



Morgunverðarfundur Viðskiptaráðs

Birkir Hólm Guðnason CEO Icelandair

31. Ágúst 2010



Icelandair at a glance

ICELANDAIR AT A GLANCE



- + Established in 1937
- + 1.300 Employees
- + Turnover of 60 billion ISK
- + 200 flights per week to 30 destinations
- + 1,6 million passengers (75% foreigners)
- + 13-14 Boeing 757 aircrafts in operation
- + Icelandair is in fact an international company positioned in Iceland
- + Product development and sales on international consumer markets
- + Operations based on international laws and regulations
- + Icelandair policy in public affairs is to keep open lines of communications with authorities and stakeholders at all times and work closely with official institutions and policy makers in our industry
- + Icelandair has an operational flexibility equal to or better than competitors
- + Economical and political instability makes it a necessity to be flexible





Route Network – Key success factor

Iceland's geographical location on the shortest flight route across the North Atlantic enables Icelandair to service three main markets, and carry 1.6 million passengers annually.

TO

The tourist and business market to Iceland

FROM

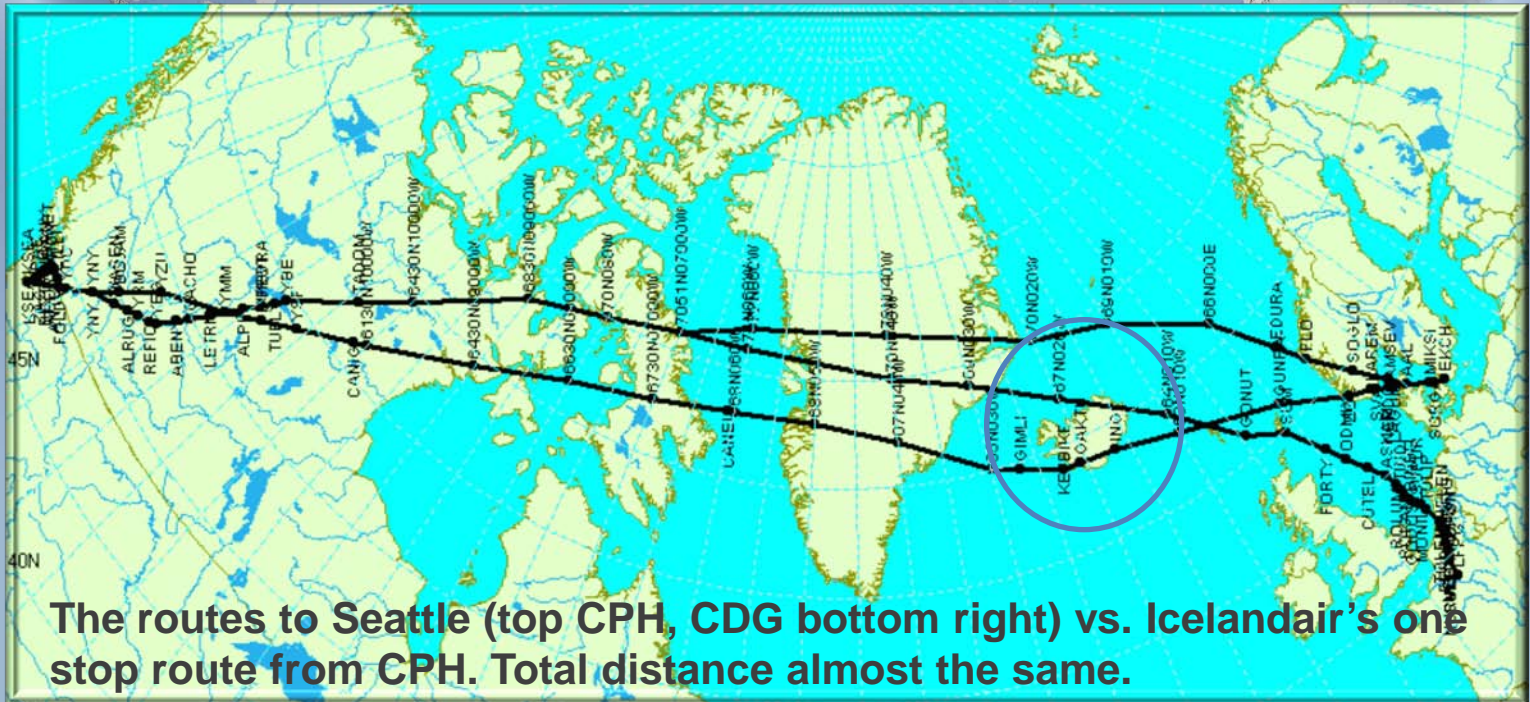
The home market in Iceland :

VIA

The market between Europe and USA :

The via market makes it possible for Icelandair to offer the to and from markets much better schedule than they could justify on their own

Iceland's location, strategic advantage



The routes to Seattle (top CPH, CDG bottom right) vs. Icelandair's one stop route from CPH. Total distance almost the same.



**The Past: Coming through 3 crisis
Time of restructuring & changes**

Icelandair has come strong through 3 different crisis in past 10 years



Terrorist attack in NYC 9/11 2001

- › Huge drop in travel to USA
- › Increased focus on the TO Iceland market – Iceland Safe
- › Icelandair increased Marketing Budget in markets abroad
- › Tourists to Iceland increased 14% in 2002
- › Operational results for 2002 the best in history of Icelandair



The Economical collapse in October 2008

- › Huge drop in travel out of Iceland
- › Increased focus on the TO Iceland market – Iceland best value destin.
- › Icelandair increased Marketing Budget in markets abroad
- › Tourists to Iceland increased 10% in 2009
- › Operational results for 2009 the best in history of Icelandair



Volcanic Erruption in Eyjafjallajökull April 2010

- › Airports in Europe closed for a week and booking inflow stopped
- › Focus on the TO Iceland market and VIA market
- › Image and promotional campaign in all markets abroad in May - July 2010 with the Government (700 Million ISK)
- › Icelandair increased marketing Budget in markets abroad

Forbes

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A Meltdown in Iceland

By VIVIANNE WALT Wednesday, Oct. 08, 2008



A man walks out of the building of Iceland's Glitnir Bank's headquarters in Reykjavik
Bob Strong / Reuters

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eland, which is
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ussia for a 4 billion
uro (\$5.49 billion)
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led banks, was offered for sale as a
olesale lot on eBay on Friday.

ding started at 99 pence but had
ched 10 million pounds (\$17.28
on) by mid-morning on Friday.

