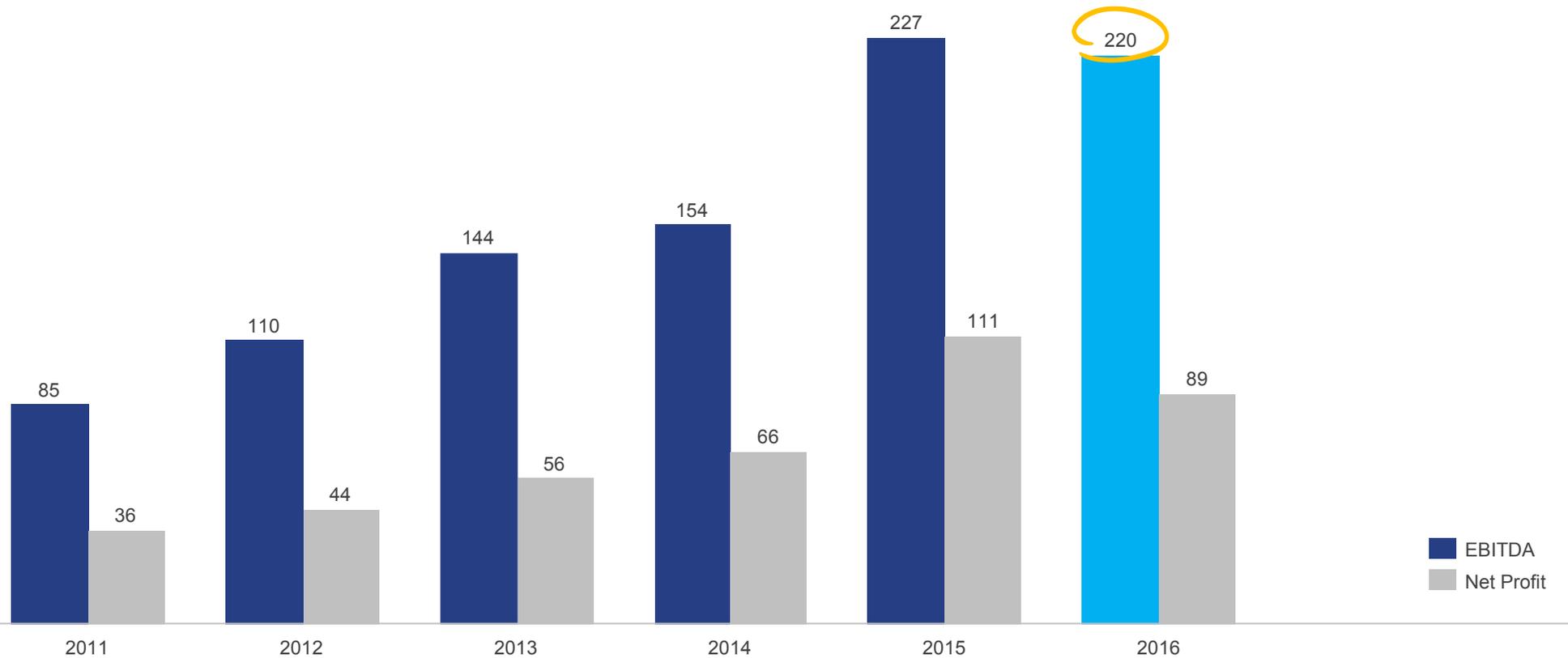
**3. A Strong Financial Position**

**4. Future prospects**

## Icelandair Group has seen steady revenue growth in recent years