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The Daily Times

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Extremes in external factors

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Gengisvísitala, 2 ár



US dollar (USD)

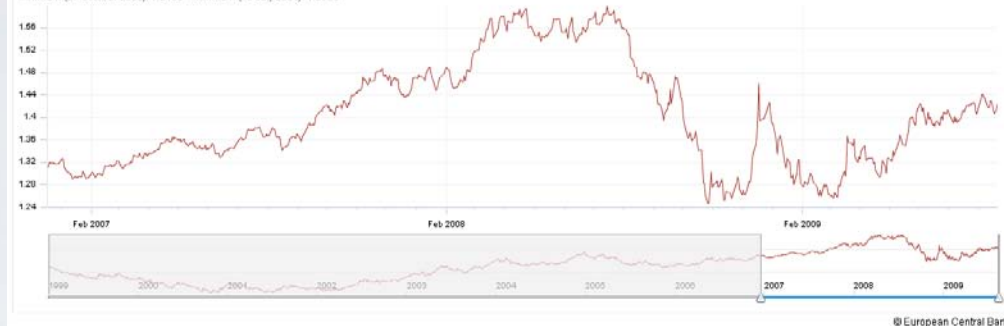
Latest (20 August 2009): EUR 1 = USD 1.4243

Change: ↑ +0.0131 (+0.93%)

Select date range: 1m 3m 6m 1y 2y 5y All

Change from 10 December 2006 to 20 August 2009: ↑ +0.1140 (+0.77%)

Minimum (27 October 2008): 1.2480 - Maximum (15 July 2008): 1.5990



Icelandair - Restructuring in 2008



+ Organisational Structure:

- + New Top Management took over
- + Senior Vice Presidents / Vice Presidents: Positions cut from 7 to 4
- + Directors levels taken down from 15 to 9
- + Lay offs: Total Lay-offs of Employees: Around 385

+ Route Network & Operation:

- + Capacity cut 20-28 %: Huge cost reduction in variable cost
- + Fuel Savings: Lighten of aircrafts and on board items. Slower flying time and single engine taxing.
- + Station Managers abroad – fewer and consolidation
- + Crew Hotels: New and less expensive Crew hotels
- + Cabin Crew members taken from 5 to 4 on all flights – 20% of cabin crew staff gone
- + Out Source Training center and all training for pilots and Cabin Crew to cut cost

+ Sales & Marketing :

- + Sales Offices: Consolidation into fewer but bigger regions.
- + Centralized Call center, ticketing and pricing in Iceland – all call centers abroad closed

+ Other

- + Service Changes – sell food, pillows and blankets to cut cost and generate ancillary revenues.
- + Economy comfort /new middle class introduced as new middle class
- + Re-negotiate all contracts with suppliers to cut cost. IT cost cut down 50-100 MISK
- + Great improvements in Revenue Management Route Network Management – CHANGED FOCUS

Eyjafjallajökull Eruption



ICELANDAIR:
OPERATIONAL CRISIS

ICELAND:
IMAGE CRISIS





Moving the hub (the route network) over the ocean to GLASGOW

- + The focus on NOT closing down
- + Operations maintained all though the eruption
- + Moving 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 pax



Opportunity:
The biggest publicity
Iceland has ever gotten



[Factbox: European airports and airspace closed by ash cloud](#) ☆

Reuters - Apr 18, 2010

BULGARIA - Sofia and Plovdiv **airports** open as of 1100 GMT Sunday. Other **airports** closed.



The Guardian

[Most airports still closed](#) ☆

WGME - Apr 19, 2010

LONDON (AP) – Most **airports** in Europe are **closed** for a fifth day today because of the ash that continues to rise from a volcano in Iceland. ...

⊕ [Video: Raw Video: Iceland Volcano Spews More Ash](#) The Associated Press

[Ash Cloud From Iceland Volcano Keeping Airports Closed](#) The Epoch Times

[European countries close airspace due to volcanic ash cloud](#) Inquirer.net

The Associated Press - Apr 17, 2010

At the Minsk National **Airport** most flights to Europe have been canceled. Ukraine: All Ukrainian **airports** **closed** until further notice except for Simferopol ...

[European countries close airspace due to volcanic ash](#) Independent

[A glance at flight disruptions due to volcanic ash](#) The Associated Press

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3News



euronews

Transit flights permitted at 8000 meters altitude. ...

[Factbox: Airports and airspace closed by ash cloud](#) Vancouver Sun

[Europe Airports CLOSED!](#) LALATE (blog)



Times Online

... but the shifting winds sent a new volcanic ash into the clouds over Scandinavia, which forced some **airports** in Sweden and Norway to **close** again. ...

⊕ [Video: Iceland volcano spitting lava and smoke, less ash after eruption](#) RT

[Volcanic Eruption: two airports in Iceland are closed](#) Ukrainian Globalist

[Iceland now to close airports due to ash](#) Reuters India



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Fire fly fra Island lander i Norge i ettermiddag

- Luftrommet åpnet mellom Kristiansund og Berlevåg
- Tre av fire flygninger i Europa kansellert

Her er de siste oppdateringene



Fire fly fra Island til Værnes i ettermiddag



To rutefly av typen Boeing 757 fra selskapet Icelandair som går fra Reykjavik i ettermiddag lander på Værnes klokken 17.35 og 18.35. [FOTO: ICELANDAIR](#)



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aviator LA blue



Årets solbriller **KJØP NÅ!**

a
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STEVIE
WONDER



ISLANDS PRESIDENT OM EYJAFJALLAJÖKULL:



- En liten øvelse på det som kommer

Iceland Air Prepares for Take Off

LIVE
HVOLSVOLLUR, ICELAND

STREET SIGNS
GUDNASON: THERE IS NO EVIDENCE THAT AIRPLANES CAN FLY THROUGH ASH

01:22 / 02:58

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GOP's bid to reclaim Senate fuels fight for party's soul
THE BIG READ 16-17

Agnelli heir to be chairman as Fiat dynasty rolls on
BUSINESS & FINANCE 19



THE WALL STREET JOURNAL.

VOL. XXVIII NO. 56

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EUROPE

Wednesday, April 21, 2010

europe.wsj.com

Goldman backlash in Europe

Goldman Sachs Group Inc. is in danger of losing business with a key group of clients as a result of the fraud

By Marcus Walker in Berlin and David Enrich in London

allegations it faces: governments in Europe and the U.S. Politicians in the U.K. and Germany are starting to call on their governments to cut

ties with Goldman, which has long been one of the top financial advisers to European policy makers.

U.K. Liberal Democrat leader Nick Clegg, riding high in opinion polls less than three weeks before national elections, said Tuesday that Goldman "should now be suspended in its role as one of the advisers to the government until these allegations are properly looked into." His

comments follow Prime Minister Gordon Brown's recent characterization of Goldman's alleged behavior as "morally bankrupt."

"We should let the business relationship with [Goldman] rest until the allegations are cleared up," lawmaker Frank-Schäffler of Germany's Free Democratic Party, part of Chancellor Angela Merkel's governing coalition, told German newspaper Handelsblatt

on Tuesday. Mr. Schäffler's office confirmed the comment.

The New York-based bank denies allegations by the U.S. Securities and Exchange Commission that it committed fraud by withholding important information from investors to whom it sold mortgage-related securities.

But the political backlash in Europe and the U.S. threatens to damage the network of political ties with policy makers

that the bank has carefully built up on both sides of the Atlantic over two decades.

Goldman declined to comment on the European politicians' remarks. In a message to employees on Sunday, Lloyd C. Blankfein, Goldman's chairman and chief executive, said the bank was "taking all appropriate steps to defend the firm and its reputation."

Fair or not, the growing perception in Europe that

Goldman used cutthroat tactics to turn a profit could make it an unpalatable partner for politicians who are facing voter pressure to clamp down on risk-taking by the financial sector, analysts say.

The firm is among the

Please turn to page 3

■ Goldman's profit surged 91% in first quarter — 3
■ Goldman splits from pack on stock buybacks — 36



An Icelandair plane takes off Tuesday from Glasgow International Airport traveling to Reykjavik in Iceland, as many flights resumed after volcanic ash disrupted air travel.