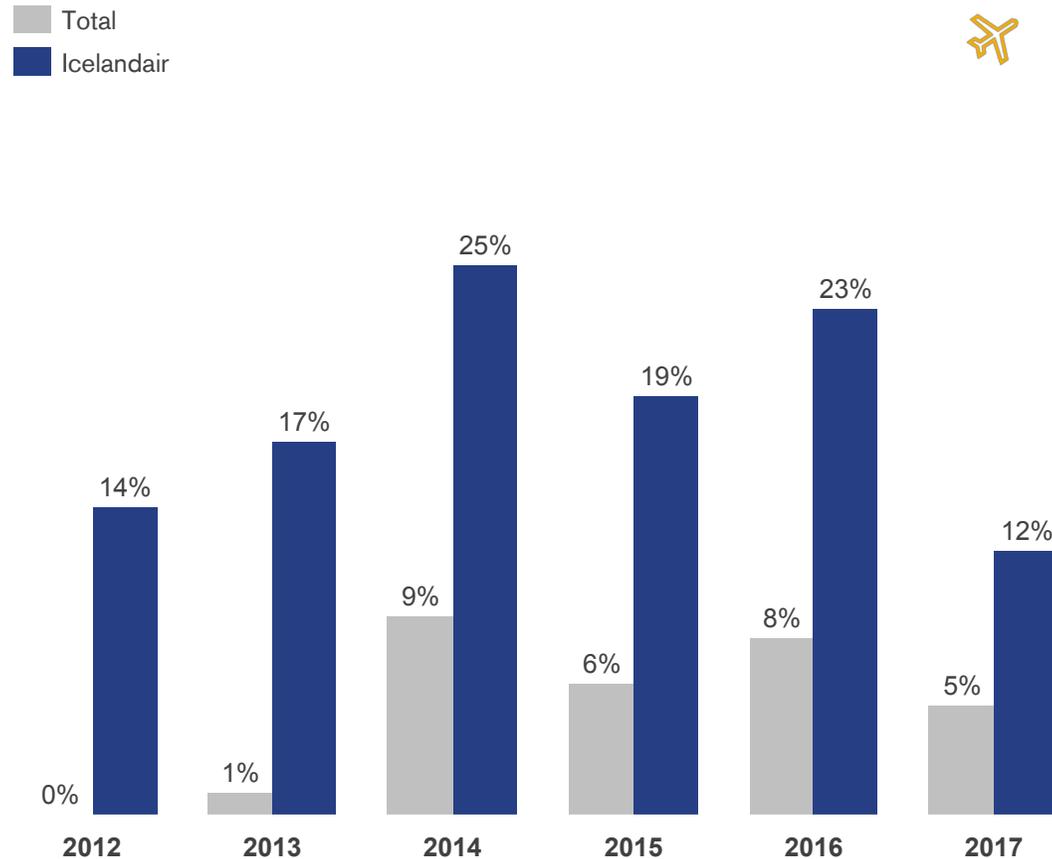


**2016 was the second best year in Icelandair Group's 80 year history, with EBITDA at USD 220 million and net profit at USD 89 million**

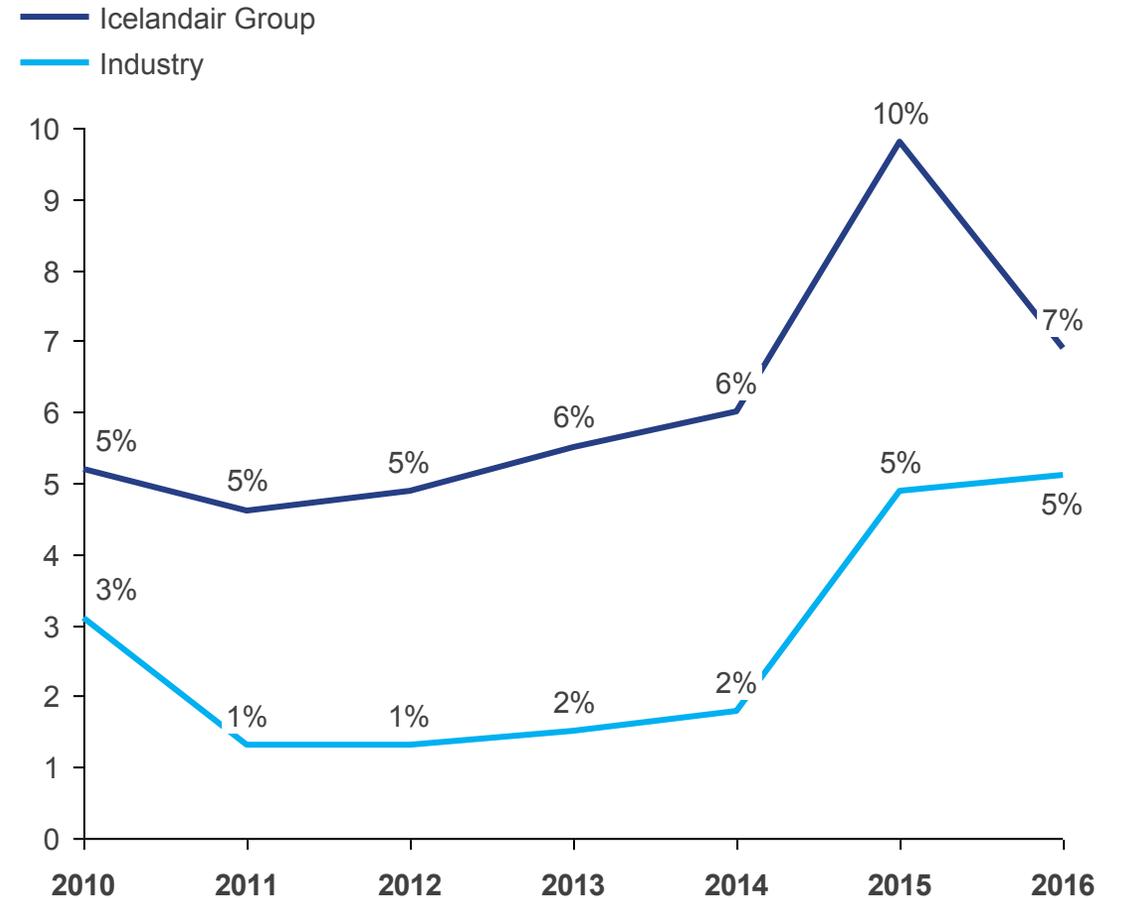


## We have delivered above industry growth and margins in recent years

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



Icelandair Group profit margin<sup>1</sup> vs. industry average, 2010-16



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

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# Icelandair Group had a strong financial position at year-end 2016 with a 44% equity ratio

USD million	31.12 2016	31.12 2015
<b>Assets</b>		
Operating Assets	602.6	419.1
Intangible assets	174.7	172.7
Other non-current assets	97.7	45.8
<b>Total non-current assets</b>	<b>875.0</b>	<b>637.6</b>
Other current-assets	167.4	120.3
Short term investments	23.2	19.5
Cash and cash equivalents	226.9	194.6
<b>Total current assets</b>	<b>417.5</b>	<b>334.4</b>
<b>Total assets</b>	<b>1.292.5</b>	<b>972.0</b>

USD million	31.12 2016	31.12 2015
<b>Equity and liabilities</b>		
<b>Stockholders equity</b>	<b>568.2</b>	<b>456.5</b>
Loans and borrowings non-current	196.7	55.4
Other non-current liabilities	71.5	44.1
<b>Total non-current liabilities</b>	<b>268.2</b>	<b>99.5</b>
Loans and borrowings current	45.7	10.1
Trade and other payables	210.5	219.7
Deferred income	199.9	186.1
<b>Total current liabilities</b>	<b>456.1</b>	<b>415.9</b>
<b>Total equity and liabilities</b>	<b>1.292.5</b>	<b>972.0</b>
Equity ratio	44%	47%
Current ratio	0,92	0,80
Net interest bearing debt	-7,7	-148,6
Interest bearing debt	242,4	65,5

# Icelandair Group's fleet currently comprises 48 aircraft – thereof 35 are unsecured on the balance sheet

	<p><b>25</b> 757 200</p>	<p><b>1</b> 757 300</p>	<p><b>4</b> 767 300</p>	<p><b>48</b> total aircraft</p> <p><b>40</b> owned</p> <p><b>35</b> unsecured</p> <p><b>437 million</b> Book value</p> <p><b>21 million</b> Secured loans</p>
	<p><b>2</b> 757 200</p>			
	<p><b>2</b> 757 200</p>	<p><b>2</b> 767 300</p>	<p><b>3</b> 737 700 &amp; 800</p>	
	<p><b>3</b> Bombardier Q400</p>	<p><b>2</b> Bombardier Q200</p>	<p><b>4</b> Fokker 50</p>	