Airports reopen amid caution

By DANIEL MICHAELS AND STEVE McGRATH

As planes began flying again across much of Continental Europe, airlines and airports ramped up calls for government help to offset massive financial losses they have suffered since a cloud of volcanic dust left planes grounded for five days.

European terminals began restoring service Tuesday, one day after European regulators agreed to a plan to reopen much of Europe's airspace. Britain's government late Tuesday announced a plan to reopen U.K. airports,

including London's Heathrow, at 9 p.m. local time Tuesday.

Eruptions of Iceland's Eyjafjallajökull volcano that started Thursday have left clouds of fine ash in the atmosphere, resulting in days of airspace closures across most of northern and central Europe. Some analysts said pressure from hard-hit airlines and stranded passengers had prompted regulators to venture into uncharted territory by allowing commercial operations in remnants of the volcanic cloud.

Some aviation officials expressed concern about allowing jetliners to fly without

more extensive analysis of the risk. "What's missing is some sort of standard, based on science, that gives an indication of a safe level of volcanic ash," said Bill Voss, president of the Flight Safety Foundation, a global nonprofit organization. "Lacking that, we're going to be trapped in a difficult debate."

Airlines, several of which in recent days have probed atmospheric conditions in test flights and said they found no problems, said they would fly only where conditions were deemed safe by national governments. European regulators agreed Mon-

day to divide each country's airspace into three zones—designated no-fly areas, buffer zones around them where flights are restricted and open airspace where flying is deemed safe.

Eurocontrol, which coordinates flights across 38 European countries, said almost 50% of flights operated across Europe on Tuesday. Since Saturday, flights had been running at around 30% of normal levels and more than 95,000 flights had been canceled, Eurocontrol said.

Pressure to restart flights was increasingly intense. More than eight million pas-

sengers have been affected and up to 313 airports closed, according to the Airports Council International Europe, a trade group in Brussels. Airline analysts estimate that European airlines' profits—already expected to be negative this year—are being reduced by more than \$100 million each day. European airports have collectively lost roughly €200 million (\$270 million), the Airports Council said.

Please turn to page 7

■ Bans hit world economy, turn Spain into a hub — 6

■ Passengers' dilemma: who wants to fly first? — 7

U.K. data and volcano affect vote

New economic data scheduled to be released this week and the effects of the Icelandic volcano on voters could add more fuel to an already volatile British election battle.

On Tuesday, the Office for National Statistics said U.K. prices rose an annual 3.4% in March, up from 3.0% in February. That could put pressure on the Bank of England's view that inflation will ease later in the year.

Wednesday, March unemployment numbers are released and on Thursday, the ONS reports the final month of public-finances data from the 2009-10 fiscal year.

Tuesday was also the deadline for Britons to register to vote and to apply to vote by mail. Some travelers stranded overseas lost their opportunity to register.

If the disruption continues, some may not receive their absentee ballots or won't be able to return them on time.

Articles on page 8

The Quirk



Bird watching from space: spy in sky tracks Antarctic emperor penguins. Page 33

Editorial & Opinion

In man vs. the volcano, the smart money isn't on Eyjafjallajökull. Page 13

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Volcanic Surprise: Icelandair Made Crisis Management Look Easy

By Brett Snyder | Apr 27, 2010



And you thought the volcano situation was over and done with, right? Not quite. The aftermath of the Icelandic eruption will continue for a long time, and we're starting to see a strong division

between carriers. The strong are getting more creative while the weak are looking for handouts. The most interesting to me has been the case of Icelandair, which worked wonders over the last couple weeks.

In terms of creativity, Icelandair has been the most impressive. When airports throughout Europe were closed, Iceland's main airport in Keflavik remained open. From there, Icelandair operated a strategic mission every day. One day, Trondheim airport in way northern Norway opened, so they sent the fleet over there with



Travel Analysis

Brett Snyder & Barbara E. Hernandez



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Iceland has never
been more awake



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ICELAND: LAST MONDAY

Every Sunday, as usual for the last 1100 years nature has given us some pretty good excuse to go out and explore. From the glaciers to Jökulsárlón, Iceland is more awake than ever. This is a great time to see it.

For more information
[visit inspired-by-iceland.com](http://visit.ingpired-by-iceland.com)



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From the glaciers to lunch in Hellnar, Iceland is more awake than ever. This is a great time to see it.

SEND E-CARD



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THINGS TO DO

Here you can find everything from horses to glaciers
[see more](#)



ICELAND LIVE

Live stream of Icelandic nature.
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Music inspired by Iceland.
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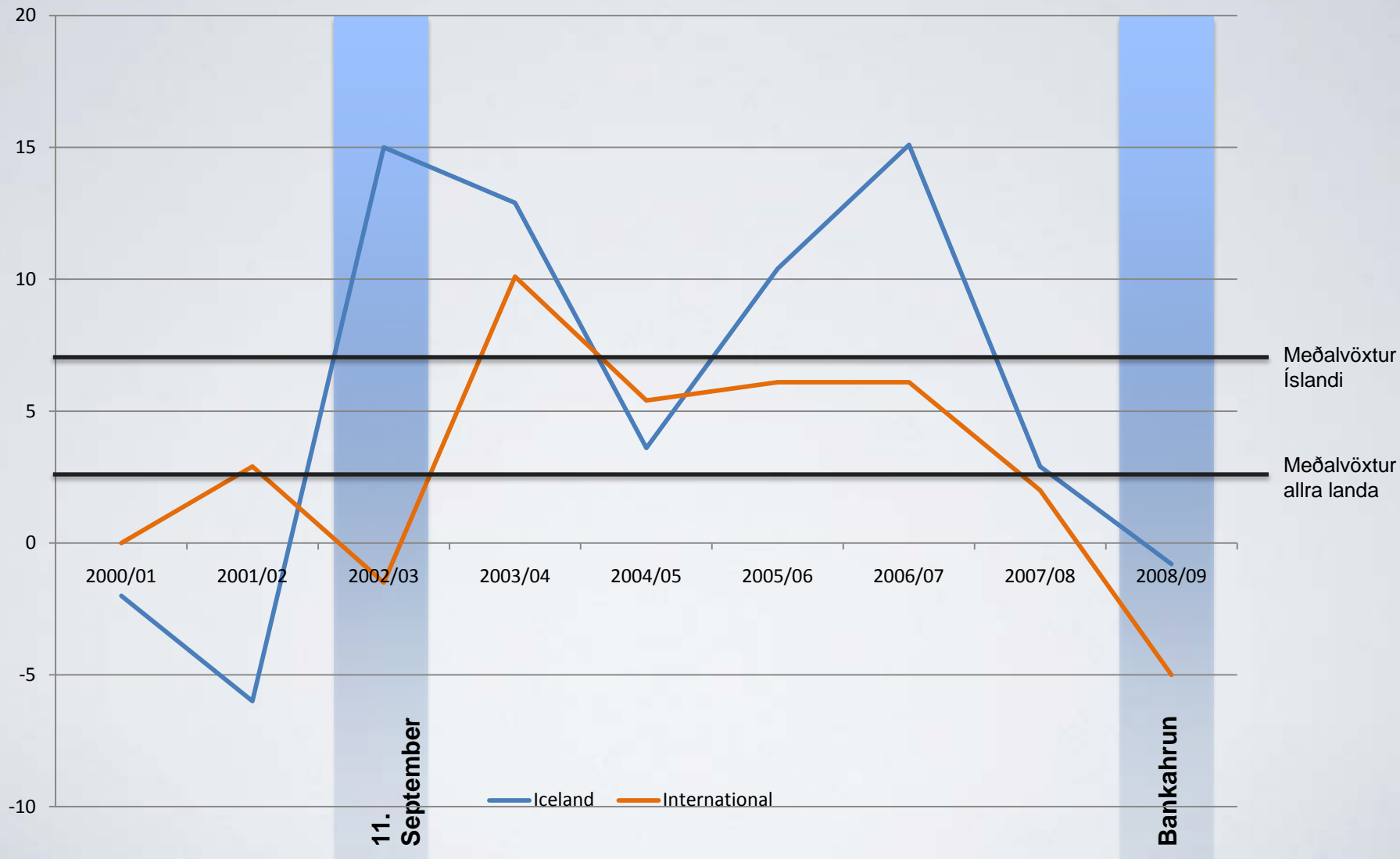


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CLOSE

Foreign visitors and growth





Iceland: Current Environment

Tourism Industry - Much is at stake

- + Tourism created 20% of foreign currency income for Iceland
- + Foreign Currency income in 2009 was 155 Billion ISK
- + Tourism is 11,5% of GDP
- + Tourism creates 10% of jobs
- + Summer of 2009 was the best ever, and 2010 bookings were an improvement to that
- + A massive blow to the economy is a real possibility

Iceland: Current Environment

- + Political and Economical stability is missing – difficult to have plans and goals when external factors like taxes, interest rates and currency are fluctuating and sometimes hindering growth.
- + Without stability Iceland will never become competitive – people will move abroad and seek carriers and opportunities in countries with more stability
- + The government increased taxes in past years – message: “you’ve seen nothing yet”. Higher taxes does not mean higher revenue for the economy
- + Increased taxation on foreign tourists will result in fewer visitors to Iceland.
- + 500 MISK taxation on foreign tourists can result in 10% fewer tourists to Iceland (which means 15 Billion ISK less in foreign currency income for Iceland)
- + Higher taxes on Icelandic companies does not result in higher revenues – most companies will cut cost and we will have higher unemployment rate
- + Economical and political instability makes it a necessity to be flexible
- + The size of Icelandic bureaucracy is both a strength and a weakness. Easy access and quick responses can open up business opportunities. Lack of resources and power can make more complicated issues difficult to pursue

Iceland: Current Environment

The biggest strengths of Icelandic companies and Icelandic economy

- + Small, dynamic and flexible economy
- + Simple and rather transparent infrastructure
- + Well educated work force
- + Not afraid of taking risk
- + Work Hard – the Viking spirit
- + Great natural resources

The weaknesses:

- + The image of Iceland is broken – lack of trust in Icelandic companies
- + Foreign investors not interested in Iceland and sometimes “not welcome”
- + Lack of strategy and focus from Government for coming years - more focus on Crisis management and “find the guilty ones” than looking for growth opportunities
- + Lack of centralisation and synergy opportunities to create stronger units
- + Sensitive currency & economies of scale due to small size of the market
- + Rules for foreign investments need to be more transparent
- + More support needed from government for investments in different industries and growth opportunities
- + Access to Capital / Cash is limited

Iceland: Current Environment

The Tourism industry not getting enough attention

- + More invested in Fisheries, Agriculture, Energy and Other industries
- + Not in line with proportion of foreign currency income for Iceland

Tafla 2. Framlag til rannsókna í nokkrum atvinnuvegum.

	2005		2007	
	millj. kr.	%	millj. kr.	%
Fiskveiðar og landbúnaður	4.153.726	36 ,4	4.453.352	34 ,9
Iðnaður	6.372.535	55 ,9	6.979.414	54 ,6
Orkuframleiðsla og dreifing	832.975	7 ,3	1.269.883	9 ,9
Ferðapjónusta	43.986	0 ,4	69.721	0 ,5
Samtals	11.403.222	100 ,0	12.772.370	100 ,0



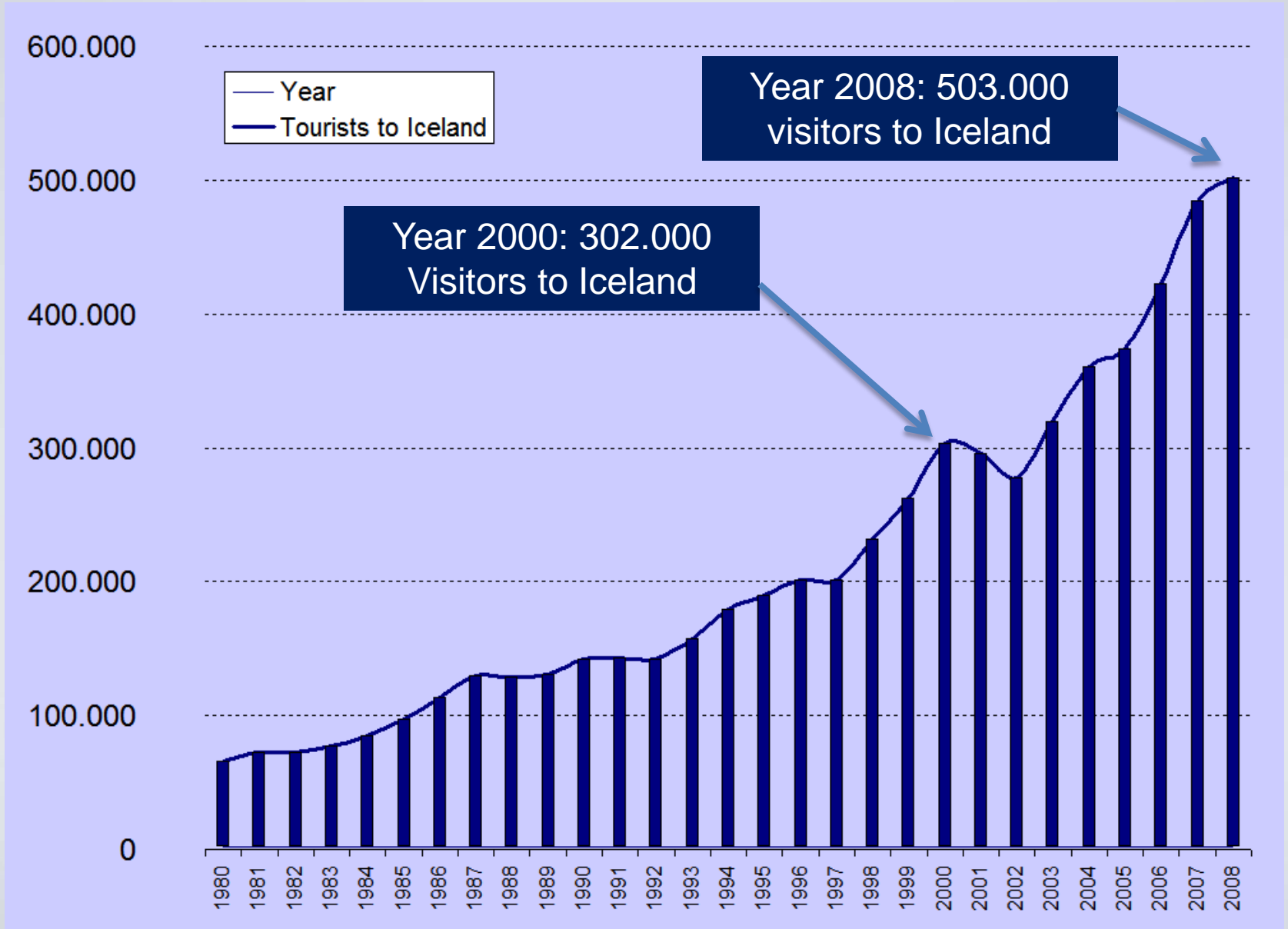
The Future: Opportunities for Icelandic Tourism

The Icelandic Business Environment

What needs to be done?