# The book value of Icelandair Group's real estate portfolio is USD 115 million



Icelandair Head Office



Icelandair Hotel Akureyri



Hangar KEF airport



Canopy by Hilton



Icelandair Training Center



Cargo Warehouse KEF Airport

**USD 115 million**  
Book value

**USD 36 million**  
Secured loans

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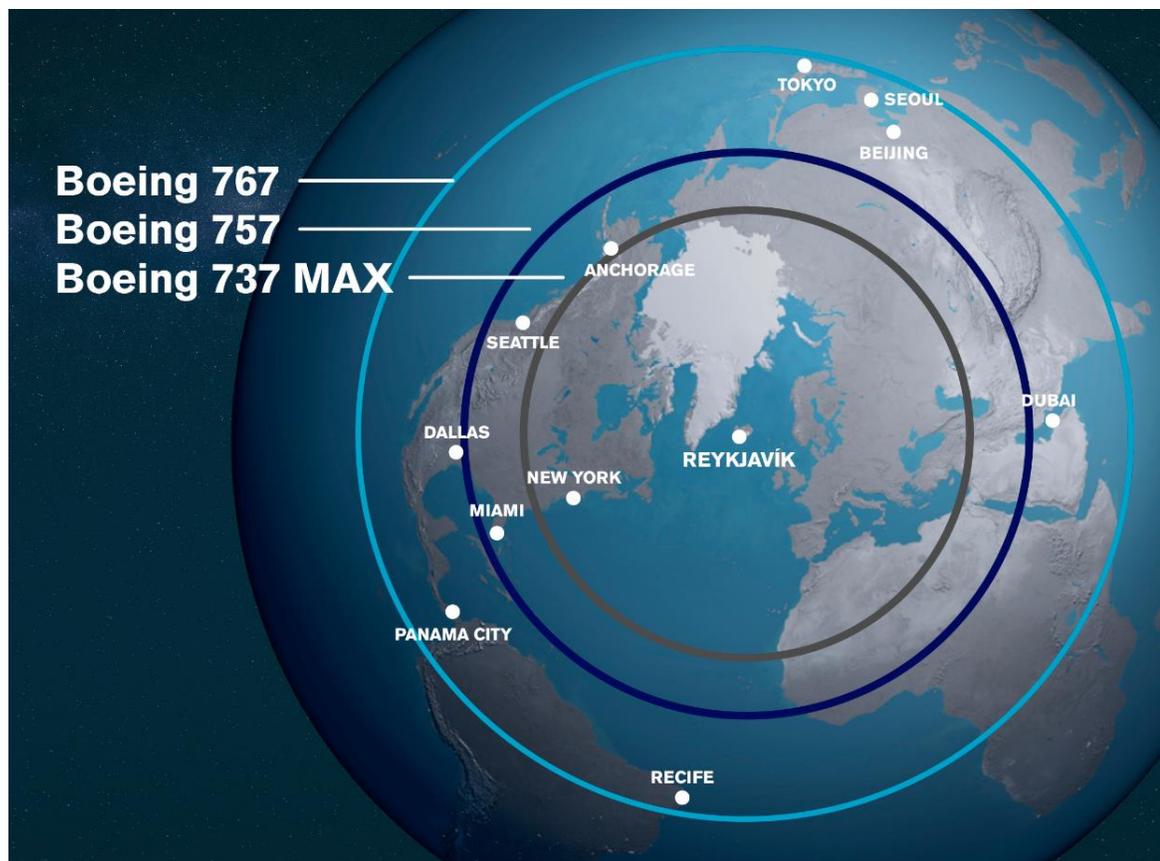
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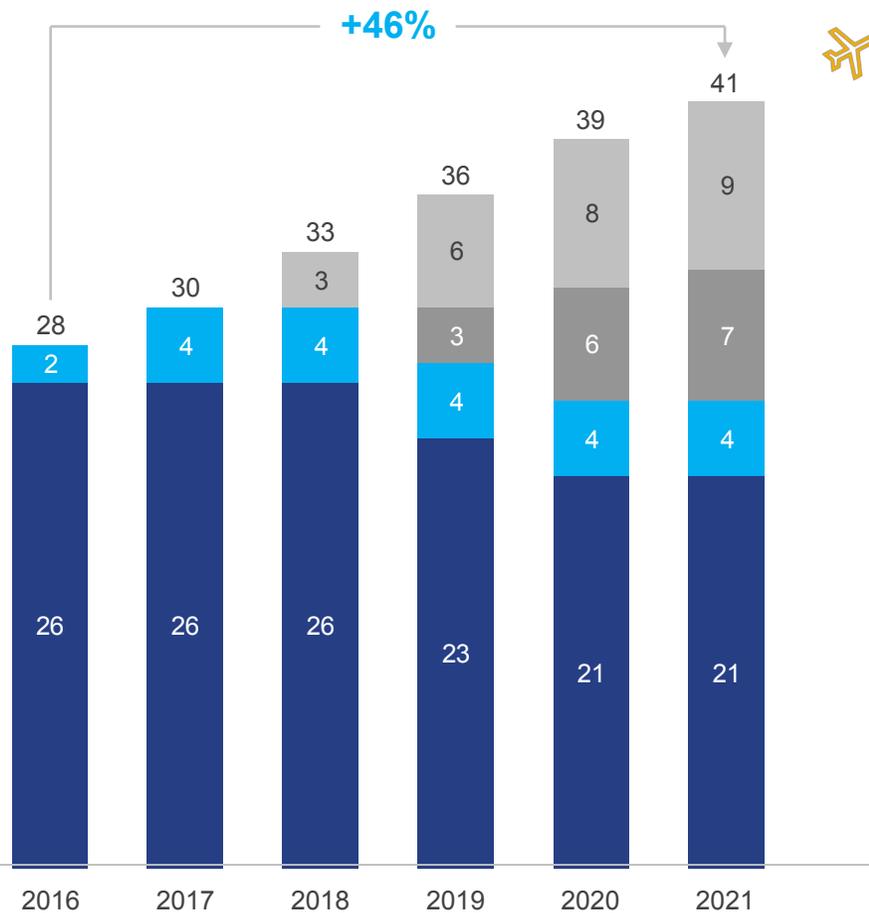