- + More focus on future growth and opportunities
- + More political and economical stability
- + Boost the economy and the business environment so we can see growth – not hinder or put restrictions
- + Grow the cake and try to maintain that
- + Lower taxes on companies and individuals means higher consumption/ demand, lower unemployment rate and more revenue for the economy.
- + Create an environment that is supportive and rewarding and helps companies grow
- + Improve the Image of Iceland – reputation and consistency is the key
- + Clear strategy, leadership and focus for next 10 years is needed to get the business life on board. More cooperation with companies needed.
- + More focus on Industrial policy
- + More investments and support to Icelandic companies / industries

Foreign visitors to Iceland 1980-2008



Vetur vs. Sumar 1999 og 2009

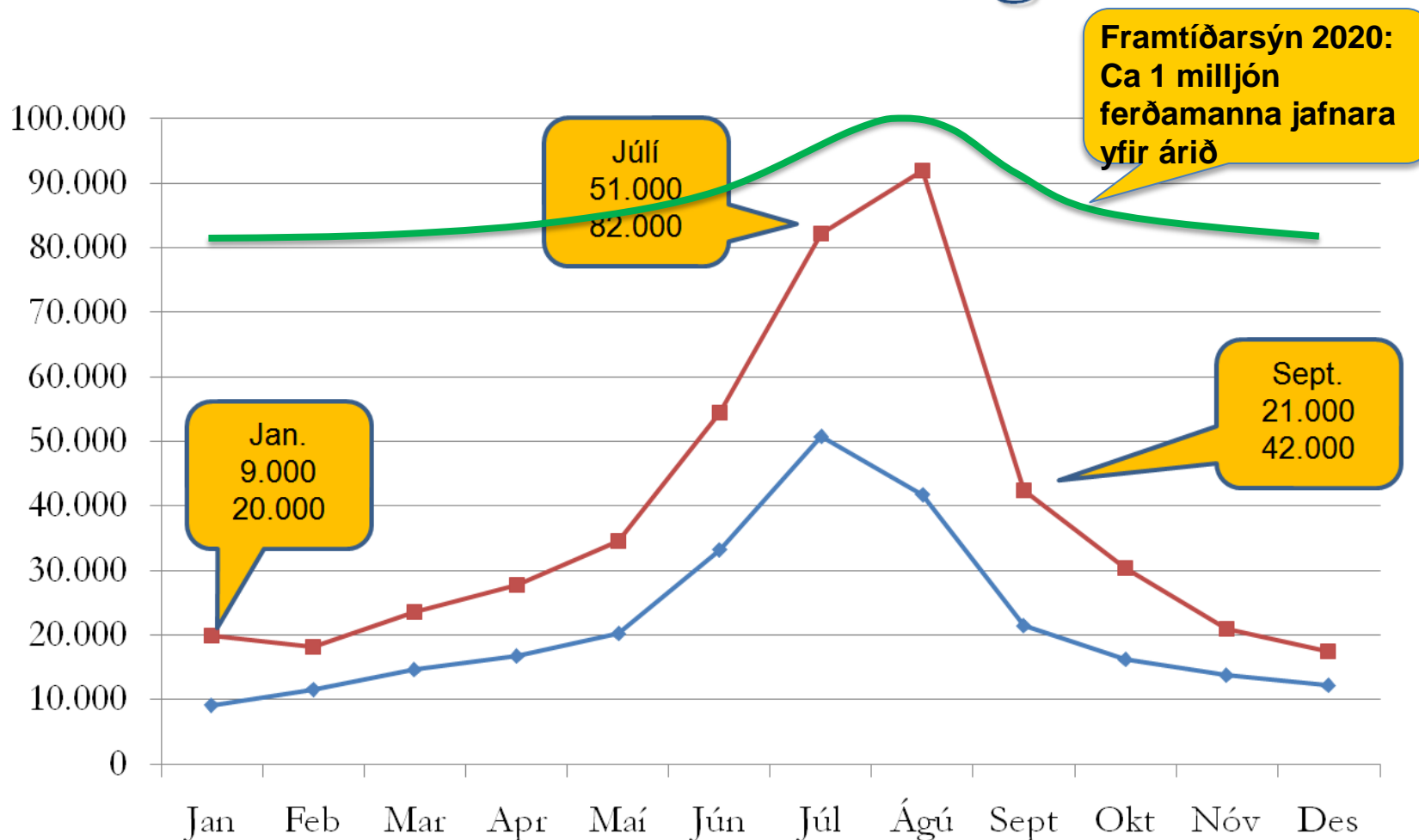


Image & Awareness of Nations

How the world sees the UK

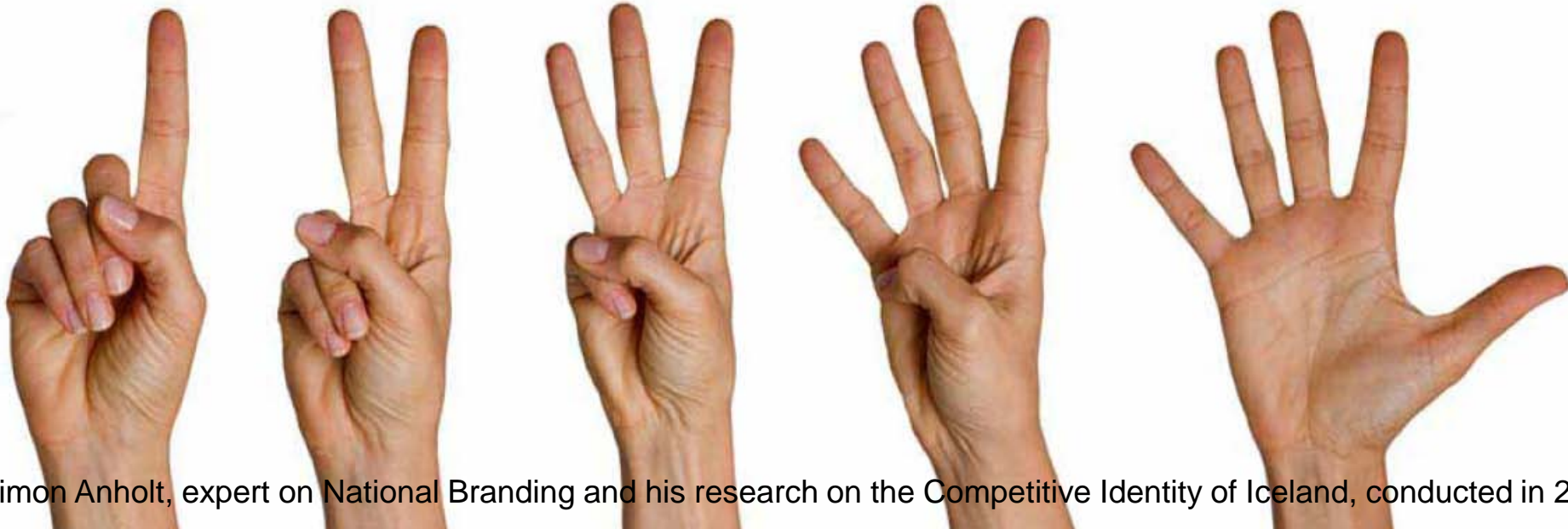
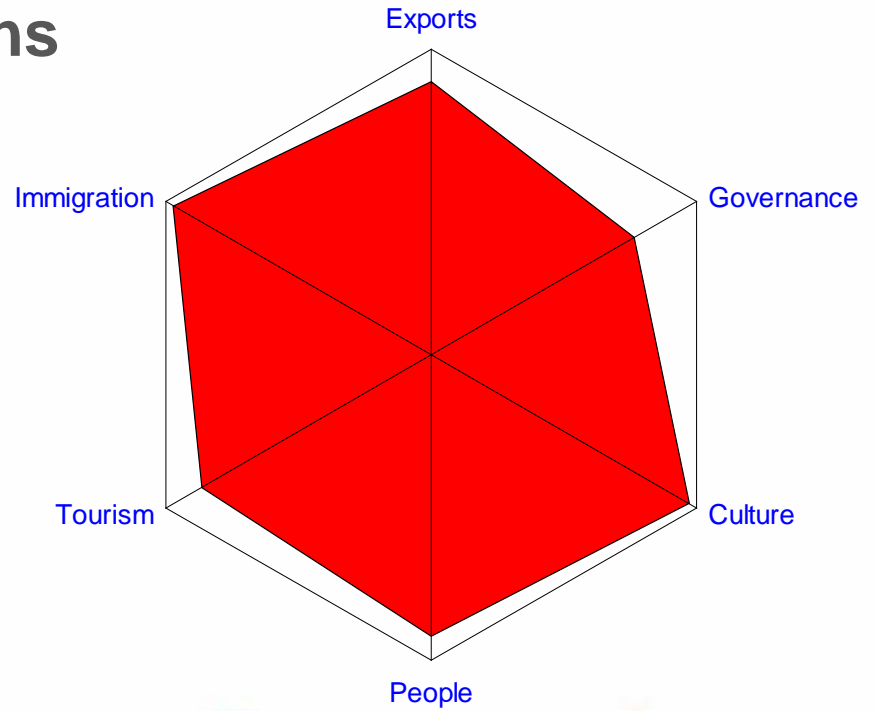
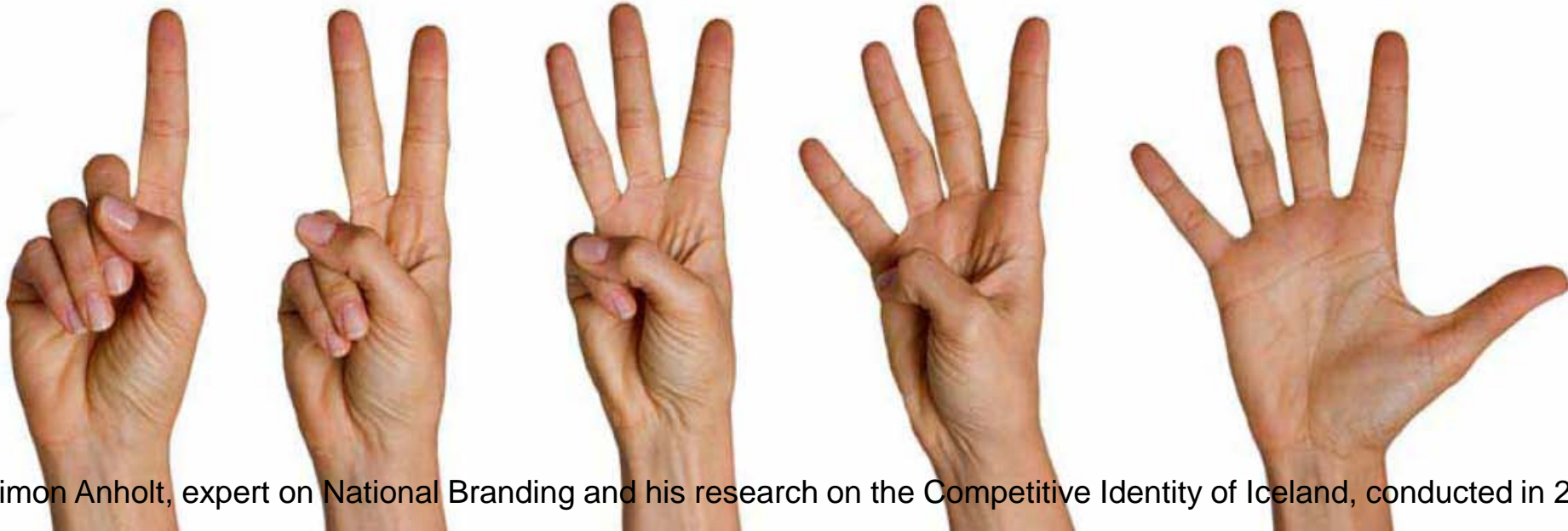
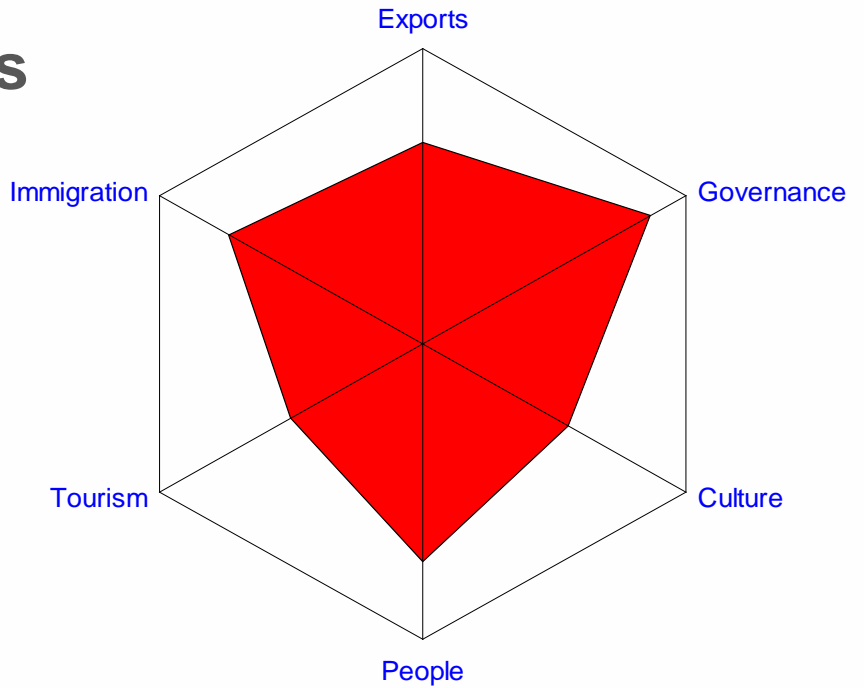


Image & Awareness of Nations

How the world sees Denmark



Simon Anholt, expert on National Branding and his research on the Competitive Identity of Iceland, conducted in 20

Image & Awareness of Nations

How the world sees Iceland

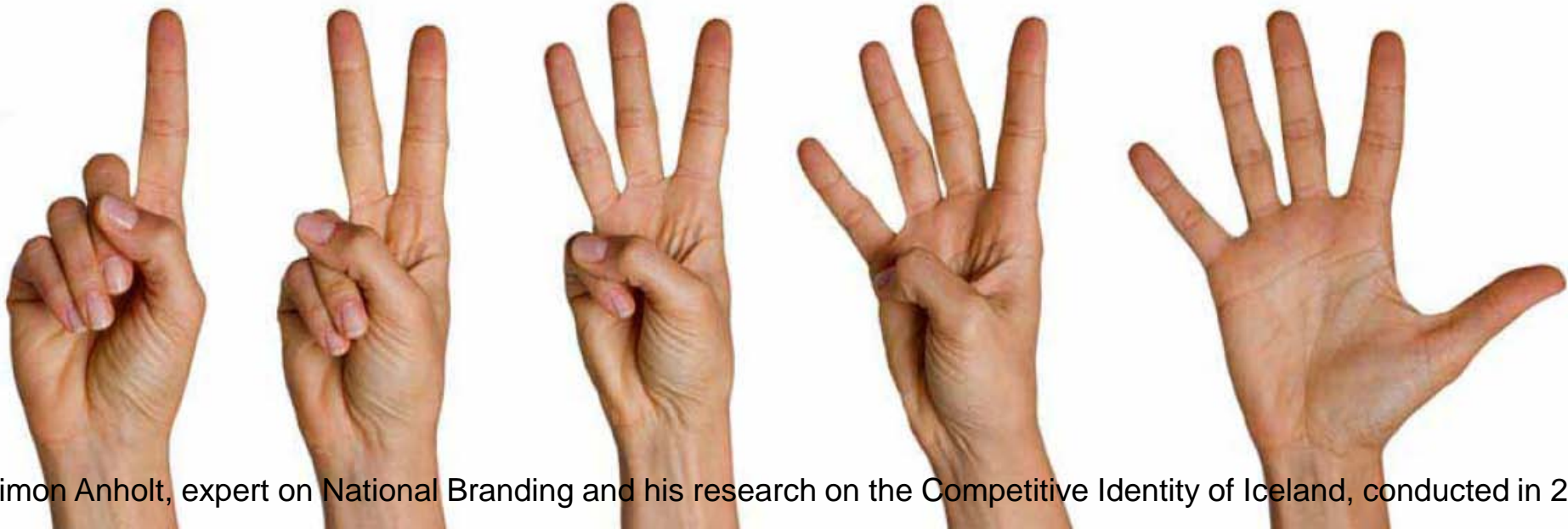
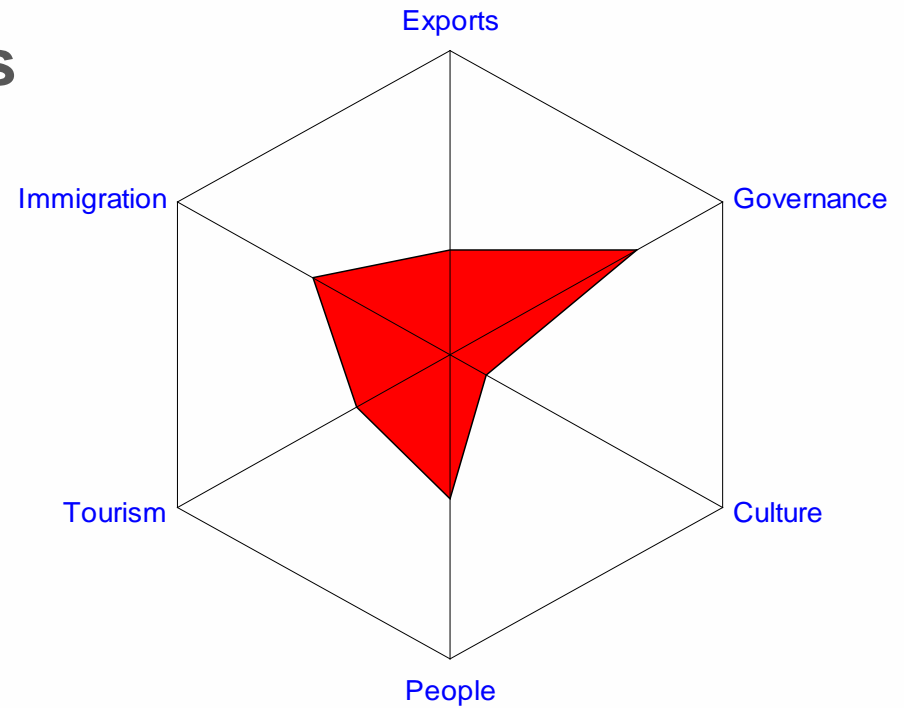