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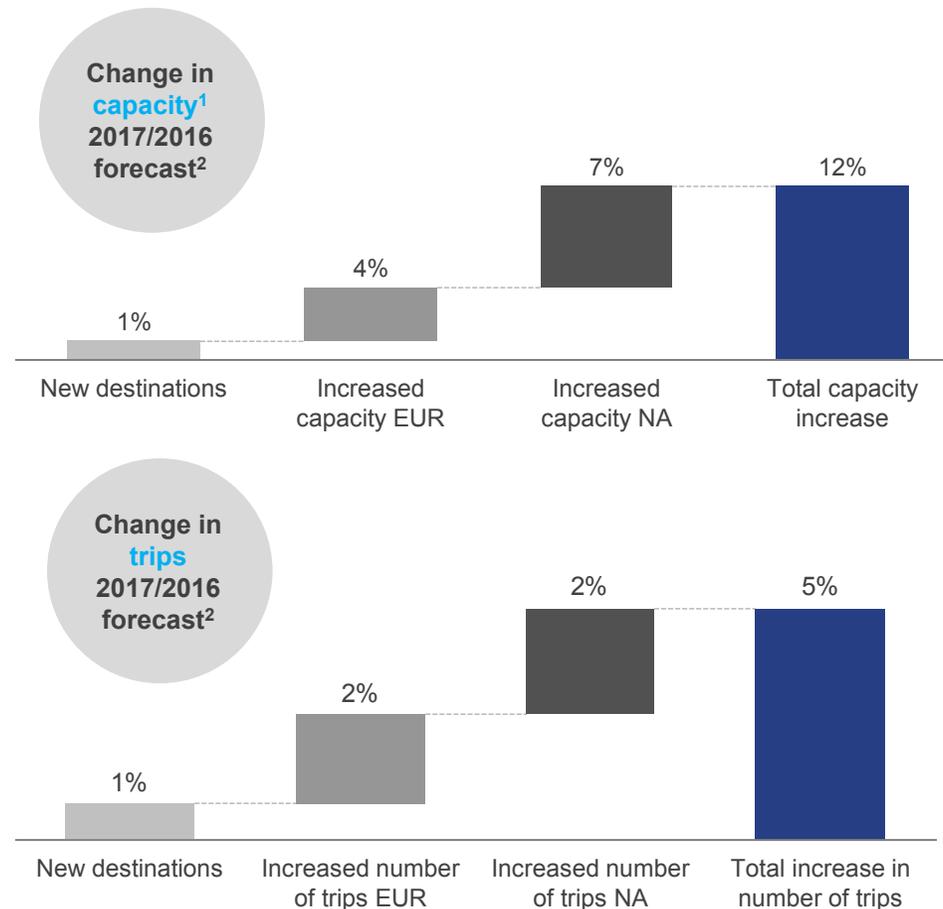
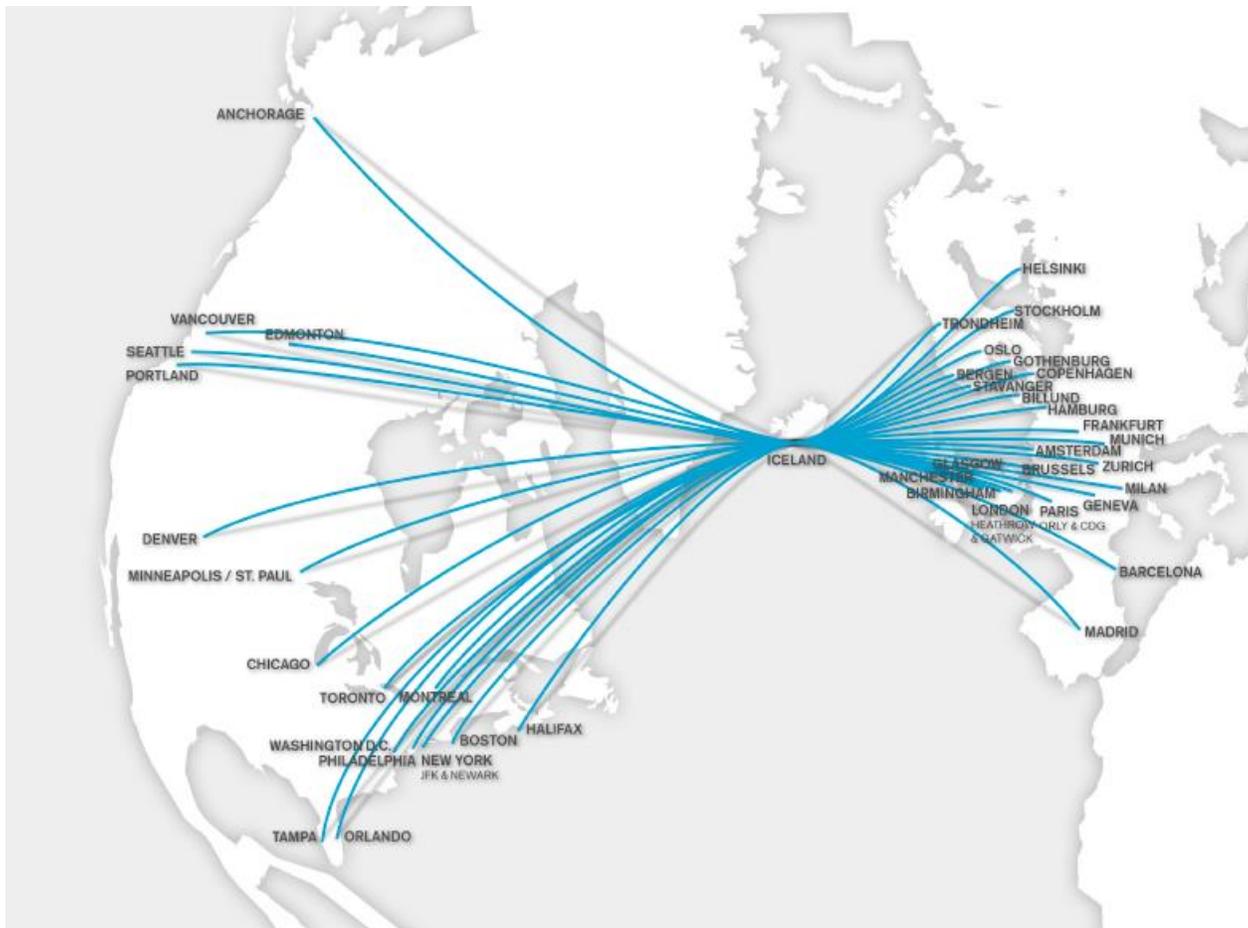
**Our current fleet plan assumes continued growth, but it is flexible. For example, we can adjust the number of B757's in operation in line with market conditions**



737-8 MAX 737-9 MAX 767-300 757-200/300



# We will see continued growth in capacity in the Route Network in 2017

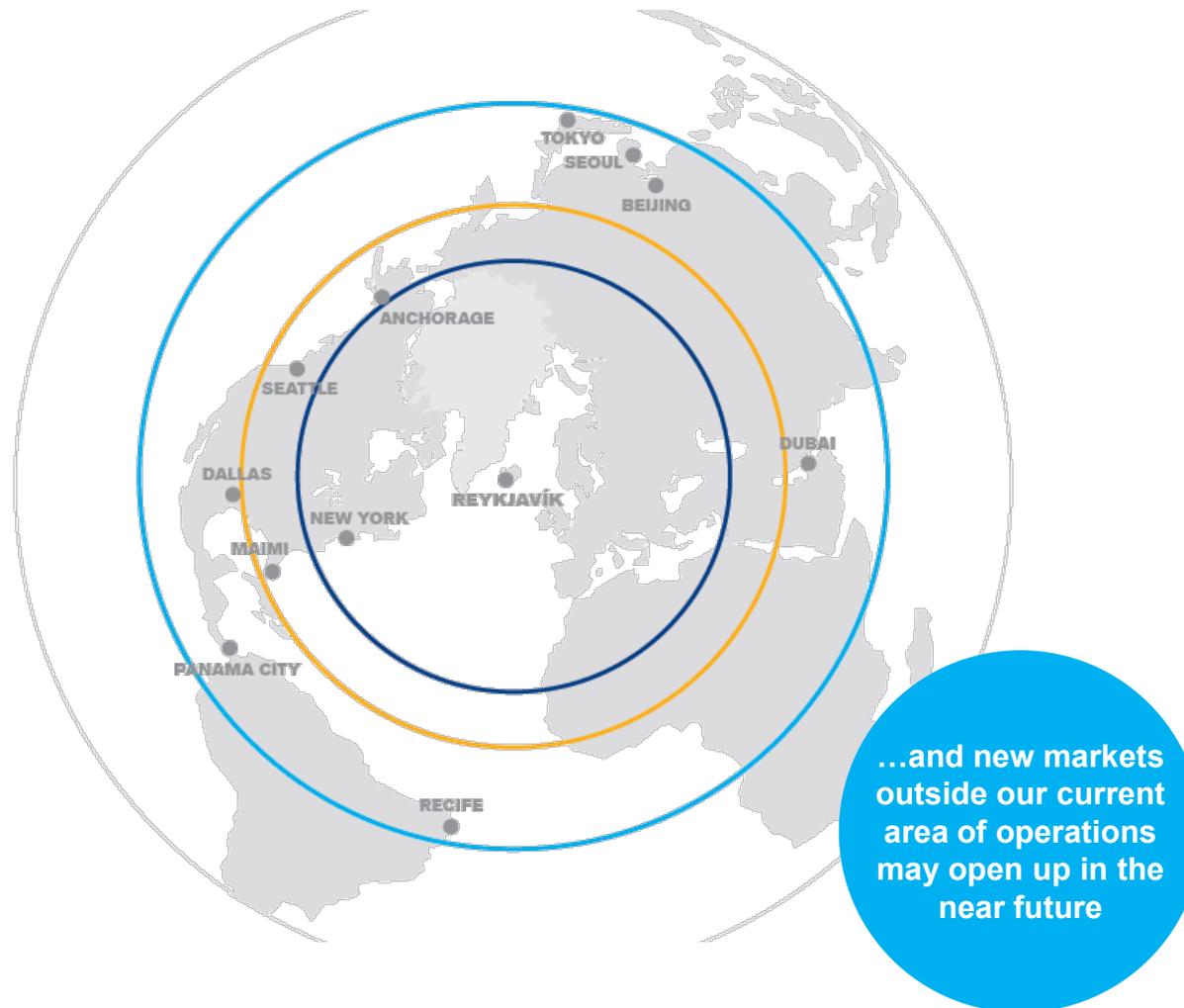
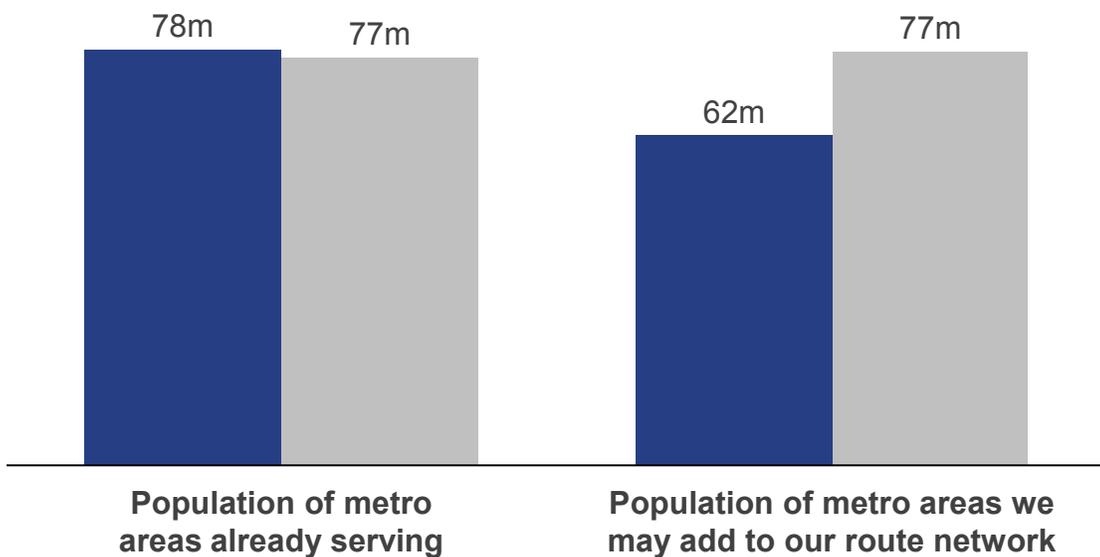


1 Capacity = Available Seat Kilometres (ASK) in Icelandair flights  
 2 Plans for the year may change as year develops

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

Our core markets of Europe and North-America still have a lot of growth potential...