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How the world sees Estonia

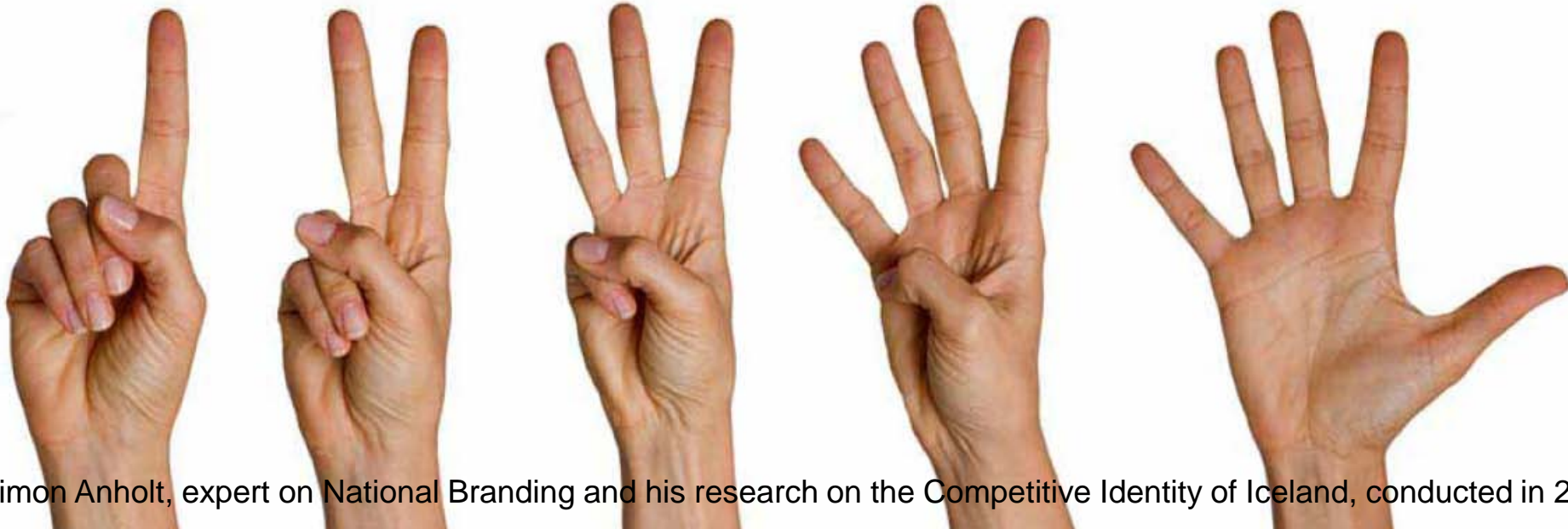
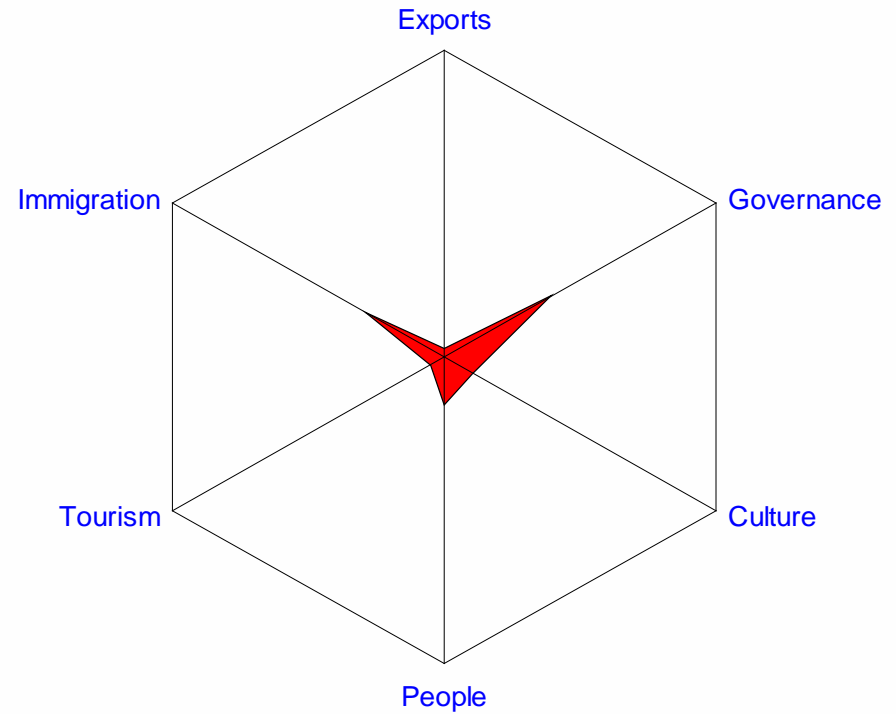
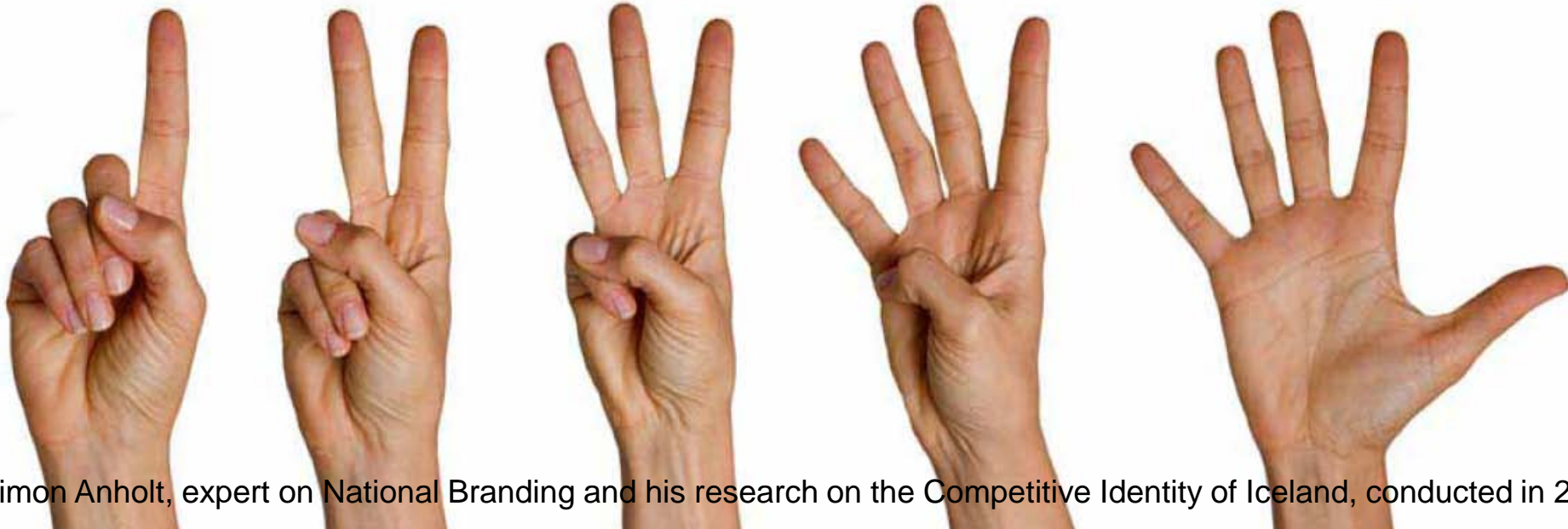
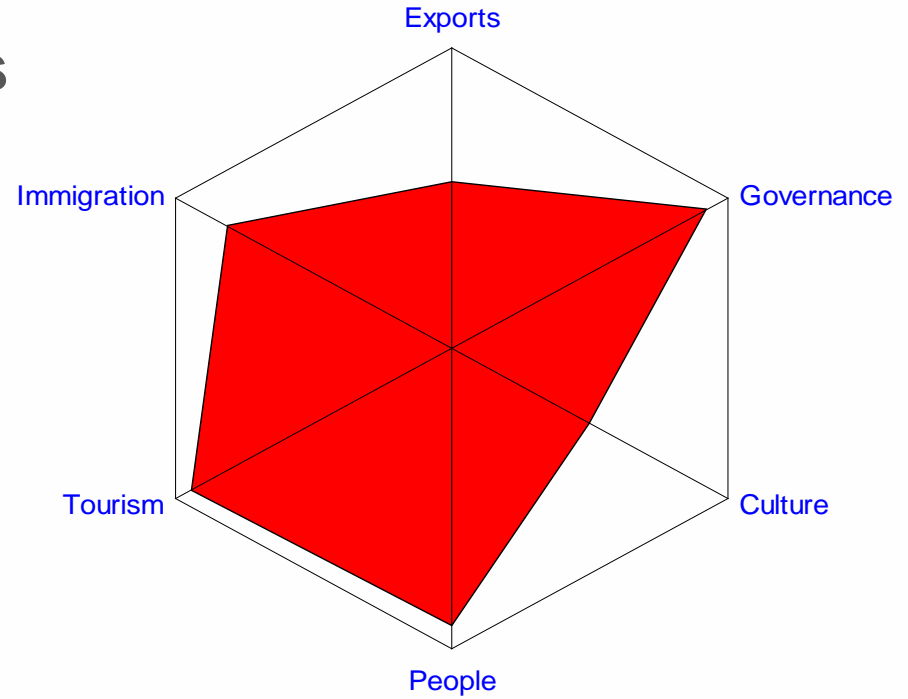


Image & Awareness of Nations

How Norway sees Iceland



Opportunities for Icelandic Tourism Industry

- + Great results in recent years for peak season
- + Important to get more balance between summer and winter
- + Great opportunities in increasing off season travel (Finland).
- + Improved product development and innovation needed, for sep-may travel
- + More events (Iceland Airwaves, Food & Fun, Eve Online etc), “Family Products”, Winter Products etc
- + Important to increase distribution and have more agents selling Iceland
- + Build up of whole year gateways will strengthen Icelandic tourism industry
- + Opportunities in health tourism and culture
- + Infrastructure needs to improve (airport, hotels, new products etc)
- + More focus on MICE travel
- + More investment needed from the government for promotion and product development – great opportunities and good ROI
- + Grow the Stop-over market flying trans-atlantic





Thank You