■ North America ■ Europe



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# Icelandair Group and Reykjavik University partnership

## Description of partnership

- In recent years, **a number of graduate students** at Reykjavik University have **written their final thesis in co-operation with Icelandair Group**
- This means that **the students choose a subject related to Icelandair Group's area of expertise** and are during its writing supported practically and financially by the company
- Graduate students that are interested in writing their thesis in co-operation with Icelandair Group need to **apply to be a part of the program** and a group composed of university and company representatives will choose which projects to back

# RU graduate students are free to propose the thesis topics they wish – we have also collected a few proposals that students can build on if they want (1/2)

## Icelandair Group thesis topic proposals 2017/2018

Subject	Proposal	Description
Business	① Effect of complaints on customer relationships	<ul style="list-style-type: none"> <li>If a customer receives bad service from e.g. Icelandair, how does it impact the customer relationship going forward? How does it affect the customer's NPS (Net Promoter Score)?</li> </ul>
	② Assessing the value of social media posts and ads	<ul style="list-style-type: none"> <li>The project would be aimed at developing a model to assess the value of social media posts advertising based on medium (e.g., Twitter), type (e.g., like) and cost</li> </ul>
Computer Science	③ Personalized best fares	<ul style="list-style-type: none"> <li>We want to recommend flights to our customers in a smart way. We want to base our recommendation on previous searches, pages they have visited, prices and what similar customers purchased. We also want to be able to present the flight prices in a smart way and allow our customers to see if the price is trending upwards or downwards</li> </ul>
	④ Personalized ancillaries	<ul style="list-style-type: none"> <li>We want to optimize how we offer our customers ancillary products so that they receive offers at the right place in their travel journey. We want to base our recommendations on variables such as where and at which time customers are travelling, how far in the future their travel is, what pages they have visited, what similar people purchased and so on.</li> </ul>
	⑤ Website visitor segmentation	<ul style="list-style-type: none"> <li>We would like to segment the visitors to Icelandair websites based on behavior. From where do visitors arrive? What parts of the website do they spend time on? Which book a flight and which don't? What is their past behavior if they are returning customers?</li> </ul>
Law	⑥ Predatory pricing in the aviation market	<ul style="list-style-type: none"> <li>A review of predatory pricing in the aviation markets, especially in the context of Hæstiréttur's ruling no. 205/2011 and in comparison to case law in the EU</li> </ul>
	⑦ Competition authorities and airport slots	<ul style="list-style-type: none"> <li>What is the authority of competition authorities to influence slot allocation at airports?</li> </ul>

# RU graduate students are free to propose the thesis topics they wish – we have also collected a few proposals that students can build on if they want (2/2)

## Icelandair Group thesis topic proposals 2017/2018

Subject	Proposal	Description
Law	8 Buying and leasing aircraft	<ul style="list-style-type: none"> <li>A comparison of the different arrangements used when buying and leasing aircraft</li> </ul>
	9 Governing law and jurisdiction	<ul style="list-style-type: none"> <li>A review of governing law and jurisdiction in international transport agreements</li> </ul>
	10 Personal data collection laws	<ul style="list-style-type: none"> <li>Icelandair is moving towards a more personalized service, where the customer experience is shaped by who the customer is and past behavior. We would be interested in an analysis of how the EU's data protection rules (Regulation 2016/679 and Directive 2016/680) will affect the use of customer data when developing digital solutions</li> </ul>
Engineering and sciences	11 Damage to aircraft pressurized structure	<ul style="list-style-type: none"> <li>Damage to aircraft pressurized structure results in costly repairs. This research would use commonly available materials such as aluminum sheets and aircraft sealants to develop a temporary repair to unstiffened sections of the fuselage</li> </ul>
	12 Stress on aircraft antenna installations	<ul style="list-style-type: none"> <li>Finite element modelling and crack growth analysis of a typical antenna installation on a Boeing 757 fuselage. Research of stress build up in antenna build up area and comparison with traditional mechanical approach and damage tolerance analysis</li> </ul>
	13 Using ultrasound imaging to detect leaks in aircraft	<ul style="list-style-type: none"> <li>This research would study the feasibility of using ultrasound imaging to detect leaks in aircraft ducts, aircraft hydraulics, around aircraft doors and openings, deterioration of aircraft power plant. Develop inspection methods using handheld devices like <a href="https://www.distran.ch/">https://www.distran.ch/</a></li> </ul>

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## Questions and answers



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## Icelandair Group

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